



# PUBLIC HOUSING RESERVES AT RISK

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**BDO** BDO PHA FINANCE



# Back to the Future

- ▶ Operating reserves and the 2012 subsidy offset

# The 2012 offset

- ▶ HUD offset LIPH subsidy by \$750M
- ▶ Based on a HUD calculation of number of months of operating reserves
- ▶ PHAs had 3 types of exclusions for which they may have been eligible to apply
- ▶ Maximum and minimum reserve/offset thresholds



# Operating Reserve Calculation Methodology

- ▶ How much cash does your PHA have?

# What are operating reserves?

- ▶ *Operating Reserves* typically refer to the amount of current assets that are available after liquidating any liability that is due within the next year (current liability)
  - Will usually be determined from your FDS



# How do we talk about reserves?

Typically, there are two ways reserves are measured and discussed:



1. **Dollars:** Total \$ amount of reserves
2. **Time Period:** Amount of time (in months) that it would take for a PHA/AMP to fully expend reserve dollar amount, covering day-to-day operating expenses, (and without additional subsidy)

# Operating reserves

## *Calculation methodology - dollars of reserves*

	FDS Line #	Description
1	111	Cash - Unrestricted
2	114	Cash - Tenant Security Deposit
3	120	Total Receivables
4	131	Investments - Unrestricted
5	142	Prepaid Expenses & Other Assets
6	144	Inter-Program-Due From
7	145	Assets Held for Sale
8		Total (1+2+3+4+5+6+7)
9	310	Total Current Liabilities
10	343	Current Portion of Long Term Debt - Cap. Projects
11		Total (9-10)
12		Total Operating Reserves (8-11)

# Number of months - operating reserves

*2012 funding offset months calculation methodology*

- ▶ Formula used to determine number of months of operating reserves:

Operating Reserves

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$$(PEL + UEL + \text{Transition Funding} + \text{Add-Ons}) \div 12$$

From Operating Subsidy Calculation  
"Formula Expense Level"

# Number of months - operating reserves

*OFFP months calculation methodology*

- ▶ Formula used to determine number of months of operating reserves:

Operating Reserves

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$$(969000+97100+97200) \div 12$$

969000 - Total Operating Expenditures  
97100 - Extraordinary Maintenance  
97200 - Casualty Losses



# Differences between two calculations

- ▶ When HUD did the offset, they used a formula expense level that did not reflect the true operating expenditures of the AMP
- ▶ When calculating an OFFP transaction or calculating the MENAR (similar calculation), HUD is using actual operating costs
  - As reported in the Financial Data Schedule



# What are operating reserves?

- ▶ How PHAs can use operating reserves

# Operating reserves include:

Unspent  
operating  
subsidy

Asset Repositioning  
Fee

Unspent  
tenant rent

Other  
miscellaneous  
revenue

Including program  
income that has  
expanded uses (e.g.,  
non-rental income  
from vending  
machines, cell tower  
leases, energy  
savings from energy  
performance  
contracts)

Unspent  
insurance  
proceeds

# Statutory uses of operating reserves

Procedures and systems to maintain the efficient management operations of public housing units including amounts sufficient to pay for:

1. The reasonable costs of review by an independent auditor
  - ▶ Other information maintained pursuant to section 6(j)(6) by a public housing agency
2. Resident management corporations to substantiate the performance of that agency or corporation
3. Activities to ensure a program of routine preventative maintenance
4. Anticrime and anti-drug activities, including the costs of providing adequate security for public housing residents, including above-baseline police service agreements
5. The costs of insurance

# Statutory uses of operating reserves

6. Activities related to the **provision of services, including service coordinators** for elderly persons or persons with disabilities
7. Activities to provide for management and participation in the management and policy making of public housing by public housing residents
8. The energy costs associated with public housing units, with an emphasis on energy conservation
9. The costs of administering a public housing work program under Section 12, including the costs of any related insurance needs
  - ▶ Labor standards and community service requirement

