

ASSET MANAGEMENT E-NEWSLETTER

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HUD Issues Final Rule on Operating Subsidy Transition Funding



On August 15, 2007, the Department published a final rule that modifies the transition funding schedule for PHAs that experience a decline in operating subsidy as a result of the new Operating Fund formula. The final rule extends the transition phase-in period for an additional year. The updated transition funding schedule is reflected in Table 1 below.

Table 1: Transition Funding Schedule for Decliner PHAs

Year	Reduction Limited To
CY 2007	5 % of the difference between the old and new funding levels
CY 2008	24 % of the difference between the old and new funding levels
CY 2009	43 % of the difference between the old and new funding levels
CY 2010	62 % of the difference between the old and new funding levels
CY 2011	81 % of the difference between the old and new funding levels
CY 2012	100 % of the difference between the old and new funding levels

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In obligating operating subsidy funding for CY 2007, the Department has already accounted for the 5% transition amount (in anticipation of the final rule). The final rule codifies the 5% reduction for 2007 and the corresponding amounts for 2008 through 2012.

The final rule, *Public Housing Operating Fund Program; Revised Transition Funding Schedule for Federal Fiscal Years 2007 through 2012* (Docket No. FR-5105-F-02), is available [here](#). ♦

A Message from the Assistant Secretary...



“How much does this Public Housing project generate in revenue?”

For years, the answer to this question has eluded many board members, housing managers, and even financial officers.

Operating subsidy was calculated and awarded at the agency level. While one could isolate the rents collected at a specific site, there was no dedicated amount of operating subsidy associated with any project.

This fall, for CY 2008 funding, PHAs will prepare a subsidy worksheet for each project, based on the model-generated Project Expense Level and other formula elements. For the first time since the early years of the Public Housing program, one will know how much each project generates in revenue.

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For illustrative purposes, the table below shows an estimate of the operating revenue available to the typical Public Housing project in 2008 (assuming proration at 2006 levels or 86.02%). Nationally, the average project has about 150 units, meaning that it would have \$853,200 available for operations, or \$474 PUM.

Estimated Operating Revenue Available to Typical 150 Unit Project, 2008

Item	Annual	PUM
Rents	\$345,600	\$192.00
Operating Subsidy	\$451,800	\$251.00
Other Income	\$55,800	\$31.00
Total	\$853,200	\$474.00

Of course, these amounts will vary by locality and by project type – elderly/family, building type, age, utility combinations, allowable vacancies, etc.

As I've remarked previously, information on project revenues and costs is essential to any successful asset management system. Project-level funding is another important step forward in Public Housing's conversion.

– Orlando Cabrera, Assistant Secretary ♦

HUD Announces Process for PHAs to Request Regrouping of AMPs

On August 27, 2007, HUD issued guidance for PHAs that wish to request changes to their current AMP groupings. This notice, PIH 2007-28, also describes changes to HUD's system for development numbering conventions (read more about these numbering changes in *New Project Numbering System Facilitates PHAs Transition to Asset Management*).

PHAs first grouped their buildings into AMPs (Asset Management Projects) in April 2006. After

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a year of experience, a number of PHAs have indicated that they would like to make certain adjustments to their AMPs. For example, a PHA may have initially grouped a family and elderly development into one AMP because they were adjacent, but feel it would be better to treat them as separate projects. This notice describes the process under which PHAs can change AMPs.

Requests for changing AMP groupings must be submitted through the PHA's Field Office. Changes must support the transition to asset management consistent with AMP grouping guidance in PIH 2006-10, [Identification of Projects for Asset Management](#).

PHAs are only permitted to request AMP changes once every two years unless a significant change in inventory necessitates a need for an ad hoc regrouping. A significant change is generally defined by a 20% increase or decrease in either the number of buildings or number of units.

To ensure proper coordination of HUD database changes, any regrouping request must be made at least six months prior to a PHA's fiscal year beginning (FYB). If approved, a PHA's new AMP groupings will be effective at the PHA's next FYB. Please see the notice for additional guidance regarding the process for changing AMP groupings.

The notice, *Changes in the Project Numbering System and Process for Requesting Changes in Project Identification*, is available [here](#). ♦

New Project Numbering System Facilitates PHAs' Transition to Asset Management

PIH Notice 2007-28, *Changes in the Project Numbering System and Process for Requesting Changes in Project Identification*, discussed previously in this e-Newsletter in relationship to changes in AMP configurations, also describes HUD's plans to create a unified numbering system for all projects and buildings. By changing to a unified numbering system, PHAs will be able to use just one project identification number for all HUD reporting.

