HUD ASSET MANAGEMENT E-NEWSLETTER

July 2009, Issue No. 23

Inside This Issue

Beechwood Court (1943): one of 58 duplex units built in the 1940s. While the units are older the site itself makes this the most popular of the seven family properties.

PHA Spotlight – New Albany Housing Authority

New Albany is a southern Indiana historic river town bedroom community of 37,771. Sitting astride the Ohio River, and a bridge apart from Louisville, Kentucky, it is home to the New Albany Housing Authority (NAHA)—the oldest in Indiana. NAHA was incorporated in response to housing needs of the Great Depression, the dustbowl, and the Great Flood of 1937, and made possible through the seminal 1937 Housing Act. Its earliest properties are frame houses (the first pre-fab homes built in the U.S.) built in 1938 to house families made homeless by rising floodwaters. The portfolio has grown over the years and now includes 1,083 public housing units in nine projects organized into four asset management projects (AMPs), as well as 408 vouchers.

Spotlight talks this month to Cora Huffines, NAHA's Director of Finance and HUD Compliance, about their transition to Asset Management. See the sidebar on page 3 for a discussion with Bob Lane, the Authority's Executive Director.

Describe NAHA just prior to its conversion to asset management.

Cora—Until fairly recently, we were a very 'traditional' housing authority—that is, quite centralized. We were a late-comer to some of the more contemporary approaches such as housing tax credit developments. Our newest asset was built in 1984 and our oldest assets are pre-fab Gunnison houses that were built in 1938 to house families that were flooded out. We were a well-run, but pretty basic public housing authority. Since then, we've made a dramatic shift to asset-based operations. Our nine properties are arranged into four AMPs. Our organization has become more efficient and effective, and our mission is being better as a result of these changes.

Parkview Terrace (1944): with 350 units in a contiguous configuration, this site is currently 98% occupied. It is the largest single family site left in Indiana.

What was your approach to the transition? Methodical or cold-turkey?

Cora—We set about the transition pretty methodically, actually. We reviewed the seven stop-loss criteria and saw that five of them were directly related to occupancy. So we started with a basic math exercise where we calculated that, for asset-based management to work, we needed to have a significant improvement in occupancy. Before the conversion, we averaged about fourteen percent vacant and we calculated that for the numbers to work we'd have to reduce this to around five percent. There was this two-way dynamic: for Asset Management to work, we needed better occupancy, and the only way to get better occupancy was to go to asset-based management.

Next, we decided we had a lot to learn about how the private market operated. At that time, we were pretty isolated; we did things 'our' way and didn't really understand how the rest of the housing world operated. We had one employee who'd been on the outside and she brought a lot of valuable perspective to the discussions, but that wasn't enough so we assigned interviews to our staff and they reached out to folks in our community and started to ask questions. Then, we'd have staff meetings where all this information was shared and sorted through. At around the same time, we went through some intensive HUD trainings about the asset management system. Between these two sources—the research and the training—we were getting the pieces.

How did you make the transaction, specifically?

Cora—We always had pretty lean staffing, and this worked to our advantage, because asset-based management is inherently lean. Consequently, we didn't have a lot of people who became obsolete; instead we had a lot of approaches that became obsolete. Also, our mission didn't change. We still had the same goal of providing decent housing to low-income folks in New Albany.

We not only live within our fees, we had a profit in the COCC. This year we are using the profit as match for the Recovery Grants since we have very little discretionary non federal funding. We will use this funding to try to leverage additional dollars for our public housing units under the competitive round of Capital funds.

On Stop-Loss, we did apply in year one, we were approved in year one as well. We did our initial stop loss budget in 2006 based on some reasonable allocation of expenses so we could actually see where our sticking points would be. The initial information provided by HUD and the Financial Management Handbook gave valuable information that really helped us key in on expense issues.

It's one thing to find out what you need to do; it's another thing altogether to figure out how to do it.

Cora—Exactly. But we remained methodical, and took all that information and created a 'roadmap' of sorts. It specifically laid-out what we needed to do, when we needed to do it, how we were going to do it, and the order things needed to happen in. We switched over on January 1st, 2006.

You mean you had a specific date for your transition?

Cora—Yes. On that day, everyone came to work with their new roles, using new systems and approaches. It was a dramatic thing, and although a lot of preparation went into the transition, it wasn't implemented gradually. We went home one night doing things one way, and

Continued on page 4>

Interview with Bob Lane, Executive Director, New Albany Housing Authority

If what's past is prologue, how did your background prepare you for leading a housing authority through such dramatic change?