# Statutory uses of operating reserves

10. The cost of repaying, together with rent contributions, debt incurred to finance the rehabilitation and development of public housing units, which shall be subject to such reasonable requirements as the Secretary may establish
11. The costs associated with the operation and management of mixed finance projects, to the extent appropriate
12. The costs of operating computer centers in public housing through a Neighborhood networks initiative
  - ▶ The purpose was to establish multi-service community technology centers that bring digital opportunity and lifelong learning to low- and moderate-income residents living in HUD housing

# Emergencies

- ▶ PHAs may also use Operating Funds for unforeseeable and unpreventable emergencies that include damage to the physical structure of the PHA's housing stock
  - For example, damage as a result of a natural occurrence, such as a windstorm or flood





# Emergencies

- ▶ Although damages caused by unforeseen emergencies may eventually be covered under a warranty, with insurance proceeds, or through disaster funds, PHAs may use Operating Funds to cover the expenses incurred prior to receipt of warranty, insurance or disaster proceeds
  - PHA must reimburse themselves after receipt of warranty, insurance or disaster proceeds



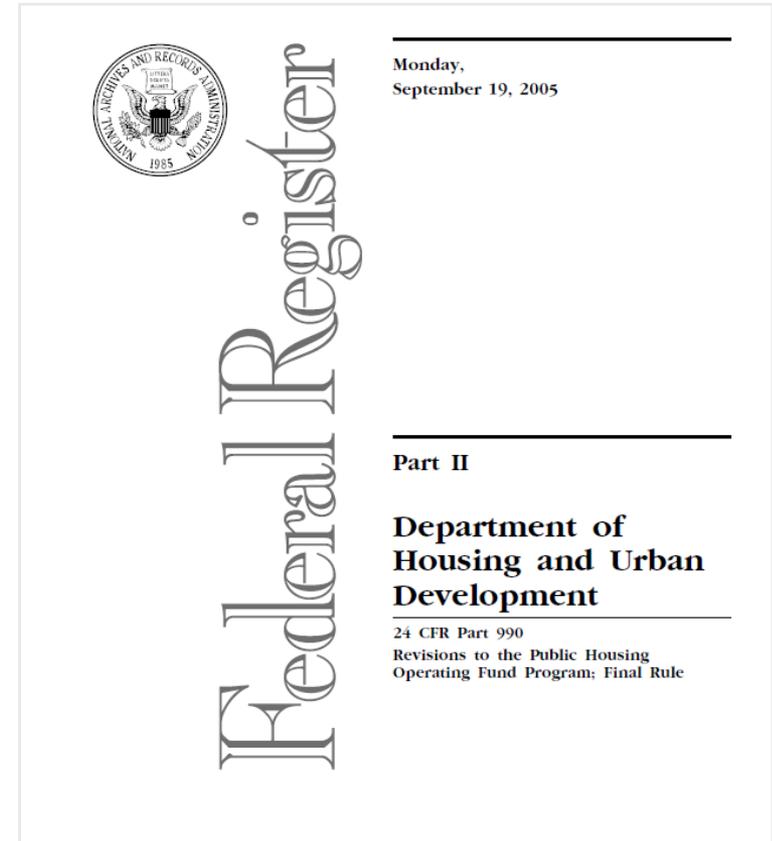
# What is not included?

- ▶ CAPITAL EXPENDITURES

# Regulatory uses of operating reserves

*“Project-specific operating expenses shall include, but are not limited to, direct administrative costs, utilities costs, maintenance costs, tenant services, protective services, general expenses, non-routine or capital expenses, and other PHA or HUD identified costs which are project specific for management purposes.”*

24 CFR 990.280



# Capital purchase vs. expenditure

*(After acquisition)*

- ▶ If an expenditure provides additional service beyond the current period, it should be capitalized, if the expenditure does not provide additional service it should be expensed
- June 1999 HUD GAAP Flyer



# Future service potential

An entity may produce future service potential by:

1. **Extending the useful life**
2. Increasing the quantity of services provided
3. Increasing the quality of service

- ▶ If an expenditure meets 1 of the 3 categories, then it is a Capital purchase





# Statutory – CFP Small PHA Flexibility

*“Section 9(g)(2) of the 1937 Act permits PHAs with less than 250 public housing units (and that are not designated as troubled and are, in the determination of the Secretary, operating and maintaining public housing in a safe, clean, and healthy condition) to use their Operating and Capital Funds flexibly.”*

# Methods to Protect & Utilize Your Operating Reserves

- ▶ How can we preserve our assets?

