

June 15, 2026

Public Housing's Cash Management Madness

By Greg Byrne

The term 'cash management' refers to a principle in "federal awards" (a distinction I'll get to shortly) that other program receipts should be utilized before expending federal subsidy, with the intent of limiting Treasury borrowings.

This year, without adequate warning or justification, the Office of Public and Indian Housing (PIH) began implementing cash management for the Operating Fund program, which provides public housing agencies (PHAs) with operating subsidies. These cash management policies have introduced costly and complicated administrative requirements. In this document, I will explain what these new rules are and how they came about. Unfortunately, cash management is just the most recent example of the ways in which public housing operates "differently" than other federally subsidized housing programs, symptomatic of public housing's isolation from the larger multifamily housing industry. Converting public housing to Section 8 is likely the only lasting solution to this problem.

Subsidy Processing in Other Federally Subsidized Housing

I want to start by describing the process of disbursing subsidies in federally subsidized housing.

Assume that, sometime in the early 1980s, you built 100 units of Section 8 project-based rental assistance, also referred to as PBRA. (There are about 1.5 million PBRA and PBRA-like units nationwide, administered by HUD's Office of Housing.) Your initial Section 8 Housing Assistance Payments (HAP) contract lasted 20 years and you are now on your second extension (or renewal) contract. Under this contract, you receive subsidy (HAP) equal to the difference between the "contract rent" for each unit and the tenant rent. Early each month, you prepare and send to HUD a voucher for next month's projected HAP

payments, which are typically paid early in the month in which they are earned.¹ Thus, if you are vouchering for your expected July HAP, you will prepare your request by about June 10, with payments received within the first week of July. (Because these vouchers are projections of HAP payments, each voucher also includes adjustments from prior months – say, for households that may have moved in following submission of the previous month’s voucher.)

In all, this process is well-established and functions smoothly. As an owner, you then use these payments, along with tenant rents, which are held in a shared bank account, to cover your operating expenses, mortgage payments (as applicable), and, if available and permitted, cashflow.

Public Housing Operating Subsidies: A Federal Award or a Contractual Payment?

2 CFR Part 200 is the bible of administrative requirements for grants across federal agencies, from the submission of annual financial audits to procurement practices, including cash management.² The Office of Management and Budget (OMB) is responsible for issuing and updating 2 CFR Part 200, which is why provisions contained therein are often referred to as “OMB Requirements.”

When applicable, cash management dictates that (1) federal payments must minimize the time elapsing between the transfer of funds from the federal agency and the disbursement by the recipient; (2) recipients should use program income before expending grant income; and (3) any interest earned on federal funds in excess of \$500 must be returned at year-end.

For many years now, certain circles within HUD headquarters have held the view that public housing operating subsidies are a “federal award” (a grant program) and, as such, should be subject to cash management. In contrast, HAP payments in federally subsidized housing are exempt from cash management because they are considered “contractual payments” for services rendered (also often referred to as “vendor payments”), no different than the purchase, say, of a vehicle or copy machine. Unfortunately, the federal awards camp finally won out and thus began the era of cash management for public housing, beginning with 2026 operating subsidies.

¹ This process is basically the same for the approximately 2.4 million units under the Section 8 Housing Choice Voucher program, including the Project-Based Voucher Program, i.e., HAP payments are disbursed early in the month for which they are earned.

² 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

There is no argument about the application of cash management for the public housing Capital Fund, where PHAs have always been subject to the “due and payable rule”, i.e., where Capital Funds can only be drawn down when there is a corresponding bill or labor charge. Capital Funds take many years to spend and, therefore, there is no reason for those funds to be sitting in PHA bank accounts. There are also far fewer vendor invoices to pay each month, which tend to be of a larger, lump sum nature (the general contractor, the architect, etc.). Operating assistance, however, is another story, where, for any project, there are, in addition to payroll, dozens of third-party payments in any month – phone bills, electric bills, insurance bills, legal bills, office supplies, maintenance supplies, maintenance contracts, etc.

