

Los Angeles, CA Listening Session Proposed Changes to the Central Office Cost Center (COCC)



**U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

December 2016



1. Welcome and Background

Welcome

- Welcome and Opening Remarks
- Focus of COCC Listening Session
 - HUD’s proposed changes to current policy and guidance on the amount and use of fee income in a COCC in order to close a number of open findings related to a 2014 OIG report
- COCC Listening Session Schedule

| # | Location | Dates |
|---|-----------------|------------------|
| 1 | Detroit, MI | October 18, 2016 |
| 2 | Birmingham, AL | October 25, 2016 |
| 3 | Washington, DC | November 3, 2016 |
| 4 | Los Angeles, CA | December 7, 2016 |

What is a Listening Session?

- What is a Listening Session?
 - A working meeting to generate feedback, discussions, and questions from participants
 - Topical material will be presented on HUD's current position from which participants can react and discuss
 - No intent or expectation to reach agreement or consensus
 - All comments/concerns/alternative ideas are welcomed
 - Much of the detail surrounding the new policy has not been finalized, as HUD is still in the process of determining the affect that the new policy may have on the PHAs
 - The goal is to provide the best possible solution when finalizing changes to the COCC for all concerned parties
 - A listening session does not constitute rulemaking but is simply designed to share information to help shape the future environment

Topics and Agenda

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- Topic 1: Welcome and Background (9:00 – 9:30)
 - Topic 2: Reasonableness of Fees and Fee Types (9:30 - 10:15)
 - Topic 3: Re-federalization of Fees (10:15 – 10:45)
 - Topic 4: Eligible Use of Fee Income (11:00 – 12:00)
 - Topic 5: Accounting and Reporting (1:00 – 2:15)
 - Topic 6: Transition Items (2:30 – 3:45)
 - Topic 7: Closing and Next Steps (3:45 – 4:00)

OIG Report

- **OIG Report 2014-LA-0004, dated June 30, 2014 stated that:**
 - “HUD did not retain a basis for the COCC Fees”
 - “HUD did not adequately monitor COCC accounts”
 - “Housing authorities had excessive and unsupported charges”
 - “Charges from the COCC were questionable”
 - “De-federalization and reduced oversight increased risk to the program”
- **OIG’s Recommendations to Close the Findings - HUD should:**
 - “Revise its asset management policy to re-federalize the Operating and Capital Fund programs’ fee revenue”
 - “Eliminate the asset management fee”
 - “Establish and implement policies and procedures for the assessment and monitoring of fees”

Also Refer to Handouts:

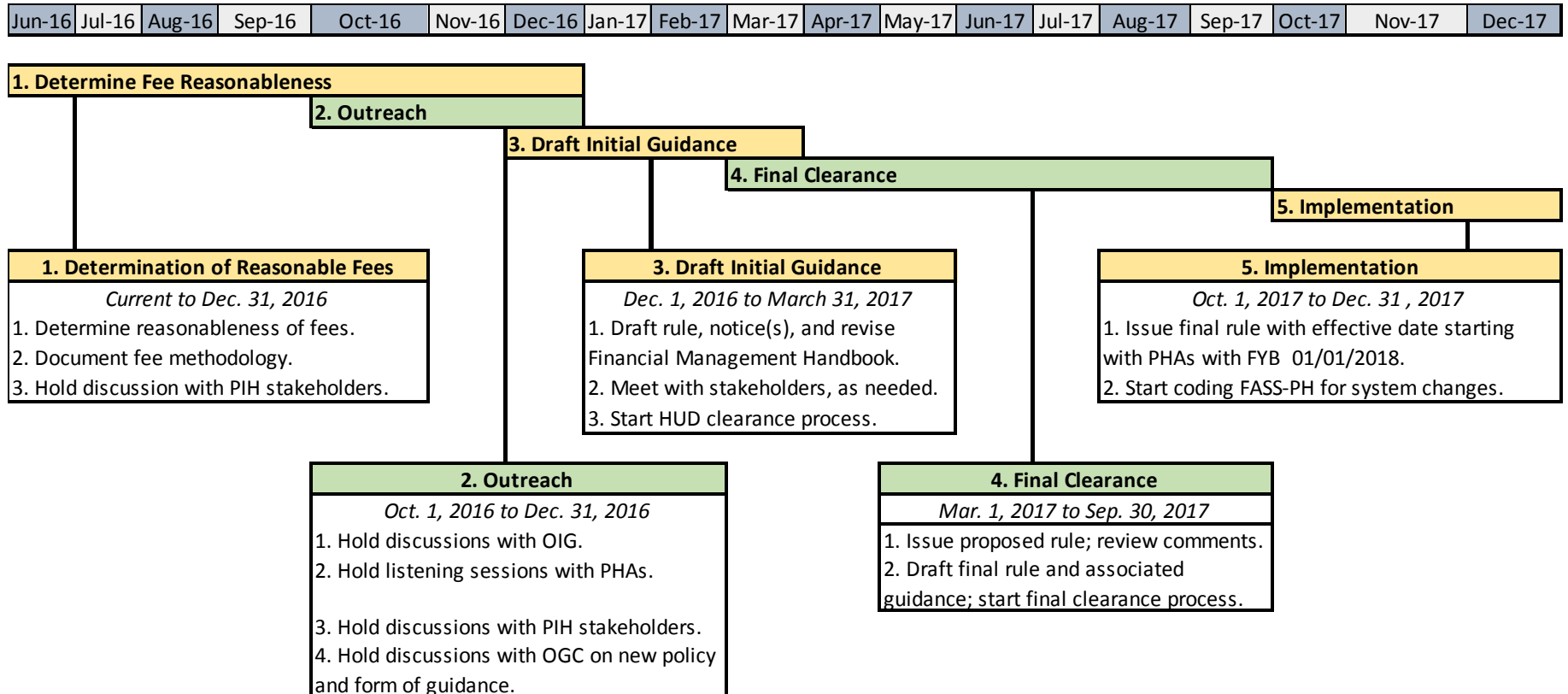
2. 24 CFR 990, Part H - Asset Management Regulation

