

Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ◆ Karyn E. Polito, Lieutenant Governor ◆ Chrystal Kornegay, Undersecretary

Public Housing Notice 2018-04

TO: All Local Housing Authorities

From: Amy Stitely, Associate Director, Division of Public Housing

DATE: January 26, 2018

RE: Direct Cost Exemption for Operating Reserve Augmentation in FY2018 Budget & New Operating Reserve Thresholds

As stated in the Fiscal Year 2018 (FY2018) Local Housing Authority Budget Guidelines (Public Housing Notice 2018-02), DHCD will be providing a Direct Cost Exemption for the augmentation of the operating reserve for Local Housing Authorities (LHAs), based upon need. With this augmentation, DHCD is also establishing new threshold rules for operating reserve expenditures. These rules are to ensure that, moving forward, all LHAs maintain the appropriate operating reserve level needed to buffer against any unforeseen events.

During the review of each FY2018 LHA budget submission, DHCD will make the determination regarding the need for an operating reserve augmentation, based upon the LHA's actual and/or estimated operating reserve balance as of June 30, 2017, as reported on that LHA's quarter-ending operating statement. DHCD will augment each LHA's operating reserve up to the equivalent of three (3) months operating expenses, based on DHCD calculations. If DHCD finds that an LHA already had the equivalent of three (3) months operating expenses in its operating reserve as of June 30, 2017, DHCD will not move to augment.

DHCD will calculate and provide this augmentation on a case-by-case basis and make modifications to the LHA's budget, as required. Please note that the amount determined by DHCD will be detailed on the ANUEL & Subsidy Worksheet, under "DHCD Approved Exemptions Direct Reimbursement" (Section 8).

With the augmentation of the operating reserve in the FY2018 budgets, DHCD hereby establishes new rules for operating reserve thresholds, which require all LHAs to obtain DHCD approval to spend below these new thresholds ***unless the expenses are to resolve health and safety issues***. The new thresholds are described below.

DHCD will continue to allow LHAs to use their operating reserves for non-routine items and day-to-day operating expenses under the following conditions:

1. An LHA may spend down to 35% of maximum reserve level without consulting DHCD, but the LHA must budget these expenses in the correct line items of their annual operating budget.

If the expense occurred after DHCD approval of the annual operating budget, the LHA should submit a budget revision with these expenditures.

2. Any expenditures from the operating reserve that will result in a projected operating reserve of less than 35% of maximum reserve level, requires **prior written approval** from DHCD, ***unless the expenses are to resolve health and safety issues.*** (See Exhibit A)
3. Each LHA must maintain a projected operating reserve of 20% of maximum reserve level, which **remains the minimum operating reserve level for all LHAs.**
4. LHAs with a projected operating reserve **below 20%, cannot** use its operating reserve for operating expenses, **unless these** funds are used to address **health and safety issues.** ***Expenditures below 20% for health and safety issues must receive written approval from DHCD after the issue is resolved.*** (See Exhibit A)

In all instances, expenditures from operating reserves must be budgeted in the correct line items of the LHA's annual operating budget. If the expense occurred after DHCD approval of the annual operating budget, the LHA should submit a budget revision with these expenditures.

To obtain written DHCD approval of operating reserve expenditures, submit the attached Local Housing Authority Request to Release and Expend Operating Reserve Funds (Exhibit B) to your Housing Management Specialist (HMS).

Each LHA is encouraged to maintain a projected operating reserve of at least the equivalent of three (3) months operating expenses for that LHA. A reserve level above the minimum allows the LHA to plan, to address deferred maintenance items, improve the property to ensure its long term viability, and to provide housing that serves resident needs. LHAs should analyze their property needs to identify which projects should be included in the LHA's capital improvement plan. Identifying capital versus routine needs allows an LHA to make the best use of the funding available.

