

ASSET MANAGEMENT E-NEWSLETTER

Issue 01 - February 2007



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HUD Convenes Industry Meeting on Administrative Reform

Section 990.255 of the Operating Fund Program Final Rule makes clear that changes in public housing's regulatory and monitoring programs are anticipated in order to make the conversion to asset management successful. To assist in the development of those efforts, HUD convened a meeting with public housing industry groups on December 11, 2006.

The purpose of the meeting was to begin to identify those administrative requirements that, from the perspective of industry representatives, would be most helpful to reform to help PHAs transition to asset management.

To facilitate PHA planning efforts, a future edition of the e-Newsletter will discuss the Department's larger plans for upcoming changes in regulatory and monitoring programs to support asset management, including timeframes for implementation. ♦

Update: New Financial Reporting Requirements

On September 6, 2006, HUD issued two companion documents related to the new financial reporting requirements under asset management. PIH Notice 2006-33 (HA) included detailed instructions while Federal Register FR-5099-N-01 included, for general public benefit, a higher level discussion. The public comment period for both documents ended on November 6, 2006. The Department is in the process of responding to comments received from 48 individuals/organizations. Revised guidance, based on the public comments, is expected to be issued later this month.

The new requirements for project-based budgeting and accounting begin for PHAs with fiscal years that start July 1, 2007 (refer to table below). ♦

PHA Fiscal Year End	Initial Compliance Year for Project-Based Budgeting and Accounting
Jun	7/1/07 - 6/30/08
Sept	10/1/07 - 9/30/08
Dec	1/1/08 - 12/31/08
Mar	4/1/08 - 3/31/09

A Message from the Assistant Secretary...



The transition to asset management is one of the most significant events in the history of the public housing program, with major organizational consequences for both Public Housing Agencies (PHAs) and the

Department. Asset management fundamentally changes the way business is done.

Because of the sweeping nature of these changes, the Department has decided to publish a monthly asset management e-Newsletter. The purpose of this e-Newsletter is to provide current information to PHAs on activities and events related to the transition. It will also provide special features and spotlights on PHAs. In this inaugural issue, for example, we interview the Housing Authority of the City of Austin, which has been re-tooling its organization for much of the past 10 years, but also is the Section 8 project-based contract administrator for Texas and Arkansas, which gives it unique insight on multifamily asset management practices.

As the former director of a state housing finance agency, I am truly excited about public housing's conversion to asset management. Asset management doesn't change our mission, but provides us with improved tools to manage and oversee this important national resource.

While asset management is critical to long-term program health, the conversion will take several years to fully implement. Throughout this

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process, the Department is committed to providing PHAs with as much information as practical and to continuing to seek industry input. We invite your comments about ways to improve our communication, including material for upcoming issues of this e-Newsletter.

The Department is also keenly aware that the conversion to asset management must be supported by changes in the regulatory environment under which PHAs operate. As noted here in this issue, the Department has initiated an extensive review of the statutory, regulatory, and administrative requirements of PHAs. In a future issue of the e-Newsletter, we will provide an in-depth look at those requirements and provide a framework for anticipated reform.

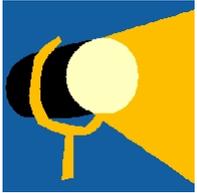
– *Orlando Cabrera, Assistant Secretary* ♦

Give Us Your Ideas

Do you have an article idea for us? We want to hear about the innovative ways PHAs have adopted asset management practices. Send an email to assetmanagementnewsletter@hud.gov with the subject line "Article Idea." In the body of the email, describe your story in detail and let us know where we can find more information. Possible topics include but are not limited to: maintenance, work orders, purchasing, invoicing, materials management, unit inspections, marketing/wait list/leasing, and internal performance reporting and monitoring. ♦



PHA Spotlight: Housing Authority of the City of Austin, Texas



In the late 1990s, the Housing Authority of the City of Austin (HACA) faced numerous operational and cost challenges, including the inability to track project-level expenditures. Without project-level financial statements, HACA could not monitor project financial performance and control costs. Additionally, the condition of the housing continued to deteriorate due to years of poor maintenance. Something needed to change. To improve performance, HACA, in 1997, consolidated its Maintenance and Housing Management departments into one larger department, named Housing Operations, and began the conversion to project-based management. Executive Director Jim Hargrove said, "We did not transition to asset management because HUD was moving in that direction; we did so out of necessity."

