

HUD Budget at a Glance

Selected Programs in FFY2009	Funding Need	President's Budget Request
Public Housing Operating Fund	\$5.3 billion	\$4.3 billion
Public Housing Capital Fund	\$3.5 billion	\$2.0 billion
HOPE VI	\$800 million	\$0
Safety and security in public housing	\$310 million	\$0
Housing Choice Vouchers	\$15.4 billion	\$14.3 billion
HCV Administrative Fees	\$1.54 billion	\$1.4 billion
Totals	26.85 billion	22.0 billion



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Newark Housing Authority

HUD Budget Update

Agency Goals

1. Build, maintain, and renovate housing communities to the highest standards.
2. Expand affordable housing options for families utilizing a high quality Housing Choice Voucher Program.
3. Link with our employees, our residents, and community partners to support our mission.
4. Improve efficiency, program compliance and accountability in everything we do.
5. Invest in innovative crime prevention and quality of life strategies.
6. Expect results!

Executive Director's Letter

This entire issue focuses on the Federal Fiscal Year 2009 Budget proposed by the President. It reflects his priorities and unfortunately it is not affordable housing. As you see as you read through the various articles in this brochure you will see that we are being attacked from every side. Public housing operating down by \$1 billion, Public Housing Capital Fund down by \$1.5 billion, Vouchers down by \$1.1 billion. When you combine all of these programs it adds up to an annual shortfall in excess of almost \$5 billion dollars from what the industry and HUD estimate it costs to operate these programs. Public Housing has essentially been put on a starvation diet.

around 81% which will cost the agency over \$7 million dollars in subsidy this year. As the first article points out, "some housing authority expenses, such as utilities and insurance, are mandatory and must be paid in full. Since agencies must pay 100 percent of these bills, they eat up a considerable portion of housing authority revenue, leaving less than 81 percent of the remaining eligibility to pay for all the other HA expenses. After HAs have paid their utility bills, HUD's 2009 budget will leave them with only 74 percent of their eligible revenue to pay for all their non-utility costs." NHA has projected a \$1.7 million dollar deficit in this year's budget. If our utility costs continue to increase the deficit will grow.

What does this mean for Newark? More bad news. The Section 8 program is estimated to receive \$1 million less in administrative fees to run the program. The program will exhaust much of its administrative reserve this fiscal year. Newark does not receive enough funding to issue all of the vouchers that it is authorized to issue. We have HUD authorization to subsidize 5,389 households, yet we only receive enough money to only fund around 3,000 vouchers.

In these desperate times, it is important that we have strong advocates working on our behalf. Some of our advocates include CLPHA, NAHRO, and PHADA. I'd like to thank PHADA for the use of their articles which we have paraphrased and edited for our use in this publication. However, our best advocate is you! please tell Congress and the President how these cuts impact your life. Thank you.

Our mission is to invest in our families by building and maintaining affordable housing to encourage economic independence and healthy communities.

On the public housing operating side, we are estimating a proration

A Closer Look at HUD's 2009 Budget

On February 4, HUD released its 2009 budget. It would lower public housing funding from \$6.7 billion enacted in 2008 to \$6.3 billion. Of this amount, \$4.3 billion would be for the operating fund, while \$2.0 billion would go to the capital fund, with nothing budgeted for HOPE VI.

Section 8 contract renewals were set at \$14.3 billion, with the budget recapturing another \$600 million from HAs' "net restricted assets." The total appropriated in 2008 was \$14.7 billion. The budget includes \$1.4 billion for Section 8 administrative fees, a \$50 million increase over 2008's funding.

In addition to these figures, HUD's budget justifications also provide information on its interpretation of the two asset management provisions that were passed in the 2008 appropriations act—one making asset management optional for agencies with 400 or fewer units and the other confirming that capital funds can be used for central office costs.