8. 2014 OIG Report

OIG Report (continued)

- HUD has accepted certain aspects of the findings, made certain decisions, and has worked with OIG and OMB to find an acceptable solution to close these findings
- HUD's proposed changes are intended to keep asset management essentially intact
- HUD has agreed to the following:
 - Review fee schedules to ensure that the allowed fee rates are reasonable and current
 - Improve HUD's monitoring over the fees charged and the use of the fees
 - Re-federalize Section 8 & 9 fee income, including
 - Full fungibility of Section 8 & 9 fee income to Section 8 & 9 programs
 - Expand eligible uses of Section 8 & 9 fee income (i.e., "Expanded Use")

Timeline



Note: The development of policies and procedures to improve the assessment and monitoring of the fees permitted to be charged by the COCC are not included in the above timeline. We anticipate concurrent development by the program office and field operations.

Also Refer to Handout:

1. Proposed Implementation Timeline for Changes to COCC

Revising Policy and Guidance

- HUD is in the process of determining the scope of changes to policy and procedures. From this effort, HUD will determine how and what guidance is to be issued (i.e., notices, handbooks, accounting briefs, rulemaking)
- Much of the information in the following slides is presented as statements
 - Some of the statements reflect decisions that have been made based on conversations with OMB and OIG
 - Other statements reflect initial thoughts on areas where HUD seeks input and further discussion
- Besides the listening sessions, participants and stakeholders are encouraged to participate in and respond to possible future solicitations of comments
- HUD has set up an email box via which you can submit additional comments and suggestions at: COCCsessions@hud.gov

Other Items

- Cell Phones
 - Please remember to turn off cell phones or put your phone on vibrate
 - If you need to leave in the middle of a discussion, please do so quietly
- Valuables and Materials
 - Please take valuables (phones, purses, etc.) with you on break and at lunch
 - Please take your materials with you at the end of the day, including any trash
- Lunch and Breaks



2. Reasonableness of Fees and Fee Types

OIG Concern – Fee Reasonableness & Fee Types

- OIG asserted that,
 - “HUD could not adequately support the reasonableness of its Operating Fund program’s fee limits”, and
 - “HUD did not retain the complete working documents used to determine the reasonableness of the COCC fee rates, nor had HUD re-assessed the reasonableness of the fee rates since their inception”

COCC Portfolio

| PHAs with COCC by State | | | | |
|-------------------------|----------------|--------------|------------------|------------------------|
| # | State Name | PHAs w/ COCC | Combined Units | COCC Revenue |
| 1 | Pennsylvania | 46 | 92,558 | \$75,308,525 |
| 2 | Illinois | 41 | 117,587 | \$37,660,714 |
| 3 | New York | 36 | 326,534 | \$718,105,835 |
| 4 | New Jersey | 34 | 69,556 | \$59,811,522 |
| 5 | Alabama | 30 | 53,039 | \$30,024,486 |
| 6 | Tennessee | 27 | 51,168 | \$33,029,917 |
| 7 | California | 26 | 216,284 | \$110,868,246 |
| 8 | Ohio | 26 | 118,729 | \$77,531,994 |
| 9 | Florida | 26 | 98,793 | \$45,150,473 |
| 10 | North Carolina | 26 | 57,167 | \$44,286,754 |
| 11 | Georgia | 25 | 37,319 | \$27,724,194 |
| 12 | Texas | 19 | 112,706 | \$75,939,529 |
| 13 | Massachusetts | 18 | 69,892 | \$66,856,316 |
| 14 | Indiana | 18 | 37,500 | \$18,151,059 |
| 15 | Connecticut | 16 | 33,021 | \$27,077,334 |
| 16 | Michigan | 16 | 28,834 | \$14,933,711 |
| 17 | Kentucky | 15 | 26,634 | \$18,599,707 |
| 18 | Virginia | 14 | 40,769 | \$38,457,374 |
| 19 | South Carolina | 14 | 25,216 | \$12,811,445 |
| 20 | Louisiana | 13 | 41,502 | \$21,315,978 |
| 21 | Washington | 11 | 45,106 | \$56,199,210 |
| 22 | Mississippi | 11 | 15,727 | \$9,443,291 |
| 23 | Minnesota | 9 | 25,751 | \$16,712,188 |
| 24 | Wisconsin | 8 | 14,048 | \$10,757,817 |
| 25 | Rhode Island | 8 | 13,090 | \$14,297,651 |
| | All Other | 73 | 281,999 | \$268,494,758 |
| | Total | 606 | 2,050,527 | \$1,929,550,028 |

