

HUD ASSET MANAGEMENT E-NEWSLETTER

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KHDC's Lonsdale Development. This is a renovated 1951 building. KHDC did different façade treatments to break up the "barracks look."

Spotlight on Knoxville's Community Development Corporation

Knoxville's Community Development Corporation (KCDC) was on the road to Asset Management before it was implemented by PIH. Their story demonstrates their own commitment to project-based accounting and management. Spotlight talked to Billie Spicuzza and Tracee Pross about KCDC's experiences, and the lessons they have learned through this process.



Spotlight: What did KCDC look like prior to A/M?

Tracee— Prior to A/M, we had detailed project-based accounting and budgets. The budgets were primarily done by the finance and administrative staff rather than by project staff, so we had to tweak our accounting and budgets to conform to the A/M guidelines.

Billie— Since 2000 we had been developing our own type of asset management. We'd read about the Harvard Cost Study and the news coming out of PIH. So A/M was not a big surprise; it required some adjustments to a direction we had already been heading in, but it didn't require that we change direction.

Spotlight: So you didn't have to undergo a dramatic shift in your approach to operating the real estate. How did you get to the point of anticipating A/M?

Billie— It was probably our own idea of how to do good business. We welcomed the opportunities provided by QHWRA to achieve the highest and best use of each property. We developed report cards and benchmarks to continually analyze each property's operations.

Tracee— KCDC is very committed to strategic planning—one of our key goals was to reduce our overall dependence on HUD. This had driven us to look closely at the properties and focus on our management, finances, and operations. Our commitment to strategic planning also helped drive our capital plan, and helped us make those decisions about where we needed to make capital investments.

Billie— Our management group was already analyzing each property and putting in place specific goals for each. This was before Stop-Loss and before we knew that we would lose funding. We were generally in pretty good shape financially, but we had also learned to become accustomed to operating with the funding received under the Performance Funding System. Once Stop Loss came into play, we knew that now we really had to have short- and long-range goals to achieve fi-

Knoxville's Community Development Corporation

Snapshot

| | |
|------------|--|
| FT Staff: | 159 (down from 198 prior to A/M) |
| PIH Units: | 3,651 |
| Structure: | 16 physical property locations and 12 management sites. 10 of the 16 physical properties are included in shared management arrangements. |
| §8 HCVs: | Approx. 2,825 |

financial control. Strategic planning was critically important at that point.

Spotlight: What was the biggest challenge in the transition to A/M?

Billie— From a management standpoint, the biggest challenge was the financial learning curve for the project managers. Although we had project-based budgets and a system for allocating costs, the project managers had not been heavily involved in budgeting or financial decision-making. And, our accounting folks did the budgets with very little input from operations. Once the accounting department completed the budget, that was it and it was fixed in place.

Tracee— We developed a training program that taught the operations team how to read and understand the operating statements and how to analyze them. And, operations wound up showing the finance and accounting team what formats and report types would be most beneficial for use by the project managers. So the budget format was revised to be a more understandable, readable and useful tool.

Spotlight: How did the project managers get trained?

Billie— We had internal training. We had to help non-financial people—who had skills in property management—learn budgeting and financial statements.

Spotlight: How did they react?

Billie— I think they really appreciated the opportunity to have some input and control—they have a lot to add to the budgeting discussion, of course. Plus, they really began to understand the direct relationship between their day-to-day work and the bottom line on a property.

Tracee— From the Finance Department's point of view, this transition was great because there were now a sec-

ond set of eyes looking at things and questioning results and variances. This transition was a long process, but very successful.

Spotlight: Can you provide a specific example of how a project manager was able to add value to the financial or accounting operations?

Tracee— We have one manager at a newly renovated property that analyzed his financial statements and noticed an unusual amount of material charges to his site from the inventory system. He first reviewed his work orders for any unusual large charges. Unable to locate any large activity, he contacted our accountant who was assigned to work with this manager to assist in investigation. After analysis of the inventory records, the two of them were able to determine that the charges were related to the renovation activities at the same site and should be reclassified. This scenario is typical of the monthly dialogue between housing and accounting staff in analysis of the financials.