# Tips to preserve & utilize our reserves

1. Prepare the FDS Correctly
2. Transfer of Excess Cash
3. Invest in Housing Stock
4. Improve Curb Appeal
5. Consider Resident Service Programs
6. Correct Management Deficiencies
7. Pay Down OPEB and Pension Liability
8. Allow COCC to Charge Maximum Fees
9. Complete Operating Budgets & Budget Revisions Timely
10. Ensure Non-Federal Funds are Excluded from AMPs
11. Create an Affiliate to Protect the COCC
12. Pre 2004-HCV Admin reserves
13. Improve Management of CFP
14. What we have learned

# TIP 1: FDS preparation

- ▶ Review the July 2014 FDS Crosswalk Guide, including related updates
- ▶ Ensure restricted cash and unrestricted cash are properly reported
- ▶ Properly report current and non-current assets/liabilities
- ▶ Ensure all proper accruals are made at year-end
- ▶ Take advantage of FDS Line # 115 : Cash Restricted for Payment of Current Liability
  - Will help maximize QR, MENAR and Excess Cash ratios without over-stating your Operating reserves

# FDS Line 115

## Cash - Restricted for Payment of Current Liability

- ▶ This FDS line item represents restricted cash and cash equivalents that are only to be expended for specified restricted purposes but will be used in the next fiscal year and are supported by a reported current liability/deferred revenue. The restriction on the use of the funds has been imposed by the source of the monies, not the PHA. This line item should not be used to restrict cash related to common operational liabilities such as account payable and wages payable.
- ▶ Examples of Cash-restricted for payment of current liability include such items as:
  - Cash balances associated with advances of grant and subsidy funds not yet earned;
  - Debt service payments;
  - Cash in the PHA's family self sufficiency (FSS) escrow account that will be used for payment of contracts due within 12 months of the Balance Sheet date; and
  - Cash restricted for modernization and development up to the amount of any associated and reported current liability



# Recording accruals

- ▶ Recording expenditures when an invoice hasn't been received by the PHA
  - Work in progress, utilities, etc.
- ▶ Recording accrued expenses will ensure that your financial statements are (and FDS is) correctly reported
  - If the PHA doesn't accrue them, the auditor most likely will and the PHA could be exposed to an audit finding
- ▶ The proper recording of accruals will prevent an inflated operating reserve, but will decrease your FASS

## TIP 2: Transfer of excess cash

- ▶ If an AMP has Excess Cash, then the AMP will be able to transfer cash up to another AMP up to the amount of Excess Cash
- ▶ If an AMP has Excess Cash, then the COCC will be able to take an Asset Management Fee, up to the amount of Excess Cash
  - The COCC is **not** permitted to accrue an Asset Management Fee if the AMP has no Excess Cash
- ▶ Items to Consider:
  1. Excess Cash is measured from the prior FY
  2. How the transfer will effect future capital planning at each AMP
  3. How the transfer will effect the future cash position of each AMP, as well as future Excess Cash calculations for each AMP

# Excess cash

*“[Excess Cash] represents the sum of certain current asset accounts less the sum of all current liability accounts, less one month worth of operating expenses for the project.”*

Supplement to HUD Handbook 7475.1  
Rev., CHG-1



# Excess cash flow

## THE FORMULA

$$111+114+115+120+131+144-310-(969/12)$$

## TIP 3: Invest in housing stock

- ▶ Since various mixed finance developments are being created “down the block from us,” invest in the Public Housing stock to attract residents
  - Now, more than ever, our clientele (residents) have a choice
  - Meet UPCS requirements



# TIP 4: Improve curb appeal



- ▶ Attract residents to/ retain residents at your AMPs
- ▶ Curb Appeal was evaluated in the Proposed PHAS rule
  - This may come back, in some shape or form, in the final rule: PHAS IV

