



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of

Public Housing Agencies
Public Housing Hub Office Directors
Public Housing Program Center Directors
Regional Directors
Field Office Directors
Resident Management Corporations

Notice PIH 2008-18 (HA)

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Cross Reference:

Subject: Information on Upcoming Rulemaking Associated with the Public Housing Assessment System as a Result of the Conversion to Asset Management

1. Purpose

The purpose of this notice is to provide an update on the status of the proposed changes to the Public Housing Assessment System (PHAS) and other related activities. The information contained in this notice should assist public housing agencies (PHAs) as they continue to plan for the conversion to asset management.

2. Background

On September 6, 2006, HUD published a Federal Register notice (71 FR 52710), Public Housing Operating Fund Program; Guidance on Implementation of Asset Management. Within that notice, HUD indicated that it would be revising the PHAS to support the transition to asset management. Further, it noted that PHAs would receive a “transition” PHAS score in the first year of conversion to project-based budgeting and accounting. Specifically:

“The move to asset management will require HUD to revise the PHAS. Currently, PHAS is an entity-wide assessment system whereas asset management utilizes a property-specific focus. As a result, for the first year of compliance with property-based budgeting and accounting, during which time that PHAs are making organizational changes, the PHA will receive a transition score under the revised PHAS. Incentive awards under the Capital Fund during the time that PHAs receive transition PHAS scores will be based on the PHA’s latest PHAS score prior to conversion to asset management.

“All PHAs that are or will be classified as troubled will continue to be governed by their memorandum of agreements and other pertinent program rules. Moreover, although PHAs will only receive transition scores, PHAs must continue to comply with all rules associated with the public housing program and must continue to manage with economy and efficiency.”

3. Related Administrative Actions

In the development of the proposed PHAS, HUD will publish for comment two related documents, as noted below:

- Proposed Rule to Revise the PHAS. HUD will issue a proposed rule that will include revisions to the PHAS in support of asset management, as well as other program updates. The proposed rule is anticipated to be published in the Spring of 2008. Included as appendices to the proposed rule will be four scoring notices (one for each indicator). In the past, HUD published the scoring notices separate from the PHAS rule. For convenience, the scoring notices will be included with the PHAS rule.
- Proposed Management Review Form for Public Housing. Consistent with the norms in multifamily housing, a PHA's management operations will, under the proposed PHAS, be measured by an on-site management review. On February 8, 2008, HUD published for public comment in the Federal Register, 73 FR 7575, the form HUD-5834, Management Review for Public Housing Projects. The form HUD-5834 is modeled after the form HUD-9834, Management Review for Multifamily Projects, and will serve to consolidate, as much as practical, current reviews of PHAs and projects. The proposed form HUD-5834 that was posted for comment does not include the scoring, which will be addressed in the proposed PHAS rule. As indicated in the Federal Register notice on the proposed form HUD-5834, "To support the transition to asset management and align HUD oversight with asset management, a new management review format is required to review PHAs at the project level, rather than agency-wide."

4. Issuance of Transition Scores

Although the September 6, 2006, Federal Register notice indicated that HUD would issue a "transition score" for a PHA's first year of compliance with project-based budgeting and accounting, i.e., the transition year, a final PHAS rule is not expected until late 2008 or early 2009. HUD will not issue any scores under the proposed PHAS until a final rule is effective. HUD also desires to treat each PHA equitably with respect to the implementation of the final rule and, therefore, believes that all PHAs should not receive scores in the transition year. Consequently, HUD expects to issue a new Federal Register notice requesting public comment on its plans not to issue transition scores for the transition year. The only component of PHAS for which a PHA will be scored in the transition year will be the physical inspections (PASS).

5. Frequently Asked Questions

The following are responses to frequently asked questions regarding the development of, and transition to, the proposed PHAS.

Question: For a PHA's first year of compliance with property-based budgeting and accounting, will it continue to be scored under the current PHAS?

HUD Response: No. Beginning with fiscal years ending June 30, 2008, PHAs must implement project-based budgeting and accounting. During the transition year, PHAs will not receive a score under the current PHAS. HUD recognizes that the current PHAS has certain financial and management indicators that might serve as a disincentive to developing effective project-based budgeting and accounting systems. Additionally, HUD does not want PHAs to have to maintain

two systems – one for the current PHAS and one for the proposed PHAS. Therefore, the last PHAs to receive a score under the current PHAS will be those with fiscal years ending March 31, 2008.

