



# Public Housing Authorities Directors Association

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## HUD Publishes Proposed PHAS Rule

### Significant Changes Made to Management Indicator

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On August 21, HUD published “Changes to the Public Housing Assessment System” in the Federal Register, with comments due October 20, 2008. These changes are particularly dramatic in the management indicator, but important alterations were also made to the financial one while a new indicator entitled ‘Capital Fund’ replaces the resident survey.

**Although each asset management project (AMP) will now receive a score, there will be no ‘troubled’ AMPs.**

Although each asset management project (AMP) will now receive a score, there will be no ‘troubled’ AMPs. Troubled status can only be imposed on a housing authority as

a whole for a total score which falls below 60. Agencies will no longer be troubled in a single indicator, such as financially troubled, if an indicator score falls below 60 while the total authority score remains above 60. Agencies meeting these criteria will now be referred to as substandard. These agencies will have to correct deficiencies but are not required to enter into a memorandum of agreement with the Department.

#### PHAS’s New Structure

PHAS will continue to have four indicators, which will now be physical, financial, management and capital fund. The physical indicator remains unchanged and will still be worth 30 points. The financial indicator has been reduced to three sub-indicators, Quick Ratio (QR), Months Expendable Net Assets Ratio (MENAR), and Debt Service Coverage Ratio and now totals 20 points.

The management indicator will now in-

clude several former components of the financial indicator, such as vacancy rate, rents collected and energy conservation. With the added inclusion of a 5 point section entitled ‘Appearance and Market Appeal,’ which mirrors parts of the physical inspection, the management indicator will total 40 points. With no resident survey, resident involvement is now included as a sub-indicator in the management component.

The 7 points which were accorded to management of the capital fund have been expanded to 10 and set aside in a separate capital fund indicator. This indicator, however, is simplified, with only two sub-indicators, each worth 5 points, measuring obligation and expenditure of funds.

The table below identifies the new indicators and sub-indicators and compares them with the existing PHAS system, both in regard to their point value as well as the criteria that will now be used to determine what is necessary to earn an ‘A’ or the full number of points.

#### Comparison between Existing and Proposed PHAS Systems

Indicators and Sub-indicators	Existing Point Value	Existing Criteria to score an ‘A’	Proposed Point Value	Proposed Criteria to score an ‘A’
<b>New Financial Indicator</b>				
1. Quick Ratio	9	(High Medium Agency) <1=0, 1=4.4, 1-2.1=4.4-9, 2.1-4.9=9, >4.9=7.5	9	(No peer groups) <1=0, 1=5.4, 1-2=5.4-9, >2=9
2. MENAR (or existing Months Expendable Fund Balance)	9	(High Medium Agency) <1=0, 1=1.9, 1-4.9=1.9-9, 4.9-21.4=9, >21.4=7.5	9	(No peer groups) <1=0, 1=5.4, 1-4=5.4-9, >4=9
3. Debt Service	N/A		2	<1=0, 1=1, 1-2=1-2, >2=2, No debt=2
<b>New Management Indicator</b>				
1. General Appearance and Market Appeal	N/A		5	12 categories, each category worth 2 points, Must be rated ‘good’ to get 2 points. 19.2 total=A
2. Security	4	Tracks crime in 90% of developments, screens applicants, evicts and implements grants	1	Crime less than neighborhood average, effective screening and evictions

Indicators and Sub-indicators	Existing Point Value	Existing Criteria to score an 'A'	Proposed Point Value	Proposed Criteria to score an 'A'
3. Unit Inspections	2	100% with generated work orders	1	score 90 on physical inspection
4. Work Orders	2	99% emergency within 24 hours		score 90 on physical inspection
	2	Non-emergency within 25 days	3	Tenant generated within 3 days or 'A' in vacancy rate
5. Preventive Maintenance	2	100% inspection according to maintenance plan	1	Possesses and implements P.M. plan
6. Energy Conservation	1.5	(Combined with expense management) Within top 95% of peer group	1	Up to date energy audit and implements all cost effective measures
7. Net Income	1.5	Positive cash flow	N/A	
8. Accounts Payable	N/A		4	All non-disputed invoices paid within 30 days
9. Rents collected	4.5	(High medium) 98.5%	4	(No peer groups) 97%
10. Vacancy rate	4.5	(High medium) Adjusted rate of 95%	16	(No peer groups) Adjusted rate of 98%
11. Vacancy turnaround	4	20 days or less	2	Either 'A' in vacancy rate or less than 15 days
12. Economic Self-Sufficiency	7	Meets 90% of grant goals	1	50% of non-elderly adults employed or 10% in FSS
13. Resident Involvement	10	Survey	1	One opportunity to be involved in project administration
<b>New Capital Fund Indicator</b>				
1. Capital Fund Obligation	1	No unobligated funds over 2 FFYs old	5	90% of funds within time period
2. Expenditure	2	No unexpended funds over 3 FFYs	5	100% within time period
3. Adequacy of Contract Administration	1	No outstanding HUD findings	N/A	
4. Quality of Physical Work	2	No outstanding HUD findings	N/A	
5. Adequacy of Budget Controls	1	No outstanding HUD findings	N/A	

### Noteworthy Changes in the New PHAS

In addition to the new structure and point count, there are a number of other noteworthy changes in the new system.