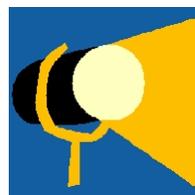
In 2006, PHAs were asked to identify their AMPs (Asset Management Projects), which would eventually become controlling for purposes of funding, budgeting, accounting and monitoring. In the interim, however, PHAs were still required to maintain the "old" development numbers for certain HUD reporting. The purpose of this notice is to explain how HUD will move to a new, unified numbering system so that PHAs will only have one number associated with each project. To assist with the transition, the notice also allows PHAs the flexibility of continuing to report under the "old" numbers for up to a year after implementation. HUD intends to issue new AMP numbers in January 2008; essentially, HUD will drop the "P" at the end of the current AMP number.

The initial AMP numbering system was developed as a temporary measure to identify AMPs without necessitating full-scale reprogramming of PIC. The new numbering

system will finalize this process. Once the renumbering transition is complete, all HUD systems and communications will refer to the updated numbers (AMPs). This includes PIC, PHAS, and other HUD systems. For any PHAs that do not renumber duplicate building numbers within an AMP by October 15, 2007, HUD will assign building numbers according to the convention described in the notice before conversion to the new project numbers. PHAs are encouraged to assign new numbers to buildings currently without AMP numbers or numbers will be assigned based on the methodology outlined in the notice.

Notice PIH 2007-28, *Changes in the Project Numbering System and Process for Requesting Changes in Project Identification*, is available [here](#). ♦

PHA Spotlight: Reno Housing Authority



This month, the Spotlight visits the Reno, Nevada, Housing Authority (RHA) to take a closer look at their experience with the transition to asset management.

The RHA serves residents of Washoe County, including the cities of Reno and Sparks, and is also Nevada's Project Based Contract Administrator (PBCA).

RHA might be considered a "mid-sized" PHA. They own 1,031 rental housing units, including 750 Public Housing units, 226 market rate units, and 55 locally-funded affordable housing units. In addition, the Agency administers about 2,500

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Section 8 vouchers. As the state's PBCA, RHA also reviews about 3,523 private housing units. Eight AMPs comprise RHA's Public Housing operations.

The Spotlight spoke with three of RHA's key leaders, including: David Morton, Executive Director; Jim Caufield, Director of Administration; and Jo Ann Ellers, Director of Asset Management.

You have eight AMPs. Did you make major changes from your "old" project groupings? Not really. We mostly kept our old development groupings. They made sense from an asset management perspective. We didn't have a need to consolidate our smaller projects into a larger AMP. We also mostly managed according to these prior projects, although not as much in an asset management mode.

In general then, how much change has the conversion to asset management meant for your agency? The answer is mixed. On the one hand, the agency has always organized itself according to these projects/AMPs. We've also mostly tracked expenses along project lines, although now decision-making responsibility is site-based of course. Maintenance has seen major changes as well as overhead/management fees and purchasing/materials storage.



Tell us more about how maintenance changed? Historically, we have contracted out

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cleaning, painting, landscaping and some plumbing needs. We learned long ago that it was more cost-effective to purchase those services. The only maintenance personnel not assigned to a project were a team of three highly skilled workers. All maintenance staff are project-based and the three highly skilled workers charge their time accordingly when they perform more specialized work for another project. Therefore, in terms of where maintenance staff is located, not much has changed. What's different is that the maintenance staff is now supervised by the on-site project manager. Previously, we had a centralized maintenance supervisor and the site managers had no real control over maintenance. Everyone, project managers and maintenance staff, is adjusting to this change.

What issues have you faced with maintenance staff now reporting to project management staff? Compared to other PHAs' experiences, it seems like we're dealing with the same issues, the largest being cultural. Maintenance staff has historically been accustomed to reporting up the chain to a central maintenance supervisor rather than the on-site project manager. Clearly, we've needed to provide training. It's coming together, but it has required adjustments.

With maintenance staff assigned directly to projects, you don't have to worry about any centralized maintenance fee-for-service? That's right. From an accounting standpoint, it's easier that way. When necessary, a maintenance worker with some specialized skills might be needed at another project, in which case his time is charged to that project for the hours worked. We don't have to maintain any centralized maintenance billing services.

