

Memo: To whom it may concern  
Regarding: San Francisco Housing Authority and Operating  
Subsidy Funding  
Date: September 18, 2006  
Attention: Phil Morgan, Bay Area Legal Services;  
Sara Shortt, Housing Rights Committee of San Francisco



### **Current FY 2006 public housing operating subsidy funding crisis:**

For fiscal year 2006, all housing authorities nationwide, including the San Francisco Housing Authority (SFHA), were originally told that they would be funded at 92% of need. (The need for operating subsidies is determined by a formula which is set forth in the regulations published in Code of Federal Regulations.) SFHA received an initial allocation of \$13,985,883 for the first six months for operating subsidy for 6,114 units of public housing. On June 23, 2006 it was told, as were all public housing authorities nationwide, that there was a \$600 million shortfall, of which \$283 million was due to increases in the cost of utilities. As a result, HUD informed SFHA that it would receive only 85.5% of need and that the calculation would be made retroactive to January 1, 2006. As a result it is anticipated that SFHA will receive \$26,544,137 for 2006, \$1,427,629 less than it would have received if it were funded at the amount representing 92% of need. (This reduced level of funding provides \$362 per unit per month.)

### **The effect of the current funding crisis on funding for 2007:**

The Administration requested funding for operating subsidies at \$3.564 billion which is the same level as the operating subsidy for public housing was funded at for fiscal year 2006. The Administration stated in the supporting documents to the FY 2007 Budget that this level of funding was calculated at 85% of the formula need. Because of the unplanned for or unanticipated shortfall in funding for FY 2006 due to utility increases, plus anticipated increases in FY 2007 for utilities and other costs, the funding level for operating subsidies for FY 2007 is substantially below what is needed. It is estimated that the shortfall for FY 2007 may translate into a funding level of between 78% to 80% of need.

Currently, the U.S. Congress has passed a bill providing for \$3.564 billion in operating subsidies. In HR 5576 RS, the Senate Committee in on Appropriations for the Department of Housing and Urban Development (DHUD) Appropriations Act, 2007, allocated \$3.660 billion for operating subsidies which is an increase of \$100 million over what was requested and what the House passed. This amount is still inadequate, as the need is \$4.5 billion.

### **Conversion to the new funding formula and asset management:**

The federal regulations for operating subsidy funding create a new funding formula. Under

the new funding formula approximately 500 of the more than 3000 public housing agencies nationwide will receive less funding under the new formula than under the prior formula. The SFHA is one of the 500 decliner/loser agencies. It is one of top ten housing authorities nationwide that will receive less under the new formula than it received under the old formula. Attached is a chart which shows a list of the 15 largest decliner public housing agencies by dollar amount and by percentage reduction in operating subsidies and the 15 largest gainer public housing agencies by dollar amount and by percentage increase in operating subsidies.

The federal regulations provide that a public housing agency which is a decliner/loser agency can stop all of its losses of operating subsidies ("stop-loss"), except for 5%, if it converts to asset management (project based management and project based budgeting) by October 1, 2006. SFHA is taking steps to convert and has stated that it can comply with the current rules. But as of today, HUD has not made available all of the rules regarding conversion thus compliance is hard to gage. Even if SFHA certified compliance by October 1, 2006, HUD has stated that it would assume that SFHA and all other decliner/loser agencies had not complied and would therefore deduct an additional 24% from SFHA's funding for FY 2007 and would not restore that deduction, upon determining compliance, until near the end of FY 2007.

Currently, HUD has posted a notice on its web site and sent an email to all housing authorities stating that "[a]ll decliner PHAs will be capped at 5 percent reduction for 2007 regardless of whether they apply for stop loss." This should mean that SFHA will not experience an additional loss of 24% of operating subsidy funding in 2007. However, HUD met with the housing authority trade groups on September 11, 2006 and made it clear that any housing authority that wants to limit its losses to 5% must comply with asset management by April 2007, which is at best six month extension and for some aspects of compliance only a three month extension. Thus, if SFHA does not comply with asset management by that date, it could lose an additional 24% of its funding. (As stated above, HUD has not issued complete instructions as to the criteria for compliance.)

HR 5576 RS, Section 325 addresses the issue by stating that the effective dates for any further reduction shall be moved forward one year, which means that a housing authority would have until October 1, 2008 to comply with asset management. (Section 325 also states that the new formula for determining operating subsidies will begin on January 1, 2007.)

#### **What is needed?**

1. Additional funding of \$283 for FY 2006 to make up for the short fall in the operating subsidies fund attributed to increases in utilities.
2. An increase in the operating subsidy fund for FY 2007 for a total amount of \$4.5 billion.
3. The enactment of Section 325 of the Senate Appropriation, which extends the forward the dates for subsidy reduction and discontinuation (stop-loss) forward one year to begin on October 1, 2008.

#### **Attachments**

Chart on decliner/gainer public housing agencies  
Language of Section 325