

# **Department of Housing and Urban Development**

Public and Indian Housing/Office of Public Housing Investments

Report on the Public Sessions on Physical Needs Assessment

The Department of Housing and Urban Development's Office of Public Housing Investment (OPHI) within the Office of Public and Indian Housing held four full day sessions in Washington D.C. to explore the topic of Physical Needs Assessment (PNA) in public housing. The meetings brought together Public Housing Authorities (PHAs), industry group representatives, and HUD staff to explore techniques to improve PNA's in public housing.

The four meetings were attended by an average of 51 participants (43, 52, 50, and 59) representing more than 60 different PHAs demonstrating a diversity of geographic regions, PHA size, and PHA character (urban, suburban, exurban, rural). Housing industry advocacy organizations attending were the Public Housing Authorities Directors Association (PHADA), the National Association of Housing and Redevelopment Officials (NAHRO), the Council of large Public Housing Agencies (CLPHA), and the National Organization of African Americans in Housing (NOAAH). The sessions were moderated by HUD OPHI staff, and were also attended by staff from throughout the Department including the Office of the Assistant Secretary for PIH, the Office of Sustainable Housing and Communities (OSHC), the Office of Policy, Programs, and Legislative Initiatives (OPLI), the Office of Field Operations (OFO).

A day-long meeting held on July 21, 2009 introduced the topic of public housing PNAs for discussion in the context of the requirement of the American Recovery and Reinvestment Act (ARRA) condition that Public Housing Authorities receiving ARRA capital fund grants perform PNAs. The 2009 meeting explored the concepts of the PNA as a project-based strategic planning tool, and as a mechanism for HUD to aggregate needs data on a national basis to be able to evaluate the impact of HUD programs on addressing the physical needs of PHAs. The 2009 meeting was a broad based brainstorming session to surface opportunities and concerns for HUD to consider in the statement of work for the development of new PNA tools for HUD.

Three subsequent meetings were held on September 29, October 14, and December 2, 2010, facilitated by HUD staff and contract personnel assigned to the development of the PNA tools, to refine the components, standards, and protocols for a PNA from an operational and functional standpoint. The later meetings served to refine and prioritize the concepts from the earlier meeting to result in specific direction to contract developers to proceed with development of prototype tools prior to implementation. The meetings also served to provide initial stakeholder input to inform HUD's rulemaking related to PNAs to assist HUD in crafting a proposed rule that reflects an understanding of the PNA process. It was explained at the meetings that the

eventual final rule would depend on the results of the public rulemaking process and that suggestions made at the meetings may or may not be incorporated in the final rule.

There were some universal themes that arose at all of the meetings in the context of several different issue discussions:

- The PNA in its protocols and procedures should seek to maintain a balance between flexibility and consistency so that the tool can serve its dual role as a practical project level strategic planning tool and a source for reliable data for HUD on the effectiveness of its programs at meeting the needs of public housing on a national level. The PNA should be flexible enough to recognize local standards, policies, and markets while rolling up data to HUD that reflects an underlying consistency in the recognition of component standards and costs.
- Similarly, the PNA should seek to balance the burden of its performance against the usefulness of the final product and needs to make use of current accessible technology to automate reporting and submission to minimize burden. The tools should promote ease of use. HUD should make use of other automated data sources, most notably IMS-PIC data, to pre-populate the data input tool.
- The PNA data should be used by HUD to evaluate the broad effectiveness of HUD funding. The PNA should not be a monitoring device for individual PHA performance nor should it influence funding of individual PHAs. The PNA data should not affect an individual PHAs funding. The PNA should reflect as fully as possible the actual behavior of PHAs in maintaining their inventories based upon their individual circumstances and it should not incentivize inaccurate or reactive reporting.
- The HUD PNA should seek to more closely align with components, standards, and protocols common to the broader real estate industry. PNAs are used throughout the real estate industry for strategic planning and as a component of property valuation.

Each of the 2010 meetings were framed around a presentation of the components, standards, and protocols being considered for inclusion in a new PNA. The format of each meeting encouraged questions and discussion and were successful at engaging participation to result in meetings that were more heavily focused on the discussion rather than the presentation. The presentation evolved at each subsequent meeting to result in a presentation of a well developed concept for a scope for the PNA tools to be proposed for public comment. Each meeting was attended by representatives of different PHAs to assure a diversity of viewpoints while capturing common concerns. Each meeting group was advised that the PNA components, standards, and protocols would continue to evolve through the HUD departmental review and other processes including public comment in the rulemaking stage, and real time pilot testing of the tools prior to nationwide implementation of a final protocol, anticipated to occur in calendar year 2012.

Following is a summary of the significant issues discussed at the meetings:

