Charles D. Baker, Governor ♦ Karen E. Polito, Lieutenant Governor
Jennifer D. Maddox, Undersecretary

Department of Housing and Community Development

Public Housing Notice 2020-30

Clement Street Development; Malden Housing Authority

FY2021 Local Housing Authority Budget Guidelines
September 17, 2020
Ben Stone, Associate Director
Division of Public Housing

Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT

Charles D. Baker, Governor ◆ Karyn E. Polito, Lieutenant Governor ◆ Jennifer Maddox Undersecretary

September 17, 2020

To Our Housing Partners,

We recognize that 2020 has been a uniquely difficult year for Local Housing Authorities (LHAs) and appreciate the hard work and ingenuity LHAs have brought to keeping their residents and staff safe. Unfortunately, due to the economic impacts of the COVID-19 pandemic on LHAs and the Commonwealth, fiscal year 2021 (FY21) will present significant financial challenges on top of the operational challenges LHAs face.

In a first for DHCD, we are releasing the FY21 budget guidelines before the passage of the General Appropriations Act (GAA). We do not expect that the legislature will pass, and the Governor will sign the FY21 GAA until after the expiration of the 3-month interim budget on October 31. Given this timeline, these budget guidelines assume that the final appropriation for the FY21 operating subsidy line item will be $72 M, level funded with FY20 which represented a $6.5 M (10%) increase over FY19 and a $7.5 M increase over FY13-FY18.

These recent increases have helped to fund ANUEL increases of 10% in FY18, 4% in FY19, and 10% in FY20, along with a large reserve augmentation in FY18 and a $200/unit health and safety budget exemption in FY20. Through both these ANUEL increases and expanded capital funding, the Baker-Polito administration has shown commitment to supporting state-funded public housing and has put LHAs in a strong position to weather the difficult financial situation associated with COVID-19.

DHCD may issue an addendum adjusting these budget guidelines if the final operating subsidy appropriation falls significantly below the FY20 figure of $72M, or if economic trends change substantially.

The FY2021 Budget Guidelines provide for a **4% reduction** to the Allowable Non-Utility Expense Level (ANUEL) for all LHAs. DHCD is forced to lower per-unit budget levels in order to close the gap caused by falling rental income in the family portfolio. In coordination with this ANUEL reduction, DHCD is announcing the following policy measures with the FY21 Budget Guidelines.

- Operating Reserve flexibility – LHAs may present budgets using the reserve to support operations up to FY20 ANUEL Levels;

- New budget exemption to support maintenance for Air Source Heat Pumps (ASHPs);
- New shared savings guidance for Net Metering Credit Deals; and
- Revised and streamlined approval process for Management Agreements.

We at DHCD recognize the hard work that all of you do day-to-day in providing affordable housing to extremely low-income elderly households, young disabled individuals, and families throughout the state. On behalf of the Administration, DHCD, and the entire staff of the Division of Public Housing, thank you all for your unwavering commitment to preserve and enhance public housing across the Commonwealth.

Sincerely,

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Ben Stone, Associate Director, Division of Public Housing

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I. INTRODUCTION & KEY HIGHLIGHTS

These Budget Guidelines apply to fiscal year 2021, which begins July 1, 2020 and includes local housing authorities (LHAs) with budget years of

- July 1, 2020 – June 30, 2021,
- October 1, 2020 – September 30, 2021,
- January 1, 2021 – December 31, 2021, and
- April 1, 2021 – March 31, 2022.

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 reduced by 4% for FY2021**. LHAs may submit budgets with an ANUEL up to the FY20 level if they show the funding gap addressed with use of operating reserve AND the budget does not show operating reserve falling below 35% of maximum reserve level. (Maximum reserve level is one half of the LHA's total operating expenses.) All budgets that exceed FY21 ANUEL and do not meet the conditions for spending up to FY20 ANUEL will be reverted and must be modified.

2. **Use of Operating Reserve:**
   DHCD will allow LHAs, for FY21 only, to use operating reserve to pay for recurring operating costs up to the FY20 ANUEL. DHCD will allow this departure from typical policy so that LHAs with the resources can cushion the impact of the FY21 ANUEL reduction on operations. LHAs may not spend above FY20 ANUEL and can only spend above FY21 ANUEL for recurring line items if their budget shows a sufficient Operating Reserve remaining above 35% of maximum reserve level by end of the fiscal year. DHCD urges LHAs to budget very conservatively given the unknown duration of the COVID-19 economic slowdown and the history of slow wage recovery from previous recessions. We recommend that even LHAs with sufficient operating reserves reduce expenditures toward FY21 ANUEL levels over the course of the year.

3. **Increase to Salaries Line (#4110 and #4410)**
   The "Schedule of All Positions and Salaries" must list all positions and salaries and must reflect total compensation of all staff 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 not accept an excel spreadsheet for the "Schedule of All Positions and Salaries". Each position must be listed on the Schedule.

   The LHA must be able to support any salary increase within the FY21 ANUEL (or FY20 ANUEL if using operating reserves as described above). LHAs may **NOT** charge bonuses to any state-funded housing programs.

A. Administrative Salaries:

LHAs have flexibility to propose salary changes for all administrative staff, except the Executive Director, provided that the total increase in overall salaries charged to state programs (excluding the Executive Director's salary), does not exceed 3% of last year's (FY2020) approved #4110 account.

LHA may exceed this 3% cap if they can present a staffing reorganization plan. LHAs should justify increases above 3% in this line item in the Budget Dialogue Box with their budget submission. DHCD will review the justification for reasonableness and whether the LHA's ANUEL can support the reorganization.

B. Maintenance Salaries:

The Maintenance Labor Account #4410, excluding seasonal help and overtime, must use the current rate published by the Department of Labor and Workforce Development (DLWD) and cannot exceed that rate without prior DHCD review and approval in the LHA annual operating budget.

LHA shall notify DHCD in writing of its intention to begin collective bargaining with unionized maintenance employees.

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.

C. Executive Director Salary:

- No Update to Executive Director Salary and Qualifications Schedule:
    - DHCD will not adjust salary maximums for LHA Executive Directors in FY21. See Public Housing Notice #2019-21 for current salary maximums based on unit counts, program factor, and family factor.

- Executive Director Salary Increases:
    - An executive director whose salary is less than the current maximum may, pursuant to a Board vote, receive up to the allowable maximum per the Executive Director Salary and Qualification Schedule, in FY2021 (FY2022 for 3/31/2022 FYE LHAs), so long as the increase can be absorbed in the LHA's FY21 ANUEL or FY20 ANUEL if the LHA has sufficient operating funding available.
    - If the executive director receives any salary increase pursuant to a Board vote, please follow the submission instructions and deadlines in Public Housing Notice #2019-21. An executive director whose current approved salary already exceeds the maximum in the Schedule may continue to receive said salary without increase until such time that DHCD issues a new Schedule showing that the existing salary is less than the allowable maximum.

- Executive Director Salary Cap:
  - An executive director's total salary, from direct employment at one or two LHAs, shall not exceed a maximum aggregate of $180,000 for all LHA budgets governed by DHCD's and FY2021 Budget Guidelines.
  - An executive director's total salary that includes a portion of salary from other program activities, such as Management Services Agreement fees for day-to-day operations of another LHA and other contracts with any other public or private entities that are temporary or otherwise may terminate, shall not exceed a maximum aggregate of $198,000.

The LHA must be able to support any salary increase within the ANUEL. Bonuses cannot be charged to any state housing programs, and longevity payments are not permitted from any funding source.

4. Air Source Heat Pump (ASHP) Budget Exemption:

Many LHAs have installed ASHPs through DHCD Sustainability funding or the Utility funded lean program. While these ASHPs lower utility costs and greenhouse gas emissions and provide an important cooling function for residents, they require significantly more maintenance than electric baseboard heat. As DHCD covers utility costs for deficit LHAs, these LHAs do not directly see the benefits of the utility savings from ASHPs while bearing the cost of maintenance. In order to recognize the cost of maintaining ASHPs and incentivize continued installation of these systems, DHCD will provide a **$75** annual budget exemption for each unit with an ASHP where:

A) The ASHP replaced electric baseboard heat, and said baseboard is disconnected in primary living space; and

B) The LHA is a "deficit" authority based on the FY21 ANUEL.

C) LHA certifies that they perform annual maintenance on each ASHP unit.

See ***Attachment D: Air Source Heat Pump Count by LHA*** for data in CPS and anticipated budget exemption. If these figures are incorrect, please update CPS and contact your Housing Management Specialist and Sustainability Program Developer Greg Abbe (gregory.abbe@mass.gov) to revise budget exemption.

