

**DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

[Docket No. FR-5227-N-01]

**Public Housing Assessment System  
(PHAS): Asset Management Transition  
Year Information and Uniform  
Financial Reporting Standards (UFRS)  
Information**

**AGENCY:** Office of the Assistant Secretary for Public and Indian Housing, HUD.

**ACTION:** Notice.

**SUMMARY:** This notice provides certain information related to scoring and submission requirements for public housing agencies (PHAs) under the Public Housing Assessment System (PHAS) for PHA fiscal years ending June 30, 2008, September 30, 2008, December 31, 2008, and March 31, 2009. These fiscal years coincide with the first year of project-based budgeting and accounting under asset management, also known as the "transition year." Much of the information contained in this **Federal Register** notice was presented in PIH Notice 2008-18, Information on Upcoming Rulemaking Associated with the Public Housing Assessment System as a Result of the Conversion to Asset Management, dated March 27, 2008. That information is reiterated in this notice in order to inform the broader public of these actions.

This notice also provides information related to the current Uniform Financial Reporting Standards (UFRS) for PHAs with fiscal years ending June 30, 2008, September 30, 2008, December 31, 2008, and March 31, 2009. This notice provides that HUD, on a one-time basis, will not enforce the regulatory 60-day deadline for reporting unaudited financial condition information for most PHAs.

**FOR FURTHER INFORMATION CONTACT:**

Contact the Office of Public and Indian Housing, Real Estate Assessment Center (REAC), Attention: Wanda Funk, Department of Housing and Urban Development, Office of Public and Indian Housing, Real Estate Assessment Center (REAC), 550 12th Street, SW., Suite 100, Washington, DC 20410; telephone REAC Technical Assistance Center at 888-245-4860 (this is a toll free number). Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

*A. Background on PHAS*

PHAS was established by a final rule published on September 1, 1998 (63 FR 46596). Prior to 1998, a PHA was evaluated by HUD with respect only to its management operations. PHAS expanded assessment of a PHA to four key areas of a PHA's operations: (1) The physical condition of the PHA's properties; (2) the PHA's financial condition; (3) the PHA's management operations submitted as a self-certification; and (4) the residents' service and satisfaction assessment (through a resident survey).

Under the current PHAS and on the basis of these four indicators, a PHA receives a composite score that represents a single score for a PHA's entire operation and a corresponding performance designation. PHAs that are designated high performers receive public recognition, relief from specific HUD requirements, and may qualify for bonus funding pursuant to applicable program regulations. PHAs that are designated standard and substandard performers may be required to take corrective action to remedy identified deficiencies. PHAs that are designated troubled performers are subject to remedial action.

By final rule published on January 11, 2000 (65 FR 1712), HUD amended the PHAS regulations and implemented certain statutory changes resulting from enactment of the Quality Housing and Work Responsibility Act of 1998 (Pub. L. 105-276, October 21, 1998).

*B. Public Housing Operating Fund Program*

The regulations governing the Public Housing Operating Fund program are of key relevance to the proper operation of PHAs and consequently to PHAS. Operating funds are made available to a PHA for the operation and management of public housing, and therefore, the regulations applicable to a PHA's operation and management of public housing must be considered in any changes proposed to PHAS. The regulations for the Public Housing Operating Fund Program are found at 24 CFR part 990, and were published on September 19, 2005 (70 FR 54983), followed by a correction published on October 24, 2005 (70 FR 61366), and became effective on November 18, 2005.

Subpart H of the part 990 regulations (§§ 990.255 to 990.290), as revised by the September 2005 rule, establishes the requirements regarding asset management. Under § 990.260(a), PHAs that own and operate 250 or more dwelling rental units must operate using

an asset management model consistent with the subpart H regulations. PHAs with fewer than 250 dwelling rental units may elect to transition to asset management, but are not required to do so, except for PHAs eligible for a discontinuation of reduction of operating subsidy, *i.e.*, "stop-loss" agencies (see PIH Notice 2007-16 dated June 18, 2007 for more information on stop-loss). In addition, section 225 of Title II of Division K of the Consolidated Appropriations Act, 2008, Public Law 110-161 (approved December 26, 2007), states that PHAs that own and operate 400 or fewer public housing units may elect to be exempt from any asset management requirement for Calendar Year (CY) 2008, with the exception of PHAs that are seeking a discontinuance of a reduction of operating subsidy, *i.e.*, stop-loss.

PHAs with more than 400 public housing units in CY 2008, PHAs with 250 or more public housing units thereafter, and PHAs that elect to transition to asset management are required to implement project-based management, project-based budgeting, and project-based accounting. All project-based components are defined in the regulations at 24 CFR part 990, subpart H, and are essential components of asset management.

**II. Transition Year Changes to the Current PHAS**

The transition year includes those PHAs with fiscal years ending June 30, 2008, September 30, 2008, December 31, 2008, and March 31, 2009. This notice also applies to Moving-to-Work PHAs that are not specifically exempted from a PHAS assessment in their grant agreements.

*A. Overall PHAS Score*

During the transition year, PHAs will not be issued a new overall PHAS score. HUD will not issue any overall PHAS scores under the proposed PHAS until a final rule is effective.

During the transition year, PHAs will not be required to submit their management operations information and will not be required to submit Resident Assessment Sub-System (RASS) information, including the implementation and follow-up plans. However, PHAs will be required to submit their unaudited financial condition information and audited financial information, if applicable, in accordance with 24 CFR part 5, subpart H.

