

adjustments to physical inspection scores (as proposed, “grades”) would be reorganized and redesignated as § 902.26 (a) through (d). The language would be amended to clarify the circumstances in which a PHA may request a database adjustment.

*Section 902.27 (Physical condition portion of total PHAS points).* The title for this section would be changed to “Physical inspection report.” The material in § 902.26(a) that describes the physical inspection report would be moved to proposed § 902.27(a). The section would reflect the proposed new scoring based on grade and livability and the changes to the inspection report.

*Section 902.28 (Overall Physical Condition Indicator grade).* This is proposed as a new section. Paragraph (a) would describe the new system of property grades. Paragraph (b) would describe the impact of EHS deficiencies on property grades. Paragraph (c) would describe the requirements and consequences of PHA certification to EHS corrections, and to adjustments to physical condition and neighborhood environment. Paragraph (d) pertaining to the overall Physical Condition Indicator grade would contain the information in current § 902.25(d), with revisions reflecting the new grading system for PHA properties.

*Section 902.29 (Threshold).* This proposed new section would contain information pertaining to the performance threshold, currently found in § 902.25(e), revised to reflect the proposed grading system.

#### *Subpart C—PHAS Indicator #2: Financial Condition*

Most of the changes proposed to Subpart C are to provide clarification to the current regulation. Three of the changes would amend the financial condition grading. First, the reference in § 902.35(a)(3) to penalty points for PHAs with high liquidity or reserves under CR component and MEFB component would be eliminated. Second, the proposed § 902.35(d) amends the Occupancy Loss (OL) component to clarify that the calculation for OL would not include Section 8 assistance. Third, the grading thresholds for four of the components would be made less stringent for small PHAs (less than 250 units). Further changes to the financial condition grading will be provided in a separate PHAS Notice on the Financial Condition Grading Process.

*Section 902.30 (Financial condition assessment).* Paragraph (a) pertaining to the objective of the financial condition assessment would be moved to proposed § 902.1(b)(2). Proposed

§ 902.30(a) would state the annual financial filing requirement for both the unaudited and audited financial information, currently found in § 902.33(b) and (c). Proposed paragraph (b) contains the requirement for an IPA or CPA to certify to audited financial submissions. Proposed paragraph (c) contains the requirements and format of the financial information. Proposed paragraph (d) would list the components of the financial condition indicator. Proposed paragraph (e) would describe the annual electronic submission requirement for financial information.

*Section 902.33 (Financial reporting requirements).* The title for this section is proposed to be changed to “Financial condition grading.” Sections 902.33(a), (b), and (c) of the current rule would be moved to § 902.30 of this proposed rule. Proposed §§ 902.33(a) and (b) pertain to grading. The information in those sections is analogous to current § 902.35(a) on scoring, amended to clarify the role of peer groups in financial grading. Proposed paragraph (c) pertains to grade adjustments after submission of audited financial information, similar to § 902.63(b) of the current rule.

*Section 902.35 (Financial condition scoring and thresholds).* The title for this section is proposed to be changed to “Financial condition components.” Section 902.35(a) would be removed and replaced by proposed §§ 902.33(a) and (b). Section 902.35(a)(1) would be removed. Similar content would be reflected in the proposed rule § 902.9(c) on grading procedures, and § 902.33 on financial condition grading. Paragraph (a)(2), regarding PHAS advisory scores, is proposed to be removed because it is no longer applicable. Paragraph (a)(3) regarding penalty points for PHAs with high liquidity or reserves under CR component and MEFB component is proposed to be removed. HUD will no longer penalize a PHA for having high liquidity or reserves under either the CR component or MEFB component.

Section 902.35, as proposed, would only describe the six components of PHAS Indicator #2. The six components would remain the same as in current § 902.35(b) except for revisions to the Occupancy Loss component in proposed § 902.35(d) (currently in § 902.35(b)(4)).

*Section 902.37 (Financial condition portion of total PHAS points).* The title for this section would be changed to “Threshold.” This section is analogous to current § 902.35(c), revised to reflect the grading system.

#### *Subpart D—PHAS Indicator #3: Management Operations*

The Management Operations Indicator would be significantly changed, with new sections describing the general requirements for management operations assessments and grading. Two new components would be added, evaluating a PHA’s performance in the areas of income verification (#7) and tenant rent calculation (#8), in compliance with the President’s management agenda goal of reducing overpayments of rent subsidies. Each of the eight sub-indicators, including their components, specific exemptions, and grades are described in a separate section in this proposed rule. Each sub-indicator would be of equal weight. More detailed information is provided in the PHAS Notice on the Management Operations Grading Process.

*Section 902.40 (Management operations assessment and performance standards).* Paragraph (a) pertaining to objectives of the management operations assessment would be incorporated into proposed § 902.1(b)(3). Proposed § 902.40(c) lists the management operations sub-indicators, as well as the specific exemptions for two of the sub-indicators, the components and the ratings, of each sub-indicator and/or component. The grading for management operations would be a scale of grades A, B, C, D, and F. All of the sub-indicators would be graded either under the A, B, C, D, F scale, the A, C, F scale, or, in the case of the Capital Fund sub-indicator, the new rent and income verification sub-indicators, and two components of the security sub-indicator, on an A and F scale. Proposed paragraph (d) states that in the case of PHAs reviewed less often than annually under proposed § 902.13(a), the management operations certification shall include only information for the assessed fiscal year. Proposed paragraph (e) states the HUD existing requirement that the management operations submission is subject to the PHA’s annual audit. It would provide for HUD on-site review of the submission and supporting documentation. Paragraph (e) also proposes consequences for failure to maintain supporting documentation.

*Section 902.41 (Management operations sub-indicator #1—vacant unit turnaround time).* This proposed new section would state the specific exemptions for the vacant unit turnaround time sub-indicator, as well as guidance for maintaining documentation to support such exemptions (see proposed § 902.41(a)).