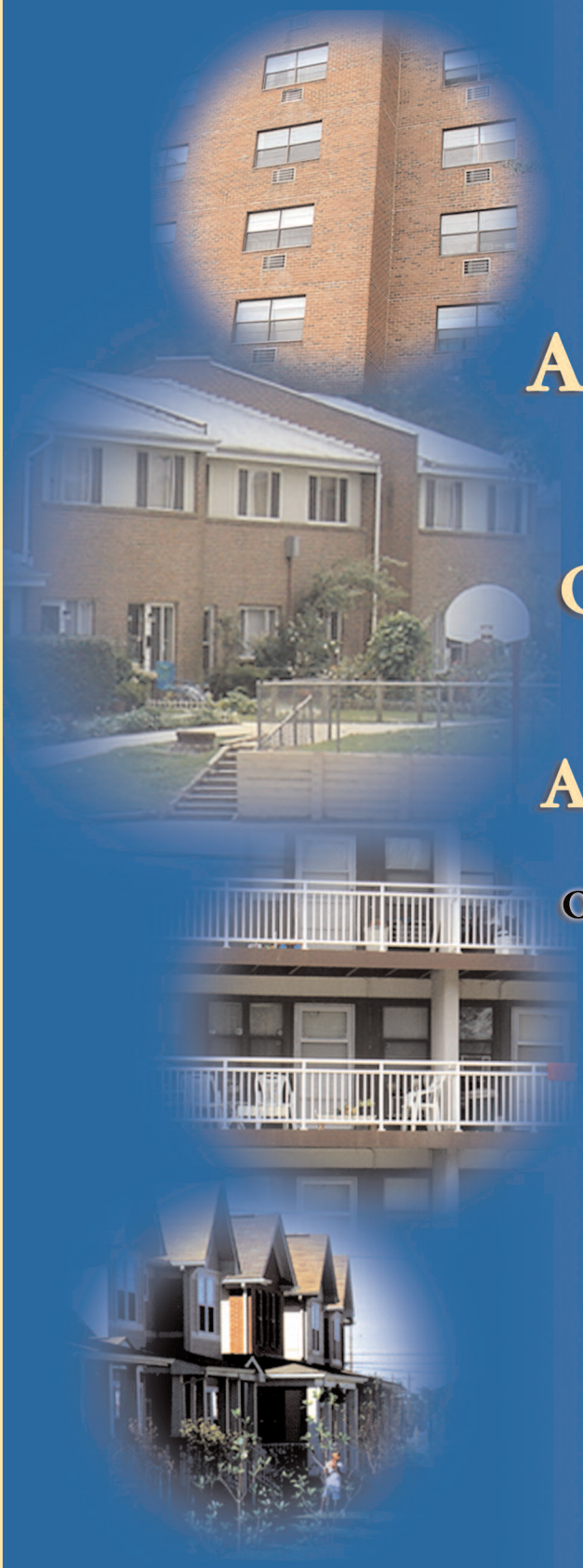

Preparing For Asset Management Under the New Public Housing Operating Fund Rule (24 CFR 990): A Planning Document

Office of Public and Indian Housing

June 1, 2006

Preparing for Asset Management Under the New Public Housing Operating Fund Rule (24 CFR 990):

A Planning Document

Prepared by:

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

June 1, 2006

Dear Executive Director:

The final rule on the Operating Fund Program was the product of extensive negotiations between the Department, public housing agencies (PHAs), industry groups, resident representatives, and other partners. The rule includes two major provisions: it establishes a new formula for determining operating subsidy and it introduces a new business model, called asset management.

I am pleased to provide you with this document, *Preparing for Asset Management Under the New Public Housing Operating Fund Rule: A Planning Document.* This document focuses on the larger program reforms associated with asset management. It is intended to help prepare for the transition to asset management at your agency. It precedes the publication of detailed instructions that will be issued later this summer.

Implementation of asset management will lead to better management and oversight of public housing by providing greater information about the operating costs and performance levels of each public housing project. It also will facilitate future investment in public housing by public and private entities. As such, the Department is strongly committed to its successful conversion.

The Department also is committed to providing PHAs with the tools to complete this transition successfully. The Department will launch an asset management web site where you can obtain supplemental guidance, announcements of related training opportunities, and other pertinent materials.

I look forward to working with you in implementing this historic and essential effort.

Sincerely

Orlando J. Cabrera
Assistant Secretary

Introduction

The new Operating Fund rule requires PHAs with 250 or more units to convert to asset management.[1] The Department is currently developing detailed instructions associated with the implementation of these new asset management requirements, scheduled for release in July 2006. To assist PHAs in preparing for these changes, this document provides an outline of the overall policy framework underlying the development of that guidance.

This document has five sections:

- **Section One** provides an overview of the core reforms underlying public housing's conversion to asset management, along with a general timetable for implementation.
- **Section Two** reviews new business rules associated with this effort, from the setting of reasonable management fees to the transfer of operating funds between projects.
- **Section Three** looks at the new financial reporting requirements. What changes can PHAs expect in the chart of accounts? How will project-level financial data be captured? What financial information will PHAs be required to submit to HUD and how?
- **Section Four** examines the implications of project-based management, a subset of asset management, on PHA organizational form. What level of authority and responsibility should PHAs assign to housing managers? What other organizational changes might be desired to assure that management services are arranged in the best interests of the projects?
- **Section Five** offers general planning advice to PHAs in transitioning to asset management.

The audience for this report is primarily:

1. PHAs with more than 250 units. Under the new rule, these PHAs must convert to asset management; and
2. PHAs with fewer than 250 units who voluntarily convert to asset management.

PHAs with fewer than 250 units are not required to convert to asset management. Unless they decide to implement asset management, these smaller PHAs do not need to become familiar with the material in this document.[2]

The policies discussed in this document are relevant to all PHAs who convert to asset management. Please note, however, that the timeframes described in here are not applicable to PHAs whose funding under the new Operating Fund formula will decline and, therefore, want to stop their losses by demonstrating a successful conversion to asset management. These "stop-loss" agencies should refer to *PIH Notice 2006-14* for the specific criteria and timeframes that must be met to demonstrate successful conversion to asset management.[3]

Stop-loss agencies are PHAs that (1) lose funding under the new formula; and (2) wish to submit documentation of successful conversion to asset management in accordance with the requirements for the first stop-loss deadline of October 1, 2006. Specific requirements for these stop-loss agencies are found in *PIH Notice 2006-14*.

[1] See "Revisions to the Public Housing Operating Fund Program; Final Rule," published in the *Federal Register* on September 19, 2005 (79 FR 54983), and "Revisions to the Public Housing Operating Fund Program; Correction to Formula Implementation Date," published in the *Federal Register* on October 24, 2005 (70 FR 61366).

[2] PHAs with fewer than 250 units that do not choose to adopt asset management will still be subject to the new funding formula. They can also expect modest changes in financial reporting requirements in the upcoming years. However, they will not be required to establish central office cost centers, to charge management fees for the recovery of overhead, or to implement the other key business rules associated with asset management, as discussed in this document. It should be noted that if PHAs with fewer than 250 units choose not to adopt asset management they will not be eligible for the asset management add-on (24 CFR part 990.190(f)).

[3] *PIH Notice 2006-14*, "Operating Fund Program Final Rule: Transition Funding and Guidance on Demonstration of Successful Conversion to Asset Management to Discontinue the Reduction of Operating Subsidy."

Section 1 Overview

This section summarizes the major program reforms associated with public housing's conversion to asset management and the timeframes for implementation.

Core Reforms

One of the primary purposes of the new rule on the Operating Fund is to give greater attention to the financial, physical, and management performance of each public housing project.[4] Consistent with these goals, the move to asset management will, over the next several years, include five major elements.

- **Project-based funding**. In contrast with the current system, which funds PHAs at the entity level, the new rule establishes a system of project-based funding. PHAs will complete a separate subsidy form for each project. A major component of a project's subsidy calculation is its Project Expense Level (PEL), a model-generated estimate of the cost to operate the project, exclusive of utilities and taxes, based on the costs of operating other federally-assisted housing with similar project characteristics.

> A project's subsidy eligibility will be the difference between its "formula expenses" and "formula income" (as these terms are defined in the new rule).

- **Project-based budgeting**. Along with project-based funding, PHAs will be required to prepare project-based budgets. These budgets must be approved by the PHA's governing board prior to the start of each fiscal year. Except in the case of non-performing projects, however, these budgets will not be subject to HUD approval. Primarily, they will be used for internal PHA planning purposes.

- **Project-based accounting**. As with other federally-assisted housing programs, PHAs will be required to submit to HUD year-end financial statements on each project. These financial statements will include revenues, expenses, and balance sheet items. Further, in accounting for project costs, PHAs will only be able to charge projects for services actually received. For example, PHAs will not be permitted simply to spread the cost of central maintenance across properties. Moreover, any overhead fees, and any fees for centrally-provided property management services, must be "reasonable," i.e., these costs must not exceed what other efficient operators would incur for those same services in the local market.

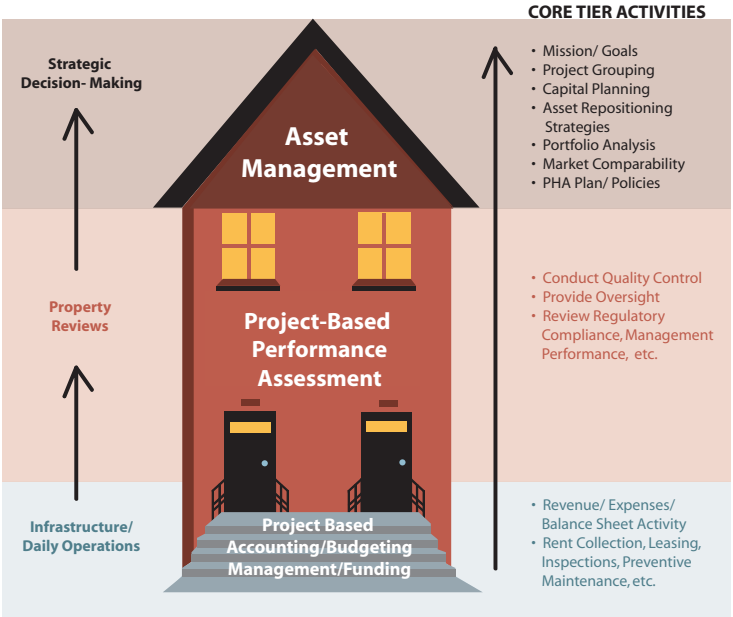
- **Project-based management (PBM)**. Under the new rule, PHAs must arrange property management services "in the best interests of each project." For example, a project must receive the same level of service from a central landscaping crew as could be obtained through the market or by handling the work with on-site staff. Additionally, PHAs must assign to each project management personnel, i.e., a housing manager, with primary responsibility for the day-to-day operation of that project.

