

Section Overview

This section summarizes the major program reforms associated with public housing's conversion to asset management and the timeframes for implementation.

CORE REFORMS

One of the primary purposes of the new rule on the Operating Fund is to give greater attention to the financial, physical, and management performance of each public housing project.⁴ Consistent with these goals, the move to asset management will, over the next several years, include five major elements.

- **Project-based funding.** In contrast with the current system, which funds PHAs at the entity level, the new rule establishes a system of project-based funding. PHAs will complete a separate subsidy form for each project. A major component of a project's subsidy calculation is its Project Expense Level (PEL), a model-generated estimate of the cost to operate the project, exclusive of utilities and taxes, based on the costs of operating other federally-assisted housing with similar project characteristics.

A project's subsidy eligibility will be the difference between its "formula expenses" and "formula income" (as these terms are defined in the new rule).

- **Project-based budgeting.** Along with project-based funding, PHAs will be required to prepare project-based budgets. These budgets must be approved by the PHA's governing board prior to the start of each fiscal year. Except in the case of non-performing projects, however,

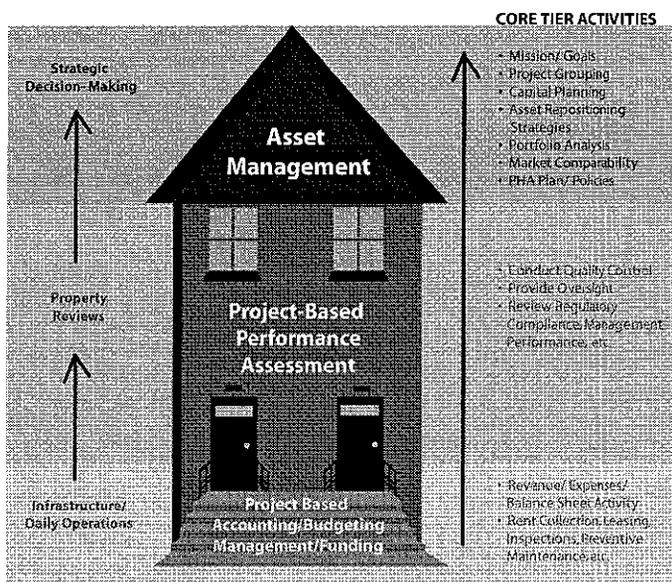
these budgets will not be subject to HUD approval. Primarily, they will be used for internal PHA planning purposes.

- **Project-based accounting.** As with other federally-assisted housing programs, PHAs will be required to submit to HUD year-end financial statements on each project. These financial statements will include revenues, expenses, and balance sheet items. Further, in accounting for project costs, PHAs will only be able to charge projects for services actually received. For example, PHAs will not be permitted simply to spread the cost of central maintenance across properties. Moreover, any overhead fees, and any fees for centrally-provided property management services, must be "reasonable," i.e., these costs must not exceed what other efficient operators would incur for those same services in the local market.
- **Project-based management (PBM).** Under the new rule, PHAs must arrange property management services "in the best interests of each project." For example, a project must receive the same level of service from a central landscaping crew as could be obtained through the market or by handling the work with on-site staff. Additionally, PHAs must assign to each project management personnel, i.e., a housing manager, with primary responsibility for the day-to-day operation of that project.
- **Project-based performance assessment.** The Department will revise the Public Housing Assessment System (PHAS) to emphasize project-based performance monitoring and evaluation. Currently, PHAS examines mostly PHA-wide and not project-specific activities. Each project will be evaluated not just on its physical condition but based on its financial and management performance as well. A central part of this new performance measurement structure will be a system of on-site management reviews of each project (preferably, annually or bi-annually).

⁴ At the heart of asset management is the "asset" or "project," around which services are arranged, financial reports are prepared, and performance is measured. Consequently, one of the first tasks required of PHAs in converting to asset management has been to identify their project groupings. Under *PHH Notice 2006-10*, "Identification of Projects for Asset Management," PHAs were requested to examine their current development assignments and recommend new project groupings for asset management. PHAs had until April 21, 2006, to make these recommended project groupings. Once these recommendations are reviewed and approved (mid-2006), these new project identifications will become the new measurement focus of the Department.

