



**Changes in Financial Management and Reporting
Requirements for Public Housing Agencies Under
the New Operating Fund Rule (24 CFR 990)**

**Supplement to HUD Handbook 7475.1 REV.,
CHG-1, Financial Management Handbook**

Office of Public and Indian Housing (PIH)

September 2006

TABLE OF CONTENTS

1. INTRODUCTION AND OVERVIEW	1
1.1 PURPOSE OF SUPPLEMENT	1
1.2 APPLICABILITY	1
1.3 GENERAL OVERVIEW.....	1
1.4 TIMEFRAMES FOR IMPLEMENTATION	4
2. CHANGES TO FINANCIAL STATEMENT AND FINANCIAL DATA SCHEDULE REPORTING	5
2.1 OVERVIEW	5
2.2 FINANCIAL STATEMENT REPORTING.....	5
2.3 FINANCIAL DATA SCHEDULE REPORTING.....	6
2.5 CAPITAL FUND ANNUAL PLAN PROCESS - FUTURE DEVELOPMENT	9
3. FINANCIAL DATA SCHEDULE LINE ITEMS	11
4. PROJECT-BASED BUDGETING AND ACCOUNTING.....	14
4.1 PROJECT-BASED OPERATING BUDGETS	14
4.2 OTHER CONSIDERATIONS ON THE BUDGET PROCESS.....	15
4.3 PROJECT-BASED ACCOUNTING	15
5. CAPITAL FUND PROGRAM REPORTING.....	24
5.1 APPLICABILITY OF ASSET MANAGEMENT REQUIREMENTS TO THE CAPITAL FUND PROGRAM	24
5.2 CAPITAL FUND PROGRAM MANAGEMENT FEE	24
5.3 CONSTRUCTION SUPERVISORY AND INSPECTION COSTS.....	25
5.4 TRANSFERS TO OPERATIONS (BLI 1406).....	26
5.5 MANAGEMENT IMPROVEMENTS (BLI 1408).....	26
5.6 NON-DWELLING EQUIPMENT.....	26
5.7 FUNGIBILITY OF WORK ITEMS	26
5.8 CAPITAL FUND FINANCING PROGRAM.....	27
5.9 SMALL PUBLIC HOUSING AGENCIES.....	27
5.10 ACCOUNTING FOR THE CAPITAL FUND PROGRAM	27
6. EXCESS CASH AND FUNGIBILITY	29
6.1 OVERVIEW	29
6.2 USES OF EXCESS CASH	29
6.3 CLARIFICATIONS ON USES OF EXCESS CASH	29
6.4 EXCESS CASH DEFINED	29
6.5 FUNGIBILITY – EFFECTIVE DATE.....	30
6.6 ITEMS FOR CONSIDERATION	31
7. FEE INCOME AND ASSIGNMENT OF COSTS.....	32
7.1 INTRODUCTION	32
7.2 TREATMENT OF FEE INCOME UNDER OMB CIRCULAR A-87 AND 24 CFR PART 85	32

7.3 MANDATORY VS. VOLUNTARY ADOPTION OF MANAGEMENT FEES	33
7.4 PROPERTY MANAGEMENT FEES.....	33
7.5 BOOKKEEPING FEE	35
7.6 ASSET MANAGEMENT FEES	35
7.7 CAPITAL FUND PROGRAM MANAGEMENT FEE	36
7.8 HOUSING CHOICE VOUCHER PROGRAM FEE.....	36
7.9 OTHER FEES	36
7.10 ASSIGNMENT OF COSTS	38
7.11 METHOD OF PAYMENT AND SUPPORTING DOCUMENTATION	41
8. MIXED FINANCE PROJECTS	44
8.1 OVERVIEW	44
8.2 ASSET MANAGEMENT PROJECT NUMBERS	44
8.3 FINANCIAL STATEMENTS AND FDS REPORTING.....	44
8.4 ASSET MANGEMENT AND PROPERTY MANAGEMENT FEES	46
8.5 OPERATING SUBSIDY	46
9. SMALL PHAS.....	48
9.1 REPORTING REQUIREMENTS FOR SMALL PHAS NOT IMPLEMENTING ASSET MANAGEMENT	48
9.2 REPORTING REQUIREMENTS FOR SMALL PHAS ELECTING TO IMPLEMENT ASSET MANAGEMENT	48
A. PROPERTY MANAGEMENT FEE BY FIELD OFFICE.....	52

1. Introduction and Overview

1.1 PURPOSE OF SUPPLEMENT

This document describes the changes in financial management and reporting requirements for public housing agencies (PHAs) under the new Operating Fund final rule (the final rule).¹ While the audience for this document is primarily PHA financial officers, auditors, and fee-accountants, significant management decisions may be required as a result of the material contained herein. As a companion to this document, the Department has simultaneously published a Federal Register notice, Public Housing Operating Fund Program: Guidance on Implementation of Asset Management, dated September 6, 2006, notifying the public of the significant changes contained herein.

This document does not attempt to address or explain the totality of financial reporting requirements for PHAs. PHAs should use this document in conjunction with current Departmental guidance, including the PIH Low-Rent Technical Accounting Guidebook (7510.1 G, dated May 7, 1996), the Financial Management Handbook (7475.1 REV. CHG-1, dated March 9, 1989), and any guidance and reporting requirements as established through applicable law, regulation and notice. The Department anticipates re-issuing the Financial Management Handbook and related documents to include the changes contained in this document.

The information and instructions found in this document are considered program requirements.

Related background information, including all documents referenced in this supplement, as well as information on 2007 operating subsidy calculations, can be found on the Department's asset management web-site at: <http://www.hud.gov/offices/pih/programs/ph/am/>.

1.2 APPLICABILITY

The material in this document is applicable to all PHAs and Resident Management Corporations (RMCs)² that operate public housing, regardless of size. However, PHAs with fewer than 250 public housing units, if they do not convert to asset management, are less affected by the changes described in this document. Chapter 9 addresses the implications for small PHAs. These changes will affect both the financial management and reporting of Operating Fund and Capital Fund Programs as a result of asset management.

1.3 GENERAL OVERVIEW

Under the current reporting model, PHAs submit annual financial statements to HUD's Real Estate Assessment Center (REAC) in electronic format utilizing a HUD-prescribed Financial Data Schedule (FDS) (OMB Approval Number 2535-0107) through a web-based system known as the

¹ *Revisions to the Public Housing Operating Fund Program; final rule*, published in the Federal Register on September 19, 2005 (79 FR 54983), and *Revisions to the Public Housing Operating Fund Program; Correction to Formula Implementation Date*, published in the Federal Register on October 24, 2005 (70 FR 61366).

² For the remainder of this document, the term PHA includes RMCs.

Financial Assessment Sub-system for Public Housing (FASS-PH). The FDS includes the balance sheet along with the revenue and expense activity of each program or activity of the PHA. This FDS must be prepared in accordance with Generally Accepted Accounting Principles (GAAP).

The final rule requires all PHAs with 250 or more units to convert to asset management, necessitating a new financial reporting model. Under § 990.280 of the final rule, PHAs must:

“... develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of the actual revenues and expenses associated with each property.”

The final rule further states that such information include all data needed to complete a project-based financial statement in accordance with GAAP, including revenues, expenses, assets, liabilities, and equity. Moreover, the final rule applies to all programs that support projects under an Annual Contributions Contract (ACC) applicable to low-income public housing, e.g., the Operating Fund Program, the Capital Fund Program, etc. (For any PHA not using the July 1995 version of the ACC, the Department strongly encourages those PHAs to replace their current ACC with this version.) Additionally, the regulation requires PHAs to replace almost all previous cost allocations with a system of fees.

To adopt a financial reporting model that more closely resembles multifamily housing, the Department will make the following changes in financial management and reporting requirements for PHAs:

- PHAs will now prepare the FDS to report financial performance at the asset management project (AMP) level, including a balance sheet and income and expense activity.³
- New FDS line items will be added to: (1) properly account for fee transactions; (2) make project level reporting more consistent with multifamily housing practices; (3) measure actual rental income by capturing gross potential rent⁴ as well as losses due to vacancy; and (4) allow for the calculation of excess cash on the FDS (this calculation will be used to assess excess cash that may be used to pay an asset management fee or to support the needs of another project). The Department will update the FDS with the new line items needed for this conversion to asset management.
- Both Operating Fund and Capital Fund accounting and reporting will now occur at the AMP level. The separate Operating Fund⁵ and Capital Fund columns on the FDS will be eliminated. This change does not in any way merge the Operating Fund and Capital Fund Programs but merely combines a certain level of financial reporting activities of these programs for FDS reporting at the AMP level.
- PHAs will be required to replace cost allocation systems with a series of fees for the Operating Fund and the Capital Fund Programs. In addition, the Department will provide “safe harbor” fees for the Housing Choice Voucher (HCV) and other PIH programs, which

³ The term “AMP” and “project” are used interchangeably throughout this document. PIH notice “*Identification of Project for Asset Management – PIH 2006 -10*”, issued on February 3, 2006, provides guidance and related instructions to PHAs regarding the identification of projects for the purpose of asset management.

⁴ PHAS will report gross potential rent by using the project’s average actual rent and not a market rate rent.

⁵ The Public Housing Operating Fund Program as established in the 1937 Act, as amended, is also referenced in the REAC Financial Assessment Sub-system as the Low Rent program.

PHAs may voluntarily adopt in lieu of overhead cost⁶ allocations. In concert with these property management fees, the Department will establish rules governing the assignment of costs as either a “front-line” or management fee expense.

- A new column will be added to the FDS to capture the financial activity of the “central office cost center” (COCC), i.e., the business unit within the PHA that is the recipient of fee income and that generates other business activity. The COCC will consist of those PHA activities funded through fees as shown in Tables 7.1 and 7.2. Some examples of costs within the COCC include the Executive Director and staff, risk management staff, and corporate legal staff. At the same time, an “elimination column” will be added to the FDS to eliminate revenues and expenses between projects and the COCC (which will enable the total of all FDS columns to reconcile with the Statement of Net Assets and the Statement of Changes in Net Assets in the general purpose financial statements). This elimination column will also facilitate the entity-wide eliminations required by Governmental Accounting Standards Board (GASB) Statement No. 34.
- Additional FDS details will be required to appropriately report within the AMP amounts received or expended between the Operating Fund and the Capital Fund Programs.
- Currently, Budget Line Items (BLI) are used to budget and account for activities of the Capital Fund Program. The Department foresees transitioning from BLIs to FDS line items. These FDS line numbers will be built into the Annual Plan, e-LOCCS, and Capital Fund Program reporting process. Separate guidance will be issued by the Department as this conversion from BLI accounts to FDS accounts occurs.

This document describes and explains these changes. Additionally, a separate chapter on mixed finance projects has been included in this supplement. While this chapter addresses mixed finance projects under asset management, it also clarifies some of the mixed finance reporting requirements that have been in existence since PHAs were required to convert to GAAP reporting in 1999.

Although the format for the FDS submission (as described herein), as well as the accounting for various transactions, will change, PHAs will continue to submit their year-end financial data to the REAC. Moreover, all reporting will continue to be presented in accordance with GAAP.

With the shift in focus to the AMP, the Department will also modify its Financial Assessment Sub-system for public housing. As indicated in Federal Register Notice cited above, for the first year of conversion to project-based budgeting/accounting, PHAs will receive transitional scores under the new Financial Assessment Sub-system, as well as all other sub-systems under the Public Housing Assessment System (PHAS). Additionally, because of the need to revise PHAS, eligibility for the Capital Fund Bonus Program will, during this period, be based on a PHA’s most recent PHAS score.

For related background information on the changes in the financial reporting model, PHAs should, in particular, refer to “Preparing for Asset Management Under the New Operating Fund Rule (24 CFR part 990): A Planning Document,” dated June 1, 2006. That planning document contains the broader themes and policy backdrop for public housing’s conversion to asset management.

⁶ Overhead costs are costs that are generally not directly identifiable to a program or project. For example, the salary and benefits paid to the Executive Director is considered an overhead cost.

1.4 TIMEFRAMES FOR IMPLEMENTATION

Unless otherwise noted, the new requirements contained in this supplement take effect for PHAs in accordance with 24 CFR part 990 and as shown in Table 1.1.

Table 1.1: Schedule for Financial Management and Reporting Compliance⁷

PHA Fiscal Year-End	Project-based Budgets and Project-based Accounting	Cost Reasonableness
June	07/01/2007 through 06/30/2008 and after	07/01/2008 through 06/30/2009 and after
September	10/01/2007 through 09/30/2008 and after	10/01/2008 through 09/30/2009 and after
December	01/01/2008 through 12/31/2008 and after	01/01/2009 through 12/31/2009 and after
March	04/01/2008 through 03/31/2009 and after	04/01/2009 through 03/31/2010 and after

For example, a PHA with a fiscal year end of June needs to be in compliance with project-based budgeting and project-based accounting, as established in this document, for its fiscal year beginning July 1, 2007.⁸ Starting with fiscal year beginning July 1, 2008, this PHA must be compliant with the cost reasonableness standards as established in this document.

The Department will modify its system of electronic filing/submission of year-end PHA financial statements to match these new reporting requirements consistent with the above schedules.

⁷ Schedule for Financial Management and Reporting Compliance is contained in 24 CFR part 990, Revisions to the Public Housing Operating Fund Program; Final Rule as updated in the Federal register on October 24, 2005 (70 FR “*Revisions to the Public Housing Operating Fund Program; Correction to Formula Implementation Date.*”

⁸ Accelerated implementation schedules apply to PHAs who want to stop their losses, under the new operating fund formula, by demonstrating successful conversion to asset management. Schedules and related information for PHAs applying for stop-loss was issued under PIH Notice 2006-14, *Operating Fund Program final rule: Transition Funding and Guidance on Demonstration of Successful Conversion to Asset Management to Discontinue the Reduction of Operating Subsidy*, on March 22, 2006.

2. Changes to Financial Statement and Financial Data Schedule Reporting

2.1 OVERVIEW

The Department continues to take the position that it is not an accounting standard -setting body and, as such, has relinquished its role over establishing standards over financial reporting. However, the Uniform Financial Reporting Standards (UFRS), 24 CFR Part 5, subpart H, mandates that PHAs report financial data in accordance with GAAP for governmental entities as set by the GASB. Under asset management, this situation does not change. The reporting requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organization, issued by the Office of Management and Budget, continue to apply.

