ASSET MANAGEMENT E-NEWSLETTER

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Online Training Now Available: Changes in Financial Management and Reporting

HUD is pleased to announce the posting of a new training tool entitled, *Changes in Financial Management and Reporting Under the New Operating Fund Rule*. The new training tool can be accessed here and basic instructions can be accessed here. The training tool is designed to provide PHA staff, HUD field office personnel and other interested parties with a user-friendly, flexible, and interactive tool to teach and reinforce the financial management and reporting guidelines outlined by the Department in Notice PIH 2007-9 and the associated supplement. Specifically, the training tool includes the following eight modules:

- ❖ Introduction
- ❖ Fee for Service Approach
- ❖ Financial Data Schedule and Excess Cash
- ❖ Assignment of Assets/Liabilities
- ❖ Capital Fund Program Reporting
- ❖ Mixed Finance Projects
- ❖ Project-Based Budgeting
- ❖ Small PHAs

Trainees will have the option of viewing the modules directly from the website or downloading the modules and viewing them from their computers. At the conclusion of each module, trainees can download a slide show to test their knowledge of the material. ❖

New Project Budget Tool Available to PHAs

The Department developed a tool that PHAs can use to create project-based budgets. The Project Budget Tool and instructions can be accessed here.

The budget format contained in the Tool is not mandatory. PHAs may use their own budget format (i.e., they may use their own presentation of line items); however, these line items must readily reconcile with the Department's Financial Data Schedule (FDS), which is the accounting format for year-end reporting.

The Tool utilizes macros and hyperlinked budget worksheets to allow customization of budgets to fit the particular project profile for a given PHA. Adding additional projects to the budget is as easy as clicking a button within the Tool. The Tool links each distinct project budget to a master PHA project-wide budget so a PHA can easily determine the budgetary position of both individual projects and the projects as a whole. The budget also contains tabs that convert user-supplied budget information to a per unit per month (PUM) basis. ❖

A Message from the Assistant Secretary…

Recently, I spoke with an employee of a PHA that, historically, centralized vacancy preparation. "Because a PHA is measured, in part, by its performance in turning around vacant units, we were reluctant to give that function to our on-site staff," he said. "In our conversion to asset management, we looked around at other private operators in our market and, in all cases, on-site staff handled their own vacancies. About six months ago, we gave this responsibility to our project staff. Since then, we've both cut our turnaround time on vacant units and reduced our make-ready costs. Further, the on-site staff now feels more ownership in their project."

I expect more and more PHAs are having similar experiences as they begin the transition to asset management. The new Operating Fund rule does not require any particular organizational model. It doesn't require, for example, that rent collections be handled on site. It does require, however, that services be arranged "in the best interests of the project." The key is for PHAs to make informed decisions regarding these choices, including a comparison of costs.

Understanding the component (or line item) cost to operate each public housing project has not been an essential requirement to managing public housing in the past. Gradually, PHAs are acquiring knowledge, specific to their local markets, regarding what it typically costs to paint a vacant unit, provide monthly extermination, or handle snow removal. Such information will be critical to managing public housing in the future and determining which arrangements are "in the best interests of the project."

– Orlando Cabrera, Assistant Secretary ◆

HUD Provides Project Expense Level (PEL) Calculator

The Department has posted on its Asset Management website a Project Expense Level (PEL) calculator designed to assist PHAs in estimating PELs for new projects or changes in Asset Management Project (AMP) groupings. The PEL calculator is available here.

The PEL calculator follows the detailed PEL calculation process outlined in the notice, *Public Housing Operating Fund Variable Coefficients for Public Housing for Public Housing Operating Fund Project Expense Levels; Correction* (FR-5016-N-02), published on January 5, 2006 and available in full text here.

In order to calculate the estimated PEL values, PHAs need to enter information on project characteristics (e.g., Neighborhood Poverty Rate, AMP Size, Building Type, Age). Once the values are entered, the calculator will generate the AMP's estimated PEL. **Please note the PEL value calculated is only an estimate.** The PEL value provided by the Department on the form HUD-52723, *Calculation of Operating Subsidy*, may differ; the PEL on the HUD-52723 is the official PEL. ◆

Streamlined Annual and Five-Year Plan Published for Comment

On May 7, 2007, the Department published in the Federal Register notification of intent to streamline the PHA Annual Plan, form HUD-50075, and related documents (Docket No. FR–5117–N–39).

