Board Commissioner Training Module 3: PHA Plan, Capital Fund, and Strategic Planning

Transcript

Margaret McGilvray: Well, welcome everybody. And it is nice to see some faces. We as trainers really appreciate that, so we're not talking out into a black abyss. And it's also nice to see some of you—we didn't scare you away, you came on back for yet another module. Some of this will be a little bit of a recap for those of you who have been with us in other sessions, but we'll try and keep that to a minimum. And then there's a lot of brand new information to bring to you.

So, this is one of a series of live and recorded training modules. Some of you who have been in our others know that module one was on Roles and Responsibilities. Module two was PHA Budget and Finance. We also have a Procurement module, and then a PHA Performance Monitoring and Risk Management module. And this is our PHA Capital Fund and Strategic Planning module. There's also three recorded training modules that will be coming out later this summer. And those will be on the Low-Income Public Housing Program, in general, and the Admissions and Continuous Occupancy Plan; a second one on the HCV Program and the Administrative Plan; and then a final one on North Carolina and South Carolina Public Housing Laws. This training was actually originally requested by the North Carolina and South Carolina field offices, and hence the reason for a little bit of focus in that area. But we welcome any of you from the Southern region.

And those of you who've been with me before know that I'm Margaret McGilvray from Econometrica. And we're an organization that provides technical assistance and training to public housing authorities around the country, and who has been hired by HUD to provide this training to you all. And I am joined by—sorry, I didn't turn my cell phone off. And I'm joined by my colleague, Dennis Mobley, who resides in Chattanooga—who you can see by his lovely background, the view out his window—and has been working with PHAs for roughly 40 years. So, he's got me beat by a few years, because I've been in the field for about 25.

So, onto our learning objectives. As in the other modules, these are what we hope that you will learn today. And so, it's a good cross-check for you to check for us, and for us to check for ourselves, to make sure that we've actually provided the information that we thought we were providing. And for this one, we're hoping that at the end of all of this, you can really understand your role in the PHA Plan, as well as the Capital Fund Plan; perhaps give you some ideas for strategic planning going forward; and appreciate more about the significance of these plans for your housing authority.

And the agenda for today. If you'll move on to the agenda, thanks. We'll do a very quick public housing recap. And then we'll get into the PHA Plan, or the Public Housing Agency Plan. Then Dennis will talk to you about the Capital Fund Plans. And then I'll end with a little bit of chat about strategic planning. So, it's a pretty straightforward agenda.

As we've done in our others, we like to know who's in the room, so we have a poll here. If you will answer, pick the description that best fits your PHA. Then we have a second question: Have you ever reviewed a PHA Plan, Capital Fund Plan, or 5-Year Action Plan? And have you already taken one of our modules that included the Public Housing Basics section? So, we'll give you a few minutes to walk that through.

Jennifer Stoloff: Ok, people are starting to vote—or, not vote, provide the answers to the poll. We appreciate it. And even if you've answered this for another session, please answer today so we can just make sure we're all on the same page here.

Ok, we've got a little over half the people who've responded to the poll, but people are still chiming in, so give me another couple seconds here.

Alright. I'm going to end the poll now. And here's the result.

Margaret McGilvray: Ok. So, we do have some mostly public housing-only PHAs. So, the mention—which will be brief—of HCV will not be as relevant to you, but that's okay. And good to know that you at least know what the PHA Plan and Capital Fund Plan is, because you have in fact reviewed one. And we've kind of got a half-and-half of folks that are back to us and folks that are new, so we will go through our public housing recap, but we'll do it pretty quickly. So, for those of you who have been with us, just hang tight for a couple of slides, and then we'll be on to the new information.

If you can move us forward, Jennifer, to slide five, that would be great. So, we just like to give a quick highlight of what is public housing, what is the Housing Choice Voucher Program, so everybody's got that base information and understanding.

And the public housing programs were started in 1937 with the U.S. Housing Act. And there have been a number of changes since that time through an assortment of different acts that have added different programs, such as the Housing Choice Voucher Program and such. And more recently, they added, in 1998, the Operating Fund and officially, formally added the Capital Fund, which had some variations at different points in time—and Dennis will go into that a little bit further—and established what's called the asset management model. There are about 1.2 million public housing units across 3,000 public housing agencies across the country. So, there's a lot of Board folks just like you, all across the country, who are trying to figure out this very complicated set of programs and guide their organization as best they can.

So, public housing, overall, is designed to provide decent, safe, and sanitary housing to low-income residents. And low-income, in the case of public housing, is defined as 80 percent of median income, although there is a focus on 50 percent of median income as well. So, housing authorities' eligibility is based on a family's or an individual's annual gross income; whether they're elderly, or disabled, or a family; and their citizenship and immigration status. Once the housing authority determines that they're eligible, then they can live in the actual public housing properties that are owned by the housing authority and funded by HUD. And the PHA is established by State law and State statute, and HUD actually controls the property through the Annual Contributions Contract. So, it's a very complicated ownership structure that is oftentimes a little confusing to folks in terms of who really—is this Federal property, is this State property? It's technically your property, your PHA's property, but it has a lot of other players that weigh into that.

The financing—basically, public housing financing comes in two pots. It comes in the Operating Fund as well as the Capital Fund—and that's what we'll be focusing on today, is the Capital

Fund—as well as some special purpose grants. So, there are other funding grants, such as the Family Self-Sufficiency Program. There are some safety and security grants and some other specialty grants. And then, of course, funded by income from the residents in terms of their rent. Rent is based on 30 percent of their median income, but there is also something called minimum rent. So, that could be at $25 or higher, and that's set specifically by the housing authority.

Housing authorities also pay something called PILOT, which is Payment In Lieu Of Taxes, and that's to whatever is the taxing authority for your community, whether that's the city, or the county. And that is done through a cooperative agreement between that entity and your housing authority. And it's very important for Board members to know what that cooperative agreement says, because it is obligating yourselves and the authority to a certain amount of money paid to that entity.

And then, let me just see. Oh, lastly, let me just mention that PHAs are required to have a Resident Advisory Board and, to the extent possible based on funding, supportive services or resident services. They can get additional funding through the Family Self-Sufficiency (FSS) Program or the Resident Opportunities and Self-Sufficiency grants, which are called ROSS grants. They are also encouraged to encourage residents in establishing their own businesses or employment through the Section 3 program, which not does not have a funding source but is basically just a requirement on housing authorities for them to make every effort to enable residents to have their own businesses and potentially contract or work for or with the housing authority. So on, Jennifer, to the next slide.