In the long term, asset management also includes the broader strategic examination of a PHA's portfolio and its position within the local affordable housing market, considering such strategies as re-investment, refinancing, disposition, or replacement. In the near term, however, the Department will emphasize the basic building blocks of asset-based funding, accounting, performance monitoring, etc.

In addition, the Department, as indicated in the new rule, plans to make appropriate changes in its regulatory and monitoring programs to support PHA conversion to asset management.⁵ Over the next several years, therefore, PHAs can anticipate streamlined procedures in procurement, Annual Plans, and other areas.



these project-specific subsidy forms from HUD, with much of the information pre-populated (based on data from HUD's databases). Mostly, PHAs will enter information on occupancy, utilities, and add-ons. Also beginning in CY 2008, these subsidy forms will be submitted electronically through HUD's new e-grant system, called Resource Allocation.

- The new **project-based accounting, budgeting, and management** requirements will be effective for PHAs whose fiscal years begin July 1, 2007, and thereafter. In the initial year of compliance, PHAs will be required to develop project-based budgets, approved by their Boards prior to the start of the fiscal year. At year-end, PHAs will be required to submit project-level financial statements. By the second year of project-based accounting (fiscal years beginning July 1, 2008, and thereafter), PHAs will also be required to comply with the new rules regarding cost-reasonableness for centralized services, including management fees.
- Finally, the Department plans to implement a new **project-based performance assessment system** no later than the second year of project-based accounting. The development of this new performance assessment system will be done through formal notice-and-comment rulemaking.

At the same time that PHAs are making changes in their organizations to convert to asset management, the Department will also be modifying its data systems and its field oversight structure. Broadly speaking, projects will be grouped into "portfolios" and assigned to specific HUD staff to monitor/oversee. The number of projects assigned to these HUD "asset managers," the frequency of site visits, and other related protocols are all under development.

TIMEFRAMES FOR IMPLEMENTATION

The phase-in of the above reforms will proceed according to the following schedule:

- The new **funding formula** for determining operating subsidies will be implemented in Calendar Year (CY) 2007. In that first year, to assist with transition, the new formula will be applied at the agency level, using a weighted-average PEL. PHAs will complete one subsidy form for the entire agency. PHAs that are "gainers" under the new formula will receive 50 percent of their gain in CY 2007, with the balance in CY 2008. PHAs that are "decliners" under the new formula will have their lower subsidy levels phased-in over a 5-year period.⁶

In CY 2008, the new formula will then be applied at the project level. A separate subsidy form will be completed for each project. A PHA with ten projects, therefore, would complete ten subsidy forms. PHAs will obtain

Implementation Schedule

New Funding Formula Implemented at Agency Level	CY2007
New Funding Formula Implemented at Project Level	CY2008
Electronic submission of subsidy forms for each project	CY2008
Develop project-based budgets prior to the start of the PHA fiscal year	July 2007, October 2007, January 2008, or April 2008*
Comply with new rules regarding cost-reasonableness for centralized services, including management fees	July 2008, October 2008, January 2009, or April 2009*
Implement a project-based assessment system	No later than the second year of project-based accounting

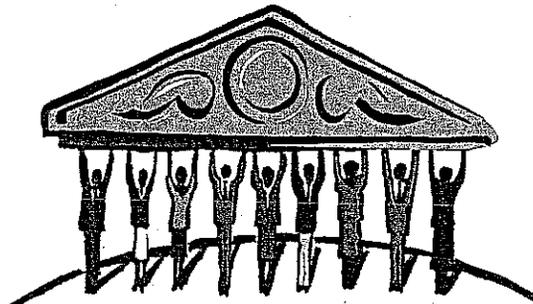
*Effective dates correspond with the PHA's Fiscal Year start date.