PHAs have identified the Annual Plan as one of the major areas for administrative streamlining. The proposed plan would eliminate a number of current plan submissions. Instead, PHAs would indicate in the plan where certain required (statutory) elements can be obtained.

While Section 5A of the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998, requires the submission of Annual and Five-Year PHA Plans, the statute provides HUD with the discretion to determine plan format.

The updated form HUD-50075, *PHA Plan*, is available here. Please note this version is proposed, pending review of public comments. ◇

Important Dates

May 28, 2007 – Deadline for PHA Plan public comments

July 15, 2007 – Deadline for Operating Fund appeals

October 15, 2007 – Deadline for Year 1 submission of stop-loss applications

HUD Convenes Forum on IT Systems in Washington, DC; PIC Discussed

On April 26, 2007, the Department convened a forum to obtain feedback about the planned implementation of certain key upgrades to PIC as well as to present a high-level overview of planned revisions to other HUD systems in support of asset management. Participants in attendance included staff from eight PHAs and representatives from CLPHA, PHADA, and NAHRO. The Department was represented by staff from the Office of Capital Improvements, the Real Estate Assessment Center (REAC), and the Office of Field Operations (staff from two field offices).

The Department recognizes the conversion to asset management will necessitate system upgrades in order to collect and store data to support program objectives. Meeting participants discussed many topics, including: the synchronizing of development numbers with AMP groupings; the protocol for PHA-requested changes in AMP groupings; planned activities to improve the accuracy of building and unit data; and future HUD information system releases. Department representatives explained the steps being taken to minimize the impact of changes on PHAs, particularly with respect to the submission of form HUD-50058. The Department is committed to preventing disruptions to the HUD-50058 submission process.

Although the conversation focused primarily on PIC, the impact to other systems such as FASS-PH, MASS, PASS, WASS, and SAGIS was also discussed. ◇

PHA Spotlight: King County Housing Authority (King County, Washington)
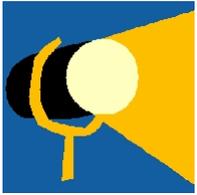
The King County Housing Authority (KCHA) is one of the most diverse Public Housing Authorities (PHAs) in the country. In addition to its 3,000 units of public housing and 9,200 housing choice vouchers, it owns nearly 4,600 units of "affordable" housing – a mix of bond-financed, tax-credit, and Federally-assisted housing. Largely as a result of this extensive experience in multifamily housing, KCHA began the process of converting to a project-based management model for its public housing program in 2004.

Recently, the Spotlight spoke with Connie Davis, KCHA's Assistant Executive Director, and Mike Reilly, KCHA's Director of Housing Management, regarding KCHA's conversion to asset management. In particular, we discussed the decentralization of the waiting list and procurement activities, which other PHAs have identified as key transition issues. To learn more about the KCHA, visit their website at www.kcha.org, or email Mike Reilly at MikeR@kcha.org.

KCHA is unique in more ways than one. Can you tell us about your public housing inventory? *King County, which surrounds the city of Seattle, is the 12th largest county in the United States in terms of population, with 1.7 million residents and an area of 2,130 square miles. What distinguishes KCHA from other large PHAs is the fact that we have inventory scattered throughout this large county. Moreover, our*

inventory consists mostly of small projects. In terms of public housing developments before the transition, our average size was under 50 units.

So, you combined a lot of these smaller developments as you converted to asset management? *Absolutely. That was one of the first steps we took to transition to asset management. We involved field personnel in the process in order to leverage their extensive knowledge about the projects. We began with 51 public housing developments and reconfigured these into 29 Asset Management Projects (AMPs). The new AMP configurations are much more sensible from a management perspective.*

How would you describe your management arrangements prior to converting to asset management? *Our organization model was a centralized system divided between five regions due to the distance between projects. We performed some services centrally, such as the waiting list and procurement. However, many functions were handled out of five regional offices. These regions were much like large projects. We had very little "presence" at any project. Inside our regions, the staff was assigned to functions, not projects. No one was primarily responsible for overall performance of a project.*