The FDS was created in order to standardize financial information reported by PHAs to the Department. The FDS is used to analyze a PHA's financial performance and to help the Department monitor its portfolio; therefore, the FDS also collects a certain amount of programmatic data. This information is reported on a GAAP basis but not necessarily in the format of the general-purpose financial statements. The FDS is supplementary information to the PHA's financial statements. In order to accommodate the changes in financial reporting described herein, the Department will be updating the FDS to:

- Add columns for the AMPs;
- Combine the accounting and reporting of financial activity of the Operating Fund and the Capital Fund Programs at the AMP level;
- Add an eliminations column to allow for the elimination of revenue and expenses between AMPs and the COCC; and
- Add line items in the FDS to accommodate changes in reporting requirements.

These changes are discussed in greater detail in the following pages.

2.2 FINANCIAL STATEMENT REPORTING

PHAs will continue to provide financial statements to the Department in accordance with GAAP. Accounting standards clearly indicate that the financial statements are the responsibility of management and not the auditor, as evidenced in both the auditors' reports and associated literature. In turn, it is the responsibility of the auditor to ensure that his/her report is in compliance with the standards of reporting as defined under Generally Accepted Auditing Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS). However, PHAs are encouraged to work with their auditor in order to ensure that reporting of financial and compliance requirements, as prescribed, are in accordance with professional standards.

To assist PHAs in applying GAAP, the REAC has and will continue to develop and distribute guidance on its web site to assist the industry and professional organizations in the submission process and to respond to inquiries from the industry regarding financial accounting and reporting matters.

Opinion Units. The Department has received numerous inquiries as to the applicability of GASB Statement No. 34 requirement to report on opinion units. The GASB Standard No. 34 reporting model requires two sets of financial statements - general-purpose financial statements and fund statements. General-purpose statements present the financial results for the PHA as a whole. Fund statements present the information for each major fund and the aggregate of non-major funds. Each major fund is considered a reporting unit. For each reporting unit deemed a major fund, the Certified Public Accountant (CPA) must opine as to the reliability of the data presented. Each opinion issued by the CPA is referred to as an “Opinion Unit.” Separate opinion units are only required when the PHA or its auditor elect to report multiple funds. If the PHA elects to report as one enterprise fund, then the PHA will only issue its general-purpose financial statements and no fund financial statements or the associated opinion unit.

The existence of multiple funds is a determination made by the PHA. In practice, there is a diversity of opinion on the application of these concepts to PHAs. The rules for determining the applicability of these requirements are varied, and dependent on the circumstances of the individual PHA. The Department believes that each PHA should consult with their independent auditor to determine the appropriate reporting required under GAAP. Therefore, the Department will not issue prescriptive guidance on this matter. The FDS, as designed, currently accommodates year-end reporting for PHAs under either method chosen.

2.3 FINANCIAL DATA SCHEDULE REPORTING

The FDS is the primary tool used by the Department to assess the financial performance of PHAs. This schedule is collected by the REAC. The FDS is not a GAAP-based statement but is instead a HUD-prescribed template that has been designed to capture GAAP-based data. PHAs will continue to submit data to the REAC under asset management based on the current schedule. This GAAP-based data will be reviewed for proper application of both accounting and auditing standards, as well as compliance with laws and regulations. Additionally, for those PHAs that must submit audited financial data to the Department, the audited financial statements are compared with the FDS data reported in order to determine consistency in application.

Under asset management, this process will be expanded. The PHA must now verify that not only program financial data has been properly recorded and accounted for in accordance with GAAP, but that the individual AMP(s) and the COCC are also properly presented according to GAAP.

Table 2.1 shows a condensed view of the current statement of net assets in the financial submission to the REAC for a hypothetical PHA under the current reporting model. In this example, the PHA administers four programs – Operating Fund, Capital Fund, Section 8 Voucher, and the Department of Agriculture’s Rural Housing Program. Under the current model, the PHA would submit detailed balance sheet and income statement data for each of these programs. Since most PHAs report as a single fund in their annual financial statements, the total of all these programs would agree to the top-level financial statements.

Table 2.1: Historical FDS Financial Reporting Model

Financial Statement	Program				Total
	Operating Fund	Capital Fund	Section 8 Voucher Program	Rural Housing	
Statement of Net Assets					
Assets	\$10,000,000	\$500,000	\$250,000	\$750,000	\$11,500,000
Liabilities	\$5,000,000	\$100,000	\$200,000	\$250,000	\$5,550,000
Net Assets	\$5,000,000	\$400,000	\$50,000	\$500,000	\$5,950,000
Liabilities and Net Assets	\$10,000,000	\$500,000	\$250,000	\$750,000	\$11,500,000

Table 2.2 represents the new financial reporting model. Under this new model, the Operating Fund and Capital Fund Programs are *no longer* reported as individual programs but are combined in the column labeled “Asset Management Projects.” The Department’s focus under this model is the AMP, not public housing programmatic reporting. PHAs will report individual balance sheets and income statements for each AMP. AMP data will be entered by the PHA consistent with the AMP groupings previously submitted to and approved by the Department. For reasons explained further in this document, certain activities of the Operating Fund or Capital Fund Programs may be reported in the COCC and, therefore, the total of the AMPs’ activities may not equal the equivalent total of the Operating Fund and Capital Fund Programs if they were still reported programmatically.

Also, two new columns have been added to the FDS – a Central Office Cost Center column and an Elimination column.

- The COCC⁹ column will be used by PHAs to account for the revenue and expenses of the COCC and other “non-restricted” business activities of the PHA.¹⁰
- The Elimination column will be used to eliminate the expense paid by the AMPs as fee revenue to the COCC. Programs not affected by asset management will continue to be reported in individual columns. The sum of all columns will agree to the general purpose financial statements as in the previous example.

Initially, PHAs will need to report on each mixed finance project as a separate AMP. The Department will re-evaluate this policy in the future and may decide to allow PHAs to report all mixed finance projects under one “mixed finance AMP column.”

The FDS will also include an “Other AMP” column. This column will account for those activities that are directly supported by either the Capital Fund or Operating Fund Programs but not necessarily related to a recognized AMP. While the Department expects the use of this column to be limited, it does provide flexibility in reporting. Examples for the use of this column include a

⁹ PHAs with over 250 units are required to establish a COCC as they must use a fee-for-service approach. PHAs under 250 units have the option of establishing a COCC (§ 990.260 and (§ 990.280). Further information is provided in Chapter 9 - Small PHAs.

¹⁰ PHAs are required to report the COCC information in this column but have the discretion to also combine any other business activity whose proceeds are not restricted to that business or other third party entities into the COCC column. Examples of “non-restricted” business activities would include fees earned from the managing of non-profit or private real estate, or the sale of central maintenance services to outside parties.

new project that has not been recognized in PIC or homeownership activities that cannot be directly linked to an AMP.

Table 2.2: Asset Management Financial Reporting Model: FASS-PH System

Financial Statement	Program					Total
	Total Asset Management Projects	Section 8 Voucher Program	Rural Housing	Central Office Cost Center	Eliminations	
Net Assets						
Assets	\$10,100,000	\$300,000	\$750,000	\$400,000	-\$50,000	\$11,500,000
Liabilities	\$4,850,000	\$200,000	\$250,000	\$300,000	-\$50,000	\$5,550,000
Equity	\$5,250,000	\$100,000	\$500,000	\$100,000		\$5,950,000
Changes in Net Assets						
Revenue	\$1,730,000	\$1,000,000	\$575,000	\$270,000	-\$250,000	\$3,325,000
Expenses	\$1,360,000	\$990,000	\$560,000	\$240,000	\$250,000	\$2,900,000
Net Income	\$370,000	\$10,000	\$15,000	\$30,000	\$0	\$425,000



Table 2.3: Asset Management Project Reporting Model: FASS-PH System

Financial Statement	Asset Management Projects				Total
	Project 1	Project 2	Project 3	Other AMP	
Balance Sheet					
Assets	\$3,434,000	\$3,253,000	\$3,131,000	\$282,000	\$10,100,000
Liabilities	\$1,649,000	\$1,521,500	\$1,503,500	\$176,000	\$4,850,000
Equity	\$1,785,000	\$1,731,500	\$1,627,500	\$106,000	\$5,250,000
Income Statement					
Revenue	\$588,200	\$527,500	\$536,300	\$78,000	\$1,730,000
Expenses	\$462,400	\$429,000	\$421,600	\$47,000	\$1,360,000
Net Income	\$125,800	\$98,500	\$114,700	\$31,000	\$370,000

2.4 AUDIT IMPACT

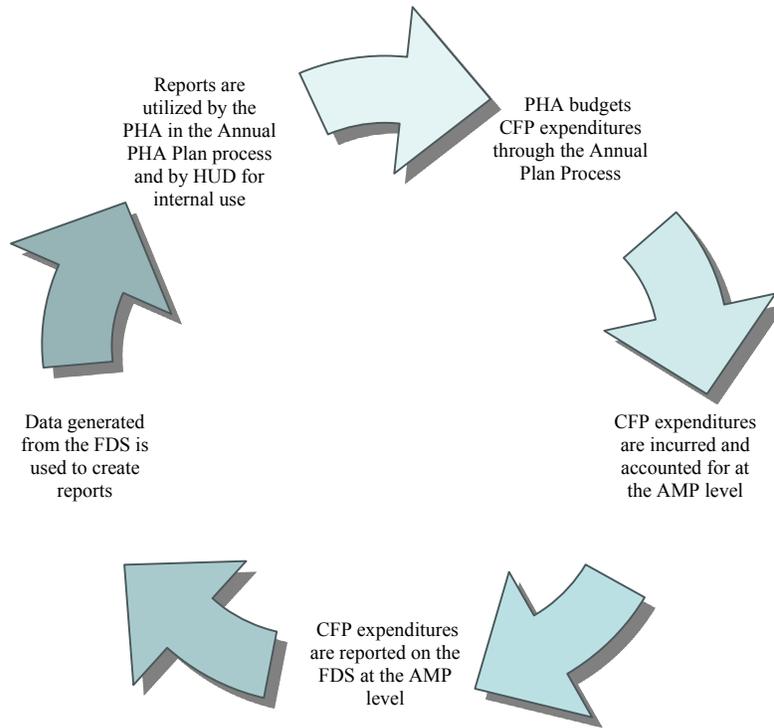
Implementation of the final rule may have a significant impact on the nature, timing and extent of audit procedures. Auditors will have a significant amount of work to perform in the initial year of implementation to determine the appropriateness of the initial balance sheet allocations to the AMPs and COCC. In addition, auditors need to ensure that costs and fees meet the reasonableness guidelines established by the Department. On an ongoing basis, audit work may also increase due to changes in the reporting and auditing model. PHAs will likely see a reasonable increase in audit costs due to these changes. Audit costs are add-on expenses under the formula described in the final rule and, therefore, reimbursable. The reporting and auditing requirements of OMB Circular A-133 still apply. The Department will update the OMB Circular A-133 Compliance Supplement to incorporate these changes in presented in this document.

2.5 CAPITAL FUND ANNUAL PLAN PROCESS - FUTURE DEVELOPMENT

The AMP will be the central component of the Annual Plan process in the future.

Implementing the asset management model requires changes to the FDS. As the FDS data will remain the primary focus of the Department's reporting requirements, the Department is using this opportunity to redesign the FDS to accumulate AMP level data, and to gather data that can be used to generate reports for the Capital Fund Program.

Currently, the BLI accounts are used to budget and account for Capital Fund Program activity. The Department is transitioning to a revised BLI that utilizes FDS line numbers. This change will create uniformity of data collection and report processing based on a standardized chart of accounts. Eventually, these FDS line numbers will be built into the Annual Plan and Capital Fund Program reporting process. Once integrated into the Annual Plan process, reports can be generated from financial information collected through the FDS process. It is expected that these changes will not occur for another year or so. PIH will provide further guidance and timelines so PHAs will have time to adequately plan. The above discussion is informational only.



3. Financial Data Schedule Line Items

As a result of the change to asset management, the Department anticipates the additional new FDS Line Items. These new FDS line items will be added to:

- Properly account for fee transactions;
- Properly account for project level data;
- Make project level reporting more consistent with multifamily housing;
- Capture gross potential income as well as rent and vacancy loss; and
- Allow for the calculation of excess cash on the FDS.

Additionally, the Department will review and update (if necessary) the FDS line items to be compliant with recently issued GAAP standards, especially as these standards relate to legacy costs¹¹ (which are not currently contained on the FDS).

Tables 3.1 and 3.2 list the known FDS line item changes. However, it is expected that additional changes may occur as the FDS templates are finalized.

Table 3.1: Preliminary Changes to FDS Balance Sheet Line Items

No.	Account Type	Description	Comment
1	Current Asset	Accounts Receivable - HUD Other Projects	These line items currently exist but a detail link will be added to capture amounts associated with the Capital Fund and Operating Fund Programs.
2	Current Liability	Deferred Revenue	
3	Current Liability	Current Portion of Long-term Debt – Capital Projects/ Mortgage Revenue Bonds	
4	Non-Current Liability	Long-term Debt, Net of Current – Capital Projects/Mortgage Revenue Bonds	
5	Non-Current Liability	Accrued Pension and OPEB Liability	New line item to separately detail long-term liabilities associated with pension and other post employment benefit costs.
6	Non-Current Liability	Contingent and Lawsuits Liability	New line item to separately detail long-term liabilities associated with lawsuits and other FASB 5 contingencies.

Table 3.2: Preliminary Changes to FDS Income and Expense Line Items

No.	Account Type	Description	Comment
-----	--------------	-------------	---------

¹¹ Costs primarily comprised of, but not limited to, Pension Benefit Obligations (PBOs), Other Post Employment Benefits (OPEBs), Compensated Absences, Termination Benefits, and Risk Financing (Liability Claims) that may not be currently reported in a PHA's financial statement and may be unfunded. Further discussion is provided in Chapter 4 on this topic.

