HUD ASSET MANAGEMENT E-NEWSLETTER

March 2009, Issue No. 19

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PHA Spotlight - Sacramento

Across the country, state and local governments are interested and invested in the preservation of affordable housing, including PHA assets. And, PHAs have sought alternate financing sources to recapitalize and preserve their assets. In this edition of Spotlight, we explore with the Sacramento Housing and Redevelopment Authority (SHRA) how—relying on their project capital plans and within the framework of Asset Management—they managed to match their needs with state and local resources. In turn, they helped pilot the first Operating Fund Financing Program (OFFP) transaction.

The SHRA is a joint-powers authority that includes the City and County Redevelopment Agency and the City and County Housing Authority. It operates 3,176 public housing units (City and County), organized into 16 projects, and operates 11,000 Section 8 vouchers (City and County). The SHRA also owns eight affordable housing projects, totaling 246 units.

The Spotlight spoke with SHRA Assistant Director Nick Chhotu about their experience working with the OFFP:

You recently closed a deal where you obtained local funds to undertake capital improvements using the OFFP. What was the source of the funds and how did you arrange them?

Through our ongoing relationships, we learned that the City of Citrus Heights had uncommitted Housing Trust Funds and that the State of California might have additional trust funds available. We have two family properties in Citrus Heights: one with 20 and one with 24 apartments. Both were greatly in need of modernization. The Citrus Heights City Council welcomed our proposal to improve and preserve both properties. The Council approved a loan of $1.1 million, plus we were able to obtain a matching commitment from the State. Together with $900,000 we had available in Capital Funds, we were able to implement a $3 million improvement program ($68K/unit).

How was the loan structured?

Although we've operated for some time under a project-based management model, with project-level budgets and financial statements, the projects in this transaction do not generate sufficient cash flow to support debt service. As a result, the City of Citrus Heights agreed to structure the loan as residual receipts notes (largely intended to ensure these market-viable properties are preserved as low-income housing). This means that payment is not required unless there is sufficient future surplus cash or a sale occurs.

What approvals did you need from HUD?

Section 30 of the '37 Housing Act allows a PHA to mortgage or otherwise grant a security interest in public housing property, with HUD approval (no HUD approvals are required for non-secured loans). In July 2007, HUD issued a proposed rule to implement the OFFP. During the period that the proposed rule is under review, HUD is processing OFFP proposals on a case-by-case basis. We worked with PIH's Office of Capital Improvements to get their approval. Essentially, we became the "pilot" for the nation.

What was required to obtain HUD's approval?

The Office of Capital Improvements underwrites each project to ensure, primarily, that a PHA has the management capacity to undertake the project and that there is sufficient cash flow to repay the debt. OCI examined our management performance. They also looked extensively at our backlog needs and our proposed capital plans. Also, the fact that the City was willing to structure the loan as a residual receipts note made the underwriting easier.

How are you using the funds?

Both properties are receiving a complete modernization including new roofs, siding, landscaping, parking lots, appliances, equipment and fixtures. Additionally, and importantly for the goals of asset management, we are able to build an on-site office in an area in which there was previously no on-site housing authority presence.

How does your plan tie in with the transition to Asset Management?

We wouldn't have been eligible for OFFP unless we were able to produce historical financial statements on each project. We also had to provide project-specific capital plans. Similarly, it would have been unlikely that we could have successfully approached the City un-

6250 Mariposa Ave., Sacramento: Pre-Modernization

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2008 Operating Fund Annual Report Facts

What is the occupancy rate in public housing? According to 2008 PHA subsidy submissions, the unadjusted occupancy rate is 92.5% and the adjusted occupancy rate (adjusted for HUD-approved vacancies) is 95.7%. (Source: Operating Fund Annual Report, Calendar Year 2008. For a copy, click here.)

Occupancy of Public Housing: 2008

Total Occupied Unit Months	12,073,065
Total Available Unit Months	13,055,071
Unadjusted Vacancy Rate	92.5%
HUD-Approved Vacant Unit Months	
Modernization	297,301
Special Use	39,889
Litigation	3,240
Disasters	46,940
Casualty Loss	10,345
Changing Market Conditions	36,299
Subtotal	434,014
Adjusted Vacancy Rate	95.7%

less we had project-level capital needs information and financial statements.

Why was the City of Citrus Heights interested in this undertaking?

The City Council feels strongly that affordable housing needs to be preserved. Both apartment communities are located in highly visible sections of Citrus Heights and had potential to be sold for alternative uses. Council members had heard of the loss of PHA properties in other parts of the country and were concerned about their community. Through the active assistance of HUD's Office of Capital Improvements, we were able to provide the city with a long-term use agreement. Additionally, the residual receipts notes gave assurance to the local and state government that if the projects are removed from the PHA portfolio, the notes come due.

What advice do you have for other PHAs interested in obtaining loans through this demonstration program?