Public Housing Reduced
HUD has determined that the operating fund eligibility for housing authorities for 2009 is \$5.3 billion. In other words, when it adds up the property expense levels (PELs) for all HAs, based on their Harvard cost study amounts, includes utility costs and add-ons, and subtracts out rental income, the public housing operating subsidy comes to \$5.3

HUD's Budget for Section 8

HUD has requested \$14.3 billion for Section 8 contract renewals in 2009. In addition, it has stated that all "unusable" net restricted assets would be swept up and included in the amount made available for contract renewals. It is unclear at this point whether or not the \$600 million offset will ever genuinely be available for 2009 contract renewals, however. Since it would essentially leave HAs with no reserve, an essential part of the program, it is not certain that Congress would reverse its 2008 decision, which left agencies with these net restricted assets, sweep them up and put them back out as part of the 2009 contract renewal. If HUD's \$14.3 billion alone were appropriated, it would only fund 89 percent of the authorized vouchers, which is fewer than those actually in use. If the total available is \$14.9 billion, it would fund 93 percent of the authorized vouchers, still lower than PHADA and others estimate will be in use by the end of 2008, and would not fund vouchers in use. PHADA has estimated that \$15.4 billion is needed to fund 96 percent of the authorized vouchers in 2009.

billion. Unfortunately, the Department has only asked for \$4.3 billion. Even though this sum is a \$100 million, or 2.4 percent, increase over the 2008 enacted level, it results in a proration of 81 percent, the lowest in history, and a shortfall of \$1 billion. Thus, many housing authorities will find themselves even more hard put than in 2007 and 2008 to pay their bills.

As PHADA has pointed out before, some housing authority expenses, such as utilities and insurance, are mandatory and must be paid in full. Since agencies must pay 100 percent of these bills, they eat up a considerable portion of housing authority revenue, leaving less than 81 percent of the remaining eligibility to pay for all the other HA expenses. After HAs have paid their utility bills, HUD's 2009 budget will leave them with only 74 percent of their eligible revenue to pay for all their non-utility costs. Clearly, managing a well-run housing authority under these circumstances will be extremely difficult.

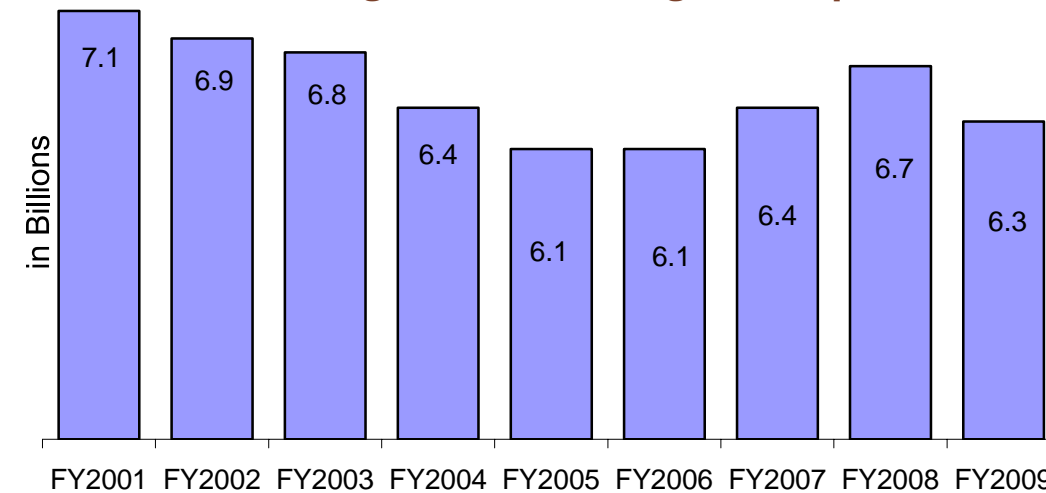
Budgeting the capital fund at \$2.0 billion also means that housing authorities would not receive even enough funding in 2009 to pay for capital needs that had developed just during the last 12 months. The 2000 Abt Associates study, the most recent estimate of national modernization needs, estimated that, in 2009 dollars, \$2.54 billion would be needed just to pay for this annual accrual. The Abt study also determined that there was a backlog of more than \$20 billion in outstanding public housing capital needs. This amount has only been reduced very modestly, if at all, since 2000. HUD's 2009 public housing budget has agencies actually going backwards in terms of their capital needs.

Once again, the Department has zeroed out the HOPE VI program. HOPE VI has had an extremely beneficial effect in redeveloping obsolete public housing communities and has led to an increase in assisted housing opportunities for residents when replacement vouchers are included. In addition, these HOPE VI developments have served as catalysts for revitalizing neighborhoods throughout the country. Not funding such a successful and important program is a very short-sighted and counterproductive decision by the administration.

