

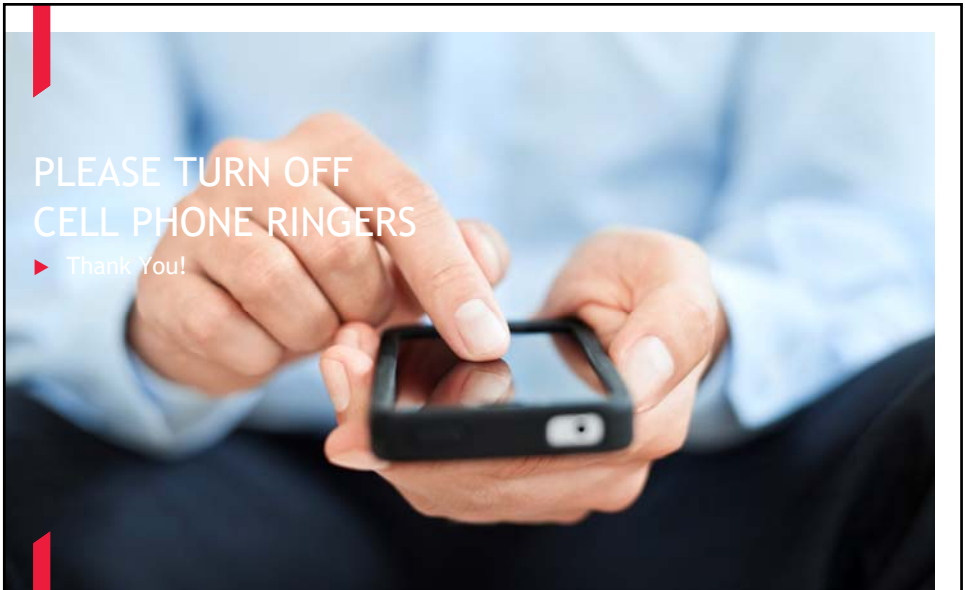


# Hot Topics in HUD Accounting

2018 West Virginia Association of Housing Agencies Annual Conference

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PLEASE TURN OFF  
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► Thank You!

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## Session Goals

What do you want  
to get out of this  
session?



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## Public Housing Cash Management



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## Overview - Public Housing Cash Management



- ▶ HUD announced that they intend to implement “Cash Management” in the Public Housing Program
- ▶ “Cash Management” was already implemented in 2012 for HCV for disbursing HAP funding
  - PIH 2011-67
  - Congress had requested that HUD follow “Treasury Rules” for HAP, limiting disbursement of PHA HAP funding to amounts currently needed for HAP Expenses

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## Overview - Public Housing Cash Management (continued)

- ▶ Assuming HUD plans to follow a similar regulation will likely mean that HUD will provide operating subsidy only to the extent needed to pay expenses that are currently due, with the rest being in a “HUD-held” reserve
- ▶ While details are to be determined, Cash Management in Public Housing could mean the Operating Reserve would become a HUD-held reserve
- ▶ This could mean HUD would require PHA’s to use their Rental Income, Other Income, and PHA-held Operating Reserves to pay expenses prior to disbursing any additional current year Operating Subsidy to the Housing Authority

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## Driven by HUD rather than Congress

- ▶ While the move to cash management in the HCV program was driven by Congress, Public Housing cash management appears to be coming from within HUD
- ▶ We believe the move to Public Housing cash management is coming from the OMB
- ▶ HUD may be putting out a notice of indicating their intent to do this and perhaps asking for comments

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## Questions come to mind

- ▶ What will be process for drawing down Operating Subsidy?
- ▶ Will it be similar to the Capital Fund Program which is expense driven?
- ▶ What systems will HUD have to create to handle this process?



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## Questions come to mind

- ▶ Will PHAs accumulate invoices to be paid and then request a draw from HUD to the extent rental income, other income, and reserves have been exhausted?
- ▶ Will HUD have the capacity to manage it?



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## The OMB

- ▶ HUD has indicated the Omni Circular, which is found in the federal regulations at 2 CFR 200, is the reason they need to do this. They refer specifically to section 305(b) and section 307
- ▶ On the pages that follow, we present the OmniCircular language that we believe HUD is looking at, in deciding they are required to implement Cash Management in Public Housing, as they have for HAP in the HCV program

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## 2 CFR 200 305(b) “Payment”

... (b) For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity (e.g. a PHA) whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

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## 2 CFR 200 305(b) “Payment”

- ▶ (1) The non-Federal entity must be paid in advance, provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in this Part.

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## 2 CFR 200 305(b) “Payment”

- ▶ Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project.
- ▶ The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs

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## 2 CFR 200 305(b) “Payment”

- ▶ (4) If the non-Federal entity cannot meet the criteria for advance payments and the Federal awarding agency or pass-through entity has determined that reimbursement is not feasible because the non-Federal entity lacks sufficient working capital, the Federal awarding agency or pass-through entity may provide cash on a working capital advance basis.

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## 2 CFR 200 305(b) “Payment”

- ▶ Under this procedure, the Federal awarding agency or pass-through entity must advance cash payments to the non-Federal entity to cover its estimated disbursement needs for an initial period generally geared to the non-Federal entity’s disbursing cycle.
- ▶ Thereafter, the Federal awarding agency or pass-through entity must reimburse the non-Federal entity for its actual cash disbursements

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## 2 CFR 200 305(b) “Payment”

- ▶ Use of the working capital advance method of payment requires that the pass-through entity provide timely advance payments to any subrecipients in order to meet the subrecipient’s actual cash disbursements.

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## 2 CFR 200 305(b) “Payment”

- ▶ The working capital advance method of payment must not be used by the pass-through entity if the reason for using this method is the unwillingness or inability of the passthrough entity to provide timely advance payments to the subrecipient to meet the subrecipient’s actual cash disbursements.

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## 2 CFR 200 305(b) “Payment”

(5) Use of resources before requesting cash advance payments. To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments...”



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## OMB 307 “Program Income”

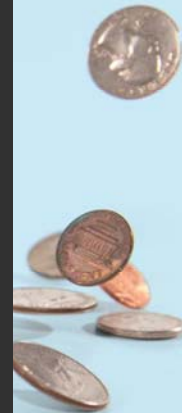
- ▶ HUD refers to Dwelling Rental Income as program income section, the possible intent under Public Housing Cash Management, PHAs should first use rental income to pay expenses, and then request operating subsidy
  - Although the reader will note that the Operating Subsidy calculation already includes a deduction for rental income - it is unclear how that fits in



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## Operating Subsidy Portal

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## Operating Fund Web Portal

### ► Operating Fund Web Portal

- OpFund Web Portal brings Subsidy processing to a web based platform
- PIH Field Offices and PHAs can now participate in OpFund processing through their web browser



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## Operating Fund Web Portal

### ► When does this begin?

- Current plans are to begin with CY 2019
- PIH Field offices submit and certify the FO versions of the HUD-52723 and HUD-52722 through the Portal



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## Operating Fund Web Portal

### ► How will this help me?

- Provides PHAs and FOs with historical HUD-52723s and HUD-52722s and various reports
- Allows the submission of your HUD-52723 and HUD-52722



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## Operating Fund Web Portal

### ► Highlights

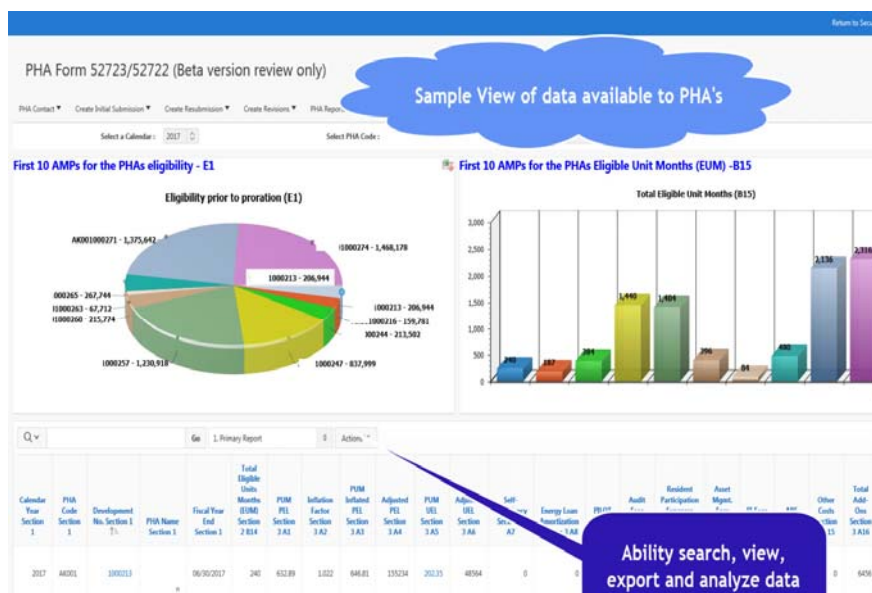
- PHA users must request to be assigned appropriate roles to:
  - Themselves,
  - Any PHA user,
  - Fee Accountants or
  - Other Service Providers within the PHA.
- Current and First Time users of the Portal are required to complete a User Profile and validate their email address



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- Users only need to complete their profile one time.
- There is an OPFund User Guide that provides instructions on how to complete the user profile.
- [https://www.hud.gov/sites/dfiles/PIH/documents/OpFundWebPortalFO\\_PHAUserProfileGuide.pdf](https://www.hud.gov/sites/dfiles/PIH/documents/OpFundWebPortalFO_PHAUserProfileGuide.pdf)



## Operating Fund Web Portal

### ► When Do I need to Register?

- Watch for additional information from both BDO and HUD.
- Currently there are no dates identified by HUD.



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## Housing Opportunity Through Modernization Act (HOTMA)

- ### ► Public Housing Capital Funds and Operating Funds

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## HOTMA



- ▶ PIH Notice 2018-3 was issued by HUD in February 2018. This notice explains the Housing Opportunity Through Modernization Act of 2016

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## HOTMA

PHAs shall be allowed to create a replacement reserve account from the CFP to fund future capital activities

- Not in Notice 2018-3, this is still in rule making



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## HOTMA

PHAs will be permitted to allocate 20% of their Operating funds to be used for capital activity approved in its CFP program

- This is explained in PIH Notice 2018-3



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## PIH Notice 2018-3

### USE OF OPERATING SUBSIDY FOR CAPITAL FUND PURPOSES

- ▶ Starting with CY 2018 Operating Subsidy, PHAs can use up to 20% of their Operating Subsidy for Capital Fund activities
- ▶ Applies to all PHAs except MTW and PHAs with less than 250 units



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## PIH Notice 2018-3

### USE OF OPERATING SUBSIDY FOR CAPITAL FUND PURPOSES



- ▶ HUD is considering how to effectuate the use of subsidy appropriated for CYs 2016 and 2017, and will provide further guidance on the use of these funds at a later date

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## PIH Notice 2018-3

### USE OF OPERATING SUBSIDY FOR CAPITAL FUND PURPOSES

#### MTW Agencies

- ▶ MTW PHAs have flexibility to use Section 9 funds for either operating or capital programmatic purposes

#### Agencies w/<250 LIPH Units

- ▶ PHAs that are not troubled and have no significant capital needs have full flexibility between the operating and Capital Funds

PIH Notice 2016-18 & QHWRA

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## Use of Operating Subsidy for Capital Fund Purposes

- ▶ PHAs must indicate the use of Operating Subsidy for CFP activities in their Annual Plan
- ▶ Qualified PHAs, as defined in 24 CFR 903, who are not required to submit an Annual PHA Plan, must make information regarding the intent to use this flexibility available for the required annual hearing

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## Qualified PHA

- ▶ The Housing and Economic Recovery Act (HERA), exempted qualified PHAs from the annual plan requirement
- ▶ A qualified PHA must meet the following conditions:
  - Combined unit count of 550 or less LIPH an HCV
  - Not designated as troubled under PHAS
  - Does not have a failing score in SEMAP

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## PHA Plans

- ▶ If a PHA intends to use CY 2018 operating subsidy for CFP items for a year in which a plan was already submitted, then the PHA will need to create a revised PHA Plan
- ▶ For any future years that a PHA plans to use operating subsidy for CFP items, be sure to include that activity in the annual plan upcoming annual plan
  - Disclosed in the statement of financial resources

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## Estimating available funds

- ▶ HUD will publish the maximum amount of Operating Subsidy allowable for CFP activities towards the end of each funding year
- ▶ Operating Subsidy to be used for CFP activities must remain in e-LOCCS
- ▶ PHAs will have to estimate the use of Operating Funds for CFP purposes through out the year until HUD provides final obligation amounts typically in *October*



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## HOTMA

### TWO RULES TO FOLLOW

- ▶ The PHA may estimate any amount of Operating Subsidy for CFP activities at any project provided the following conditions are met:
  1. Operating Subsidy to be used for CFP activities at all projects does not exceed the maximum amount of 20% allowed at the PHA-wide level
  - and -
  2. Operating Subsidy to be used for CFP activities at any one project does not exceed that project's total amount of Operating Subsidy

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## HOTMA

### TWO RULES TO FOLLOW

	Project A	Project B	Project C	PHA Total
Op Sub for CY	\$200,000	\$150,000	\$50,000	\$400,000
Example 1	40,000	30,000	10,000	80,000
Example 2	80,000	0	0	80,000
Example 3	0	40,000	40,000	80,000
Example 4	30,000	10,000	20,000	60,000
Example 5	0	20,000	50,000	70,000

All five examples meet HUDs requirements on a project level (AMP level) & entity wide level

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## Setting Up The Grants

- ▶ Towards the end of the calendar year, regardless of each PHA's fiscal year end, HUD will publish the amount of subsidy obligated for each AMP
  - HUD's target is October
- ▶ PHAs will be required to create a draft Annual Statement/Budget identifying the amount of Operating Subsidy the PHA will use for CFP activities for each project in the Activity Planning Module of EPIC

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## Setting Up The Grants

- ▶ A PHA must create a separate Budget for each Operating Subsidy grant where the PHA will be using Operating Subsidy for CFP activities
  - This means one for each AMP
  - Could have multiple Annual Statements due to grant Years
- ▶ The title for the draft Budget must exactly match the grant number of the Operating Fund grant to which it corresponds without any dashes or other punctuation inserted

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## Setting Up The Grants

- ▶ Once HUD approves the budget(s) the PHA set up in EPIC, HUD will create a notional Operating Subsidy grant in the EPIC system using the grant number provided in the budget(s) as well as the amount
- ▶ HUD will complete the process of adding a new notional grant in the EPIC system within 5 business days after the end of the month in which the Budget is created in EPIC

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## Setting Up The Grants

- ▶ The PHA will link the Annual Statement/Budget to its corresponding grant and submit the budget
- ▶ HUD will transfer Operating Subsidy in the amount listed in the submitted Budget from BLI 1000 to BLI 1300
  - ELOCCS -Operating Subsidy BLI 1000
  - ELOCCS - HOTMA BLI 1300

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## Revising a Budget

- ▶ Once funds are drawn as Operating funds, BLI 1000, they cannot be used for HOTMA purposes, BLI 1300
- ▶ If funds were budgeted for HOTMA activities, BLI 1300, the PHA can move the funds back to Operating funds, BLI 1000, by completing a Budget revision in EPIC

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## Limitations & Exceptions for Subsidy Used for CFP Activities

- ▶ PHAs cannot transfer operating subsidy by utilizing BLI 1406 for purposes of Operating subsidy for CFP activities
- ▶ For a PHA operating using a COCC/fee for service approach, this Operating Subsidy flexibility does not allow the PHA's COCC to charge an additional and equivalent Capital Fund management fee

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## Limitations & Exceptions for Subsidy Used for CFP Activities

- ▶ Non fee-for-service PHAs (allocation method) may recover administrative costs associated with using Operating Subsidy for CFP activities
- ▶ As we currently know, BLI 1408 (Mgmt. Improvements) and BLI 1410 (Administration) are limited to a percentage of the overall CFP grant

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## Limitations & Exceptions for Subsidy Used for CFP Activities

- ▶ For Management Improvements (BLI 1408), the same regulatory percentage limits apply to the total amount of the Operating Subsidy that a PHA has identified for use for CFP activities, not at the total Operating Subsidy level



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## Limitations & Exceptions for Subsidy Used for CFP Activities

- ▶ The same applies to administrative costs (BLI 1410) for non-asset management PHAs or asset management PHAs using the allocated overhead model



## Limitations & Exceptions for Subsidy Used for CFP Activities

- ▶ The total amount of a project's 2018 Operating Subsidy is \$500,000 and AMP is using \$75,000 in Operating Subsidy for CFP activities, the maximum amount of funds that could be allocated to BLI 1410, which is currently limited to 10%, would be limited to \$7,500  $10\% \times \$75,000$
- ▶ It would not be \$10,000 [ $\$500,000$  (total Operating Subsidy)  $\times 0.20$  (20 percent allowed flexibility)  $\times 0.10$  (10 percent regulatory limitation)]

## HOTMA

### FINANCIAL MANAGEMENT

1. Operating Subsidy used for CFP activities does not have to comply with 2 year obligations and 4 year expenditure
2. No Actual Modernization Cost Certificates or Actual Development Cost Certificates are required
3. Funds are considered Operating Subsidy with expanded uses
  - Must be spent within 7 years



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## Financial Management

4. HUD will not be creating any threshold requirements for this flexibility, so monitor your operating reserves and PHAS ratios for any negative impact
5. If your PHA has a COCC, the use of this flexibility could impact your Excess Cash at the AMPs and Asset Management fee revenue to the COCC



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## Financial Management

6. The PHA must be able to provide documentation to support:
  - Only operating subsidy was used for the CFP activity and not reserves or program income
  - No more than 20% of that year's Operating Subsidy was used to fund CFP activity
  - Operating Subsidy was spent in accordance with the PHA's approved budget in EPIC
7. Still must follow requirements of 24 CFR 905



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## Financial Management

8. Budget revision for Operating Subsidy to be used for CFP activities maybe necessary
9. From the time the PHA draws down these funds and before payment is made, the funds must be reported as restricted on the PHA's financial data schedule and financial statements



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## Financial Management

10. To be compliant with federal cash management rules, Operating Subsidy budgeted by the PHA for CFP activities may not be drawn down from eLOCCS until the PHA has incurred an eligible cost and the PHA is ready to make payment
  - PHAs must follow the Treasury Rule, the PHA has three business days to disburse the Operating Subsidy

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## Financial Data Schedule (FDS)

1. Operating Subsidy revenue regardless of its final use will be reported in the Low Rent column of the project under which HUD obligated such funds using FDS Line 70600 (HUD PHA Operating Grants)
2. Operating Subsidy that has been budgeted, approved for use to fund eligible CFP activities, and drawn down but not yet paid will be reported as restricted cash using FDS Line 112 or FDS 115
  - This is typically due to a timing issue from the point of receiving the cash and disbursing the cash. Remember the Treasury Rule still applies!