You mentioned the challenge of converting to a management fee approach for recovery of overhead. How are you handling that aspect of the transition? Initially, when we first looked at our numbers, we were projecting a deficit in the central office cost center (COCC), even after identifying COCC costs that really should have been direct charges to the projects. We now believe we're within the guidelines, with a modest coverage. We're also a decliner agency and will be applying for stop-loss, so there is an incentive for us to show that we can operate

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within the fee guidelines. We also have the PBCA contract that generates fee income which contributes to our bottom line.

We have had to push responsibility down to the project level as much as possible and we've had to reexamine everything we do in the central office.

Can you give an example? *We used to employ a messenger for about \$50,000 a year, inclusive of benefits. We've replaced that position with a contract for about \$1,000 a month. The messenger service makes a daily stop at each of the projects and two stops a day at the COCC. This new arrangement works great for us. We don't have to worry about added staffing issues like we did when the prior messenger took vacation time or was sick. While the old messenger used to deal with central warehouse tasks as well, the current service primarily deals with documents, files and notices.*

We also first outsourced our human resources work. In that case, the vendor may have bid so low that the business ultimately folded and we now have a part-time person filling that role. We're still looking at possibly contracting that work out again. The key is that we're evaluating options based on cost and responsiveness.

What has changed in the area of purchasing and materials storage? *We've transitioned to project-based requisitions, which has probably been one of the most enlightening and positive impacts of converting to asset management. Our old, centralized supply purchasing process was very controlled from start-to-finish – a slow, cumbersome process that resulted in overstocking. In thinking about the prospect of being able to do project-based ordering, we felt it could be infinitely superior and it has proven very beneficial. There have been huge time-savings in moving to project-based ordering. The purchasing process is more convenient and the projects are getting what they need. The on-site project manager has more responsibility and the process is simple. Managers prefer to make about 75% of their orders online..*

What types of prices do you get now that purchasing is decentralized? *Our project managers and the COCC still enjoy the same discounts at common home and other supply company stores that we received when stock*

purchasing was centralized. Even though most of the purchasing is project specific, we still order appliances, like refrigerators, centrally.

What controls do you now have in place to manage on-site purchasing and what are the purchasing limits? *We have been careful to ensure that we still have reasonable tracking and oversight mechanisms in place without imposing undue burdens on the staff. The on-site project manager and the maintenance staff meet jointly to determine the necessary order and subsequently, the delivery is checked against the order. As a regular part of our management process we also review the purchasing expenses in the operating statements on an on-going basis. Additionally, purchasing limits are in place, which range from \$250 to \$500 depending upon where the purchase is made.*



Are there additional benefits of on-site purchasing? *The decentralized requisition method cuts down on building up inventory because delivery is quick. While each project does incur a delivery fee for their order, there has been a huge cost-savings overall by not having to employ the central staff to operate the warehouse. This equates to reduced cost allocation to the projects as well. We're thrilled over these gains.*

Has on-site storage become a concern? *We improved projects years ago to make sure they had modest, but adequate on-site storage, so this hasn't been an issue.*

What did you do with your central warehouse? Is it still in operation? If not, how did you transition out of it? *The central*

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warehouse is being used for storage. We have discussed making the necessary renovations to lease it out in the future, but we haven't yet moved in that direction.

How have service and staff changes affected RHA? We didn't want to lay off anyone as a result of the transition and instead we have tried to transfer staff within RHA. While there has been turnover, it has been voluntary and we continue to work on providing training. Training has certainly worked in some transfers; however, we learned not all people are comfortable with a new position even with the training and they preferred to resign. It is important for other agencies to know that flexibility with their staff during the transition is essential.

What has the experience of being a Project Based Contract Administrator (PBCA) meant for your transition? The PBCA element helped us in two ways. First, we had the benefit of seeing how these private housing agencies do asset management - what works for them, what doesn't, and what their budgets look like. Second, this venture continues to help us generate about \$150,000 for the COCC, which at this early state helps us break-even. We've been doing the PBCA monitoring for about six to seven years.

How involved is the COCC in "make-ready" and managing a waiting list, or admissions? The COCC isn't as involved as it had been in the past in unit "make-ready" activities other than an occasional briefing from the Director of Asset Management. The project staff knows that they're responsible for turning/filling vacant units.

The waiting list and applications, or "admissions" as we call it, is still maintained centrally. We believe that the projects are just too small to warrant site-based management for admissions. We have four staff managing admissions for all the programs, including Section 8, and costs are pro-rated accordingly between programs/projects.