No.	Account Type	Description	Comment
1	Revenue	Total Fee Revenue	The sum of the fees reported as revenue. System calculated based on input of PHA (normally associated with revenue of the COCC).
2	Revenue	Management Fee	Fee revenue for general management of the properties and programs.
3	Revenue	Asset Management Fee	Fee revenue for asset management, available from excess cash of the AMP.
4	Revenue	Bookkeeping Fee	Fee revenue recognized for front line bookkeeping done centrally.
5	Revenue	Fees for Centrally Provided Direct Services	Revenue associated with centralized COCC services normally considered a front-line-expense.
6	Revenue	Other Fees	“All other account” for fee revenue not described above.
7	Expense	Advertising and Marketing	These costs are currently recorded in FDS line item 916 “Other operating -administrative” but are now required to be reported separately.
8	Expense	Office Expenses	
9	Expense	Legal Expense	
10	Expense	Outside Accounting Services	
11	Expense	Travel	
12	Expense	Management Fee	Fee expenses (normally of AMPs and Programs to COCC) for general oversight and monitoring of front-line costs.
13	Expense	Asset Management Fee	
14	Expense	Bookkeeping Fee	
15	Expense	Sewer	
16	Expense	Heating and Cooling	The cost of sewer utilities, if it can be segregated from the water bill.
17	Expense	Snow Removal	
18	Expense	Elevator Maintenance	
19	Expense	Landscape and Grounds	
20	Expense	Unit Turnaround	
21	Expense	Electrical	
22	Expense	Plumbing	
23	Expense	Extermination	
24	Expense	Janitorial	
25	Expense	Garbage and Trash Removal	
26	Expense	Property Insurance	These costs are currently reported in FDS line 943 “Ordinary maintenance and operations – contract costs” but are now required to be reported separately if completed either via fee-for-service or through private contract.
27	Expense	Liability Insurance	
28	Expense	Fidelity Bond Insurance	
29	Expense	All Other Insurance	
30	Expense	Workmen's Compensation	
31	Expense	Interest on Mortgage (or Bonds) Payable	These costs are currently recorded in FDS line item 961 “Insurance premiums” but are now required to be reported separately.
32	Expense	Interest on Notes Payable (Short and Long Term)	This is a sub account under Line 967 - Interest Expense.
33	Expense	Amortization of Bond Issue Costs	This is a sub account under Line 967 - Interest Expense.
34	Transfer	Inter AMP Excess Cash Transfer In	GASB requirements to separate this line item from interest expenses.
35	Transfer	Inter AMP Excess Cash Transfer Out	Line item used to report transfers from one project to another.
36	Transfer	Transfers from Program to AMP	Line item used to report transfers from program to a property.

No.	Account Type	Description	Comment
37	Transfer	Transfers from AMP to Program	Line item used to report transfers from a property to a program.
38	Memo	Gross Potential Rent	New memo accounts used to provide information on revenue loss.
39	Memo	Gross Potential Subsidy	
40	Memo	Vacancy Loss – Rent	
41	Memo	Subsidy Loss – Proration	
42	Memo	Subsidy Loss – Vacancy	
43	Memo	Excess Cash	This line item is a memo account, which the FASS-PH system, as defined earlier, will automatically calculate in accordance with Chapter 6 of this document.
44	Memo	System Reported Units per PHA	Unit month detail updated to conform to new Operating Fund Program final rule categories.
45	Memo	Special Use Units	
46	Memo	Modernization	
47	Memo	Litigation	
48	Memo	Disasters	
49	Memo	Casualty Loss	
50	Memo	Changing Market Conditions	
51	Memo	Police Officer - Special Use	
52	Memo	Other	
53	Memo	Unit Months Available	
54	Memo	Land Purchases	New memo accounts to detail out Capital Fund Program expenditure data.
55	Memo	Building Expenditures	
56	Memo	Furniture and Equipment - Dwelling Purchases	
57	Memo	Furniture and Equipment - Administrative Purchases	
58	Memo	Leasehold Improvements Purchases	
59	Memo	Infrastructure Purchases	
60	Memo	CFFP Debt Service Payments	
61	Memo	Reserve Replacements Purchasing	
62	Memo	Admin Expenses (BLI 1410)	
63	Memo	Management Improvements (BLI 1408)	
64	Memo	Administrative Costs Charged to Management Improvements	
65	Memo	Transfers to Operations (BLI 1406)	
66	Memo	Administrative Costs Charged to Management Improvements	
67	Memo	Transfers to Operations (BLI 1406)	

4. Project-Based Budgeting and Accounting

4.1 PROJECT-BASED OPERATING BUDGETS

Under § 990.255 of the final rule, PHAs are required to “implement project-based management, project-based budgeting and project-based accounting.” With the exception of troubled PHAs, budget data will not be sent to the Department for approval. Budgetary approval will rest with the PHA’s board. Although PHAs have a significant amount of discretion in how the operating budget is prepared, the Department has set certain requirements for this process. Table 4.1 outlines those requirements.

Table 4.1: Budget Requirement and Clarifications

No.	Description
1	Operating budgets shall be developed for each AMP. A COCC budget is highly recommended but not required.
2	There is no specific budget format, including for those troubled PHAs, that must submit their budget to the Department for approval. ¹²
3	While there will be no uniform/required format, all budgets must be easily reconcilable to FDS line items.
4	PHAs shall develop and maintain AMP budgets that allow for comparative analysis of budgeted line items to actual revenues and expenses.
5	Operating budgets shall include all revenue and expenses under the Operating Fund and Capital Fund Programs that directly or indirectly support the AMP, including all data needed to complete AMP-based financial statements in accordance with GAAP.
6	Operating budget revenues shall include operating subsidy, dwelling rents, Capital Fund used for non-capital activities, and all other revenue used to support the AMP. Subsidy levels should be based on the project formula components (i.e., the AMP’s PEL, UEL, add-ons, and formula income), with an estimate of the projected proration percentage. Budgets should also include any “transfers” under the “fungibility” provisions of the final rule.
7	Operating budget expenses shall include, but are not limited to, direct administrative costs, utilities, maintenance, security, general expenses, and non-routine or capital expenses. These categories also include any COCC front-line costs charged as fee-for-service. The budgets should also show any anticipated uses of excess cash expected to be generated by the AMP. Such amounts will be made available for transfer to other AMPs, paid under the asset management fee, or for any other eligible purposes.
8	AMP operating budgets must be approved by the PHA’s Board before the commencement of the fiscal year; however, the Board does not need to pass a resolution for each project budget. Operating budgets for all or multiple AMPs can be approved with a Board joint vote. The Board resolution must be filed at the local field office.

¹² The Department is in the process of updating Form HUD – 52564, Operating Budget, and all associated schedules to align it to the asset management model and GAAP reporting. PHAs may continue to utilize these forms; however, they are not required.

4.2 OTHER CONSIDERATIONS ON THE BUDGET PROCESS

Under project-based management, the project manager plays a significant role in preparing and monitoring the respective AMP's budget. The Department considers this concept an integral part of the asset management model.

Care should be taken during the budgeting process to ensure that budgeted asset management fees will be available at the AMP and not limited due to excess cash restrictions. In other words, PHAs should be sure that sufficient cash flow is anticipated at any project where an asset management fee will be assessed. Further, although the Department has not required the PHA to establish separate bank accounts for each AMP, the budgeting process should consider the cash needs of the PHA. This consideration must include limitations on cash transfers among AMPs due to excess cash restrictions.

Finally, the PHA should recognize in their budgeting process the Department's change in its funding cycle to a calendar year for operating subsidy.

For informational purposes only, Table 4.2 lists all the current HUD operating budget forms, title, and associated OMB approval number. The Department is in the process of updating and reissuing these forms, which may result in the elimination or consolidation of some the forms listed below. As stated above, the use of these new forms will be voluntary.

Table 4.2: Current Operating Budget Forms

HUD Form	Form Title	OMB Approval Number
HUD-52564	Operating Budget	2577-0026
HUD-52566	Operating Budget – Schedule of All Positions and Salaries	2577-0026
HUD-52567	Operating Budget – Schedule of Nonroutine Expenditures	2577-0026
HUD-52571	Operating Budget – Schedule of Administration Expense Other Than Salary	2577-0026
HUD-52573	Operating Budget – Summary of Budget Data and Justification	2577-0026
HUD-52574	PHA Board Resolution ¹³	2577-0026

4.3 PROJECT-BASED ACCOUNTING

In adopting the project-based accounting model, the PHA will need to adopt basic changes to its accounting systems and procedures. Listed below are various accounting issues that need to be considered.

¹³ For non-troubled PHAs only, the PHA Board Resolution needs to be filed with HUD.

Chart of Accounts. As noted in Chapter 2, PHAs are required to use a standard chart of accounts for reporting year-end financial information to the Department. The conversion to project-based accounting is expected to produce a limited number of changes to that chart of accounts. These anticipated changes are listed in Chapter 4.

Gross Potential Rent and Vacancy Loss. With the emphasis on the effective management of the AMPs, the Department will now require PHAs to report revenues similar to multifamily projects. PHAs will report “gross potential” revenues. A property’s gross potential rent typically represents the total rent that would be earned if all units within an AMP were 100% occupied, i.e., the maximum rent that would be possible. Gross potential rent is contrasted with actual rental revenue, with the difference referred to as vacancy loss. This information is usually presented on the income statement of commercial and multi-family rental properties. For PHAs, a similar concept would include the reporting of both:

- Gross potential rental income and the associated vacancy loss; and
- Gross potential operating subsidy and the associated subsidy loss.

Gross potential rent will be based on all units under the ACC, regardless of status, multiplied by the average tenant rent for the project.

Gross potential subsidy will be based on data already contained and submitted on the form HUD – 52723, Operating Fund Calculation of Operating Subsidy (OMB approval number 2577-0029). PHAs will initially recalculate the operating subsidy form by changing only the eligible unit months (EUM) data. In future system releases, the Department will automate this task. Gross potential subsidy will be calculated by reporting the EUM portion of the form as if all units were occupied by eligible public housing tenants (on the form HUD – 52723) for a full twelve months. The net difference in these calculations represents the subsidy loss. This subsidy loss will then be reported in two distinct line items. The first line item will report the amount of subsidy loss due to a funding proration less than 100 percent. The second line item will report the amount of subsidy loss due to the units not being in an operating subsidy payable status.

Bank Accounts. PHAs are not required to establish separate banks accounts for each AMP. However, the accounting records are to be in sufficient detail to determine the cash balances of each AMP, the COCC, and any other PHA program. Actual AMP, COCC, and other program cash and investment balances should be reported on the associated FDS line items for their respective balances. PHAs may not report all cash and investment balances under one program or AMP. Records must be in sufficient detail to monitor compliance with the final rule’s excess cash requirements. While not specifically related to asset management, PHAs are reminded that funds are not fungible between federal programs regardless of transfer being of a “temporary” nature. This type of activity is an ineligible use of program funds.

Legacy Costs and Associate Unfunded Liabilities. Legacy costs represent costs or liabilities incurred prior to the commencement of asset management, for which, in many

cases, there is no current funding plan. These amounts are generally expected to be paid from program income. The Department's general position is that any legacy cost should be paid from program income if incurred prior to the establishment of the asset management/fee-for-service concept. The accounting treatment for these costs is well documented in GAAP. The Department's responsibility with regard to these amounts is to give guidance on the allocation of these liabilities in the initial FDS asset management balance sheet and to provide an adequate method for PHA's to recover these costs.

The Department generally believes that all liabilities should be accounted for and paid by the AMP, COCC, and program where they were incurred. At the adoption of asset management, existing liabilities must be allocated to the proper beginning balance sheets of the AMP, the COCC or other programs. This initial allocation must be based on a method that is reasonable and will ensure that each AMP, program, and COCC bears its proportional amount of these liabilities. Allocated liabilities may not exceed the liabilities in existence in the beginning balance sheet for the first asset management year. The only exception to this statement would be adjustments to amounts of those liabilities resulting from revised estimates from the time of the initial booking of the liability. Since the first PHAs to adopt this model have fiscal years ending on June 30th, they must have these liabilities reported at the respective AMP, COCC, and other programs beginning July 1, 2008. Such costs may include vacation, pension and retiree medical, lead-based paint or asbestos cleanup, or other liabilities related to legal actions. Each particular cost is described below.

Vacation Liabilities. PHAs may allow employees to accumulate unused vacation to be paid or taken at a later date. *Funding* of these amounts has usually been limited to the amount paid during any year. These vacation liabilities were recorded when PHAs converted to GAAP. Accordingly, these liabilities exist on the books of many PHAs today.

Vacation liabilities should be allocated to the respective AMP, the COCC, or other program to which the employee is assigned. While these liabilities are currently reported on the balance sheet, the allocation between AMP, COCC, and other programs will occur at the adoption of asset management. Since vacation liabilities generally relate only to current employees, payment for these liabilities will be paid by program income from the AMP(s), other program(s), or through the fees paid to the COCC.

Under asset management, vacation liabilities for employees of the AMPs and other programs will be paid as a direct cost of the program (i.e., through program income). For amounts related to unfunded vacation liabilities of employees of the COCC, the Department recognizes that it may be difficult for the COCC to recover the "legacy" portion of these costs from the allowed fees. Therefore, the Department will allow net¹⁴ vacation liabilities of the COCC included in the **initial** balance sheet allocation to be offset by a receivable from the AMP(s) and other programs. Since this liability is prior to

¹⁴ Any cash and investments that have already been set aside to pay these future costs will be deducted from the gross liability when determining the accounts receivable. These accounts receivable and accounts payable will be eliminated on the FDS.

the new regulation it is not subject to excess cash flow rules. A request for payment to the AMPs or other programs for reimbursement of these costs needs only to be supported by the COCC's actual costs. Therefore, once the accounts receivable is established at the COCC it can only be reduced by payments from the AMPs and other programs. This receivable should be classified as either current or long-term depending on the PHA's classification of these vacation liabilities. The actual transfer of funding from the AMP or other programs must be based on a reasonable allocation, since these COCC legacy costs are attributable to all of the respective AMPs and other programs.

The initial allocation must be limited to actual recorded vacation liabilities in existence at the first asset management balance sheet date. These allocations must be based on a reasonable method that ensures that each AMP, other program, and COCC bears its proportional share. The ability to pay these liabilities may be a factor in determining a reasonable allocation method.

Vacation liabilities incurred subsequent to the first asset management balance sheet date must be recorded and paid as a payroll expense and associated liability by the respective AMP, COCC or other program where the expense was incurred. Vacation liabilities should follow the employee. Accordingly, the subsequent transfer of an employee to another AMP, COCC or other program should also result in the transfer of the previously incurred liability. The offset to this transfer would be cash or other liquid assets. If such assets are unavailable, a receivable should be recorded from the AMP or other program where the employee transferred. The transferring agency must record a payable for the amount if cash or other liquid assets are unavailable.

Pension and Other Post-Employment Benefits (OPEBs). Pension and OPEB costs represent liabilities related to both current employees and retirees for pension, retiree medical and other related expenses. Again, the guidelines for the recognition of expenses and liabilities are governed by GAAP. PHAs must account for and contribute to the plan in accordance with guidelines established in the plan document and reasonable actuarial assumptions. Contributions become assets of the plan and reduce the liability of the PHA.