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## Financial Data Schedule (FDS)

3. If the Operating Subsidy used for CFP activities was spent on items that are capitalized, PHAs must enter the respective amounts into the capital activity memo accounts located at the bottom of the project's Low Rent Income Statement on the FDS
  - FDS Line 11610 (Land Purchases)
  - FDS Line 11620 (Building Purchases)
  - FDS Line 11630 (Dwelling Equipment Purchases)
  - FDS Line 11640 (Non Dwelling Equipment Purchases)
  - FDS Line 11650 (Leasehold Improvements)
  - FDS Line 11660 (Infrastructure Purchases)

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## HOTMA

### PROCESSING PROCEDURES

- ▶ Step 1: Submit an annual plan/hold resident meeting if qualified PHA
- ▶ Step 2: Plan the uses for the Operating Subsidy for the CFP activity - be mindful of your budget
  - Project Level
  - LIPH Level
- ▶ Step 3: At the end of the CY, HUD will indicate the amount of Operating Subsidy eligibility and therefore the PHA can determine the amount that can be used for CFP activities

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## Processing Procedures

- ▶ Step 4: After HUD approves the amount of Operating Fund subsidy that can be used for CFP activities, the PHA will create budget in EPIC for each AMP for CFP activities for HUD approval
- ▶ Step 5: Once HUD approves the Budget, HUD will create a notional Operating Subsidy grant in EPIC

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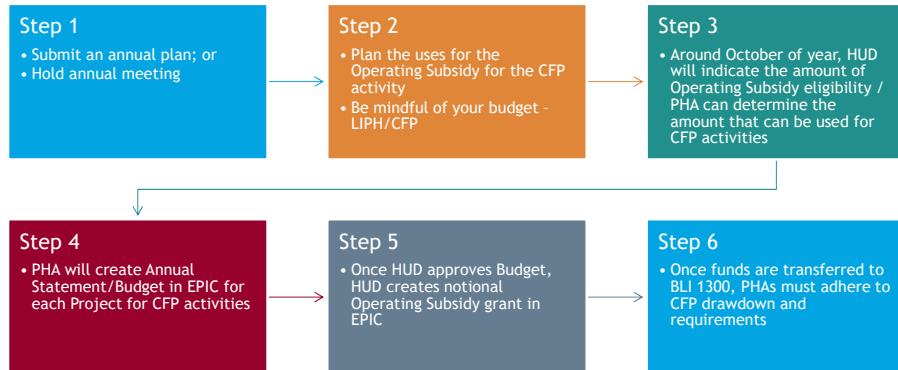
## Processing Procedures

- ▶ Step 6: Once funds are transferred to BLI 1300, PHAs must adhere to CFP drawdown and requirements
  - PHAs may not spend Operating Subsidy for CFP activities that are drawn from BLI 1000
    - PHAs that determine that they need to transfer back all or a portion of the previously transferred Operating Subsidy from BLI 1300 back to BLI 1000 to be used for Operating Fund-eligible activities may do so after creating a revised budget in EPIC that contains a lower amount than the original budget amount
  - In this instance, HUD will work with the PHA to make the necessary adjustments to EPIC and LOCCS

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## HOTMA processing procedures



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## BENEFITS

GASB 75 - Accounting and Financial Reporting  
for Post Employment Benefits

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

### ► Objective:

- Improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions.
- Improves information provided by state and local governmental employers about financial support for OPEB that is provide by other entities.

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

### ► GASB 75 replaces:

- GASB 45- Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,
- GASB 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,
- GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,
- Improves information provided by state and local governmental employers about financial support for OPEB that is provide by other entities.

### ► Establishes *NEW* Accounting & Financial Reporting Requirements for OPEB Plans

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

- ▶ Effective Date - fiscal years beginning AFTER June 15, 2017
  - PHAs with fiscal years starting July 1, 2017 and ending June 30, 2018 will be the first PHAs to implement the mandatory GASB 75
- ▶ How Does This Apply To Me?
  - Several of the changes identified in GASB 75 are for the actuaries and the disclosures in the audit report

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

- ▶ PHA Year End Close Information -
  - Unless your PHA did an early implementation last year you will need a new report from the actuary that meets GASB 75 requirements
  - Do not use a roll forward report of GASB 45 from the prior year
- ▶ Moving Forward - Valuations will need to be completed every TWO years for all plans
  - Previously if a PHA had under 200 employees a valuation was only required every three years. This no longer applies.

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

### ► Balance Sheet Effect-

- PHAs must report the total UN-funded Actuarial Accrued Liability
- Previously GASB 45 only reported the net OPEB obligation

### ► Translation - GASB 45 vs. GASB 75

- Under GASB 45 the actuary would calculate what annual contributions should be made based on a calculated long-term liability, and the difference is what was reported
- Long term liability of \$300,000 for 30 years = \$10,000
- PHA Contributed \$8,000 for the three years the report was applicable
- The Liability would be \$6,000 or \$2,000 unfunded each year for 3 years
- After three years a new report would be created and that liability would roll into it as the beginning balance

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

### ► Translation - GASB 45 vs. GASB 75

- Under GASB 75 the entire liability is reported. Based on the previous example the liability would be the full \$300,000
- This \$300,000 liability would be reduced by the current calculated value of any investments set aside to cover this
- If the PHA set aside \$8,000/year they would have \$24K in assets (3 years) and \$300K in future liabilities. This creates a \$276K OPEB liability
- *How many PHAs have money set aside to cover OPEB?*

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## GASB 75: Accounting & Financial Reporting for OPEB and Year End Close

### ► Year End Calculation

- GASB 75 reports are going to recalculate the beginning liability based on these new rules
- Using the previous amounts discussed the liability went from \$6K to \$276K
- A prior period adjustment will be needed to record the difference
- Like GASB 68, GASB 75 will now report deferred inflows/outflows for changes in assumptions for past values and amortize those differences

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## GASB 89 - Accounting for Interest Costs Incurred Before the End of a Construction Period

- Tax Credits, RAD, CFFP & OFFP to name a few applicable sources

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## GASB 89: Accounting for Interest Costs

- ▶ GASB 89 requires State and Local Governmental agencies, including PHAs, to expense Interest during the construction period, rather than capitalizing the interest so that it becomes part of the asset's value



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## GASB 89: Accounting for Interest Costs

### ▶ Why the Accounting Change?

1. Trying to SIMPLIFY the Reporting
2. Identify the TRUE cost of borrowing

### ▶ Is my Agency affected by this change?

1. Tax Credits
2. RAD
3. CFFP
4. OFFP
5. Possible Financing from other Federal, State or Local Agencies

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## GASB 89: Accounting for Interest Costs

- ▶ Effective Date - Reporting periods beginning after December 15, 2019
  - Fiscal Years beginning January 2020 and after are required to implement this GASB Statement
  - To be applied PROSPECTIVELY! No changes necessary to prior year accounting and reporting

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## GASB 89: Accounting for Interest Costs

- ▶ Applicable to both Enterprise and Governmental Funds
  - Supersedes GASB Statement 62



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**Back to the Future**

- ▶ Operating reserves and the 2012 subsidy offset

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## The 2012 offset

- ▶ HUD offset LIPH subsidy by \$750M
- ▶ Based on a HUD calculation of number of months of operating reserves
- ▶ PHAs had 3 types of exclusions for which they may have been eligible to apply
- ▶ Maximum and minimum reserve/offset thresholds



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## 2012 Offset Litigation Results

- ▶ Judgement was awarded to the plaintiffs for an amount of \$136,654,144
- ▶ The amount of damages to which each plaintiff is entitled can be calculated by multiplying your 2012 operating subsidy eligibility amount by .8104 and then subtracting the amount of operating subsidy that you actually received after the offset of your excess operating reserves

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## 2012 Offset Litigation Results

- ▶ For example, if your 2012 eligibility amount was \$300,000 and the amount you received after the operating reserve offset was \$200,000, your damages would be \$43,120 ( $\$300,000 \times .8104 - \$200,000 = \$43,120$ ).

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## 2012 Offset Litigation Results

- ▶ In 2012, Congress appropriated \$25 million to assist housing authorities which had their 2012 operating fund subsidy reduced by the 2012 operating reserve offset.
- ▶ This \$25 million was distributed by HUD as a hardship grant. If a PHA received a hardship grant, then to determine a PHA's damages, you need to subtract the amount of the hardship grant from the calculation of damages.

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## 2012 Offset Litigation Results

- ▶ Damages received will be paid out from a Judgement Fund which is a permanent, indefinite appropriation administered by the Department of Treasury to pay judgments against the United States and not by HUD.
- ▶ The attorneys representing the PHA feel that the funds should be non-federal

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## 2012 Offset Litigation Results

- ▶ HUD is in the process to issue guidance on the proper accounting and reporting for the damages PHAs will receive.
- ▶ We recommend PHAs that receive Judgement funds deposit them into a Business Activity account and not mix them with federal funds until HUD issues guidance.
- ▶ Once the guidance is received, then the funds can be properly reported on the PHA's financial statements
  - SEFA implications

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## 2012 Offset Litigation Results

- ▶ Why do you think that a possible offset is still relevant going forward?

Hmmm?



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## PHADA's Letter to HUD's General Counsel

- ▶ PHADA sent a letter to HUD's General Counsel that includes the following items:
  - PHA's senior executives began receiving an unsigned, undated letter via email from HUD's Office of Public and Indian Housing (PIH) that announced the availability CFP funding for federal fiscal year 2018
  - The letter included an announcement that HUD would begin to use an amended ACC
  - Members of our association began to raise concerns over several provisions of the new ACC and the process HUD intended to use to implement the new contract

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## Contract Extension

- ▶ HUD's electronic letter informs PHAs they do not execute the new ACC and that new and modified contract terms will become effective when PHAs make their first withdrawal of 2018 CFP funding through HUD's Electronic Line of Credit Control System (eLOCCS)
  - Some PHA's may require certain approvals (state/local)
  - Review terms of ACC with Board and/or Counsel

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## Paperwork Reduction Notices (PRA)

- ▶ PHADA reviewed HUD's PRA notices and found that they failed to notify the public of several substantive changes to ACC terms accurately. HUD announced that a new ACC would do 2 things
  - Adds submission requirements when a PHA may choose to voluntarily apply to HUD to retain non-dwelling public housing real property free from LIPH use restrictions under the ACC and DOT
  - Adds new submission requirements to collect information from any PHA that intends to remove all of its public housing dwelling units from its inventory and will alert HUD to its future plans for either termination of the public housing ACC or development of new dwelling units

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## Definition of Program Receipts

- ▶ The new contract includes a new definition of Program Receipts that restricts the use of, "Operating receipts and any other funds received by the PHA for the development, modernization, sale or transfer of public housing projects, solely for public housing expenditures, unless otherwise allowed by HUD Requirements."
- Could have mixed finance impacts

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## HUD Requirements

- ▶ HUD has included a provision that requires PHAs to comply with HUD issued notices, and HUD-required forms, and agreements
- ▶ HUD has require PHAs to comply with all provisions of its notices and other forms of guidance when those requirements are not included in law or regulations. To date, HUD has not had much success

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## HUD Requirements

- ▶ In general, notices and guidance only represent requirements for HUD staff, unless they reiterate legitimate requirements in regulation or statutes. This provision seems to permit HUD to forgo rulemaking in imposing new requirements on HAS that operate public housing

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## Employer Requirements

- ▶ The new ACC protects the appropriations act provisions concerning the limits on PHA Executive compensation in the contract
- ▶ If Congress chooses to change or eliminate that standard, the ACC would be inconsistent with any new standard
- ▶ It appears that HUD is trying to preserve this salary restriction even if Congress chooses to delete it from future appropriations acts

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## Grant Funding

- ▶ This new section is a transparent effort to forestall any future suits against the government similar to the successful operating reserve offset suit
- ▶ In addition to citing appropriations act limitations, changes or recapture of funding and those authorities delegated by Congress to HUD, the provision concludes, *"Grant funding may also be terminated, recaptured, withheld, suspended, reduced or such other actions taken in accordance with HUD Requirements."*

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## Grant Funding

- ▶ Since the new language would include all “HUD-issued notices, and HUD-required forms, and agreements,” as requirements, HUD is granting itself a free hand to unilaterally change, eliminate, or recapture a PHA’s reserves.

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## Operating Reserve Calculation Methodology

- ▶ How much cash does your PHA have?

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## What are operating reserves?

- ▶ *Operating Reserves* typically refer to the amount of current assets that are available after liquidating any liability that is due within the next year (current liability)
  - Will usually be determined from your FDS



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## How do we talk about reserves?

