

# HUD ASSET MANAGEMENT E-NEWSLETTER

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The view from John Chafee Boulevard of Newport Heights—a new HOPE VI mixed income housing development.

## PHA Spotlight – City of Newport Housing Authority (NHA)

When you think of Newport, Rhode Island, multi-million dollar mansions, sailing, the tennis hall of fame, and the jazz festival come to mind.

What many don't realize, though, is that Newport is an economically depressed small city, with the state's highest percentage of low-income residents. Over the years the Newport Housing Authority (NHA) has sustained itself; more recently it has undergone a sea change in its culture and housing portfolio. The Asset Management E-Newsletter learned about these changes in conversations with Jim Reed, the Executive Director, and Jan Shapin, the long-standing chairperson of the HA's Board of Commissioners (see sidebar).

**The NHA has a special "naval" connection. Can you explain?**

**Jim**—Newport was one of the first housing authorities in Rhode Island, established back in the 1930's. At the time, the city was a large military port. Our portfolio was mostly comprised of old military buildings that

were acquired and converted into public housing. Not surprisingly, when I became the Director in 2004 there was not just a lot of deferred maintenance, but functional obsolescence.

**You worked at the NHA a number of years ago and returned around the time the Harvard Cost Study recommendations were being implemented and the transition to Asset Management was beginning. What were your thoughts upon returning?**

**Jim**—I had worked for the agency in the 1980s and then spent many years in privately-assisted housing. It wasn't so much that the agency had changed, but that I had a different perspective on how to manage. Clearly, we had to transition from what was a centralized operation to a decentralized one. As you can imagine, those ideas were not received well at first. Some believed you would inevitably duplicate roles and efforts if you moved to Asset Management Projects (AMPS), each with their separate operations. But I saw how it worked in the private sector. The idea of converting to Asset Management, I think, has rejuvenated this HA and has ultimately changed our culture. For us, Asset Management was a smart thing to do.

The change in the structure of our maintenance operations is a good illustration. Previously, there was one



One of the buildings in the old Tonomy Hill public housing development.

central maintenance location. All employees showed up to this one place and then they were dispersed throughout the city. They moved around from site to site performing their work orders and doing preventive maintenance. This system worked if your goal was simply to complete work-orders. But by converting to a decentralized system with site-specific assigned personnel in management, maintenance and resident services, the residents and the employees became familiar with each other. The employees saw their preventive measures work. And, most importantly, this approach enabled individuals to have responsibility and accountability for their work.

### Can you give us a specific example of what you mean by improved responsibility and accountability?

**Jim**—Sure. For example, in our site-based approach a groundskeeper will note a recurring litter problem in an area and is likely to knock on a door of a resident or tell the manager who will follow-up. But in the centralized maintenance approach, the worker would simply have moved on and there would not have been any actual resolution to the litter problem; rather, the next week a different person would have observed the same situation, and also would have moved on without addressing the underlying problem. When a maintenance worker is assigned to a single site, he becomes more knowledgeable about the physical needs and characteristics of that

site, has more to personally gain from good work practices, and is more personally accountable for poor ones.

### You mentioned that you owned a lot of housing stock that, to put it politely, was “tired.” What did you do?

**Jim**—Our portfolio was slightly more than 1,100 units. Tonomy Hill, at 498 units, represented forty-five percent of the total units and had serious physical and management challenges. It also had a negative reputation in the community. The plan was to redevelop it into a HOPE VI community, now called Newport Heights. The demolition and new housing was done in phases, as funds became available. Clearly, other PHAs have repositioned

properties through the HOPE VI/mixed-finance program as well. What was particularly challenging for us was that Tonomy Hill was more than 45 percent of our inventory. By the time we finished redeveloping Tonomy, we were a significantly smaller agency.

### What happened to the employees and the residents as the old buildings were demolished?

**Jim**—The new project, once all phases were completed, had a lower density and included homeownership as well as rental units. As a result, we had to permanently relocate about 300 families. Because the State tax credit agency required us to create 187 new off-site deep subsidy units (to meet a one for one replacement goal) we had to use project-based Section 8 units in other developments to meet that requirement. Additionally, many Housing Authority employees belonged to unions. In order to secure the tax credit funding, we also had to guarantee the unions that their current members wouldn't lose their jobs as a result of the demolition and transformation. So, we also had to guarantee 'one-for-one' replacement of both units (for every unit taken off-line, an affordable unit had to be found elsewhere) and jobs (we agreed not to reduce staffing levels except through attrition). These were real challenges.

