HUD ASSET MANAGEMENT E-NEWSLETTER

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PHA Spotlight – Broward County Housing Authority (BCHA), Florida

Over the past several years, the BCHA has actively and purposefully "repositioned" its public housing portfolio. At the same time, it has expanded affordable housing opportunities, taking advantage of favorable market conditions.

Here, we talk to Kevin Cregan, BCHA's Chief Executive Officer, about both their larger asset management strategies and their internal structures for managing this new, mixed inventory.

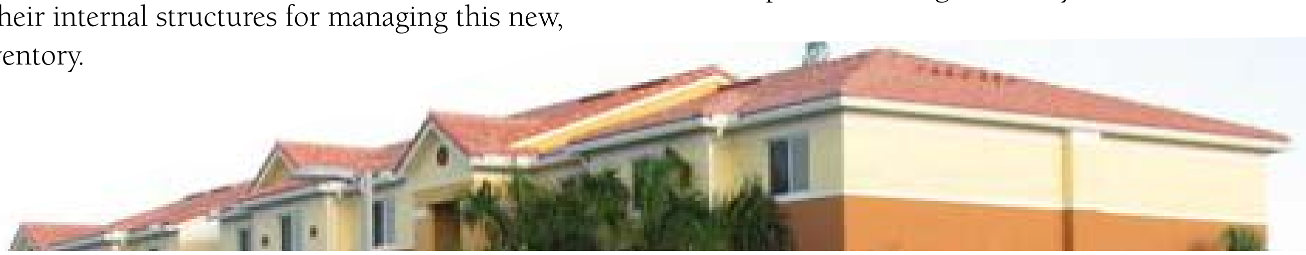
Tallman Pines: the first affordable housing in the state of Florida to earn the LEED Silver rating

As they say in Wall Street, let's look at the numbers. How has your inventory changed?

Overall, we reduced public housing from 776 to 374 units, which include 100 hurricane-damaged units currently being demolished. But for every public housing unit we removed, we obtained a relocation voucher. We were also able to build 490 new low-income housing tax credit units. In short, we dramatically improved the quality of our housing, diversified our portfolio, and were still able to maintain an equivalent number of units with deep subsidy.

How did this get started?

It began about the time that HUD was requiring PHAs to transition to asset management. We started taking a hard look at our public housing inventory, which had a num-



ber of physical and financial problems. Because we had recently implemented project-based accounting (but not yet project-based management), we had an even better sense of which projects were struggling financially. A couple of them were built without air conditioning or had concrete walls and terrazzo floors that were ineffective barriers against mold and mildew, or had irrigation problems.

It became fairly obvious that we had three projects that needed to be reworked—but that also had market potential that could be leveraged for the greater good.

Crystal Lake before rehab (above) and after (below)

Mold, mildew, irrigation. These seem like important issues in your South Florida climate—and costly to correct.

Kevin - Yes, so we proceeded to map out a plan to either improve to a higher standard or demolish buildings and start fresh. Absent project-based accounting, we couldn't have done the analysis and made successful arguments to the Board. We looked into HOPE VI but decided to try the more direct route of going for tax credits. We knew we had to have some good assistance to get us started so we hired consultants to help us with financial, legal and tax credit matters. Bid solicitation went out to find a developer who could help us with the worst property in our portfolio.

What were your goals and did you attain them?

Kevin - We wanted to increase quality affordable housing stock to help meet the huge demand and develop sources of non-federal revenue. Eventually, a developer was selected who laid out a vision that included demolishing 190 old family housing units, building 190 new units in a way that better tied into the neighborhood, and incorporating on the site a place to house a local, non-profit community-based organization. We obtained HUD approval for 190 Section 8 vouchers to relocate the families and we were awarded 9% tax credits that yielded $1.03 in investor equity for every dollar of tax credit. Construction was completed on time and we leased up quickly. All costs, including fees, relocation, overhead, etc. were paid through the tax credits so the housing authority had no out-of-pocket expenses. The new property is named Crystal Lake.

What happened to the other properties that were obsolete and financial losers?

Kevin - Next we took another troubled property that could not operate with the funds available and hired a different developer who had produced a great design to build 200 units where 112 scattered site, single family homes and townhouse units were located. Again, we obtained vouchers to relocate the existing residents and obtained 9% tax credits at a yield of $1.07. At the same time, the neighborhood was undergoing renewal and the county developed a park across the street. This property opened in 2008 and is called Tallman Pines. This property is designed with multiple "green" and healthy living features. It achieved the LEED (Leadership in Energy and Environment Design) certification awarded by the US Green Building Council, the first affordable housing in the state of Florida to earn the LEED Silver rating.

