PUBLIC HOUSING ASSET MANAGEMENT:
KEY COMPONENTS
APRIL 10, 2007

PROJECT-BASED FUNDING

- In calendar year (CY) 2007, HUD implements the new Operating Fund Formula, based on the Harvard Cost Study and negotiated rulemaking. In this first year of implementation, HUD continues to fund at the “agency level.”

- In CY 2008, HUD makes funding assignments at the project level.

PROJECT-BASED BUDGETING

- PHAs are required to prepare, and have their Boards approve, project-based budgets prior to start of each fiscal year.

- PHAs do not submit to, nor receive approval from, HUD on these budgets; however, during regular monitoring visits, HUD will confirm that such budgets were prepared.

- 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 HUD’s Financial Data Schedule (FDS), which is the accounting format for year-end reporting.

FUNGIBILITY BETWEEN PROJECTS

- In the first year of project-based budgeting/accounting, PHAs have full fungibility of operating funds between projects.

- In the second year of project-based budgeting/accounting, PHAs may transfer operating funds between projects provided each project has positive excess cash (as calculated based on a balance sheet approach).

- In the third year of project-based budgeting/accounting, PHAs may not transfer funds between projects unless each project has excess cash equal to at least one month of operating expenses.

PROJECT-BASED ACCOUNTING

- PHAs must submit year-end financial statements (income, expenses, balance sheet) to HUD on each project.

- These project-level financial statements will be included with the PHA’s annual FDS submission, using “supplemental project schedules.” An unaudited FDS is due within two months of close of fiscal year; an audited FDS is due within nine months of close of fiscal year.

- To collect the type of project-level information needed to support asset management, HUD will modify the public housing current chart of accounts. For example, there is no line item in the current chart of accounts to capture management fee. This updated chart of accounts will more closely resemble the chart of accounts for FHA projects. (HUD is not imposing an entirely new chart of accounts for public housing.)

- PHAs will also be required to report expenditures under the Capital Fund program – both operating expenditures and capital expenditures – at the project level. In other words, if a PHA spends $100,000 to replace a roof at Project A, the balance sheet for Project A will reflect a $100,000 leasehold improvement.

SMALL PHAs (FEWER THAN 250 PUBLIC HOUSING UNITS)

- Small PHAs are not required to convert to asset management.

- Small PHAs may also combine all units into one "project."

- By not being required to convert to asset management, small PHAs do not need to create a central office cost center (COCC) or observe new management fee schedules.[1] Rather, they will continue to allocate overhead costs across programs.

- Small PHAs that wish to convert (either because of desire to comply with stop loss or other reasons) are not required to establish a separate COCC and convert to a management fee approach for treatment of overhead. However, they must show that total administrative costs are reasonable, i.e., not greater than the 80th percentile of administrative costs in FHA housing.

CAPITAL FUND PROGRAM

- PHAs will report all Capital Fund transactions at the project level.

- PHAs may earn a management fee (10% of the Capital Fund annual grant) but otherwise PHAs cannot fund the COCC with Capital Fund proceeds. PHAs may draw down the entire Capital Fund management fees in the first year of award of grant.

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[1] The term "central office cost center", or COCC, refers to the business unit inside the PHA that is the recipient of fee income and other business activity. The COCC is similar to "the management company" in private housing.

- PHAs may continue to transfer funds from the Capital Fund to "Operations" (up to 20% permitted by statute) and for "Management Improvements" (up to an additional 20% by regulation); however, these expenses must be for the operations/management improvement of a project and not the COCC. Activities associated with the COCC shall be funded with management fees (Capital Fund management fee, property management fee, etc.).

VOUCHER PROGRAM

- There is no programmatic change in the Housing Choice Voucher (HCV) Program as a result of asset management.

- PHAs may, purely voluntarily, charge a "management fee" for the operation of their HCV programs, equal to the higher of: 20% of the PHA's overall HCV administrative fee or $12 PUM. Additionally, the PHA may charge the voucher program $7.50 PUM as a bookkeeping fee. (This election to charge a management fee allows PHAs relief from maintaining complex overhead allocation systems.)

MANAGEMENT FEES

- PHAs may use local revenues to support the COCC, as desired (just the same as any private organization could support one business venture with funds from another business venture). However, solely for the purposes of applying for stop loss, a PHA may not receive a grant from a local government to subsidize the COCC. (A criterion for demonstrating successful conversion to asset management is to show that the PHA can operate within its management fees/business income).

