

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-4509-N-01]

Public Housing Assessment System (PHAS) Information About PHAS Scoring: Introduction

AGENCY: Office of the Director of the Real Estate Assessment Center, HUD.

ACTION: Notice.

SUMMARY: HUD's Public Housing Assessment System (PHAS), established by final rule published on September 1, 1998, provides for a new system for the assessment of America's public housing. Under the PHAS, HUD evaluates a public housing agency (PHA) 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 resident's assessment (through a resident survey) of the PHA's performance. This notice, together with five other notices published in today's **Federal Register**, provide additional information about the PHAS scoring process under each of the four indicators and other relevant information about PHAS scoring.

FOR FURTHER INFORMATION CONTACT: For further information contact, Wanda Funk, Real Estate Assessment Center, Department of Housing and Urban Development, 1280 Maryland Avenue, SW, Suite 800, Washington, DC 20024; telephone Customer Service Center at 1-888-245-4860 (this is a toll-free number). Persons with hearing or speech impairments may access that number via TTY by calling the Federal Information Relay Service at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

I. Background—The Public Housing Assessment System (PHAS)

A. 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 is designed to enhance public trust by creating a comprehensive oversight tool that effectively and fairly measures a PHA based on standards that are objective and uniform. The PHAS becomes effective for all PHAs with fiscal years ending on and after September 30, 1999. HUD's Real Estate Assessment Center (REAC) is charged with the responsibility for assessing and scoring the performance of PHAs under the PHAS.

This notice provides an overview of the PHAS. The information provided in this notice is based largely on the preamble to the PHAS final rule published on September 1, 1998. Although the Quality Housing and Work Responsibility Act of 1998 (title V of the FY 1999 HUD Appropriations Act, Pub. L. 105-276, 112 Stat. 2461, approved October 21, 1998) (QHWRA) makes changes to the U.S. Housing Act of 1937 (1937 Act) that affect the PHAS, these changes will be the subject of future proposed rulemaking.

Under the PHAS, HUD examines four essential areas of public housing operations to determine a PHA's performance in delivering HUD programs and services. These areas of operations (or indicators of a PHA's performance) are:

- (1) The physical condition of a PHA's public housing properties;
- (2) The PHA's financial condition;
- (3) The PHA's management operations; and
- (4) The resident's satisfaction (through a resident survey) with the PHA's services.

1. PHAS Indicator #1—Physical Condition of PHA Properties

The Physical Condition Indicator, PHAS Indicator #1, provides for the assessment of the physical condition of the PHA's properties. A PHA must maintain its public housing in a manner that meets HUD's Uniform Physical Condition Standards, established in a September 1, 1998 final rule of the same name (63 FR 46566) and incorporated in the PHAS final rule. These standards are intended to ensure that public housing (as well as other HUD assisted housing) are maintained in a condition that is decent, safe, sanitary and in good repair. The standards address six major areas of the housing to be evaluated:

- (1) Site;
- (2) Building exterior;
- (3) Building systems;
- (4) Dwelling units;
- (5) Common areas; and
- (6) Health and safety.

In establishing uniform physical condition standards, HUD believed that housing assisted under its programs should be subject to uniform standards, and that the source of the HUD subsidy should not determine the standards to which the housing is subject. Additionally, HUD believes that the physical inspection procedures by which the standards will be assessed should be uniform and consistent. To provide for uniformity in inspection, HUD developed and has implemented a new computer-driven physical

inspection protocol. The computer program guides an inspector through the inspection prompting the necessary observations to be made regarding the condition of the property. The computer program is based on substantially objective observations, which significantly minimize the possibility for subjective interpretation of the physical condition standards. The results of the inspection are electronically transferred to HUD.

To ensure the independence of the physical inspection, HUD has entered into contracts with private inspection firms to perform the inspection. All inspectors are trained under HUD auspices in the use of the inspection protocol. Upon becoming certified, inspectors obtain their PHA inspection assignment from the REAC. The inspector downloads the property profile information on the selected PHA's development via the internet from the HUD Home page. The inspector then completes the inspection using a hand-held computer that uses the HUD software. After the inspection is completed, the inspector will upload the inspection results to HUD's central information data repository (CIDR) where it will be verified for accuracy and then scored.

