



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

Department of Housing and Community Development

Public Housing Notice 2009-16



FY 2010 Local Housing Authority Budget Guidelines

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Cover photo: Hancock Court, Lawrence Housing Authority (c. 200-2)



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

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To our housing authority partners,

Thank you for your continued efforts on behalf of our constituents. This is obviously a very tough time, and the grit and determination you have consistently demonstrated are needed to get us through. The Governor and Lieutenant Governor continue to place a high priority on public housing. While these budget guidelines require a reduction of the allowable non-utility expense level (ANUEL) by 4.7% to match the reduced operating subsidy appropriation, we have ample evidence that the Administration's commitment is unwavering and we have been spared the kinds of cuts other state agencies and community providers have seen.

The cut in ANUEL is effective October 1, 2009. We want to acknowledge that the spending cuts in your budget will have a direct impact on you, your work, your workplace and the

community you serve. We have not taken this lightly. We explored different approaches to implement the cut, each time hoping to find the least painful alternative. NAHRO graciously convened a group of your peers to evaluate the various ways we could meet the cut to the operating subsidy appropriation, and we spent hours analyzing possible solutions together. In the end, the ad-hoc budget guidelines committee reached a strong consensus that the 4.7% cut beginning next

WHAT'S NEW IN 2010:

- **4.7% ANUEL Decrease (p. 3)**
- **Decrease in Mileage Reimbursement from 0.45 per mile to 0.40 per mile (p. 3)**
- **Quarterly Write-Offs of Allowance for Doubtful Accounts (p. 3)**
- **Deficit housing authorities may use their operating reserves for operating expenses (p. 3)**
- **The operating reserve level for a housing authority to qualify for retained revenue status exemption has been reduced to 40% of maximum reserve (p. 3)**
- **Budget Submission and Approval Process Time Frame has been revised due to the October 1, 2009 implementation of the cut in ANUEL for all LHAs (p. 4 & 6)**

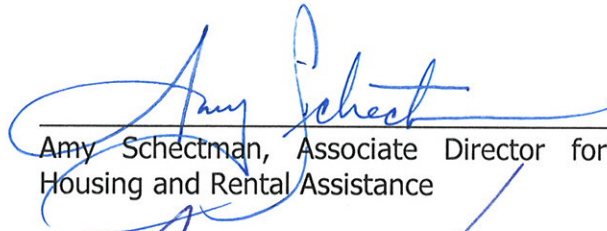
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month was the least-unfair way to distribute the losses.

We have faith in you and in our collective ability to pull through, despite the challenges. You all have been amazing in your ability to continue the mission of providing public housing with vastly insufficient resources, and we will continue to work together to have DHCD support you in every way we can. We learn from each interaction we have with you, and we will continue to challenge ourselves to do our best to add value to housing authority operations.

Thanks for your wise stewardship of this most valuable asset. Please keep letting us know of ways we can be helpful and supportive, as you continue to protect these units for the people who need them so desperately.



Amy Schectman, Associate Director for Public Housing and Rental Assistance



Laura Taylor, Director of Housing Management

**KEY HIGHLIGHTS AND
CHANGES IN FY'10**

- 1. The allowable non-utility expense level (ANUEL) will be decreased by 4.7% in FY10. The decrease in the ANUEL will be effective October 1, 2009 for ALL housing authorities regardless of their budget start date.**
- 2. The Administrative Salaries Account (#4110) continues to remain unrestricted.** The account will not be artificially capped. Housing authorities will have both the ability and responsibility for determining appropriate staffing levels, positions and compensation.
- 3. The Fee Accountant Schedule has not been updated. Housing authorities have the flexibility to negotiate fees which they determine to be appropriate within the ANUEL.**
- 4. The Mileage Reimbursement has decreased from 0.45 per mile to 0.40 per mile, effective October 1, 2009.** This reflects the current rate used by the Commonwealth of Massachusetts, which was effective February 22, 2009.
- 5. Allowance for Doubtful Accounts – Dwelling Rents (#1123) may be written off at the end of a quarter.** LHAs may write off vacated tenant accounts receivables at the end of each quarter for state-aided public housing units.
- 6. A deficit housing authority with an operating reserve, which is at least 40% of maximum reserve level and no less than 20%, may use their reserves for operating expenses. If a deficit housing authority overspends their approved budget line items throughout their fiscal year, they will do so without an approved DHCD exemption.** If a deficit housing authority uses their reserves for operating expenses, as previously described, DHCD will not approve a budget exemption to augment the operating reserve.

A deficit housing authority **cannot** use their operating reserves for operating expenses if reserves are **at or below 20%** of the maximum reserve level, **unless**, said funds are used to address **health and safety items**. Expenditures for health and safety items must receive prior written permission from DHCD.

