Public Housing Notice 2017-01

To:	Local Housing Authorities
From:	Sarah Glassman, Associate Director, Division of Public Housing and Rental Assistance
Subject:	**REVISED** FY2017 Local Housing Authority Budget Guidelines
Date:	January 6, 2017

On September 29, 2016, the FY2017 Local Housing Authority Budget Guidelines were issued. (See Public Housing Notice #2016-28). Since the issuance of the Budget Guidelines, DCHD has commenced the process of revising the Executive Director Salary and Qualifications Schedule and salary limits.

DHCD is issuing these **REVISED** FY2017 Local Housing Authority Budget Guidelines to incorporate changes to Executive Director salary requirements. Please note, the only section being revised pertains to Executive Director salary. While we are reissuing the entire document, the rest of the FY2017 Budget Guidelines remain the same.

In the budget guidelines there is a section titled, **Executive Director Salary**, it will now read:

DHCD is in the process of revising our Executive Director Salary and Qualifications Schedule. Through Massachusetts Housing Partnership (MHP), we have employed an outside entity to undertake a comparability study to set new salary limits for local housing authority (LHA) Executive Directors. We will undertake this effort over the next couple of months, and are aiming to revise and reissue the DHCD Executive Director Salary and Qualifications Schedule in the spring of 2017.

At which time,

- Executive Directors whose salary exceeds the new limits may continue to receive said salary, and
- Executive Directors whose salary is less than the new limits may receive the new amount retroactive to the beginning of their fiscal year 2017.

In the meantime,

- For new Executive Directors,
  - LHAs should utilize the existing DHCD Salary and Qualifications Schedule.
  - Salary proration across programs should be consistent with unit or bedroom unit (BRU) count.
- For existing Executive Directors,
  - For FY2017, DHCD will approve budgets that consist of a 3% increase over the DHCD approved FY2016 Executive Director's salary

The LHA must be able to support any salary increase within the Allowable Non-Utility Expense Level (ANUEL).

Charles D. Baker, Governor ♦ Karen E. Polito, Lieutenant Governor
Chrystal Kornegay, Undersecretary

Department of Housing and Community Development

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REVISED FY2017 Local Housing Authority Budget Guidelines

January 2017

Sarah Glassman, Associate Director

Division of Public Housing and Rental Assistance

Cover photo: c. 667, Salem Housing Authority, 43 Charter Street

To our housing partners,

We appreciate all your hard work in implementing change. Over the past two years, together we've developed new regulations; launched a resident survey. LHA input has been critical to implementing the Agreed Upon Procedures (AUP) for financial review of local housing authorities; selection of three Regional Capital Assistance Teams (RCAT); and launching new and innovative programs, such as ModPHASE and the Mixed Income Demonstration Program. Drawing on your input, we have partnered with the Inspector General's Office to train LHA board members. At the same time, we recognize the hard work you do day to day in providing affordable housing to elderly households, young disabled individuals and families throughout the state.

This year, I am excited to announce, the FY2017 Local Housing Authority (LHA) Budget Guidelines provide for a 3% increase to the Allowable Non-Utility Expense Level (ANUEL). The 3% increase is effective for all LHAs at the start of the LHA's fiscal year. In addition, these Budget Guidelines provide for a DHCD Direct Cost Exemption for Extraordinary Maintenance available for all LHAs in the amount of $200.00 per unit in the c. 200, c. 705, c. 667, and c. 689 programs. We hope this increase helps LHAs to target those areas of operations in need of additional resources.

Together we must continue to ensure that changes made to the public housing program are sustainable and improve the way public housing is managed by and for all stakeholders. No one partner can do this alone, it takes everyone continuing to come to the table to share ideas and work to see that change does happen.

We want to thank you for your commitment to preserve and enhance public housing across the Commonwealth.

Sincerely,

S Glassman

Sarah Glassman
Associate Director
Division of Public Housing and Rental Assistance

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I. INTRODUCTION & KEY HIGHLIGHTS

These Budget Guidelines apply to fiscal year 2017, which begins July 1, 2016 and includes local housing authorities (LHAs) with budget years of July 1, 2016 – June 30, 2017, October 1, 2016 – September 30, 2017, January 1, 2017 – December 31, 2017, and April 1, 2017 – March 31, 2018. These Guidelines incorporate all applicable Budget Guideline changes since July 1, 2006.

It is the responsibility of the LHA to understand the Budget Guidelines and to implement them effectively and in accordance with applicable provisions of the Accounting Manual for State-Aided Housing Programs. We encourage you to contact the Department of Housing and Community Development (DHCD) staff if any part of the Guidelines or the Accounting Manual is unclear to you.

There are several key points to highlight in the Guidelines this year, as noted below.

KEY HIGHLIGHTS:

1. **Allowable Non-Utility Expense Level (ANUEL)**
   The Allowable Non-Utility Expense Level (ANUEL) will be increased by 3% for FY2017. Please do not submit a budget that exceeds the housing authority's approvable ANUEL. All budgets received that exceed the ANUEL will be reverted and must be modified.

2. **Direct Cost Exemption for Extraordinary Maintenance**
   We are providing for a DHCD Direct Cost Exemption for Extraordinary Maintenance available for all LHAs in the amount of $200.00 per unit in the c. 200, c. 705, c. 667, and c. 689 programs. Each LHA must provide DHCD with a proposal for the use of the funding accompanied by a plan for the expenditure of the funds within the LHA's fiscal year, by completing the "Schedule of Capital Expenses" tab in the LHA's HAFIS budget submission. The LHA must provide a detailed breakdown of the extraordinary maintenance expenses and state that these items will be paid for by the special direct cost exemption, noting all other details regarding these expenditures in the comment section provided for in the LHA's budget submission.

   Please be advised that this does not include Section 8 New Construction Substantial Rehabilitation Program units.

   LHAs may not use this exemption to fund capital projects, unless it is for expanding the scope of an existing FISH project that has not gone out to bid yet.

3. **Increase to Administrative Salaries Line (#4110)**
   The "Schedule of All Positions and Salaries" must list all positions and salaries and must reflect total compensation of all administrative positions in the LHA's operating budget submission. All positions must be shown whether or not there is a pro ration of any share of the salary charged to state programs. DHCD will no longer accept an excel spreadsheet for the "Schedule of All Positions and Salaries." The Schedule must be completed.

   A. Administrative Salaries:
   - LHAs have flexibility to propose salary changes for all administrative staff, provided that the total increase in overall salaries charged to state programs does not exceed 3% of last year's (FY2016) approved #4110 account.

   The LHA must be able to support the increased cost within the approvable ANUEL.

B. Executive Director Salary:

DHCD is in the process of revising our Executive Director Salary and Qualifications Schedule. Through Massachusetts Housing Partnership (MHP), we have employed an outside entity to undertake a comparability study to set new salary limits for local housing authority (LHA) Executive Directors. We will undertake this effort over the next couple of months, and are aiming to revise and reissue the DHCD Executive Director Salary and Qualifications Schedule in the spring of 2017.

At which time,

- Executive Directors whose salary exceeds the new limits may continue to receive said salary, and
- Executive Directors whose salary is less than the new limits may receive the new amount retroactive to the beginning of their fiscal year 2017.

In the meantime,

- For new Executive Directors,
  - LHAs should utilize the existing DHCD Salary and Qualifications Schedule.
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The LHA must be able to support any salary increase within the Allowable Non-Utility Expense Level (ANUEL).

4. **How will increases in maintenance salaries be limited?**

The Maintenance Labor Account #4410, excluding seasonal help and overtime, will be allowed the current rate published by the Department of Labor and Workforce Development (DLWD) with the following exceptions: If the LHA is paying wages in accordance with a union contract or if non-unionized maintenance personnel are currently at a rate that exceeds the DLWD, those employees will remain at the current approved rate until the DLWD rate exceeds this amount.

LHAs with union contracts are reminded that DHCD is not a party to those contracts. It is an agreement between the authority and its union. DHCD merely states the Commonwealth's maximum contribution to any such agreement based on DHCD budget guidelines.

Maintenance staff in a supervisory capacity are allowed to exceed the DLWD rate by up to $3.00 per hour at the discretion of the LHA.

Please note that longevity payments cannot be charged to state programs.

5. **Agreed Upon Procedures (AUP)**

Each year, LHAs will be required to have an Agreed Upon Procedures (AUP) financial review of the LHA's state-aided programs, including MRVP and AHVP, for the prior 12 months of the LHA's fiscal year end. An independent accounting firm must conduct the AUP.

For AUPs conducted this year, the first year of implementation, referred to as the "planning year," LHAs will receive an exemption to their budget for the cost of the AUP. Each year, thereafter, LHAs are required to absorb the cost of the AUP financial review within the LHA's ANUEL.

The guidelines and requirements of the AUP financial review are incorporated within these FY2017 Budget Guidelines. Please refer to Public Housing Notice (PHN) #2016-10 for the guidelines, requirements and schedule for implementation of this program.

6. **Tenants Accounts Receivable (TAR)**

LHAs will not be required to complete the Tenant Accounts Receivable (TAR) Reports in Housing and Financial Information Systems (HAFIS). These reports will be disabled, pending the development of a new TAR application. In the interim, LHAs are expected to continue to keep track of their TAR by utilizing their current software systems (i.e., PHA Web, PHA Network, HAB, Sharp, or any other means currently used to track and monitor TAR). This includes the tracking and monitoring of repayment agreements and retroactive repayment agreements, which must be reported on the Balance Sheet in the new account, entitled **"Tenant Accounts Receivable (TAR) – Repayment (Contra)" Account** #1122.1. See Key Highlight #9, below.

7. **GASB 68**

   The primary objective of the GASB 68 Statement is to improve accounting and financial reporting for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. LHAs will be required to complete the GASB 68 Statement in FY2017. Please see Section III, Detailed Instruction for Budget Preparation, page 19, for details describing the GASB 68 Statement and reporting requirements.

8. **Quarterly Operating Statements**

   Quarterly Operating Statements and Year End (4th Quarter) Operating Statements must be submitted within forty-five (45) days after the quarter end.

   For deficit LHAs that fail to meet the quarterly operating statement submission deadline, operating subsidy will not be advanced to the housing authority until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, deficit LHAs will not be advanced operating subsidy for the second quarter of their current fiscal year, and until the statements are submitted.

   For surplus LHAs that fail to meet the quarterly operating statement submission deadline, DHCD will restrict the use of the LHA's Operating Reserves (OR) until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, surplus LHAs will be restricted from using their OR for the second quarter of their current fiscal year, and until the statements are submitted.

9. **New Account on Balance Sheet "Tenant Accounts Receivable (TAR) – Repayment (Contra)" Account #1122.1**

   There is a new account on the Balance Sheet for repayment and retroactive repayment agreements for Tenant Accounts Receivable (TAR). LHAs will be required to report for each quarter, the cumulative amount of TAR that is under repayment and/or retroactive repayment agreements on the Balance Sheet on account #1122.1 entitled "Tenant Accounts Receivable (TAR) – Repayment (Contra)" Account." These agreements must be tracked and monitored by the LHA and reported quarterly. See Key Highlight #6, above, regarding the development of a new Tenant Accounts Receivable (TAR) application.

10. **Vacant Unit Initiative (Up to $25,000)**

    Public Housing Notice 2015-22 contains information regarding the Vacant Unit Initiative and the availability of funds for vacant unit turnover costs between $3,500 up to $25,000 per unit. DHCD will revise this program/initiative for use by LHAs in FY2017. Notification of the revisions will be issued in a Public Housing Notice (PHN).

11. **Net Metering**

    Many LHAs have entered into Net Meter Credit Power Purchase Agreements (PPA's). In these deals, an LHA executes a contract with a solar power developer who constructs and owns an off- site solar electricity-generating site. In exchange for contracting to purchase a percentage of the solar power produced, the LHA receives a credit on its utility electric bill for each KWH purchased. Under DHCD's PHN 2015-01, surplus LHAs could retain 100% of these savings and deficit LHAs could retain 25% of the savings, with the 75% balance used to offset its need for operating subsidy.