- ▶ *Typically, there are two ways reserves are measured and discussed:*



1. Dollars: Total \$ amount of reserves
2. Time Period: Amount of time (in months) that it would take for a PHA/AMP to fully expend reserve dollar amount, covering day-to-day operating expenses, (and without additional subsidy)

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## Operating reserves

*Calculation methodology - dollars of reserves*

FDS Line #	Description
1 111	Cash - Unrestricted
2 114	Cash - Tenant Security Deposit
3 120	Total Receivables
4 131	Investments - Unrestricted
5 142	Prepaid Expenses & Other Assets
6 144	Inter-Program-Due From
7 145	Assets Held for Sale
8	Total (1+2+3+4+5+6+7)
9 310	Total Current Liabilities
10 343	Current Portion of Long Term Debt - Cap. Projects
11	Total (9-10)
12	Total Operating Reserves (8-11)

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## Number of months - operating reserves

*2012 funding offset months calculation methodology*

- Formula used to determine number of months of operating reserves:

$$\frac{\text{Operating Reserves}}{(\text{PEL} + \text{UEL} + \text{Transition Funding} + \text{Add-Ons}) \div 12}$$

From Operating Subsidy Calculation  
"Formula Expense Level"

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## Number of months - operating reserves

*OFFP months calculation methodology*

- ▶ Formula used to determine number of months of operating reserves:

$$\frac{\text{Operating Reserves}}{(969000+97100+97200) \div 12}$$

969000 - Total Operating Expenditures  
97100 - Extraordinary Maintenance  
97200 - Casualty Losses

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## Differences of Both Calculations

- ▶ When HUD did the offset, they used a formula expense level that did not reflect the true operating expenditures of the AMP
- ▶ When calculating an OFFP transaction or calculating the MENAR (similar calculation), HUD is using actual operating costs

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**What are operating reserves?**

► How PHAs can use operating reserves

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**Operating reserves include:**

- Unspent operating subsidy
  - Asset Repositioning Fee
- Unspent tenant rent
- Other miscellaneous revenue
  - Including program income that has expanded uses (e.g., non-rental income from vending machines, cell tower leases, energy savings from energy performance contracts)
- Unspent insurance proceeds

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## Statutory uses of operating reserves

- ▶ Procedures and systems to maintain the efficient management operations of public housing units including amounts sufficient to pay for:
  1. The reasonable costs of review by an independent auditor
    - Other information maintained pursuant to section 6(j)(6) by a public housing agency
  2. Resident management corporations to substantiate the performance of that agency or corporation

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## Statutory uses of operating reserves

3. Activities to ensure a program of routine preventative maintenance
4. Anticrime and anti-drug activities, including the costs of providing adequate security for public housing residents, including above-baseline police service agreements
5. The costs of insurance



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## Statutory uses of operating reserves

- 6. Activities related to the provision of services, including service coordinators for elderly persons or persons with disabilities
- 7. Activities to provide for management and participation in the management and policy making of public housing by public housing residents



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## Statutory uses of operating reserves

- 9. The energy costs associated with public housing units, with an emphasis on energy conservation
- 10. The costs of administering a public housing work program under Section 12, including the costs of any related insurance needs
  - Labor standards and community service requirement
- 11. The cost of repaying, together with rent contributions, debt incurred to finance the rehabilitation and development of public housing units, which shall be subject to such reasonable requirements as the Secretary may establish

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## Statutory uses of operating reserves

12. The costs associated with the operation and management of mixed finance projects, to the extent appropriate
13. The costs of operating computer centers in public housing through a Neighborhood networks initiative
  - The purpose was to establish multi-service community technology centers that bring digital opportunity and lifelong learning to low- and moderate-income residents living in HUD housing

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## Emergencies

- ▶ PHAs may also use Operating Funds for unforeseeable and unpreventable emergencies that include damage to the physical structure of the PHA's housing stock
  - For example, damage as a result of a natural occurrence, such as a windstorm or flood



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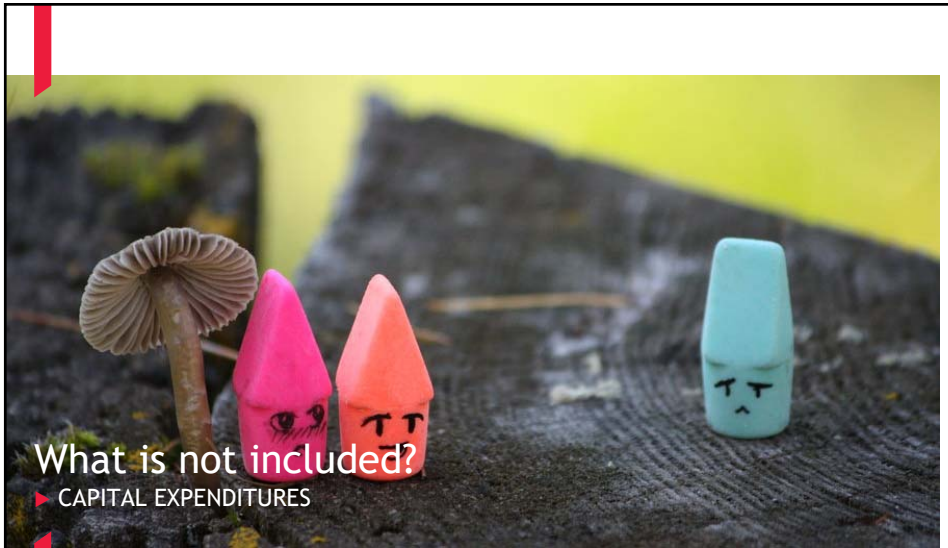
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## Emergencies

- ▶ Although damages caused by unforeseen emergencies may eventually be covered under a warranty, with insurance proceeds, or through disaster funds, PHAs may use Operating Funds to cover the expenses incurred prior to receipt of warranty, insurance or disaster proceeds
  - PHA must reimburse themselves after receipt of warranty, insurance or disaster proceeds

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What is not included?

- ▶ CAPITAL EXPENDITURES

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## Regulatory uses of operating reserves

- ▶ *"Project-specific operating expenses shall include, but are not limited to, direct administrative costs, utilities costs, maintenance costs, tenant services, protective services, general expenses, non-routine or capital expenses, and other PHA or HUD identified costs which are project specific for management purposes."*  
24 CFR 990.280



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## Capital purchase vs. expenditure (After acquisition)

- ▶ If an expenditure provides additional service beyond the current period, it should be capitalized, if the expenditure does not provide additional service it should be expensed

June 1999 HUD GAAP Flyer



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## Future service potential

- ▶ An entity may produce future service potential by:
  1. **Extending the useful life**
  2. Increasing the quantity of services provided
  3. Increasing the quality of service
- ▶ If an expenditure meets 1 of the 3 categories, then it is a Capital purchase



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## Statutory - CFP Small PHA Flexibility

*"Section 9(g)(2) of the 1937 Act permits PHAs with less than 250 public housing units (and that are not designated as troubled and are, in the determination of the Secretary, operating and maintaining public housing in a safe, clean, and healthy condition) to use their Operating and Capital Funds flexibly."*

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**Methods to Protect & Utilize Your Operating reserves**

► How can we preserve our assets?

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**Tips to preserve & utilize our reserves**

1. Prepare the FDS Correctly
2. Transfer of Excess Cash
3. Invest in Housing Stock
4. Improve Curb Appeal
5. Consider Resident Service Programs
6. Correct Management Deficiencies
7. Pay Down OPEB and Pension Liability
8. Allow COCC to Charge Maximum Fees
9. Complete Operating Budgets & Budget Revisions Timely
10. Ensure Non-Federal Funds are Excluded from AMPs
11. Create an Affiliate to Protect the COCC
12. Pre 2004-HCV Admin reserves
13. Improve Management of CFP
14. What we Have Learned

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## TIP 1: FDS preparation

- ▶ Review the July 2014 FDS Crosswalk Guide, including related updates
- ▶ Ensure restricted cash and unrestricted cash are properly reported
- ▶ Properly report current and non-current assets/liabilities
- ▶ Ensure all proper accruals are made at year-end
- ▶ Take advantage of FDS Line # 115 : Cash Restricted for Payment of Current Liability
  - Will help maximize QR, MENAR and Excess Cash ratios without over-stating your Operating reserves

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## FDS Line 115

### Cash - Restricted for Payment of Current Liability

- ▶ This FDS line item represents restricted cash and cash equivalents that are only to be expended for specified restricted purposes but will be used in the next fiscal year and are supported by a reported current liability/deferred revenue. The restriction on the use of the funds has been imposed by the source of the monies, not the PHA. This line item should not be used to restrict cash related to common operational liabilities such as account payable and wages payable.
- ▶ Examples of Cash-restricted for payment of current liability include such items as:
  - Cash balances associated with advances of grant and subsidy funds not yet earned;
  - Debt service payments;
  - Cash in the PHA's family self sufficiency (FSS) escrow account that will be used for payment of contracts due within 12 months of the Balance Sheet date; and
  - Cash restricted for modernization and development up to the amount of any associated and reported current liability

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## Recording accruals

- ▶ Recording expenditures when an invoice hasn't been received by the PHA
  - Work in progress, utilities, etc.
- ▶ Recording accrued expenses will ensure that your financial statements are (and FDS is) correctly reported
  - If the PHA doesn't accrue them, the auditor most likely will and the PHA could be exposed to an audit finding
- ▶ The proper recording of accruals will prevent an inflated operating reserve, but will decrease your FASS

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## TIP 2: Transfer of excess cash

- ▶ If an AMP has Excess Cash, then the AMP will be able to transfer cash up to another AMP up to the amount of Excess Cash
- ▶ If an AMP has Excess Cash, then the COCC will be able to take an Asset Management Fee, up to the amount of Excess Cash
  - The COCC is not permitted to accrue an Asset Management Fee if the AMP has no Excess Cash
- ▶ Items to Consider:
  1. Excess Cash is measured from the prior FY
  2. How the transfer will effect future capital planning at each AMP
  3. How the transfer will effect the future cash position of each AMP, as well as future Excess Cash calculations for each AMP

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## Excess cash

“[Excess Cash] represents the sum of certain current asset accounts less the sum of all current liability accounts, less one month worth of operating expenses for the project.”

Supplement to HUD  
Handbook 7475.1 Rev.,  
CHG-1



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## Excess cash flow

### THE FORMULA

$$111+114+115+120+131+144-310-(969/12)^*$$

\*Working capital component of the Excess Cash formula is not included for mixed finance AMPS

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### TIP 3: Invest in housing stock

- ▶ Since various mixed finance developments are being created “down the block from us,” invest in the Public Housing stock to attract residents
  - Now, more than ever, our clientele (residents) have a choice
  - Meet UPCS requirements



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### TIP 4: Improve curb appeal



- ▶ Attract residents to/ retain residents at your AMPs
- ▶ Curb Appeal was evaluated in the Proposed PHAS rule
  - This may come back, in some shape or form, in the final rule: PHAS IV

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## TIP 5: Consider resident service programs

- ▶ PHAs are not only property management & development companies, but are required to provide certain services to the residents
  - 24 CFR 990.190 Resident Participation Funding Add-on
    - Spent in accordance with 24 CFR 964
  - Resident training centers
  - Common areas
  - Drug elimination activities
  - Bus or van transportation options

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## TIP 6: Correct management deficiencies

- ▶ Constantly look for opportunities to improve efficiencies
  - Deficiencies can be defined from audits (IPA, HUD, IG) as well as determined by the PHA
- ▶ Reduced funding levels mean we must consider:
  - Review of organizational structure
  - Review salary & benefits
  - Training
  - Software upgrade/change
  - Hardware

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## TIP 7: Pay down OPEB & pension liability

- ▶ OPEB and Pension liabilities reduces your overall reserve levels, and the “Operating Reserve” calculation
- ▶ Net effect, will reduce your cash



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## TIP 8: Allow COCC to Charge Max. Fees

- ▶ Take advantage of Excess Cash transfers
  - Per Excess Cash formula - AMP Based
- ▶ Reports true costs of operating activities
  - Project, Asset Bookkeeping/IT Fees, FFS
- ▶ Cash has more flexibility in the COCC
  - Cash can be used for any housing need
- ▶ Reduces reserve levels at the AMPs
  - Cash “key” component Operating Reserve Calculation

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## TIP 9: Prepare Timely Budget & Budget Revisions

- ▶ Allows PHA to provide realistic estimates of operating costs as well as capital requirements
- ▶ Maximization & utilization of funding sources
- ▶ Obligate reserves

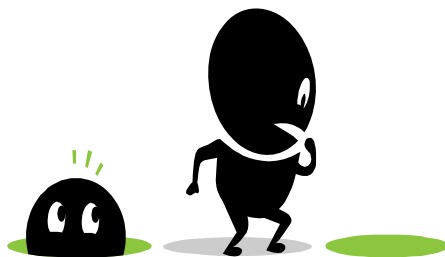


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## TIP 10: Exclude Non-Federal Funds From AMPs

- ▶ Several Mixed Finance Developments
- ▶ Other State & Local funding sources
- ▶ Fee Income



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## TIP 11: Protect The COCC reserves

- ▶ There is only regulatory guidance to suggest that fees earned by the COCC are non-federal

- Create an Instrumentality
- Move to a Business Activity



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## TIP 12: Pre-2004 HCV Admin Fee reserves

Pre-2004 Admin  
Fee Reserves

COCC

Instrumentality

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## Pre-2004 Admin Fees

### Pre-2004 Administrative Fee Funds

*If funds in the administrative fee reserve are not needed to cover PHA administrative expenses (to the end of the last expiring funding increment under the consolidated ACC), the PHA may use these funds for other housing purposes permitted by State and local law. However, HUD may prohibit use of the funds for certain purposes.*

PIH Notice 2011-59

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## Tip 13: Improve Management of Capital Fund

### ► CFP items to consider

- BLI 1406 - Operations
- BLI 1408 - Mgmt. Improvements
- BLI 1410 - Administration
- BLI 1411 - Audit

*Let's discuss options*



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## TIP 14: What have we learned?

- ▶ Refer to PIH Notice 2011-55
- ▶ PHAs with 250 or more LIPH units, minimum amount of reserves was 4 months
- ▶ PHAs with less than 250 units, minimum reserves was 6 months
- ▶ Calculation was at the AMP combined level
- ▶ Offset of subsidy was allocated per unit basis over the AMPs

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## TIP 14: What Have We Learned

- ▶ HUD established a process by which PHAs could apply to exclude the initial allocation amounts
- ▶ HUD considered adjustments based on:
  - Other- FASB 5, self-insurance, repayment of ineligible costs
  - Commitments/Obligations
  - FDS Reporting errors
- ▶ To be considered for an adjustment, must have had a 3% impact



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GASB 87 - NEW LEASE ACCOUNTING RULES

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## Overview - GASB 87

- ▶ Released in June 2017, and will have an impact on any PHAs with certain lease income or expense
- ▶ Based on the principle that leases represent financings of the right to use an asset
- ▶ The new standard requires significant changes from current practice, particularly in accounting for operating leases, for which only a footnote disclosure was required in the past



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## Leases Covered by the New Standard

- ▶ The first step is to identify the leases covered. GASB defines a lease as “a contract that conveys control of the right to use another entity’s nonfinancial assets (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.”
- ▶ Housing Authorities (most common):
  - As Lessee: Office Machines, Vehicles, *not* Software (leased intangibles not included)
  - As Lessor: Land, Buildings, Equipment

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## Leases *Not* Covered by GASB 87

- ▶ Contracts that transfer ownership of the underlying asset may be labeled as a lease but, in substance, are a purchase and should be accounted for accordingly
- ▶ In addition, because the definition includes only exchange transactions, contracts that transfer the right to use an asset for a nominal amount (e.g. \$1/year) do not fall within the scope of the standard since they are, in substance, a non-exchange transaction

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## Accounting Issues

### LESSEES

- ▶ Should recognize a lease liability and a lease asset at the start of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset
- ▶ The GASB believes recognizing a liability by the lessee is appropriate given that the lessee takes possession of the underlying asset or gains access to use the underlying asset, thereby creating an obligation



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## Accounting Issues

### LESSEES

- ▶ The lease asset, representing the right to use the underlying asset rather than the asset itself, should be initially measured in an amount equal to the associated lease liability
- ▶ Any payments made to the lessor at or before the start of the lease term should also be included in the lease asset value, to reflect the total cost of the asset

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## Accounting Issues

### LESSEES

- ▶ The lessee should reduce the lease liability as payments are made and recognize interest expense on the liability
- ▶ The lessee should also amortize the lease asset over the shorter of the lease term or the useful life of the underlying asset



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## Accounting Issues

### LESSEES

- ▶ Lessors should account for the same transaction in a way that mirrors how the lessee is accounting for it
- ▶ A lessor generally should recognize a lease receivable and a deferred inflow of resources at the start of the lease term
- ▶ However: exceptions exist for certain *regulated leases* (e.g. HUD programs), short-term leases, and leases that transfer ownership of the underlying asset



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## Regulated Leases Defined

- ▶ Lessors should recognize revenue based on the payment provisions of the lease contract, and also make footnote disclosures required by GASB 87, for “regulated leases: leases meeting the following requirements:
  - Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator;
  - Lease rates should be similar for lessees that are similarly situated
  - The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee’s use of the facilities complies with generally applicable use restrictions

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## Accounting Issues

### LESSORS

- ▶ Lessor should *not* derecognize the asset underlying the lease
  - The asset should remain on the Balance Sheet
- ▶ The lease receivable is measured at the present value of lease payments expected to be received during the lease term
- ▶ The deferred inflow of resources will equal the value of the lease receivable plus any payments received at or before the start of the lease term that relate to future periods

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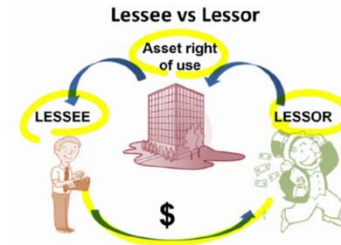
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## Accounting Issues

### LESSORS

- ▶ As payments are received, the lessor should recognize interest revenue on the lease receivable and revenue from the amortization of the deferred inflows of resources over the term of the lease



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## Scenario #1

### PHA AS LESSEE

- ▶ Rainier HA is renting a storage facility from Whitney LLC under an 11 year lease, due to lack of storage at the PHA
- ▶ The estimated market value of the storage facility at inception of the lease is \$75,000
- ▶ HA estimates the facility has remaining useful life of 15 years
- ▶ Whitney LLC, the owner/lessor, will retain ownership at end of lease - it is not a capital lease

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## Scenario #1

PHA AS LESSEE

- ▶ Whitney LLC estimates the storage facility will be worth \$25,000 at the end of the lease term
- ▶ Using an interest rate of 4%, the lease payment is set at \$6,449/yr (essentially financing the \$50,000 decline @4%)
- ▶ Because the Housing Authority does not know the interest rate used by Whitney LLC, it uses 5% (rate of recent borrowing) to determine present value
- ▶ Rainier HA's outside attorney is paid \$1,000 to initiate the lease

