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

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

March 7, 2013

Dear PHA Executive Director:

As you are likely aware, due to the inability of Congress to pass legislation on balanced deficit reduction to avoid sequestration, the President was required by law to issue a sequestration order on March 1, 2013, canceling approximately $85 billion in budgetary resources across the Federal government for the remainder of the Federal fiscal year (FY). 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 program beneficiaries in the Public Housing program.

At this time, HUD is taking every step possible to mitigate the effects of these cuts. However, due to the sequester, a 5 percent reduction from the FY 2013 annualized Continuing Resolution (CR) will result in a funding proration of 73 percent for the remaining 9 months of calendar year 2013 and 77 percent for the full year. The Department is very concerned that the financial pressures that will be created as a result of this funding level may critically degrade your ability to operate the Public Housing program.

In testimony to Congress earlier this month, Secretary Donovan estimated some of the impact sequestration would have on local residents and the broader economy. The Department is very concerned that the effects of restructuring may include staff reductions which could lead to increased response times for all activities, including addressing simple maintenance issues, turning around vacant units, reviewing applications and making eligibility determinations, as well as weaker financial controls and reduced statutory and regulatory compliance. In addition to delays, given that subsidy amounts taken with rents may be insufficient to cover such mandatory items as utilities, it may be difficult for agencies to maintain their high occupancy rates.

The Department is very concerned about additional impacts that may affect significant recapitalization and sustainability initiatives within the Public Housing program. Specifically, the ability of housing authorities to convert under the Rental Assistance Demonstration could be significantly hampered if PHAs were to convert at this funding level, which is much lower than was originally intended for RAD to function as planned. Additionally, many PHAs have taken on debt in the form of Energy Performance Contracting (EPCs), financing energy retrofits with the future savings from these measures. With these fixed debt payments, reduced funding limits the remaining funds PHAs have to address operating expenses. Some PHAs with EPC debt may be forced to default on that debt.

Once Congress has passed and the President has signed a full-year FY 2013 appropriation for HUD, the exact funding levels you will be receiving for these programs will be set, and, your agency will subsequently be notified of your project-based FY 2013 Operating Subsidy amounts.

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 B. Henriquez
Assistant Secretary