

PHA Financial Management Training

Module 9 – Financial Ratios & Monitoring Reports

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Slide 1: (Title Slide) Module 9: Financial Ratios & Monitoring Reports

Welcome to the Public Housing Authority Financial Management Training. This session provides information on Financial Ratios and Monitoring Reports related to the Public Housing and Housing Choice Voucher programs.

Slide 2: Module 9 Topics

This session provides a brief introduction to ratio and trend analysis and the ratios that are used to assess PHAs under the Public Housing and Housing Choice voucher programs. Specifically, the session covers ratios that are currently used to assess PHAs and other financial ratios that HUD is considering as part of possible improvements to the Public Housing Assessment System (PHAS), the Section Eight Management Assessment Program (SEMAP) and for general monitoring. When viewing this training, PHAs should consider using these or similar ratios for their monitoring efforts. For each ratio, information is provided on the assessment results for each indicator at the national PHA portfolio level.

Lastly, the session provides suggestions on what PHAs should include in the board meeting package; program monitoring reports and dashboards; and the notable items report.

Slide 3: (Session Break) Introduction to Ratio & Trend Analysis

This section provides a brief overview of ratios and their use with trending for analysis.

Slide 4: Introduction to Ratio Analysis

We use ratios daily without realizing that we do so. **Ratios** are a way of expressing how much of one item there is compared to another item. Ratios are expressed in different ways. For example,

- Use of a colon to separate values, such as 3:1.
- Use of the word “to” to separate values, such as 3 to 1.
- Use of a fraction, for example: $\frac{1}{3}$
- Use of percentages, for example: 33%

Ratios are also referred to as indicators. Ratios or indicators are used in the Public Housing Assessment System or PHAS. Ratios are used to summarize and simplify large amounts of financial data into a few meaningful numbers. For example, rather than saying that the property has 157 of 165 units leased for the month, it would be more meaningful to say that the property is 95% leased.

Ratios are a quick and short-hand way of summarizing information into equivalent terms that could be easily understood. Ratios are used to compare two or more projects, similar programs, or PHAs. For example, the Executive Director could state that Property A’s current assets are \$100,000 and its current

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liabilities are also \$100,000 and Project B's current assets are \$750,000 and its current liabilities are \$150,000. Or, the Executive Director could use the quick ratio to let the Board know that Property A has a quick ratio of 1 and Property B has a quick ratio of 0.5. With this information, the Board should understand that Property A while not doing well, is at break-even and the property is able to cover its bills. In contrast, Property B is operating at a loss and is unable to pay its bills – for every dollar Property B owes, it can only pay 50 cents.

Lastly, ratios are also used to identify trends over time.

Slide 5: Introduction to Ratio Analysis (continued)

Ratio analysis examines different aspects of an entity's performance. For public housing, there are two basic types of ratios: liquidity and activity.

Liquidity ratios measure the ability of the PHA to remain in business. The Public Housing Assessment System or PHAS has two liquidity ratios or indicators under which PHAs are assessed: Quick Ratio and the Months Expendable Net Asset Ratio (MENAR).

Activity ratios assess the quality of the PHA management. PHAS activity ratios that are part of the PHAS management indicators include: Occupancy Rate and Tenants Account Receivable (TAR).

Who cares about these ratios for public housing? PHA management from the Board, to the Executive Director, to department heads, and property managers should be using these ratios to evaluate the PHA's performance. The ratios are also used by regulatory agencies such as HUD, the Inspector General's office, and the Office of Management and Budget to evaluate HUD's programs and requests for funding. Investors also use these ratios to evaluate the financing for PHA-proposed mixed-finance and tax credit properties.

The data used to calculate the PHAS indicators are based on the data PHAs submit to HUD's Financial Assessment system (FASS-PH) and HUD's PIC or VMS systems for unit and voucher information. PHAs can also use information in their own management systems to calculate other ratios.

Slide 6: Introduction to Trend Analysis

Trend analysis is a method of analysis that looks at a time series of the same or similar data, such as financial ratios, for comparison purpose.

- Trend analysis is used to project the future direction of a pattern. Is the next data point expected to show an increase or decrease, and the magnitude of the change.
- Trend analysis is also used to detect the general pattern of a relationship between variables. For example, the occupancy rate and total tenant revenue would be expected to trend in the same direction – higher occupancy rate should indicate higher total tenant revenue, and vice versa.

Trend analysis is incorporated into the program monitoring reports and dashboard reports that are provided with this training. Most reports display financial ratios, percentage change, and per unit cost data

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and show between 3 to 5 data points. These data points are typically displayed for comparison purposes as monthly, quarterly, or yearly data.

Slide 7: (Session Break) Public Housing Ratios

Next we will cover the public housing ratios that are currently used to assess PHAs under PHAS and additional ratios that HUD is considering as part of future reforms to PHAS or to improve its monitoring. Information is also provided on the assessment results for each indicator at the national PHA portfolio level.

