

This scoring notice will publish in the Federal Register on February 23, 2011. The published notice will establish the deadline for submission of public comments. No comments should be submitted nor will they be accepted prior to publication of the notice in the Federal Register.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5094-N-05]

**Changes to the Public Housing Assessment System (PHAS):
Management Operations Scoring Notice**

SUMMARY: This notice provides additional information to public housing agencies (PHAs) and members of the public about HUD's process for issuing scores under the management operations indicator of the Public Housing Assessment System (PHAS) interim rule, published elsewhere in today's Federal Register.

DATES: Effective Date: **[Insert date 30 days after date of publication in the FEDERAL REGISTER].**

Comment Due Date: **[Insert date 60 days after date of publication in the FEDERAL REGISTER].**

ADDRESSES: Interested persons are invited to submit comments on this notice to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410-0500.

Communications must refer to the above docket number and title. There are two methods for submitting public comments. All submissions must refer to the above docket number and title.

1. Submission of Comments by Mail. Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410-0500.

2. Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at www.regulations.gov. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments

allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the www.regulations.gov website can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

Note: To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the rule.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable.

Public Inspection of Public Comments. All properly submitted comments and communications submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at 202-402-3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number via TTY by calling the Federal Information Relay Service, toll-free, at 800-877-8339. Copies of all comments submitted are available for inspection and downloading at <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: Claudia Yarus, Department of Housing and Urban Development, Office of Public and Indian Housing, Real Estate Assessment Center (REAC), 550 12th Street, SW, Suite 100, Washington, DC 20410 at 202-475-8830 (this is not a toll-free number). Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339. Additional information is available from the REAC Internet site at <http://www.hud.gov/offices/reac/>.

SUPPLEMENTARY INFORMATION:

I. Purpose of this Notice

The purpose of this notice is to provide additional information about the scoring process for the PHAS management operations indicator under the PHAS interim rule published elsewhere in today's Federal Register. The purpose of the management operations indicator is to assess the project's and PHA's management operations capabilities. All projects will be assessed under the management operations indicator, even if a PHA has not converted to asset management.

This PHAS Management Operations Scoring Notice has been revised to reflect research HUD conducted through informal meetings with representatives of PHAs, residents, projects, and public housing industry groups, and to provide the basis for scoring projects on the management operations.

II. Transition to Asset Management and Frequency of Management Operations

Assessments

The number of units in a PHA's Low-Rent program and the PHAS designation for small PHAs will determine the frequency of management operations assessments during and after the transition to asset management. Pursuant to § 902.13(a) of the PHAS interim rule, the deregulation of small PHAs provides that PHAs with less than 250 public housing units will receive a PHAS assessment, based on its PHAS designation, as follows:

- (1) A small PHA that is a high performer will receive a PHAS assessment every 3 years;
- (2) A small PHA that is a standard or substandard performer will receive a PHAS assessment every other year; and

(3) All other small PHAs will receive a PHAS assessment every year, including a PHA that is designated as troubled or Capital Fund troubled in accordance with § 902.75.

In the first year of implementation of the interim PHAS rule, the baseline year, every PHA will receive an overall PHAS score and in all four of the PHAS indicators: physical condition; financial condition; management operations; and Capital Fund program. This will allow a baseline year for the small deregulated PHAs.

III. Subindicators

A. Subindicators of the Management Operations Indicator. The three subindicators of the management operations indicator are:

- Occupancy;
- Tenant accounts receivable; and
- Accounts payable.

B. Points for the Management Operations Indicator. This indicator assesses the management operations of projects and PHAs. The management operations indicator score is based on a maximum of 25 points.

Subindicator #1, Occupancy. This subindicator measures the occupancy for the project's fiscal year, adjusted for allowable vacancies pursuant to 24 CFR 990.145.

A PHA will achieve 16 points if it has an adjusted occupancy rate equal to or greater than 98 percent. It will receive 12 points if it has an adjusted occupancy rate of less than 98 percent but equal to or greater than 96 percent. It will receive 8 points if it has an adjusted occupancy rate of less than 96 percent but equal to or greater than 94 percent. It will receive 4 points if it has an adjusted occupancy rate of less than 94 percent but equal to or greater than 92 percent. It will receive 1 point if it has an adjusted occupancy rate of less than 92 percent but equal to or

greater than 90 percent. It will receive 0 points if it has an adjusted occupancy rate of less than 90 percent.

Occupancy Value	Points
$\geq 98\%$	16
$< 98\%$ but $\geq 96\%$	12
$< 96\%$ but $\geq 94\%$	8
$< 94\%$ but $\geq 92\%$	4
$< 92\%$ but $\geq 90\%$	1
$< 90\%$	0

Subindicator #2, Tenant accounts receivable. This subindicator measures the tenant accounts receivable of a project against the tenant charges for the project's fiscal year. Charges include rents and other charges to tenants, such as court costs, maintenance costs, etc.

A PHA will receive 5 points if it has a tenant accounts receivable ratio of less than 1.5. It will receive 2 points if it has a tenant accounts receivable ratio of equal to or greater than 1.5 and less than 2.5. It will receive zero points if it has a tenant accounts receivable ratio of equal to or greater than 2.5.

Tenant Accounts Receivable Value	Points
< 1.5	5
≥ 1.5 but < 2.5	2
≥ 2.5	0

Subindicator #3, Accounts payable. This subindicator measures the money that a project owes to vendors at the end of the project's fiscal year for products and services purchased on credit against total operating expenses.

