Asset Management e-Newsletter

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HUD Issues First Stop-Loss Approval

The Department is pleased to announce that, on July 25, 2007, it approved the stop-loss application for the Florence, AL, Housing Authority (FHA). As a result, the FHA will have its losses under the new Operating Fund formula stopped at 5%. The FHA has four projects and 647 public housing units.

The FHA is the first stop-loss application to be fully processed. Initially, Year 1 stop-loss applications were due October 15, 2006. Although HUD subsequently extended the Year 1 deadline to October 15, 2007, seven of the 19 earlier applicants chose to still be reviewed under the earlier submission. The remaining submissions are still being processed.

Shaler Roberts, Executive Director of the FHA said, "We are so happy that our stop-loss application has been approved. We worked very hard to make the needed changes. We had always been working toward the October 2006

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deadline. When the extension came, we did not want to withdraw. We felt we were ready."

The FHA started planning for the conversion in December 2005. In less than eight months it completed the organizational changes, provided employees with training, and relocated all centralized staff from a stand-alone office building to ground floor space at one of its high-rises. (The agency intends to lease its former central office building and use the proceeds for local affordable housing purposes.) The FHA adopted an extremely decentralized management model. All direct property management functions are now handled by on-site staff—from waiting list administration to rent collections.

"The process to complete the stop-loss kit was similar to filling out a grant application," said Roberts. "Because we had already divided into projects in early 2006, most of the data requested in the application was readily available; it was pretty straightforward. Also, because we routinely prepare operating statements on each project, we didn't have any problems complying with the financial reporting requirements."◇

A Message from the Assistant Secretary…

On July 12, 2007, the Department convened the first session of the Administrative Reform Initiative, or ARI, which included nearly 200 PHA and

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industry representatives. The purpose of ARI is to identify administrative requirements that can be streamlined to assist PHAs with the transition to asset management.

As I have indicated before, the Department has certain essential oversight functions and reporting responsibilities that are statutory. That said, I am confident that we can create a new administrative framework for public housing, within the larger asset management model, that results in less paperwork, greater local flexibility, and more emphasis on performance.

Committees have been formed around ten subject areas, such as Capital Fund and Agency Plans, Financial Management, Resident Involvement/Self Sufficiency, and Occupancy. Although direct participation on ARI committees was limited, the Department has created an ARI website, along with committee chat rooms, that are open to everyone. To access the ARI website, please click here.

Over the next two months, the committees will begin developing their recommendations. An all-day "read-out" meeting is scheduled for Thursday, September 27, 2007, in Washington, D.C. I truly look forward to the results of this important exercise.

– *Orlando Cabrera, Assistant Secretary* ◇

Proposed Rule on Leveraging Operating and Capital Funds

On July 18, 2007, HUD published a proposed rule, which would amend 24 CFR Parts 905 and 990, to provide for financing activities under the public housing Capital and Operating Fund programs.

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This rule establishes the program requirements, including the approval process, for PHAs to request authorization from HUD to pledge either capital or operating funds for debt service payments. A copy of the proposed rule can be found here.

This proposed rule is intended to provide PHAs with additional tools to assist them with their larger capital planning strategies. For example, it would allow a PHA to use cash flow from the operation of a project to pay for a loan that funded a roof replacement.

Comments on the proposed rule are due by September 17, 2007. Parties may submit comments to the Office of General Counsel, Rules Docket Clerk, HUD, 451 Seventh St., SW., Room 10276, Washington DC 20410-0001. Online submissions may be completed by starting here.◇

2008 Operating Subsidy Processing Notice Published

PIH Notice 2007-21, published July 23, 2007, provides PHAs with guidance on the process for calculating and submitting requests for operating subsidy eligibility for Federal Fiscal Year (FFY) 2008. Click here to view the entire notice.

There are a number of changes in both the calculation and submission of subsidy forms for 2008.