Margaret McGilvray: Ok. So, onto the Housing Choice Voucher Program. This, too, is a program designed to provide, or to enable decent, safe, and sanitary housing for low-income families. However, this program is actually targeted more towards very low-income families, as the income cap for the Section 8 Program is 50 percent of median income, versus that 80 percent that I mentioned for public housing. And, a PHA is required to give 75 percent of their vouchers to those families or individuals at 30 percent of median income. So, it really is a program that's targeted more towards the very low-income.

And it's providing housing opportunities within the private marketplace. So, folks receive a Housing Choice Voucher, and that's administered by the local housing authority but paid for by HUD. And they take that out into the community, find an apartment and a landlord that's willing to take that voucher, and then the PHA pays a subsidy for that rent to the landlord directly. And then, the tenant pays their portion of the rent, as well. And then, HUD also provides a second payment to the housing authority called the administrative fee that helps fund the actual operations of the Section 8 Program.

The housing subsidy, as I mentioned, is paid directly to the landlord and is based on what's called a "payment standard," which is established by the housing authority and is based, basically, on average rents within the community for moderately priced units. And then, this is used to then calculate how much subsidy they will pay that landlord. Residents pay the difference between the rent, or that payment standard that's being paid by the housing authority, and 30 percent of their income. So, they pay that difference directly to the landlord, as well. And again, as I said, that's based on 30 percent of their total annual gross income, and family size comes into play there, as well.

Housing authorities receive what's called a "budget authority," and that's their funding from HUD that is for paying those subsidies to the landlord. And that's also based on an assumption of a certain number of vouchers. So, you may hear your housing authority refer to the fact that they have been allocated 100 vouchers. But it is, and it isn't. So, they've been allocated what is assumed to be 100 vouchers and the amount of money that would be necessary to fund those vouchers. However, if the tenant portions are a little bit different than anticipated, sometimes the housing authority may use up all of their budget authority—or budget for Housing Choice Vouchers—but not reach that 100 vouchers, because each voucher costs a little bit more on the part of the housing authority because of how much the rents are, as well as what portion the tenants are able to pay. So, that's why you may see some differences there. On to the next slide.

So, lastly, we just wanted to give a good slide that kind of encapsulates all of the key documents that Board members should have either access to, or actually a copy of. And the top of the list is that Annual Contributions Contract, which is actually the contract between the housing authority and HUD for that funding. And like any contract, it basically has what HUD is obligated to do for the housing authority, and what the housing authority is obligated to do back. And so, that includes things like how you keep your finances, how you maintain your records. It mostly has to do with the financial side of things, but also conflict, not having—I'm sorry, compliance, not having a conflict of interest, etc. And then it also lays out what HUD might do if there's non-compliance with or a breach of that Annual Contributions Contract.

And then, the rest of the ones listed here, we'll be going over later today: So, the Capital Fund, and the PHA Plan, and the Capital Fund Plan. Then also, your ACOP and your Admin. Those are two enormous documents that are really the policy Bibles for your public housing and your Housing Choice Voucher Programs. I wouldn't expect you to have a copy of those, because they're enormous. But certainly, they should be readily available so you can refer to them. And then some of the critical policies, such as your procurement, your personnel, your finance, and maybe some others. And then your bylaws and code of ethics. So, these are just critical documents that any Board member should have.

So, there are a couple of different PHA Plans, and it makes it a little bit confusing. There's a 5-Year Plan, and there's an Annual Plan. And I'm going to take them one piece at a time. So, we'll talk about the 5-Year Plan because every housing authority across the country has to do that plan. And that plan is at a fairly high level. And basically, it's looking at the mission of the agency, the long-term goals and objectives for achieving that mission over a 5-year period, and, generally speaking, the approach to managing programs and providing services. So that's it. And we'll look at a sample of it, it's at a pretty high level. The PHA Plan is at a high level—the strategic plan, basically, for the agency to help guide policies, programs, operations, and strategies for meeting what are your local needs and goals. And we'll break that down in the next couple of slides.

So, the 5-Year Plan is submitted every fifth year. And then you do an Annual Plan every year that may update or make slight modifications to that 5-Year Plan. And that is a requirement by HUD, to be submitted and also approved by HUD. So, HUD takes a look at those plans and makes sure that you're not proposing something that's crazy, or not allowed to be funded through public housing funds, or whatever. And it also can serve as an application for other grants or other improvements to the authority. Next slide.

In 2008, the Housing and Economic Recovery Act made some changes to PHA Plans to ease up on the requirements a little bit. And it created what was called "Qualified PHAs" versus "Non-Qualified PHAs." And the Qualified PHAs—everybody still has to do the 5-Year Plan, but the Qualified PHAs don't have to do a full Annual Plan every year, they just have to do some certifications. But Non-Qualified PHAs have to do that Annual Plan every single year.

So, what's Qualified? What's Non-Qualified? A PHA is Qualified if the housing authority has a combined unit total of 550 or less public housing units and Section 8 vouchers. So, for instance, if you have 250 public housing units and 250 Section 8 vouchers, then you would fall into that Qualified category. However, if you had 250 public housing units and 1,000 Section 8 vouchers, you would not. It's not designated Troubled within the last 12 months. And Troubled has to do with your Public Housing Assessment Score that HUD gives you or your Section 8 Management Assessment Program score that HUD also gives you. And if it's below 60, then you're in the Troubled category.

Jason Kraft: Can you repeat that, Margaret? What is that called, the score?

Margaret McGilvray: It's called the PHAS, which is Public Housing Assessment Score, PHAS, or the Section 8 Management Assessment Program, or SEMAP score. And actually, if you take module five, we get into both of those in depth.

So, if you are not Troubled, and you're in that smaller PHA category, then you're considered Qualified and you only have to do light planning annually. If you are not in that category, you're Non-Qualified and you have to do an Annual Plan every year. On to the next slide.