Billie— Property managers review their operating budgets each month and enter a written explanation for variances. A manager noticed an increase in vehicle fuel and service charges. He contacted an accounting employee who found that the vendor providing this service had entered the wrong accounting code and another property's vehicle costs were being charged to the property.

Spotlight: How did central operations change?

Billie— The central office is leaner than in pre-A/M days. Some of this was driven by Stop-Loss, which was consistent with our own business model. We did an extensive analysis of in-house against outsourced maintenance tasks. For example, we did an analysis of the relative costs of in-house grounds keeping and compared it with bids received in the market. We simply couldn't justify the in-house approach. The switch to outsourcing saved us over a half-million dollars annually.

Tracee— Right, but in other areas, our own operation was the best option. With pest control, we found after bidding it on the open market, that our in-house operation was cheaper, and by charging the market rate we could generate fees for the Cost Center and hopefully earn a profit. This is a revenue producer for the COCC and we hope balances out the cost of wages, taxes and employee benefits for those centralized staff.



KHDC's Lonsdale Development. This is a new construction; KHDC employed the same façade treatment on existing buildings and new construction to blend the site.

Billie— We do have procurement folks that work on the bid solicitation packages and their salaries are covered by the management fee. The bid package for grounds care and landscaping included a specific scope for each project, and a specific cost is assessed to each project based on the contract, but the entire portfolio receives the benefit of volume bidding.

Spotlight: What are you most proud of at KCDC?

Tracee— We are proud of the fee-for-service analysis that we do. This entails developing a scope of work and specifications for each type of operating and maintenance task; we then use this information to bid the work and to make a sensible determination whether to keep it in-house or outsource it. There is also a system we have in place to monitor the actual work compared to the initial analysis.

Spotlight: What changes occurred with your management staff as the transition to asset management took place?

Billie— Well, we did not lose any PM staff because of their resistance to change or inability to manage in a new way. Those that stayed have embraced the changes,

| Grounds Crew Analysis Result: Outsource Savings = \$513,924 | |
|---|--|
| <p>Analysis of Outsourcing</p> <ul style="list-style-type: none"> • Went out for bid • Received 10 bids which were narrowed to top five • After review of all proposals, the company with the lowest, most responsive and responsible bid was selected • \$306,460 | <p>Analysis of "As Is"</p> <ul style="list-style-type: none"> • KCDC employed 30+ grounds workers • Cost to KCDC annually for grounds crew work: • \$820,384 |

and those jobs that were eliminated were replaced with contracts and other more cost-effective approaches to serving our mission.

Tracee— Throughout all of this, all divisions of our organization worked very well together and were committed to a successful transition. This was very collaborative...a real team effort.

Billie— There was willingness to meet each other wherever we were. A lot of patience on the accounting staff part was required and given. A benefit that may have been a bit of a surprise to some people is that the management people proved to be very helpful to the

| Pest Control Analysis Result: In-House | |
|---|---|
| <p>Analysis of "As Is"</p> <ul style="list-style-type: none"> • KCDC employed two full-time pest control workers • An average cost of \$27.18 per apartment was figured for completing services in-house | <p>Analysis of Outsourcing</p> <ul style="list-style-type: none"> • Went out for formal bid • Received six bids between \$34.97 and \$142.08 per apartment |
| <ul style="list-style-type: none"> • Hourly rate figured as a "burdened" rate inclusive of wages, benefits, vehicle costs, and other miscellaneous expenses • KCDC determined it would benefit from retaining these services in-house and charging the market rate of \$34.97 per apartment based on the lowest most responsive bid. • For budget purposes, the fee is pro-rated across the Public Housing properties based upon historical usage • Actual charge based upon actual hours per timesheet at the market hourly rate | |

accounting folks, too. The mutual understanding makes for a tighter, more successful business model.