What prompted you to change from this model? *Primarily, we wanted to identify costs at the project/AMP level, which we could not do under the regional approach. We were also beginning to look at ways of financing our public housing modernization needs with non-traditional (private) financing, which required a project-centric approach. However, we thought that the move from a regional management/maintenance operation to a site-based operation was not going to greatly improve costs or effectiveness. The surprise to us was the gain in productivity.*

Can you give an example? *For years, our South Ridge project had a serious plumbing problem that significantly affected KCHA's operating expenses. Unfortunately, this problem was not resolved because management had no way of knowing that the problem even existed. Once*

South Ridge transitioned to asset management, it was immediately apparent that action needed to be taken on the project's plumbing system. South Ridge is in a better physical and financial position because of this action. The information collected in the project-based management model enables us to identify potential and actual problems and take steps to quickly and effectively resolve them. That is what asset management is all about.

We also see a better delivery of service to our residents by having staff on site. Rather than operate out of five regional offices, all our field personnel are located at the projects. Where an AMP consists of several small clusters, management and maintenance staff may share time at different projects, but they no longer operate out of a regional facility. This has bred a sense of ownership and knowledge about their projects that has led to better, faster decision making. We have a much greater knowledge of the operating costs of each project.

We also significantly reduced the mileage driven between projects, thereby allowing staff to spend more of their time on site. Previously, each of the five regions had a centralized office where all employees reported. Maintenance employees were dispatched from this location, returned for lunch, and then returned again at the end of the day to clock-out. Now, they are assigned to specific projects and report to those projects on a daily basis. And, they can get most of their supplies on site.

Speaking of supplies, how do you handle purchasing? Prior to our asset management transition, purchasing was handled centrally using purchase orders and requisitions. We maintained warehouses in each of the five regions, containing upwards of $1 million in inventory. This required field personnel to drive to and from the regional warehouses when materials were needed. It was a lot of inventory to manage.

We decentralized a large part of our purchasing process. Once we established budgets for all projects, we were able to give our staff more purchasing authority, consistent with norms in private housing. We transitioned to a tiered procurement approach where the project

manager became the main individual responsible for purchasing. Staff members have purchase cards with predetermined spending limits according to their respective level within the organization. Project managers are authorized to spend up to $200 per day, portfolio managers are authorized up to $500 per day, and the Director of Public Housing is authorized up to $2,000 per day. Compliance with these limitations is ensured both technologically, through the purchasing card agreements we have with our vendor, and through disincentives such as employee chargebacks for unauthorized purchases. We have centrally-negotiated blanket contracts for some large items such as carpets, abatement, and fire alarm systems. However, project managers are responsible for requesting the goods and services under these contracts and approving the invoices.

The purchase card approach greatly simplifies budgeting and accounting. In-house training was developed by our Finance Department to teach project managers how to research expenses. Each project manager receives a monthly report listing all of the items purchased using the project's account. Project managers use this report to monitor purchases and reconcile with the budget. Accounting is simplified because all payments can be made to a single bill to the purchase card vendor.

Our procurement approach received widespread support from project-level staff and the Finance Department. The average amount of time spent by a project manager for purchasing during the pilot of site-based procurement using purchase order and requisitions was approximately three hours per day. We were able to reduce this to fewer than 30 minutes per day using the purchase card approach. This ultimately allows project managers to spend more time on other duties while still maintaining oversight and accountability for project purchases.

You also moved to a system of site-based waiting lists. Can you tell us about that? While our long-term vision was to manage the wait list at the site level, we recognized that this model could initially increase workload for project managers. We had to find a way to release some

of the burden placed on the project managers, many of whom were new to asset management and the associated responsibilities. In April 2006, we adopted a hybrid model. The application process is site-based from an applicant perspective; however, processing functions are divided between the central office and on-site staff.

Prospective tenants can obtain and submit applications at any one of our projects. The project managers have access to the information supplied by the prospective tenants and can assist them with all aspects of their applications when they visit or call the project office. Prospective tenants choose between three different wait lists:

❖ Site-Based Wait List – Applicant can choose two specific projects.
❖ Regional Wait List – Applicant can choose two specific regions (out of three).
❖ Special Program Wait List – Designed for applicants with urgent housing needs.

Completed applications are forwarded by the project manager to the central office for data entry, income verifications and background checks. The central office also ensures the selections are made in the proper order and in accordance with HUD regulations and applicable federal, state, and local laws. When a unit becomes vacant, the central office sends the project manager responsible for the vacant unit the files.

