Deval L. Patrick, Governor ♦ Aaron Gornstein, Undersecretary

Department of Housing and Community Development

Public Housing Notice 2013-21

FY 2014 Local Housing Authority Budget Guidelines

September 26, 2013

Lizbeth Heyer, Associate Director

Division of Public Housing and Rental Assistance

Cover photo: Washington Avenue, Stoneham Housing Authority (c. 200-2)

Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT
Deval L. Patrick, Governor ◆ Aaron Gornstein, Undersecretary

September 26, 2013

To our housing authority partners,

I am extremely pleased to announce the Allowable Non-Utility Expense Level (ANUEL) will be increased by 9% effective July 1, 2013 for FY 2014. The 9% increase is effective for all LHAs at the start of the LHA's fiscal year. We are able to grant this significant increase thanks in part to two major initiatives. One is utility cost savings reaped from tens of millions of dollars of DHCD and ARRA funds invested in utility efficiency improvements. The other is the federalization of nearly 4,000 state public housing units allowing for the redirection of available operating subsidy funds to the State's remaining public housing portfolio. Due to the support and commitment of the Patrick Administration and the Legislature for the public housing program we have been able to implement and carry out these initiatives with you as our partners. Also making this ANUEL increase possible is the continued decline in natural gas costs over the last few years, due to the development of vast new gas reserves in the United States which has also lead to a decline in electricity costs.

Together over the past two years through the Vacancy Re-occupancy initiative have brought over 400 public housing units that had remained vacant over 60 days back on-line, thereby increasing the number of units available to the low-income households of the Commonwealth. Additionally, any decrease in the vacancy rate across the portfolio generates additional rental income which can then be used to better maintain and preserve the portfolio.

Given this, it is important that you plan your FY '14 budgets to maximize occupancy of your developments by maintaining and preserving the properties. To accomplish this, you will need to direct the use of funds to your maintenance needs, including unit turn-over, deferred, routine, preventive, and extraordinary maintenance, and to build your operating reserves. You are encouraged to take actions to ensure the preservation of your assets.

This year we are implementing a requirement that all LHAs procure an auditing firm to conduct an annual Independent Financial and Programmatic Audit of each LHA's state-aided program including MRVP and AHVP. The audit will review the prior 12 months as of the date of the LHA's fiscal year. The cost of this audit will need to be absorbed within your ANUEL. We have not fully developed the requirements of this audit, but will be issuing them within the upcoming months through a Public Housing Notice.

We know that many LHAs are dealing with the impact of federal sequestration and we do not under estimate the impact of this on your operations, however, you must address this through the use of HUD guidelines and cannot charge federal costs to the state operating budget.

I thank you all for your dedication and perseverance while we strive together to make state-aided public housing a sustainable resource. I look forward to the year ahead.

Sincerely,

Lizbeth Heyer, Associate Director, Division of Public Housing and Rental Assistance

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WHAT'S NEW IN 2014:

- 9% ANUEL increase, effective for all LHAs at the start of the LHA's fiscal year
- Increases to all salaries must be reasonable. The total Administrative Salaries Account remains uncapped
- Program and Financial Annual Audit required for all LHAs
- Elimination of Audit Exemption

KEY HIGHLIGHTS AND CHANGES IN FY 2014

1. **The Allowable Non-Utility Expense Level (ANUEL) will be increased by 9.0% in FY2014, effective July 1, 2013 for all local housing authorities at the start of the LHA's fiscal year.** It is expected that LHAs will utilize this increase by directing these funds to expenditures that preserve the LHAs assets. Please do not submit a budget that exceeds the housing authority's approved ANUEL. All budgets received that exceed the ANUEL will be reverted and must be modified.

2. **Increases to the Administrative Salary Line remain uncapped. However, any increase to the overall administrative salaries account (#4110) must be reasonable. An increase to the Executive Director salary, must also be reasonable.** 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. Employees with no proration of any share of their salary charged to state programs must be shown with full salary.

   DHCD will review increases in the administrative salaries account (#4110) for reasonableness. Any #4110 account line that reflects an increase above 3% will be reviewed to ensure that the LHA has adequately provided for its operational needs and has an adequate operating reserve level. An Executive Director salary increase above 3% will be reviewed by DHCD in the same manner as the overall account. LHAs are reminded that in accordance with Public Housing Notice 2012-02 total compensation of the Executive Director is capped at $160,000. LHAs are also reminded that salaries are generally prorated by number of units or number of bedrooms in a program.