We were able to get in one more successful redevelopment before the market went bust. The third property that we did is called Highland Gardens and it is housing for the elderly. This time the yield on the credits wasn't quite so high but we still earned significant developer fees and covered all our overhead. Both of these projects came in under budget and ahead of schedule.

Are you managing the three new properties?

Kevin - We feel like we have the capability to manage these tax credit properties, but when you look at the bottom line, it is more efficient to let experienced private companies manage. We did an analysis in the post asset management transition world and took it to the Board. The numbers projected that we would only make $20 to $25 per unit profit a year and we would take on more liability not to mention the costs that can't be quantified such as additional time. We stood to make more by letting others manage. We have staff with LIHTC compliance certification charged with managing our third party management agreements. We gave up the management fees but we are benefitting from the cash flow.

What happened to the development partners you had for these properties?

Kevin - The development partners bowed out once the projects converted to permanent financing. Broward County Housing Authority remains as the owner and benefits from healthy cash flow.

How are the earnings from the developer fees and cash flow used?

Kevin - Keeping in mind our goal to increase affordable housing supply in Broward County, we purchased a 64-unit property developed by a non-profit organization that was financed partially by the county housing finance agency. The property was in danger of getting sold and becoming conventional housing.

There are several projects currently in the works funded through earnings from prior projects. An unexpected event occurred for a property that we had originally deemed a keeper in our portfolio. About a year after Hurricane Wilma came through this area, mold was noticed on the inside of some apartments. Wind lift had occurred where the foundation was raised and slightly shifted so that we would never have a leak-proof building again. Our insurance carrier declared it a total loss and HUD approved demolition. People received vouchers and had to move out. Fortunately, in Broward County we have no problem attracting landlords

A resident of HGII Affordable Senior Housing

and have excellent quality stock for our voucher holders. Anyway, we were able to purchase three and a half acres adjacent to this site and have plans in place to take down the 100 units and put up 150. This new development will have even more green features than Tallman Pines.

In the midst of all this development activity, you were transitioning to full asset management. You said that project based accounting had been underway a long time, but what steps did you take with your employees?

Kevin - Before the transition mandate, authority was centralized and managers did not have a sense of ownership in the properties. They were more paper pushers than actual managers and were not held accountable for results. One of the first things we did was change the name from "Public Housing Department" to "Asset Management Department". Fourteen years ago we converted from having separate directors for management and maintenance operations to having just one person in charge, the director of management. But we had not empowered the site managers. Slowly we gave more authority to the managers. We gave them budget responsibility. We changed job descriptions and although this did not happen overnight, the way of thinking about their assigned properties changed. Performance reviews now encompass many more factors than a few years ago. Get the revenue right, but also maintain the condition of the property, have timely work order completions, and make sure collections are on time. We were very close to starting these things before the mandate occurred. People felt like this way of doing business made a lot of sense. Everyone knew the change was coming, and when the time came it seemed

Highland Gardens putting green.

like people were inspired to implement the new way as quickly as possible.

What are the results of the change?

Kevin - The results are remarkable. You can drive to any of our properties anytime and find them well-maintained. Properties are noticeably better taken care of than in the pre asset management days. People are held accountable and rewarded for results rather than process. At our annual employee recognition luncheon, people are recognized in a variety of performance areas. Salary increases are tied to ratings in the 14 performance indicator categories.

As a result of the transition, I have seen employees grow in their jobs and develop new skill sets. For example, rather than let any employees go when we transitioned, people were able to take on other positions. There was some natural attrition, but some housing management people, for example, became occupancy specialists. When we had our first relocation of residents, we hired a company that specialized in such events. We watched what they did and worked alongside them. The next time, and times after that, our own people did all the relocation activities.

Tell us about your Central Office Cost Center

Kevin - Well, it is certainly holding its own due in part to the revenue from non-Federal sources. We are able to maintain a development department that actively pursues more affordable housing opportunities. We have a plan ready to go for a site with 42 single family homes and we are especially targeting opportunities to bring in lower income housing. There are many elderly in our area who are not eligible for very low income housing but who have financial situations where they still need help. There are other services such as foreclosure crisis counseling that are provided through the agency. The Housing Authority was a beneficiary of a United Way campaign to hire a counselor to help low-income homeowners prevent foreclosures through loan modifications. There has been a great need to provide these services that are much more effective in the long term than places that just provide temporary cash assistance. The cost of the counseling service can be supplemented through other COCC earnings if needed.

What lessons learned would you like to impart to other housing authorities?

