PUBLIC HOUSING AGENCY
SAINT PAUL

November 6, 2006

Office of the General Counsel
Rules Docket Clerk
Room 10276
U.S. Department of Housing & Urban Development
451 Seventh Street SW
Washington, DC 20410-0001

Submitted Electronically via
Federal eRulemaking Portal

RE: **Comments on HUD Guidance on Implementation of Asset Management;**
Public Housing Operating Fund Program;
Docket No. FR-5099-N-01
Published 9/6/2006; 71 Fed. Reg. 52710

The St. Paul Public Housing Agency (PHA) submits the following comments regarding HUD's "Guidance on Implementation of Asset Management". The Saint Paul Public Housing Agency is an independent governmental agency which owns and manages over 4,300 public housing dwelling units and administers over 4,000 Section 8 Housing Choice Vouchers in the City of Saint Paul, Minnesota. The PHA has been rated a "High Performer" agency every year under PHAS and PHMAP. Our public housing occupancy levels routinely exceed 99%, even including units undergoing modernization.

Please note that all of these comments are "subject to appropriations", as HUD's implementation guidance and timelines should be. The public housing operating fund will only receive 75-78 percent of its eligible funding in 2007. With such drastic cuts to the Public Housing Operating Fund (and Capital Fund) by the Administration and Congress, the difficult implementation task before us borders on the impossible. Without adequate, predictable funding, most housing agencies will be impaired in their ability to restructure their budgeting and accounting systems and make the complex management decisions necessary to the transition to the asset management model HUD is requiring. To go ahead with the transition, PHA's need to rely on receiving the full funding amount promised by the new formula. After all, that is the amount that is needed to administer well-run public housing, according to the rule. HUD should be flexible in its asset management guidelines in order to allow HAs the leeway to maximize these insufficient resources. (Under the new allocation formula the St. Paul PHA is eligible for significantly higher funding than under the old formula, but at the current and proposed appropriation levels, this agency would receive little or no increase.)

Crucial Unresolved Problems in HUD's Asset Management
<u>Property Management Fees</u>

- HUD's proposed property management fee may not be adequate to support the St. Paul PHA's central office functions. However, regardless of the sufficiency of the fee to support any particular agency, we believe that HUD should not dictate the amount of the management fee to any agency.

- HUD's method for determining property management fees mistakenly relies only on FHA properties as benchmarks. To be valid, the private sector properties most comparable to public housing should be used, and then the fees should be adjusted for public housing's unique operating and regulatory environment. The fee also should be inflated to the period for which it will be used.
- HUD's timetable is too aggressive. Conversion to asset management is not required until 2011, but HUD is imposing its management fee schedules on PHA's in 2008. That appears to violate the implementation schedule by forcing PHA's to convert before 2011.

<u>Bookkeeping Fees</u>

- Out of the $7.50 PUM bookkeeping fee, HUD designates $3.50 PUM for the public housing bookkeeping/accounting function, with the remainder going toward computer (information systems) and human resources functions.
- <u>These amounts are grossly inadequate for this PHA:</u> Our total cost for Finance Department staff and overhead for public housing operations is about $21.50, or $9.40 for salaries and benefits only. Adding in our information systems operations, our total cost is over $31.00 PUM. In training sessions HUD staff have said that PHA's can supplement the $7.50/$3.50 with other central office funds. However, the point remains that the $7.50/3.50 are clearly insufficient, underscoring the fact that HUD should not try to micromanage PHA operating costs and fees.
- We understand that thousands of properties in the FHA database reported no bookkeeping fee at all. If that is the case, HUD does not have a valid basis for setting such a low fee.
- HUD should not take a median amount for one group (FHA properties) and make it a cap for another (HAs), as that cap is clearly insufficient for at least half the properties of even the benchmark group.

<u>Asset Management Fee</u>

- This is one of the guidance points that can only be "subject to appropriations." If appropriations are insufficient to provide full funding to asset management projects (AMPs), they will not have sufficient cash flow to support the $10 PUM fee. This uncertainty makes budgeting for the AMPs or the COCC very difficult. The asset management fee should be decoupled from the AMP cash flow requirement for at least two years when appropriations fall short of full funding in a single year. (Funding shortfalls in one year may require expenses to be deferred until the following year, affecting the AMP's cash flow for two or more years.)
- HUD's proposed $10 PUM is not sufficient, based on competitively-bid project-based Section 8 contract administrators performing similar functions.
- We understand that the average cash flow (profit) in the FHA database was $76 PUM. That demonstrates that the $10 PUM proposed by HUD is clearly inadequate.