1. Individual projects will now be scored on their financial and management indicators, as well as their physical ones. Nevertheless, there will not be any "troubled" projects. Troubled designation and its consequences will only be based on an agency wide overall score. Therefore, housing authorities will no longer be considered "troubled" on a specific indicator, if they score below 60. An agency that scores below 60 on an individual indicator, such as the financial or management ones, but

whose overall score is above 60 will now receive the designation of "substandard." HUD field offices will have the discretion to require agencies with deficiencies in indicators or sub-indicators to prepare a corrective action plan (CAP).

2. The financial indicator will no longer use peer group comparisons or evaluate housing authorities on an entity-wide basis. Sub-indicators, such as the quick ratio or the MENAR will now have firmly established targets that will have the same thresholds for all agencies and will not fluctuate over time as levels at other agencies alter. These ratios will now just be based on the public housing program and not on the totality of the authority's financial condition. As a result, the ratios agencies have been reporting will be likely to

change.

3. In several instances, earning an 'A' in one indicator will automatically lead to an 'A' in other indicators. In these situations, the Department will assume that outstanding performance in one task means that an agency has also performed outstandingly in related areas. An example is vacancy rate and unit turnaround. An 'A' in vacancy rate automatically earns an agency an 'A' in unit turnaround. Similarly, an 'A' in an authority's physical inspection entitles an agency to an 'A' in unit inspections and tenant generated work orders.

**An agency that scores below 60 on an individual indicator, such as the financial or management ones, but whose overall score is above 60 will now receive the designation of "substandard."**

4. HUD has imposed stricter standards in certain sub-indicators. Agencies will do well to note these and comment on them to the Department if they consider them inappropriate. Sub-indicators which are subject to stricter requirements include work orders, vacancy rate and vacancy turnaround. To earn an 'A' in work orders, tenant generated ones must now be completed in an average of 3 days compared to 25 in the existing system for routine ones. The highest grade in vacancy rate will now require an occupancy level of 98 percent, while turnaround time must be done in 15 days to earn an 'A'.
5. In some cases different standards entirely are being used to measure sub-indicators. Examples are found in security, tenant participation and economic self-sufficiency. Security at a project will now be measured in comparison to the crime level in the surrounding neighborhood, while economic self-sufficiency will be based on the number of eligible adults in a project who are working. Housing authorities may wonder whether it is fair to evaluate an HA on hard and fast numbers which depend on resident behavior and are essentially out of HA control. Up to now, HUD has measured whether or not housing authorities had implemented systems to improve security and enhance economic self-sufficiency. Tenant participation will be measured on the basis of whether the authority provides at least one opportunity for residents to participate in a project's administration.
6. Some indicators have disappeared while other sub-indicators are entirely new. There is no longer a resident survey, for instance. New sub-indicators have been added for appearance and accounts payable in the management indicator and debt service in the financial one. 'Appearance and Market Appeal' will be worth 5 points and measures twelve items, many of which are already scored in the physical inspection. Thus, PHADA questions the necessity of including it in the management indicator as well. Furthermore, the scoring is very subjective. In order to be scored as achieving superior performance, among other requirements, a project must have an "attractive project entrance with appropriate signage and plantings." There is no description, unfortunately, of what constitutes appropriate plantings for a public housing project entrance.

7. Several sub-indicators have different point values. The most dramatic change is in the category of "leasing," which goes from a value of 4.5 points to one of 16 points. Leasing, no doubt, is certainly a critical function of housing authorities, but it is already heavily emphasized, since their operating subsidies are now dependent on their leasing levels. Furthermore, because of its high point value, a failure in this one area, adding in unit turnaround time, will constitute failing the management indicator. One might well question whether these two sub-indicators out of a total of 12 should have that much importance. Another sub-indicator that has undergone a significant point value change is economic self-sufficiency, which has gone from being worth 7 points to being worth 1.
8. HUD will now score the management indicator through an on-site visit rather than through a self-certification. Either a HUD employee or a contractor will come to the authority and the AMPs and verify all of the sub-indicators at the site.