Bob—Before joining the housing authority eight years ago, I had no prior experience in affordable housing, or public housing. My lack of public housing experience was an asset as we made the changes to Asset Management. I was a retired college basketball coach and an adjunct faculty member of Indiana University Southeast. I was also the director of New Albany-Floyd County parks and recreation department for 16 years.

How did that diverse background prepare you for this challenge?

Bob—My job is to build and motivate a team, which I have lots of experience doing. With the housing authority, my responsibility has been to find the right person for each job, and I've had to figure out whether we have those people on our team, or whether we need to bring those talents into the organization and onto our team.

So what are the tricks of the trade, when it comes to leading an organization successfully through a major transition?

Bob—Perhaps from my years spent coaching, I developed a deep appreciation for the value of training. We have a huge organizational commitment to training. Not just once in a while, but always and ongoing. And not just for the top managers, but throughout the organization. It doesn't work to send a couple of people to training and expect them to convey what they've learned to others. We take several people when we go to training. The last HUD training we attended we took eight people.

We're also lean organizationally, and we accomplish this in two ways. First, we have very little support staff in the central office. We have as many as three administrative staff with one support staff member. And lastly, we have tried to determine our strengths and weakness and also have looked at our capacity to do the tasks that need to be completed. Cora, for instance, is the director of finance and HUD compliance, because she's good at both of those functions. We don't feel obligated to sever those roles with separate individuals. We try to recruit staff members who have positive attitudes, are forward thinking, and embrace change.

And you have some experience motivating teams, as well…

Bob—There's healthy competition and unhealthy competition, and we're aware of the difference and actively try to encourage healthy competition in our NAHA team. Asset Management lends itself to competition. Of course, we want to encourage site competition for the benefit of our residents. For instance, site managers are accountable—good and bad—for the performance of their properties. We allow site managers to go to the central waiting list and market their properties to applicants. We never decentralized the waiting list because we live in a town of less than 40,000 people and this function has always been centralized. It works very well here. Our average lease up average is less than 2 days.

At the end of the day, we feel our Asset Managers and our support staff appreciate the fact they have the tools to control the success of their properties, and their own success. They can see the direct relationship between what they do, and what NAHA can achieve together for our residents.

Riverview Towers (1982) with 164 units for elderly and disabled persons, this 16 story high rise provides health screenings, social events nearly every evening, and a well-used community room.

Mark Elrod Towers (1984): Residents in this popular senior high rise enjoy a park-like setting.

<Interview with Cora Huffines, continued from page 2

came to work the next day with a whole new business model. It wasn't smooth, necessarily. It was hard initially as we developed the systems and procedures to make it work.

How did you handle transitioning people to new roles?

Cora—Actually, there were two approaches. For the site supervisors (the housing managers), we scoped out the new jobs, had our project managers prepare and submit resumes, conducted formal interviews and scored the results. In the end, four of our nine project managers became site managers. But, importantly, they were assigned to sites other than the ones they'd worked on previously. We wanted a clean slate, and we didn't want them to bring their preconceptions to their new roles.

For the maintenance workers we took a different approach. We allowed them to self-certify to one of three levels: senior technician, junior technician and groundskeeper, and we used this to arrive at a new classification. Then, to avoid unhealthy competition or politics about who's working with whom, we assigned them to the sites by lottery. Our only value-decision had to do with whether they were qualified for the level they were assigned to and we avoided all the politics that might have come from management-level assignments to specific properties.

What changed?

Cora—Quite a lot has changed as a result of the new approach. Previously, there was no accountability, which was good for folks that didn't do much, and there was no recognition, which was bad for folks who worked hard and smart. With the asset-based approach, it's reversed. We've also seen a real connection develop between management and maintenance. Before, these two functions didn't coordinate with each other. Now, they're very much in sync. Of course, the proof's in the outcome: we have reduced vacancy from fourteen to less than five percent. We couldn't have done this with centralized, disconnected, and unaccountable management and maintenance operations.

Were there other changes that came about as a result of this transition?

Cora—Yes. The transition precipitated a lot of new thinking. We moved our offices from an off-site location to commercial space in our largest property. We felt this was essential to being in touch with the pulse of what we do, but it also turned out to be smart economics because we pay rent to that property, some of which cycles back to us.