⁵ 24 CFR part 990.255(b).

⁶ Subsidy eligibility subject to congressional appropriations.

**CITY OF MADISON, WI
COMMUNITY DEVELOPMENT AUTHORITY
HOUSING DIVISION**

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CDA of The City of Madison, WI
 Site Projected Costs
 FY 2007

Totals, Low-Rent	East	West	Triangle
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Family/Elderly/Disabled Scattered Site?	Family/Elderly	Family	Elderly
Age	Yes 1965-1984	Yes 1965-1981	No 1976
Recently Renovated?	No	No	No
Units	758 241	296	221
Average Bedroom Size	2 2.00	2.00	2.00
% Occupancy	96.67% 96.00%	96.00%	98.00%
# of Turn-overs	158 48	63	47

REVENUE

Dwelling Rentals	\$ 1,898,800	\$ 609,736	\$ 715,001	\$ 574,063
Non-dwelling Rentals	\$ 26,600	\$ -	\$ -	\$ 26,600
Non-Utility Subsidy	\$ 1,118,166	\$ 359,061	\$ 421,050	\$ 338,054
Utility Subsidy	\$ 338,236	\$ 108,613	\$ 127,364	\$ 102,259
Add-on Subsidies	\$ -	\$ -	\$ -	\$ -
Transfer in (Fungibility)	\$ 51,280	\$ 51,280	\$ -	\$ -
Transfer From Capital Fund	\$ 99,035	\$ 44,446	\$ 54,589	\$ -
Transfer From COCC	\$ 131,518	\$ 78,079	\$ 53,439	\$ -
Tenant Services Grant	\$ 63,625	\$ -	\$ -	\$ 63,625
Investment Income	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 17,270	\$ 5,546	\$ 6,503	\$ 5,221
Total Revenue	\$ 3,744,530	\$ 1,256,761	\$ 1,377,947	\$ 1,109,822

EXPENSES

Administrative Salaries	\$ 345,841	\$ 137,180	\$ 114,863	\$ 93,798
Overtime	\$ 13,411	\$ 4,711	\$ 6,529	\$ 2,171
Benefits	\$ 96,668	\$ 39,110	\$ 31,594	\$ 25,964
Audit	\$ 6,017	\$ 1,916	\$ 2,352	\$ 1,749
Management Fee	\$ 351,759	\$ 111,164	\$ 136,533	\$ 104,062
Bookkeeping Fee	\$ 65,889	\$ 20,822	\$ 25,574	\$ 19,492
Bad Debts	\$ -	\$ -	\$ -	\$ -
Telecommunications	\$ 5,484	\$ 2,065	\$ 2,065	\$ 1,354
Computer Support	\$ 18,303	\$ 6,101	\$ 6,101	\$ 6,101
Legal	\$ -	\$ -	\$ -	\$ -
Screening	\$ 712	\$ 295	\$ 225	\$ 192
Administrative Other	\$ 15,222	\$ 5,844	\$ 7,328	\$ 2,050
Advertising	\$ 4,404	\$ 781	\$ 3,623	\$ -
Total Administrative	\$ 560,054	\$ 329,989	\$ 336,788	\$ 256,933

Resident Services Salaries	\$ 107,215	\$ 46,734	\$ 45,889	\$ 14,591
Benefits	\$ 63,356	\$ 27,619	\$ 27,118	\$ 8,620
Resident Services Materials	\$ 4,254	\$ 1,854	\$ 1,821	\$ 579
Total Tenant Services	\$ 174,825	\$ 76,207	\$ 74,828	\$ 23,790

Gas	\$ 279,091	\$ 110,347	\$ 59,516	\$ 109,228
Electric	\$ 219,481	\$ 57,001	\$ 76,479	\$ 86,001
Water	\$ 49,065	\$ 20,661	\$ 19,802	\$ 8,602
Sewer	\$ 78,842	\$ 32,009	\$ 32,383	\$ 14,450
Storm Water	\$ 13,322	\$ 6,103	\$ 5,095	\$ 2,124
Total Utilities	\$ 639,801	\$ 226,121	\$ 193,275	\$ 220,405

