

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2020 Summary of Resources

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2018 Appropriation	4,550,000	615,606	-	5,165,606 ^a	4,766,660	4,381,765
2019 Annualized CR	4,550,000	306,023	-	4,856,023 ^b	4,856,000	4,336,000
2020 Request	2,863,000	(148,000)	-	2,715,000 ^c	2,671,000	3,221,000
Change from 2019	(1,687,000)	(454,023)	-	(2,141,023)	(2,185,000)	(1,115,000)

a/ Total resources and obligations for fiscal year 2018 includes \$137 million transferred from Public Housing Operating Fund for subsidy payments for units converting under the Rental Assistance Demonstration (RAD).

b/ Total resources and obligations for fiscal year 2019 includes an estimated \$93 million transferred for the implementation of RAD.

c/ Total resources and obligations for fiscal year 2020 includes an estimated \$148 million transferred for the implementation of RAD.

1. Program Purpose and Budget Overview

The 2020 President’s Budget of \$2.863 billion of the Public Housing Operating Fund (Operating Fund) is approximately \$1.7 billion less than the fiscal year 2019 Annualized CR Operating Fund level.

Of this amount, \$2.452 billion is provided for public housing grants (distributed through the Operating Fund formula), and an additional amount of up to \$340 million is available for shortfall funding to prevent the financial insolvency of any Public Housing Authorities (PHAs). There is also \$25 million for previously enacted set-asides transferred from the Public Housing Capital Fund; \$16 million to address high-risk Public Housing Authorities (PHAs) through technical assistance and a new competitive grant for asset improvement, repositioning, or recapitalization; and up to \$30 million for new competitive demolition grants.

The 2020 Budget represents a 54 percent proration against formula eligibility for operating grants. When coupled with the use of existing operating reserves, the shortfall prevention funding, and key policy changes, the funding level will allow the Department to continue to serve approximately 1 million units across more than 3,000 PHAs. PHAs will use this funding to meet the operation,

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management, maintenance and capital needs of public housing throughout the United States and its territories. The 2020 Budget reflects a set of proposed rental reform policies, described further below, that reduce costs while continuing to assist current residents.

Key program outcomes include, but are not limited to:

- Providing safe, decent and affordable housing to approximately 1 million families.
- Providing PHAs with tools to make locally driven decisions about their properties.
- Leveraging federal, state, and local resources to provide affordable housing

2. Request

The Public Housing program provides federal grants necessary for PHAs to operate, maintain and make capital improvements to approximately 1 million affordable public housing units. The public housing stock serves an important role in the nation's housing market, ensuring housing for some of the nation's most vulnerable renters. Local administration of federal grant funds allows communities the enhanced flexibility to tailor public housing to suit local needs including establishing preferences for the elderly, disabled, homeless veterans, homeless persons, as well as the working poor. Public housing units serve on average 2.1 residents with an average household income of \$15,073. Furthermore, extremely low-income families (families earning less than 30 percent of an area's median income) comprise more than 60 percent of households in public housing units, about 38 percent of all households served include children, and over half of all households comprise fixed-income seniors or people with disabilities.

The 2020 Budget for the Public Housing Fund covers funds necessary to cover day-to-day operational expenses associated with public housing, program implementation expenses that PHAs are required to undertake under the 1937 Housing Act and existing program regulations, and to meet overall public housing capital needs. This includes, but is not limited to:

Public Housing Operation

- Management and operations, including staff costs
- Routine and preventative maintenance
- Anti-crime, anti-drug and security activities
- Operating costs for privately owned public housing units in mixed-finance projects
- Utilities costs
- Resident supportive services, support coordinators, and participation activities
- Insurance

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Public Housing Implementation

- Recertifications of income and household composition
- Timely rent collection
- Submission of annual unaudited and audited financial statements to HUD
- Asset management over the physical and financial integrity of the program
- Annual unit inspections
- Prioritization and planning for the long-term capital needs to maintain the viability of PHA properties
- Debt service incurred to finance unit rehabilitation and development

Capital Needs

- Development, financing and modernization of public housing projects
- Vacancy reduction
- Addressing deferred maintenance
- Planned code compliance
- Management improvements including support of resident participation
- Demolition and replacement
- Resident relocation
- Capital expenditures for resident empowerment assistance and self-sufficiency
- Capital expenditures for security and safety

The total 2020 Budget of \$2.863 billion for the Public Housing Fund account supports the following activities:

- \$2.452 billion for Public Housing Fund grants based on the Operating Fund formula;
- up to \$340 million for operating shortfall funding;
- up to \$10 million for Emergency and Natural Disaster Reserve;
- up to \$16 million to address high risk PHAs, including Troubled and Receivership PHAs through technical assistance and a new competitive grant program;
- up to \$15 million for the Jobs-Plus Initiative; and
- no less than \$30 million for competitive Demolition Grants.

