

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING RAD-PBRA Surplus Cash Transfer to
Business Activities Fund

DATE June 28, 2023

Staff requests Board approval to transfer \$3,000,000 in surplus cash from the Agency's RAD-PBRA Projects to the Business Activities Fund (BA Fund).¹ This transfer was budgeted for in the FY 2024 BA Fund Operating Budget approved by the Board on March 22, 2023. However, the transfer itself was held in abeyance, for later Board approval after the final accounting was completed for FY 2023 activities. (Copies of that Board report and accompanying PowerPoint presentation are attached.) The recommended transfer amount is much less than the full amount the PHA is eligible to transfer out of the Projects. As discussed at the March 22, 2023 Board meeting, this transfer from the RAD-PBRA projects to the BA Fund will:

- Resolve the current year funding shortfall in the Business Activities Fund;
- Fund a \$385,500 transfer from the Business Activities Fund to the Building Fund, creating a reserve for future capital needs at the Central Administrative Office (CAO); and
- Create a healthy reserve balance in the Business Activities Fund for future years.

HUD allows project owners to make surplus cash transfers from any former Low Income Public Housing (LIPH) property that converted to Project-Based Rental Assistance (PBRA) through HUD's Rental Assistance Demonstration (RAD) program, after year-end audited or certified financial statements demonstrate the availability of surplus cash. Staff submitted the PHA's owner-certified Annual Financial Statements (AFS) through HUD's online portal on May 31,

¹ The Business Activities Fund covers the cost of centralized management and administration of the RAD-PBRA projects.

2023. The AFS calculations showed that the total amount of surplus cash available across all projects for transfer during the next fiscal year was \$20,625,564. (The surplus cash amounts for each project are shown in Attachment 1 (Line 1), along with the proposed surplus cash transfer (Line 4).)

HUD's calculation of surplus cash takes cash and cash equivalents reported as of the end of the fiscal year on the AFS, and reduces them by any current obligations reported at year-end (such as accounts payable due within 30 days), to come up with an amount of surplus cash available to be transferred out of the project. Though the AFS submissions are still subject to review by HUD staff, no additional documentation or HUD approval is required for the PHA to complete the transfer. While the PHA would be eligible to transfer the full amount of surplus cash (\$20,625,564) out of the RAD-PBRA projects, staff are recommending transferring only the \$3 million that was budgeted. That would continue the PHA's fiscally conservative approach represented in the Board-approved FY 2024 Operating Budget. That is, it recognizes the need for sufficient funding in the Business Activities Fund and Building Fund while maintaining robust operating reserves of greater than six months of routine expenses in the consolidated RAD-PBRA projects.

As shown in Attachment 1, the PHA has sufficient actual operating cash on-hand (Line 2; \$27,848,093) to make the \$3 million transfer to the Business Activities fund. After the transfer to Business Activities Fund is complete, the estimated remaining operating cash on-hand (Line 5) in

the RAD-PBRA projects will be \$24,848,093, or approximately 8.05 months of routine operating expenses, based on the approved FY 2024 RAD-PBRA budget.²

A summary of the proposed surplus cash movement is as follows:

Surplus Cash Transfer From	Amount
Project 1 – McDonough Homes	\$1,500,000
Project 2 – Hamline, Front, Seal Hi-Rises	\$500,000
Project 8 – Dunedin, Cleveland, Montreal Hi-Rises	\$1,000,000
TOTAL Surplus Cash Transfer	\$3,000,000

After being transferred to the Business Activities fund, surplus cash transfers are not considered program or project funds, meaning they are unrestricted in nature and can be used for any purpose. The transferred funds will cover the projected shortfall in the FY 2024 Business Activities Fund and create a healthy reserve balance to be used at the Board’s discretion in future years. For example, the BA Fund can make transfers to the Building Fund to pay for future capital improvements at the CAO, all while maintaining healthy operating cash balances at the RAD-PBRA projects.

WW/LAF/FAH

Attachments:

1. Spreadsheet: Surplus Cash Available for Transfer at the End of FY 2023; Staff Recommendation
2. March 22, 2023 Board Report: Business Activities Fund Operating Budget for the Fiscal Year Ending March 31, 2024
3. PowerPoint Presentation: Overview of FY 2024 Business Activities Fund Operating Budget

² The FY 2024 RAD-PBRA Operating Budgets were approved by the Board on March 22, 2023. The combined FY 2024 RAD-PBRA Operating Budgets included \$37,060,562 in total routine expenses for the year, for a monthly average of \$3,088,380. Taking the estimated remaining cash on-hand of \$24,848,093 and dividing by the monthly average budgeted routine expenses of \$3,088,380 yields 8.05 months of routine expenses in cash on-hand available after the \$3,000,000 transfer to the Business Activities Fund.