Let your local cities and states know about this new program and see what opportunities may surface. Talk with the people at the Office of Capital Improvements to take advantage of this program. Clearly, we were fortunate that the City was willing to provide us, essentially, a no-payment loan. Still, we encourage PHAs to think creatively. The program offers substantial flexibility to allow PHAs to come up with innovative strategies. Consider whether you can leverage recent appropriations of Neighborhood Stabilization Program or Stimulus funds through this channel. And, to be sure you are able to seize any opportunities that arise: get your plans ready now.

Contacts

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Update: 2009 Subsidy Processing

For Calendar Year (CY) 2009, HUD initially obligated four months of subsidy (January-April). These initial obligations were based on each project's 2008 eligibility, adjusted for inflation and other factors.

For agencies whose subsidies decline under the new Operating Fund formula, and who have not passed Stop-Loss, the initial funding obligation retained the 24 percent transition funding level that was applicable in 2008. As per PIH Notice 2009-2, unless a decliner PHA can demonstrate a successful conversion to Asset Management in accordance with 24 CFR 990.230, its overall subsidy amount for fiscal year 2009 will reflect the complete 43 percent reduction as required under the transition funding schedule by the end of fiscal year 2009. For a copy of PIH Notice 2009-2, click here.

All PHAs were required to submit their 2009 subsidy forms to their local field offices by January 15, 2009. The Department will issue a second funding obligation, which will carry PHAs through September, before the end of April. This second funding obligation will be based on approved submissions, affecting overall eligibility and proration.

Earlier this month, the Department made subsidy adjustments to 48 PHAs that made changes in project groupings in 2008 that were not properly reflected in their estimated 2009 eligibility. Obligation letters for the affected PHAs can be obtained here.

As a reminder, the operating subsidy revision deadline for CY 2009 is July 13th. Also, PHAs with new mixed-finance projects should review the recently posted instructional material, which can be accessed here.

Final subsidy eligibility will be determined once all subsidy revision forms have been processed, expected by late September.

Increased Terms Allowed on Energy Performance Contracts

On January 26, 2009, the PIH Operating Fund Program issued its Final Rule concerning increased terms of energy performance contracts (EPCs). The final rule adopts the October 16, 2008 interim rule, without changes.

In HUD's implementation of Asset Management, PHAs are provided with incentives for energy conservation and utility rate reduction. These energy conservation measures may include, but are not limited to: physical improvements financed by a loan from a bank, utility, or governmental entity; management of costs under a performance contract; or a shared savings agreement with a private energy service company.

When PHAs undertake energy conservation measures financed by an entity other than HUD, the payments on this financing previously could not exceed 12 years (See §990.185a). With the issuance of the final rule (effective February 25, 2009), the maximum term of an energy performance contract between a public housing authority and an entity other than HUD may now be up to 20 years. Similarly, existing EPCs may be modified, without reprocurement, to allow repayment over a period of no more than 20 years. The increase in the maximum EPC term is provided by statutory amendments and will enable longer payback periods for energy conservation measures.

For more information please see the Interim Rule, and the Final Rule.

Housing Commissioners in Mississippi Receive Asset Management Training

Housing Commissioners throughout the State of Mississippi are learning asset management and exploring how it impacts their specific housing agencies. Kick-off occurred during the Mississippi Association of Housing Redevelopment Officials (MAHRO) Annual Conference last August. Mary Jo Denson, a commissioner with MS Regional HA V, commented that due to the diversity of portfolios in the state, round table discussions with 10 to 12 members encourage good question and answer interaction. "One blanket will not cover all of us. We need to discuss more so people really understand how their agency fits in with the things they need to do for Asset Management."

It is great to get together in person, but travel budget constraints mean that other training strategies must be pursued. The Jackson HUD Hub in coordination with the MAHRO Vice President of Commissioners, Ida Minor and the President of MAHRO, Alrick Young, provided Commissioner Virtual Training. The commissioners received both emailed and hard copies of training materials prior to each conference call. A recent hour long conference call included a summary of "things to do" and "things not to do" in the new Asset Management world. Executive directors taped the call for future reference and the commissioner guidebook is available to reinforce the training.

Holly Bellino Knight, Director of the Jackson Hub, reports that the commissioners are responding "fabulously" to the training. The commissioners want to know what types of review reports they should be seeing at board meetings and how to judge the health of their Asset Management Projects. There have been several requests for more training on how to read the Financial Data Schedule and what to look for in audits.

HUD Announces Regional Asset Management Conferences

The Department will be providing 10 regional conferences on Asset Management. The first conference will be held May 27-29, 2009, in Washington, D.C. The remaining conferences will be scheduled from June through October. Attendance is free and will be open to all PHAs but sessions are limited to 800 participants each.

Each conference will include concurrent sessions on topics ranging from the Central Office Cost Center to Fee-for-Service and Site-Based Waiting Lists.

For more information about the conferences, including topics and registration procedures, click here.

HUD Posts Guidance on Appeals Under 24 CFR Part 990, Subpart G, for Calendar Year 2009

On March 5, 2009, HUD issued PIH Notice 2009-10 (HA), Guidance on Appeals Under 24 CFR Part 990, Subpart G, for Calendar Year 2009. The Notice provides PHAs with guidance on the appeals process for CY 2009, under the Final Operating Fund Program Rule. Per Section 990.245 of the Rule, there are five types of appeals:

- Streamlined appeals
- Appeal of formula income for economic hardship
- Appeal for specific local conditions
- Appeal for changing market conditions
- Appeal to substitute actual project cost data

Appeals must be submitted by May 15, 2009. The Department expects to issue final appeal decisions by August 1, 2009. A PHA's subsidy will be adjusted by the appropriate amount retroactive to the beginning of the year if an appeal is granted.

