

Region 8 Housing Conference

The Basics of Asset-Based Management

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Learning Objectives

- Understand HUD's definition of asset management
- Understand the roles of the key participants
- Understand the five building blocks of asset management
- Understand the typical responsibilities of a Site Manager
- Understand the benefits of asset-based management

Introduction

- In September 2005, HUD issued a new rule requiring public housing authorities (PHAs) that own more than 250 units or more to convert to asset management
- PHAs must monitor and report on the financial, physical and management performance of individual asset management projects (AMPs).
- Asset management is intended to improve public housing as a whole by holding PHAs accountable for the success of each property (AMP) they own.
- The conversion to asset management signals a major shift in the way many PHAs will be organized and in how HUD will monitor public housing.

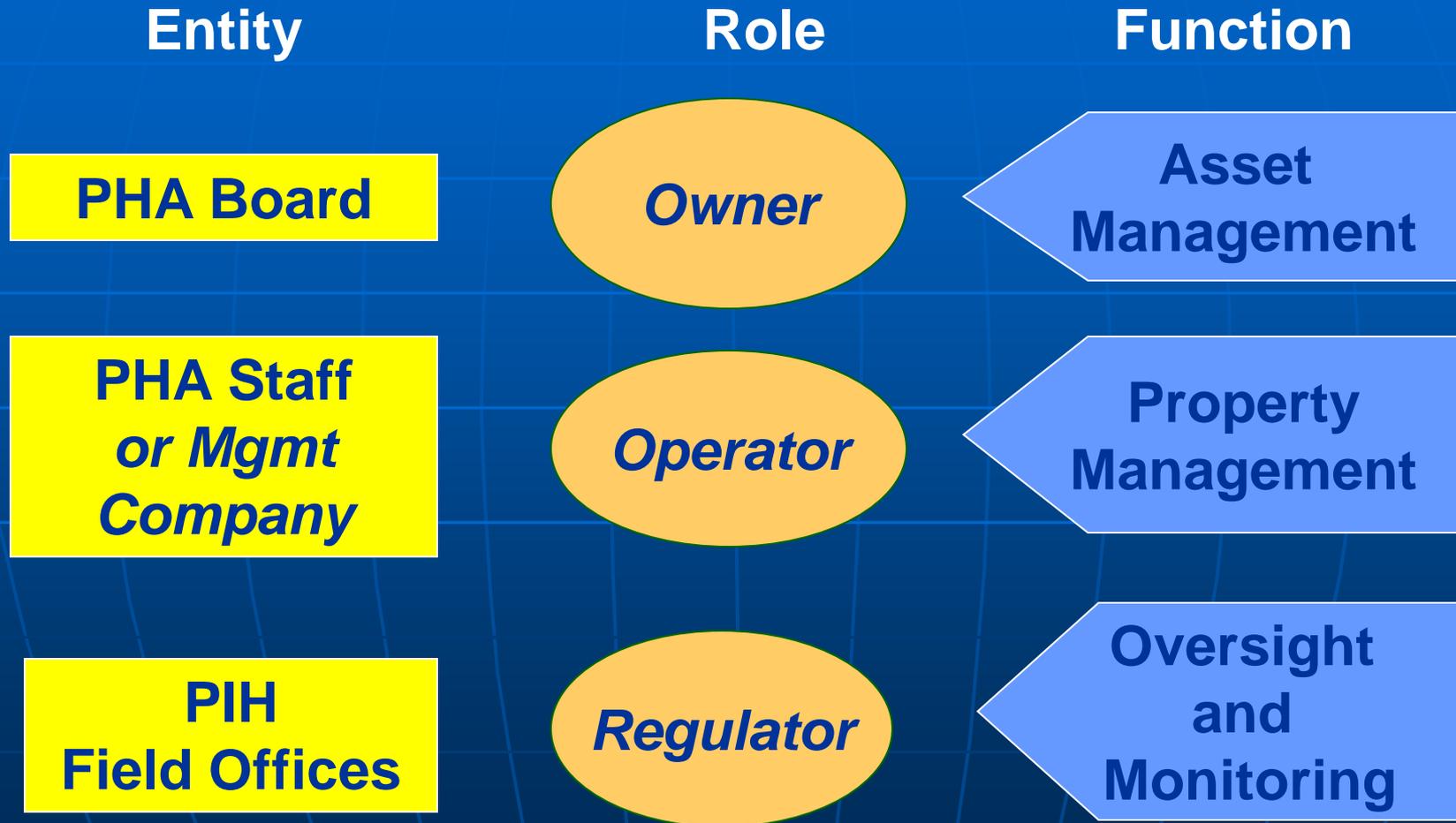


Central Tenet of Asset Management

“PHAs shall manage their properties according to an asset management model, consistent with the management norms in the broader multi-family management industry. PHAs shall also implement project-based management, project-based budgeting, and project-based accounting, which are essential components of asset management.”

Revisions to the Public Housing Operating Fund Program; Final Rule
HUD, September 19, 2005