St. Paul Public Housing
Surplus Cash Available for Transfer

	Project 1	Project 2	Project 3	Project 4	Project 5	Project 6	Project 7	Project 8	TOTAL
	<u>McDonough</u>	<u>Hamline</u>	<u>Edgerton</u>	<u>Roosevelt</u>	<u>Mt Airy</u>	<u>Exchange</u>	<u>Ravoux</u>	<u>Dunedin</u>	
1 AFS Calculated Surplus Cash (April 1, 2023; beginning of PHA FY 2024)	4,386,394	4,010,576	1,403,012	956,734	2,640,761	993,342	2,009,194	4,225,551	20,625,564
2 Operating Cash On-Hand (as of 6/13/2023)	5,763,928	4,509,652	2,193,815	2,741,615	3,640,908	1,326,470	2,522,500	5,149,206	27,848,093
3 Maximum Surplus Cash Transfer to Business Activities	4,386,394	4,010,576	1,403,012	956,734	2,640,761	993,342	2,009,194	4,225,551	20,625,564
4 Proposed Surplus Cash Transfer to Business Activities	(1,500,000)	(500,000)						(1,000,000)	(3,000,000)
5 Remaining Operating Cash On-Hand	4,263,928	4,009,652	2,193,815	2,741,615	3,640,908	1,326,470	2,522,500	4,149,206	24,848,093
<i>Monthly Routine Operating Expenditures</i>	472,848	357,389	419,706	268,627	561,852	214,287	363,858	429,815	3,088,381
<i>Number of Months Routine Expenditures in Cash On-Hand</i>	9.02	11.22	5.23	10.21	6.48	6.19	6.93	9.65	8.05

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

APPROVED

FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR

REGARDING Business Activities Fund Operating
Budget for the Fiscal Year Ending
March 31, 2024

DATE March 22, 2023

Staff requests Board approval of the proposed Operating Budget for the Business Activities Fund totaling \$5,024,451 for Fiscal Year 2024, ending March 31, 2024 (FY 2024). This is an increase of \$108,821 (2.2%) compared to budgeted expenses of \$4,915,630 for FY 2023. This budget proposes a transfer of funds of \$3,000,000 from the RAD-PBRA Projects (“surplus cash”) to increase Business Activities reserve levels.¹ With this transfer, the Business Activities Fund reserves are projected to be \$3,424,637 at the end of FY 2024. Staff proposed conservative RAD-PBRA Operating Budgets in FY 2023 and FY 2024² to ensure there will be sufficient surplus cash available to support any current year funding shortfall in Business Activities as well as create a healthy reserve balance for future years. In addition to transferring funds from the RAD-PBRA projects to the Business Activities Fund, this budget recommends transferring \$385,500 from Business Activities to the Building Fund to fund ongoing capital needs at the CAO.

OVERVIEW: SURPLUS CASH

The “Business Activities Fund” was created in order to accurately account for activity related to centralized property management services performed by staff for the RAD-PBRA Projects,

¹ After the final accounting is done for FY 2023 activities (anticipated to be June 2023) staff will present recommendations to the Board for transferring available surplus cash to the Business Activities Fund.

² The FY 2023 RAD-PBRA Operating Budget was approved by the Board at the March 23, 2022 meeting and the FY 2024 RAD-PBRA Operating Budget is included as a separate agenda item for this month’s meeting.

including management of surplus cash distributions. One of the primary reasons for creating this Business Activities Fund was to enable the Agency to exercise the full flexibilities provided by HUD's Multifamily Housing programs to maintain funds in an unrestricted environment. Management fees collected by RAD-PBRA³ Projects are classified as "defederalized" and any "surplus cash" generated by the Projects can be transferred to a separate fund like this. Owners of PBRA Properties have wide discretion on how to use these funds. Staff are projecting that the RAD-PBRA projects will have surplus cash at the end of FY 2023.

OVERVIEW: PROPOSED BUSINESS ACTIVITIES FUND BUDGET

The FY 2024 Operating Budget for the Business Activities Fund is based on revenues comprised of management fees paid from the RAD-PBRA Projects to the Business Activities Fund, investment interest income, and other income. The Business Activities Fund does not have any other direct sources of operating revenue.

The Operating Budget expenses for the Business Activities Fund are primarily the salaries, benefits and other administrative expenses explained below, that are needed to provide centralized management support to the housing assistance programs and other grants administered by the PHA. Staff have undertaken a critical review of all Business Activities Fund expenses to ensure they are appropriately allocated and necessary to ensure both fiscal responsibility and adequate oversight and application of program regulations.

³ Rental Assistance Demonstration – Project-Based Rental Assistance

PROPOSED REVENUE:

The proposed FY 2024 budget projects Business Activities Fund operating revenues of \$4,359,953, an increase of \$335,643 (8.3%) from \$4,024,310 in the FY 2023 Operating Budget.

