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A Fiscal Review of the Chicago Housing Authority

JULY 30, 2014

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About CTBA

Founded in 2000, the Center for Tax and Budget Accountability is a non-profit, bi-partisan research and advocacy think tank committed to ensuring that tax, spending and economic policies are fair and just, and promote opportunities for everyone, regardless of economic or social status.

CTBA uses a data-focused, bipartisan approach to work in partnership with legislators, community groups and other organizations to help change both public policy and perceptions.

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Table of Contents

Table of Figures

Table of Acronyms

CAFR	Comprehensive Annual Financial Report
CEO	Chief Executive Officer
CHA	Chicago Housing Authority
CTBA	Center for Tax and Budget Accountability
FY	Fiscal Year
GAO	United States Government Accountability Office
HCV	Housing Choice Voucher
HUD	United States Department of Housing and Urban Development
MTW	Moving to Work
PHA	Public Housing Agency

1. KEY FINDINGS

- The Chicago Housing Authority (**CHA**) was created in 1937 and is the governmental unit in charge of public housing in the City of Chicago.
- The U.S. Department of Housing and Urban Development (**HUD**) regulates and monitors the performance of public housing agencies (**PHAs**).
- PHAs receive federal funding from HUD for a variety of distinct programs, such as issuing housing vouchers or providing public housing units. HUD regulations generally require PHAs to keep these disparate funding streams in segregated accounts.
- The CHA participates in a federal program called "Moving to Work" (**MTW**), which provides participating PHAs a deregulated source of federal funding for affordable housing. Because of this deregulation, a PHA's use of federal revenue received under the MTW program is freed from many forms of HUD oversight.
- For instance, under the MTW program, funding for the CHA's three major programs—public housing, housing vouchers, and capital construction—does not have to be kept in segregated accounts by program type. This allows the CHA to commingle all federal funding received under the MTW program into a single General Fund. The CHA can spend the money in its General Fund at its discretion. This allows the CHA to divert federal funding ostensibly received to support the issuance of housing vouchers, for example, to other programs.
- As it turns out, the data indicate that the CHA has made the policy decision to divert to other uses, federal funding received under the MTW program for the issuance of housing vouchers.
- The number of housing vouchers the CHA issued each year over the 2008-2012 sequence was consistently less than the number of vouchers the agency could issue based on the voucher funding the CHA received from HUD.
    - In fact on average, the CHA annually issued 13,534 fewer housing vouchers than HUD funded the agency to issue over that time period.
    - The CHA's failure to issue housing vouchers it received federal funding for cannot be ascribed to lack of demand. Indeed, as of September 2013, there remained 33,003 households waiting for voucher assistance.
- Based on the CHA's various budget reports, it appears as if the CHA is taking the federal revenue it receives but does not use on vouchers and reallocating that revenue to budgetary items called "non-cash outlays." As the name implies, "non-cash outlays" do not constitute actual spending, and are in fact mainly used to track purely accounting adjustments like depreciation. Indeed, the most significant non-cash outlay is depreciation, which is a calculation of the loss in an asset's value in a given year. For example, the value of a car declines the second a buyer drives it off a car dealer's lot and that loss in value is depreciation.
    - Over the last decade, the CHA consistently used the financial flexibility provided by the federal MTW program to move funding from its voucher program to non-cash outlays.
    - Since non-cash outlays are not actual expenditures involving payments to third parties, this federal funding—initially targeted to vouchers—ultimately is not spent on services. Instead, it becomes a net cash surplus at the end of the fiscal year in which the CHA receive it, which is then added to the CHA's reserves.
- Due in large part to the CHA's decision to divert voucher funding to non-cash outlays, since at least FY2004 the CHA has received substantially more federal funding than it has actually spent on providing affordable housing.
    - After excluding non-cash outlays from the CHA's expenditures, the data show that the CHA has run an annual surplus averaging $90 million each year between FY2004 and FY2012.
- Over the last five years in particular, the CHA's reserve funds have grown significantly.
    - From FY2008-FY2012, the CHA had an average annual surplus of $107 million.
    - In total, the CHA has $432 million in available reserves that it has built up by not spending federal revenue received primarily for its housing voucher programs.
    - The CHA's current ratio of available reserve funds to liabilities is 5.28:1, meaning that for every $1 of its financial obligations, the CHA has over $5 in its reserves to pay for those obligations.
- The CHA's budget reporting process is not transparent and does not facilitate public scrutiny.
    - The CHA issues the following four different annual reports that cover its budgetary activities: Comprehensive Budget, MTW Plan, MTW Report, and Comprehensive Annual Financial Report. Although covering the same years and items, these different annual reports use different accounting practices, making it difficult to reconcile the reports with one another.
    - Additionally, even within the same set of documents, the CHA's budgetary reporting frequently changes, making historical analysis challenging.

2. THE CHICAGO HOUSING AUTHORITY AND HOUSING NEEDS

2.1 History of the Chicago Housing Authority

The Chicago Housing Authority (**CHA**) was created in 1937 and is the governmental unit in charge of public housing in the City of Chicago. While it is not an agency of the City of Chicago, the CHA is governed by a board of commissioners who are appointed by the Mayor of Chicago and approved by the City Council. Additionally, the Chief Executive Officer (**CEO**) is nominated by the mayor and approved by the board of commissioners. The CEO oversees the day-to-day operations of the CHA. Michael R. Merchant, the former head of the City's Department of Buildings, became the CHA's CEO in October of 2013. When Mr. Merchant was appointed, he became the third CEO in less than three years under the current Mayoral administration.

While the CHA receives revenue from a variety of sources, the overwhelming majority of it—on average approximately 90 percent—comes from the federal government via the U.S. Department of Housing and Urban Development (**HUD**). This federal funding is intended to cover the cost of providing affordable housing to low-income households, the elderly, and individuals with disabilities. Until the early 2000s, the CHA's public housing portfolio consisted largely of high-rise buildings that were criticized as unsafe and unsanitary.[1] The U.S. Department of Housing and Urban Development, responding in part to concern over conditions in the CHA's public housing stock, took control of the agency in 1995.[2] The CHA remained in federal receivership until 2000.[3]

In 2000, the CHA went directly from federal receivership into a federal demonstration program called "Moving to Work" (**MTW**), which deregulated public housing for participating agencies. Created by the U.S. Congress in 1996, the MTW program was established to provide high performing public housing agencies (**PHAs**) flexibility in how they spend federal funds.[4] The three stated goals of the MTW program are to: (i) "reduce cost and achieve greater costs effectiveness in Federal expenditures;" (ii) "incentivize individuals to gain employment and become economically self-sufficient;" and (iii) "provide low-income families with greater housing choices."[5] To facilitate these goals, PHAs that participate in the MTW program—like the CHA—are able to combine funding for their public housing, capital, and voucher programs into a single General Fund.[6] In contrast, PHAs not participating in the MTW program are required by HUD to segregate the federal funds they receive into program-specific accounts. Agencies participating in the MTW program also are freed from a variety of oversight and reporting provisions to which traditional PHAs are subject, including provisions that establish standards for public housing occupancy,[7] housing voucher leasing,[8] and reserve levels.[9] The specific details of each agency's exemptions from HUD regulations are in a MTW agreement between the applicable PHA and HUD. Presently, of the 3,300 public housing agencies nationwide, only 39[10]—or just over 1 percent—are participating in the MTW program. The CHA is the largest PHA operating under a MTW agreement with HUD.[11] The CHA's current MTW agreement was renegotiated in 2008 and expires in 2018.