LHAs should enter this budget exemption on the ANUEL & Subsidy Worksheet, Section 4.

Please note that in the event of major failures of multiple ASHP units despite annual maintenance DHCD will support remediation and replacement through the capital program or through seeking funding through the LEAN program; this budget exemption compensates LHAs for routine, appropriate annual maintenance.

5. Net Metering:

Many LHAs have entered into Net Metering 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 (or, in some cases, a cash payment from the utility company). Under DHCD's PHN 2015-01, surplus LHAs may retain 100% of these savings and deficit LHAs may retain 25% of the savings, with the 75% balance used to offset its need for operating subsidy.

DHCD revised this policy in the FY2017-FY2020 Budget Guidelines to allow all LHAs to retain 100% of all net meter credit savings.

In FY21 budget deficit LHAs may retain **50% of the NMC credit savings**, and surplus LHAs may retain 100% of these savings. DHCD is instituting this policy change to shift resources toward the overall portfolio in order to minimize ANUEL reductions that affect all LHAs.

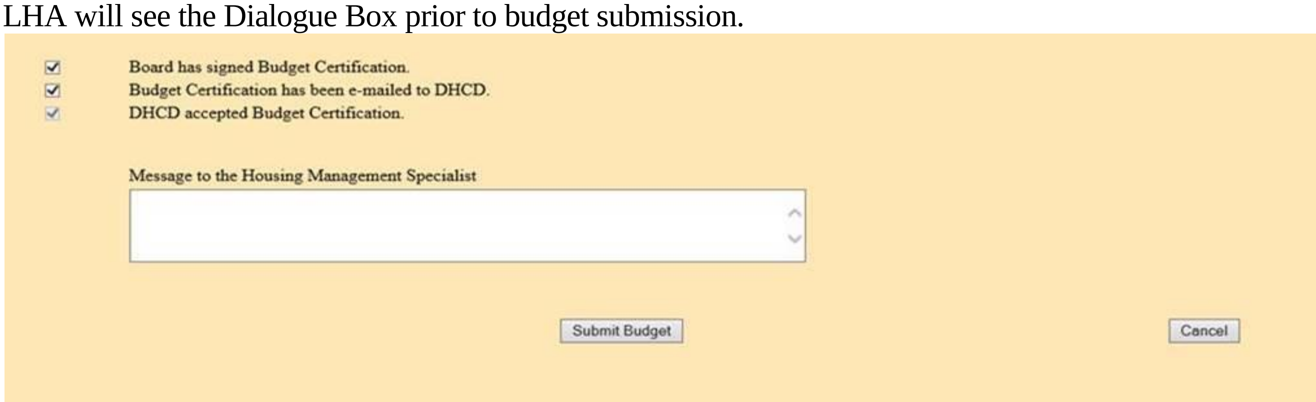
(See Attachment A, Schedule of Net Metering Credit Savings).

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.

PLEASE NOTE that many LHAs are not reporting their net meter credit savings in their operating statements in the manner outlined in DHCD Public Housing Notice #2018-03. After discussions with LHA fee accountants, DHCD has revised the reporting requirements and incorporated them in the descriptions of the relevant individual budget line items in Section III below. In addition, Attachment A is provided to assist LHAs in organizing the net meter credit data to be entered. PHN #2018-03 will be revised shortly to describe this process in more detail.

6. REMINDER - Budget Dialogue Box

LHAs must include notes regarding each of the budgeted line items in the initial budget submission and any budget revisions submitted by the LHA. These notes should be detailed in the Dialogue Box section of the Budget. **If notes as required by guidelines are not contained in the comments section of the budget form submission that the budget may be reverted.**
An LHA will see the Dialogue Box prior to budget submission.


☑ Board has signed Budget Certification.
☑ Budget Certification has been e-mailed to DHCD.
☑ DHCD accepted Budget Certification.

Message to the Housing Management Specialist

Submit Budget   Cancel

In particular, LHAs that use the HUD Central Office Cost Center (COCC) cost allocation methodology should communicate in the Dialogue Box of its budget submission that: 1) the LHA uses the COCC methodology; 2) explain how it arrived at the COCC number in the Schedule of All Positions and Salaries; and 3) identify the COCC per unit cost for both state and federal units. DHCD will be reviewing budgets to ensure that this information is included in the Dialogue Box (as shown above) - see more details under Budget Line Items – Operating Expenses – Administrative Salaries on Page 28.

7. REMINDER - Vacant Unit Fee Assessment

Since October 1, 2016, DHCD's vacant unit re-occupancy policy has assessed daily fees on units that are vacant without a DHCD-approved waiver. Each vacant unit without a waiver is charged a daily rate based on the formula in PHN 2013-07. Fees are calculated on a quarterly basis and LHAs are provided with a report showing, by unit, any assessments due, approximately 2 months after the end of each quarter. Please remember that all deficit LHAs are required to include these assessed fees for the vacant units without a waiver in the calculation of the earned operating subsidy.

NOTE: DHCD waived unit fees for January through June 2020 due to the COVID-19 pandemic, but will charge fees going forward from July 1, 2020 for vacant units without an approved waiver. DHCD will maintain for the remainder of Phase III the current policy allowing LHAs to request vacancy waivers if they have not set up a safe process for move-ins in a common entrance c.667 building. They may request this waiver as Reason 8 – Staff Capacity, noting specific reasons and development in comment. This waiver reason will no longer be available once the Commonwealth moves into Phase IV. (See Section II, T, page 21 below for details).

8. Fillable WORD Budget Certification Form – Includes Executive Director Annual Salary

All budgets require Board approval prior to submission, and **all** board members are required to sign the Budget Certification Form. Effective May 16, 2016, DHCD required all LHAs to complete the **fillable WORD Budget Certification Form**. (See Section II, L, page 15).

DHCD updated the fillable Budget Certification Form for FY20 and FY21 for LHAs to include the executive director's annual salary for the fiscal year. The Budget Certification will now serve as Board approval for *both* the annual operating budget and the executive director's annual salary. The LHA Board must vote to approve the executive director's salary, which must be included in the LHA's fiscal year's operating budget.

ANNUAL OPERATING BUDGET FOR STATE-AIDED HOUSING FISCAL YEAR:	

Motion: **Enter Name of Motion Initiator** moved that the proposed Operating Budget for State-Aided Housing of the **[Enter Housing Authority Name] Housing Authority** (Chapter 200 / 667 / 705 / 689 / MRVP), Program Number **[Program #]** for fiscal year ending **[Enter Fiscal Year End** showing total revenue of **$ Enter Total Revenue (Acct. No. 3000)** and Total Expenses of **$ Enter Total Expenses (Acct. No. 4000)** thereby requesting a subsidy of **$ Enter Total Subsidy (Acct. No. 3801)**, and further that the Executive Director's total annual salary of **$ [Enter total Executive Director Salary]** for fiscal year ending **[Enter Fiscal Year End]** be submitted to the Department of Housing and Community Development for its review and approval. **Enter Person Who Seconded** the motion which, upon roll-call, was passed by a vote of **Enter "For" Vote Total** to **Enter "Against" Vote Total.**

Certified as a true and correct copy of a resolution adopted at said meeting and on file and of record by:

____

Secretary/Ex-Officio Signature

[Enter Housing Authority Name] Housing Authority

____

Date of Certification

By checking this box ☐ , this certification shall have the effect of being made under the seal of the **[Enter Housing Authority Name] Housing Authority.**

Please note that 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.

9. <u>Management Agreements:</u>
DHCD is changing its submissions and approval standards for management agreements entered into between two LHAs, summarized here and detailed in a forthcoming PHN. DHCD will now encourage LHAs to submit new management agreements for approval by the Owner's budget submission deadline. If the LHAs reach agreement after budget submission, they are expected to submit a budget revision with the management agreement.

Approval of Management Agreements will now include DHCD-verification of all anticipated costs payable to the Management Agent: Management Fee, reimbursements and charge-back. We will also review to ensure that the proposed agreement includes staffing presence at the Owner LHA office during regular hours. **<u>DHCD will no longer review resource reallocations between LHAs</u>**. DHCD, however will expect that LHAs have in place an agreement that requires employment and cost allocations be restored to pre-agreement levels in the event that the management agreement is terminated or expires and is not renewed. DHCD will also verify that Owner/Agent LHA Boards acknowledge they have reviewed relevant PMR and AUP materials before approving a **<u>new</u>** management agreement.

Despite the reduction in ANUEL for FY21, LHAs with approved management agreements will be held harmless at their current management fee, so long as the fee fits within the Owner LHA's FY21 ANUEL.