Have your accounting changes related to the transition been challenging? Actually, we had a leg up in the accounting department. We only needed to make small changes to meet the budgeting/accounting requirements because we had already been practicing site-based budgeting of expenses and revenues. If this had not been

the case, we expect it would have been a substantial challenge. Addressing assets was a little more difficult. We see some problems in allocating a single asset across eight different projects so we determined it was more prudent to either allocate an asset to one project or to the COCC. For example, one of our staff oversees the Community Services Work Programs for all of the projects and is provided with a PHA vehicle for their daily travel. While the employee's time is allocated across projects the vehicle is listed only on the COCC budget.

As far as continuing the transition to asset management, what is your projection over the next couple years for the RHA, organizationally and otherwise? We are keeping our eye on training. We're adjusting to staff turnover and have worked out most of our concerns. Project managers are building their skills in managing work orders and getting accustomed to their maintenance-related duties.



We would like to extend our appreciation to the RHA for the time they contributed to the Spotlight. For more information about the RHA you can view the website by clicking [here](#) or by e-mailing Executive Director David Morton at dmorton@renoha.org. ♦

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HUD Issues CY 2008 Operating Fund Schedule Guidance

In conjunction with 2008 Operating Subsidy information announced in PIH 2007-21, *Guidance on Methods and Schedules for Calculating Federal Fiscal Year (FFY) 2008 Operating Subsidy Eligibility*, HUD has released additional information on the provision of Operating Subsidy payments in CY2008. The complete guidance is available [here](#).

In the first quarter of 2008, operating subsidy will be calculated based on CY2007 eligibility as adjusted by inflation and appropriation. This subsidy will be provided via interim obligation letters that will identify the amount to be disbursed to each AMP. HUD will calculate the amount of subsidy to be provided to each AMP using a proration based on project unit counts.

In the second through fourth quarters of 2008, funding will be calculated for each AMP using SAGIS, adjusted for appropriations and the amounts obligated in the first quarter.

Throughout the entire first year of transition, PHAs are able to freely transfer money among AMPs and the COCC under fungibility rules outlined in PIH 2007-09; however, restrictions apply to Stop-Loss applicants. Although the interim obligation letters will identify the projects for which money is obligated, PHAs can transfer that money to other AMPs and the COCC, subject to applicable regulations.

For example, suppose a PHA consists of a COCC, a 100 unit AMP and a 200 unit AMP. After

adjusting for inflation and proration of CY2007 obligation amounts, the PHA is eligible to receive \$100,000 in the first quarter of 2008. The interim obligation letter would identify \$33,333 obligated to the smaller AMP and \$66,667 obligated to the larger AMP, which is a breakout of the \$100,000 to each AMP based on relative unit counts. For the remainder of 2008, the PHA would receive funds calculated at the project level through SAGIS, adjusted for appropriations and the amount received in the first quarter.

HUD Releases Stop-Loss Application Review Protocol

On September 6, 2007, HUD posted new information regarding the protocol for assessing stop-loss applications. Primarily, the announcement details the evaluation guidelines set out in PIH Notice 2007-16, PIH Notice 2006-35, and the Stop-Loss Submission Kit (July 12, 2006) for applicants, as well as relays the Department's hiring of an independent contractor to review all applications. The new information outlines how the contractor will be involved in the following components of a stop-loss application: preliminary evaluation, on-site evaluation and final assessment. The full announcement is available [here](#). ♦

HUD Releases Project Level Frozen Formula Income Worksheet to Assist with 2008 Operating Subsidy Submission

In a continued effort to assist PHAs with the calculation of FFY 2008 operating subsidy eligibility, HUD has created the Project Level

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Frozen Formula Income Worksheet. Under the final rule, PHAs must submit operating subsidy forms (HUD-52723) by AMP. One component of the operating subsidy is 2004 frozen rental income, which will need to be identified by AMP on each AMP's operating subsidy form. Since 2004 frozen rental income was calculated at the PHA level for the 2007 operating subsidy calculation, PHAs must determine appropriate frozen rental income at the AMP level for 2008. The worksheet, which can be found [here](#), allows PHAs to verify that the sum of frozen rental income allocated to each AMP is equal to the 2004 frozen rental income amount calculated at the PHA level. This worksheet auto-populates the PHA's AMPs, total units within AMP, and formula income from their CY 2007 operating subsidy form. PHAs must then verify that all of this information is correct and enter the Unit Months Leased and rental income from their 2004 fiscal year for each of their AMPs, which will allow the PHA to determine whether their PHA-wide frozen rental income is equal to the aggregate of their AMP-level information. Based on guidance contained in PIH 2007-21, *Guidance on Methods and Schedules for Calculating Federal Fiscal Year (FFY) 2008 Operating Subsidy Eligibility*, this calculation is required for PHAs requesting operating subsidy in 2008 through SAGIS. ♦