Slide 8: Overview of Public Housing Ratios

Here we provide an overview of the public housing ratios that are discussed as part of this session. The financial and management ratios with an asterisk are used under the current PHAS assessment:

- Quick Ratio;
- Months Expendable Net Asset Ratio (MENAR);
- Occupancy Rate; and
- Tenant Account Receivable

Similar Net Income and Expense Management ratios were in earlier versions of the financial assessment for PHAS and are very good leading diagnostic indicators, especially when used with trending analysis.

Slide 9: PHAS Ratio Detail: Quick Ratio Calculation Example

Here we show how the financial and management ratios under PHAS are calculated. Board members and Executive Directors are not expected to calculate the ratios.

Using Quick Ratio as an example, the slide shows that:

- The calculation methodology for Quick Ratio is: $\text{Cash} + \text{Cash Equivalent} + \text{Current Receivables}$ divided by Current Liabilities.
- The source of the data is the PHA financial data that is submitted electronically to HUD's FASS-PH system using the Financial Data Schedule (FDS). The FDS mirrors a PHA's financial statements and contains accounting line numbers and associated line definitions that are prescribed by HUD.
- The FDS Line Item calculation for Quick Ratio are shown on the slide along with the line definitions for each accounting line number.

For example, "Cash" is FDS Lines 111, 114, and 115. These FDS lines are defined respectively as,

- FDS Line 111 is "Cash-Unrestricted"
- FDS Line 114 is Cash – Tenant Security Deposits
- FDS Line 115 is Cash – Restricted for Payment of Current Liabilities

The slide helps illustrate that a ratio is simply a formula comprised of multiple related accounts, that answers a basic question. In this case does the PHA have enough in liquid assets to pay the bills that are

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currently due? Usually for monitoring purposes the underlying data in the formula is only needed when the resulting ratio does not seem accurate or when the ratio result shows a possible financial problem.

Slide 10: PHAS Ratio Detail Websites

The detailed calculation and scoring methodology for all PHAS indicators are available on HUD's websites at the links shown on this slide. The changes to PHAS and SEMAP that HUD is considering is available at the "Section Eight Public Housing Assessment System (SEPHAS) Listening Session Slide Presentations" link. The next slides discuss in depth each public housing indicator and PHAS' performance at a national level.

Slide 11: 1. Public Housing Ratio – Quick Ratio (QR)

The Quick Ratio is a measure of liquidity and is measured under PHAS at the project and program level. The Quick Ratio asks whether the project or program can cover its current obligations if the obligations are due immediately. Expressed plainly, the Quick Ratio asks, ***is there is enough cash or other assets to pay the bills that are due?***

The Quick ratio is expressed in terms of the number of times the project or program can pay its current bills. For example, a PHA with a Quick Ratio of 3 means that the PHA can pay its current bills 3 times. In accounting verbiage, a Quick Ratio of 3 means that the PHA has 3 times as much cash and other current assets than current liabilities.

The Quick Ratio is worth 12 of the 25 total points available for the Financial component of PHAS. The table shows the scoring under PHAS for the Quick Ratio indicator. For any industry, a Quick Ratio of 1 is standard and indicates a break-even.

- A Quick Ratio of less than 1 is problematic and means that the PHA does not have enough cash and other readily available assets to cover its bills. Under PHAS, the PHA would receive zero points for a Quick Ratio of less than 1.
- A Quick Ratio of greater than 1 but less than 2 indicates that while the PHA is solvent, the PHA needs to monitor its finances and try to improve its liquidity position. Under PHAS, the PHA would receive between 7.2 and 11.9 points.
- A Quick Ratio of 2 or greater indicates that the PHA is financially sound. Under PHAS, the PHA would receive the maximum 12 points for the Quick Ratio indicator.

Slide 12: 1. Quick Ratio Example

Here we provide examples of the Quick Ratio.

- In Example 1, the PHA has cash of \$100,000 and owes \$20,000. The PHA's Quick Ratio is 5, meaning that the PHA can pay its bills 5 times and is in a good financial position.
- In Example 2, the PHA has cash of \$100,000 and owes \$100,000. The PHA's Quick Ratio is 1 meaning that the PHA is just able to cover its bills. This would be referred to as living "paycheck to paycheck".

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- In Example 3, the PHA has cash of \$100,000 and owes \$200,000. The formula is essentially current assets divided by current liabilities, so the PHA's Quick Ratio is 0.5.; meaning the PHA is unable to pay its bills.

Slide 13: National Assessment – QR Results

How are PHAs performing on Quick Ratio at a national level? The table shows the Quick Ratio results for all PHAs for 2014, 2015, and 2016.