- **Project-based performance assessment**. The Department will revise the Public Housing Assessment System (PHAS) to emphasize project-based performance monitoring and evaluation. Currently, PHAS examines mostly PHA-wide and not project-specific activities. Each project will be evaluated not just on its physical condition but based on its financial and management performance as well. A central part of this new performance measurement structure will be a system of on-site management reviews of each project (preferably, annually or bi-annually).

[4] At the heart of asset management is the "asset" or "project," around which services are arranged, financial reports are prepared, and performance is measured. Consequently, one of the first tasks required of PHAs in converting to asset management has been to identify their project groupings. Under *PIH Notice 2006-10*, "Identification of Projects for Asset Management," PHAs were requested to examine their current development assignments and recommend new project groupings for asset management. PHAs had until April 21, 2006, to make these recommended project groupings. Once these recommendations are reviewed and approved (mid-2006), these new project identifications will become the new measurement focus of the Department.

In the long term, asset management also includes the broader strategic examination of a PHA's portfolio and its position within the local affordable housing market, considering such strategies as re-investment, refinancing, disposition, or replacement. In the near term, however, the Department will emphasize the basic building blocks of asset-based funding, accounting, performance monitoring, etc.

In addition, the Department, as indicated in the new rule, plans to make appropriate changes in its regulatory and monitoring programs to support PHA conversion to asset management.[5] Over the next several years, therefore, PHAs can anticipate streamlined procedures in procurement, Annual Plans, and other areas.



Timeframes for Implementation

The phase-in of the above reforms will proceed according to the following schedule:

- The new **funding formula** for determining operating subsidies will be implemented in Calendar Year (CY) 2007. In that first year, to assist with transition, the new formula will be applied at the agency level, using a weighted-average PEL. PHAs will complete one subsidy form for the entire agency. PHAs that are "gainers" under the new formula will receive 50 percent of their gain in CY 2007, with the balance in CY 2008. PHAs that are "decliners" under the new formula will have their lower subsidy levels phased-in over a 5-year period.[6]

  In CY 2008, the new formula will then be applied at the project level. A separate subsidy form will be completed for each project. A PHA with ten projects, therefore, would complete ten subsidy forms. PHAs will obtain these project-specific subsidy forms from HUD, with much of the information pre-populated (based on data from HUD's databases). Mostly, PHAs will enter information on occupancy, utilities, and add-ons. Also beginning in CY 2008, these subsidy forms will be submitted electronically through HUD's new e-grant system, called Resource Allocation.

- The new **project-based accounting, budgeting, and management** requirements will be effective for PHAs whose fiscal years begin July 1, 2007, and thereafter. In the initial year of compliance, PHAs will be required to develop project-based budgets, approved by their Boards prior to the start of the fiscal year. At year-end, PHAs will be required to submit project-level financial statements. By the second year of project-based accounting (fiscal years beginning July 1, 2008, and thereafter), PHAs will also be required to comply with the new rules regarding cost-reasonableness for centralized services, including management fees.

- Finally, the Department plans to implement a **new project-based performance assessment system** no later than the second year of project-based accounting. The development of this new performance assessment system will be done through formal notice-and-comment rulemaking.

At the same time that PHAs are making changes in their organizations to convert to asset management, the Department will also be modifying its data systems and its field oversight structure. Broadly speaking, projects will be grouped into "portfolios" and assigned to specific HUD staff to monitor/oversee. The number of projects assigned to these HUD "asset managers," the frequency of site visits, and other related protocols are all under development.

Implementation Schedule

New Funding Formula Implemented at Agency Level	CY2007
New Funding Formula Implemented at Project Level	CY2008
Electronic submission of subsidy forms for each project	CY2008
Develop project-based budgets prior to the start of the PHA fiscal year	July 2007, October 2007, January 2008, or April 2008*
Comply with new rules regarding cost-reasonableness for centralized services, including management fees	July 2008, October 2008, January 2009, or April 2009*
Implement a project-base assessment system	No later than the second year of project-based accounting

*Effective dates correspond with the PHA's Fiscal Year start date.

[5] 24 CFR part 990.255(b).

[6] Subsidy eligibility subject to congressional appropriations.

Section 2
Key Business Rules

Public housing's conversion to asset management introduces a number of new business rules. This section examines the following:

- Management and Bookkeeping Fees
- Asset Management Fees
- Front-line Costs vs. Management Fee Costs
- Charge-backs and Other Fee-for-Service
- The Central Office Cost Center
- Fungibility

Although the details of these business rules are still under development, the discussion that follows should enable readers to understand the overall direction of the planned changes. As previously noted, the Department plans to finalize these business rules, and related financial reporting requirements, by July 2006. PHAs would generally have one year to prepare prior to implementation (the first PHAs to implement project-based budgeting, accounting, and management are those with fiscal years beginning July 1, 2007).

As with all policies under the new rule, these specific business requirements follow the standards of practice in the multifamily housing industry. Where appropriate, adjustments will be made to reflect public housing's unique circumstances. For related background material, PHAs should refer to HUD Handbook 4381.5, REV-2, *The Management Agent Handbook*. That handbook contains the requirements and expectations of management agents in HUD's multifamily housing programs.

Management and Bookkeeping Fees

The new rule requires PHAs to charge each project a "reasonable" management fee to fund the operation of the central office. In multifamily housing, the management fee represents compensation to the entity managing the project, i.e., the management agent, for overseeing the operations of the project. In essence, this management fee replaces traditional PHA overhead allocations.[7]

For planning purposes, PHAs can refer to Attachment A, which lists the 10th, 25th, 50th, 75th, and 90th percentile management fees paid by unlimited dividend and non-profit projects in HUD's multifamily housing programs in 2004, by field office.[8] PHAs can use this table to gauge the range of fees paid in their markets. Nationally, the average management fee paid in 2004 for unlimited dividend and non-profit sponsors was $35 PUM.[9]

In addition to a management fee, PHAs will be permitted to charge a bookkeeping fee for the project accounting function. Prior to the advancement of automated systems, most bookkeeping activities in multifamily housing were performed on-site. Today, the accounting for project funds is a task that is done mostly through a management agent's central office, which, in many cases, is charged to the project as a bookkeeping fee. In 2004, the average bookkeeping fee in HUD's multifamily housing programs was about $3.50 PUM.

PHAs will report the management fee and the bookkeeping fee as separate line items on each project's financial statements. For all practical purposes, however, these two amounts represent the reimbursement to the managing entity for the oversight of the property and the production of all related financial statements.

Both management fees and bookkeeping fees will be earned monthly based on the number of occupied units and "allowable" vacancies (as defined under Section 990.145 of the rule).[10]

For stop-loss agencies only, the Department has permitted PHAs to charge a $7.50 PUM bookkeeping fee. The Department has also permitted stop-loss agencies to use one of three methods for determining the management fee:

[7] 24CFR990.280(b)(4)

[8] Information based on 2004 Annual Financial Statements. Excludes cooperatives and nursing homes.

[9] Figure based on total number of units. The average fee for occupied units is about $36.50 PUM.

[10] Management fees and bookkeeping fees will be earned for any unit leased at either the beginning or end of the month. Hence, to the extent that PHAs can turn units around within the month, they will be able to earn the full fees.

1. **The management fee schedule issued by HUD's Multifamily Field Office for the PHA's jurisdiction**. For its subsidized housing programs, HUD establishes maximum management fees. Generally, these fees are based on 120 percent of the median fee that is paid by projects whose profits are not restricted, that are in good physical and financial condition, and where there is not an identity of interest relationship with the owner and management company. In some offices, there may also be add-on fees for special project characteristics. For example, a maximum fee might be $40 PUM but there may be a special fee of $3 PUM for scattered site projects.[11]

2. **The 80th percentile of fees paid by unlimited dividend and non-profit owners, by Field Office** (a table contained in *PIH Notice 2006-14*), or

3. **Other compelling local data**. Such compelling local data might include the fees actually paid for private management of the agency's public housing stock.

While the Department has not finalized the methodology for determining reasonable management fees and bookkeeping fees for all PHAs, the above schedules for stop-loss agencies can be used as a guide for future Departmental action. In general, PHAs will be permitted to charge fees that provide sufficient compensation to attract the quality of management necessary to administer each project.

As a reminder, PHAs will not be required to comply with the limitations on management fees and bookkeeping fees until the second year of project-based accounting. Consequently, all PHAs, other than those that qualify for stop-loss, have more than 2 years from now to reduce, if necessary, their overhead costs. (To qualify for stop-loss, PHAs must demonstrate that they can operate their central offices for the allowable fees.)

Asset Management Fees

Section 990.190(f) of the new rule awards to each project an asset management "add-on" of $4 PUM.[12] This add-on is in addition to the PEL that is assigned to the project. Section 990.280 of the new rule then indicates that PHAs can charge each project a "reasonable" asset management fee, subject to the availability of excess cash (defined below). In other words, while HUD will fund each project $4 PUM for asset management, the PHA can charge the project a higher amount, subject to available resources.

> If a project has sufficient excess cash, PHAs may charge the project a reasonable asset management fee. This amount may exceed the $4 PUM add-on for which the project is funded.

Conceptually, this asset management fee represents payment to the PHA for those tasks of ownership that would be residual if all property management functions were contracted to a third-party. In such instances, the owner (the PHA) would still need to approve the annual budget for the property, ratify any recommendations for rent increases, oversee the performance of the property manager, etc.

To determine if a project has sufficient "excess cash" to pay this asset management fee, the Department will use a calculation similar to the computation of "surplus cash" in HUD's multifamily housing programs, which is a balance sheet approach. Therefore, as long as the project has sufficient funds in its reserves (see Section 2 on assigning balance sheets items), the PHA could charge the project an asset management fee. The actual amount of excess cash that a project would need before it could pay an asset management fee is still under development.[13]

As provided for in the new rule, asset management fees, up to the allowed PUM amount, will be paid based on the number of ACC units (unlike management fees, which will be paid based on the number of occupied units and allowable vacancies in the project).

