



## Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

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### NAHMAanalysis 2013-0217: Sequestration Is Imminent

#### Background

This NAHMAanalysis will bring members up-to-date on what we know about sequestration as of today. This is the first of several updates NAHMA will send over the next week as more information becomes available from HUD, Rural Development and the Office of Management and Budget (OMB).

“Sequestration,” or, “the sequester” refers to the mandatory, automatic across-the-board spending cuts required under the Budget Control Act of 2011. The original effective date of the sequester was January 2, 2013. For detailed legislative background on the sequester and affected affordable housing programs, please refer to “[NAHMAanalysis 2012-1023-Sequestration Implementation Update](#),” which was issued last October.

The American Taxpayer Relief Act (P.L. 112-240) postponed implementation of the sequester until March 1, 2013. The bill also offset the cost of the delay. Because of the offset, the original 8.2 percent estimated across-the-board cuts for multifamily housing programs were reduced to about 5.1 percent. However, the timeframe for implementing the cuts was also reduced, which will make the impact more severe.

As of this evening, it is apparent that sequestration will take effect on Friday, March 1. According to the best information we have available, most HUD and Rural Development affordable housing programs will face across-the-board reductions of 5.1 percent. These cuts will be implemented over the next couple of months, through the end of federal fiscal year 2013 (September 30). They must be implemented at the program, project and activity level for each budget account that was not specifically exempted in the BCA. As the law is written, agencies do not have the flexibility to redirect funds from one budget account to another. Senior Administration officials have said there will be widespread furloughs of federal employees as a

result of the cuts. In testimony to the Senate Appropriations Committee, Secretary Donovan stated sequestration could cause about 125,000 individuals and families to lose assistance provided under the Housing Choice Voucher program. His testimony also described a number of other negative consequences to low income families and local economies. See: [Written Testimony of Secretary Shaun Donovan Hearing before the Senate Committee on Appropriations on The Impacts of Sequestration](#) for more information. The Office of Housing's multifamily programs will be affected. In the project-based Section 8 program, HUD will try to manage the impact of funding cuts by short-funding of HAP contracts (obligating less than 12 months funding). The funding cuts may also prevent HUD from filling its vacant HUB director positions.

NAHMA members should know that the only way to prevent sequestration is for Congress to pass new legislation which either delays, replaces or repeals the sequester. The President would have to sign the legislation into law. Unfortunately, the President and Congress have not reached an agreement which will prevent sequestration from taking effect. Strong disagreements remain over whether new revenues (i.e. taxes) should be used to replace at least part of the sequester. President Obama continues to insist on replacing the sequester by closing tax "loopholes" such as carried interest policies. House Republicans insist the whole point of sequestration was to achieve deficit reduction through spending cuts.

## **Summary**

This afternoon, NAHMA participated in a stakeholder meeting with senior HUD, OMB and White House officials to discuss the impact of sequestration and strategies for reversing it. Here are some important highlights from the meeting:

### *The Sequestration Process*

- On March 1, 2013:
  - Sequestration takes effect.
  - President Obama will issue the official sequestration order.
  - HUD will send letters to governors, grantees and contractors which will provide more details about how sequestration will affect HUD funding and programs.
    - HUD's Office of Public and Indian Housing already sent letters to PHAs regarding the impact on the Housing Choice Voucher (HCV) Program.
- During the Week of March 4, 2013:

- HUD will post samples of its letters to governors, grantees and contractors online.
- HUD will hold stakeholder calls.
- HUD is planning to release Sequestration FAQs.

### *Impact on Programs*

Nearly all HUD multifamily housing programs will be cut by 5.1 percent in FY 13, but not all programs will be affected in the same way. For example, one way of implementing the cuts in the Section 8 HCV program would be to withhold vouchers upon resident turn-over instead of issuing the assistance to new families. In the project-based Section 8 program, HUD will use short-funded contracts to help manage the impact of sequestration. HUD staff will also be furloughed, but the furloughs will not be immediate. Federal employees must receive at least 30 days advanced notice before the furlough.

### **NAHMA Concerns**

Although the impact of sequestration will not be as immediate as a government shut-down, it will still be disruptive. Unlike a government shut-down, HUD will still be open for business under sequestration. That is the good news. The bad news is sequestration is going to affect agency operations, which will also affect NAHMA members.

We believe many HUD staff members will be reduced to four-day work weeks. Because they will also lose their pay for that one day a week furlough, they will experience a roughly 20 percent pay cut over the rest of the federal fiscal year. We do not yet know how severely reduced staff availability will affect processing for FHA multifamily loans, ability to complete preservation deals, or to simply get an answer to a compliance question.

HUD will also continue paying project-based Section 8 HAP contracts and processing contract renewals, but at some point, the Department will return to short-funding the contracts (for less than 12 months). At this time, we do not know exactly when short-funding will begin, nor do we have information about how many months worth of payments will be obligated. We have been told that even though the project-based Section 8 account will be cut by 5.1 percent under sequestration, HUD will not automatically reduce funding on each contract by 5.1 percent.

### **NAHMA Position**

Sequestration is a haphazard, irresponsible approach to deficit reduction that should never have been written into statutory law, and should not be implemented.

That said, on Friday, this terrible policy will take effect for at least some period of time. The question now is whether Congress and the President will work in good faith to repeal and/or replace the sequester with a reasonable and pragmatic deficit reduction strategy. Please know that NAHMA will continue to send updates on this important matter as they become available.

In the meantime, NAHMA would like to collect case studies about the actual impact sequestration has on the properties. Please let us know exactly how this policy affects your properties in terms of funding, operations, preservation, refinancing options, or new development. It is also critically important to share this information with your members of Congress.

For information on contacting your Congressional Representatives please visit:

Senators: [http://www.senate.gov/general/contact\\_information/senators\\_cfm.cfm](http://www.senate.gov/general/contact_information/senators_cfm.cfm); and

U.S. House of Representatives: <http://www.house.gov/writerep/>.

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