- 606 PHAs operate using a COCC
- While these PHAs represent only 15% of the PHA portfolio, these PHAs are generally the larger PHAs in the country, managing more than 2 million PH units and HCV vouchers
- Total COCC revenue for these PHAs is \$1.9 billion

Current Fee Types

| ID | Fee Type | Fee Rate |
|----|------------------------|---|
| 1 | PH Mgmt Fee | (1) PIH Published Fee Schedule (2) Fee Schedule of Respective Multifamily office (3) Other Compelling Market Data |
| 2 | PH Bookkeeping Fee | \$7.50 PUM |
| 3 | PH Asset Mgmt Fee | (1) \$10.00 PUM (2) Subject to Excess Cash Calculation |
| 4 | Capital Fund Mgmt Fee | 10% of Annual CFP Grant |
| 5 | HCV Mgmt Fee | Higher of: \$12.00 PUM or 20% of PHA's Annual Administrative Fee |
| 6 | HCV Bookkeeping Fee | \$7.50 PUM |
| 7 | Frontline Service Fees | Based on market prices for actual service and material received |

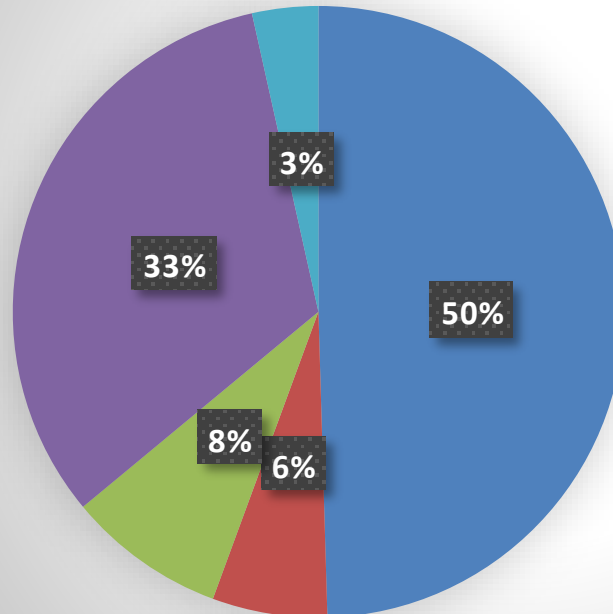
Also Refer to Handouts:

3. Federal Register Notice – Guidance on Implementation of Asset Management
4. Chapter 7 – Fee Income and Assignment of Costs
5. Chapter 5 – Capital Fund Program Reporting
6. 2015 Public Housing Management Fee Schedule

COCC Fee Revenue

| Fee Type | Amount | % of Total |
|--------------------------|-------------------------|-------------|
| Management Fee | \$ 865,346,742 | 50% |
| Book Keeping Fee | \$ 146,432,772 | 8% |
| Asset Management Fee | \$ 106,215,573 | 6% |
| Front Line Service Fee | \$ 568,052,950 | 33% |
| Other Fees | \$ 61,018,086 | 3% |
| Total Fee Revenue | \$ 1,747,066,123 | 100% |

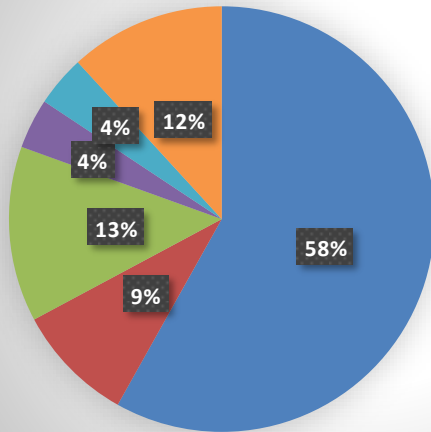
COCC Fee Revenue



- Management Fee - 50%
- Asset Management Fee - 6%
- Book Keeping Fee - 8%
- Front Line Service Fee - 33%
- Other Fees - 3%

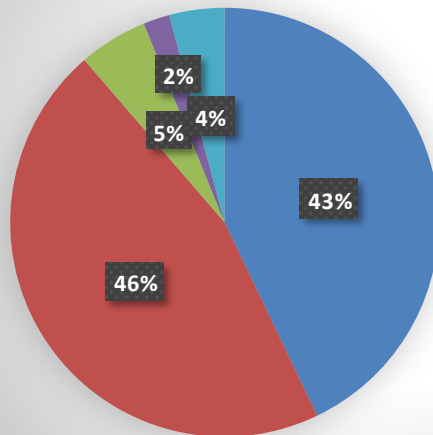
Source of Fees

Source of Management Fee



| Source of Mgmt Fee | % of Total |
|-------------------------|-------------|
| Public Housing | 58% |
| Capital Fund | 9% |
| Housing Choice Vouchers | 13% |
| Moving to Work | 4% |
| Other HUD | 4% |
| Other Non HUD | 12% |
| Total, Mgmt Fee | 100% |

Source of Bookkeeping Fee



| Source of Bookkeeping Fee | % of Total |
|-------------------------------|-------------|
| Public Housing | 43% |
| Housing Choice Vouchers | 46% |
| Moving to Work | 5% |
| Other HUD | 2% |
| Other Non HUD | 4% |
| Total, Bookkeeping Fee | 100% |

