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HUD Issues Updated Financial Reporting Guidance



In response to public comment, the Department updated the guidance that was contained in PIH Notice 2006-33, dated September 6, 2006. The revised guidance, now covered under PIH Notice 2007-09, dated April 10, 2007, includes a number of additional transition provisions, particularly in the areas of management fees, excess cash, and the treatment of centralized maintenance services. Detailed information about the Notice will be provided in the next issue of the e-Newsletter. Additionally, the Department posted its responses to public comments on the initial guidance. Both the revised guidance and response to public comments will be available [here](#). The documents can also be accessed [here](#) through HUDCLIPS. The Department will make a DVD training tool on this material available to PHAs later this month. ♦

HUD Extends Year 1 and Year 2 Stop-Loss Application Deadlines

The Department has extended the Year 1 and Year 2 stop-loss application dates by an additional six months. The deadline for Year 1 applications, currently April 15, 2007, is now October 15, 2007. To meet this deadline, PHAs must be in compliance with asset management by September 30, 2007, including financial reporting. PHAs may choose to be reviewed prior to October 15; however, a PHA's stop-loss application will only be reviewed once. The Department will contact all PHAs applying prior to April 15, 2007, to determine if they wish to be reviewed or resubmit by the later deadline. All other provisions, other than the requirement to be in compliance with financial reporting, remain in effect. Table 1 below lists the stop-loss application deadlines. The Department will soon issue a PIH notice providing more information. ♦

Table 1: Stop-Loss Application Deadlines

Year	Deadline
1	October 15, 2007
2	April 15, 2008
3	October 15, 2008
4	October 15, 2009
5	October 15, 2010

A Message from the Assistant Secretary...



In last month's e-Newsletter, I reiterated the Department's commitment to easing the administrative burdens placed on PHAs transitioning to asset management. I am pleased to share with you some of the initial steps the Department has taken.

First, the Department recently issued notice of an expedited process for requesting regulatory waivers for PHAs converting to asset management (read more on cover page). We encourage those PHAs to submit waiver requests for appropriate HUD regulations during the transition period.

Second, the Department released an updated Procurement Handbook for the operation, modernization, and development of public housing (read more on page 4). Many of the changes accommodate various procurement approaches under asset management.

Third, the Department anticipates issuance of a greatly streamlined Five-Year and Annual Plan template in the near future. The next issue of the e-Newsletter will provide additional information about the new templates.

I encourage PHAs to use resources such as the Help Desk to assist in the transition to asset management. As always, we invite your comments on how we can better assist you.

– Orlando Cabrera, Assistant Secretary ♦

HUD Launches Asset Management Help Desk

The Department is pleased to announce the launch of the Asset Management Help Desk, which went live on April 9, 2007. The Help Desk was created in order to assist PHA and HUD Field Office staff with the transition to asset management. When contacting the Help Desk via email, please provide your name, email address, organization name, and a clear description of your question or issue. The Help Desk is available to provide transition support, including answering questions related to:

- ❖ HUD-sponsored training;
- ❖ Operating subsidy;
- ❖ Project-based budgeting, accounting, and management; and
- ❖ Stop-loss.

What	Asset Management Help Desk
When	Starting April 9, 2007
Phone	1-800-511-8478
Email	AssetManagementHelpDesk@hud.gov
Hours	8:00AM to 5:00PM EST Monday-Friday



Important Dates

July 15, 2007 – Deadline for Operating Fund appeals

October 15, 2007 – Deadline for Year 1 submission of stop-loss applications (please note extended date!)

HUD Issues Regulatory Waivers Notice to Assist PHAs with Transition to Asset Management

On March 1, 2007, the Department issued notice of an expedited process for requesting regulatory waivers for PHAs converting to asset management. The expedited waiver process provides flexibility for PHAs as a result of the transition to asset management. HUD will consider waiver requests of non-statutory PIH program regulations only.