So, this is just a quick snapshot of the 5-Year Plan. It's a set plan in a form that's dictated by HUD. And this just gives you—you can't really read it here, necessarily—but it just gives you a visual of what that looks like. And hopefully those of you, which I think we had like 70 percent of you who have done approvals, you've seen this before. And so, this is what your 5-Year Plan looks like. Your staff will fill this out, but certainly there should be some consultation with the Board in terms of, you know, what is our mission? Is our mission to just make the best public housing with our current stock that we have? Is it to maybe reposition our stock so that we have stronger finances for our long-term future? Maybe it's to develop additional affordable housing stock. These are all goals that the Board can discuss and work out and be represented in this 5-Year Plan.

And so, can we go to slide 12? Yeah, great, thank you. So, this is a little bit just the process: Basically, every 5 years, the PHA has to submit that 5-Year Plan. It has to be submitted for the fiscal year; for instance, if your fiscal year is October 1, you would be submitting it for that year and the next 5 years. So, that's the period of time, and then come back around again. Some of the other pieces to that plan: It needs to be consistent with your Consolidated Plan, which is something that your city or county develops, and is actually part of the Community Development Block Grant process. So, whomever in your area receives that Community Development Block Grant funding, and if your community doesn't receive that, then it needs to be consistent with the State Consolidated Plan. And that's a signature on a certain form by that State or local official. So, it also wants to make sure that if public housing is, you know, wanting to do a lot of developments, but the city is actually anti-development, we want those two parties to be talking so that you don't have missions or goals that are really in contradiction to each other.

The 5-Year PHA Plan has to be made publicly available. So, you have to have a public hearing 45 days prior to when—at least, it needs to be out for 45 days for review, and then the public hearing is at or near the end of that 45-day period. The residents need to weigh in on it, and very specifically, so every housing authority has to create a Resident Advisory Board. And that Board can be made up of the heads of all your individual resident councils; it could be made up of people that just volunteer; it could be just done through an open meeting, if you really can't gather set residents. But it has to be, ideally, a specific group of people from the residents that are representative and have a meeting that is specific to that PHA Plan to review it and discuss it and comment on it, because those comments actually have to be provided to HUD when the plan is submitted.

Also, the plan needs to take into consideration the Fair Housing Act. The Fair Housing Act prohibits housing providers from any kind of discrimination practices based on race, color, national origin, religion, sex, familial status, or disability. And PHAs have to adhere to that as well, as well as have a secondary role in terms of wanting to affirmatively further fair housing. So, not only are they not supposed to discriminate, but they're also supposed to be promoting fair housing. And so, that may be, you know, making sure that none of their policies or procedures are discriminatory in any way, but also perhaps increasing folks' housing choice. So, if the housing authority is thinking about redeveloping properties, redevelop them in an area where there are better schools, or less concentrated poverty and such. Or, if you have a Housing Choice Voucher Program, being proactive in how you market to landlords in those greater opportunity neighborhoods, how you encourage people to consider other neighborhoods where the schools might be better and the resources might be better. So, housing authorities have to be also watching out for increasing opportunities—the particular phrase is "affirmatively furthering fair housing," which is a lot of Fs and really does not trip over your tongue. But that's an obligation of the housing authority as part of this planning process, as well.

So, let's pull up a poll and give you guys a chance to see if I've been talking too much and if it's made sense. Next slide, Jennifer? And I think this has a poll. Yes, great. So, "Only Non-Qualified PHAs must submit a 5-Year Plan." Is that true or false?

Jennifer Stoloff: Ok, we've got about half the people have answered the poll, let's go to another few seconds.

Margaret McGilvray: Ok.

Jennifer Stoloff: Ok. So, we've got about 71 percent of the people have voted, so let's go ahead and end the poll and see where we're at.

Margaret McGilvray: Alright, those of you who said "False," you are correct. So, all PHAs have to submit a 5-Year PHA Plan. The Qualified versus Non-Qualified has to do with the Annual Plan submission. So, good for those 80 percent of you. On to our next slide.

So, now we'll talk just briefly about the Annual Plan. So, this is more of just a slide, like the other one, to show you, what does the front page of the Annual Plan look like? And there's actually—if you see, this is HUD form, like, 4266 or something, and there's like 4266-S, -E, a whole bunch of different variations. And so, this one, you can see, says "for standard and Troubled PHAs." There's another one for high-performing, there's another one for small. There's a bunch of variations on this theme, but they all pretty much look very similar to this. So, this is what you should see annually if you are, in fact, a Non-Qualified PHA. Next slide.

And that PHA Plan—this looks like a lot of items; it's not too bad, but there are 19 items that you go through on your Annual Plan. And it starts out with a statement of housing needs. Now, the housing authority fills out all of this information. There could be discussions with the Board, and ultimately the Board reviews it and determines whether they agree with it, or would want to change things. But the housing authority staff is who puts this together. But it's great, because it does start out with that, what are our housing needs? And that should help drive some of your decisions in here.

So, for instance, some of the other categories include rent determination and policies. So, that is where, particularly for your Housing Choice Voucher Program, you can decide whether you're setting your payment standards at the low—there's a range in which you can set payment standards, and that's a policy decision that the Board can make. So, that should be included and considered as part of this Annual Plan. Or, for instance, homeownership programs: You can fund homeownership programs through your Housing Choice Voucher Program. Do you want to do that? Maybe not. Demolition and disposition: That's where you talk about whether, you know, one of your properties is in such bad shape that you want to demolish it. So, you know, that's part of that discussion. Some of these, such as pet ownership, that's where you get into that Administrative and Continuous Occupancy Policy, and you decide, you know, do we want only 25-pound dogs, or are we going to allow 50-pound dogs?

So, there are some of these elements that are very global in how you view and make choices, some of them are down in the weeds of your policies. But your Annual Plan covers a lot of territory. Many of these categories—or, I shouldn't say many—some of these categories get incorporated into that ACOP or that Admin Plan, and some of them are more global in terms of, like, demolition or disposition. Next slide?

This just revisits that, what do you have to do if you are Qualified PHA, annually, versus a Non-Qualified PHA? If you're a Non-Qualified PHA, you have to go through that entire Annual Plan form. You have to complete all of the forms. You have to get certificates from the Consolidated Plan, Civil Rights; have that annual hearing; have the RAB consult, the Resident Advisory Board consult; and then submit it 75 days before the end of the fiscal year. When it comes to Qualified PHAs, that's a little bit easier. You basically just have to submit your certifications. So, you have to submit your Civil Rights, you have to submit your certification with the Consolidated Plan. You have to basically say, "We're not going to change our 5-Year Plan at all." And that's what you make publicly available, and you have a public hearing on that. So, you still have to have that public hearing, and you still have to submit some forms that 75 days before the end of the fiscal year. But you don't have to go through all those 19 items that you saw on that prior slide.