A PHA will receive 4 points if it has an accounts payable ratio of less than 0.75. It will receive 2 points if it has an accounts payable ratio of equal to or greater than 0.75 but less than 1.5. It will receive zero points if it has an accounts payable ratio of equal to or greater than 1.5.

Accounts Payable Value	Points
<0.75	4
≥0.75 but <1.5	2
≥1.5	0

IV. Elements of Scoring

A. Points and Threshold

The management operations indicator score is based on a maximum of 25 points. In order to receive a passing score under this indicator, a project must achieve at least 15 points or 60 percent of the available points available under this indicator.

B. Scoring Elements

The management operations indicator score provides an assessment of a project's management effectiveness. Under the PHAS management operations indicator, HUD will calculate a score for each project, as well as for the overall management operations of a PHA, that reflects weights based on the relative importance of the individual management subindicators. The overall management operations indicator score for a PHA is a unit-weighted average of the PHA's individual project management operations scores. In order to compute the score, an individual project management operations score is multiplied by the number of units in each project to determine a "weighted value." The sum of the weighted values is then divided by the total number of units in a PHA's portfolio to derive the overall PHAS management operations indicator score.

The computation of the score under this PHAS indicator utilizes data obtained from the Financial Data Schedule and requires three main calculations for the subindicators, which are:

- Scores are calculated for each subindicator;
- A management operations score is calculated for each project; and

- A score is calculated for the overall indicator score, which is a unit-weighted average of the individual project management operations scores.

The point values of the subindicators are listed in Table 1.

Table 1 Management Operations Subindicators	
Subindicator	Point Value
Occupancy	16
Tenant Accounts Receivable	5
Accounts Payable	4
Total Points	25

C. Example of Score Computations

The indicator score for each project equals the sum of the subindicator scores, as shown in Table 2.

Table 2 – Example of Project Score	
Subindicator	Points
Occupancy	16
Tenant Accounts Receivable	2
Accounts Payable	4
Total Points	22

D. Physical Condition and/or Neighborhood Environment

The overall management operations score for a project will be adjusted upward to the extent that negative conditions are caused by situations outside the control of the project. These situations are related to the poor physical condition of the project or the overall depressed condition of the major census tract in which a project is located. The intent of this adjustment is to avoid penalizing projects through appropriate application of the adjustment. In addition, the overall PHA Management Operations Indicator score will be adjusted upward to reflect the individual project adjustments.

Definitions and application of physical condition and/or neighborhood environment factors are:

(1) A physical condition adjustment applicable to projects at least 28 years old, based on the unit-weighted average Date of Full Availability (DOFA) date.

(2) A neighborhood environment adjustment applicable to projects in census tracts in which at least 40 percent of the families have an income below the poverty rate, as documented by the most recent census data. If a project is in more than one census tract, the census data for the census tract where the majority of units are located shall be used. If there is no census tract data available for a project, the census data for that project will be based on the county's census data, and if county data is not available, then the state census data will be used.

- Adjustment for physical condition and/or neighborhood environment. HUD will adjust the overall management operations score of a project subject to one or both of the physical condition and/or neighborhood environment conditions. The adjustments will be made to the individual project scores, and then to the overall management operations score, so as to reflect the difficulty in managing the projects.

The adjustment for physical condition and/or neighborhood environment will be calculated by HUD and applied to all eligible projects. The data to determine if a project is eligible for either adjustment will be derived from the Public and Indian Housing Information Center databases.

In each instance where the actual management operations score for a project is rated below the maximum score of 25 points, one unit-weighted point each will be added for physical condition and/or neighborhood environment, but not to exceed the maximum number of 25 points available for the management operations indicator for a project. Table 3 shows an

example of the calculation of physical condition and/or neighborhood environment points for a hypothetical PHA with four projects. The adjustment for physical condition and/or neighborhood environment is a unit-weighted average of a PHA's individual project physical condition and/or neighborhood environment adjustments.

Table 3 – Calculation of Physical Condition and/or Neighborhood Environment (PCNE) Points						
Line	Project	Proj. #1	Proj. #2	Proj. #3	Proj. #4	Total PHA
1	Units	133	65	89	25	312
2	Weight	42.6%	20.8%	28.5%	8.0%	100.0%
3	Physical Condition Points	1	1	1	0	
4	Neighborhood Environment Points	1	1	0	0	
5	Total PCNE Points at Project Level	2	2	1	0	
6	Weighted Physical Condition Points	0.43	0.21	0.29	0.00	0.92
7	Weighted Neighborhood Environment Points	0.43	0.21	0.00	0.00	0.63
8	Weighted PCNE Points	0.85	0.42	0.29	0.00	1.55

This PHA has 312 total units in four projects (see line 1). The weight of each project is based on units and is calculated by dividing the project units into the total PHA units (see line 2). Project #1 and project #2 qualify for both points; project #3 qualifies for only physical condition; and project #4 does not qualify for any points (see lines 3 through 5). Each project contributes its physical condition and/or neighborhood environment points to the overall PHA management operations indicator score based on its weight. For example, in project #1, the weighted physical condition and neighborhood environment point is 0.85 and is calculated by multiplying the project weight of 42.6 percent (line 2) by the physical condition and neighborhood environment

point of 2 (see line 5). The overall physical condition and neighborhood environment adjustment at the PHA level is calculated at 1.55 points by adding the individual project weighted scores (see line 8 under the Total PHA column).

Dated: February 1, 2011

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Sandra B. Henriquez
Assistant Secretary for Public and Indian Housing

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