- In 2014, 62% of all PHAs had a Quick Ratio of 5 or more and roughly the same percentage of PHAs achieved a Quick Ratio of 5 or more for 2015 and 2016. PHAs with a Quick Ratio of 5 or more would have received the maximum 12 points available under PHAS.
- Rows 4 and 5 shows that in 2016, 8% of all PHAs have a quick ratio of 2 or less which is considered poor. This percentage remains the same for all three years – 2014 to 2016.

Note: The smaller number of PHAs reporting in 2015 and 2016 can be attributed to PHAs leaving the public housing program via the Rental Assistance Demonstration program or through consolidations. In some cases, final 2016 data was not yet available in FASS-PH.

The main purposes of providing this data on the quick ratio and for the other subsequent ratios, is so a PHA can evaluate itself by comparing its ratio result against other PHAs. For example, let's say a PHA has a quick ratio of less than 2, it would be hard to argue that managing the PHA's liquidity position is out of their control, since 92% of the portfolio is able to achieve a quick ratio of 2.

PHAs would benefit by reviewing their ratio results against the data provided in this and following tables, to determine how well they are doing and if changes are needed to the PHA's business processes, targets, and goals.

Slide 14: 2. Public Housing Ratios – Months Expendable Net Asset Ratio (MENAR)

Like the Quick Ratio, the MENAR is also a measure of liquidity that is calculated at the project level under PHAS. The MENAR asks how many months the PHA's projects (i.e., public housing program) can sustain operations without additional funding. An example of this would be if the Federal government shutdown and the tenants no longer paid their rent. The MENAR measures the adequacy of the PHA's operating reserves based on the size of PHA's program.

The MENAR is expressed in terms of, **how many months can a PHA operate its program or project without any additional funding, relying exclusively on operating reserves to cover costs?** For example, a PHA with a MENAR of 4 has sufficient reserves to cover its costs for 4 months without additional funds.

The MENAR is worth 11 of the 25 total points available for the Financial component of PHAS. The table shows the scoring under PHAS for the MENAR indicator.

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- A MENAR of less than 1 month is problematic and means that the PHA does not have enough reserves to operate for even 1 month. The PHA would receive zero points for MENAR.
- A MENAR of at least 1 month but less than 4 months indicates that the PHA has sufficient reserves to sustain a short-term funding shortage but does not have enough funds to sustain a longer-term funding stoppage. The PHA would receive some points for MENAR.
- A MENAR of 4 months or greater indicates that the PHA is in good financial shape and will likely be able to sustain shortfalls in funding by using its operating reserves, until the PHA can adjust to a new level of expenses. The PHA would receive the maximum 11 points for MENAR.

Slide 15: MENAR Example

Of the two liquidity measures – Quick Ratio and MENAR, the MENAR is the more useful liquidity measure and this slide illustrates this point.

The MENAR is a powerful financial condition ratio as the result takes into consideration the size of the project or program that is measured. This statement is illustrated in the examples below.

- In Example 1, the PHA has cash of \$100,000 and owes \$20,000, leaving the PHA with \$80,000 to cover future expenses. In this same example, the PHA annual expense are only \$120,000 for the year or on average \$10,000 per month. These facts result in a MENAR of 8. Meaning if the PHA did not receive any other funds, it would take the PHA eight months to spend down its remaining cash balance before the PHA would have to stop providing services.
- In Example 2, the PHA still has \$80,000 to cover future expenses but, the PHA annual expense is \$960,000 or on average, \$80,000 per month. These facts result in a MENAR of 1. Meaning if the PHA did not receive any other funds it would take the PHA only one month to spend down its remaining cash balance before the PHA would have to stop providing services.

Examples 1 and 2 demonstrate how the ratio automatically takes into consideration the size of the program. In both examples, the PHAs have a remaining cash balance of \$80,000, but the examples illustrate that by considering the size of the program, the PHA in example 1 is in a much better financial position than the PHA in example 2.

The MENAR, while less understood and more complicated, is normally a better financial condition ratio than the quick ratio due to its ability to automatically take into consideration the size of the PHA program. In example 1, the quick ratio would calculate to five (\$100,000 in cash divided by \$20,000 in current liabilities), meaning the PHA could pay these liabilities five times. This result would seem to indicate that the PHA is in good financial shape. However, let's change this example slightly. Let's say the PHA has \$100 in cash and owes vendors only \$20, the resulting quick ratio would still be five, but even the smallest PHA would want more than \$80 in the bank.

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For most PHAs, the quick ratio and MENAR trends in the same direction. But it is not uncommon for a PHA to have a good quick ratio but a low MENAR. In these situations, the PHA may be paying its vendors on time and keeping its liabilities low, but the PHA's expenses are high which reduces the PHA's reserve levels, resulting in a poor MENAR.