The Department has not established a final policy on what constitutes a "reasonable" asset management fee. For reference purposes, PHAs should be aware that HUD has permitted PHAs that are applying for stop-loss to charge each project $10 PUM as a reasonable asset management fee.

A PHA need not distinguish or separately track the costs of asset management from the costs of other general corporate oversight. Collectively, the PHA would use the fees earned (management fees, bookkeeping fees, asset management fees, other fee-for-service) to fund the operations of the central office. A PHA would not have to show how much of those central office costs were related to bookkeeping or asset management. It would be up to the PHA to determine how best to organize the central office to provide the services for which it receives fees.

Front-line Costs vs. Management Fee Costs

If PHAs will now be required to charge each project a management fee, what services are expected in exchange for that fee? What costs are "front-line" expenses that can be charged as a project expense and what costs are to be funded from the management fee?

[11] The fees reported in Attachment A are inclusive of any add-on fees.

[12] Applies to PHAs of 250 or more units. For PHAs with fewer than 250 units that convert to asset management, the add-on is $2 PUM, but only if they do not treat their entire portfolio as one project.

[13] For PHAs applying for stop-loss, there is no excess cash flow requirement in the first year.

> PHAs will need to distinguish between those costs that can be charged to each project as front-line (direct) expenses and those related to corporate support that must be absorbed by the management fee. The norms that exist in multifamily housing will apply.

In the past, PHAs never had to distinguish in their financial statements those costs that were related to the direct operation of the properties (front-line costs) and those costs that were related to corporate support (management fee costs). PHAs were required only to prepare a consolidated financial report. No project-level reporting was required. On the consolidated financial report, for example, the "Administrative Salaries" line item included both project salaries and overhead salaries.

PHAs can refer to the chart in Attachment B for preliminary guidance on how certain expenses might be classified as either a front-line expense or an expense to be funded from the management fee. As indicated earlier, the classification of these costs is consistent with the norms in multifamily housing. Examples of front-line costs include the compensation paid to on-site housing management and maintenance staff as well as the cost of goods and services used to maintain the property. Examples of costs to be paid from the management fee include the cost of the regional manager and other corporate support.

Charge-backs and Other Fee-for-Service

In accordance with the previous discussion, the salary/fringe of a maintenance mechanic would be a front-line expense. What if that maintenance mechanic was deployed from the central office but actually performed work at different projects? Would that employee continue to be a front-line expense? If so, how would those costs be charged back to the project(s)?

> All instances of centrally performed front-line administrative services must be reasonable, necessary, and not cost more than if the activities were performed on-site.

In the Department's multifamily housing programs, the rules governing which costs can be charged back to projects, and the method of charging back, vary slightly depending on the classification of work as either administrative or maintenance.

Administrative

Where it is cost-effective, a management agent in HUD's subsidized housing programs can pro-rate across projects, on a reasonable basis, the cost of centralized staff who perform front-line administrative functions. For example, if an owner of many small properties would find it more advantageous to collect rent centrally, rather than collect rent at each site, the compensation paid to the employee handling that function centrally, as well as other direct costs, e.g., phone or postage, could be charged back to the affected projects on any reasonable, representative basis. It would not be necessary for the employee handling central rent collections to track hours spent each day actually inputting rents for Project A versus Project B. Rather, the agent could pro-rate the costs of that employee across all projects/units receiving that service.

There are two noted exceptions to charging projects for the cost of centralized staff performing front-line administrative functions:

- First, management agents cannot charge projects for the cost of a centralized supervisor, even if supervising front-line tasks. In multifamily housing programs, it is assumed that each project is assigned a housing manager whose job it is to oversee the operations of the project. Thus, while the agent may determine that it is in a project's best interest to centralize a front-line task like rent collections, HUD generally does not allow an agent to charge projects for supervision of that centralized rent collection function. Since the duties of a housing manager include supervision, allowing an agent to pass along the supervisory costs of central rent collection would result, in effect, in "double-charging" a project for those supervisory activities.

- Second, management agents cannot charge projects the cost of centralized staff handling the procurement of project goods/services, including centralized warehousing services. The housing manager is mostly responsible for procuring each project's goods/services and for overseeing the storage of any needed goods/supplies (stored on-site). To the extent that an agent assumes those procurement functions, the agent would absorb those costs as part of the management fee.

<u>In all instances of front-line administrative services performed centrally, those services must be reasonable, necessary, and not cost more than if the activities were performed on-site.</u>

For certain historical reasons, the Department will allow PHAs more liberal treatment in assigning costs associated with the following activities:

- **Central waiting lists**. Until recent years, PHAs were required to administer waiting lists centrally, which most agencies still maintain.[14] PHAs will be permitted to pro-rate the cost of these centralized waiting lists, including appropriate supervisory staff. Normally, an agent would not be allowed to charge centralized supervisory staff to projects.

[14] Waiting lists managed centrally may be either site based waiting lists or agency wide waiting lists.

- **Resident programs**. Many PHAs have developed centralized resident services programs. As with central rent collection, it might not be feasible to track the time spent by such staff on providing service to residents of specific projects. Hence, to the extent that a PHA has centralized resident services activities which cannot be readily tracked to individual projects, the PHA can pro-rate those costs across projects on a reasonable basis. Additionally, the PHA can charge each affected project the cost of reasonable resident services supervisory staff, i.e., those supervisory staff would not need to be funded through the management fee.

- **Protective services**. Some PHAs operate centralized protective services programs, either in-house or through arrangements with local law enforcement agencies. It is the Department's desire that, in the future, those costs are tracked to a project. In the meantime, PHAs will be permitted to pro-rate centralized protective services expenses on a reasonable basis, including reasonable costs for supervisory protective services staff that cannot be directly assigned to projects.

Maintenance

> For specialized maintenance, the PHA can charge a fee-for-service based on market prices, but must also pay for all associated costs of the service.

In the area of front-line maintenance work that is performed centrally, as distinct from centralized administrative tasks, the practice in HUD's multifamily housing programs is that each project must be charged for the actual maintenance services received, based on work orders, job tickets, etc. Management agents are not permitted to pro-rate central maintenance costs across projects, as they may for certain administrative functions. Moreover, in its subsidized housing programs, the Department generally does not allow management agents to charge overhead for central maintenance staff.

For public housing, as permitted under the new rule, PHAs will have, in the case of specialized maintenance, the option of charging either actual costs or a "fee-for-service." Under fee-for-service, the PHA charges the project based on a market price for the work received, regardless of actual costs to the agency. Examples include the following:

- A PHA competes against private vendors under effective competition for painting of vacant units (unit prices) and is the most responsible, lowest bidder. In this instance, the PHA can charge the project the bid price for each vacant unit that it paints. The PHA would not need to charge actual costs.

- A PHA has received a special waiver from the local municipality for solid waste "tipping" fees. Because of this special arrangement, the PHA's costs are less than market at $12 PUM. Several years ago, the PHA went out to bid for this work but received no bids. Vendors were aware of the PHA's special arrangement and, as such, were not inclined to submit bids. The PHA has data from other multifamily projects in the market that show that the market price for waste collection is $14 PUM. The PHA could then charge each project the $14 PUM as a fee-for-service for the central trash collection.

- A PHA employs a central plumber to supplement the work of on-site staff when the work is beyond the skills normally expected of a maintenance mechanic. The documented normal rate that apartment complexes in the locality pay for plumbing service is $60/hour. The PHA could charge each project the $60/hour for the actual hours performed. The PHA would then need to cover all costs associated with that plumber for the fee charged.[15] (The PHA will need to maintain source documentation supporting these fees, e.g., rates charged other projects in the community.)

The Central Office Cost Center

The central office cost center is the term used to describe the business unit within the PHA that earns income from fees or revenue from other business activity. This central office cost center is likened to a private real estate company with different sources of business revenue.

> The organization of the central office to perform overhead/oversight services is left entirely to the PHA.

Assume that a PHA has 1,000 units of public housing, which it maintains at 97 percent occupancy. Further assume that the maximum management fee established by the local Field Office is $40 PUM and that the PHA charges $7.50 PUM in bookkeeping fees and $10 PUM in asset management fees, as the Department has permitted for stop-loss agencies. Finally, assume that the only property management service that the PHA performs centrally is extermination, which it does on a fee-for-service basis for $3 PUM. All other property management services are performed on-site. As shown in the table below, this PHA would earn $708,900 in fees for the operation of its public housing, exclusive of any other fees or overhead reimbursements that the PHA may earn for the administration of the Capital Fund Program, the Housing Choice Voucher (HCV) program, etc.

[15] The project is only charged the market rate/fee. In other words, if the centralized plumber uses a vehicle and also requires a supervisor to direct his/her work, the PHA would need to cover these costs with the $60/hour fee charged for that plumber (or otherwise subsidize those additional costs with other proceeds/retained earnings.) The project can only be charged the market price for the service received.

Fee	Fee Calculation	Amount
Property Management Fee	$40 x 1,000 units x 12 months x 97% occupancy	$465,000
Bookkeeping Fee	$7.50 x 1,000 units x 12 months x 97% occupancy	$87,300
Extermination Service	$3 x 1,000 x 12 months	$36,000
Public Housing Asset Management Fee	$10 x 1,000 units x 12 months	$120,000
Totals		**$708,900**

This fee income, received by the central office cost center, would be available to pay for all costs related to general oversight of the projects, for preparing project-level financial reports, and, in this particular case, for routine extermination service. In addition to this fee income to operate the public housing program, the PHA might also earn fees from other programs or business activities.

For PHAs, there are a number of attendant benefits in implementing this management fee/fee-for-service approach:

- **It greatly simplifies administrative requirements related to the accounting of overhead costs**. These management fees would be used in lieu of complex systems for allocating overhead expenses. A PHA would no longer need to establish a method for determining how to allocate, say, an accountant to the public housing program. Rather, the PHA would simply charge each project a management fee.

- **It provides PHAs with greater flexibility**. A PHA would be free to determine how to use its fee income. As long as the fees that a PHA charged were reasonable, these funds would no longer be considered Federal "program income" and would be exempt from 24 CFR part 85, Administrative Requirements for Grants and Cooperative Agreements, Local and Federally Recognized Indian Tribal Governments. How a PHA chooses to organize its central office to perform its management fee responsibilities would be left entirely to the PHA, subject only to any state/local requirements.

- **PHAs would be able to utilize retained fees to support the mission of the PHA**. Because the fees would not be treated as "program income," a PHA could also use any surplus revenues for any local affordable housing purpose.