Kevin - Knowing exactly what it takes to operate each property and assessing the future financial drain or gain is important. Embrace asset management. Map out a plan for your portfolio. When your goal is to go after more affordable housing opportunities, approach the situation with common sense and articulate the bottom line. One of the things that worked the best for us was to make sure we got the help that we needed. We picked people that were awfully good at what they do. Local government and financial entities took the partnerships seriously—more so than if the housing authority walked in alone. Many investors like the stability that a housing authority brings to a new development with the guarantee of affordability for 99 years vs. a 15 year minimum. Having land already in hand is also a plus.

Contact Information

Broward County Housing Authority
4780 North State Rd 7
Lauderdale Lakes, FL 33319
Kevin Cregan, Chief Executive Officer
Email: kcregan@bchafl.org
Telephone: (954) 739-1114, extension 2316

Nominations for Spotlight

Have a great story to tell about your PHA's transition to asset management? Or perhaps you know about another PHA that overcame obstacles and used creative solutions to make the transition? The Asset Management E-Newsletter editor is accepting nominations for the spotlight feature article for upcoming issues. Please send your nominations to **Newsletter Editor** with a few brief sentences outlining the story. We will be happy to explore the story in detail and share it with the newsletter readers.

PHAS Transition Year 2 Guidance

In a Federal Register Notice published January 12, 2010, the Department has provided guidance on scoring, and related submission requirements, under the Public Housing Assessment System (PHAS) for Transition Year 2. This notice is available **here**.

In Transition Year 1, PHAs were not required to submit Management Operations Certifications and HUD did not issue overall PHAS scores. For Transition Year 2, HUD will resume scoring. Small PHAs who would otherwise have been scored in Transition Year 1 (small PHAs are scored every other year) will be scored in Transition Year 2. For a list of small PHAs that must submit in Transition Year 2, please go to this **Web site**.

In accordance with the notice, PHAs for whom submission of a Management Operations Certification would create an administrative hardship may request a waiver.

HUD Publishes 2009 Operating Fund Annual Report

The Department has released its CY 2009 Operating Fund Annual Report, containing key statistics and program data on the Operating Fund Program. A copy of the report can be obtained **here**.

New Project Level Expense (PEL) Calculator

HUD has updated the PEL Calculator, used to estimate PELs for new projects. The PEL is the model-generated estimate of the cost to operate each project, exclusive of taxes, utilities and certain add-ons. To obtain the Excel workbook that includes an instruction sheet and the calculator tool, go **here**.

HUD Posts Notice 2010-2: Appeals under the Operating Fund Program for CY 2010

HUD has updated annual instructions for PHAs and HUD field offices for appeals pursuant to 24 CFR part 990, the Public Housing Operating Fund Program, Subpart g, for calendar year (CY) 2010. The five types of appeals and the submission requirements are described. May 14, 2010 is the deadline for submitting appeals under the definitions "streamlined", "specific local conditions", and "substitute actual project cost data".

To read the full Notice, follow this **link** to the Calendar Year 2010 Subsidy Processing Web page. Look under the Notices and Guidance section. Or, you may go directly to the Notice **here**.

Audit Cost Guidance for Mixed Finance Projects

HUD will allow mixed-financed projects to include in FFY 2010 an add-on equal to the audit expense, inflated, that was originally subtracted in calculating the baseline 2000 PEL. The Operating Fund Formula includes an add-on for a PHA's independent audit cost. When calculating the PEL, PHA's must subtract their actual audit costs from the 2000 model-determined PEL. Mixed-finance projects, however, often have separate (single asset) audit costs and may also only share a small proportion of the agency's overall Single Audit Act expense.

If the mixed-finance project is allocated a share of the agency's overall independent audit, the allocated amount can be added to the amount calculated based on the data provided. If the Regulatory and Operating Agreement otherwise compensates the mixed-finance project for its separate (single asset) audit costs the add-on should not be provided. For more information, and the schedule of 2010 Mixed Finance Audit Costs, go **here**.

Asset Management Election and Fee Add-On

HUD has posted additional guidance regarding the asset management election and asset management fee add-on for CY 2010 operating subsidy processing. This guidance is applicable for housing authorities that own and operate between 250 to 400 public housing units. Currently, the Project Expense Levels (PELs) pre-populated in SAGIS reflect the PHA asset management election made by PHAs for CY 2009 operating subsidy processing. Accordingly, PHAs must follow specific instructions in completing their CY 2010 operating subsidy submissions in SAGIS. PHAs that have already completed their submissions in SAGIS and need to change their asset management election must notify their Field Office. To learn more, go to the Calendar Year 2010 Subsidy Processing **Web page**. Look for the link "Additional Guidance: Asset Management Election and Asset Management Fee Add-on for CY 2010" under the Notices and Guidance header.

