



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

OFFICE OF PUBLIC AND INDIAN HOUSING

Dear Executive Director:

March 7, 2013

Subject: 2013 Budget Update–Sequestration Implementation Housing Choice Voucher Program

As you are likely aware, due to the inability of Congress to reach a deal on balanced deficit reduction to avoid sequestration, the President was required by law to issue a sequestration order on March 1 canceling approximately \$85 billion in budgetary resources across the Federal government for the remainder of the Federal fiscal year. Because you are a partner with the Department of Housing and Urban Development, you are entitled to timely and clear information about how these unfortunate budget cuts impact us, and, in turn, what it means for your Public Housing Authority (PHA) and participants in the Housing Choice Voucher (HCV) program.

At this time, HUD is taking every step possible to mitigate the effects of these cuts. However, based on our initial analysis, sequestration has resulted in a proration for voucher renewal funding of 94.1% compared to anticipated renewal need for Fiscal Year 2013.

HUD understands that these cuts will have a significant impact on your PHA's ability to assist the current number of households in the program. Our national projections indicate that the difference between the actual renewal need and the sequestration level funding results in a shortfall of renewal funding for approximately 125,000 participating families. HCV funding also helps to support approximately 700,000 landlords and property owners who participate in the program by providing a fair market rent so that they can meet mortgage payments, local tax obligations, utility expenses, and maintain properties in good physical condition. Abrupt cuts to assistance may make it difficult for these stakeholders to meet all of their obligations.

Additionally, the sequestration will significantly reduce administrative funding, resulting in an administrative fee proration of approximately 68.5% in 2013. This projected proration, following the significant prorations of the past few years, could pose major challenges for PHAs in managing their HCV programs. HUD recognizes this reduction in administrative fees may impede and disrupt your operations and pose severe impediments on the accomplishment of important goals such as maximizing the number of families housed through HUD's affordable housing programs, serving homeless veterans and other vulnerable populations, and expanding housing choice for families in areas of opportunity.

Since these cuts may 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. These strategies were previously shared with your agency on February 22, 2013.

Mitigation Strategies

Given the nature of the HCV program, some PHAs will face more challenges at being able to cope with funding reductions. Housing Authorities with low turnover rates, with increasing per unit cost trends and with low Housing Assistance Payment reserves need to be particularly cautious. The deep cuts that result from sequestration will limit HUD's ability to materially assist PHAs that go into shortfall. 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.¹ 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.

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 prorrations in its funding over the course of the calendar year.

PHAs also need to plan to mitigate the sequestration's significant impact on Administrative Fee Funding to PHAs in 2013. 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.

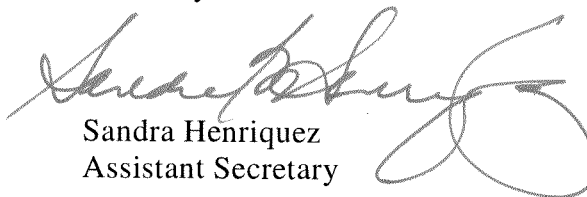
¹The utilization tool is found on the Office of Housing Voucher Programs webpage under "Related Program Information" at www.hud.gov

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.

Thank you for your continued partnership with the Department, and for your cooperation, as we work together to manage through these unfortunate circumstances.

Sincerely,



Sandra Henriquez
Assistant Secretary

cc: Board Chair