The Chicago Housing Authority's deregulation in 2000 under the MTW program coincided with the launch of then Mayor Richard M. Daley's ten-year plan to overhaul public housing in Chicago, known as the "Plan for Transformation."[12] One goal of the Plan for Transformation was to change the CHA's role in public housing from being primarily a direct provider of public housing to becoming more of a facilitator of connecting low-income households to privately owned affordable housing. Another goal was to convert the CHA's public housing portfolio from large high-rise buildings entirely occupied by tenants renting from the CHA to mixed-income buildings in which not all occupants would be renting from the CHA. To achieve this transformation in its public housing portfolio, the CHA planned to demolish over 18,000 housing units,[13] mainly in the old high-rise buildings, while rebuilding or rehabilitating 25,000 public housing units by fiscal year (**FY**) 2009.[14] The 25,000 figure was chosen because, even though the CHA owned 38,776 housing units in 2000, only 24,490 were occupied.[15]

The original goal of rebuilding or rehabbing 25,000 public housing units by FY2009 was not reached, and the timeline was extended to FY2015. At the end of FY2013, the CHA had completed 87 percent, or 21,649 units, of the total unit delivery goal.[16]

2.2 CHA Programs and Housing Needs in Chicago

The CHA provides housing assistance for low-income households, the elderly, and individuals with disabilities in two different ways. The first is public housing, in which individuals rent housing units directly from the CHA.[17] As of September 30, 2013, the CHA's public housing program served 33,614 residents.[18] A majority of those residents live in family properties (71.2 percent), while the remaining 28.8 percent reside in senior properties. The CHA directly holds 21,189 public housing units with 17,973 of those units occupied (84.8 percent).[19]

Figure 1
CHA Public Housing Demographic Information
As of September 30, 2013

Category	FY2014
Family Residents	23,920
Senior Residents	9,694
Total Residents	**33,614**
CHA Owned Units – Family	11,604
CHA Owned Units – Senior	9,585
CHA Owned Units	**21,189**
Total Occupied Units	**17,973**

Source: Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 178-179.

The second way the CHA offers housing assistance is through issuing housing vouchers. Under the voucher program, the CHA provides families with subsidies that pay for part of the cost of renting housing from a private owner. The financial value of the voucher assistance a family receives is tied to household income. In most cases, voucher households pay 30 percent of their adjusted gross income towards rent and utilities. The CHA covers the remaining cost of the market rent.[20] In 2013, the CHA provided 36,594 households with vouchers.[21]

Although the CHA serves a substantial number of households, as of September 30, 2013, there remained 55,318 households waiting for either public housing or voucher assistance.[22] While the number of families on the wait lists is substantial, the CHA's wait lists do not necessarily account for the full amount of affordable housing demand in Chicago, because the CHA has the ability to limit participation in its wait lists irrespective of demand. This has resulted in a significant number of otherwise eligible households being left off the CHA's wait lists. For example, when the family public housing wait list last opened to the public for application between June 14 and July 9, 2010, some 210,000 households applied for the 40,000 open spots on the wait list.[23] Hence, over four times as many households were left off the CHA's public housing wait lists as made it on. And that example is not the sole indication of the extent of unmet demand for affordable housing. According to the Chicago Coalition for the Homeless, there were 116,042 homeless Chicagoans in July of 2013.[24] Chicago Public Schools reported 18,669 homeless students during the 2012-2013 school year.[25] Additionally, in 2010 the Chicago Rehab Network calculated that 50.2 percent of Chicagoans were rent burdened, meaning that they paid more than 30 percent of their income in rent.[26] So, while no hard and fast number exists for unmet affordable housing demand in Chicago, all the data indicate that affordable housing needs in Chicago exceed the CHA's current capacity.

3. BUDGET ANALYSIS

3.1 Overview

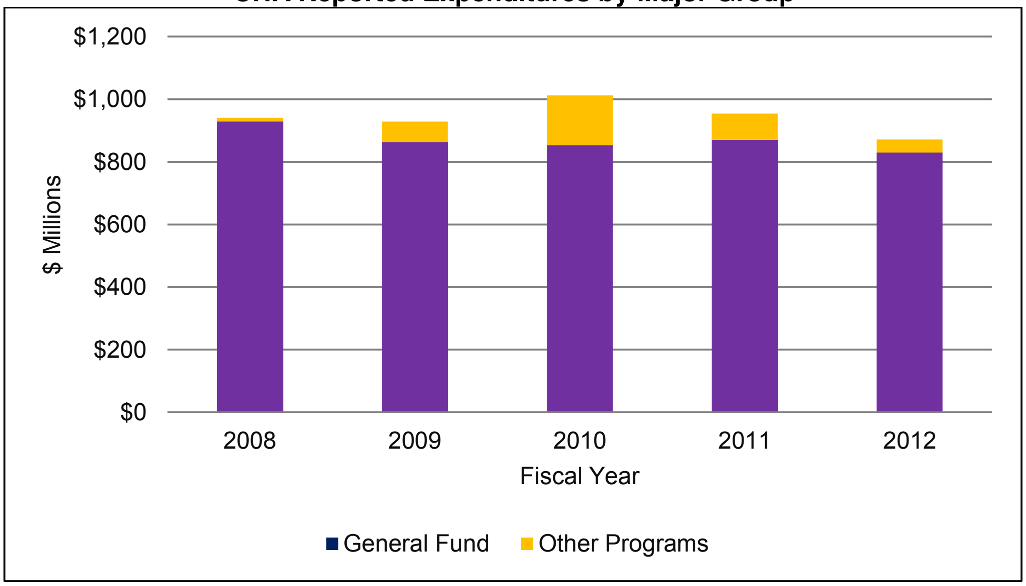
For this report, the Center on Tax and Budget Accountability (**CTBA**) analyzed all of the CHA's publicly available budgetary documents that cover the period from the beginning of the Plan for Transformation in 2000 to the present day. The CHA publishes its budget information in the following four annual documents (listed in chronological order of release):

- The annual **MTW Plan,** which is released by the CHA before the beginning of a fiscal year. The Plan contains the CHA's proposed budget for the upcoming fiscal year and compares that to the prior fiscal year's final budget. For example, the FY2010 MTW Plan compares the CHA's proposed FY2010 spending to its final, budgeted spending for FY2009. Each MTW Plan is submitted to HUD for approval as part of the requirements for participation in the MTW program. Note that a final "budget" does not necessarily reflect what the actual expenditures were by line item in a given fiscal year. It is merely the amount scheduled to be spent for a fiscal year.
- The **Comprehensive Budget,** which is released by the CHA in the first quarter of each fiscal year. The Comprehensive Budget contains budgeted spending and revenue for the applicable fiscal year, budgeted spending for the previous fiscal year, and actual revenue and spending for two previous fiscal years. It is approved by the CHA Board of Commissioners but is not subject to HUD approval.[27]

- The **MTW Report** is published after a fiscal year ends, and compares planned—that is budgeted spending—to what actually occurred during the fiscal year, including documenting budgeted versus reported final revenues and expenditures. It is submitted to HUD for approval as part of the requirements for participation in the MTW program.
- The **Comprehensive Annual Financial Report** (**CAFR**) is published after a fiscal year ends and contains the CHA's financial statements for that year.[28] It is reviewed by a third party auditor but is not subject to HUD approval.

Since FY2008, the MTW Reports divide the CHA's total budget between the "General Fund" [29] and "Other Programs." All CHA spending that is deregulated under the federal MTW program goes through the General Fund. The "Other Programs" category includes all program spending that is not deregulated. Hence, the federal revenue the CHA receives for the Other Programs category must be spent on specific programs, like HOPE VI.[30] Figure 2 provides a breakdown of reported expenditures by these two major categories for fiscal years 2008-2012.[31]

Figure 2
CHA Reported Expenditures by Major Group



Source: CTBA analysis of actual expenditures in CHA FY2007, FY2008, FY2009, FY2010, FY2011, and FY2012 MTW Reports.

As shown in Figure 2, on average the General Fund comprises over 90 percent of the CHA's total budget. CTBA's analysis focuses on the General Fund because not only does it account for the majority of the CHA's budget, but it is also the portion of the budget that the CHA has the most discretion over.