Asset Management Help Desk – A List of This Month's Common Questions

Thank you to everyone who submitted questions to the Asset Management Help Desk. Common

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questions asked during the past month are listed below.

Question: Can a PHA hire a private management company to run a project?

Answer: Yes, a PHA may hire a private management company if it feels it would be in the best interest of the AMP. In fact, a number of PHAs already use the services of private management companies to manage one or more AMPs. Furthermore, the Operating Fund rule allows a PHA's COCC to retain the difference between the management fee charged by the private management company and the "reasonable" amount established by HUD.

Question: Is the asset management fee a monthly calculation? When is the fee established?

Answer: It is the PHA's option to charge the asset management fee all-at-once, on a monthly basis, or any other appropriate schedule. The fee is earned based on the previous year's financial statements; hence, the PHA can "pull" the fee as soon as the amount of Excess Cash is established, i.e., when the PHA closes its books for the year. Please note that the fee and its availability is subject to final/audited excess cash calculation. Thus, if a PHA calculated their asset management fee based on pre-audited data and subsequently learned, with audited data, that it did not have enough Excess Cash to support the full fee, the PHA would need to reimburse the project accordingly. (In the first year of project-based budgeting/accounting, however, there is no excess cash requirement for the payment of an asset management fee.)

Question: Historically, PHAs had to distinguish on the Financial Data Schedule (FDS) Capital Fund grant revenue used for operating vs. capital purposes. Will PHAs continue to show this split?

Answer: Yes. On the FDS, PHAs should report all revenue recognized in the reporting period from the Capital Fund program that is capitalized under FDS Line Item 706.1. All Capital Fund revenue that is not capitalized should be reported under FDS Line 706. For example, if a PHA draws down \$1.0 million of Capital Funds in a particular

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fiscal year, of which \$100,000 was for Operations and \$900,000 to replace a roof, the PHA would report \$100,000 under FDS Line 706 and \$900,000 under Line 706.1.

Question: How does a PHA calculate FY 2004 Frozen Rental Income for mixed-finance projects that came online after 2004?

Answer: The Supplement to PIH Notice 2007-09, which can be found [here](#), states that "for Mixed-Finance projects entering service after FY 2004, the formula income will use the most 'representative' rental information for the new project. If representative rental information is not available for the project, comparable data for another new development, if one exists, could be used as the basis to estimate FY 2004 frozen formula income. However, once a valid base of rental information is established for the mixed finance project, HUD may adjust the frozen formula income to better reflect the actual rental income." ♦

Important Dates

September 27, 2007 – Final Administrative Reform Initiative meeting

October 15, 2007 – Year 1 Stop-Loss application due date

October 15, 2007 – Duplicate Building Renumbering Deadline

Give Us Your Ideas

Do you have an article idea, question, or comment for the editor? The Office of Public and Indian Housing (PIH) is the editor of this monthly e-Newsletter. Please send all inquiries by email to AssetManagementNewsletter@hud.gov. ♦



What's New on the Website?

- ❖ [Project Level Frozen Formula Income Worksheet](#)
- ❖ [AMP Numbering Notice](#) (PIH 2007-28)
- ❖ [Initial Funding for Fiscal Year 2008 and Timing of SAGIS Funding Data Submissions](#)
- ❖ [Stop-Loss PHA Guidance](#)
- ❖ [Stop-Loss Reviewer Checklist Tool](#)

Resources and Useful Links

For more information, please visit the HUD-PIH Asset Management Website [here](#). Click on the following hyperlinks for detailed information about specific topics of interest:

- ❖ [AMP Groupings](#)
- ❖ [Financial Management](#)
- ❖ [Operating Fund Program](#)
- ❖ [Stop-Loss](#)
- ❖ [PIH Notices](#)
- ❖ [Subsidy and Grants Information System \(SAGIS\)](#)