3. **Annually, LHAs will be required to procure the services of an auditing firm to conduct an Annual Independent Financial and Programmatic Audit of the LHA's state-aided programs including MRVP and AHVP. The audit will review the prior 12 months as of the date of the LHA's fiscal year end.** In planning for the FY'14 budget, LHAs should anticipate the additional cost for the Annual Independent Financial and Programmatic Audit to be paid for within the LHA's Allowable Non-Utility Expense Level (ANUEL). Based on a limited review of the cost of the federal Single Audit, we estimate the cost to be $12 per unit per audit period. We offer this estimate to assist you in planning for this cost.

   The guidelines and requirements of the Annual Independent Financial Programmatic Audit will be considered to be incorporated within these FY '14 Budget Guidelines when issued. LHA's will be notified through a Public Housing Notice, which will provide the guidelines, requirements, and effective date.

4. **DHCD will no longer allow an exemption for the cost of Single Audits.** This cost must be paid for within the LHA's ANUEL. Audit requirements are on-going costs and as such need to be included in the operating budget as a cost of doing business.

5. **The Budget Certification form is required with each budget (400-1, 400-9, 689, MRVP, Section 8 New Construction/Substantial Rehabilitation). DHCD will not initiate or approve a budget without the Certification. The Budget Certification signifying the board's approval is essential.** A complete submission includes two original Certification pages with signed and sealed extracts of the minutes signed by the Secretary Ex Officio from the board meeting approving the proposed budget. <u>The Certification must be signed by each board member</u>, whether the board member individually voted yes, no, abstained or was absent from the board meeting. An accurately submitted certification with all required information completed, including check boxes appropriately marked, will assist in the timely processing of the budget(s).

6. **The "Schedule of Exemptions" must be completed** when an LHA is submitting a request for an exemption. This schedule records specific information about exemptions requested including reason, amount requested and timeframe.

7. Housing authorities with either a July 1, 2013 or an October 1, 2013 budget start date have forty-five (45) days from the date of these Budget Guidelines to file their budget(s).

BUDGETING OVERVIEW

The Department continues to reduce the content of the Budget Guidelines. Our goal in reducing the length of the Guidelines is to make it easier for executive directors and board members to have a clear comprehension of current budget issues.

These Budget Guidelines apply to fiscal year 2014 which begins July 1, 2013, and includes LHA budget years of:

- July 1, 2013 - June 30, 2014,
- October 1, 2013 - September 30, 2014,
- January 1, 2014 - December 31, 2014, and
- April 1, 2014 - March 31, 2015.

Budgets are due thirty days prior to the start of an LHA's fiscal year. However, LHAs with either a July 1, 2013 budget start date or an October 1, 2013 budget start date have forty-five days after the issuance of these budget guidelines to file their budget(s).

It is the responsibility of the local housing authority (LHA) to follow the Budget Guidelines and to implement them effectively and in accordance with applicable provisions of the Accounting Manual for State-Aided Public Housing. We encourage you to contact DHCD staff if any part of the Guidelines or the Accounting Manual is unclear to you.

The Guidelines highlight changes from the previous year and spotlight topics of special interest. The detailed descriptions of budget line items are located in the Accounting Manual and no longer repeated in the Guidelines. Requirements and initiatives of a continuing nature introduced in previous budget guidelines are still in effect unless specifically noted otherwise by the Department. Continuing items are chronicled in the Accounting Manual, and previously issued Local Housing Authority Guidelines. The FY2007 Local Housing Authority Budget Guideline was the last comprehensive guideline issued by DHCD.

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) as applicable, and for reviewing its approved capital budgets. An LHA budget must be carefully and openly prepared with the full understanding of the LHA's board and any recognized Local Tenants Organization (LTO).

The LHA is responsible for formulating and operating within its budget. To assist the LHA, the fee accountant or LHA staff accountant will provide quarterly operating statements to the executive director which will include budget-to-actual reports for all state programs and a variance report which identifies unanticipated variances of 10% or greater in individual line items. The executive director will provide this report and written explanation of any variances to each member of the Board of Commissioners, quarterly.