Central Maintenance Charges - General Maint	\$ 737,808	\$ 249,112	\$ 289,633	\$ 199,063
Central Maintenance Charges - painting	\$ 131,417	\$ 54,469	\$ 41,500	\$ 35,448
Central Maintenance Charges - Custodial	\$ 110,308	\$ 35,071	\$ 43,076	\$ 32,162
Overtime	\$ -	\$ -	\$ -	\$ -
Vehicles	\$ 55,087	\$ 23,526	\$ 21,540	\$ 10,021
Equipment Rental	\$ 562	\$ 381	\$ -	\$ 181
Materials	\$ 130,052	\$ 38,862	\$ 53,011	\$ 38,179
Uniforms	\$ -	\$ -	\$ -	\$ -
Exterminating Contract	\$ 44,850	\$ 14,431	\$ 25,450	\$ 4,969
Trash Removal	\$ 62,360	\$ 28,560	\$ 22,840	\$ 10,960
Plumbing	\$ 5,332	\$ 1,549	\$ 3,271	\$ 512
Electrical	\$ 3,000	\$ 413	\$ 1,713	\$ 874
HVAC Service	\$ 5,639	\$ 2,415	\$ 2,201	\$ 1,023
Janitorial Services	\$ 32,017	\$ 5,576	\$ 11,138	\$ 15,303
Painting	\$ 106,334	\$ 28,991	\$ 60,381	\$ 16,962
Landscape Contract	\$ 13	\$ 13	\$ -	\$ -
Maintenance Other	\$ 378	\$ -	\$ 378	\$ -
Elevator Contract	\$ 12,707	\$ -	\$ 6,494	\$ 6,213
Miscellaneous Contracts	\$ 56,220	\$ 14,361	\$ 29,886	\$ 11,973
Total Maintenance	\$ 1,494,082	\$ 497,730	\$ 612,511	\$ 383,843

Security Labor	\$ -	\$ -	\$ -	\$ -
Benefits (35%)	\$ -	\$ -	\$ -	\$ -
Materials	\$ -	\$ -	\$ -	\$ -
Contracts	\$ 139,792	\$ 44,446	\$ 54,589	\$ 40,757
Total Protective Services	\$ 139,792	\$ 44,446	\$ 54,589	\$ 40,757

Insurance	\$ -	\$ -	\$ -	\$ -
PILOT	\$ 116,511	\$ 35,417	\$ 49,002	\$ 32,092
Workers Compensation	\$ 6,877	\$ 2,579	\$ 2,579	\$ 1,719
Other	\$ 139,059	\$ 44,271	\$ 54,375	\$ 40,413
Total General Expenses	\$ 262,447	\$ 82,267	\$ 105,956	\$ 74,224

Total Expenses, excl. Asset Management	\$ 5,694,659	\$ 1,256,761	\$ 1,377,947	\$ 999,952
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Transfers Out	\$ 51,280		\$ 51,280	
Asset Management	\$ 26,255		\$ 26,255	

Total Expenses	\$ 5,712,194	\$ 1,256,761	\$ 1,377,947	\$ 1,077,437
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Cash Flow from Operations+ /(-)	\$ 32,336	\$ 0	\$ 0	\$ 32,336
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Administrative Salaries + Benefits				
Site Manager	\$ 64,847.96	\$ 49,559.84	\$ 39,873.93	
Assistant Manager	\$ 40,460.04	\$ 35,512.16	\$ 30,037.70	
Receptionist	\$ -	\$ -	\$ -	
Centralized Eligibility	\$ 7,609.00	\$ 5,797.00	\$ 4,952.00	
Centralized Screening	\$ 7,609.00	\$ 5,797.00	\$ 4,952.00	
Centralized Wait List	\$ 4,845.00	\$ 3,692.00	\$ 3,153.00	
Centralized Purchasing	\$ 11,809.00	\$ 14,505.00	\$ 10,829.00	
Total Admin Salaries	\$ 137,180.00	\$ 114,863.00	\$ 93,797.63	