We are revising this policy for the period ending 6/30/17. Deficit LHAs may retain 100% of all net meter credit savings (that is, the value of the net meter credits appearing on their electric bills, minus the cost of the payments made to the solar power developer under the PPA) earned on or before 6/30/17. (See Appendix A, Schedule of Net Meter Credit Savings). This policy does not apply to credits earned in previously completed and closed LHA fiscal years. It also does not apply to the small number of LHAs that have pledged a portion of their credit savings for capital improvements through the HILAPP program or other agreements. This latter group will be reviewed on a case-by-case basis.

12. Budget Submission Dates

These Budget Guidelines apply to fiscal year 2017, which begins July 1, 2016 and includes LHA budget years of:

Budget Year	Budget Due By
July 1, 2016 – June 30, 2017	November 15, 2016
October 1, 2016 – September 30, 2017	November 30, 2016
January 1, 2017 – December 31, 2017	December 15, 2016
April 1, 2017 – March 31, 2018	February 28, 2017

13. Budget Certifications (Electronic Submission)

The Budget Certification Form is no longer required to be submitted to DHCD via first class mail. Effective May 16, 2016, LHAs use a fillable WORD Budget Certification Form for each program budget (original and revised state budgets) that must be completed and executed by **ALL** Board members and electronically submitted to DHCD. LHAs cannot submit a budget prior to notification from DHCD that the Budget Certification is acceptable. See PHN 2016-12.

14. Budget Review Process

In an effort to streamline the budget review process, the Housing Management Specialists (HMS) will have a limited role in the review of LHA budgets. DHCD will review and approve a budget within sixty (60) working days of acceptance of a complete LHA budget submission. The review process will be as follows:

- DHCD/Administrator receives Electronic Budget Certification from LHA – 7 working days to take action
- DHCD/HMS receives Budget(s) reviews for accuracy of program budget(s) and unit counts – 5 working days to take action
- DHCD /Finance receives and reviews for completeness within 5 working days
- DHCD/Finance reviews budget(s) within 30 working days
- DHCD/Finance Manager or Budget Director determines approval within 13 working days

Please see Section II, Housing Authority Budgets: An Overview, page 14 for details regarding the budget review process.

15. Budget Revisions

LHAs are encouraged to review quarterly operating statements for adherence to the budget and make the necessary changes to ensure that expenditures are no more than plus or minus 10% of the budgeted amounts. This could result in an increase in collections, changes to spending and perhaps revisions to the budget. Revisions to the budget must be submitted electronically to DHCD no later than the first (1st) day of the eleventh (11th) month of the LHA's current fiscal year. The budget certification with the required signatures must also be electronically submitted with the budget revision.

II. HOUSING AUTHORITY BUDGETS: AN OVERVIEW

Every year, each local housing authority is responsible for preparing an operating budget for its programs for submission to state and federal funding agencies (DHCD and HUD), and for reviewing its approved capital budgets. These budgets are financial plans that describe how the LHAs are to be financed during the coming year. The budget is the basic document through which housing authorities plan for their use of public funds conveyed to the state and federal agencies, to their residents, to the public, and most importantly to the authorities themselves.

A housing authority budget will have real value, however, only if: (a) it is carefully and openly prepared with the full understanding of the authority's board and of its tenants; (b) it is fairly reviewed by the funding agencies, so that each authority is measured against the same guidelines; and (c) the authority lives within its approved budget.

While DHCD will monitor housing authority spending for adherence to the budget, compliance with regulations, and sound management operations, the basic responsibility for formulating and living within the budget rests with the authority itself. To assist the authority, the fee accountant, or where the authority does not contract with a fee accountant the authority staff accountant, will provide to the executive director quarterly operating statements which will include budget-to-actual reports for all state programs including a variance report which identifies unanticipated variances of plus or minus ten percent (10%). The executive director will provide the report and a written explanation of variances to each of the board members quarterly.

DHCD understands that a budget is only a plan, a blueprint of how an authority intends to allocate its resources and as such is subject to change. This is why DHCD allows certain flexibility. While LHAs non-utility budgets will be monitored to insure proper expenditure, it is the responsibility of the LHA to review and monitor spending throughout the year with attention paid to each total income/expense category and the bottom line. LHA budgets should not vary more than plus or minus ten percent (10%), with the exception of salary, travel and bottom line non-utility budget overruns, which may affect the operating subsidy allocated to the LHA for the fiscal year.

Retained revenue LHAs that are budgeting above the allowed expense level for non-utilities should budget these expenses in the correct line items and take special care that projected revenue sources are met. See Appendix B for Bottom Line Budgeting for Housing Authorities with Retained Revenue.

The following sections answer some of the basic questions about the budget itself, and the budget submission process.

A. What does a housing authority budget represent?

As stated above, a housing authority's budget is the document through which its financial resources are managed. The budget establishes the maximum amount that will be spent on any particular line item, on any particular program, and within a particular period of time, usually one year. The Commonwealth's obligation to this budget will be limited to the allowable non-utility expense level (ANUEL) set for the budget, plus utilities, minus income. When DHCD approves an authority's budget, it is understood that the established budget limits will accurately represent how the authority will conduct its business and manage its resources.

In light of the emphasis placed on local responsibility in the budget process, salary, travel and bottom line non-utility budget overruns will be treated very seriously. These items will be reviewed and may affect the operating subsidy allocated to the LHA for the fiscal year. Deficit LHAs with overruns in salaries (account #4110) and travels (account #4150) will have their earned operating subsidy reduced by that overrun amount. Housing authorities will be strictly held accountable to operate within the approved budgets, and their fiscal performance will be reviewed throughout the year and at year-end by DHCD. Attention will be paid to each total income/expense category and the bottom line.

LHAs may budget expenditures up to their projected income level or the allowable non-utility expense level (ANUEL), plus utilities. The authority must understand, however, that its reimbursement of subsidy from the Commonwealth will be based on the allowable expense level, not the non-utility expense level shown in the budget. LHAs should make sure that they do not over estimate income and/or under estimate utility costs in such a way that the proposed budget becomes unattainable and the financial position of the LHA is placed in jeopardy.

The approved expense level for the LHA will always be the allowable non-utility expense level (ANUEL), plus actual utilities. Any amount approved in excess of the approved expense level is the sole responsibility of the authority. DHCD's approval is merely of the authority's plan of expenditure of excess income generated from tenant rents and other income. All LHAs, whether deficit or retained, that are budgeting above the ANUEL, paid for from the operating reserves, should budget these expenses in the correct line item.

In regard to retained revenue status and bottom line budgeting, please see Appendix B, Bottom Line Budgeting for Housing Authorities with Retained Revenue.

With regard to utility expenditures, DHCD recognizes the fact that energy costs are difficult to budget, given uncertainties regarding energy costs and the severity of the winter heating season. Accordingly, within its available funding, DHCD will cover actual utility costs incurred. However, DHCD does not view utility costs as a completely uncontrollable expense. Clearly, costs can and must be controlled through reasonable reduction of consumption.

We urge all LHAs to take a "hard look" at utility costs. DHCD strongly recommends that all authorities, especially those that have not conducted a comprehensive review of their energy consumption systems in the past three years, perform such an audit this year. A reduction in energy costs will benefit everyone; retained revenue LHAs, of course, will retain 100% of any saving. DHCD is willing to share any energy savings at deficit authorities with these LHAs so that their work results in a "win win" situation. (See Section IV, Special Energy Incentives for Authorities, page 41, for additional information.)

B. How is an authority's performance rated?

On August 6, 2014, Chapter 235, “An Act Relative to Local Housing Authorities,” was signed. This Act represents significant reform to state-aided public housing. Included in the new law is a requirement that DHCD establish and implement an annual Performance Management Review (PMR) of local housing authorities.

The PMR, reviews the administrative and management operations of each housing authority in several key areas: occupancy rates, tenant accounts receivables (TAR), accounts payable (AP), budget variance, operating reserves (OR), master ledger/wait list (public housing portal), annual inspections, work order systems, capital improvement plan submission, capital spending, and small procurements to identify and address areas of strength and areas that require technical assistance. LHAs will receive ratings in each of these areas that indicate the strength of its management systems, and its overall performance during the past fiscal year. The PMR is an opportunity for DHCD and LHAs to stand together and take a deep dive into the data, lift up best practices, and work together towards improving operations across the Commonwealth.

DHCD is in the process of developing the PMR for implementation. Therefore, the ratings "Acceptable" and "Unacceptable" will not be used to rate an LHA's performance, as they were used in the past. Until the program is launched, LHAs will be given a rating of "Unrated."

C. <u>In preparing its budget how much flexibility will an authority be given?</u>

An authority will be given significant latitude in formulating its budgets. Three specific restrictions will apply to all local housing authorities as follows:

- Increases in administrative salaries will be restricted (See Section H, page 11),
- Increases in maintenance salaries will be restricted (See Section I, page 12); and
- Bottom line cap with exceptions to some retained revenue housing authorities will apply.

In addition, it should be noted that all LHAs will continue to face certain obligations as provided in the General Laws and DHCD regulations. For example, housing authorities are required by law to provide support for the local tenant organization (LTO) (account #4230.) These provisions are spelled out in greater detail in Section III, <u>Detailed Instructions for Budget Preparation</u> on page19.

D. <u>Budget Consolidation</u>

Budget consolidation applies only to your state conventional programs (c.667, c.200 and c.705). All federal, rental assistance and most c.689 programs, as well as those in development, must remain separate. The c.689 budgets for expense approval and reporting will be consolidated on a program basis with only the project reserves and tenant accounts receivable remaining separate on your backup sheet. Budgets for the c.689 programs can only be consolidated when the same vendor operates the program. **The c.689 budget must reflect the number of units provided for in the applicable CFA, not the number of residents.** If you are unsure of that number, please contact your Housing Management Specialist (HMS).

With the exception of those authorities that manage federal Section 8 New Construction/Substantial Rehabilitation projects for the Commonwealth, the only program designations that should be used are c.400, c.689 and state rental assistance. If a new development is added to the LHAs portfolio, you must contact your Housing Management Specialist to arrange for a designated budget to be set-up on-line during the initial operating period (IOP).

Quarterly Operating Statements and Year End Statements by Program

Cost breakdown by program will need to be filed each quarter and at year-end (4th quarter). LHAs should review their ability to distribute as many charges to the program that actually incurred the expense to the greatest extent possible. LHAs need to delegate expenses, by program from the beginning of the fiscal year, to ensure the required information is available for year-end reporting. Both expenses and income must be reported by program (c.667, c.200 & c.705). The c.689 program statements must clearly show reserve balances for each c.689 property. Reserve amounts for the c.689 program cannot be consolidated regardless of the vendor.

Quarterly operating statements and year-end operating statements (4th quarter) must be submitted within forty-five (45) days after the quarter end. For deficit LHAs that fail to meet the quarterly operating statement submission deadline, operating subsidy will not be advanced to the housing authority until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, deficit LHAs will not be advanced operating subsidy for the second quarter of their current fiscal year, and until the statements are submitted. For surplus LHAs that fail to meet the quarterly operating statement submission deadline, DHCD will restrict the use of the LHA's Operating Reserves (OR) until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, surplus LHAs will be restricted from using their OR for the second quarter of their current fiscal year, and until the statements are submitted.

E. How do spending caps apply to those c.667, c. 200, c.705 and c.689, developments funded under the Section 8 New Construction and Substantial Rehab Programs?

For Section 8 New Construction/Substantial Rehabilitation developments, any budget changes are tied to and limited by the HUD allowable contract rents for the authority's fiscal year, to the extent that they can be justified by actual changes in operating costs and actual rents in comparable units in the local market. Increasing the rate of accrual into the capital reserve is an allowable increase in operating costs insofar as it is consistent with HUD guidelines. Prior to an authority's budgeting or requisitioning an increased contract rent, the authority must, ninety days prior to the HAP anniversary date, request approval of such increase in writing to DHCD. DHCD will approve or deny that request and, if approved, DHCD will provide appropriate increase factors. If the request is denied, HAP requisitions will be processed at current approved rent levels only.