There are also benefits to HUD in adopting this management fee approach. If adopted across all Public and Indian Housing (PIH) programs, HUD's monitoring activities would be greatly reduced. HUD would no longer need to evaluate whether a PHA's allocation system was "reasonable." Rather, HUD would only need to determine that the PHA charged a reasonable fee. HUD would also not need to monitor the spending of fee income, i.e., the activities of the central office cost center. HUD monitoring would be limited to "front-line" expenses. Funds received by the central office cost center to operate public housing, provided they were generated through reasonable fees, would not be subject to HUD review.

If a management fee system were implemented only for the Operating Fund program, however, a PHA would still be required to maintain these complex overhead allocation systems in order to determine how much overhead to allocate to its other programs. In this case, the benefits of adopting a management fee approach – administrative, financial, and procedural – would all be greatly reduced. Accordingly, the Department is considering a system of management fees for all PIH programs. At a minimum, the Department may issue "safe harbor" fees to make it possible for PHAs, if they desire, to adopt fee-for-service across all programs. For example, under the Capital Fund, PHAs can today spend up to 10 percent of the program grant on "Administration," but these costs must be documented. Under fee-for-service, a PHA would charge/earn a management fee for the Capital Fund program, but would not need to document or demonstrate actual costs for the reimbursement of this management fee.

For each of these other PIH programs – Capital Fund, HCV, ROSS, etc. – the amount of the fee, as well as the assignment of costs (front-line vs. management fee), are policy issues that are still under consideration.

Fungibility

As indicated previously, the Department will, in CY 2008, calculate and assign operating subsidies on a project-by-project basis. Still, PHAs will be permitted to use funds from one project to meet the needs of another project – referred to in the new rule as "fungibility" – provided the awarding property has excess cash. Thus, while the new rule moves to a system of project-based funding, it allows PHAs flexibility to move funds between projects, where resources are available.

> PHAs can use funds from one project to meet the needs of another project, referred to in the new rule as "fungibility," as long as the awarding property has sufficient surplus cash.

The Department will use the same standard for determining excess cash for the purposes of "fungibility" as it will for the payment of an asset management fee, i.e., something similar to the computation of "surplus cash" in HUD's multifamily housing programs. In other words, provided a project has adequate reserves, a PHA would have complete discretion to move funds from that project to any other project. For example, if a particular project were assigned a formula-determined PEL of $250 PUM, but the PHA determined that the project

needed another $30 PUM in revenue to assure effective operations, the PHA could transfer funds from any other project with sufficient surplus cash. Further, by using a balance sheet approach, a PHA can transfer at any time during the year (as opposed to waiting until year-end), up to the amount of last year's available surplus cash.

These transfers will be recorded on the financial statements of each affected project (transfer "in" and transfer "out").

The amount of surplus cash required before a project could make a transfer has not been determined.

Section 3
Financial Reporting Requirements

This section reviews the new financial reporting requirements associated with the conversion to asset management.

Changes to the Chart of Accounts

> In converting to asset management, HUD expects to make minor modifications to, and not replace, the standardized chart of accounts.

Presently, PHAs are required to use a standard chart of accounts for presenting year-end financial statements to HUD.[16] In converting to asset management, the Department expects to make minor modifications to, and not replace, this standardized chart of accounts. There will be two types of changes:

- First, there are certain changes to this chart of accounts that will be required to implement the new rule. For example, currently there is no line item for management fees. Additionally, the Department will include line items to capture "excess cash flow" and to account for the different types of fund transfers permitted under the new rule.

- Second, there are changes that the Department would like to implement that will facilitate comparisons between projects. For example, the current chart of accounts does not break out property insurance from liability insurance (they are combined on one line item). Similarly, there is no line item for the trash collection contract (a major PHA expenditure) or other major maintenance contracts (lawn, extermination, HVAC, etc.). The Department also anticipates adding a line item to capture vacancy loss.

In all, the changes in the chart of accounts will be modest. The Department will simply add to the current chart, not develop an entirely new one.

Project-Based Budgeting

As indicated earlier, PHAs will be required to prepare budgets for each project prior to the start of the fiscal year. PHAs will also be required to have these budgets approved by their boards. However, HUD review is not required. Moreover, HUD will not require a uniform budget format. PHAs will be free to determine a budget format that best meets local needs.

While HUD will not require a standardized budget format, the Department may, to facilitate program monitoring, require the inclusion of certain line items in all PHA budgets. The placement of those line items, though, will be determined by each PHA.

Assigning Balance Sheet Items

> PHAs will want to establish reserves for each property sufficient to meet any PHAS (or subsequent) performance monitoring standards.

At the end of the first year of project-based accounting, PHAs will be required to assign all items on the public housing balance sheet between the central office cost center and the projects.

Currently, when a PHA's operating revenues exceed operating expenses, the excess becomes part of the PHA's public housing operating reserve. This operating reserve is program-wide and there are no project-based reserves/balance sheets. In converting to asset management, PHAs will need to determine how much of the PHA-wide reserves for the public housing program (and other balance sheet items) should be assigned to each property and how much to retain in the central office cost center.

[16] See *Low-Rent Accounting Guide*, HUD 7510.1, and the *Financial Data Schedule Line Definitions* and *Crosswalk Guide*.

PHAs will be allowed to assign an initial amount of "working capital" to the central office cost center, something on the order of 6 months of fee income. A PHA could then use this working capital to support any activity of the central office cost center. In addition, HUD will allow the PHA to transfer to the central office cost center all furniture, fixture, equipment, and vehicles needed to support the central office cost center and that are not otherwise an asset of a project.

Assume that a PHA with 2,000 units has $5.0 million in public housing operating reserves (about the national average, per unit). The PHA might be permitted to set-aside $600,000 in working capital for the central office cost center, or roughly equivalent to 6 months of public housing fee income. The remainder of the agency's reserves, or $4.4 million, would be assigned to the various projects. The PHA could distribute this remaining amount equally across all projects or it could assign amounts based on relative capital needs, operating expenses, or other reasonable means of distribution.

Under the rules governing "fungibility," PHAs can use funds from one project to support another project, provided the awarding project has sufficient excess cash. Therefore, the assignment of reserves to any project is not irrevocable. In any year, Project A can transfer funds to Project B, provided that Project A is not left with less than any minimum standard that the Department may establish for project-level reserves. PHAs would not, however, be able to use project reserves to fund activities of the central office cost center (beyond the initial assignment of working capital), including the loaning of these funds.

In the case of real property (land and buildings) that are not assets of a project, the Department is also considering the transfer of these assets to the central office cost center. To the extent that some of these assets may become redundant under effective project-based management – say, a central warehouse – the PHA could potentially dispose of that asset and use the proceeds for any local affordable housing purpose, including any needs of the central office cost center.

Electronic Reporting and the Financial Data Schedule (FDS)

The FDS is the electronic spreadsheet that PHAs submit to HUD each year to record information on revenues, expenses, and balance sheet activity for each major program, fund, or business activity of the PHA.[17] The table below illustrates the modular (column) structure of the FDS for a hypothetical PHA that receives funds under the Operating Fund, the Capital Fund, and the HCV program, but that also has non-Federal revenue (other "Business Activity").

New Property Level FDS						
FDS Line Item	Description	Low Rent Public Housing	Capital Fund	Housing Choice Voucher Program	Business Activity	Total
703	Net tenant rental revenue					
704	Non Dwelling Revenue					
705	Total tenant revenue					

The Department anticipates making three major changes to this modular FDS format.

First, within the Operating Fund Program, supplemental schedules will be added for each project. A PHA will submit an operating statement and balance sheet for each project in the same format as it does for all other programs. Each "project," as identified by the PHA, will have a separate supplemental schedule.[18] These project-level financial statements will be inclusive of all overhead/centralized charges. An illustration of these new project-level supplemental schedules is shown below.

New Program Level FDS		
FDS Line Item	Description	Low Rent Public Housing
703	Net tenant rental revenue	
704	Non Dwelling Revenue	
705	Total tenant revenue	

New Property Level FDS					
FDS Line Item	Description	Property A	Property B	Property C	Total
703	Net tenant rental revenue				
704	Non Dwelling Revenue				
705	Total tenant revenue				

Second, a new column will be added for the central office cost center. Under Generally Accepted Accounting Principles (GAAP), a PHA will need to recognize the financial activity of the central office cost center on its financial statements. A PHA could decide to keep this activity separate (a separate column on the financial statements) or to combine it with other business activity of the PHA. For example, if a PHA provided cleaning services for other property owners, it could combine the business activity related to public housing with the outside cleaning service, or it could report these activities separately.

[17] An unaudited FDS is due 60 days after the end of the PHA's fiscal year and the audited within 9 months.

[18] See *PIH Notice 2006-10*, "Identification of Projects for Asset Management."

New Property Level FDS								
FDS Line Item	Description	Low Rent Public Housing	Capital Fund	Housing Choice Voucher Program	Business Activity	Central Office Cost Center (COCC)	COCC Elimination	Total
703	Net tenant rental revenue							
704	Non Dwelling Revenue							
705	Total tenant revenue							

By adding this new column for the central office cost center (or business activity column), it is also necessary to create a new "elimination" column to avoid the double-counting on the FDS total. The elimination column eliminates the internal fees charged to various programs/projects and the revenue recognized in the central office cost center from those earned fees. It is important to note that the reporting on the central office cost center is something required by GAAP and is not driven by a desire by HUD to control how PHAs spend their fee income. The table above illustrates these new columns for the central office cost center and the elimination column.

Third, activity under the Capital Fund will now be tracked at a project level. If a PHA replaces a roof at Project A, that "work in progress" will be shown on the balance sheet of Project A. In order to track costs accordingly, PHAs will either show a "transfer" from the Capital Fund to Project A, and then detail the work in a "memo account" in the FDS, or the Department may eliminate the Capital Fund column on the FDS entirely and simply have all activity from the Capital Fund recorded at the project level in memo accounts, without a requirement to show a transfer.

PHAs made major modifications to their systems in 1999 when first converting to this electronic FDS structure. Fortunately, the Department can now build upon the foundation that has already been established to obtain project-level financial statements.

Other New Financial Reporting Requirements

HUD will not require PHAs to (1) maintain separate bank accounts for each property or (2) obtain audits on individual properties, as required in privately assisted housing. However, HUD is considering whether to require separate bank accounts for the central office cost center. Because this fee income will not be considered "program funds," the Department believes that it may be desirable to segregate these "local" funds from "program" funds.

With any change in organizational structure or management procedures, PHAs need to think about the effect of these changes on their current internal control structure. PHAs should work with their auditors and accountants in reviewing and updating their internal control structure and procedures and as part of this effort.