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## Scenario #1

PHA AS LESSEE

- ▶ No bargain purchase option at the end, and the term of the lease is 73% of the assets remaining life (11/15)
- ▶ The Present Value of all of the lease payments, at 5%, is \$56,250
- ▶ Other assumptions: Rainier HA has 12/31 FYE and payments are made on Jan 1 of each year

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## Scenario #1 - PHA as Lessee

<u>Current GAAP:</u>	Dr	Cr
<u>Initial recognition of Lease on the books of Rainier HA</u>		
Deferred Initial Direct Costs	1,000	
Cash		1,000
To record legal costs		
Lease expense	6,540	
Deferred Initial Direct Costs		91
Cash		6,449
To record initial payment on lease		
<u>Subsequent payments</u>		
Lease expense	6,540	
Deferred Initial Direct Costs		91
Cash		6,449
To record payment on lease		

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## Scenario #1 - PHA as Lessee (continued)

<u>New GAAP:</u>		
<u>Initial recognition of Lease on the books of Rainier HA (January 1)</u>		
Right of use asset - storage facility	57,250	
Lease liability (present value of \$56,250 minus up front payment of \$6,449)		49,801
Cash (to Whitney LLC)		6,449
Cash (to attorney)		1,000
To record lease liability and payment to attorney		
<u>Fiscal year end entries (December 31)</u>		
Interest expense on lease liability (\$49,801 x 5%)	2,490	
Lease liability		2,490
To accrue interest on lease liability at fiscal year end		

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## Scenario #1 - PHA as Lessee (continued)

### New GAAP (Cont'd):

#### Fiscal year end entries (December 31 (cont'd))

Amortization on right of use asset - storage facility	5,205	
Accumulated amortization		5,205
To record amortization on right of use asset related to leased storage		

#### Payment for year 2 (January 1)

Lease liability	6,449	
Cash		6,449
To record payment on lease		

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## Scenario #2

### PHA AS LESSOR

- ▶ Rainier HA has a warehouse previously used for central maintenance
- ▶ Under asset management the HA went to decentralized maintenance model
- ▶ The warehouse building is no longer needed, and is being rented under 11 yr lease to Tacoma Plumbing Inc
- ▶ The estimated market value of the warehouse is \$300,000 with 15 yrs remaining useful life

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## Scenario #2

PHA AS LESSOR

- ▶ The Housing Authority will retain ownership at end of lease (not a capital lease): \*building stays on the books\*
- ▶ Rainier HA estimates the storage facility will be worth \$100,000 at the end of the lease term
- ▶ Using an interest rate of 4%, the lease payment is set at \$25,798/yr, essentially financing the \$200,000 decline at 4%

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## Scenario #2

PHA AS LESSOR

- ▶ Lease receivable (present value of future payments of \$25,798 for 11 years) is \$225,002
- ▶ Other assumptions: Rainier HA has 12/31 FYE and payments are made on Jan 1 of each year
- ▶ Interest rate for determining lease payment was reduced to 4% rather than 5% as an inducement for Tacoma Plumbing to lease the building

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## Scenario #2 - PHA as Lessor (continued)

### Current GAAP:

Dr Cr

### Initial recognition of Lease

Cash	25,798	
Lease income		25,798
To record initial payment on lease		

### Subsequent payments

Cash	25,798	
Lease income		25,798
To record payment on lease		

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## Scenario #2 - PHA as Lessor (continued)

### New GAAP:

### Initial recognition of Lease on the books of Rainier HA (January 1)

Lease receivable (present value of \$225,002 per notes above minus up front payment of \$25,798)	199,204	
Cash	25,798	
Deferred inflow - lease of warehouse		225,002
To record lease receivable and first payment		

### Fiscal year end entries (December 31)

Lease receivable	7,968	
Interest income on lease receivable (\$199,204 x 4%)		7,968
To accrue interest on lease receivable		

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# Scenario #2 - PHA as Lessor (continued)

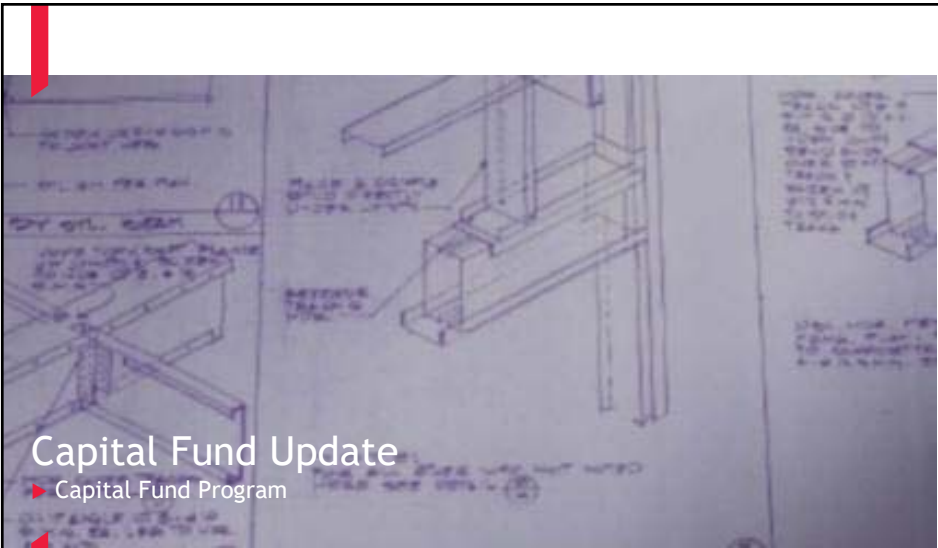
**New GAAP (Cont'd):**

Fiscal year end entries (December 31) (Cont'd)

Deferred inflow - lease of warehouse	20,818	
Lease income		20,818
To record amortization of deferred outflow on lease of warehouse over 11 years		

Payment for year 2 (January 1)

Cash	25,798	
Lease receivable		25,798
To record payment on lease		



Capital Fund Update  
▶ Capital Fund Program

## Updated Capital Fund Chart of Accounts

- ▶ BLI's have been consolidated

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## Commonly Used BLIs

Capital Fund Activity	BLI
Transfer to operations	1406
Management improvements	1408
Economic self-sufficiency (soft-costs)	1408
Administrative costs (non-fee for service PHAs)	1410
Capital fund program fee	1410
Audit	1411 (1480)
Fees and costs, legal	1430 (1480)
Financing costs	1430 (1480)
Homeownership	Associated Activity
Force account labor	Associated Activity
Safety and security	Associated Activity
Economic self-sufficiency (capital expenditure)	Associated Activity

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## Commonly Used BLIs

Capital Fund Activity	BLI
Physical needs assessment & Energy audit	1430 (1480)
Site acquisition	1440 (1480)
Site improvement	1450 (1480)
Dwelling structure	1460 (1480)
Dwelling equipment, non-expendable	1465 (1480)
Non-dwelling structures	1470 (1480)
Non-dwelling equipment	1475 (1480)
Demolition	1485 (1480)
Resident relocation & mobility counseling	1495 (1480)
Development	1499 (1480)
CFFP debt service payments	1501 & 9000's
RAD	1503 & 1504

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## Benefits of Consolidated BLIs



- ▶ Reduce the number of budget revisions
- ▶ Reduce the frequency of field office interactions
- ▶ Reduce the burden on both the field office and the PHA

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## Five Year Action Plan

### Five-Year Action Plan

- ▶ PHAs must complete and submit the Capital Fund Program Five-Year Action Plan using EPIC (previously 50075.2)
- ▶ The Five-Year Action Plan can be prepared based on a fixed five years or on a rolling five years
- ▶ Plans that are based on a rolling basis must be updated each year
- ▶ Large capital items must be included in the Five-Year Action Plan

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## Five Year Plan

- ▶ PHAs must also submit a Capital Fund Program Five-Year Action Plan that provides information for each large capital item (whether by development or PHA-wide) planned for the four PHA fiscal years following the fiscal year covered by the Annual Statement
- ▶ “Large capital items” are defined as:
  - Any work item that is 10% or more of the PHA’s annual Capital Fund grant; or
  - Any work item that is \$1 million or more;
    - Except that a PHA, regardless of its size or the dollar amount of the annual grant, is not required to report any work items that are less than \$25,000

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## Budget (Annual Statement)

- ▶ The approved 5-Year Action Plan becomes the basis for Budget reporting within EPIC
- ▶ The Budget (formerly referred to as the Annual Statement, HUD Form 50075.1) can only be created once a 5-Year Action Plan has been approved, and it will be linked to the approved plan



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## Budget (Annual Statement)

- ▶ In creating a Budget in EPIC, the PHA will enter a Title (e.g., “2015 Formula Grant”), select the 5-Year Action Plan year to which the Budget corresponds, and select the Award or the Estimated Award Amount
  - If the grant is already awarded, the PHA must use the award amount and the PHA will not be able to edit
  - PHA must “spread the amounts to the BLIs

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## Budget (Annual Statement)

The screenshot displays the EPIC web application interface. At the top, the header includes the EPIC logo, the text 'Energy and Performance Information Center (EPIC)', and a user login area with the name 'RU101' and a 'Logout' button. Below the header is a navigation bar with tabs: 'Home', 'Core Activity/Energy Module', 'Development of New Housing', 'Activity Planning', 'EPC', and 'PNA'. The 'PNA' tab is selected, and the sub-tab '5-Year Action Plan' is active, leading to the 'Annual Statement/Budget/P&C' section. The 'Selected PHA: HOUSING AUTHORITY OF' is displayed, with a 'Change' link below it. The main heading is 'ASS » Create New Annual Statement/Budget'. Below this are two steps: '1. Select Award Year and Award' (active) and '2. Select Work Activities'. The 'Annual Statement/Budget Information' section contains the following fields:
 

- 1. Title: A text input field.
- 2. Fiscal Year End: A dropdown menu showing '06/30'.
- 3. SYAP Year: A dropdown menu.
- Award Information:
  - 4. Select Award: A dropdown menu.
  - 5. Estimated Award Amount: A text input field.

 At the bottom right of the form are 'Continue' and 'Cancel' buttons.

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## Budget (Annual Statement)

- ▶ The Budget will consist only of approved Work Activities from the 5YAP
- ▶ PHAs will select Work Activities from the applicable year of their 5YAP to add to the Budget
- ▶ In addition, PHAs may import approved work activities from other years of the 5YAP into the Budget
  - PHAs may use this option if they have had a change of plans and would like to complete the activities included in the 5YAP in a different order, shifting some activities between years

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## Capital Fund & PHA Plan

*"Fungibility is a concept which permits the HA to substitute any work item from the latest approved Five-Year Action Plan to any previously approved CFP Annual Statement and to move work items among approved modernization budgets without prior HUD approval."*

CFP Final Rule (October 24, 2013)



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## EPIC Reporting

- ▶ Beginning with PHAs with FYEs of March 31, 2017, and thereafter, PHAs will submit CFP 5-Year Action Plans in EPIC & FOs will approve, as appropriate, the 5-Year Action Plans in EPIC
- ▶ PHAs with an approved 5-Year Action Plan in EPIC may revise grant amounts in the 5-Year Action Plan to reflect actual awards and may “funge”, or reschedule, approved activities from one year to another without seeking additional HUD Field Office approvals

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## Estimating Future Year CFP Awards

- ▶ Adjust for RHF and DDTF
- ▶ CFFP obligations
- ▶ RAD
- ▶ Small PHAs w/ Fixed Plans may increase years 4 & 5 for stand by activities



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## Obligations & Expenditures

- ▶ 24 months to obligate and 48 months to expend

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## Obligations & Expenditures

### Obligation

- ▶ What is an obligation?
- ▶ An obligation is a contract in place, a binding agreement
- ▶ BLI 1502, Contingency, does not count



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## HUD Definition of Obligation

- ▶ A binding agreement for work or financing that will result in outlays, immediately or in the future
- ▶ All obligations must be incorporated in the 5-year Action Plan, approved by HUD and by the PHA's Board
  - Force Account Labor becomes obligated once the work item begins
  - BLI 1406 are obligated as the funds are budgeted and drawn down

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## Obligations

- ▶ PHAs have 24 months from the time the funds are made available to obligate the CFP money
- ▶ PHAs are required to obligate 90% of the amount of funds made available in the 24 month time period
- ▶ HUD has the right to hold future CFP funds until it obligates 90% of its past due grants
- ▶ HUD could reduce CFP funds by 1/12 for every month the PHA is non-compliant
- ▶ Will be considered Troubled per PHAS

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## Expenditures

- ▶ The PHA has 48 months to expend the funds from the time the funds are made available
- ▶ The same penalties and sanctions as those stemming from untimely obligations will apply
- ▶ If a PHA fails to fully expend any Capital Fund grant, by the expenditure deadline, HUD will immediately recapture any funds not expended by the deadline

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## Provisions & Extensions

- ▶ Only the HUD Secretary, Deputy Secretary or the Assistant Secretary for Public & Indian Housing can approve extensions for obligations
- ▶ Approved extensions may be due to:
  - Litigation
  - Obtaining approvals from federal/state governments
  - Complying with environmental and abatement issues
  - Relocating residents
  - Event beyond the PHA Control
  - Any other reason established by the Secretary published by notice in the Federal Register

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## Provisions & Extensions

- ▶ The Secretary or Deputy Secretary may extend the time period not to exceed 12 months based on the following:
  - Size of PHA
  - Complexity of the CFP for their PHA
  - Limitations due to state / local law
  - Other factors the Secretary determines to be relevant



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## Provisions & Extensions

- ▶ All requests, regardless of fiscal year, for extensions of the deadlines must be received by HUD no later than 30 days prior to the obligation deadline for the grant in question



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## Treasury Rule

- ▶ Why three days?

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## Treasury Rule

- ▶ Invoice is received and approved by appropriate staff
  - Determine if amount is in the approved budget for a CFP grant
  - Determine the AMP or COCC to which the check will be coded
- ▶ Since the invoice is being reimbursed with CFP funds, the PHA prepares a “drawdown” from ELOCCS
  - Check must be sent within **3 days** of receipt of funds
- ▶ Create check and send to vendor

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## Treasury Rule



### ▶ Exceptions

- BLI 1406 funds can be drawn at anytime, no expenditures are required, this is just other income for the AMP
- BLI 1410 funds can be drawn at anytime only if the PHA is under a fee-for-service methodology
- The PHA can draw 100% at once or do a partial draw

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## Treasury Rule

### ▶ PIH Notice 96-33

- Under the Modernization and Development Programs the term “cash management” also means minimizing the time elapsing between the drawdown and disbursement of funds by the PHA
- HUD has established the maximum time to be generally three working days

### ▶ PIH Notice 2002-13 extended PIH Notice 96-33 indefinitely

### ▶ Cash Management policies based on rules set forth by US Treasury causing three day limit to be referred to as “The Treasury Rule”

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The Capital Fund BLI Updates

- ▶ Eligible Costs by BLI

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## Transfers to Operations

Transfers to Operations - BLI 1406

- ▶ PHA < 250 Units - up to 100% of CFP
- ▶ PHA ≥ 250 Units - up to 20% of CFP
  - CFP 2015, 2016, 2017 & 2018 the limit has been increased to 25%
- ▶ Eligible for any Operating Costs
- ▶ Transfer to specific AMP
- ▶ Transfers prohibited to COCC
- ▶ Considered *Other Income* at the AMP

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## Capital Fund Flexibility For Small PHAs

### ► Quality Housing & Work Responsibility Act (QHWRA)

- *"The QHWRA of 1998 (P.L. 105-276), gives a PHA with less than 250 units full flexibility to allocate up to 100% of its annual CIAP grant for any fiscal year to its Low Rent program as long as the PHA: (1) is not troubled and (2) operates its public housing in a clean and safe and healthy condition as determined by HUD."*

### ► HUD Form 50075.1 (Annual Statement/P&E)

### ► Final Capital Fund Rule (October 24, 2013)

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## Transfers to Operations - Small PHAs

### BLI 1406

- A small PHA wishing to transfer 100% of their CFP Funds to the Operating Fund must make sure there are:
  - No Debt service payments
  - No significant Capital Fund needs or emergency needs that must be met
- Must not be considered Troubled



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## Management Improvements

### BLI 1408

- ▶ Maximum budget amount is 20%
  - Reduce to 10% over a five year period
- ▶ Limited to AMP use only
  - Exception if High Performer or HUD Approval
- ▶ PHAs will be allowed to charge certain shared functions to the COCC
  - Must be proven major uses will be for AMP
  - Item must be reasonable and necessary to fulfill responsibilities of frontline costs

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## Phase Down Schedule of BLI 1408

Year	CFP Year	Allowable Percent
1	CFP 2014	18%
2	CFP 2015	16%
3	CFP 2016	14%
4	CFP 2017	12%
5	CFP 2018	10%

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## Management Improvements

### BLI 1408

- ▶ Noncapital activities that are project-specific or PHA-wide improvements needed:
  - To upgrade or improve the operation or maintenance of the PHA's projects
  - To promote energy conservation, to sustain physical improvements at those projects or
  - To correct management deficiencies

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## Administrative Costs - BLI 1410

### Administrative costs - BLI 1410

- ▶ Maximum budget amount is 10%
- ▶ Administrative costs necessary for the:
  - Planning, design, implementation and monitoring of the physical and management improvements are eligible costs



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## Administrative Costs

BLI 1410

- ▶ The salaries & benefits of non-technical and technical PHA personnel assigned full-time or part-time to modernization are eligible costs only where the scope and volume of the work are beyond that which could be reasonably expected to be accomplished by such personnel in the performance of their non-modernization duties
- ▶ A PHA shall properly apportion to the appropriate program budget any direct charges for the salaries of assigned full- or part-time staff
  - Consider the Allocation Method

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## Administrative Costs

BLI 1410

- ▶ PHA contributions to employee benefit plans on behalf of non-technical and technical PHA personnel are eligible costs in direct proportion to the amount of salary charged to CFP
- ▶ Preparation of CFP required documents



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## CFP Budget & the COCC

- ▶ The COCC earns the management fee from the AMPs for the management of owner related functions
  - Who pays this fee?
- ▶ These costs include duties related to general capital planning, preparation of the Annual Plan, processing of eLOCCS, preparation of reports, drawing of funds, budgeting, accounting, and procurement of construction and other miscellaneous contracts
  - Does not include a Physical Needs Assessment

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## Audit Costs

BLI 1411



- ▶ Eligible costs are limited to the portion of the audit costs that are attributable to the modernization program
- ▶ This BLI should not be used

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## RAD Budget Line Items

- ▶ New Budget Line Items (BLIs) have been created in eLOCCs for RAD Operating Subsidy and CFP
  - 1503 - Funds to be used for HAP for remainder of calendar year from effective date of HAP contract from Operating Subsidy and CFP
  - 1504 - Funds to be used for Development to be available at closing, CFP Only



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## Conversion year funding tool - CFP

**Step 1 (REQUIRED):** Please enter the PIC development number of the converting property, the number of units included in the conversion, and the effective date of the new Section 8 HAP Contract.