Please be reminded that prior written approval from the Bureau of Housing Management is required for all expenditures from the capital reserve. Authorities with such reserve accounts are responsible for obtaining bank account signature cards and placing the name of the Finance Director as a signatory on the account.

F. How is the c.689 program affected?

The c.689 program expense level is limited by the contribution available under the contract between the housing authority and the sponsor. Authorities are allowed -- but not required -- to make c.689 related program payments in lieu of taxes (PILOT) to their communities. PILOT payments should be computed using the same formula used for the c.705 program. DHCD expects that PILOT payments, as well as all operating costs, can be accommodated within current operating receipts from the sponsor. **To this end, we expect _minimum_ monthly rents for this program of $181 per CFA unit (per bed)**

regardless of any reconfiguration of the property by DMH or Department of Developmental Services (DDS).

In formulating budgets for the c.689 program, attention must be paid to ensure that adequate maintenance services are assigned to each program development. Housing authorities are expected to prorate costs such as administrative salaries and related benefits, and other administrative costs in direct proportion to the percentage of an authority's portfolio that the leased units comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to the c.689 program. Automatic rent increases for 689 programs under the auspices of DDS remain suspended. If you have questions on pro-rations, call your Housing Management Specialist for clarifications before you submit your budget. Those developments which are seeing a change in configuration as a result of DMH and DDS policy changes should negotiate rents that are sufficient to cover all costs, this may result in higher per unit monthly rents as they still need to pay rent based on the number of units as listed in the CFA.

LHAs are required to maintain separate reserve balances for each of their c.689 properties. Regardless of whether an LHA has the same vendor providing services for a number of the LHA's c.689 properties, reserve amounts must be recorded and maintained separately for each property. Reserve balances and expenses for each c.689 property must be attributable to the subject property and shown as such.

For a more complete discussion of budgeting for the c.689 program, LHAs should refer to the 689 Management Handbook and Public Housing Notice (PHN) #2009-14.

G. <u>How are Rental Assistance budgets established?</u>

The rental assistance spending level is established based on the administrative fee for the program. The MRVP administrative fee is $40.00 per unit per month. Any expenditure from MRVP reserve funds whether for routine or non-routine costs, needs prior written approval from DHCD. DHCD will not approve any budget submission or expenditure, which will place the operating reserve for the rental assistance program in a negative status. This means LHAs will need to closely monitor any loss of units in the program and adjust expenses accordingly. The LHA will need to project a number of unit months multiplied by the $40.00 fee to calculate the projected administrative income for the upcoming year.

AHVP income and expenses should be included in the authority's MRVP budget. The AHVP and DMH project-based rental assistance administrative fee is also $40.00 per unit per month.

Housing authorities are expected to prorate costs such as administrative salaries and related benefits, and other administrative costs in direct proportion to the percentage of an authority's portfolio that the leased units comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to MRVP. If you have questions on pro-rations, call your Housing Management Specialist for clarifications before you submit your budget.

Please remember: MRVP is a state program and as such is subject to all limitations on salaries and other restrictions as outlined in these Budget Guidelines.

H. How will increases in administrative salaries be limited?
Administrative Salaries:

LHAs have flexibility to propose salary changes for all administrative staff, provided that the total increase in overall salaries charged to state programs does not exceed 3% of last year's (FY2016) approved #4110 account.

All positions must be shown whether or not there is a pro ration of any share of the salary charged to state programs.

The LHA must be able to support the increased cost within the approvable ANUEL.

Executive Director (ED) Salary:
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The LHA must be able to support any salary increase within the Allowable Non-Utility Expense Level (ANUEL).

I. How will increases in maintenance salaries be limited?

The Maintenance Labor Account #4410, excluding seasonal help and overtime, will be allowed the current rate published by the Department of Labor and Workforce Development (DLWD) with the following exceptions: If the LHA is paying wages in accordance with a union contract or if non-unionized maintenance personnel are currently at a rate that exceeds the DLWD, those employees will remain at the current approved rate until the DLWD rate exceeds this amount.

LHAs with union contracts are reminded that DHCD is not a party to those contracts. It is an agreement between the authority and its union. DHCD merely is states the Commonwealth's maximum contribution to any such agreement based on DHCD budget guidelines.

Maintenance staff in a supervisory capacity are allowed to exceed the DLWD rate by up to $3.00 per hour at the discretion of the LHA.

Please note that longevity payments cannot be charged to state programs.

J. <u>Security-Related Expenses</u>

An LHA can expend state operating funds, within its existing bottom line, on security provided that it justifies, in writing, to the Bureau of Housing Management that:

1. A compelling need for additional security, measured by such factors as extremely high crime rates, dramatic increases in certain types of crimes, or unique crime problems (e.g. civil rights violations resulting from LHA compliance with Skinner decision),

2. LHA has executed a "maintenance of effort" agreement with the municipality and police chief; and
3. All persons who will perform LHA security functions, whether or not they will carry firearms, are graduates of a police academy certified by the Massachusetts Criminal Justice Training Council and have passed a standard psychological screening for law enforcement personnel. The security personnel will also need to participate in continuing education/training, and be recertified annually for firearms use, as appropriate.

Once approval has been granted for security expenses, yearly documentation is no longer required unless requested by DHCD.

K. <u>When is the budget due for submission?</u>

These Budget Guidelines apply to fiscal year 2017, which begins July 1, 2016 and includes LHA budget years of:

Budget Year	Budget Due By
July 1, 2016 – June 30, 2017	November 15, 2016
October 1, 2016 – September 30, 2017	November 30, 2016
January 1, 2017 – December 31, 2017	December 15, 2016
April 1, 2017 – March 31, 2018	February 28, 2017

Budgets will be reviewed and approved as soon as possible, but no more than sixty (60) working days of acceptance of a complete LHA budget submission. The LHA's budget submission must be complete and incorporate all relevant explanatory material. Incomplete submissions will be reverted to an authority for correction or completion. DHCD will make every effort to approve budgets within 60 working days, provided that the original submission is complete and within DHCD guidelines and the necessary budget certification forms are submitted. Budgets requesting special exemption or requiring follow-up documentation may take longer.

L. What does the budget submission include?

An authority must submit an operating budget for each housing program having occupied/leased units. All submissions must be submitted electronically through the DHCD on-line Housing and Financial Information System (HAFIS). These budgets must include all required data and all applicable justification.

All budgets require Board approval prior to submission, and **all** board members are required to sign the Budget Certification Form. In an effort to streamline and expedite the budget review and approval process, we have changed the way Local Housing Authorities (LHAs) submit the fully executed Budget Certification for each program budget (400-1, 400-9, c. 689, MRVP, and 400-A etc.). LHAs will no longer be required to submit a paper copy of the Budget Certification to DHCD via first class mail.

Effective May 16, 2016, LHAs complete the fillable WORD Budget Certification Form. At this point in time, we cannot use the form as an integral part of the HAFIS system. The result is that information cannot be pulled from the operating budget itself. Therefore, housing authority staff must complete it. The form is set up to allow you to move from each point that needs to be completed using the tab key. Information to be completed is indicated by red text. Once you complete a field that repeats in the form, such as the housing authority name, it will automatically populate where needed throughout the form.

This fillable WORD Budget Certification Form must be used by an LHA when submitting an original or revised state budget for FY2017 and subsequent fiscal years. Once the form is completed the LHA must submit a scanned/pdf copy of the fully completed and executed Budget Certification to DHCD via email to: dhcdhafiscert@massmail.state.ma.us. An authorized administrator from DHCD will review the submission and send an email to the LHA within 5 working days of receipt accepting the submission or stating that the submission is not acceptable and identifying incomplete or missing information and requesting correction and resubmission. Please refer to PHN 2016-12.

LHAs cannot submit the Operating Budget(s) prior to notification from DHCD that the Budget Certification(s) is acceptable.

Once you receive notification of acceptance of the budget certification, the LHA will submit the Operating Budget(s) through HAFIS.

M. What is the budget review process?

Once the LHA submits its budget, the Housing Management Specialist (HMS) will receive a HAFIS system generated email stating the budget has been submitted to DHCD. Then the review process is as follows:

1. The HMS has 5 working days to receive budget and forward it to Finance.
    a. The HMS verifies that the LHA has submitted a budget for each of the state funded programs administered by the LHA. Re-verify that the budget certification has been

accepted for all state programs and record date of the budget certification submission in the Tracking Notes in HAFIS.

b. If a program budget has not been submitted (e.g.; c. 689, MRVP, etc.), HMS will call LHA, verify that programs exist and request the missing budget to be submitted within 5 working days. HMS will follow-up call with an email.
    - The budget(s) will be reverted to the LHA if not submitted within the time frame.

c. The HMS verifies the unit count: Unit count must include state, federal, and all other programs/units the LHA is managing with the exception of program/units contained in a Management Agreement.
    i. HMS will call LHA with questions regarding unit count. If the unit count is incorrect or HMS is unable to verify, HMS will request the information be submitted within 5 working days, and will follow-up with an email, and the budget(s) will be reverted.

2. HMS forwards LHA budget(s) to Finance with comments in Tracking Notes that state: Budget Certification has been reviewed and accepted, all program budget(s) have been submitted, and budgets includes all programs and units counts. HMS will also indicate if there is a Management Agreement indicating the LHA(s).

3. Finance receives budget, reviews tracking notes and begins budget process within 5 working days.

4. Finance reviews submission for completeness, which includes:
    a. All Positions and Salary Schedule
    b. ANUEL & Subsidy Worksheet
    c. Schedule of Other Admin (4190)
    d. Schedule of Exemptions Requested
    e. Schedule of Contract Costs (4430)

5. Finance will begin reviewing a complete budget(s) or revert the budget(s) to the LHA if any of these schedules are missing.

6. Review Schedules for adherence to Budget Guidelines:
    a. All Positions and Salary for both administrative salaries and maintenance wages.
    b. Capital and Other Expenses, listed as Extraordinary Maintenance, Equipment Replacement Capitalized, Betterments & Additions Capitalized, Equipment Purchases Non-Capitalized
    c. Expenditures in Excess of ANUEL Schedule
    d. ANUEL and Subsidy Worksheet
    e. Schedule of Exemptions
    f. Operating Reserve Analysis
    g. Insurance & Employee Benefits
    h. Admin Other (4190)
    i. Contract Costs (4430)

7. Finance records notes regarding ANUEL, reserve level and any other modifications to the budget in Tracking Notes in HAFIS. To be completed within 30 working days.
    a. Recommends approval of the budget(s) forwards budget(s) to Finance Manager/Budget Director
    b. If unanswered questions or discrepancies, budget(s) are reverted to LHA for correction.

8. Finance Manager/Budget Director receives budget for review and approval
    a. Reviews for completeness, accuracy, and approval within 13 working days
    b. If questions, reverts budget to Finance
    c. Approves budget(s) electronically and by letter

N. How and when is an approved budget implemented?

An authority's approved operating budget is that budget which has been approved electronically by the DHCD's Finance Manager/Budget Director for the Bureau of Housing Management. Remember, once an authority receives its approved operating budget from the Bureau, that budget must be presented to the Board of the authority for formal Board acceptance if there have been any modifications.

The effective date for the implementation of the new budget is the first day of the new fiscal year, or the date approved by the Finance Manager/Budget Director of the Bureau of Housing Management. **Until such time that the LHA has received an approved budget, it is authorized to spend at a level no greater than the prior fiscal year's approved level, less any one-time exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD.**

O. Increase to allowable non-utility expense level (ANUEL).

The Allowable Non-Utility Expense Level (ANUEL) will be increased by 3% for FY2017. Please do not submit a budget that exceeds the housing authority’s approvable ANUEL. All budgets received that exceed the ANUEL will be reverted and must be modified.