So, let's go to our next—well, let me actually open it up for questions real quickly.

Dennis Mobley: Ok, you did have a question on, what do the Civil Rights certifications actually look like?

Margaret McGilvray: It's an entire form. I could dig up what the number of that form is. But basically, it says, you know, that you adhere to all of the Civil Rights Acts in terms of discrimination and all of the statements within the Civil Rights Acts.

Any other questions? And I'll get that form number for you. Any other questions? Ok, let's pull up a poll then, Jennifer.

Ok, so, "Qualified PHAs are required to conduct an annual public hearing and consult with the RAB on their PHA Plan." Is this true or false?

Jennifer Stoloff: Ok, we've got about 50 percent of people have answered this question, got a couple more trickling in. Ok, 64 percent.

Alright, then. So, I'm going to end the poll now, and share the results with you.

Margaret McGilvray: Ok. So, those of you who said, "True," that is, in fact, the case. So, both Qualified and Non-Qualified PHAs have to have a public hearing around their PHA Plan annually. What the Qualified folks get off the hook for is filling out all of the 19 elements of an Annual Plan. But in terms of that public hearing, you do have to have that annually. So, that's your difference. On to slide 18.

So, just to wind up our PHA Plan section. The role of the Board is, in one sense, fairly simple when it comes to the PHA Plan. It's basically around the strategic direction: Do you want to focus on decent, safe, and sanitary housing and the sort of status quo? Or do you want to focus on mobility, or homeownership, or redevelopment? It's very simple mission—simple, basic goals—but it is the role of the Board to provide that direction to your agency and your ED. Again, the staff puts the whole plan together, but hopefully they do have those strategic conversations with the Board prior to doing so, so that they can follow that theme, whatever kind of theme you set, and establish that through the plan. And then, ultimately, you review and comment on and, hopefully, approve the plan through resolution in your Board meeting. Next slide?

In terms of the residents, the residents actually have a bigger role—or as big a role—as the PHA, as the Board, in the plan, because they get to actually also comment on all of the elements of it. And they have a specific meeting to discuss if there are any issues within it that they don't agree with. And that includes looking at those ACOPs and Admin Plans annually, as well. And so, the residents have a huge role in really reviewing that document and determining whether they agree with it. At the end, even if they disagree with it, the housing authority doesn't have to change it to the way that the residents wanted. But the residents' comments have to be included with that submission. And usually, there needs to be justification for why the housing authority hasn't made any changes as a result of those comments. Maybe the comments weren't really on the PHA Plan, or something. But, in some cases, it also may be that the residents want the housing authority to do something that, quite frankly, funding just won't allow. But you want them to be able to comment and the housing authority to justify how they are dealing with those comments.

And again, as I mentioned earlier, your Resident Advisory Board can be a jurisdiction-wide resident council; it could be representatives from all of the local resident councils; or, in the off-case that no resident kind of entity exists, that you basically just either encourage them to create a council just for this purpose, or you just pick some Resident Advisory Board members, to the best extent possible, and have them act in that function.

So, before I turn it over to Dennis to go over the Capital Fund and the plans associated with that, I'll field any last-minute questions on the PHA Plan. Ok, then Dennis, take it away.

Dennis Mobley: Alright, thank you very much. We're going to talk about the Capital Fund. Before we do that, I want to offer you greetings from the North Shore of Chattanooga, Tennessee. And Margaret and Jennifer are maybe speaking to you from Raleigh at sunrise or Columbia at sunset, but I wasn't able to figure out how to get my virtual HUD background up for this morning, so this is where I get to live. I'm just off to the west of all of you guys.

I want to also offer a confession, Margaret McGilvray, that if you count my internship at the Housing Authority of Baltimore City in 1972, this is actually my 50th year working in and around public housing. I learned many years ago that for some of us, it kind of gets in your blood. I didn't intend to work in this industry when I started 50 years ago. I needed a job, and the housing authority had a job up in Baltimore, and I took it. And 50 years later, I'm still working with guys and gals like you. So, I want to offer, on behalf of Margaret and Jennifer, our thanks to you in this class for your service, for you being willing to be a Public Housing Agency Commissioner. And you join the ranks of thousands of citizens who have also said yes to their mayor when he or she asked them to serve on the Board of the housing authority.

So, Capital Fund. Again, I go way back, not all the way to the Housing Act of 1937, but I can say that from that date, the rents that your agencies have been allowed to charge, and the operating subsidies that your agencies have been given by HUD, have been designed to cover basically the operations of the public housing at your disposal. We could argue for hours and days how inadequate those subsidies may be.

But let me say on the capital side that it wasn't until the 1960s, when HUD had on its hands, you know, some housing that was 30 years old, some that was 25 years old, they began to notice two things. One, many of the roofs that were originally built were beginning to fail. They were noticing that many of the windows that were installed—I mean, you know, some of you might have World War II-era housing stock, some of the windows that were installed back then, you couldn't get parts to repair them anymore. So, something needed to be done. Not to mention that much of the early housing was built to 1930s designs, including clawfoot bathtubs with no showers, kitchens with no doors on the shelving.

And so, HUD in the 1960s created something that at the time it called the Modernization Program. Well, that program has evolved through the years, and so fast-forward to the present day and we call it the Capital Fund program. And essentially, that flow of funding every year is designed to deal with—as I said before, when a single window breaks, you would tend to take care of that through your operating budget. But when a number of windows aren't working properly because the original parts have worn out, or, again, the roofs throughout are beginning to leak—those are capital activities. And so that's what the Capital Fund and all of its predecessors was intended for.

Now, through the years, HUD has gotten—and Congress has gotten—pretty global in terms of their aspirations for Capital Fund activity. So, they basically tell you that you can do development of public housing with your Capital Fund. You can use it. You can actually borrow on your flow of capital funds, so that's a financing activity. Yes, you can modernize stuff. You can even do what are called "management improvements," where you can invest in data systems, in training, in other initiatives aimed at increasing your capacity to deliver your services. Safety and security measures, we're going to talk about that in a little more detail; homeownership activities; improvement of energy and water use efficiencies—all of those are eligible activities.