### What did you do?

**Jim**—Fortunately, with help from Rhode Island Housing and Mortgage Finance Corporation, and our colleagues at near-by housing authorities and local non profits, we



Newport Heights mid-rise building and management office located at 59 John Chafee Boulevard, Newport, RI

were able to locate affordable units. We relocated more than 300 Public Housing families into other NHA units and throughout twelve other communities in Rhode Island. NHA had to downsize dramatically because not only would the new Newport Heights contain fewer total units, but the plan was for a private company to manage the new multifamily units. As a result, we were faced with subsidy reduction: 50% the first year, 25% the second year, then the final portion in the third year. You become very good at looking at how you can gain some efficiencies when you're obligated to higher than necessary staff levels at the same time as a reduction in your subsidy payments.

**So the transition to Asset Management coincided with the demolition of almost 500 units of public housing, loss of huge subsidy income for the authority, relocation of hundreds of residents, and all this had to be done with no layoffs. How did all this go over with the employees?**

**Jim**—There was a change in culture for the employees. We went from a framework in which the budget was someone else's problem to a framework in which each employee was an integral part of developing and managing the budget. We implemented our plan to decentralize and empowered site-based managers who were re-

sponsible for their entire project operation. In the days before Asset Management, administrative, maintenance and resident service employees were crossing paths with each other but they were not actively working together.

**So, in Asset Management people were assigned to specific properties, but what do you mean by change in culture?**

**Jim**—We found that providing timely, direct recognition to employees was essential as employees were implementing the new approach. The site managers and I would make it a point to get out and see what the employees were doing. If we saw things working well, we pointed it out. A visit to the maintenance shop and a compliment to the maintenance staff would be motivational. Of course, accountability cuts both ways and specific tasks that needed improvement were pointed out, too. We had weekly meetings with each project's staff to plan and strategize. Initially, sometimes a manager would respond to a complaint with, "Well, I called maintenance...." So we taught them to follow-up, take ownership and to be extremely visible. The residents see the same employees all the time now. The residents are now confident that management is doing what they need to.

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## Interview with Jan Shapin, Chairperson, Board of Commissioners, Housing Authority of the City of Newport

### How was the housing authority able to move quickly and successfully to Asset Management?

**Jan**—There were two main events that influenced our transition to Asset Management. First, we had the HOPE VI experience. We noted early on that the new management company organized itself differently than the public housing management. So we saw how private sector housing, with a mixed income tenant population, operated differently than our public housing organization. The Board was aware of it and wanted to learn best practices.

Second, we knew that we had to streamline our management structure and reduce our staffing levels to about half the size it was before our HOPE VI deal. This was a difficult and painful downsizing and could only be done by structuring our operations differently. Our director of many years retired, so it was clear to the Board that the primary thing to look for in a new director was somebody who had private management experience.

We were fortunate to find a person who was local to Newport and had previously worked for the NHA, but who had also spent 16 years in private property management. Jim reorganized the agency into a management model where the administrative office at the top would be funded solely by fees and would be sufficiently lean and efficient. Training was focused on

providing site managers with the skills and resources they needed to manage all aspects of their properties, including supervision of the maintenance function. So now we are organized more like the private model and employees are doing well--we're still getting there in some aspects, but everyone is clear on where they need to go.

### You said the downsizing was particularly difficult. Can you give an example of one of the challenges facing you in the downsizing and simultaneous transition to asset management?

**Jan**—We hired a consultant to study the job descriptions, salaries and compensation packages for our employees and to compare these to the private industry counterparts. The result was that the wages were very similar, though some job descriptions in the private sector included additional responsibilities. We incorporated those responsibilities into our job descriptions. Another difference was in the fringe benefits between the two groups. We knew we could not sustain our current, higher level of benefits with the downsizing. Communication began with the unions and we opened our books and showed them the long-term implications. We reached agreement and had things in place prior to the current economic downturn. Fortunately, we are positioned to carry on our mission for years to come.