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3. Justification

The Public Housing Fund provides payments to more than 3,000 PHAs for the operation, management, maintenance, and capital needs of publicly owned affordable rental housing throughout the United States and its territories. PHA eligibility for a grant from the Public Housing Fund is based on the Operating Fund formula established through negotiated rulemaking in 2007 and codified at 24 CFR 990. This 2020 Budget assumes that PHAs will utilize both requested funds and Operating Reserves to support the needs of their public housing program.

This 2020 Budget provides no new funding through the Public Housing Capital Fund. Given the challenges faced by PHAs to address operating and capital needs with this reduced funding level, the 2020 Budget seeks to provide expanded authority for PHAs. Such authority includes the ability to use operating funds, as well as operating reserves and prior year capital funds, flexibly under a general provision in this budget that provides full flexibility between the Operating and Capital Fund accounts. The Administration encourages PHAs to work with state and local governments to supplement the federal appropriation with non-federal funding to address additional public housing needs. The Administration's 2020 Budget would also provide PHAs with options to encourage locally driven decisions about the future of their public housing properties.

Below are explanations of the various sub-account in the 2020 Budget:

Shortfall Funding

The 2020 Budget includes up to \$340 million in set-aside funds to support PHAs that HUD projects may become insolvent based on funding levels and PHA-held operating reserves. Most PHAs have sufficient reserves to operate projects at a reduced federal funding level in 2020; but, given that operating grants are provided through formula, and because operating reserve levels vary significantly among PHAs, funding reductions will likely have different impacts across individual PHAs.

Although some PHAs may be able to streamline operations, reduce costs, or make use of additional funding flexibility, others may not be able to make such adjustments and risk terminating families or ceasing operations. Thus, to address the potential for public housing program insolvency and continue to house families in public housing units, HUD is proposing \$340 million in shortfall funding, which would be targeted to improve the stability of the most financially distressed PHAs.

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Emergency and Natural Disaster Reserve

The 2020 Budget includes up to \$10 million for grants to PHAs for capital needs arising from emergency situations or non-Presidentially declared natural disasters. PHAs whose properties suffer damage because of Presidentially declared natural disasters are eligible to receive funding from the Federal Emergency Management Agency under the Robert T. Stafford Relief Act. Examples of capital needs funded from this set-aside include plumbing replacement, sewer line replacement, foundation stabilization, HVAC replacement, fire alarm replacement, flood abatement and mold removal and repairs, boiler pipe replacement, and emergency window replacement.

Technical Assistance and Grants for High Risk PHAs

The \$16 million in the 2020 Budget will fund activities related to the recovery of PHA receiverships and prevention of receiverships at high risk and troubled PHAs. This funding will also be used to address deteriorated physical conditions to prevent high risk and troubled PHAs from entering receiverships and preserve affordable housing for the future, an expansion from simply providing technical assistance to PHAs in administrative receivership.

Moreover, up to \$1 million of these funds will be used for targeted technical assistance and administrative costs related to Administrative Receivership oversight, which will include the following: capacity building, conducting assessments, and developing recapitalization strategies for PHAs in administrative receivership with developments whose deep capital needs pose financial and operational risks to the agency.

The remaining funds – at least \$15 million – will be awarded through a competitive process to fund costs associated with capital improvements and repositioning. These funds will assist PHAs in receivership as well as other high risk and troubled PHAs holding limited resources with funds to address their capital needs such as rehabilitation of units (including those that have long-term vacancies), demolition, relocation, securing and maintaining vacant buildings, and mobility counseling to increase successful transitions to new housing.

As evidenced by financial and physical data, there are nearly 700 developments with over 150,000 units in poor physical condition operated by PHAs without the financial resources to address these needs. During any given year, performance scoring under the Public Housing Assessment System (PHAS) identifies over 400 troubled and substandard PHAs, and the number of agencies trending toward substandard performance continues to increase each year due to an aging stock, a growing backlog of capital repairs, and other challenges.

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While the number of PHAs in Administrative Receivership or in HUD possession has been significantly reduced over the past few years, the Department anticipates that there will always be 1-3 agencies in receivership or HUD possession without a mechanism to raise additional capital funding, which is essential to ensuring the long-time viability of physical assets. Depending on the size of an agency and age and degree of disrepair of its public housing portfolio, assistance at an agency with recapitalization needs may cost between \$500,000 - \$7,000,000. Current and past receiverships in Alexander County, IL, Gary, IN, Wellston, MO and East St. Louis, IL indicate insufficient funding to address unit repairs and significant capital needs has been the greatest challenge to implementing effective and timely mitigation strategies, greatly delaying and hindering recovery efforts. The funds outlined in the 2020 Budget will thus provide vulnerable communities with additional resources to recapitalize and stabilize their affordable housing assets.