A troubled PHA and/or Capital Fund Program troubled PHA that believes it would no longer be designated as troubled if a new PHAS assessment had

been completed may petition for the removal of troubled designation in accordance with 24 CFR 902.69 at any time after its fiscal year end.

### B. Physical Condition Inspections

Physical condition inspections will be conducted for certain PHAs during the transition year in accordance with existing protocols. For PHAs that receive a passing score on the physical condition indicator under 24 CFR 902.25(e)(2), the score will be considered advisory. However, for PHAs that score less than a passing physical condition score under § 902.25(e)(2), the score shall be considered for the physical condition portion alone, as HUD will not be calculating an overall PHAS score for PHAs in their transition year, and HUD may take action accordingly. In such cases, where appropriate, HUD will give inspected PHAs in their transition year credit for the physical condition and neighborhood environment factor. The physical condition of projects is of utmost importance to HUD, and providing safe, decent, sanitary housing, and housing in good repair is the primary responsibility of PHAs. Physical condition inspections of projects will be conducted on the same schedule as past inspections, and conducted, if applicable, in the quarter prior to a PHA's fiscal year end. These physical condition inspection scores for projects on a 100 point scale will be available in Secure Systems, through the Integrated Assessment Sub-system (NASS). Physical condition inspection scores for projects on a 30 point scale will be available in Secure Systems, through NASS, beginning September 30, 2008.

PHAs will continue to be able to request a technical review or database adjustment for their physical condition inspections during the transition year in accordance with the current PHAS regulations.

### C. Financial Condition Information Submission

#### 1. Unaudited Financial Condition Information Submission

During the transition year, in accordance with 24 CFR part 5, subpart H, PHAs are still required to submit their unaudited financial information and audited financial information, if applicable. Although an overall PHAS score will not be issued during the transition year, HUD will still be reviewing the unaudited financial condition submission. HUD may take

appropriate action based on the submission.

For low-rent, low-rent combined (low-rent and section 8 units), and section 8 only PHAs with fiscal years ending June 30, 2008, HUD, on a one-time basis, will not enforce the regulatory 2-month deadline for reporting unaudited financial condition information. Instead, HUD will accept, without penalty (see § 902.60(e)(2) for the penalty provision), these reports within a 3-month time frame. Thus, these PHAs will have 3 months from the release of the software for the Financial Data Schedule (FDS) under asset management to submit their unaudited financial condition information. Notification of the FDS software release date and the submission due date will be posted on HUD's Financial Assessment of Public Housing Agencies (FASS PH) Web site at: <http://www.hud.gov/offices/reac/products/prodpha.cfm>.

For low-rent and low-rent combined PHAs with fiscal years ending September 30, 2008, December 31, 2008, and March 31, 2009, HUD, on a one-time basis, will not enforce the regulatory 2-month deadline for reporting unaudited financial condition information. These PHAs will have 3 months after their fiscal year end dates to submit their unaudited financial condition information.

For section 8 only PHAs with fiscal years ending September 30, 2008, December 31, 2008, and March 31, 2009, HUD will enforce the regulatory 2-month deadline for reporting unaudited financial condition submissions. These PHAs will submit their unaudited financial condition information within 2 months after their fiscal year ends.

#### 2. Audited Financial Condition Information Submission

All PHAs will submit their audited financial information, if applicable, within 9 months after their fiscal year end dates in accordance with 24 CFR part 5, subpart H.

### D. Management Operations Certification

PHAs with fiscal years ending June 30, 2008, September 30, 2008, December 31, 2008, and March 31, 2009, will not be required to submit their management operations certification.

### E. Resident Surveys

During the transition year, resident service and satisfaction surveys will be conducted only for PHAs with fiscal years ending June 30, 2008, for informational purposes. These PHAs will not be issued resident survey

scores, implementation plan scores, follow-up plan scores, or resident indicator scores. They will not be required to submit and certify to their implementation plans, and will not be required to develop follow-up plans and certify that they have done so. Resident survey response information will be available in Secure Systems, through the Resident Assessment Sub-System (RASS).

### III. Transition Year Changes to the Uniform Financial Reporting Standards (UFRS)

This notice provides that HUD, on a one-time basis, will not enforce the regulatory 2-month deadline for reporting unaudited financial condition information for most PHAs under 24 CFR part 5, subpart H, UFRS. For low-rent, low-rent combined, and section 8 only PHAs with fiscal year end June 30, 2008, HUD will accept, without penalty, these reports within a 3-month time frame. Thus, these PHAs will have 3 months from the release of the new FDS asset management software to submit their unaudited financial condition information. For low-rent and low-rent combined PHAs with fiscal years ending September 30, 2008, December 31, 2008, and March 31, 2009, HUD will accept, without penalty, unaudited financial information within a 3-month time frame.

For section 8 only PHAs with fiscal years ending September 30, 2008, December 31, 2008, and March 31, 2009, HUD will enforce the regulatory 2-month deadline for reporting unaudited financial condition submissions. These section 8 only PHAs shall continue to submit the unaudited financial information within 2 months of their fiscal year end, in accordance with 24 CFR part 5, subpart H.

### V. Environmental Review

This notice provides operating instructions and procedures in connection with activities under a **Federal Register** document that has previously been subject to a required environmental review. Accordingly, under 24 CFR 50.19(c)(4), this Notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321 *et seq.*).

Dated: August 7, 2008.

**Paula O. Blunt,**

*General Deputy Assistant Secretary for Public and Indian Housing.*

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