



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

Dear Executive Director:

Subject: 2013 Budget Update–Potential Sequestration Cuts – Operating Fund Program

The purpose of this letter is to provide your agency with an update on the 2013 Operating Fund Budget situation with regard to the possible funding cuts resulting from sequestration. It also provides guidance on actions your agency may wish to consider if you have not already done so given these potential cuts. HUD encourages you to share this letter with your Public Housing Director, your Chief Financial Officer, and your Board of Commissioners.

Background:

The Operating Fund Program is currently operating under a Continuing Resolution that expires on March 27, 2013. This means that the Operating Fund Program continues to be funded at last year's level until an Appropriations Act is passed or Congress takes other action. This year, HUD programs, including the Operating Fund Program, may also be subject to "sequestration" cuts. Sequestration refers to a series of automatic across-the-board cuts to domestic and defense programs outlined in the Budget Control Act of 2011. These cuts occur if Congress does not pass a deficit reduction package by March 1, 2013.¹

Potential Impact of Sequestration and Mitigation Strategies

As noted in my correspondence dated December 20, 2012, under the Operating Subsidy HUD funded PHA's at a proration level of 92% for January and February. The 92% proration rate was based on the 2013 House mark, which was the lower of the two 2013 budget marks between the House and the Senate. This approach mirrors the traditionally conservative posture the Department takes when operating under a Continuing Resolution (CR).

In that letter I also noted that the Department would reevaluate the proration level as the appropriations process progressed. Given the current status of the appropriations process, including concerns around the increasing possibility of sequestration, the Department intends to lower the proration level in March, to 81%. The proration level of 81% presumes that our appropriations level holds at \$3.9 billion and does not include sequestration.

The Department is providing this notification now, in recognition of the significant strain this will place on PHA budgets. This will provide PHAs more time to adjust your project budgets in anticipation of reduced funding. While such reductions are not optimal, taking the action described above will help mitigate more severe cuts later in the year if sequestration occurs, or a lower budget is passed.

Recognizing the unprecedented proration level that PHAs could confront, the Department is developing a list of legislative and regulatory actions that could be taken to help PHAs preserve their Public Housing operations and manage within such austere financial times. In

¹ The American Taxpayer Relief Act, passed January 1, 2013, delayed the effective date of sequestration cuts to March 1, 2013.

addition to the streamlining efforts that are already underway, the Department is seeking full fungibility for all agencies regardless of PHA size.

As information unfolds, we will continue to keep you updated about actions we are taking related to the budget. We also encourage you to provide your suggestions for actions the Department can take to support your agency as you work to realign your budgets while continuing the very important work of housing America's most vulnerable families. If you believe that your agency might be at risk of being in a negative cash position as a result of these potential funding cuts or any other reason, please also contact your local Field Office.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra B. Henriquez", with a large, stylized flourish at the end.

Sandra B. Henriquez
Assistant Secretary
Office of Public and Indian Housing



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OFFICE OF PUBLIC AND INDIAN HOUSING

February 25, 2013

Dear Executive Director:

Subject: Corrected: 2013 Budget Update–Potential Sequestration Cuts - Housing Choice Voucher Program

The purpose of this letter is to provide your agency with an update on the 2013 HCV Budget situation with regard to the possible funding cuts resulting from sequestration. It also provides guidance on actions your agency may wish to consider if you have not already done so given these potential cuts. HUD encourages you to share this letter with your Section 8 Housing Choice Voucher Director, your Chief Financial Officer, and your Board of Commissioners.

Background:

The Housing Choice Voucher Program is currently operating under a Continuing Resolution that expires on March 27, 2013. This means that the Housing Choice Voucher Program continues to be funded at last year's level until an Appropriations Act is passed or Congress takes other action. This year, HUD programs, including the Housing Choice Voucher Program, may also be subject to "sequestration" cuts. Sequestration refers to a series of automatic across-the-board cuts to domestic and defense programs outlined in the Budget Control Act of 2011. These cuts occur if Congress does not pass a deficit reduction package by March 1, 2013.¹

Potential Impact of Sequestration and Mitigation Strategies

If sequestration occurs, there will be an immediate across-the-board cut to the HCV program funding from FY 2012 funding levels for the remainder of 2013. (Based on the projected renewal eligibility for 2013, this will result in a proration of approximately 94 percent of estimated renewal need.) Since these cuts could have a profound impact on your PHA's ability to serve families, the Department is encouraging PHAs to take measures to mitigate the potential impact of these funding cuts on the families that you serve. Given the nature of the program, some PHAs will be more at risk in being able to cope with funding reductions. Housing Authorities with low turnover rates, with increasing per unit cost trends and with low HAP reserves need to be particularly cautious. HUD is requesting that if you have not already done so, you take the following measures to ensure that your agency does not experience a funding shortfall and is able to continue to assist all HCV participants.

- (1) Utilization of the HCV Forecasting Tool: HUD has developed a HCV forecasting tool that is available on-line for PHA use.² The tool will assist you in mapping out various funding scenarios for your agency, with the ability to adjust for factors such as attrition and success rates. Please contact your local field office for any questions or technical assistance on using the tool.

¹ The American Taxpayer Relief Act, passed January 1, 2013, delayed the effective date of sequestration cuts to March 1, 2013.

²The utilization tool is found on the Office of Housing Voucher Programs webpage under "Related Program Information" at www.hud.gov

Regardless of whether your agency uses the HCV utilization tool or its own forecasting process, it is critical that an analysis is done to determine whether your agency should be issuing vouchers to applicants at this time in light of these potential cuts. In the past, certain PHAs have experienced funding shortfalls due to continued or increased leasing without the available budget authority to support the vouchers throughout the calendar year.

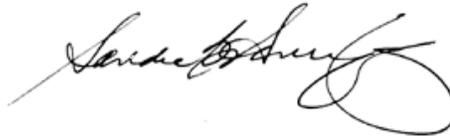
While it is possible that the sequestration cuts may be a temporary measure, it will be necessary during this uncertain budget climate to manage resources so as to minimize the effect of sequestration on existing HCV participants.

- (2) HUD encourages your agency to review **PIH Notice 2011-28**, which provides guidance on administrative flexibility and actions PHAs may take to reduce costs in the Housing Choice Voucher Program. Suggested actions listed in the Notice include lowering payment standards, reviewing utility allowances, changing portability and moves policies. Further, PHAs may wish to consider revising subsidy standards to reduce over-housed families, increasing minimum rents, and redoubling efforts to eliminate fraud and abuse. Early implementation of these measures may allow your PHA to better manage any prorations in its funding over the course of the calendar year.

Sequestration will also have a significant impact on Administrative Fee Funding to PHAs in 2013. The formula for sequestration cuts will result in an administrative fee proration of approximately 69 percent of fee eligibility. This deep proration, following the significant prorations of the past few years, could pose major challenges for PHAs in managing their HCV programs. PHAs should begin to make plans for this contingency if they have not done so already. PHAs are encouraged to review PIH Notice 2012-15, Streamlining Administrative Practices in the Housing Choice Voucher Program. PHAs are encouraged to refer to PIH Notice 2013-3, which provides options to PHAs in meeting certain program requirements during this period of decreased resources.

If you have any questions concerning this letter or how to use the HCV forecasting tool, please contact your local Field Office. If you believe that your agency might be at risk of being in a funding shortfall position as a result of these potential funding cuts or any other reason, please also contact your local Field Office.

Sincerely,



Sandra B. Henriquez
Assistant Secretary
Office of Public and Indian Housing