The hybrid wait list approach has been very successful. Potential tenants have convenient access to the application process because they can go to any of our projects throughout the county.

Will you continue with this hybrid model? We are currently conducting a five-project pilot that utilizes a completely site-based application process. It's too early for us to determine the best approach.

That is a lot of change in a short period of time. Are there any lessons or advice to share with other PHAs? The transition was not easy, but we learned so much along the way. In

particular, we found a few things to be of great value. First, we partnered with a local property management company with extensive knowledge of the regional market. This company helped us to better understand local management practices (staffing levels, assignment of duties, expense ratios, etc.). We even took our maintenance staff on tours of privately-managed properties in order for them to see first-hand the maintenance work areas and the limited inventory of materials.

Second, we established a steering committee of senior KCHA staff that met biweekly to develop and continually refine an overall implementation plan.

Finally, we instituted a comprehensive and gradual training program. As part of this plan, we (1) developed training grids to assess each employee's skill set and to identify areas for training; (2) utilized a "train the trainer" approach in which faster learners facilitated smaller sessions on various aspects of project management; and (3) focused on hiring people with private sector property management experience to supplement the training program and to leverage additional real-world knowledge. Throughout the process, we made it clear to employees that we would provide them with the skill set needed to succeed under the project-based management model. ◊

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

What	Asset Management Help Desk
Phone	1-800-511-8478
Email	AssetManagementHelpDesk@hud.gov
Hours	8:00AM to 5:00PM EST Monday-Friday

Most Frequently Asked Questions from the Help Desk

Thank you to everyone who submitted questions to the Asset Management Help Desk! During the past month and a half, the Help Desk answered 173 of 187 questions received and is working hard to provide answers to the outstanding questions. The most frequently asked questions, and HUD-approved responses, are provided below.

Question: Is there a HUD-prescribed format for project-based budgets? Is the sample budget in the Stop-Loss Submission Kit the required format?

Answer: No, there is no HUD-prescribed format for project-based budgets. PHAs may use their own budget format (i.e., they may use their own presentation of line items); however, these line items must readily reconcile with the Department's Financial Data Schedule (FDS), which is the accounting format for year-end reporting. The sample budget in the Stop-Loss Submission Kit is for illustration purposes only. PHAs are not required to use the same format. See the cover page *for more information about the Department's new Project Budget Tool.*

Question: The Supplement to PIH Notice 2007-09 states that during the first year of asset management full fungibility will be allowed between both AMPs and the COCC. If a PHA is applying for Stop-Loss, will they still have full fungibility?

Answer: Stop-Loss applicants do not have full fungibility between the COCC and AMPs during the first year. Table 6 of PIH Notice 2006-14, which lays out the criteria for successful conversion to asset management during the first year submission, contains specific requirements for the COCC. Specifically, "the central office cost center must operate on the allowable fees and other permitted reimbursements from its public housing and voucher programs as well as revenue generated from non-public housing programs.

Question: Are PHAs permitted to change their AMP groupings in PIC? If so, how can they go about doing this?

Answer: PHAs will be permitted to modify their initial AMP groupings. HUD expects to issue formal guidance regarding the process of changing AMP groupings in the near future. Until this formal guidance is issued, PHAs should work with their local field offices regarding changes to AMP groupings. We encourage you to periodically check the Asset Management website's AMP webpage for updates by clicking here.

Question: Can a PHA's COCC charge a different management fee amount to each of its AMPs, as long as it is within the published schedule or must the rate charged to each AMP be the same?

Answer: All PUM fees charged must be reasonable as defined by HUD regulations, but there is no requirement that each AMP be charged an identical property management fee. A PHA's COCC can charge a different PUM management fee to each AMP if it wishes, provided those fees are consistent with the Department's guidance. ◇

What's New on the Website?

❖ Changes in Financial Management and Reporting Requirements Training Tool
  o Basic Instructions
❖ PIH Notice 2007-09
  o Related Supplement
  o Response to Public Comments
  o Key Components
❖ Project Budget Tool
❖ Project Expense Level (PEL) Calculator
❖ Proposed FDS Prototype Under Asset Management
❖ Subsidy and Grants Information Systems

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