See ***Attachment C: Management Agreement Changes***

10. <u>Conversion of Section 8 NC/SR Properties out of State-Aided Public Housing Program</u>:
Starting in FY2021, some Section 8 NC/SR properties will convert out of the State-Aided Housing Program and fully onto the HUD Section 8 Project-Based Rental Assistance Program. After the conversion is completed by the LHA, these properties will no longer be subject to state-aided public housing regulations, reporting requirements, assistance, and most DHCD oversight (further guidance to be published in a forthcoming Public Housing Notice). LHAs with a Section 8 NC/SR property conversion deadline of FYE 2021 (FYE 2022 for 3/31 LHAs) will count these properties under their federal program in HAFIS. Only these LHAs will need to revise the HAFIS Unit Count and proration to be part of the LHA's federal program as part of their budget submission. HAFIS now has a "Sec 8 NCSR" input box under the federal program to accommodate the proration change.

See ***Attachment E: Section 8 Substantial Rehab/New Construction Program*** for more information and a list of impacted LHAs. Only LHAs with Section 8 NC/SR in their portfolio need to consult this attachment.

11. **<u>Budget Submission Dates</u>**
These Budget Guidelines apply to fiscal year 2021, which begins July 1, 2020 and includes LHA budget years of:

Budget Year	Budget Due By
July 1, 2020 – June 30, 2021	November 15, 2020
October 1, 2020 – September 30, 2021	December 15, 2020
January 1, 2021 – December 31, 2021	December 31, 2020
April 1, 2021 – March 31, 2022	February 28, 2021

12. **<u>COVID-Related Expenses</u>**
DHCD recently published PHN 2020-29 regarding funding from the Coronavirus Relief Fund disbursed to LHAs pursuant to the supplemental budget signed into law on July 24. Due to the timing of the release of the funds and the PHN, we are modifying how LHAs will account for this additional funding in their budgets. For LHAs with FYE 6/30/2021 and FYE 9/30/2021, please include your allocated amount as a DHCD-directed budget exemption as well as the appropriate accounts for which you are planning to utilize these funds. LHAs with FYE 12/31/2020 and FYE 3/31/2021, must submit a budget revision to include this money. The most important requirement is that you must spend this money as a COVID-19 related expense no later than 12/31/2020 in order to avoid potential recapture of unused funding.

13. **<u>Resident Service Coordinator (RSC) Awards</u>**
DHCD will maintain its commitment to the RSC Initiative through at least FY21.
If your LHA received an RSC award, the total amount of the RSC Initiative Award (salary costs and flexible funds) should be budgeted as DHCD Approved Exemptions Direct Reimbursements, regardless of whether your LHA is a surplus or deficit housing authority. In addition, the RSC salary should be budgeted on the Schedule of All Positions and Salaries. Please note, if any portion of these funds will be used for employee benefits, benefits should be budgeted on the Schedule of Insurance and Employee Benefits. The flexible spending funds should be budgeted on the Schedule of Admin. Other. In the case of Regional Awardees, only the lead LHA (the LHA that received the award letter) will need to budget these costs, as the RSC funding will be paid to the lead LHA.

14. **<u>Budgeting for Legal Costs</u>**
All LHAs should set aside part of their budget for legal costs. DHCD has recommended a *minimum* budget for legal expenses of $3,500 for an LHA having 200 or fewer state-aided conventional public housing units and $5,500 for an LHA with more than 200 state-aided conventional public housing units. These costs would include filing costs, service fees, document and scanning expenses, and legal fees for services that are not provided by a Regional Attorney or through the Retained Risk Liability Program.

LHAs in Western Massachusetts, Berkshire, Franklin, Hampden and Hampshire counties that are eligible for the Regional Legal Services Program Pilot should also add the designated annual legal allocation to their amount in this line item. For example, an LHA that has 225 state-aided units and has signed the Regional Legal Services participation agreement will be allotted $6,000 for program expenses. This exemplar LHA should enter $11,500 in the Legal Services budget line, $5,500 from its own funds, and $6,000 which will be reimbursable. If, at year end, this exemplar LHA has not spent its full allocation from the $5,500 legal program allotment, these funds can be reallocated. In accordance with the program conditions, any amount of the $6,000 Regional Legal Services

Program funds which are unused at the end of the year will not be transferable or reimbursed. For further information, please see the program documents or you can contact Sarah O'Leary (sarah.oleary@mass.gov) or Ayo Yakubu-Owolewa (ayo.yakubu-owolewa@mass.gov) for more information.

If your LHA has had legal expenses through the Retained Risk Liability Program you will receive specific budgeting instructions from the program administrator.

II. HOUSING AUTHORITY BUDGETS: AN OVERVIEW

Every year, each LHA 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 show how an LHA's will fund its activities during the upcoming fiscal year. The budget is the basic document through which housing authorities convey their plan for their use of public funds to the state and federal agencies, their residents, 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.

DHCD will monitor housing authority spending for adherence to the budget, compliance with regulations, and sound management operations, and the LHA's residents, as well as the public, will be able to review and comment on the approved budget through the Annual Plan process. The LHA, however, is responsible for formulating and living within the budget. To assist the authority, the fee accountant or 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 report of variances from approved budgets of +/- 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 for how an authority intends to allocate its resources and as such is subject to change. LHA expenditures should generally not vary from approved budget by more than plus or minus ten percent (10%) by line item, with the exception of administrative salary and travel, which are more tightly monitored and may affect the operating subsidy allocated to the LHA for the fiscal year. The above are best practices and DHCD understands that budgets in FY21 may vary more than in typical years due to COVID-19.

Retained revenue LHAs that are budgeting above the allowable expense level for non-utilities should budget these expenses in the correct line items and take special care that projected revenues are realized. See Attachment B for Budget Flexibility 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?

A housing authority's budget is the document through which its financial resources are managed. The budget establishes the estimated amount that will be spent on any particular line item for a particular program within a particular period of time, usually one year. **The Commonwealth's obligation to fund this budget will be limited to the allowable non-utility expense level (ANUEL) set for the budget,**

plus utilities and any approved budget exemptions, minus income. DHCD approves Authority budgets with the understanding that the established budget limits will accurately represent how the authority will fund its operating costs

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 administrative salaries (account #4110) and travel (account #4150) will have their earned operating subsidy reduced by that overrun amount. Housing authorities will be 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, whichever is higher. DHCD, however, only guarantees subsidy to an LHA under the formula above, and will not cover LHA non-utility expenses in excess of ANUEL, unless they are approved budget exemptions LHAs should make sure that they do not overestimate income and/or underestimate utility costs such that the financial position of the LHA is placed in jeopardy.

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.

In regard to retained revenue status and bottom-line budgeting, please see Attachment B, Budget Flexibility 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 and summer cooling season. Accordingly, DHCD will reimburse deficit LHAs for actual utility costs incurred. DHCD, however, views utility costs as a somewhat controllable expense, and strongly encourages LHAs to pursue measures to reduce utility consumption.

We urge all LHAs to take a "hard look" at utility costs and pursue energy saving opportunities through the MassLEAN program and DHCD sustainability funding for energy-saving capital projects. 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 savings, while lower utility costs at deficit LHAs have funded significant increases in the ANUEL for all LHAs over the past ten years by reducing the demand for operating subsidy.

B. How is an authority's performance rated?

On August 6, 2014, Chapter 235, "An Act Relative to Local Housing Authorities," was signed into law. 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

- tenants accounts receivable (TAR)
- board member training
- certifications and reporting submissions
- adjusted net income
- operating reserves (OR)
- Tenant Selection through Common Housing Application for Massachusetts Public Housing CHAMP)
- annual unit inspections
- work order systems
- capital improvement plan (CIP) submission
- capital spending

DHCD reviews the above metrics each year, but as noted in previous guidance DHCD will **not issue any ratings for 2020 Fiscal Year Ends.**

In the future, PMR ratings *may* play a role in the budget approval process at DHCD. For FY21 however, **DHCD will not consider *any* performance review in the budget process**.

C. In preparing its budget how much flexibility will an authority be given?

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 12),
- Increases in maintenance salaries will be restricted (See Section I, page 14); 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 #4191). These provisions are spelled out in greater detail in Section III, Detailed Instructions for Budget Preparation on page 22.

D. Budget Consolidation

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 tenants accounts receivable remaining separate on your balance 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 (beds) 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, and a very small number of certain mixed-finance redevelopments, 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).