CDA of The City of Madison, WI
Site Projected Costs
FY 2007

Totals, Low-Rent	East	West	Triangle
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Family/Elderly/Disabled Scattered Site?	Family/Elderly		Family	Elderly
	Yes	Yes	Yes	No
Age	1965-1984	1965-1981		1976
Recently Renovated?	No	No		No
Units	758	241	296	221
Average Bedroom Size	2	2.00	2.00	2.00
% Occupancy	96.67%	96.00%	96.00%	98.00%
# of Turn-overs	158	48	63	47

REVENUE

Dwelling Rentals	\$ 202.59	\$ 202.40	\$ 193.24	\$ 212.13
Non-dwelling Rentals	\$ 3.28	\$ -	\$ -	\$ 9.83
Non-Utility Subsidy	\$ 119.30	\$ 119.19	\$ 113.80	\$ 124.92
Utility Subsidy	\$ 36.09	\$ 36.05	\$ 34.42	\$ 37.79
Add-on Subsidies	\$ -	\$ -	\$ -	\$ -
Transfer in (Fungibility)	\$ 5.67	\$ 17.02	\$ -	\$ -
Transfer From Capital Fund	\$ 9.84	\$ 14.75	\$ 14.75	\$ -
Transfer From COCC	\$ 13.45	\$ 25.92	\$ 14.44	\$ -
Tenant Services Grant	\$ 7.84	\$ -	\$ -	\$ 23.51
Investment Income	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 1.84	\$ 1.84	\$ 1.76	\$ 1.93
Total Revenue	\$ 399.91	\$ 417.18	\$ 372.12	\$ 410.12

EXPENSES

Administrative Salaries	\$ 37.08	\$ 45.54	\$ 31.04	\$ 34.66
Overtime	\$ 1.38	\$ 1.56	\$ 1.76	\$ 0.80
Benefits	\$ 10.37	\$ 12.98	\$ 8.54	\$ 9.59
Audit	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.65
Management Fee	\$ 37.42	\$ 36.90	\$ 36.90	\$ 38.45
Bookkeeping Fee	\$ 7.01	\$ 6.91	\$ 6.91	\$ 7.20
Bad Debts	\$ -	\$ -	\$ -	\$ -
Telecommunications	\$ 0.58	\$ 0.69	\$ 0.56	\$ 0.50
Computer Support	\$ 1.98	\$ 2.03	\$ 1.65	\$ 2.25
Legal	\$ -	\$ -	\$ -	\$ -
Screening	\$ 0.08	\$ 0.10	\$ 0.06	\$ 0.07
Administrative Other	\$ 1.56	\$ 1.94	\$ 1.98	\$ 0.76
Advertising	\$ 0.41	\$ 0.26	\$ 0.98	\$ -
Total Administrative	\$ 54.08	\$ 65.73	\$ 47.21	\$ 49.29

Resident Services Salaries	\$ 11.10	\$ 15.51	\$ 12.40	\$ 5.39
Benefits	\$ 6.56	\$ 9.17	\$ 7.33	\$ 3.19
Resident Services Materials	\$ 0.44	\$ 0.62	\$ 0.49	\$ 0.21
Total Tenant Services	\$ 18.10	\$ 25.30	\$ 20.22	\$ 8.79

Gas	\$ 31.03	\$ 36.63	\$ 16.09	\$ 40.36
Electric	\$ 23.79	\$ 18.92	\$ 20.67	\$ 31.78
Water	\$ 5.13	\$ 6.86	\$ 5.35	\$ 3.18
Sewer	\$ 8.24	\$ 10.63	\$ 8.75	\$ 5.34
Storm Water	\$ 1.40	\$ 2.03	\$ 1.38	\$ 0.78
Total Utilities	\$ 69.58	\$ 75.06	\$ 52.24	\$ 81.45