Total Points for PHAS Indicator #1. The total point value of the Physical Condition Indicator is 30 of the 100 points available under the PHAS. In order to receive a passing score on the Physical Condition Indicator, a PHA must receive a score of at least 60 percent of the 30 points available.

2. PHAS Indicator #2—Financial Condition

The Financial Condition Indicator, PHAS Indicator #2, provides for the assessment of the PHA's financial condition. Specifically, this indicator measures whether a PHA has sufficient financial resources and is managing those financial resources effectively to support the provision of decent, safe, and sanitary housing to its residents. A PHA's financial condition is measured on the basis of uniform financial reporting standards.

In a final rule published on September 1, 1998 (63 FR 46582), HUD issued uniform financial reporting standards for HUD housing programs. This final rule requires PHAs and owners of multifamily properties to prepare the financial information that these entities already submit to HUD annually, in accordance with generally accepted accounting principles (GAAP) and to submit these reports electronically. While the September 1, 1998 final rule titled "Uniform

Financial Reporting Standards for HUD Housing Programs" applies to PHAs, the September 1, 1998 PHAS final rule incorporates these standards and requirements.

The key indicators used to determine a PHA's financial condition include:

- (1) *Current Ratio*—current assets divided by current liabilities;
- (2) *Number of Months Expendable Fund Balance*—number of months a PHA can operate on the Expendable Fund Balance without additional resources; Expendable Fund Balance is the portion of the fund balance representing expendable available financial resources; unreserved and undesignated fund balance;
- (3) *Days Receivable Outstanding*—average number of days tenant receivables are outstanding;
- (4) *Vacancy Loss*—loss of potential rent due to vacancy;
- (5) *Expense Management/Energy Consumption*—expense per unit for key expenses, including energy consumption, and other expenses such as utilities, maintenance, security; and
- (6) *Net Income or Loss divided by the Expendable Fund Balance*—measures how the year's operations have affected the PHA's viability.

Additional components may be used to identify circumstances in which there exists the possibility of higher risk of waste, fraud and abuse. These components will be used to detect fraud and will be used to generate "flags" that will signal field staff, Enforcement Center staff, or fraud investigators to take appropriate action. These components will primarily relate to financial management, but may also be used to provide a PHA with benchmarking information to allow the PHA to measure its own performance against its peers. For example, HUD will look to the Audit Opinion to provide an additional basis for accepting or adjusting financial indicator scores.

Total Points for PHAS Indicator #2. The total point value of the Financial Condition Indicator is 30 of the 100 points available under the PHAS. In order to receive a passing score on the Financial Condition Indicator, a PHA must receive a score of at least 60 percent of the 30 points available.

3. PHAS Indicator #3—Management Operations.

The Management Operations Indicator, PHAS Indicator #3, provides for the assessment of a PHA's management operations. This indicator basically reflects the requirements of the Public Housing Management Assessment Program (PHMAP), the predecessor to the PHAS.

The PHAS preserves the statutory indicators found in section 6(j) of the U.S. Housing Act of 1937 Act (1937 Act), with some minor reorganization (from that in the PHMAP) which is designed to reflect their integration into the broader PHAS assessment and to establish their new point values within the PHAS. The statutory indicators are:

- (1) Vacancy rate;
- (2) Unexpended Section 14 (of the 1937 Act) funds;¹
- (3) Rents uncollected;
- (4) Energy consumption;²
- (5) Unit turn-around time;
- (6) Outstanding work orders; and
- (7) Annual inspection of units.

The Management Operations Indicator of the PHAS incorporates the seven statutory indicators of section 6(j) of the 1937 Act. As is the case under PHMAP, statutory indicators (1) and (5) are combined under the new PHAS. The statutory energy consumption indicator is part of PHAS Indicator #2 (Financial Condition). Under PHMAP, the energy consumption indicator is part of the financial management indicator. The energy/utility consumption expenses faced by a PHA on an annual basis will be part of the PHA's annual financial report to HUD.

