Massachusetts
Department of Housing & Community Development

Local Housing Authority FY 2008 Budget Guidelines

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Massachusetts Department of Housing and Community Development
Budget Guidelines for State Public Housing – Fiscal Year 2008

Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT

Deval L. Patrick, Governor ◆ Timothy P. Murray, Lt. Governor ◆ Tina Brooks, Undersecretary

To our housing authority partners,

Thank you for your patience. In recent years the always challenging job of managing state public housing became almost intolerably difficult in many communities, as funding for both capital improvements and operating costs were squeezed ever tighter. Each year you were required to produce operating budgets that somehow had to make do with little, or most often, no new funding. A 2% increase in FY'02, followed by 0% budget increases in 2003, 2004, 2005, and 2006 led to an inconceivable financial drought only slightly alleviated by the long overdue 7% increase in FY'07.

The Patrick administration believes in public housing. Our commitment will be demonstrated by a tangible commitment of dollars and cents, by rebuilding trust and developing a new partnership with housing authorities, and by actively seeking out, testing, and implementing creative new ideas to make the state's public housing system – your public housing system – one that is sustainable for the long run.

One important early step in this revival of public housing is a new approach to operating budgets. DHCD is convening a panel of LHAs and private housing sector experts to re-think the current system, in which every c. 667, c. 705 and c. 200 unit in the state receives the same budget as every other such unit. The goal will be to create a new approach which better captures the real costs in our extremely diverse portfolio. However, developing a new budget system and then testing and evaluating it to ensure its impact on each LHA is a fair one will take time, and we are therefore targeting FY'09 for its implementation.

WHAT'S *NEW* IN 2008:

- **12% ANUEL Increases (p. 3)**
- **7% Admin Salary Account Increases (p. 3)**
- **Bonuses for Innovative Projects (p. 4)**
- **Greater Budget Flexibility (p. 4)**
- **Enhanced Control over Staffing Levels and Positions (p. 3)**
- **Utility Cost-Saving Initiative (p. 7)**

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But we didn't want to wait a year to start making improvements, and so you will also find many substantive changes in these FY'08 budget guidelines. We worked hard to ensure that this major redrafting of the Guidelines would make a significant start on some of **our key goals:**

- **Immediately increase LHA maintenance capacity – our highest priority**
- **Begin rebuilding operating reserves**
- **Maximize local decision control and responsibility**
- **Address salary fairness**

The most notable improvement is a 12 percent increase in the allowable non-utility expense level (ANUEL) – by far the largest portfolio-wide dollar increase ever - made possible by a $15 million increase in the operating subsidy line item for fiscal year 2008 – also by far the largest increase ever in the line item. In addition, the Governor has filed a $5 million supplemental budget to cover the short fall in FY06 caused by the extraordinary increase in utility costs. We drastically decreased the bulk of the guidelines, moving most of the technical content back to the Accounting Manual so we could focus your attention on what is truly new or of special importance. We added flexibility to staffing decisions and some line items, streamlined the budget approval process, and made other improvements based on suggestions made in a series of meetings with LHAs and fee accountants.

This is only a first step. We plan to do more listening, questioning, experimenting and collaborating in the months and years ahead. We recognize that for many LHAs this year's budget increase, while substantial, may not be adequate to address all your most urgent needs, but with your help we will map out a path to get there. So thank you again for hanging tough through all those years of drought; we're excited about the greener times ahead.

Tina Brooks, Undersecretary

Amy Schectman, Associate Director

And the Staff of the Division of Public Housing and Rental Assistance

KEY HIGHLIGHTS AND CHANGES IN FY'08

The most exciting news this year centers on the new financial resources we have been provided by the Legislature and Governor Patrick. While these funds are the source of many of the budget changes below, please note the other highlighted items as well.

1. **Greater LHA Control Over Staffing Levels and Positions: LHAs will no longer need to seek DHCD approval to reorganize their administrative and maintenance staffing levels or responsibilities,** provided they operate within the Budget Guidelines' ANUEL and Administrative Salaries limits, and they notify their Housing Management Specialist of the changes and reasons they were implemented.