Examples of non-statutory PIH regulatory requirements eligible for waiver include but are not limited to submission of a management operations certification and the resident satisfaction survey in the final year prior to project-based budgeting and accounting. Certain PHA roles in resident participation activities are also available for waiver. A valid waiver request consists of the following:

- ❖ A list of the HUD regulations from which the PHA specifically requests relief;
- ❖ An Adobe Acrobat PDF copy of the Board Resolution approving the request for the waiver(s);
- ❖ A statement of the reason (need) and good cause for the waiver(s), which specifically addresses how the granting of the requested regulatory waiver(s) would facilitate the PHA's conversion to asset management; and
- ❖ A statement that the PHA will make any necessary changes in its policies and procedures required to implement the waiver(s), if approved.

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Waiver requests should be emailed to PH_Asset_Management_Expedited_Waiver_Process@hud.gov. The Department will approve or deny requests within 30 days of their receipt. PHAs should read the Notice in its entirety before submitting a waiver request. The Notice, *Regulatory Waivers for Public Housing Programs to Assist with Transition to Asset Management* (Docket No. FR-5128-N-01), is available [here](#). ♦

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 is still available in the following cities:

- New Orleans, LA: April 16 – April 17
- Little Rock, AR: April 18 – April 19

A complete listing of training locations and dates, as well as registration information, is available [here](#).

- ❖ **PHA Asset Management Board Training DVD** – The Department is developing a 2-to-3 hour training DVD 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. ♦

HUD Issues Guidance on Operating Fund Appeals Process

On March 13, 2007, the Department announced guidance on the appeals process for PHAs under the Final Operating Fund Program Rule (24 CFR 990). This guidance explains the available Operating Fund appeals and the necessary components of each appeal. 24 CFR 990 includes five types of appeals:

- ❖ **Streamlined appeals:** require a PHA to demonstrate a blatant and objective flaw in application of the Operating Fund formula amount, such as a calculation based on an incorrect geographic coefficient.
- ❖ **Appeal of formula income for economic hardship:** allows a PHA to request increased formula income (in accordance with §990.195(c)) due to a severe local economic hardship such as a major plant or factory closing that impairs a PHA's ability to maintain rental and other revenue.
- ❖ **Appeal for specific local conditions:** enables a PHA to demonstrate that model-generated Project Expense Levels (PELs) fail to reflect local conditions. This appeal must demonstrate at least a ten percent variance between model PEL and the actual, local PEL.
- ❖ **Appeal for changing market conditions:** allows a PHA to appeal to receive an operating subsidy for vacant units due to changing market conditions, provided the PHA demonstrates aggressive marketing and outreach to rent those units.
- ❖ **Appeal to substitute actual project cost data:** allows a PHA that has fully converted to asset management for at least two years to change its PEL based on actual cost data.

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Each appeal has specific requirements. For example, an independent cost assessment, procured at the PHA's expense, is required both for the appeal for specific local conditions and the appeal to substitute actual cost data. Formula income and changing market condition appeals should be sent to the local Field Office. All other appeals are to be sent directly to HUD Headquarters with a copy forwarded to the local Field Office.

Except for PHAs with more than 5,000 public housing units, appeals must cover the PHA's entire portfolio and be the result of events that affect the entire portfolio, not just specific projects within the portfolio. Appeals must be submitted by **July 15, 2007**. The Department expects to respond to appeals no later than September 1, 2007.

PHAs should read the full Notice for additional details and requirements prior to submitting an appeal. PIH-2007-7, *Guidance on Appeals under Subpart G of the Revisions to the Public Housing Operating Fund Program, Final Rule, Published in the Federal Register on September 19, 2005 (79 FR 54983)*, is available [here](#). ♦



HUD Publishes Updated Procurement Handbook for PHAs

On March 2, 2007, the Department released its revised Procurement Handbook for PHAs. The Handbook updates, clarifies, and simplifies approved procurement procedures for PHAs and aligns procurement procedures with asset management policies and regulations. The Handbook recognizes that PHAs are free to elect different organizational approaches to procurement, but agencies are ultimately responsible for compliance with relevant law and regulations. Streamlined procurement policies include:

- ❖ An increase in the small purchase threshold from \$25,000 to \$100,000, in accordance with revisions to 24 CFR 85.36;
- ❖ The establishment of a micro-purchase threshold of \$2,000, requiring only one reasonable quote (consistent with the Federal Acquisition Regulations);
- ❖ The use of "incorporation by reference" of mandatory contract clauses into bid specifications and contracts;
- ❖ The elimination of any required forms for small purchases, with the exception of applicable maintenance and construction contracts exceeding \$2,000;
- ❖ The use of a simplified contract for construction work that does not exceed \$100,000;
- ❖ The elimination of the requirement to conduct a separate cost/price analysis when obtaining products or services of a commercial nature; and
- ❖ The ability of PHAs to "self-certify" that their procurement systems satisfy the requirements of 24 CFR 85.36, thereby eliminating the need for prior HUD approval for most change orders and non-competitive purchases.