Determining Fee Reasonableness

- In “re-establishing” reasonableness of fees, HUD is looking to:
 - Establish repeatable methodologies that can be applied on a periodic basis
 - Use existing data that is available to HUD to determine the fee rates
- Based on this analysis, fee rates will be:
 - Increased,
 - Decreased, or
 - Remain the same

1. Proposed Policy – PH Management Fee

| # | Category | Current Policy |
|---|-------------------|---|
| 1 | Fee Rate | (1) PIH Published Fee Schedule (2) Fee Schedule of Respective Multifamily Field Office (3) Other Local Compelling Market Data |
| 2 | Basis to Earn Fee | (1) Occupied Units (2) HUD Approved Vacancy and Special Use Units |

- Consideration and thoughts
 - Continue to benchmark to XXth percentile (currently at 80th percentile) of actual property management fee paid by profit-motivated and limited dividend MF properties
 - Removal of option to use MF fee schedule
 - Allow PHA to request waiver of PH fee schedule

2. Proposed Policy – PH Bookkeeping Fee

| # | Category | Current Policy |
|---|-------------------|--|
| 1 | Fee Rate | \$7.50 PUM |
| 2 | Basis to Earn Fee | (1) Occupied Units (2) HUD Approved Vacancy and Special Use Units |

- Consideration and thoughts
 - Continue to allow a bookkeeping fee
 - Review and re-benchmark to actual bookkeeping fees paid by profit-motivated and limited dividend MF properties
 - Consider benchmarking the bookkeeping fee by field office, similar to the PH management fee

3. Proposed Policy – PH Asset Mgmt. Fee

| # | Category | Current Policy |
|---|-------------------|---|
| 1 | Fee Rate | (1) \$10.00 PUM (2) Subject to Excess Cash Calculation |
| 2 | Basis to Earn Fee | ACC Units |

- Considerations and thoughts
 - Continue to allow asset management fee
 - Review and re-benchmark to distributions of profit-motivated and limited dividend MF properties

4. Proposed Policy – Capital Fund Mgmt. Fee

| # | Category | Current Policy |
|---|----------|-------------------------|
| 1 | Fee Rate | 10% of Annual CFP Grant |

- Consideration and thoughts
 - Continue to allow a Capital Fund Management fee
 - Review of current use / level of expense for BLI account 1410 – administration

5. Proposed Policy – HCV Management Fee

| # | Category | Current Policy |
|---|----------|---|
| 1 | Fee Rate | <u>Calculated based on Higher of:</u> (1) \$12.00 PUM per voucher leased on first day of the month or, (2) 20% of PHA's Annual Administrative Fee |

- Consideration and thoughts
 - Continue to allow a management fee
 - Removal of option to use a straight fee of \$12.00 per voucher leased and allow PHAs only to use X% of annual administrative fees
 - Clarify that HCV administrative fee method is based on fees earned in the HCV program (includes proration)
 - Under the proposed administrative fee rule, this method would also allow for a fee to be earned by the COCC for both port-in and port-out activity
 - Review and re-benchmark allowed fee rate based on analysis and data of actual costs in the HCV program and other federal programs

6. Proposed Policy – HCV Bookkeeping Fee

| # | Category | Current Policy |
|---|-------------------|--|
| 1 | Fee Rate | \$7.50 PUM |
| | Basis to Earn Fee | Per voucher leased on first day of the month |

- Considerations and thoughts
 - Review and re-benchmark allowed fee rate based on analysis and data of actual costs in the HCV program and other federal programs
 - Fee could be dropped and folded into HCV management fee

7. Proposed Policy – Frontline Service Fees

| # | Category | Current Policy |
|---|----------|--|
| 1 | Fee Rate | Based on market prices for actual service and materials received |

- Considerations and thoughts
 - Continue to allow frontline service fees
 - No changes to current policy

Proposed Policy – General

- Asset Management (no change)
 - PHAs with 401 or more PH ACC units must continue to use an asset management model either through the use of a COCC or through the allocated overhead method
 - PHAs with 400 or less ACC units can continue to elect to manage under an asset management model either through the use a COCC or the allocated overhead method
- Supporting Documentation for Payment of Fees (no change)
 - The preferred method of documenting the assessment of fees to projects and programs is via an invoice. However, the PHA may use a more informal method of billing
 - Regardless of the method the PHA uses for assessing fees to projects and programs, supporting documentation of how each fee was earned must be maintained and made available for review

Planned Improvement to HUD Internal Control and Oversight

- HUD will review on a schedule, the basis of each fee and whether the fee rate that has been established by HUD is reasonable. HUD will make revisions as necessary
- Through the use of data collected in HUD systems, HUD will calculate the maximum allowed fee amount that can be charged by the COCC and compare that amount to the actual amount charged
 - For those PHAs that are initially determined to be non-compliant with fee reasonableness, a letter will be generated to the appropriate HUD field office for follow-up
 - HUD will require the immediate repayment of any over-charged fee amounts

Clarification, Discussion & Questions

- In applying HUD's current allowed fees, are there areas in the current guidance that HUD should clarify?
- Are there other issues/considerations that HUD should take into concern when determining fee rates?
- Are there other questions or thoughts?





