U.S. Department of Housing and Urban Development

Office of Public and Indian Housing

Special Attention: Public Housing HUB Directors, PIH Program Center Coordinators, Section 8 Financial Management Center, Section 8 Public Housing Agencies	Notice PIH 2002-6 (HA) Issued: March 8, 2002 Expires: March 31, 2003
	Cross References:

Subject: Housing Choice Voucher Annual Contributions Contract (ACC) Reserves

1. **Purpose.** This Notice provides notification of a change in the housing choice voucher ACC reserve level from two months to one month as required by the current HUD appropriation. The Notice also provides guidance on the use of ACC reserves by Public Housing Agencies (PHAs). This Notice supersedes Section IV of Federal Register Notice FR-4459-N-07, Tenant-Based Section 8 Program: Procedures for Determining Baseline Unit Allocations, Verifying Unit Allocations, Accessing, Using, Restoration of and Recapture of Program Reserves and Transfers of Baseline Unit Allocations, dated April 19, 2000. A revised Federal Register Notice will be issued at a future date.

2. **Background.** The Annual Contributions Contract (ACC) authorizes HUD to establish and maintain an ACC reserve account. The funds available in the ACC reserve account are derived from annual budget authority not expended during a PHA fiscal year. The ACC reserve was previously established by HUD at a level of two months during a negotiated rule-making process in 1999 that developed a contract renewal policy for the housing choice voucher program.

   The HUD appropriation for fiscal year 2002 (Public Law 107-73, 115 Stat. 151, signed on November 26, 2001), required HUD to reduce the reserve level to one month. The level is defined by HUD as one-twelfth of the projected PHA disbursements for the current PHA fiscal year. The Department has adjusted the ACC reserve level for each PHA.

   Notwithstanding the change from a two month to a one month reserve, the Conference Report supporting the HUD Appropriations Act has language whereby "the conferees direct HUD to ensure that PHAs have the funds to administer all section 8 contracts in a normal manner, including vouchers that turn over during the year. In cases where PHAs require additional funds for approved uses and amounts, HUD shall provide to these PHAs the necessary section 8 funds".

3. **Summary.** The reduction of the ACC reserve from a two month to a one month level is not expected to affect overall management and leasing activities under the housing choice voucher program. It is HUD's policy, subject to the availability of appropriations, to fully fund a one month reserve and to provide enough additional funds for high utilizing PHAs to lease-up their number of units reserved. HUD estimates indicate that the required funding is currently available for such purposes.

4. **Use of ACC Reserves.** A PHA has the responsibility to manage its program within the annual budget authority amount provided by HUD. However, there are times

when the annual budget authority is not adequate to maintain current program operations and HUD may approve the use of ACC reserves. The ACC reserves can be used to support the following:

A. Program Cost Increases.

When a PHA projects that, due to rising per-unit costs, annual budget authority for the current PHA fiscal year will be insufficient to meet the projected cost of serving the number of units reserved for the PHA (including currently assisted families, families that use turnover vouchers, and new lease-ups, up to the number of units reserved), the PHA may request additional funds through the usual process of submitting a budget or budget revision to the Financial Management Center (FMC). With HUD approval of the budget PHAs may access ACC reserves, up to the one month reserve level, until the renewal formula funding level adjusts to current costs. To use ACC reserves the PHA must be in compliance with HUD program regulations.

B. Program Management. Except in the circumstances noted below, housing choice voucher ACC reserves are **not** available for leasing additional units beyond the number of units reserved:

1. It is common practice to issue more vouchers than the number of units reserved for the PHA's voucher program because not every voucher holder will be successful in finding a unit and entering into a lease. Over-issuance is encouraged as a means of achieving high utilization rates. However, over-issuance should be carefully managed to avoid funding problems. The sustainable level of over-issuance is determined by factors such as PHA turnover and voucher holder success rates.

Most of the time a PHA can manage leasing activity resulting from over-issuance within annual budget authority. However there are times when the rate of voucher holders success in leasing units is higher than past PHA experience. When the over-issuance of vouchers to achieve full utilization results in success greater than anticipated, HUD may authorize the use of ACC reserves to cover the temporary shortfall in funding.