# TIP 5: Consider resident service programs

- ▶ PHAs are not only property management & development companies, but are required to provide certain services to the residents
  - 24 CFR 990.190 Resident Participation Funding Add-on
    - Spent in accordance with 24 CFR 964
  - Resident training centers
  - Common areas
  - Drug elimination activities
  - Bus or van transportation options

# TIP 6: Correct management deficiencies

- ▶ Constantly look for opportunities to improve efficiencies
  - Deficiencies can be defined from audits (IPA, HUD, IG) as well as determined by the PHA
- ▶ Reduced funding levels mean we must consider:
  - Review of organizational structure
  - Review salary & benefits
  - Training
  - Software upgrade/change
  - Hardware

# TIP 7: Pay down OPEB & pension liability

- ▶ OPEB and Pension liabilities reduces your overall reserve levels, and the “Operating Reserve” calculation
- ▶ Net effect, will reduce your cash



# TIP 8: Allow COCC to Charge Max. Fees

- ▶ Take advantage of Excess Cash transfers
  - Per Excess Cash formula - AMP Based
- ▶ Reports true costs of operating activities
  - Project, Asset Bookkeeping/IT Fees, FFS
- ▶ Cash has more flexibility in the COCC
  - Cash can be used for any housing need
- ▶ Reduces reserve levels at the AMPs
  - Cash “key” component Operating Reserve Calculation

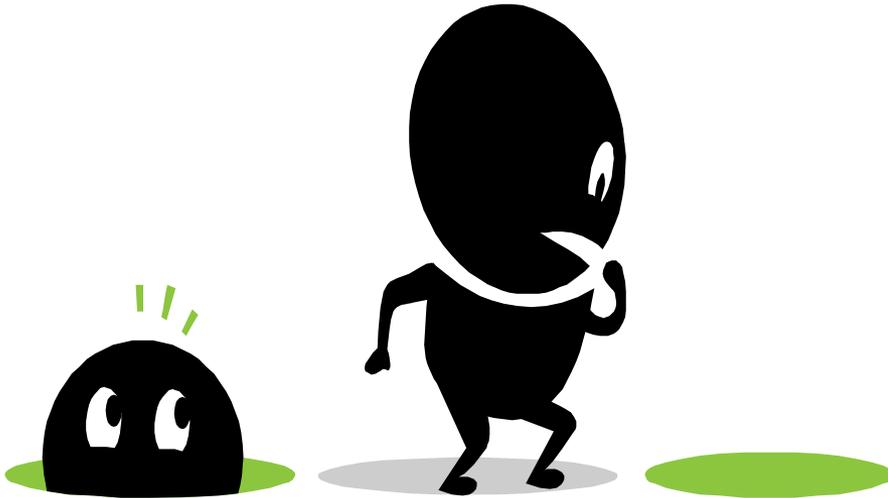
# TIP 9: Prepare Timely Budget & Budget Revisions

- ▶ Allows PHA to provide realistic estimates of operating costs as well as capital requirements
- ▶ Maximization & utilization of funding sources
- ▶ Obligate reserves



# TIP 10: Exclude Non-Federal Funds From AMPs

- ▶ Several Mixed Finance Developments
- ▶ Other State & Local funding sources
- ▶ Fee Income

