



**U.S. Department of Housing  
and Urban Development**  
Milwaukee Field Office  
Suite W950  
310 West Wisconsin Avenue  
Milwaukee, WI 53203-2289  
<http://www.hud.gov/local/mil/>

December 11, 2023

SENT VIA EMAIL

Willie Hines, Jr. - Executive Director  
Housing Authority of the City of Milwaukee  
809 Broadway  
Milwaukee, WI 53202

RE: HCVCM-9 2024 HCV Operating Budget

Dear Mr. Hines,

As part of the HACM HCV Corrective Action Plan (CAP) based on HUD's HCV On-Site Monitoring Review Report dated December 28, 2022, HACM was to submit a proposed 2024 HCV Operating Budget to address Finding HCVCM-9. Annually, public housing authorities are to submit their HCV operating budgets for review and approval by HUD. This has not historically been submitted to our office. The corrective action for Finding HCVCM-9 from the HUD's HCV Onsite Monitoring Report dated December 28, 2022, reads as follows:

- HACM must submit its proposed 2023 RAP budget for the HCV program to HUD for approval. The RAP and Finance leadership should work collaboratively to develop a budget based upon HUD's annual funding letters. The budget developed should make a reasonable estimate of administrative fees earned and seek to operate within those constraints. The budget should include both HAP and administrative income and expenses. The budget should acknowledge the \$1.3 million deficit in HACM's UNP. Should HACM supplement the UNP deficit with outside funds, it should disclose the non-federal sources of administrative funding in the program budget. HACM must submit year-to-date budgets with year-to-date differences and notes explaining those differences to our office quarterly until the UNP maintains a positive cash position. This financial report must also be given to the Board of Commissioners on a quarterly basis.

This letter seeks only to address the proposed 2024 HCV Operating Budget. The requirement to submit quarterly year-to-date budgets with year-to-date differences and notes to explain those differences are being addressed separately.

On September 27, 2023, our office presented a recommended framework for HACM to use to develop their proposed 2024 HCV Operating Budget. This presentation included a HUD-generated reasonable estimate of administrative fee revenue based upon a three-year review of HACM's administrative fee revenue and expenditures, and average unit months leased. Our estimate of administrative fees revenue was meant to be conservative in nature by considering past performance and taking into consideration the numerous constraints HACM has going into 2024 and forward. These constraints include HUD reporting, a 100% audit and reconstruction of all tenant files, forensic reconstruction of its financial statements, fully operationalizing Yardi as an enterprise-wide software system and contracting out the management and

operation of its HCV program among others. HACM has many challenges, which should be reflected in its budget projections.

During the presentation, we requested HACM submit a budget based on the topline administrative fee revenue of \$3,920,325, which was based on an average of 5,786 units months leased and an estimated Column A rate of \$75.06 and Column B rate of \$70.06. The Column A and Column B rates were based on an estimated 80% proration for 2024. We also requested HACM consider accruing their management fee until such time as HACM has sufficient funds to pay the fee. HACM indicated that it was already accruing their management fee.

On November 15, 2023, HACM submitted a proposed 2024 HCV Operating Budget (operating budget) along with a narrative entitled, “Work Plan and Operating Budget: 2024-2025” (work plan) for our review and approval. We acknowledge the time and effort HACM put into its budgetary proposal. The proposed operating budget did consider a scenario with the HUD-generated administrative fees earned of \$3,920,325. Also, the proposed operating budget included several projections based on different leasing scenarios and decreased proration of administrative fee revenue. All scenarios proposed project deficits. Our office has the following feedback on the proposed operating budget and requests that HACM revise the budget to address the items below:

- As a suggestion, our office recommends streamlining what is presented to the HACM Board of Commissioners. On the 2024 Budget tab of the operating budget spreadsheet there are many scenarios presented. HACM may wish to reduce the number of scenarios by presenting on HUD’s baseline administrative fee revenue, HACM’s Projection 2024 Budget, and the breakeven budget labelled “HACM Projection at Sweet Spot” along with a column for projected annualized actuals for 2023 as a comparison.
  - Our office believes that columns M, N, and O of the operating budget may be mislabeled and are intended to be projections based on various administrative fee proration levels. Please either correct or provide an explanation of what these columns are.
- HACM does not appear to be using the HUD HCV Two-Year Projection Tool (2YT) in the development its HCV Operating Budget and should consider doing so. Many of the metrics HACM staff are calculating are included in the 2YT. The advantage of using the 2YT is that changes in leased voucher projections will automatically recalculate the Administrative Fee earned. On the Projection Analysis tab of the 2YT various factors in calculating the Administrative Fee can be modeled such as Administrative Fee proration, Leasing Success Rate, and Leasing Plans (number of vouchers to be issued). The Administrative Fee Analysis tab of the 2YT provides a detailed analysis of the fee earned based on the projected Units Months Leased. Throughout the rest of this letter, we will be referencing the November 29, 2023 2YT, which is attached to this letter.
- The total amount of available HAP is not accurately indicated on the submitted HCV Operating Budget. It does not appear that the HAP Income section includes HACM’s Restricted Net Position or HUD-Held Reserves (HHR) which results in a significantly lower projection of the available HAP funding. HACM must incorporate the following into their operating budget:
  - Include a line in the HAP Income section of the Operating Budget with the projected FYE2023 Reserves. The November 2YT indicates approximately \$9.6 million in year-end reserves on box D14.
  - The HAP Funding line does not match the projected \$49.1 million in 2024 Annual Budget Authority from box D17 on the November 2YT. The funding projections included in the