I'm going to be frank with you: For most of you, the flow of capital funds you are receiving is probably not even adequate to take care of the capital of your housing in its current condition. But there are ways to get there from here.

Jason is asking, how? That would be another whole 3-day seminar. We're available to go further into deep detail. Yes, the Capital Fund is an annual payment to the housing authority. There will actually be an annual amendment to your Annual Contributions Contract that will reflect the amount of capital funds that you're going to be receiving that year.

Somewhere along the line, Congress thought that it would be nice to offer you the flexibility to siphon some of this capital money off and put it in your operating budget to supplement your operating subsidy. They put a cap of no more than 20 percent for operating expenses. They do allow you to charge some staff time. If you're a smaller agency, it's probably going to be your Executive Director, maybe your lead maintenance person. If you're slightly larger agency, you might even have staff that spend all or a portion of their time on the Capital Fund program. You can charge up to 10 percent for admin. And I mentioned the management improvements, they cap those at 10 percent.

So, my cautionary note to you here is, even though on this slide it says you can spend 40 percent of your capital funds on non-capital activities, we like to sort of caution you to say, your brick-and-mortar needs are probably pretty extensive. Be very rigorous in terms of how you all guide the staff when they propose your annual Capital Fund annual statement and budget.

Alright. So, ineligible activities: We said you can do a whole lot, in theory, with your Capital Funds. You may not spend them on activities that are not related to public housing. You may not spend them on activities that are not reflected in that 5-Year Action Plan that we discussed. You're supposed to only spend money to a "modest design." Again, don't use capital funds to benefit other programs. All or most of you don't run a Housing Choice Voucher Program; if you did, don't intermingle those. Don't duplicate funding you've already got. And the soft costs—that is, non-bricks and mortar—don't spend soft costs unless it in fact upgrades or improves the operation or management of your public housing program.

Ok, I'm going to basically give you the short answer on this: In the old days, larger agencies, including some in both of your States and other states, wanted to spend a whole bunch of capital money on vehicles, and they wanted to hire bunches of security guards. The answer is, don't. This is a capital program, and those kinds of activities, frankly, are considered operating expenses. Let's go to the next slide.

Alright, we're going to do a little quiz, even though we're only a few slides in. "Which activity is not allowed under the Capital Fund program?" Can you renovate one of your public housing sites, can you install energy-efficient windows, can you pay Capital Fund staff salaries, can you purchase a van for resident service activities, can you buy software for a financial upgrade based on audit recommendations?

Margaret McGilvray: And the key here is, the answer is which one you can't do.

Dennis Mobley: Right. And do we throw trick questions at you? Of course we do. Which activity is not allowed under the Capital Fund program?

Jennifer Stoloff: Ok, people are still trying to chime in here, so I'll you all a little more time. We've got about half of the folks have voted. Ok. Anybody else want to take a take a stab here?

Ok, we've got about 64 percent of folks have answered this question, so I'll go ahead and end the poll and share this with you.

Dennis Mobley: And those of you that answered, "Purchasing a van for resident services activities," you are correct. You can pay Capital Fund personnel staff salary. So, again, if your ED is spending, you know, 28 percent of his or her time, and he or she has done a little study to justify that 28 percent, you can charge to the Capital Fund for administration, provided you don't exceed the 10-percent cap. You can buy software for a financial software upgrade, particularly if your auditor has recommended that, or even if you or the staff together, maybe even with some resident input, have decided that's a good investment. So, nice job. This is a lot to absorb in a little bit of time. And let's move on.

Alright, so one of the things that's different with capital funds as opposed to the operating fund is, as you're operating subsidies come in through the year, if you don't happen to spend them in the fiscal year to which they belong, there's no real harm there. They will simply be part of a surplus and will go into reserves at the end of your fiscal year. Capital funds, on the other hand, have a deadline. We say that you are required to obligate 90 percent or more of your authorized Capital Fund grant, and you must do so within 24 months from the obligation start date.

So, what do we mean by obligate? Well, normally, because these are capital investments—meaning new roofs, let's say, new windows, new HVAC air conditioning condensers, perhaps new flooring, new kitchen cabinets—this kind of work will typically be done by contractors. And so, the quickest and easiest way that you obligate your capital funds is you award a contract for a certain work item within your Capital Fund annual statement or 5-Year Action Plan. And that's what we mean by obligate. Now, for those administrative line items or the management improvements, obligation is basically when you begin to spend against those budget line items.

Now, there's also a requirement to expend the capital funds within a certain period of time. That means, literally, your accounting department will write the check either to pay that contractor for the new roofs, or to be included in the payroll for a certain period that includes some staff salary and benefits. And you get 48 months from when the clock starts. Now, the clock typically starts for each year's Capital Fund grant when the Annual Contributions Contract (ACC) amendment is signed, or it's around that time. HUD, each year, will kind of give you a date and they will say this is the obligation start date for your 2019 Capital Fund, your 2020 Capital Fund grant, 2021, and so forth.

Now, if you don't hit your 90-percent obligation, you're going to be penalized in the following year. You're going to lose one-twelfth of future Capital Funds for each month of noncompliance. They're going to assess that against a future grant if you fail, let's say, for your 2019 Capital Funds. Your 2019 Capital Fund programs will probably have obligation dates of sometime this year. And therefore, you guys, as Board members—if you don't know already—want to check with the staff and say, "How are we doing against our obligation targets?" And then if there's unexpended Capital Fund grants 4 years out, HUD will recapture those. They will ding your future Capital Fund grant if you miss on your obligation deadlines. So, we're going to kind of crunch the numbers on this, because it's really important. Yeah, let's go to slide 26.

Alright, so let's suppose that for your 2019 program, you had an obligation end date—this would be for your 2017 program—an obligation end date of July 10, 2019. What if you didn't achieve the 90-percent obligation threshold until October 12, 2019? That is July, August, September, October—that's 3 months and 2 days after the July 10 deadline. What happens? Well, you're going to be penalized for 4 months' worth of grant monies on the following year—in this case, the 2020—Capital Fund formula grant. So, let's play that out to its very ugly conclusion with the next slide.