<u>Central vs. Front-Line Expenses</u>

- HUD should not dictate to PHA's which expenses should be "front-line expenses", as opposed to "fee expenses". This is another aspect of HUD's unnecessary, intrusive and ill-informed efforts to micromanage PHA operations.
- For example, the St. Paul PHA uses centralized procurement effectively, and we intend to continue to do so whether it is considered a "front-line expense" charged to asset management projects (AMPs) or a "fee expense" service provided by the Central Office Cost Center (COCC). HUD should not be concerned with how the St. Paul PHA performs centralized procurement, or which way we assign the costs. It follows that HUD should not be concerned with the total amount St. Paul shows as COCC costs, as opposed to front-line AMP costs, so long as the total costs are reasonable and are covered by the PHA's revenues.
- When done properly, centralized procurement is a cost-effective, sound management practice that reduces fraud and ensures that the PHA receives quality products and services at a competitive price. HUD should encourage the practice, not discourage it by declaring it to be a "fee expense" service subject to the COCC fee limit.
- To avoid the potential problem created by a low COCC fee limit, this PHA has considered the option of the COCC invoicing the AMPs for the cost of central procurement for products and services. For example, we have elevators in 16 hi-rises and two community centers, properties that are now assigned to seven different asset management projects (AMPs). We know that the elevator maintenance and service contract should be awarded and administered centrally, not farmed out to seven different management units. (Our centralized Maintenance Contracts staff has the expertise to draft the proper contract specifications, advertise for bids, evaluate the bids and the bidders' qualifications, award and administer the multi-year contract.) We could invoice each of the seven AMPs that have elevators, to cover the cost of centrally procuring the service contracts, but the extra bookkeeping activity (multiplied by all of the types of central procurement) undercuts at least some of the efficiency of central procurement.
- To carry the asset-management principle even further in the case of elevator maintenance contracts, the PHA could divide the central procurement costs disproportionately, considering not only the number of elevators in a project, but the individual factors that might raise or lower the cost of the contract services, including the location, age and condition of the elevator(s) at each building. We could say it was "more fair" for the project with the elevators most in need of frequent service calls to pay more for procuring and administering the contract. The result, of course, could be a system that is <u>totally unworkable and totally unnecessary</u>.
- As long as PHA's do not have control over the revenue side of asset management (because public housing rents are still controlled by federal statutes), it is meaningless to fine-tune the expense side by pushing costs to the AMP or to the COCC.

<u>Excess Cash</u>

- Again, this is one of the guidance points that can only be "subject to appropriations." Agencies should not need to have one month's reserve to be eligible for the asset management fee if HUD fails to provide 100 percent of funding.

Capital Fund Program (CFP)

- CFP funds used for operations should be eligible for the central office cost center (COCC), as permitted by QHWRA.
- Housing agencies should be able to draw down funding for CFP administrative expenses as needed, rather than based on capital fund expenditures.

PHAS

- HUD acknowledges that "The move to asset management will require HUD to revise the PHAS." (71 Fed.Reg. 52712) HUD's initial plan for a transition year using the prior PHAS score is adequate, at least for PHA's with high current scores.
- The current entity-wide PHAS assessment system should not simply be pushed down to the property level. As an entity-wide system it is less than ideal, but at an AMP level it will be burdensome without producing useful results. As PHADA has noted, a project-based PHAS should not include any requirements that exceed those used to assess non-public housing multifamily properties. If FHA properties formed the basis for the new funding structure, no stricter REAC/PHAS standards should be applied to PHA's.

In conclusion, HUD should not "micromanage" local housing operations under the guise of providing "guidance" on implementing asset management. Instead HUD should allow local agencies considerable flexibility in the timing and form of implementing asset management. HUD should focus on helping those local agencies that need to remedy substandard performance, and give high performing agencies great leeway to maintain and improve their programs. This is especially important in years when Congressional appropriations are fall short of the amounts needed to fully fund the Public Housing Operating Fund and Capital Fund.

We support the comments submitted by the Public Housing Authorities Directors Association (PHADA), the Council of Large Public Housing Authorities (CLPHA) and the National Association of Housing & Redevelopment Officials (NAHRO).

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Cc: PHA Board of Commissioners
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