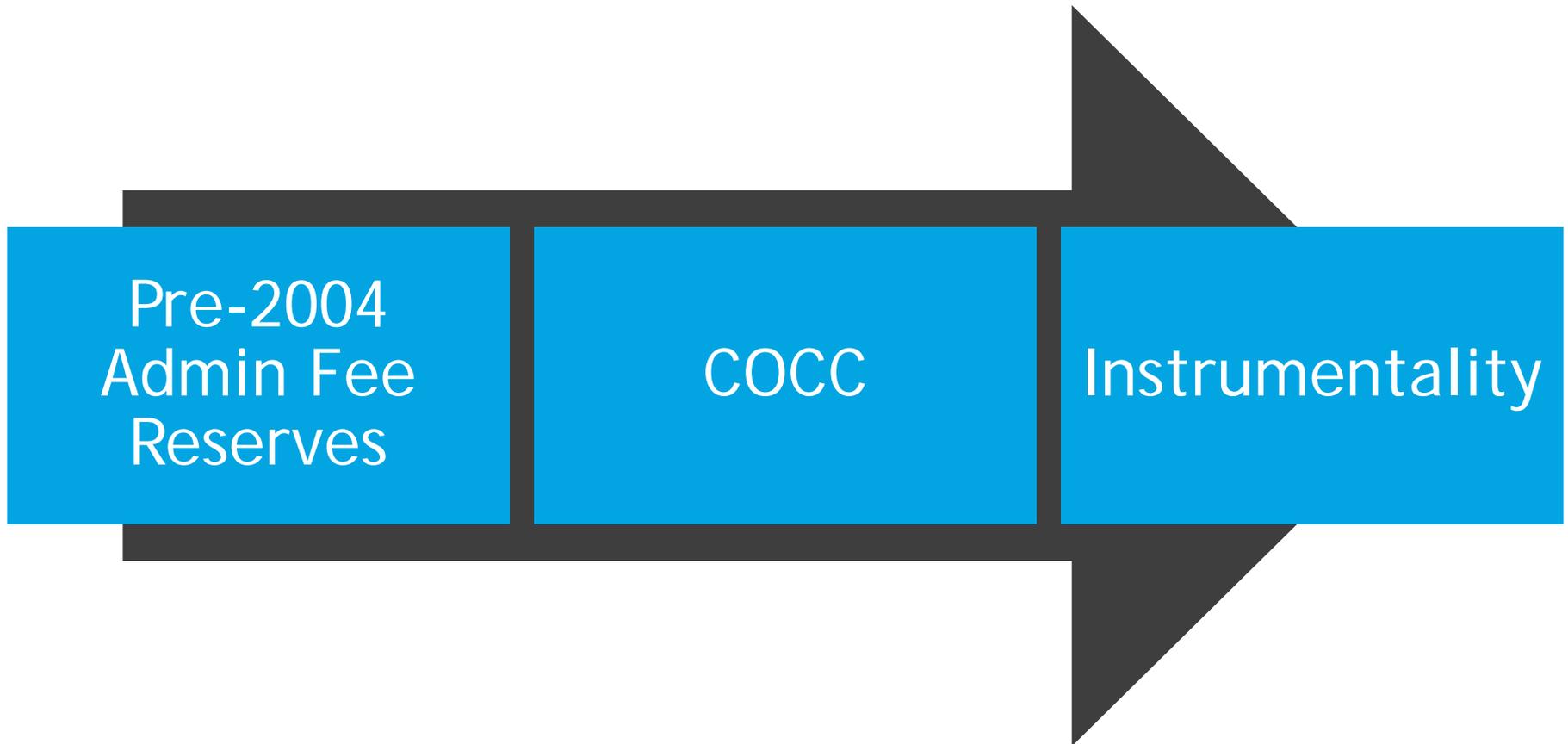


# TIP 11: Protect The COCC reserves

- ▶ Create an Instrumentality
  - There is only regulatory guidance to suggest that fees earned by the COCC are non-federal
  - Permitted in OMB -A87
    - Section A(2)(b) of Attachment A



# TIP 12: Pre-2004 HCV Admin Fee reserves





# Pre-2004 Admin Fees

## Pre-2004 Administrative Fee Funds

*If funds in the administrative fee reserve are not needed to cover PHA administrative expenses (to the end of the last expiring funding increment under the consolidated ACC), the PHA may use these funds for other housing purposes permitted by State and local law. However, HUD may prohibit use of the funds for certain purposes.*

PIH Notice 2011-59

# Tip 13: Improve Management of Capital Fund

- ▶ CFP items to consider:
  - BLI 1406 - Operations
  - BLI 1408 - Mgmt. Improvements
  - BLI 1410 - Administration
  - BLI 1411 - Audit