   Maintenance staffing levels: For example, in considering maintenance staffing levels, the long-time agency guideline that an LHA should provide one maintenance person for every 40 units of family housing and every 80 units of elderly housing should be treated only as a starting point in assessing the LHA's needs, and not a DHCD requirement. Many factors can impact maintenance staffing levels, such as the distance between properties, the physical condition of the LHA's housing stock, turnover rates, land area, and extent of work that is contracted out. LHAs will now have full authority to determine staffing levels, within the budget limits noted below. **Using the new spending authority from the Commonwealth to step up long-deferred maintenance is the best way to ensure continued financial support.**

2. **The allowable non-utility expense level (ANUEL) will be increased by 12%** in FY08, effective at the start of each LHA's fiscal year. As you plan your FY'08 budgets, we strongly encourage you to maximize the use of these funds to address deferred maintenance needs and begin restoring operating reserves. By demonstrating that the Commonwealth's renewed financial support for public housing is being deployed effectively, we build the case for continued support in future years.

3. **The Administrative Salaries Account (#4110) will be allowed a 7% increase.**

   The Executive Director's salary will not be capped, but must fit within the 7% cap on the administrative salary account. If the new Executive Director Salary and Qualifications Schedule increases the Executive Director's salary, DHCD will allow an exemption to the 7% salary account cap for the amount of the increase above a 7% increase in salary. This is effective with LHA budget years beginning July 1, 2007. **Please note three important changes to the Schedule:**

   a. **The Schedule now provides program factor salary increases for five additional programs:** the Alternative Voucher Housing Program (AHVP); Supportive Housing; Transitional Housing, Section 8/New Construction/Substantial Rehabilitation developments built or rehabilitated with state public housing capital funds and other programs.

b. **A total of ten program factors may now be applied to determine the Executive Director's salary**, twice the previous maximum of five factors.

c. **If an Executive Director manages more than one LHA, then in addition to the Bedroom Unit (BRU) factor, each program at each LHA can now be counted as a separate program factor,** up to the maximum of ten noted above. This more fairly compensates such directors for the complexities of running multiple LHAs, and encourages small LHAs to share the same director by providing a salary that can attract more experienced and qualified leadership.

LHAs are not prohibited from giving pay increases in excess of the funds available in the Administrative Salaries Account. They are merely restricted in the total salary costs they may charge state accounts. DHCD has no oversight over LHA spending from federal public housing funds or other sources. However, LHAs with other funding sources are reminded that as programs, unit counts or unit composition changes, the allowable state share of salaries must be adjusted accordingly. For example, if new state-aided units are added to the LHA stock, or federal units are demolished, then the state share of salaries increases; conversely, if the number of federal units increases or the number of state units decreases, then the state share is reduced.

4. **NEW -- Bonuses:** Many LHAs invest significant time and effort in innovative projects that directly benefit the LHA by improving state public housing operations or saving money, or assist its tenants by, for example, starting up a computer learning site or on-site daycare for LHA tenants. To support these efforts, LHAs may move funds within their ANUEL to the administrative salaries account in excess of the 7% increase to allow for up to three one-time bonuses of up to $1,000 each. These funds can be distributed to either the staff or the executive director, as determined per year by the LHA. The goal of this initiative is to encourage and reward the development of new local initiatives benefiting state public housing or significant improvements to existing programs benefiting state public housing. We ask that you provide a description of each initiative you choose to reward to your Housing Management Specialist. These descriptions will be compiled and periodically distributed to all LHAs to further spur the development of more new ideas in more communities. Bonuses should be noted separately from base salaries on the Schedule of All Positions and Salaries, and is not eligible income for determining future salary increases.