P. How is an IOP budget established?

When an authority has a new development going into occupancy, it must prepare and submit an operating budget for that development. In addition, the authority must consider the effects of the new development on its existing program budgets in terms of changes in prorated charges (See Section III, Detailed Instructions for Budget Preparation, page, 19).

Authorities frequently need assistance in formulating IOP (Initial Occupancy Period) budgets and often ask what level of non-utility costs is typical for c.667, c. 200 and c.705 developments. In formulating IOP budgets for these programs, we encourage authorities to contact their Housing Management Specialist (HMS). The HMS can tell authorities what the non-utility budget norm is for the particular size authority and program; this norm usually represents the approval limit for IOP budgets.

In preparing an IOP budget for a c.689 development a housing authority should refer to the c.689 Management Handbook and to its lease agreement with the development's sponsoring agency. The lease agreement spells out the financial arrangement between the two parties. LHAs should include adequate amounts in their budgets to:

1. cover certain start-up costs for capital equipment which are essential to the operation of the new development;
2. build reserves to cover non-routine maintenance and planned capital improvements;
3. cover a reasonable portion of the authority's cost for crime, property, and any other insurance coverage related to the operation of the c.689 development;
4. fund a reasonable portion of an authority's administrative costs; and
5. support realistic routine maintenance requirements of the development over and above those maintenance services performed by the sponsor.

Authorities should make every effort to ensure that c.689 budgets and lease agreements contain sufficient funds to provide adequate extraordinary and long-term maintenance of these developments.

Q. How is a budget revised?

LHA s are encouraged to review quarterly operating statements for adherence to the budget and make the necessary changes to ensure that expenditures are no more than plus or minus 10% of the budgeted amounts. This could require increase in collections, changes to spending and perhaps revisions to the budget.

It is important to note that revisions are required under certain circumstances. When an authority brings new units into management during the fiscal year, the authority must submit a budget revision to reflect the additional units and change the amounts in proration to the newly appropriate amounts. Similarly, if an authority reduces the number of units in management, revisions reflecting reduced costs and pro-rations must be submitted.

As noted above in Section II (A), What Does a Housing Authority Budget Represent, salary, travel and bottom line non-utility budget overruns will be treated very seriously. These items will be reviewed and may affect the operating subsidy allocated to the LHA for the fiscal year. Deficit LHAs with overruns in salaries (account #4110) and travel (account #4150) will have their earned operating subsidy reduced by that overrun amount. Housing authorities will be strictly held accountable to operate within the approved budgets, and their fiscal performance will be reviewed throughout the year and at year-end by DHCD.

A budget revision must be complete when submitted with the appropriate supporting information. When submitting a budget revision, columns 1 and 2 of the budget page will automatically reflect the approved budget for the current fiscal year. Columns 3 and 4 should reflect the LHA's requested amounts proposed for the revised budget. Additionally, the appropriate schedule of costs should be revised where applicable.

Revisions to a budget must be submitted electronically, to DHCD prior to the first (1^{st}) day of the eleventh month of the authority's current fiscal year. A budget certification with all board member signatures must also be submitted electronically.

R. How is the reimbursable deficit calculated?

There is a formula for calculating an authority's reimbursable deficit in the conventional housing programs. Although, with two exceptions (salary and travel), we do not penalize authorities for line item overruns when calculating the reimbursable deficit, we still regard unauthorized overruns very seriously and require that housing authorities file budget revisions in a timely and responsible fashion. (See Section Q, How is a Budget Revised, above).

The amount that an authority is reimbursed is called the Adjusted Budget Deficit. The deficit will be calculated as follows:

	Budgeted ANUEL + Approved Exemptions
plus	Actual Utility Cost
minus	Revenue (lines 1 + 2 + 3 +5 + 7)
=	Adjusted Budget Deficit

S. Program Based Reporting

DHCD conducts an analysis of expenses by total consolidated program. LHAs must keep records by program. LHAs are required to submit, at year-end, a breakdown of expenses by program with its year-end consolidated operating statements. Rental income will need to be reported by **program.**

Quarterly Operating Statements and Year End Operating Statements must be submitted within forty-five (45) days after the quarter end. This includes year-end operating statements.

For deficit LHAs that fail to meet the quarterly operating statement submission deadline, operating subsidy will not be advanced to the housing authority until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, deficit LHAs will not be advanced operating subsidy for the second quarter of their current fiscal year, and until the statements are submitted.

For surplus LHAs that fail to meet the quarterly operating statement submission deadline, DHCD will restrict the use of the LHA's Operating Reserves (OR) until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, surplus LHAs will be restricted from using their OR for the second quarter of their current fiscal year, and until the statements are submitted.

Other Program Based Certifications and Submission Reporting Requirements
LHA must submit the required LHA certifications and submissions of various reports. Please refer to Public Housing Notice (PHN) # 2013-11, or any update to said Schedule for specific reporting requirements. LHAs are required to use the web based monthly reporting system or submit via hard copy, the following:

- Board Attendance Report & Certification (Due 30 days after month end)
- Energy Reports (Due 30 days after month end)
- Mod & Development Quarterly Cost Report (Due 30 days after month end)
- Quarterly Certification & Vacancy System Utilization Report (Due 30 days after quarter end)

- Budget Submission & Certifications (Due 30 days before the commencement of the LHA's fiscal year or per DHCD Budget Guidelines)
- Operating Statements & Year-end Statements (Due 45 days after quarter end)
- Certification of Tenant Lead Notification (Due 45 days after year-end)
- Certification of Salary and Compensation – "Top Five" (Due 45 days after year-end)
- CIP Submission (Due 15 days after the commencement of the LHA's fiscal year)
- LHA Annual Report/Plan (To Be Determined by DHCD)

III. DETAILED INSTRUCTIONS FOR BUDGET PREPARATION

The following sections explain the budget forms and how they are to be prepared.

Individual Program Budgets vs. Consolidated Budgets

For the conventional housing programs, (c.667, c.200, c.705) one budget should be prepared for the consolidated operation and listed in the spaces provided. Budgets are required for all occupied developments even if not yet financially closed into "management." This period of occupancy, prior to the closing from development into management, is called Initial Occupancy Period (IOP). A separate budget must be submitted for these units, then consolidated the following year. Authorities must prepare and electronically submit a budget for any such development thirty (30) days prior to the projected date of lease-up. For Rental Assistance, one budget should be submitted encompassing all program components, including AHVP.

Program/Units

The cover sheet for each program's budget should indicate the total number of units, by bedroom size, currently in each housing program. For example, in the 400-1 budget, the LHA must list each individual development (i.e. 667-1, 40 one bedroom units; 667-2, 30 one bedroom units; 200-1, 10 two bedroom units, 10 three bedroom units, 5 four bedroom units; 705-1, 5 two bedroom units; 705-2, 10 three bedroom units). Units in planning or construction should be included here. MRVP and Section 8 units should list both the number of contract units and the number projected for occupancy as of the first day of the fiscal year. For budgetary purposes, this number of MRVP and Section 8 units will remain constant for the fiscal year. AHVP, although included in the MRVP budget for expense purposes, needs to show separately the number of occupied units. LHAs must include federal public housing units and any other units managed by the LHA in the LHA's budget submission. LHAs should not include units managed by a management agreement. **LHA's that do not submit all program units will have their budget reverted.**

Calculating Per-Unit-Month (PUM) Costs

A Per-Unit-Month (PUM) cost is calculated to determine the monthly operating cost of a single unit of housing. It serves as a basis for comparing operating costs of local housing authorities. The computer calculates the PUM, automatically when the LHA inputs cost totals.

Budget Description (Forms 050 and 070)

The electronic version of the budget has both a PUM and an amount column for the prior year approved budget, rather than just one field.

BUDGET LINE ITEM: OPERATING RECEIPTS

The following section explains how each of the line items under "Operating Receipts" is to be prepared.

BUDGET LINE ITEM: REVENUE

The following section explains how each of the line items under "Revenue" is to be prepared.

<u>3110: Shelter Rent</u>
Include in this account are the total rent receipts anticipated from residents assuming an occupancy rate of not less than 98% for the projected twelve-month period. Should the LHA believe that it will not achieve a 98% annual occupancy rate, the LHA must submit detailed information explaining the reasons for a lower occupancy rate together with information on the LHA's efforts to mitigate the reduced occupancy rate. In addition, the shelter rent projection should be based on the current rent roll plus anticipated increases expected from annual rent re-determinations, as well as, increases which would be realized as a result of regulatory amendments. Rents for residents of family public housing are calculated at 27%, 30% or 32% of household income. Residents of elderly/handicapped housing are calculated at 25% or 30% of household income.

DHCD allows LHAs to request a regulatory waiver to perform rent re-determinations every two years rather than every year for tenant households residing in c. 667 developments. However, the failure to capture the usual rent increase from the Social Security Cost of Living Adjustment (COLA) for the "off" year would likely require additional state subsidy costs, which DHCD cannot afford to divert for this purpose. Therefore, LHAs seeking a waiver of 760 CMR 6.04(4) will need to increase tenant rents in the "off" year by an amount equal to the percentage increase in the COLA. Before doing so they will also need to execute an amendment to the tenant's lease. Tenants will continue to have the right to request a re-determination if the rent calculated in the manner described exceeds the rent due under the regulations. Contact your Housing Management Specialist for guidance.

Any tenant household that is over-housed and fails to move to an appropriately sized apartment when requested to do so by an LHA will be charged rent at 150% of what otherwise would be due. In addition, a late fee penalty of $25 will be charged to any tenant household that fails to pay rent within 30 days of its due date.

In cases where deficit LHAs discover, pursue cases, and have entered into a written repayment agreement **with a tenant in possession or a vacated tenant that has not reported income,** the LHA will be allowed to retain two-thirds of the funds recovered. One third of the total dollar amount recovered should be included in the LHA's quarterly or year-end Operating Statement as Shelter Rent, account #3110, and two-thirds of this total dollar amount should be included in Other Revenue-Retained, account #3691.

<u>3115: Shelter Rent - Section 8</u>
This account applies only to those developments receiving support through the federal Section 8 New Construction and/or Substantial Rehab Programs. This account should be credited and Account 1121 should be debited for the Federal Section 8 Subsidy support on, c.200, c.667, c.705 and c.689 programs.

3190: Non-Dwelling Rental

This account should be credited with the rent, including charges for utilities and equipment, billed to lessees of non-dwelling facilities and of dwelling units rented for non-dwelling purposes.

Include income from space rented to non-residential agencies. Before an authority enters into an agreement for rental of space for non-dwelling purposes, it must obtain written authorization from the Bureau of Housing Management. The Bureau of Housing Management must also approve any lease agreement. The request should include all pertinent details for the proposed arrangement including evidence of adequate lessee insurance and an executed lease, even if no rent is to be paid. The authority should also include justification that such use of the space does not deprive the authority of needed operating or dwelling space and is in the best interest of both the authority and its residents. In general, rent should cover all operating expenses to the authority including janitorial, maintenance, and utility costs. An authority should not incur costs as a result of space being rented to other agencies including charges to federal programs for use of central office or maintenance space. When the LHA's central administration or maintenance offices are located in a state-aided development, rent should be charged to federal programs on a prorated basis. Rental charges should be shown as income to the specific program providing the facilities.

3400: Administrative Fee- MRVP/AHVP

This account should be credited with Administrative Fees to be received in cash for the MRVP/AHVP Program. The MRVP/AHVP administrative fee is $40.00 per unit per month. Actual cash amounts received will agree with the amounts approved on line 7 of Form 076.

3610: Interest on Investments - Unrestricted

This account should be credited with interest earned on unrestricted administrative fund investments. See DHCD Accounting Manual, Section 16 (B), Investment Policy and Cash Management.

A local housing authority should review its investment policy and practices periodically. Interest rates fluctuate and future investments may vary substantially from the past, both as to amount and time. The budget estimate of interest income should be based on a realistic appraisal of these circumstances as indicated by future operating plans, projection of funds available for investment, and a commitment to maximize investment income while safeguarding investment funds.