For small LHAs that have 25 units or less by program (i.e. 400-1, 689), DHCD will negotiate on a case-by-case basis to establish an acceptable full reserve level. This is required due to the low level of reserve established based on the formula (50% of the Total Operating Expenditures). Please note that small LHAs are subject to the same operating reserve thresholds, as detailed above.

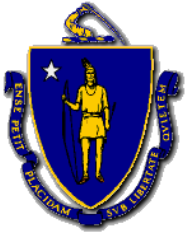
Please be advised that all LHAs are responsible for any expenditures above the ANUEL paid for from their operating reserve. DHCD will not provide additional assistance, nor can we guarantee the future augmentation of LHA operating reserves.

If you have any questions, please feel free to contact Ayo Yakubu-Owolewa, Finance Manager, Bureau of Housing Management at Ayo.Yakubu-Owolewa@state.ma.us.

EXHIBIT A

OPERATING RESERVE THRESHOLDS

Projected Operating Reserve Level After Expense	Expense Type	
	Non-Health and Safety	Health and Safety
<p>≥ 35% of Maximum Operating Reserve Level</p>	<p>LHA may expend Operating Reserve funds without DHCD approval. LHA must include expenditure in correct operating budget line item.</p>	<p>LHA may expend Operating Reserve funds without DHCD approval.</p> <p>LHA must include expenditure in correct operating budget line item.</p>
<p>34% to 20% of Maximum Operating Reserve Level</p>	<p>LHA must submit <i>Request to Release & Expend Operating Reserve Funds</i> (Exhibit B) and receive written DHCD approval <i>prior to</i> expenditure.</p> <p>LHA must include expenditure in correct operating budget line item.</p>	<p>If expenditure is necessary to address a health and safety issue, LHA may expend Operating Reserve funds without prior written DHCD approval.</p> <p><i>After expenditure</i>, submit <i>Request to Release & Expend Operating Reserve Funds</i> (Exhibit B).</p> <p>LHA must include expenditure in correct operating budget line item.</p>
<p>< 20% of Maximum Operating Reserve Level</p>	<p>DHCD will not approve expenditure of Operating Reserve funds.</p>	<p>If expenditure is necessary to address a health and safety issue, LHA may expend Operating Reserve funds without prior written DHCD approval.</p> <p><i>After expenditure</i>, submit <i>Request to Release & Expend Operating Reserve Funds</i> (Exhibit B).</p> <p>LHA must include expenditure in correct operating budget line item.</p>



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**LOCAL HOUSING AUTHORITY REQUEST TO
 RELEASE AND EXPEND OPERATING RESERVE (OR) FUNDS**

LHA Name:		Date of Request:	
Development # <i>(if applicable)</i> :		Person completing this form:	

Amount of Request:	\$		
Maximum Operating Reserve:	\$		<i>(50% of Account 4000 from Current Approved Budget)</i>

Projected OR Balance prior to Request:	\$		For quarter ending:	
Percent (%) of Maximum OR prior to Request:			%	
Projected OR Balance after Request:	\$			
Percent (%) of Maximum OR after Request:			%	

TYPE OF ITEM *-(submit separate request for each item)*

Capital Improvement / Replacement		Operating or Maintenance / Extraordinary Maintenance	
Item addresses a Health and Safety Issue		Item <i>does not</i> address a Health and Safety Issue	
Item was Anticipated		Unanticipated	

Description of Item & Justification for Expending OR Funds *(attach scope of work, specs and bids)*:

Identify Expense(s) Associated with Item <small>(use additional pages as necessary)</small>	Credit Operating Budget Account(s):		Amount Requested	DHCD Approved Amount
	Acct. #	Account Name		
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
Print, sign and submit form and attachments to your HMS	TOTAL:		\$	\$

LHA Authorized Signature _____ **Name/Title** _____ **Date** _____

DHCD USE ONLY

Request Approved:	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No	Amount Approved:	\$	
Request Approved Conditional upon DHCD Inspection:	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No DHCD Inspection Required			
Reason(s) if Not Approved:							

DHCD Authorized Signature _____ Name/Title _____ Date _____