U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Operating Fund Negotiated Rulemaking Advisory Committee
8:30 am to 5:30 pm EST, Room B182 HUD Headquarters

MINUTES OF SECOND SESSION – SECOND DAY
April 14, 2004

April 14, 2004 Session:

The second meeting of the second Negotiated Rulemaking (Neg-Reg) Advisory Committee session on the Operating Fund Allocation System (the Committee) was called to order at 8:40 am on Wednesday, April 14, 2004, by Mr. Michael Liu, the Assistant Secretary of Public and Indian Housing. Ms. Tran served as the facilitator. The location of the meeting was room B182 of the U.S. Department of Housing and Urban Development; 451 7th Street, Washington, DC 20410.

Committee members in attendance and interests represented were:

No.	Committee Member	Organization
1	Mr. Michael Liu	Assistant Secretary, Public and Indian Housing
2	Mr. William Russell	Deputy Assistant Secretary, Public Housing and Voucher Programs
3	Mr. Steve Nolan	Atlanta Housing Authority
4	Mr. Felix Lam	New York City Housing Authority
5	Mr. Carlos Laboy-Diaz	Puerto Rico Housing Authority
6	Mr. Michael Moore/ Mr. Todd Gomez	Chicago Housing Authority
7	Ms. Ann Lott	Dallas Housing Authority
8	Mr. Larry Loyd	Housing Commission of Anne Arundel County
9	Mr. Rufus Myers	Indianapolis Housing Agency
10	Mr. Steven Longo	Albany Housing Authority
11	Mr. Rick Parker	Athens Housing Authority
12	Mr. Richard Murray	Housing Authority of East Baton Rouge
13	Mr. Michael McInnish	Housing Authority of the City of Montgomery
14	Mr. Willie Martin	Jackson Housing Authority
15	Ms. Deanna Watson	Boise City/Ada County Housing Authority
16	Mr. David Morton	Reno Housing Authority
17	Ms. Ophelia Basgal	Alameda County Housing Authority
18	Ms. Sharon Scudder	Meade County Housing Authority
19	Mr. John Cooper	Massachusetts Union of Public Housing Tenants
20	Ms. Veronica Sledge	Resident Advisory Board/Victory Point RMC
21	Mr. Ned Epstein	Housing Partners, Inc.
22	Mr. Greg Byrne	Harvard Cost Study
23	Mr. Dan Anderson	Bank of America
24	Mr. David Land	Lindsey and Company
25	Ms. Sunia Zaterman	Council of Large Public Housing Authorities (CLPHA)
26	Mr. Sauel Ramirez/ Ms. Christine Siska	National Association of Housing and Redevelopment Officials (NAHRO)
27	Mr. Tim Kaiser	Public Housing Authorities Directors Association (PHADA)
28	Ms. Pamela Taylor	National Organization of African Americans in Housing (NOAAH)

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Appendix 1 contains the meeting agenda and attendance listing for the Committee members.

Ms. Tran — Good morning. We have a request for a caucus so we will reconvene at 9:15 am. The meeting minutes from yesterday will be passed out shortly.

Mr. Kaiser — Is HUD going to caucus? Then I think we should caucus.

Caucus began at 8:43 am. The committee reconvened at 9:33 am.

Ms. Tran — Welcome back. Let's get started again. I believe that Mr. Parker would like to share a presentation with the committee.

Mr. Parker — First, I would like to thank the Department for their proposals. There were number of things that the Department put on the table yesterday. The industry met yesterday evening and, in a good faith effort, is prepared to agree to certain things and move forward. Before I begin, I would like to share some thoughts on where the industry has come from and where we are going. I used this analogy yesterday and I will use it again today. Basically, there are two styles for arriving at a final funding formula, first there is what is politically possible and expedient, and looking at a formula in that direction. Second there is looking at what we hope are the real costs of operating public housing and developing a formula around that then prorating the amount down to the appropriation amount. This is an exaggeration, but let's say that the true cost is $8 billion and all you get from Congress is $3 billion. We could develop a formula based on the $8 billion and then prorate it down. The industry proposal yesterday was based on a genuine disagreement over what it truly costs to run public housing. Our numbers were based on the Harvard Study and our experience within our own neighborhoods as to what it costs. Our position it that we need to move towards a politically expedient position rather than continue to go through the intellectual exercise of finding a right number. The industry yesterday based their numbers on the Cost Study and what it takes in our neighborhoods to properly do the job. However, I want to make this increasing clear that we must move toward what is politically expedient rather than continue to hammer an intellectual exercise of finding a right number. Based on moving towards what is possible, we would like to respond to the proposal submitted yesterday.

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[Appendices 2 and 3 were distributed.]

Mr. Parker

Part I General Position: In reference to HUD's general position handed out yesterday, we have some modifications, but other than that we generally agree with HUD's proposal.

Part II Project Expense Level (PEL) & Project-based Accounting: We agree on bullet 3, sub-parts # 3 and # 6. For sub-parts #4 and #5 we agree to move to 250 units however we still need more clarification under the sub-parts #1 and #2 under bullet 3. The other issues we will come back to later on today.

Part III Add-ons: With the subject of add-ons for bullet 1, we agree that audit dollars should be offset against the PEL- the Department's proposal as explained. However, for Resident Participation there should be an add-on with no reduction to the PEL for the reasons stated yesterday. For bullet 2, we will go back to the cost sheet, and though it is not listed, we want to include the add-ons: PILOT, FSS, EDSC, energy loans.

Part IV Utilities: Under utilities we have a group that is looking at the proposal and something was brought up this morning that we don't understand, but we believe that we should be using the current rate and not the average rate to counteract the spike problem that was previously discussed.

Part V Formula Income Determination: We believe that the Department was going to come back with some more concrete examples, but we do support the general notion that was proposed.

Part VI Transition Policy: Regarding the transition policy we do believe in some sort of loss limitation, and the proposal to be resubmitted is for a 5% cap on losers. Gainers should receive the full amount and that amount should not be phased-in. This subject will be discussed in greater detail later.

Part VII Appeal Policy: On the appeals policy, we believe that some sort of immediate appeal for confidence level problems needs to be included. So, I will jump to my third point, which is creating a threshold for appeals. The model is not very accurate with its ability to predict the PELs for small PHAs. That is probably too high of a hurdle particularly for a small PHA whose confidence interval may be off by 30 or 40%. Small PHAs should be able to compare their PEL to FHA properties or some other mechanical threshold.

For small PHAs, the specific factor within the model, may not be wrong, but the PEL could still be off. There should be an appeals process for them so they don't have to jump through the hurdle of proving that one of the model factors is wrong.