With respect to PHMAP non-statutory indicators, the security indicator remains part of the Management Operations assessment under the PHAS. The resident services and community building indicator is now replaced by a separate indicator (PHAS Indicator #4—Resident Service and Satisfaction). Similarly, the financial condition indicator is now replaced by a separate indicator (PHAS Indicator #2, Financial Condition).

The analysis of the individual statutory management indicators will not deviate significantly from the existing assessment system. Scores will continue to be based on a PHA's certification to the various management operations indicators. As under PHMAP, for the Management Operations Indicator of the PHAS, a PHA will submit certifications as to its

¹ Note that although unexpended section 14 funds was a statutory indicator at the time of issuance of the PHAS final rule, section 522 of QHWRRA repeals section 14 of the 1937 Act. QHWRRA replaces the unexpended section 14 funds indicator with amount and percentage of funds provided to the PHA from the Capital Fund which remains unobligated by the PHA after 3 years. HUD is currently undergoing negotiated rulemaking to develop a proposed rule for the Capital Fund. The change in indicators will be addressed by the proposed rule, to be published later, that will make changes to the PHAS.

² The QHWRRA replaces energy consumption with utility consumption. Again this change will be made in the upcoming PHAS proposed rule.

performance under each of the management indicators, and a PHA's certifications will be subject to independent verification. Appropriate sanctions for intentional false certification will be imposed, including civil penalties, suspension or debarment of the signatories.

Total Points for PHAS Indicator #3. The total point value of the Management Operations Indicator is 30 of the 100 points available under the PHAS. In order to receive a passing score on the Indicator #3 (Management Operations), a PHA must receive a score of at least 60 percent of the 30 points available.

4. PHAS Indicator #4—Resident Service and Satisfaction.

The Resident Service and Satisfaction Indicator, PHAS Indicator #4, assesses the level of resident satisfaction with PHA housing and services. This PHAS Indicator consists of existing PHMAP Indicator #7, resident services and community building, revised to (1) be consistent with the framework of the new PHAS, and (2) provide a separate resident services satisfaction survey. The objective of PHAS Indicator #4 is to measure the level of resident satisfaction with living conditions at the PHA's properties.

To achieve an acceptable score under this indicator, a PHA must obtain a response from a statistically significant sample of public housing residents. The PHA will be responsible for developing a follow-up plan to address issues resulting from the survey. The resident service and satisfaction assessment score will include two components of the survey process, plus a threshold requirement.

(1) The first component will be the score of the survey results. The survey content will focus on resident evaluation of overall living conditions to include topics such as: (i) maintenance and repair (i.e., work order response); (ii) communications (i.e., perceived effectiveness); (iii) safety (i.e., perceived perception of personal security); (iv) services (i.e., recreation and personal programs); and (v) neighborhood appearance.

(2) The second component will be a score based on the PHA's level of implementation and its follow-up or corrective actions based on the results of the survey.

(3) The third component, the threshold requirement, which is not scored, is verification that the survey process was managed in a manner consistent with guidance provided by HUD, or if the survey results are determined to be altered by the PHA.

Total Points for PHAS Indicator #4. The total point value of the Resident Service and Satisfaction Indicator is 10 of the 100 points available under the PHAS. A PHA will not receive any points if the survey is not conducted in accordance with HUD prescribed methodology or if the survey results are determined to be altered by the PHA.

B. PHAS Assessment Periods and Reporting Dates

The September 1, 1998 PHAS final rule provides for the new PHAS to become effective for PHAs with fiscal years ending September 1999 and later. Financial reports due for PHAs with fiscal years ending in September 1999 and later must be prepared on a GAAP basis.