*Let's discuss options*



# TIP 14: What Have We Learned

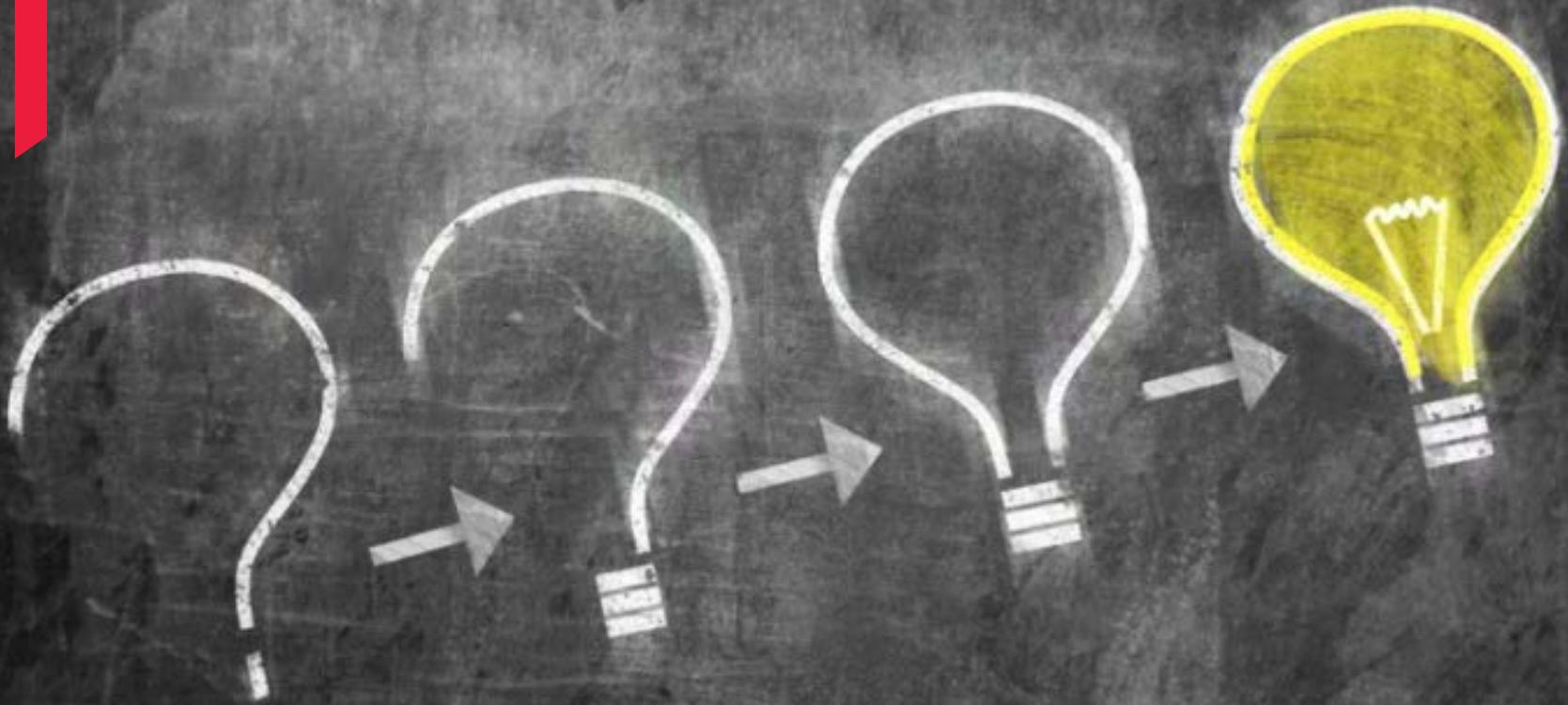
- ▶ HUD established a process by which PHAs could apply to exclude the initial allocation amounts
- ▶ HUD considered adjustments based on:
  - Other- FASB 5, self-insurance, repayment of ineligible costs
  - Commitments/Obligations
  - FDS Reporting errors





## TIP 14: What have we learned?

- ▶ Refer to PIH Notice 2011-55
- ▶ PHAs with 250 or more LIPH units, minimum amount of reserves was 4 months
- ▶ PHAs with less than 250 units, minimum reserves was 6 months
- ▶ Calculation was at the AMP combined level
- ▶ Offset of subsidy was allocated per unit basis over the AMPs



Questions?