In addition there are timing and fairness issues with sub-bullet 2 under bullet 3. There is a narrow window and you are expected to have a lot of data gathered in only two years. We feel that bullet 7 should be deleted and the matter should be discussed in greater detail.

Part VIII Implementation of Final Formula: We agree with the implementation of a final formula subject to fungibilty between properties.

Part IX Fungibility: The Department said they were in general agreement with the fungibility proposal that Mr. Anderson, Mr. Byrne and Mr. Epstein put together. We agree to the bullet one of the Anderson, and Epstein proposal but we do not agree to the other bullets.

Part X Other Public Housing Reforms: We agree that bullet 1 items are beyond the scope of this Negotiated Rulemaking (Neg-Reg) and we need to focus on the formula in the short time we have left, but we would like to discuss the items in the future. In bullet 2, we believe that this warrants further discussion after the Neg-Reg, but at this stage it is better to focus on the formula.

Also, you may have seen the counterproposal cost sheet (**See Appendix 3**). We have restored the four out of the model adjustments and provided an age delta factor to properties, since the FHA database does not have properties over 35 years old. We moved the delta from 28 years to 35 years because we thought that it was an appropriate point to look at the age factor.

Ms. Tran — Would anyone from the industry like to comment?

Silence.

Ms. Tran Are there any points of clarification on the counterproposal that someone would like to make?

Silence.

Mr. Russell Mr. Parker, thank you for your presentation. Under Part V--Appeal Policy, bullet 3 sub-bullet 2, I want to clarify the type of appeal we envision. We envision two appeals: A Harvard appeal and an appeal to opt out of Harvard altogether. The first appeal is to say that I am working towards asset management and I am in year one of the Harvard number and I think that there is a flaw in the model for one factor of the model and I will isolate that flaw and appeal it (e.g. I think they are grouping me in wrong geographic locality). The second type of appeal is where a PHA says that they have been collecting property level data for at least two years and that they don't need the Harvard number. They have the real stuff. I want experts to look at their budget and give me a real number on how much it should cost to run that property. It allows you to move beyond Harvard into real budget-based costs.

Mr. Parker Let me take a step at further explaining our concerns. Let's take a one development PHA that has 100 units in a non-metropolitan area; this is not an atypical PHA. The Harvard model will generate a number for that PHA, let's say $167 PUM, but they have been operating at $220 PUM so they take an immediate hit. Sitting in that same community is an FHA property whose actual operating costs are $230 PUM. There is no mistake in units, geographic area, and the model is calculating the number correctly, but because there is a potential error rate of 40% for any given property, it could be that the Harvard number is simply wrong; it is not a technical problem. If there was a threshold that said that you have to prove a factor is wrong, then that PHA will not pass that threshold test. Then you would have to wait several years to get property level data and then they run at a deficit. We want a way to compare PHAs to actual FHA properties in the area or compare them to FHA operating costs to allow some trigger for a review process to see if the Harvard number is right for those small PHAs.

Mr. Liu We don't disagree.

Mr. Parker There has to be a way to find a mechanical threshold that will not open the floodgates.

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Mr. Liu — You will open the floodgates, but we do anticipate that there will be PHAs in the situation you just described. By the same token, in your example, if you use a one property PHA, that might not be the best example. That PHA should have many years of data for that one property and they should have the ability to opt out of the Harvard number. But let's say that the PHA has two or three properties, I understand and agree.

Parker — Thank you, I am looking forward to working through this.

Ms. Tran — Are there any other points of clarification?

Silence.

Ms. Tran — Per Mr. Morton's suggestion, maybe we could go through the items in the counterproposal.

Mr. Liu — Madam Chair, there was a request to go through a proposal and some numbers, so if we may.

Ms. Tran — That is fine.

[Appendix 4 Formula-Income Determination was distributed.]

Mr. Kubacki — Mr. Nolan recommended utilities and add-ons not be multiplied by the percent. The proposed formula really should look like this: [some percent x (AEL x UMA) + (expense level x UMA) + add-ons]. The percent will be based on FY 2003. The proof of concept came from the following data set:

UMAs	$1,000
AEL	$252
PEL	$377
UEL	$50
Rent	$150
Add-ons	$3,000

If you go to the proposed formula, we ran the numbers, and it's the percent that we need to focus on. It's the FY 2003 rent over the FY 2003 PEL or the FY 2004 rent over the 2004 PEL, but the key is that it is the Harvard PEL AND not the old AEL and the reliance is about 60%. We put it in the model and then we run the math. The PHA should receive the same subsidy amount, which in this example is $280,000. Under the current Formula it is (PEL+UEL-Rent) * UMAs + Add-ons, and the figure is $280,000. In both cases the PHA receives the same amount of subsidy

This formula allows PHAs to keep increases in revenue. Increases in revenue would not be incorporated into the formula. The devil is in the details, so in year three or four HUD would have to re-examine the percent.

The baseline for the rent could be the FY 2003 rent or the average rent over the last three years and we could account for other income in part C of the HUD-52723 form. The important point is that no one loses when you switch from the current formula to this formula.

Mr. Ramirez When you say that no one loses, if the AEL is higher in the proof of concept and the PEL is lower, it still comes out to breakeven?

Mr. Kubacki I'm saying that it does not matter if you use the current formula or the proposed formula you get the same amount of subsidy regardless of the AEL or PEL.

Mr. Ramirez Can you illustrate this?

Mr. Kubacki Do you want me to run this where there is a decrease?

Mr. Ramirez Yes. You are saying that you get the same amount under either formula but I thought that by taking out the UELs it would create a current formula where you would not be subject to the adjustments. I see the math, but it shouldn't add up that way, at least not in my mind.

Mr. Kubacki Because the old AEL isn't there, you don't see it. We can do the math. If you're a loser under Harvard, I'm not saying your subsidy won't go down, but this formula won't impact that. Do you still want me to illustrate this?

Mr. Ramirez No.

Mr. Lam Are we going to run through scenario where rent goes down?

Mr. Kubacki We can.