The first scores under PHAS will be issued not later than December 1999 for PHAS with fiscal years ending September 1999. From the date of the September 1, 1998 PHAS final rule, PHAs are provided one year before the new PHAS scores are issued. Until September 30, 1999, PHAs will continue to be scored under the current PHMAP. The implementation schedule for PHAS reporting by PHAs is described on the following table:

REAL ESTATE ASSESSMENT CENTER (REAC) ASSESSMENT PERIODS AND REPORTING DATES

REAC assessment results		Financial reporting	Physical inspection	Management operations	Resident survey
Score issued	Period covered Fiscal Year End ¹	Due date ²	Inspection dates ³	Submission due date ⁴	Survey dates ⁵
12/1999	9-30-99	11-30-99	7/99-9/99	11-30-99	4/99-9/99
03/2000	12-31-99	2-28-2000	10/99-12/99	2-28-2000	10/99 12/99
06/2000	3-31-2000	5-31-2000	1/2000-3/2000	5-31-2000	1/2000-3/2000
09/2000	6-30-2000	8-31-2000	4/2000-6/2000	8-31-2000	4/2000-6/2000
12/2000	9-30-2000	11-30-2000	7/2000-9/2000	11-30-2000	7/2000-9/2000

Notes:

¹ The period covered for each indicator will be the PHA's entire fiscal year ending on dates shown above. Once the new PHAS is effective, a PHA cannot change its fiscal year for a period of 3 years.

² PHAs with fiscal years ending 9-30-99 and later must provide GAAP financial reports. These reports must be provided by electronic submission not later than 60 days after the end of the PHA's FY. Audited GAAP reports (due 9 months after the close of the FY in accordance with the Single Audit Act and OMB Circular A-133) will be used to update and confirm unaudited financial results. If significant differences are noted between unaudited and audited results, scoring penalties will apply. For those PHAs that spend less than \$300,000 of Federal funds, HUD cannot require or pay for an audit in accordance with the Single Audit Act. HUD, however, can require and pay for an "Agreed-Upon Procedures" report that could be specifically directed at verifying calculations.

³ Physical inspections will be scheduled to approximate the new PHAS calculation dates; i.e. within the final quarter of the PHA's fiscal year.

⁴ The certifications and supporting documentation required for the Management Operations Indicator will be due 60 days after the end of the PHA's fiscal year.

⁵ Resident surveys will be required to be conducted during the course of a PHA's fiscal year and will be required to be submitted by a PHA at the time that the PHA submits the certifications required under the Management Operations Indicator.

C. PHAS Advisory Scores

During this one year transition period, the September 1, 1998 final rule advised that advisory scores for physical condition and financial management may be issued to provide guidance to PHAs. On December 31, 1998 (63 FR 72319), HUD published a notice that advised of REAC's intent to issue advisory scores. The notice provided in relevant part as follows:

The REAC intends to provide every PHA with an advisory score before the PHA receives its official PHAS score. The REAC, however, will issue advisory PHAS scores only after it has a complete set of data for all four indicators. With respect to Indicator #1 (Physical Condition), the REAC is responsible for assessing the physical condition of PHA properties and therefore receives this indicator information firsthand. Information regarding the other indicators is provided to the REAC by the PHAs (as for example, the PHA annual financial reports). If the PHA fails to timely submit this information to the REAC, then issuance of the PHAS advisory score will be delayed until the REAC receives the necessary information. (63 FR 72319)

The December 31, 1998 Notice also presented the schedule for providing advisory scores to PHAs.

D. Scoring Performance Under the PHAS and Consequences of the Score

In order to determine a composite score for each PHA, the four PHAS Indicators will be individually scored and then combined to present a composite score that reflects the overall performance of PHAS for a total of 100 possible points. Again, the 100 points are distributed among the four PHAS Indicators as follows:

(1) Physical Condition—Maximum 30 Points: The PHA's score is based on the results of physical inspections of PHA properties performed by REAC contractors. The results are electronically transmitted to the REAC.

(2) Financial Condition—Maximum 30 Points: The PHA's score is based on unaudited generally accepted accounting principles (GAAP) electronically submitted by the PHA to the REAC. The PHA's submission is audited by an Independent Public Accountant (IPA), as required under the Office of Management and Budget

Circular A-133, and the audit results electronically transmitted to the REAC.

(3) Management Operations—Maximum 30 Points: The PHA's score is based on an electronic certification made by the PHA and verified by an IPA. This performance indicator uses six of the same indicators as the current Public Housing Management Assessment Program.