E. Quarterly Operating Statements and Year End Statements by Program

LHAs must file a cost breakdown by program each quarter and at year-end (4th quarter). LHAs should distribute 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 sixty (60) days after the quarter end. DHCD will not advance operating subsidy to a deficit housing authority until the statements are submitted. If the year-end (4th quarter) operating statements are not submitted within the required time frame, DHCD will not advance operating subsidy for the second quarter of that LHA's current fiscal year, or for any future fiscal quarters, 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, DHCD will restrict surplus LHAs from using their OR for the second quarter of their current fiscal year, or for any future fiscal quarters until the statements are submitted.

F. c. 689 Program Budgets

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 $251 per CFA unit (per bed) regardless of any reconfiguration of the property by the Department of Mental Health (DMH) or the Department of Developmental Services (DDS), with the understanding that the great majority of rents will be well above that minimum. If your current monthly rent is less than $251 per CFA unit (bed), please contact your service provider/vendor to discuss increasing the rent. Note that your c.689 lease includes the expectation that the rent will increase each year by at least the amount of the Social Security Cost Of Living Adjustments (COLA), which was 1.6% in 2020.

In formulating budgets for the c.689 program, LHAs should 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 (beds) comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to the c.689 program. 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 (bed) monthly rents as they still need to pay rent based on the number of units (beds) 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, LHAs must record and maintain reserve amounts 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 PHN 2009-14.

G. Rental Assistance Budgets

The rental assistance spending level is established based on the administrative fee for the program. The MRVP administrative fee is $50.00 per unit per month as of February 1, 2020. Any expenditure from MRVP reserve funds needs prior written approval from DHCD. DHCD will not approve any budget submission or expenditure which will exhaust the operating reserve for the rental assistance program. LHAs must 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 $50.00 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 $50.00 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. Increases in Administrative Salaries

Administrative Salaries:

LHAs have flexibility to propose salary changes for all administrative staff, except the Executive Director, provided that the total increase in overall salaries charged to state programs, (excluding the Executive Director's salary,) does not exceed 3% of last year's (FY2020) approved #4110 account.

The 3% cap is not intended to apply to LHA reorganizations where positions are changed and/or added. LHAs can determine appropriate staffing levels and positions. A reorganization of the administrative staff, including increases of duties and responsibilities of existing staff and/or addition of administrative position(s) are acceptable, however, the increase in salary and benefits must be budgeted within the LHAs approvable ANUEL.

In these situations, the **LHA must include in the Comments Section of the Budget** a description of the re-organization for DHCD review to ensure reasonableness and that the re-organization can be supported within the LHA's ANUEL.

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 not accept an excel spreadsheet for the "Schedule of All Positions and Salaries". Each individual position must be listed on the Schedule.

The LHA must be able to support any salary increase within the ANUEL. Bonuses cannot be charged to any state housing programs, and longevity payments are not permitted from any funding source.

Executive Director Salary:

Effective for FY2020 budgets, (FY2021 budgets for 3/31 FYE LHAs) DHCD set salary limits for LHA executive directors, based on unit count, a program factor, and a family factor for state-aided family units. (See Public Housing Notice #2019-21.) DHCD will not increase these salary limits for FY2021 budgets. An executive director whose salary is less than the maximum may, pursuant to a Board vote, receive up to the allowable maximum per the Schedule, in FY2021 (FY2022 for 3/31/2022 FYE LHAs), so long as the increase can be absorbed in the LHA's ANUEL.

If the executive director receives a salary increase pursuant to a Board vote, the LHA must submit, no later than the LHA's budget submission/revision deadline, to their assigned Housing Management Specialist (HMS) the completed, chairperson-signed "DHCD Local Housing Authority Executive Director Salary Calculation Worksheet," (See Public Housing Notice #2019-21). The Budget Certification includes a space to input the Board-approved salary. An executive director whose current approved salary already exceeds the new maximum may continue to receive said salary without increase until such time that DHCD issues a new Schedule showing that the existing salary is less than the allowable maximum.

An executive director's total salary, from direct employment at one or two LHAs, shall not exceed a maximum aggregate of $180,000 for all LHA budgets governed by DHCD's FY2021 Budget Guidelines. Additionally, an executive director's total salary that includes a portion of salary from other program activities, such as Management Services Agreement fees for day-to-day operations of another LHA and other contracts with any other public or private entities that are temporary or that may otherwise terminate (e.g., providing management or administrative services on behalf of other housing authorities, private developers, non-profit entities, grant recipients, municipalities, etc.), shall not exceed a maximum aggregate of $198,000.

- Program Factor:
  - DHCD will not approve salaries that count HUD's Section 8 Mobility Program (also known as Section 8 Portability) as a distinct program. This program is already part of the Section 8 Housing Choice Voucher Program.

- o Family Factor:
  - The State Family Factor component of the executive director's salary, as calculated in accordance with the Executive Director Salary and Qualifications Schedule, must only be included in the "Other S-1" column, to ensure the state proration is accurate.

The LHA must be able to support any salary increase within the ANUEL. Bonuses cannot be charged to any state housing programs, and longevity payments are not permitted from any funding source.

I. Maintenance Salaries

The Maintenance Labor Account #4410, excluding seasonal help and overtime, must use the current rate published by the Department of Labor and Workforce Development (DLWD) and cannot exceed that rate without prior DHCD review and approval in the LHA annual operating budget.

If the LHA is currently paying wages in accordance with a union contract at a rate that exceeds the DLWD rate, then in accordance with 760CMR 4.10 (1) (a), the LHA shall notify DHCD, in writing, of its intention to begin collective bargaining, and promptly schedule and participate in a pre-bargaining conference with DHCD to discuss pertinent matters pertaining to the collective bargaining. The LHA shall provide DHCD with a description of the bargaining unit. In consultation with DHCD, the LHA may increase the rate, subject to DHCD review and approval of the LHA annual operating budget.

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.

The LHA must be able to support any salary increase within the ANUEL. Bonuses cannot be charged to any state housing programs, and longevity payments are not permitted from any funding source.

J. Security-Related Expenses

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.
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.

LHAs that have security expenses for enforcing visitor restrictions and social distancing associated with COVID-19 (See PHN 2020-20) should justify spending with comment on COVID-19 visitor restrictions but do not need to provide justification based on the above items, so long as this security is only staffing a front desk for purpose of restricting non-essential visitors.

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

K. Submission Deadlines

These Budget Guidelines apply to fiscal year 2021, which begins July 1, 2020 and includes LHA budget years of:

Budget Year	Budget Due By
July 1, 2020 – June 30, 2021	November 15, 2020
October 1, 2020 – September 30, 2021	December 15, 2020
January 1, 2021 – December 31, 2021	December 31, 2020
April 1, 2021 – March 31, 2022	February 28, 2021

Budgets will be reviewed and approved as soon as possible, but within 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, restarting the "60 day" time limit. Budgets requesting special exemption or requiring follow-up documentation may take longer.

L. Required Elements of Budget Submission

An authority must submit an operating budget for each housing program having contracted/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, with detailed notes in the Dialogue Box Section (Comments) of the Budget. Data and applicable justification includes the Executive Director Salary Calculation Worksheet for any proposed Executive Director Salary increases and for newly hired Executive Directors.

Board Approval and Budget Certification

All budgets require Board approval prior to submission, and **all** board members are required to sign the Budget Certification Form. An electronic Budget Certification for each program budget (400-1, 400-9, c. 689, MRVP, and 400-A etc.) must be submitted and accepted by DHCD to allow for the submission of the LHAs operating budget(s). LHAs must complete the **fillable WORD Budget Certification Form**. Unfortunately, we cannot use the form as an integrated part of the HAFIS system. 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.

The fillable Budget Certification Form includes the executive director's annual salary for the fiscal year. The LHA Board must vote to approve the executive director's salary, which must be included in the LHA's fiscal year's operating budget. The Budget Certification will provide evidence of Board approval for both the annual operating budget and the executive director's annual salary. (See fillable Budget Certification Form, below.)