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Mr. Lam	The important thing to note is that we have a three year rolling base and if we have a 50/50 split there is not much incentive to raise rent or pursue other means of investment income. Whatever the rent is, it should not be a rolling base. Ideally it would be a 100% retention rate for a about a certain subsidy level so the PHA can retain a greater portion of the 50/50 split.
Mr. Kubacki	This is correct, once the percent is determined it will be frozen for three or four years and then it will be examined.
Mr. Ramirez	I would like to clarify this. If you have an economy on a downward spiral, and let's say you have a town that's dependent on one or two major employers and one of those employers goes out of business, and your rent goes from \$150 to \$130, you're at a greater loss as a result. There is no ability for the PHA, at least not yet, for that shortfall to be made up.
Mr. Kubacki	We have a double-edged sword. It cuts both ways.
Mr. Ramirez	Should the baseline be the FY 2003 rent or the three year average? It is just a matter of finding which one we should use. I would say go with the highest of the last three years and then we're done.
Ms. Zaterman	I would like to test a theory. You have compared the PEL and the rent as it is currently treated, but you have not compared what you would have gotten under the AEL. This is my theory; if your PEL increases over the AEL you change the relationship of rent to expenses so you get more subsidy. If your PEL drops you change the ratio so the rent increases in relation to your subsidy, so your total subsidy amount goes down. There may be a hidden penalty to the PHAs if rents don't increase.
Mr. Kubacki	You are right from the standpoint that if the PEL is lower than the AEL you will get lower subsidy but it is independent of the formula. You will get the same amount of subsidy using a percentage. We are taking the PEL and converting it to a fraction. In both scenarios the percentage changes.
Ms. Zaterman	Under any scenario the rent ratio would change. The subsidy that HUD would pay would be reduced. I am wondering if there is perverse impact for small PHAs?

Mr. Ramirez — Can we get an example?

Ms. Tran — Yes.

Mr. Kaiser — I think it was Mr. Lam that first broached this issue yesterday, which was raised as a voluntary proposal that agencies may seek to implement in their own cases. I want to be clear, this is an across the board proposal that would apply to every PHA, correct?

Mr. Russell — Yes.

Mr. Kaiser — Then I share Mr. Ramirez's concerns. Take central and western New York, where Kodak and other major employers have been laying off staff by the thousands and there is a lot of unemployment which had had a tremendous impact on that region of New York state. So I have a real concern about situations like that. The city of Buffalo is bankrupt, for all intensive purposes. By no fault of their own, PHAs would experience large losses in rental income and would lose subsidy under this scenario. The existing system, despite its flaws affords some protection to the PHAs. There is no question that this proposal may benefit some PHAs like NYCHA. But I think the term you used, Mr. Kubacki, is correct it is a double-edged sword. We as an industry need to weigh this very carefully.

Mr. Parker — We share the concern the Department has with developing a simple formula that incentives the ability to generate additional rents. I just ran a simple analysis where rent is flat over a three-year period using this strategy and it does result in less dollars. It breaks the original theory that the federal government pays the difference between the expenses and what tenants pay. If the PEL goes up but rent does not go up by more than the inflation facor, then the PHA is left with less dollars. If you run some scenarios where rents go down or stay flat it does adversely impact PHAs in a way that does not currently exist in the current formula and sometimes those adverse affects are beyond the control of the PHA. To the extent there are adverse impacts beyond the control of the PHA, this may be an unintended consequence of the proposal as it currently stands.

Mr. Lam — The Department's proposal is a more rational approach than the current PFS system, so I want to commend your efforts. With respect to what Ms. Zaterman said if the PEL goes down, and if the Harvard PEL is below the current AEL, it creates an opportunity for the PHA to make

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back some of that loss that might result through rulemaking. But it requires PHAs to consider their own circumstances and their own rent structure, which is not necessarily a bad thing. Also, as good as this is, there needs to be some accommodation made for those instances where there is an economic catastrophe in a particular area, like a big employer walking away. There should be some accommodations made, but I don't want to miss the larger goal of rethinking the rent structure.

Ms. Sledge — I want to clarify that resident services is a product of the PEL in the industry's proposal.

Ms. Lott — This is a good approach for most PHAs, but what is important for the industry is that there be a safety net. You will hear a lot of "what ifs" so we need an appeal process just in case the worst case scenarios does happen.

Mr. Nolan — The percentage math is somewhat problematic, the rent increases need to keep place with the inflation factor for the formula to be beneficial, so it's a little more than a double-edged sword. The formula works if you freeze the rent in FY 2003 or FY 2004, and then you take the lower of this or actual rent collected in the current year. It protects all of the downside and lets the PHA keep the upside.This is another option.

Mr. Longo — The formula still includes the Cost Model PEL. So, for Niagara Falls it would be based on our 40% loss. There are lots of things holding us back like the Brooke Amendment and QHWRA which limits the minimum rent to $25 and hardship rent of $0 for three months.

Mr. Ramirez — I would urge the Department to consider the scenario that Mr. Nolan described to maintain an incentive to generate additional income and so you don't create additional stress within a community that has experienced an economic catastrophe**.**

Ms. Tran — Mr. Kubacki, would you like to illustrate the Department's proposal?

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Exhibit A

	I	II	III
UMA	1,000	1,000	1,000
AEL	252	252	377
PEL	377	252	252
Rent	50	50	50
Add-ons	3,000	3,000	3,000
Percent	60.21%	40.47%	40.47%
Proposed	$280,000	$155,000	$150,000
Current	$280,000	$155,000	$150,000

Mr. Jain: Scenario one, column one, presents what Mr. Kubacki handed out where the PEL increases and subsidy stays the same at $280,000. In scenario two, there is no change between the AEL and PEL, so subsidy under the current formula is $155,000 and subsidy under the Harvard formula is $155,000. All of these assume that we are keeping everything else constant like add-ons and UMAs. In scenario three, the PEL decreases, but again total subsidy stays the same at $150,000.

Mr. Nolan: It works for year one.

Mr. Parker: Thank you. It shows that whether you stay the same in the current year, gain, or lose, the subsidy calculation stays the same for year one. But the problem is what happens in successive years. I am going to make this really simple. (See Exhibit B below).

Exhibit B:

.60 x 377 = 226 + 150 = 376

.60 x 400 = $\underline{240}$+ 150 = 390
250

.60 x 425 = $\underline{225}$ + 150 = 405
275

Mr. Parker: Let's assume a 60% ratio times a PEL of $377. This generates a subsidy of $226. If the PHA collects rent of $150, its total income is $376. In year two, we'll assume the PEL goes up 6% to $400. Applying the same 60% ratio yields $240 in subsidy. Let's assume the rent is flat at $150. The total income for operations is therefore $390. However, under the current formula, if the PEL is $400 and the rent of $150 is subtracted, the total subsidy the PHA would be entitled to is $250. In year three, the problem grows. If the PEL goes to $425, multiplied by 60%, the subsidy is $225 plus the flat rent of $150, so you receive $405 for operations. But under the current formula where the PEL is $425 and rent of $150 is subtracted, that should have been $275 in subsidy. The effect grows over time unless the rent income grows at the same rate as the PEL. But expenses go up faster than rental income and that puts a lot of PHAs at a loss compared to the current formula, especially for small PHAs or PHAs that already addressed inefficiencies and tried to raise rental income. They have already exhausted their options of raising rents. There is a fundamental difference between the way the current formula operates and the proposal as it is currently presented, unless I'm missing something.