- First, PHAs will now submit subsidy forms for each project. The new Operating Fund formula was implemented in 2007; however, PHAs were still funded at the agency-level. 2008 will be the first year that operating subsidies will be

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determined on a project-by-project basis, in accordance with each project's unique Project Expense Level (PEL) and Utility Expense Level (UEL).

- Second, under the 2008 transition provisions, agencies that gain under the new formula will have their eligibility fully phased-in; whereas decliner agencies will have their losses capped at just 24% of the difference between the old and new funding formulas. In 2007 gainer agencies had their eligibility calculated at 50% of the difference between the old and new formulas and decliner agencies had their losses capped at 5%.
- Third, PHAs will perform their calculations, and transmit their submissions, electronically through the Subsidy Awards and Grants Information System (SAGIS). (See related article, below.)

PHAs will enter their submissions in SAGIS on a staggered basis. The schedule for PHA submission will be posted on the Asset Management web page, here. A PHA that fails to submit its required calculation according to the submission schedule may be subject to a suspension and/or loss of operating subsidy payments.

Revisions are due into the SAGIS system no later than July 14, 2008. To access a spreadsheet that contains 2007 PELs for all projects, along with 2008 utility and non-utility inflation factors, please click here. (This spreadsheet is for informational purposes only given that each project's worksheet within SAGIS has already been pre-populated with this data.) ◇

PHA Spotlight: San Antonio Housing Authority

This month the Spotlight shares the experience of the San Antonio Housing Authority (SAHA) in its early adoption of "fee-for-service." Fee-for-service is one of the key components of public housing's transition to asset management.

SAHA operates 6,468 units of public housing and 12,000 Section 8 housing vouchers. In addition, it owns approximately 3,100 units of affordable housing and has made investments in another 2,700 units through partnerships.

The Spotlight spoke with Ed Hinojosa, SAHA's Chief Financial Officer, and Gavino Ramos, from SAHA's Corporate Relations Office, to understand why SAHA implemented fee-for-service earlier than required, how they approached this conversion, and the impact it has had on their agency.

PHAs are not required to convert to project-based budgeting and accounting, and in

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particular to a management fee approach, until fiscal years beginning July 1, 2007. However, you began using fee-for-service with your fiscal year beginning July 1, 2006. Why? *We did it because we thought it would be simpler administratively and it would provide us with a stronger business model. We also believed that, due to a number of efficiency initiatives, we could operate the central office for the fees HUD published.*

You have a large portfolio of non-public housing that you own. Had you previously used fee-for-service for that inventory? *Interestingly, we didn't. We managed that portfolio, in terms of overhead, under the public housing model, i.e., we allocated central office staff. When HUD came out with its asset management guidance we began thinking: "Why aren't we doing this for our entire agency?"*

Why is fee-for-service advantageous administratively? *Like most PHAs, we historically maintained complex overhead allocation (cost allocation) methods for determining how much of, say, the Finance Department's costs should be allocated to public housing, Section 8 vouchers, our local affordable housing, etc. As you can tell, we're a fairly large and complex real estate organization. It is far simpler to establish a fee structure than to maintain the prior cost allocation plans. We pride ourselves in thinking and operating like a business and the new structure allows us to place the accountability for the property (AMP) where it belongs, with the property manager. Fee-for-services gives us a benchmark and we like the discipline and challenge of working under the fee structure.*

Based on preparation of a reasonable phase-in plan, PHAs have until 2011 to comply with new management fees. You wouldn't be doing fee-for-service unless you could live with these new fee schedules. Is that the case? *The short answer is yes. We realized that we could make the numbers work. Of course, you have to remember that we have a large portfolio, so we may have an economy of scale that other agencies may not enjoy.*

Organizationally, how close were you already to the asset management model?