ANNUAL OPERATING BUDGET FOR STATE-AIDED HOUSING FISCAL YEAR:	

Motion: **Enter Name of Motion Initiator** moved that the proposed Operating Budget for State-Aided Housing of the **[Enter Housing Authority Name] Housing Authority** (Chapter 200 / 667 / 705 / 689 / MRVP), Program Number **[Program #]** for fiscal year ending **[Enter Fiscal Year End** showing total revenue of **$ Enter Total Revenue (Acct. No. 3000)** and Total Expenses of **$ Enter Total Expenses (Acct. No. 4000)** thereby requesting a subsidy of **$ Enter Total Subsidy (Acct. No. 3801)**, and further that the Executive Director's total annual salary of **$ [Enter total Executive Director Salary]** for fiscal year ending **[Enter Fiscal Year End]** be submitted to the Department of Housing and Community Development for its review and approval. **Enter Person Who Seconded** the motion which, upon roll-call, was passed by a vote of **Enter "For" Vote Total** to **Enter "Against" Vote Total.**

Certified as a true and correct copy of a resolution adopted at said meeting and on file and of record by:

____

Secretary/Ex-Officio Signature

[Enter Housing Authority Name] Housing Authority

____

Date of Certification

By checking this box ☐ , this certification shall have the effect of being made under the seal of the **[Enter Housing Authority Name] Housing Authority.**

This fillable WORD Budget Certification Form must be used by an LHA prior to submitting an original or revised state budget for each fiscal year. 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@mass.gov. An authorized administrator from DHCD will review the submission and send an email to the LHA within seven (7) 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. 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; each step is sequential to the one preceding:

1. The HMS has **seven (7) calendar days** to **accept budget(s)**.
   a. The HMS verifies that the **LHA has submitted a budget for each of the state funded programs** administered by the LHA. HMS will 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.

- If a program budget has not been submitted (e.g.; c. 689, MRVP, etc.), HMS will call the LHA, verify that programs exist, request the missing budget to be submitted in **seven (7) calendar days**, and **the budget(s) will be reverted to the LHA**. HMS will follow-up with an email.

2. The HMS has **seven (7) calendar days to verify the unit count and salaries**:
    a. Unit count must include state, federal, and all other programs/units the LHA owns and is managing with the exception of program/units contained in a Management Services Agreement or other management contract.

        - HMS will call the LHA with questions regarding unit count. If the unit count is incorrect or HMS is unable to verify, HMS will **revert the budget(s) to the LHA** to correct the unit count, and will request the information be submitted within **seven (7) calendar days.** HMS will follow-up with an email.

    b. HMS will review administrative salaries, the executive director salary, and maintenance salaries to determine if salaries, including any increases and salary pro-rations, comply with the DHCD Budget Guidelines.

        - HMS will call the LHA with questions regarding salaries. If salaries, including any increases and salary pro-rations, do not comply with the DHCD Budget Guidelines HMS will revert the budget(s) to the LHA to correct any increases and salary pro-rations and will request the budget(s) be re-submitted within **seven (7) calendar days.** HMS will follow-up with an email.

Please note that the total time for HMS review is fourteen (14) calendar days, if the budget(s) is not reverted to the LHA for correction.

3. The HMS forwards LHA budget(s) to Finance with comments in the Tracking Notes that will include details such as: Budget Certification has been reviewed and accepted, all program budget(s) have been submitted, budget(s) includes all programs and units counts, and salaries, including any increases and salary pro-rations, are in compliance with DHCD Guidelines. HMS will also indicate if there is a Management Services Agreement indicating the LHA(s) with which service agreement are in place.

4. Finance receives budget(s), reviews the Tracking Notes and the Dialogue Box and begins the budget review process **within seven (7) calendar days**.

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

6. Review Schedules for adherence to Budget Guidelines:
    a. Program Specific Pages
    b. Schedule of All Positions and Salaries for both administrative salaries and maintenance wages.
    c. Schedule of Insurance & Employee Benefits

d. Schedule of Capital and Other Expenses, listed as Extraordinary Maintenance, Equipment Replacement Capitalized, Betterments & Additions Capitalized, Equipment Purchases Non-Capitalized
e. Expenditures in Excess of ANUEL
f. ANUEL and Subsidy Worksheet
g. Schedule of Exemptions
h. Operating Reserve Analysis
i. Admin Other (4190)
j. Contract Costs (4430)
k. Schedule of Management Agreements

7. Finance records notes regarding ANUEL, reserve level, and any other modifications to the budget in the Tracking Notes and the Dialogue Box in HAFIS. To be completed **within thirty (30) calendar days.**
   a. Recommends approval of the budget(s) and 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 nine (9) calendar days**
   b. If questions, reverts budget to Finance
   c. Approves budget(s) electronically and by letter

Budgets electronically submitted that fully comply with the DHCD Budget Guidelines will be processed and approved within sixty (60) days.

N. Approved Budget Implementation

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. An Authority must present an approved budget 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, whichever is later. **Until the LHA has received an approved budget, it is authorized to spend at a level no greater than ninety-six percent (96%) of the prior fiscal year's approved level, less any one-time budget exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD.**

O. Decrease to Allowable Non-Utility Expense Level (ANUEL).

The Allowable Non-Utility Expense Level (ANUEL) will decrease by 4% for FY2021. LHAs may submit budgets with an ANUEL up to the FY20 level if they show that they addressed the funding gap by using operating reserve AND that in the budget their operating reserve does not fall below 35% of maximum limit. All budgets that exceed FY21 ANUEL and do not meet the conditions for spending up to FY20 ANUEL will be reverted and must be modified.

P. How is an Initial Occupancy Period (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, 22).

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).

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.

Q. 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 require increases in collections, changes to spending and perhaps revisions to the budget.

Revisions are required under certain exceptional circumstances, such as a large extraordinary maintenance or legal settlement expense, the addition or disposition of state-aided public housing units, or the termination of a management agreement.

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 it is submitted, with the appropriate supporting data and applicable information and justification, including detailed notes in the Dialogue Box Section of the Budget. 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.

LHAs must submit any Budget revisions electronically, to DHCD no later than the first (1st) day of the eleventh (11th) month of the authority's current fiscal year. A Budget Certification with all board member signatures must also be submitted electronically.

R. Calculation of Reimbursable Deficits

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

Budgeted ANUEL + Approved Budget Exemptions
plus Actual Utility Cost for the fiscal year
Minus Revenue from Designated Accounts (3110+311+3115+3190+3690+3693)
= *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 sixty (60) days after the quarter ends.

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 (4^{th} 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 or for any future fiscal quarters 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 (4^{th} 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 for any future fiscal quarters 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 quarter 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 60 days after quarter end);
- Certification of Tenant Lead Notification (Due 60 days after year end);
- Certification of Salary and Compensation – "Top Five" (Due 60 days after year end);
- CIP Submission (Due two (2) months prior to the LHA's fiscal year end); and

- LHA Annual Report/Plan (Due two (2) months prior to LHA's fiscal year end).

T. Vacant Unit Fee Assessment

Since October 1, 2016, DHCD's vacant unit re-occupancy policy has assessed daily fees on units that are vacant without a DHCD-approved waiver. As described in PHN 2013-07, fees are calculated on a quarterly basis and LHAs are provided with a report showing, by unit, any assessments due. This report is issued about two months after the end of the quarter. DHCD requires all deficit LHAs to include these assessed fees for the vacant units without a waiver in the calculation of the earned operating subsidy. This amount will be included in Section 12 of the ANUEL and Subsidy Worksheet under the "Vacancy Penalty (Quarters 1-4)." The amount reported will be the aggregate of any fees issued during the four (4) fiscal year quarters of the LHA fiscal year. This way, the amount of fees assessed will be tracked and will also be automatically subtracted from the total earned subsidy for that fiscal year.

Example depicted below.

LHA Name: **Wellfleet** *Quarter Ending:* **9/30/2018**
Program No.: **400-1** *Fiscal Year Ending:* **9/30/2018**

		Budgeted Amount	DHCD Modification	Actual Amount
(1)	Revenue (Accounts 3110+3111+3115+3190+3610+3690+3693 from Budget Page)	905		110
(2)	Non-Utility Cost (Prior Year Approved ANUEL)	1,000		3500
(3)	Allowable Increase of 10% (ANUEL)	1,100		3850
(4)	ANUEL with DHCD Approved Operating Costs Exemptions			
	Description			
	a.	0		
	b.	0		
	c.	0		
	d.	0		
	e.	0		
	f.	0		
		0		
	Total Operating Costs Exemptions	0		0
(5)	Utilities	100		600
(5a)	Fraud/Retroactive Agreements (Acct 3111 from Budget Page)	200		110
(6)	Operating Subsidy Prior to Approved Exemptions ((1)-(3)-(4)-(5)-(5a)) (If Results are a Positive Number Use Zero) $ -4450 (Actual)	-495		-4450
(7)	Line (6) (If -0- Enter -0- or Convert Negative Amount To Be Positive)	495		4450
(8)	DHCD Approved Exemptions Direct Reimbursement			
	Description			
	a.	195		
	b.	0		
	c.	0		
	d.	0		
	e.	0		
	f.	0		
		0		
	Total Direct Reimbursement	195		0
	Reduce Actual Subsidy by Cost Overruns (Budget / Actual / Overrun)			
(9)	4110 — Budget: / Actual: / Overrun: 0	//////////////////	//////////////////	
(10)	4150 — Budget: / Actual: / Overrun: 0	//////////////////	//////////////////	
(11)	Total — Overrun: 0	//////////////////	//////////////////	0
(12)	Vacancy Penalty (Quarters 1-4)	//////////////////	//////////////////	351
(13)	Total Subsidy ((7)+(8)-(11)-(12))	690		4099
(14)	Reduce Actual Subsidy by the Amount that would cause the Operating Reserve Balance to be in Excess of 50% of A/c 4000 from Budget	//////////////////	//////////////////	
(15)	Actual Operating Subsidy Earned ((13)-(14))(No Less than Line 8)	//////////////////	//////////////////	4099
(16)	Actual Operating Subsidy Received	//////////////////	//////////////////	
(17)	Debit Account 1125 Underpayment Due from 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). 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, the 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 be reported separately as 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. **LHAs 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. (NOTE: Currently, the PUMs reported in HAFIS by program (c.667/c.200/c.705) are not accurate. DHCD will correct this error in a future update to the HAFIS system.)