5. **INCREASED LHA BUDGET FLEXIBILITY:** DHCD understands a budget is only a plan, or blueprint, of how an LHA intends to allocate its resources. Since it is subject to change, DHCD has long allowed adjustments between budgeted and actual expenditures, but this year the Department is allowing even greater flexibility. While DHCD will continue to monitor LHAs' overall non-utility budgets to insure proper expenditure levels, please note the following new policies:

   - **LHAs in compliance with DHCD rules and guidelines do not need to submit budget revisions or obtain DHCD approval to move funds between non-utility lines.**
   - **Overruns in the administrative salary line of 2% or less will no longer be penalized with a loss of subsidy but will need a year-end explanation.**

- **Similarly, overruns in the salary line will not be enforced provided the overruns are incidental (2% or less of the approved account) and are not the result of a violation of the parameters outlined in the Guidelines.**

LHAs must still keep overall expenditures within the approved Allowable Non-Utility Expense Level (ANUEL). Retained revenue LHAs budgeting above the allowed expense level for non-utility costs need to take special care that the revenues projected to pay those costs are in fact realized.

6. **Biennial rent re-certifications for senior housing tenants:** At the suggestion of a number of LHAs, DHCD will allow Authorities to request a regulatory waiver to perform rent re-determinations every two years, rather than every year. 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 $2 million in additional state subsidy costs, which we cannot afford to divert for this purpose given the local needs around the state. Therefore LHAs seeking a waiver of 760 CMR 6.04(4) will need to increase tenant rents in the "off" year by an amount equal to the percentage increase in the COLA. Before doing so they will also need to execute an amendment to the tenant's lease. As always, tenants will have the right to request a re-determination if the rent calculated in the manner described above exceeds the rent due under the regulations. DHCD has drafted a lease amendment form for use by LHAs obtaining this waiver.

7. **This year DHCD plans to revise its regulations (760 CMR 6.09 (3)(c)) to increase the minimum that LHAs must budget each year to fund recognized local tenant organizations (LTOs).** The current $3.00 per occupied unit per year minimum LTO fee has not been increased in over twenty years and a change is long overdue. Until the regulation is amended, we strongly urge all LHAs to budget the maximum allowed under the current regulations - $6.00 per occupied unit/per year, or $250, whichever is greater. Per the regulation, LTOs seeking this funding must submit a budget, comply with the regulation (760 CMR 6.00), and request

RESOURCES FOR LOCAL TENANT ORGANIZATIONS

These funds shall only be provided to the LTO for purposes which enable it to carry out its primary function - effective participation in the administration and management of the LHA. 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 or recreational or social events to further tenant participation in the LTO. Examples of ineligible expenses include political or religious contributions and payments to benefit individual tenants or household members.

Each LHA should also make available to each duly recognized LTO upon request: reasonable space for an office; a reasonable supply of office furniture, use of equipment and consumable office supplies; the installation and basic service costs for a private telephone line (the tenant organization must pay for its own long-distance calls); and the use of available common rooms for LTO meetings.

payment by either: (a) scheduled direct payments, in accordance with their approved budget, provided the LTO agrees to keep detailed financial records of all expenditures; or (b) submitting specific vouchers to the LHA.

8. **The Fee Accountant Schedule has been adjusted by the same percentage (7%) as the growth in administrative salaries.** Please note that these are the maximum fees for the programs in question and are not absolute. Authorities may negotiate lower amounts and in cases where the LHA does not require "full services" it should negotiate a reduced fee. (**See Appendix A: Fee Accountant Schedule**).

   Please note that effective July 1, 2007 all operating statements must be entered into the web-based reporting system, and we will not be able to accept statements on paper or in other electronic formats. Not only does the web-based system provide easier access to new and historical data, it also provides DHCD with a powerful new tool to easily analyze costs in many ways, a tool that will be essential in helping us to design and measure the success of a new approach to developing LHA budgets, as mentioned above (p. 1).

   - **One exception to this requirement:** The web-based budget submission will no longer require on-line entry of the Supporting Schedule of all Positions & Salaries, provided that an Excel spreadsheet version of the positions and their prorations are provided electronically to the Housing Management Specialist. The LHA may choose to continue submitting this form on-line at its option.

   The LHA may either negotiate an agreement with the fee accountant to perform the data entry work necessary to complete the on-line forms, or it may enter the data itself. LHAs may offer their accountant a limited fee for this data entry work in excess of the approved fees in the Fee Accountant Schedule, provided they maintain operations within their established ANUEL.