A Look at Entities, Roles and Functions



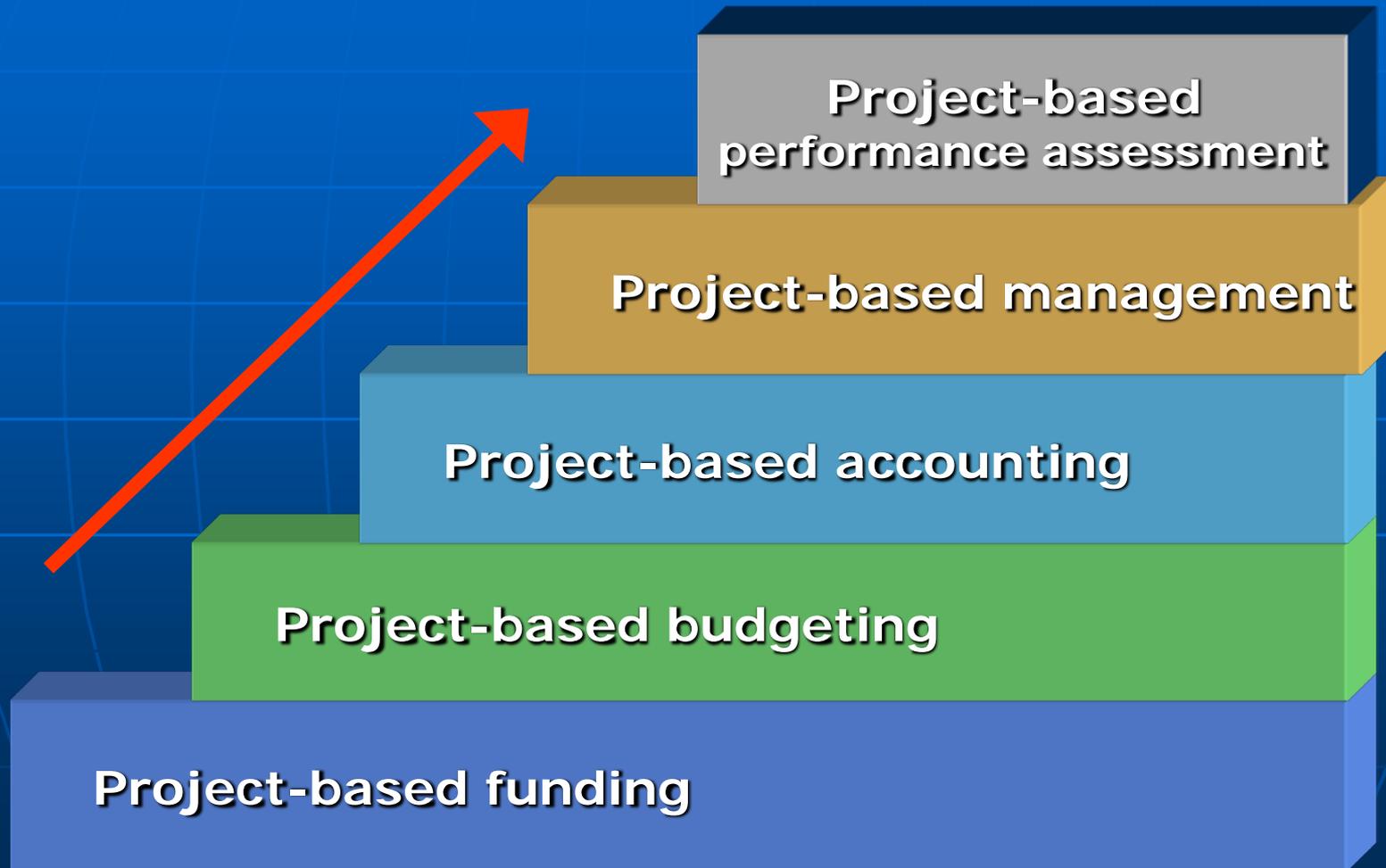
PHA Mission

- The PHA's mission is critical to making organizational design as well as long-term investment decisions. Major mission questions for PHAs include:
 - Who to serve?
 - Quality of housing desired?
 - Standard of affordability?
 - Housing or services?
 - Financial viability of properties vs portfolio?

Creating an Asset Management Plan for Each Property

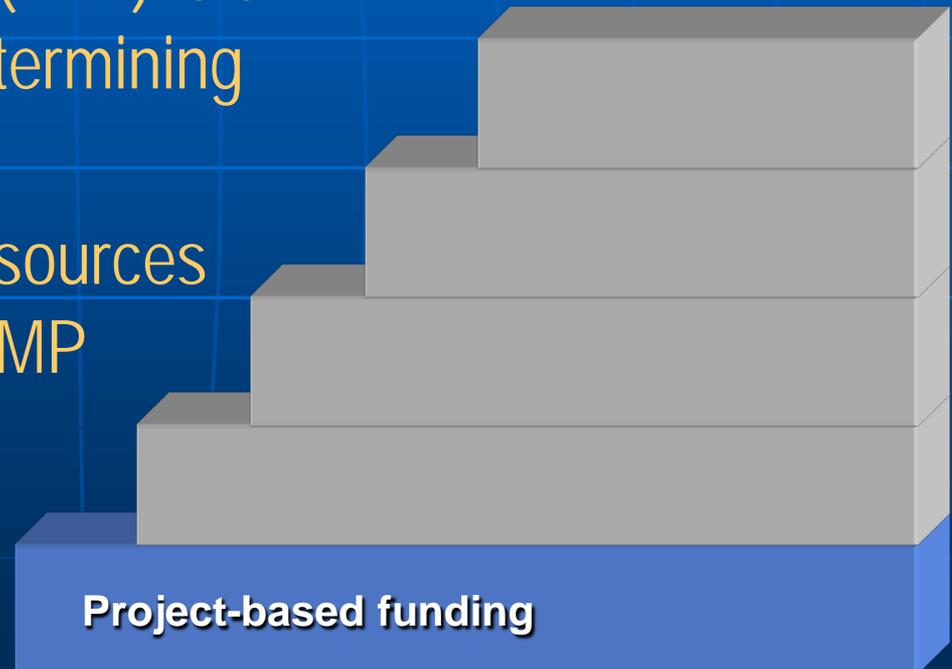
- Current conditions
- Long term plan (sometimes called an investment plan) with link to mission and goals
 - Hold and defer
 - Repair and hold
 - Upgrade (rehab) and hold
 - Reposition
 - Replace/Dispose
- Tie plan to physical needs assessment (PNA)
- Identify financial resources, including capital fund
- Immediate plan (next 3 to 5 years), linked to the annual budget

