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Updates on CTBA's "Fiscal Review of the Chicago Housing Authority"

October 2015

The Chicago Housing Authority's de-regulation agreement with HUD is slated for extension through 2028

In 2000, the Chicago Housing Authority (**CHA**) went directly from federal receivership into a federal demonstration called "Moving to Work," which deregulated public housing for participating agencies. Created by the U.S. Congress in 1996, the MTW demonstration was established to provide high performing public housing agencies (**PHAs**) flexibility in how they spend federal funds.

The three stated goals of Moving to Work (**MTW**) are to: (i) "reduce cost and achieve greater costs [sic] 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." To facilitate these goals, public housing agencies that participate in the MTW demonstration—like the CHA—are able to combine funding for their public housing, capital, and voucher programs into a single General Fund. In contrast, PHAs not participating in MTW are required by the Departments of Transportation and Housing and Urban Development (**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,[1] housing voucher leasing,[2] and reserve levels.[3]

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 —or just over 1 percent—are participating in the MTW demonstration.

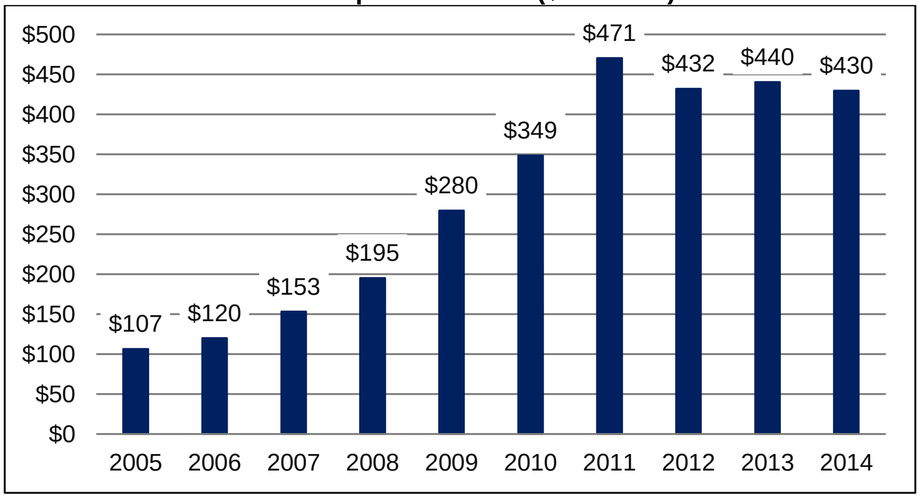
Currently, HUD is negotiating new, 10-year agreements with the 39 PHAs that are in the Moving to Work demonstration, The CHA's current MTW agreement expires in 2018, but HUD has indicated it will extend the CHA's participation in MTW through 2028. In July of 2015 the Senate Appropriations Committee recently approved a funding bill for HUD that included two major provisions affecting the MTW demonstration: (i) increase the number of PHAs in the demonstration from 39 to 339; and (ii) prohibit HUD from making any changes to the existing MTW agreements for the 39 PHAs that are already in the demonstration unless those changes are mutually agreed upon.

CHA has not begun using its sizable reserves

The Chicago Housing Authority's reserve fund remains high, with the CHA reporting $429.8 million in available reserves at the close of fiscal year (**FY**) 2014, according to the CHA's latest annual audited financial report,[4] which is only a 2.4% decrease from CHA's reserve level in FY2013.

- The CHA's reserve funds grew most significantly between FY2008-FY2012, when the CHA had an average annual surplus of $107 million.
- In total, the CHA has $429.8 million in available reserves, which 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 4.41:1, meaning that for every $1 of a financial obligation, the CHA has over $4 in its reserves to pay for that obligation.[5]

Figure 1
CHA Liquid Reserves ($ Millions)