- 7. The operating reserve level for a housing authority to qualify for retained revenue status exemption has been reduced to 40% of maximum reserve.** Please refer to FY07 Guidelines in HAFIS for additional criteria for a retained revenue housing authority. Also, please see question H on page 9, which addresses retained revenue housing authorities regarding the 4.7% cut in the ANUEL.

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- 8.** Housing authorities are cautioned that any expenditures above the allowable non-utility expense level (ANUEL) paid for from operating reserves are the responsibility of the housing authority and the housing authority cannot turn to DHCD for additional assistance, now or in the future unless the items can be absorbed in the future approved ANUEL.
- 9.** Revised time frame for budget submissions and approval due to the fact that all housing authorities will be submitting budgets and/or revisions with a 4.7% cut in the ANUEL, effective October 1, 2009.

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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 2010 which begins July 1, 2009, and includes LHA budget years of:

- July 1, 2009 - June 30, 2010,
- October 1, 2009 - September 30, 2010,
- January 1, 2010 - December 31, 2010, and
- April 1, 2010 - March 31, 2011.

Budgets are due thirty days prior to the start of an LHA's fiscal year. LHAs with July 1, 2009 budget start date or an October 1, 2009 budget start date have forty-five days after the issuance of these budget guidelines to file their budget(s).

Due to the implementation of the 4.7% decrease in ANUEL becoming effective for all LHAs on October 1, 2009, a budget revision is required for LHAs with a January 1, 2009 or an April 1, 2009 budget start date. These LHAs must submit a budget revision which incorporates the 4.7% cut in the ANUEL for the remaining portion of their fiscal year.

It is the responsibility of the local housing authority (LHA) to understand the 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 description of budget line items are located in the Accounting Manual and no longer repeated in the Guidelines. Requirements of a continuing nature introduced in previous budget guidelines, as well as announced initiatives such as bonuses announced last year, are still in effect unless specifically noted otherwise by the Department. Continuing items ultimately are chronicled in the Accounting Manual in a one-stop format that will be easier to access.

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 tenants.

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

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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 4.7% decrease in the ANUEL is **October 1, 2009 for all housing authorities, regardless of budget start date.** Therefore, housing authorities with a January 1, 2009, budget start date or an April 1, 2009 budget start date must submit budget revisions, which incorporate the 4.7% cut in the ANUEL, effective October 1, 2009. Retained revenue housing authorities are not required at this time to submit a budget revision, but must submit a revision in the 11th month of the fiscal year. Until the housing authority's new budget is approved by DHCD, **it is authorized to spend at 4.7% less 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.

DHCD BUDGET APPROVAL PROCESS: Our goal is to meet the following review and approval deadlines:

1. To notify you about any incompleteness in your budget submission within ten (10) working days of its receipt;
2. To notify you of any significant questions or concerns raised by your budget within forty-five (45) working days of its receipt, and
3. To complete our review and issue approvals within seventy-five (75) working days of DHCD acceptance of the budgets.

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 the Guidelines and Accounting Manual. 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 (2) original, fully completed, signed and sealed extract of the minutes of the board meeting approving the proposed budget together with the budget certification form, signed by all applicable board members for each budget submission. **Please note that this form signifying the board's approval is an essential element of the budget submission and must be received before we can initiate our approval process.**

Incomplete submissions may be 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 and 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, 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 found to be acceptable.

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 having 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.

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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 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 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. The LHA may request a higher fee(s) (but in no case higher than the maximum allowable federal fee of \$62.75 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 2010. 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 decrease identified in the budget guidelines. This detailed breakdown will be required to be in Excel format and e-mailed along with the budget submission.

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H. Does a retained revenue housing authority still have to take a 4.7% cut in the ANUEL?

Yes, however, retained revenue housing authorities may still take advantage of retained revenue status exemptions. To qualify for a retained revenue status exemption, the housing authority must first meet the definition of a retained revenue housing authority, as outlined below:

Definition of an LHA Eligible for Bottom Line Budgeting

- 1) Operating reserve is at 40% of maximum.
- 2) Does not owe DHCD any money.
- 3) Had retained revenue at the end of the previous fiscal year, as projected in the budget or based upon information provided in the housing authority's 3rd quarter or 4th quarter operating statement.
- 4) Has a DHCD management rating of Acceptable Performance.

If the housing authority meets this definition, then the housing authority will have budgetary flexibility as described below:

Definition of Budgetary Flexibility

The ability to add or retain staff positions such as service coordinators and FSS (Family Self Sufficiency), exceed the non-utility bottom line cap by allowing the spending of the surplus cash earned in the current year, and to spend operating reserve funds.

In the Event a Housing Authority Does Not Have Retained Revenue at Year-End

Please note that if a housing authority fails to recognize the retained revenue, they will be responsible for funding the deficiency up to the amount of the retained revenue exemption from their operating reserves.