<Interview with Jim Reed, continued from previous page

Asset Management changed the dynamics within the housing authority and between us and our customers. We invited the residents and the community to hold us responsible. All of that sounds nice, but in fact it is, day-in and day-out, what we do in this business. In the beginning teams of people, including management, maintenance and office staff, community service staff and local police officers would go on a weekly 'road show'. We would go into a neighborhood with a charcoal grill and some hot dogs, knock on doors and then spread the word about the changes and explain our new way of doing things. We underscored the positive aspects of our communities and great things came out of that attitude.

### For Tonomy Hill, how did the story end?

**Jim**—Tonomy Hill is now Newport Heights. Five years ago no one was interested in driving through this area during the day. Now people sit on porches, ride bikes and there is a ninety-percent reduction in crime. Thanks to the HOPE VI Community and Supportive Services program, 260 people from the neighborhood are working that were not working five years ago. Job training and economic development have led our residents to become more self-sufficient.

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## What is the composition of the current Housing Authority now that you've transitioned to Asset Management?

**Jim**—Today we have four Asset Management Projects: two family and two elderly, totaling 579 units. Additionally, we own 132 HOPE VI Public Housing units that we do not manage, and we have 400 Housing Choice Vouchers. We have 30 staff today, whereas a few years ago we had 30 employees in the maintenance department alone. Now we are positioned to have 14 maintenance employees across our four AMPs. We kept our agreement not to reduce staffing due to the downsizing at Tonomy Hill and through attrition everything worked out.

One of the things we most appreciated about HUD's approach was that it permitted housing authorities to set up their own AMPS in whatever way was most appropriate for them. For example, we know that the mid-rise elevator building for the elderly has needs and requirements that are distinct from the four low-rise elderly buildings in our portfolio. From eight projects we went to four AMPS. We set them up in such a way that now we are starting to benchmark and measure their relative performance.

## What are you looking forward to in the near future?

**Jim**—Currently we are applying for funds from the Recovery Act to renovate Park Holm, the larger of our two family properties. We recently completed a master improvement plan incorporating ideas from the residents. We are pleased with the way things are working out.

This is a great time for us in Public Housing. Important elements of the inventory across the country can be improved through HOPE VI, through funds available through the Recovery Act, with Neighborhood Stabilization funds, and with the appropriation of a full operating subsidy. The Newport Housing Authority is an example of how a change of culture, transition to Asset Management and support from our partners in government and industry can improve the lives of our residents and benefit our community.

## Contact

Newport Housing Authority: Jim Reed, Executive Director, [jreed@nphousing.org](mailto:jreed@nphousing.org)

## Notice 2009-16, Guidance on Energy Performance Contracts, Including Those with Terms Up to 20 Years

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This Notice serves to reinstate and update the content of PIH Notice 2008-22 and provide supplementary guidance regarding retained surcharge savings, approval processing for terms up to 20 years, and the applicability of small purchase procedures for Energy Performance Contracts (EPCs). To see the Notice, click [here](#).

## HUD Holds First of Ten Asset Management Conferences

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Participants from 49 Housing Authorities in 21 states attended the first of 10 regional asset management conferences held in Washington DC May 27-29. The remaining conferences will be scheduled from June through October.

Each conference includes concurrent sessions on the following topics:

- Energy
- Fee-for-Service
- Procurement
- Asset Planning
- Allocation & Prorating Staff
- Project-based Accounting
- Assigning Balance Sheets
- Central Office Cost Center
- Site-based Waiting Lists
- Proposed PHAS & Troubleshooting Performance

Most sessions are led by a training team composed of subject matter experts with financial or accounting backgrounds, as well a property management background. A case study of a sample PHA is used for the learning exercises in each session so that there is linkage with all the basic components of Asset Management.

A post-conference attendee survey indicated particularly high satisfaction with instructor preparation, knowledge about the subject matter, and ability to communicate well with the participants.

Here's what some people are saying about the conference:

- Ed Lacy, Acting Director for Housing Operations, Alexandria Redevelopment and Housing Authority (ARHA): "Personally, I liked the helpful hints. In addition to the team training that gave us a little bit of both sides (financial and management), we got feedback from HUD people attending the sessions."

- Samuel Collins, Senior Accountant, ARHA: “It stressed team work, delegation of authority and accountability, and has every one working towards one goal....”

