

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: June 25, 2012
	Agenda Item No. MHGB2 Roll Call No. <u>12-0949</u> Communication No. <u>12-352</u> Submitted by: Douglas C. Romig, Housing Services Director

AGENDA HEADING:

Receiving Public Housing Assessment System (PHAS) score report and approving the Des Moines Municipal Housing Agency recommendations for same.

SYNOPSIS:

Receipt of the Des Moines Municipal Housing Agency’s Public Housing Assessment System (PHAS) score report and approving the Des Moines Municipal Housing Agency recommendations for same.

FISCAL IMPACT:

Amount: \$1,287,819: (\$537,819 transfer to operating budgets and \$750,000 encumbrance for workers compensation self-insured retention fund).

Funding Source: U.S. Department of Housing and Urban Development (HUD); Housing Services Department Operating Budget; Disposed Homes; SP350 HSG021500; page 118 to HSG0211100, page 114, HSG021200, page 115, HSG021300, page 116 and HSG021400, page 117.

ADDITIONAL INFORMATION:

On May 29, 2012, the Municipal Housing Governing Board and Des Moines Municipal Housing Agency Director received our official Public Housing Assessment System (PHAS) Score Report indicating that the Des Moines Municipal Housing Agency received a sub-standard rating within our Financial Score. Within the communication from HUD, the Des Moines Municipal Housing Agency must submit a proposed recovery plan within 30 days of the receipt of the notification or (June 26, 2012). Previously all Public Housing Agencies received either a High Performer, Standard Performer or Troubled Agency status based on the established criteria at the time that scoring system was in place. The interim rule regarding the new PHAS scoring established a new level of Sub-standard and did not provide details on how Public Housing Agency’s would specifically be rated. We have now learned there were three particular measures that need to be addressed with a proposed action plan within 30 days of receipt of the notification (June 26, 2012).

The Quick Ratio is a liquidity measure of the agency’s ability to cover current liabilities; the Month Expendable Net Asset Ratio (MENAR) is a measure of the agency’s ability to operate using its net available resources without relying on additional funding; and the Debt Service Coverage Ratio is a measure of the agency’s ability to meet regular debt obligations.

Under the old PHAS scoring system, the Des Moines Municipal Housing Agency would have received a standard rating. The Des Moines Municipal Housing Agency's low financial score under the new PHAS scoring is primarily related to factors outlined below:

Unfunded treatment of bed bugs (\$284,030):

The Housing Agency has work with the Polk County Bed Bug Task Force and is following HUD's recommendations on our treatment of bed bugs at our multi-family apartments. Over the past two years we have expended \$284,030 in bed bug treatments and our requests to HUD to utilize funds from our Capital Development Fund were denied and regulations at that time did not allow for the use of proceeds from sales (Development Funds); therefore, we had to utilize our operating reserves to cover this expense to address necessary treatments for bed bugs. Reserves were used to fund this expense rather than current revenues since they were insufficient.

Federal recapture of funds from Public Housing Operating Fund (\$103,789):

Part of a one billion dollar federal funding cut to the Public Housing programs nation-wide included recapturing \$103,789 from the Agency's Public Housing Operating Fund. This was due to the amount of the Agency's FFY 2010 year-end balance within their Public Housing Operating Fund.

Internal Policy to write-off monies-owed 60 days after lease termination:

Since part of the new PHAS financial condition scoring is related to debts owed, the Housing Agency has changed an internal policy to immediately write-off monies owed at the point of lease termination while still trying to collect on said debt. Previously, the Agency would carry this debt for 60 days which equaled the amount of time a tenant has to appeal their eviction. This action along with the above mentioned expenditures reduced the Agency's ability to meet the reserve limits to receive higher scores within the PHAS financial conditions scoring section.

Changes in use of Disposition Proceeds (Development Fund):

On February 2, 2012, HUD issued Notice 2012-7; which details how proceeds from sales can be utilized by Public Housing Agencies. A significant change in this Notice allows Public Housing Agencies to request approval to cover funding shortfalls through a request to HUD's Special Application Center. This ability was previously not available to Public Housing Agencies, and had it been available, our financial score would likely have been higher.

Current Actions:

The Housing Agency was diligent in our decision making to provide affordable quality services to our tenants within our Public Housing program and has implemented the following changes:

- I. Reclassification of Inventory Control Specialist to Mechanic A that will work evenings and weekends thereby reducing off-duty Police officer coverage. This position will be on-site to redirect tenant behaviors and will call the Des Moines Police Department to deal with situations as opposed to confronting tenant issues. This will also allow the Agency to terminate its custodial contract at Royal View Manor. **Estimated annual savings \$70,000.**
- II. Policy change to immediately write-off monies owed while still trying to collect the same. Carrying the monies owed impacted our low scoring under financial conditions.
- III. Selling remaining Disposition approved single family home inventory. Per the Agency's policy we have contacted area non-profits notifying them of the available Disposition approved homes for sale and have offers on 12 units, several of which will be on the June 25, 2012, Municipal Housing Governing Board agenda for approval. Additionally, sealed bids will be issued through the City's Procurement Division to sell our remaining inventory.

Estimated annual savings of \$23,000 through elimination of lawn care and snow removal contracts.

Recommendations:

Due to the new HUD Notice 2012-7 allowing Public Housing Agencies to request a transfer of funds from their proceeds from sales (Development Fund); the Housing Agency has:

- I. Received approval to encumber \$750,000 to cover our self-insured workers compensation retention fund. This action will immediately free up \$40,000 in annual operating savings as the Agency is recommending approval of this policy decision and will set-aside \$10,000 a year to cover the initial worker compensation claims. We have currently budget \$50,000 a year for this effort with the City of Des Moines providing the backstop for a catastrophic claim. In 1999, the Agency had one claim that was just over \$30,000 and since that time has expended a total of \$1,500 for worker compensation claims.
- II. Upon notice of our sub-standard financial condition score, the Agency has submitted a request to HUD to approve a transfer of \$537,819 regarding the following funding shortfalls but has yet to receive HUD approval:
 - a. \$284,030 (bed bug treatments);
 - b. \$150,000 (Section 8 administrative fee reductions from HUD);
 - c. \$103,789 (HUD's recapturing of Public Housing Operating Funds based on FFY10 year-end financials)

If approved, these requests would immediately transfer the \$537,819 into the Agency's operating budget and the \$750,000 would be encumbered but not spent unless we faced a catastrophic workers compensation claim.

In speaking with Frances Cleary, Director of the Kansas City HUD Office of Public Housing, the new PHAS scoring system is a management tool for Public Housing Agencies and does not impact current or future HUD funding to the Agency. Staff is utilizing this tool to implement the above actions, continuing to evaluate cost saving initiatives and submitting recommendations to improve our financial conditions moving forward. We believe that next years scores will improve but may not eliminate the sub-standard financial condition score due to the length of time it will take the Agency to rebuild our reserve funds. The other PHAS scores related to Physical condition, Management Operations and Capital Fund for the Agency received standard ratings. Staff is also requesting approval to apply to HUD to cover anticipated FFY13 funding shortfalls.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S):

Board: Housing Services Board

Date: June 20, 2012

Resolution Number: N/A

Action: Approved recommendation to Municipal Housing Governing Board to approve request to transfer funds from the Development Fund to the Housing Agency's operating budget subject to HUD approvals.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.