For IOP budgets, authorities must be careful to assign the appropriate share of investment income to both its management and development books. The proration of investment income should be based on the relationship of unused development funds to available operating reserves.

MRVP/AHVP program interest income should be estimated based on the program's operating reserve. Interest earned on subsidy funds is not income to an authority and will be returned to DHCD through the subsidy requisition process.

DHCD's Accounting Manual for State-Aided Housing Programs includes a sample Investment Policy for LHAs. Housing authorities are encouraged to review Section 16 of the Manual. Please note that the Manual describes a requirement for collateralization of LHA deposits. Insurance may be available to cover LHA deposits. For example, FDIC provisions offer coverage up to $250,000 per investor per institution. LHAs are required to ensure that their depositories, with the exception of the Massachusetts Municipal Depository Trust, fully secure the uninsured balance on deposit with them. LHAs are reminded that under M.G.L. c.121B, they are prohibited from placing any state funds or any other funds entrusted to the state/LHA from the federal government at risk. Therefore, the only acceptable investments are those outlined in the DHCD Accounting Manual, Section 16.

3611: Interest on Investments - Restricted

This account should be credited with interest earned on restricted administrative fund investments. See DHCD Accounting Manual, Section 16 (B), Investment Policy and Cash Management.

3690: Other Operating Revenues

This account should be credited with income from the operation of the project that cannot be otherwise classified. Income credits to this account include, but are not limited to, penalties for delinquent payments, rental of equipment, charges for use of community space, charges to other projects or programs for the use of central office management and maintenance space, commissions and profits from vending machines, including washing machines, and rental of space in community or administration buildings for laundry equipment on a contractual or other basis.

Several sources of income include:

(a) Funds from shared commercial ventures such as coin-operated laundry facilities. This is an area that requires close attention from a senior staff member at the LHA. Income from coin-operated machines may not be transferred to local tenant organizations, but rather must be shown in the Other Operating Receipts line item.

In addition, all local housing authorities must enter into a written agreement regarding the upkeep of the machines, the method of income collection, and the percentage split of the income between the vendor and the LHA. Agreements may contain multi-year terms, but should not extend beyond five years, and are not valid until approved by the Bureau of Housing Management.

(b) Charges to residents for additional services, materials, and/or repairs of damage caused by neglect or abuse in accordance with the Department's regulations on lease provisions. LHAs may choose, rather than showing these payments as income, to treat them as reimbursements to the accounts from which the charges were originally made. This is allowable provided the following criteria are met: the charges are actually collected, the work has an itemized list of materials used, and any charge for labor can only be for hours outside the normal work day. This means you can charge tenants for maintenance time; but only those hours outside of the normal workday may be reimbursed to the labor line. Reimbursement for normal working hours must be treated as income to the local housing authority.

LHAs that have raised additional income in other ways such as from rooftop antennas and have received Department approval for the expenditure of the additional income will have these monies be exempted from the calculation of subsidy need. This income must be reported in this Line Item, and will be offset by an exemption for the exact amount of income.

(c) Many LHAs have entered into Net Meter Credit Power Purchase Agreements (PPA's). In these deals, an LHA executes a contract with a solar power developer who constructs and owns an off- site solar electricity-generating site. In exchange for contracting to purchase a percentage of the solar power produced, the LHA receives a credit on its utility electric bill for each KWH purchased. Under DHCD's PHN 2015-01, surplus LHAs could retain 100% of these savings and deficit LHAs could retain 25% of the savings, with the 75% balance used to offset its need for operating subsidy.

We are revising this policy for the period ending 6/30/17. Deficit LHAs may retain 100% of all net meter credit savings (that is, the value of the net meter credits appearing on their electric bills, minus the cost of the payments made to the solar power developer under the PPA) earned on or before 6/30/17. (See Appendix A, Schedule of Net Meter Credit Savings). This policy does not apply to credits earned in previously completed and closed LHA fiscal years. It also does not apply to the small number of LHAs that have pledged a portion of their credit savings for capital improvements through the HILAPP program or other agreements. This latter group will be reviewed on a case-by-case basis.

3691: Other Revenue - Retained

This account should be credited with all miscellaneous revenue to be retained by the LHA. These items are not included in the computation of operating subsidy. The most common example for this account is receipts for the rental of roof antennas, which depend LHA's status as, deficit or surplus LHA. Also include in this account any other revenue items that are approved by DHCD that do not enter into the computation of operating subsidy. This should include credits earned and retained from Net Meter Power Purchase Agreements (PPA's).

3692: Other Revenue - Operating Reserves

This account should be credited with funds that LHAs plan to utilize from their operating reserve accounts in excess of the Allowable Non-Utility Expense Level (ANUEL). To be approvable, LHA must maintain at least a minimum of 20% of operating reserve level after deducting the amount budgeted. The only exception to this is when the expenses are for health and safety issues. LHAs must also provide the details of the expenses in the schedule of Expenditures in Excess of ANUEL and budget said expenses in the correct line item accounts.

3693: Other Revenue – Net Meter

This account should be credited with 75% of the total net meter credit savings realized by a deficit LHA. Savings are calculated as the value of the net meter credits appearing on the LHA's electric bills, minus the cost of the payments made to the solar power developer under their Power Purchase Agreement (PPA). Deficit LHAs may retain 25% of the savings. That amount should be included as Other Revenue – Retained on line #3691.

3801: Operating Subsidy – DHCD (400-1)

This account was formerly the #7300 account. It represents all operating subsidy received and or earned for the fiscal year. This account should be credited with all operating subsidy forward funding payments received during the fiscal year. At the end of each quarter the operating subsidy earned is calculated on the DHCD Form 051-1.

During the first three quarters the advance is debited or credited respectively to Account 2291 for financial statement purposes only. At the end of the fiscal year the underpayment is debited to

Account 1125 and credited to Account 3801, and the overpayment is debited to Account 3801 and credited to Account 2118.

<u>3802: Operating Subsidy – MRVP/AHVP Landlords</u>
The credit balance in this account represents the anticipated total receipts from DHCD during the fiscal year for housing assistance payments (landlords). At the end of each fiscal year this account will be adjusted to equal the actual subsidy earned. The balance in this account at the end of each fiscal year should be equal to the total housing assistance payment as recorded in account 4715. For the difference between the actual receipts and the amount determined to be earned, account 1125 will be debited for amount due from DHCD and account 2118 will be credited for amount due to DHCD.

<u>3920: Gain/Loss from Sale or Disposition of Property (Capitalized or Non-Capitalized).</u> The debit or credit balance of this account represents the following items:

a) Cash proceeds from the sale of property that was either: 1) non-capitalized; or 2) capitalized and has been fully depreciated.

b) Realized gain or loss from the sale or disposition of capitalized properly that has not been fully depreciated.

BUDGET LINE ITEMS: OPERATING EXPENSES

The following section explains how each of the line items under "Expenses" is to be prepared.

<u>4110: Administrative Salaries</u>
This account should be charged with the gross salaries of LHA personnel engaged in administrative duties and in the supervision planning, and direction of maintenance activities and operating services during the operations period. It should include the salaries of the executive director, assistant executive director, accountants, accounting clerks, clerks, secretaries, switchboard operators, project managers, management aides, purchasing agents, engineers, draftsmen, maintenance superintendents, and all other employees assigned to administrative duties.

Please see <u>Key Highlights</u>, pages 1 – 3 and Section II (H), <u>Housing Authority Budgets: An Overview</u>, pages 10-12, for details regarding administrative salaries and the executive director's salary.

If DHCD's Executive Director Hiring Guidelines and staff hiring procedures are not adhered to, DHCD reserves the right to withhold or withdraw state funding for those positions as provided for in 760 CMR 4.05.

The "Schedule of All Positions and Salaries" must list all positions and salaries and must reflect total compensation of all administrative positions in the LHA's operating budget submission. All positions must be shown whether or not there is a pro ration of any share of the salary charged to state programs. <u>DHCD will no longer accept an excel spreadsheet for the "Schedule of All Positions and Salaries</u>." The Schedule must be completed. Please note that LHAs do not have to submit a table of organization except when the LHA has a management contract to manage another Local Housing Authority.

Authorities must indicate under the column headed "Code" on the Schedule of All Positions and Salaries which proration is used and include a description of each code. During the development period, the

annual salary as approved by DHCD's Bureau of Housing Development and Construction for the executive director or any other personnel must be listed under "Development" on the schedule.
The Budget Certification, which must be executed by the Board of Commissioners, provides two statements addressing the existence or non-existence of relationships at LHAs. The board must select the appropriate statement and provide documentation as necessary upon execution of the Budget Certification. **A complete disclosure of all relationships of staff to any board or other staff member must be part of the budget submission. This must be done on an annual basis.**

LHAs are reminded that as programs, unit counts or unit composition change, the allowable state share of salaries also changes. If new state-aided units are added to the LHA stock, then the state share increases; if, however, the new units are federal units, then the state percentage and share is reduced. If an LHA loses federal or state units, the percentage and the allowable state share of salaries must be re-determined.

LHAs have control over staffing levels and positions, provided they operated within the Budget Guidelines' ANUEL and administrative salary limits. LHAs do not need to seek DHCD approval to re-organize their staffing levels and responsibilities, as long as they implement the re-organization within these criteria; however the LHA must provide DHCD with the changes and the reasons for implementation of the re-organization. One exception, when the LHA has a management contract to manage another local housing authority. LHAs must obtain DHCD's approval of staffing levels when there is a management agreement.

4120: Compensated Absences
The debit balance in this account represents the actual cost incurred during the fiscal year for vacation, paid holidays, vested sick leave and earned compensatory time. This account includes both the direct compensated absences cost and associated employer payroll expenses (employment taxes, pension cost, etc.).

4130: Legal Expense
This account should be charged with retainers and fees paid to attorneys for legal services relating to the operation of the projects

An authority's expense for legal services is fixed. The terms of an authority's approved contract with its attorney which specifies an amount for either an hourly rate or set fees for legal work of a specific or extraordinary nature should be consistent with DHCD guidelines for legal contracts and must be approved by the Department. If an authority chooses not to enter into a contract for legal services, but rather engage services on an as needed basis, it should contact its Housing Management Specialist. Legal charges must be reasonable and not exceed Department guidelines. Please note that funds for legal service contracts may not be expended until the Department approves said contracts.

It has also come to our attention that a number of LHAs thought they could not budget for legal expenses if a DHCD Regional Attorney was available in their region. Not only can such an LHA budget for legal expenses, it is important that each LHA maintain adequate funding for legal expenses in its annual operating budget. At a minimum an LHA having 200 or fewer state-aided conventional public housing units should budget $3,500 and an LHA with more than 200 state-aided conventional public housing units, $5,500. Each LHA is required to directly pay for all its costs for mailing of notices or responses as well as costs associated with filing litigation, including court filing fees, and constable service even if the LHA has access to a DHCD Regional Attorney. As the LHA approaches its fiscal year end, any funds budgeted for legal that remain unexpended or uncommitted may be transferred to another line item as allowed under these budget guidelines. If an LHA has not budgeted anything for legal expenses for a number of years and feels that funding the full-recommended amount would present a hardship in this fiscal year, they need to submit a plan to their Housing Management Specialist showing how it will build up this line item over time.

This account should not be charged with legal fees paid to attorneys in connection with the eviction of tenants or the collection of amounts due from tenants; such fees, if not legally chargeable to tenants, shall be charged to Account 4190.

4140: Compensation to Authority Members

A local authority may compensate its members for performance of their duties and such other services as they may render to the authority in connection with its Chapter 200 development(s). Compensation for any other program is not authorized. Because of this, LHAs must base such compensation only on the actual rent receipts for these developments plus a prorated share of other operating receipts of funds on a per unit basis. The precise amount that members may be compensated is defined by statute to a maximum of $40 per member per day, and $50 for the chairperson per day. The total of all compensation to all board members is not to exceed two percent (2%) of actual gross income of Chapter 200 developments in any given year, consistent with the approved budget amount. In no case shall the payment of compensation exceed $12,500 annually for the chairperson, or $10,000 for any member other than the chairperson. Please note the statute requires the member to perform housing authority business in order to receive compensation.