The CHA's MTW Reports show that the General Fund was used to cover the following three programs over the FY2008-FY2012 sequence: "**Low Rent**," "**Capital**," and "**Housing Choice Voucher** (**HCV**)." Low Rent is the program through which the CHA directly provides public housing to eligible participants. The Capital program covers the cost of the improvement, acquisition, and building of CHA-owned public housing, and thus represents most of the spending made to satisfy the CHA's 25,000 housing unit delivery goal. HCV is the program that provides eligible participants housing vouchers to subsidize the cost of renting private sector units.[32]

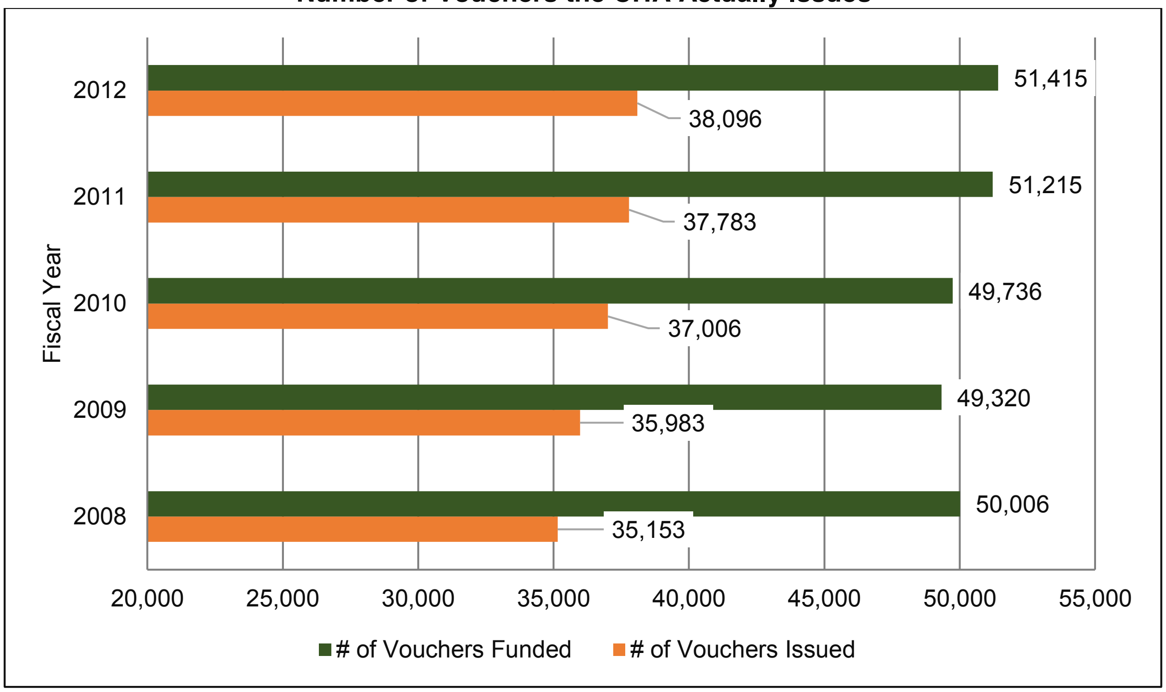
3.2 Reallocation of Housing Choice Voucher Funding to Non-Cash Outlays

An analysis of the CHA's MTW Reports reveals that the CHA is using its MTW-enabled financial flexibility to divert federal funding received for the Housing Choice Voucher program to other programs. In particular, the MTW Reports show that part of the federal funding the CHA receives for vouchers is shifted to its Low Rent program, but not to cover any actual costs of running that program. Instead, federal voucher funding is being allocated to "**non-cash outlays**," which are not actual expenditures to third parties but purely accounting based adjustments. Indeed, it is not necessary to allocate any current revenue to non-cash outlays, since, as the name implies, there is no actual expenditure of funds associated with them.

There have been two significant consequences of this policy decision by the Chicago Housing Authority. First, on average over the FY2008-FY2012 sequence, the CHA issued 13,534[33] fewer vouchers annually than it could have issued had it not diverted federal HCV funding to non-cash outlays. Second, because non-cash outlays do not involve the actual expenditure of funds by the CHA, the federal funds diverted from the voucher program are not spent on any affordable housing service, and instead are actually being used to grow the CHA's cash reserves.

The number of vouchers not being issued annually by the CHA coincides with the number of housing units the CHA had in 2000 that were not occupied (13,000). Because those units were not occupied at that time, it appears the CHA decided not to circulate the new allocation of vouchers the CHA received at the time of demolition. Despite this, HUD continues to transfer annual federal funding to the CHA in an amount sufficient to provide a housing voucher for every one of the 13,000 units the CHA demolished.[34] The net effect is clear: the CHA receives federal funding for vouchers that it has never used for providing housing assistance. Figure 3 compares the annual number of vouchers the CHA received federal funding to issue in a fiscal year (in green) to the number of vouchers issued in the applicable fiscal year (in orange).

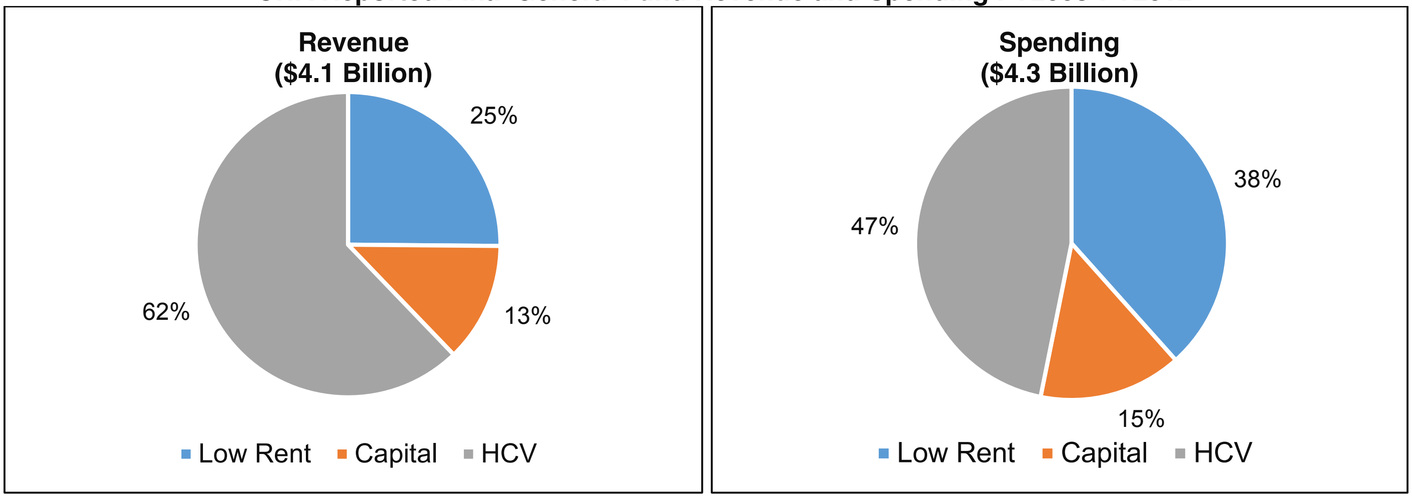
Figure 3
Number of Vouchers for Which the CHA Receives Federal Funding vs. Number of Vouchers the CHA Actually Issues



Sources: CTBA analysis of MTW Reports for FY2008-FY2012.

To identify where the funding for these unused vouchers was being transferred, CTBA examined the revenue and expenditures the CHA reported by General Fund program. Figure 4 compares actual revenue and spending in the three General Fund programs (Low Rent, Capital, and Housing Choice Voucher).

Figure 4
CHA Reported Final General Fund Revenue and Spending FY2008-FY2012



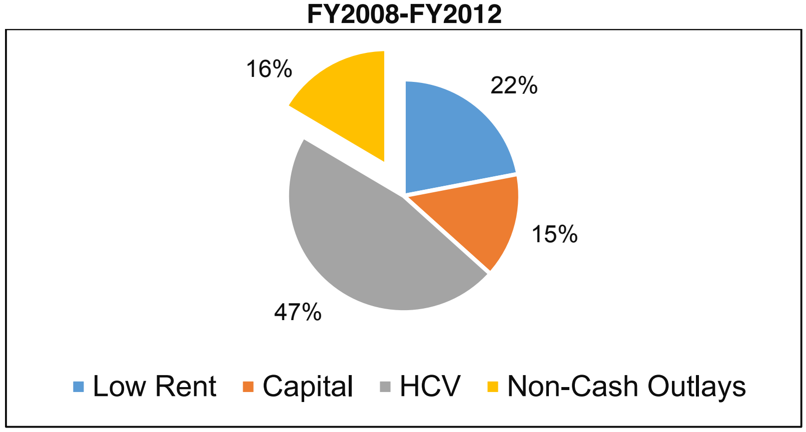
Source: CTBA analysis of CHA FY2008, FY2009, FY2010, FY2011, and FY2012 MTW Reports.