For additional details about the requirements for each type of appeal, PHAs are encouraged to read the full Notice prior to submitting an appeal.

HUD Issues Notice on Use of EnergyStar Equipment

On March 5, 2009, HUD released Notice PIH 2009-09, updating guidance on using EnergyStar equipment to promote energy efficiency and control operating costs.

In the shift to asset management, each project receives its own Utility Expense Level (UEL) and PHAs must maintain costs and consumption at the project level. PHAs should plan for energy conservation on an individual project basis, always purchasing EnergyStar appliances and equipment unless a payback analysis indicates that it is not cost effective to do so. To the extent that a project can achieve energy savings, there will be more funds available to that project for other operating costs.

To encourage purchase of energy-efficient equipment, EnergyStar partners sometimes make special offers available. To learn more about the products and special offers that may be available in your community, click here. PHAs must follow established procurement requirements when making purchases using special offers.

Click here for the complete notice on using EnergyStar products for both existing public housing and the development or modernization of new public housing.

Training Alert: Subsidy Processing of New Mixed Finance Projects

The PIH Financial Management Division (FMD) recently posted a narrated Powerpoint presentation on requesting subsidies for new Mixed Finance Projects. The presentation includes information from obtaining PELs to calculating Add-ons. To go to the training, click here.

Upcoming Dates on the Asset Management Calendar

- **April 13, 2009**: Unaudited financial statements due to FASS-PH for PHAs with fiscal years ending 6/30/08, 9/30/08, and 12/31/08.
- **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
- January 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.

Initial Allocation of Assets and Liabilities

Q When initially assigning the public housing balance sheet between projects and the Central Office Cost Center (COCC), PHAs are permitted to provide the COCC with working capital equal to six months of fee income (management fee, bookkeeping fee, and asset management fee). In following years, are PHAs allowed to build-up that working capital or are they limited to six months of working capital each year?

A A COCC's working capital (equity) can be built up each year (beyond the initial assignment) if COCC income exceeds COCC expenses.

Q For the initial year of reporting under asset management, does the PHA need to establish a beginning equity for each project and the COCC?

A Generally, for annual financial statements, the beginning equity should match the ending equity from the previous year. However, in the first year of reporting under asset management, where the PHA must assign the balance sheet between projects and the COC (no longer a program-wide balance sheet), a PHA can choose to assign the balance sheet items at the beginning during, and at year end. For the first year of project-based accounting, the amount of this beginning equity line must be entered manually. After the first year, this line will be automatically populated using the ending equity balance from the prior year. The PHA should maintain records reflecting establishment of a beginning balance sheet (including equity), which can be adjusted during the first year of project based accounting.

Asset Disposition

Q Due to the downsizing of our Central Maintenance operations we own equipment that is no longer beneficial to maintain and is not necessary for the operation of individual projects (for example, a forklift). These assets were originally purchased with Capital Funds. Can these assets either be assigned to the COCC or sold, with the proceeds retained by the COCC?

A The rules governing disposition of program equipment can be found at 24 CFR 85.32(e). Generally, any item valued at less than $5,000, if no longer needed for the original project or program or for other activities currently or previously supported by HUD, can be retained, sold, or otherwise disposed with no further obligations to HUD. Under these conditions, the PHA could assign the equipment to the COCC without further obligation. For more background information, see PIH Notice 2008-17.

Excel FDS Template Questions

Q Does the Excel FDS Template that PHAs submit for the first year (unaudited and audited submissions) contain the "edit flags" that are part of the on-line FASS-PH system?

A Unfortunately, the Department was not able to include the edit flags into the Excel FDS Template. These edits flags will be included with the on-line version of the new FDS, expected to be released later this fall.

Q Once a PHA submits its Excel FDS Template, how will it be notified that the submission has been reviewed (accepted, rejected, or conditionally accepted)?

A The PHA will be notified by email (based on the email address the PHA entered on the Template) if the submission has been rejected or conditionally approved. If the unaudited submission is conditionally approved, the PHA must address the items noted before the audited submission. The Department does not notify agencies if their submissions are approved but a PHA can look up its submission status on the FASS-PH Website, along with all review comments.

Transition Year Questions

Q What is the consequence of a project having negative excess cash in the transition year?

A There is no consequence for scoring because PHAs are not receiving a PHAS score during the transition year; however, for Year 2, a PHA with negative excess cash would not be permitted to receive an asset management fee (the asset management fee earned in a year is based on the excess cash computation at year-end of the prior year).

Q Are there any "fungibility" restrictions in the transition year?

A No. A PHA can fully move funds between projects. Also, it can either assign balance sheet items at the start of the transition year, and then transfer any amounts, or it can wait for the end of the transition year to assign balance sheet items.

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."