For more information about the conferences, including registration procedures, click [here](#).

## **HUD Issues Notice on Updated Proration Estimate for Calendar Year (CY) 2009 – Public Housing Operating Fund Program**

Under the Operating Fund Program, public housing agencies (PHAs) are provided with operating subsidies to fund the operation and management of public housing. When overall subsidy eligibility exceeds appropriations, funds are “prorated.” The prorated amount is calculated by dividing the appropriated funds by subsidy eligibility, as shown below:

**appropriation / subsidy eligibility = proration**

For example, in CY 2008, the Congress appropriated \$4.2 billion for the Operating Fund Program. Subsidy eligibility in CY 2008 was \$4.7 billion, resulting in proration of 88.96%.

In December 2008, the Department estimated that CY2009 proration would be 88%. The revised proration estimate, 88.4%, reflects actual 2009 PHA subsidy submissions and enacted 2009 appropriations.

**appropriation: \$4,449,060,000**

**divided by**

**approved subsidy eligibility: \$5,030,155,025**

**equals: 88.4%**

For more details and answers to frequently asked questions, see [here](#).

## **Upcoming Dates on the Asset Management Calendar**

- 2009 HUD Asset Management Conferences:
  - **July 13, 14 and 15, 2009**, Boston, MA
  - **July 27, 28 and 29, 2009**, Dallas, TX
  - **August 10, 11 and 12, 2009**, Newark, NJ

- **June 30, 2009**, Unaudited financial statements due to FASS-PH for PHAs with fiscal years ending 3/31/09.
- **July 14, 2009**, Operating Subsidy Revision Deadline

## **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, Stop-Loss, Subsidy and Grants Information System (SAGIS), etc.

### **Specific Links In This Issue**

Links for specific materials referenced in this issue are shown in **blue times roman 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.

### **What’s New on the Website?**

- [Obligation Letters May 2009](#)
- [Explanation of Second Funding Obligation for Calendar Year \(CY\) 2009](#)

## **Asset Management Help Desk - Questions and Answers**

The Asset Management Help Desk has a new phone number and e-mail address. The new phone number is 1-800-955-2232 and the new email address is [assetmanagement@deval.us](mailto:assetmanagement@deval.us) Please use this phone number and email address to send inquiries regarding asset management.

## Using the General Operating Account

**Q** We have a general operating account for our public housing and Section 8 programs. Can this account be used to fund, say, public housing activities for amounts in excess of what's on deposit for public housing, provided the "due to" from the Section 8 program is replenished?

**A** No. While PHAs typically maintain a general operating account for all of their programs, into which funds are deposited, a PHA may not draw down from that account more than what they have in deposit for that particular program, even in the case of "temporary" loans.

## Depreciation and the Operating Budget

**Q** In preparing our operating budgets for the upcoming fiscal year, are we required to include items of a capital nature that are funded through the Capital Fund Program? Also, how should we handle depreciation?

**A** There is no requirement that the operating budget include capitalized work funded through the Capital Fund Program. Generally, operating budgets are restricted to operating revenues and operating expenses. Similarly, there is no requirement for a PHA to include depreciation in an operating budget. Usually, depreciation is accounted for in year-end financial statements, but not operating budgets.

## Allocation of Staffing

**Q** Our agency has been approached to manage a small property for a local non-profit. We have a public housing project that is within the same neighborhood. Is there any prohibition against sharing staff from a public housing project with a non-public housing project?

**A** No. What's important is that the hours charged to the public housing project can be properly supported. The agency could charge the two projects based on actual hours worked or the agency could pro-rate the staff based on the number of units, workload history, or some other reasonable method.

## Fee for Service

**Q** My agency has decided to use a "fee-for-service" approach for some HVAC work (we have a particu-

larly skilled mechanic who is familiar with our systems). Where will those costs appear on the project's income statement?

**A** Essentially, if the Central Office Cost Center (COCC) performs fee-for-service maintenance work, the work will be treated as a third-party contract. In this case, the work performed will appear on the FDS line item no. 94300-020, Ordinary Maintenance and Operations Contracts – Heating and Cooling Contracts.

## Contact the Editor

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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 by email to [assetmanagementnewsletter@deval.us](mailto:assetmanagementnewsletter@deval.us), with the subject line "Question/Comment for the Editor."