



# Federal Register

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**Monday,  
November 26, 2001**

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**Part III**

**Department of  
Housing and Urban  
Development**

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**Public Housing Assessment System  
(PHAS) Information About PHAS Interim  
Scoring Methodology for Public Housing  
Agencies (PHAs) With Fiscal Years Ending  
On or After September 30, 2001:  
Introduction; Notice**

**DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

[Docket No. FR-4710-N-01]

**Public Housing Assessment System  
(PHAS) Information About PHAS  
Interim Scoring Methodology for  
Public Housing Agencies (PHAs) With  
Fiscal Years Ending On or After  
September 30, 2001: Introduction**

**AGENCY:** Office of the Assistant Secretary for Public and Indian Housing, HUD.

**ACTION:** Notice.

**SUMMARY:** HUD assesses America's public housing agencies (PHAs) under the Public Housing Assessment System (PHAS). Under the PHAS, HUD evaluates PHAs based on four key indicators: (1) The physical condition of the PHA's properties; (2) the PHA's financial condition; (3) the PHA's management operations; and (4) the residents' assessment (through a resident survey) of the PHA's performance. This notice, together with two other notices published in today's **Federal Register**, provides additional information on an interim PHAS scoring process for two of the four PHAS indicators and other relevant information about PHAS scoring.

This interim scoring for the Physical Condition Indicator and the Financial Condition Indicator is effective for PHAs with fiscal years ending (FYE) September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002, and September 30, 2002. During the interim period HUD expects to give extensive consideration to potential improvements in the public housing assessment system. HUD expects this consideration to lead to further changes in the assessment system. If this does not occur, however, the scoring notices published prior to today would become effective at the end of the interim period (with any necessary technical corrections) and PHAS scores would be issued for effect based on these notices.

**DATES:** Comments Due Date: December 26, 2001.

**FOR FURTHER INFORMATION CONTACT:** For further information contact the Real Estate Assessment Center (REAC), Attention: Wanda Funk, U.S. Department of Housing and Urban Development, 1280 Maryland Avenue, SW, Suite 800, Washington, DC 20024, telephone REAC's Customer Service Center at (888) 245-4860 (this is a toll free number) or the Office of Public and Indian Housing, Attention: Judy Wojciechowski, Director of PHAS Operations, U.S. Department of Housing

and Urban Development, 1280 Maryland Avenue, SW, Suite 800, Washington, DC 20024, telephone (202) 708-4932 extension 3464. Persons with hearing or speech impairments may access these telephone numbers via TTY by calling the Federal Information Relay Service at (800) 877-8339. Additional information is available from the REAC web site at <http://www.hud.gov/reac/>.

**SUPPLEMENTARY INFORMATION**

**1. Overview of the PHAS**

On September 1, 1998 (63 FR 46596), HUD published a final rule, codified at 24 CFR Part 902, that established a new system for the assessment of America's public housing. The PHAS became effective for all PHAs with FYE on and after September 30, 1999. The Department amended the PHAS rule on January 11, 2000 (65 FR 1712), and deferred full implementation of PHAS for PHAs with FYE September 30, 1999 and December 31, 1999. The May 30, 2001 notice (66 FR 29342) provided that these PHAs would receive an assessment score based only on the Management Operations Indicator (MASS) in lieu of a PHAS score.

On June 6, 2000 (65 FR 36042), HUD issued a technical correction to the January 11, 2000, final rule, and further deferred full implementation of PHAS for PHAs with FYE on and after June 30, 2000.

The Conference Report 106-988 for the Department's Fiscal Year 2001 Appropriations Act (Pub L. 106-377, approved October 27, 2000), directed the Department to, among other things, continue to assess the accuracy and effectiveness of the PHAS system, to perform a statistically valid test of PHAS, conduct a thorough analysis of the results, and have the methodology and results reviewed by an independent expert before taking any adverse action against a PHA based solely on its PHAS score. On March 1, 2001, HUD provided a report addressing these issues to the Congressional Committees on its Appropriations.