Operating revenues are comprised of:

1. Management Fees (Lines #7 – #10) paid by the RAD-PBRA Projects are projected to increase by \$266,843 (6.8%) from \$3,926,960 to \$4,193,803. Management Fees are the primary source of income to support operations and are comprised of property management fees, bookkeeping fees, and recertification fees.
 - a. Property Management Fees (Line 7): \$3,595,387. This fee is based on a percentage of net contract rent revenue,⁴ which varies between RAD-PBRA Projects. While the actual percentage remains the same from year to year, contract rents increase each year due to annual Operating Cost Adjustment Factor (OCAF) adjustments, so property management fees will also increase each year.
 - b. Bookkeeping Fees (Line #8): \$460,320. This fee is based on a flat rate per unit determined by HUD. Currently this fee is \$10 per unit month.
 - c. Recertification Fees (Line #10): \$138,096. This fee is based on a flat rate per unit determined by HUD. Currently this fee is \$36 per unit per year.
2. Interest on General Fund Investments (Line #3) is proposed at \$14,750, up from \$5,000 in FY 2023 (295%). Due to a higher interest rate environment, staff anticipate returns to the Business Activities holdings to increase significantly from the prior year. Staff will continue to seek out secure, profitable investment opportunities to maximize the Business Activities Fund's earning potential.
3. Other Income (Line #5) is projected at \$151,400, an increase of \$59,050 (63.9%) from \$92,350 in FY 2023. Other income is comprised primarily of dividends received from the PHA's insurance carrier (HAPI/HARRG). The PHA invested \$103,331 to become a capital member of HAPI/HARRG several years ago. As a result of this investment, the PHA receives policy dividends.

⁴ Net Contract Rent revenue is total contract rent revenue less actual vacancy loss and collection loss. Vacancy loss will be calculated each month and become part of the Management Fee calculation. Every day a PBRA dwelling unit is vacant equals lost revenue in the Project and lost Management Fee in the Management Office.

PROPOSED EXPENDITURES:

The proposed FY 2024 Business Activities Fund Operating Budget shows total operating expenditures of \$5,024,451, an increase of \$108,821 (2.2%) from \$4,915,630 in FY 2023 (Column E, Line #50). The proposed budget amounts are highlighted below:

1. Administrative costs are proposed at \$3,831,940, an increase of \$298,920 (8.5%) from \$3,533,020 in FY 2023. Those costs include the following:
 - a. Administrative Salaries (Line #13) are projected at \$2,474,574, an increase of \$26,154 (1.1%) from \$2,448,420 in FY 2022. Administrative salaries are from the Executive, Human Resources, Housing Policy, Budget, Finance, and Resident Initiatives Departments. In addition, the Directors and upper level managers from Maintenance and Resident Services, as well as fractional allocations of 40 staff members' time are included in this expense line. Details on administrative salaries are shown on an attachment to this report.
 - b. Legal Expense (Line #14) is projected to decrease by \$13,570 (-6.4%) from \$212,500 to \$198,930. This expense line includes the contracted legal services from the City of St. Paul. Currently the Agency contracts for one General Counsel, three attorneys, and one law clerk. The proposed reduction is due to the allocation of a portion of legal expenses to each RAD-PBRA Project. Staff evaluate activity at the end of each fiscal year and apportion total legal expenses to each Project based on the number and types of project-related activities (for example hearings, eviction actions, construction or service contract review, etc.)
 - c. Staff Training (Line #15) is projected to increase \$20,323 (107.2%) from \$18,960 to \$39,283. This line item includes staff training and tuition reimbursements. Most Staff Training (in town) and Travel (out of town training and conferences) was canceled during the pandemic, leading to temporarily low spending in these categories. The recommended increase in this budget is attributable to more opportunities for training being offered for administrative staff.

- d. Staff Travel (Line #16) is proposed to increase by \$7,360 (14.9%) from \$49,400 to \$56,760. After three years of these conferences being held “virtually”, most industry groups are again hosting in-person events.
- e. Audit Fees (Line #17) are proposed at \$1,500. This is a portion of the Agency’s total audit expense. Although the annual cost of the audit varies, staff believe allocating a flat amount to funds related to PHA operations such as the Business Activities Fund each year is the most reasonable method for apportioning this expense.
- f. Rent (Line #18) is proposed to increase by \$81,165 (36.0%) from \$225,540 to \$306,705. This increase is due to the Rental Office opening on the first floor of the CAO. Rent is charged to all PHA programs that occupy office space at the Central Administrative Office/W. Andrew Boss Building. The Business Activities Fund will pay rent to the Building Fund based on fractional allocations of administrative staff time in the Executive, Human Resources, Housing Policy, Budget, Finance, and Resident Initiatives departments, and the Agency’s Rental Office Space.
- g. Administrative Sundry Expenses (Line #19) are proposed to increase by \$177,488 (30.8%) from \$576,700 to \$754,188. Administrative Sundry encompasses a broad range of expenses that are used for general administrative support of all programs. Significant line items within this category are:
 - i. Administrative contract services: (\$444,637) includes employment services contracts, the annual cost of enterprise business software, and the Agency’s “virtual” Chief Information Officer.
 - ii. Phones (\$44,256) includes costs for desk phones as well as cellular phones utilized by staff.
 - iii. Memberships (\$31,996) includes memberships in industry groups such as Council for Large Public Housing Authorities (CLPHA) and National Association of Housing and Redevelopment Officials (NAHRO) and the Public Housing Authorities Directors Association (PHADA).
 - iv. Miscellaneous (\$38,412) primarily includes bank fees and charges for lockbox, credit cards, and other e-banking services utilized for rent payment collection. Staff continue to investigate other uses of e-banking services within the Agency.
 - v. Expendable Equipment (\$174,378) mainly includes costs associated with PCs, laptops, desktop printers and scanners, and other minor equipment needed for network maintenance.

