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October 11, 2024

Todd C. Thomas
Director, Office of Public Housing Programs
Department of Housing & Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Mr. Thomas,

The Public Housing Authorities Directors Association (PHADA) is a membership organization representing approximately 1,900 public housing authority (HA) executives from across the nation. On behalf of its members, PHADA appreciates the opportunity to meet with HUD staff to discuss the topic of interest remittance, in compliance with 2 CFR Part 200.305(b), which requires the return of interest earned exceeding $500 per year on all Federal grant advances to the Department of Health and Human Services (HHS). Further, the Association values the opportunity to provide comments to the Department's draft guidance entitled, "PHA Post Federal Award Requirements Guidance: Interest Earned on Operating Funds," which provides commonly used methodologies to determine interest earnings allocable to Operating Subsidy.

First, and foremost, the industry respects the opportunity to comment on the draft guidance prior to implementation. PHADA understands that the guidance is intended to provide commonly used methodologies to determine interest earnings allocable to Public Housing Operating Subsidy, and that HAs have the flexibility to report and remit interest utilizing either a monthly, quarterly, or annual calculation. In developing these comments, PHADA consulted with the group of industry experts that participated in the call with HUD on September 24, 2024, including CPAs and CFOs well respected in the industry for their knowledge and expertise.

PHADA understands the Department's position that HAs need this guidance in a timely manner to prepare for CY 2025 funding. However, when finalizing guidance related to interest earned on Operating Funds, HUD should consider a number of potential complications. Housing agencies continue to face serious adverse and uncertain financial and economic circumstances, and the industry is concerned that these requirements may make a bad fiscal outlook even worse, especially for the growing number of HAs now in a shortfall situation due to diminishing reserves.

- Over the past decade, Public Housing Operating Subsidies have typically been well below 100%, reflecting consistent underfunding compared to full eligibility.
- The Department has indicated that it requested a 90% proration to Congress for FY 2025 Public Housing Operating Subsidy. However, as the Federal government is currently funded by a Continuing Resolution through December 20, 2024, the budgetary environment following that date remains uncertain and conversations in Congress have included discussions around potential budget cuts.
- Current tenants accounts receivables (TARs) data shows continued rent collection challenges; in 2022, 70% of HAs that administer a public housing program have seen increased TARs compared to the previous year. As HUD is aware, the formula to calculate Public Housing Operating Subsidy does not permit an adjustment for uncollected rents. According to HUD's own data, "one in five HAs is severely impacted" by the rise in TARs.

- HAs across the country have seen skyrocketing program expenses, including but not limited to, insurance, and utility costs. PHADA has heard from members in some localities that have seen up to a 70% increase in their insurance costs.
- In the last two years, demand for Operating Fund Shortfall Funding has escalated dramatically. It is estimated that while only $25 million of Operating Fund Shortfall Funding is available, that there is a documented need for hundreds of millions of dollars.
- A number of agencies in the Southeast part of the United States are additionally dealing with the terrible aftermath of Hurricanes Helene and Milton.

Given the significant industry impediments, some of which are detailed above, most notably insufficient federal funding and increased program expenses, PHADA would like to reiterate, and the industry's financial experts agree, that the majority of HAs are spending their Public Housing Operating Subsidy (and other Federal awards) before any other program and non-program income, because program expenses simply exceed Federal Operating Subsidy. Accounting professionals opine that very few HAs would have earned interest on Federal funds since those funds are first spent on payroll, resident services, utilities, and overall operations. Therefore, interest earned, if any, on Public Housing Operating Subsidy funds is negligible.

PHADA would also like to note the following concerns, related to the requirements guidance and timing of its implementation:

- The agencies that have been involved in this process of communication and transparency between the industry groups and HUD are limited to a small number of HAs. Thousands of other agencies across the U.S. are unaware that these new requirements are coming soon and are extremely time sensitive.
- While PHADA understands that HAs have the option to report and comply annually, and appreciate this flexibility, agencies still need time to adjust their internal financial policies and procedures related to cash management to ensure accurate reporting and will have less than one quarter to do so. This timing is not workable.

Moreover, regarding Operating Reserves, PHADA has serious concerns related to how agencies will be able to determine interest earned on these funds. Given the high administrative burden, and likely low amount of interest earned, as detailed above, PHADA recommends that the Department only require a lookback period of no more than three (3) years, aligning with Federal records retention requirements in 2 CFR Part 200.334. Additionally, since housing authorities are required to follow generally accepted accounting principles, and consequently standards established by the Government Accountability Standards Board, agencies should be permitted to take into consideration long-term, and other general liabilities (e.g., OPEB, vacation balances, vendor accounts payable, etc.), other restricted funding, like EPC agreements, that offset operating reserve balances, and pre-paid balances like insurance and inventories, for example.

Due to the complexity of these calculations, which will vary at every HA, PHADA recommends the Department include additional guidance related to a "look back" methodology, that includes similar flexibilities that exist in the current draft guidance. These methodologies should incorporate safe harbors for HAs that operate under the appropriate cash management procedures and financial requirements, found in Federal regulations and HUD notices.

In view of PHADA's points noted here, ultimately, most agencies are unlikely to have interest income that exceeds what is allowable to retain given the current funding and economic environment. In the limited circumstances when HAs will be required to remit interest income back to the Federal government, it is critical that, provided agencies follow the appropriate cash management procedures and related financial requirements, that the Department should permit as much flexibility as possible, both moving forward and during any potential "look back" period. PHADA and its members look forward to continuing to work closely with the Department on this important issue.

A summary of the Association's key points and requests are listed below for your convenience:

- Given current industry impediments, including insufficient federal funding and increased program expenses, the majority of HAs are spending their Operating Subsidy (and other Federal awards) before any other program and non-program income. Therefore, interest earned on operating income is negligible.

- Thousands of agencies across the U.S. are unaware that these new requirements are coming soon and are extremely time sensitive.
- Agencies will need time to adjust their internal financial policies and procedures related to cash management to ensure accurate reporting and will have less than one quarter to do so.
- Given the high administrative burden, and likely low amount of interest earned, as detailed above, PHADA recommends that the Department only require a lookback period of no more than three (3) years, aligning with Federal records retention requirements in 2 CFR Part 200.334.
- Agencies should be permitted to take into consideration long-term, and other general liabilities (e.g., OPEB, vacation balances, vendor accounts payable, etc.), other restricted funding, like EPC agreements, that offset Operating reserve balances, and pre-paid balances like insurance and inventories, for example.
- Due to the complexity of these calculations, which will vary at every HA, PHADA recommends the Department include additional guidance related to a "look back" methodology, that includes similar flexibilities that exist in the current draft guidance.
- All available methodologies should incorporate safe harbors for HAs that operate under the appropriate cash management procedures and financial requirements, found in Federal regulations and HUD notices.

Please do not hesitate to reach out if you have any questions or would like to discuss this topic further.
Respectfully,

Sincerely,

Timothy G. Kaiser
Executive Director