Mr. Lam — I think your example Mr. Parker is right, what you are touching upon is 6% growth from year to year. You're touching on the inflation factor, if you applied it to the PEL, the unintended consequence is what you did. The question is how the inflation factor is applied. If inflation is applied by 2%, then you need to raise rent more than 2%. But if you can somehow fix that base, which is the spirit of the proposal, that would solve the issue.

Mr. Parker — I think Mr. Ramirez said that if you fix the number then you still get the same amount of money. If everything moves, you need to be very careful and run multiple year scenarios so you don't get unintended consequences which is what we're concerned about right now.

Mr. Lam — If the rent and PEL remain fixed you don't have that problem. You can't have one side fixed and one side variable.

Mr. Morton — I'm not sure you want it fixed. Then you would lose the benefit there. We need to think this through.

Mr. Ramirez — If you look at the current formula compared to the proposed formula, if you fix the rent number in the current formula and leave it fixed, then it does accomplish what you are looking for with the adjustments. It does take into account, under the old formula, the ability to gain more or not, but it's not as susceptible to the variations you see.

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Mr. Morton	I applaud HUD for coming forth with something and I am sympathetic to what New York is trying to achieve, but I think this is too complicated for the time we have left. I think the residents are going to have concerns also, this may be too complicated to achieve consensus, and I think we should drop this.
Mr. Lam	I think Mr. Ramirez's point for a more simple approach has merit. It is more sophisticated than looking at the current formula and changing it. If you look at current form, in Part B of the HUD-52723 where you calculate the three year rolling base, if lines 4, 5, 6, 7 and 8 are eliminated and on line three you fix the rent and pick one year as your base, this would accomplish the same objective but it would do so in a much more simplified fashion and would protect the PHA from economic variations. It would be a more simple approach and give more confidence in terms of people figuring out what the impact is.
Mr. Russell	HUD will consider base lining current rents but we would have to apply some inflation factor because rents historically have gone up over the years. We can't assume that inflation would stay flat forever. But if people are more comfortable sticking with the current calculation.
Mr. Ramirez	If the proposal is that everything within the calculation is subject to inflation, including the PEL and UEL, then you are reducing the chances for innovative ways to increase rent for PHAs that have already tapped themselves out.
Ms. Basgal	The question I have, and I know the industry proposed gains not be capped, but in your proposal, do you still presume a cap on the gains?
Mr. Kubacki	For transition?
Ms. Basgal	Yes.
Mr. Russell	We are looking at a transition policy, we have discussed the 20% and 5% and we are exploring options.
Ms. Sledge	I'd like to comment and say to please consider that the Committee was put here to consider the Operating Fund Subsidy and not make rent rules. I don't think Congress would be very happy with us making rent rules with just one resident here.

Mr. Lam	We are not making rent rules. It is better if everyone around the table acquainted themselves with the HUD-52723 form and the other forms. This is a formula discussion. Regarding Mr. Russell's point, there already is an inflation factor on line B9 for rent. HUD tells the PHA what inflation factor to use. In terms of considering the proposal, I wouldn't necessarily object since the current practice comes from whenever this was created in 1975 or something. We need to calculate what that number should be, it should be a fair number with respect to the new PEL.
Ms. Zaterman	I have a historical note that I would like to make –inflation for rental income has been a point of contention for many years. The concern is that the inflation factor presumed 3% increase regardless of what was collected and this had an affect on subsidy and in many cases the inflation factor was more than actual increases. It should be somehow based on reality and local factors. If you have an inflation factor eating up whatever gains you may be making by generating income, that is problematic. The other concern is that the inflation factor has no bearing on local circumstances. An agreement was made at the end of the last Neg Reg that a smaller committee would sit down and work on a reasonable factor. In my understanding, no resolution was made. This is a vexing problem that the Department needs to solve.
Mr. Parker	Can we do some data runs with rent gains, flat rents, rent losses over a three-year period? I see Mr. Anderson is not here, so Ned that means this is directed to you. How is subsidy calculated on the FHA side from someone who is more of a technical expert than I am. Is the subsidy based on the actual rents collected? How does that work?
Mr. Epstein	I want to make sure I understand the question. On the FHA side, subsidy is based on rent, and the tenant pays 30% of income and the subsidy makes up the difference.
Mr. Parker	So as tenant rents go down, the subsidy goes up, and if rents go up, the subsidy goes down, there is a direct linkage.
Mr. Epstein	The rents don't go down, generally speaking, they stay the same. The tenant rent is 30% of income, if rent goes down subsidy goes up.
Mr. Russell	I think there is some nervousness about the first formula that we proposed, so I think for the sake of simplicity and expediency given that we have a day and a half left, maybe we should consider our

second alternative and use historical data with an inflation factor, as opposed to using actual rents from year to year.

Mr. Parker — And that differs from the current model how?

Mr. Russell — The current model is just a snapshot of one month's rent roll. We would use your 2003 rent then go forward.

Mr. Gomez — Are you saying you would take actual 2003 rents in 2004 and in 2005 you would use 2004 rents? You are saying you baseline a number and inflate that number over time.

Mr. Russell — Yes.

Mr. Gomez — You still run into the problems that Ms. Zaterman discussed. Some PHAs have different conditions in their sub-markets that should be addressed. We need to address the localization of rents.

Mr. Lam — The formula Mr. Kubacki put on the board does have some potential to hurt some PHAs with respect to how the math works. I think it would be of benefit if a more simplified approach were taken but at the same time remained consistent with the spirit of the proposal. If you look at Part B on the 52723, the dwelling rental portion, a more simplified approach that would take care of PHAs being hurt would be if you eliminated lines 4, 5, 6, 7, and 8, which is all the calculation for the three year average and a 50/50 split. Then line 3 would be substituted by some fixed rental level, whatever it may be. This would take care of some of the potential variations where PHAs may lose money in terms of subsidy.

Mr. Kubacki — Can you repeat the line items?

Mr. Lam — Under Part B, I would eliminate lines4, 5,6,7, and 8. Line 3 would be a fixed number and the other portions of the form would remain unchanged.

Mr. Nolan — So that I'm clear, would line 9, the inflation factor, always be equal to the inflation factor for the PEL?

Mr. Lam — That would be a decision that HUD would make.