9. **The Maintenance Labor Account (#4410), excluding seasonal help and over-time, will be based on the published** Department of Labor and Workforce Development (**DLWD) rates or the last approved salary rate, whichever is higher**. LHAs are reminded that 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. (Temporary summer help and assistance during school vacations does not have to be compensated at DLWD rates.)

   LHAs with union contracts are reminded that DHCD is not a party to those contracts, which are exclusively between the LHA and its union. As noted above with regard to the administrative salary line item, LHAs with other funding sources may use those funds to pay salaries higher than those authorized by these Budget Guidelines, but if those funds are lost, DHCD is not obligated under the union contract or other contracts to replace the lost funds. DHCD staff can assist you in evaluating these issues in the pre-bargaining conference provided for at 760 CMR 4.11.

10. **The Regional Attorney Program is allowed to increase by the same percentage (7%) as the growth in administrative salaries.**

11. DHCD is developing DHCD-funded initiatives to achieve rapid savings in water/sewer and electricity costs. We will be announcing these later this year.

In addition, we urge all LHAs to take a hard look at utility costs and consumption to identify opportunities for LHA-funded cost savings. DHCD's guideline for shared savings provides for retained revenue LHAs to keep 100% of the savings and for deficit LHAs to negotiate the amount of the savings they can keep after paying for the cost of improvements. **DHCD will consider any plan for the expenditure of funds accrued from energy saving initiatives at LHAs, including funds identified from billing errors.**

With utility costs now accounting for 40% of the total cost of operating state public housing, the need for conservation has never been greater. Last year, DHCD requested that all LHAs immediately seek to purchase energy supply contracts for at least one year. **This year, to share ideas and strategies for increasing utility savings, DHCD will be holding workshops throughout the state on energy saving proposals and initiatives.** Proposals from LHAs or requests for assistance in developing proposals for energy or water efficiency measures may include, but are not limited to:

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

Specific proposals may be directed to your housing management specialist. Proposals must include a cost/savings projection, technical design information and other relevant information which supports the measure. LHAs will need to submit a summary comparison of consumption, both current and projected, for each utility source affected.

"Savings" in this case will not be a simple calculation. Due to fluctuating prices of the different fuels, and concurrent opportunities to reduce both consumption and rate, a comparison of one year's expenditure to the last does not provide an accurate depiction of the savings. The severity/mildness of the heating season must be taken into consideration. "Savings" will be determined by comparison of actual rates of consumption for two years, adjusted by degree days.

For LHAs that have executed, or will execute in the future, an Energy Performance Contract, the Department is developing an auditing protocol to be followed by the LHAs and the Department's finance department. It will include, but not be limited to:

- a streamlined monitoring & verification (M&V) report issued by the Energy Service Company (ESCO) that will afford the LHA an adequate comfort level when assessing the net savings or shortfall realized from their performance contract,

- the implementation of a standard accounting procedure for ESCO-related costs when submitting budgets, as well as quarterly & year-end operating statements,
- the accounting procedure to follow when booking your loan payments and savings.

BUDGETING OVERVIEW

As noted above, this year the Department is reducing the content of the Budget Guidelines. This abbreviated version highlights changes from the previous year and spotlights topics of special interest. The detailed description of budget line items found here in the past are located in the Accounting Manual for State-Aided Public Housing and will no longer be repeated here. (Please call your DHCD housing management specialist if you do not have the most current version of the Accounting Manual, effective July, 2004). Requirements of a continuing nature introduced in previous budget guidelines, such as Department approval on antenna income spending, are still in effect unless specifically noted otherwise by the Department. These items will eventually be consolidated and appended to the Accounting Manual in a one-stop format that will be much easier to access.

One of our goals in reducing the length of the Guidelines is to make it easier for executive directors and commissioners to have a clear comprehension of current budget issues. It is the responsibility of the local housing authority (LHA) to understand the Guidelines and to implement them effectively. We encourage you to contact DHCD staff if any part of the Guidelines is unclear to you.

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. An LHA budget must be carefully and openly prepared with the full understanding of the LHA's board and tenants.

The LHA is responsible for formulating and operating within the budget. To assist the LHA, the fee accountant or LHA staff accountant will provide to the executive director quarterly operating statements 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 of the board members quarterly.