The plan's actuary or the equivalent generally determines the amount of annual expense by employee or employee groups. Accordingly, after the assignment of employees to the appropriate organizational unit, the yearly cost for that employee will be paid either as direct costs for the AMPs, other programs or by fees paid to the COCC.

Liabilities associated with pensions were recorded on the books of the PHA when it converted to GAAP. Accordingly, these liabilities exist on the books of PHAs today and will continue to accrue based on actuarial models.

For OPEB amounts, PHAs have previously funded these liabilities as the expense was incurred. This method is also known as pay-as-you-go. No effort was made to account for the PHA's entire liability. PHAs will now be required to account for OPEB liabilities beginning in 2008 as required by the implementation schedule issued under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for*

Postemployment Benefits Other Than Pensions. The PHA's actuary must now determine the annual OPEB expense in the financial statements. The GASB determined that the annual OPEB expense or the annual required contribution (ARC) would consist of two components:

- The normal cost for the year; and
- A component for amortization of the unfunded actuarial liability over a period of not to exceed 30 years.

The costs for these liabilities will be charged to the COCC *for all employees*. A new line item will be added to the FDS to account for these amounts. Accordingly, the COCC will need to recover these costs from the respective AMP or other programs.

At each annual valuation, the COCC may transfer cash or other liquid assets from the AMPs or other programs in amounts sufficient to recover the ARC costs of employees of the AMPs and other programs as well as an allocation of the amortization of the "Unfunded Actuarial Liability" of COCC employees. Once again, amounts allocated for COCC employees must be based on a method that assures a reasonable allocation among the programs involved. The annual "Normal" cost for COCC employees must be recovered from the fees earned by the COCC.

When cash or liquid assets are not available, the COCC may record a receivable from the AMPs or other programs. A related payable will be maintained at the AMP or other program for these liabilities. These costs may be unknown at the adoption of asset management. These amounts were incurred prior to the adoption of the final rule and are therefore not subject to the excess cash rules. Accordingly, the process as described, above, will proceed as amounts are recognized for the period allowed under GAAP. This period may extend up to 30 years.

Amounts recognized for OPEB costs should be paid annually, if possible. This will prevent the recording and maintenance of receivable and payable balances between the AMPs and the COCC for an extended period of time. These payments must be limited to the amount ARC as determined by the plan's actuary under the plan's rules and disclosed in the PHA's annual financial statements. Liabilities related to the PHA's pension plan would be treated in a similar manner.

The Department also encourages PHAs to use cash transferred to the COCC to actually fund pension or OPEB liabilities. Failure to fund these amounts when the cash is transferred to the COCC may allow the PHA to accumulate liabilities for amounts already paid for by Departmental programs. The use of these transferred funds to fund another activity is not permitted.

Other Liabilities. Other liabilities resulting from lawsuits, legal actions and other FASB-5 related liabilities must be considered on a case-by-case basis. Liabilities for asbestos, lead-based paint or other similar issues in excess of insurance proceeds should be recognized as a liability and expensed in accordance with prevailing GAAP. The

Department recognizes that such liabilities are liabilities of the PHA as a whole and are not specific to any individual AMP or program. Liabilities for these items should be recorded at the COCC. A new line item will be added to the FDS to account for these amounts.

Costs related to these liabilities may be recovered from the AMPs or other programs. The recovery of these costs must be based on a method that results in a reasonable allocation among the AMPs and other contributing programs. Once the appropriate allocation has been determined, the PHA may transfer to the COCC cash or other liquid assets without regard to excess cash rules. For example, liabilities for a lead-based paint legal action at a specific AMP would be booked at the COCC. The COCC will then allocate these costs among the AMPs or other programs. Cash may then be transferred to the COCC. In the event that cash or other liquid assets are not available, a receivable will be recorded by the COCC with a resulting payable at the AMP or other program.

Mixed Finance Projects. PHAs should generally exempt the reporting of liabilities and payments of legacy costs that are not specific and identifiable to a mixed finance project.

Annual Operating Subsidy Revenue Recognition. Operating subsidy supplements a PHA's operations for a calendar year regardless of the PHA's fiscal year. Generally, the Department obligates a portion of these appropriated funds throughout the year based on the PHA's eligibility and the amount of approved appropriation. These funds are made available through the Department's disbursement system known as e-LOCCS. While the Department may, for ease of administration, obligate monies for several months at a time, the PHA's subsidy is limited and conditional as stated in 24 CFR part 990, subpart E. Subpart E limits the amount of subsidy to monthly installments. It also restricts availability based on compliance with regulations for reexamination of income of families in occupancy.

GASB Statement No. 33 defines and establishes revenue recognition requirements for voluntary nonexchange transactions. Operating subsidy is a voluntary nonexchange transaction as defined under the Statement. One of the primary tenets of revenue recognition under the statement is the existence of time restrictions. Time restrictions specify the period when resources are required to be used or when use may begin.

Although the Department is not a standard-setting body, it has thoroughly reviewed the current applicable GASB standards, laws and regulations, and has held discussions with industry leaders in governmental accounting. It is the Department's position that PHAs should recognize operating subsidy for annual financial statement reporting when funds are obligated and are available for draw down in e-LOCCS. Under the current scenario, a PHA would recognize no more than 12 months of subsidy in a given fiscal year.

Operating Subsidy will still be provided in e-LOCCS at the PHA agency level for ease of draw down. However, actual funding and reporting will be tied to the specific AMP as outlined in the PHAs' subsidy request.

Auditing Fees. The final rule requires that each AMP, COCC and other programs reflect the costs of operations. This requirement also pertains to audit costs. However, the Department acknowledges that audit costs are determined for the overall PHA and are not determined at the project or program level. Further, the Department anticipates that the audit process will continue to be controlled by the COCC. The Department reminds PHAs that audit costs are allowable under most Departmental programs and that each program should be charged its proportionate share. The COCC will recover these costs through a fee for centrally provided services¹⁵ from the AMPs and a similar fee or a reasonable allocation(s) to other programs.

The Department also refers PHAs to GAAP Flyer No. 6 – Procuring an Audit, previously issued on the selection of the independent auditor.

Elimination Entries. Due to the nature of the operations between the AMPs and the COCC, a stronger focus on elimination entries will be required by GAAP. To avoid accounting for these revenues and expenses twice in the FDS, eliminating entries will now be recorded at the FDS level. Such entries were previously required under GASB Statement No. 34. As described in Chapter 2, the FDS will be modified to allow for these entries to be recorded on the FDS. Accordingly, the totals for the FDS will now agree to the general-purpose financial statements. For an example of the revised FDS and the planned use of the eliminations column, see Table 2.2.

Notwithstanding the nature of the AMPs and the COCC for FDS reporting, nothing should be construed that these are separate legal entities unto themselves.

Outside the scope of the COCC and AMPs, similar relationships and financial activities exist between many PHA-managed programs and associated entities that will result in entries requiring elimination. The PHA's auditor is currently proposing such entries for the general-purpose financial statements. These amounts will now be eliminated in the FDS also. PHAs are encouraged to work with their independent auditor in determining which transactions should be eliminated.

Balance Sheet Allocations. PHAs previously submitted the breakdown of their AMPs to the Department. This initial determination was intended to organize the PHAs' assets in a manner conducive to asset management.

At the end of the first year of project-based accounting, PHAs will be required to assign all items on the PHA balance sheet between the COCC, the AMPs and other programs. For example, a June fiscal year end PHA is required to implement project-based accounting starting July 1, 2007. The PHA will prepare and submit to the Department through the FASS-PH system its June 30, 2008, year end balance sheets at a project level. This process will combine the assets, liabilities and net assets of the Low Rent and Capital Fund Programs previously displayed separately in the FDS. This combined data will be allocated among the AMPs and the COCC. Accordingly, the Department recommends that PHAs work closely with their auditor to ensure that assets and liabilities

¹⁵ Chapter 7, Fee Income and Assignment of Costs, more fully describes fees for centrally provided services.

are allocated along appropriate organizational lines. The new balance sheets must be in accordance with GAAP as they represent the beginning balances of the AMPs and the COCC for audit purposes. Restricted assets will require additional scrutiny to ensure they are recorded at the appropriate level.

Overall, the Department will provide minimal additional requirements and guidance on this process. Assets, liabilities and associated net assets should be assigned to the applicable AMP or COCC if a direct relationship exists, including personal and real property. For example, tenant account receivables and security deposit balances should be assigned to the AMP where the receivable or liability is located. Equipment should be assigned based on what entity will control that equipment. Legacy liabilities, to the extent possible, should be liquidated or have cash and investments set aside at the AMP, COCC, or other program where the liability was initially allocated to fully cover the liability at the initial balance sheet date.

As part of this process, and to ensure the initial operating viability of the COCC, the Department will allow the transfer of up to six months of estimated property management, bookkeeping, and asset management fees based on 100 percent occupancy of all ACC units, regardless of the unit's actual status, to the initial balance sheet of the COCC. Asset management fees, for this purpose only, are not subject to excess cash restrictions. If, at the time of transfer, the AMPs do not have sufficient cash to transfer the entire six months of fees, the COCC can record a receivable and the respective AMPs will record a payable for those amounts. This receivable must be paid prior to the earning of additional excess cash payable to the COCC through asset management fees, or to other AMPs under the fungibility guidelines already discussed.

In general, the COCC for a PHA not involved in other business activity, at the initial balance sheet date, should only report initial working capital, their share of fixed assets and any related liability, legacy costs, and receivable and payables mostly related to timing differences.

Any real and personal property assigned to the COCC is still currently bound to federal program rules and considered a restricted asset that needs to be accounted for in a manner that identifies it from the general assets of the COCC, which are free from federal restrictions. The Department will issue further guidance on the disposal of both real and personal property assigned to the COCC.

Energy Service Contracts. PHAs requesting HUD approval on energy performance contracts will have to structure the contract to allow for actual reporting at the AMP level. This change applies to both energy service company (ESCO) contracts and contracts where the PHA functions as their own ESCo.

- For those PHAs where HUD has already approved an EPC, reporting will be required at the respective AMP level, but the PHA may utilize reasonable allocations to meet reporting requirements if actual AMP data is not available.

- Frozen rolling base incentive - The PHA operating subsidy eligibility shall reflect the retention of 100 percent of the savings from decreased consumption until the term of the financing agreement is complete. The PHA must use at least 75 percent of the cost savings to pay off the debt, e.g., pay off the contractor or bank loan. If at least 75 percent of the cost savings is paid to the contractor or bank, the PHA may use the full amount of the remaining cost savings for any eligible operating expense, of which 50 percent must remain at the AMP level and the remainder may be used to fund the COCC.
- Add-on subsidy incentive - This incentive provides an additional subsidy to a PHA to pay debt service on an EPC loan. A PHA using this method should realize a positive subsidy flow through the normal calculation of the operating subsidy formula – computation of utilities expense level (§ 990.170). Fifty (50) percent of the cost savings attributed to the add-on subsidy incentive must remain at the AMP level and the remainder may be used to fund the COCC.
- Resident paid utility incentive - Under this incentive, a PHA may exclude from its calculation of rental income the increased rental income due to the difference between the baseline utility allowance and the revised utility allowances of the projects involved, for the duration of the contract period. Fifty (50) percent of the cost savings attributed to the resident paid utility incentive must remain at the AMP level and the remainder may be used to fund the COCC.

5. Capital Fund Program Reporting

5.1 APPLICABILITY OF ASSET MANAGEMENT REQUIREMENTS TO THE CAPITAL FUND PROGRAM

As determined in the Operating Fund Program final rule, a fee-for-service method will be put into practice as part of the conversion to asset management, which includes the Capital Fund Program. Capital Fund Program funds can only be used to directly support the projects and its residents. **Except for certain exceptions noted in this section, and other than through use of management fees, Capital Fund Program funds cannot be used to directly support the COCC.**

Current requirements and restrictions for the Replacement Housing Factor Funds, Emergency Grants and Natural Disaster Grants are unchanged at this time, unless otherwise noted below. The Department will provide further guidance on how and if these funds are affected by asset management in the near future.

5.2 CAPITAL FUND PROGRAM MANAGEMENT FEE

Asset management requires that a fee-for-service approach be implemented for the Public Housing Program. The Department recognizes that the COCC will perform management and owner functions related to long-term capital planning, budgeting, oversight, monitoring, and reporting of the Capital Fund Program. Capital Fund Program management fees will be generated from the AMPs to fund costs incurred by the COCC for these functions.

The Capital Fund Program management fee covers all costs associated with the COCC's oversight and management of the Capital Fund Program. These costs include duties related to the physical need assessments, capital planning, preparation of the Annual Plan, processing of e-LOCCS, preparation of reports, drawing of funds, budgeting, accounting, and procurement of construction and other miscellaneous contracts.

This fee is **not** intended to cover costs associated with construction supervisory and inspection functions that are considered a front-line cost of the project.

The PHA may charge a management fee up to 10 percent of the Capital Fund Program grant amount, including Replacement Housing Factor Funds. The Capital Fund Program management fee is considered part of administrative costs Budget Line Item (BLI) 1410 of the Capital Fund Program subject to the regulatory limitation, currently set at 10 percent of the grant award. The Department will periodically review the Capital Fund Program management fee amounts to determine if any adjustments are warranted.

PHAs are not permitted to draw down any unobligated funds pertaining to Administrative Costs (BLI 1410) of open Capital Fund Program grants as Capital Fund Program management fees prior to the implementation of asset management. Therefore, PHAs

will continue to assess these unobligated administrative costs of these open grants by providing actual costs.

In the year the PHA has begun implementing asset management, the Capital Fund Program management fee will be considered earned on a monthly basis in an amount not to exceed one twelfth of the total amount listed under Administrative Costs (BLI 1410). The monthly fee is available to be drawn down upon the awarding and availability of the grant. This fee arrangement is designed to assist PHAs during the transition to the asset management and will change beginning with the 2008 Capital Fund Program.

Effective for the 2008 Capital Fund Program, the Department will take a new approach regarding the payment of the Capital Fund Program management fee. The Department understands that substantial effort is involved in the preliminary stages of a Capital Fund Program planning, including oversight activities. Consequently, the PHA will earn 50 percent of the Capital Fund Program management fee at the initial awarding of the grant. The PHA will be able to draw down this amount in equal installments over a 12-month period. The remaining portion of the fee will be earned by the COCC proportionately as the grant is expended. This approach allows for the matching of ongoing administrative costs, including oversight, monitoring and accounting, related to the Capital Fund Program throughout the term of the grant.