Revenue for the CHA's HCV program, which mostly comes from the federal government, accounts for 62 percent of all General Fund revenue from FY2008 though FY2012; however, much of that revenue is not actually spent on vouchers. Indeed, as Figure 4 shows, less than half—47 percent—of all the CHA's reported General Fund expenditures are used to issue vouchers under the HCV program. The Low Rent program in contrast, is the source of only 25 percent of the CHA's General Fund revenue, but accounts for 38 percent of total General Fund expenditures. Based on the differentials between revenue and spending, it appears that federal revenue the CHA receives for vouchers is reallocated and spent on public housing through its Low Rent program. However, the significant majority of those reallocated funds are not actually being used to provide public housing to eligible populations, nor actually expended on any affordable housing related services.

In fact, a line-by-line analysis of all General Fund expenditures reported by the CHA in the MTW Reports shows that funds diverted from vouchers are actually being allocated to cover non-cash outlays. Non-cash outlays are purely accounting adjustments to the value of an existing asset and do not involve the actual payment of any funds. The most significant non-cash outlay is depreciation, which the CHA defines as a "non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence."[35] Essentially, depreciation is a calculation of the loss in an asset's value in a given year. For example, a computer bought in 2008 does not have the same value in 2014. That loss in value is depreciation. It should also be noted that the depreciation line as reported by the CHA does not include any cash expenditures made for items such as maintenance costs, which the CHA reports in a separate budget line item. Depreciation accounts for 99.6 percent of all non-cash outlays over the FY2008-FY2012 sequence.

Figure 5 shows reported spending with non-cash outlays separated from the CHA's three General Fund programs. Non-cash outlays make up 16 percent of the CHA's purported General Fund expenditures between FY2008 and FY2012.

Figure 5
CHA Reported Final General Fund Expenditures, Re-Grouped: FY2008-FY2012



Source: CTBA analysis of CHA FY2008, FY2009, FY2010, FY2011, and FY2012 MTW Reports.

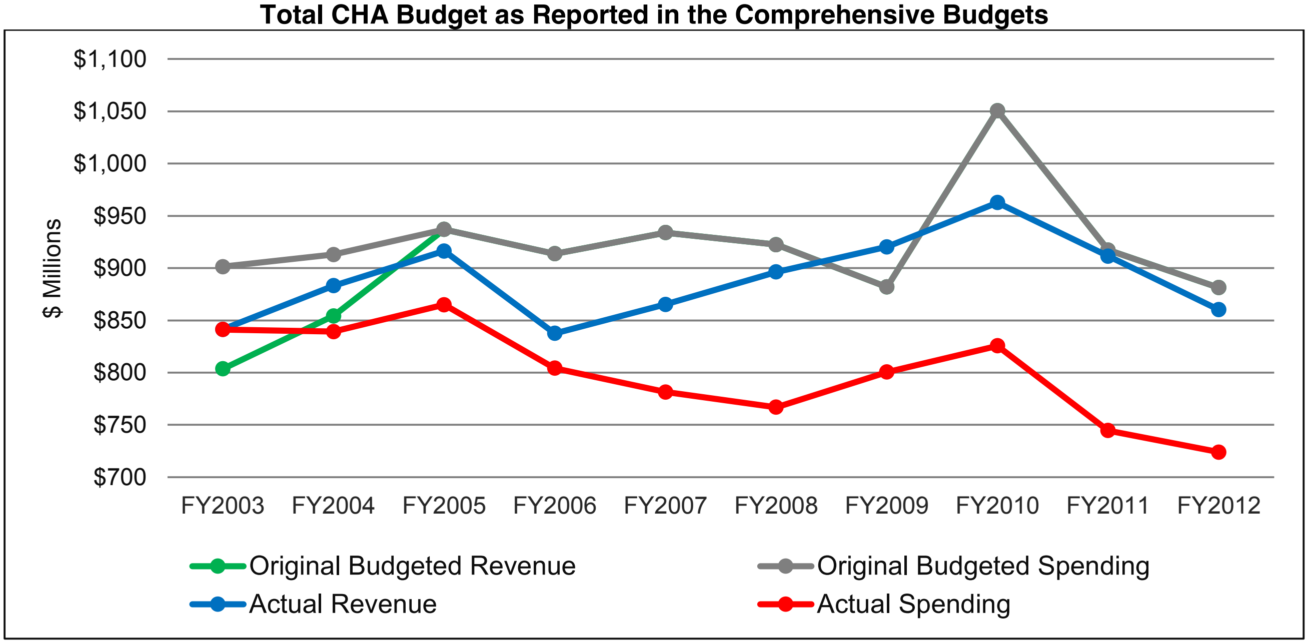
Because non-cash outlays do not require any actual spending, there is no need to allocate any revenue to cover them. To the extent any revenue is attributed to non-cash outlays, however, that revenue is ultimately kept by the CHA and added back into the CHA's "net revenue after expenses" at the end of the year. As the name implies, "net revenue after expenses" is the amount of money the CHA has left after accounting for its spending. Any "net revenue after expenses" that remain at a fiscal year's end are added into the CHA's total cash reserves. So effectively, the CHA has made the policy decision to divert federal funding for housing vouchers away from that program—and indeed away from funding any affordable housing service—and into the CHA's cash reserves.

3.3 Significant Surpluses

To understand the impact of the shift in revenue from the voucher program to non-cash outlays, CTBA looked at the CHA's entire budget (both General Fund and Other Programs), and found that the CHA not only spent substantially less than it budgeted each fiscal year over the 2003-2012 sequence but also less than actual revenue.

Figure 6 compares the CHA's budgeted revenue and spending to actual expenditures and revenue for FY2003-FY2012. Although the CHA first joined the federal MTW program in 2000, Figure 6 begins with FY2003 because that is the earliest data available.[36] Since fiscal year 2005, budgeted spending and budgeted revenue equal each other, in part, because budgeted spending in the Comprehensive Budgets largely represents the amount of federal money the CHA is requesting from HUD.

Figure 6
Budgeted Spending and Revenue Compared to Actuals:
Total CHA Budget as Reported in the Comprehensive Budgets

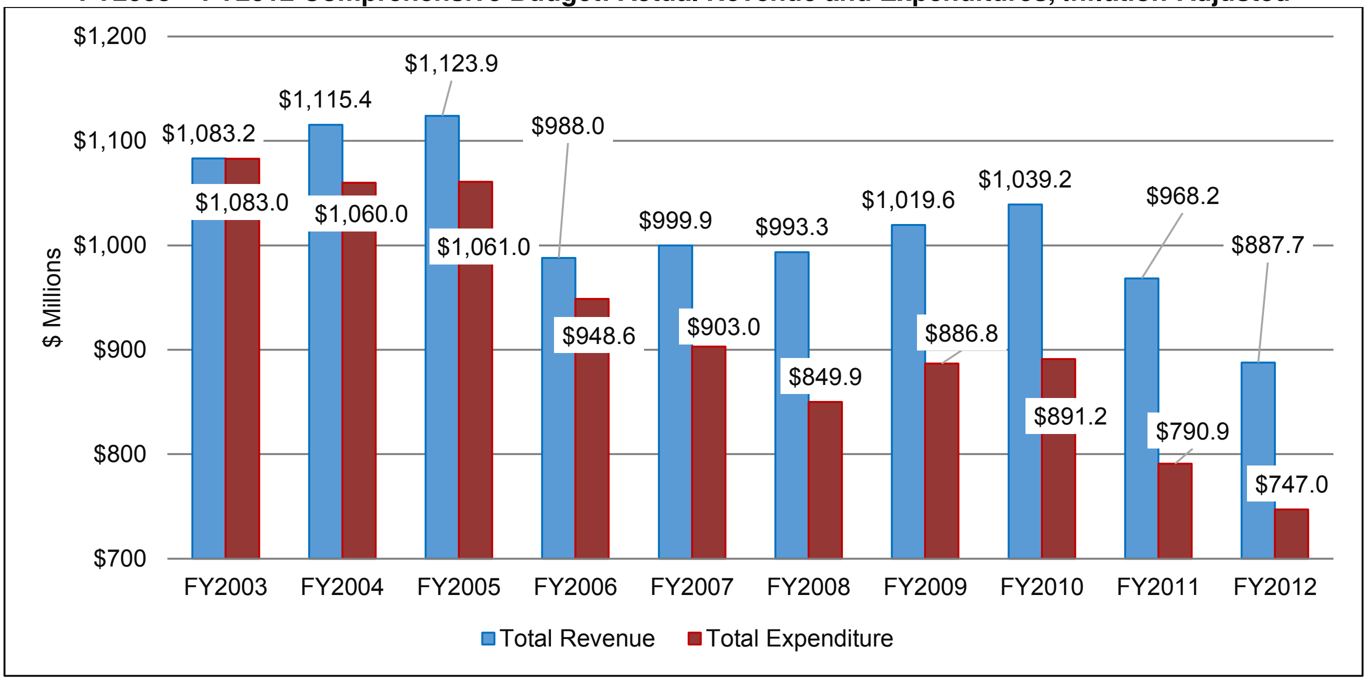


Sources: Budgeted figures for FY2005 from FY2005 MTW Report and FY2006 from FY2007 Comprehensive Budget, all other budgeted figures are from that year's Comprehensive Budget Actuals from CHA FY2007, FY2008, FY2009, FY2010, FY2011, and FY2012 Comprehensive Budget Books.