The effective date for the implementation of the new budget is the first day of the LHA's new fiscal year, or the date it is approved by the Bureau of Housing Management, whichever is later. Until the LHA's new budget is approved, it is authorized to spend at a level no greater

These budget guidelines apply to fiscal year 2008 which begins July 1, 2007 and includes LHA budget years of:

- July 1, 2007 - June 30, 2008,
- October 1, 2007 - September 30, 2008,
- January 1, 2008 - December 31, 2008, and
- April 1, 2008 - March 31, 2009.

Budgets are due thirty days prior to the start of an LHA's fiscal year, but an LHA with a July 1, 2007 budget start date has thirty-five days after the issuance of these budget guidelines to file its budget.

than the prior fiscal year's approved level less any one-time exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD, unless otherwise approved by the Director of Housing Management.

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

STREAMLINED DHCD BUDGET APPROVAL PROCESS: Because delays in budget approval make the effective management of your operations more difficult, one of our budget goals this year is to reduce the time it takes to obtain DHCD's budget approval. Rather than separate reviews by both the Housing Management Specialists and housing management finance staff, all LHA budgets will now be reviewed only by the finance staff, who will consult with the Housing Management Specialists on an as needed basis. Our goal is to meet the following review and approval deadlines:

1. To notify you about any incompleteness in your budget submission within ten working days of receipt;

2. To notify you of any significant questions or concerns raised by your budget within thirty working days of receipt, and

3. To complete our review and issue approvals within forty-five working days of DHCD acceptance of the budgets.

Looking further ahead, we are hoping to develop mechanisms to automate the approval of routine budgets that meet the requirements of the guidelines and do not seek any budget exemptions.

WHAT YOU CAN DO TO ENSURE THE QUICKEST BUDGET APPROVAL: The key is to make sure your budget submission contains all the required documents, including:

a) The electronic submission of all LHA program budget(s), including all required schedules, which have been prepared in accordance with guidelines. These budgets must include all required data and all applicable justifications for exemptions and other variances from the norm,

b) an explanatory e-mail highlighting all major changes in the budget, as well as any areas in which the proposed budget deviates from these Guidelines, and

c) two original signed and sealed copies of the Budget Certification form, signed by all board members. **Please note that this form, which signifies your Board's approval of the submitted budget, is an essential element that must be received before we can initiate the approval process.**

Incomplete submissions are reverted to an LHA for correction or completion. This could greatly delay approvals.

HOUSING AUTHORITY BUDGET Q & A:

The following section answers some of the most common questions about the budget and its submission process.

A. What does the 400-1 Budget Represent?

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

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

Budget flexibility depends on the LHA's management rating (discussed in detail below). An LHA with a Management Rating of Acceptable Performance will be given significant latitude in formulating its budgets. Three specific restrictions will apply to all LHAs:

- increases in the LHA's administrative salaries will be limited to the percentage allowed above – this year, 7%.
- increases in maintenance salaries (Acct. No. 4410) will be limited in accordance with the Guidelines; and
- increases in the established ANUEL will be restricted in accordance with the Budget Guidelines, with exceptions for retained revenue LHAs meeting the threshold requirements. Refer to Appendix B: Budget Flexibility for Housing Authorities with Retained Revenue.

An LHA with a Management Rating of Unacceptable Performance has limited flexibility and must comply with the criteria established in Section C, below.

In addition, it should be noted that all LHA budgets will be required to meet certain obligations stated in the General Laws and DHCD regulations. For example, by regulation LHAs must provide financial support to any LHA recognized local tenant organization.

C. How is an LHA's performance rated?

Each LHA will receive a management rating of either Acceptable Performance or Unacceptable Performance based on compliance with DHCD regulations, the strength of its management systems, and its overall performance during the past year. In addition, each LHA with a rating of "Unacceptable Performance" may have an annual on-site review conducted by its housing management specialist and/or other Division staff from DHCD. It is important to note that management ratings may be downgraded as a result of actual operating practices observed during any on-site review throughout the course of the year or when actions of an LHA warrant a down graded rating.

