Cash Management in Public Housing

PHADA Believes the "Sea Change" Under Cash Management Would Be One for the Worse

HUD is considering instituting a Cash Management (CM) system for providing public housing operating funding to housing authorities (HAs). Cash Management was initially implemented in 2012 for the Housing Choice Voucher (HCV) program for disbursing voucher funding to HAs, limiting disbursement to amounts "currently needed" for expenses. The remainder of an HA's voucher funding is retained in a HUD-held reserve.

The OMB Omni Circular and its related requirements are one of the reasons HUD officials are exploring new rules that they acknowledge would a institute a substantial or "sea change" in the way public housing is funded and operated. The Omni Circular (2 CFR 200.305b) addresses the timing of payments from federal agencies to non-federal entities including HAs.

PHADA's Concerns

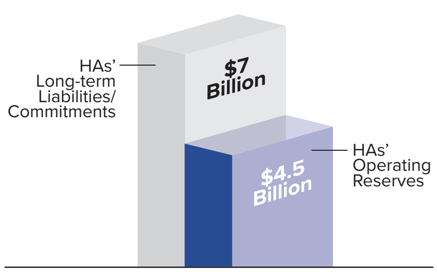
Under such a system, it is conceivable that HAs would be required to use their rental income, operating reserves, or any other available funds **first** to pay expenses, and then request operating subsidy from the Department. HUD would likely determine when and how much funding the HA "needs" at the time. This is problematic and unworkable for the numerous reasons outlined below.

CM Runs Counter to Law, Regulations, and Practice

The existing Public Housing Operating Fund was developed pursuant to a years-long Harvard Operating Fund Cost Study and two negotiated rulemaking sessions between the Department and the industry. Congress mandated both of these initiatives through statute and HUD subsequently developed regulations. Pursuant to the Harvard Study, the Operating Fund is benchmarked to the costs of private market housing providers. The vast majority of HAs do an effective job even though their operating funds are often deeply prorated – unlike funds received by private sector housing managers to whom HAs are compared.

PHADA notes that HUD also funds other project-based housing programs (i.e. PBRA) and no similar changes are contemplated for those programs. **Why is public housing being unfairly singled out?**

HAs' Liabilities vs. Operating Reserves



The notion that there is "too much" in reserves is simply incorrect as long-term liabilities exceed funding available.

HAs Need Funds to Cover Liabilities; Reserves Are Not "Excessive"

Another rationale behind moving to a CM system is the misconception that HAs have "too much money" in reserves and those funds should be reduced or transferred to the federal government. In fact, should a new system incorporate a CM approach, it would effectively transition public housing operating reserves to a HUD-held reserve, which is what happened in the voucher program. This would be a serious mistake.

HUD-PIH officials publicly confirmed to PHADA on September 11, 2018, that **HAs now have long-term liabilities/ commitments exceeding $7 billion, while operating reserves total only about $4.5 billion**. Clearly, the notion that there is "too much" in reserves is simply incorrect as long-term liabilities exceed funding available. In addition to the need to address these long-terms costs, HAs must have adequate reserves ready and on hand to guard against unforeseen events such as natural disasters, growing capital needs for aging properties, sequestration, and the unpredictability of federal funding. Indeed, HUD acknowledges this factor in its mixed finance program: "Because funding levels for operating subsidy can be unpredictable, mixed-finance projects carry the risk of a subsidy shortfall. As a result, many developers and other investors in mixed-finance transactions have required an Operating Subsidy Reserve to support the PHA's annual operating subsidy obligation to the project."

All of these are reasons why HUD requires HAs to hold adequate reserves and even grades their financial performance on that factor.

Financial Stability and Performance Could be Damaged

If and when reserves are reduced, an HA's status under the Public Housing Assessment System (PHAS) could be negatively impacted through no fault of its own. In the HCV program, the HUD-held reserve is not considered an asset of the HA. Presumably, the same will be true for Public Housing. Will HUD credit the HUD-held reserve toward declining PHAS scores?

HUD Doesn't Have the IT Capacity or Resources to Implement the System

The implementation of cash management in the HCV program was difficult for HUD and confusing for HAs. It was quite onerous in the beginning, and some HAs were left with insufficient funds to pay landlords, having to resort to borrowing from other sources to cover expenses until ultimately reimbursed by HUD. In the case of the voucher program, a system already existed that could be utilized to handle this – the Voucher Management System. Public housing cash management will be much more complex because no such system for reporting expenses exists, and it involves a multitude of line items vs. the voucher program which only involves one line item, Housing Assistance Payments (HAP).

Implementing HCV Cash Management was expensive and complicated, but doing so in the public housing program will cost even more. A whole new system and IT infrastructure will need to be developed. Staff will need to be hired to develop and maintain it unless HUD borrows staff from areas that are already overstretched. Will the cost to implement Public Housing CM result in cuts in other areas? Will funds be redirected away from programs?

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> HUD-PIH Policy Alert: "Use of Operating Subsidies for Mixed-Finance"

Services Could be Delayed, Residents Affected

How will HUD handle and process thousands of requisitions and transactions when its IT systems are already over-taxed and under-performing? Ensuing delays in HAs receiving funds could result in late payment of utility bills, deferred maintenance, late inspections, etc. – any of which can have a detrimental impact on public housing residents. It should be noted that, by law, HAs cannot raise rents to cover expenses and most do not have other sources of funding. Thus, PHADA believes service cuts and disruptions would be inevitable.

There are other logistical questions and concerns: how will HUD determine how much money an HA needs each month (without having a reporting system in place)? What relief will be available to HAs that have unexpected expenses? Will HAs be permitted to retain a cushion of funds to avoid shortfalls and delayed payments?

Congressional Objectives Undermined

Under current law, Congress granted HAs the ability to accumulate reserves for larger capital projects. This is a major objective behind the Housing and Opportunity through Modernization Act (HOTMA), which could very well be thwarted under a CM approach. Similarly, HOTMA permits HAs to use operating subsidy for capital items to improve living conditions for residents. This provision could also be undermined, as would the ability of HAs to pledge funds for the Operating Fund Financing program, which HUD says is one of its viable options for repositioning public housing. Lastly, the critically important Rental Assistance Demonstration (RAD) could also be impacted. Many HAs have used reserves and other funds for up-front repairs and modernization prior to their RAD conversions. Those dollars would likely no longer be available and residents would suffer the consequences.

Conclusion

The premise behind CM in public housing (that there are "excessive" reserves) is deeply flawed. Again, HUD is not seeking to apply this misguided idea to other project based housing programs. For these and the many other reasons noted above, the Department should abandon the idea of CM in public housing. Department officials have acknowledged it is possible for the agency to seek waivers from the OMB Omni Circular. PHADA firmly believes the Department should exercise that option.