Initial Priorities/Building Blocks

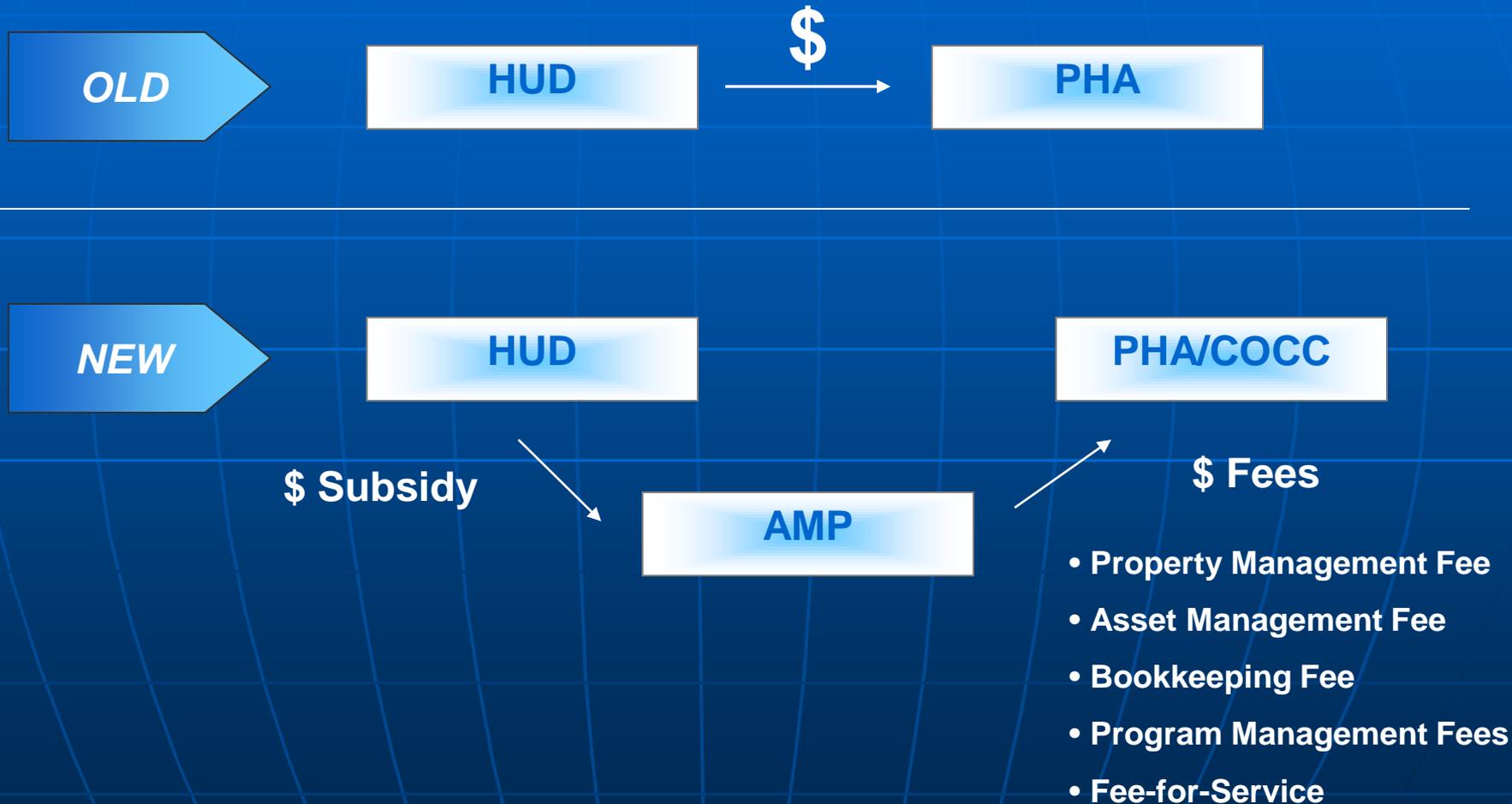


Project-Based Funding

- Subsidy calculated and awarded for each project
- Project Expense Level (PEL) is a major component in determining a project's subsidy
- Ensures appropriate resources are allocated to each AMP