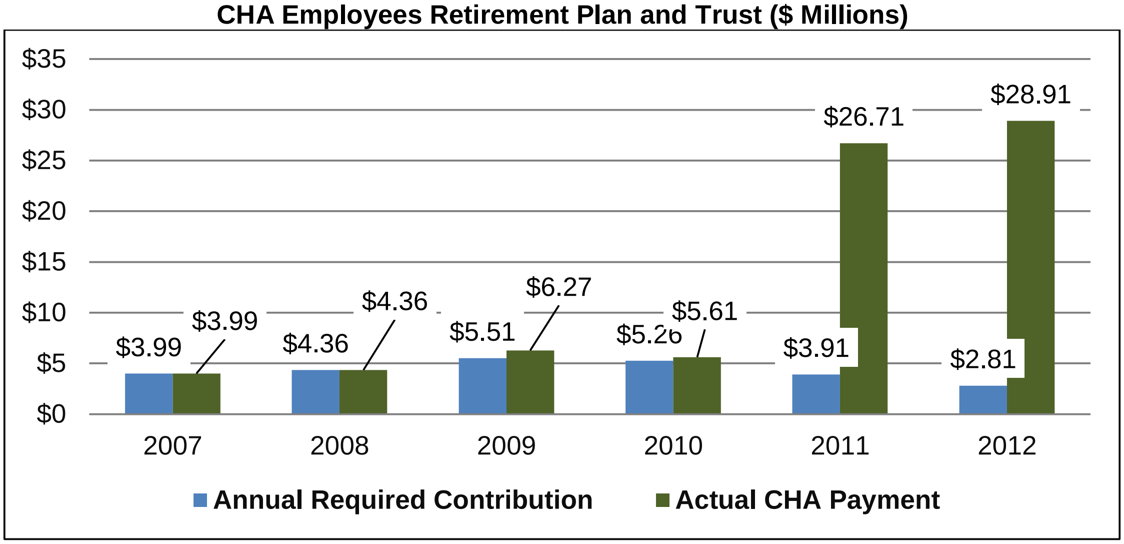


<u>CHA has a fully funded pension system and is nearly debt free</u>

CHA's liquid reserve funds likely would have grown even more dramatically past FY2012, but in FY2011 and FY2012 the CHA made the policy decision to use $233 million of its reserves to pay off long-term debt obligations early—specifically unfunded pension liabilities and bond debt. The policy decision to use reserves to pay off debt early rather that use those funds to provide affordable housing were not made clear to the general public, and as a result, stakeholders were not given a meaningful opportunity to give input.[6]

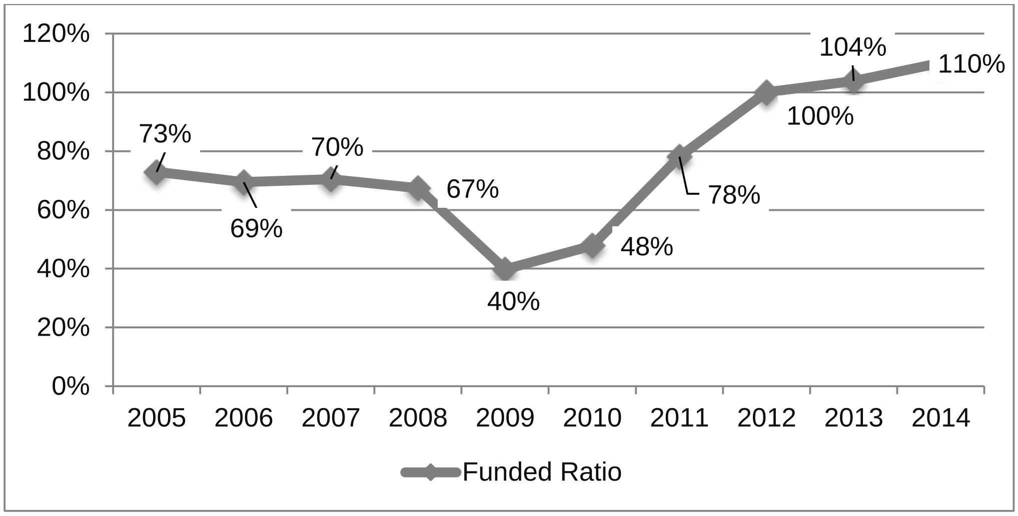
For fiscal years 2011 and 2012, the CHA made payments into its pension system—called the Retirement Plan and Trust[7]—that were in excess of the annual required contribution it owed in those years.[8] For example, in FY2012, the required contribution was $2.8 million, but the CHA paid $28.9 million to the Retirement Plan and Trust that year. In other words, the CHA elected to fund its retirement system in FY2012 in an amount that was over nine times the amount necessary to fund it. Figure 2 compares the CHA's annual required contribution to the Retirement Plan and Trust (in blue) with the amount the CHA actually contributed (in green).

