Deval L. Patrick, Governor ♦ Timothy P. Murray, Lt. Governor ♦ Aaron Gornstein, Undersecretary

Department of Housing and Community Development

Public Housing Notice 2012-11

FY 2013 Local Housing Authority Budget Guidelines

October 2, 2012

Lizbeth Heyer, Associate Director

Division of Public Housing and Rental Assistance

Cover photo: Kitefield Road Family Housing, Rockport Housing Authority (c. 705-1)

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To our housing authority partners,

I am extremely pleased to issue a 6.5% increase in the **Allowable Non-Utility Expense Level (ANUEL), the highest increase since FY08.** This increase is effective July 1, 2012 or at the start your LHA's fiscal year, which ever comes later. This tremendous increase is possible thanks to strong support from the Patrick-Murray Administration and the Legislature who provided a $2M increase in the FY13 operating subsidy. Your innovation and energy played a significant role as well; 4.5% of the increase comes from the funds leveraged from the federalization of nearly 3900 state public housing units (to be completed this fiscal year), coupled with our substantial and growing investments in water and energy conservation.

As you may know, we spent a good portion of this past year focused on vacant units, which I know is a high priority that we all share. Through the FY12 Affordable Housing Trust Fund (AHTF) vacant unit initiative DHCD made $2M available to turn over 200 family units that had been vacant over 60 days. We also provided technical assistance to evaluate and improve the turnover process, including working with LHAs in assisting them to build local maintenance capacity.

The reasons units still remain vacant for more than 60 day are many and we need multiple tools to successfully support our on-going effort to occupy all state-aided public housing units. With the additional resources provided by this year's 6.5% ANUEL increase and an additional $2M of AHTF re-occupancy funding (details to be announced soon), we believe it is time to accelerate the effort to get vacant units back on line that don't require substantial funding. To this end, we are implementing a **new Vacancy Policy, which will take effect on January 1, 2013**. The policy is simple and intended to provide support and technical assistance to LHAs that face legitimate roadblocks to timely re-occupancy and to withhold subsidy when there is no significant impediment to re-occupancy. Expediting turn-overs not only expands affordable housing opportunities, it simply makes good economic sense. A 1% drop in the state-wide vacancy rate generates $1.7M in tenant rent over the course of a year. The complete Vacancy Policy will be issued as a Public Housing Notice in the very near future and we have provided some of the highlights in these budget guidelines.

I want to thank each of you for your dedication, particularly during a challenging year when public housing has been under scrutiny. Against the odds, we have made important gains, not the least of which is the funding increase provided by the Patrick-Murray Administration and the Legislature. I look forward to making even greater progress together in the year ahead.

Sincerely,

Lizbeth Heyer
Associate Director
Division of Public Housing and Rental Assistance

WHAT'S NEW IN 2013:

- ANUEL is increased by 6.5%, effective for all LHAs at the start of the LHA's fiscal year
- Total compensation of salaries
- Schedule for the recording of exemptions
- The Operating Reserve Analysis worksheet now includes an additional line in the section: "Adjustments-Budget Year (FY 2013)". Account number 3692 (Line 9 of the Operating Budget) has been added
- Clarification of Retention of Retroactive Rental Payments
- Revised Budget Certification
- Occupancy/Vacancy Policy

KEY HIGHLIGHTS AND CHANGES IN FY 2013

1. **The Allowable Non-Utility Expense Level (ANUEL) will be increased by 6.5% in FY2013, effective July 1, 2012 for all local housing authorities at the start of the LHA's fiscal year.** 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, all salary increases, including the Executive Director, must be reasonable.** Total compensation of all administrative positions must be reflected in the LHA's operating budget submission. The "Schedule of All Positions and Salaries" must list all positions and salaries. DHCD will review any Executive Director salary increase above 3% against the overall budgeted needs of the LHA. LHAs are also reminded that the Executive Director's total compensation is capped at $160,000, in accordance with Public Housing Notice 2012-02.

3. **A new schedule for the recording of exemptions has been incorporated into the 400-1 operating budget, titled "Schedule of Exemptions".** This schedule records specific information about exemptions requested by an LHA. It requires information regarding reason, amount requested, and timeframe.

4. **Retention of 2/3 of the amount collected for retroactive rent payment discovered through LHA efforts.** Deficit LHAs that discovered, pursued cases, and have entered into a repayment agreement with a tenant in possession or a vacated tenant that has not reported income that results in a retroactive rent payment will be allowed to retain two-thirds of the funds received so there is no reduction in subsidy. These are retroactive payments resulting from discovery of non-reported income that was the obligation of the tenant to report. 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 #3110, and two-thirds of this total dollar amount should be included in Other Revenue-Retained, account #3691.

5. **Budget Certification changes that were implemented earlier this year have now been incorporated into the annual budget process. Submission of these certifications will be required annually with the LHA's budget submission.**

6. **Occupancy/Vacancy Policy will be incorporated within these FY 13 Budget Guidelines. This Policy will take effect January 1, 2013.**

   The Policy (to be issued under separate public housing notice) provides that DHCD will no longer provide subsidy payments for units vacant 60 days or more without a waiver. LHAs will be notified quarterly of the subsidy amount to be withheld at year end for that quarter's vacancies. At fiscal year end settle up, any quarterly reductions in subsidy due to vacant units without a waiver will be totaled and deducted from that year's earned operating subsidy. A daily rate of $11.00 will be used in determining the amount of subsidy reduction. This rate is based on the state-wide average monthly rent of $330. The reduction in subsidy payment is as follows:

a) for units vacant between 61 and 90 days <u>without</u> a DHCD approved waiver the reduction in subsidy for each unit will be one-half the daily rate which is $5.50;

b) for units vacant more than 90 days <u>without</u> a DHCD approved waiver the reduction in subsidy for each unit will be the full daily rate which is $11.00; and

c) for units vacant beyond reasonable repair, and where DHCD has approved this determination, LHAs will be required to take efforts to make the unit safe and secure. DHCD will provide a make safe payment for these units to the LHA.

If a retained revenue (surplus) LHA has 3% of its units vacant in excess of 60 days <u>without</u> a DHCD approved waiver, then any budgeted amount above the ANUEL will be frozen until the vacant unit(s) are occupied. This includes Account Numbers: 3692, Other Revenue - Operating Reserves and 7520, Replacement of Equipment Capitalized and 7540, Betterments and Additions Capitalized, but excludes 4610, Extraordinary Maintenance.

7. Housing authorities with either a July 1, 2012 or an October 1, 2012 budget start date have forty-five (45) days from the date these Budget Guidelines are issued to file their budget(s). Housing authorities with a January 1, 2013 budget start date have until January 15, 2013 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 2013 which begins July 1, 2012, and includes LHA budget years of:

- July 1, 2012 - June 30, 2013,
- October 1, 2012 - September 30, 2013,
- January 1, 2013 - December 31, 2013, and
- April 1, 2013 - March 31, 2014.

Budgets are due thirty days prior to the start of an LHA's fiscal year. However, LHAs with either a July 1, 2012 budget start date or an October 1, 2012 budget start date have forty-five days after the issuance of these budget guidelines to file their budget(s). LHAs with a January 1, 2013 start date have until January 15, 2013 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) A new schedule, Requested Exemption Schedule, has been added. The LHA must identify all exemptions requested, whether or not it is a new request or a request that has been requested and approved prior to this fiscal year. Applicable justification for the requested exemption must be provided on the schedule.

b) **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.

c) 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 submission for all programs. Situations such as this will result in delays.

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, 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 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 $70.66 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 2013. 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 reserves.