2010 Operating Fund Submissions: Update

Because of system infrastructure issues, the Department has extended the deadline for submission of 2010 Operating Fund requests. The new submission deadline is

March 31. As a result, the Department will issue another interim subsidy obligation, through July 31.

PHAs have been funded on an initial estimate from January through May based on the methodology posted **here**. Funding based on this estimate of project eligibility will be extended through July 31, 2010. To avoid overfunding projects, PHAs should notify their Field Office if changes have occurred between CY 2009 and CY 2010 that will significantly impact CY 2010 eligibility. Significant impact (approximate decrease of 25% or more) to a PHA's project eligibility may be the result of changes in number of projects, unit months, or other funding elements not adjusted for in the estimate.

HUD Releases 2010 Public Housing Management Fee Table

On February 23, 2010, the Financial Management Division (FMD) of PIH-REAC released, for public housing, both the CY 2010 80th percentile management fees and the 80th percentile of administrative costs (for PHAs that elect asset management without a Central Office Cost Center, or COCC). These fee tables are effective January 1, 2010.

Table 1 of the document represents the 80th percentile of management fees paid in HUD's multifamily housing programs based on the 2008 Annual Financial State ments (AFS). Nationally, the 80th percentile management fee increased 1.52% from $53.32 per unit month (PUM) to $54.14 PUM. In accordance with PIH Notice 2007-9, PHAs may use this table to establish the "reasonable" fee amount charged to each project. In those markets where the fee declined, PHAs may use the higher of the two amounts. The amounts published represent fees paid for each occupied unit or allowable vacancy.

Table 2 of the document represents the 80th percentile of administrative costs paid in HUD's multifamily housing programs, based on the 2008 AFS. It is applicable to small PHAs that elect to implement asset management without a COCC in determining "reasonable" total administrative cost. As with Table 1, in markets where the costs declined, PHAs may use the higher of the two amounts. The fee tables can be found **here**.

Upcoming Dates on the Asset Management Calendar

March 13, 2010, PHAs with FYE June 30, September 30 and December 31 management operations certifications due in the Management Assessment Subsystem

March 31, 2010, CY 2010 PHA submissions due for subsidy requests

May 14, 2010, Deadline for appeals for CY 2010.

July 16, 2010, Operating Subsidy Revisions deadline.

October 15, 2010, Deadline for Year 5 Stop-Loss Submissions (instructions pending).

What's New on the Web site?

- **Calendar Year 2010 Subsidy Processing**

Resources and Useful Links

General Information About Asset Management

For more information, please visit the HUD-PIH Asset Management Website. Click on the following hyperlinks for detailed information surrounding the key building blocks of asset management:

- **Project-Based Funding**
- **Project-Based Budgeting**
- **Project-Based Accounting**
- **Project-Based Management**
- **Project-Based Oversight**

Within each building block you may find specific topics of interest, including: AMP Groupings, and Stop-Loss.

Specific Links In This Issue

Links for specific materials referenced in this issue are shown in **blue bold typeface**, and are placed throughout this issue for ease of reference. When this newsletter is viewed as an electronic file, you may click on these links to be taken to the referenced materials.

Asset Management Help Desk—Questions and Answers

The Asset Management Help Desk can be reached at 1-800-955-2232 or by email at **assetmanagement@deval.us** Please use this phone number and email address to send inquiries regarding asset management.

Standardized Job Descriptions

Q Does HUD have standardized job descriptions for positions of Housing Manager and Regional Housing Manager?

A Sample job descriptions can be found in the Appendix (Exhibit 13.1) of the Housing Manager's Procedures Manual, which is available at **here**. Please note that these job descriptions match the responsibilities under a fairly decentralized management system. Functions and responsibilities vary from organization to organization.

Repayment of Ineligible Program Costs

Q Our PHA is required to pay back certain "ineligible" program costs. Can we use the fees that the Central Office Cost Center (COCC) earns to pay back these ineligible program costs?

A Yes. HUD does not control the use of COCC funds, i.e., they are "de-federalized." Consequently, they can be used to reimburse for ineligible program expenditures.

Allocated Overhead

Q The Financial Data Schedule (FDS) includes an expense line item for "Allocated Overhead." If my agency is implementing asset management using management fees, should this line item be left blank?

A Correct. The "Allocated Overhead" line item is to be used for PHAs, other than small PHAs, that are not charging management fees but instead continue to maintain overhead allocations. If the PHA elects to continue with allocated overhead, it should not also report a management fee, a bookkeeping fee, or an asset management fee.

Contact the Editor

Do you have an article idea, question, or comment for the editor? The Office of Public and Indian Housing is the editor of this monthly e-Newsletter.

Please send all inquiries to **assetmanagementnewsletter@deval.us**, with the subject line "Question/Comment for the Editor."