Summary of Seattle Listening Session on Capital and Operating Funds Consolidation

May 16, 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?

Participants generally agreed that they preferred a single funding stream because it was similar to the other programs that they managed, was simpler to administer, and was more easily understood by the lending community. However, these agencies were concerned about the possibility of cuts in funding as a result of a merger, and generally agreed that a merger was acceptable provided there were no further cuts to the program. It should be noted that PHAs in this region typically own a substantially different mix of housing than do most other areas. According to meeting participants, it is not uncommon for an agency to have only one-third of its housing stock operated as public housing while the other two-thirds are a mixture of tax-credit units and other assisted housing.

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

When asked about potential changes to the formulas, agencies generally suggested that they were unable to answer because they really were not clear about how the Capital Fund formula is calculated. They also said that the lack of clarity on the formulas directly impacts their ability to undertake planning activities because they are unable to predict their annual subsidy amounts. They said the issue is exacerbated by the tardy completion of the appropriations process each year. Despite the lack of clarity on the formulas, most agencies agreed that formulas were likely fine; rather it was the lack of funding that is the root cause of most of the problems within the program.

Would a replacement reserve account benefit the program?

In general, PHAs thought that the existing 2 and 4 year obligation and expenditure deadlines limited their ability to undertake larger capital projects or make strategic investments in their properties. This issue was more problematic for smaller agencies that received relatively small amounts of Capital Funds compared to their larger counterparts. Despite some agencies not being able to accumulate sufficient capital funds to undertake larger projects, agencies generally agreed that the existing deadlines were helpful in focusing agency funds on the most critical capital needs. In fact, an MTW agency participant indicated that they adhere to the 2 and 4 year rules despite not being required to do so, because they wanted to make sure they were addressing capital needs as expeditiously as possible. However, this agency also said that they were using their MTW flexibility to make use of funds from other HUD sources to supplement their capital funds because the funding amounts were inadequate.

Most agencies agreed that a reserve for replacement account would be a beneficial tool for PHAs when undertaking long-term capital planning, however, agencies agreed that there was unlikely to be enough funding to fully fund a replacement reserve account. Agencies also stressed the need to be able to have both a replacement reserve and an operating reserve. Agencies believed that operating reserves held above the minimum level would be a good source of funding for the replacement reserves, and also agreed that agencies should have the discretion to transfer annual capital funds to a replacement reserve. Agencies agreed that the PNA should be a guide for establishing replacement reserve levels; that the PNA data should suffice as evidence for why funds are being accumulated; and that, when combined with physical and financial assessments, should provide evidence of sound management practices. Furthermore, agencies agreed that they should maintain the discretion to use replacement reserves at any public housing property, similar to their ability to direct Capital Funds across their portfolio.

What changes should be made to assessment and monitoring protocols?

When asked about issues related to assessments and monitoring, agencies in Seattle primarily discussed the issue of the relationship between HUD and PHAs. Specifically, agencies believed that the current relationship is punitive rather than supportive. Agencies pointed to the current physical inspection process as evidence of this view, and provided examples of reduced scores for items like fences owned by entities other than the PHA, and items owned by residents. As an alternate monitoring strategy, agencies pointed to the oversight roles used by funders like Enterprise and the Local Initiatives Support Corporation. Agencies suggested that funders focus on risk-based assessments rather than performance based because their interest is in whether the funds are being expended for their intended purpose, and whether the housing stock is sustainable. Agencies suggested that this model allows for PHAs to focus on the overall goals of the program rather than preparing for every potential deficiency. Furthermore, PHAs pointed to funder-recipient model for potential changes to reporting. They suggested that funders are not interested in knowing about every aspect of recipient activities and decision-making, rather they are interested in the overall outcomes. As such, agencies suggested that funders do not require as much reporting as HUD does in the public housing program. Examples of onerous HUD reporting requirements that were cited included EIV, EPIC, Community Service, Section 3, and Capital Fund reporting. Agencies came to a general consensus that reporting and assessments should be limited to annual capital budgets, financial statements, physical inspections, and the forthcoming PNA.

What other programmatic flexibility would benefit the program?

- Rent reform – MTW agencies suggested that the ability to implement rent calculation changes and alter wait-list management policies has saved a considerable amount of time and resources.
- Procurement – Agencies suggested that the Davis-Bacon prevailing wage requirement and the Section 3 requirements drive up costs and delay projects.
- Annual Plan – Agencies suggested that participation from the public and residents related to the annual plan is generally non-existent, but that it takes considerable staff time to complete the plan. Agencies suggested that a possible change would be to only require meetings when a change impacts access to resources, such as a planned demolition/disposition, or a change to the occupancy policies.