Enter PIC Development Number:

Enter Public Housing Units To Be Removed Through RAD:  ----> # of ACC units in RAD PIC Removal application

Enter Estimated or Actual Contract Effective Date:  ----> (All Contract effective dates start on the first of a month)

Amount to Move to Capital Fund BLI 1503 (RAD)

FY 15 Development \$ Amount	Units Converting	Standing Units	Remaining in CY from HAP Effective Date	Calculated Amount
\$ 195,819	x 100	÷ 120	x 11	÷ 12 = \$ 149,584

If requesting the "Calculated Amount" you are done and there is no need to complete step 2.

**Step 2 (OPTIONAL):** If requesting an amount that is less than the Calculated Amount above, 1) enter the "Requested Amount" in the cell below and 2) have the new project owner (transferee) sign this form. *(This section only needs to be completed if the amount requested is less than the Calculated Amount above.)*

Requested Amount:

Signature of Authorized Representative

Name of Signatory:

Official Title:

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## Ineligible Costs

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## Ineligible Costs

- ▶ Certain costs are ineligible even if they may appear to fit
- ▶ General approval of a project is not permission for “any” related costs
  - The Budget and 5YAP do not list every possible cost
- ▶ Rules for 1406 and 1410
  - Immediate transfer and then follow rules for AMP or COCC, not CFP



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## Ineligible Costs

- ▶ Any costs not included in the Uniform Guidance
- ▶ Public housing operating assistance except, BLI 1406 (905.314(l))
- ▶ Costs not included in the PHA's 5 year-plan
- ▶ Costs in excess of approved BLI
  - Unless Budget is revised
- ▶ Costs for security guards or ongoing security services
  - Per the Capital Fund Final Rule

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## Ineligible Costs

- ▶ Routine maintenance or replacements
- ▶ Also excluded are:
  - Luxury improvements
  - Duplicate funding
  - Social services
  - Costs funded by other HUD programs
  - Costs not associated with LIPH



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## Ineligible Costs

### ► What is a luxury cost?

- Improvements or purchases that are not modest in design and cost because they include amenities, materials, and design in excess of what is customary for the locality
- Granite countertops?
- Internet connection?
- Air conditioning?



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## Ineligible Costs

### ► Duplicate funding

- Most commonly related to rebates
  - Funds expended and then a return check issued
- Contract modifications
  - Change in price between obligation and actual expenditure time period
- Insurance proceeds
  - Reimbursements for emergency costs



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## Ineligible Costs

### ► Social Services

- Salaries for social workers
- GED teachers
- General remedial education
- Resident coordinator
  - Job counseling
  - Job development and placement
  - Supportive services

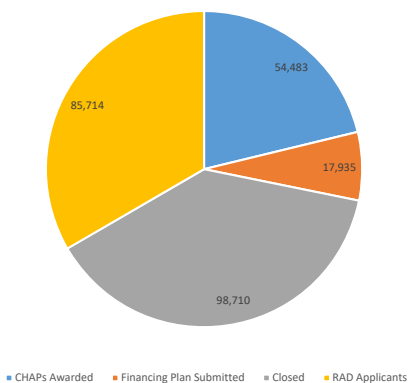


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## YTD Overview of RAD

RAD First Component Data



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## Questions to ask prior to conversion

- ▶ Which projects are best suited for conversion?
- ▶ How will PHAs pay for required improvements?
- ▶ Will converted project operate at a profit?
- ▶ What role does PHA want to have in converted property?
- ▶ How will this impact the COCC and overall PHA?
- ▶ What is my software solution?
- ▶ What is my staff knowledge?

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## Pre-Conversion

- ▶ Overview of RAD Conversions

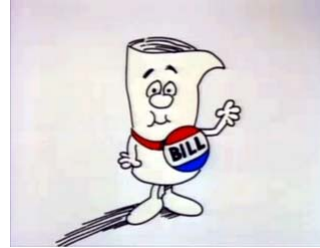
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## What exactly is RAD?

- ▶ Rental Assistance Demonstration (RAD) program
  - Approved in HUD Appropriations Act of 2012
- ▶ RAD allows PHAs to convert projects currently funded under the Public Housing to independently owned stock funded by:
  - Project-Based Vouchers (PBV) Section 8
  - Project-Based Rental Assistance (PBRA) Multifamily



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## What is the conversion process?

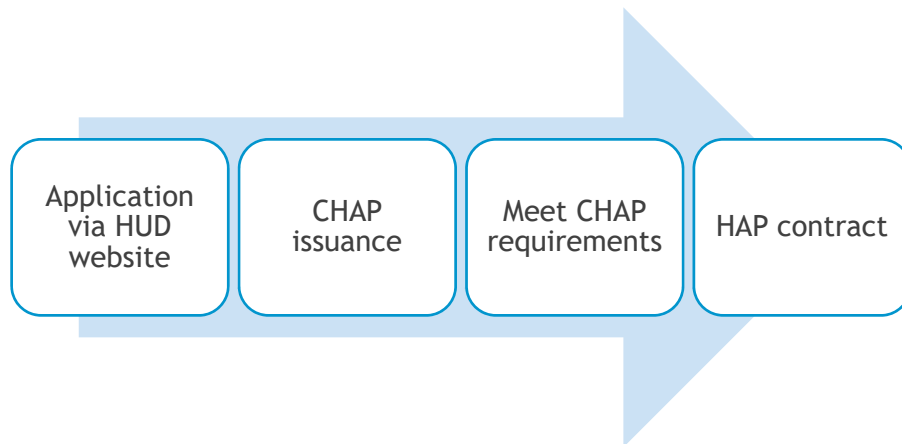
- ▶ PHA applies for RAD conversion by submitting application specific for each state on HUD site
  - <http://portal.hud.gov/hudportal/HUD?src=/RAD/application-materials>



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## High level RAD conversion



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## CHAP Issuance

- ▶ With HUD approval of a PHA's RAD application, HUD issues a Commitment to enter into a Housing Assistance Payments contract (CHAP)
  - Describes milestones the PHA must meet before HUD will issue a Housing Assistance Payments (HAP) contract for the project



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## Once CHAP requirements are met



- ▶ HUD will issue a HAP contract
- ▶ The AMP or portion thereof will be removed from the PHA's Public Housing program
  - The AMP will be removed from LIPH inventory by releasing Declaration of Trust and removing from ACC

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## Important chronological points

Conversion year	First Calendar Year after conversion year	Second Calendar Year after conversion year
<ul style="list-style-type: none"> <li>• Year that HAP contract is awarded</li> <li>• Year of close</li> <li>• Typically has no relationship to FY</li> </ul>	<ul style="list-style-type: none"> <li>• Begins the next Jan 1 after the conversion</li> <li>• Typically marks the shift of funding program from LIPH</li> </ul>	<ul style="list-style-type: none"> <li>• First year of funding based on prior year data for PBV</li> <li>• PBRA same as first calendar year after conversion</li> </ul>

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## How are converted units funded?

- ▶ Funding changes on a calendar year
- ▶ The project will continue to receive public housing funds through the end of the calendar year in which the HAP contract is issued
- ▶ In the next calendar year, funds provided by new source as Project Based Voucher or Project Based Rental Assistance
  - Funding should be continuous

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## Partial AMP conversion

- ▶ If only a portion of an AMP will convert through RAD, then the converted portion will follow the financial reporting and funding rules of the new program
- ▶ The portion of AMP that doesn't convert will revert back to LIPH



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## PBV vs. PBRA

### ▶ Basic differences

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## Project Based Vouchers (PBV)

- ▶ In 1998, the Congress added a new provision to the Section 8 Voucher program, allowing PHAs to take a portion of their voucher budget and “project-base” that budget
  - Section 545 of the Quality Housing and Work Responsibility Act of 1998
- ▶ The PBV program would allow PHAs to promote the development of certain “hard” units of low-income housing

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## Project Based Voucher (PBV)

- ▶ Part of Housing Choice Voucher Program
- ▶ Vouchers are specific to a project unit and cannot be transferred
- ▶ Former AMP is now owned by party other than HUD that acts as landlord



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## Project Based Voucher (PBV)

- ▶ As part of the RAD program, certain special PBV provisions were adopted to facilitate conversion. These include:
  - The requirement that not more than 20% of a PHA's voucher budget authority be project-based was waived;
  - The 25% income-mixing limitation was raised from 25% to 50%; and
  - Various protections for existing residents at the time of conversion are provided, e.g., no "re-screening."

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## Three Parties (PBV)

### HUD

- HAP
- Admin Funding

### PHA Administering Contract

- HAP

### Owner of Project

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## Project Based Rental Assistance (PBRA)

- ▶ The Section 8 Project Based Rental Assistance Program (PBRA) was authorized by Congress in 1974 to provide rental subsidies for eligible tenant families residing in newly constructed, substantially rehabilitated, and existing rental and cooperative apartment projects
- ▶ Developers of for-profit or non-profit entities would build low-income housing and HUD would make up the difference between the HUD-approved rent (Contract Rent) for the and the HUD-required rental contribution from the family
  - Many rents were above Market (owners over funded)

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## Project Based Rental Assistance (PBRA)

- ▶ Under RAD, HUD decided to treat the units converted to PBRA as “Old Regulation” contracts, i.e., there is no restriction on cash flow



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## Project Based Rental Assistance (PBRA)

- ▶ Multifamily housing program or component unit
- ▶ HUD enters into a HAP contract with owner of the project

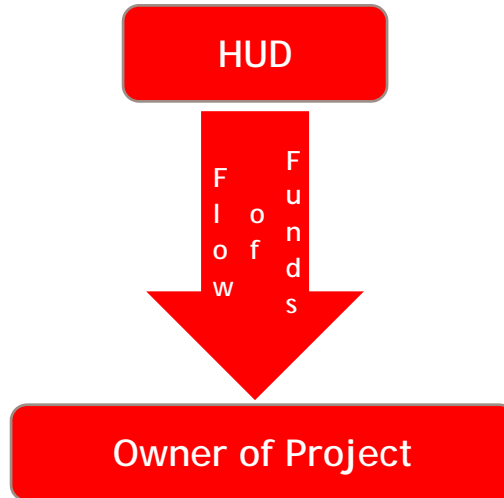


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## Two Parties (PBRA)



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## Choosing between PBV and PBRA

- ▶ PHA familiarity with each program
- ▶ Desired long-term involvement
- ▶ Potential investor requirements
- ▶ Capacity of HCV staff
- ▶ Pre-calculated rent estimates
- ▶ Cash flow



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## Comparing PBV and PBRA

Category	PBV	PBRA
Funding - Appropriations	<p>Funded through the Housing Choice Voucher Program and subject to Annual Appropriations through the PHA's ACC. Insufficient funding a potential issue.</p> <p>If PHA is provided with less than full funding from Congress, the PHA must make the decision on how to absorb the impact of the cuts.</p> <p>RAD use agreement will survive.</p>	<p>HAP contract renewal subject to Annual Appropriations as approved by Congress. HUD has never failed to renew a PBRA contract despite funding issues in past.</p>

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## Comparing PBV and PBRA

Category	PBV	PBRA
Income Mixing	<p>Under RAD, up to 50% of the units in a project may be assisted, excepting single-family homes (four or fewer units per building)</p> <p>Units serving elderly/disabled families or families receiving supportive services.</p>	<p>No limit on percentage of PBRA units in a project (i.e., can be 100% assisted).</p>

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## Comparing PBV and PBRA

Category	PBV	PBRA
Initial Contract Term	<p>The initial contract term must be for at least 15 years but the voucher agency may increase it up to 20 years.</p> <p>The voucher agency may also automatically extend the contract for another 15 years.</p>	20 year initial term.

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## Comparing PBV and PBRA

Category	PBV	PBRA
Contract Renewal	Mandatory. Upon contract expiration, administering agency offers, and PHA accepts, contract renewal.	Mandatory. Upon contract expiration, HUD offers, and PHA accepts, contract renewal.

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## Comparing PBV and PBRA

Category	PBV	PBRA
Rent Caps	Limited by LOWER of “reasonable rent” or 110% of Fair Market Rent.	Cannot exceed 120% of Fair Market rent unless current funding is below market in which case cannot exceed 150%*  *Must obtain rent comparability study

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## Comparing PBV and PBRA

Category	PBV	PBRA
Contract Rent Increases	OCAF annual adjustments, as published in Federal Register, up to reasonable rent charged by comparable unassisted units in private market.	OCAF annual adjustments. Published annually in Federal Register.

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## Comparing PBV and PBRA

Category	PBV	PBRA
Vacancy Payments	The voucher agency may provide up to two full months of vacancy payments per 24 CFR 983.352.	The project is eligible for 60 days of vacancy payments pursuant to 24 CFR 880.611.

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## Comparing PBV and PBRA

Category	PBV	PBRA
Rehab Assistance Payments	<p>Under RAD, unoccupied units undergoing rehab or construction are eligible for Rehab Assistance Payments equal to the subsidy the project received prior to conversion under the Operating Fund and Capital Fund programs</p> <p>These Rehab Assistance Payments are limited to units eligible for Operating Fund subsidy prior to RAD conversion.</p>	Same

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## Comparing PBV and PBRA

Category	PBV	PBRA
Re-Screening of Tenants at time of Conversion	No re-screening of initial tenants.	Same
Right to Return for Initial Tenants at Time of Conversion	Residents have right to return once rehab/new construction is completed.	Same
Phasing of Rent Increases	PHA can implement phased rent increase phased over 3- or 5-year period if RAD conversion results in tenant monthly rent increases by more than 10% or \$25.	Same

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## Comparing PBV and PBRA

### ► Resident Participation

- Residents have right to establish and operate resident organization
- The project shall also provide \$25 per occupied unit annually in resident participation funding
- Applies to both PBV and PBRA



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## Comparing PBV and PBRA

### ► PBV Choice Mobility

- Resident right to move with voucher (or other comparable tenant-based rental assistance) after 12 months from occupancy. See 24 CFR 983.260.
- Tenant-based voucher comes from existing voucher supply from PHA, subject to availability. If no tenant-based rental assistance is available, family receives next available opportunity.

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## Comparing PBV and PBRA

### ► PBRA Choice Mobility

- Under RAD PBRA contracts, residents have the right to move with tenant-based assistance after the later of
  - 24 months from date of execution of the HAP contract or
  - 24 months after the move-in date



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## Comparing PBV and PBRA

- ▶ Choice-Mobility applies to all PBRA conversions unless a project has received an exemption. Under PBRA, HUD provides for good cause exemptions for up to 10 percent of all RAD units
  - PHAs that do not administer a voucher program either directly or through an affiliate.
  - PHAs that have more than one-third of their turnover vouchers set aside for veterans or homeless populations. This preference must be documented by the PHA's board prior to submission of the RAD application.