5.3 CONSTRUCTION SUPERVISORY AND INSPECTION COSTS

Construction supervisory and inspection costs incurred during construction are considered front-line costs of the AMP. These expenses consist of documented costs incurred during the **construction phase** of the project. For those PHAs that use their own personnel to carry out this function, a time sheet will be required to substantiate the construction supervisor's time. Only actual, documented costs pertaining to construction supervision activities, such as inspections, incurred during the construction phase, can be charged directly to the AMP. Until current regulations are changed, these costs will be drawn down through the Dwelling Structures Budget Line Item (BLI 1460 or BLI 1430).

Front-Line Costs vs. Management Fees. Front-line costs are those that can be directly identified to an AMP. Such costs are typically items directly attributable to the AMP and include architect and engineering fees related directly to a specific construction project, equipment purchases at the AMP level, and force account activities directly related to a specific construction project. Architect, engineering and other like costs that are not directly related to an AMP or substantiated by time sheets are recovered through the Capital Fund Program management fee, including general capital planning activities, even if AMP-specific.

For Example:

An architect designs plans for an improvement project for AMP 1. The expense for this service is considered a front-line cost and charged directly to the Capital Fund Program of AMP 1. The architect also assists the PHA in the preparation of

the Annual Plan. As these costs are directly related to the planning, and reporting functions, they are considered COCC expenses and are recovered through the Capital Fund Program management fee.

5.4 TRANSFERS TO OPERATIONS (BLI 1406)

Transfers of Capital Fund Program funds into operations are still permitted. However, the transfer of these funds will be limited to the individual AMPs only. Transfers to the COCC are prohibited. Upon transferring of operating funds (BLI 1406) from the Capital Fund Program, the identity of these funds is lost and is governed by the final rule. Depending upon the size of the PHA, the limitations regarding the amount of funds that can be transferred still apply. These transfers would be recorded within e-LOCCS and also shown on the FDS.

5.5 MANAGEMENT IMPROVEMENTS (BLI 1408)

Management Improvements remain an allowable expense under the new model. However, these costs are limited to AMP uses and not the COCC.

PHAs will be allowed to charge certain shared costs of **capital assets** that will be used to support front-line project administrative functions. It must be proven that the major usage of the asset will come from AMP personnel. In all instances, the item must be reasonable and necessary to fulfill the responsibilities of front-line personnel and not cost more than if the asset could be purchased and used on-site.

5.6 NON-DWELLING EQUIPMENT

Non-dwelling equipment may only be used to support AMPs. The Capital Fund Program grant may not be used to support front-line service needs that continue to be centralized. For example, a PHA could not use the Capital Fund Program grant to pay for a vehicle (non-dwelling equipment) of the COCC, other than with proceeds from the Capital Fund Program management fee.

5.7 FUNGIBILITY OF WORK ITEMS

As defined in § 968.305, fungibility is *“a concept which permits a PHA to substitute any work item from the latest approved Five-Year Action Plan to any previously approved CIAP budget or CGP Annual Statement and move work items among approved budgets without prior HUD approval.”* PHAs may exercise the use of fungibility but are required to reflect these changes on their Annual Plan submissions. The use of fungibility extends not only to individual work items, but also between AMPs within the same Capital Fund Program or between Capital Fund Program years.

5.8 CAPITAL FUND FINANCING PROGRAM

The Capital Fund Financing Program (CFFP) will not be affected programmatically by the changes introduced in the final rule. PHA debt incurred through this program is still a legal liability of the PHA as a whole, only the accounting and reporting for these financing activities will now generally be recorded at the AMP level. Individual AMP balance sheets will list AMP debt as a liability. The grant revenue associated with the principal and interest payments will also be recorded at the AMP. It is possible that the liability related to the CFFP may need to be allocated between AMPs due to the financing activities of the AMPs. In that case, the Capital Fund Program revenue will also be recorded at the AMPs based on a prorated amount of the debt service.

PHAs with assets financed under CFFP and allocated to the COCC will record the associated debt at the COCC. Grant revenues related to payments for principal and interest related to these COCC assets may be recorded directly by the COCC from the program. Capital Fund Program grants will continue to be allowed to service the debt service payments for this COCC debt.

Capital Fund Program management fees will be considered earned annually and calculated from the total amount of the Capital Fund Program award. Additional management fees are not permissible for CFFP activities since these management fees will be earned annually based on the total amount of the Capital Fund Program grant.

As a reminder, Capital Fund Program grant funds must be used first to pay the costs (i.e., debt service payments) associated with the CFFP prior to any other use, including before any Capital Fund Program management fees.

Interim Transition. Items listed and expended in the 2006 and 2007 Capital Fund Program budgets will be considered eligible costs under the current Capital Fund Program regulations.

5.9 SMALL PUBLIC HOUSING AGENCIES

PHAs under 250 units that do not convert to asset management will note slight changes to the Capital Fund Program reporting. The AMP will account for revenues and expenses related to Capital Fund Program. Typically, these agencies will not be required to use the management fee approach for recovering indirect costs.

5.10 ACCOUNTING FOR THE CAPITAL FUND PROGRAM

General Guidance. The Operating Fund Program final rule requires PHAs to prepare financial statements at the project level in accordance with GAAP, including all revenue sources and related costs to the project. As a result, each AMP will account for its related Capital Fund Program costs, including construction, purchase of project equipment and other related Capital Fund Program expenses, along with corresponding grant revenue, on the AMP financial statements.

One of the main focuses regarding the new accounting requirements imposed by the Operating Fund Program final rule is to maintain consistency throughout the entire process, including budget forms, revised FDS line items, Annual Plan submissions, etc.

Capital Fund Program Grant Revenue Recognition. The Department allows for PHAs and their auditors to determine and apply GAAP appropriately (for instance, some PHAs classify all Capital Fund Program revenue as non-operating revenue while others include these amounts as operating revenue). The Department only requires that FDS-reported amounts be easily reconciled to the general-purpose financial statements. Costs will need to be tracked to the AMP and the Capital Fund Program funding year for which the expenditure was incurred.

Capital Fund Program Management Fee. The Department considers the Capital Fund Program management fee to be a non-operating cost charged to AMPs and will be reported as a non-operating expense to the AMP on the FDS. PHAs may again report this expense based on their own interpretation of GAAP in their financial statements. The management fee will be listed as an operating revenue at the COCC. The AMP expense and related COCC revenue should be eliminated for presentation purposes. Due to the requirements imposed on all AMPs during the planning phases of the Capital Fund Program, the Capital Fund Program management fee expense may need to be divided between AMPs. It is recommended that a straight per unit distribution method be used to report the costs between the projects. However, any reasonable allocation of costs between the projects is allowed.

6. Excess Cash and Fungibility

6.1 OVERVIEW

The final rule establishes certain limitations, as well as certain freedoms, on the use of project income depending on whether a project generates “excess cash.” Excess cash represents non-restricted liquid or near liquid assets available after near term liabilities and normal project operation expenses are considered. Excess cash is calculated using a balance sheet approach. The policies below have been developed using norms in the broader multi-family management industry as required under § 990.255.

6.2 USES OF EXCESS CASH

PHAs are limited in the amount of cash to be transferred between AMPs or to be paid as asset management fees to the COCC. This limitation is entitled “excess cash” and is similar to the “surplus cash” calculation in multifamily programs. If the AMP has excess cash available it may:

- Retain these funds for future use;
- Transfer these funds to other AMPs;
- Pay an asset management fee to the COCC;
- Use these funds for other HUD-approved eligible purposes, including:
 - Financing costs for the development of new units (to the extent allowed under program rules);
 - PHA-wide lawsuits and legal issues incurred prior to asset management that cannot be charged to specific AMPs or other programs with any degree of accuracy or fairness; and
 - Accrued pension liabilities, retirement benefits liabilities and other “legacy costs” incurred prior to adoption of asset management.

6.3 CLARIFICATIONS ON USES OF EXCESS CASH

The following uses of excess cash are not permitted:

- The COCC may not be loaned or transferred excess cash except through asset management fees; and
- Proceeds from asset disposals of an AMP – i.e., the sale of a project’s maintenance vehicle – are considered to be assets of the AMPs and not of the COCC. With Department approval, certain proceeds may be transferred to the COCC but may still be governed by other restrictions.

6.4 EXCESS CASH DEFINED

Excess cash will be calculated using PHA-reported data from FDS. It 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. The determination of one-month operating expenses will be calculated by dividing FDS line 969 (Total Operating Expenses) by 12. The result of this calculation is defined as the excess cash of the AMP. Table 6.1 shows the current FDS line items that will be used to determine excess cash.

Table 6.1: Calculation of Excess Cash—FDS Line Items¹⁶

No.	FDS Line Number	FDS Description	Account Type
1	111	Cash – unrestricted	Current Asset
2	114	Cash – tenant security deposits	Current Asset
3	115	Cash – restricted for payment of current liability	Current Asset
4	120	Total receivables, net of allowances for doubtful accounts	Current Asset
5	131	Investments – unrestricted	Current Asset
6	144	Interprogram – due from	Current Asset
7	310	All current liability FDS line items (311 -348)	Current Liabilities
8	969 / 12	Total operating expenses / 12 months	Working Capital Minimum

6.5 FUNGIBILITY – EFFECTIVE DATE

The Operating Fund Program final rule (§ 990.205) states that operating subsidy will remain fully fungible between ACC projects until subsidy is calculated by the Department at the AMP level. After subsidy is calculated at the AMP level, PHAs are limited in transferring excess cash between AMPs or to the COCC. The Department will begin AMP-based subsidy calculations beginning with the FY 2008 appropriation that will fund PHA operations in calendar year 2008. Table 6.2 shows the effective start date for excess cash in relation to a PHA’s year-end.

Table 6.2: Excess Cash

PHA Fiscal Year-End	Effective Start Date for Excess Cash
June	07/01/2008 and after
September	10/01/2008 and after
December	01/01/2009 and after
March	04/01/2009 and after

Restrictions on excess cash will occur with the first project-based submission. Prior to this time all funds are considered fully fungible, including to the COCC. Once the PHA has reported project-based financial data, the AMP and COCC balance sheets will be used to calculate the amount of excess cash available. Excess cash rules described herein will then be effective.

¹⁶ The tables below are based on the current FDS line items. This chart may be modified as new FDS line items are added to or deleted from the FDS chart of accounts.

6.6 ITEMS FOR CONSIDERATION

The following items are presented for PHAs consideration for strategic planning:

- If a PHA fails to submit a required FDS or the FDS is not accepted, excess cash will remain at the AMP and will be unavailable for the uses described above.
- The final amount of excess cash available is based on the approved audited submission. Properties may not transfer excess cash or loan these funds at any time during a given fiscal year based on projections or “expected” excess cash calculations.
- If the PHA is not required to file an audited submission, then the final amount is based on the approved unaudited submission.
- Prior to the first project-based submission (beginning with PHA fiscal years ending June 30, 2008), all operating funds are completely fungible, including to the COCC.
- The working capital component of the excess cash calculation will be eliminated on mixed finance projects that are managed by a separate owner or entity. The calculation for such projects will be limited to the assets and liabilities described above. The Department assumes that sufficient working capital exists at the property.
- PHAs that choose to use Capital Fund Program funds for operations will have ordinary expenses associated with the use of these funds calculated as part of that AMP’s operating expenses.
- The Department understands that PHAs may transfer Capital Fund Program funds to operations in order to create excess cash. While permissible, the Department cautions PHAs that the use of Capital Fund Program funds should be in the best interest of the property.
- Cash and other resources can be transferred to AMPs from the COCC without any restrictions.
- PHAs are encouraged to develop their own minimum working capital levels based on the individual current and projected AMP need, including any management restrictions.

7. Fee Income and Assignment of Costs

7.1 INTRODUCTION

There are several types of fees the COCC can charge AMPs or programs. These fees include the following:

- Property (project) management fees;
- Bookkeeping fees;
- Fees for centrally provided direct services (front-line expenses);
- Asset management fees;
- Capital Fund Program management fees; and
- Management fees for other programs.

A detailed explanation of these fees follows, including amounts, how reasonableness will be determined, limitations on their application, and the assignment of costs as either a front-line expense or an expense covered by management fees.

From time to time, the Department may revise both the schedule of fees and the classification/assignment of costs between central office and projects.

7.2 TREATMENT OF FEE INCOME UNDER OMB CIRCULAR A-87 AND 24 CFR PART 85

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, as well as 24 CFR part 85, *Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments*, establish the basic requirements on the use of federal program funds. For PHAs that convert to asset management (required of PHAs with 250 or more units), any internal fees that the PHA charges to AMPs or programs (property management fees, asset management fees, etc.) are considered non-program income for purposes of A-87 and 24 CFR part 85, provided that the fees charged are reasonable under the criteria established by the Department; however, other state and local restrictions may still apply. Consequently, any reasonable fees earned by the PHA/COCC will be treated as local revenue subject only to the controls and limitations imposed by the PHA's management, Board or other authorized governing body. The PHA is not required to document or demonstrate actual costs to earn management fees. Additionally, the PHA is not required to distinguish or separately account for the expenses or costs associated with the fee income from its public housing programs vis-à-vis its other business activities. Collectively, the PHA/COCC can use all fees earned to fund the operations of the COCC.

7.3 MANDATORY VS. VOLUNTARY ADOPTION OF MANAGEMENT FEES

Under the Operating Fund Program final rule, PHAs with 250 or more units must utilize a management fee in lieu of allocations for the Operating Fund and Capital Fund Programs. As discussed more fully in this chapter, the change to a management fee approach for the reimbursement of overhead in the Section 8 HCV program is currently voluntary; however, if a PHA maintains an allocation system for the recovery of overhead costs under the HCV program, the PHA cannot charge the HCV program more than the allocated amount.