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Mr. Russell	As Ms. Zaterman noted, we have been using 3%, but we are open to discussion.
Mr. Nolan	That 3% is higher than the inflation factor on PEL, it hurts you, so PHAs have not been receiving any benefit because it exceeds other inflation factors, so little or no benefit has come out of it. When we started discussing freezing rent, we wanted an incentive for PHAs to pay attention to rent. Freezing the rent without the inflation factor does that, putting the inflation factor in hurts you. The simple thing is to take the current formula, freeze that rent number, just baseline the rent number, which creates the incentive.
Mr. Lam	Certainly one option is to eliminate line 9, the inflation, I don't know HUD's position. Another option is making it equal to whatever inflation factor is applied to the PEL, which obviously in 2004 would be less than 3%, and the same inflation factor is applied to both sides of the equation.
Ms. Tran	We have three options. The first is to stick with the current formula. Also there are two others on the table that are described in HUD's position. The first proposal is to take all the income out of the operating subsidy calculated and establish a percentage of operating subsidies. There are some concept on this purpose regarding the inflation factor and the members have ask for more scenarios that would illustrate the in impact for the year two and three. The second option HUD proposed is using one year of historical data to baseline the rental income calculation. From the nods that I see committee members making, there seems to be some support for that.
Mr. Lam	At a minimum, the inflation factor for rent should be equal to that for expenses.
Ms. Basgal	But historically, incomes never match what's happening on expense, so I don't know if you would want to tie the two together.
Ms. Tran	How does the committee want to proceed?
Mr. Morton	I don't think that we can make an intelligent decision right now.
Ms. Tran	HUD will provide some data scenarios and we can move on.

Mr. Nolan	Before we leave the subject, can I get one clarification on the second option proposed by HUD, is this actual rents reported in FDS as a way of calculating, taking the entire year worth of rental income or still one month?
Mr. Kubacki	It would be for the whole year. We would like to take it off the FASS submission.
Mr. Lam	Ms. Basgal made a good point. In years of high inflation, it may result in hurting PHAs when costs are rising rapidly. I want to retract my previous statement about making the inflation factors the same.
Ms. Tran	What topics would the committee like to discuss now?
Mr. Kubacki	Let's have a 10-minute break.

Break granted at 10:58 am. The committee reconvened at 11:30 am.

Ms. Tran	May I have you attention please. Some members are still meeting and it is already 11:30 pm so why don't we break for lunch and reconvene at 12:30 pm.

Break granted at 11:30 am. The committee reconvened at 1:07 pm.

[Christine Siska is now representing NAHRO. Pamela Taylor is now representing NOAAH. Mr. Russell is serving as the Federal Designated Officer. Mr. Kubacki is serving as the HUD representative.]

Ms. Tran	Mr. Russell, if you would like to begin.
Mr. Russell	One thing is clear, one issue remains a concern and that is what the transition policy will be. We are looking at different options, quite frankly HUD is not comfortable with stating that PHAs will only go down by 5%. That is a big distortion from the Harvard Cost Study especially if the others will get the full increase. We think there are other options to explore. We first proposed a two year transition where in year one, no one would lose more than 5% or gain more than 20%, then in year two the Harvard PEL would be fully implemented There is still a great deal of conversation about that, from both sides. There is another alternative that I want to raise with the committee, it's a little complicated and I want you to stay with me, so hear me out before you look at the spreadsheet.

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[Appendix 4 was distributed.]

Mr. Russell	Basically, we are saying if Harvard projects your reduction is more than 5%, HUD is willing to transition you over a period of five years. Here is an example: if Harvard reduces you by 10%, we would take 5% immediately. Then with the difference, 20% of that difference would be deducted in year one and the rest would be phased-in over the remainder of five years. However, there is a policy angle. If in year three you have met the standards of achieving asset-based management, Project-based accounting and Project-based management, we can call it a day. You will end up getting only 60% of your reduction versus the 100% reduction. However, if you are not there in year three, we take another 20% in year four, and another in year five. The difference between 5% and whatever you are slated to be reduced by, we would divide it by five and take 20% off each of the five years. The example in Appendix 4 shows various scenarios. Conversely, for the gainers under Harvard, we would also possibly consider a three-year transition if your increase is more than 5%. If you're above 5%, you get the 5% + 33% of the remaining increase you were supposed to get under Harvard in the first year. I know in a couple of scenarios if you got 5% plus a third of the rest, it is more than 20%. We need to spend some time this afternoon arm-wrestling this transition policy. If we can come to an agreement on phasing in Harvard, I think we can make significant progress in coming to consensus.
Ms. Taylor	I have a question on the proposed transition for gainers. If you have 5% plus a third in year one, is the assumption that the balance would be distributed in year two and would that be based on similar benchmarks you apply to losers?
Mr. Russell	For gainers, they would get the second third in year two, and the final third in year three.
Ms. Taylor	Not withstanding that you have achieved the project-based standards and benchmarks
Mr. Russell	Correct. We are going to set Project-based management benchmarks for the entire community. We don't know what those are, five years or more, but for losers, we are giving an incentive to get there faster.

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Mr. Nolan — Are you proposing the phase-in for gainers to be the phase-in for losers? Because I still like the 20%, then the remainder in year two for gainers.

Mr. Morton — Can we talk about the benchmark and the goals. Can you be more specific?

Mr. Russell — I can't be terribly specific right now because we will have to develop them that with experts. We will have to look at the PHAs that have already moved to asset-based management and project-based accounting, a few of them already have real estate industry experts. A lot is going to be tightening up the accounting rules we have out there right now. Some of it is the project-based accounting rules and we have loopholes in our current regulations. This is something we will have to develop with the industry over the next few months. We have to come up with a definition of precisely what we mean by project-based accounting and project-based management. From what I understand from people on my staff who have visited PHAs who are already there, that we're not talking about doing twenty cartwheels and jumping through hoops, it's not rocket science. We can talk to Mr. Anderson and Mr. Epstein about this. We need to put some things on paper.

Mr. Morton — That is a positive incentive if it is doable. If you are saying we reduce costs in that time period, that's one thing. Implementing the system and moving towards project-based that is another thing. I think you mean what you say, but it would be comforting to have something as specific possible if we could, so when we get together with others we can make a decision.

Mr. Murray — I think we have heard over the last few days that there a number of PHAs that are managing their portfolio using project-based accounting. Would you give these agencies a reprieve? Have you considered other relief for those who already implemented the Project-based?

Mr. Russell — No I have not, but I am open to suggestions.

Mr. Lam — Maybe all the PHAs who stand to gain are already implementing project-based accounting and project-based management, but is there the same financial incentive for the gainers in terms of their transition for them to full realize gains, similar to incentive put the losers to make a timely transition.