4150: Travel and Related Expense

Travel practices and policies are to be consistent with Department policy. Legitimate travel expenses incurred by board members and staff in the discharge of their duties for any **state-aided program** are reimbursable from this account based upon the following considerations:

> Registration fees for conferences are allowable for a reasonable number of LHA members and the Executive Director.
>
> Charges for overnight accommodations are allowable if the conference is located at a site at least 40 miles from the community where the LHA is located. If a husband and wife, one of whom is not associated with the LHA, are occupying the room being rented by the LHA the allowable reimbursable amount is based upon the single occupancy. The difference between single and double occupancy is borne by the individual LHA member or staff member.

1. Private auto mileage incurred in the course of authority business, is reimbursable at the rate of thirty cents ($0.45) per mile. In addition, reasonable associated costs for parking and tolls for authorized business travel are reimbursable. A flat rate, either calculated on a weekly or monthly basis, for the business use of private vehicle is not allowable under any circumstances.

2. When employees use an authority owned vehicle for travel, reimbursement for tolls and parking is permissible as long as parking charges are reasonable and cover solely the period of time during which business is conducted. All state funded authority owned vehicles must be permanently marked with the authority name. In addition, such vehicles must be garaged at the authority, not at

the employee's home, and must be used only for authority business (not commuting to work, etc.). Exceptions to this rule must have prior written approval from the Director of the Bureau of Housing Management.

3. Reimbursement for meals is allowed if the following criteria are met:

Breakfast:	Travel begins no later than 6:45 a.m. - $4.00 maximum allowable.
Lunch:	Travel must exceed 24 hours - $7.50 maximum allowable.
Supper:	Travel must end at 7:00 p.m. or later - $12.00 maximum allowable.

Those traveling 24 hours may take advantage of a more flexible policy that allows reimbursement of $24.50 a day rather than a meal specific policy.

Limited out-of-state day travel is allowable provided that the LHA can document that such travel directly benefits the LHA's administration of state housing programs. The LHA must receive prior written approval from the Director of the Bureau of Housing Management for any such travel. Allowable travel costs are limited.

In summary, the following items are not allowable as reimbursable from state funds:

- Flat rate allowances for cars, trucks, or other vehicles;
- Payment for meals in excess of allowable amounts;
- Reimbursement for alcoholic beverages; this applies even if the total food bill is less than the maximum allowable;
- Reimbursement for car rentals;
- Travel outside of Massachusetts without prior written DHCD approval.

All expenses must be vouchered and have the proper documentation attached prior to payment. No expenses are allowable that exceed the approved budgeted amount in Account 4150, Travel and Related Expenses.

Pending the implementation of the Performance management Review (PMR) and the issuance of LHA ratings, LHAs may transfer funds from non-utility line items to the travel account **only upon prior approval from DHCD and only to attend housing conferences, which are relevant to state-aided housing programs.** Funds may not be transferred if it appears that essential services may be jeopardized;

Operating reserves may not be used. A request for transfers must include:

- Name and dates of conference;
- Number of persons attending;
- Amount(s) to be transferred; and
- Explanation of source of funds from other accounts.

(Remember, training is shown and broken down on its own as a subdivision of 4190.)

4170: Contractual Accounting Services

Fees for accounting services and/or audits that are provided routinely are either contracted for on an annual basis or an authority staff person carries out such services. Only accounting services performed on a contractual basis (fee accountant) should be included in this item. Full or part-time LHA accounting staff that provides routine accounting services should be included in Account 4110, Administrative Salaries. The major elements measured by the Department in evaluating accounting services are the timeliness with which the required financial reports are filed and their accuracy. An authority should be careful that it is satisfied that its contractual accounting services are fulfilling the Authority's financial obligations since those services reflect on the authority's performance. Authorities should be sure that the fee accountant is providing the required services as outlined in the Accounting Manual.

In FY 2008 LHAs were informed they had the flexibility to negotiate fees, which they determine to be appropriate within the ANUEL.

4171: Audit Costs

This account includes the state program's prorated share of audit fees paid to an Independent Public Accountant (IPA). The procurement of an IPA is necessary to satisfy the Federal Government's requirements of Circular A-133 and the single audit requirements. Costs for these services should be shared with all state and federal programs of LHA. **Audit costs are to be absorbed within the ANUEL.** LHAs that do receive Federal Funds will not use this account.

Agreed Upon Procedures (AUP)

Annually, LHAs will be required to enter into a contract with a DHCD pre-qualified Independent Public Accounting firm to conduct an Agreed Upon Procedures (AUP) financial review of the LHA's state-aided programs including MRVP and AHVP for the prior 12 months as of the LHA's fiscal year end.

The review will include: rent collections/tenant accounts receivable/vacated accounts; payroll/travel/fringes; disbursements/accounts payable; inventory (fixed assets); procurement/public bidding; cash management and investment practices; and operating subsidy and reserves; and annual rent calculation and compliance.

For AUPs conducted this year, the first year of implementation, referred to as the "planning year," LHAs will receive an exemption to their budget for the cost of the AUP. Each year, thereafter, LHAs are required to absorb the cost of the AUP financial review within the LHA's ANUEL.

The guidelines and requirements of the AUP financial review are incorporated within these FY2017 Budget Guidelines. Please refer to Public Housing Notice (PHN) #2016-10 for the guidelines, requirements and schedule for implementation of this program.

4180: Penalties and Interest

The LHA is expected to manage its cash flow and accounts payable effectively. Any expenses incurred from penalties, fees, and interest paid on delinquent accounts shall be included in this line item.

4190: Administrative Other

This account is provided for recording the cost of administrative items for which no specific amount is prescribed in this 4100 group of accounts. It includes, but is not limited to, the cost of such items as: reports and accounting forms; stationery and other office supplies; postage; telephone and telegraph services; messenger service; armored car service; rental of office space; advertising for bids; and fiscal agent fees. This account shall also be charged for the following and only for charges directly related to state-aided housing programs.

1. **PUBLICATIONS:**

   Publications purchased or subscribed to must be useful to LHA program operations. The estimate cost of preparing LHA publications such as the Annual Report should be realistic and reasonable.

   Cost incurred for publications (i.e. preparation, printing and distribution of annual reports and other informational literature relating to low-income programs)

   The Cost of periodicals, books and other literature deemed useful to the low-income housing programs.

2. **MEMBERSHIP DUES AND FEES:**

   Agency membership must be limited to professional organizations supplying housing information relevant to state-aided program. It must be determined whether or not an "Agency" membership includes individual board members and /or staff. If it does not, the cost of membership for those individuals is not borne by the authority, but by the individual. For example "Agency" membership in the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials (NAHRO) includes the five board members and the executive director, but an "Agency membership in National NAHRO includes only the agency and not the individuals which it encompasses.

   Dues and fees for membership in, and payment of services of, organizations supplying technical service for computer or professional information and/or service concerning housing programs, computer licenses.

3. **COLLECTION AGENCY AND COURT COSTS:**

   This includes collection agency fees and court costs associated with action against tenants or former tenants for rent arrearages.

   Fees paid to attorneys or collection agents and court costs incurred in connection with the collection of amounts due from tenants that are not chargeable to tenants.

4. **TELEPHONE:**

   A housing authority's expense for telephone service depends in large part on the size of its programs and staff and the complexity of its organization

   The LHA should provide the service for one telephone lie to each recognized local tenant organization, if requested by the organization. Additional lines should be paid out of the resident organization's annual budget. In large authorities where a citywide resident organization exists and developments are scattered, additional lines may be supplied.

Cell Phones: the use of cellular phones at LHAs is a common practice. As a result and as stated in the FY 2007 DHCD Budget Guidelines, a few basic rules need to be applied to the use of such phones.

a. Employee access will need to be approved by the board
b. Use should be work related only. In instances where there are charges due to personal calls, reimbursement must be made by the user to the authority
c. An itemized bill will need to be received and signed by the employee using the cell phone.
d. There should be a statement attached to the bill, where the employee signs and attests to the fact that no personal phone charges have been made by him/her on the phone, and that all personal charges have been reimbursed to the authority.

5. **RENTAL OFFICE SPACE:**
If state programs rent space in a federal development, include yearly rental charge here. All rental agreements relating to the authority renting office space require prior written Department approval.

6. **FORMS STATIONERY AND OFFICE SUPPLIES:**
This includes consumable supplies as well as service contracts on office machinery. Large authorities should purchase supplies in bulk and should consider A&F's Operational Services Division's State wide contracts, Commodities and Services whenever viable.

7. **SHIPPING CHARGES:**
This includes incidental express, freight, or other shipping charges not identified with the charges to the same account as the article shipped.

8. **TRAINING:**
This includes all conference fees, staff training, educational rebates and other such costs.

9. **MANAGEMENT FEE:**
Service contracts paid by LHA to another entity for cost of managing day to day operations.

10. **OTHER:**
This includes all administrative costs, including contract computer support not described elsewhere. Internet access should be budget here.

<u>4230: Tenant Organization</u>
An amount equal to up to $3 per occupied unit per year, or $250 for city or town, whichever is greater, shall be made available to the recognized local tenant organization, pursuant to DHCD's regulation on tenant participation. The LHA may include total funding not to exceed $6 per occupied unit, when the LTO has convinced the LHA of a need for additional funds. Once the tenant organization has submitted a budget and has otherwise complied with the regulation, it may request these funds either: (a) as a direct payment on a scheduled basis, based on its approved budget, provided that the tenant organization agrees to keep detailed financial records of all expenditures; or (b) on the basis of specific vouchers submitted by that organization to the authority.

These funds shall only be provided to the tenant organization for purposes that enable it to carry out its primary function. Namely: Effective participation in the administration and management of the housing authority. Examples of allowable expenses include: office equipment; special stationery; telephone costs beyond basic service; attendance at relevant conferences; payment of dues to state tenant organizations. Ineligible expenses would include: Any item or activity prohibited by law; political or religious contributions; recreational or social events; or payments to benefit individual tenants or household members.

In addition, pursuant to Tenant Participation Regulations, each housing authority should make available to each duly recognized tenant organization upon request: reasonable space for an office; a reasonable supply of office furniture and consumable office supplies; the installation and basic service costs for a private telephone line (the tenant organization must pay for its own long-distance calls); and the use of available common rooms for tenant organization meetings.

Authorities which operate computer learning centers, which are funded in the state, consolidated budget or which have funding flow through the budget should budget the cost of the centers on this line.

4310: Water

This account should be charged with the cost of water and sewer charges purchased for all purposes.

4320: Electricity

This account should be charged with the cost of electricity purchased for all purposes.

4330: Gas

This account should be charged with the cost of gas (natural, artificial, or liquefied) purchased for all purposes.

4340: Fuel

This account should be charged with the cost of coal, fuel oil, steam purchased, and any other fuels (except electricity and gas) used in connection with Local Housing Authority operation of plants for the heating of space or water supplied to tenants as a part of rent.

4360: Energy Conservation

This account is to be charged with costs incurred for energy conservation measures. Authorities are encouraged to identify conservation measures with a short-term payback period, approximately one year or less, and to budget funds in Account 4360 of the utility section of the budget to implement those measures. Conservation measures such as these should be undertaken at the beginning of an LHA's fiscal year. If they are, funds expended on such measures will be fully paid for through fuel/water savings in other utility line items.

4390: Other Utilities

This account should be charged with the cost of utilities for which other accounts are not specifically provided.

The cost of utility services is also a substantial element of operating expense. Good budgetary planning requires a thorough study of operating policies and practices that control the supply, use, and costs of utility services. A thorough investigation of average consumption levels, current rates as established by the utility vendors, and anticipated rate changes should be made.

Conservation methods implemented by the authority should be stated fully and comparisons made between energy levels prior to modernization and those after modernization has taken place. Other methods should be stated as well, with an analysis of projected savings.