Question: Although PHAs will not, other than PASS, receive PHAS scores in the transition year, will PHAs still be required to submit year-end financial data under the proposed updated asset management Financial Data Schedule (FDS)?

HUD Response: Yes. PHAs will submit year-end financial activity using a proposed updated FDS; however, they will not be scored. During the transition year, PHAs will only receive a score on their physical inspections. For more information on the proposed updated FDS, please see PIH Notice 2007-9, issued April 10, 2007. Please note that the proposed updated FDS is in the final stages of development and PHAs should continue to use the current FDS until notified otherwise by HUD. The proposed updated FDS is to be effective for PHAs with fiscal years ending June 30, 2008, and after.

Question: In the past, PHAs that scored 80 points or higher on a 100 point scale on PASS were not inspected again for another two years. Assume that a PHA was inspected in the year immediately prior to the transition year and that had received a PASS score of 80 points or higher. Further, assume that the PHA has re-combined projects into different asset management projects (AMPs). Will the PHA be inspected again in 2008 and, if not, how will HUD handle the PASS score for projects that were re-combined?

HUD Response: If a PHA received a PASS score of 80 or higher in the year immediately preceding the transition year, the PHA's AMPs will not be inspected in the transition year. For any re-combined projects, HUD will use a unit-weighted score to determine the carry-over PASS score.

Question: Will the new scoring system include a financial indicator for the Central Office Cost Center (COCC)?

HUD Response: No. The proposed PHAS will measure the financial condition of each project. It will not include a measurement of the COCC or other non-public housing activities.

Question: What impact will the proposed PHAS have on PHA data systems? Specifically, are there any types of information that a PHA will be required to maintain that they do not maintain today?

HUD Response: The data examined/requested is expected to include information customarily maintained for the routine operation of projects. Specifically:

- Physical Inspections. No significant changes are anticipated in the protocol for the REAC physical inspections of projects.
- Financial Reporting. On April 10, 2007, HUD issued PIH Notice 2007-9, Updated Changes in Financial Reporting Requirements under Asset Management. PIH Notice 2007-9 described the changes anticipated to the FDS, which is the electronic financial statement that PHAs submit to HUD at year-end. Although HUD will soon issue a

final version of the proposed updated FDS for asset management, no significant changes are anticipated from what was discussed in PIH Notice 2007-9. Further, all scoring information related to financial condition will be derived from the data contained on the proposed updated FDS. Hence, PHAs do not need to plan for any other data collection efforts outside the proposed updated FDS for purposes of financial assessment of projects.

- **Management Assessment.** The on-site management review will examine areas similar to those found in the form HUD-9834, but with a greater delineation between performance, compliance, and process. To the maximum extent practical, scored items will be related to performance. Additionally, HUD is examining greater use of “primary” versus “secondary” performance measures. A primary measure of performance would be a key indicator that reflects high level financial, physical or management performance. A secondary measure of performance would be one that diagnoses possible problems in one or more of the primary performance measures. For instance, a project’s vacancy rate would be a primary performance indicator and unit turnaround a secondary measure.
- **Capital Fund Program.** As with the current PHAS, and in keeping with Section 6(j) of the U. S. Housing Act of 1937, HUD shall assess the performance of a PHA in obligating/expending Capital Fund Program grants. Under the proposed PHAS, HUD will evaluate Capital Fund Program obligation/expenditure performance by information that is already available through the electronic Line of Credit Control System (eLOCCS). Therefore, no additional data collection is required.

Question: What impact will the proposed PHAS have on PHAs with fewer than 250 units?

Response: Under 24 CFR 902.9 (Deregulation of Small Public Housing Agencies; Final rule, 68 FR 37664), PHAs with less than 250 units are assessed under PHAS on a bi-annual basis. HUD does not anticipate any change in the frequency of assessment for PHAs with fewer than 250 units. Therefore, if a PHA with fewer than 250 units was assessed under the current PHAS in 2007, the PHA will not be assessed under the proposed PHAS until 2009. Other than the frequency of assessment, HUD anticipates that PHAs with fewer than 250 units will be treated the same as other PHAs in terms of management reviews, HUD physical inspections, FDS reporting, etc.

Information Contact

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_____/s/_____
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