Let's suppose you get a formula grant of $360,000 per year. That happens to come out to $30,000 per month. If they're going to ding you for 4 months' worth of grant because you were 3 months and 2 days late, that's going to be $30,000 times 4 months equals $120,000. So, it's going to be a very unhappy fiscal year 2020 program: Instead of the $360,000 that you would be accustomed to, it's only going to be $240,000. HUD will execute a new ACC amendment that's going to reflect that $120,000 penalty. And there's even going to be a deduction on your Public Housing Assessment System grade, your PHAS grade. Getting into issues on timely obligation and expenditures is, in fact, going to cost you some points. And the max, of course, is for any 1 year, they can't take more than 100 percent of the subsequent year's grant.

Alright, so a quick quiz here. "Ninety percent of all of a given Capital Fund award must be obligated within 24 months of grant award and 100 percent expended within 48 months." True or false?

We need the Final Jeopardy music playing, I think, at some point, Jennifer

Jennifer Stoloff: Don't make me sing, Dennis.

Dennis Mobley: Ok. You probably all hear it in your head as you're answering this question.

Jennifer Stoloff: Alright, 70 percent of folks have given an answer, so I'll go ahead and end this poll and share it with everybody.

Dennis Mobley: And the answer is "True." In a nutshell, 90 percent must be obligated within 24 months, 100 percent expended within 48 months. And so, now you guys know, as Board members, this is one metric that you're going to want to be following really throughout every fiscal year. Because, you know, this is big doings, if the staff is not able to comply with these requirements.

Alright, so we're trying to link the Capital Fund program to the planning process—similar to the PHA Plan process, there is a Capital Fund planning process. Some years ago, these were actually linked. And so, you could do all of your PHA planning and your Capital Fund planning, discuss it with residents and the public, all at the same time. Frankly, I loved that approach, and I regret that we've walked away from that.

So, key components of the Capital Fund planning process is, you want to know what the needs are of the housing to which you are entrusted. We have acronyms for this, of course; we have acronyms for everything. So, we talk about PNAs, or Physical Needs Assessments, or perhaps we call them Capital Needs Assessments. But really, what it's aimed at is, the roofs that we've talked about—if roofs have, let's say, a 20-year useful life, and you guys find out that your roofs are 10 years old, you really want to know that 10 years out, you've got a very good chance of financing roof replacement when those roofs wear out. And related to that, HUD is encouraging you to conduct an energy audit. Now, typically, you will procure outside technical assistance for this. And it is a good idea to have outside technical experts come in every few years to perform a PNA or CNA.

And then, the next step is—you know, that may well be a very large number, particularly if you're looking at your capital needs over, I recommend, a 20-year horizon. Then what you do next is, you figure out, "Well, what can we afford to do over the next 5 years?" So, with the 5-Year Action Plan, you're going to take your most recent Capital Fund grant and just assume that that's what year 2, 3, 4, and 5 is going to look like. You are required to provide a 45-day notice to the public and to your residents that a draft plan—

Yes, outside experts can be paid for with Capital Funds. We can delve into that in more detail a little bit later. I saw that question pop up.

You have to provide a 45-day notice that your draft 5-Year Action Plan and annual statements are available, that there will be a public hearing. Then the Board will be required to actually approve the 5-Year Action Plan by resolution. And at the same time, there is a requirement for what's called "environmental reviews." These are typically conducted by your locality, with input from your staff. And let's look at that. Next slide.

So, Capital Needs Assessments—in this case, we're using CNA—they are not required by HUD, which I think is, frankly, unfortunate. I think all owners and operators of multifamily real estate, such as yourselves, should be looking at your capital needs annually. If you have a professional come in and do a CNA or PNA every so often, to bring those fresh eyes to the mix, then what you guys as Board and staff and residents should be doing is, every year, you're kind of looking to see how those needs may evolve over time. Essentially, you're considering what work is needed to bring each of your AMPs, your Asset Management Projects—that's our fancy name for your developments, your complexes—to applicable modernization and energy conservation standards.

Again, we recommend that this formally be done every 5 to 10 years. I recommend outside technical assistance, unless you are really huge staff like we had at Baltimore back in the day. Conduct or procure energy audits every so often. And all of this information feeds into the development of the 5-Year Action Plan and the other annual Capital Fund program submission docs that HUD requires, annual statement being one.

So, again, I think you're going to find that when you look at your overall capital needs, that's going to be a larger number, certainly, than your annual grant; it may be a larger number than you can even address over a multiyear period. But you've got to start with knowing what that number is. Ok, next slide.

So, we'd like to show you snippets of the various forms. In some ways, we make the type so small that you guys as Board members can't, you know, obsess on the details, because you're not supposed to. But what these forms do is they show, by budget line item, for year 1—for example, let's say we're putting together your 2022 Capital Fund program, that would be year 1 on your 5-Year Action Plan. Then there are columns for 2023, 2024, 2025, and 2026. And so, these forms—the 5-Year Action Plan basically gives you as the policymakers, the staff, and the residents a snapshot of what it is you intend to get done over the next 5 years. Next slide.

What are some of the other requirements? That you hold a public hearing regarding the proposed Capital Funds submission. That you meet and consult with your Resident Advisory Board. The Board must approve, via resolution, the package before it gets submitted to HUD. And HUD is not going to let you access those funds until the Board resolution is passed and HUD declares your submittal to be in good order.

I want to put in a plug—and I think, Jason, you were beginning to allude to this—meet and consult with a Resident Advisory Board. I'm going to predict that for most of you, the problem is not that you have too many over-opinionated residents who don't know what the hell they're talking about. I'm going to guess the problem is the opposite: You hold a public hearing, and nobody shows up. So, what you're dealing with, perhaps, is resident apathy. And one of the possible ways to get past this is, I have seen committee systems work very well at housing authorities of all sizes.

Let's stick with the Capital Fund for the moment, this capital planning process that we're talking about. What if you could talk some residents into sitting with you, and the staff—you guys, as Commissioners, need to be careful, you're not supposed to be micromanaging the agency. So, I might envision one member of the Board being on the housing authority capital planning committee, along with pertinent staff and as many resident reps as you can talk into attending—I might even be crazy enough to say a monthly meeting—where you go over how the program is doing. What are the contracts that have been awarded? How are we doing against our obligation deadlines, our expenditure deadlines? How are we doing in terms of trying to take that big number and chip away at it through our smaller annual grants?