Central Maintenance Charges - General Maint	\$ 78.18	\$ 82.69	\$ 78.28	\$ 73.56
Central Maintenance Charges - painting	\$ 14.13	\$ 18.08	\$ 11.22	\$ 13.10
Central Maintenance Charges - Custodial	\$ 11.72	\$ 11.64	\$ 11.64	\$ 11.88
Overtime	\$ -	\$ -	\$ -	\$ -
Vehicles	\$ 5.78	\$ 7.81	\$ 5.82	\$ 3.70
Equipment Rental	\$ 0.06	\$ 0.13	\$ -	\$ 0.07
Materials	\$ 13.78	\$ 12.90	\$ 14.33	\$ 14.11
Uniforms	\$ -	\$ -	\$ -	\$ -
Exterminating Contract	\$ 4.50	\$ 4.79	\$ 6.88	\$ 1.84
Trash Removal	\$ 6.57	\$ 9.48	\$ 6.17	\$ 4.05
Plumbing	\$ 0.53	\$ 0.51	\$ 0.88	\$ 0.19
Electrical	\$ 0.31	\$ 0.14	\$ 0.46	\$ 0.32
HVAC Service	\$ 0.59	\$ 0.80	\$ 0.59	\$ 0.38
Janitorial Services	\$ 3.51	\$ 1.85	\$ 3.01	\$ 5.65
Painting	\$ 10.74	\$ 9.62	\$ 16.32	\$ 6.27
Landscape Contract	\$ 0.00	\$ 0.00	\$ -	\$ -
Maintenance Other	\$ 0.03	\$ -	\$ 0.10	\$ -
Elevator Contract	\$ 1.35	\$ -	\$ 1.76	\$ 2.30
Miscellaneous Contracts	\$ 5.76	\$ 4.77	\$ 8.08	\$ 4.42
Total Maintenance	\$ 157.54	\$ 165.22	\$ 165.54	\$ 141.84

Security Labor	\$ -	\$ -	\$ -	\$ -
Benefits (35%)	\$ -	\$ -	\$ -	\$ -
Materials	\$ -	\$ -	\$ -	\$ -
Contracts	\$ 14.86	\$ 14.75	\$ 14.75	\$ 15.06
Total Protective Services	\$ 14.86	\$ 14.75	\$ 14.75	\$ 15.06

Insurance	\$ -	\$ -	\$ -	\$ -
PILOT	\$ 12.29	\$ 11.76	\$ 13.24	\$ 11.86
Workers Compensation	\$ 0.73	\$ 0.86	\$ 0.70	\$ 0.64
Other	\$ 14.78	\$ 14.70	\$ 14.70	\$ 14.93
Total General Expenses	\$ 27.79	\$ 27.31	\$ 28.64	\$ 27.43

Total Expenses, excl. Asset Management	\$ 386.37	\$ 417.18	\$ 372.42	\$ 369.51
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Transfers Out	\$ 6.32	\$ -	\$ -	\$ 18.95
Asset Management	\$ 3.23	\$ -	\$ -	\$ 9.70

Total Expenses	\$ 395.92	\$ 417.18	\$ 372.42	\$ 398.17
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Cash Flow from Operations	\$ 3.98	\$ 0.00	\$ 0.00	\$ 11.95
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Administrative Salaries + Benefits				
Site Manager	\$ 21.53	\$ 13.39	\$ 14.73	
Assistant Manager	\$ 13.43	\$ 9.60	\$ 11.10	
Receptionist	\$ -	\$ -	\$ -	
Centralized Eligibility	\$ 2.53	\$ 1.57	\$ 1.83	
Centralized Screening	\$ 2.53	\$ 1.57	\$ 1.83	
Centralized Wait List	\$ 1.61	\$ 1.00	\$ 1.17	
Centralized Purc	\$ 3.92	\$ 3.92	\$ 4.00	
Total Admin Salaries	\$ 45.54	\$ 31.04	\$ 34.66	