Spotlight: What is currently underway?

Tracee— We are again comparing the costs of contracts and in-house maintenance approaches to make sure we are making choices that are in the best interests of the properties.

Billie— We keep our stakeholders and employees informed about the plans for our properties and accomplishments made through our website (www.kcdc.org). It provides ready access to our strategic plan and agency plan as well as information about housing opportunities and how to do business with KCDC.

Were there any changes noticed at the AMPs, by the stakeholders, after the transition to Asset Management?

Tracee— For our stakeholders, focus has started to shift from public housing "as a whole" to each property and the particular strengths and weaknesses that each one has to provide. This philosophic shift enables a much easier transition with stakeholders when we make the decision to move forward with a complete revitalization of a neighborhood. We also have good data to support our decision making process and both internal and external stakeholders are involved in major changes.

Billie— Residents are becoming more aware of how decisions are made about improvements to their sites because managers can better explain what is budgeted for the property. Community stakeholders are providing positive feedback on the revitalization in neighborhood where we are redesigning our housing. We recently received a note from a community organization complimenting the new look at Lonsdale.

Where do you go from here? From an Asset Management point of view, anything else need to be worked on?

Tracee— Yes, we always look for continuous improvement in our operations. We will continue to look for process and efficiency improvements related to Asset Management, like budgeting, reporting and the procurement process.

Billie— Now that property managers have a grasp on their operating budgets, we are going to increase their involvement in developing and monitoring their Capital Fund budgets. We did not want to make the learning curve too demanding at the start.

Any advice for other PHAs?

Tracee— I think it is important for all divisions within an organization to embrace the concept and be committed to working together in order to be successful. I would encourage PHAs to embrace the opportunities provided with good asset management. It is very important to have a good overall working knowledge of each of the properties in your portfolio as each site is different and provides different strengths as well as challenges. Asset management truly guides an agency to be able to make good management decisions now and in the future.

Billie— They may want to consider having a monthly meeting attended by all property managers to keep them in the information loop and to give them an opportunity to exchange information. It creates a sense of camaraderie.

Contact Info

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Billie N. Spicuzza, Senior Vice President, Housing (865) 403-1121

Asset Management Challenge

Project Income Statement For the year ending 3/31/09

| | |
|-----------------------|-------|
| ACC Units | 150 |
| Unit Months Available | 1,800 |
| Unit Months Leased | 1,773 |

| Operating Income: | Unit/Month |
|-------------------------------|------------------|
| Net Tenant Rental Revenue | \$ 205.00 |
| Net Operating Subsidy | \$ 263.23 |
| HUD PHA Operating Grant-CFP | \$ - |
| Other Tenant Charges | \$ 3.00 |
| Excess Utilities | \$ - |
| Investment Income | \$ 4.00 |
| Fraud Recovery | \$ - |
| Non-Dwelling Rent | \$ 3.00 |
| Other Income | \$ 8.00 |
| Total Operating Income | \$ 486.23 |

| Operating Expenditures: | |
|------------------------------------|------------------|
| Administrative Salaries | \$ 39.23 |
| Employee Benefits - Administrative | \$ 14.91 |
| Auditing Fees | \$ 2.00 |
| Management Fees | \$ 51.54 |
| Bookkeeping Fees | \$ 7.39 |
| Advertising and Marketing | \$ - |
| Office Expense | \$ 4.99 |
| Legal Expense | \$ 6.00 |
| Travel | \$ - |
| Other Administrative Costs | \$ 11.46 |
| Total Administrative | \$ 137.52 |

| | |
|-------------------------------------|-----------------|
| Asset Management Fee | \$ 10.00 |
| Tenant Services - Salaries | \$ - |
| Employee Benefits - Tenant Services | \$ - |
| Relocation Costs | \$ - |
| Tenant Services-Other | \$ 11.00 |
| Total Tenant Services | \$ 11.00 |