HUD recognizes the importance of implementing measures to not only help PHAs recover from receivership, but to also prevent receiverships by identifying and addressing physical deficiencies. Ensuring that high risk and troubled agencies have additional resources and recapitalization options will prevent costly receiverships and better preserve affordable housing nationwide.

The funds in the 2020 Budget will help:

- Recover PHAs in receivership through technical assistance and capital funding; and
- Prevent troubled and high risk PHAs from going into receivership by addressing the capital needs of physically distressed public housing units.

Jobs-Plus Initiative

The 2020 Budget includes up to \$15 million for new Jobs-Plus grants to PHAs. The Jobs-Plus Initiative is an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents through a three-pronged program of employment services, rent-based work incentives, and community support for work.

Among the key accomplishments for the fiscal year 2014 through fiscal year 2017 Jobs Plus grantees:

- Since its inception, Jobs Plus sites report placing 2,783 residents into part-time or full-time employment;
- As a result of the Jobs Plus program, nearly 1,500 individuals have been continuously employed for at least 180 days after placement; and
- Through the Jobs Plus Earned Income Disregard, residents have saved over \$13.5 million in rent payments.

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Demolition Funding

The \$30 million for Competitive Public Housing Demolition Grants will allow the Department to provide funding to PHAs to facilitate demolition of physically obsolete public housing units and developments. As evidenced by HUD’s capital needs assessment and the needs assessments of individual PHAs, the public housing portfolio has a significant backlog of capital needs—with many housing units and entire public housing developments in a state of such obsolescence or deterioration that rehabilitation of the property is entirely cost-prohibitive, and with demolition evidenced as the only practical solution.

This available funding through the 2020 Budget will address many critical issues, including:

- Removing physically obsolete public housing units that create health and safety hazards for residents, as well as for the surrounding community;
- Removing vacant properties that are sources of criminal activity and which may negatively impact surrounding property values and the community at-large;
- Eliminating the funding obstacle for PHAs that already have HUD approval to demolish obsolete properties;
- Providing the opportunity to offer vacant land marketable for future affordable housing development; and
- Assisting with PHAs’ efforts to transition public housing residential units to a more sustainable physical and financial platform.

The Future of the Public Housing Program

For PHAs to continue to serve the families currently housed, the 2020 Budget allows for new flexibilities that will enable PHAs to manage their programs in a fiscally responsible manner while mitigating displacement of currently supported households.

For fiscal year 2020, HUD seeks the following:

- Capital and Operating Fund Flexibility: HUD proposes to extend to all PHAs the ability to utilize the Capital and Operating Funds interchangeably, regardless of troubled status and the condition of a PHA’s public housing portfolio. Today, only small PHAs (those with fewer than 250 units) that are not troubled and operate public housing in a safe, clean and healthy condition have full flexibility. Larger agencies are permitted to transfer only 20 percent of the Operating Fund to the Capital Fund and vice versa. HUD proposes full flexibility for all PHAs to use fiscal year 2020 operating subsidies and prior year funding from both the Capital and Operating Funds. This option would enable PHAs to

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focus limited federal resources on local priorities without being constrained by the statutory limitations of each fund. This proposal is included in the budget as General Provision Section 227.

- Waiver Proposal: The President's Budget proposes adding the new provision that provides HUD with the authority to waive or specify alternative requirements for annual plan requirements, energy audits, and community service requirements to reduce costs or provide for the more effective administration of the Public Housing program. This authority will provide PHAs with a number of options for temporary administrative relief that may be tailored to reflect the specific needs of the individual PHA. This proposal is included in the budget as General Provision Section 225.