Budgeted amounts for utility expenses should be related to actual costs experienced by the authority as opposed to a previous budget amount. A useful tool for the LHA in preparing the budget is the web based monthly energy consumption report. You are reminded that these reports are to be submitted to DHCD 30 days after the close of the previous month.

In addition, with continued emphasis on conservation, authorities should build consumption savings into budget estimates.

Funds expended on such measures will be fully paid for through fuel/water savings in other utility line items. DHCD staff is available to your authority to help identify such conservation measure (see page 35).

Please remember: LHAs may include septic system pumping in the utility section of the budget rather than in the maintenance contract cost section.

4391: Payment to Solar Operator

Many LHAs have entered into Net Meter Credit Power Purchase Agreements (PPA's). In these deals, an LHA executes a contract with a solar power developer who constructs and owns an off- site solar electricity-generating site. The LHA makes regular (usually monthly) payments to the developer for its contracted share of the solar electricity produced by the site. Those payments should be entered in this account.

4392: Net Meter Utility Credits

As noted in account #4391 above, many LHAs have executed Net Meter Credit Power Purchase Agreements (PPA's). In exchange for contracting to purchase a percentage of the solar power produced, the LHA receives a credit on its utility electric bill for each KWH purchased from the developer. These credits reduce the balance on its utility bill. The total gross amount of the net meter credits that appear on the LHA's utility bills should be carried in this account.

4410: Maintenance Labor

This account should be charged with the gross salaries and wages, or applicable portions thereof, for LHA personnel engaged in the routine maintenance of the project.

Include all labor charges, including working maintenance supervisor, directly attributable to maintenance activities, such as repairs and maintenance of structure and grounds. The state prorated share of salaries should be equal to the dollar value of all approved position(s) or parts of position(s) approved for funding in the various state programs.

The Maintenance Labor Account #4410, excluding seasonal help and overtime, will be allowed the current rate published by the Department of Labor and Workforce Development (DLWD) with the following exceptions: If the LHA is paying wages in accordance with a union contract or if non-unionized maintenance personnel are currently at a rate that exceeds the DLWD, those employees will remain at the current approved rate until the DLWD rate exceeds this amount.

LHAs with union contracts are reminded that DHCD is not a party to those contracts. It is an agreement between the authority and its union. DHCD merely is states the Commonwealth's maximum contribution to any such agreement based on DHCD budget guidelines.

Maintenance staff in a supervisory capacity are allowed to exceed the DLWD rate by up to $3.00 per hour at the discretion of the LHA.

Please note that longevity payments cannot be charged to state programs.

4420: Materials & Supplies

This account should be charged with the cost of materials, supplies, and expendable equipment used in connection with the routine maintenance of the project. This includes the operation and maintenance of automotive and other movable equipment (such as gasoline, oil, grease, batteries, tires and tubes, etc.).

This account should also be charged with the cost of materials, supplies, and expendable equipment used in connection with operating services. This includes such items as janitorial services, elevator services, extermination of rodents and household pests, and rubbish and garbage collection.

The cost of materials, supplies, and expendable equipment furnished by a contractor (firm or individual) in connection with the performance of routine maintenance or operating services should not be charged to this account, but to Account 4430.

4430: Contract Costs

This account should be charged with contract costs (i.e. the cost of services for labor, materials, and supplies furnished by a firm or by persons other than Local Authority employees) incurred in connection with the routine maintenance of the project, including the maintenance of automotive and other movable equipment (such as washing, greasing, polishing, and repair services). This account should also be charged with contract costs incurred in connection with such operating services as janitorial services, elevator service, extermination of rodents and household pests, and rubbish and garbage collection

Include on this line the projected cost for all maintenance work not performed by housing authority maintenance staff. This includes contracts for snow removal, refuse collection, extermination, oil burner maintenance, etc. Also included are payments to outside tradesmen who may be called for minor electrical or plumbing repairs outside the scope of the skills of authority staff.

Remember that all purchases of materials and supplies as well as contracts must comply with the procurement policy as established by the Inspector General (M.G.L. c. 30B). Contracts bid in accordance with applicable state statute and for which the Authority has adequate funding no longer require advanced Department review and approval. Contracts that become construction contracts when they reach $25,000 such as those for elevator and fire alarm and all other construction contracts need additional Department oversight and review must continue to be submitted.

"Schedule of Contract Costs." LHAs should list any anticipated contract cost individually on this schedule. Items including but not limited to:

a) Maintenance of automotive and other movable equipment (such as washing, greasing, polishing and repair services, c.30B;
b) Janitorial services;
c) Lawn Maintenance;
d) Power Washing;
e) Elevator service, if the service is limited to grease and oil changes and "no repairs" it may be procured as a services under c.30B (10K-35K seek written quotes. More than $35K advertise in newspaper – this includes any options to renew). If the LHA wants to include repairs than must bid as c.149. In any event, whether its c.30B for just services or c.149 to include repairs, prevailing wage rates are applicable;
f) Fire Alarm, c.149 per the attorney general;
g) Extermination of rodents and household pests, c30B;
h) Rubbish and garbage collection, exempt from c.30B;
i) Snow removal, exempt from c.30B;
j) Oil burner maintenance, c.30B – Service Only, no repairs. If the LHA wants to include repair, it must bid as c.140. Both cases require applicable prevailing wage rates;
k) Trades workers who may be called for minor electrical or plumbing repairs which are outside the scope of authority staff, c.149 never c.30B. If work is less than $10K sound business practices can be used or the LHA may select the contractor from the state-contract list up to $10K cumulatively. Anything over 10K LHAs must follow c.149 requirements.

<u>4510: Insurance</u>

Includes the total amount of premiums charged for the period for all forms of insurance. Fire and extended coverage, crime, and general liability are handled by DHCD on a statewide basis. All other necessary insurance policies include: Workers' Compensation, boiler, vehicle liability and owner, etc. Authorities should review insurance policies annually to take advantage of fluctuating rates. Authorities are still required to show a more detailed breakdown of these costs on the schedule of insurance.

<u>4520: Payments in Lieu of Taxes</u>

This account should be charged and Account 2137 credited with all payments in lieu of taxes accruing to a municipality or other local taxing body. See Section 15 (G) DHCD Accounting Manual for State-Aided Housing Programs.

Payments in Lieu of Taxes (PILOT) should be determined and charged separately for each program as follows:

Chapter 667	- None
Chapter MRVP	- None
Chapter 200	- Maximum $3.00 PUM
Chapter 705	- Not to exceed the amount of 1/2 Full Value Tax Rate + $100 times the number of bedrooms.
Chapter 689/167	- Same formula as Chapter 705.

The housing authority should determine that all public services provided for in the cooperation agreement with the municipality are being received at no additional expense. If there are any such authority expenditures, the PILOT should be reduced to reflect these payments.

The above PILOT payments are the maximum allowed. No authority may pay any amount greater than those shown above. LHAs who have cooperation agreements with cities/towns that allow them to pay less or retain PILOT payments to cover other agreed to expenses may do so.

4540: Employee Benefits

This account should be charged with Local Authority contributions to employee benefit plans such as pension, retirement, and health and welfare plans. It should also be charged with administrative expenses paid to the State or other public agency in connection with a retirement plan, if such payment is required by State Law, and with Trustee's fees paid in connection with a private retirement plan, if such payment is required under the retirement plan contract Workers' Compensation Insurance is not charged to this account, but to Account 1211.

For the conventional housing and rental assistance budgets, this section includes payments made to employee pension and retirement funds by the authority as a supplement to contributions by its employees. Deductions from employees' salaries for pension or retirement funds shall not be included in this account, but shall be considered as a part of gross salaries. Housing authority employees are eligible for inclusion in either the state **or local benefit plans**. **Please note that retirement costs cannot be charged to the Modernization, Development, 884, or Housing Innovation Fund programs.**

Authorities must continue to absorb all costs associated with early retirement within their approved ANUEL. As stated previously, early retirement typically results in increased operating expenses due to increased pension costs, if not in the fiscal year it was implemented, then in subsequent fiscal years. DHCD will not make additional operating funds available to pay increased costs resulting from a housing authority's prior approval of an early retirement program.

Employee benefits are based upon a given percentage of the total payroll; therefore, the total amount approved in this account will be based on the approved budgeted salaries representing the state's fair share.

Authorities offering health insurance are restricted by law to the State Group Insurance Plan and the percentage outlined within it. Dental and vision plans may be offered. The Department must approve any such plan adopted. Please show detailed information on the schedule of insurance. A number of authorities have added this benefit in recent years. Plans offered should be similar to those offered to state employees.

The incentive of $1,000 in cash to employees who choose to be insured through a spouse's insurance plan rather than use the LHA's insurance is being continued this fiscal year, provided that the net result yields an overall savings to the LHA. If the LHA offers this incentive it must be provided to employees that have already opted to be insured through a spouse's plan and to those that opt to do it now. The authority will maintain the same Total Non-Utility Spending Level. The incentive payment would continue to be recorded in this line item; however, the savings from this action may be reallocated to another line item. This allows LHAs to examine their operating budget and determine where these funds should be budgeted to best serve the LHA. The LHA must certify on an annual basis that all eligible employees are insured. The employee is required to pay back a prorated amount of the cash incentive if the need should arise for the employee to return to the authority's insurance plan within the same fiscal year.

4541: Employee Benefits - GASB 45

Other post-employment benefits (OPEB) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare are taken while the employees are in active service, whereas other benefits including post-employment healthcare and other OPEB are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

4542: Pension Expense – GASB 68

The Commonwealth of Massachusetts continues to be required to use the GAAP (Generally Accepted Accounting Principles) accounting format for financial reporting. GAAP Accounting provides for two forms of reporting, either governmental or enterprise. DHCD has adopted the enterprise form of reporting.

GASB's (Governmental Accounting Standards Board) Codification, Section 1300.104, states that the enterprise fund type may be used:

- *To account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic income determination or revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability or other purposes.*

Further reasons for using the enterprise version are as follows:

- It is the best and most accurate form for statement presentation.
- It is the HUD-preferred version, and thereby, will make LHA statements uniform across the Commonwealth.
- It is the format preferred by lending and other financial institutions.

DHCD believes a housing authority resembles the enterprise fund model that provides for the use of full accrual accounting. Accordingly, DHCD requires all LHAs adopt the **enterprise** requirements of GAAP. (See DHCD's Accounting Manual for State-Aided Housing Programs, Section 19 for further detail. Budget forms are available and must be completed on the on-line web based HAFIS application.

- In accordance with GAAP accounting, inventory purchases (Replacement of Equipment and Betterments & Additions) are now distinguished between capitalized and non-capitalized items. Any inventory purchase greater than $5,000 is required by DHCD to be capitalized. LHAs may adopt a capitalization policy that capitalizes inventory purchases at a lesser amount than the $5,000 requirement (i.e. $1,000-$4,999); however, no capitalization policy can have an amount higher than $5,000. (Please reference DHCD's Accounting Manual for State-Aided Housing Programs, Section 15 (D) for further detail.)

GASB 68

The primary objective of GASB 68 Statement is to improve accounting and financial reporting for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 68 utilizes changes made by GASB 65 – Items Previously Classified as Assets and Liabilities, which introduces Deferred Outflows and Deferred Inflows of Resources. Under GASB 65, the accounting formula is now expressed as assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position. When accounting for accrued pension in accordance with GASB 68, it may be necessary to report deferred inflows and outflows of resources.

Operating statement

- Account # 4542: Pension Expense – GASB 68

The Balance sheet:

- Account # 1291: Deferred Outflows of Resources (GASB 68 related)
- Account # 2140: Accrued Pension Liability (GASB 68 related)
- Account # 2293: Deferred Inflows of Resources (GASB 68 related)
- Account # 2806: Net Assets - Unrestricted (excluding GASB 45 & GASB 68 Liabilities)
- Account # 2806.1 Net Assets - Unrestricted for GASB 45 Liability
- Account # 2806.2 Net Assets – Unrestricted for GASB 68 Liability

4570: Collection Loss

The balance in this account represents the estimated expense to cover unexpected losses for tenant rents. By looking at prior years' rent charged vs. rent collected, LHAs can arrive at good estimates for what percentage of rent is uncollected on average per year. This likely expected loss in tenant rents should be included in the budget in the Collection Loss (4570) line item.