| | |
|------------------------|------------------|
| Water | \$ 27.01 |
| Electricity | \$ 48.97 |
| Gas | \$ 41.23 |
| Fuel | \$ - |
| Sewer | \$ 18.00 |
| Other | \$ - |
| Total Utilities | \$ 135.21 |

| | |
|-------------------------------------|------------------|
| Labor | \$ 55.00 |
| Employee Benefits - Maintenance | \$ 22.00 |
| Maintenance Materials | \$ 22.00 |
| Maint. Contract: | |
| Garbage and Trash Removal Contracts | \$ 8.00 |
| Heating & Cooling Contracts | \$ 8.62 |
| Snow Removal Contracts | \$ - |
| Elevator Maintenance | \$ - |
| Landscape & Grounds Contracts | \$ 7.00 |
| Unit Turnaround Contract | \$ - |
| Electrical Contracts | \$ 2.00 |
| Plumbing Contracts | \$ 2.00 |
| Extermination Contracts | \$ 3.00 |
| Janitorial Contracts | \$ - |
| Routine Maintenance Contracts | \$ - |
| Other Misc. Contract Costs | \$ 14.08 |
| Total Maintenance | \$ 143.70 |

| | |
|---|----------------|
| Protective Services - Labor | \$ - |
| Employee Benefits - Protective Services | \$ - |
| Protective Services Contract Costs | \$ 6.00 |
| Protective Service Other | \$ - |
| Total Protective Services | \$ 6.00 |

| | |
|------------------------|-----------------|
| Property | \$ 12.73 |
| General Liability | \$ 9.04 |
| Worker's Comp. | \$ 2.22 |
| Other Insurance | \$ - |
| Total Insurance | \$ 24.00 |

| | |
|-------------------------------------|------------------|
| Other General Expense | \$ 1.00 |
| Compensated Absences | \$ - |
| Payments in Lieu of Taxes | \$ 6.70 |
| Bad Debt-Tenants | \$ 3.76 |
| Severance Expense | \$ - |
| Total General Expenses | \$ 11.46 |
| Total Operating Expenditures | \$ 478.89 |
| Cash Flow from Operations | \$ 7.34 |

One of the great advantages of converting to asset management is the availability of project-level financial data, essential for measuring performance and assessing trends. Prior to asset management, financial information was only available at the program level.

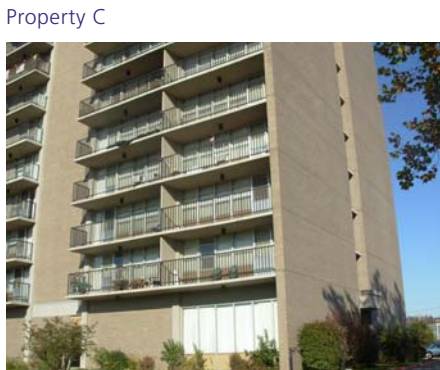
From time to time, we plan to include exercises or “challenges” designed around using project-level financial information to inform management decisions. In this month’s challenge, the new regional manager for North County Housing Authority in southeastern United States is preparing, at home, for a budget hearing with senior management the following morning. Unfortunately, when he printed out the budgets for the four projects in his portfolio, he forgot to include the name of the project in the spreadsheet header. At the left is the budget for one of those projects as well as pictures of each of his four projects. Can you match the budget with the appropriate project photo? What clues did you use to make the association? (See page 6 for the answer.)



Property A



Property B



Property C



Property D

Resource Profile: Resident Characteristics Report

Would you like to know how the average income, total tenant payment, and other demographic information of your project compares to other projects in your PHA or for the public housing program nationwide? Did you know you can get that information from the Resident Characteristics Report (RCR)? This report summarizes general information about households who reside in Public Housing, or who receive Section 8 assistance. The report provides aggregate demographic and income information that allows for an analysis of the scope and effectiveness of housing agency operations. Use this tool to access robust data on the demographics of those served by public housing and vouchers, from the national level to the project level. To explore the RCR, go [here](#).