2. Tenant Services (Lines 24 – 26) expenses are proposed to decrease \$22,650 (-22.8%) from \$99,350 to \$76,700. These expenses include the following:
 - a. Section 3 contracts (\$1,400)
 - b. Other Tenant Services contract costs administered by the Resident Initiatives Department. This line item includes \$25,000 for tenant service needs such as gardening support and contracted on-call maintenance for resident computer labs as well as stipends and supplies for the successful Hi-Rise Recycling program.
 - c. Funds provided to Resident Councils to supplement traditional Resident Participation Fees. Councils will continue to receive \$42,800 distributed as a flat amount per location, as well as an additional \$7,500 for Hi-Rise community-building picnics and support for virtual meeting options for the Resident Councils.
3. General Expenses (Lines 38-45) are proposed to decrease by \$167,449 (-13.0%) from \$1,283,260 to \$1,115,811. These costs include insurance, benefits, terminal leave payments, parental leave, and Other Post-Employment Benefits (OPEB).
 - a. Insurance costs (Line #38): \$82,549. Budgeted insurance costs are based on information received from the PHA's insurance providers.
 - i. Workers Compensation
 - ii. Fiduciary
 - iii. Commercial Crime
 - iv. Director and Officers
 - b. Other Post-Employment Benefits (OPEB, Line #41) are projected at \$13,950. OPEB expenses are calculated based on actuarial analysis and must be budgeted and accrued on a yearly basis. They are held in a designated account.
 - c. Employee Benefit Contributions (Line #43) are projected at \$1,019,312, an increase of \$87,422 (9.4%) from the prior year. Budgeted benefit contributions are directly related to salary activity.
 - d. Other General Expenses (Line #45) is budgeted at \$0 in FY 2024. This line item was a one-time expense in FY 2023 related to the office remodel and equipment needs to make Suite 100 of the Central Administrative Office into a functional work space for the Rental Office staff.

STAFFING CHANGES:

This budget proposes adding one position, a 0.75 FTE (full-time equivalent) Administrative Assistant in the Finance Department. This position will provide much-needed support for the administrative needs of the department, including scanning, filing, and document retention;

sorting mail; sending out checks, invoices, rent statements, and year-end tax forms; organizing the Department's digital storage structures; and assisting in the establishment of digital storage policies.

SUMMARY:

The FY 2024 Operating Budget for the Business Activities Fund provides the spending blueprint to support the continued successful operation of the RAD-PBRA program, creates stability in the funding of future capital needs at the CAO, and provides for flexibility by creating a strong reserve position in the Business Activities Fund of an estimated \$3,424,637 at the end of FY 2024.

Staff believes this proposed Operating Budget for the Business Activities Fund will further the Agency's mission by providing needed housing and services to residents while preserving the physical assets and maintaining the financial stability of the PHA.