Figure 6 demonstrates that budgeted figures (in green and gray) have historically been greater than actual revenue (in blue) and spending (in red). For example, in FY2011, the CHA budgeted $917.3 million for both revenue and spending.[37] In FY2011, the agency received $911.5 million in revenue—which was less than one percent different from what the CHA had budgeted. Actual expenditures in FY2011 were $744.6 million, which was 18.8 percent less than the CHA budgeted to spend, and 18.3 percent less than the revenue the CHA actually received.[38]

Figure 7 drills down on actual revenue and expenditures for the CHA's entire budget since FY2003 in real, inflation-adjusted dollars, with inflation based on the Consumer Price Index. In FY2012, revenue was 18 percent less than FY2003 and spending was 31 percent less than FY2003 in real, inflation-adjusted dollars. The significant decline in spending is primarily due to decreased capital spending. Indeed, the CHA's spending on capital projects in FY2012 was over 55 percent less than its FY2003 capital spending in real, inflation-adjusted dollars.[39] The decline in capital spending is not surprising because the vast majority—73 percent—of CHA-owned units added towards the 25,000-unit delivery goal through building, redevelopment, or acquisition occurred between FY2000 and FY2005.[40]

Figure 7
FY2003 – FY2012 Comprehensive Budget: Actual Revenue and Expenditures, Inflation-Adjusted

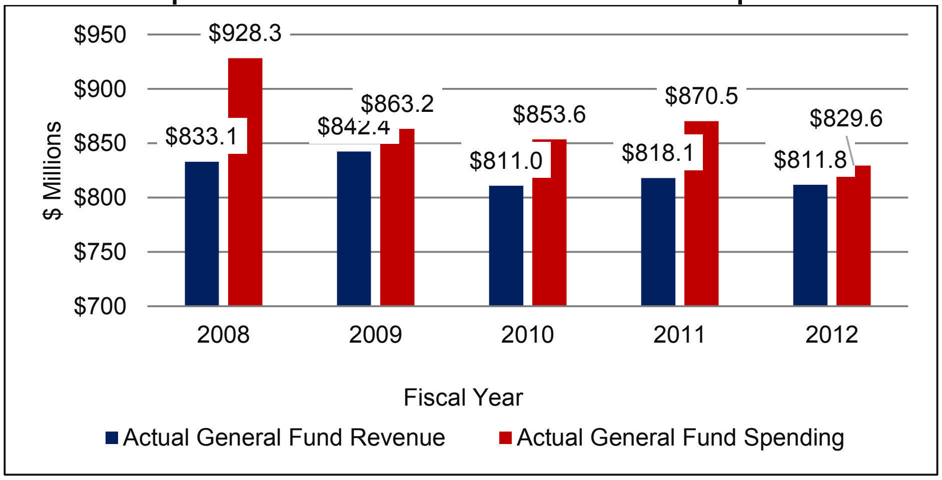


Sources: CTBA analysis of CHA FY2007, FY2008, FY2009, FY2010, FY2011, and FY2012 Comprehensive Budget Books.

In analyzing the CHA's revenue and spending over the FY2003-FY2012 sequence in real, inflation-adjusted dollars, a clear and interesting trend that emerges is that even though federal funding declined in real terms, the CHA was still able to increase its cash reserves because real spending on affordable housing services by the CHA declined far more steeply over the same period. This means that despite an overall decrease in revenue and expenditures after adjusting for inflation, the CHA had an annual surplus in each of the 10 years over this period.[41] Indeed, between FY2004 and FY2012 the CHA's total annual revenue exceeded expenditures by an average of 12.6 percent,[42] with an average annual surplus of $90 million.[43]

In contrast to the financial trends revealed in the Comprehensive Budgets, the MTW Reports indicate that the CHA's General Fund expenditures have exceeded its revenue every year over the FY2008-FY2012 sequence, as shown in Figure 8. Hence, while the CHA's Comprehensive Budgets show that actual revenue significantly exceeds spending in both real and nominal dollar terms over the FY2003-FY2012 sequence, the MTW Reports show just the opposite, that expenses exceeded revenue.

Figure 8
CHA Reported Final General Fund Revenue[44] and Expenditures

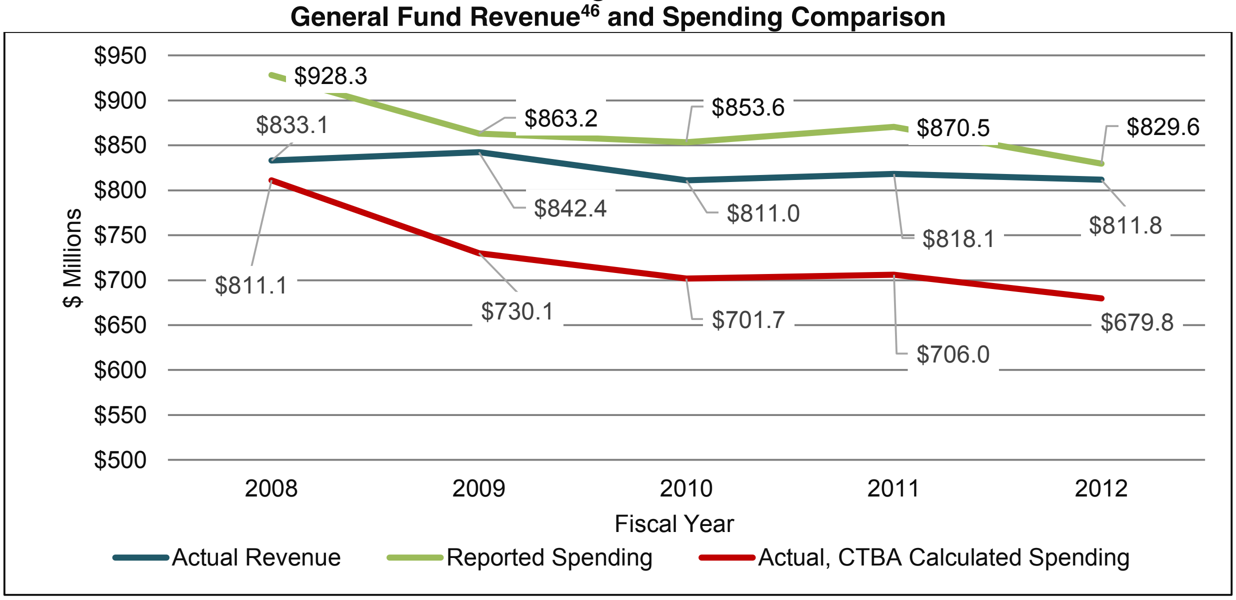


Source: CTBA analysis of CHA FY2008, FY2009, FY2010, FY2011, and FY2012 MTW Reports.