2. A PHA may lease-up as many vouchers as can be prudently supported within the PHA's annual budget authority for the current PHA fiscal year even if the number of vouchers issued exceeds the number of units reserved. PHAs that exercise this flexibility are engaging in "maximized leasing". "Maximum leased units" means the number of leased units in excess of the number reserved. It is important for PHAs that take advantage of maximized leasing to examine the long term impact of maximized leasing to ensure that it does not jeopardize adequate support for the reserved number of units in subsequent years.

The units supported above the PHA's reserved number of units (maximized leased units) are not considered in HUD's calculation of the allocation of renewal funding. The PHA may not receive sufficient budget authority in subsequent years to be able to maintain maximized leased units exceeding the number of units reserved.

The PHA may use the ACC reserve account to maintain assistance for maximized leased units on a temporary basis. The PHA may not use ACC reserves to support units beyond the number of units supported by annual budget authority for more than a year except under exceptional circumstances.

5. **One Month Reserve Level.**

A. Restoration of ACC reserves.

HUD estimates that the one month ACC reserve level is sufficient for most PHAs. When ACC reserve funds are used by PHAs for approved purposes, HUD will restore to the one month level. The restoration of reserves will be accomplished annually.

There is one circumstance under which HUD will not restore reserves to the one month level. HUD will determine if a PHA has leased more than its reserved number of units based on its most recent HUD approved Year End Statement. If the PHA has leased more than its reserved number of units, HUD will not restore any depleted ACC Reserve Account for such an agency during the PHA's current fiscal year.

HUD may grant an exception to this policy of not restoring reserves on a case by case basis.

B. Funding shortfalls.

HUD recognizes that PHAs with high utilization rates may need more than a one month ACC reserve to continue funding families under lease and the lease-up of turnover vouchers, or to fully lease the number of units reserved.

The following policy has been established to assist PHAs with high utilization rates that experience increased costs beyond the amount of funding provided through the contract renewal formula and one month ACC reserve level, thereby creating a funding shortfall.

PHAs that anticipate exhausting their one month reserve to meet legitimate reserve needs, as outlined above, may request HUD approval for additional funding. HUD intends within existing funding levels to accommodate all such requests. In the unlikely event that unforeseen circumstances cause a shortfall to occur, requests for additional funding will be provided to PHAs with high utilization rates (see definition below) in the following order:

1. Financial requirements to support families under lease and the lease-up of turnover vouchers up to the number of units reserved.

2. Budget authority required to enable a PHA with high utilization to lease up to the number of units reserved.

A high utilization rate is determined based upon the SEMAP utilization classification for high performers, defined as either having unit lease-up or annual budget authority utilization at 97 percent, after excluding units and budget authority associated with units awarded for litigation, and new (non-renewal) allocations of units and budget authority awarded to PHAs that have been under contract for less than one full PHA fiscal year.

6. **Procedures for implementing the ACC reserve policy for PHAs with high utilization rates.** If a PHA meeting the high utilization criteria projects that current annual budget authority and the one month ACC reserve level are insufficient to meet the projected cost of serving families in the program, up to the number of units reserved, the PHA may request additional funds through a budget revision. The

budget revision should be submitted to the Section 8 Financial Management Center prior to the 10th month of the PHA fiscal year to allow adequate processing time and include the following information:

- **A.** Projected increase in per unit cost (PUC).
- **B.** Payment standard schedule.
- **C.** Actual and projected leasing schedule for the year funds are requested.
- **D.** PHA estimate of the amount of additional funding required for continued assistance to families in place.
- **E.** For PHAs leasing below the number of units reserved, information on the PHA waiting list, the projected funding and timeline required by the PHA to reach the number of units reserved.
- **F.** For PHAs above the number of units reserved, the plan to bring leasing within the number of units reserved.
- **G.** Any other information supporting the funding request.

HUD analysis of the budget revision and supporting information will verify the amount of funding required for current families under lease including the issuance and lease-up of turnover vouchers, and if applicable, additional annual budget authority required to meet the projected leasing schedule, up to the number of units reserved. If approved, the PHA will receive a HUD approved budget revision and a notification letter of the additional funds authorized.

7. **Additional Information.** Any questions regarding this Notice may be addressed to Deborah Hernandez in the Section 8 Finance Division at 202-708-2934.

/s/ Michael Liu
Assistant Secretary for Public
and Indian Housing