

CHAPTER 5. OPERATING RESERVES - PHA OWNED RENTAL PROGRAM AND LEASED HOUSING PROGRAM

5-1. DEFINITION AND PURPOSE.

- a. Section 406 of the ACC states that: "...The PHA may establish out of the Operating Receipts of the Projects, and maintain in the General Fund, reserves for such purposes and in such reasonable amounts as may be required in the prudent operation of the Projects and as may be approved by the Government."
- b. The objective is:
 - (1) to establish the maximum operating reserve which a PHA will be permitted to maintain for PHA-owned rental and leased programs, and
 - (2) to use these reserves for such purposes as may be required in the prudent operation of the PHA.

5-2. AUTHORIZED OPERATING RESERVE.

- a. For all PHA-owned rental and leased housing programs, the maximum authorized operating reserve to be established at the end of a particular fiscal year for each contract shall be equal to one-half (50 percent) the estimated total routine expenditures (Line 600, column (5), of the approved Operating Budget, Form HUD-52564) shown on the subsequent fiscal year Operating Budget; e.g., the maximum authorized operating reserve at the end of fiscal year 1986 would be one-half the budgeted total routine expenses for fiscal year 1987. If HUD approves any amount in excess of one-half of line 600, Form HUD-52564, the PHA shall subdivide the operating reserve account to show the excess approved amounts. The PHA shall also show the excess approved amount separately on line 800 of Form HUD-52599.
- b. The operating reserve may be established at the maximum authorized operating reserve level as quickly as funds are available for this purpose.

5-3. USE OF OPERATING RESERVE.

- a. The operating reserve is available to offset a deficit in operations. If the operations for any fiscal year should result in a deficit, the amount of such deficit (i.e., the amount by which operating expenditures exceed operating receipts for such fiscal year) shall be charged against

the operating reserve maintained for PHA owned, or leased housing, as applicable, to the extent of the balance available in the respective reserve accounts. The deficit applicable to each type of program is chargeable only to the reserve maintained for that program even though all of the projects may be covered by a single ACC.

- b. In preparing your Operating Budget for the requested budget year, and thus forecasting the uses of the funds on deposit in the reserve, it is helpful to determine the amount of the reserves forecast to be cash.

To determine the cash available in the operating reserve, and analyze the relationship between the projected reserve balance and the maximum reserve authorized, the following calculation should be performed:

- | | |
|---|----------|
| (1) Latest actual Operating Reserve (_____). | \$ _____ |
| date | |
| (2) Sum of Projected increase or decrease in operating reserve for current budget year and requested budget year. | \$ _____ |
| (3) Projected Operating Reserve for requested budget year.
(Line 1 plus Line 2) | \$ _____ |
| (4) Maximum Operating Reserve authorized. | \$ _____ |
| (5) Percentage of maximum (Line 3 divided by Line 4). | \$ _____ |
| (6) Analyze projected cash flow utilizing Balance Sheet (HUD-52595) for date shown in Line 1 as follows: | |
| OPERATING RESERVE (Account 2820) | \$ _____ |
| LESS: | |
| Accounts Receivable (Accounts 1122-1145) | \$ _____ |
| Advances (Accounts 1155-1157) | \$ _____ |
| Deferred Charges (Account 1211-1290) | \$ _____ |
| TOTAL Reductions | \$ _____ |
| Available Cash | \$ _____ |
| ADD: | |
| Projected Increase (Line 2 above) | \$ _____ |
| Projected Cash Available | \$ _____ |

5-4. RESIDUAL RECEIPTS - PHA-OWNED RENTAL PROGRAM AND LEASED HOUSING PROGRAM.

- a. Section 406 of the ACC defines Residual Receipts as the amount, if any, by which the operating receipts exceed the operating expenditures after taking into account all amounts for the establishment of reserves, including all increases or decreases therein.
- b. At the end of a PHA's fiscal year residual receipts should be remitted not later than 60 days to HUD by check if \$2,000.00 or less. A copy of the check shall be forwarded to the PHA's respective Field Office to be maintained on file and will serve as a record of payment remittal. Checks shall be made payable to the Department of Housing and Urban Development and mailed to:

Director, Office of Finance and Accounting,
Attention: Director, Financial Control and
Accounting Division/Cash and Securities Section
AFGAC, U.S. Department of Housing and Urban
Development, Washington, DC 20410.