The Flow of Funds

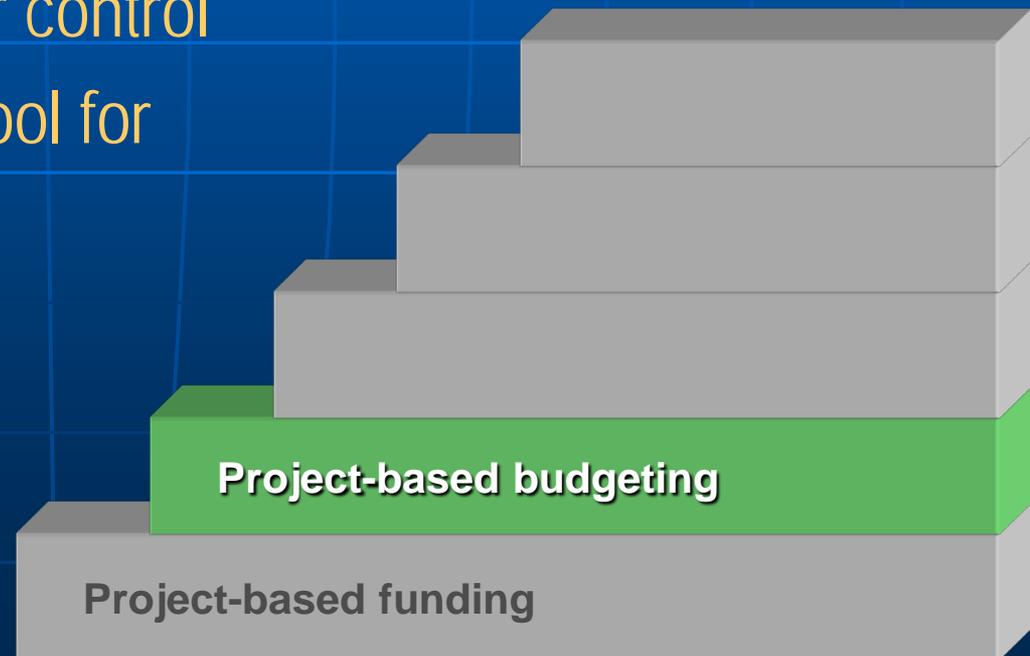


Project-Based Funding

- Funding at the project level
 - Improves the operational efficiency and effectiveness of managing public housing assets
 - Provides appropriate mechanisms for monitoring performance at the property level
 - Better preserves and protects each asset
 - Is consistent with the management norms in the broader multifamily industry

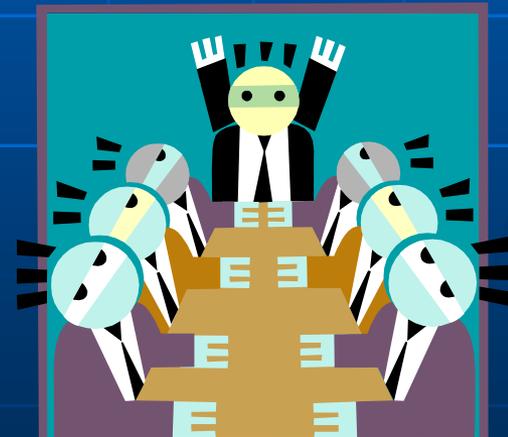
Project-Based Budgeting

- Ensures financial resources are allocated at the project level
- Provides an itemized projection of income and expenses over a specific period for better control
- Provides a measuring tool for staff performance



HUD's Project Based Budgeting Requirements

- A budget is required for each project
- Budgets must be approved by the PHA's board before the start of the fiscal year
 - Approved Board Resolution must be submitted annually to HUD
 - Only one board resolution approving all project-based budgets is required





Learning Activity # 1

Do you have a household budget?

Do you think your household finances would be in better shape if you did have a budget? Why?

Why Budget?

- Budgets provide an itemized projection of income and expenses over a specific period of time
- Budgets guide staff in operating a project on a day-to-day basis
- Budgets are a plan to ensure a project's financial health
- Budget performance creates a benchmark for similar kinds of properties
- Budgets are an expression of how financial resources will be allocated

Budgeting at the Program Level vs. the Project Level

- Traditionally PHAs have prepared public housing operating budgets at the program level
- The entire budgeting process has typically been a top down approach
- In many cases site staff were not aware of budgeted resources for a property nor were they involved in the actual preparation of a property budget
- Staff were not held accountable for the financial performance of a property

Preparing a Budget – the Steps

- Preparing a budget involves the following steps:
 - Meeting with management to define property goals for the year
 - Identifying project level revenue
 - Determining project level expenses
 - Determining if the plan is feasible
 - Presenting the budget to management
 - Obtaining board approval



Project Income Consists of the Following

- Tenant (Dwelling) rent is one of the two major sources of income for a property. This can be budgeted directly from the rent roll.
- Operating subsidy is the other significant revenue (national average 54%). Beginning with CY 2008, each project's operating subsidy is calculated individually.
- Other revenue averages about \$36 PUM, including: late fees, other tenant charges, excess utilities, fraud recovery, investment income, and non-dwelling rent.
- CFP Funds Used for Management Improvements

Occupancy is Key, so Fill those Vacancies!

- Once the rent and subsidy have been determined, gross potential income must be adjusted for expected vacancy
 - The vacancy rate should reflect both recent history and expected levels in the coming period
 - A key concept to understand is: the higher the vacancy percent the less dwelling rental income will be earned.



Two Types of Vacancy

■ Structural Vacancy

- Weak Market
- Highly Competitive Market
- Changing Demographics

■ Turn-Over Vacancy

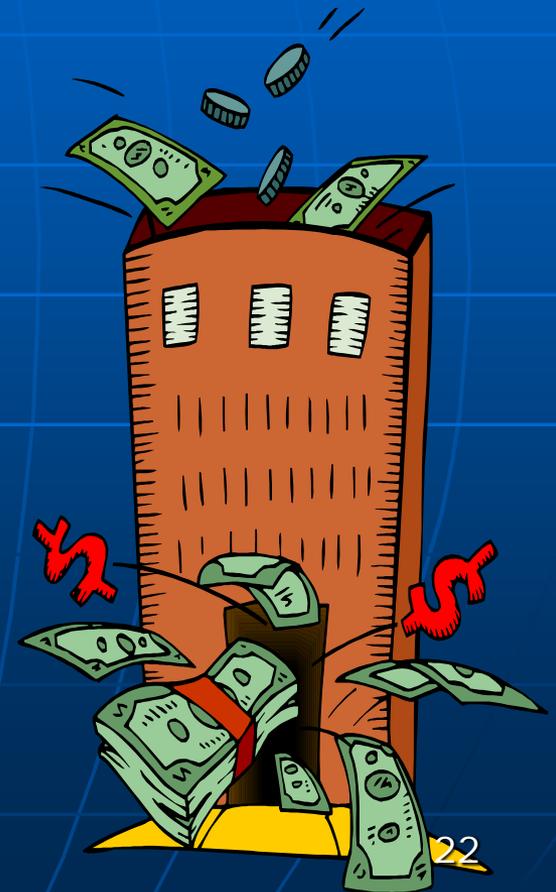
- Too Many Move-outs
- Slow Intake/Processing/Leasing
- Slow Unit Make-Ready

The Impact of Slow Turn-Over

- If a PHA averages 25% turn over per year, and if it takes 90 days on average to fill a vacancy due to slow processing and unit turn-over, then the overall vacancy rate will be 6.7%, meaning that occupancy can never exceed 93.3%.
- If the same PHA improves turn-over time to 15 days, then overall occupancy will rise to 98%.