Section 4
Arranging Property Management Services Under PBM

As indicated earlier, project-based management, or PBM, is one of the essential building blocks of asset management. Under section 990.275 of the new rule, PBM management is defined as:

> "...the provision of property-management services that is tailored to the unique needs of each property, given the resources available to that property. Under PBM, these property management services are arranged, coordinated, or overseen by management personnel who have been assigned responsibility for the day-to-day operation of that property and who are charged with direct oversight of operations of that property."

While PBM does not require that all property management services be performed on-site, a decentralized model will often best serve the interests of the project. As a consequence, PBM frequently introduces an organizational form different from what many PHAs are accustomed to. This section takes a closer look at typical elements of the PBM organizational form and their implications for PHAs.

Common Characteristics

Attachment C lists various tasks or functions that are undertaken in the management of rental housing, from the purchasing of goods and services to the maintenance of waiting lists. Each topic area includes a description of how privately managed housing typically provides this service, i.e., the PBM model, along with notes/comments specifically relevant to how PHAs might provide these same services.

> PHAs should organize in the best interests of the properties, considering both costs and responsiveness.

In private, multifamily housing, it is common that:

- Each property has an operating budget, approved by the owner.
- In accordance with the budget, the property is assigned dedicated management and maintenance personnel, who, frequently, work on-site. If a property is too small to afford full-time staff, the property may have part-time staff or it may share staff with other properties (preferably ones in the same general vicinity).
- The site personnel have significant authority and responsibility over the day-to-day operation of the property.
- Most property management services – rent collections, inspections, purchasing, occupancy functions, etc. – are handled or coordinated by the on-site staff.
- Depending on the size of the staff, their skills, and the availability of reliable vendors at competitive prices, certain maintenance services may be contracted out, e.g., landscaping, extermination, and turnover painting, among others. Contractual services are generally purchased and overseen by on-site project staff. Occasionally, some maintenance services are provided centrally, but usually only the specialized services.
- The person primarily in charge of the property on a day-to-day basis, including maintenance, is the housing manager.

The services and functions handled on-site, as well as the level of authority assigned to on-site project personnel, will vary from one management entity to another. One firm might provide housing managers with purchasing authority up to $500 without prior approval from a regional manager, whereas another might establish a $200 threshold. The housing manager may also be provided with petty cash for simple purchases. Similarly, while most firms collect rent on-site, some rely on centralized lock-box systems. Still, the organizational form or shape that property management takes in private housing is one that is decidedly decentralized or project-based.

Organizational Choices/Organizational Change

Housing managers (and other site-based staff) in private housing are often assigned significantly more authority and responsibility than their counterparts in public housing. Ultimately, PHAs must decide which arrangements are in the best interests of the projects, considering both costs and responsiveness. Because HUD is measuring results rather than process, it will not dictate how PHAs should be organized—except where performance is unsatisfactory. To achieve satisfactory results, however, PHAs may find it desirable or necessary to decentralize elements of their organization. Reasons for decentralization might include the following:

- **The cost of any centralized service, whether maintenance or administrative, must be reasonable**. As such, it may be more efficient to provide these services on-site or through contract.

- **PHAs that maintain extensive centralized maintenance arrangements will need to develop systems to track those costs so that they can be charged back to the projects**. Projects can only be charged for actual maintenance services received, either at "cost" or on a "fee-for-service" basis. Consequently, it may be simpler for a PHA to decentralize these maintenance services.

- **The organization and coordination of a centralized system may result in overhead costs that exceed what otherwise would be considered reasonable**.

- **The arrangement of centrally provided property management services may result in lower performance levels**. For example, preparing vacant units through a centralized crew may result in higher unit turnaround times than simply assigning that task to on-site staff.

PHAs should give ample consideration to the above in planning for the conversion to asset management.

Section 5
Planning for Change

The previous sections of this document presented the broader outlines of public housing's conversion to asset management. This section suggests several preliminary steps that PHAs can undertake to prepare for the transition.

1. Determine the Organizational Form that PBM Will Take in Your Agency

PHAs should review the discussion on PBM in Section Four, along with the matrix in Attachment C, Common Characteristics of Project-Based Management. What level of purchasing authority will be assigned to each manager? Will the agency continue with a lock-box system for rent collections or will it collect rent on site? What central maintenance services will be delegated to property staff to perform? What services are best performed in-house and what services should be contracted out?

PHAs are especially encouraged to talk with management companies in their local markets. These firms may be able to assist in determining which tasks are better to delegate to staff on-site, which functions are best handled centrally, and which services are better to contract out. Local management companies can also help with information about staffing ratios, cost data, compensation levels, and other management practices.

Based on these organizational decisions, PHAs can then begin to develop a staffing plan under PBM. How many staff will be assigned to each property? How many staff will support the central office? What job classifications are needed? How do these levels compare with existing employment patterns and what opportunities exist for cross training of staff?

2. Examine Current Overhead Costs

The introduction of the management fee approach requires PHAs to be aware of what it costs to provide any centralized service and, to the extent that a property is charged for these costs, it requires that the costs charged be economical.

PHAs should begin now to examine their overhead cost centers. They should attempt to calculate what those costs are today, how those costs compare with fees that might be established for their areas, and begin to think in terms of operating a fee-for-service company. For each function performed centrally, PHAs should ask: "Why are we doing this task and can it be performed more effectively in the field?"

> By devolving more and more tasks to the properties, PHAs may find that (1) it is easier to isolate true overhead costs and (2) it is possible to lower overhead costs.

When PHAs begin to plan for asset management, it might be difficult to determine how their current overhead costs compare with local management fees. Few PHAs have previously captured or isolated that specific data. PHAs will need to separate true overhead costs from other property management services that are funded or delivered centrally. It is not uncommon, for example, for PHAs to include in a central office cost center the premiums paid for property insurance. Property insurance premiums, however, are front-line costs and a PHA would want to assign those costs accordingly.

By devolving more and more tasks to the properties, PHAs may find that (1) it is easier to isolate true overhead costs and (2) it is possible to lower overhead costs. For example, eliminating a central warehouse operation will not only reduce personnel expenditures for that function but lessen the burden on IT systems.

3. Construct Preliminary Project Budgets

Although the new funding formula will not be effective until CY 2007, the Department recently released 2005 Project Expense Levels (PELs) for all projects.[19] Based on these preliminary PELs, and based on the functions to be performed on-site, as well as recommended staffing patterns, PHAs should begin to construct budgets for each property. Which properties appear likely to be self-sufficient? Which properties are likely to incur initial operating deficits? Where can savings (if necessary) be achieved?

As part of the initial exercise in constructing project-based budgets, PHAs should also begin examining operating reserve levels. What is an appropriate reserve for each property? What

[19] See February 2006 *Weighted Average Project Expense Level (WAPEL) Report*, released by the Financial Management Division of the Real Estate Assessment Center, Office of Public and Indian Housing Programs.

To construct preliminary project budgets, start with the released 2005 Project Expense Levels (PELs) for all projects. Then, based on the functions to be performed on-site, and recommended staffing patterns, PHAs should construct budgets for each property.

is an appropriate reserve for the central office cost center?

While the new funding formula will determine overall project-level funding, PHAs will need to determine how much any individual property should spend on each line item – maintenance salaries, maintenance materials, office supplies, etc.

In private housing, the development of a project's annual budget is shaped, primarily, by historical cost data – both what it cost to run the property in recent years and what it costs to run "comparable" properties. Information on comparable properties might be found in industry publications or from within the managing entity's own property portfolio. PHAs may have limited internal project-level cost data as they begin the conversion to asset management. Consequently, PHAs are encouraged to talk with private property operators in their local markets to learn more about staffing ratios and patterns of costs, especially when first constructing property-specific budgets.

4. Determine New Accounting, IT, and Other Support

PHAs should begin to consider the types of changes in financial reporting that will be needed convert to project-based accounting. Similarly, PHAs should begin to consider what changes will be required in their related management information systems. Significant lead time may be required to effect these changes in accounting practices and management information systems.

Depending on the level of organizational change contemplated, there may also be significant logistical considerations in converting to asset management. For example, a PHA may need to create new office space at certain properties and assure that the space is properly equipped, accessible, and secured. If the PHA assigns greater purchasing authority to its on-site personnel, it may also need to modify its software program that handles purchase orders. New internal controls will have to be established. Attachment D lists a number of these potential logistical issues.

5. Develop an Implementation Schedule/Plan

PHAs should establish, however informal, an implementation plan for converting to PBM/asset management. How quickly will it convert? What changes should be implemented first? Should the PHA begin with a pilot program at one or more sites? Or should it implement all changes simultaneously for all properties? Either way, PHAs should build time into their plans for learning curves and adjustments. Remember that, as the PHA transitions into new ways of doing business, it will need to keep the routine work of the agency moving forward.

PHAs are advised to involve their Boards in the early stages of the process. It is also important to communicate with staff, residents, and other local partners.

Remember that as the PHA transitions into new ways of doing business, it will need to keep the routine work of the agency moving forward.