Figure 2
Required versus Actual Contributions to the
CHA Employees Retirement Plan and Trust ($ Millions)



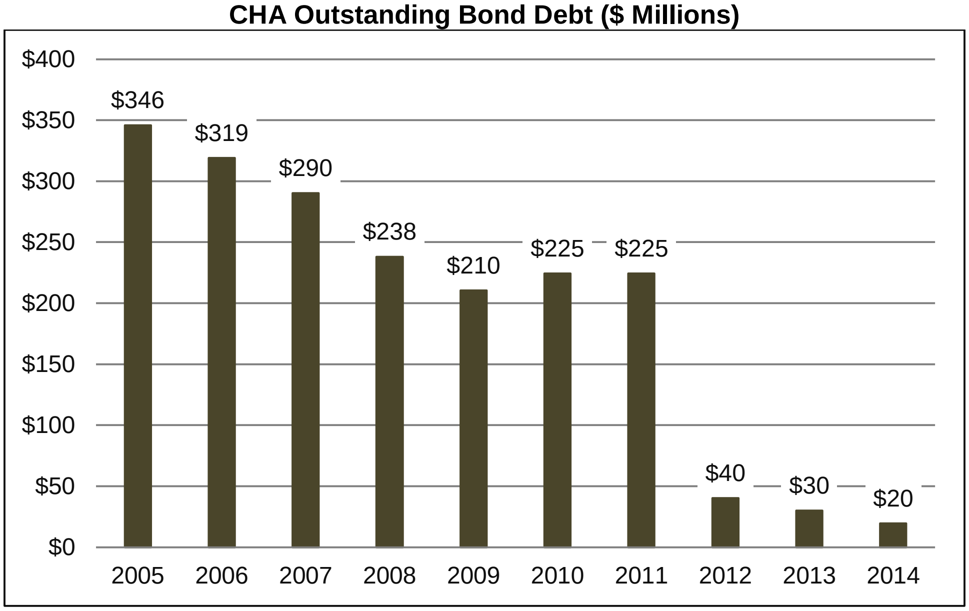
By making excess contributions to the Retirement Plan and Trust, the CHA was able to pay off its unfunded pension liabilities in just a few short years. Indeed, by FY2012, the CHA completely eliminated its unfunded pension liabilities, which had reached a high of $50.56 million in FY2009. Put simply the CHA paid off its pension debt in just three years, which is much faster than the 20 or 30 years that pension debt is normally paid off. Today the Retirement Plan and Trust is very well funded as indicated by its funded ratio, which measures liabilities to assets, of 110%.[9] Figure 3 shows the Retirement Plan and Trust's funded ratio between FY2005 and FY2014.