Budget Description (Forms 050 and 070)

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

BUDGET LINE ITEM: REVENUE

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

3110: Shelter Rent
Included 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. LHAs should include notes in the Dialogue Box Section of the budget that include how the rent projection was calculated (i.e., current rent roll of $ x per month, with an anticipated increase of x% due to COLA increases).

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. It is important to note that **this rent increase only applies to the fixed income benefit from social security, not wages or any other source of income.** Before doing so the LHA 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. NOTE that DHCD has temporarily waived late fees for non-payment through the end of the Eviction Moratorium currently scheduled for October 17. See Regulatory Waiver on Late Fees & Interest.

Fraud/Retroactive balances owed should not appear as part of account number 3110, instead, they should be separated out into account 3111.

3111: Shelter Rent – Tenants – Fraud/Retroactive

This account should be used to report total rent receipts from residents due to unreported income. These are often called fraud or retroactive balances.

In cases where deficit LHAs discover, pursue cases, and enter into a written fraud/retroactive re-payment 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 #3111, and two-thirds of this total dollar amount should be included in Other Revenue-Retained, account #3691.

3115: Shelter Rent – Section 8

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 on the balance sheet 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, and should not give space to federal programs free of charge. 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 for the MRVP/AHVP Program. The MRVP/AHVP administrative fee is $50.00 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.

Example 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 have automatic renewal clauses or 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 are only 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.

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. 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 any net meter credits earned from Net Meter Power Purchase Agreements (PPA's) which the LHA is permitted to retain pursuant to these Budget Guidelines. 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 (or, in some cases, the credits are paid as cash to the LHA by their utility company). 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. Over the course of the contracts, LHAs may require subsidy some years but not others, and so the percentage of savings they retain may vary from year to year. The decision as to the level of savings that the LHA may retain will be determined each year when DHCD approves the LHA's year-end operating statement and confirms whether the LHA operated at a surplus or a deficit.

In the FY17 through FY20 Budget Guidelines, we revised this policy to state that deficit LHAs could retain 100% of all net meter credit savings (that is, the value of the net meter credits appearing on their electric bills or cash payments from the utility company, minus the cost of the payments made to the solar power developer under the PPA) earned on or before 6/30/20.

Due to the financial pressures caused by the pandemic, however, and the need to minimize the state-wide cut in the ANUEL, for the FY21 period 7-1-20 through 6-30-21 we are permitting deficit LHAs to **retain 50%** of their net meter credit savings, while the o**ther 50% will be used to offset** their need for operating subsidy. Surplus LHAs will continue to retain 100% of their net meter credit savings. DHCD has revised the reporting requirements for net meter credits and incorporated them in the descriptions of the individual budget line items in this Section III. See Attachment A: Schedule of Net Metering Credits for assistance in organizing the net meter credit data to be entered. PHN #2018-03 will be revised shortly to describe this process in more detail.. This policy does not apply to credits earned in previously completed and closed LHA fiscal years other than those authorized in the FY17 through FY21 Budget Guidelines. 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.

Example: If you earned total net meter credits worth $80,000, and paid $50,000 to the solar operator in account #4391 (below), your "net savings" would be $30,000 ($80,000 - $50,000). In this case, a surplus LHA would typically enter the full $30,000 in this line. A deficit LHA would normally enter 25% of the net savings, or $7,500 in this line, and the balance in Line 3693 (Other Revenue – Energy Net Meter). **However, as noted above, for the period 7/1/20 through 6/30/21, all deficit LHAs may keep 50% of their net meter credit savings (or $15,000 in the example above.)**

<u>3692: Other Revenue – Operating Reserves</u>
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 the DHCD prescribed operating reserve minimum 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

Please note that for the period 7/1/20 through 6/30/21 all surplus LHAs may retain 100% of their total net meter credit savings, while all deficit LHAs may retain 50% of their total net meter credit savings. For detailed information and examples on how to enter net meter credit financial information in your operating statements, please review see the descriptions for each of the relevant line items in these Budget Guidelines.

This account would normally be credited with 75% of the total net meter credit savings realized by a deficit LHA, while surplus LHAs with net meter credit savings would enter $0 here. Savings are calculated as the value of the net meter credits appearing on the LHA's electric bills (or, in some cases, paid in cash to the LHA by their utility company), minus the cost of the payments made to the solar power developer under their Power Purchase Agreement (PPA). Deficit LHAs normally 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 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 schedule called Operating Subsidy Calculation "ANUEL".

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.

3802: Operating Subsidy – MRVP/AHVP Landlords
The credit balance in this account represents the anticipated total receipts from DHCD during the fiscal year for housing assistance payments to 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.

3920: Gain/Loss from Sale or Disposition of Property (Capitalized or Non-Capitalized).
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.

4110: Administrative Salaries

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, project managers, management aides, purchasing agents, engineers, draftsmen, maintenance superintendents, and all other employees assigned to administrative duties.

Please see Key Highlights, pages 1 – 3 and Section II (H), Housing Authority Budgets: An Overview, pages 12-13, 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 4.04.

All positions must be shown in the "Schedule of All Positions and Salaries", whether or not there is a pro-ration of any share of the salary charged to state programs. DHCD will not accept an excel spreadsheet for the "Schedule of All Positions and Salaries." Each position must be listed on the Schedule.

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. In FY2020, the Schedule of All Positions and Salaries was revised to include as a source fees from management contracts budgeted as salary for each administrative and maintenance staff. The revised Schedule includes a new field entitled "Mgmt. Contracts" as a source of salary. In this field LHAs must include the budgeted salary from Management Services Agreement and other management contract fees for each **administrative** and **maintenance** staff, as applicable. LHAs will continue to enter executive director salary earned from these fees in the Schedule of Management Contracts.

For those LHAs that maintain a Central Office Cost Center (COCC), the LHA should input the amounts in the "Other F-1" field, only. Do not enter any other sources in "Other F-1." This applies to all HAFIS Schedules where the LHA is applying COCC. If the LHA is maintaining a COCC, the LHA must also include in the budget submission Dialogue Box: 1) the LHA uses the COCC methodology; 2) explain how it arrived at the COCC number; and 3) include the COCC per unit cost for both the state and federal units. DHCD will be reviewing budgets to ensure that this information is included in the Dialogue Box. If additional space is required, the LHAs may use the Comments Section of the Schedule of All Positions and Salaries to supplement its explanation.

If the LHA is receiving fees for services (that is, from Management Services Agreement(s), or other management contracts where the LHA is providing a service for a separate public or private entity), the LHA must also include these fees in the Schedule for Management Contracts. The total salary input for the executive director in the Schedule for Management Contracts will be auto-calculated in the executive director line item of the Schedule of All Positions and Salaries. However, as stated above, the LHA should input the salary for all other administrative and maintenance staff taken from management fees in the

Schedule of All Positions and Salaries. See Attachment C for changes to management agreement submissions and approvals.

Authorities must indicate under the column headed “Code” on the Schedule of All Positions and Salaries which pro-ration is used and include a description of each code. During the development period for a property, 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.

Other important guidance to note:

- The state Family Factor component of the Executive Director’s salary, as calculated in accordance with the Executive Director Salary and Qualifications Schedule, must only be included in the “Other S-1” column, to ensure the state proration is accurate.

- LHAs should maintain the executive director line item as one position, despite any change that may occur to personnel holding that position within a given fiscal year.

- Bonuses and longevity payments for the Executive Director are not permitted and cannot be charged to any state housing program. Permitted bonuses (i.e., not from state sources) should be entered as a separate line item in the Schedule of All Positions and Salaries. Bonuses should be booked under “Other - F2” or “Other Sources,” as appropriate.

