Rental Housing: Multifamily Management
MassHousing – Contract Administration Alert Monitoring System

Overview
The system of oversight required for successful Project Based Contract Administration for Section 8 Properties is not unlike a control panel at NASA. There are many switches and levers and buttons to monitor and adjust – and failing to pay attention to any one of them is done at considerable peril. The successful oversight of the control panel means that the Space Shuttle reaches its destination – accomplishes its mission and returns safely to Earth. For the oversight of the Contract Administration for Project-Based Section 8 properties the successful oversight of the control panel means that all deadlines are met, all issues are addressed on time and according to the system's requirements – and most importantly the Housing Finance Agency receives 100% of its possible fee income.

The Section 8 contract with HUD requires timely completion of specific tasks. The contract specifies a measure, the Acceptable Quality Level (AQL) that must be met for each task. The degree to which that metric is met, determines the amount of fee that HUD will pay for performance of that task. For some tasks, HUD will award an additional incentive payment for completion of the task at the 100% level. But at the same time, fees are reduced if an HFA's performance is below the AQL, and performance below a specific quality level will earn an HFA no fee at all. HUD may even assess a negative, or penalty fee against the Agency.

HFAs that serve as Contract Administrators for HUD must consider carefully each of the sixteen tasks that HUD has created in the universe of Contract Administration – and most importantly – analyze those tasks whose completion has been deemed the most important by virtue of the "value" that HUD assigns to that task. Frankly – this requires a good deal of analysis – because the methodology is not intuitive.

Illustrating the Potential…and the Problem
For example – Task 1 in Contract Administration is Management and Occupancy Reviews (MORs). HUD's incentive fee does not apply to all 16 tasks that HUD requires – but it does apply to Task 1. The Management and Occupancy Reviews Incentive Fee potential is 20% of the total possible fee, say $50,000 or $10,000 in this case. The Contract Administrator earns the Incentive Fee if 100% of the scheduled MORs are completed for the month. In a given scenario, this means 20 MORs. This fee calculation then, looks like this:

Task 1 – Management and Occupancy Reviews Incentive Fee Calculation

  ➢ scheduled for the month = 20
  ➢ started, completed and <u>reported</u> within 30 days of start date = 19
  ➢ AQL = 95% of scheduled work
  ➢ actual performance = 95%
  ➢ incentive performance level = 100%

  ➢ **INCENTIVE FEE EARNED = NONE**
  ➢ **FORFEITED INCENTIVE FEE = $10,000**

Another way to represent the Total Fee Earnings for Task 1 is as follows:

- ➢ Base fee = $8,000
- ➢ Incentive fee = $0
- ➢ Total earned fee = $8,000
- ➢ Potential fee = $18,000

- ➢ **PERCENT OF FEE ACHIEVED – 44.4%**

Consistently completing all tasks at the 100% level, therefore, is required to achieve the base and incentive fee – and from an income perspective for the HFA – failing to receive the incentive fee can represent a significant lost financial opportunity for the Agency.

The issue then becomes – how can an Agency ensure on-time completion of all required tasks. Each task demands a significant amount of staff time – especially for members of the Rental Management Staff who may have 16 to as many as 80 properties (depending on the task) for which they are responsible.

Establishing the Infrastructure for Outstanding Performance

MassHousing decided that it was imperative to establish an automated system of escalating alerts, in order to make the monitoring of these properties uniform across the Rental Management Division. This was critical as a way to manage workflow for the staff and to help structure the way that problems are addressed – according to the value that HUD has placed on each "task". It was also key to the goal of maximizing MassHousing's performance of the required tasks.

As such, over the course of the last several years, MassHousing has developed a suite of sophisticated tracking mechanisms. By establishing this network of "Alert Mechanisms", the appropriate staff members are reminded of the due dates for performing certain tasks. These alerts are designed to escalate in terms of staff notification based on the amount of time that has passed without an acceptable response. For example, the notification begins with the Subsidy Analyst and then escalates to the Subsidy Analyst team leader and beyond that to the Subsidy Officer and finally to the Quality Assurance Manager.

To ensure beneficial results, MassHousing has been selective in designing methods and choosing tools to support those "Alert Mechanisms" based on the volume and complexity of the task. The tools utilized include:

- OnBase enterprise content management software from Hyland Software Inc. This software allows MassHousing to automate business processes that reduce the time and cost of performing important business functions, thus improving organizational efficiency;

- Event Studio Software from COGNOS Inc. which allows MassHousing to define alerts and actions for exception-based reporting and notification;

- Intelligent Web content monitoring from Connotate Technologies that automates the ability to monitor and extract information from HUD web pages, and;

- Integrating these with email (in MassHousing's case – Outlook Email from Microsoft) for ease of use.

MassHousing's Performance Record

MassHousing has been very pleased with the results of this endeavor. Through the use of the Agency's Alert Monitoring System, MassHousing has achieved 100% contract compliance performance for 96 consecutive months running.

As importantly, the expenses that MassHousing incurred in the development of this Alert Monitoring System represent only **0.007%** of the fee earnings that the Agency received for the same time period.

The processes that MassHousing developed for its Contract Administration Alert Monitoring System can be replicated by any HFA who is also serving as Contract Administrator for HUD in its state. MassHousing did not develop all of these processes at once – rather they were implemented each in turn with the Agency investing more as it saw beneficial results. Each of the tools used can be implemented individually for benefit in one area or severally, as MassHousing has done, to achieve an overall operational benefit across the entire Section 8 contract.