In other words, we didn't just reorganize; we became much more entrepreneurial culturally. For instance, we have a portfolio of houses that needed Section 8, so we issued an RFP, applied ourselves, and project-based some housing choice vouchers at those sites. This wouldn't have happened before. We're now thinking more creatively and it's a more exciting place to be.

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Reporting of Capital Fund Stimulus Grants on the Financial Data Schedule (FDS)

The American Recovery and Reinvestment Act (ARRA) of 2009 provided $4 billion in stimulus funds for public housing agencies (PHAs) under the Capital Fund Program, of which $3 billion have been awarded by formula and $1 billion will be awarded through competitive applications. These stimulus grants are to be reported at year-end on the FDS. Highlights of these requirements include:

- There are separate CFDA numbers for both the formula and competitive portions of the Capital Fund stimulus grants.
- PHAs shall recognize as revenue any funds drawn down during the fiscal year within the respective Stimulus Fund column, i.e., either CFDA #14.884 or #14.885. Funds intended for capitalized hard costs are reported as revenue under the Capital Grants line item (no. 70610), Funds not capitalized are reported as revenue under the Operating Grants line item (no. 70600).
- PHAs should report any funds spent for "Administration" or "Management Fee" as an Operating Expense within the respective Stimulus Fund column, as well as any work performed that falls below the PHA's capitalization threshold.
- Capitalized work will not be shown as an operating expense but instead shall be recorded as an equity transfer to the respective project where the work was performed, wherein it will be shown as either "Construction in Progress" or "additions" to the "Buildings" accounts on the project's balance sheet. During year 2, as work is completed at the remaining projects, Stimulus grants are to be reported using the same procedure outlined above.

For more information, click here.

HUD Releases Appendix V List of Changes for the 2009 Compliance Supplement

This Appendix provides the list of changes from the 2008 OMB Circular A-133 Compliance Supplement. Circular A-133 deals with audits of states, local governments and non-profit organizations. The list is found on the OCFO website. Click here.

Upcoming Dates on the Asset Management Calendar

- Upcoming 2009 HUD Asset Management Conferences:
  - **July 27-29, 2009**, Asset Management Conference in Dallas
  - **August 10-12, 2009**, Asset Management Conference in Secaucus
  - **September 9-11, 2009**, Asset Management Conference in Seattle
  - **September 21-23, 2009**, Asset Management Conference in Chicago
  - **October 5-7, 2009**, Asset Management Conference in San Francisco
  - **October 19-21, 2009**, Asset Management Conference in Las Vegas

Resources and Useful Links

General Information About Asset Management

For more information, please visit the HUD-PIH Asset Management Website. Click on the following hyperlinks for detailed information surrounding the key building blocks of asset management:

- Project-Based Funding
- Project-Based Budgeting
- Project-Based Accounting
- Project-Based Management
- Project-Based Oversight

Within each building block you may find specific topics of interest, including: AMP Groupings, and Stop-Loss, etc.

Specific Links In This Issue

Links for specific materials referenced in this issue are shown in blue times roman typeface, and are placed throughout this issue for ease of reference. When this newsletter is viewed as an electronic file, you may click on these links to be taken to the referenced materials.

Asset Management Help Desk - Questions and Answers

The Asset Management Help Desk has a new phone number and e-mail address. The new phone number is 1-800-955-2232 and the new email address is assetmanagement@deval.us Please use this phone number and email address to send inquiries regarding asset management.

Asset Management Fees

Q On what units are asset management fees paid?

A Asset management fees are paid based on total ACC units. To determine the potential total fee amount to the COCC, multiply the per unit month-dollar amount of the fee by the number of ACC unit months, regardless of whether these units are occupied. Excess cash constraints apply.

Q Can you please tell me the current Management Fees per PUM that the COCC can charge for the period of July 1, 2008 thru June 30, 2009.

A Please use HUD's 2008 Public Housing Management Fee Table, to determine your PUM for July 1 - December 31, 2008. HUD has not yet released 2009 fees.

Q Question 20 of the May 15, 2009 Capital Fund Recovery Competition (CFRC) NOFAFAQ indicated that PHAs can charge a 10 percent management fee under the Capital Fund Stimulus Grants. It also indicated that PHAs would need to maintain sufficient documentation related to certain Recovery Act reporting requirements. Can you elaborate?

A PHAs are required to report on the entire ARRA Capital Fund grant, including the Management Fee. PHAs that are charging a Management Fee can invoice for the Management Fee (not to exceed 10% of the drawdown) from the COCC and can report it as such. While the specific report formats will be issued shortly by the Department, to the extent that the management fee creates/retains jobs, develops/rehabs housing and/or improves energy efficiency, the PHA will be required to report this information.