(4) Resident Service and Satisfaction—Maximum 10 Points: The PHA's score is based, in part, on responses to a resident survey managed by the PHA and collected by the REAC. The PHA's score is also based on the PHA's implementation of the resident survey and the PHA's follow-up actions on survey results. This part of the score is an electronic certification made by the PHA and verified by an IPA.

On the basis of these four indicators, HUD's REAC calculates a composite score for each PHA. The PHAS composite score represents a single score for a PHA's entire operation under the four indicators. The PHAS composite score will determine whether a PHA is performing well or is not performing well. The PHAS composite

score is derived from the scores calculated for each of the four indicators. The composite PHAS score will be issued by the REAC for each PHA 60 to 90 calendar days after the end of a PHA's fiscal year. Adjustments to the PHAS score may be made after a PHA's audit report for the year being assessed is transmitted to the REAC. If significant differences (as defined in GAAP guidance materials provided to PHAs) are noted between the unaudited and audited results, a PHA's PHAS score will be raised or lowered, as applicable, in accordance with the audited results.

Based on its overall PHAS score, a PHA will fall into one of three categories:

High Performer. A PHA that achieves a score of at least 60 percent of the points available under each of the four PHAS Indicators, and achieves an overall PHAS score of 90 percent or greater shall be designated a high performer. A PHA shall not be designated a high performer if it scores below the threshold established for any indicator. High performers will be afforded incentives that include relief from reporting and other requirements.

Standard Performer. A PHA that achieves a total score of less than 90% but not less than 60% shall be designated as a standard performer. All standard performers must correct reported deficiencies. A standard performer PHA that receives a score of less than 70% but not less than 60% will be referred to the appropriate HUD area HUB/Program Center and will be required to submit an improvement plan

to correct and eliminate deficiencies in the PHA's performance. Standard performers that receive a score over 70% may also be required to submit an improvement plan to correct or eliminate any deficiency. A PHA that achieves a score of less than 60 percent of the total points available under PHAS Indicators #1, #2, or #3 shall not be designated a standard performer, but shall be designated a troubled performer.

Troubled Performer. A PHA that achieves a total PHAS score of less than 60 percent, or achieves a score of less than 60 percent of the total points available under PHAS Indicators #1, #2, or #3, shall be designated as troubled, and referred to HUD's Troubled Agency Recovery Center (TARC) for oversight and remedial action. A PHA that does not correct identified deficiencies within a maximum of two years will be referred to HUD's Departmental Enforcement Center for further action. In accordance with section 6(j)(2) of the 1937 Act, a PHA that receives less than 60 percent of the maximum calculation for the modernization indicator under the PHAS Management Indicator (Indicator #3) may be subject to certain sanctions as provided in 24 CFR 902.67.

II. Information About the PHAS Scoring Process

Section I of this notice provided an overview of the new PHAS. More detailed information about the PHAS is available in the preamble to the PHAS final rule published on September 1, 1998, and in the PHAS regulations, codified in 24 CFR part 902. In the

preamble to the September 1, 1998 PHAS final rule, HUD stated that before the PHAS became fully operational in October 1999, HUD would make available additional documents, guidance, and assistance about the processes of the new PHAS (63 FR 46598). HUD's December 31, 1998 notice provided information about the advisory score process. The notices that follow this introductory notice are specifically directed to providing further information about the PHAS scoring process for each of the four indicators. The notices, published in today's **Federal Register**, and that immediately follow this introductory notice are:

- Notice of PHAS Physical Condition Scoring
- Notice of PHAS Appeals and Technical Review of Physical Inspection Results
- Notice of PHAS Financial Condition Scoring
- Notice of Management Operations Scoring
- Notice of Resident Service and Satisfaction Scoring

As the notices describing the processes will show, the PHAS is designed to provide relevant and verifiable measures that directly relate to PHA performance.

Dated: May 6, 1999.

Barbara L. Burkhalter,
Deputy Director, Real Estate Assessment Center.

[FR Doc. 99-11911 Filed 5-12-99; 8:45 am]

BILLING CODE 4210-32-P