3. Re-federalization of Fee Income

OIG Concern – De-federalization of Fees

- OIG asserted that,
 - De-federalization of fees along with HUD’s “hands-off policy of monitoring the fees conflicts with OMB circular A-123, which states that *proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff*”, and
 - “PHAs nationwide may have de-federalized excessive amounts of taxpayers dollars for the use of questionable expenses that did not agree with HUD’s mission and goals”

Proposed Policy

- Current Policy
 - COCC fee income is de-federalized
 - Fee income can be used to support any federal program or non-federal program authorized by the PHA's charter and state and local law
 - The use of fee income must still be in accordance with approved PHA policy
- Proposed Policy
 - Non-section 8 and 9 fee income remains de-federalized (i.e., no change from current policy)
 - Section 8 and 9 fee income (fee income earned by the COCC from the HCV, CFP and Operating Fund programs) remains federalized, with identified and specific expanded use

Proposed Policy

- Full Fungibility of Section 8 and 9 Fees
 - Section 8 and 9 fees earned by COCC fee income can be used to support any allowed section 8 & 9 expense without regard to the proportion of the section 8 and 9 fees earned by the COCC
 - Example

| Fee Income | Amount | % |
|-------------------------------|------------------|--------------|
| HCV Mgmt. Fee | \$300,000 | |
| HCV Bookkeeping Fee | \$200,000 | |
| Section 8 Fee Subtotal | \$500,000 | 33.3% |

| | | |
|-------------------------------|--------------------|--------------|
| PH Mgmt. Fee | \$500,000 | |
| PH Bookkeeping Fee | \$200,000 | |
| PH Asset Mgmt. Fee | \$150,000 | |
| CFP Mgmt. Fee | \$150,000 | |
| Section 9 Fee Subtotal | \$1,000,000 | 66.7% |

| | | |
|-------------------------|--------------------|---------------|
| Total Fee Income | \$1,500,000 | 100.0% |
|-------------------------|--------------------|---------------|

All Splits Allowed



| Expense | Expense Split |
|--------------------|---------------|
| Section 8 Expenses | 100% |
| Section 9 Expenses | 0% |
| Expanded Use | 0% |

| | |
|--------------------|-----|
| Section 8 Expenses | 20% |
| Section 9 Expenses | 20% |
| Expanded Use | 60% |

| | |
|--------------------|------|
| Section 8 Expenses | 0% |
| Section 9 Expenses | 0% |
| Expanded Use | 100% |

No requirement to match Section 8 and 9 fee income to allowed expense

No requirement for separate accounting of uses of fees, except for the need to prove eligible use of fees

Accounting

- PHAs will be required to account for “new” federalized fee income and de-federalized fee income separately
 - Statement of net position (i.e., balance sheet), and
 - Statement of revenue and expenses (i.e., income statement)

| Section 8 & 9 Fee Income COCC - Section 8 & 9 | |
|--|---|
| Revenue | Section 8 & 9 fee Income |
| | Related revenue (i.e., interest income) |

| Non-section 8 & 9 Fee Income COCC - Business Activity | |
|--|---|
| | Non-section 8 & 9 fee income |
| | Related revenue (i.e., interest income) |
| | Business activity income (optional) |

| | |
|----------------|---|
| Expense | Reasonable and allowed section 8 & 9 overhead expenses |
| | Reasonable and allowed section 8 & 9 frontline expenses (via transfer of funds to the respective program) |
| | Other HUD allowed and reasonable expenses (i.e., expanded use) |

| | |
|--|---|
| | Reasonable and allowed non-section 8 & 9 overhead expenses |
| | Reasonable and allowed non-section 8 & 9 frontline expenses (via transfer of funds to the respective program) |
| | Other state and local allowed and reasonable expenses |

| | |
|-----------------|--------------------|
| Reserves | Unspent fee income |
|-----------------|--------------------|

| | |
|--|--------------------|
| | Unspent fee income |
|--|--------------------|

Miscellaneous

- PHAs would still be allowed to charge the maximum fee rate and /or adopt less costly processes in its COCC.
 - This would allow PHAs to maximize its ability to have unspent fee income that could be used on any section 8 and 9 or other allowed activity



4. Eligible Uses of Fee Income

OIG Concern – Eligible Uses of Fee Income

- OIG asserted that,
 - “There is no Federal oversight with respect to the use of these funds (*i.e., fee income*) and therefore there is a much greater potential for fraud, waste and abuse” and that waste, fraud and abuse did occur, and
 - “PHAs nationwide may have de-federalized excessive amounts of taxpayers dollars for the use of questionable expenses that did not agree with HUD’s mission and goals”

Fee Income Use - General Guidance

- Proposed New Policy
 - Section 8 and 9 fee income will be limited in use per HUD guidance
- Continuation of Current Policy
 - Non-section 8 & 9 fee income is limited in use to the following:
 - Support any and all PHA programs (Federal, state and local)
 - Support only activity or expenses that is allowed by state and local law / regulations / charter
 - The use of any fee income must support the mission of the PHA
 - The use of any fee income is limited to reasonable expenses
 - The use of any fee income is subject to PHA policy(ies) governing such matters
 - (For example, fee income would be subject to a PHA's travel reimbursement policy)