Asset Management Challenge

Here is the answer to the asset management challenge found on page 5. The answer cannot be Property C, an elevator building, because there is no elevator expense. The answer cannot be Property B, which is boarded up, because the budget shows high occupancy (unit months available vs. unit months leased). So, the choice is between A and D. Project A is a newer project (possibly a mixed-finance project). Clearly, one would expect it to have different costs than an older project (D). For example, one would expect Project A to have lower labor costs than Project D but possibly higher landscaping costs (due to additional landscape features). But without much additional information about the project, it is difficult to draw any conclusions regarding any specific line item, with one exception: utilities. The budget shows \$135.21 per unit monthly (PUM) in utility expenses, including water/sewer, electric, and gas. This amount is slightly higher than the average nationally for public housing. It would be very unusual for a new project (A) to have project-paid utilities. Project-paid utilities are far more common in projects built when energy was cheap. Consequently, the correct answer is D. Congratulations to those who got the answer correct and thanks to all those who put their real estate savvy to the test.

Upcoming Dates on the Asset Management Calendar

- 2009 HUD Asset Management Conferences:
 - May 27, 28, and 29**, in Washington, D.C.
 - June 15, 16 and 17**, in Atlanta, GA.
 - June 22, 23 and 24**, in St. Louis, MO.
- **June 30, 2009**: Unaudited financial statements due to FASS-PH for PHAs with fiscal years ending 3/31/09.

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?

- [Briefing on Operating Subsidy Calculation for New Mixed Income Projects](#)
- [May 2009 Obligation Letters](#)

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. Please use this phone number and email address to send inquiries regarding asset management.

Financial Reporting for PHAs Opting-Out

Q My agency has three projects. We have between 250-400 units. As a result of the 2008 appropriations bill, we decided not to implement asset management in 2008. How should I report the public housing activity on the Financial Data Schedule (FDS) for the initial year of project-based accounting?

A Although all three projects will appear on the agency's FDS template, the agency should consolidate all activity of the public housing program under the "Other Project" column.

Updating Subsidy Submissions

Q My PHA has a mixed-finance project that opened up in October 2008. As a result, I included this project on my 2009 subsidy submission. Since that time, significantly more units have been leased up. Can I submit a budget revision now to get funding for these units that have since been occupied?

A HUD recently posted guidelines regarding subsidy processing for new projects/units ([click here](#)). In future years, HUD expects to publish mid-year revision deadlines; however, for 2009, while the PHA may submit an early budget revision request to its respective Field Office, HUD will process all budget revision requests in accordance with the July 14, 2009 budget revision deadline. Any new projects/units added during the revisions process will receive funding retroactive from January 1, 2009.

Subsidy in Excess of R&O

Q My agency has a mixed-finance project. The amount of subsidy that the project earns exceeds what the Regulatory and Operating (R&O) Agreement provides the project in funding. Who gets the 'extra' amount?

A The amount that the project receives in subsidy under the Operating Fund formula is independent from the amount of subsidy that the PHA negotiates with the owner in the R&O Agreement. Thus, if operating subsidy exceeds the amount required under the R&O, the balance remains with the project and is subject to the same fungibility rules as any other project.

Charging a COCC Employee to Programs or Projects

Q Can an employee of the central office cost center (COCC) also perform direct activities of a program? For example, we have an employee who acts as the receptionist for the COCC part-time but also helps with the Section 8 waiting list the remainder of the time. Is this authorized?

A Yes. There is no prohibition on an employee of the COCC performing front-line work, provided that there is documentation to support the work performed and charged to the affected program/project.

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 by email to assetmanagementnewsletter@deval.us, with the subject line "Question/Comment for the Editor."