The 2020 Budget supports asset repositioning and recapitalization options, including:

- \$30 million for new competitive Demolition Grants: As described on page 6 above.
- \$15 million for Repositioning Grants for Troubled PHAs: As described on page 5 above.
- \$100 million to facilitate and enable Rental Assistance Demonstration (RAD) conversions: The funding will support the RAD conversion of public housing units that would not be able to access private financing without additional capital. RAD allows public housing properties to shift to the Section 8 Project-Based Voucher (PBV) and Project-Based Rental Assistance (PBRA) platforms. These project-based Section 8 programs benefit from greater private sector involvement and can leverage private financing for modernization, generally resulting in higher quality housing for the assisted low-income families. Each year, HUD transfers public housing operating and capital funds to the PBRA or TBRA accounts in the amounts necessary to fund the new Section 8 HAP contracts that were entered into in the prior year. (Authority to execute this transfer is provided within Public Law 112-55.) Without any funding appropriated to the Public Housing Capital Fund in 2020, all funds to support the transfers will originate from the Public Housing Fund. More information about this can be found in the RAD justification

In addition to RAD conversion opportunities, HUD is pursuing other actions that would enhance recapitalization and preservation options available to PHAs. Taken together, these opportunities are part of a Departmental Strategic Goal to reposition up to 125,000 units of public housing inventory to a more sustainable platform over the course of fiscal years 2018-2020. While RAD conversions will likely represent the largest part of this repositioning effort, recent administrative actions reflected in Public and Indian Housing Notices for Section 18/Demolition and Disposition (FY 2018) and for Section 22/Streamlined Voluntary Conversion (FY 2019) will allow PHAs additional options to reposition public housing units and protect tenants through voucher-based assistance.

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HUD will also be exploring ways to streamline and improve the existing public housing program for PHAs that choose to continue to operate public housing assets in the current program.

The flexibilities, funding, and administrative items described above are the initial steps in a broader Departmental strategy to improve Public Housing asset recapitalization options and encourage local choice. The Department looks forward to working with Congress and stakeholders to get feedback and effectuate the vision for the Public Housing program.

Cross-Cutting Rent Reform Proposal

The 2020 President's Budget funding level across HUD rental assistance programs would support the same number of households currently assisted, while also proposing the following reforms to ensure the long-term fiscal sustainability of rental assistance. The current rent structure in HUD's rental assistance programs creates disincentives to employment; imposes large administrative burdens for Public Housing Authorities (PHAs), private owners, and tenants; generates significant and increasing costs to the federal government; and ultimately represents a one-size-fits-all approach that cannot reasonably offer the programmatic flexibility to meet the needs of households in localities across the nation.

Thus, with the Making Affordable Housing Work Act (MAHWA), submitted to Congress in April 2018, HUD proposed reforming rental assistance to address these notable issues and further the following goals:

1. *Simplify program administration:* The proposed legislation would simplify rent calculations by determining rents using gross rather than adjusted income.
2. *Reduce federal taxpayer costs by encouraging work and stable family formation:* HUD seeks to limit income recertification for all households to once every three years, which encourages work by deferring increases in tenant rent payments as a result of increased wages. In addition, the proposed legislation would establish higher expectations for tenants able to work by setting tenant rent contributions at 35 percent of gross income, while setting a lower rent of 30 percent of gross income for those unable to work, notably the elderly and persons with disabilities. Additionally, current elderly and persons with disabilities would be held harmless from rent increases as reflected in the proposed legislation. Moreover, MAHWA would provide additional safe-harbors, including a hardship exemption for tenants who, in certain circumstances, are unable to pay their rents.
3. *Increase local control and choice:* MAHWA would empower PHAs and property owners to choose alternative rent structures, as approved by the Secretary, that would best serve the needs of households in localities across the nation. These

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alternative rent structures must incur the same overall program costs and would provide a structure for residents to achieve self-sufficiency.

In addition, the 2020 Budget proposes uniform work requirements for households able to work. Consistent with Administration policy, the requirement would allow for work-seeking and preparation activities and would exempt the elderly, persons with disabilities, those caring for a family member with a disability or small child, and pregnant women. HUD will continue exploring ways to leverage existing enforcement and compliance mechanisms without adding burdens on PHAs and private multifamily property owners. HUD also will continue to support work requirement demonstration evaluations to build an evidence base from the experiences of Moving To Work PHAs on effective ways to promote self-sufficiency.

Please see the “Overview of Rental Assistance Programs” justification for more information.

General Provisions

The 2020 Budget includes General Provisions related to the Operating Fund (Sec. 214, 215, 225, and 227). These provisions are described further in “Fiscal Year 2020 General Provisions”.

Other Legislative Proposals and Programmatic Improvements

The 2020 Budget supports the following legislative change that will result in programmatic improvements. HUD will seek this change through the authorization process rather than the appropriations process.

- **Housing Opportunity Through Modernization Act of 2016 (HOTMA) Replacement Housing Fix:** This proposal amends the HOTMA provision that allows certain formerly federally assisted projects to be exempt from the normally applicable project-based voucher (PBV) PHA program cap and income-mixing requirements. The proposal would provide greater flexibility to PHAs in addressing the preservation needs of their community by allowing these same exemptions to apply to a PBV new construction project that is replacing the previously federally assisted project at a different site.