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What types of changes were needed to transition? *We were already moving in that direction. SAHA had decided that site-based management and maintenance would improve performance all-around. When the asset management model came through the pipeline, we were ready to provide the extensive training opportunities necessary to help our managers and maintenance staff make the transition. We were also prepared to arrange the appropriate transfers within SAHA to maximize the utilization of our existing staff. Inevitably, we have experienced some attrition, as is normal during major transitions; but overall we feel we have done very well.*

What property management services do you handle through fee-for-service and how did you make that decision? *First, there are some services that, historically, we recognized would be best performed by contract. For example, we have always contracted for landscaping and extermination and, for the time being, we believe that it is better for us to purchase those services externally rather than attempt to handle them in-house. Next, we looked at what tasks we were performing internally and evaluated whether or not it would be better to go with a contracted vendor. Early on, we determined that it was costing us more to maintain a centralized trash collection crew than to hire a private trash collection vendor; so we contracted that task out. We kept the centralized trade group and some vacancy preparation functions in-house, but priced the services aggressively, meaning that we priced below the prevailing market. We gave our site managers the option of purchasing these in-house services at below-market prices or using an outside provider. Every six months we plan to re-evaluate the pricing of our trade group.*

> ***"Asset Based Management has allowed our properties to determine where their strengths are, and build upon them."***
> –Ed Hinojosa, SAHA's CFO

How successful have you been at this arrangement? *We have now completed our first year under this reporting structure. The managers have liked the fact that they have the choice to determine what's in the best interest of the property (AMP) in terms of price, responsiveness, and quality. Over time, we'll*

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learn what works best. In the meantime, we believe that this transition has made the remaining centralized trades shops more competitive and more responsive. There's more accountability at the site (AMP) and in the trades group. There is also a much greater awareness and control of costs throughout the organization.

What was the response to the transition to asset management (e.g. giving site managers the ability to make decisions) and how has staffing changed at SAHA since the transition, if at all? *As we progressed with our asset management planning and transition, we dealt with a number of staffing concerns—attrition, transfer of staff, and training needs. Basically, we are asking many people to do a different job than what was originally intended and some were not interested in shifting their role. However, we have been successful in retaining a majority of our staff. This year we will continue to assess methods of increasing central office revenue and making it more efficient.*

For more information about SAHA's transition and experience with fee-for-service integration, you can email Ed Hinojosa at Ed_Hinojosa@saha.org and you can view the agency's website at http://www.saha.org. The e-Newsletter would like to thank SAHA for sharing their experiences. ◇

HUD Moves Forward with Automation of Grant Allocation via SAGIS

The Subsidy Awards and Grants Information System (SAGIS) is an automated system that will allow for the electronic submission, allocation, and management of more than $22 billion in HUD program funding. SAGIS integrates multiple paper-based and electronic systems into a single, easily accessible platform. SAGIS will eventually cover five PIH program areas: Housing Choice Vouchers (HCV), Capital Fund, Operating Fund, Office of Native American Programs (ONAP), and the Grants Management Center (GMC). The additional PIH programs are planned for inclusion within SAGIS in order to allow for funds assignment sometime next year.

One of the first uses of SAGIS for PHAs will be the FY 2008 operating subsidy submission. The successful implementation of SAGIS will result in the following business benefits and improved capabilities:

- Automation of manual processes used to manage subsidy allocations;
- Improved accuracy of transactions and subsidy payments; and
- Reduced processing time.

HUD will release formal guidance on the requirements and process for using SAGIS in the near future. To learn more about this new system and to obtain training materials, please visit the Real Estate Assessment Center's **SAGIS webpage**. ◇

HUD to Re-Post Revised Five-Year and Annual Plan Template for Comment

HUD posted for public comment a streamlined Five-Year and Annual Plan template (HUD Form 50075 and related documents) on May 7, 2007. This proposed form significantly reduced the number of plan elements that PHAs would be required to submit, allowing instead for these elements to be incorporated by reference. For example, instead of including with each year's submission a statement of the PHA's rent policies, PHAs may instead simply indicate where the public may obtain those policies.