The financial picture of the General Fund that emerges from examining the MTW Reports—that spending exceeds revenue—is surprising, because since the General Fund accounts for over 90 percent of the CHA's total budget, its financial trends should mirror the trends for the total budget revealed in Figure 6 and Figure 7. This apparent conundrum, however, disappears when one recognizes that the Comprehensive Budgets do not include any non-cash outlays because these items are not actual expenditures and hence do not require the use of any revenue. The CHA does include these items in reported spending in the MTW Reports. In other words, the Comprehensive Budgets show how much revenue the CHA actually disbursed to third parties. The Reports, on the other hand, artificially inflate the CHA's spending by including items that do not constitute actual disbursements of cash. For FY2012, for example, the CHA reports its total spending as $723.8 million in its Comprehensive Budget and $871.5 million—or over 20 percent more—in its MTW Report.[45]

Once spending in the Reports is adjusted to exclude non-cash outlays, General Fund spending was less than revenue every year over the FY2008-FY2012 sequence. Figure 9 compares actual General Fund revenue to spending as reported by the CHA ("**Reported Spending**") and spending that excludes non-cash outlays ("**Actual, CTBA Calculated Spending**").

Figure 9
General Fund Revenue[46] and Spending Comparison



Source: CTBA analysis of CHA FY2008, FY2009, FY2010, FY2011, and FY2012 MTW Reports.

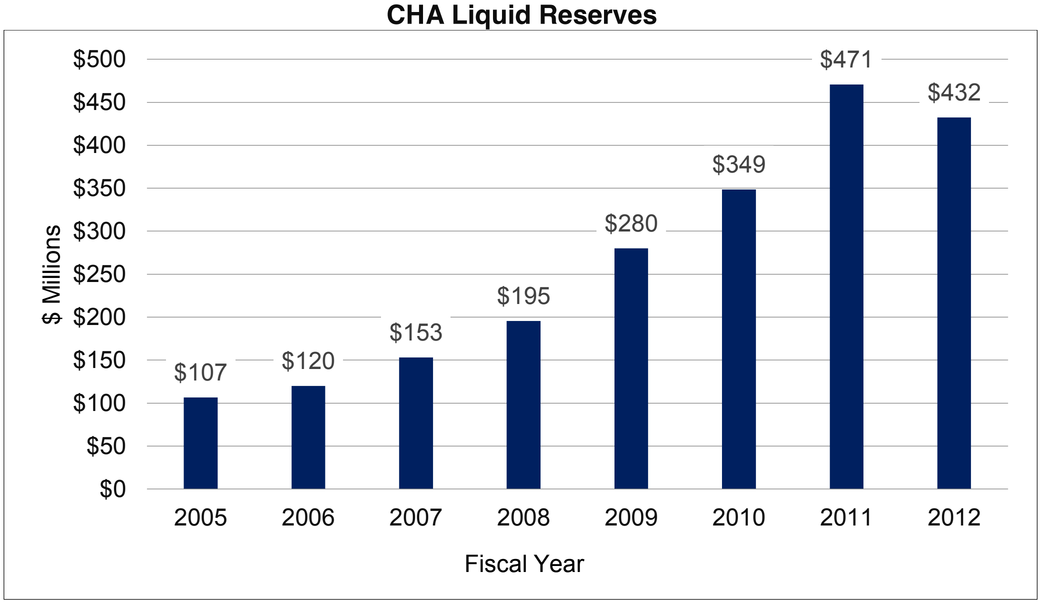
Figure 9 shows two different financial pictures for the General Fund—one of annual deficits (comparing the blue and green lines) and the other annual surpluses (comparing the blue and red lines). The differing financial pictures are the result of whether non-cash outlays are included in recorded spending. The trend of yearly surpluses identified in Figure 9 by comparing actual General Fund revenue (in blue) to actual spending excluding non-cash outlays (in red) is consistent with the data from the Comprehensive Budgets.

Identifying expenditures accurately using only actual cash outlays made by the CHA reveals a fiscal reality very different from what the MTW Reports indicate. Including non-cash outlays, as the MTW Reports do, inaccurately shows that the CHA ran annual General Fund deficits over the FY2008-FY2012 sequence, even though the agency in reality generated a material annual operating surplus over this period.

3.4 Increase in CHA Reserves

Because the CHA has been spending less than its total revenue, it has significantly increased its liquid reserves[47] over the last eight years. The CHA's operations are paid for from its yearly revenue, which it primarily receives from the federal government. The liquid reserves are essentially the CHA's savings that could be used to pay for its day-to-day operations should there be a sudden, unexpected loss in revenue. Figure 10 shows the CHA's liquid reserves each year over the FY2005-FY0212 sequence. Figure 10 only goes back to FY2005 because the liquid reserves are contained in the Comprehensive Annual Financial Reports. The CAFRs show the liquid reserve for the applicable year and the previous two years—for example, the FY2008 CAFR has the reserve for fiscal years 2008, 2007, and 2006. The earliest CAFR available on the CHA's website is for FY2007, and because of this, the earliest data available is FY2005.

Figure 10
CHA Liquid Reserves



Sources: figure for FY2005 from the FY2007 CAFR; figure for FY2006 from the FY2008 CAFR; figures for FY2007-FY2009 from the FY2009 CAFR; and figures for FY2010-FY2012 from the 2012 CAFR.

Figure 10 demonstrates that the CHA's reserves are growing significantly. Indeed, the liquid reserve in FY2012 ($432 million) is over three times more than the reserve the CHA had in FY2005 ($107 million).

Another way of evaluating the sufficiency of the CHA's reserves is to examine its "current ratio." The "current ratio" is the ratio obtained by dividing the dollar value of an entity's liquid reserves by the dollar value of its current liabilities. Current liabilities are spending obligations—like payroll for employees—that will have to be paid within the next year.[48] An agency's current ratio indicates the level of available reserves it has and its ability to meet short-term obligations. The CHA's current ratios for the FY2005-FY2012 sequence are identified in Figure 11.

Figure 11
Current Ratio: Assets to Liabilities

Fiscal Year	Ratio
2005	1.53 : 1
2006	1.60 : 1
2007[49]	1.87 : 1
2008	2.10 : 1
2009	2.44 : 1
2010	2.96 : 1
2011	5.19 : 1
2012	5.28 : 1

Sources: CHA FY2007, FY2009, and FY2011 Comprehensive Annual Financial Reports, page 31 of each report.

The CHA's FY2011 current ratio is substantially greater than FY2010. This year-to-year increase in the current ratio is especially notable because it indicates that the CHA almost doubled the amount of reserve funds readily available for spending in just one year. Indeed, in FY2012, for every $1 in liabilities the CHA had $5.28 in available funds. The large amount of unused, available reserves is troublesome because as of September 30, 2013, the number of households waiting for affordable housing assistance from the CHA (55,318) actually exceeds the total number of households receiving affordable housing assistance from the CHA's public housing program (17,973) and voucher program (36,594).[50]

When asked what specifically led to the large increase in the current ratio from FY2010 to FY2011, the CHA said it was attributable to an increase in federal appropriations and downturn in the real estate market and not a policy directive to build up reserves.[51] The agency also stated that it anticipated using its reserves for capital and development expenditures in order to meet the 25,000-unit delivery goal by FY2015.[52] For FY2014, the CHA is proposing to use $179.4 million of its reserves on its Capital program as part of its plan to deliver 563 units towards the 25,000-unit goal that year.[53] The CHA similarly budgeted to use $196.8 million of its reserves on its Capital program in FY2013.[54] However, the CHA only delivered 298 units in FY2013, which is 43 percent less than the 525 units it planned to deliver.[55] It is unclear if the CHA actually spent any of its reserves in FY2013 because as of July 28, 2014, HUD had not approved the CHA's MTW Report for fiscal year 2013 and the MTW Report the CHA submitted to HUD does not contain financial information.[56] The CHA's FY2013 Comprehensive Annual Financial Report, which would contain the CHA's reserve at the end of that fiscal year, is also not available on its website. Given that the CHA delivered substantially fewer units than it planned in FY2013, it is unlikely that it spent the majority of the reserves it budgeted to spend.

APPENDIX A: TRANSPARENCY CONCERNS

CTBA's analysis of the four primary budget reports CHA makes available revealed that that budgeting practices used by the agency varies between documents. As a result, comparisons and corroboration is difficult. Moreover, budgeting practices for the General Fund in its MTW Reports vary from report to report over time thus making historical analysis near impossible.