7.4 PROPERTY MANAGEMENT FEES

Reasonableness. Section 990.280 of the final rule provides for the establishment of “reasonable” property management fee (including a bookkeeping fee) and asset management fees. Accordingly, fees must be reasonable to be considered as excess cash and not treated as program income. PHAs may use the following guidelines to determine the reasonableness of fees. The following guidelines establish a “safe harbor” for PHAs in the determination of fees for sections 7.4, 7.5 and 7.6 of this document. HUD will review and update these “safe harbors” and associated referenced schedules periodically as needed. HUD will presume that fees established pursuant to these guidelines are “reasonable.” PHAs are not required to comply with the reasonableness requirements of § 990.280 until the second year of project-based budgeting and accounting. PHAs may use any of the following methods to determine the reasonableness of the property management fee:

- The property management fee schedules established for each HUD Multifamily Field Office. Generally, the Office of Multifamily Housing establishes fee ranges for federally subsidized properties that reflect 120 percent of the mean property management fee for profit-motivated properties that are well managed, in good physical condition, and are managed by independent agents with no identity-of-interest involvement.
- The 80th percentile property management fee paid by all profit-motivated and limited dividend FHA properties, by field office, excluding such programs as cooperatives and nursing homes. These amounts are included as Attachment A.
- Other compelling data reflecting property management fees in the local market. Such data might include fees paid by the PHA for private management of public housing through effective competition. Prior to the establishment and use of reasonable fees based on “other compelling data,” PHAs will need the Department’s approval. PHAs should request approval by submitting the amount of the requested fee and the justification and supporting data to their local field office.

Amount Earned. The property management fee is calculated as a per-unit-month (PUM) fee and earned for each occupied unit and HUD-approved vacancy, as described under the final rule. In other words, management fees are to be earned monthly for each

occupied unit or approved vacancy, as per §§ 990.140 and 990.145, respectively. PHAs *will not* earn a property management fee on units defined as “limited vacancies” pursuant to § 990.150. New units that come on line during the PHA’s fiscal year begin to earn the property management fee in the month the units first become occupied. Once initially leased, new units are also eligible to earn the property management fee for HUD-approved vacancies as described in § 990.145.

Privately Managed Public Housing. For those AMPs that are privately managed, the COCC can retain the difference between a reasonable property management fee as defined in this chapter and the actual cost of the property management fees paid to the private management company, including any mixed finance projects.

Mixed-Finance Public Housing. The COCC will not earn a property management fee for a mixed finance project unless the COCC is managing the day-to-day activity (i.e., is the management company) of the respective project, except as noted in the above section. Where the COCC is managing the day-to-day activity, the reasonableness of the fee is determined as above.

Property Management Fees for Units Undergoing Demolition. The COCC may earn a property management fee for units undergoing demolition for three years at the following amounts:

- Year 1, 75 percent of the PUM property management fee for all ACC units associated with the demolition.
- Year 2, 50 percent of the PUM property management fee for all ACC units associated with the demolition.
- Year 3, 25 percent of the PUM property management fee for all ACC units associated with the demolition.

Once demolition activities have been completed, the property management fee may no longer be earned by the COCC.

Management Fees for Units Undergoing Disposition. The COCC may earn a property management fee for units undergoing disposition for two years at the following amounts:

- Year 1, 75 percent of the PUM property management fee for all ACC units associated with the disposition.
- Year 2, 50 percent of the PUM property management fee for all ACC units associated with the disposition.

Once disposition activities have been completed, the property management fee may no longer be earned by the COCC.

7.5 BOOKKEEPING FEE

Reasonableness. The COCC may earn a bookkeeping fee for the project accounting function. The COCC may charge each public housing project a reasonable bookkeeping fee of up to \$7.50 per unit per month (PUM) for the project accounting function. The average bookkeeping fee in HUD's multifamily housing programs is about \$3.50 PUM (2004 data). The higher bookkeeping fee chargeable to public housing projects reflects the higher centralized information technology and human resource costs present in public housing.

Amount Earned. The bookkeeping fee is earned for each occupied unit and HUD-approved vacancy, as described under § 990.145. In other words, bookkeeping fees are to be earned monthly for each occupied unit or approved vacancy, as per §§ 990.140 and 990.145, respectively. PHAs *will not* earn a bookkeeping fee on units defined as "limited vacancies" pursuant to § 990.150. New units that come on line during the PHA's fiscal year begin to earn the bookkeeping fee in the month the units first become occupied. Once initially leased, new units are also eligible to earn the bookkeeping fee for HUD-approved vacancies as described in § 990.145

Restrictions. A PHA cannot charge a project a bookkeeping fee if project accounting functions are also performed on-site and charged as a front-line cost.

Eligibility. All PHAs with 250 or more units can charge each project a bookkeeping fee. PHAs with fewer than 250 units can charge each project a bookkeeping fee if they convert to asset management and establish a separate COCC. PHAs with fewer than 250 units that do not establish a COCC, or do not convert to asset management, cannot charge a bookkeeping fee. For more information see Chapter 9 – Small PHAs.

7.6 ASSET MANAGEMENT FEES

Reasonableness. The COCC may earn an asset management fee. The Department will generally consider an asset management fee charged to each project of \$10 PUM as reasonable. Asset management fees shall be based on all units under an ACC. In multifamily housing, the asset management functions of owners are primarily funded through cash flows. This maximum asset management fee was determined based on an examination of cash flows in HUD's multifamily projects and the consideration that certain asset management activities in public housing are also recovered through the Capital Fund Program management fee.

Amount Earned. The asset management fee is calculated as a PUM fee and earned for all units under ACC (including mixed-finance ACC units), regardless of occupancy status or ownership/management. In other words, asset management fees are to be earned based on the total number of units under the ACC for each project. New units that come on line during the PHA's fiscal year begin to earn the asset management fee in the month the units first become occupied. The COCC is eligible to earn the asset management fee

on an ACC unit until the unit becomes vacant after a HUD-approved demolition or disposition plan.

Eligibility. All PHAs with 250 units or more can charge each AMP a reasonable asset management fee. PHAs with fewer than 250 units can charge an asset management fee if they convert to asset management, have more than one AMP, and have established a separate COCC. For more information see Chapter 9 – Small PHAs.

Restrictions. Payment of asset management fees to the COCC can be made throughout the PHA’s fiscal year, but only up to the amount of excess cash as calculated from the prior year’s FDS. Asset management fees *may not* be accrued by the COCC if in any fiscal year the AMP lacks sufficient excess cash to pay the fee or is otherwise non-compliant with the guidelines described in Chapter 6.

7.7 CAPITAL FUND PROGRAM MANAGEMENT FEE

The COCC may charge a Capital Fund Program management fee to each AMP receiving Capital Fund Program funds, as described in Chapter 5.

7.8 HOUSING CHOICE VOUCHER PROGRAM FEE

The Department encourages the adoption of a fee-for-service methodology for the Housing Choice Voucher Program (HCV).

Existing appropriations language restricts the use of HCV administrative fees to activities related to the provision of tenant-based rental activity authorized under section 8. Costs directly related to the day-to-day operations of the section 8 program, such as salaries of occupancy specialists or rented space for intake activities, clearly qualify under this definition while overhead costs require more stringent documentation. For PHAs that elect to use a fee-for-service methodology for its HCV program, the Department will consider a management fee of up to 20 percent of the administrative fee or up to \$12 PUM per voucher leased, whichever is higher, as meeting the requirements of the appropriations act. See Table 7.2 for determining which costs are to be paid from the HCV management fee and which are to be front-line costs. Under this methodology, PHAs can also charge the HCV program a \$7.50 PUM bookkeeping fee for the program accounting function.

PHAs that elect to maintain an allocation system for the recovery of overhead costs under the HCV program cannot charge the HCV program more than the allocated amount and must maintain auditable documentation to support its allocation of costs and their relationship to the provision of tenant-based rental activity authorized under section 8.

7.9 OTHER FEES

PHA Administrative Fee for Mixed Finance Development. Mixed finance development includes activities approved under 24 CFR 941, subpart F, that can involve

the use of Capital Fund Program funds, HOPE VI funds, or other public housing capital assistance eligible to be used for development. A reasonable safe harbor administrative fee amount paid with Capital Fund Program funds for the development is 3 percent of the total project budget. This amount is intended to cover PHA administrative costs. The total project budget includes all hard and soft development costs paid with both public and private financing. The total project budget should exclude Community and Supportive Services for purposes of calculating the administrative fee. If a development is at or below the safe harbor fee, no further review is required. Alternatively, the PHA may charge up to a 6 percent administrative fee provided the housing authority demonstrates to HUD, in writing, that the fee is appropriate for the scope of work, specific circumstances of the project, and local or national market for the services provided.

A PHA may use the administrative fee to pay for the development project manager or hire outside consultants including a program manager or development and financial and advisors. The administrative fees or costs incurred must be within the applicable administrative fee limits.

The PHA administrative fee for mixed finance development activities outlined above is considered a special administrative cost.¹⁷ As such, it may be charged to the Capital Fund Program in addition to the Capital Fund Program fee of 10 percent for administration.

This supplement is intended to allow PHAs to use a fee-based structure in lieu of cost allocation systems. The Cost Control and Safe Harbor Standards for Rental Mixed-Finance Development, Revised April 9, 2003, currently require actual documented expenditures for administration. This notice supercedes that requirement, but does not alter or eliminate any other criteria for the evaluation of mixed-finance development as outlined in that document.

Other PIH and HUD Grants. If a fee rate has not been established for a grant, a PHA should charge no more than 15 percent of the grant amount as a management fee for other public housing grants. Where administrative cost are set through other notices, regulations and existing grant agreements, for example, the ROSS program and the annual NOFA requirements, these policies and agreements are controlling.

Non-Federal Programs. The Department cannot dictate to the PHA that a fee-for-service methodology be used in state-funded or other business activities the PHA may administer. However, the Department believes such a policy makes good business sense for the following reasons:

- It provides relief from maintaining a dual system to recover indirect costs;
- It simplifies budgeting for indirect cost recovery; and

¹⁷ Special administrative costs in excess of the 10 percent administrative expense limit are permitted pursuant to § 968.112.

- It provides relief from having to verify to auditors that a dual system is treating all programs fairly and consistently with regard to how indirect costs are recovered.

In setting a management fee for non-federal programs, the PHA may wish to develop a fee structure in line with those authorized for its federal programs. In the process of establishing this policy, the PHA must consider any contractual limitations dictated by the granting agency.

7.10 ASSIGNMENT OF COSTS

For the Operating Fund Program, PHAs should refer to Table 7.2 for classifying costs as either a front-line expense (an expense of the project) versus a fee expense (an expense of the management company, i.e., the COCC). PHAs may also refer to Chapter 6 of the Multifamily Management Agent Handbook 4381.5, for additional guidance on determining which expenses should be paid from fees.

Prorating Front-Line Administrative Costs. The Department recognizes that, from time to time, there are certain front-line administrative services required by AMPs that may be more cost-effective to perform centrally. In these cases, the PHA may prorate the costs using a reasonable methodology. The methods used by the PHA to prorate centrally provided front-line costs should be in writing. PHAs may update the proration rate throughout the year as circumstances warrant. At a minimum, at the end of the PHA's fiscal year, the PHA will need to adjust to actual costs.

A prorated front-line cost must not be more than what the project would incur if performed on-site. In all instances, front-line prorated costs must be reasonable, necessary, and based on services provided. AMPs with on-site staff that can provide these functions for themselves may not also be charged these services. With the exception of a central waiting list, a project may not pay for the cost of a supervisor overseeing a front-line task that is performed centrally.

The following is a discussion of certain front-line tasks that could be performed centrally and prorated back to projects. Maintenance services, as explained below, cannot be prorated but must be charged using either actual costs or a fee-for-service. In the future, as more information becomes available, the Department may issue fee rates for some of the following activities.

- **Rent Collection.** A PHA that chooses to centralize rent collections may charge the personnel costs of rent collection clerks (with the exception of supervisory personnel) as a front-line prorated cost to its AMPs. The PHA's job description for employees engaged in rent collection must specifically list this function as a responsibility of the employee. In addition, if the employee's job duties include activities other than rent collection, the PHA must separately determine the percent of time spent on rent collection activities from other general tenant accounting duties and prorate the individual's time accordingly. Note: General

tenant accounting costs are recovered through the bookkeeping fee and are not considered front-line expenses.

- **Resident Services.** It is the preference of the Department that all resident services, to the extent practical, be site-based. In such instances, the cost of the services provided should be easily tracked to an AMP. Where PHAs cannot reasonably track personnel costs for resident services, including supervisory personnel costs, to an AMP, PHAs are permitted to prorate these costs to AMPs.
- **Security/Protective Services.** The same requirements as for resident services apply. In addition, the Department may require PHAs with extensive centralized security/protective service operations that cannot readily be tracked to an AMP to submit a plan to provide for more direct deployment of these expenses in the future.
- **Waiting List, Screening, Leasing, and Occupancy.** PHAs have only recently been permitted to establish site-based waiting lists. PHAs that centralize these functions may prorate the direct costs of this function, including supervisory personnel, to the AMPs. Such prorations may be based on the number of units, average turnover, or another reasonable allocation method.
- **Work Order Processing.** The norm in multifamily housing is that work order processing is a function handled on-site. A PHA may charge the cost of centralized work order processing only if the PHA documents/justifies that the cost is reasonable and necessary.
- **Centralized Inspection Services.** For the first year of project-based accounting, a PHA may charge centralized inspections as a front-line expense based on the services received by the AMP. The amounts should not be more than what a PHA would pay a private vendor for the same service. Projects should pay only for normal unit/preventive maintenance inspections and not quality control inspections that are a responsibility of the COCC.

As circumstances warrant, the Department may determine the need to modify the list of front-line costs that can be prorated.

Shared Resource Costs. Where it is not economical to have full-time personnel dedicated to a specific AMP, the PHA may establish a reasonable method to spread these personnel costs to the AMPs receiving the service. Shared resource costs are distinguished from front-line prorated costs in that the services being shared are limited to a few AMPs as opposed to being prorated across all AMPs. The method used to spread these costs to the AMPs receiving the service must follow the guideline established for front-line prorated costs.

For personnel who provide both shared resources to AMPs and the COCC, the PHA will need to separate the amount of time spent on providing services to AMPs and the COCC based on a reasonable methodology. Where salary rates for personnel providing the shared service to an AMP are not reasonable, the rate used must not exceed what would be considered a reasonable rate. For example, an Executive Director making \$50 per hour for a small PHA who provides a shared service to an AMP could not charge the

AMP at \$50 per hour for the service provided if a reasonable rate for the service was \$30 per hour. In this case, the \$20 difference would have to be recovered by fees earned.

As with front-line prorated costs, in all instances shared resource costs must be reasonable, necessary, and based on services provided to the AMP.

Centrally Provided Maintenance Services. Where a PHA chooses to centralize a maintenance service to a project, the PHA has two options with regard to charging that service.