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## Comparing PBV and PBRA

Category	PBV	PBRA
Program Cap	Under the PBV program, not more than 20% of a voucher agency's budget authority can be project-based; however, this provision was waived for RAD units.	N/A
Unit Inspections	HQS	UPCS
Management & Occupancy Reviews (MOR)	N/A	Subject to annual MORs and associated protocols, as administered by the Office of Housing
REAC Financial	N/A	REAC AFS - Multifamily

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## Summary

- ▶ Which projects are best suited for conversion?
- ▶ How will PHAs pay for required improvements?
- ▶ Will converted project provide cash flow?
- ▶ What role does PHA want to have in converted property?
- ▶ How will this impact the COCC and overall PHA?
- ▶ What is my software solution?
- ▶ What is my staff knowledge of the programs?
- ▶ Consider long term sustainability of program

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## Future of PHAS: SEPHAS

- ▶ Strategy Recommendations

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## Rational for Change



- ▶ SEMAP has some existing “fatal flaws”
  - Self certification & OIG issues
- ▶ 2 challenges:
  - What’s the right thing to measure for this program? (In order to tell if we are doing a good job?)
  - How would you measure it reliably?

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## The Other Shoe

- ▶ It is important to keep in mind the significance of where a rule is in the rulemaking process
- ▶ What does “interim” mean?
  - According to HUD it means: “we have to finalize it”
- ▶ What do we anticipate?
  - Course corrections
  - 6(j) requirements from QHWRA



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## 2016 PHAS/SEMAP Listening Sessions

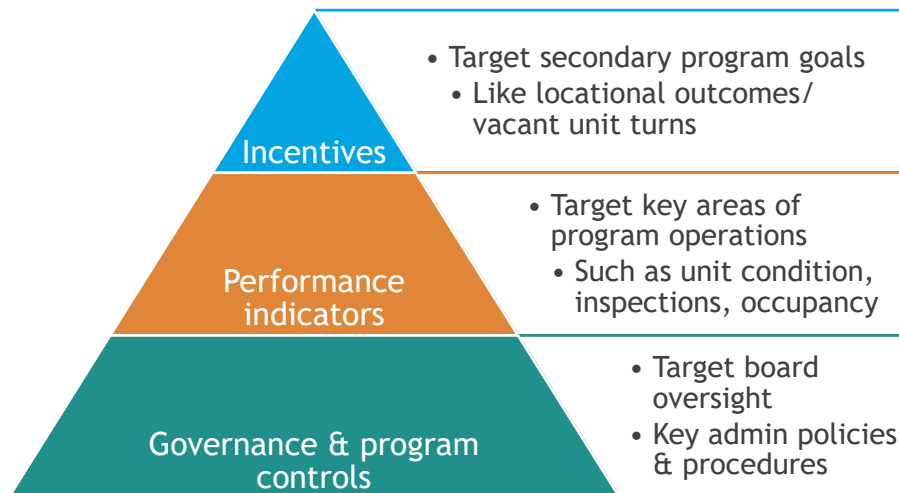
- ▶ HUD hosted listening sessions this summer
  - Jacksonville, FL (July 12 & 13, 2016)
  - Phoenix, AZ (August 2 & 3, 2016)
  - Hartford, CT (August 23 & 24, 2016)
  - Detroit, MI (August 25 & 26, 2016)
  - Kansas City, KS (September 20 & 21, 2016)
  - Ft. Worth, TX (September 22 & 23, 2016)
  - Philadelphia, PA (September 27 & 28, 2016)



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## “Alternate framework for consideration”



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## Incentives

- ▶ Incentives are “bonus” points that are applied to the performance indicator score
  - A PHA’s assessment score can only be increased (i.e., a PHA cannot lose points) for not having met an incentive standard
  - Incentives are targeted at improving HUD-specific goals but allow for a PHA’s local discretion in prioritizing the activity
  - Incentives must be measurable using data currently available to HUD
  - Incentives must be outcome-based and the outcome must be mostly in the control of the PHA
  - A PHA may not be able to earn points for each incentive
- ▶ 3 PHAS-specific incentives, worth approximately 10-11 points
  - 10 point cap in earning incentive points

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## Possible PHAS Incentives

- ▶ Reaching program objectives that provide opportunities for families to improve self-sufficiency or live in better economic areas:
  - Family self-sufficiency (Max 5 points)
- ▶ Improvements to the PH program through the use of standards, procedures, and quality control that are above current requirements:
  - Use of capital funds for modernization (Max 4 points)
    - Points based on the percentage of Capital Funds used for modernization, capital activity, and vacancy reduction efforts
    - Applied to PASS
  - Vacant unit turnaround time (Max 2 points)
    - Run median numbers, reward those who turn “quickly”
    - How quick is quickly?

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## Pre-Rulemaking PHAS Possible Structure

PHYSICAL 30 points	<ul style="list-style-type: none"> <li>Methodology will largely remain the same</li> <li>Frequency based on scores, unit weighted average</li> <li>Possible capital fund incentive</li> </ul>
OCCUPANCY 20 points	<ul style="list-style-type: none"> <li>Assisted rate - occupied units / ACC units</li> <li>Funded rate - occupied units / ACC units - HUD approved vacancies &amp; special use</li> <li>Based on end of month PIC data</li> <li>Adjustments for PHAs w/49 units or fewer</li> </ul>
FINANCIAL 40 points	<ul style="list-style-type: none"> <li>Quick ratio - enough cash to pay bills</li> <li>MENAR - adequacy of reserves</li> <li>Net income - sustainability</li> <li>TAR - revenue maximization</li> <li>Expense management - reasonable based on AMP peers</li> </ul>
RE-EXAMS 10 points	<ul style="list-style-type: none"> <li>Similar to current SEMAP indicator - measure % overdue &gt; 2 months</li> </ul>

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## Occupancy 20 POINTS

- ▶ 20 points pre-proposed
  - Versus 21 currently in interim PHAS (MASS + CFP sub indicators)
- ▶ Proposed scoring for two different occupancy rates
  - Assisted - occupied / ACC
    - Similar to current CFP occupancy sub indicator
  - Funded - all occupied / ACC minus HUD-approved & special use
    - Similar to current MASS occupancy sub indicator
- ▶ Based on 12 samples, taken at end of each month, from PIC (over the duration of the PHA's fiscal year)



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## Scoring Occupancy

#	Assisted tenant rate	Funded tenant rate	Score
1	Greater than or equal to 97%		20
2	Greater than or equal to 95%, but less than 97%		17
3	Less than 95%	& Greater than or equal to 95%	15
4	Less than 95%	& Greater than or equal to 90% but less than 95%	10
5	Less than 95%	& Less than 90%	0
6	Non-reporting or improper PIC reporting		0

► 12 measurement data points

► Adjustment for PHAs w/49 or fewer units

- 1-25 units will have 1 additional unit (12 mos) of occupancy added to actual occupied unit count
- 26-49 will have 2 additional units (24 mos) of occupancy added to unit count

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## Financial Conditions

40 POINTS - POSSIBLE SUB INDICATORS:

Possible measure	What does it measure?	What question would it answer?	Used in interim PHAS?	Proposed scoring
1. Quick ratio	Liquidity	Can the AMP pay its bills?	Yes	14
2. MENAR	Reserves	Are there adequate reserves	Yes	10
3. Net Income ratio	Profit/loss & impact on viability	Is the AMP operating at a net loss that would jeopardize viability?	No but in previous old PHAS rule	6
4. TAR	Rent collection	Is the AMP maximizing revenue?	Yes in MASS	6
5. Expense management ratio	Actual vs. reasonable benchmark expenses	Are expenses reasonable?	No but in previous old PHAS rule	4

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## Re Examination Frequency

10 POINTS

- ▶ Current SEMAP indicator
- ▶ Measured via PIC
- ▶ Idea is to possibly follow SEMAP scoring:
  - 10 points Fewer than 5% of all re exams were no more than 2 months overdue
  - 5 points 5-10% are more than 2 months overdue
  - 0 points more than 10% are more than 2 months overdue

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## Governance Survey: Possible Questions

COMPLETED BY BOARD/SELF CERTIFY - PASS / FAIL

Survey Section	Possible question/topics
Board structure	<ul style="list-style-type: none"> <li>Does the board have the required number of members?</li> <li>Does the board have a resident member?</li> </ul>
Board Members	<ul style="list-style-type: none"> <li># of meetings</li> <li>Average attendance</li> <li>Methods of disseminating information about board meetings &amp; minutes</li> </ul>
Board function	<ul style="list-style-type: none"> <li>Role of board in evaluating ED performance and compensation</li> </ul>
Financial & program oversight	<ul style="list-style-type: none"> <li>Role of board in reviewing financial statements and discussing PHA's financial health</li> <li>Timeliness of budget adoption</li> <li>Are the results of QC testing or internal controls communicated to board?</li> </ul>

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## Program Controls Survey

### PHAS EXAMPLE

- ▶ Often speak to QHWRA requirements
  - ▶ Would be slightly different for PHA that administer 250 or more units (vs. fewer)
    - 250 + Units would be required to complete a quality control sample - similar to SEMAP
1. Waitlist management: placement and selection
    - Does the PHA have internal controls in place and monitor controls to ensure that policies for placing and selecting families from the wait list comply with applicable laws and regulations?
    - Does the PHA have written policies and procedures for managing the PH waitlist that comply with applicable laws and regulations?
  2. Rent determination
  3. Capital fund obligation
  4. Maintenance work orders
  5. Annual inspections of units and systems
  6. Anti-crime strategies

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## Possible Assessment Designations

Designation	Discussion item
High performer	
Above standard	<ul style="list-style-type: none"> <li>Recognizes PHAs performing at above a standard level</li> <li>PHA w score of 80-89 points overall and earned 60% of possible points for each performance indicator and passed both governance and program controls</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>PHA with score of 90-100 points and earned 60% of possible points for each indicator BUT failed EITHER governance or program controls</li> </ul>
Standard	
Sub standard	
Troubled	

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## Example Scoring

A	B	C	D
#	Item	Max points	Example points
	Performance Indicators		
1	Physical	30	25
2	Occupancy	20	20
3	Financial	40	30
4	Re Exams	10	10
	TOTAL performance indicators	100	85
	Incentives		
5	FSS	5	5
6	Use of CFP for Modernization	4	2
7	Vacant Unit turn time	2	0
	TOTAL incentives (10 pt cap)	10	7
	GRAND TOTAL	110	92
8	Governance survey	Pass/fail	Fail
9	Program controls	Pass/fail	Fail
	DESIGNATION		Above standard performer

- ▶ Regular indicator score 85
- ▶ Achieved 7 incentive points
  - Failed governance
  - Failed program controls
- ▶ Score = 92
- ▶ Above standard performer
  - Loss of one designation level due to failure in governance & program controls

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## Possible SEMAP Incentives

Worth Up to 18 Points w/10 Point Cap



- ▶ Reaching program objectives that provide opportunities for families to improve self-sufficiency or live in better economic areas
  - PHA locational outcomes (10 pt max)
  - FSS (5 pt max)
- ▶ Reaching leasing targets for serving special populations:
  - VASH leasing not included in utilization, possible incentives for program success here (3 pt max)

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## Back to Indicators:

### PHYSICAL 30 points

- Sample size struggle - currently not statistically significant
- Examine timeliness of inspection compared to request to lease unit
- Want to evaluate the quality of the inspection program

### UTILIZATION 34 points

- Not using all our funds - need to consider program reserves and RNP
- By accumulating reserves 78,000 families not served
- Acceptable range of reserves, scaled for size (4% to 8-12%)

### FINANCIAL 26 points

- Admin fee examination
- Create some kind of “relief valve” if underfunded on Admin proration

### RE-EXAMS 10 points

- No way to grade us on are we calculating rent correctly
- Re exam stats tend to indicate rent calculation issues

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## Physical Indicator (SE portion)

30 Pre-Proposed Points

- ▶ Current SEMAP 21 points related to physical (sum of current HQS indicators)
- ▶ Subindicator pre-proposed breakdown :
  - HQS quality control (10 points)
  - HQS enforcement (10 points)
  - Pre contract inspections & time from RFTA to inspection (6 points)
  - Biennial inspections (4 points)
- ▶ HUD considering increasing QA sample universe
- ▶ Data would be provided from UPCS-V

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## Utilization

### 34 Points

- ▶ Vs. 14% of current points in existing SEMAP
- ▶ HUD is considering re defining HAP available funding:
  - ABA + RNP + HHR
  - Set aside funding (incl. shortfall) counted as available HAP
  - Scoring thresholds would consider the need for HAP reserves
    - Very small agencies may have a HAP reserve as high as 14% where those with more than 500 units may see max HAP reserve capped at 4-5% to achieve full points here
- ▶ HUD also considering:
  - Scoring penalty for shortfall PHAs
  - Scoring penalty for PHAs overleased by greater than 1% of baseline
  - Regulatory language to provide relief for reductions in utilization rates outside of PHA's control

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## Financial Conditions

### 26 Possible Points

- ▶ Measuring Administrative fee account “health”
- ▶ Similar to PHAS financial ratios
  - Uses data submitted through FDS/FASS-PH at year end to provide base score
  - Results of audit could reduce score
- ▶ Consideration of possible “relief” to address circumstances outside of PHA's control:
  - Admin fee proration?

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## Financial Sub Indicators

### Pre Proposed

Possible measure	What does it measure?	What HUD question does it answer?
1. Quick ratio	Liquidity	Is the program solvent? Enough cash to cover expenses?
2. MENAR	Reserves	Are there adequate admin reserves? How long can the program sustain operations w/out further funding?
3. Net Income ratio	Profit/loss	Is the program operating at a net loss that could jeopardize sustainability?

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## Re Exam Frequency

### 10 Possible Points

- ▶ Possible to measure re exam frequency, which is a proxy indicator for income determination/rent calculation
- ▶ Similar to current SEMAP re exam indicator
  - Which measures % of re exams that are more than 2 months overdue
  - Re exam 1/12 months for participating families transmitted on 50058 forms
    - Changes to frequency of exams would be reflected here

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## Example Scoring

A	B	C	D
#	Item	Max points	Example points
Performance indicators			
1	Physical	30	25
2	Utilization	34	30
3	Financial	26	20
4	Re Exams	10	10
TOTAL performance indicators		100	85
Incentives			
5	FSS	5	5
6	Locational outcome	10	10
7	VASH leasing	3	3
TOTAL incentives (10 pt cap)		10	10
GRAND TOTAL		110	95
8	Governance survey	Pass/fail	Pass
9	Program controls	Pass/fail	Pass
DESIGNATION			High performer

- ▶ Regular indicator score 85
- ▶ Achieved 10 incentive points
  - Passed governance
  - Passed program controls
- ▶ Score = 95
- ▶ High performer

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## Anticipating What's Ahead

- ▶ In our efforts to keep ahead of the regulatory curve, it can be tricky to keep up with changing legislation
- ▶ Advocacy groups like state and national housing organizations will keep an ear to the ground and can be relied upon to distribute information quickly



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**Budgeting**

► How much funding is available for HAP?

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**The elephant in the room...**

*Do we have enough HAP funding to maximize Administrative Fees?*



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## How do we determine funding for HAP?