Mr. Russell Two things. Number one is that I think we'll have an industry wide requirement that everyone go to PBM by year X. In addition, if the committee accepts the asset management fee proposal, I stated if by year X if the gainer or the decliner, has not converted the project-based management then the PHA would not be eligible to receive the Asset management fee. All we're saying here is that we're trying to offer the decliners a deal. There is a way in which you could possibly avoid your full decline if you meet some policy goal. No, that is not the same as what applies to gainers, but it is a pretty good offer. To say, hey, I beat the four to five year mark, I'm there in year three, so we'll calculate your subsidy at that point and not reduce you.

Mr. Lam I don't necessarily disagree. But the HUD proposal is aimed at the losers and this is not a performance metric that would be applied equally. It would seem that you would want to apply this metric equally since your goal is project-based accounting.

Mr. Kaiser I agree with Mr. Morton's point. It seems we are being asked to buy into a concept that is not fully defined. "project-based management," "project-based accounting," "project-based budgeting," and "asset based management" have been thrown out over the past few days. I'm concerned when we talk about moving we have different interpretations. I think this is a well-intentioned offer, but I am not certain of specific objectives. With that said, I have some questions. Small agencies wouldn't be subject to asset-based management, yet there are small agencies that lose significant sums. How would they be able to redress their situation if you are not subjecting them to asset management model? How will they recoup their losses?

Mr. Russell The basic part of this proposal was to show good faith on our part to phase-in reductions. So, let's throw out the incentive to reach asset based management in year three, then let's just say we'll phase in the decreases over five years. End of story.

Mr. Kaiser My point is this proposal does not provide any redress for small agencies. What would they have to move towards to address their loss?

Mr. Russell Honestly, I had not thought about the small PHAs.

Mr. Kaiser	Also, this may just be my inability in mathematics, but ultimately if you mitigate the loss, the money has to come from somewhere, and I am assuming it is going to come out of the gainers. Is that a wrong assumption?
Mr. Parker	It comes out of the pool.
Mr. Kaiser	But in effect, everyone pays.
Mr. Russell	By phasing it in gainers that helps to offset the costs of the losers. We have not priced it out in terms of the net impact in year four and five.
Mr. Kaiser	I think this is a step in the right direction, but I think we would be better served by considering a loss limitation similar to what the industry proposed, although maybe a different percentage. This will be the subject of the caucus tonight and I would encourage everyone to attend in the Lafayette Room at the L'Enfant Plaza. Additionally, I think Mr. Lam made a good point that the losers have somehow been overfunded all these years is unfortunate, especially in light of fact that all agencies have not been fully funded over the past years. That is important to keep in mind when consider a transition and a loss limitation.
Mr. Laboy-Diaz	I take issue that this is a fallacy. We are subject to the same rules and limitations. Our residents don't have appliances. We need to be more careful with the statements that we make. Saying we are going to do in two or three years, everyone is making sacrifices and I think we should look into that more carefully.
Mr. Kaiser	My point is not that gainers should be reduced. I am saying the fallacy is that the losers like NYCHA have been overfunded. I think that is a fallacy.
Mr. Gomez	Mr. Russell have you considered that if you are willing to transition over a five year period and cap the loss if someone transitions to project-based accounting, and you are not allowing anyone in year one to justify the gain, and your overall plan is to require everyone to implement project-based accounting, why not mandate the transition to project-based accounting, project-based budgeting over a two year period. You will have actual information. Then leave the interim room in place and avoid the perception that someone is arbitrarily losing or winning. The formula that creates gains and loses is arbitrary. They do

not necessarily have to prove that gain. It seems to me you could do away with it and it is a net zero on overall project budget. Then you can mandate by year two or three and have actual information by year five to actually implement.

Mr. Russell — I don't want to get into semantics, but if it is a fallacy that some PHAs are getting more than they need, then why is it not a fallacy that some are getting too much. I know this is politically painful to say that, but that is a reality of the study. Maybe the PHA made use of the money over the years, but the study is saying that, especially in big cities, PHAs don't need that much taxpayer money to run pubic housing. I don't think the industry wants requirements for the gainers. The gainers don't want to transition, they want the money. We are asking the committee to consider ways to make the transition for the losers easier and we are asking the gainers to give up some money to lessen their losses.

The only reason we are talking about a transition is because PHAs who are losing want to be phased in. So, we are asking if there is a way to make it easier for those who are losing. That's the tension that is going on. I threw that out to offer as a considerate policy to phase in those getting a decline

Quite frankly, we weren't considering much of a transition policy, but I know the industry is sensitive to this issue. Not a lot of people are going to say don't give me my gain unless I do X, Y, and Z. Maybe that is a bad policy idea to limit loss. I don't know, I'm just throwing it out.

Mr. Gomez — Let me clarify. I am not suggesting it is a fallacy either way, only that there is a way to get at the information in the same timeframe without a budget impact. If we are considering an appeals process, then we are considering that the study does not produce the results that the PHA really faces. If that is true, you also may be giving more money to a PHA that gains then deserves if the model over-predicted. You could avoid that by sticking to the rule until you get real numbers.

Mr. Myers — Normally I would say Mr. Gomez's intellect is impeccable, but my immediate thought after he finished talking was why have a transition at all, why not just give everyone their money and move forward. If we take the method he mentioned, there would be a lot of concern among the gainers.

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Mr. Parker — I would like to address two things. Regarding the debate, perhaps it would be helpful if we stop talking about overfunded and underfunded. People have been funded using an existing formula. Maybe that formula was not the most equitable, but we were funded in accordance with that formula and now we are looking at changing to a different formula. The other thing I want to mention is let us keep in mind that what we are talking about is more than whether one PHA staff gets more or less money. Let's focus on the fact we are all serving customers. A one-year cut, of say 40%, would have a catastrophic impact on the PHA and the customers we are trying to serve. I think sometimes we lose sight of the fact we are trying to serve customers with affordable housing. It is not in the Department or the publics' interests to impose draconian cuts in the first year. My question is if, under this set of circumstances, the Department appears willing to consider a stop-gap loss by going in the direction we will all eventually have to go in. My question is, five years is certainly too little according to the Department, but what is okay? Are you willing to accept less than a 40% decrease, and if so, can we discuss what that % should be and how best to fund it?

Mr. Russell — I would say, first, I don't have a number that I can put on the table. The goal is to find a transition policy that is affordable and that meets a significant portion of the concerns around the table and for those that are anxious to get at the money they need to run public housing. We are searching for a workable solution and we are willing to consider a lot of things.

Mr. Parker — But some sort of middle ground is possible, even though we don't know what that is right now.

Mr. Russell — It depends on what the whole picture looks like.

Mr. McInnish — Not having an accounting background, if a small PHA has less than 250 units, or scattered sites with less than 250 units, won't they already be doing project-based accounting?

Ms. Tran — Are you sure you're not an accountant?