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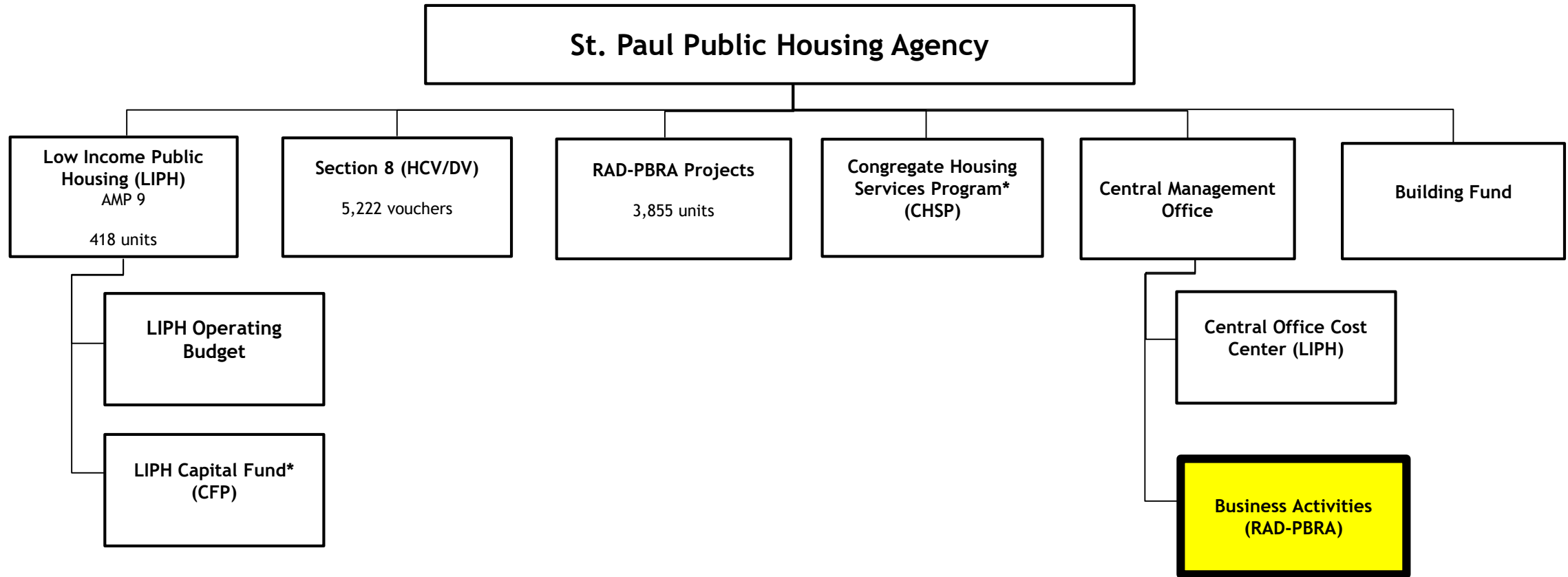
Attachments:

1. FY 2024 Proposed Business Activities Fund Operating Budget
2. PHA Operating Budget Structure – Business Activities Fund
3. FY 2024 Summary of Positions and Salaries for the Business Activities Fund
4. FY 2024 Agency-wide Staffing Levels
5. FTE History FY 1990 – FY 2024
6. FTE History Chart