1. Appropriation calculation for the calendar year
2. Restricted Net Position (RNP)
3. HUD-held Reserves
4. Set-Aside Funds
5. UNP\*\*

*\*\*UNP is available, but is generally not used to pay HAP*



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## 1. Appropriations

- ▶ ABA

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## Appropriations Calculation for Calendar Year



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

June 28, 2017

Dear Executive Director:

**Subject: Housing Choice Voucher Program Calendar Year (CY) 2017 Renewal Funding Allocation**

The purpose of this letter is to advise public housing agencies (PHA) of the CY 2017 Housing Assistance Payments (HAP) renewal funding allocations for the Housing Choice Voucher Program (HCVP). The funding allocations described herein are based on the requirements of the Consolidated Appropriations Act, 2017, (P.L. 115-31) referred to hereafter as "the 2017 Act," enacted on May 5, 2017. HUD will publish a PIH Notice that describes the implementation of the 2017 Act in detail. This Notice will be posted at the following link:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/notices/pih](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/notices/pih)

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## Appropriation Calculation

- ▶ HUD used VMS HAP expense from January to December of the prior year (2017) for CY 2018 funding
- ▶ HUD will make adjustments
  - TPV, VASH
  - First time increments not initially funded for twelve months will receive the additional funding required



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## Appropriation calculation

- ▶ HUD will apply an inflation factor
  - 2018's inflation factor estimated at 2%
- ▶ In 2018 HUD prorated HAP funding at approximately 97%



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## Sample renewal funding attachment

Enclosure A

### Calculation of Calendar Year 2017 Renewal Funding Housing Choice Voucher Program

1	HA Number:	MD999	
2	HA Name:	TERRAPIN HOUSING AUTHORITY	
<u>CY 2017 Renewal Funding</u>			
3	CY 2017 HCV Renewal Funding after Offset and Amounts Owed HUD	\$5,496,791	
<u>CY 2017 Non-Renewal Funding</u>			
4	CY 2017 Non-Renewal Funding (TPVs, VASH, etc.) to Date	\$0	
5	CY 2017 Estimated RAD 1 Funding For First Full Year After Conversion	\$0	
6	Total CY 2017 HCV Renewal and Non-Renewal Funding		\$5,496,791
<u>ELIGIBILITY</u>			
7	Total Unit Months Lessed per VMS - CY 2016	7,793	
8	Total Unit Months Available - CY 2016	8,148	
9	Capping Percentage	100%	
10	Total CY 2016 HAP Expenses per VMS	\$5,623,192	
11	Total CY 2016 Capped HAP Expenses (Line 10 x Line 9)	\$5,623,192	
12	Renewal Funding Inflation Factor	-1.026	
13	Inflated Eligibility Sub-Total (Line 11 x Line 12)	\$5,666,795	
14	First Time Renewals - Appendix II	\$0	
15	Transfers In or Out	\$0	
16	Total DHAP Eligibility	\$0	
17	Total Renewal Eligibility (Line 13 + Line 14 + Line 15 + Line 16)	\$5,666,795	
18	Proration Factor		0.97000
19	Prorated Eligibility (Line 17 x Line 18)		\$5,496,791

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## Sample renewal funding attachment

### OFFSET

#### Calculation on Appendix I

20	Offset Amount (Calculations on Appendix I)	\$0
21	Total CY 2017 Renewal Funding after Offset (Line 19 - Line 20)	\$5,496,791

### FUNDING

22	Total CY 2017 Renewal Funding after Offset	\$5,496,791
23	Renewal Funding Obligations, January through June 2017	\$2,858,262
24	Remaining to Obligate for CY 2017 prior to reduction for funds due HUD (Line 22 - Line 23)	\$2,638,529
25	Reduction for Funds due HUD	\$0
26	Remaining to Obligate for CY 2017 after reduction for funds due HUD (Line 24 - Line 25)	\$2,638,529
27	Total Obligations Due Through June, 2017 (Line 27 - Line 23, if Line 27 is higher; else 0)	\$2,748,396
28	Additional Obligations Due Through June, 2017 (Line 27 - Line 23, if Line 27 is higher; else 0)	\$0
29	Excess Obligations Through June, 2017 (Line 23 - Line 27, if Line 23 is higher; else 0)	\$109,866
30	CY 2017 Inflated Per Unit Cost This value is calculated as total inflated VMS Expenses, minus HAP Costs After the First of the Month, divided by total Unit Months Leased.	\$725.12

31 Comments

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## Sample renewal funding attachment

CY 2017 Offset Reallocation		Appendix I
CY 2016 End of Year Reserves		\$29,453
<b>PROTECTED CATEGORIES</b>		
A.	Difference between the PHA's Eligibility and Prorated Eligibility	\$170,004
B.	CY 2016 Amounts needed to fully lease VASH units	\$0
C.	Difference between higher of December 2016 UMLs x 12 or CY 2016 UMLs up to baseline on units under ACC	\$83,389
D.	CY 2016 New incremental BA- 1/2 of Eligibility	\$0
E.	CY 2016 Set Aside Protection- 1/2 of Eligibility	\$0
F.	Portion of CY 2017 Renewal Eligibility (Based on units under ACC):	\$226,672
	4% - 500 and above units	
	6% - 250 to 499 units	
	12% - Less than 250 units	
Total Funds Available for Offset		\$0
Offset Amount (Total Funds Available for Offset x 14.601%)		\$0
Prorated Eligibility After Offset		\$5,496,791
PHA's that received 2016 Shortfall Set-Aside funds are exempt from this offset.		

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## 2. Restricted Net Position

- ▶ “PHA held” reserves

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## Restricted Net Position

- ▶ Restricted Net Position(RNP) typically consist of excess HAP funding that the PHA has accumulated in **PHA-held** reserves that has not been recaptured though funding offsets
- ▶ It includes:
  - FSS Escrow Forfeitures
  - Typically ½ of Fraud Recovery
  - And, as previously mentioned, excess HAP funding received
- ▶ Amounts should be minimal since the implementation of Cash Management in CY 2012

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### 3. HUD-held reserves

- ▶ Excess ABA obligated to PHAs, but not provided to them

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### A Brief Refresher

#### CASH MANAGEMENT/HUD HELD RESERVES

- ▶ Since CY 2005, PHAs have been accumulating RNP to pay for future HAP costs
  - This amount has exceeded \$1.5B in FY 2012
- ▶ 2012 brought two new changes:
  1. HUD will also instituted the new Cash Management procedures outlined in PIH Notice 2011-67
  2. Established HUD-held Reserves



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## Cash Management

- The process of disbursing HAP to PHAs based on validated VMS data



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### Disbursement Procedures

Date	HAP Received	VMS Reporting Period	ABA
			\$4,000,000
1/1/2018	\$ 300,000	October VMS 2017	3,700,000
2/1/2018	300,000	November VMS 2017	3,400,000
3/1/2018	300,000	December VMS 2017	3,100,000
4/1/2018	325,000	January VMS 2018	2,775,000
5/1/2018	325,000	February VMS 2018	2,450,000
6/1/2018	325,000	March VMS 2018	2,125,000
7/1/2018	330,000	April VMS 2018	1,795,000
8/1/2018	330,000	May VMS 2018	1,465,000
9/1/2018	330,000	June VMS 2018	1,135,000
10/1/2018	335,000	July VMS 2018	800,000
11/1/2018	335,000	August VMS 2018	465,000
12/1/2018	335,000	September VMS 2018	\$ 130,000
	<u>\$ 3,870,000</u>		

Chart assumes beginning HUD-held Reserve balance of \$0.

**\*HUD Held Reserves for CY 2018**

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## HUD-held Reserves

- ▶ The remaining ABA that is not provided to the PHA is considered HUD held reserves
- ▶ These reserves are rolled forward to the next year and can be used to fund HAP in the following year
  - If not offset



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## HUD-held Reserves

- ▶ Just because your PHA is not receiving funding from HUD doesn't mean that your PHA doesn't have funds in HUD-held Reserves or Annual Budget Authority (ABA)

You must track your ABA and HUD-held Reserves monthly to ensure you are receiving the proper funding to administer your program

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## HUD-held Reserves & Restricted Net Position

- ▶ Any HUD-held Reserves and RNP that are rolled forward to the next year can be subject to an offset for funding
  - Use them or lose them
- ▶ HUD will combine your RNP and HUD-held Reserves at calendar year-end to determine your total reserves and use that number to determine a possible offset of funding

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## Additional Funding Requests

- ▶ PHAs whose monthly costs exceed the disbursements may submit a request for an additional advance/frontload to their Financial Analyst at the FMC
- ▶ The request should include leasing and expenses data for any month(s) not yet reported in VMS and the PHA's projected HAP expenses for the month to which the request applies
  - Please note that advances are limited to available funding, which includes BA eligibility and available RNP



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## Next steps

- ▶ Do we want to maintain HAP reserves?
- ▶ What is the appropriate amount?
  - Determine amount of reserves to maintain at calendar year-end and reduce total amount of funds for HAP
  - 1 month, 2 weeks or 1 week of monthly HAP expense

Description	Amount
HAP Subsidy (ABA)	\$4,937,431
RNP	102,080
HUD-held Reserves	300,000
Total funds for HAP	\$5,339,511
Latest PUC - from latest HAP register	\$580
Total unit months available to lease	9,206

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## So.....What Comes Next?

- ▶ How many unit months can we lease to estimate administrative fee revenue for the budget year?
  - After determining the amount of funding for HAP, then obtain the PUC
  - Take the "Total Funds for HAP" and divide by the "PUC"
  - Multiply by "A" and "B" rate
  - Proration at 76% for CY 2018

Description	Amount
HAP Subsidy (ABA)	\$4,937,431
RNP	102,080
HUD-held Reserves	300,000
Total funds for HAP	\$5,339,511
Latest PUC - from latest HAP register	\$580
Total unit months available to lease	9,206

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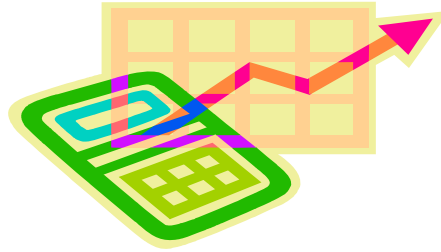
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- ▶ Why is the maximizing leasing and HAP important?
  1. HUD will use a snapshot of prior year HAP expense data to fund the following year for HAP funding
  2. The more units that are leased, the more administrative fee revenue we can earn



## Estimating funding on an annual basis

- ▶ Each PHA is granted a baseline number of units
- ▶ The goal is to maximize leasing each month to earn the highest administrative fee revenue each month  
Additionally, the PHA wants to maximize HAP in the current year, to maximize HAP funding in the following year



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## Monitoring the Section 8 Program

- ▶ Monthly, we should monitor the financials of the Section 8 program:
  - Cash
  - Budget vs. Actual
  - Leasing & HAP utilization



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## Other Factors Effecting Leasing

What must your PHA consider to maximize leasing?

- ▶ Vouchers Looking
- ▶ Residents coming off program
- ▶ Fair Market Rent
- ▶ Payment Standards
- ▶ Unit Size
- ▶ Mid-Month Move-in (PIC)
- ▶ Other Funding Considerations
- ▶ Portability

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## HAP expenses after 1st of the month

- ▶ Intended to capture only HAP costs for contracts effective after the first of the month
- ▶ Does not include checks cut or issued after the first for contracts in place on the first
- ▶ Does not include manual payments unless they are for contracts after the first of the month



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## \$0 HAP participants



- ▶ Active participants at \$0 HAP are counted for Purposes of UMLs and HAP costs
- ▶ It is accurate to include these in total UML and PUC
- ▶ Participants who are terminated or transferred to a different housing assistance program are not counted in either UMLs or HAP costs

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## Reporting abated HAP

- ▶ A unit where the PHA has abated the HAP is still under HAP contract and lease
- ▶ HA reports the UML and reports \$0 HAP during the abatement period
- ▶ PHA ceases reporting UML if contract is terminated
- ▶ If HAP is abated for HQS violations, HAP is not restored for abated period upon correction



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## Leasing & HAP Monitoring

### Section 8 Utilization Tool

Month	(a) HAP Received	(b) HAP/UAP FSS/ HAP PO	(c) HAP Utilization	(d) UML	(e) Avg. PUC	(f) % Leased	(g) ACC Units	(h) FSS Fort. Fraud Rec	(i) Excess (Deficiency)	(j) RNP Available	(k) Program Reserves	Total Funding	Potential UML
CY ABA										\$ 4,153,297			
HUD Held Reserves										200,000			
Balance Forward										\$ 100,000	4,353,297	\$ 4,453,297	14,424
January	366,939	385,000	105%	1,247	308.74	96%	1,300	500	(17,561)	82,439	3,986,358	4,068,797	13,179
February	366,939	386,000	105%	1,250	308.80	96%	1,300	350	(18,711)	63,728	3,619,419	3,683,147	11,930
March	366,939	386,500	105%	1,251	308.95	96%	1,300	400	(19,161)	44,567	3,252,480	3,297,047	10,677
April							1,300					-	
May							1,300					-	
June							1,300					-	
July							1,300					-	
August							1,300					-	
September							1,300					-	
October							1,300					-	
November							1,300					-	
December							1,300					-	
	1,100,817.00	1,157,500.00		3,748			15,600.00	1,250.00	(55,433.00)				

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## Leasing & HAP Utilization Schedule

- ▶ Column (a) - Housing Assistance Payments (HAP) Funded
- ▶ Represents monthly HAP payments deposited into the PHA's checking account
  - For example, the PHA received HAP funds of \$366,939 from HUD for each month

	(a) HAP Received
Month	
CY ABA	
HUD Held Reserves	
Balance Forward	
January	366,939
February	366,939
March	366,939

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# Leasing & HAP Utilization Schedule

Column (b) - HAP/UAP/FSS Escrow & Port Out HAP

- Represents the total HAP, UAP, FSS Escrow and Port Out Payments for each month paid by the PHA
- For example, the PHA had total payments of \$385,000 for the month of January.

(b) HAP/UAP FSS/ HAP PO	
Month	
CY ABA	
HUD Held Reserves	
Balance Forward	
January	385,000
February	386,000
March	386,500

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# Leasing & HAP Utilization Schedule

Column (c) - HAP Utilization

- Represents the total (HAP/UAP/FSS) paid divided by what the PHA received from HUD
- For example, the month of January (see right)

(c) HAP Utilization	
Month	
CY ABA	
HUD Held Reserves	
Balance Forward	
January	105%
February	105%
March	105%

\$385,000  
\$366,939

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## Leasing & HAP Utilization Schedule

### Column (d) - Unit Months Leased (UML)

- Represents the units the PHA has under lease on the 1st of the month
  - For example, in the month of January, the PHA had 1,247 units under lease on January 1, 20xx

(d)	
Month	UML
CY ABA	
HUD Held Reserves	
Balance Forward	
January	1,247
February	1,250
March	1,251

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## Leasing & HAP Utilization Schedule

### Column (e) - Average Per Unit Cost (PUC)

- Represents the average HAP (HAP/UAP/FSS)
  - Probably one of the most important numbers!
- Simply divide HAP costs, Column (b), by UML, Column (d)
  - For example, the PHA's average HAP cost was \$308.74 per unit for the month of January

(e)	
Month	Avg. PUC
CY ABA	
HUD Held Reserves	
Balance Forward	
January	308.74
February	308.80
March	308.95

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## Leasing & HAP Utilization Schedule

### Column (f) - Leasing Utilization

- ▶ Represents the units leased for the month, compared to the baseline of the units
- ▶ We take the UML, Column (d), and divide by the UMA, Column (g)
- ▶ For example, in January, the PHA has 96% of available units leased

(f)	
Month	% Leased
CY ABA	
HUD Held Reserves	
Balance Forward	
January	96%
February	96%
March	96%

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## Leasing & HAP Utilization Schedule

### Column (g) - ACC Units

- ▶ Represents the units that are available each month to lease
- ▶ Typically called your "baseline"
  - For example, the PHA has 1,300 units available to lease each month

(g)	
Month	ACC Units
CY ABA	
HUD Held Reserves	
Balance Forward	
January	1,300
February	1,300
March	1,300

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## Leasing & HAP Utilization Schedule

### Column (h) - FSS Forfeitures & Fraud Recovery

- ▶ FSS forfeitures are the amounts collected from the tenant's escrow account due to the tenant not completing the program
- ▶ Fraud Recovery represents the amount of funds recovered for that represent the restricted portion.