Over the past 10 years, HACA has decentralized its project operations, given more authority to front-line staff, and adopted more of a business approach to all that it does. HACA is extremely entrepreneurial. The organization acts as a larger real estate corporation with different lines of business. For example, HACA is the Section 8 performance-based contract administrator for Texas and Arkansas. While reorganizing and transitioning to asset management marked a step in the right direction, HACA still faced various challenges. Although there is no one-size-fits-all solution, a look inside HACA's business world offers a valuable perspective.

Under project-based management, how did HACA decide which maintenance tasks should remain in-house versus contracted out? Following the local and national private sector model, all pest extermination and lawn care services were outsourced. Additionally, contractors were procured to supplement staff for painting and unit make-ready cleaning as needed (this also resulted in decreased unit make-ready turnover time). For all other specialized tasks, we decide on a case-by-case basis which tasks are most cost-effectively handled in-house and which are better to contract out, given local conditions.

Community Area of Lakeside Apartments



How did HACA establish initial baseline budgets for each project? Using local and national private sector models for comparable units, we established an estimated cost per unit for each of our projects. We added 10 percent to this figure and established this as our projected maintenance supplies and administrative expense budget. Staff salaries were totaled and added to the budget under salary expenses. We then took what was required out of the general operating fund and developed a budget for each project. Once we tracked actual costs for the first year of operations, budgets were developed using actual data.



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Rosewood Courts - Before**Rosewood Courts - After**

How do site managers order supplies? The site manager develops a budget for his or her project taking into account historical spending and projected plans that may impact the project fiscally. They follow this budget on a daily basis. Purchased items are shipped directly to the site and the actual cost is charged back to the project in order to balance its budget. The best price is obtained by consolidating the purchasing power of the PHA for all items. There is a small inventory of maintenance items, such as plumbing and electrical supplies, that is kept at each project and is regularly inventoried and balanced against work orders.

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How does executive management monitor staff's performance when they are spread out among 19 projects throughout the city?

The approach is twofold:

- ❖ We created regional or district manager positions responsible for a number of projects and units assigned to them. These personnel supervise the managers assigned to them, visiting each project during the week as often as necessary, and providing front office support to each project. They work out of a central office and are assigned a vehicle.
- ❖ We also developed and maintain an up-to-the-minute, accurate database that provides the ability to generate reports (rent collection numbers, pending and completed work order numbers, unit turnaround numbers, etc.). These reports are viewed daily for signs of potential problems, and as a way to prioritize developments that require more oversight and physical visits. The regional/district manager also uses these reports as a method of determining their daily schedule.

How does the central supply warehouse fit into the new asset management model? It does not fit into the model. Because supplies are now ordered and directly shipped to the project on an as-needed basis, there is no longer a need for a supply warehouse.

How does HACA determine the number of management and maintenance staff assigned to each project? Staff sizes and assignments were generally determined by the size of the project and based on the local private sector model for comparable properties. Because of our experience in overseeing project-based Section 8 owners, we have acquired lots of knowledge about staffing levels.

What have been some of the non-monetary advantages of being the performance-based contract administrator (PBCA) for Texas and Arkansas? The public housing program and PBCA division are able to trade expertise concerning project management and corrective action/solutions to various situations as they arise. Additionally, we demonstrate our capability to manage a complex multi-state contract for HUD outside our basic public housing mission. ♦

HUD Outlines Changes in the Public Housing Assessment System (PHAS)

HUD met with PHAs and industry representatives on January 25, 2007, to outline proposed changes to the PHAS necessitated by the move to asset management. HUD anticipates publishing a proposed rule later this summer. HUD will review the physical, financial and management operations of each asset, consistent with the norms in multifamily housing.