- First, the PHA can charge reasonable actual, documented costs. When charging actual costs, the PHA cannot charge a project for the cost of a centralized supervisor.
- Second, the PHA can charge a fee-for-service. The fee-for-service must not exceed what the project would incur for the service if obtained through the market. For example, if the market price is \$100 for an electrician to replace a faulty outlet, the PHA could perform that task centrally and charge the project \$100, regardless of the actual time/costs incurred by the PHA to replace that outlet. If the PHA elects to provide centralized services to an AMP for a fee, the AMP may only be charged for the actual services provided and only to the extent that such amounts are reasonable. If, during the year, the COCC was unable to recover its costs, due to under-utilization or due to a determination that rates charged to the AMPs were unreasonable, the balance of the cost must be covered by fees. The PHA will not be allowed to prorate un-recovered centrally provided service costs to AMPs. Documents supporting the established rate should be retained for review by the Department, the PHA's auditor or other authorized individuals.

The PHA may not use a fee-for-service for routine maintenance services (general maintenance, cleaning, etc.). In the instance of centrally-provided routine maintenance, the PHA may only charge for direct personnel costs (salary and benefits) without any mark-up for overhead or supervision.

Labor Costs. The following list provides guidance on the costs that are to be included when determining overall labor cost for front-line and COCC personnel.

- Gross salary;
- Employer FICA contributions;
- Federal unemployment tax;
- State unemployment tax;
- Worker's compensation insurance;
- Health insurance premiums;
- Cost of fidelity or comparable insurance;
- Performance incentives, and or annual bonuses; and
- Retirement benefits (pre and post retirement).

7.11 METHOD OF PAYMENT AND SUPPORTING DOCUMENTATION

The preferred method of assessing fees to AMPs and programs is via an invoice. However, the COCC may use a more informal method of billing. Regardless of the method the COCC uses for assessing fees to AMPs and programs, supporting documentation of how each fee was earned must be maintained and available. For example, to document the property management and bookkeeping fee the PHA must be able to support the number of leased units as well as HUD-approved vacancies (type of approval, unit number, category, etc.) that were used to make the calculation. In addition, the PHA will need to document how it determined that the fee rate was reasonable (i.e., it was based on a local multifamily management fee letter or the fee schedule provided by PIH).

Table 7.1: Front-Line Costs and Fee Costs under the HCV Program

Fee Expenses¹⁸	Front-Line Expenses
<ul style="list-style-type: none"> • A share of the personnel costs (indirect personnel) for permanent and part-time staff assigned to the COCC. Indirect personnel costs include gross salary, federal and state payroll taxes and all employee benefits. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting supervision responsibilities over the HCV program. • General maintenance of HCV books and records (general ledger, accounts payable and receivable, payroll, etc.). • Supervision by COCC management staff of overall HCV program operations. • Procurement of supplies, equipment and contract services for HCV program activities. • Preparation of monitoring reports for internal staff and external reporting to the Department, other governmental agencies and other interested parties. • Preparation, approval, and distribution of HCV program disbursements other than HAP. • COCC staff training, and ongoing certifications related to HCV program activities. • Travel of COCC staff for training, or supervision related to HVC program activities. • Attendance of COCC staff at meetings (including travel), with landlords, tenants, the Department, or other interested parties regarding HCV planning, budgeting, and review of general HCV program activities. • Work with auditors for audit preparation and review. • Indirect cost allocations imposed on the HCV program by a higher level of local government. • Hiring, supervision, and termination of front-line HCV staff. • Preparation and submission of HCV program budgets, financial reports and year-end financial reports to the Department and other interested parties. • Monitoring and reporting on abandoned property as required by states. • Investment and reporting on HCV proceeds. • Storage of HCV records and adherence to federal and state records retention requirements. • Development and oversight of office furniture, equipment and vehicle replacement plans. • Insurance costs for fidelity or crime and dishonesty coverage for COCC employees based on a reasonable allocation method. 	<ul style="list-style-type: none"> • Actual costs for direct personnel permanent and part-time staff, assigned directly to the HCV program. Direct personnel costs include gross salary, federal and state payroll taxes and employee benefits. • Travel and training for personnel assigned directly to the HCV program. • Preparation, approval, and distribution of HCV program HAP disbursements. • Legal fees directly rated to the operation and management of the HCV program including tenant and landlord enforcement actions, and other HCV program related matters. • The cost of obtaining and receiving background reports on tenants, verification of landlord ownership and other checks related to tenant and landlord selection and participation in the program. • All bank charges related to the HCV program. • Costs of telephone, including basic services, directory listings, and long distance charges related to direct delivery of the HCV program. • All advertising costs related specifically to the operations of the HCV program to include but not limited to advertising for applicants, landlords and employees in newspapers, newsletters, radio, cable TV, and telephone books. • Postage and delivery costs for HAP checks, disbursements and other mailings required to support the activities of the HCV program. • HCV office furniture, equipment, computers and vehicles. • Service agreements and warranties to support HCV office furniture, equipment, computers, and vehicles. • Insurance costs related to auto coverage for HCV vehicles and other equipment and assets of the HCV program. • Insurance costs for fidelity or crime and dishonesty coverage for front-line (direct cost) employees based on a reasonable allocation method. • Direct costs of collection activities related to fraud recovery. (Regulations allow the direct costs of fraud recovery to be offset against fraud collections, but indirect costs may not be offset against fraud collections. Indirect costs of fraud collection activities must be born by the HCV management fee.) • Costs of preparing and maintaining tenant and landlord files and processing tenant applications, determining eligibility, tenant rent, tenant certifications, tenant re-certifications and unit inspections. • Public relations expenses related to maintaining positive relationships between the local community, landlords and tenants. • Professional service contracts related to direct services performed for the HCV program.

¹⁸ Fees include management and bookkeeping fees

Table 7.2: Front-Line Costs and Fee Costs under the Operating Fund Program

Fee Expenses¹⁹	Front-Line Expenses
<ul style="list-style-type: none"> • Actual personnel costs for individuals assigned to the following positions: <ul style="list-style-type: none"> – Executive Director and support staff – Human resource staff – Regional managers – Corporate legal staff – Finance, accounting and payroll staff – Information Technology staff including “help desk” – Risk management staff – Centralized procurement staff – Central warehouse staff – Central work order staff • Purchase and maintenance of COCC arrangements, equipment, furniture, and services necessary to sustain the COCC. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting and bookkeeping services for the AMPs. • Office expense including office supplies, computer expense, bank charges, telephone, postage, utilities, fax and office rent related to the general maintenance and support of the COCC. • The cost of insurance related to COCC buildings, equipment and personnel to include property, auto, liability, errors and omissions and casualty. • Work with auditors for audit preparation and review of audit costs associated with the COCC. • Central servers and software that support the COCC (not projects). • The costs of board member stipends, travel and training. • The cost of a central warehouse, unless, with HUD approval, the PHA can demonstrate that the costs of maintaining this warehouse operation, if included with the cost of the goods purchased, are less than what the project would otherwise incur if the goods were obtained by on-site staff. 	<ul style="list-style-type: none"> • Actual personnel costs for individuals (permanent and part-time) assigned directly to AMP sites, including project managers, site-based maintenance staff, and temporary help. • All repair and maintenance costs for the AMP, including: <ul style="list-style-type: none"> – Maintenance supplies – Contract repairs including but not limited to heating and air conditioning, painting, roofing, elevators, and other systems located on a project – Make ready expenses, including painting and repairs, cleaning, flooring replacements, and appliance replacements – Preventive maintenance expenses, including occupied units’ repairs and maintenance, as well as common area systems repairs and maintenance – Maintenance contracts for elevators, boilers and other project systems – Other related maintenance expenses such as snow removal, lawn care, Section 504 compliance, pest control and landscaping • Utility costs. • Costs related to maintaining a site-based office, including telephone, office supplies, computer expense, postage, copier expense, cell phones, office utilities, office equipment and furniture, equipment service agreements, software license agreements, office equipment and computer repairs and other related office expenses. (If the cost of software license agreements and equipment maintenance service agreements cannot be identified to specific AMP equipment, the cost may be allocated to AMPs using a reasonable allocation methodology.) • Advertising costs such as an AMP specific procurement action, solicitation for employees and other project specific advertising actions. • Costs associated with employee screening, including drug-testing. • PILOT. • All costs of insurance, including property liability and casualty, auto, as well as fidelity or crime and dishonesty coverage for onsite employees. (If the cost of insurance cannot be identified to the AMP, the cost may be prorated to each AMP using a reasonable allocation methodology.) • Professional service contracts for audits, energy audits, rehabilitation, and inspection contracts and other professional service contracts specific to a project. • Property management fees, bookkeeping fees, and asset management fees. • Legal fees directly related to the operation and management of the AMP, including tenant lease enforcement actions, landlord-tenant disputes, and other AMP-related legal matters. AMPs cannot be charged retainers. Any charges to a project conducted by COCC legal staff must be based on services received by the project and documented by time records. • Audit costs (if the cost of agency’s overall audit is not identified to the AMP level, the cost may be prorated using a reasonable proration methodology). • Vehicle expense (maintenance, gasoline and repairs) for site-based vehicles. • Staff recruiting and background check costs such as advertising, employment agency fees, drug testing costs and other direct costs to recruit project staff. • Family self-sufficiency staff and program costs.

¹⁹ Fees include property management, bookkeeping and asset management fees.

8. *Mixed Finance Projects*

8.1 OVERVIEW

On May 2, 1996, the Department published regulations in the Federal Register, which authorized PHAs to use a combination of private financing, public housing and other funds to develop public housing units. Projects developed under this method of financing are known as “mixed finance” projects.

Mixed finance projects are governed by underlying partnership agreements. PHAs, utilizing the funds at their disposal, have participated in these projects in varying degrees. Generally, these projects result in a certain number of voucher or operating subsidy units in the project. Ownership in the project varies by agreement; however, the mixed finance projects are generally separate legal entities from the PHA.

8.2 ASSET MANAGEMENT PROJECT NUMBERS

Because of the nature of the underlying agreements and reporting and management requirements established for these projects, mixed finance projects should be reported under separate AMPs in PIC. In the case where a PHA has fewer than 250 units and does not intend to apply asset management, the PHA should still report the mixed finance project under a separate AMP. This action will not be interpreted by the Department that the PHA has elected to convert to asset management.

8.3 FINANCIAL STATEMENTS AND FDS REPORTING

Financial Statement. The PHA, with assistance from its auditor, will determine the appropriate level of reporting for each mixed finance project under its control in accordance with established GAAP. In order to apply the proper reporting requirements, the PHA must first understand the underlying agreements that govern the mixed finance project. Historically, these projects have been reported as either “blended component units” or “discretely presented component units.” Again, the determination of which reporting model is to be followed will depend on the individual circumstances of the PHA and the underlying agreements for each mixed finance project. PHAs should document their reporting decisions in accordance with the decision matrix provided within GASB Statement No. 14.

Once a decision is made on how the mixed finance project will be reported (i.e., discretely presented or blended component unit) the PHA must also consider how to report transactions between the PHA and mixed finance project. The underlying grants utilized by the PHA to fund the development and operation of the mixed finance projects generally results in Loans/Notes receivable from the PHA and Loans/Notes payable on the mixed finance project’s books.

Other transactions must be reviewed individually and accounted for in accordance with GAAP. These decisions should be clearly documented, along with the underlying reasons for the decision.

FDS Reporting. At this time, each mixed finance project will be reported as a separate column on the FDS. However, the Department is considering allowing PHAs to report all mixed finance projects under one FDS column in future years.

Where the PHA receives a subsidy for the mixed finance project, the subsidy would be recorded within the respective AMP column along with the associated expense for the subsidy paid out to the mixed finance project. It is likely that the AMP would recognize a net income or loss based on the differential between the subsidy received from the Department and the subsidy paid to the mixed finance project as outlined within the relevant agreements. In all cases, the PHA must apply GAAP when recording these transactions. Where grant funds are received and loaned to the mixed finance project, the transactions must be reported within the applicable FDS column.

The mixed finance projects will normally be reported under a component unit or business activity column on the FDS. Table 8.1 includes a matrix of mixed finance reporting requirements.

Table 8.1: Mixed Finance Project Reporting Matrix

	PIH Funding for Mixed Finance Projects	Mixed Finance Project Categorized as a Discretely Present Component Unit	Mixed Finance Project Categorized as a Blended Component Unit (treated as an AMP)
Normal FDS Column	AMP	Component Unit or Business Activity	Component Unit, Business Activity or AMP
Receipt of Grant or Subsidy from HUD	Revenue in AMP Column on the FDS	None	None
Payment of Subsidy to Mixed Finance Project	Expense and/or Loan Receivable in AMP	None	Expense or Loan Receivable in AMP Column (Not Transfer)
Receipt of Grant, Subsidy, or Fees from PHA	None	Revenue in Component Unit or Business Activity Column	Revenue in Component Unit, Business Activity, or AMP Column
Use of Grant, Subsidy, or Fees from PHA	None	Expense or Loan Payable in Component Unit or Business Activity Column	Expense or Loan Payable in Component Unit, Business Activity, or AMP Column
Unit Information	ACC Units	All Units (ACC and Market Rate)	All Units (ACC and Market Rate)

8.4 ASSET MANGEMENT AND PROPERTY MANAGEMENT FEES

Any fees earned by a PHA for mixed finance projects must be based on the ACC units associated with the project.

- Property Management Fees. The entity managing the day-to-day operations of the mixed finance project typically earns a property management fee. In the case where the PHA is the management agent, the PHA's COCC would be allowed to earn the property management fee up to the ceiling established by the Department. In the case where a separate management agent is used by the mixed finance project, that management agent earns a property management fee at an agreed upon rate. In such cases, the COCC would only be allowed a property management fee for the difference between the Department-approved management fee less the amount paid to the management agent.
- Asset Management Fees. The PHA's COCC will be allowed to earn an asset management fee from its mixed finance projects up to \$10.00 PUM as stated in Chapter 7. The asset management fee will be based on the ACC units maintained within the project. The Department is further analyzing asset management fees for mixed finance projects that are privately managed and reserves the right to adjust this fee at a future period based on comments received from the industry and through this additional research and analysis.

The mixed finance project as reported under an AMP column may still pay an asset management fee to the COCC if the project generates excess cash. In the computation of excess cash for a mixed finance project, there will be no component for operating expenses. In other words, line 8 in Table 6.1: Calculation of Excess Cash—FDS Line Items, will not be included in a mixed-finance project's determination of excess cash.

This asset management fee is independent of any agreement and restrictions between the PHA and the third party owner.