(h) FSS Fort. Month      Fraud Rec	
<b>CY ABA</b>	
<b>HUD Held Reserves</b>	
<b>Balance Forward</b>	
January	500
February	350
March	400

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## Leasing & HAP Utilization Schedule

### Column (i) - Excess (Deficiency) of Funding

- ▶ Represents total cash deposits from HUD, interest earned, HAP portion of fraud recovery, FSS forfeitures, less payments to landlords and tenants for HAP, UAP and FSS
  - For example, the deficiency of funding was \$17,561 for January

(i) Excess Month      (Deficiency)	
<b>CY ABA</b>	
<b>HUD Held Reserves</b>	
<b>Balance Forward</b>	
January	(17,561)
February	(18,711)
March	(19,161)

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## Leasing & HAP Utilization Schedule

### Column (j) - Restricted Net Position (RNP) Available

- ▶ Represents the amount of funds available to pay for HAP, UAP and FSS escrow payments only
- ▶ Increases and decreases come from Column j
  - For example, as of March 31st, the PHA has \$44,567 in RNP

Month	(i) Excess (Deficiency)	(j) RNP Available
CY ABA		
HUD Held Reserves		
Balance Forward		\$ 100,000
January	(17,561)	82,439
February	(18,711)	63,728
March	(19,161)	44,567

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## Leasing & HAP Utilization Schedule

### Column (k) - Program Reserves

- ▶ Represents the amount of funds held by HUD

Month	(a) HAP Received	(k) Program Reserves
CY ABA		\$ 4,153,297
HUD Held Reserves		200,000
Balance Forward		4,353,297
January	366,939	3,986,358
February	366,939	3,619,419
March	366,939	3,252,480

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## Leasing & HAP Utilization Schedule

Month	(j) RNP Available	(k) Program Reserves	(l) Total Funding
CY ABA		\$ 4,153,297	
HUD Held Reserves		200,000	
Balance Forward	\$ 100,000	4,353,297	\$ 4,453,297
January	82,439	3,986,358	4,068,797
February	63,728	3,619,419	3,683,147
March	44,567	3,252,480	3,297,047

Column (l) - Total Funding

- Represents the amount of total HAP funding available: ABA, HHR & RNP

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## Leasing & HAP Utilization Schedule

Month	(e) Avg. PUC	(l) Total Funding	(m) Potential UML
CY ABA			
HUD Held Reserves			
Balance Forward		\$ 4,453,297	14,424
January	308.74	4,068,797	13,179
February	308.80	3,683,147	11,927
March	308.95	3,297,047	10,672

Column (m) - Potential UML

- Represents the possible unit months remaining to be leased

For example, if you take funding remaining at the end of March at \$3,297,047 / \$308.95 PUC for March, it will provide the unit months remaining to be leased that funding can support 10,672

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## The Voucher Management System

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## VMS Users Guide

- ▶ Last updated as of April 2017
  - Version 9.2.0.0



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## Business Rules for Monthly Submissions

- ▶ Each submission includes data for the specified month only
- ▶ Enter data for the specified month only
- ▶ Enter all leasing and expense data in positive whole numbers without any punctuation marks or symbols (commas, dollar signs, and decimal points)

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## Business Rules for Monthly Submissions

- ▶ PHA is responsible for ensuring that all information is correct, and that wrong or missing Official HA data is updated in the PIC information system for future data collection use
- ▶ The fields that are official HA Data and come from PIC are:
  - Name of Authorized HA Official
  - Official Housing Authority E-mail Address

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## Business Rules for Monthly Submissions

- ▶ If your PHA has no report for a field, or if the reported value is zero (0), tab through the field and leave it blank; the exceptions are the following fields which do accept entries of zero:
  - Net Restricted Assets (NRA) [now called RNP]
  - Unrestricted Net Assets (UNA) [now called UNP]
  - Vouchers Leased End of Month
  - All Voucher HAP Expenses After the First of Month
  - Vouchers issued but not under HAP contract as of the last day of the month
  - Cash/Investments as of the last day of the month
  - Administrative Expenses - Non-MTW
  - MTW- HCV Administrative Expenses

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## Business Rules for Monthly Submissions

- ▶ The following fields can accept rules negatives for monthly submissions
  - Restricted Net Position (RNP)
  - Unrestricted Net Position (UNP)



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## Business Rules for Monthly Submissions

- ▶ Vouchers administered on behalf of another PHA under the portability provisions, and for which HAP is reimbursed to your PHA, should not be reported by you as part of your leasing - they will be reported by the PHA that is paying the HAP
  - These are commonly referred to as “Port-Ins”
  - Not “true” HAP expenses of administering PHA

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## Business Rules for Monthly Submissions

- ▶ They will be reported by the PHA that is paying the HAP
- ▶ There is a separate section in VMS called “Portables Vouchers Administered,” with line items for reporting “Portable Units Administered” and “HAP for Portable Units Administered”
- ▶ These are the fields for reporting those vouchers for which HAP is reimbursed to your PHA

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## Business Rules for Monthly Submissions

- ▶ A voucher under lease must be reported in one, and only one, main category
  - Exceptions: Vouchers reported under the sub-categories “New Homeowners This Month” and “Enhanced Vouchers” are also reported under the main categories of “Homeownership” and “Tenant Protection,” respectively
- ▶ If a leased voucher could appropriately be reported in more than one category, it should be reported in the category that reflects how the participant initially qualified for the voucher

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## Business Rules for Monthly Submissions

- ▶ However, if a participant initially qualified under “All Other Vouchers,” and later qualified under another category, that participant would be reported under the new category
  - A participant initially qualified for a voucher under “All Other Vouchers” and later entered the Homeownership program
    - That participant would be reported under Homeownership
  - A participant qualified for a voucher under the VASH program; that participant later ported
    - The PHA that initially qualified the participant under VASH would report that voucher as VASH rather than Port Vouchers Paid

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## VASH Exception

- ▶ When a VASH Voucher gives up case management, then the Voucher would be reported as an AOV



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## RAD Component 1 and 2

- ▶ Effective with April 2016 submissions, RAD component 1 and 2 vouchers under lease should be reported in the appropriate RAD 1 and 2 fields and should no longer be reported in the Tenant Protection field



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## Business Rules for Monthly Submissions

- ▶ All HAP expense data is to be reported in the voucher categories as of the first day of the month
- ▶ HAP expenses should be entered under the month to which they apply rather than under the month in which they are paid



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## HAP Reporting Example

Month	April HAP	MAY HAP	Revised April	MAY Actual
April	\$300,000		\$315,000	
May		\$305,000		\$290,000

- ▶ For example, actual HAP/UAP checks paid per the general ledger totaled \$300,000 for April
- ▶ Actual HAP/UAP checks paid in May were \$305,000 per the general ledger
  - Of the \$305,000 of HAP/UAP checks that were paid in May, \$15,000 is applicable for April HAP
- ▶ The PHA must revise the April VMS submission for HAP and UAP expense and increase the about to \$315,000
- ▶ May VMS will only report \$290,000
- ▶ The PHA must also update the RNP for April

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## Business Rules for Monthly Submissions

- ▶ Contracts on hold are not reported as units leased as of the first day of the month
- ▶ Contracts on hold are defined as a contract that has been entered into the PHA's system but for which the PHA is awaiting a landlord signature
- ▶ Units are not reported as under lease until the HAP contract is negotiated
- ▶ Once the contract is signed, if the monthly submission is completed, the PHA should enter such units as a Prior Month Correction

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## Business Rules for Monthly Submissions

- ▶ Abated units are units that are currently under lease, but for which the HAP is being withheld for specific reasons, such as the unit failing to pass HQS inspection
  - The PHA should enter the UML during the abatement period; the unit is under contract
- ▶ If the abatement is reversed, then the PHA can enter a Prior Month Correction for HAP for those months attributable to the abatement period
  - Failure by the PHA to report the abated UML will skew the leasing and per unit costs for this agency

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## Business Rules for Monthly Submissions

- ▶ A separate line item on the Voucher UML and HAP tab, called "Voucher HAP Expenses for New Contracts Effective After the First of the Month," collects HAP costs incurred for new HAP contracts effective after the first of the month
  - These costs are not reported elsewhere
- ▶ PHAs should include as HAP in the appropriate categories any amounts expended for utility reimbursements

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## Business Rules for Monthly Submissions

- ▶ The 5-Year Mainstream program (prior to 2015) is governed by different appropriation law and funded separately from the Voucher program
  - Therefore, the 5-Year Mainstream program is NOT a category within the Voucher program in VMS
- ▶ In VMS, there are specific lines provided for 5-Year Mainstream Units Leased and HAP Expenses only
  - These values are not included in the Voucher Leasing and HAP totals

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## Business Rules for Monthly Submissions

- ▶ If a value greater than zero (0) was entered in any field under “Voucher Units,” a value greater than zero (0) must be entered in the corresponding “Voucher HAP Expenses” field
- ▶ Question Mark (?) - For every field containing this symbol, a pop up description of the data entry required for the field, or an explanation of the field will be provided
  - This field description appears only once for the many occurrences of the (?) Box symbol

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## Business Rules for Monthly Submissions

- ▶ Leasing and HAP expense data for each category of voucher are now reported on the same line
- ▶ Fields that have been grayed out are prefilled by HUD and are not editable
  - Data used for these fields reflect the current system information, and are automatically updated when changes are made to prior months

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## Business Rules for Monthly Submissions

- ▶ The PHA must report UMLs for “Zero HAP” Units
  - These are units for which the HAP has been calculated to be \$0
  - The units are to be reported in the same voucher category as they would if the HAP was a positive dollar amount
- ▶ After 180 days at \$0 HAP, the HAP contract terminates automatically
  - Refer to 24 CFR 982.455 for termination

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## Business Rules for Monthly Submissions

- ▶ Tenants who were in place at the time of a RAD Conversion have \$0 HAP and should be reported in VMS as long as the family is in place.
- ▶ The 180 day limit does not apply to them
- ▶ Tenants leased after the conversion are limited to 180 limit for \$0 HAP



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## TAB 2 - Other Income & Expenses

Fraud Recovery Total Collected this Month	Total dollar amount recouped by the HA as fraud recoveries during the month that is applied to the RNP account <ul style="list-style-type: none"> <li>Note: Total dollar amount recouped "is <b>cash</b> collected - not revenue recorded"</li> </ul>
Interest or other income earned this month from the investment of HAP funds and RNP	Interest or other income earned this month from the investment of HAP funds and Restricted Net Position. <ul style="list-style-type: none"> <li>Note: the amount of interest earned from the UNP account should not be reported in this field</li> <li>(See next slides)</li> </ul>
FSS Escrow Forfeitures this month	Total value of FSS escrow accounts forfeited by tenants during the month
Number of Hard to House Families Leased	Total number of families (current participants and new admissions) with three or more minors or with a disabled family member that moved to a new unit during the month

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## How to Report Restricted Interest Income

### VMS Reporting

- ▶ Always report the interest attributable to RNP in the VMS for each month

### FDS Reporting

- ▶ The first \$500 will be reported as unrestricted interest income
- ▶ Any other interest income earned over \$500 will be reported as an A/P to HUD

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## Restricted Interest Income

- ▶ All interest income earned on RNP over \$500 will be credited to Accounts Payable HUD and reported on FDS Line 331
- No longer part of RNP
- Interest income of \$500 and less can be retained by the PHA as unrestricted interest income



Office of Public and Indian Housing, Real Estate Assessment Center

PHI-REAC: PHA Finance Accounting Briefs

Issued Date: June 2013

### Revenue Recognition for Housing Assistance Payments and Administrative Fees for the Housing Choice Voucher (HCV) Program ACCOUNTING BRIEF #19

#### GOVERNING REGULATIONS AND GUIDANCE

1. Governmental Accounting Standards Board (GASB) Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions.
2. PHI Notice 2011-47: Implementation of New Cash Management Requirements for the Housing Choice Voucher Program, dated December 9, 2011.
3. 2012 Conference Report (Report 112-204), dated November 14, 2011 to accompany the 2012 Consolidated and Further Continuing Appropriations Act (P.L. 112-55) signed into law on November 18, 2011.

#### BACKGROUND

The Uniform Financial Reporting Standards (24 CFR Part 5 - Subpart II) requires public housing agencies (PHAs) to provide annual financial information to the U.S. Department of Housing and Urban Development (HUD) using Generally Accepted Accounting Principles (GAAP).

Funding for the Housing Choice Voucher (HCV) program is provided by Congress through Annual Appropriation Acts to HUD. HUD in turn distributes the funds to PHAs in accordance with the Appropriation Acts. The 2012 Conference Report contains Congressional language which requires HUD "to follow Treasury's rules on cash management" for the HCV program effective January 1, 2012. Cash management refers to the disbursements of funds and the Department of Treasury's rules on cash management as provided in the Treasury Financial Manual, Vol. 1, Part 6 Section 2025 and states that:

"Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only

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## Returning Excess NRP Interest Income

- ▶ Sent to PHAs in June 2015
- ▶ Interest earned on NRP must be returned in excess of \$500
- ▶ Use this website

[http://www.dpm.psc.gov/grant\\_recipient/funding\\_requests/returning\\_interest.aspx](http://www.dpm.psc.gov/grant_recipient/funding_requests/returning_interest.aspx)

### Housing Choice Voucher Programs Interest Earned on Excess HAP Funds and RNP Balances PHA Annual Certification for Internal Records

PHA Name: \_\_\_\_\_

PHA Number: \_\_\_\_\_

PHA FYE: \_\_\_\_\_

This is to certify that the \_\_\_\_\_ PHA earned interest on invested HAP and Restricted Net Position (RNP) funds (formerly referred to as Net Restricted Assets or NRA) for the PHA fiscal year ending \_\_\_\_\_ in the amount of \$ \_\_\_\_\_.

The PHA remitted \$ \_\_\_\_\_ on (date) to the Department of Health and Human Services (HHS), Payment Management System (PMS).

**Certification:** I hereby certify that all the information stated herein, as well as any information provided in the accompanying herewith, is true and accurate. Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Signature of Authorized PHA Official \_\_\_\_\_

Date \_\_\_\_\_

Printed Official's Name and Title \_\_\_\_\_

This Certification must be signed by the appropriate PHA official and kept for financial review purposes by the auditor or the Housing Voucher Quality Assurance Division (QAD). Interest must be remitted to the Treasury via the HHS Payment Management System no later than 45 days following the PHA FYE covered by this certification.

HHS guidance related to funds remittances can be found on the HHS Division of Payment Management website at the following link:  
[http://www.dpm.psc.gov/grant\\_recipient/funding\\_requests/returning\\_interest.aspx](http://www.dpm.psc.gov/grant_recipient/funding_requests/returning_interest.aspx)  
Click on "returning funds" for specific information.

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## VMS & Unrestricted Net Assets

- ▶ Unrestricted Net Position (UNP) is being reported in the Vouchers Management System (VMS) in the field called Unrestricted Net Position as of the last day of the month
  - UNP is the amount reported on the balance sheet at line 1117 - Administrative Fee Equity (at year end on your FDS)
- ▶ The UNP reported in the VMS must be updated through the end of each reporting month for interest and fraud recoveries

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## VMS & Unrestricted Net Position

- ▶ Note that the total Admin Fee revenue used to calculate the UNP reported in this field does not include AF received during the current PHA FY, because excess AF received does not accumulate to the UNP until the end of the PHA's FY
  - The excess fees received during the PHA's current FY will not be reported in the UNP field until after the PHA's FYE

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## VMS & Unrestricted Net Position

- ▶ Monthly, the PHA reports the total of (1) the most recent PHA FYE UNP balance plus (2) any interest earned and fraud recovery allocated to the UNP through the end of the reporting period, minus (3) any funds expended from the UNP through the end of the reporting period
- ▶ This includes all funds held in the Administrative Fee Reserve prior to the establishment of the UNP

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## VMS & Unrestricted Net Position

### UNP Example 1

Line	Description	Amount
1	PHA's Beginning Balance (FY)	\$300,000
2	Add: Interest Earned	30
3	Add: Fraud Recoveries	500
4	Less: Funds Expended	0
5	PHA's Ending Balance for Reporting Period (VMS)	\$300,530

- This example will only report an increase for interest and fraud recovery (admin portion)
- If admin fees earned are greater than admin expenses, we don't increase the VMS's UNP by the amount of excess admin fees

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## VMS & Unrestricted Net Position

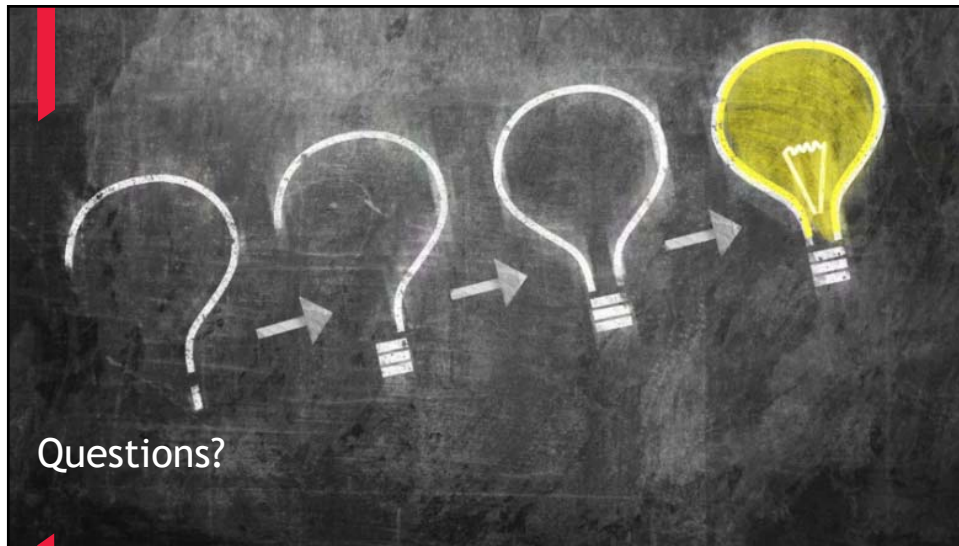
### UNP Example 2

Line	Description	Amount
1	PHA's Beginning Balance (FY)	\$300,000
2	Add: Interest Earned	30
3	Add: Fraud Recoveries	500
4	Less: Funds Expended	(1,000)
5	PHA's Ending Balance for Reporting Period (VMS)	\$299,530

- This example will only report an increase for interest and fraud recovery (admin portion)
- Since the PHA utilized Admin Fee reserves to pay for admin expenses, we must report the reduction in the UNP

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