

failure for that indicator is changed from 90 days to 49 days.

Overview of Changes

The following paragraphs describe the significant changes that will increase the fairness and accuracy of the assessments, and allow for more flexibility and regulatory relief for PHAs, while at the same time holding them increasingly accountable for performance.

- Under the proposed PHAS system, PHAs would receive an overall PHAS grade, four indicator grades, and sub-indicator/component grades. This grading system would replace the scoring system of the current regulation. The grades would be A, B, C, D, and F. The sub-indicator/component grades would determine the indicator grade. The four indicator grades would determine the overall PHAS grade. The weight of each of the four indicators would remain the same, *i.e.*, 30 percent for the physical condition indicator, 30 percent for the financial condition indicator, 30 percent for the management operations indicator, and 10 percent for the resident service and satisfaction indicator. To implement the new grading approach for assessing PHAs, HUD will publish five proposed grading notices for comment in the **Federal Register**.

- A new assessment schedule is being proposed which recognizes and rewards superior performance. The frequency of a PHA's assessments would be based on its PHAS designation. All PHAs would be assessed under the four PHAS indicators in the first year after implementation of the revised PHAS rule. Each PHA's designation from that year would serve as its baseline. That baseline designation would determine the PHA's next PHAS assessments. When a PHA is designated Grade A, under this proposal the PHA will next be assessed in three years. When a PHA is designated Grade B, under this proposal the PHA will next be assessed in two years. When a PHA is designated Grade C, D, or F, under this proposal the PHA will be assessed the next year. Thereafter, the PHA's most recent designation would determine the intervals between PHAS assessments. These assessment intervals and the grading bands are modeled after those HUD uses for physical inspections of multifamily housing.

- The designations "high performer, standard performer, and troubled performer," would be replaced with grade designations. The grades proposed are A, B, C, D, and F, with A being the highest, similar to a "high performer"

under the current system, and F being the lowest.

- For a PHA that receives an overall PHAS grade of A, B or C, and that does not receive a grade of less than C in any of the indicators, the PHA's overall grade would serve as its designation. However, a PHA that receives a grade D in one or more indicators would be designated Grade D, regardless of the overall grade. Similarly, a PHA that receives a grade F in any of the indicators would be designated Grade F, regardless of the overall grade. Finally, a PHA that receives a grade F in the Capital Fund management operations sub-indicator would be designated Capital Fund Grade F. This proposed grading system reflects the principle that designations signify the level of risk HUD assigns to PHAs, rather than a subjective categorization of their overall performance. A PHA that is underperforming in one or more indicators is assumed to be at higher risk than a PHA that is performing at a level of least C across the indicators. The designations of Grade D or Grade F for PHAs that under-perform in one or more indicators will reflect that heightened level of risk and will serve to increase the level of attention these PHAs receive from HUD field offices and other interested parties.

- HUD would continue to assess the physical condition of properties in compliance with HUD's housing standard of decent, safe, sanitary, and in good repair. The characterization and reporting of the results, however, would be changed. The proposed approach would continue to use the existing inspection methodology but would place a stronger emphasis on the concept of livability and the correction of EHS deficiencies. Specific deficiencies that have a direct impact on residents would be identified and categorized in the new deficiency class "livability." All EHS deficiencies would remain the same and require immediate correction or remedy. Deficiencies not classified as directly affecting livability or EHS concerns would be recorded and reported to the PHA, but will not impact a property's assessment grade.

- Under the proposed livability concept, the existing property level numeric scoring approach would be changed to a letter-based grading system of A, B, C, D, and F. PHAS Indicator #1 grades would then be derived from the property grades. As in the current regulation, PHAS Indicator #1 grades for PHAs with more than one property would be calculated as a weighted average of the individual property results using the number of dwelling units in each property as weights.

- The grading scale for the six Financial Condition Indicator components would be redistributed to allow equal weight for the financial condition and the financial management of a PHA.

- In the financial condition assessment, the penalty points for PHAs with high liquidity or reserves under CR and MEFB would be eliminated. This will prevent PHAs with high liquidity or reserves from being unfairly penalized.

- The proposed rule would reinstitute the peer group and threshold assessment methodologies for the CR and MEFB components of the Financial Condition Indicator. A PHA will receive a letter grade of A, B, C, D, or F for each component.

- The proposed rule would establish an additional size category in the financial condition peer groupings. The Large size-based category (*i.e.*, those PHAs administering 1,250 to 9,999 units) will be divided into two large peer groups: Large (1,250–4,999 units) and Very Large (5,000–9,999 units). Further analysis demonstrates there is a statistically significant difference in distribution of component values between the Large and Very Large size categories, and that this will lead to a more accurate assessment.

- The assessment thresholds for four of the financial condition components would be less stringent for small PHAs (less than 250 units).

- The number of components in MASS sub-indicator #2, Capital Fund, is proposed to be reduced from five to two. The two components that assess a PHA's compliance with statutory requirements for expending (component #1) and obligating (component #2) capital funds would be retained. Grade A would be available to PHAs whose time for obligation and expenditure is extended because of those exemptions for obligation of funds that are provided in the statute, including an exemption that the Secretary may establish by notice. The Grade F standard would apply if there are unexpended or unobligated funds for any other reason.

- Recognizing the importance of self-sufficiency to improving the lives of residents of public housing, the proposed PHAS amendment places greater emphasis on assessing a PHA's performance under HUD's various self-sufficiency programs. The management operations self-sufficiency sub-indicator would be amended to better capture the PHA's performance in administering the various self-sufficiency programs. Questions regarding self-sufficiency would also be added to the resident survey, as residents' awareness of these