- 2YT contain the best HUD estimate of future funding and should be used when developing an HCV budget.
- Currently the budget indicates a negative balance on the Projected UNP-END line and then includes a note that other unrestricted funds will be used to cover the deficit. Our office recommends that the budget include additional lines that identify the sources of the unrestricted funds being used to address the UNP shortfall. At a minimum HACM must clearly identify the sources of unrestricted funds being used in the HCV program on the budget. These unrestricted funds must also be clearly described in the Budget Work Plan narrative.
  - In the operating budget on Line 101 and work plan on page 6, HACM identifies a \$493,824 Beginning Unrestricted Net Position (UNP) balance. This UNP balance in the Operating Budget does not match the VMS reported UNP negative balance of -\$369,268. HACM must explain the difference between a positive 2024 Beginning UNP balance on the Operating Budget and the negative UNP balance reported to VMS. As a result of these differences, we do **not** recommend that HACM use the projected UNP surplus/deficit in the 2YT Administrative Fee Analysis Tab. Additional reconciliation by HACM and HUD must be done before relying on the projected UNP surplus/deficit in the 2YT.
  - HACM's 2024 projection of annual unit months leased of 80,146 (2YT Column J, Rows 37 to 48) and 2024 leasing plan (2YT Column F, Rows 37 to 48) largely agrees with the 2YT. We again suggest HACM use the 2YT to develop its operating budget. We also recommend that HACM incorporate the 2YT or reference it in the Budget and Budget Work Plan narrative. This allows HACM to demonstrate how voucher utilization impacts program administrative revenue.
  - Our office agrees with HACM separately developing individual leasing success rates for each voucher type: HCV, VASH, FYI, PBV, and RADPBV. These leasing success rates should be explained in the work plan. However, we are unsure that the leasing success rate of 94% for PBV and RAD PBV are feasible given that current overall PBV occupancy as reported by HACM on its October VMS submission is 79 percent. HACM recently acknowledged that communication between the RAP and maintenance staff continues to be something they are working on. HACM should explain in the work plan specifically what the plan is to achieve a PBV lease rate of 94 percent.
  - Our office requests an explanation of how the various administrative expenses were estimated. With the exception of the Sundry line, each expense line is rounded to the thousand or ten thousand amount. While we understand that budgets are future projections that are typically rounded to whole dollar amounts, these expense estimates appear to be unusually uniform and rounded to a high level. Budget estimates that are based on more precise trends from previous known expenses result in more accurate and effective budgets. We also suggest including a note in the budget to explain the methodology used to project future expenses.
  - HACM identifies several contractors and their associated costs in their operating budget for a total cost of \$977,000. However, the operating budget does not include the cost of contracting out the management and operation of its HCV program in 2024. As the operations contract is a known factor for 2024 it must be included in the budget projections for 2024.
  - The Operating Budget projects Administrative Salaries and Employee benefits based on the included Organization Chart which lists 41 HCV program staff. HACM should explain in both the Operating Budget and the Work Plan narrative how they determined the staffing levels and Administrative Salaries and Benefits. As HACM has committed to HUD to contract out the management and operation of the HCV program this office also questions the accuracy of the

projected Administrative Salaries and Benefits. The Operating Budget should be based on the actual anticipated staffing levels for the HCV program in 2024.

- The Operating Budget should include a note to provide further details for the Temp Services expense line. As mentioned in the above bullet point, HACM will be contracting out the management and operations for the HCV program. The budget should be based on the actual anticipated Temp Services for the HCV program in 2024.
- It is noted that HACM included in its work plan the amount of uncharged management fees to the HCV program for 2024. We suggest expanding the narrative to include the total amount of management fees the HCV program has accrued to date. We would also expect this to be noted on the Balance Sheet as a liability with notes to explain the nature of the long-term liability.

Prior to receiving HUD approval of the 2024 HCV Operating Budget, HACM must address the concerns addressed in the bullet points above. The 2024 HCV Operating Budget should easily provide to HUD, the HACM Board of Commissioners, and its residents a representative total picture of HACM's HCV program that includes a written explanation and narrative of those items that are not readily identifiable.

**HACM must submit a revised budget to our office by December 22, 2023. Our office must approve the HACM 2024 HCV Operating Budget before HACM may implement it.**

We want to express once more that our office is ready and willing to offer feedback and technical assistance to support HACM's HCV Program. If you have questions or concerns, please contact Portfolio Management Specialist Diana "Dee" Schultz at (414) 935-6727 or [diana.l.schultz@hud.gov](mailto:diana.l.schultz@hud.gov).

Sincerely,

12/11/2023

 Shirley Wong

Shirley Wong  
Director  
Signed by: Office of Administration

Shirley Wong, Director  
Office of Public Housing  
Wisconsin, 5IPH

cc:

Sherri Daniels, Board Chairperson and Resident Commissioner  
[sherri.daniels@hacm.org](mailto:sherri.daniels@hacm.org)

Fernando Aniban, Deputy Director  
[fernando.aniban@hacm.org](mailto:fernando.aniban@hacm.org)

Kenneth Barbeau, Chief of Operations – Program Services  
[kenneth.barbeau@hacm.org](mailto:kenneth.barbeau@hacm.org)

Jaqueline Martinez, RAP Program Director  
[jackie.martinez@hud.gov](mailto:jackie.martinez@hud.gov)

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Correspondence Code	Originator	Concurrence	Concurrence	Concurrence	Concurrence	Concurrence
Name	D. Schultz	Hau	Clark	Koegler	Wong	
Date	12/1/2023	11/30/23	11/29/23	12/07/2023	12/11/2023	