- For management fees, PHAs may use one of the following methods for determining reasonableness: (1) the local HUD multifamily fee schedule (generally, these schedules represent 120% of the median fee paid in that market for HUD projects that are in good condition, do not have an identity-of-interest relationship between owner and management agent, and are not limited dividend projects), or (2) the 80th percentile of fees paid by all HUD projects (limited dividend, unlimited dividend, or non-profit) in each HUD multifamily office. (For this second option, HUD has prepared a schedule, attached.)

- Additionally, if the PHA feels that the above two options are not adequate for their markets, they can use other local compelling data, e.g., the fees that a PHA pays through private management under effective competition.

- In addition to the base management fee, PHAs may charge a $7.50 PUM bookkeeping fee.

ASSET MANAGEMENT FEES

- The COCC may charge an asset management fee of $10 PUM to pay for distinctly-owner functions, subject to the availability of excess cash (as described in the sub-bullets below).

  - In the first year of project-based budgeting/accounting, there will be no excess cash requirement for the payment of an asset management fee (PHAs are not required to assign balance sheets until the end of that reporting year).

  - In the second year of project-based budgeting/accounting, each project must have excess cash to pay an asset management fee.

  - In the third and subsequent year of project-based budgeting/accounting, excess cash must equal one month of operating expenses to pay an asset management fee.

- For comparative purposes, the average cash flow in HUD's multifamily housing programs is approximately $33.33 PUM. This cash flow is used to support "distinctly-owner" functions, e.g., investment planning, but also represents return on investment. The asset management fee for public housing is not intended to address the latter. Moreover, PHAs are currently compensated elsewhere for certain ownership tasks – for example, the Capital Fund pays PHAs for capital planning.

CLASSIFICATION OF COSTS AS EITHER FRONT-LINE OR MANAGEMENT FEE EXPENSE

- As with HUD's multifamily housing programs, PHAs must classify costs as either a "front-line" or "management fee" expense.

- The Department has adopted for public housing essentially the same categorization of front-line vs. management fee expenses as exists in HUD's subsidized housing programs. For example, a "regional manager" would be funded through the management fee.

- "Legacy" costs (on-going liabilities prior to the conversion of asset management, e.g., health benefits for retired employees) are treated as front-line costs and do not need to be funded through on-going management fees.

CENTRALIZED SERVICES

- PHAs may reasonably pro-rate the costs of various front-line line administrative tasks that are performed centrally, consistent with the norms in multifamily housing. For example, if a PHA chooses to maintain central rent collection, the PHA may charge back to each project the cost of the central rent collection clerk (for those hours spent on rent collection and not other duties). However, consistent with instructions in HUD's multifamily housing programs, a PHA may not charge back the cost of the supervisor of central rent collection (because such supervisory costs are already included in the salary of the on-site housing manager). At such point as PHAs/HUD can determine appropriate rates for various front-line activities performed centrally, e.g., central waiting lists, HUD will allow for fee-for-service for these centrally provided administrative tasks in lieu of charging actual costs.

- In the case of central maintenance, in accordance with the final rule on the Operating Fund, a PHA must use fee-for-service. Thus, if a PHA maintains a central plumber, the PHA must charge each project only for the actual services received at not more than the market rate.

- All centralized services must (1) be in the best interests of the project and (2) not cost more than if performed on-site. PHAs must maintain supporting documentation for reasonableness of rates charged for centralized services (e.g., fees charged in the local market for comparable services).

CENTRAL OFFICE BUILDINGS

- The COCC does not need to pay rent for space utilized at a project or at a central administrative building paid for with public housing funds, but must pay its fair share of utilities, janitorial, etc.

- HUD is exploring methods to allow PHAs to dispose of central office buildings (and warehouses) that are no longer needed to support projects, which would allow these resources to be used for local affordable housing purposes.

PROGRAM VS. NON-PROGRAM INCOME

- Income that the COCC generates through fee-for-service (management fees, etc.) is not considered "program income" and, as such, is governed only by any applicable local laws.

- HUD will not “score” COCC activity with respect to the Public Housing Assessment System.

ASSIGNING ASSETS AND LIABILITIES

- At the end of the first year of project-based budgeting/accounting, a PHA must assign assets and liabilities within the public housing program between projects and the central office cost center. (Currently, PHAs only maintain a “program” balance sheet, not project balance sheets.)

- A PHA may assign to the COCC, as “working capital”, six months of fee income (management fees, bookkeeping fees, and asset management fees). This working capital, like the fees themselves, is not considered program income.

- A PHA must assign any remaining assets/liabilities to projects in any reasonable fashion (based on units, condition, needs, etc.).