Fiscal Year 2024 Budget Business Activities Budget Overview



Major Operating Budgets



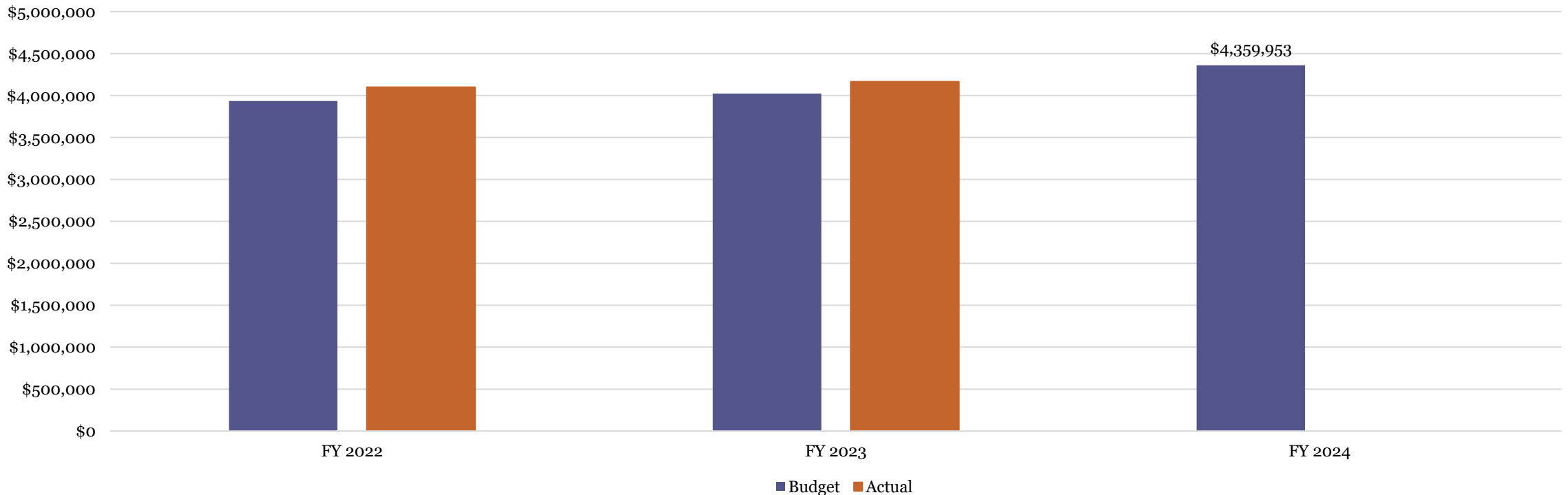
* Calendar year fiscal year

Business Activities FY 2024 Operating Budget Overview

- This is the operating budget for the Business Activities Fund, which covers the cost of centralized management and administration of the RAD-PBRA projects
- Proposes a 0.75 FTE addition to the Finance Department
- Proposes a surplus cash transfer of **\$3 million** from the RAD-PBRA projects
 - Covers operating deficit (**\$664,498**)
 - Transfers **\$385,500** to the Building Fund to pay for capital needs at the CAO
 - Bolsters Business Activities reserves – flexibility and contingency (“de-federalized funds”)
- Proposed ending reserve balance of **\$3,424,637**

Business Activities Operating Revenues

Business Activities Operating Revenues
Budget-to-actuals
FY 2022 - FY 2024



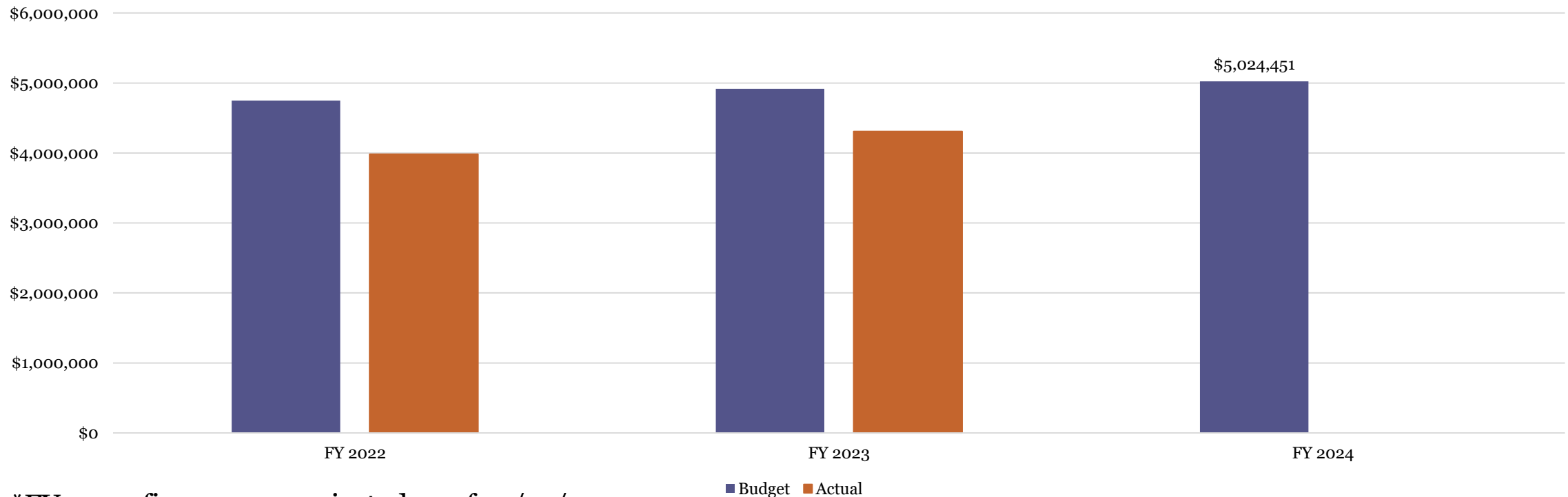
*FY 2023 figures are projected as of 12/31/2022

Business Activities Operating Revenues (cont.)

Revenues	FY 2023 Budget	FY 2024 Budget	\$ Change	% Change
Investments	\$5,000	\$14,750	\$9,750	195.0%
Other Income	\$92,350	\$151,400	\$59,050	63.9%
Management Fees	\$3,926,960	\$4,193,803	\$266,843	6.8%
Total	\$4,024,310	\$4,359,953	\$335,643	8.3%

Business Activities Operating Expenditures

Business Activities Operating Expenses
Budget-to-actuals
FY 2022 - FY 2024



*FY 2023 figures are projected as of 12/31/2022

Business Activities Operating Expenditures - Administrative

Administrative Expenses	FY 2023 Budget	FY 2024 Budget	\$ Change	% Change
Salaries	\$2,448,420	\$2,474,574	\$26,154	1.1%
Legal	\$212,500	\$198,930	-\$13,570	-6.4%
Travel & Training	\$68,360	\$96,043	\$27,683	40.5%
Audit Fees	\$1,500	\$1,500	\$0	0.0%
Rent	\$225,540	\$306,705	\$81,165	36.0%
Administrative Sundry	\$576,700	\$754,188	\$177,477	30.8%
Total	\$3,533,020	\$3,831,940	\$298,920	8.5%