In addition, consistent with the direction of the conferees, HUD issued a PIH notice (Notice PIH 2001-5) on January 19, 2001, which provided that prior to March 1, 2001, HUD would not take adverse action against PHAs solely on the basis of PHAS scores. "Adverse action" was defined as troubled designations based upon the official composite PHAS score. In accordance with the PIH Notice, all official troubled/substandard designations (with the exception of a substandard designation under the Management Assessment Scoring System (MASS)), beginning with PHAs with June 30,

2000, FYE dates, were held in abeyance prior to March 1, 2001, the date on which HUD submitted the report to its Congressional committees.

Given those events, HUD published a notice in the **Federal Register** on May 30, 2001 (66 FR 29342), further deferring full implementation of PHAS until after June 30, 2001. As provided in this notice, PHAs with FYE dates of June 30, 2000, through June 30, 2001, received an assessment score based solely on the MASS in accordance with 24 CFR part 902, subpart D of the PHAS regulation, as amended by the January 11, 2000, final rule, and corrected by the June 6, 2000, PHAS Technical Correction.

**2. Purpose of This Notice**

As provided in the May 30, 2001, notice, the Department met with public housing stakeholders (including representatives of PHAs and residents, housing advocacy representatives, governmental representatives and other groups), to discuss specific PHAS concerns and possible solutions. In addition, the Department explained the need for an immediate, comprehensive assessment system for all PHAs beginning with FYE September 30, 2001.

As a result of these discussions and further consideration by the Department, the Department will make two scoring changes for an interim period to provide transition assistance applicable to the issuance of overall PHAS scores. More specifically, the Department is revising the scoring methodology for the Financial Condition Indicator and the Physical Condition Indicator on an interim basis. PHAs with FYEs September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002, and September 30, 2002 will be scored on their Physical Condition Indicator and Financial Condition Indicator using the interim scoring methodology. During the interim assessment period, the Department will continue to meet with public housing stakeholders in order to further discuss PHAS and the scoring processes. With respect to any action that may be taken, and consistent with the PHAS rule, HUD will provide advance notice of any changes and provide the opportunity for comment.

This notice provides an overview of the changes to the PHAS scoring methodology that will be in effect for the interim assessment period.

**3. Changes From the Current PHAS Assessment Methodology**

Under the PHAS, HUD evaluates a PHA based on the following four

indicators: (1) The physical condition of the PHA's public housing properties; (2) the PHA's financial condition; (3) the PHA's management operations; and (4) the residents' assessment (through a resident survey) of the PHA's performance. Of the total 100 points available for a PHAS score, a PHA may receive up to 30 points each for physical, financial and management operations, with resident assessment accounting for the remaining ten possible points.

#### A. Physical Condition Indicator

*Current Scoring Assessment.* Under the current PHAS scoring assessment methodology, a property's overall physical condition is a weighted average of the following five inspectable area scores:

- (1) Site (Weight 15%).
- (2) Building Exterior (Weight 15%).
- (3) Building Systems (Weight 20%).
- (4) Common Areas (Weight 15%).
- (5) Dwelling Units (Weight 35%).

These weights are assigned if all inspectable items are present for each area and for each building and unit. All of the inspectable items may not be present in every inspectable area. When items are missing in an area, the area weights are modified to reflect the missing items so that they once again total 100%.

*Interim Scoring Assessment.* The following changes are made to the Physical Condition Indicator scoring process.

(1) *Physical Condition Indicator Scoring.* Under the interim PHAS scoring, all five areas will be inspected, scored, and the inspection data captured in the system. However, for assessment purposes, a property's score, and hence, a PHA's overall Physical Condition Indicator score, will be derived only from the deficiencies observed in the Building Systems and Dwelling Units. As a result, the area weights assigned to Site, Building Exterior and Common Areas, are being re-distributed to Building Systems and Dwelling Units. A property score is still based on a 100-point scale.