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**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Summary of Resources by Program**

(Dollars in Thousands)

Budget Activity	2018 Budget Authority	2017 Carryover Into 2018	2018 Total Resources	2018 Obligations	2019 Annualized CR	2018 Carryover Into 2019	2019 Total Resources	2020 Request
Operating Subsidy	4,550,000	752,851	5,302,851	4,766,660	4,550,000	399,170	4,949,170	2,792,000
Competitive Demolition Grants	-	-	-	-	-	-	-	30,000
Emergency Disaster Reserve	-	-	-	-	-	-	-	10,000
Administrative and Judicial Receiverships	-	-	-	-	-	-	-	16,000
Shortfall Prevention	-	-	-	-	-	-	-	[340,000]
Jobs Plus Initiative	-	-	-	-	-	-	-	15,000
Rental Assistance Demonstration (transfer)	-	(137,245)	(137,245)	-	-	(93,147)	(93,147)	-
Total	4,550,000	615,606	5,165,606	4,766,660	4,550,000	306,023	4,856,023	2,863,000

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PUBLIC AND INDIAN HOUSING PUBLIC HOUSING OPERATING FUND Appropriations Language

The 2020 President's Budget includes the appropriation language listed below:

For 2020 payments to public housing agencies (PHAs) for the operation and management of public housing, as authorized by section 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(e)), and for other purposes as specified under this heading, \$2,863,000,000, to remain available until September 30, 2021 (except as otherwise specified under this heading): Provided, That notwithstanding any other provision of law or regulation, of the total amount available under this heading, \$340,000,000 shall be available to the Secretary to allocate pursuant to a need-based application process not subject to the Operating Fund formula at part 990 of title 24, Code of Federal Regulations to PHAs that experience financial insolvency, as determined by the Secretary: Provided further, That after all such insolvency needs are met, the Secretary may distribute any remaining funds to all PHAs on a pro-rata basis pursuant to the Operating Fund formula at part 990 of title 24, Code of Federal Regulations: Provided further, That of the total amount made available under this heading, no less than \$30,000,000 shall be available until September 30, 2023 for competitive grants to PHAs for demolition, and the associated relocation and administrative costs, of the most distressed public housing units: Provided further, That of the total amount made available under this heading, up to \$16,000,000 shall be available until September 30, 2023 to support the costs of administrative and judicial receiverships, and for competitive grants to PHAs in receivership, designated troubled or substandard, or otherwise at risk, as determined by the Secretary, for costs associated with public housing asset improvement, repositioning or recapitalization, in addition to other amounts for that purpose provided under any heading under this title: Provided further, That of the total amount made available under this heading, not to exceed \$10,000,000 shall be available until September 30, 2023 for the Secretary to make grants, notwithstanding section 203 of this Act, to PHAs for emergency capital needs resulting from unforeseen or unpreventable emergencies and natural disasters excluding Presidentially-declared emergencies and natural disasters under the Robert T. Stafford Disaster Relief and Emergency Act (42 U.S.C. 5121 et seq.) occurring in fiscal year 2020: Provided further, That of the total amount made available under this heading, up to \$15,000,000 shall be available until September 30, 2023 for a Jobs-Plus initiative modeled after the Jobs-Plus demonstration: Provided further, That funding under the previous proviso shall be available for competitive grants to partnership between PHAs, local workforce investment boards established under section 107 of the Workforce Innovation and Opportunity Act of 2014 (29 U.S.C. 3122), and other agencies and organizations that provide support to help public housing residents obtain employment and increase earnings: Provided further, That applicants must demonstrate the ability to provide services to residents, partner with workforce investment boards, and leverage service dollars: Provided further, That the Secretary may allow PHAs to request exemptions from rent and income limitation requirements under sections 3 and 6 of the United States Housing Act of 1937 (42 U.S.C. 1437a and 1437d) as necessary to

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implement the Jobs-Plus program, including earned income disregards, on such terms and conditions as the Secretary may approve upon a finding by the Secretary that any such or alternative requirements are necessary for the effective implementation of the Jobs-Plus initiative as a voluntary program for residents: Provided further, That the Secretary shall publish by notice in the Federal Register any waivers or alternative requirements pursuant to the preceding two provisos no later than 10 days before the effective date of such notice: Provided further, That the amount of any reduced tenant rent payments due to the implementation of rent incentives as authorized pursuant to such waivers or alternative requirements shall be factored into the PHA's general operating fund eligibility pursuant to part 990 of title 24, Code of Federal Regulations, and shall not be charged against the competitive grant amounts.

Note.—A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115–245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.