The largest transparency concern is that the CHA's budgeting practices vary between the four financial documents. For example, spending and revenue are categorized differently in the Comprehensive Budgets than in the MTW Report. The Comprehensive Budget groups revenue by fund, differentiating the General Fund—which covers all revenue related to the Moving to Work program—from the funds associated with the CHA's other programs. However, spending in the Comprehensive Budgets is categorized differently than revenue, and because of this, the MTW Report must be consulted to gain a full picture of the CHA's spending, especially as it relates to the MTW program.

However, terminology differs between the documents. For example, for FY2005 both the Comprehensive Budget and the MTW Report have an "operating" spending category, but total operating expenses in the Comprehensive Budget is $81.4 million while it is $398.9 million in the MTW Report, a differences more than $300 million.[57] Reconciling such differences is made arduous because the MTW Reports include non-cash outlays, while the Comprehensive Budgets do not. Thus, walking data from one document to another entails a careful, line-by-line analysis.

Further, there is a lack of clear explanations for the CHA's different methodologies for recording its budgeted and actual spending. In the Comprehensive Budget, the CHA does not budget for depreciation, and hence this line item is not included—for budgetary or actual spending figures in that document.[58] However, in the MTW Reports "depreciation" is characterized as an actual expense, but because the CHA does not budget for this, the line item is always $0 for planned spending in the Reports. Thus, the MTW Reports use two different accounting methods to record budgeted and actual spending. The usage of these two different accounting methods in the MTW Reports makes it consistently appear that actual spending exceeds the budget, and is also why financial information in the Reports is inconsistent with the Comprehensive Budgets.[59]

Budgeting practices in the MTW Reports vary over time making historical analysis difficult. For the MTW Reports, FY2001-FY2007 represents one cohort[60] and FY2008-FY2012 another.[61] The two cohorts use different names for General Fund programs. Figure 12 shows how General Fund program names in the FY2008-FY20012 Reports roughly correspond to the FY2001-FY2007 Reports.

Figure 12
Correspondence Between
Categories and Program Names in Reports

2001-2007 Category	2008-2012 Corresponding Program
Operating	Low Rent
Non-Operating	HCV
Capital	Capital

However, categorization of line items into programs differs between the two cohorts. For example, revenue the CHA receives from the federal government for administering the voucher program is categorized as part of the Operating program in the FY2001-FY2007 MTW Reports, but is grouped with the HCV program in the FY2008-FY2012 Reports.

In evaluating the CHA's budgetary reporting, CTBA compared the CHA's practices with other public housing agencies. Most PHAs, however, are not part of the MTW program, and therefore do not provide meaningful comparisons. Indeed, out of 3,300 PHAs, only 39—or 1.2 percent—are part of the MTW program.[62] Most PHAs for large cities (Boston, Cleveland, Dallas, Detroit, Houston, Los Angeles, and New York) are not part of the MTW program. The PHAs participating in the MTW program are subject to completely different budgetary requirements and programmatic directives. Comparisons among PHAs in the MTW program is also not necessarily useful because each one has its own, unique agreement with HUD, which identifies the federal laws from which it is exempt.

There is also a void of information about what should be the best financial practices for a PHA participating in the MTW program. For example, while HUD has guidelines for the level of reserve funds non-MTW participating PHAs should have, no such guidelines exist for the PHAs in the MTW program. Moreover, the budgetary reporting greatly differs between the

PHAs participating in the MTW program. In examining the most recent MTW Plans and Reports for 16 other PHAs in the MTW program:[63] (i) two included depreciation in their annual Plans only; (ii) four included depreciation in their Reports only (like the CHA); and (iii) 10 did not include depreciation in their Plans or Reports.

In recent years, the MTW program has come under scrutiny from not only HUD, but also other federal government offices. In 2012, the U.S. Government Accountability Office (**GAO**) released a report sharply criticizing the MTW program. The GAO report said that public housing agencies participating in the MTW program lacked performance indicators, were subject to too little oversight, and were unable to define adequately progress towards program goals.[64] In 2013, the HUD Office of the Inspector General released a report on the MTW program that came to similar conclusions. The HUD Office of the Inspector General issued six recommendations, including that HUD establish program wide performance indicators for PHAs participating in the MTW program, ensure that program participants were evaluated according to their agreements and other established monitoring policies, and develop processes to verify the PHAs' self-reported data.[65]

APPENDIX B: ENDNOTES

[1] There have been numerous articles and studies of the poor housing conditions of the CHA. See for example: *The Federal Takeover of the Chicago Housing Authority—HUD Needs to Determine Long-Term Implications*, H. R. Rep. No. 104-437 (1995).

[2] *The Federal Takeover of the Chicago Housing Authority—HUD Needs to Determine Long-Term Implications*, H. R. Rep. No. 104-437 (1995).

[3] "About CHA," Chicago Housing Authority, accessed May 2014, http://www.thecha.org/pages/about_cha/18.php.

[4] Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. 104-134, 110 Stat. 1321 (1996).

[5] "Moving to Work (MTW) FAQ," U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw/faq.

[6] "What is the MTW "Block Grant" approach?" U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw/faq#3.

[7] Regulations for PHAs not in the Moving to Work program: 24 C.F.R. § 990.140-990.155 (2014).

[8] Regulations for PHAs not in the Moving to Work program: HUD, *Housing Choice Voucher Program Guidebook,* http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_11768.pdf.

[9] Will Fischer, *Sharp Expansion of HUD's "Moving-to-Work" Demonstration Raises Serious Concerns* (Washington, DC: Center on Budget Policy and Priorities, January 22, 2010), 4-5, http://www.cbpp.org/files/1-22-10hous.pdf.

[10] "History of Moving to Work (MTW)," U.S. Department of Housing and Urban Development, accessed July 2014, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw/history.

[11] "Public Housing," U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph; "Moving to Work (MTW) - Participating Sites" U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw/mtwsites.

[12] "About CHA," Chicago Housing Authority, http://www.thecha.org/pages/about_cha/18.php.

[13] Chicago Housing Authority, *Chicago Housing Authority: Plan for Transformation* (Chicago: January 6, 2000), 16. Federal law, the Omnibus Consolidated Rescissions and Appropriations Act of 1996, required the CHA to demolish distressed properties.

[14] "Rebuilding or rehabilitating" could involve rehabbing existing CHA-owned properties, rebuilding CHA-owned properties on sites of demolished properties, or purchasing property from third parties. In addition, starting in FY2010 HUD granted the CHA the authority to include Project Based Vouchers (**PBVs**) in the total number of units delivered for the 25,000 goal. PBVs are not public housing units owned by the CHA, but as the name implies, housing vouchers. PBVs are distinct from other vouchers because the voucher is tied to the housing unit, not the renter. In other words, if a family decides to move out of a PBV housing unit they do not take the voucher money with them to their new housing.

[15] Chicago Housing Authority, *Chicago Housing Authority: Plan for Transformation* (Chicago: January 6, 2000), 16-17.

[16] The number of units towards the CHA's 25,000 goal includes Project Based Vouchers, which are not CHA-owned property. The number of units towards the goal (21,649) does not represent the total number of CHA-owned units. Chicago Housing Authority, *FY2013 Moving to Work Annual Report—Submission* (Chicago: March 31, 2014), 6.

[17] The CHA's public housing program is made up of housing that the CHA directly owns and mixed-income buildings that are not owned by the CHA, but are on CHA-owned land.

[18] Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 180, http://www.thecha.org/filebin/FY2014_Comprehensive_Annual_Budget.pdf.

[19] The total number of units, 21,189, is the number of housing units owned by the CHA and does not include Project Based Vouchers. Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 178-180, http://www.thecha.org/filebin/FY2014_Comprehensive_Annual_Budget.pdf.

[20] "Housing Choice Vouchers Fact Sheet," U.S. Department of Housing and Urban Development, accessed July 2014, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about/fact_sheet; "About the Housing Choice Voucher Program," Chicago Housing Authority, accessed July 2014, http://www.thecha.org/pages/about_the_hcv_program/70.php.

[21] Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 179, http://www.thecha.org/filebin/FY2014_Comprehensive_Annual_Budget.pdf.

[22] Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 178-179.

[23] Mary C. Piemonte, "As CHA Wait List Closes, Are Low-Income Families Bridging the Digital Divide?" *We the People Media: Residents' Journal,* July 9, 2010, http://wethepeoplemedia.org/homepage/as-cha-wait-list-closes-are-low-income-families-bridging-the-digital-divide/.