(2) *Physical Condition Inspections.* (a) For PHAs with a Physical Condition Indicator score of less than 24 on the 30-point scale, properties will be inspected once a year; and (b) For PHAs with a Physical Condition Indicator score of 24 or greater on the 30-point scale, properties will be inspected every two years.

#### B. Financial Condition Indicator

*Current Scoring Assessment.* Under the current PHAS scoring assessment methodology, the Financial Condition Indicator consists of the following six components:

- (1) Current Ratio (Maximum points possible: 9.0).
- (2) Number of Months Expendable Fund Balance (Maximum points possible: 9.0).
- (3) Tenant Receivable Outstanding (Maximum points possible: 4.5).
- (4) Occupancy Loss (Maximum points possible: 4.5).
- (5) Expense Management/Utility Consumption (Maximum points possible: 1.5).
- (6) Net Income (Maximum points possible: 1.5).

Currently, five of the six components, excluding Net Income, are calculated according to peer groupings. All PHAs as a group determine the mean score and each PHA is then ranked accordingly. Scoring thresholds were developed to make the peer groupings possible. The thresholds identify a point below which component values are clearly financially unacceptable; thus component values beyond these thresholds result in a score of zero. For component values within the acceptable range, PHAs receive a score based on their performance relative to their peers. This score is determined by a PHA's position in the distribution of values for each component and peer group represented by percentiles. For those components on a 4.5 point scale, the cut points are set at the 50th and 95th percentiles. For those components on a 9.0 point scale, the cut points are set at the 30th, 80th and 95th percentile. For the Current Ratio and Months Expendable Fund Balance components, a PHA receives zero points for component values of less than one. With a component value of one or greater, a PHA would receive a Current Ratio or Months Expendable Fund Balance component score of between 1.0 and 9.0 which corresponds to the 30th and 80th percentiles. The actual number of points provided is determined by the distribution of the data, and therefore varies by size category.

*Interim Scoring Assessment.* During the interim PHAS scoring, the Financial Condition Indicator scoring process will remain the same except for component #1, Current Ratio, and component #2, Number of Months Expendable Fund Balance. Under the interim scoring process, the score for Current Ratio and

Number of Months Expendable Fund Balance will not be based on peer groups. PHAs with a Current Ratio or Months Expendable Fund Balance component value of less than one will receive zero points for these two components. If the component values for Current Ratio and Months Expendable Fund Balance are equal to or greater than one, then PHAs, regardless of standing in relation to their peers, will receive the full 9 points for each component.

#### 4. Database Adjustments, Technical Reviews, and Appeals of PHAS Scores

During the interim scoring period, a PHA may use the three methods set forth in the PHAS regulation to request a review of its PHAS scores. A PHA may request a database adjustment pursuant to § 902.25 of the PHAS regulation, request a technical review pursuant to § 902.68 of the PHAS regulation, and appeal its overall PHAS score pursuant to § 902.69.

#### 5. Additional Information About the Interim PHAS Assessment Process

The notices that follow this introductory notice are specifically directed to providing further information about the interim PHAS scoring assessment process for the two PHAS indicators that are impacted. The notices, published in today's **Federal Register** and that immediately follow this introductory notices, are:

- Notice of Interim Assessment Methodology for the Physical Condition Indicator of PHAS.
- Notice of Interim Assessment Methodology for the Financial Condition Indicator of PHAS.

#### 6. Findings and Certifications

*Environmental Review.* This notice and the two accompanying notices provide operating instructions and procedures in connection with activities under 24 CFR Part 902, which has previously been subject to a Finding of No Significant Impact. Accordingly, under 24 CFR 50.19(c)(4), these notices are categorically excluded from environmental review under the National Environmental Policy Act (42 U.S.C. 4321).

Dated: November 19, 2001.

**Michael Liu,**

*Assistant Secretary, Public and Indian Housing.*

[FR Doc. 01-29268 Filed 11-23-01; 8:45 am]

BILLING CODE 4210-33-P