Sources of Section 8 & 9 Fee Income vs. Non-section 8 & 9 Fee Income

| # | Sources of Section 8 & 9 Fee Income | # | Sources of Non-section 8 & 9 Fee Income |
|----|---|---|--|
| 1 | PH management fees | 1 | Management and other fees earned on non-section 8 & 9 programs |
| 2 | PH bookkeeping fees | | |
| 3 | PH asset management fees | | |
| 4 | CFP management fees | | |
| 5 | HCV management fees | | |
| 6 | HCV bookkeeping fees | | |
| 7 | Frontline service fees earned on section 8 & 9 units (i.e. centralized maintenance) | 2 | Frontline service fees earned on non-section 8 & 9 units (i.e. centralized maintenance) |
| 8 | Revenue earned from the use of section 8 & 9 fees (i.e., interest income, matching grant) | 3 | Revenue earned from the use of non- section 8 & 9 fees (i.e., interest income, matching grant) |
| 9 | ??? | 4 | Revenue earned on business activities (optional) |
| 10 | ??? | 5 | ??? |

How should management fees be classified if the fees are earned from:

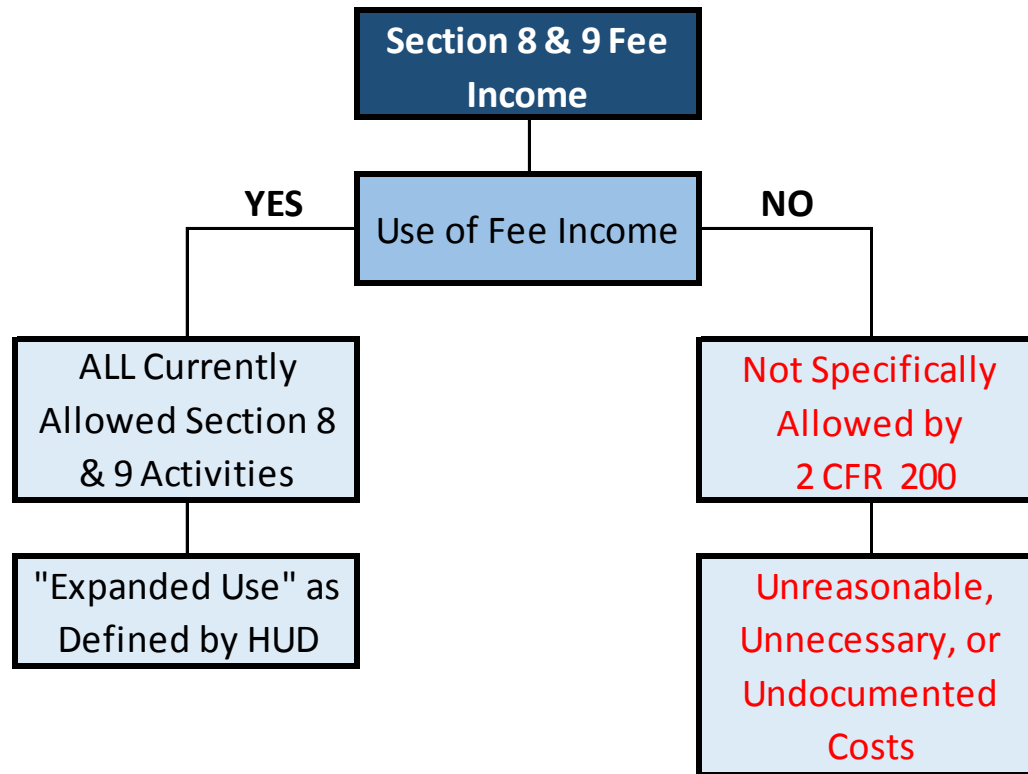
1. A mixed finance project owned by the PHA?
2. A mixed finance project wholly owned by a non-profit that is controlled by the PHA (or not controlled by the PHA)?
3. A RAD project that has converted to PBV or PBRA?
4. Development Fees, etc.?

Comments from Previous Listening Sessions

How Is Fee Income Used Today?

- Besides funding overhead costs, PHAs use fee income to:
 - Provide needed non-federal funds to RAD conversions and other low income housing development efforts
 - Includes funding of legal fees associated with development and relocation costs after the deal closes
 - Used as matching funds for other federal, state and local grants that are used to directly support the families in public housing and the HCV program
 - Weatherization programs and tenant services
 - Used as principal source of revenue to fund debt service to acquire /modernize COCC office and low income housing developments
- Possible impacts of re-federalization:
 - Inability to provide updated / new low income housing stock
 - Possible financial impact related to guarantees and call provisions
 - Inability to cover debt service
 - Reduction in resident services

Eligible Uses of Section 8 and 9 Fee Income



Also Refer to Handout:

7. 2 CFR 200 – Select Definitions and Sections

Eligible Uses of Section 8 and 9 Fee Income

- All costs allowed under Section 8 and 9 of QWHRA and HOTMA and as further defined via regulation and guidance, including,
 - Overhead costs associated with administration of Section 8 and 9 programs, (e.g., personnel costs associated with the executive director, accounting staff, etc.)
 - Capital replacement costs associated with Section 8 and 9 overhead activity (e.g., computer upgrades, building improvement, etc.)
 - Frontline program costs of the public housing, capital fund and HCV program (e.g., HCV administrative costs, modernization costs of units, maintenance salary expense, etc.)
 - Limited in use to augment HAP payments (PIH Notice 2013-28)