Business Activities Operating Expenditures - Tenant Services

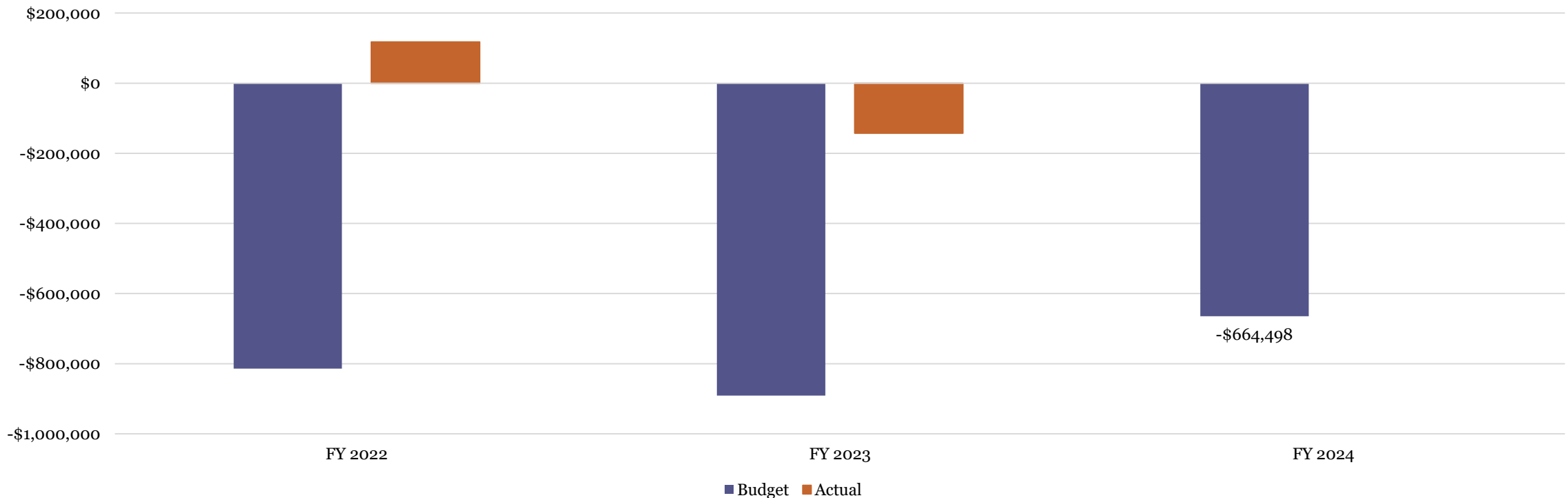
Tenant Services Expenses	FY 2023 Budget	FY 2024 Budget	\$ Change	% Change
Other	\$49,500	\$50,300	\$800	1.6%
Contracts	\$49,850	\$26,400	-\$23,450	-47.0%
Total	\$99,350	\$76,700	-\$22,650	-22.6%

Business Activities Operating Expenditures - General

General Expenses	FY 2023 Budget	FY 2024 Budget	\$ Change	% Change
Insurance	\$67,810	\$82,549	\$14,739	21.7%
OPEB	\$47,680	\$13,950	-\$33,730	-70.7%
Employee Benefits	\$942,770	\$1,019,312	\$76,542	8.1%
Other General Expenses	\$225,000	\$0	-\$225,000	-100%
Total	\$1,283,260	\$1,115,811	-\$167,449	-18.8%

Business Activities Reserves

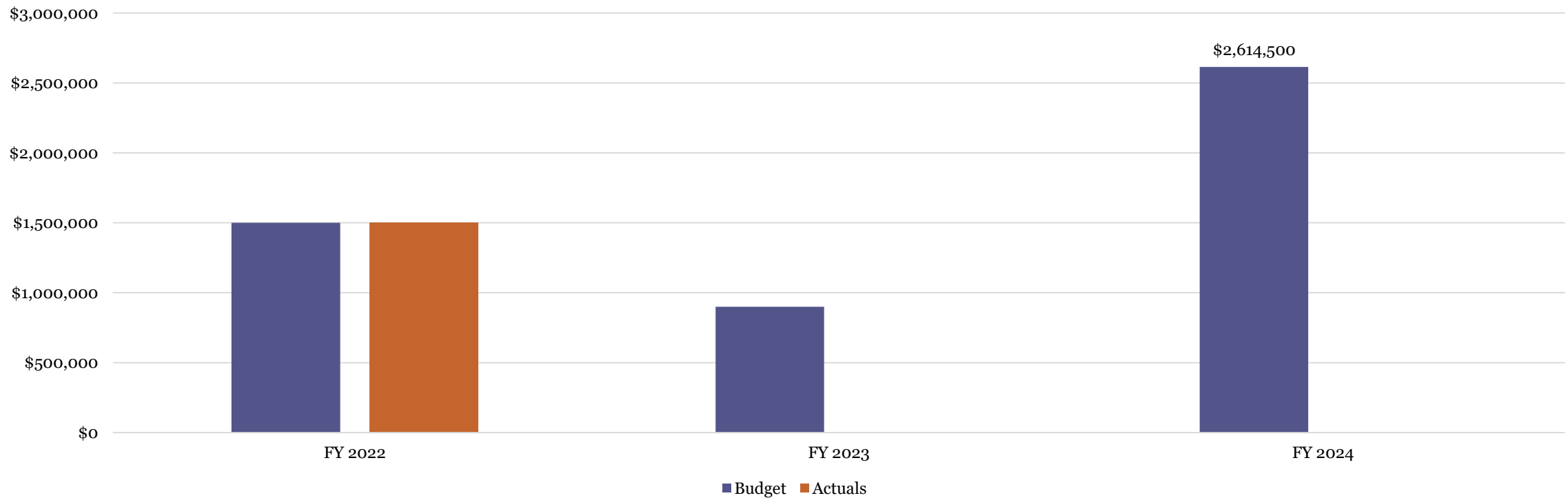
Business Activities Operating Surplus/(Deficit)
Budget-to-actuals
FY 2022 - FY 2024



