



U.S. Department of Housing and Urban
Development

Office of Public and Indian Housing

Special Attention:
Directors, Offices of Public Housing;
Administrators, Offices of Native American
Programs; Section 8 Public Housing
Agencies and Indian Housing Authorities

Notice PIH 97-59 (HA)

Issued: November 26, 1997
Expires: November 30, 1998

Cross References: Replaces 96-68

Subject: Restrictions on Leasing Additional Units - Budget
Guidance

1. **Purpose:** This Notice replaces Notice PIH 96-68, Restrictions on Leasing Additional Units; Budget Guidance, which expired on August 31, 1997. Guidance to public housing agencies and Indian housing authorities (HAs) and HUD staff regarding the number of units that can be approved in an HA's annual program budget is provided. Guidance is also provided regarding the utilization of Annual Budget Authority (ABA) and the Program Reserve Account to support budgeted units.
2. **Applicability:** These policies apply to approval of budgets for HAs administering the Rental Certificate and Rental Voucher programs. These policies do not apply to the Moderate Rehabilitation or Single Room Occupancy programs.

All other Notices still in effect with regard to the leasing of units continue to be applicable and must be adhered to, including the statutory prohibition on reissuing turnover certificates and vouchers for 90 days.

3. **Leasing Policy:** HAs may approve leases for the number of units of assistance approved by HUD in the annual budget. The number of units an HA can lease is restricted to the number of units which can be fully supported by the Annual Budget Authority (ABA) during the HA budget and subsequent years.

If the projected funding requirements for the budgeted units exceed the ABA, the budget must be reduced by the State or Area office, working in conjunction with the HA, to a number of units which can be supported by the ABA. This number of units must accurately reflect the HA current program distribution and any anticipated changes during the budget year.

This revised policy does **not** authorize the use of program reserves to support unit lease-up.

The following exception is allowed:

Based upon previous policy (prior to Notice 96-68) HAs were allowed to over-lease using program reserves. However, effective August 23, 1996, HAs were to begin reducing their program size to bring costs in line with ABA. During the transition period in which the HA is reducing program size, program reserves may be used to provide assistance to existing families in the program.

However, in accord with this Notice, HAs are now directed to reduce program size to a level of the number of units fully supported from ABA. The budget approval letter to the HA must direct the HA to stop reissuing turnover rental certificates or rental vouchers until the number of units under lease has declined to the number of units which can be assisted within the ABA available for the HA budget and subsequent years.

4. **HA Monitoring of Program Costs:** The HA is ultimately responsible for ensuring that the program is appropriately managed to keep costs in line with the funding provided by HUD (ABA). This means that long term planning and continual monitoring is required.

HUD strongly recommends that HAs prepare long range plans, covering three to five years, which can assist in this process. The Financial Management System (FMS) software, which most HAs presently have, is a useful tool for this purpose. However, HAs must keep in mind when using FMS that policy changes since the software release must be taken into consideration.

The logic of FMS has a policy assumption which is **no** longer valid:

- That program reserves can be used for unit lease-up.

If this software is used, HAs must ensure that projections are revised to account for the above mentioned policy change to the FMS assumptions.

5. **Budget Review and Approval:** State or Area Offices shall use the budget review and approval process to monitor and manage the number of unit leases which an HA may approve.

With the exception of the circumstance described in item 3, above, the State or Area Office may not approve a budget for more units than can be fully supported by the ABA for the budget and subsequent years. If the budget reflects the use of program reserves, the State or Area Office must carefully review the proposed units budgeted to ensure that program reserves are being used **only** to maintain assistance for families which were assisted when the over-leasing was authorized. The reserves will not be used to lease **additional** units.

Comparative analysis of prior year financial documents to current budget documents will be required to assist in the determination of program reserve usage.

The review process must also take into consideration any portion of the program reserve account which had been restricted to support outstanding extensions. The annual amount of reserves restricted to cover the cost of contract extensions previously authorized should be viewed as **Contract Authority** when determining the annual funding under the ACC available to the HA.

6. **Issuance of Rental Certificates or Rental Vouchers:** In the past, many HAs have found it necessary to issue two, three, or more rental certificates or rental vouchers to eligible families in order to achieve one successful lease-up. This is most common in rental markets with low vacancy rates and/or limited availability of affordable and adequate housing units. This practice does not need to change under these revised policies.

Where market conditions adversely affect the ability of rental certificate and rental voucher holders to find suitable units, it is anticipated that HAs will continue the need to issue multiple rental certificates or rental vouchers to achieve one successful lease-up. Occasionally, rental certificate or rental voucher holders may be more successful than normal in their search for units, and the HA may find itself briefly in an overleased situation. If this happens, the HA must delay further the re-issuance of turnover rental certificates or rental vouchers until current policy requirements are met and the number of units under lease are fully supported by the ABA.

7. **Cost of Over-leasing:** If during the year end settlement process HUD determines that the HA did not manage unit lease-up within available ABA, the additional cost of over-leasing must be absorbed by the HA through the Section 8 operating reserve or other funding sources. The Section 8 Certificate and Voucher programs will not absorb the cost of HA over-leasing. State and Area Office staff will not approve year end statements which exceed ABA except as referenced in item 3.

8. **Contact:** If questions arise, please contact Mary C. Conway, Office of Real Estate Performance, Funding, and Customer Service at (202) 708-2934.

/s/

Kevin Emanuel Marchman,
Acting Assistant Secretary
for Public and Indian Housing