[24] "FAQ/Studies," Chicago Coalition for the Homeless, accessed May 2014, http://www.chicagohomeless.org/faq-studies/.

[25] "FAQ/Studies," Chicago Coalition for the Homeless, accessed May 2014, http://www.chicagohomeless.org/faq-studies/.

[26] Chicago Rehab Network, *City of Chicago Housing Fact Sheet* (Chicago: July 2013), http://www.chicagorehab.org/resources/docs/policy/fiveyearplan/fact_book_2013/crn_chicago_housing_fact_sheet_july2013.pdf.

[27] "Financial Reports," Chicago Housing Authority, http://www.thecha.org/pages/financial_reports/2540.php.

[28] "Financial Reports," Chicago Housing Authority, http://www.thecha.org/pages/financial_reports/2540.php.

[29] The terms General Fund and MTW Fund are, in general, interchangeable. The 2008 Report, for example, uses General Fund, while the 2012 Report uses MTW Fund. In order to minimize confusion this report simply uses the General Fund when discussing the 2008-2012 Reports.

[30] The Other Programs are Section 8, City/State, Hope VI, and Other Funding.

[31] CTBA analysis focuses on FY2008-FY2012 because data in the MTW Reports for FY2001-FY2007 was categorized in a different way that was not easily reconcilable with categorization in the FY2008-FY2012 reports.

[32] While the majority of revenue and spending for vouchers is done through the CHA's General Fund, some is not. Over the FY2008-FY2012 sequence, two programs encompassed the non-General Fund voucher spending: the Moderate Rehabilitation Program and Mainstream Program. These two voucher programs are part of the CHA's "Other Programs" category.

[33] The average figure (13,534) is for all housing vouchers. The MTW Plans provide detailed breakdowns of the number of vouchers the CHA anticipates awarding by General Fund and Other Program type, the Reports do not. Instead, the Reports only list the total number of vouchers issued.

[34] Chicago Housing Authority, *Moving to Work (MTW) Annual Plan for Transformation FY2004-Year 5* (Chicago, IL: October 21, 2003), 56.

[35] Chicago Housing Authority, *FY2007 Comprehensive Budget Book* (Chicago: November 21, 2006), 295, http://www.thecha.org/filebin/pdf/finance/fy2007_budget_book_with_cover.pdf.

[36] The earliest Comprehensive Budget available on the CHA's website is for FY2007.

[37] Chicago Housing Authority, *FY2011 Comprehensive Budget Book* (Chicago: December 21, 2010), 37.

[38] Chicago Housing Authority, *FY2013 Comprehensive Budget Book* (Chicago: February 18, 2013), 23, http://www.thecha.org/filebin/FY2013_Comprehensive_Annual_Budget.pdf.

[39] CTBA analysis of FY2014 and FY2007 Comprehensive Budget Books. In nominal dollars, total capital spending in FY2003 was $199.58 million (page 47 of the *FY2007 Comprehensive Budget Book*) and $88.83 million in FY2012 (page 20 of the *FY2014 Comprehensive Budget Book*).

[40] Analysis of yearly unit delivery reported in the MTW Reports for FY2000-FY2013. Figure excludes Project Based Vouchers, which are not CHA-owned property.

[41] The significant decline in revenue from FY2010 to FY2011 is because in FY2010 the CHA received a significant amount of non-recurring federal funding attributable to the American Recovery and Reinvestment Act (**ARRA**). ARRA was a stimulus program intended to counter act the economic downturn caused by the Great Recession, and as part of that program, the federal government provided the CHA with increased non-MTW revenue.

[42] CTBA analysis of Comprehensive Budgets.

[43] Average based on CTBA analysis of MTW Reports. Until FY2011, the Reports included a "net change to assets" amount, which represented the surplus at the end of the year. The "net change to assets" figure was not included in the in the FY2011 and FY2012 Reports, so CTBA calculated the surplus for those years. The methodology used to calculate the "net change to assets" for FY2010 was inconsistent with past practices, so CTBA calculated it for that year as well.

[44] Actual revenue excludes non-operating revenue.

[45] Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014); and *FY2012 Moving to Work Annual Report—Revised* (Chicago: June 26, 2013).

[46] Actual revenue excludes non-operating revenue.

[47] Not all funds in the CHA's reserves are readily available assets. Some assets are already obligated for a specific spending purpose or constitute capital assets, which reflect the value of the CHA owned property. The CHA labels its liquid reserves as its "working capital."

[48] See the CHA's glossary in *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014).

[49] The 2007 ratio shown in Figure 11 is from the CHA's 2009 CAFR. In the FY2007 CAFR the 2007 ratio is reported as 1.96:1. It is unclear why the 2007 ratio in the FY2007 and FY2009 CAFRs differ.

[50] Chicago Housing Authority, *FY2014 Comprehensive Budget Book* (Chicago: March 17, 2014), 178-179.

[51] Chicago Housing Authority, e-email response to CTBA, May 28, 2014.

[52] Chicago Housing Authority, e-email response to CTBA, May 28, 2014.

[53] Chicago Housing Authority, *FY2014 Moving to Work Plan* (Chicago: March 21, 2014).

[54] Chicago Housing Authority, *FY2014 Moving to Work Plan* (Chicago: March 21, 2014), 89.

[55] Chicago Housing Authority, *FY2013 Moving to Work Annual Report—Original Submission* (Chicago: March 31, 2014), 6.

[56] Chicago Housing Authority, *FY2013 Moving to Work Annual Report—Original Submission* (Chicago: March 31, 2014).

[57] Chicago Housing Authority, *FY2005 Moving to Work Annual Report* (Chicago), 133; Chicago Housing Authority*, Comprehensive Budget Fiscal Year 2007* (Chicago: November 21, 2006), 12.

[58] See Chicago Housing Authority*, Comprehensive Annual Financial Report for the Year Ended December 31, 2012* (Chicago: 2012), 6.

[59] Even when non-cash outlays are backed out of actual spending in the MTW Reports, figures between the documents still differed. In FY2012, for example, actual spending in the Comprehensive Budget is $825.6 million while expenditures are $857.1 million in the MTW Report (again excluding all non-cash outlays). Sources: Chicago Housing Authority, *FY2012 Moving to Work Annual Report—Revised* (Chicago: June 26, 2013); and Chicago Housing Authority, *FY2013 Comprehensive Budget Book* (Chicago: February 18, 2013), 11.

[60] Budget reporting in the FY2001-FY2007 cohort, however, is not uniform. Specifically, the term "General Fund" was used inconsistently in the FY2001-FY2007 Reports—in most years, it accounted for all spending and revenue related to the federal MTW program, but in FY2006 and FY2007 it did not. These inconsistences and changes in budgetary reporting impede analysis of General Fund spending and revenue over the entire FY2001-FY2012 sequence.

[61] The change in MTW budgetary reporting coincides with the amended MTW agreement the CHA and HUD entered into on June 26, 2008.

[62] "Public Housing," U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph; and "History of Moving to Work (MTW)," U.S. Department of Housing and Urban Development, accessed July 2014, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/mtw/history.

[63] The PHAs examined were the: District of Columbia Housing Authority, Delaware State Housing Authority, Housing Authority of the City of Atlanta Georgia, Housing Authority of Champaign County, Lawrence/Douglas County Housing Authority, Louisville Metro Housing Authority, Housing Authority of Lexington, Cambridge Housing Authority, Department of Housing and Community Development Massachusetts, Housing Authority of Baltimore City, PHA In And for the City of Minneapolis, Housing Authority of the City of Charlotte, Lincoln Housing Authority, Keene Housing Authority, and the Housing Authority of the City of Pittsburgh.

[64] GAO, *Moving to Work Demonstration: Opportunities Exist to Improve Information and Monitoring* (Washington, DC: April 2012), http://www.gao.gov/assets/600/590226.pdf.

[65] John P. Buck, *Moving to Work Demonstration Program: Audit Report Number 2013-PH-0004* (Philadelphia, PA: Office of Audit Region 3, September 27, 2013), Housinghttp://www.hudoig.gov/sites/default/files/documents/2013-PH-0004.pdf.