It is anticipated that a central component of a revised PHAS will be a system of on-site management reviews of each asset, which would replace the current self-certified assessment of management operations. More industry meetings to discuss the proposed changes are anticipated this month. ♦

HUD Seeks Industry Participation in Asset Management Planning Event

Over 100 staff from the Office of Public and Indian Housing (PIH) took part in a day-long asset management planning session in Washington, D.C., on November 15, 2006. To assist the HUD team in developing overall policy and implementation schedules, HUD invited five PHAs to participate in a roundtable discussion on their experiences in converting to asset management. The roundtable was facilitated by Assistant Secretary Orlando Cabrera. The PHA representatives included:

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- ❖ **Charlotte Housing Authority, North Carolina** – Ralph Staley (2,948 low-rent units, 20 AMPs)
- ❖ **Florence Housing Authority, Alabama** – Shaler S. Roberts, III (647 low-rent units, 4 AMPs)
- ❖ **Housing Authority of Portland, Oregon** – Margaret Van Vliet (2,409 low-rent units, 50 AMPs)
- ❖ **Housing Authority of the City of Austin, Texas** – Jim Hargrove (1,929 low-rent units, 14 AMPs)
- ❖ **Ozark Housing Authority, Alabama** – David W. Madden (402 low-rent units, 3 AMPs)

Each panelist shared unique challenges in converting, from the logistics of opening on-site management offices to modifying IT systems. All panelists agreed that one of the most difficult tasks was building new skill sets and changing the organizational culture. When asked for ways in which HUD might facilitate PHA efforts, panelists noted, in particular, the need to streamline the following: PIC reporting, the Annual Plan, PHAS, the administration of HUD-determined wage rates, and HUD management reviews. Also mentioned was the need for greater PHA Board training in asset management. ♦

Contact the Editor

The Office of Public and Indian Housing (PIH) is the editor of this monthly e-Newsletter. If you have a general question or comment for the editor, please send an email to assetmanagementnewsletter@hud.gov with the subject line "Question/Comment for Editor." ♦



Related Training

The following is information related to HUD-sponsored training in asset management. *Please note training content is subject to change.*

- ❖ **Changes in Financial Management and Reporting Requirements Under the New Operating Fund Rule** – Live training sessions were held in November and December 2006 for HUD and PHA staff. The training is based on the guidance provided to PHAs in Notice 2006-33 (HA), Changes in Financial Management and Reporting Requirements for Public Housing Agencies Under the New Operating Fund Rule, issued September 6, 2006. A second round of training at 12 additional locations will be held in March (or approximately one month after re-issuance of guidance in PIH Notice 2006-33 and review of public comment). An online version of the training will also be available in March.
- ❖ **PHA Asset Management Training** – HUD is developing a 2-to-3 hour training module for PHA boards to introduce them to the topic of asset management. Primary topics will cover Project-Based Management, Project-Based Budgeting, and the PHA as a Management Company. This training will be available this spring. ♦

Important Dates

Deadline for Year One submission of stop-loss applications – **April 15, 2007**

Archived Training

- ❖ **Calculation and Submission of Operating Subsidy** – Live training in the calculation and submission of operating subsidy for FY2007 occurred in 47 cities throughout the U.S. in June, July, and August 2006. Thank you to all PHA and HUD Field Office staff who attended. Archived webcasts are accessible from the [Operating Fund Program](#) webpage. *Please note the webcasts are applicable to FY2007 funding. Guidance will differ slightly for FY2008 when funding moves to the project level.* ♦

Resources and Useful Links

For more information, please visit the HUD-PIH Asset Management Website at <http://www.hud.gov/offices/pih/programs/ph/am>. Click on the following hyperlinks for detailed information about specific topics of interest:

- ❖ [AMP Groupings](#)
- ❖ [Financial Management](#)
- ❖ [Operating Fund Program](#)
- ❖ [Stop-Loss](#)
- ❖ [PIH Notices](#)

An additional resource:

- ❖ [Harvard Graduate School of Design – Public Housing Operating Cost Study](#)

What's New on the Website?

- ❖ [Operating Fund Program Explanation of Proration Percentage for CY 2007](#)
- ❖ [Estimated Operating Fund Proration at \\$3.864 billion](#)
- ❖ [Financial Reporting FAQs 2.0](#)