Attachment A

2004 FHA Management Fees for Unlimited Dividend and Non-Profit Properties, by Multifamily Field Office

(PUM amounts by percentile based on total project units)

Field Office	10th	25th	50th	75th	90th
Albuquerque	$22.18	$28.37	$33.39	$37.26	$47.22
Anchorage	$30.13	$41.00	$46.44	$55.10	$61.96
Atlanta	$22.48	$27.87	$35.14	$41.36	$45.76
Baltimore	$23.73	$30.92	$36.94	$42.80	$50.32
Birmingham	$22.98	$29.15	$34.54	$39.75	$43.78
Boston	$27.53	$35.95	$44.38	$51.43	$63.33
Buffalo	$24.96	$33.43	$39.22	$45.59	$56.03
Caribbean	$27.32	$30.64	$34.75	$41.41	$46.87
Charleston	$26.53	$34.42	$38.54	$42.64	$45.46
Chicago	$25.82	$36.69	$44.74	$49.54	$52.32
Cincinnati	$23.18	$28.02	$35.62	$40.75	$43.85
Cleveland	$21.09	$30.14	$36.13	$41.54	$46.46
Columbia	$22.74	$29.47	$35.90	$43.45	$47.27
Columbus	$22.08	$29.08	$36.00	$41.53	$47.88
Denver	$20.04	$27.56	$36.59	$45.00	$52.50
Des Moines	$17.16	$25.00	$29.57	$33.99	$37.46
Detroit	$19.91	$26.53	$33.83	$39.00	$42.58
Fort Worth	$14.28	$20.72	$30.35	$37.52	$46.91
Grand Rapids	$23.18	$30.21	$35.00	$39.00	$41.43
Greensboro	$27.40	$31.80	$35.04	$41.20	$46.28
Hartford	$29.05	$37.06	$42.33	$47.68	$55.61
Honolulu	$21.90	$28.17	$35.65	$43.12	$51.27
Houston	$17.29	$23.26	$30.30	$34.18	$37.58
Indianapolis	$16.70	$26.57	$35.16	$42.07	$46.27
Jackson	$23.67	$28.90	$34.61	$38.63	$44.45
Jacksonville	$18.31	$26.88	$36.54	$45.51	$51.07
Kansas City	$17.21	$22.27	$28.57	$33.72	$38.85
Knoxville	$17.14	$23.77	$28.85	$33.96	$37.38
Las Vegas	$21.26	$27.41	$32.45	$38.12	$43.12
Little Rock	$16.55	$22.17	$29.23	$34.18	$39.01
Los Angeles	$27.40	$38.04	$46.43	$53.50	$60.36
Louisville	$19.07	$27.26	$34.67	$39.04	$45.46
Manchester	$29.05	$35.32	$41.14	$49.73	$53.54
Miami	$21.79	$30.90	$39.10	$45.81	$51.90
Milwaukee	$23.51	$30.67	$36.00	$40.04	$44.13
Minneapolis	$26.05	$33.79	$41.16	$45.81	$50.87
Nashville	$20.66	$26.48	$32.61	$36.76	$40.48
New Orleans	$18.68	$23.55	$33.51	$35.94	$41.22
New York	$41.22	$43.77	$44.02	$51.70	$63.23
Newark	$26.98	$34.17	$45.08	$55.48	$69.44
Oklahoma City	$21.01	$30.45	$35.00	$38.79	$43.43
Omaha	$18.86	$25.68	$33.00	$36.24	$38.40
Philadelphia	$23.72	$36.67	$42.25	$46.75	$56.70
Phoenix	$14.52	$22.36	$29.60	$35.00	$44.95
Pittsburgh	$22.77	$34.10	$44.66	$52.28	$58.20
Portland	$20.15	$28.72	$34.00	$36.41	$43.64
Providence	$30.51	$38.48	$46.78	$58.48	$62.02
Richmond	$24.06	$29.12	$38.00	$44.31	$58.65
Sacramento	$22.88	$31.78	$40.78	$47.36	$53.12
San Antonio	$17.93	$24.41	$30.53	$37.94	$45.20
San Diego	$27.71	$32.90	$39.54	$46.56	$52.76
San Francisco	$32.00	$42.12	$49.26	$55.00	$63.57
Seattle	$23.54	$29.22	$33.62	$35.91	$42.70
Shreveport	$22.28	$29.04	$33.06	$34.69	$38.28
St. Louis	$21.99	$26.33	$29.99	$34.63	$39.39
Tampa	$16.04	$28.37	$35.12	$41.98	$47.01
Tulsa	$21.77	$27.65	$33.82	$39.76	$44.72
Washington, DC	$27.49	$34.41	$40.44	$48.99	$62.01
National Average	**$21.77**	**$29.53**	**$36.51**	**$44.05**	**$52.59**

Attachment B
Classification of Costs as Front-Line or Management Fee

The following chart is intended as a preliminary guide for PHAs in assigning costs as either a front-line expense or a management fee expense. For simplification purposes, the term "management fee," in this context, includes the bookkeeping fee.

Activity/Expense	Assignment of Cost
General Corporate Oversight	Management fee expense.
Human Resources	PHAs can charge projects for the cost of advertising, drug-testing, and other direct costs incurred centrally for front-line staff. With HUD approval, fees for extraordinary union negotiations can be charged to projects as front-line expenses.
Regional Management	Management fee expense.
Corporate Legal	Only legal expenses directly related to the operation of a project – e.g., eviction services, tenant grievances, landlord-tenant disputes, etc. – can be charged to the project as a front-line expense. Projects cannot be charged legal "retainers." Any charges to the project for in-house legal staff must be based on the services received/timesheets.
Project Accounting	Management fee expense.
Information Technology	All sites with computers can be charged directly for annual software/hardware purchase, upgrades, repairs, Internet access and training of site personnel. License agreements and maintenance service contracts for front-line equipment can be charged as a front-line cost based on a reasonable proration. Additionally, PHAs can charge each project the cost of repairs to front-line equipment by central staff, based on actual work performed. All other costs, including the full cost of the help desk, are to be paid from the management fee. Central servers and software that support the central office (not projects) should be recovered through management fees.
Risk Management	Costs of central risk management personnel are paid from the management fee; however, any premiums or self-insured retentions that are project-specific should be charged as a front-line cost.

Activity/Expense	Assignment of Cost
Centralized Procurement	PHAs can charge projects for the cost of any advertising and other direct costs incurred centrally for project-specific procurement actions. Other centralized procurement tasks are paid from management fee.
Central Warehouses	With prior HUD approval, the costs of a central warehouse can be charged as a front-line cost only if the PHA can demonstrate that the costs are less than what the project would otherwise incur if the goods were obtained by on-site staff.
Central Rent Collection	A PHA that chooses to utilize central rent collections may charge back to each project on a pro-rata basis the cost of any related bank charges and the cost of the rent collection clerk(s), provided that (1) the employee's job description lists rent collection as a specific position responsibility and (2) the PHA documents the time performing front-line functions and the time the employee spends on central office functions. (General tenant accounting costs are recovered through the bookkeeping fee and are not considered front-line expenses.)
Central Work Orders	After the first year of project-based accounting, a PHA may charge the cost of centralized work orders as a front-line expense only if the PHA documents/justifies that the cost is reasonable and necessary.
Centralized Inspections Services	A PHA may charge centralized inspections (for unit/preventive maintenance inspections only, not quality control inspections) as a front-line expense based on the services received by each project. The amounts shall not be more than what a PHA would pay a private vendor for the same service.
Resident Services	To the extent practical, all resident services should be site-based, with costs tracked to the project. Where PHAs cannot reasonably track costs to a project, PHAs will be permitted to pro-rate centralized resident services costs across properties. However, in all instances the costs must be reasonable and necessary.
Security/Protective Services	See also comment under Resident Services. In addition, HUD may require PHAs with extensive centralized security/protective services operations that cannot readily be tracked to a project to submit a plan to provide for more direct deployment of these expenses in the future.
Centralized Waiting List, Screening, Leasing, and Occupancy	While few private housing operators maintain centralized leasing functions, PHAs have only recently been permitted to establish site-based waiting lists. PHAs that maintain centralized waiting lists and admissions may pro-rate the costs of that function to each project either based on average turnover, or some other reasonable method. However, in all instances the costs must be reasonable and necessary.

Activity/Expense	Assignment of Cost
Central Reexaminations	PHAs that maintain centralized recertification systems may pro-rate the costs of that function to each project on a reasonable basis. However, in all instances the costs must be reasonable and necessary. The PHA may not charge the project for a supervisor.
Centralized Maintenance Services	The PHA can use one of four methods: • Where the PHA has bid out work under effective competition and is the most responsible low-bidder, the PHA may charge the bid price. • Where the PHA provides a specialized service centrally (e.g., extermination, trash collection, unit painting), the PHA may charge the market price for that service, based on actual work performed. For example, if the market price for monthly unit extermination is $3.00 PUM, the PHA can charge the project this market price. The PHA must maintain documentation of its determination of market pricing. • Where the PHA provides a technical service centrally (e.g., plumbing, electrical), the PHA can charge the market price for that labor, based on actual work performed. For example, if Project A needs a maintenance plumber for 3 hours, the central office can charge the market price for a plumber for those 3 hours. (The PHA must absorb the attendant costs of this plumber through the fees collected.) The PHA must maintain documentation of its determination of market pricing. In all instances, the work must be necessary and the PHA should not charge for work that would normally be handled by on-site maintenance staff. • Where the PHA has centrally-provided routine maintenance services (general maintenance, cleaning, etc.), the PHA may only charge the direct cost of the employee (salary and fringe) but with no mark-up for overhead or for supervision. Charges must be for services received. To the extent that it is reasonable for the project to require a vehicle (or a shared vehicle), the PHA may directly pro-rate the cost of the vehicle and other sundry costs.
Telephone Costs	HUD prefers that PHAs obtain separate, project-specific telephone bills; however, if a PHA has a master account that cannot be broken out by project, the PHA will be permitted to recover these costs through a method that reasonably pro-rates the phone bills to each project.

Common Characteristics of Project-Based Management

The table below captures many of the tasks or functions that are undertaken in the management of rental housing. For each category, a description is provided of how those functions are typically performed in private housing, i.e., the project-based management model, or PBM. Related notes/comments are also included with respect to specific application to public housing. Ultimately, PHAs must decide which organizational arrangements are in the best interests of the projects.

Category	Common Characteristic/General Tendencies	Notes/Comments
Maintenance	▪ Maintenance staff dedicated to each property. ▪ Reliance on "generalists" as opposed to "specialists." ▪ Use of contractual services (landscaping, extermination, etc.) to supplement on-site staff. ▪ Maintenance is supervised or overseen by the housing manager.	In preparing the maintenance budget and staffing plan for any individual property, a management company will first determine if the property can support a full-time maintenance worker to handle most of the anticipated maintenance service requests. Factors such as the size of the property, its configuration, the type of equipment, etc., will then dictate the need for additional personnel, the skills required for that personnel, and the services to be performed by contract. More often than not, landscaping, unit painting, trash removal, and extermination are contracted out.
After-hours Emergency Response Services	Residents are provided with the telephone number to an answering service for after-hours emergencies. If contacted, the answering service will first screen the call (based on guidelines established by the owner) and, if needed, call the maintenance staff assigned to that property, in some established order, to respond.	PHAs that retain more centralized arrangements (such as central after-hours response crews or duty rosters), when in the best interests of the projects, will need to charge each project where the work was performed. For PHAs with collective bargaining agreements, these agreements may limit or dictate who is eligible for overtime.
Receiving Service Requests (work orders)	Work orders are taken in the management office. Generally, residents prefer to call their on-site management office for maintenance needs.	Many PHAs maintain central work order processing centers, where residents call one location to place a service request. These service requests are then either forwarded to each site (if there is dedicated site staffing) or dispatched to central crews. Some PHAs have indicated concern that adding the responsibility for receiving/closing work orders, in addition to other functions that are being re-assigned to on-site personnel under PBM, may overload on-site administrative staff. In that regard, PHAs may want to examine the number of work orders received, by property, over the past several years. Usually, service requests do not exceed more than one a month for each unit. Hence, a 100-unit property would generally not generate more than 100 work orders a month, or about 4.5 per working day, a level that is easily accommodated in terms of workload under normal management staffing.