Mr. Land — I deal with a number of small PHAs. Most, whether large or small, if they have good management, will be keeping up with the costs on a project-by-project basis. Maybe not formally or entered into the general ledger or entered into FDS. But you have good managers, who have information available, but not in formal profit and loss statements. You will also find that not all PHAs are run as well as others, some are weaker than others. The reason that I was in favor of exempting was that often times the management of a small PHA does not have the expertise and personnel to do well balanced asset-based management. I understand that for very small PHAs, especially 50 – 100 unit range, there are many proposals to do away with those small housing authorities, to merge them into regional PHAs. But before you do that, I urge you to visit those PHAs and you will find they are some of the best PHAs out there and some of the best housing in rural America. I realize I'm overstepping the question, but you need to consider all ramifications that could harm them.

Mr. Morton — The point I would make is that, anyone who's been involved in Neg Reg or coming to consensus, would reasonably expect some give and take. It is unrealistic to think some people won't lose and some won't win. In negotiation, there must be some give and take. Anyone who assumed we would get all wins immediately is not reasonable. I do appreciate the Department trying to come up with something in the interests of losers, but I'm not sure this is the right answer. There may be some way to transition over time, and the idea of capping, that may be possible too. This is the toughest part of the whole thing. It seems to me this is the real essence of the negotiation. Again, I do appreciate HUD trying to come up with something.

Ms. Zaterman — I want to the echo the sentiment about trying to reach consensus. I guess the games have begun. The industry presented its proposal yesterday, we have had someside bar conversations this morning. In terms of how to proceed, a reaction to the industry proposal would be helpful and appropriate at this time, part of that could be a counter-offer. Then I think it is time to move into a caucus and look at issues again. It's a jigsaw puzzle that must fit together. There are pieces that must be addressed. One, if we could get a reaction on the industry proposal, then we could decide if it was time to move into caucus. The other thing is now that we are into real proposal mode, the numbers are critical. We've had discussions about dollars available, but does that include adding inflation. We are talking about PELs in 2003 but this will be in 2006. After we hear the proposal, we would like some data runs.

Mr. Russell — First of all, on the data, we found it easier to look at things in today's dollars. If you want to make an assumption for some type of inflation to see how much it would be in 2006, feel free to do that.

Ms. Zaterman — That means the numbers you give us today would have an appropriate inflation factor applied for intervening years.

Mr. Russell — Correct, but I don't know what those inflation numbers would be. I'm not sure what I am being asked in terms of responding to the industry's proposal. I don't know how constructive it is to go point-by-point or provide something in writing. I think the price tag of $4.8 billion threw me for a loop. That obviously isn't something we could consider at all. But I think our counterproposal spoke to some issues we felt we could agree on, and others where we haven't been able to agree yet. I think the proposal-counterproposal process is better than going through each point-by-point, back and forth. That's kind of my position on that. I don't think the industry proposal was realistic from a pure budget basis. But, I think the Department is trying to show good faith in the counter-proposal and some things we've talked about this morning. Hopefully we are a lot closer to something we can sit down and put some finishing touches on. We can probably distribute something this afternoon so tonight when the industry caucuses they can see what they are dealing with.

[Mr. Liu is now serving as the Federal Designated Officer. Mr. Russell is serving as the HUD representative.]

Mr. Kaiser — I think it sometimes gets confusing because there are so many proposals on the table, but Rick Parker went through a lengthy proposal this morning that significantly revised our initial proposal yesterday. We reduced the amount by roughly half a billion dollars. We've come down considerably in an effort to meet the Department half way. You met informally with some of us this morning. I think it would be helpful if you could outline your thinking with that revised proposal and cost it out on paper. I think we may be starting from a different basis. Some people are working from the mindset of the existing Operating Fund allocation of $3.6 billion; others are working from Harvard which is $3.75 billion, and others are thinking about Harvard as modified by HUD's original proposal. Hopefully, if you could take your latest offer and specify where we are in terms of dollars, that would be helpful as we go into our caucus this evening. I think we are operating from some different assumptions. It seems like we're comparing apples, oranges, and grapefruits. I'd like to see something from HUD that is really specific and what the items you would agree to cost. If that could be done it would be helpful and appreciated.

Ms. Basgal — In the interest of time, it is 2:00 pm. If you take time to write a proposal we won't get it until 5:00 pm. Can you take the list from this morning and simply pencil in your changes? Could we do that so we could have something by 3:00 pm. so we could start meeting? Tomorrow is it, and I think some of us will be leaving early. I am trying to save you from thinking you need to go back and write a piece.

Mr. Russell — I think we could probably draft something helpful in less than an hour. Why don't we call for a one-hour break?

Ms. Tran — Mr. Kubacki indicated a desire to go back and discuss the utility proposal, we'll do that after the break.

Break granted at 2:05 pm. The committee reconvened at 4:10 pm.

[Mr. Russell is serving as the Federal Designated Officer and Mr. Kubacki is serving as the HUD Representative.]

[HUD distributed a revised position to all the committee members. See Appendices 5 and 6.]

Ms. Tran — Welcome back. Mr. Russell would like to start.

Mr. Russell — As I understand it, we have been asked to provide our revised position and the budget impact. I think that it speaks for itself and I understand that the industry wants to go through it and discuss it tonight. If there are points of clarification that need to be made, we can entertain those.

Mr. Land — Under the proposal, we are talking about PHAs with less than 250 units as being considered already compliant with project-based accounting. Is that correct?

Mr. Russell motions that Mr. Land's statement is correct.

Mr. Land — In our earlier discussions, under the proposal, we're talking about PHAs with less than 250 units being considered already compliant with PBA, or let's say exempt. There are about 2,300 of those in the US. In funding PHAs in transition, PHAs already in compliance and at a loss, if they were in compliance in that first year, would not lose. So would that mean PHAs with less than 250 not covered under PBA would not lose the transition money.

Mr. Russell — We need to consider that. I think there are different ways to phrase what you just said. You could argue that they are in compliance by default and therefore meet the test we set up for truncating the phase-in of Harvard. On the other hand, we haven't asked them to do that. It's almost an N/A for them. I don't know.

Mr., Land — My thought was since they were not going to get extra money for the asset management fee, then maybe you would start them on a level playing field for the loss of the PELs. That would answer about 2,300 problems and you would only have about 808 to go.

Mr. Morton — Not to beat a dead horse. So if the PHAs were able to do this in the first year, their losses would be limited to that first year?

Mr. Russell nods yes.

Mr. Parker — I was asked to ask this by someone else regarding the transition proposal. The phase-in loss, 5% + 20, 40 60, 80 ….is the 20% based on current AEL and first year PEL, or against the first year PEL and in year one then that gets inflated by the inflation factor so the loss is applied to the inflated PEL. If it is phase-in it seems it would be only applied for the first year PEL, but that was asked by one of our members.