Figure 3
CHA Retirement Plan and Trust Funded Ratio



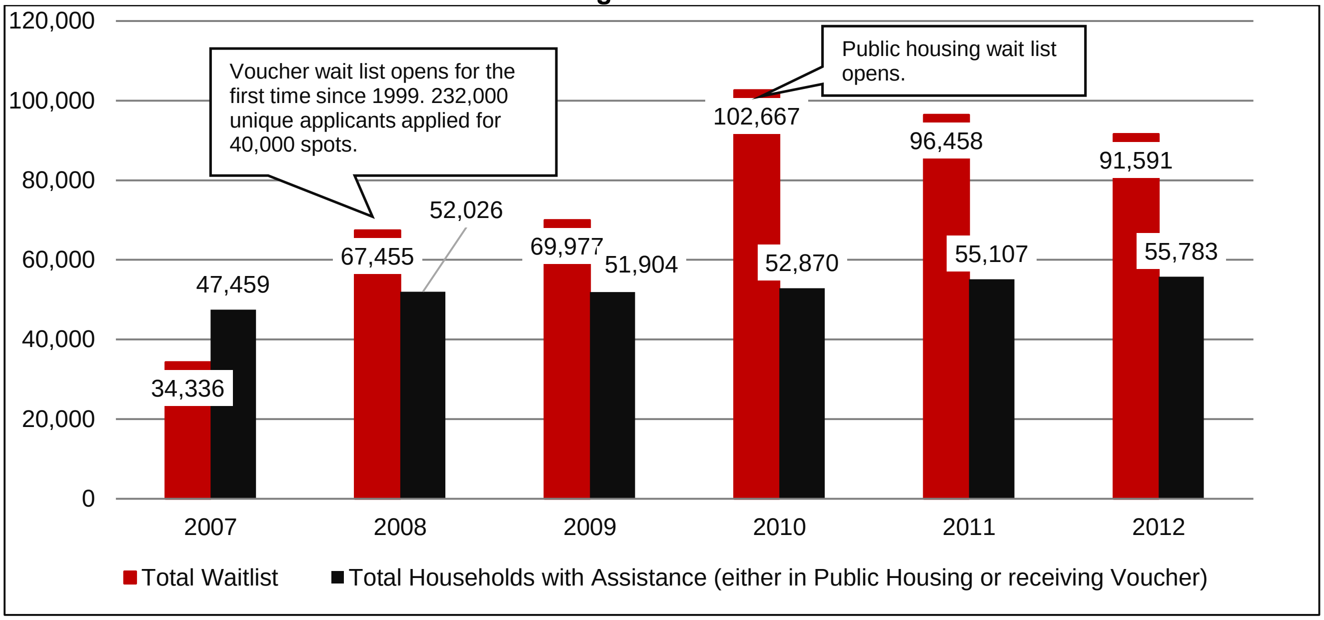
In addition to paying off its unfunded pension liabilities early, the CHA used approximately $184.3 million of its reserves in FY2012 to pay outstanding bond debt early. Through that action the CHA's outstanding bond debt was reduced from $224.6 million in FY2011 to $40.3 million in FY2012.[10] At the end of FY2014, CHA's outstanding bond debt was just $19.7 million.[11] Figure 4 shows the CHA's outstanding bond debt between FY2005 and FY2014.

Figure 4
CHA Outstanding Bond Debt ($ Millions)



While paying off long-term debt early generates long-term savings it is important to realize that the CHA used reserves to pay off debt early at a time when its waiting lists for housing assistance exceeded the number of households it served. Indeed, in FY2012, 91,591 households were on the CHA's waiting lists, which exceeded the 55,783 households that the CHA provided assistance to that year. Figure 5 compares the number of households the CHA provided assistance to with the number of families on its waiting lists between FY2007 and FY2012.

