SUBJECT: Guidance on the Use of Outside Sources of Funds in the Housing Choice Voucher (HCV) Program

1. Purpose. This purpose of this Notice is to provide guidance to public housing agencies (PHAs) regarding the use of outside sources of funds for Housing Assistance Payments (HAP) expenses in the Housing Choice Voucher (HCV) Program.

2. Background. HUD has received numerous inquiries from PHAs requesting clarification regarding whether outside sources of funding may be used to make HAP payments. In some cases PHAs are seeking to maintain leasing or increase leasing up to baseline, which without outside sources of funding would not be possible for the PHA in light of the deep proration in renewal funding as a result of sequestration. Other PHAs have asked if outside sources may be used to prevent the termination of families as a result of insufficient funding. This notice clarifies the requirements regarding the use of outside funds for calendar year 2013 and subsequent years.

3. Acceptable Sources of Funds. PHAs administering the HCV program have several acceptable sources of funds available to cover eligible HAP expenses in the HCV program. These sources of funds include HCV budget authority, HUD-held HAP reserves (undisbursed budget authority), PHA-held Net Restricted Assets (NRA), funds from the HAP Set-aside (if available after PHA application and approval) and Unrestricted Net Assets (UNA – commonly referred to as administrative fee reserves). Use of these sources of funds (other than current year admin fees) are acceptable in order to maintain current leasing, increase leasing, and/or covering increased HAP costs under the HCV program. (The use of current administrative fees may only be used for administrative expenses and may not be used to cover HAP costs until the PHA fiscal year end, when unused administrative fees roll into the administrative fee reserve.) For PHAs participating in the Moving to Work initiative, fungible Public Housing Operating and Capital funds are also acceptable sources of funds to cover eligible HAP expenses in the HCV program. Note also that certain categories of Set-aside funding, such as funding to prevent terminations of families due to insufficient funding, may not be used to place new families under lease in the HCV program. PHAs with any questions regarding the eligible uses of Set-aside funding should contact their financial analyst at the Financial Management Center (FMC) for assistance.
4. **Prohibited Augmentation of HCV Funds from Outside Sources of Funds to Expand the HCV Program.** No other funds, other than the sources of funds identified in Paragraph 2 above, may be used to expand the HCV program through additional leasing of units, either to lease up to baseline, maintain current leasing levels, or to otherwise mitigate the loss of leased units through attrition necessitated by funding limitations. The following sources of funds are examples of prohibited sources of funds which cannot be used to admit new families under the HCV program: HOME funds, net proceeds from Public Housing demo/dispo, Central Office Cost Center (COC) funds, State funds, donations from philanthropic parties, and Mod Rehab admin fee reserves emanating from the Housing Certificate Fund. The use of these outside sources of funds for additional leasing of vouchers is prohibited; therefore, PHAs may not report the leasing and costs covered by the prohibited sources in VMS since they cannot be included in the calculation of renewal funding in the subsequent calendar year (CY). PHAs which have funds from outside sources may use those funds to operate a separate and distinct local rental assistance program; however, units leased under that program are not part of the federally funded HCV program and are not eligible for HCV renewal funds or administrative fees. Should a PHA use these types funds to operate a separate and distinct rental assistance program, the leasing and costs associated with these funds may not be reported in the Voucher Management System (VMS).

5. **Exception Regarding the Augmentation of HCV funds from Outside Sources of Funds to Prevent the Termination of Assistance of Current Participants.** There is one exception for use of outside sources to augment the HCV program. The exception is for PHAs that, despite taking reasonable cost-saving measures, are in a HUD-confirmed shortfall position and need additional funds in order to prevent the termination of current participants. In this instance, PHAs may use outside sources of funds such as net proceeds from Public Housing demo/dispo, Central Office Cost Center (COC) funds, State funds, donations from philanthropic parties, and Mod Rehab admin fee reserves emanating from the Housing Certificate Fund. **Prior HUD approval is required before PHAs may supplement the HCV program with these, or any other, sources of funds.** PHAs would then report the leasing and costs covered by these sources in VMS which would then be included in the calculation of renewal funds in the subsequent calendar year.

**HOME funds may not, in any instance, be used to augment funds for the HCV program.** It is noted, however, that HCV participants whose voucher HAP contracts are being terminated due to insufficient funding could be assisted under the HOME TBRA program. These families could then be provided a local preference to return to the HCV program once funds are available under the HCV program to support the HAP payments of these participants.

6. **Confirmation of a Shortfall by HUD:** Before determining if a PHA may use an outside source of funds to cover a shortfall in the HCV program, HUD must confirm if a shortfall exists. In determining the shortfall, HUD will use the Two Year Forecasting Tool. PHAs should refer to Appendix B of Notice PIH 2013-12 which provides the criteria HUD will use to determine if the PHA has a HUD-confirmed shortfall and the calculation of the shortfall amount. HUD’s Two Year Forecasting Tool can be found at

7. **HUD Approval Required Before Use of Outside Sources of Funds to Prevent the Termination of Current Participants.** As indicated above, prior HUD approval is required before PHAs may supplement the HCV program with any outside sources of funds to avoid the termination of current HCV participants. PHAs seeking approval for the use of such funds must submit a written request to the Office of Housing Voucher Program’s Financial Management Division (FMD). Requests should be submitted to the following email address: PIH.Financial.Management.Division@hud.gov. The subject line in the email should be “PHA Request to Use Outside Sources of Funds to Prevent Termination of Current Participants”. FMD will confirm with the Shortfall Prevention Team (SPT) that a shortfall exists, and once confirmed will issue an approval. If the shortfall is not confirmed, the PHA will receive a notice of denial. It is important to emphasize that this outside funding may only be used to protect current participants from termination of assistance due to insufficient funding during the calendar year. For example, the PHA may not use the outside sources to place additional families onto the program or enter into new project-based voucher contracts, or to free up HCV resources that would then be used to place additional families onto the program. PHAs approved for use of outside sources of funds will enter the amount of these funds and the total units covered by the funds in the comments section in the Voucher Management System (VMS).

**Paperwork Reduction Act.**
The additional information collection requirements contained in this document are approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520). The OMB control number is 2577-0169. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

**Further Information.**
Any questions concerning this Notice should be directed to the Housing Voucher Financial Management Division, Office of Public Housing and Voucher Programs, at (202) 708-2934 (this is not a toll-free number). Persons with hearing or speech impairments may access these numbers via TTY by calling the toll-free Federal Information Relay Service at (800) 877-8339.

/s/
Sandra B. Henriquez, Assistant Secretary for Public and Indian Housing