Determining Project Expenses

- The typical operating expense categories are:
 - Administrative, including management and bookkeeping fees
 - Tenant services
 - Utilities
 - Maintenance
 - Protective services
 - Insurance
 - General expenses
 - Asset management fees



Evaluating the Project Budget

- Does the budget break even? If not, what are the options?
 - Reduce expenditures
 - Use project reserves, if available
 - Use CFP funds to increase operating subsidy
 - Increase income
 - Receive transfers from other projects that have excess cash
 - Defer/Reduce/Forgive fees charged



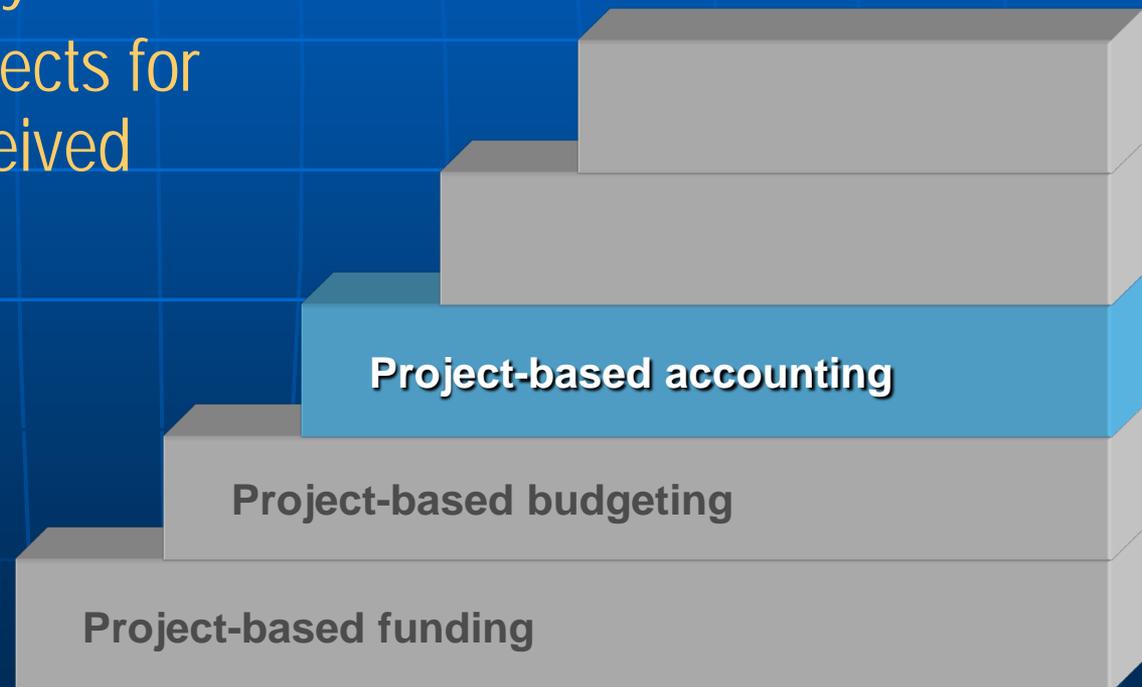
Using the Budget as a Management Tool

- Once the budget is finalized and approved by both senior management and the board, the property manager will then need to monitor how the project is performing against budget
 - This is done by reviewing actual-to-budget reports that are typically provided to the property manager by the accounting department



Project-Based Accounting

- Income & expenses are reported at the project level
- Project financial statements are submitted to HUD at year end
- Can only charge projects for services actually received
- Fees must be reasonable



Project-Based Accounting

- For conventional properties, the financial performance of each project is tracked individually and reported to the owner
 - This allows the manager and owner to make the best possible decisions for each individual project
- Under asset management this concept is being applied to PHAs
 - Income and expense will be collected and reported by each AMP



What Is An Operating Statement?



- It presents income and expense data for the current reporting period (usually monthly)
- It presents income and expense data for the year-to-date
- It shows how a property is doing financially



What Data Does An Operating Statement Include?

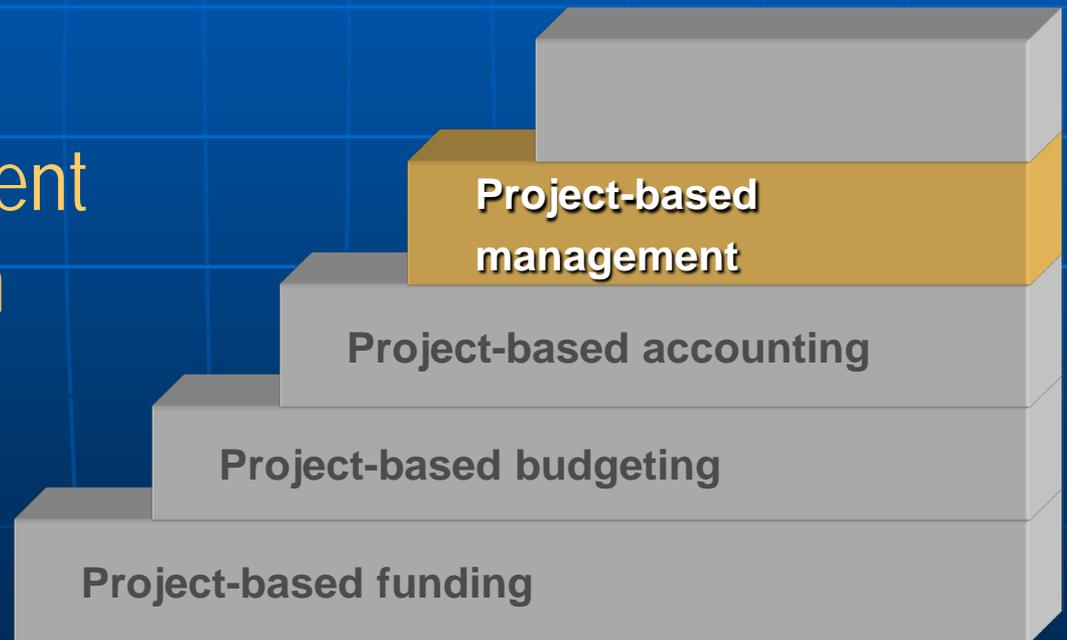
- An Operating Statement shows the budgeted amount of income and expense by category
- An Operating Statement shows the actual income and expenses by category
- An Operating Statement shows the variance between the budget and actual amounts
- An Operating Statement shows the data in total amounts.
- It can also include per unit per month amounts

