



**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
INTEROFFICE MEMORANDUM**

May 8, 2013

TO: Councilmember Richard Alarcon, Chairperson
Housing, Community and Economic Development Committee

FROM:  Douglas Guthrie, President and Chief Executive Officer

SUBJECT: FY 2013 Budget Contingency Planning – CF 13-0235

Cc: Housing, Community and Economic Development Committee

Attached you will find the letter submitted to the Budget and Finance Committee in response to Case File 13-0235, HACLA's report regarding the effects of Sequestration.



HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER
2600 Wilshire Boulevard • Los Angeles, California 90057 • (213) 252-2500
TTY (213) 252-5313

**PRESIDENT AND CEO
DOUGLAS GUTHRIE**

April 23, 2013

Councilmember Paul Krekorian
Chair, Budget and Finance Committee
City of Los Angeles
200 N. Spring Street, Room 435
Los Angeles, CA 90012

RE: HOUSING AUTHORITY OF THE CITY OF LOS ANGELES FISCAL YEAR 2013 BUDGET

Dear Councilmember Krekorian,

As an agency that receives virtually all its funding from the U.S. Department of Housing and Urban Development (HUD), the Housing Authority of the City of Los Angeles (HACLA) has been directly and dramatically affected by the ongoing federal budget crisis.

Under the extended Continuing Resolution (CR), which includes Sequestration, HACLA is subject to a total funding reduction of **\$44.9 million** to its Section 8 Voucher and Public Housing programs, or approximately 6.4% of its total budget.

Background

The Budget Control Act of 2011 mandated automatic spending cuts on all federal discretionary programs -known as Sequestration - in the event Congress did not adopt a FY2013 budget. Sequestration was set to be imposed on January 2, 2013, but with the Adoption of the American Taxpayer Relief Act adopted January 3rd, these automatic cuts were postponed until March 1st with an annualized funding reduction of approximately 5% to all non-discretionary programs.

In addition, HACLA has had to absorb further cuts due to the reduced funding in the extended Continuing Resolution (CR). Last year's funding for both Section 8 and Public Housing administrative costs was aided by one-time revenue sources with anticipation by HUD that Congress would adopt additional appropriations to cover those shortfalls in 2013. Unfortunately, the recently extended CR included only a small portion of the one-time revenue for the Operating Subsidy program and no adjustments for the Section 8 Administrative Fee.

These "anomalies" in this year's fiscal year budget significantly underfund Public Housing and Section 8 programs.

Section 8 Housing Choice Voucher Housing Assistance Payments –\$35 million

Under the combination of the Sequestration and CR, Section 8 HCV payments will be reduced by \$34.5 million in direct assistance to approximately 42,000 families. To mitigate this, we expect to reduce payment assistance to 95 percent of the fair market rents as determined by HUD. We anticipate that as many as 24,500 families that currently receive Section 8 assistance will be affected by these cuts resulting in a decrease of payment of an average of approximately \$180 per month. Many of these families will not be able to absorb such a large increase in rent and will need to look for alternatives should the landlord choose not to reduce the current rent. There are several options participants may choose between: the tenant can cover the difference, the landlord may decide to absorb the loss, or participants may opt to move to an apartment with a lower rent. Even in the best of circumstances, we expect thousands to be forced to relocate from their current residences.

We have held several meetings with stakeholders, including tenant advocates, landlord associations, and philanthropic organizations, in order to develop strategies to ease program participants through these changes.

At the time of this letter, we are working closely with the Assistant Secretary for Public and Indian Housing on set aside funds to mitigate the impact of these dramatic reductions, which may allow HACLA to defer the reduction of the voucher payment standards one year. However, one condition of the set asides will be to limit HACLA's ability to reissue vouchers lost to attrition. This will have an adverse impact on HACLA's future allocations, so we will continue to work with HUD to find a solution that does not reduce program participation.

Operating and Administrative Funds – \$7.7 million

Under the combination of the Sequester and CR, HACLA will be forced to absorb a funding reduction of \$7.7 million, or 6.4%, of our current operating (administrative) budget.

By Program, this includes:

- **Section 8 Voucher Administration - \$5.8 million**

Under the CR and Sequester, the Section 8 Voucher program Administrative Fee has been reduced from the 2012 budgeted proration of 80% down to 69%. This results in a net loss of \$5.8 million. Funding at this level will dramatically impact HACLA's ability to conduct timely recertify tenants, conduct inspections, and otherwise ensure minimum program compliance.

- **Public Housing Operating Subsidy - \$1.9 million**

HACLA operates 16 large, public housing communities serving over 6,800 households. Due to the CR and Sequester, Operating Subsidy levels have reduced the anticipated budgeted proration amount of 90% down to 82%, resulting in a net loss of \$1.9 million.

To date, these communities have over \$600 million in deferred capital needs and have undergone budget cuts year after year. In FY 2006, the Public Housing operation employed 390 FTEs. As a result of continual cuts to this program, the 2013 budget can only accommodate 259 FTEs. The CR and Sequester will further erode our staffing resources and have unfortunate operational implications. One means of addressing the loss of revenue is to consolidate management operations which will result in coverage lapses and limited site management office hours. Curb appeal will be compromised as there will be fewer gardeners to provide gardening services and to pick up litter and rubbish discarded throughout all of our communities. Unit quality will be further diminished as it will take longer to address maintenance requests due to reduced staff levels and diminished materials and contract expenditures.

- **Cost Reductions**

In order to mitigate these cuts, HACLA has taken the following measures:

- Imposed a hiring freeze for all but essential positions,
- Imposed mandatory furlough days,
- Suspended all but mission-critical expenses,
- Offered a Retirement incentive, with the backfill of only critical positions,
- Eliminated thirty (30) positions, resulting in a total of 5 layoffs, and
- Using a limited amount of reserves during implementation of retirements and layoffs.

We will continue to monitor congressional budget negotiations closely, and look forward to continuing to work with the City of Los Angeles to ensure our public housing residents and voucher program participants continue to live in safe, decent, and affordable housing.

Sincerely,



Douglas Guthrie
President and CEO

CC: Mayor Antonio Villariagosa
Councilmember Mitch Englander, Budget and Finance Committee
Councilmember Bill Rosendahl, Budget and Finance Committee
Councilmember Paul Koretz, Budget and Finance Committee
Councilmember Tom LaBonge, Budget and Finance Committee