U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

Special Attention of:
Public Housing Agencies
Public Housing Hub Office Directors
Public Housing Program Center Directors
Regional Directors
Field Office Directors
Resident Management Corporations

Notice PIH 2006-10 (HA)

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Cross Reference:

SUBJECT: Identification of Projects for Asset Management

1. Purpose

This notice provides guidance and related instructions to public housing agencies (PHAs) and field offices regarding the identification of projects for purposes of asset management (subpart H of the final rule, OMB approval number 2577-0029, expires October 31, 2008) under the Revisions to the Public Housing Operating Fund Program (the final rule), published in the Federal Register on September 19, 2005 (79 FR 54983). PHAs have until April 21, 2006, to submit their project identifications. The Department encourages PHAs to begin now to plan for these asset management requirements.

2. General

The final rule requires PHAs to manage their properties according to an asset (project-based) management model. Subpart H of the final rule provides the following goals of asset management:

1) Improve the operational efficiency and effectiveness of managing public housing assets;

2) Better preserve and protect each asset;

3) Provide appropriate mechanisms for monitoring performance at the property level; and

4) Facilitate future investment and reinvestment in public housing by public and private sector entities.

Recognizing that the current project numbering system does not necessarily reflect appropriate groupings of buildings for management purposes, § 990.265 of the final rule provides that:

> *A project may be as identified under the Annual Contributions Contract (ACC), or may be a reasonable grouping of projects or portions of a project under the ACC.*

The final rule further provides that:

- In accordance with § 990.260, PHAs that own and operate fewer than 250 dwelling rental units may treat their entire portfolio as a single project; and

- In accordance with § 990.265, PHAs may group up to 250 scattered site dwelling units into a single project.

3. Implications of Changed Project Identifications

Designation of projects in a manner that will facilitate efficient and effective management is a prerequisite to successful asset management. Before determining groupings of buildings into projects, PHAs should consider the following:

- There are many existing developments that make little sense from a property management perspective, reflecting the original reservations for development funding and not necessarily considerations for how the development would be managed. There are large numbers of very small developments that are not conducive to effective asset management. There are also some very large or disaggregated developments that might be more appropriately broken into smaller management groupings. Occasionally, a development may contain one or more buildings that would be better served as a "stand alone" project or combined with a different development.

- Projects will become the new measurement focus within the Department for public housing. Project identifications, for example, will determine the protocols for both the third-party inspections and the customer satisfaction surveys under the Public Housing Assessment System. If a PHA combines two developments into one new project, the new project will receive one physical inspection score. Conversely, a PHA that splits a development into two projects will now receive physical condition inspection reports for each project.

- Beginning with PHAs whose fiscal years end June 30, 2008, PHAs will be required to submit year-end financial information for all projects in addition to entity-wide financial information. PHAs with many very small developments may find it appropriate to rationalize project configurations to minimize the need for financial reporting on such scale.

- Changes in project identifications should not have a material effect on a PHA's overall subsidy level. Under the new operating fund formula, all project characteristics, other than project size (number of units) and neighborhood poverty rate, are based on a building weighted average. Projects with less than 150 units receive a 1.47 percent higher coefficient than projects of larger size. Neighborhood poverty rate is based on the census tract with the highest percentage of units in the project. (See Federal Register notice, Variable Coefficients for Public Housing Operating Fund Project Level Expense Levels, republished on January 5, 2006 (71 FR 602)).

- Under subpart H of the final rule, a PHA with less than 250 units that does not treat all units as one project is eligible for an asset management fee of $2 per unit per month (PUM). (PHAs with 250 units or more receive a $4 PUM asset management fee, but may not, without reasonable justification, treat all units as one project.)

- A PHA may reasonably prorate staff (and other office expenses) across projects where it is not feasible for one project to support full time staff. For example, if a PHA chooses to designate a 40 unit family low rise as one project, and another 60 unit senior high rise as another project, neither of which could support a full time maintenance mechanic, the PHA could reasonably prorate the cost of the maintenance mechanic between these two projects if such action were cost effective. Further guidance regarding staff proration will be published in the near future.

- Under subpart D of the final rule, PHAs will have their rental income frozen at Federal Fiscal Year (FFY) 2004 levels for calendar years 2007 through 2009. All gains in rental income, relative to the frozen base, will accrue entirely to the PHA during those years. As a consequence, PHAs should keep in mind that, for calendar years 2008 and 2009, with the implementation of project level funding, they will be required to report the frozen rental income and changes in utility allowances by project and should maintain records accordingly.

4. <u>Guidelines for Determining Projects</u>

One of the overriding goals of the final rule is to provide greater PHA and Departmental focus on each project. PHAs should identify projects in a reasonable manner that promotes efficiency and effective management. The proposed groupings should reflect each portfolio's distinct building, geographic, and resident characteristics, as well as the PHA's organization for effective project management. While not intended to be rigidly prescriptive, the following guidelines should be considered by PHAs as they formulate their project groupings.

- **Size:** Many existing developments identified in PIC may be too small for effective management. Others, including some aggregations of scattered site buildings, may be so large as to be unwieldy from an asset management perspective. Projects of approximately 80 or more units usually generate sufficient income to support dedicated staff and, as such, should be treated as one project unless they are proximate to other buildings/projects, in which case a PHA may want to combine them into a larger project. No particular project size can be regarded as optimal outside of the context of each PHA's portfolio. PHAs should determine their project configurations based on the characteristics and geographic distribution of their properties, and the grouping most conducive to effective project management.

- **Physical Proximity:** Combining buildings that are not in close proximity generally does not make sense from an asset management perspective, unless they consist of small buildings or single-family homes that cannot be otherwise grouped.

- **Tenancy:** Properties serving seniors and/or disabled persons generally have different managerial demands than those serving families. Even when they are physically proximate, PHAs may not want to combine senior and family projects if, independently, both projects are of a viable size.

- **Building Type:** Because of different building systems, a PHA would generally not want, for example, to combine a high rise building with a townhouse project, unless the two sites were physically proximate, too small in size to manage separately, or there were other compelling management considerations.

- **Facilities:** PHAs will wish to consider the office, maintenance, and tenant facilities in the properties in their portfolio to determine the optimal project configuration. For example, a PHA might want to group together two nearby small properties, only one of which has a management office.

The Department will **not** consider as "reasonable" any change creating new project identifications that are intended simply to affect the calculation of PEL. Moreover, PHAs will not be allowed to combine geographically separate, but managerially viable properties, simply to maintain centralized PHA organizational arrangements.

While the Department will establish a process for making future changes in project identifications, the frequency that such changes will be permitted, and the grounds for such changes, have not been established. Therefore, PHAs should carefully consider the management implications of their proposed configurations.

5. Process

Projects are presently determined by the "Development" field in the Public and Indian Housing Information Center (PIC) system. The Department has created a new feature in PIC that will allow PHAs to enter their new project identifications and project numbers. A job aide describing how to enter this data, and how to assign new project numbers for the purposes of the Operating Fund Program, will be posted shortly to the PIC web-site.

After PHAs submit their new project identifications, field offices will review the submissions for reasonableness. PHAs will be notified no later than June 23, 2006, if their project identifications have been disapproved.

After the final project groupings have been entered into PIC, the Department will work with PHAs to amend their ACCs, if and as necessary, to reflect the final project groupings. The new project identifications will become effective for purposes of operating subsidy funding beginning in FY 2007. Beginning with PHA fiscal year ending June 30, 2008, the new project identifications will also become effective for purposes of monitoring and reporting.

/s/
Orlando J. Cabrera, Assistant Secretary
for Public and Indian Housing