- To be effective, the Operating Statement must be as current as possible.
- In the private sector, monthly Operating Statements are produced within 15 days of the end of the month.



Project-Based Management

- Property management services are arranged in the best interests of the project
- Assign management personnel to each project





Project-Based Management (PBM)

“The provision of property management services 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.”

24 CFR 990



Why Practice PBM?

- Maximizes performance at all levels
- Local staff are closer to market changes and community issues
- Onsite staff can monitor the project
- Response to resident issues is faster and more personal

Learning Activity # 2

You own a group of restaurants.

- Would you have a budget for each restaurant?
- Would you hire a manager for each restaurant?
- What roles would you assign to onsite staff vs. central staff?

Common Characteristics of PBM

- Each project has an operating budget to be approved by the owner
- The project is assigned dedicated management and maintenance personnel who frequently work on site and have direct responsibility for project performance and resident satisfaction
- If a project is too small to afford full-time staff, the project may have part-time or shared staff

Common Characteristics of PBM (Continued)

- Site personnel have significant authority and responsibility over the day-to-day operations
- Most project management tasks are handled or coordinated by the onsite staff
- Procurement is done by onsite management and reviewed by supervisor
- The person primarily in charge of the project on a day-to-day basis, including maintenance, is the site manager



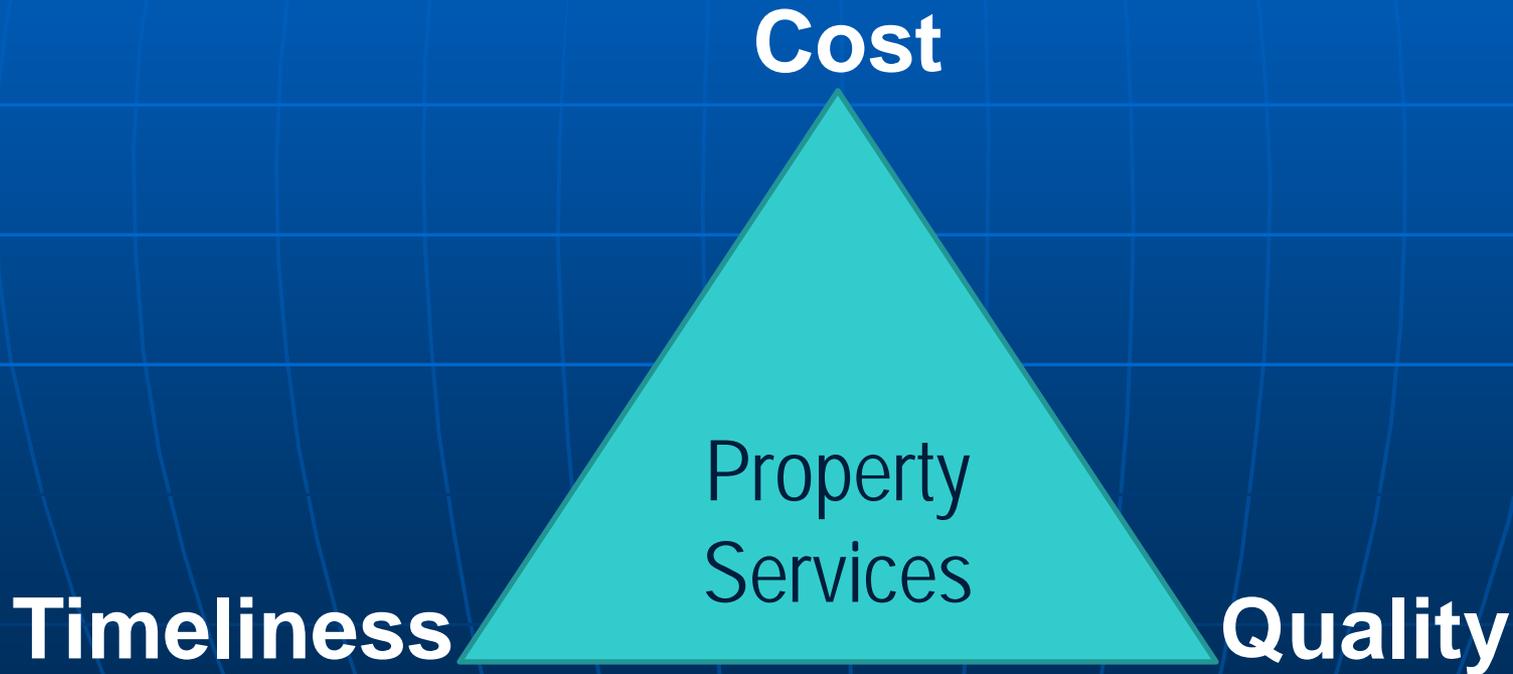
Arranging Services in the Best Interests of the Property

24 CFR 990 - Section 990.275

“Property management services may be arranged or provided centrally; however, in those cases in which property management services are arranged or provided centrally, the arrangement or provision of these services must be done in the best interests of the property, considering such factors as cost and responsiveness.”