The Handbook guidelines cover all procurement activities using Federal program grant funds for the operation, modernization, and development of public housing. The Handbook **does not** apply to income generated by the Central Office Cost Center (COCC) through reasonable fee-for-service arrangements such as management, bookkeeping, or asset management fees; this fee income is not considered Federal program income and is therefore only subject to state and local requirements.

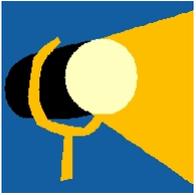
Under 24 CFR 85.36, PHAs are required to establish and follow a written procurement policy. To assist with policy development, the Handbook contains a sample procurement policy as well as a list of the relevant procurement forms.

PHAs should review both the Procurement Handbook and its appendices. HUD Handbook 7460.8 REV 2, *Procurement Handbook for Public Housing Agencies*, dated March 2, 2007, is available [here](#). ♦



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PHA Spotlight: Rochester Housing Authority (New York)



Previously, our PHA Spotlight examined a PHA (Austin, TX) that has largely operated under a project-based/asset management model for ten or more years. This

month, we look at a large agency that only recently made the transition – the Rochester Housing Authority (RHA) in Rochester, NY. The RHA operates 2,471 public housing units and administers 7,171 Section 8 Housing Choice Vouchers.

In the past year and a half, the RHA has dramatically reshaped its organization by empowering its managers and maintenance supervisors to take on more responsibility and holding them accountable for performance. Let's see how the RHA accomplished this feat, why they made the decisions they did, what they have learned through the process, and whether they think that the transition has been beneficial. The following is a conversation with Anthony (Tony) DiBiase, the Executive Director of the RHA.

Tell us a little about what the organization looked like prior to the recent transition to project-based/asset management. We had approximately 204 employees before the transition. In terms of large PHAs, we were pretty typical, meaning that we operated under a centralized delivery structure. Most of the functions were centralized including maintenance, purchasing, waiting list, and resident services. We had a central warehouse as well.

What were the housing managers responsible for prior to the transition? The housing managers were primarily responsible for recertifications, rent collection, and lease enforcement. The housing managers had no real purchasing authority. The maintenance staff was split between two large zones – one zone covered projects on the east side of the city and the other the west side of the city. Vacancy rates were near 8 percent.

What has changed? Almost everything has changed. We completely refocused our business practices. We consolidated roughly ten departments into four departments with a little more than 160 employees. We achieved these consolidations without reducing the number of staff that provides direct services to residents. In terms of property management services, almost everything is now project-based. The housing management team collects rent on-site, handles work orders, supervises maintenance, oversees small purchases, and prepares and monitors project budgets. Two functions utilize a hybrid approach. The waiting list is managed through a centralized application process, but approved applications are put into a site-based "ready-drawer." Additionally, some aspects of procurement are handled centrally, but the housing management team does have purchasing authority through blanket purchase orders and a credit card. They also have significant input into specifications and management of procured items and services. Our structure is now substantially similar to how private operators manage housing. Our vacancy rate has fallen to 1.6 percent.

That's a lot of change in a short period of time. What was the transition like? We believe the change was necessary, but we don't want to give the impression that it was easy. Making the cultural change within our organization required a lot of hard work. We had first to figure out what our new structure was going to look like. We spent a lot of time planning. We learned a lot by looking at other public and private real estate organizations. Once we figured out where we were going, the rest was all about managing the transition and communicating with the union and Board.