DHCD BUDGET APPROVAL PROCESS: Our goal is to meet the review and approval timeframes outlined in the FY 2012 Local Housing Authority Budget Guidelines. It is important to note that a complete submission allows for efficient processing of an LHA's proposed budget submission.

WHAT YOU CAN DO TO ENSURE THE QUICKEST BUDGET APPROVAL: Ensure that your budget submission contains all the required documents as described in the FY 2012 Local Housing Authority Budget Guidelines. Please note the following:

a) **The Budget Certification form signifying the board's approval is an essential element of the budget submission and DHCD will not initiate or approve a budget without the Certification.** All board members, whether or not they were present at the meeting that the proposed budget was approved must sign the Budget Certification. Two (2) original, fully completed, signed and sealed extracts of the minutes from the board meeting approving the proposed budget, together with the budget certification form must be submitted for each budget submission.

b) An explanatory letter or e-mail identifying any variance from the norm or area that the proposed budget deviates from these Budget Guidelines. The explanation must highlight all major changes in the proposed budget.

What happens if a submission is incomplete or exceeds the Allowable/Approvable ANUEL: If the submission is incomplete or exceeds the ANUEL, the proposed budget will be reverted to a housing authority for modification or completion along with the LHA's budget submissions for all other programs. Situations such as this will result in delays in obtaining an approved budget.

HOUSING AUTHORITY BUDGET Q & A:

The following section answers some of the most common questions about the budget and its submission process. It is provided for easy reference for the LHA and its constituents in understanding the LHA's budgeting.

A. What does the 400-1 budget represent?

The 400-1 budget represents the LHA's conventional housing programs (c. 200, c. 667 and c. 705). It is one budget prepared for the consolidated operation of the LHA's state-aided public housing programs.

B. In preparing its budget, how much flexibility will an LHA be given?

Within the requirements set by Mass General Laws and DHCD regulations, and guidelines the LHA has full latitude in determining how best to budget allowable operating expenses to meet its program needs locally, provided that the LHA's management performance has been deemed acceptable.

For an LHA whose management performance has been determined to be less than acceptable, certain restrictions apply. The LHA will not have budget flexibility, will not be eligible for incentive programs, and cannot receive salary increases until the performance has improved to an acceptable level.

C. How is an LHA's performance rated?

An LHA's performance is based on its compliance with DHCD regulations, the strength of its management systems, and its overall performance during the past year. DHCD will work with an LHA with less than acceptable performance to establish a corrective work plan which includes a timetable to address operating deficiencies or non-compliances.

D. How do spending levels apply to those 667, 689, 705, and 200 developments funded under the Section 8 New Construction and Substantial Rehabilitation Program?

Spending levels for Section 8 New Construction/Substantial Rehab developments are contingent upon the HUD allowable contract rents for the LHA's fiscal year. LHA operating costs for these programs cannot exceed the allowable contract rent for the development.

E. How is the 689 program affected?

The 689 program spending level is limited by the contribution available under the contract between the LHA and the vendor. In formulating budgets for the 689 program, adequate funding must be provided to ensure adequate maintenance services are assigned to each program development. LHAs are expected to prorate costs such as administrative salaries and related benefits, and other administrative costs in direct proportion to the percentage of an LHA's portfolio that the leased units comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to the 689/167 program.

NOTE: LHA's are reminded that Lease/ Management Contracts governing this program now allow for Cost of Living Adjustments (COLA) as determined by the Social Security Administration for the upcoming year. Any resulting rent increases should be incorporated into overall program budgeting/expenditures. Increases are effective on the anniversary date of the lease/contract.

F. How are Rental Assistance budgets established?

The rental assistance spending level is established based on the administrative fee for the program. The MRVP administrative fee is $32.50 per unit per month. Any expenditure from MRVP reserve funds, whether for routine or non-routine costs, needs prior written approval from DHCD. DHCD will not approve any budget submission or expenditure which will place the operating reserve for the rental assistance program in a negative status.

The AHVP administrative fee is $25.00 per unit per month. The DMH project-based rental assistance administrative fee is $40.00 per unit per month.

G. Can LHAs that are required to implement project-based budgeting for their federal public housing units use the same system for their state public housing developments?