As stated earlier, PHAs will need to report on each mixed finance project as a separate AMP. However the Department realizes that for a majority of these projects, only limited financial data (usually only the transfer of subsidy and certain balance sheet accounts) will be reported in a mixed finance AMP column on the FDS. The project itself is usually reported either as a component unit or business activity on the FDS or not reported at all depending on the PHA's and auditor's determination. Therefore, the Department will re-evaluate this policy in the future and may decide to allow PHAs to report all mixed finance projects under one "mixed finance AMP column."

8.5 OPERATING SUBSIDY

The following clarifies certain operating subsidy items related to mixed finance projects.

PEL. Because mixed finance arrangements generally result in "floating" ACC units, the PEL will be established based on the property's characteristics. For all of the PHA's

mixed finance projects, the Department will calculate the PEL using the 10 percent nonprofit coefficient and the 100 percent assisted coefficient.²⁰

UEL. Similarly, the UEL will be calculated using the PHA-wide UEL in FY 2007. However, in FY 2008, the UEL for the mixed finance project will be based on the UEL of the project. If the project is new, then consumption and rate data from a comparable property will be used as the initial basis for the determining the UEL.

PILOT Add-On. The PILOT add-on will be calculated based on the regulatory language included within the Operating Fund Program final rule (i.e., maximum shelter rent calculation). The regulation does not allow those mixed finance projects, which pays real estate taxes, any special consideration. In addition, audit costs can only be reimbursed for ACC units.

Formula Income. For FY 2007, formula income for mixed finance projects will be calculated based on the PHA-wide rent roll, exclusive of the rental information of those mixed finance projects not included in the low rent column of the FDS. For FY 2008 project-based subsidy calculation, the frozen-formula income will be based on the FY 2004 average rent for those ACC units in the mixed finance project, taking into consideration possible tenant utility allowances. For projects entering service after FY 2004, the formula income will use the most “representative” rental information for the new project. If representative rental information is not available for the project, comparable data for another new development, if one exists, could be used as the basis to estimate FY 2004 frozen formula income. However, once a valid base of rental information is established for the mixed finance project, the Department may adjust the frozen formula income to better reflect the actual rental income. This would not result in a retroactive adjustment to subsidy but instead be carried forward to future subsidy calculations.

New/Deleted Units. The addition and deletion of a unit will follow the same funding rules as conventional public housing.

Review of Subsidy. For PHAs that are planning a mixed finance project, the Department will review and provide a PEL if the PHA requests this information and provides the needed data on which to confirm or produce a PEL. This PEL will be for planning purposes only. The actual PEL will be calculated by using the data in PIC once populated. The PHA should currently make this request through email to PIH’s Financial Management Division.

²⁰ Further information was published on December 28, 2005 in the Federal Register under the title “Public Housing Operating Fund; Variable Coefficients for Public Housing Operating Fund Project Expense Levels; Notice”.

9. *Small PHAs*

This chapter discusses special instructions for small PHAs (defined under the final rule as those with fewer than 250 public housing units) with respect to implementation of the Operating Fund Program final rule, given that these PHAs are not required to convert to asset management.

9.1 REPORTING REQUIREMENTS FOR SMALL PHAS NOT IMPLEMENTING ASSET MANAGEMENT

Small PHAs who do not adopt the asset management model will have the following attributes:

- Will generally have only one AMP²¹.
- Will use the same FDS template as all other PHAs when reporting to the Department, with the AMP containing all Operating Fund Program and Capital Fund Program activity for this PHA. The separate Operating Fund Program and Capital Fund Program columns on the FDS will be eliminated.
- Will not use the COCC column and should maintain allocation systems for the recovery of overhead across programs, i.e., no fee-for-service or excess cash.
- Will use the elimination column only to eliminate transactions as required by GASB Statement No. 34.
- Will incorporate the updated FDS chart of accounts when reporting to HUD. However, many of these accounts will not be used as they are directly related to fee-for-service.
- Will report gross potential and vacancy loss associated with rent and subsidy.
- Are not eligible to receive the \$2.00 PUM asset management fee add-on as part of their subsidy request.
- Have no COCC. Therefore, the Capital Fund Program funds can be used to fund all eligible activities that would be normally associated with the COCC.

9.2 REPORTING REQUIREMENTS FOR SMALL PHAS ELECTING TO IMPLEMENT ASSET MANAGEMENT

The final rule allows PHAs that own and operate fewer than 250 units to implement asset management on a voluntary basis, which would include agencies that convert in order to qualify for stop-loss.²² At the same time, the Department recognizes that small PHAs present unique challenges in converting to asset management, particularly in instances where the Executive Director also serves primarily as the site manager. Therefore, to

²¹ All PHAs regardless of size need to report mixed finance projects as a separate AMP. Small PHAs that do not elect to adopt asset management model but have one or more mixed finance projects will report each of the mixed finance projects separately on the FDS but are still not considered to have adopted asset management.

²² See PIH Notice 2006-14, issued March 22, 2006.

ease the reporting burden, small PHAs that convert to asset management have the following options:

- First, they can adopt all the associated requirements in this supplement that apply to PHAs with 250 or more units, including the adoption of a fee-for-service model and the creation of a separate COCC.
- Second, if they have only one AMP, they do not need to establish a separate COCC (and the tracking of individual costs between the AMP level and the COCC) but instead will also be governed by “reasonable” total administrative costs, as shown in Table 9.1.
- Third, if they have two or more AMPs, they also do not need to establish a separate COCC during the first two years of project-based budgeting and accounting and instead will be also be governed by the “reasonable” administrative costs from Table 9.1. PHAs with two or more AMPs that believe that the establishment of a separate COCC would impose undue financial or administrative burdens in the third and subsequent years under asset management may seek regulatory relief from HUD from the COCC requirement.

Table 9.1: 80th Percentile Administrative Costs in FHA Housing by Field Office

Field Office	Admin. Fee Range (PUM)	Field Office	Admin. Fee Range (PUM)
Albuquerque	\$118.72	Little Rock	\$105.77
Anchorage	\$184.06	Los Angeles	\$173.35
Atlanta	\$132.04	Louisville	\$120.13
Baltimore	\$148.48	Manchester	\$152.50
Birmingham	\$115.12	Miami	\$140.30
Boston	\$193.55	Milwaukee	\$124.16
Buffalo	\$155.97	Minneapolis	\$136.25
Caribbean	\$140.60	Nashville	\$115.11
Charleston	\$127.21	New Orleans	\$132.52
Chicago	\$172.22	New York	\$180.44
Cincinnati	\$124.65	Newark	\$185.57
Cleveland	\$135.35	Oklahoma City	\$132.66
Columbia	\$124.62	Omaha	\$122.49
Columbus	\$126.13	Philadelphia	\$167.18
Denver	\$140.63	Phoenix	\$136.85
Des Moines	\$ 96.68	Pittsburgh	\$143.23
Detroit	\$135.15	Portland	\$146.68
Fort Worth	\$129.60	Providence	\$173.16
Grand Rapids	\$139.26	Richmond	\$134.93
Greensboro	\$104.30	Sacramento	\$164.39
Hartford	\$169.69	San Antonio	\$131.20
Honolulu	\$138.69	San Diego	\$143.71
Houston	\$137.18	San Francisco	\$214.96
Indianapolis	\$116.12	Seattle	\$135.66
Jackson	\$115.43	Shreveport	\$119.68
Jacksonville	\$146.83	St. Louis	\$127.55
Kansas City	\$107.40	Tampa	\$141.35
Knoxville	\$95.42	Tulsa	\$118.62
Las Vegas	\$124.32	Washington, DC	\$165.35

The amounts included in Table 9.1 are based on the 80th percentile administrative costs for all for-profit and unlimited dividend FHA properties, by field office, excluding such programs as cooperatives and nursing homes. This information is based on 2004 Annual Financial Statements (the most recent available data) and includes the following line items: 6203-Conventions and Meetings, 6204-Management Consultants, 6210-Advertising and Marketing, 6235-Apartment Resale Expense (Coops), 6250-Other Renting Expenses, 6310-Office Salaries, 6311-Office Expenses, 6312-Office or Model Apartment Rent, 6320-Management Fee, 6330-Manager or Superintendent Salaries, 6331-Administrative Rent Free Unit, 6340-Legal Expense – Project, 6351-Bookkeeping Fees/Accounting Services, 6390-Miscellaneous Administrative Expenses, 6711-Payroll Taxes (Administrative Share), and 6723-Health Insurance and Other Employee Benefits (Administrative Share). HUD will review and update this table as needed.

PHAs adopting this model must limit their actual administrative costs to the respective PUM amount multiplied by the actual number of units occupied during the given period and for the actual number of units under a HUD-approved vacancy as described under § 990.145. Units defined as “limited vacancies” pursuant to § 990.150 are excluded. This amount will be annually compared to the total administrative costs of the PHA’s public housing program, which is currently defined as the sum of the following FDS line items:

FDS	FDS Line Item
911	Admin. Salaries
913	Outside Mgmt. Fees
915	Admin. Employee Benefits
916	Other Admin.

Actual administrative costs will include costs incurred from operations and any administrative costs charged against the BLI 1408 (Management Improvements) of the Capital Fund Program. By proving total administrative costs are within the established limits, the PHA will be recognized as being in compliance with item No. 3 of the Criteria for Successful Conversion, listed in PIH Notice 2006-14.

Small PHAs with multiple AMPs that have elected to implement this alternative to establishing a COCC will charge identifiable direct costs to the AMP incurring the expense. Indirect costs (Executive Director’s office, finance office, etc.) will be allocated in a reasonable method between the AMPs and other programs, if applicable.

Table 9.2: Comparative Table of Smaller PHAs Affected by the Asset Management Model

Issue	PHA Under 250 Units Not Implementing Asset Management	PHA Under 250 Implementing the Alternate Asset Management Model with Single AMP	PHA Under 250 Implementing the Alternate Asset Management Model with Multiple AMPs	PHA Under 250 Implementing Asset Management with Multiple AMPs	PHA Under 250 Implementing Asset Management with Single AMP
Utilizing COCC Concept	PHA does not establish COCC.	PHA does not establish COCC.	PHA does not establish COCC.	COCC must be established. PHA must operate within these fees.	COCC must be established. PHA must operate within these fees
Operating Fund	Operating subsidy will be calculated using the new funding formula. The PHA will not be entitled to the \$2 PUM add-on for the asset management fee.	Operating subsidy will be calculated using the new funding formula. The PHA will not be entitled to the \$2 PUM add-on for the asset management fee.	Operating subsidy will be calculated at the individual AMP level in FY 2008. Each AMP will not be eligible for the \$2 PUM add-on for the asset management fee.	Operating subsidy will be calculated at the individual AMP level in FY 2008. Each AMP will be eligible for the \$2 PUM add-on for the asset management fee.	Operating subsidy will be calculated at the individual AMP level in FY 2008. The PHA will not be entitled to the \$2 PUM add-on for the asset management fee.
Capital Fund	PHA will continue to comply with current regulations.	PHA will continue to comply with current regulations.	PHA will continue to comply with current regulations.	PHA will comply with Capital Fund regulations as outlined in Chapter 5. Costs will need to be charged at the AMP level.	PHA will comply with Capital Fund regulations as outlined in Chapter 5. Costs will need to be charged at the AMP level
Cost Allocations	PHA will be allowed to allocate costs between programs based on a reasonable allocation plan.	PHA will be allowed to allocate costs between programs based on a reasonable allocation plan.	PHA will be allowed to allocate costs between programs based on a reasonable allocation plan.	PHA must use a fee-for-service approach.	PHA must use a fee-for-service approach.
Budget Requirement	PHA must prepare operating budget as currently required.	Operating budgets must be prepared for each AMP.	Operating budgets must be prepared for each AMP.	Operating budgets must be prepared for each AMP and the COCC.	Operating budgets must be prepared for each AMP.
Accounting Requirements	PHA will maintain one set of records including Operating Fund and Capital Fund into a single AMP for reporting purposes.	PHA will maintain one set of records including Operating Fund and Capital Fund into a single AMP for reporting purposes.	PHA will maintain one set of records including Operating Fund and Capital Fund into multiple AMPs for reporting purposes.	PHA will maintain accounting records for each individual AMP and COCC. Capital Fund accounts will be included in each AMP.	PHA will maintain accounting records for each individual AMP and COCC. Capital Fund accounts will be included in each AMP.
Management Fees	N/A	PHA must operate within established administrative cost benchmarking levels provided by HUD.	PHA must operate within established administrative cost benchmarking levels provided by HUD.	Established COCC is funded through fees earned from the individual AMPs.	Established COCC is funded through t fees earned from the individual AMPs.

A. Property Management Fee by Field Office

**80th Percentile of Property Management Fees in FHA Housing, by Field Office, for
Unlimited
Dividend and Non-Profit Ownership Types**

Field Office	Property Management Fee (PUM)	Field Office	Property Management Fee (PUM)
Albuquerque	\$43.78	Little Rock	\$37.70
Anchorage	\$61.09	Los Angeles	\$58.53
Atlanta	\$45.80	Louisville	\$42.94
Baltimore	\$48.00	Manchester	\$53.45
Birmingham	\$44.29	Miami	\$50.26
Boston	\$56.50	Milwaukee	\$43.78
Buffalo	\$50.77	Minneapolis	\$50.31
Caribbean	\$46.47	Nashville	\$40.13
Charleston	\$46.93	New Orleans	\$40.39
Chicago	\$54.04	New York	\$58.15
Cincinnati	\$44.45	Newark	\$61.88
Cleveland	\$46.19	Oklahoma City	\$41.96
Columbia	\$48.07	Omaha	\$39.54
Columbus	\$46.36	Philadelphia	\$52.01
Denver	\$49.86	Phoenix	\$40.17
Des Moines	\$36.90	Pittsburgh	\$57.48
Detroit	\$42.95	Portland	\$41.40
Fort Worth	\$42.94	Providence	\$63.07
Grand Rapids	\$41.92	Richmond	\$50.16
Greensboro	\$45.84	Sacramento	\$51.08
Hartford	\$54.27	San Antonio	\$43.11
Honolulu	\$49.23	San Diego	\$52.04
Houston	\$37.01	San Francisco	\$60.79
Indianapolis	\$46.00	Seattle	\$39.98
Jackson	\$42.56	Shreveport	\$38.22
Jacksonville	\$50.78	St. Louis	\$37.94
Kansas City	\$37.79	Tampa	\$47.74
Knoxville	\$37.10	Tulsa	\$43.17
Las Vegas	\$42.95	Washington, DC	\$56.36

***Note:** The above fees have been adjusted to reflect the national average vacancy loss for non-profit and unlimited dividend properties of 6.9%, i.e., the rates shown reflect the fees paid for occupied units.