The Budget Certification, which must be executed by the Board, 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, or other (i.e., private affordable housing) 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, especially if administrative salaries will increase by greater than 3%. DHCD will also review new management agreement submissions to ensure that there is staffing presence at the Owner LHA office during regular hours.

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.).

<u>4130: Legal Expenses</u>
This account should be charged with retainers and fees paid to attorneys for legal services relating to the operation of the state-aided developments. An authority's expense for legal services should be fixed in its budget, and as legal fees can escalate quickly, Authorities should keep a close watch on legal costs and contact DHCD's risk management department for guidance when a legal matter appears to have costs escalating beyond the Authority's ability to pay. Budgeting instructions follow for specific legal service arrangements:

<u>Authority engages counsel of its own choosing:</u> Where a housing authority directly engages legal services from attorneys of their own choosing, 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.

<u>LHA works with Regional Attorney:</u> Authorities with a DHCD Regional Attorney available should 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 should budget $5,500 for legal costs, expenses and other incidental costs related to legal issues. Each LHA is required to directly pay for all of its costs for mailing of notices or responses as well as costs associated with filing litigation, including court filing fees and constable service, even where the LHA has access to a DHCD Regional Attorney. As the LHA approaches its fiscal year end, any funds budgeted for legal services 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.

<u>LHA participates in Regional Legal Services Pilot program with pre-qualified Attorney:</u> Many LHAs in Western Massachusetts, Berkshire, Franklin, Hampden and Hampshire counties are eligible for the Regional Legal Services Program Pilot where they will be reimbursed for legal services provided by pre-qualified attorneys. 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 should budget $5,500 for legal costs, expenses and other incidental costs related to legal issues. Each LHA is required to directly pay for all of its costs for mailing of notices or responses as well as costs associated with filing litigation, including court filing fees and constable service, even where the LHA has access to a pre-qualified program attorney. As the LHA approaches its fiscal year end, any funds budgeted for legal services that remain unexpended or uncommitted may be transferred to another line item as allowed under these budget guidelines.

In addition to including the baseline legal budget recommended above, LHAs that have signed the Regional Legal Services participation agreement should also add the designated annual legal allocation to their amount in this line item. For example, an LHA that has 225 state-aided units and has signed the agreement will be allotted $6,000 for program expenses. This exemplar LHA should enter $11,500 in the Legal Services budget line, $5,500 from its own funds, and $6,000 which will be reimbursable. If, at year end, this exemplar LHA has not spent its full allocation from the $5,500 legal program allotment, these funds can be reallocated. In accordance with the program conditions, any amount of the $6,000 Regional Legal Services Program funds which are unused at the end of the year will not be transferable or reimbursed. For further information, please see the program documents or you can contact Sarah O'Leary (sarah.oleary@mass.gov) or Ayo Yakubu-Owolewa (ayo.yakubu-owolewa@mass.gov) for more information.

Retained Risk Liability Program: When an Authority incurs legal expenses through DHCD's Retained Risk Liability Program it should follow the specific budgeting instructions contained in the Payment Authorization letter from the program administrator.

Account Exclusions: This account should not be charged with legal fees incurred for collection of amounts owed by former tenants Such fees, if not recovered through the court action shall be charged to Account 4190.

4140: Compensation to Authority Board 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 or $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:

1. Registration fees for conferences are allowable for a reasonable number of LHA members and the Executive Director.

2. 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.

3. Private auto mileage incurred in the course of authority business is reimbursable at the rate of forty-five 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.

4. 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.

5. Reimbursement for meals is allowed as below, and will be updated in accordance with the National Association of Government Employees (NAGE) Unit 6 collective bargaining agreement, located at: https://www.mass.gov/doc/nage-unit-6-collective-bargaining-agreement/download (Page 40, Section 11.2).

Breakfast:	Travel begins no later than 6:00 a.m. - $6.00 maximum allowable.
Lunch:	Travel must exceed 24 hours - $8.00 maximum allowable.
Supper:	Travel must end after 6:00 p.m. - $16.00 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.

6. 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; and
- 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 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.

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 that are provided routinely and are contracted for on an annual basis. Only accounting services performed on a contractual basis (fee accountant) should be included in this item. Full or part-time LHA accounting staff that provide 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.

LHAs have the flexibility to negotiate accounting 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 the LHA. **Audit costs are to be absorbed within the ANUEL.** The new Agreed Upon Procedures (AUP) audit costs should also be included in this account.

Agreed Upon Procedures (AUP)

Annually, LHAs will be required to enter into a contract with a DHCD pre-qualified Independent Certified 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/account write-offs; payroll/fringe benefits; disbursements/accounts payable; inventory (fixed assets); procurement/public bidding for goods and services; cash management and investment practices; and operating subsidy; and annual rent calculation and compliance.

The AUP program is now in the fourth year of implementation, referred to as a "Publishing Year." LHAs will NOT receive an exemption to their budget for the cost of the AUP. LHAs are required to absorb the cost of the AUP financial review within the LHA's ANUEL.

Please refer to Public Housing Notice (PHN) #2016-10 for guidelines, requirements and schedule for implementation of this program. Also, see PHN 2017-14 for changes announced in the "Publishing Year" of the program; and PHN #2018-15 for DHCD guidelines on Seeking CPA firms for the AUP Program and the most recently issued guidelines regarding compensation firms may receive, as detailed below.

Compensation for AUP Services

The following table reflects the maximum compensation firms may earn for the AUP, not including reimbursable expenses. Note, compensation for services is based upon the number of units that are under management by the LHA.

LHA Size	Maximum Hours	Hourly Cost	Total Maximum Cost
1-50	15	210	$3,150
51-199	18	210	$3,780
200-499	21	210	$4,410
500-999	24	210	$5,040
1,000+	26	210	$5,460

Reimbursable Expenses:

At the completion of the AUP report, firms should submit to the LHA invoices for payment for reimbursable expenses incurred. These submissions should be supported by invoices or receipts. The following are the only allowable reimbursable expenses:

- The cost of printing more than five copies of required submissions;
- Mileage reimbursement for driving in MA only, at a rate of .45 per mile; and
- Any other specially authorized reimbursement deemed essential by the Department in writing.

Non-Reimbursable Expenses:

- An LHA shall not reimburse the firm for telephone, postage, and delivery. The firm shall not be entitled to compensation for the services of sub-consultants.

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 internet 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:

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

B. 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 programs. 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. 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 shall reimburse an LTO for the minimum cost of basic in-state telephone service so long as the telephone service has been used solely for in state calls concerning representation of residents in state-aided public housing and for no other purpose, and so long as the LTO's need for in-state telephone service continues and is adequately documented when the LHA so requests. The LTO must present the monthly statement to the LHA for reimbursement.

Cell Phones: the use of cellular phones at LHAs is a common practice. As a result, and as stated in the FY2007 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.

4. 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.

5. 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 statewide contracts, Commodities and Services whenever viable.

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

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

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

9. **OTHER:**
This includes all administrative costs, including contract computer support not described elsewhere. Internet access should be budgeted here. Legal costs specifically related to collection of debts owed by former tenants, which are not paid by the debtor, should also be included here.

4191: Tenant Organization

LTO Funding by the LHA. Upon request, the LHA shall fund all LTOs in a city or town at the annual rate of $6.00 per state-aided public housing unit occupied or available for occupancy by residents represented by such LTO(s), or an annual total of $500.00 prorated among all such LTO(s), whichever is more. For more information on the creation and funding of LTOs see 760 CMR 6.09.

The LHA shall disburse such funds to an LTO pursuant to an approved budget, which provides that funds will be used only for the LTO's ordinary and necessary business expenses and authorized activities (excluding social activities) with respect to state-aided housing programs. The LTO shall not make any expenditure of funds received from the LHA except in accordance with a budget approved by the LHA which approval shall not be unreasonably withheld. The LTO must submit a financial statement to the LHA at the end of the LHA's fiscal year, accounting for all LTO income from the state-aided housing portfolio and all expenditures of such funds in accordance with their approved budget. The next year's LTO funding will not be awarded until such statement has been reviewed and approved by the LHA.