**The financial indicator will no longer use peer group comparisons or evaluate housing authorities on an entity-wide basis.**

9. The time frames for measuring some sub-indicators will no longer be an agency's fiscal year or the calendar year. Since HUD's plan is to conduct on-site visits, the Department is unsure when exactly, during the course of year, these visits will take place. It has adopted a new system for many of the management sub-indicators that will measure performance based on the date of the inspection, rather than the most recent fiscal or calendar years. For instance, unit inspections and vacancy rate will be measured on the performance in the 12 month period ending at the last completed month before the HUD visit. For work orders and rent collection, the authority may choose between that 12 month period or the most recently completed month prior to the visit. Finally, for accounts payable, the Department will look at the most recently completed month. This new system will mean that agencies will essentially have to be in compliance at all times and cannot count on a calendar or fiscal year period to measure whether or not they have met the PHAS standards.
10. Some definitions have changed. The work order sub-indicator will now just be based on tenant generated work orders, while rent collection will only use rent, and not any auxiliary charges, for its calculations.
11. The Department does not believe it will be able to conduct a management review on each AMP every year. It will schedule reviews based on its own risk assessments and other criteria. The existing management review score will be carried over during years when the Department has not scheduled a new review.
12. For the physical inspection, the benefit of being able to skip an inspection for a year for a score above 80 will now be based on the AMP and not the authority. Thus, even though an authority's total physical inspection score might exceed 80, individual AMPs which received a lower score will be inspected annually.
13. The physical condition and neighborhood environment adjustment will now be applied to the management indicator at a project by project level rather than on the physical inspection.

14. HUD proposes to implement the new system starting with housing authorities whose fiscal years end on 6/30/09 and then move to the 9/30/09 agencies, the 12/31/09 ones and finally the 3/31/2010 HAs.

**Comments are due October 20 and authorities should inform the Department the extent to which they agree or disagree with the changes in indicators and sub-indicators, scores and definitions and the timeframes that will be used to evaluate compliance.**

The new PHAS rule follows up on asset management by providing

financial and management indicator scores on the project level, but it does not go so far as to consider specific projects as ‘troubled.’ It also makes a number of significant changes to the financial, management, and resident indicator scores that will affect all housing authorities. HAs should carefully read the new rule and assess whether or not the proposed changes are appropriate for their agencies. Comments are due October 20 and authorities should inform the Department the extent to which they agree or disagree with the changes in indicators and sub-indicators, scores and definitions and the timeframes that will be used to evaluate compliance.

PHADA will voice the concerns it has raised in this article in its comments, as well as other on-going issues it has with PHAS, such as the fact that no accommodation is made to account for funding in the low 80 percent range or that multifamily properties get inspected once every three years for doing well on the physical inspection compared to public housing’s once every other year. ■

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## **Proposed PHAS Comments Due October 20**

### ***PHADA Urges Members to Submit on Important Changes***

*PHADA sent the following alert to all its members on September 30.*

**H**ousing Authorities can submit comments to HUD on the proposed PHAS rule either electronically, using the website, or by mail to the Office of General Counsel, Room 10276 at 451 Seventh St., S.W., Washington, D.C., referencing docket number FR-5094-P-01 in both cases. Members might want to inform the Department of which changes they regard positively and which negatively.

#### **The following are changes members may regard in a positive light:**

1. No resident survey.
2. Basing financial sub-indicators on public housing financial data only, rather than using entity-wide amounts, and having a firm threshold for these sub-indicators, rather than scoring on a curve which changes over time.
3. No longer considering agencies which score over 60 but fail one indicator (such as financial) as troubled.
4. Not designating individual projects which score below 60 as troubled.
5. Reducing the value of the economic self-sufficiency indicator from 7 points to 1 and the security indicator from 4 to 1.
6. Automatically giving properties scoring an ‘A’ in certain sub-indicators, such as leasing, an ‘A’ in related sub-indicators, such as vacancy turnaround.

#### **On the other hand, here are some areas members may regard as reducing the accuracy of the assessment:**

1. Not providing any accommodation in the scoring to account for less than 100 percent funding.
  2. Not providing a three year hiatus in the physical inspection when a property scores well as is done in multifamily.
  3. The addition of the “Appearance and Market Appeal” sub-indicator worth five points in the management indicator, since it is duplicative of the physical inspection and scored subjectively.
  4. Establishing more stringent standards for several sub-indicators, such as requiring a 98 percent occupancy rate, turning tenant-generated work orders around in 3 days, and completing vacancy turnaround in 15 days, to get an ‘A’ in these respective sub-indicators.
  5. Scoring the economic self-sufficiency and security sub-indicators on criteria that HAs cannot control, such as the percent of eligible adults working and the project’s crime rate in relation to the surrounding neighborhood.
  6. Increasing the value of the leasing sub-indicator alone to 16 points.
  7. Establishing an ‘Accounts Payable’ sub-indicator in the management component that requires payment of 100 percent of non-disputed bills within 30 days in order to get an ‘A.’
  8. The elimination of the Board of Review process for appeals of either PHAS scores or troubled designation.
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