Management Reviews of LHAs with a rating of "Unacceptable Performance" will continue where warranted and special scope reviews will be undertaken by DHCD to review LHA management operations. The Management Review provides DHCD with the ability to assess the proficiency of LHA operations, systems and conformance with statutory and regulatory requirements. DHCD will define the levels of performance that will enable low performing LHAs to achieve the Acceptable rating.

The two management ratings are defined as follows:

1) **Acceptable Performance**: This rating indicates consistent and solid regulatory compliance, sound administrative, maintenance, rental assistance, production, and fiscal management practices, as well as continued success in promoting and/or improving housing programs within the local community.

2) **Unacceptable Performance**: This rating signifies serious and substantial management, fiscal, production, or program management problems, or problems which have remained uncorrected over a period of time and demonstrate fundamental management weaknesses. LHAs with this rating will have no budget flexibility and will not be eligible for incentive programs. The LHA must establish a corrective work plan with a timetable to accomplish the tasks listed therein. DHCD will closely monitor the LHA's progress and may take more drastic action if the LHA maintains this rating. LHAs with this performance rating cannot receive salary increases until the management rating changes.

If serious deficiencies are found in an LHA's operations and the LHA is showing a significant good faith effort to correct these deficiencies, the Bureau of Housing Management may assign a "No Rating" to that LHA. The **"No Rating"** notification will include a timetable for corrective action and time for a follow-up review. This rating is usually reserved for LHAs with poor past performance who are under new leadership.

D. Can management ratings be appealed?

Yes. An LHA may appeal its management rating if it feels the rating does not fairly reflect the accomplishments of the last year. Appeals should be in writing and directed to:

Director, Bureau of Housing Management
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114

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

For Section 8 New Construction/Substantial Rehab developments, spending levels are contingent upon the HUD allowable contract rents for the LHA's fiscal year.

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

F. 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.

G. 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 month.

H. 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 greater than 250 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 plus the new budget guidelines allowable percentage increases. The LHA may request a higher fee(s) (but in no case higher than the maximum allowable federal fee of $56.50 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 2008. 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 increases identified in the budget guidelines. This detailed breakdown will be required to be in Excel format and e-mailed along with the budget submission.

APPENDIX A: Fee Accountant Schedule

1. Consolidated Conventional Program

Fee Accountant Schedule for consolidated programs (c.200, c.667, c.705) at a single program local housing authority.

Category	Unit Range	Monthly Fee	Annual Fee
1	1-24	$259.00	$ 3,108.00
2	25-74	$341.00	$ 4,092.00
3	75-99	$381.00	$ 4,572.00
4	100-124	$398.00	$ 4,776.00
5	125-149	$432.00	$ 5,184.00
6	150-174	$471.00	$ 5,652.00
7	175-199	$507.00	$ 6,084.00
8	200-224	$542.00	$ 6,504.00
9	225-249	$579.00	$ 6,948.00
10	250-274	$615.00	$ 7,380.00
11	275-299	$651.00	$ 7,812.00
12	300-324	$670.00	$ 8,040.00
13	325-349	$701.00	$ 8,412.00
14	350-374	$706.00	$ 8,472.00
15	375-399	$723.00	$ 8,676.00
16	400-449	$742.00	$ 8,904.00
17	450-499	$762.00	$ 9,144.00
18	500-549	$778.00	$ 9,336.00
19	550-599	$797.00	$ 9,564.00
20	600-649	$814.00	$ 9,768.00
21	650-699	$832.00	$ 9,984.00
22	700+	$869.00	$10,428.00

Notes:

Program component: $51.00 per month for each additional program.

- As in prior years, DHCD will continue to require a breakdown of expenses in the 400 budget by program – 667, 200 and 705.

- **Section 8 programs** remain as individual accounting units to meet HUD requirements under this schedule.

- As of July 1, 2007 all budget and operating submissions must be made using DHCD's web-based system. The LHA may either negotiate an agreement with the fee accountant to perform the data entry work necessary to complete the on-line forms, or it may enter the data itself. **LHAs may offer their accountant a limited fee for this data entry in excess of the approved fees in the Fee Accountant Schedule, provided they maintain operations within their established ANUEL.**

2. Fee Accountant Schedule for Consolidated 689 Program and LHA owned Section 8 programs. The 689 Programs are now consolidated for budget and accounting purposes.