Arranging Property Services

- The best interest of the property can be defined in terms of:



Arranging Property Services

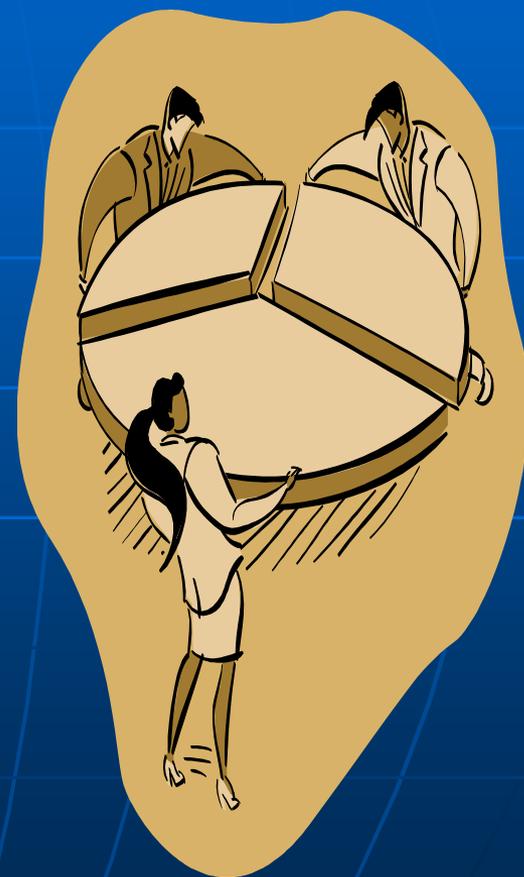
- Property services can be arranged such that they are:
 - Provided at the project level
 - Shared between projects
 - Provided centrally to the project (i.e., allocated or prorated)
 - Provided by contract to the projects (either by a third-party or the COCC)

So long as they are provided in the best
Interests of the properties



Shared Resources

- HUD allows projects to share administrative or maintenance staff where reasonable
- Generally, staff are shared between 2-3 projects
- Often occurs in response to the fact that, separately, projects cannot afford full-time staff
 - Shared Resources in all instances must be reasonable, necessary, and based on services provided to the project



Centrally Provided Services

- HUD allows PHAs to provide some services centrally and pro-rate the cost to the projects as a direct cost (front line cost).
- Pro-rated costs include direct labor, supplies and equipment.
- Allowable activities are:
 - Waiting List Management (including supervisory staff)
 - Intake/Resident Screening (including supervisory staff)
 - Rent Collection
 - Work Order Intake
 - Social Services/Resident Services (including supervisory staff)
 - Security Services (including supervisory staff)
 - 504 Coordinator (including supervisory staff)

Centrally Provided Services

- Any pro-rated cost must be in the best interest of the project. Two important points:
 - A PHA cannot pro-rate centralized maintenance
 - The cost cannot exceed what the property would incur if the functions were performed onsite.

Pro-rating Staff Costs

- Examples of reasonable methodologies for pro-rating central office staff that are performing allowable front-line activities include:
 - percentage of units
 - bedroom distribution
 - amount of unit turnover
 - other reasonable method based on how the activity is delivered

Contractual Services

- In some cases services will be provided to the project using contractual services.
- These contractual services can either be provided (purchased) from a third-party vendor or the COCC (centrally provided for a fee).
- Typically contract services will be used when there is a lack of skills needed at the project or it doesn't make economic sense for the project to provide these services itself.
- Regardless of the source, the cost must be in the best interest of the project considering timeliness and quality as well.

Contractual Services

- Examples of contractual services include:
 - Skilled maintenance (i.e., HVAC, Electricians, Plumbers)
 - Unit inspections
 - Lawn and landscaping services
 - Snow removal
 - Legal services for evictions
 - Elevator and boiler maintenance
 - Janitorial services



Learning Activity # 3: Project-Based Management Assignment of Common Tasks

- The table on the following slide list tasks commonly associated with managing public housing
- As a group, determine whether each task should be performed onsite or centrally under project-based management

Project-Based Management

Where Tasks Are Typically Performed

Task	On-Site	Central
Leasing units and enforcing the lease		
Processing families for admission and submitting 50058 forms as required		
Grant writing and other predevelopment activities		
Reviewing project-level budgets and reports		
Inspecting units, structures, and systems on a frequent basis		
Taking applications for admission		
Interacting with local government and HUD		
Overseeing the portfolio including tracking occupancy trends		
Preparing budgets for the property		
Purchasing and ordering goods/services		
Deciding when a property needs revitalization, demolition, or disposition		

Under The Multifamily Model

- Day-to-day property management functions are generally handled on-site (rents, reexaminations, work orders, etc.)
- The property manager is the “Captain of the Ship”
- Maintenance personnel are multi-skilled (generalists) and are based on-site or shared between sites
- The level of on-site staff is designed for a normal (non-peak) workload
- Contract assistance is used for specialized or non-routine work (elevator maintenance, trash removal, evictions, etc.)