Category	Common Characteristic/General Tendencies	Notes/Comments
Unit Inspections (move-in/move-out, annual, preventative, UPCS, etc)	Performed by on-site personnel, either by the management or maintenance staff.	For PHAs that currently perform these functions centrally, any change in inspection protocol may affect an agency's automated information system.
Purchasing	The housing manager essentially purchases all goods and services for the property, with approval from the regional manager when the amount exceeds established thresholds. ▪ **Authorization levels.** The dollar amount of purchasing authority varies among management companies. Even within management companies, authorization levels may vary according to the experience of on-site staff. Some management companies might require that any purchase over $500 be approved by the regional manager; others might not require any approval provided the item was included in the approved operating budget. However, once approval is received from the regional manager (if required), the housing manager then completes the purchase – not a centralized purchasing agent. ▪ **Purchasing methods.** Very small purchases often require only one reasonable quote. Any purchases exceeding these smaller purchasing levels will generally require three quotes, which can be by fax, letter, or e-mail. ▪ **Blanket contracts.** Private owners and management companies will often negotiate certain master contracts, e.g., appliances or paint supplies. In these cases, the housing manager contacts these vendors directly, based on established terms. Invoices are sent directly to the site. Blank contracts offer economies of scale in pricing, but can also allow for direct delivery to the project, saving on both the cost of warehousing and the cost of site staff going back and forth to the warehouse to pick up materials.	PHAs have traditionally maintained centralized purchasing programs as well as central warehouses (see below). If an item is carried in the central warehouse, the housing manager would prepare a Materials Requisition. If the item is not carried in the central warehouse, or the request involved some labor, the housing manager would prepare a Purchase Requisition (PR). This PR would be sent to the Budget Office for approval. Once approved by the Budget Office, the PR would be sent to the purchasing department, where a buyer would convert the PR into a Purchase Order (PO). The selected vendor would generally then deliver the good to the central warehouse, where it would be available for pick-up. In many PHAs, centralized procurement staff are also responsible for contract administration, including contract enforcement and disputes over payment. Under PBM, those contract administration activities would become the responsibility of on-site staff. Housing managers would also become responsible for enforcement of HUD-Determined Wage Rates, from inserting the appropriate wage determination in the solicitation to monitoring compliance. Private operators generally do not have requirements for "formal advertising" for solicitations of $100,000 or more (Federal small acquisition threshold). PHAs can assign this responsibility to housing managers, with proper procedures and controls, or assign these particular purchases to the director of housing management or a central purchasing agent.

Category	Common Characteristic/General Tendencies	Notes/Comments
Invoicing Procedures	Project invoices are most often sent to the housing manager (the "contracting officer"), who both orders the good/service and oversees the delivery/work.	Consistent with centralized purchasing, PHAs typically have centralized invoicing systems, where all vendor invoices are sent to the accounting department (Accounts Payable, or AP) for processing. Once received, AP then creates a "suspense" file and forwards the invoice to the housing manager, who signs the invoice and attaches the receiving ticket. Some recurring invoices, including those for utilities, are often paid by AP without approval from the housing managers. Under site-based purchasing/invoicing, the housing managers become more aware of each invoice, increasing accountability. This system also enables PHAs to streamline their AP process since they no longer need to create AP suspense files. Instead, AP becomes the last step in the payment process. AP simply acts when it receives a check request from a property that includes (1) the invoice, (2) the PO, and (3) the receiving ticket. If those three items are not attached to the check request form, the package is returned to the site. AP no longer needs to "track down" missing receiving tickets; it is the responsibility of the housing manager to process requests for payments expeditiously. For years, PHAs have believed that, for proper controls, ordering, receiving, and approving the payment for goods must be segregated. Under PBM, the primary control is through the close monitoring of budgeted versus actual expenses, supported with effective supervision by the regional manager.
Materials Management	Materials are ordered directly by the housing manager and are expensed when received. Materials are delivered directly to the properties (no central warehouse).	Most PHAs have maintained central warehouses for the ordering and storage of materials and supplies. By eliminating central warehouses, PHAs can also: ▪ Eliminate the down-time of maintenance staff traveling to a central warehouse. ▪ Speed-up the materials acquisition process since each housing manager will deal directly with vendors. ▪ Simplify their computer system, which no longer needs to track this centralized inventory and its transfer to each property. ▪ Reduce centralized personnel (those involved in the warehousing operation.

Category	Common Characteristic/General Tendencies	Notes/Comments
Security Programs	To the extent that a property requires security services (courtesy patrols, etc.), the arrangement of those services, and the administration of any resulting contract, is handled by the housing manager. The development of any security program, however, is often done in tandem with the annual budget for the property and with extensive consultation with the regional manager.	Quite often, security programs in public housing are administered centrally.
Marketing, Wait List and Leasing	All marketing, wait list, and leasing activity is essentially site-based, although housing managers must often receive approval from regional managers for any specific ads or marketing campaigns.	Most PHAs administer a centralized waiting list and process all admissions centrally. Applicants only apply at the central office and are required to take the first available unit. This system is generally not popular with applicants (who prefer more choice). It can also be more expensive than site-based systems and result in longer leasing times. Site-based wait lists for public housing can take different forms: ▪ Applicants apply centrally but are electronically (or by other means) listed by property, according to the development preferences identified by the applicant. ▪ Applicants apply only at a property. No applications are taken at the central office. Each site has a computer terminal where applications can be entered. All applicants are informed of the estimated wait at each property where the list is open. Each housing manager is responsible for maintaining his/her waiting list. Within these two basic site-based waiting list models, there are variations on how the screening function is performed. Some PHAs will delegrate screening activities to on-site staff; other PHAs perform these screening functions centrally. In the case of the latter, the central leasing office forwards an applicant file to the housing manager upon completion of screening and the housing manager simply moves the applicant in. There are a number of considerations for PHAs in decentralizing the marketing, wait list, and leasing functions: ▪ Will the agency maintain any central application-taking function or will all applications be taken only at the properties? ▪ For current applicants on the central wait list, they must be given a choice of developments and will be the first people on the site-based lists. ▪ How many site-specific waiting lists will applicants be permitted to choose placement on? Typically, PHAs provide at least three

Category	Common Characteristic/General Tendencies	Notes/Comments
Marketing, Wait List and Leasing		choices, and one choice may be the first available unit. ▪ If an applicant rejects a unit without good cause under a system of site-based waiting lists, the applicant is removed from all waiting lists, or moved to the bottom of all waiting lists. ▪ If a property has a year's worth of applicants in the highest preference category for all unit sizes, the list can be closed. ▪ If a wait list is closed, how will "emergency" preferences be handled? ▪ Will the agency conduct screening in-house or contract out that function? ▪ To the extent that an applicant is on two or more wait lists, how will the PHA share necessary data between properties? Any change in these functions will require the development of proper procedures and training as well as modifications to an agency's computer programs that handle applications.
Tenant Reexaminations	Except in the case of very small properties that cannot afford dedicated staff, most management companies delegate the function of annual and interim tenant reexaminations to on-site staff. Some management companies, however, will retain centrally one or more occupancy specialists who provide on-going training to on-site staff and who also perform certain file reviews. (In the case of the Low-Income Housing Tax Credit program, where eligibility determinations can affect the on-going award tax credits, many more firms require prior review and approval by these centralized "specialists" for any move-in and for all interim/annual reexaminations.)	

Category	Common Characteristic/General Tendencies	Notes/Comments
Lease Enforcement/Evictions	The housing manager is largely responsible for lease enforcement actions. Commonly: ▪ No approval from the regional manager is required for rent collection cases, but often required for other eviction cases. ▪ Eviction services are provided by an outside attorney, one that specializes in eviction cases, based on established rates. ▪ All costs (attorney and court) are directly charged to each property.	PHAs often (1) have more centralized arrangements, with limited authority given to the housing manager, (2) utilize in-house counsel, who also works on other legal matters for the agency, and (3) do not track costs by property.
Utility Management	The housing manager is expected to monitor utility costs and consumption, as is the case for any line item in the budget. Depending on the penalties for late payment, utility bills may be sent directly to AP for payment. In these circumstances, however, the housing manager receives from AP a copy of the bill and/or AP enters costs and consumption data into a worksheet, which is provided to the housing managers to monitor.	Most PHAs have the utility companies send their bills directly to AP for payment. The housing managers are often not required to review and/or approve the utility bill, which means that there is little monitoring of costs or consumption. For PHAs that have entered into formal energy service contracts (ESCOs), the housing managers of those properties should be informed of the financial arrangements under those contracts.
Administering Capital Projects	Smaller capital projects – replacing the carpet in the hallways, installing a perimeter security fence, sealing the parking lots, etc. – are handled by the housing manager. Depending on the scope, complexity, and cost, the regional manager may be more involved in the administration of these smaller capital projects. For larger capital jobs, the owner may hire an individual/firm to prepare the bids and monitor progress.	PHAs have typically not involved the housing managers in smaller capital projects but instead have had these jobs performed either by a separate construction division or by the purchasing department. Devolving these smaller capital projects to on-site personnel may assist in streamlining work processes and should improve both the timeliness of work and overhead costs. Clearly, though, training of affected staff will be required to make this change.
Resident Programs and Services	Standard practice is for all resident programs offered on-site to be coordinated/overseen by the housing manager.	Almost every PHA administers some resident service program. Often, these programs are funded with grants outside the Operating Fund. Whether grant-funded or not, these programs are typically overseen by a separate Resident Programs department. Public housing also has somewhat more elaborate requirements with respect to resident participation, and provides funding specific to that purpose. In response, some PHAs have created centralized departments that serve to assist in forming and maintaining resident councils. These centralized resident services departments are also often involved in the programming of community space. Through the development of uniform resident council by-laws and election procedures, these resident-organizing tasks can be delegated to the housing manager.

Attachment D
Logistical Considerations in the Transition to PBM

For PHAs that currently operate under more centralized arrangements, there are a number of practical considerations in transitioning to PBM, from ensuring appropriately equipped management offices to revising reporting systems. A discussion of some of those logistical issues follows.