Eligible Uses of Section 8 and 9 Fee Income, Possible Expanded Use

- Purposes allowed under the PHA's state and local laws that directly further housing for low income families and
- Other HUD allowed expanded uses

| # | Expanded Uses of Section 8 & 9 Fee Income |
|----|---|
| 1 | Matching grant to provide self-sufficiency services to low income families |
| 2 | Revenue for development of other low income housing projects |
| 3 | De minimis purchase of water/soda and snacks for meetings and special events |
| 4 | Gift cards of de minimis value to support resident involvements and recognition |
| 5 | |
| 6 | |
| 7 | |
| 8 | |
| 9 | |
| 10 | |

Ineligible Uses of Section 8 and 9 Fee Income

- Unnecessary and unreasonable costs in the performance of the Section 8 and 9 programs as defined by 2 CFR part 200 “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards”, such as
 - Purchase of a personal home security system
 - Costs of vacations for PHA staff
- Unallowable costs as defined by 2 CFR Part 200, such as
 - Purchase of alcoholic beverages
 - Entertainment costs (e.g., concert tickets)
 - Lobbying costs
 - Fines, penalties, damages and other settlements
 - Etc.

Ineligible Uses of Section 8 and 9 Fee Income (continued)

- Undocumented or unauthorized costs, such as
 - Non-approved salary increases
 - Travel costs reimbursement with no trips receipts
 - Unsupported vendor payments,
 - Etc.

Planned Improvement to HUD Internal Control & Oversight

- HUD financial analysts will review the auditor's report specifically to see if the auditor has identified instances of ineligible uses of Section 8 and 9 fee income. HUD will take the appropriate follow up actions, including possible sanctions and repayment agreements
- HUD will perform a sample of COCC reviews annually to determine whether the PHA is in compliance with rules, policy, and guidance around the COCC

Clarification, Discussion & Questions

- Is there a general guiding principal in determining what costs should or should not be paid from Section 8 and 9 fee income?
- What other expense items should HUD consider to be funded through Section 8 & 9 fee income?
- What other expense should **not** be funded through Section 8 & 9 fee income?
- Are there other questions or thoughts?





5. Accounting and Reporting

Updating PHA Accounting System

- The effective date of any new policy will coincide with the beginning of a PHA's fiscal year end. For example, if a new policy is effective as of January 1, 2018; PHA implementation would be as follows:

| Fiscal Year | Effective for FYB | Effective for FYE |
|-------------|-------------------|-------------------|
| 12/31 | 01/01/2018 | 12/31/2018 |
| 3/31 | 4/1/2018 | 3/31/2019 |
| 6/30 | 7/1/2018 | 6/30/2019 |
| 9/30 | 10/1/2018 | 9/30/2019 |

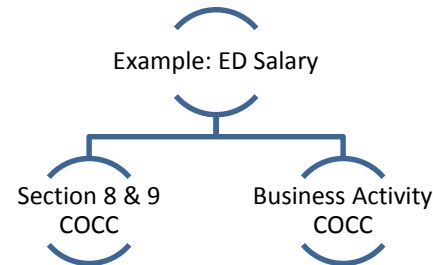
- Separate bank accounts for the two separate accounts (i.e., section 8 & 9 COCC and business activity COCC) will not be required
- HUD will update the FASS-PH system to conform to the final policy
- What is the lead time needed by PHAs to:
 - Update their accounting system with new accounts / funds, including related MIS reporting modules
 - Update any related financial policy
 - Train staff
 - Determine opening balances for the COCCs' Statement of Net Position

Statement of Revenue and Expenses

- Revenue
 - Tracking, accounting, and reporting of fee income to the proper COCC account should not be an issue
- Transfers
 - The business activity COCC can transfer funds to any PHA program, including the Section 8 & 9 COCC
 - The Section 8 & 9 COCC can transfer funds to any Section 8 & 9 programs or can be used to support any other eligible activity as allowed by HUD
 - Funds transferred to the Section 8 & 9 COCC become limited in use to Section 8 & 9 and other eligible activity

Statement of Revenue and Expenses (continued)

- Determining the amount of COCC expenses
 - Based on the programs administered by the PHA, many of the current associated costs of the COCC will need to be allocated to the two different COCC accounts



- Historically, HUD’s view on PHA allocation methods is to allow the PHA and its auditor to determine a reasonable allocation method for each expense type
- Some PHAs have funded all COCC costs using only Section 8 & 9 fees, even though the PHAs administer other non-section 8 & 9 programs. However, under the new policy, the business activity COCC will have expenses that have to be funded using non-section 8 & 9 program fees

Statement of Revenue and Expenses (continued)

- Determining the type of COCC expenses
 - Chapter 7 of the Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook provides tables and guidance of costs that are considered frontline cost to the program and COCC costs.
 - HUD does not expect to make any major changes to the classification of frontline versus COCC costs

Statement of Net Position (Balance Sheet)