Category	Unit Range	Monthly Fee	Annual Fee
1	1-18	$146.00	$1,752.00
2	19-35	$181.00	$2,172.00
3	36-60	$217.00	$2,604.00
4	61+	$253.00	$3,036.00

Program component: A payment of $51.00 per month for each project is allowed for all projects having separate vendors and separate LHA reporting requirements. This additional fee is available only if the LHA requires that separate books be maintained on each program. These books must be complete, able to function separately and kept at the LHA itself.

3. Massachusetts Rental Voucher Program (MRVP) and Alternative Housing Voucher Program (AHVP)

A condition of the contract between an LHA and a Fee Accountant is a requirement that the Fee Accountant offer sufficient services to an LHA so that the LHA is in compliance with the financial reporting/accounting requirements of DHCD. The fee for the services for these two programs is to be negotiated with consideration of the constraints of the existing administrative fees for these programs, and is subject to DHCD approval.

4. Capital Maintenance (Modernization) and Development Programs

The fees for accounting services for programs using capital funds should be negotiated between the LHA and the Accountant and is subject to approval by the Bureau of Housing Development & Construction. The fees will be part of LHA Administration (1410) in the capital budget and are not part of the public housing operating budget.

APPENDIX B: BUDGET FLEXIBILITY FOR HOUSING AUTHORITIES WITH RETAINED REVENUE

Definition of an Eligible LHA: An Eligible LHA is one whose operating reserve is above the maximum, does not owe DHCD money (or is in the process of negotiating with DHCD whether an amount is owed), had retained revenue at the end of the previous fiscal year and has a management rating of Acceptable Performance.

LHAs that have had Mod awards in which DHCD has taken or assigned operating reserve monies to pay for part or all of a work plan will not have to comply with the above full reserve rule, but LHA reserves will need to be at 50% in year 2, 70% in year 3, 90% in year 4 and 100% at year 5 to qualify for bottom line budgeting. Any additional taking of reserves starts the process again.

Definition of Budget Flexibility: The ability of an eligible LHA to exceed the ANUEL by spending a portion of the surplus earned in the current year and/or operating reserve funds, for additional staff positions such as service coordinators and Family Self Sufficiency coordinators.

Conditions for Budget Flexibility: In order to be eligible for budget flexibility DHCD must find that an LHA:

1) meets the above definition of an Eligible LHA;

2) has submitted a Capital Improvement Inventory System (CIIS) or Capital Planning System (CPS) and Capital Improvement spending plan approved by DHCD's modernization and housing management staffs;

3) has certified that it is, and will remain, in compliance with all state procurement laws;

4) operates a preventive maintenance plan approved by the Bureau of Housing Management;

5) has and strictly follows an annual unit and property inspection program;

6) complies with DHCD's policy limiting the use of state funds for out of state travel;

7) has set up a restricted maintenance reserve account at year's end for any excess cash generated by state program budgets. Spending from this account will be allowed if it is consistent with the DHCD approved Capital Improvement Plan;

8) limits Executive Director salary increases in compliance with DHCD budget guidelines;

9) follows DHCD hiring guidelines for all staff hires;

10) limits maintenance salaries on state budgets to Department of Labor and Workforce Development (DLWD) rules or as allowed by the Budget Guidelines or existing salaries as approved in existing collective bargaining agreements; and

11) files accurate budgets and operating statements within the required time frame.

DHCD reserves the right to withdraw bottom line budget authority if any of the above conditions are not met.

LHAs are reminded that they are responsible for any non-utility cost budgeted above the ANUEL level. If an LHA fails to achieve its budgeted retained earnings it cannot turn to DHCD for additional assistance until its income drops below the total of the ANUEL plus actual utility costs. In such an event it will be eligible for subsidy funds equal to the shortfall between its income and the ANUEL plus utilities, but non-utility costs in excess of the ANUEL are not eligible for subsidy, and must be absorbed by the LHA.