Cash Management as Now Applied to Operating Subsidies

PHAs receive operating subsidy according to a formula that is codified in regulation, called the Operating Fund Rule (24 CFR 990). Also codified in the Operating Fund rule is the fact that PHAs shall receive their formula-determined subsidies electronically in monthly payments equal to 1/12th of a project’s total operating subsidy, with approved exceptions. These automatic payments are typically made by the 1st day of any month. Further, from a federal funding award perspective, subsidies have been considered “expended” at the time they are disbursed so that, by year’s end, the grant is considered fully expended. Any interest that the PHA earns (from the bank account where rents and operating subsidy are deposited) becomes program income, restricted to program activities, and any program funds not spent by the end of the year become “operating reserves”, which are also restricted to program activities. In fact, the Public Housing Assessment System (PHAS), which is HUD’s main tool for measuring PHA performance, essentially imposes minimum operating reserve levels, meaning that there is an implicit expectation that PHAs will generate some level of residual program income each year.³

Once HUD decided to barrel forward with cash management for public housing operating subsidies, it was caught with a dilemma: it could not, without rulemaking, change the formula for calculating operating subsidies or the method of disbursement. At least for 2026 – HUD has indicated that further changes to cash management are planned – PHAs will continue to receive their formula-determined funding levels, disbursed monthly; however, PHAs will not be permitted to spend any operating subsidy (now sitting in PHA bank accounts and not with Treasury) until they first spend their program income (again, think tenant rents), a process called “order of expenditures.”

³ 24 CFR Part 902, Public Housing Assessment System.

Thus, whereas in the past PHAs used a combined bank account (subsidy, rents, other program receipts) from which to pay for operating expenses, without concern to the source of income, they will now need to segregate their operating subsidies from their program income so that they can, and must, first exhaust their program income before they can spend their operating subsidy.

Moreover, because public housing operating subsidies will no longer be considered expended in the year in which they are disbursed, PHAs will be required to report on the status of each annual award until the funds are fully obligated. For example, if in any year a PHA reduces its expenses such that it ends the year with residual program receipts, the PHA must continue to report on the obligation status of that “grant” until it is fully expended. Further, now that PHAs are forced to segregate their subsidy from other program receipts, PHAs must return to HUD any interest earned on that subsidy that exceeds \$500 in any year, determined on a project-by-project basis.

In so doing, PIH disrupted an established and well-functioning system of disbursing and expending operating subsidies with a bureaucratic nightmare, one that has raised significant administrative costs to PHAs in terms of added staffing, higher audit fees, and changes to accounting software. Or, in the words of a colleague from federally subsidized housing, “Sounds dreadful.” PIH has also created a new, nearly impossible task for HUD field staff to monitor compliance with these new rules. And, HUD implemented these changes without formal notice-and-comment rulemaking, which is legally questionable.⁴

Equally outrageous was the way HUD communicated these new cash management requirements. In a display either of utter ignorance as to their administrative impact, or complete insensitivity, these new cash management policies were buried in a seemingly routine administrative notice, PIH Notice 2025-20, instructing PHAs of the need to submit a new year-end form, the SF-425, Federal Financial Report. PHAs submit many forms so, at first blush, the requirement for one more form seemed innocuous enough. But it was not

⁴ Even if one were to agree that public housing operating subsidies should be subject to cash management, which, of course, I would not, there are easier ways to accomplish the desired goal. For example, since tenant rents make up about one-third of public housing operating costs, and since tenant rents are collected mostly early in the month, HUD could have chosen to time the payment of operating subsidy to, say, the 10th day of the month and call it a day, i.e., without adopting all the order-of-expenditure requirements. And, although such a fix should really still only be implemented through rulemaking, I am sure that the PHA community would welcome some trampling on rulemaking protocols for immediate relief from cash management.

until deep in that Notice that PIH introduced, oh by the way, the new “order of expenditure” requirements that come with the SF-425 form.⁵

There was no recognition – no sirens blaring – that these new requirements would cause PHAs to make major changes to their accounting systems. There was also no explanation as to why these requirements were being imposed **now** and no reason given why public housing should be treated differently than other federally subsidized housing, where subsidies are regarded as vendor payments. When the public housing industry finally grasped the true magnitude of this notice, demanding, appropriately, administrative relief, requests were essentially ignored, with bland statements that these changes were needed to comply with “OMB requirements.” Almost comically, PIH’s cash management website refers PHAs for further guidance to depleted field staff, who are mostly at a loss to explain these new requirements.