- In addition to recording replacement needs, the tool would potentially record Sustainability (energy conservation and green) needs, Marketability/Livability needs, and Accessibility needs. Concern was expressed that the importance of the categories of need might be diluted by policy makers focusing and responding only on the replacement need. To the extent that sustainability, marketability, and accessibility needs are more highly variable from PHA to PHA, the categorization is useful in promoting consistency. The categories also recognize HUD departmental priorities and areas of interest for policy makers.
- Consideration was given to the comprehensiveness of replacement components to be assessed, with the suggestion to balance the burden of too much detail with enough detail to result in a meaningful assessment. Several industry lists of components will be consulted to arrive at a reasonable proposed list that takes into account the variance of components by building type. At the same time, flexibility is offered to allow the addition of “other” components that may not be included in the HUD list of components.
- It was suggested that replacement components should not be strictly confined to “like kind” products and systems but should be flexible enough to take into account current product standards for affordable housing, local custom, and current building and other code regulations. The example was given of a window replacement in a northern region where the existing windows are single pane, but double pane windows are the minimum norm for replacement given the severity of the climate. In the example, a replacement with double pane windows should be considered the standard replacement.
- It was suggested that the PNA should be proposed to integrate with the energy audit that is already required to be performed by all PHAs every 5 years. HUD has considered the Green PCA implemented by HUD’s Office of Affordable Housing Programs as model. The PNA would likely not replace the energy audit. Data from the energy audit would be entered into the PNA to inform the sustainability needs portion of the PNA, which would track incremental cost of implementing sustainable alternative components. The thought was expressed that PHAs should be encouraged to consider practical and achievable green and energy saving components and improvements. It was generally acknowledged that PHAs have a high capacity to achieve energy efficiency from among broadly common energy conservation measures. It was noted that there are a lack of incentives to PHAs to implement energy conservation measures outside of the Energy Performance Contracting program.
- It was suggested that marketability and livability components would primarily be those that add new functionality or promote occupancy for PHAs such as new community facilities, floor plan improvements, broadband, and security cameras. It was noted that these are among the most highly variable needs from one PHA to another.
- Concern was expressed, particularly among small PHAs, about the burden of collection of quantity data and takeoffs, and component age information as well as of the cost

burden to hire a third party provider to perform the PNA. It was acknowledged that performing a PNA would be a new requirement for authorities of less than 250 units although some smaller PHAs have been performing them. It was observed that the first performance of a PNA is most often the most difficult but that once the initial data is collected it is then available for future assessments and provides a valuable planning resource. It is considered that all public housing represents a valuable asset to the communities served and is deserving of treatment as a valuable real estate asset. Small PHAs generally represent less complex physical facilities and less diversity of public housing characteristics. HUD submitted that the cost to perform a PNA with a third party every 5 years as suggested represents a small proportion of the Capital Fund grant and a reasonable expense to promote the efficient use of Capital Funds. Costs to perform PNAs vary according to a number of factors including diversity of the housing stock, condition of the project documentation, the local competitive climate, and the existence of prior assessments.

- The current HUD PNA protocol is for a 5 year term on the assessment. The term of the new PNA is suggested as 20 years which more closely aligns to assessment terms used in real estate generally. Concern was expressed that cost figures so far in the future are difficult to project. HUD's submitted its view that the longer term better captures the cost of components with long useful lives and provides visibility farther into the future, identifying potential pressures and promoting longer term strategic planning. It was acknowledged that the PNA is a projection rather than a budget and that nearer term costs should become more refined at each 5 year performance interval of the PNA.
- HUD suggested that component costs and useful lives of components should be taken from nationally recognized cost indexes to promote consistency, although the choice of index and degree of customization based upon the PHAs supportable costs are left to the PHA to allow for flexibility. Some concern was expressed regarding the burden of entering cost data into the PNA; however, it was observed that there is no other methodology that preserves desired flexibility to the PHAs. It was suggested that the PHA have the option to override index entries based upon their supportable data. The PNA tool could record variations from the index in a variance report that could be used for management information and quality assurance verification.
- Participants expressed concern about the burden of annual updating of the PNA as proposed by HUD, consisting of reporting the status of completion of component replacements for the year. The updating is conceived by HUD as an administrative task that can be performed by PHA staff. The annual update status is important to HUD's effort to measure the impact of the Capital Fund and other funding sources on addressing the physical need.
- HUD suggested that sampling of the property remain consistent with the current protocol of sampling not less than 10% of the unit inventory in each project and in consideration of the diversity of unit characteristics (unit size, types, top floor, ground floor, etc).

Sampling of common areas, common systems, and building exteriors would range from 20% for similar buildings up to 100% for a diversity of building types and ages. Again concern was expressed that small PHAs would be disproportionately exposed to larger sample sizes on a percentage basis owing to them generally having many small buildings rather than a few large ones.

- Qualifications for PNA providers were considered. Also, it was discussed whether it is appropriate to require third party providers to perform PNAs, or to continue to permit PHAs to perform PNAs with their own staffs. It was suggested that at least minimum experiential qualifications should be required for anyone performing the PNA, including staff or third party providers. It was observed that PNAs being used to support a financial transaction may have a greater requirement imposed by transaction lenders than PNAs that are being performed solely for long range strategic and capital planning.
- Participants suggested that protocols are needed to account for floating public housing units within mixed finance developments, demolition and disposition, scattered site units, and other anomalous conditions common in public housing. Non-dwelling structures that are part of the public housing development should be assessed.
- It was discussed whether the PNA should consider refurbishment as an alternative to component replacement.
- HUD suggested collecting and aggregating a sub-set of the PHA collected data at the broad category level (site, building exterior, building systems, common area, and dwelling units) and for the major historical cost components (windows, roofs, building exterior walls, kitchens, and baths).
- Technical assistance and training on the use of the HUD tools is planned to be provided by HUD in the implementation phase of the PNA, but currently it is not proposed that HUD will provide certification training to PNA providers.
- The PNA is not expected to replace the current 5 year plan reporting requirement, although it is expected that the PNA process will inform the 5 year plan.
- In response to participant questions about the status PNAs performed recently but not on the new format, HUD discussed the likelihood that PNAs performed by PHAs on other forms and formats will need to be migrated to the new PNA form. The new HUD format is proposed as the mechanism to achieve the aggregation of the data that is of most usefulness to HUD.
- Validity of the collected data and how its reliability will be assured for HUD's use was discussed. It was stated that the protocols need to provide for sufficient sampling to result in a reliable result, and that quality control by HUD needs to occur to consist of submission review for anomalies and data clean-up. Additional quality assurance of the PNA data by HUD is planned in the form of the independent performance of a statistically valid national sample of PNAs by HUD.