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What was the motivation for making this change? Although all PHAs with 250 or more units have to convert to asset management by 2011, we're a decliner agency. Our operating subsidy is approximately 26 percent less under the new Operating Fund formula. Hence, our major motivation was stop-loss. Without stop-loss, we might have taken more time. However, we were proactive and started this transition well before the potential subsidy loss. Most of our executive staff comes from private-sector backgrounds. Although we recognize the unique challenges of operating public housing, we view the transition to asset management as a very logical way to operate a property management business. We realized benefits across all aspects of the organization, from the ability to zero in on performance benchmarks to identifying capital and/or operational areas for concern. We are also able to better monitor staff performance levels. We found there are a lot of benefits to asset management beyond our objective to stop subsidy loss.

As you indicated, many larger PHAs still operate central warehouses. How were you able to eliminate that function? Once we provided the housing management team with site budgets and proper training, we learned that we didn't need a central warehouse as long as we had appropriate oversight mechanisms in place. Each housing management team has a credit card and blanket purchase orders for small purchases. When blanket purchase orders are depleted, the central office replenishes them. We dismantled

the central warehouse and now use 11 dedicated on-site stockrooms for the storage of common materials and supplies. One of the added benefits is that we plan to sell the central warehouse to offset some of our funding losses.

It sounds like a strong financial reporting system (project-based budgeting and accounting) is critical to successful implementation. Absolutely. In order to achieve our objectives, a strong accounting/financial staff was needed to work closely with the Finance Committee, senior management, and our various departments throughout the process. It's not possible to assign the necessary responsibility to housing managers without effective project-based budgeting and accounting.

In New York, PHA employees are part of the State civil service system and many also belong to unions. What unique challenges did this pose? The streamlining of our operations created challenges surrounding pension guarantees and other RHA obligations toward these employees. While these issues did present challenges initially, we were able to overcome them. We had to work with the New York State civil service system to get new position descriptions written and approved. We also held monthly meetings with our union to keep them abreast of developments.

What steps did RHA take to establish initial baseline budgets and operating statements for each project? We used year-end actual financial data, designed forecasts based on the project expense levels (PELs), and created estimates of expenses post restructure. We utilized baseline budget projections calculated on a per unit cost allocation.

What property management services did RHA outsource? An evaluation was made comparing the costs associated with staff time and burden against the cost for contracted service. We also realized that the time staff no longer invested in certain services allowed them to be more readily available to complete work orders and unit turnovers more efficiently, thus reducing time spent on these functions.

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We outsourced property inspection services, landscaping, snow removal, security services, as well as some resident service programs (e.g., summer youth program, elder care). An additional change in services at the site level required our HVAC engineers go from a centralized system to site-based.



One of the major challenges that many PHAs indicate in the transition to asset management is getting their overhead down within the new fee guidelines. Tell us about what that's been like for the RHA. We started out way above the fee schedules. Of course, as a stop-loss agency, we need to show that we can live within these fees (other PHAs have more time to transition). In short, we have gotten ourselves where we need to be. Mostly, we did this by decentralizing our operations and eliminating redundancy, which also helped us to be more flexible. We learned that the housing management team could handle many of the functions previously centralized. In turn, this freed up more funds for direct services.

What process does RHA use to regularly evaluate project-level financial, physical, and management performance? What information/data does RHA use in this evaluation? We designed reports that monitor all PHAS and project-based indicator data. These reports vary in frequency from daily for some to weekly and monthly for others. We developed "exception" reports that focus on items that are about to go outside of compliance. An example of a daily report would be – Emergency Work Orders not closed in 24 hours.

To learn more about the Rochester Housing Authority, visit their website at www.rochesterhousing.org, or email their Communications Manager, Aaron Baker, at abaker@rochesterhousing.org. ♦

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](#)

What's New on the Website?

- ❖ [April 2007 Obligation Letters](#)
- ❖ [FAQ: Fee for Service](#)
- ❖ [FAQ: Stop-Loss Additional Questions Part I](#)
- ❖ [FAQ: Stop-Loss Additional Questions Part II](#)
- ❖ [Operating Fund Appeals Notice](#)
- ❖ [Operating Fund Program Explanation of Proration Second Interim Cycle CY 2007](#)
- ❖ [Regulatory Waivers Notice](#)
- ❖ [Stop-Loss Extension Notice](#)

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 inquires by email to AssetManagementNewsletter@hud.gov. ♦