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) or reimbursement for the minimum cost of basic in-state telephone service; 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 by other sources (which are typically recorded in line #3691 as "Other Revenue Retained"), 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 total cost of electricity purchased for all purposes. 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 or in some cases receives a direct cash payment from their utility company. **Please ensure that the amount charged to this account is the total cost of electricity BEFORE any reductions due to the receipt of net meter credits.** The LHA electric bill should state both this total cost of electricity used, as well as the payment due, which will be smaller than the total cost if the LHA has had credits applied to the bill. **Please enter the pre-credit cost here.**

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. In addition, effective immediately for all 9/30/20 quarterly or year-end operating statements and 6/30/21 budgets, please use this line to record the total net meter credits earned as reported in Line 4392, MINUS the Solar Operator Costs reported in Line 4391, with the result expressed as a positive number. For example, if you reported -$20,000 in Net Meter Utility Credits in Line 4392 and $15,000 in Solar Operator Costs in Line 4391, you would subtract the $15,000 reported on Line 4391 from the -$20,000 reported on Line 4392, and post the remainder of $5,000 on Line 4360, as a positive number. This number essentially represents the "net" savings the LHA earned from its net meter credit contract.

4390: Other Utilities

This account should be charged with the cost of utilities which are not provided for in accounts 4310 through 4360.

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.

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.

DHCD will assist LHAs with funding for capital projects to reduce utility consumption or will assist LHAs with securing projects through the utility-funded LEAN program.

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

4391: Solar Operator Costs

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 Credit (Negative Amount)

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, which reduces the balance on its electric bill, or, in some cases, the credits are paid in cash to the LHA by the utility company. The total gross amount of the net meter credits that appear on the LHA's utility bills, or that it receives in cash payments, should be carried in this account and entered as a negative number. In cases where credits are paid in cash for multiple solar project offtakers to a "Host" LHA, the net balance retained by the Host LHA after paying out the amounts due the participating housing authorities should also be carried in this account and entered as a negative number.

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 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.
>
> If the LHA is currently paying wages in accordance with a union contract at a rate that exceeds the DLWD rate, then in accordance with 760CMR 4.10(1)(a), the LHA shall notify DHCD, in

writing, of its intention to begin collective bargaining, and promptly schedule and participate in a pre-bargaining conference with the DHCD to discuss pertinent matters pertaining to the collective bargaining. The LHA shall provide DHCD with a description of the bargaining unit. In consultation with DHCD, the LHA may increase the rate.

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.

Bonuses and longevity payments are not permitted and cannot be charged to any state housing 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, landscape services, 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 service contracts must comply with M.G.L. c. 30B (as enforced by the Office of the Inspector General). Contracts bid in accordance with applicable state statute and for which the Authority has adequate funding no longer require advance Department review and approval. However, contracts that require sealed bids because their estimated value is greater than $50,000, such as those for elevator and fire alarm servicing, need additional Department oversight and review and so must continue to be submitted.

Any service contract that involves repairs to the building or its systems must be procured as construction in accordance with M.G.L c. 149. Those with an estimated value over $50,000 must be procured through sealed bids and must be submitted for Department review.

“Schedule of Contract Costs.” LHAs should list any anticipated contract cost individually on this schedule. Items include, but are 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 service 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 bid pursuant to 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, c. 30B;
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. 149. Both cases require applicable prevailing wage rates; and
k) Trades workers who may be called for electrical or plumbing repairs which are outside the scope of authority staff, procure per 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.

“Contract Register”

The LHA Contract Register should include both goods and services as well as modernization contracts.

<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 housing 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 agencies 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 Account4510.

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 that the enterprise model 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 in the web-based HAFIS application.

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

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 projected losses for tenant rents. Note: Do not include losses from fraud/retroactive balances here. Report them in Account 4571 – Collection Loss – Fraud/Retroactive.

Per GAAP accounting, LHAs shall adopt an allowance method for uncollected tenant rents. Each year, LHAs should move a certain percentage of their uncollected tenant rents into Account 1123 (Allowance for Doubtful Accounts). 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 estimated percentage should be set aside in Allowance for Doubtful Accounts. LHAs may also consider the age of outstanding receivables in determining this percentage. Each time LHAs set aside amounts in Allowance for Doubtful Accounts, it also increases the Collection Loss Account 4570.

DHCD issued an important Public Housing Notice (PHN #2017-13) with guidance relating to Tenants Accounts Receivable (TAR), including a number of significant changes. Please review this PHN in detail. The PHN goes into detail on:

- Clarification about what balances should appear within TAR;
- How LHAs prepare for the AUP & PMR; reporting requirements for the quarterly TAR application to be released later this year;
- Changes in accounting practices for fraud/retroactive repayment agreements and details about quarterly reporting requirements in the TAR application for these agreements;
- Clarification on accounting for normal repayment agreements and details about quarterly reporting requirements per the TAR application for these agreements;
- Change in accounting practice for Allowance for Doubtful Accounts;
- New rules for writing off uncollected rent

4571: Collection Loss – Fraud/Retroactive

The balance in this account represents the estimated expense to cover projected losses for tenant rents due to unreported income, i.e. fraud/retroactive balances.

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 (such as many tools or routine replacement parts), 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.

An example of this might be mass replacement of battery-operated smoke/fire alarms.

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, LHAs spend between $100 and $500 a year per unit in Extraordinary Maintenance (4610), Equipment Purchases (4611), Replacement of Equipment (7520), and Betterments & Additions (7540) to ensure that the aging public housing stock is preserved. Budgets that are not submitted within this range will be carefully.

4715: Housing Assistance Payments

This account should be debited with 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, such as vehicles or furniture, 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.

7540: Betterments & Additions - Capitalized

This account should be debited with the acquisition cost (only the net cash amount) of non-expendable 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 or major paving work.

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 should 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. An LHA's inventory listing should include both capitalized and non-capitalized items of $1,000 and more, as well as all refrigerators and stoves of any value. All items that appear on the inventory listing should be tagged with a unique identification number, and all refrigerators and stoves (regardless of value) should be tagged. 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. (Please reference DHCD's Accounting Manual for State-Aided Housing Programs, Section 15 (D) for further detail.)

Operating Reserve and Operating Reserve Analysis Form

In an effort to provide an appropriate operating reserve ("OR")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 FY21, DHCD will allow LHAs to use their OR for operating expenses up to the FY20 ANUEL if the LHA's budget shows OR remaining above 35% of maximum.

DHCD has rules for minimum OR thresholds and require DHCD approval to spend below this threshold **unless the expenses are to resolve health and safety issues**. For further guidance, please review PHN #2018-04.

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

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

Net Assets (Balance Sheet Account 2806)

Any expenditure from OR that will result in a projected OR of less than 35% of maximum reserve level requires prior written approval from DHCD, unless the expense is to resolve health and safety issues. LHAs should submit the operating reserve request form for 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 gives LHAs with sufficient reserves the latitude to incur these costs without prior approval to assist them in making needed expenditures in a timely manner for unanticipated or emergency situations that arise during the fiscal year. LHAs must adhere to the bid laws during procurement. LHAs are encouraged to show as many expenses on their budget as they can reasonably predict. Only expenditures known to DHCD will be taken into consideration when the Department is determining the LHA's level of OR available to be dedicated to an LHA's contribution toward modernization.

LHAs may execute contracts for capital work in amounts less than $50,000 as a result of expenditures made pursuant to the above without 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.

Certain force account projects will need approval from Bureau of Housing Development & Construction.

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). These costs may be budgeted at the discretion of the LHA, subject to DHCD's approval.

NET METERING CREDIT PROGRAM:

Many LHAs have entered into Net Meter Credit Power Purchase Agreements (PPAs). 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 (or, in some cases, the LHA receives a direct cash payment from their utility company). 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. Over the course of the contracts, LHA may require subsidy some years but not others, and so the percentage of savings they retain may vary from year to year. The decision as to the level of savings that the LHA may retain will be determined each year when DHCD approves the LHA's year-end operating statement and confirms whether the LHA operated at a surplus or a deficit.

In the FY17 through FY20 Budget Guidelines, DHCD revised this policy for the period 7/1/16 through 6/30/20 to allow all LHAs to retain 100% of all net meter credit savings (that is, the value of the net meter credits appearing on their electric bills or cash payments for the utility companies, minus the cost of the payments made to the solar power developer under the PPA) earned on or before 6/30/20.

However, for the period 7/1/20 through 6/30/21 we a**re revising this policy to require deficit LHAs to retain 50% of savings only**, with the balance to be used to reduce the LHA's operating subsidy needed. This policy does not apply to credits earned in previously completed and closed LHA fiscal years, other than those authorized in the FY17 through FY20 Budget Guidelines. 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. **PLEASE NOTE that many LHAs are not reporting their net meter credit savings in their operating statements** in the manner outlined in DHCD Public Housing Notice #2018-03. After discussions with LHA fee accountants, DHCD has revised the reporting requirements and incorporated them in the descriptions of the relevant individual budget line items in Section III above. In addition, Attachment A is provided to assist LHAs in organizing the net meter credit data to be entered. PHN #2018-03 will be revised shortly to describe this process in more detail.