LHAs with Federal Low Rent Public Housing units of 400 or more are now required by HUD to implement project-based budgeting for their federal programs. Inherent in this methodology is the concept that only costs directly associated with a particular project can be charged to that project and that other overhead costs must be allocated to a Central Office Cost Center (COCC). HUD provides for LHAs to fund the Central Office Cost Center with a fixed per-unit management fee to cover all COCC expenses. This poses a problem in budgeting and accounting for State programs, especially in the areas of Administrative Salaries, Legal, Other Administrative Expenses and Maintenance Labor, because these costs will now be captured by the COCC and will not be reflected as a direct cost of the State program(s).

DHCD will allow those LHAs using federal project-based budgeting to prepare the state operating budget to conform to the HUD-prescribed method with some exceptions.

DHCD will allow an LHA to use a Central Office Management Fee and a Central Office Bookkeeping Fee that will be shown as an expenditure in account 4190 – Administrative Other. The fee is to be equal to the prior year DHCD approved costs for the included items. The LHA may request a higher fee(s) (but in no case higher than the maximum allowable federal fee of $72.10 per occupied/leased unit for central office costs and $7.50 occupant/leased unit for bookkeeping services), but will be required to support that amount with a detailed breakdown of the individual people and expense line items, by program, that make up the expenses and the differences between the amounts proposed, and those now being charged to the Central Office Cost Center. Such requests should be forwarded to DHCD as quickly as possible to prevent delays in budget approvals. DHCD will base its approval of such additional spending requests on the backup presented and historical spending information.

The LHA will still be required to present a budget that conforms to the allowable ANUEL set by DHCD for FY 2014. Additional funding needs due to the transition to project-based budgeting will be addressed in future years funding.

A summary of total costs by program (including all Federal and State), by line item, must be completed to allow DHCD to determine that the LHA has conformed to the allowable ANUEL in the budget guidelines. This detailed breakdown will be required to be in Excel format and e-mailed along with the budget submission.

H. Are lead paint certifications submitted with the 400-1 operating budget?

No. Lead paint certifications must be submitted with the year-end financial statement certifications.

I. When are accounts payable required to be accrued?

Accounts payable must be accrued on a quarterly basis and included on LHAs' quarterly operating statement, as well as on the year-end operating statement(s). All operating statements must accurately reflect any accounts payable.

J. Who is responsible for completing the Accounts Receivable reports as part of the Quarterly Operating Statements?

There are two schedules for the reporting of accounts receivable. One report identified as Accounts Receivable LHA must be completed by the LHA as it contains information regarding repayment agreements that the LHA has entered into with tenants. The second report identified as Accounts Receivable FA must be completed by the fee accountant or financial person preparing the statements.

K. When are year-end operating statements due?

Year-end operating statements must be submitted within forty-five (45) days after year-end. Operating subsidy will not be advanced to a housing authority that fails to meet this submission requirement. Housing authorities will not be advanced operating subsidy for the second quarter of their current fiscal year if the prior year-end statement is not submitted within this time frame.

L. When can projected operating reserve be used for operating expenses?

A deficit housing authority with a projected operating reserve, which is at least 20% of maximum reserve level, may use their reserves for operating expenses. However, the use of these reserves cannot result in the reserve level falling below 20% of maximum reserves.

> If a **deficit housing authority overspends** their approved ANUEL throughout their fiscal year, they **will do so without an approved** DHCD **exemption and** DHCD **will not approve** a budget **exemption** to **augment** the **operating reserve.**
>
> A deficit housing authority with a projected operating reserve **below 20%, cannot** use their operating reserves for operating expenses, **unless these** funds are used to address **health and safety items.** Expenditures for health and safety items must receive prior written permission from DHCD.

M. What are the requirements for an LHA to receive Retained Revenue Status?

A housing authority requesting **retained revenue status must have a projected operating reserve level of 40% of maximum reserve level**. Please refer to FY2007 Budget Guidelines for additional criteria for a retained revenue housing authority.

N. If an LHA budgets expenditures above the allowable non-utility expense level (ANUEL) but does not have reserves above 20% of maximum reserve level will DHCD provide additional assistance?

No, DHCD will not provide additional assistance now or in the future. All housing authorities are responsible for any expenditures above the allowable non-utility expense level (ANUEL) paid for from operating reserve