The HUD budget request changes the Section 8 contract renewal formula again. It returns to a lump sum award, taking the amount an agency receives in 2008 and adjusting it for inflation. PHADA, in contrast, supports funding the Housing Choice Voucher program using the most recent 12 months worth of leasing and cost data and then adjusting that more accurate amount for inflation.

HUD has requested \$1.4 billion for Section 8 administrative fees in its 2009 budget, an increase of \$50 million over 2008. For admin fees, it has retained the provision in the 2008 appropriations act, which calls for fee payments to be based on the actual number of unit months leased times the amount derived by the formula which was in use in 2003 and earlier, adjusted for inflation. PHADA, CLPHA and NAHRO estimate that the amount that will be necessary using that formula, and a 96 percent leasing rate, is \$1.54 billion. This has resulted in a proration around 86% and causes NHA to lose around \$1,000,000 in administrative fees.

Total Funding for Public Housing is Inadequate



Total Funding includes Public Housing Operating Fund, Capital Fund, Drug Elimination Grants, and HOPE VI. FY2001–FY2008 are the enacted amounts passed by Congress. FY2009 is the HUD request. FY2005 annualized to correct for a one-time shift in the Operating Fund program year. The amazing thing is that these numbers are not adjusted for inflation!

HUD Budget - Asset Management Provision goes after Central Office

HUD plans to issue a notice on the asset management provisions that were included in the 2008 Appropriations Act—one confirming that housing authorities can use their capital funds for central office costs.

HUD's intentions concerning the use of capital funds for central office costs appear to contradict, not only the intent of Congress, but the law which was just passed. HUD is not unaware of the law, because it quotes section 226 of the Appropriations Act directly in its budget justifications, "The Secretary shall not impose any requirements or guidelines relating to asset management that restricts or limits in any way the use of capital funds for central office costs." That language would seem clear enough.

HUD, though, appears prepared to disregard the law by setting limits on the amount of capital funds which can be used for central office costs. HUD claims, without any evidence, that "excessive central costs have long been an issue in public housing." In fact, not only does HUD not present any evidence, but the Harvard cost study demonstrated that public housing was operated less expensively than privately owned assisted housing.

HUD goes on to say, "Under asset management, PHAs may not charge the projects more than a reasonable cost for these services. Inclusion of this section is seen as an attempt to get around this prohibition." Section 226 does allow HAs to use capital funds to pay for central costs without reference to HUD's management fee schedules. It should occur to HUD, though, that it may not be that Congress wanted to "get around" reasonable costs, but that HUD's management fees are not "reasonable" in the first place. PHADA has provided numerous explanations detailing the flaws in HUD's methods, including the fact that

many FHA properties used as the benchmark do not serve assisted tenants; there is no provision for add-ons available in multifamily; there are 24 regulatory and operating differences between the programs, and that thousands of FHA properties do not even record bookkeeping fees.

HUD continues its explanation in the budget justifications of its intentions by invoking the authority of OMB circular A-87, which it states requires "that costs be reasonable and necessary..." Since PHAs are regulated by this circular, HUD "does not foresee any substantial threat from it (section 226)," because "we maintain that a PHA may use capital funds to supplement central office costs but only to the level determined reasonable and necessary by HUD." It is very difficult to understand how HUD could believe that limiting the use of capital funds to a "level determined reasonable...by HUD," based on its asset management guidance does not directly contradict the law which states that "the Secretary shall not impose any requirements or guidelines relating to asset management that restricts or limits in any way the use of capital funds for central office costs."

OMB circular A-87 is designed to ensure specific expenses are not out of line, but is not meant to be a substitute for HUD's management fees, which section 226 says are not applicable in regard to capital funds. HUD has explained to PHADA that it is concerned about central office money being abused for expenses such as "a trip to Hawaii by the Board." Despite the far fetched nature of this example, HUD could, under OMB circular A-87, question such an expense, but when it writes that it will limit use of capital funds to a "level determined reasonable...by HUD," it implies that it will use a level set by its asset management guidance—a practice now prohibited by law.

HUD states that Congress's enacting section 226 "is an attempt to get around" its management fees, but in these budget justifications, it is HUD that is trying to "get around" section 226.