I. Preparing Management Offices

PHAs that are moving to assign more functions on-site must ensure that staff have the space and equipment needed to perform their jobs. Greatly affecting space plans are decisions regarding the number of staff to be assigned to each site and the functions to be performed by the on-site staff.

Space Planning

Even where a property was built with sufficient management office space (many were not), that space may have since been given over or leased for other uses – for example, an after-school program. Hence, PHAs must determine whether to reclaim that space, to reconfigure existing space if it is not suitable, or to build new space.

For management office space, PHAs should consider:

- **The amount of space needed**. How many staff will be located on-site? Will there be space (and furniture) to handle tenant conferences?
- **The type of office environment**. Will the office be "open" or will there be physical separations between the lobby and the management office? In this regard, PHAs should visit a variety of management offices of private apartment complexes to better understand standards in this area.
- **The amount and type of office furniture and equipment** (fax machines, computers, copiers, printer, etc.). Will work orders, for example, be taken on-site? If so, then the property will need a work order printer. Can that work order printer also be used to print other office documents? How much copying is anticipated and what size copier would be most economical? Will all management staff have computer terminals/desktop computers?
- **Security systems**. Should the office be alarmed? Is it necessary to install bars or security windows?
- **Accessibility**. All offices must meet Uniform Federal Accessibility Standards and the Americans with Disabilities Act (ADA) standards for accessibility to disabled residents.

For maintenance operations, the space needs will depend on a number of factors, such as the number of staff, the functions to be performed in-house, the type of purchasing system, and the type of inventory system to be maintained.

- **Location of space**. For smaller properties, it is often beneficial for the maintenance shop to be located near the management office. For some large properties, some management companies prefer to keep the maintenance space separate from the leasing office in order to improve marketing efforts.
- **Amount of space**. With site-based purchasing, the amount of space needed to store materials can be greatly reduced. There is no need to stock extensive levels of parts and supplies when one can readily obtain those goods from suppliers.
- **Type of office equipment**. What type of office equipment is needed in the maintenance shop? At smaller properties, the management staff will handle most of the maintenance paperwork. Hence, only a telephone in the maintenance shop may be necessary. At larger properties, it may be convenient to have a computer terminal or desktop computer so the maintenance supervisor/lead-worker can access the work order system, assist with purchasing functions, review financial reports, and otherwise utilize the computer to assist with planning and organization of maintenance.
- **Security**. As with the management office, does the maintenance shop/office need to be alarmed? Does it need security bars and other protective measures?

Communication Equipment

In the course of setting up new PBM programs, PHAs will want to examine their entire communication systems.

- **Radios, cell phones, beepers, etc**. Presumably, more management and maintenance personnel will be site-based. Under what conditions is it necessary that staff be assigned radios? Cell phones? Beepers?

- **Inter- and intranet access**. In what way will each site be connected electronically with the central office? Will each site simply access the central office through dial-up modems? Or, is it necessary to arrange for T-1 lines or other high speed means of data transmission? How frequently will data be transferred/accessed from the central computer/central office and what are the size of those files?

- **Telephones/trunk lines**. Some PHAs have arranged for all properties to share the same telephone prefix (the three numbers after the area code). How essential is it that all properties share the same prefix? What is the extra cost of that common prefix?

  If there is more than one phone in the management office, are those phones set up under what is called a "PBX" system so that the calls can be transferred?

Tool and Equipment Inventories

Beyond the actual need for space in the maintenance shop, PHAs will want to make sure that each property is equipped with essential maintenance tools and equipment. PHAs that previously maintained centralized maintenance programs may want to:

- List "standardized" equipment that should be available at all properties, e.g., circular saws, buffers, ladders, etc.

- From this standardized list, identify certain "specialized" equipment needed at individual properties. For example, some but not all properties may need a vehicle-mounted snow plow.

- Take stock of tools/equipment currently on-hand centrally. Which of these assets can be assigned to individual properties? Which could be disposed? For equipment that should be retained, but would not normally support an individual property (say, a forklift or bucket truck), where will this equipment be stored? How will this equipment be "loaned" to different properties on an as-needed basis? Who will be responsible for maintenance of the equipment?

- Typically, maintenance mechanics own and use their own hand tools. However, in PHAs that have unions, the PHA may be required to provide certain tools on a one-time basis as new staff are hired.

Petty Cash Accounts

With decentralized purchasing, all properties will likely need petty cash accounts.

- Typically, petty cash accounts are established at levels of between $100 and $300.

- Petty cash accounts are frequently "replenished" when they are about half-full.

- Petty cash accounts are mostly for individual purchases of less than $50.

Alternately, PHAs may want to consider purchasing cards, which serve much the same purpose as petty cash accounts although they are not accepted by all vendors.

Vehicles

Particularly for PHAs that were much more centralized, the move to PBM can greatly reduce the number of vehicles since maintenance staff no longer need to cover wide geographic areas.

In setting up each property, a PHA should determine how many vehicles, if any, are needed. Affecting this decision, obviously, will be the size of the property, the size of staff, and the extent to which vendors will make deliveries to the property, thereby minimizing the need for pick-ups. For any vehicle that is determined necessary, the PHA must also consider vehicle storage after-hours. Is the site secure enough to leave the vehicle in the parking lot? Can the vehicle be parked inside the maintenance shop overnight? PHAs will also need to consider the on-going maintenance of the vehicle. Who will perform that maintenance? The PHA should also make sure that the costs of maintaining vehicles are charged to the properties where the vehicles are deployed.

II. Reporting Systems

One of the keys to successful PBM is the ability to monitor and track the operating and fiscal performance of each property. Significant authority cannot be delegated to the housing manager without a proper means of measuring that property's performance on a routine basis, particularly against stated goals.

In private housing, the primary planning document is the operating budget for the property and the primary evaluation tool is the monthly financial statement (comparing budgeted to actual levels). The operating budget incorporates the operating plan for the property – it includes assumptions regarding rent and occupancy levels, turnover, service levels, etc. Over time, PHAs also should be able to make the budget development process a real planning exercise.

Many PHA reporting systems have focused on individual business units – say, the central leasing office, the central carpentry shop, or the central vacancy preparation crew. Under PBM, the focus will be on the properties. The housing manager will now be responsible for the overall performance of

the property, from work order turnaround times to rent collections. These reporting systems must be modified accordingly.

Internal Performance Reporting and Monitoring

As a general matter, PHAs will want to review the fiscal and management performance of their properties with their housing managers no less than monthly. Ideally, the housing manager's performance should be measured against stated goals established during the budget development process.

Depending on the size and nature of the organization, a basic structure for performance reporting might include the following:

- Accounting "closes" the books at month-end (some will actually close by the 25th, others may wait until the last day).
- Financial reports are prepared/available by around the 5th business day of the month.
- Housing managers prepare Monthly Property Reports by the 7th business day of the month.
- A regional manager conducts "business meetings" with each housing manager by the 10th business day of the month, and reviews the performance of each property.
- The director of property management meets with the regional managers by the 12th business day of the month to review the performance of all properties in each regional manager's portfolio. Prior to that meeting, the regional managers prepare narrative variance reports, explaining all budget variations.
- The executive director meets with the director of property management by the 14th business day of the month to review the performance of all properties – and to prepare for any reports that may be provided, and that need to be explained, to the Board.

Included in each property's monthly report would be information regarding all major areas of a property's performance: rent collections, work orders, occupancy, recertifications, etc. Although some PHAs may decide to automate the information to be included in the reports, manual systems can be effective too and do not need to be burdensome.

External Performance Reporting and Monitoring

External reports are those that PHAs provide to their Boards. Many PHAs provide a consolidated financial report each month to their Boards that includes a summary of major performance indicators such as rent collections, occupancy, work orders, etc.

There is no formal HUD requirement for regular Board reporting in public housing. PHAs are free to determine the frequency of reports and the information contained in those reports. (PHAs are only required to receive Board approval for their Management Assessment Subsystem (MASS) submission under PHAS, a report that HUD will likely change to conform better to asset management.)

For well-run agencies, quarterly financial and management Board reporting is often sufficient, both consolidated and property-specific. There is no requirement, however, for Boards to review checks, or to approve individual contracts. All contracting responsibilities can be delegated to the executive director, or designee.

On-going Reporting to HUD

PHAs that centrally transmit HUD Forms 50058 to HUD should examine the practice and determine if that practice can be moved to the site. Site-based staff will need to be familiar not only with their local operating software, but will need familiarity with the PIC system, so they can ensure that building and unit information is up-to-date and that HUD Forms 50058 are transmitted accurately and timely.

III. IT/MIS

As PHAs change their business processes under PBM, their underlying software systems must adapt as well. The key is for the business processes to drive the type of IT system, rather than the IT system driving the business process. As a general matter, PHAs should consider the form of project-based management they intend to develop and then map out what type of IT systems, or program modifications, are necessary to get there.

The following provide a small sample of possible changes in IT systems that may be required as a result of conversion to PBM.

- **Work Order Tracking**. Most PHAs currently use automated work order systems that classify the service request by the type of work (service request codes) and the shop where it is assigned (say, the carpentry shop). For PHAs converting to site-based maintenance from centralized maintenance, many of the service codes can be streamlined. The work order will only be assigned to on-site staff – it no longer needs to be routed to central maintenance. In addition, where in the past the work orders may have been printed on three- or four-part forms (one for the unit file at the property, one for the resident, and one for the central maintenance shop, etc.), now there will be need for only two copies – one for the resident and one for the unit file.
- **Occupancy Tracking**. Similar to the issue of maintenance service codes, PHAs with automated occupancy tracking systems will need to reexamine their unit status codes. In the past, a PHA may have established codes that designated units as being "referred to Legal" or "central maintenance" or "painting shop." These codes

allowed the agency to determine the status of each unit and which organizational shop was responsible for any delays. Under PBM, a PHA may no longer have these centralized functions and can simplify the number of unit status codes.

- **Purchasing**. In most PHAs, the standard purchasing module is designed in such a way that it assumes a central purchasing department will execute most purchases, starting first with a "Purchase Requisition." For the vast majority of purchases under PBM, the housing manager will issue the Purchase Order directly at the site, without any approval from the regional manager (or the central purchasing department). In converting to a site-based purchasing system, the PHA, among other items, will need to (1) change the Purchase Order form (to allow authorization by the housing manager), (2) modify the software regarding approval codes, and (3) and notify vendors of the change in procedures, particularly in where they should now send their invoices.