The Obvious Solution

The better long-term option, of course, would have been for PIH to notify Congress and OMB that, given the legal uncertainty inside HUD over whether cash management should be applied to public housing operating subsidies, a situation that has lasted for years, and also given the enormous administrative burden that cash management would impose, it was pursuing appropriate regulatory and/or legislative authority to correct the problem, i.e., to exempt public housing from cash management. It seems highly probable that, if presented properly – for example, by showing that HAP payments in federally subsidized housing are treated as vendor payments and that to otherwise try to enforce cash management on public housing would result in huge administrative costs at a time when government programs need to be more efficient – HUD would have found widespread sympathy among congressional appropriators and authorizers. But such a plan never materialized because:

- One, senior PIH career staff failed to appreciate the impact of these policies, both direct (higher PHA administrative costs) but also indirect (accelerating public housing’s drift from federally subsidized housing). In large part, this is because PIH staff, unlike Office of Housing staff, are far less likely to have multifamily real estate backgrounds. They were, therefore, unable to serve as a bulwark against the cash management camp.
- Two, there was sufficient indifference, or just lack of awareness, among political leadership at PIH, also absent backgrounds in the wider multifamily practice, when

⁵ *PIH Notice 2025-20, Operating Fund Federal Financial Report (SF-425) Submission Process, July 9, 2025.* In particular, see Section 8, Order of Expenditures.

the cash management notice made its way through the clearance process and across their desks. While there is no indication that these policies originated with the political staff, there is also no indication of much resistance, and

- Three, public housing industry associations simply couldn't get traction on Capitol Hill, whereas, if anything even remotely comparable were to have happened in federally subsidized housing, the various trade associations, representing the larger tent of private lenders, investors, owners, and management agents, would have had a much easier time getting their voices heard.

In other words, cash management was a collective public housing industry failure, borne out of its isolation from the wider multifamily community. Untethered, public housing often takes on different (and odd) behaviors, with cash management being the most recent contribution to this sad story.⁶

Cash management is just a bad idea for operating subsidies, especially for a program that already emphasizes process way too much over product. It only makes sense if one views public housing not as a housing program but as a traditional social program – say, federal funding for early childhood education. But therein lies the problem. The more that it is viewed as the latter, the more it diverges from federally subsidized housing. And the more it diverges, the less likely it is to adopt best business practices and achieve better outcomes.

Towards a Unified Federal Rental Assistance Program?

Public housing is a legacy program that is a classic example of a kluge.⁷ Tweaking and tinkering is not a sufficient solution. Public housing needs major program reengineering as much as it needs major physical recapitalization, except that we already have a functioning housing model in Section 8.

In 2011, the Congress created the *Rental Assistance Demonstration Program*, or RAD, to test the feasibility of converting public housing to Section 8. In the 14 or so years that the program has been in existence, some 200,000 units have converted, raising an astounding \$30 billion in private debt and equity to help recapitalize public housing projects. Unfortunately, at the current pace of activity, it will take more than 60 years to convert the remaining public housing inventory to Section 8.

There is now more than enough evidence under RAD to show that Section 8 is a far better platform in which to administer a project-based assistance program. Consolidation would

⁶ It was only until relatively recently, for example, that the public housing program adopted project-based funding, accounting, and oversight, policies that were fiercely fought by the public housing industry when introduced.

⁷ A haphazard or makeshift solution to a problem (think duct tape).

also greatly simplify the administration of federal rental assistance. Still, no prominent champion, or coalition, whether in Congress, at HUD, or among industry groups, has emerged to carry the flag. At present, it seems that the best we can hope is for Congress to create a commission that could lay the policy groundwork, and flesh out the many transitional issues, in folding public housing into the Section 8 program. Meanwhile, we remain stuck in gear, with the continuation of a fragmented federal response to rental assistance, with public housing off on its own. For PHAs, expect more self-inflicted wounds of the cash management kind.

Greg Byrne is the principal of Greg Byrne Consulting, which provides strategic management services to PHAs and municipalities, primarily in the conversion to Section 8. He is the former director of public housing in Miami/Dade County and, for ten years, oversaw transactions at HUD under the Rental Assistance Demonstration (RAD) program.