PUBLIC HOUSING ASSESSMENT SYSTEM (PHAS)

- The Department will revise the PHAS to make it consistent with asset management. It is contemplated that this revised system will consist of four indicators: (1) physical condition of each project, as measured by independent inspector (current practice), (2) financial condition of each project (principally, the project’s financial liquidity), (3) the management operation of each project, as determined by on-site management reviews (eliminating the current practice of PHA self-certifications/submissions), and (4) Capital Fund obligation/expenditure rates.

- For the first year under the new PHAS system, PHAs will receive a “transition score” that will not be binding. Instead, they will retain their most recent PHAS score (prior to asset management) for purposes of determining Capital Fund bonus grants and in designating PHAs as troubled, etc.

EFFECTIVE DATES FOR IMPLEMENTATION

- PHAs must begin project based budgeting with fiscal years starting July 1, 2007. Hence, a PHA with a fiscal year of July 1 would begin July 1, 2007. A PHA with a fiscal year of October 1 would begin October 1, 2007, etc.

- PHAs must submit year-end project financial statements with fiscal years ending June 30, 2008.

- PHAs must be in compliance with “reasonable” management fees by second year of project-based budgeting/accounting; however, a PHA may consult with HUD regarding its fees. HUD will provide its views on the reasonableness of the PHA fees, and work with the PHA to develop a fee schedule. As part of the consultation, HUD may request that a PHA provide documentation on the actual costs in the jurisdiction and explain the factors causing any differences between actual costs and the PHA fee schedule. **Generally, HUD will consider a schedule with an additional two-year phase-in for compliance to be reasonable, based on the review of such documentation/explaining factors**. A fee schedule agreed upon by the PHA and HUD meets the reasonableness standard for fees under the Operating Fund regulations.

STOP LOSS

- The Operating Fund regulations allow a PHA whose funding will decline under the new formula to have its losses “stopped” by demonstrating a successful conversion to asset management.

- PHAs must apply in accordance with the table below.

Applications Due	**Reduction Stopped At**	**Reduction Effective For**
October 15, 2007	5% of the PUM difference.	Calendar Year 2007 and thereafter
April 15, 2008	24% of the PUM difference.	Calendar Year 2008 and thereafter
October 15, 2008	43% of the PUM difference.	Calendar Year 2009 and thereafter
October 15, 2009	62% of the PUM difference.	Calendar Year 2010 and thereafter
October 15, 2010	81% of the PUM difference.	Calendar Year 2011 and thereafter

80th Percentile of Property Management Fees in FHA Housing, by Field Office, for Unlimited Dividend, Limited Dividend and Non-Profit Ownership Types (2005 data)			
Field Office	**Property Management Fee (PUM)**	**Field Office**	**Property Management Fee (PUM)**
Albuquerque	$44.33	Little Rock	$41.05
Anchorage	$62.16	Los Angeles	$59.18
Atlanta	$49.50	Louisville	$43.90
Baltimore	$49.63	Manchester	$52.49
Birmingham	$44.72	Miami	$48.49
Boston	$58.18	Milwaukee	$46.06
Buffalo	$50.87	Minneapolis	$52.23
Caribbean	$44.55	Nashville	$41.79
Charleston	$45.03	New Orleans	$41.74
Chicago	$53.83	New York	$55.24
Cincinnati	$45.07	Newark	$64.46
Cleveland	$46.55	Oklahoma City	$42.03
Columbia	$48.26	Omaha	$39.86
Columbus	$47.82	Philadelphia	$49.56
Denver	$52.81	Phoenix	$42.56
Des Moines	$39.44	Pittsburgh	$57.17
Detroit	$46.44	Portland	$42.16
Fort Worth	$45.27	Providence	$63.32
Grand Rapids	$44.82	Richmond	$49.05
Greensboro	$47.99	Sacramento	$51.08
Hartford	$57.24	San Antonio	$44.61
Honolulu	$48.16	San Diego	$49.82
Houston	$40.64	San Francisco	$61.38
Indianapolis	$48.91	Seattle	$40.23
Jackson	$44.76	Shreveport	$38.13
Jacksonville	$52.04	St. Louis	$39.23
Kansas City	$40.44	Tampa	$49.27
Knoxville	$39.34	Tulsa	$43.90
Las Vegas	$43.79	Washington, DC	$58.70

***Note:** The above fees have been adjusted to reflect the average vacancy loss for each market, i.e., the rates shown reflect the fees paid for occupied units.