Responsibilities of a Site Manager

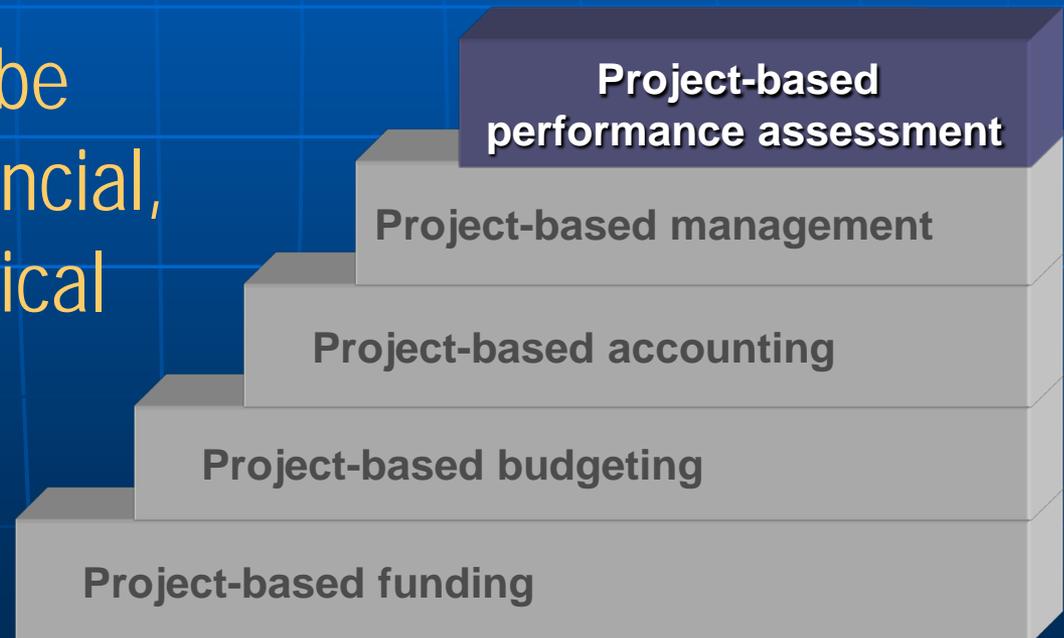
- Budgeting – development, implementation and performance
- Financial management – approve payments, manage fixed assets, rent collection, tenant accounting
- Purchasing
- Property inspections
- Site-based Maintenance
- Leasing, lease enforcement and marketing
- Rent calculations and reexaminations
- Resident Relations
- Security
- Update data in information systems

Hypothetical Staffing for a 150 Unit Family Project



Project-Based Performance Assessment

- PHAS will be revised to emphasize project-based monitoring
- Each project will be evaluated on financial, managerial, physical condition, and Capital Fund





HUD Oversight and the Public Housing Assessment System (PHAS)

- Each project will be evaluated on financial, managerial, and physical aspects
- PHA will as a whole will be evaluated on use of Capital Funds
- New system will:
 - Be consistent with the norms in multifamily housing
 - Avoid PHA self-certifications
 - Rely on existing data sources
 - Emphasize onsite management reviews

Management Operations

- PHAS Measures
 - Vacant unit turnaround time
 - Work orders
 - Inspections
 - Energy Consumption
 - Security
 - Economic self-sufficiency
- Other Key Areas of Performance
 - Occupancy
 - Rent Collections
 - Appearance and Market Appeal



Management Operations - Vacant Unit Turn-around Time

■ Significance

- Vacant unit turn-around directly affects income
- Vacant units do not help households needing housing

■ What to Track?

- Turnaround reports
- Move-out inspections and move-in inspections (and lease) for dates in the turnaround report
- Rent registers

Management Operations – Work Orders

Emergency work orders

- Complete or abate within 24 hours
- Includes EH&S deficiencies from HUD REAC inspections

Regular work orders

- Close out as soon as possible
 - Track repeated problems
- Track # of days work orders are open at each project by:
 - Tenant generated work orders
 - Inspection generated work orders
 - Nonemergency work orders - number of days to complete – establish standards

Management Operations – Preventive Maintenance

■ Significance

- Preventive maintenance is an important element in maintaining the physical condition of a property and is part of a comprehensive maintenance plan
- Performing preventive maintenance reduces the long-term costs for the project by dealing with issues before they become major defects or failures

Management Operations – Energy Conservation

■ Significance

- Energy conservation is important because utilities are a big cost of the project
- The PHA should take measure to conserve energy, and document its progress towards conserving energy.
- Total utilities expended in public housing amount to around **\$2.0 billion**:
 - \$1.6 billion in project-paid utilities (paid directly by the PHA)
 - \$430 million utility allowances (paid by residents)

Occupancy & Rent Collection

■ *Significance*

- Keeping units occupied and collecting the rent are key to management success
- Income is the primary resource available for assuring that quality service can be provided.

■ *Ways to Improve*

- Process Applications Efficiently
- Turn Units Quickly
- Enforce rent collection and eviction policies
- Conduct proper screening
- Make it easy for residents to pay rent



Appearance & Market Appeal

Significance

Curb Appeal Affects Marketing

Appearance is important to the residents

Ways to improve

- Project manager and Superintendent should walk the property on a routine basis paying attention to:
 - Is the project entrance attractive with appropriate signage?
 - Is the landscaping well-maintained ?
 - Are the building exteriors neat and graffiti-free?
 - Are the sidewalks and parking lots in good repair
 - Is the property free of trash, debris, clutter, and abandoned vehicles?
 - Are dumpster areas clean?

Making Use of the Information Collected

- *Once you have decided on your property performance monitoring program, management should:*
 - Establish a reports time table listing frequency of all reports (annual, quarterly, monthly, weekly, daily)
 - Require agreed-upon reports be produced timely
 - Distribute reports to the appropriate parties so that conversations can be held to review the results:
 - Board
 - Executive Director
 - Regional Manager(s)
 - Property Managers



Benefits of Asset Management

- Improved services provided to each AMP
- Organizational structure allows for greater efficiency
- Onsite staff provide greater service to tenants
- System enhancements will allow PHAs to operate more efficiently
- What else?

Questions?

- What questions do you have regarding any of the materials we have covered?