If residual receipts are over \$2,000.00, payments should be by wire transfer in accordance with the instructions in Chapter 10, Exhibit 10-1, not later than 60 days after the end of the PHA's fiscal year. A copy of Exhibit 10-1(D) shall be forwarded to the PHA's respective Field Office to be maintained on file and serve as a record of payment remittal.

- c. Retention of Residual Receipts.

The PHA must submit a written request to retain residual receipts to the HUD Field Office not later than 60 days after the end of PHA's fiscal year. Upon receipt of such a request, the Field Office shall review and provide a written response to the PHA within 30 days. Copies of the approval letters authorizing the retention of residual receipts shall be provided to the Region and Headquarters as follows:

Regional Office: 1 copy to Regional Administrator
Attention: Office of Public
Housing

Headquarters: 1 copy to Assistant Secretary
for Administration. Attention:
Director, Subsidized Housing
Program Division, AFGH, U.S.
Department of Housing and Urban
Development, Washington, DC 20410.

Headquarters: 1 copy to Assistant Secretary
for Public and Indian Housing.
Attention: Director, Financial
Management and Occupancy Division,
PPF, U.S. Department of Housing
and Urban Development, Washington,
DC 20410.

The Field Office Manager or his/her designee may approve such requests authorizing the increase of the Maximum Operating Reserve by the retention of the residual receipts for the purposes of:

- (1) supplementing or replacing Modernization funds (CIAP), which have been approved or are in the process of being approved for a Modernization (CIAP) Program (the PHA must have, as a minimum, submitted a preliminary application for modernization (CIAP) funds in accordance with the policy stated in the Final Rule, 24 CFR 968.5), or
 - (2) obligation of funds approved in a PHA's preceding fiscal year budget, but not fully utilized due to unusual circumstances and, therefore, creating residual receipts.
- d. The approval to retain residual receipts may be for a period of two years, provided that the total amount of residual receipts retained does not exceed the costs of the work items for which the request was made initially and which are included in an approved Modernization Program.
- e. Limitations.
- (1) Supplemental of Modernization (CIAP) Program.
After both the retention of residual receipts and the Modernization Program have been approved, the PHA has two calendar years in which to utilize fully the retained residual receipts. The two-year period begins with either the approval date of the Modernization Program or the approval date of the retention of residual receipts, whichever is later. If, at the end of the two-year period, the PHA has failed to utilize the retained residual receipts fully, a new request authorizing further retention of the unutilized portion of the retained residual receipts has to be approved. The new request must be accompanied by the latest Quarterly Progress Report

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and a Narrative Report, submitted in accordance with the instructions contained in the Modernization Handbook, 7485.1 REV 2, Chapter 11.

If the Field Office disapproves a new request by the PHA to retain unutilized residual receipts previously approved, the Field Office must require the PHA to revise its Operating Budget accordingly. The Field Office must also inform the Office of Administration, by letter, to ensure the adequate adjustment of the operating reserve account and the subsequent collection of the unutilized residual receipts. The letter should be sent to the following address:

Director, Office of Finance and Accounting,
Attention: Subsidized Housing Programs
Division (AFGH), U.S. Department of Housing
and Urban Development, Washington, DC 20410.

- (2) Previously approved expenses. When funds approved in a PHA's preceding budget are not fully utilized due to unusual circumstances, and thus result in the creation of residual receipts, the authorization to retain such residual receipts may be granted without the approval of a Modernization (CIAP) Program. This circumstance does not require a Modernization (CIAP) Program to be in process for approval. After approval to retain residual receipts in such cases, the PHA has two years in which to fully utilize the retained residual receipts. The use of such funds is restricted to the work item initially approved in the PHA 5 operating budget.
 - (3) In cases where the initial request was approved authorizing the retention of residual receipts on a multi-year basis and the Modernization (CIAP) Program has been approved, the PHA is not required to submit a new request for any unutilized portion of the retained residual receipts until 2 years after the expiration of the number of years for which the multi-year approval was granted.
- f. The PHA must maintain an accurate accounting of the retained funds in order that it may clearly identify and separate those funds with prior retention approval from the residual receipts of a subsequent fiscal

year. The Field Office shall determine, based on its analysis of the Quarterly Progress Reports, whether the PHA is either, not utilizing or improperly utilizing, the retained residual receipts or if the PHA's progress with the Modernization

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(CIAP) Program is unsatisfactory. In such cases, the Field Office Manager or his/her designee shall require the PHA to remit immediately to HUD all remaining retained residual receipts.

5-5. COLLECTION OF DELINQUENT RESIDUAL RECEIPTS.

See Chapter 10, Field Office Delinquent Debt Collection Activities.

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