



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

ASSISTANT SECRETARY FOR  
PUBLIC AND INDIAN HOUSING

Dear Executive Director:

As part of the 2012 budget process, the President directed all federal agencies to look at their programs and identify potential savings in a national effort to reduce overall federal spending levels. Given the available options, the Department had to make very difficult choices in an effort to reduce the impact of spending cuts to programs and most importantly to the clients we serve.

As you know, the President's 2012 Budget request for the Public Housing Operating Fund includes a proposed offset against Public Housing Operating Reserves. As with any budget, the announcement of the President's budget represents a starting point for discussions. The Department cannot know what the Congress will eventually pass in a 2012 Appropriations Act. And, until a final budget is enacted, PIH cannot provide a definitive policy statement about how such an offset, if passed, would be implemented.

What we can say, given the current language in the President's Budget, is that PIH would take a careful and deliberative approach to operationalize the offset, taking into consideration several factors including the size of a public housing authority (PHA), prior financial submissions and estimated reserve balances, as well as the level of reserves that would remain available to a PHA. HUD recognizes that when managing real estate, an agency needs to have available cash on hand and operating reserves provide that financial cushion.

Given the potential for an offset, PHAs should be mindful that taking actions to "spend down" reserve balances in order to avoid a future offset could produce dire financial consequences. Public Housing Operating Reserves were established for the prudent operation of public housing properties and any expenditure against those balances should reflect good stewardship of those federal resources. To date, Congress has made no decision about the 2011 funding level. PHAs could still face a proration in the current calendar year and may ultimately need to rely on their operating reserves.

In addition, there is no guarantee that "spending down" balances would have the intended effect. Given the reporting cycles for financial submissions, there is a strong possibility that the reserve estimate used to determine a PHA's potential offset could be based on prior year financial statements.

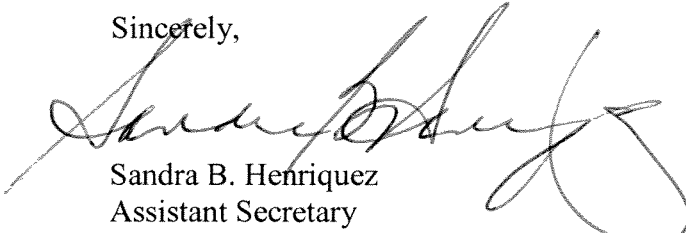
PHAs are also reminded that Operating Reserve balances may only be used for Operating Fund purposes and cannot be used for capital or modernization activity as defined within the United States Housing Act of 1937 (the 1937 Act). Operation is defined to mean "any or all undertakings appropriate for management, operation, services, maintenance, security (including the cost of security personnel), or financing in connection with a low-income housing project." See Section 3(c)(2) of the 1937 Act. Development is defined to mean "any or all undertakings

necessary for planning, land acquisition, demolition, construction or equipment, in connection with a low-income housing project.” See Section 3(c)(1) of the 1937 Act.

Section 9(e) of the 1937 Act generally provides for the Operating Fund for the operation and management of public housing, but section 9(e)(1)(I) of the 1937 Act does allow Operating Funds to be used to pay the debt service for the cost of financing the construction or modernization of public housing units with the approval of the Secretary. This provision echoes section 3(c)(2) of the 1937 Act which includes “financing in connection with a low-income housing project.” Currently, this use of Operating Funds, including operating reserves, for the financing of modernization or development of public housing is referred to as the Operating Fund Financing Program (OFFP) and the use of Operating Funds in such a manner requires HUD’s approval. OFFP proposals are reviewed by the Department on a case-by-case basis. Any use of Operating Reserves for capital or development activity without Departmental approval under an OFFP would be in violation of the statute.

While the Department recognizes the angst and uncertainty that has resulted from the announcement of the HUD Budget, we are committed to continuing to work with PHAs and the industry as we navigate the current economic realities.

Sincerely,



Sandra B. Henriquez  
Assistant Secretary