Mr. Russell — I think I understand your question. I need to talk to our folks about that. In terms of running the formula every year, if we were inflating other things in the budget that is probably what we would run it off of.

Mr. Parker — If you could think about it and answer the question later.

Mr. Longo — If you meet the project based accounting goals before FY 2006, would you then be limited to the 5% cut?

Mr. Russell — If you are already at asset based accounting then you could come in through the appeal process and use accurate project data and numbers to appeal.

Mr. Longo: I don't think we are there yet, but we could use the 18 months to get to the threshold but would not have actual data before the clock starts running.

[Mr. Liu is now serving as the Federal Designated Officer and Mr. Russell is serving as the HUD representative.]

Mr. Russell: I think we would be willing to consider that. That has some logic to it.

Mr. Lam: The thing we were talking about before, the transition for the losing PHAs. Is that the piece that is noted under discussion in the handout you just gave? (Appendices 5 &6)

Mr. Russell: Yes, or others that have been advocated by the industry. That is our latest proposal. (Appendix 5 & 6)

Mr. Lam: Maybe I forget or fell asleep, but I have a question on this piece about fungibility. What does it mean no fungibility at the top of the operating statement?

Mr. Kubacki: What that means is that initially we will calculate subsidy, but not at the project level. Once we have subsidy at the project level each project will have a subsidy number. Each project will show operating subsidy revenue, which is your rental revenue. You'll subtract out the direct expense, which leaves NOI for that project. Then you would subtract out overhead, which leaves you with operating income. If you have profit for that project, then you can use it for others. If you get $1000 for that project , you can't put in $2,000 for operating subsidy.

Ms. Zaterman: Following up on Mr. Longo's question, if an authority meets the criteria or threshold of asset based management and justifies their cost, then their loss is stemmed. Their PEL becomes the number justified in the asset-based accounting.

Mr. Russell: The question Mr. Longo asked was that if they meet the project-based in year one, would we stem the reduction? We said that we would consider that. But to opt out of Harvard you will need the data to analyze.

Ms. Zaterman: There are two scenarios. One, I have data look at my data. Second, the PEL drops significantly in the first year, but if we meet the threshold of PBA then the loss is held at a certain amount. The PEL will be fixed at the threshold. Then you would run the numbers for the budget estimate so you really don't have the issue of losses and gains because you run the formula based on the criteria that the PHA has met the project-based standards. So we don't really have this issue of how to make up the losses because you identify the PEL and run the formula based on the PEL.

Mr. Russell — Yes.

Ms. Zaterman — Then we don't have the issue of making up for losses.

Mr. Russell — You are talking about a hypothetical situation where a PHA meets PBA standards in year one.

Ms. Zaterman — Yes in year one or in year two?

Mr. Russell — I move that we break for the day and take public comments at this time.

Ms. Zaterman — Are you going to answer my question?

Mr. Russell — I thought I answered it.

Ms. Zaterman — Will you run the formula with the new PELs and will that would be the basis for the budget request?

Mr. Russell — Yes.

Ms. Zaterman — I think we need to discuss how PBM and PBA get developed because it will have great impact on the development of a rule. I suggest some sort of committee, a FACA committee, to develop a system that makes sense. That would be part of our agreement.

Mr. Parker — I would like to get some other points of clarification. On page 2 under "all other add-ons," what does the clarification mean? Do they need clarification? Is the Department stating they are legitimate add-ons?

Mr. Russell — That was to clarify that this is the total list of add-ons.

Mr. Parker — So that is the Department's position on what add-ons should be?

Mr. Russell	Yes.
Mr. Parker	The Department also made a change under V. to formula income to freeze the income at FY 2004 level so you would use an entire year of data and not just one month. Then you would freeze that level and use that number for the three-year period and then after three years you would reexamine the number.
Mr. McInninsh	Under VI. Utilities, what is the number of years and when would they start -- FY 2003 or FY 2004 -- or do we need to define that?
Mr. Russell	I think that is referring to the three-year rolling base.
Ms. Siksa	I want to speak in support of Ms. Zaterman that we have a FACA to discuss the meaning of project-based accounting and get that worked out since it is such a critical part.
Mr. Nolan	On rental revenue, freezing the 2004 level, will that be on a PUM basis for those who continue to do demolition, rather than a whole dollar amount?
Mr. Kubacki	The concept behind this was to use a whole number.
Mr. Nolan	But if I collect revenue on 10,000 and demolish 2,000, that hurts me. So if we put it on a PUM basis it would work out quite well. Regarding the transition policy, I gather the incentive for the PHAs that lose subsidy is an independent discussion from the discussion of those that will be gaining subsidy. The gainers will get the gains in the first year. Is that HUD's suggestion?
Mr. Russell	What I threw out earlier was a three year transition and now it is a two year transition. We are running the numbers and will better explain in the morning.
Ms. Siksa	Can you talk about asset repositioning and what that covers? So year one it is at the full level and year two at 50%?
Mr. Russell	It is similar to our current policy. We would fund units approved for demo at 50% for two years. It would be 50% in year one and 50% in year two whenever the demo is triggered and we will talk about the trigger.

Mr. Liu — And we would like to get suggestions on what the trigger may be. We need something that tightly defines when the clock starts to run, but we are open to hear detailed suggestions from those of you that do this on a day-to-day basis. But this must be a technical proposal so we don't have the problems we have today.

Ms. Tran — If there are no other points of clarification, I will open the floor to the public.

Mr. Allen Cornell from the Texas Housing Association came forward.

Mr. Cornell — Thank you Mr. Land for addressing small PHAs, I am a bit concerned that the management fee is neglected for PHAs under 250 units. The assumption that those PHAs have no top-level exposure is flawed. I am also concerned about the vacancy issue and how it affects small PHAs.

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Ms. Tran — Would any other member like to comment?

[No other member from the public came forward.]

Ms. Tran — If not, then we are adjourned for today. Those who would like to participate in the utility working group, please stay.

The committee adjourned at 4:37 pm.

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List of Appendices for the March 14, 2004 Session:

1. Sign-in sheet for committee members, guests of committee members and members of the public.

2. Response to HUD position for final Operating Fund Formula (Industry Groups).

3. Public Housing Counter-Proposal (Industry Groups).

4. Formula Income Determination (HUD).

5. Transition Proposal (HUD).

6. U.S Department of Housing and Urban Development position for final Operating Fund Formula, *as presented to the Committee on April 13th, 2004* (HUD).

7. Budget impact of HUD position – 4/14/04 (HUD).

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List of consensus items for the March 14, 2004 Session:

None.