I have learned, in a half-century of working with residents, that when you respect their intelligence and their commitment, if you can talk them into coming to these meetings, you will find that they are valuable members of the process. They will become advocates for you if you're not insulting their intelligence, treating them as peers, filling them in on the issues you're grappling with. And you will be amazed at the kind of input that you get. That's my editorial statement. Let's go to the next slide.

Monitoring Capital Fund performance: What are the strategies that you should be putting in place to monitor compliance with your Capital Fund program? Review the 5-Year Plan annually to confirm that it aligns with your PHA goals. And, again, monthly tracking of obligations and expenditures is really important, for reasons that you saw. Reviewing and budgeting for plan modifications throughout the year; there will be surprises that spring up, there will be emergencies that crop up. You will have to call audibles at the line of scrimmage and make some budget amendments. And you want to evaluate, again, your procurement timeliness and effectiveness and to assure yourselves that your contracts are being awarded and monitored professionally, fairly, in light of the principle of full and open competition for Capital Fund awards, and for fair and open treatment once they're under contract.

And next, we'll do a knowledge check, and then I would like to invite—I know we've had a number of questions. I see 12 chats here, so we'll do our best. "Which of the following are requirements of the Capital Fund planning process? (Note all that apply.)" Note that we are very tricky trainers, and yes, this is a trick question. Are environmental reviews a requirement? Is a 90-day notice of the plan a requirement? A public hearing and RAB consultation? Must we coordinate this with the PHA Plan? And must we think about our capital needs?

Jennifer Stoloff: Ok, Dennis, I've gone ahead and opened the poll, so people can start to answer when they're ready.

Margaret McGilvray: And this is multiple choice, so you can pick all that apply.

Jennifer Stoloff: Ok, people are contemplating the possibilities here, so I'll give them a few more seconds to review and think about this.

Ok, about half of folks have responded, so I think we'll just go ahead and wrap this up, and I'll share the results so far.

Dennis Mobley: Alright, so, the trickiness is, it's a 45-day notice, not 90. But, obviously, that's just a little something else, trying to be sneaky snakes. Everything else, as you have noted, is applicable to the Capital Fund planning process. And thankfully, it's not a 90-day notice, it's a 45-day notice. And it's still going to be a ton of work, getting your draft annual statement and 5-Year Action Plans ready 45 days upstream from the public hearing.

I do see that Margaret has been answering most of the chat.

Margaret McGilvray: I'll also mention—so, the correct answers were A, C, and E, because the 45-day notice, but also it is not done with the PHA Plan.

Dennis Mobley: Oh, you're even trying to trick me, who remembers the way that it used to be done.

Margaret McGilvray: Yes.

Dennis Mobley: I'm going to say, conceptually, how the heck do you do a Capital Fund program without some reference back to the PHA Plan? But technically yes, you are correct, that it is a sin indeed.

Margaret McGilvray: And just to put some context in that: Unfortunately, the PHA Plan is less around your funding source. So, the fact that frequently, unfortunately, Congress does not appropriate the funding in sync with the fiscal years. So, part of the reason why HUD disconnected the PHA Plan from the Capital Fund Plan is because, in order to really do effective Capital Fund planning, it's useful to know how much funding you're going to get, and that information is oftentimes not known until well into the fiscal year. So, that's part of the reason why they made the disconnect, is because the PHA Plan doesn't rely so much—although conceptually it does—on precise funding, whereas the Capital Fund Plan does rely on that funding number a bit more.

Dennis Mobley: To which I will say, "Yeah, yeah." But that's an editorial comment.

Alright, so we've got a question: How do you guys, as Board Commissioners, manage the Capital Fund program without usurping the responsibilities of the Executive Director? And I think the answer is, you are not to manage the program, that is up to the staff. But the overall oversight of the program—you know, I think as Board members, this is your second largest source of funds coming in each year, and you really do want to have some influence over that. So, it's going to be a more global, a more occasional input into the process. And it's part of the delicate dance that you will do as Commissioners. If you give a darn, you really do want to get somewhat into the weeds, but you've got to be careful that you're really overstepping the bounds of a Commissioner. So, I appreciate that question, and that's the best I can do on an answer.

The funds come from HUD directly, based on the congressional preparation for each fiscal year. So, again, you'll get an annual amendment to your Annual Contributions Contract that reflects the amount of your latest Capital Fund grant.

Any other questions that you want to put on the table real fast here?

Margaret McGilvray: And we'll pick up additional questions at the end. Just in the interest of getting through all of the content for those that may have to depart sooner, then we can field any other additional questions at the end.

Dennis Mobley: Alright. So, Margaret, with that, I'm going to throw it back to you.

Margaret McGilvray: Ok. And if, Jennifer, you can move on to the next slide?

So, after speaking about the detailed HUD-prescribed plans of the PHA Plan and the Capital Fund Plan and budget, we wanted to just put that in a slightly more strategic context in the next few slides. And so, although HUD doesn't require an official strategic plan, and the PHA Plan can, to some extent, be considered—well, the PHA Plan, in concert with the Capital Fund—can be considered a strategic plan, we just wanted to talk a little bit about strategic planning, in general. And this can be done in the context of these other two required HUD plans, or on its own sort of channel.

In general, strategic plans are an opportunity for the organization to come together and set priorities, focus energy and resources, and strengthen operations. So, this is something that we actually do encourage the Board to undertake on an annual basis with staff, so that you really are making sure that your agency is not only running well, in your role as a compliance or overseer, but also that you are actually providing that direction and thoughts and insight. And so, starting with assessing the affordable housing needs in the community—and that's something that your housing authority has to do as part of the PHA Plan, and has easy data sources and is able to do it at least at a basic level—and then looking at your resources. You know, housing authorities don't—most of their funding comes from HUD, so their resources are pretty well set. And so, making sure that your goal setting and your strategies are within those confines is very important, as well. And then, looking at policies and procedures, both from what HUD requires as well as where you have some latitude.