Per GAAP accounting, LHAs shall adopt an allowance method for uncollected tenant rents. Each quarter, LHAs should move a certain percentage of their uncollected tenant rents into Account 1123 (Allowance for Doubtful Accounts). The percentage set aside in Allowance for Doubtful Accounts depends on the age of the receivable. (See the table below). Each time LHAs set aside amounts in Allowance for Doubtful Accounts, it also increases the Collection Loss Account 4570.

Shortly, DHCD will be issuing a PHN with guidance relating to Tenants Accounts Receivable (TAR). The PHN will go into more detail on:

- Changes in what LHAs need to report to their Fee Accountant quarterly around uncollected rent for preparation of the financial statements
- Reporting changes for any uncollected rent under repayment and retroactive repayment agreements

- Quarterly requirement to set aside a certain percentage of outstanding receivables in TAR by age into Allowance for Doubtful Accounts
- Revisions to DHCD's write-off policy and required steps prior to write-off

Percentages of Uncollected Rent To Set Aside in Allowance for Doubtful Accounts Per Breakouts Below (all timeframes are from date rent was due)	
Less than or equal to 30 days	0%
31 to 60 days	25%
61 days to 90 days	50%
91 to 180 days	75%
181 to 274 days	100%
275 to 365 days	100%
Over 1 year	100%

4580: Interest Expense

The debit balance in this account represents the interest expense paid and accrued on loans and notes payable. This debt can be from operating borrowings or capital borrowings. This account includes interest payments on debt service for Section 8 New Construction or Substantial Rehabilitation developments.

4590: Other General Expense

This account represents the cost of all items of general expenses for which no specific account is prescribed in the general group of accounts. This account includes the principal debt service payment for Section 8 New Construction or Substantial Rehabilitation developments.

4610: Extraordinary Maintenance – Non-Capitalized

This account should be debited with all *costs* (labor, materials and supplies, expendable equipment, and contract work) of repairs, replacements (but not replacements of non-expendable equipment), and rehabilitation of such a substantial nature that the work is clearly not a part of the routine maintenance and operating program. The items charged to this account should not increase the useful life or value of the asset being repaired. These items are not capitalized and are not added as an increase to fixed assets at the time of completion. Nor are these items depreciated.

Examples of this would be cycle painting of apartments, boiler replacement, hot water tank replacement etc.

4611: Equipment Purchases – Non – Capitalized
This account should be debited with the costs of equipment that does not meet the LHA's criteria for capitalization. Because these items are being expended when paid, they should not be categorized as a fixed asset and therefore will not be depreciated.

These items include stoves, refrigerators, small tools, most computers and software, etc.

The budget is a planning tool and as our portfolio ages it is essential that LHAs evaluate their properties annually and plan for extraordinary maintenance. To that end DHCD very strongly recommends that for all 400-1 operating budgets, depending on the age of the portfolio and condition, that LHAs spend between $100 and $500 a year per unit in Extraordinary Maintenance, Equipment Purchases, Replacement of Equipment, and Betterments & Additions to ensure that the aging public housing stock is preserved. Budgets that are not submitted within this range will be carefully scrutinized and are likely to be reverted unless an LHA's reserves are below minimum and the LHA does not have the capacity to contribute to reserves.

4715: Housing Assistance Payments
This account should be debited will all housing assistance payments paid to landlords for the MRVP program on a monthly basis.

4801: Depreciation Expense
This account should be debited with annual fixed asset depreciation expense as determined by the LHA's capitalization policy. (See DHCD Accounting Manual for State-Aided Housing Programs, Section 16)

7520: Replacement of Equipment - Capitalized
This account should be debited with the acquisition cost (only the net cash amount) of non- expendable equipment purchased as a replacement of equipment of substantially the same kind. These items meet the LHA's criteria for capitalization and will also be added to fixed assets and therefore depreciated over the useful life

7540: Betterments & Additions - Capitalized
This account should be debited with the acquisition cost (only the net cash amount) of nonexpendable equipment and major non-routine repairs that are classified as a betterment or addition. These items meet the LHA's criteria for capitalization and will also be added to fixed assets and therefore depreciated over the useful life of the asset.

Examples are: major roof replacement, structural repairs such as siding, major paving work, new truck, new copier, etc.

In accordance with GAAP accounting, inventory purchases (Replacement of Equipment and Betterments & Additions) are distinguished between capitalized and non-capitalized items. Any inventory or equipment purchase greater than $5,000 is required by DHCD to be capitalized, inventoried and depreciated. Any inventory or equipment purchase costing $1,000 to $4,999 may be inventoried by LHA staff for control purposes only but is not subject to capitalization or depreciation, it is, however, required to be expensed when the items are paid for. LHAs may adopt a capitalization policy that capitalizes inventory purchases at a lesser amount than the $5,000 requirement (i.e. $1,000 - $4,999); however, no capitalization policy can have an amount higher than $5,000. Any inventory or equipment purchases costing $0 to $999 are to be expensed when paid for and are not part of inventory or capitalization. (Please reference DHCD's Accounting Manual for State-Aided Housing Programs, Section 15 (D) for further detail.)

<u>Operating Reserve and Operating Reserve Analysis Form</u>
In an effort to provide an appropriate operating reserve comparison from prior years to the current year, DHCD has provided the Operating Reserve Analysis Form to adjust your GAAP operating reserve balance to the prior DHCD accounting method.

In FY2008, DHCD allowed LHAs to use their operating reserves for operating expenses under the following circumstances:

- A deficit LHA with a projected operating reserve of more than 20% of maximum reserve level may use its reserves for operating expenses. However, the use of these reserves cannot result in the reserve level falling below 20% of maximum reserves.

    - If a **deficit LHA overspends** its approve ANUEL, it **will do so without an approved** DHCD **exemption and** DHCD **will not approve** a budget **exemption** to augment the **operating reserve**.

    - A deficit LHA with a projected operating reserve **below 20%, cannot** use its operating reserves for operating expenses, **unless these** funds are used to address **health and safety items**. Expenditures below 20% for health and safety items must receive prior written permission from DHCD.

- An LHA requesting **retained revenue status must have a projected operating reserve of at least 40% of maximum reserve level**.

All LHAs, whether deficit or retained, that are budgeting above the ANUEL, paid for from the operating reserves, should budget these expenses in the correct line item.

All LHAs are responsible for any expenditures above the ANUEL paid for from operating reserves. DHCD will not provide additional assistance, now or in the future.

<u>Net Assets (Balance Sheet Account 2806)</u>
LHAs whose reserves are above minimum may make unforeseen, unplanned/unanticipated charges against/to the operating reserve provided that such expenses are less than $10,000 per purchase and, that the reserve remains above minimum level after the transaction. For all LHAs expenses of $10,000 or more, which have not already been approved by DHCD in the budget process, will need prior Department approval. If an authority's reserves are below minimum the following Department approvals are required.

$0 - 10,000:	Telephone Approval
$ 10,000 or more:	Written Approval

Other Expenses and Capital Expenditures Sections:

The Other Expenses and Capital Expenditures section of the budget, like the rest of it, is a blueprint. All predictable and/or planned expenditures for the upcoming 12 months need to be included in the schedule of expenses. DHCD is granting the latitude to incur these costs without prior approval to most authorities (those with adequate reserves) to assist them in making needed expenditures in a timely manner for unanticipated or emergency situations that arise during the fiscal year. It is not meant to be a way around the budget process, and it definitely is not meant to be, nor can it be, a way to circumvent the bid laws of the Commonwealth. LHAs must adhere to the bid laws during procurement. LHAs are encouraged to show as many expenses on their budget as they can knowingly predict. Only expenditures known to DHCD will be taken into consideration when the Department is determining the LHA's level of operating reserves available to be dedicated to an LHA's contribution toward modernization. Authorities, which abuse this privilege, will have it revoked.

Contracts for capital work in amounts less than $10,000 that are executed by the Authority as a result of expenditures made pursuant to the above do not require Department review and approval, provided that the Authority follows the applicable bidding requirements in accordance with applicable statute(s) and regulation(s). The Department has temporarily waived the provisions of the CFA that requires housing management review and approval for the contracts so mentioned.

All modernization work approved by the Department and funded by LHA reserves will continue to be allowed to use up to 10% of the amount for administrative costs. For AIMM qualified housing authorities, this amount is 13%. (See Modernization Guidelines, Public Housing Notice (PHN) # 2015-22). These costs may be budgeted at the discretion of the LHA, subject to DHCD's approval.

IV. SPECIAL ENERGY INCENTIVES FOR AUTHORITIES

As stated in the utility section above, DHCD regards energy and water consumption as controllable by local housing authorities. As such, authorities will be able to share in the savings resulting from the installation of cost-effective energy and water conservation measures at their state-aided developments.

This strategy represents an opportunity for authorities to take control of utility costs by encouraging implementation of conservation measures that result in prudent consumption of energy resources. If approved by DHCD, proposals will be funded through the utility portion of the Authority's operating budget lines 4360 (Conservation Materials) and 4390 (Other).

The Department will accept proposals from LHAs or assist you in developing proposals on a wide variety of energy and water efficiency measures. These include, but are not limited to:

- The hiring of consultants to perform detailed energy and water audits.
- The replacement of toilets, showerheads, and faucet aerators with low flush/flow type equipment.
- The installation of new high-efficiency heating and/or domestic hot water equipment.
- The replacement of interior and exterior lighting with high efficiency type fixtures and lamps.
- The installation of insulation and/or air sealing measures.

The idea is for all of us to save money. If we are going to be able to fund housing authorities adequately, in the future, we will have to become more efficient. By conserving energy we build reserves at our retained revenue authorities where they will keep 100% of the savings. Deficit authorities will be able to retain up to 50% of any savings, after payment for the cost of the improvements. Our ability to access this money is limited only by our inaction on energy conservation. In the last several years, we had positive movement in a number of areas but we need to do more.
"Savings," in this case, will not be a simple calculation. Because of the fluctuating prices of the different fuels, a simple comparison of one year's expenditure to the last is inappropriate. In addition, the severity/mildness of the heating season must be taken into consideration in determining savings. Therefore, "savings" will be determined by comparison of actual rates of consumption for two years, adjusted by degree-days for the severity of the winter.

Preliminary proposals may be discussed with your Housing Management Specialist. Specific proposals must include a cost/savings projection, appropriate technical design information and other relevant information that supports the measure. DHCD will accept proposals from LHAs on a wide spectrum of energy and water savings measures. LHAs will need to submit a summary comparison of consumption, both current and projected, for each utility source affected. Designer fees are not to exceed a maximum of $10,000. If an LHA must spend more than $10,000 on Designer fees for a capital project, please contact your Project Manager (PM).

NEW PROGRAM

NET METER CREDIT PROGRAM:

Many LHAs have entered into Net Meter Credit Power Purchase Agreements (PPA's). In these deals, an LHA executes a contract with a solar power developer who constructs and owns an off- site solar electricity-generating site. In exchange for contracting to purchase a percentage of the solar power produced, the LHA receives a credit on its utility electric bill for each KWH purchased. Under DHCD's PHN 2015-01, surplus LHAs could retain 100% of these savings and deficit LHAs could retain 25% of the savings, with the 75% balance used to offset its need for operating subsidy.

We are revising this policy for the period ending 6/30/17. Deficit LHAs may retain 100% of all net meter credit savings (that is, the value of the net meter credits appearing on their electric bills, minus the cost of the payments made to the solar power developer under the PPA) earned on or before 6/30/17. (See Appendix A, Schedule of Net Meter Credit Savings). This policy does not apply to credits earned in previously completed and closed LHA fiscal years. It also does not apply to the small number of LHAs that have pledged a portion of their credit savings for capital improvements through the HILAPP program or other agreements. This latter group will be reviewed on a case-by-case basis.