Figure 5
Households on CHA's Waiting Lists vs. Households with Assistance

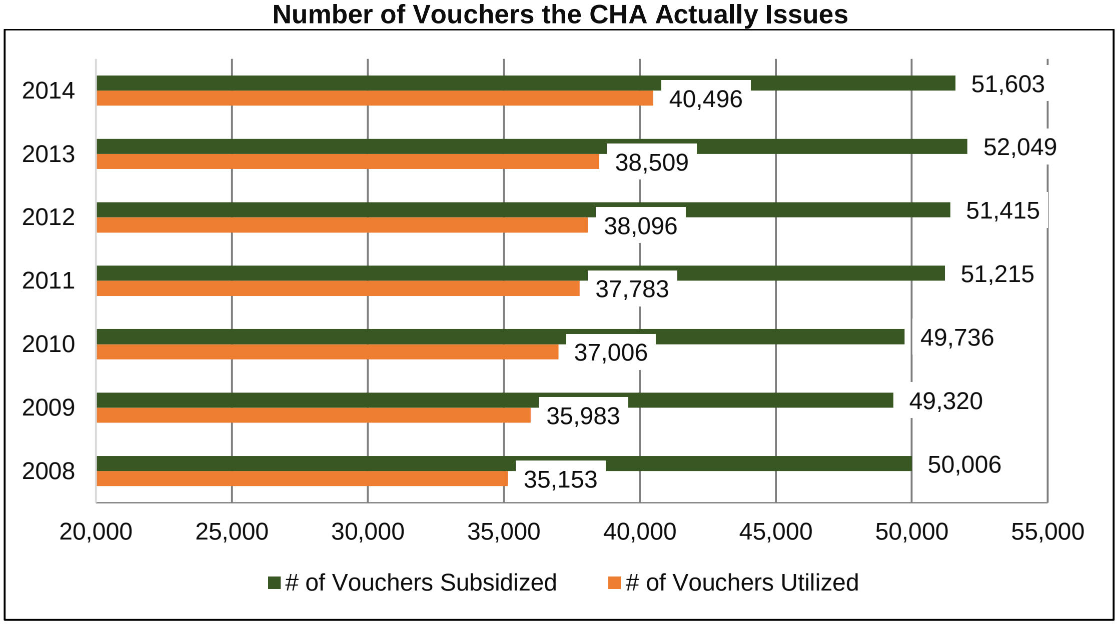


CHA increased its voucher utilization rates in FY2014

After the release of CTBA's July 2014 report and the introduction of the Keeping the Promise Ordinance, the CHA issued a statement saying that it would begin issuing more vouchers with the goal of reaching a 90 percent voucher utilization rate. The CHA's voucher utilization rate for FY2014 was 78%.

Although the CHA did issue thousands of more vouchers in FY2014 than previous years it nonetheless issued 11,107 fewer vouchers than it received funding from HUD to issue. Figure 6 compares the annual number of vouchers the CHA received federal funding to issue in a fiscal year (in green) with the number of vouchers issued in the applicable fiscal year (in orange).

Figure 6
Number of Vouchers for Which the CHA Receives Federal Funding vs.
Number of Vouchers the CHA Actually Issues



ENDNOTES

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

[2] 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.

[3] 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.

[4] See p. 31 of the CHA's *FY2014 Comprehensive Annual Financial Report* (Chicago: March 31, 2015).

[5] Ibid.

[6] The only reference to the CHA's use of reserves to pay down long-term debt early was in its FY2012 Moving to Work Report, which contained the following sentences: "CHA maintains reserve balances to fund anticipated future construction and other uses of capital. Through December 31, 2012, CHA has utilized more than 90% of its excess reserves. Reserves were expended in conjunction with the agency's capital restructuring program, partial bond defeasement, pension plan, and other programs" (p. 90)—note that now dollar amounts are given.

[7] The CHA Employees Retirement Plan and Trust defined benefit pension system for CHA employees. The retirement plan was originally created in 1951, and the trust fund, which is used to pay benefits, was created in 1994. In 1997, the retirement plan and trust fund were combined. The CHA makes annual contributions to the Retirement Plan and Trust, which in turn pays pension benefits to retirees.

[8] For defined benefit retirement systems like the Retirement Plan and Trust, what the employer's annual contribution should be is determined by actuaries. When making these determinations actuaries consider two items: (i) the current cost of the benefits earned by current employees in one year (this is the "employer normal cost"); and (ii) the amount of money needed to pay any unfunded pension liabilities (the "amortization amount"). The "pension liabilities" of a retirement system is comprised of the sum of (i) the cost of benefits being paid to current retirees; plus (ii) the cost of benefits that will have to be paid in the future to current retirees and existing employees as they retire. Retirement systems pay their pension liabilities from the system's assets. An unfunded liability is a pension liability for which there is currently no asset. Hence, unfunded pension liabilities are a form of debt. Similar to other forms of debt, once there is an initial unfunded liability balance (the "principal") that debt will accrue interest until paid.

[9] A funded ratio of 100% indicates that a pension system currently has assets to pay for all liabilities. The U.S. Governmental Accountability Office considers a funded ratio of 80% to be healthy.

[10] See p. 33 of the CHA's FY2012 *Comprehensive Annual Financial Report*.

[11] See p. 33 of the CHA's *FY2014 Comprehensive Annual Financial Report* (Chicago: March 31, 2015).

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