*FY 2023 figures are projected as of 12/31/2022

Business Activities Reserves (cont.)

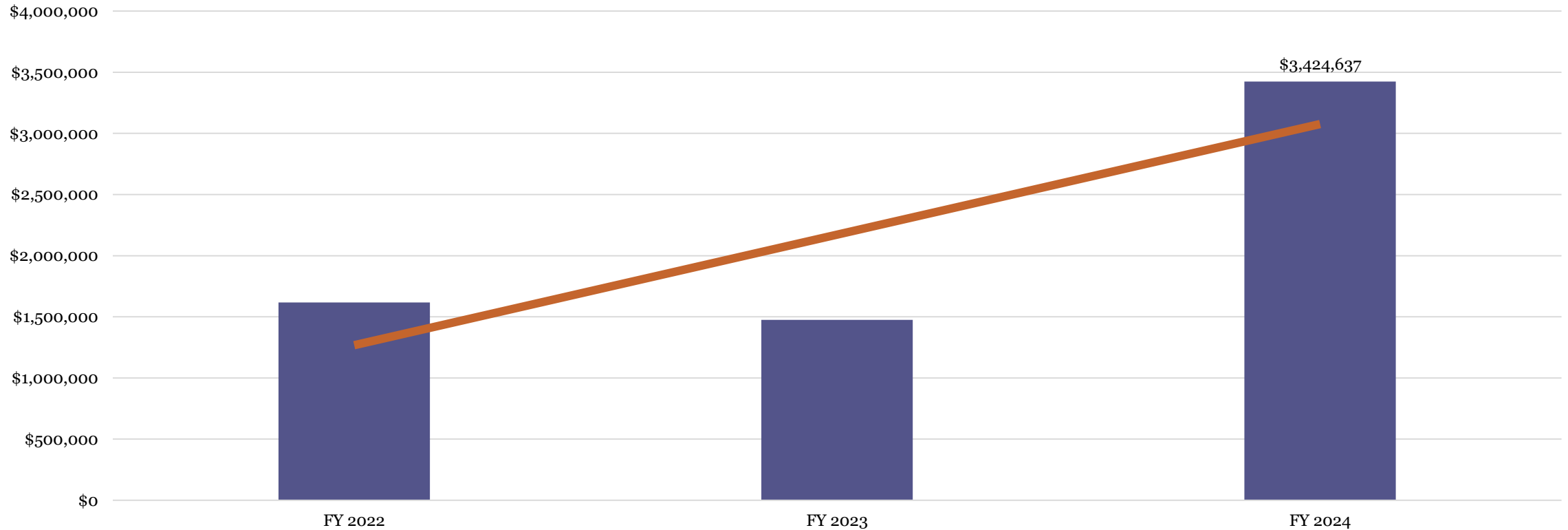
Transfers from RAD-PBRA to Business Activities
Budget-to-actuals
FY 2022 – FY 2024



*FY 2023 figures are projected as of 12/31/2022

Business Activities Reserves (cont.)

Business Activities Reserves
FY 2022 - FY 2024



*FY 2023 figures are projected as of 12/31/2022

Proposed FTE Changes

- **Administrative Assistant (0.75 FTE)**
 - Position will support the administrative needs of the Finance Department
 - Scanning, filing, document retention
 - Mailing out checks, invoices, rent statements, year-end tax forms
 - Organizing the Department's digital storage structures
 - Assisting in the establishing of digital storage policies
 - Offset by a 1.0 FTE reduction to Finance Department from the consolidation of the Budget Director and Finance Director positions at February 22, 2023 Board Meeting

Proposed FTE Increase - Finance

Finance Department Authorized FTEs
FY 2010 - FY 2024