So, we wanted to sort of walk through a little bit of a scenario in the next couple of slides, and just enable the Board to think about the types of questions that you might ask from a strategic perspective when planning. And I've touched on a number of them in the prior discussion. So, for instance, do you want to increase your housing to the elderly and disabled? If so, then that might mean that you're changing your wait list policy to prioritize that population. Or, it may also mean that you want to convert one of your family properties into an elderly property, or bring in a new elderly property? Or do you maybe want to encourage homeownership among your families? And if so, does the Board want the PHA to investigate and potentially establish a homeownership program through acquisition of single-family homes? So, these are just some samples of the type of discussions that you might want to undertake as your Board as part of strategic planning/the PHA process. If you can go on to the next slide, Jennifer?

This is just a good slide that—oh, one back, sorry. You know, this is what a strategic plan is made up of: the mission, vision, then your housing needs, finances, and goals and strategies, as I just discussed. Now, on to the next slide.

So, to break it down a little bit, this is where we get into a slight scenario. So, this is more to sort of show the exercise that you as a Board could undertake, looking at some of the useful data points that I referenced in terms of both your housing needs as well as your community makeup. And this is data that is very readily available, that your PHA provide back to you. And so, in looking at this slide, in terms of the demographics and the housing needs, it looks like this community has pretty high unemployment, and a lot of families on public assistance and under the poverty limit. It also looks like the community has a higher-than-national average of rental property. So, that means that maybe you're not wanting to create additional rental property. Although the rental vacancy rate isn't extremely high, so it seems like maybe there's a balance there. But the homelessness rate is very high. So, perhaps this is a community that has enough market-rate rental property but needs more affordable quality affordable housing. And perhaps it's also not all that inclined towards large, multifamily developments. Next slide?

And so then, in breaking down, for the same kind of community, if the PHA is in this community, and it has—so, we look at this spreadsheet here, and it shows that it has $4 million in income. However, $2 million of that is in Housing Choice funds, which means there isn't much other than the standard HCV program that you can do with that. So, your largest source of funds is with your Housing Choice Voucher Program, which, within that, the largest number of those funds are those subsidy payments directly to landlords. And that's sort of a pass-through, so the housing authority doesn't really get a lot of that. However—and we won't go into detail, because that'll be in the recorded session on the Housing Choice Voucher Program—but maybe this is a situation where the housing authority wants to project-base some of those Housing Choice Voucher funds as a way to increase the supply of affordable housing in the community. So, this gives you a picture. And then, next slide?

So then, here we have a scenario. Based on the housing needs and demographics that we talked about, and the resources that we looked over, what are some of the possible goals and strategies that that housing authority might apply? So, perhaps a goal could be expanding the supply of assisted housing. And a strategy for that could be, again, the project-based voucher program that I mentioned. Or it could be creating a pool of contractors to expedite your maintenance and make your vacant units turn faster, so that you're filling all of your units as quickly as possible. So there's, you know, big-picture strategies as well as more sort of skirt-around-edges. And certainly, your staff should be helping to generate ideas, but we encourage the Boards to not—you've got a lot of great ideas, too. So, you can put some of those into the pool, as well.

So, with that, we just wanted to touch on strategic planning a little bit, and how that can interplay with those two HUD-required plans. And we'll open it up for any additional questions that you might have. And I will take Mr. Kraft's questions in a moment, but for anybody else, if there's any last remaining questions?

And if not, we thank you for joining us and hope that you will tap into some of the other modules that are upcoming. Hopefully, you should have received the comprehensive schedule from either your Executive Director or your field office. And we love having you join us and seeing names and faces that we've seen before. And when you do log out of this Zoom meeting, you should receive a link that will take you to a satisfaction survey. And we encourage you to complete that, because we do tweak these sessions as we go along based on feedback. And let me just make sure.

One other question that preceded earlier was, can outside expert assessments be paid for with the capital funds? Yes. So, Capital Needs Assessments or Physical Needs Assessments are an allowable, and encouraged, activity to be paid for out of the Capital Fund, as well as there is the ability to—if you are looking at redevelopment or development, a development consultant can also be paid for through those funds, if it is associated with a specific development idea that you're potentially undertaking. I can't seem to scroll down. There we go.

And then, Mr. Kraft, you did ask how to deal with the true details of funds, such as residents declaring themselves as unemployed. Well, actually, resident income, and the certification as to their income and therefore how much rent they should pay, is exclusively a staff activity. And that is something that is solely in the realm of staff. What I can say is that the Board can request, monthly, to receive the financial number of the amount of tenant accounts receivables, which is basically the measure of how much rent we assumed we should get versus how much rent we are receiving. And if you're seeing that a lot of folks aren't paying their rent, the Board can talk to staff and find out, you know, what are we doing to mitigate that issue? Not on a personal basis, but globally.

In terms of residents declaring themselves as unemployed, staff does go through a rigorous—and actually, the process of validating income has become much more automated. And there are many more ways for staff to determine if they are not being told the truth. And so, hopefully your PHA is utilizing all of those websites and tools for verification and making sure, to the greatest extent possible, that people are in fact paying the rent that they should be paying. Any other questions?

Dennis Mobley: Margaret, I'd like to make a closing statement, if I might?

Margaret McGilvray: Sure.

Dennis Mobley: What we showed you in a couple of hours is that, on paper, there are many lofty goals and lofty processes for planning and deciding, "How do we do something, anything different than we're doing today?"

I do want to tell you that the reason I'm still working with PHAs—mostly staff, to some extent Commissioners—is, I hope you appreciate the challenge that your staffs face every day trying to live up to all these lofty goals that Congress has enunciated through the years, and then they appropriate a fraction of the money that it really would take to carry that off. So, I don't want to be a Debbie Downer, I just want you to appreciate that just doing this day to day in a fair and accurate and open manner is hard, hard work.

And then, to move the needle at all towards these loftier aspirations—it can be done. Those are the people that win NAHRO awards and all that good stuff. But I'm going to tell you, it's hard work. And it will take enlightened Board members, it will take hard-working staff, and I believe it takes enlightened resident leadership to really get you there. So, it can be done, but if it were easy, everybody would be doing it. Everybody would be getting awards, yada yada. So, that's my closing statement after 50 years in this business.

Margaret McGilvray: Alright. Any other questions, or anything else?

If not, thank you so much for attending. And we really appreciate, as Dennis said at the beginning, we really appreciate your service and your volunteering for all of this. And we hope you have a good afternoon.