- Determining opening balances in the COCC accounts
 - Currently PHAs have one COCC and therefore one balance sheet
 - Under the new policy, PHAs will need to establish two balance sheets at the beginning of the fiscal year of implementation
- At the date of implementation
 - All beginning balances are initially considered to belong to the business activity COCC
 - For those items purchased with fee income prior to the effective date of the new policy, the amount / item may be reported in the business activity COCC, including any related liability
 - For those balance sheet items that were purchased with Section 8 & 9 funds, the amount / item should be moved/reported in the Section 8 & 9 COCC, including any associated liability (i.e., COCC buildings purchased with CFP funds and on the Declaration of Trust)

Statement of Net Position (Balance Sheet)

- At the date of implementation (continued)
 - All cash and investments of the COCC can be reported in the business activity COCC with the following limitation:
 - PHAs must provide beginning cash and investments to the Section 8 & 9 COCC to:
 - » Cover the PHA's current liabilities in the Section 8 & 9 COCC, and
 - » Provide sufficient working capital to the Section 8 & 9 COCC

Clarification, Discussion & Questions

- Are there specific revenue or expense items that are problematic from an accounting and reporting perspective?
- Are there other policy or guidance that needs to be provided in determining the beginning balance sheet amounts?
- Are there other questions or thoughts?





6. Transition Items

Transition Items

- A number of items related to transition to a new policy has already been discussed
- The focus of this topic is to:
 - Consider other known transition/ policy items that have not been yet discussed, and
 - List and discuss other transition items that HUD policy should take into consideration
- A number of the transition items listed in this section have been brought up by the PHA industry. As it relates to this session, HUD is interested in understanding the extent of and gaining a fuller appreciation of the issues

Transition Item 1: Timing of Policy Changes

- HUD has agreed to the following:
 - Review fee schedules to ensure that the allowed fee rates are reasonable and current
 - Re-federalize Section 8 & 9 fee income but provide expanded use
 - Improve HUD's monitoring over the fees charged and the use of the fees
- These items are mostly independent of each other and therefore the timing of implementation of each item will likely be different
 - For example, HUD could improve its monitoring protocols and procedures at any time but HUD will likely need to provide some type of official guidance (notice, rule, etc.) to re-federalize Section 8 & 9 fee income

Transition Item 2: Unspent Fee Income

- Most PHAs will have unspent fee income at the effective date of the new policy
 - With the exception of the PHA executive compensation limit policy, all fees (Section 8 & 9 and non-section 8 & 9) earned **prior to** the effective date of the new policy will be considered de-federalized
 - All Section 8 & 9 fees earned **after the** effective date of the new policy would remain federalized with expanded use

Transition Item 3: Long-term Initiatives

- Some PHAs have current and on-going long-term activity / initiatives that require funding from a non-federal source
 - To what extent do PHAs currently have these commitments?
 - If the activity / initiative is no longer eligible to be funded from the Section 8 & 9 COCC and the non-section 8 & 9 funds will not be able to support the activity, will the PHA be required to stop this activity or will these type of activities be grandfathered in?
 - How does the re-federalization of fees effect funds that are ear-marked for long-term initiatives that are currently in the early stage of development but can no longer be funded through Section 8 & 9 fees?
 - What is the extent of these activities?

Transition Item 4:

Re-payment Agreements and Legal Settlements

- Some PHAs have been allowed to use COCC fees to fund re-payment agreements and legal settlements as fee income was considered a non-federal source of revenue
- Section 8 & 9 funds typically cannot be used for legal settlements, fines and re-payment agreements
 - To what extent are PHAs currently using COCC funds to settle litigation or fund re-payment agreements?
 - Do PHAs in these situations need to re-negotiate with OIG, etc.?
 - What is HUD's policy going forward?

Transition Item 5: RAD Conversion

- Some PHAs have stated that the HUD's RAD program and the de-federalization of COCC funds are linked,
 - To what extent are de-federalized funds used to support RAD conversions?
 - Are there other specific questions about RAD conversion and the new COCC policy?

Transition Item 6: Affect of Section 8 & 9 COCC Reserves on a PHAS /SEMAP Financial Assessment

- HUD's current policy allows PHAs to transfer fee income into the public housing program to increase their financial score
 - Should HUD continue or modify this policy?
 - If there is a financial assessment under SEMAP should the same PH policy apply to SEMAP?

Transition Item 7: Internal Clearance

- Part of the development of new policy will include a clearance process with non-PIH stakeholders, such as HUD's Office of General Counsel (OGC) and HUD's OIG, in order to ensure that all parties are still in agreement

Transition Item 8: Use of COCC Under New Policy

- The proposed policy changes a number of items allowed under the current rule and policy,
 - Are there still advantages to administer the PHA using a COCC / fee-for-service model?
 - Should HUD re-consider the whole COCC concept?

Transition Item 9: Offsets

- In the recent past, Congress has offset appropriations in both the HVC and public housing program
 - Will any of the COCC funds be subject to offset?
 - Will HUD consider a different calculation in determining what funds can be offsets, most notably the inclusion of certain long-term liability related to pensions and OPEBS?

Clarification, Discussion & Questions

- What other transition items still need to be taken into consideration?
- Are there other questions or thoughts?





7. Next Steps & Closing

Next Steps and Closing

- HUD will:
 - Begin finalizing policy, taking into consideration stakeholder comments and thoughts
 - Draft initial policy and guidance
 - Finalize and implement policy and guidance
- Final Thoughts?
- Continue to provide your thoughts though COCCsessions@hud.gov
- Thank You

