



Summary of Los Angeles Listening Session on Capital and Operating Funds Consolidation

May 18, 2012

Earlier this year, the Department held listening sessions with local PHAs to learn about PHA preferences related to the Department's FY 2013 budget request to consolidate the funding streams, and about other programmatic changes that PHAs believed are necessary. The information below represents the major questions asked by the Department, and summarizes the overall sentiment of the meeting participants.

Do agencies prefer a merger of the funding streams, or full fungibility?

Meeting participants generally agreed that no additional consolidation flexibility should be available to PHAs. Agencies believed that the current system encourages PHAs to limit operating costs and to make capital investments using the funds that are dedicated to capital improvements. Further, they agreed that by permitting PHAs to combine funds, whether through a complete merger or full fungibility, agencies could dedicate more money to operations, thus leaving their housing stock with fewer resources for capital improvements. The result, agencies suggested, would be a larger capital backlog, and units in disrepair.

What changes, if any, should be made to the funding formulas?

Agencies were concerned that opening the formulas for reconsideration could result in a reduction in funding for some agencies, or worse, an overall reduction in eligibility. Despite their concern about opening the formulas for reconsideration, agencies pointed out flaws in the existing Operating Fund formula. One agency noted that the Project Expense Level (PEL) for their senior building was the lowest in their public housing portfolio, but that the building had the highest operating costs. Another agency suggested that the high operating costs in their senior buildings compared to their funding levels led them to dispose of their senior buildings. Another agency suggested that the formulas are missing

variables for resident services and public safety, which are directly linked to the quality of life for residents. By excluding these variables, the agency suggested that certain costs that they must incur are not included in their funding eligibility.

Would a replacement reserve account benefit the program?

Agencies agreed that a replacement reserve account would be a beneficial tool for some PHAs, however, some agencies suggested that their capital needs are so extensive that they would likely not be able to accumulate funds over time due to the need to spend them immediately. Agencies also expressed concern about how a replacement reserve account could be funded. They agreed that it could be funded using both Capital Funds and operating reserves above the minimum, but that these funding sources would likely be inadequate to fully fund a replacement reserve account. Agencies agreed that the PNA would be a good basis for establishing a replacement reserve, and that each agency should establish a strategic plan based on the PNA as evidence of how they plan to use the funds. Agencies suggested, however, that PHAs should have the flexibility to spend replacement reserve funds as necessary, even if those expenditures are different than what is included in the strategic plan.

What changes should be made to assessment and monitoring protocols?

Meeting participants agreed that the existing physical inspection process is problematic and costly. Specifically, agencies pointed out that they spend considerable funds preparing for REAC inspections by addressing issues that are considered in the inspections, but that have no impact on resident quality of life. Agencies provided several examples of problems with the inspection process, including an agency losing significant points for one trip hazard on a total of 64 property acres, as evidence that the physical inspection process needs improvement. In this example, the agency was making the point that HUD should consider revising the scoring protocol to address issues of proportionality where inspectors consider a small sample of a common area or exterior grounds as the basis for an overall property score. One agency pointed to the USDA housing program as a model that could be employed. In this model, properties are inspected for major deficiencies and owners are only required to submit a work order as evidence that a major deficiency was addressed. Agencies suggested that this model would still assess the quality of the housing, but not assess areas that have no impact on resident quality of life. At a minimum, agencies said that a cure period that permits agencies to fix problems before scores are administered would be beneficial.

What other programmatic flexibility would benefit the program?

- MTW – Agencies suggested that there are several MTW flexibilities that could be applied to all housing authorities including income reviews and inspection cycles.
- Procurement – Agencies suggested that the Davis-Bacon prevailing wage requirement and the Section 3 requirements drive up costs and delay projects.
- Asset Management – Agencies suggested that the centralized functions were more cost effective, but that the current asset management rules prevent centralization.