Retaining Operating Subsidies

Q We have several mixed income communities. Can we maintain a portion of the operating subsidy for our operations? For example, may the PHA provide the site with 90% of the subsidy received from HUD and maintain 10% of the subsidy for the PHA's activities?

A Although each mixed-finance project will complete its own subsidy eligibility form (HUD 52723), the actual amount of subsidy to be provided to each mixed-finance project is determined based on negotiations between the PHA and the developer (as contained in the Regulatory and Operating Agreement). It is important to remember, however, that any retained portion (10% in the example above) is subject to the excess cash provisions of 24 CFR § 990.205(a), which states, "Operating subsidy shall remain fully fungible between ACC projects until operating subsidy is calculated by HUD at a project level. After subsidy is calculated at a project level, operating subsidy can be transferred as the PHA determines during the PHA's fiscal year to another ACC project(s) if a project's financial information, as described more fully in §990.280, produces excess cash flow, and only in the amount up to those excess cash flows."

Tenant Payments

Q Can a PHA establish a collections policy which requires that all tenant payments be made by check, money order or electronic transmission, i.e., no cash accepted?

A It is common for PHAs to not accept cash. The primary reason is security. PHAs must establish rent payment methods that ensure effective collection of rent that is due. In doing so, the PHA must also consider State law requirements, safety, and historical practice at the PHA.

The PHA must state in the Admissions and Continued Occupancy Plan ("ACOP") the type of payment it will accept. This should also be included in the tenant briefing package provided to new residents when they move in. PHAs sometimes specify that they will accept personal checks for rent payments, but may restrict the payment of late rent and charges to be paid by a Money Order or Cashiers' Check only. Additionally, all rent payment policies should consider whether there are relevant fair housing considerations, and PHAs should always be prepared to make reasonable accommodations to their policies for residents with disabilities.

See 24 CFR Part 966.4 which addresses lease requirements related to rent and 24 CFR Part 966.5 which establishes requirements about notice and posting of special charges, rules and regulations.

Davis-Bacon Applicability to Central Office Cost Center (COCC)

Q I have a PHA that wants to use fees paid by AMPs to the COCC for construction of a medical building that will be rented out. Is Davis-Bacon applicable?

A When it comes to the development or operation of public housing, it is not the source of funds, but the use of the funds that governs. If a COCC earns certain fees (regardless of source) and then decides to build non-public housing, there are no Davis-Bacon or HUD-determined maintenance wage provisions. On the other hand, if the COCC contributed fees to the development of a new mixed-finance public housing project, those funds would be subject Davis-Bacon.

Budgets and Accounting

Q In preparing our operating budgets for the upcoming fiscal year, are we required to include items of a capital nature that are funded through the Capital Fund Program? How should we handle depreciation?

A There is no requirement that the operating budget include capitalized work funded through the Capital Fund Program. Generally, operating budgets are restricted to operating revenues and operating expenses. Similarly, there is no requirement for a PHA to include depreciation in an operating budget. Usually, depreciation is accounted for in year-end financial statements, but not operating budgets.

Q We have a general operating account for our public housing and Section 8 programs. Can this account be used to fund public housing activities for amounts in excess of what's on deposit for public housing, provided the "due to" from the Section 8 program is replenished?

A No. While PHAs typically maintain a general operating account for all of their programs, into which funds are deposited, a PHA may not draw down from that account more than what they have in deposit for that particular program, even in the case of "temporary" loans.

Asset Management Challenge

Q Judy Jones has just been hired to assume the duties of Housing Manager at Bayview Homes, which has a number of management challenges, including poor rent collections. To familiarize herself with her new property, Judy reviews the most recent operating statement, covering the first six months of the year. These statements show that rental revenues are running fairly close to budget projections. She's wondering if she has the wrong statements. What's wrong?

A In property management accounting, the operating statements typically reflect rental revenue charged, not the amount collected. Therefore, as long as occupancy levels have remained the same as projected, the amount reflected as rental revenue on the operating statements should closely track budgeted levels. To determine if there is a collection problem, one would need to look at the balance sheet for the amount of tenants accounts receivables.

Contact the Editor

Do you have an article idea, question, or comment for the editor? The Office of Public and Indian Housing is the editor of this monthly e-Newsletter.

Please send all inquiries by email to assetmanagement newsletter@deval.us, with the subject line "Question/ Comment for the Editor."