As a result of public comment, the Department has made additional revisions to the plan template and during the week of July 30, 2007, plans to re-post for public comment. The Department believes that the newly posted proposed form further streamlines the plan without sacrificing public access. ◇

Important Dates

September 12, 2007 – Second Administrative Reform Initiative meeting

September 27, 2007 – Final Administrative Reform Initiative meeting

October 15, 2007 – Year 1 Stop-Loss application due date

HUD Posts Guidance on Requests to Extend Compliance with Management Fees

In accordance with PIH Notice 2007-9, issued April 10, 2007, PHAs may request extension of the period for compliance with management fees until 2011. In response to requests from PHAs, HUD recently posted on its asset management website the requirements for these requests. PHAs can click here for a link to this information.

Requests will be approved as part of the Annual Plan submission process. PHAs must (1) indicate the fees needed to cover current overhead costs; (2) prepare a reasonable schedule to achieve compliance by 2011; and (3) include this information with their Annual Plan. ◇

Asset Management Help Desk –Top Questions

Thank you to everyone who submitted questions to the Asset Management Help Desk. Below, please find the top questions asked during the past month.

Question: When a PHA is procuring construction projects under $100,000, does it have to use HUD Form 5370-EZ or can it use HUD Form 5370?

Answer: The PHA may use either of the two HUD forms when procuring construction projects under $100,000. Section 5.10 of the Procurement Handbook for Public and Indian Housing states that "PHAs may use form HUD-5370 in lieu of the HUD-5370-EZ if the former is more appropriate given the nature of the work". However, if HUD Form 5370 is used instead of 5370-EZ for a contract under $100,000, it should be noted that clause 46(j), which discusses the Contract Work

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Hours and Safety Standards Act, will not apply, and PHAs may want to strike that section.

Question: How does a PHA handle the Capital Fund grants from FFY 2006 and prior under the asset management model?

Answer: The 10% Capital Fund Management Fee will become effective beginning with grants funded with the Capital Fund FFY 2007 appropriation (to be awarded in the summer of 2007, excluding the portion of FFY 2006 funded grants awarded in April of 2007). For FFY 2006 and prior year grants, a PHA should continue to charge actual expenses up to the 10% maximum permitted (Supplement to PIH Notice 2007-09, page 26). The Supplement can be found here.

Question: When preparing Capital Fund Program budgets for the Annual Plan, should PHAs use the old development number or the new AMP number?

Answer: For the present, PHAs should continue to prepare Annual Plans using the old development numbers. Within the next year, the Department intends to realign development numbers with AMP groupings. When the Department initiates the realignment, it will publish guidance on how to adjust PHA plans to line up old development numbers with new AMP numbers. Until that transition occurs, and until further instruction, PHAs should continue to use the existing development numbers in the Public Housing Information Center (PIC) system to describe projects in PHA plans and to prepare P&E reports.

Question: For the purpose of the Year 1 Stop-Loss application, should capital expenditures be listed at the AMP level on the project based budget?

Answer: For the purpose of the Stop-Loss application, PHAs do not have to include projected capital expenditures in the AMP budgets. However, if any Capital Fund monies are used to support AMP operating expenses, those funds should be reflected in the budget. ◇

What's New on the Website?

- Year 2 Stop-Loss Submission Kit
- 2008 Operating Subsidy Processing Notice
- 2008 Operating Subsidy Pre-Populated Data
- Schedule of Key Asset Management Provisions
- Table of Fees Under Asset Management

Resources and Useful Links

For more information, please visit the HUD-PIH Asset Management Website here. Click on the following hyperlinks for detailed information about specific topics of interest:

- AMP Groupings
- Financial Management
- Operating Fund Program
- Stop-Loss
- PIH Notices
- Subsidy and Grants Information System (SAGIS)
- Asset Management Help Desk

Give Us Your Ideas

Do you have an article idea, question, or comment for the editor? The Office of Public and Indian Housing (PIH) is the editor of this monthly e-Newsletter. Please send all inquires by email to AssetManagementNewsletter@hud.gov. ◇