Examples 3 and 4 illustrate other possible ratio results. Example 3 illustrates a low level of reserves, in this case, one-half month. Example 3 shows a PHA "living pay check to paycheck". Example 4 shows a negative MENAR, which means the PHA cannot even pay its current liabilities.

Slide 16: National Assessment – MENAR Results

On a national level, most PHAs have scored well on MENAR. From 2014 to 2016, as shown on rows 1 and 2, on average, about 75% of all PHAs have at least 4 months of operating reserves. These PHAs can operate for 4 months or more without Federal funds. In fact, 29% of PHAs have 12 months or more of operating reserves.

Most of the PHAs with 12 months or more of operating reserves are small PHAs which transfer all or large parts of their capital fund grant into operations.

On the other end of the scale, roughly 2% or 137 PHAs, on average, have less than one month of operating reserves.

Slide 17: 3. Public Housing Ratios – Occupancy Rate

Of the PHAS indicators, PHAs are probably most familiar with the Occupancy rate indicator. The Occupancy rate indicator measures the PHA's ability to lease units. ***Is the project or program meeting the fundamental mission of the program to provide housing by leasing the units that are available?***

PHAs are measured for occupancy under PHAS in two different indicators: 1) the traditional Occupancy rate indicator that is part of the Management Operations (or MOPS) that is worth a maximum of 16 points; and 2) the Occupancy component of the Capital Fund indicator that is worth a maximum of 5 points. The difference in the two occupancy rate calculations is discussed on the next slide.

The Occupancy rate is expressed as the percent of units that is occupied during the year and is calculated as unit months leased (UML) divided by unit months available (UMA). Currently, the Occupancy rate is calculated based on self-certified data that PHAs submit to HUD's Financial Assessment Subsystem for Public Housing (FASS-PH). HUD's future goal is to calculate the Occupancy rate based on PHA data submitted to the Public Housing Inventory Management System (PIC).

The Occupancy rate is also important from a PHA's perspective because occupancy impacts a PHA's funding. Operating Subsidy is primarily provided on leased units on a per unit month (PUM) basis. Operating subsidy is typically not provided for vacant units. The only exceptions are HUD-approved vacancies and the limited vacancy provision – both are discussed on the next slide.

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The table shows the scoring criteria associated with the Occupancy Rate for Management Operations.

- To receive the maximum 16 points for the Occupancy indicator, a PHA must have an occupancy rate of 98% or greater. The 98% occupancy rate target is similar to the strategic goal that is set in HUD's Annual Plan of a 97% occupancy rate.
- On the other end of the scale, a PHA with an occupancy rate of less than 90% would receive 0 points for this indicator.
- A PHA would receive some points for an occupancy rate that is between 90% and 97%.

Slide 18: 3. Public Housing Ratios – Occupancy Rate (continued)

Here we show the difference in the two methods used by HUD to assess a PHA's occupancy.

The occupancy component that is worth 5 points under the Capital Fund indicator is also referred to as the **Assisted Tenant Rate**. Remember, the calculation for the Occupancy rate is unit months leased divided by unit months available. Under the Assisted Tenant Rate, the denominator – unit months available includes all ACC units regardless of status.

The occupancy rate that is worth 16 points under Management Operations is also referred to as the **Funded Rate**. Under the Funded Rate, the denominator is reduced by the HUD approved vacancies and special use units. The HUD-approved vacancies are shown in the table below and include:

- Units undergoing modernization;
- Special use units (for example, units that are not otherwise available for lease because they are used as a police sub-station or for resident services);
- Units under litigation;
- Units impacted by natural disasters;
- Casualty loss (that is, units damaged by fire); and
- Changing market conditions (for example, a PHA has an oversupply of efficiency units that cannot be leased because the market demand is for larger units with multiple bedrooms).

The second table provides an example of the Assisted Tenant Rate and Funded Rate calculation using East Farm Road Apartments.

- For the Assisted Tenant Rate, East Farm Roads has 100 units available and 90 units are occupied – the Assisted Tenant Rate is 90%.
- For the Funded Rate, East Farm Roads has 100 units but only 94 units are available because 6 units are designated as “units undergoing modernization” – a HUD-approved vacancy category. East Farm Roads still has 90 units occupied – the same as in the Assisted Tenant Rate example. However, the occupancy rate is 96% (90 leased units divided by 94 available units = 96% occupancy) because under the Funded Rate, the number of units available is reduced by the 6 HUD-approved vacancies.

The Assisted Tenant Rate provides a more accurate snapshot of occupancy and a PHA's Assisted Tenant Rate will always be equal to or lower than the Funded Rate.

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Lastly, the Operating Subsidy formula provides funding for a limited number of vacant units. The limited vacancy provision recognizes that there is normal attrition and that 100% occupancy for the entire year is not realistic. Therefore, HUD holds PHAs harmless for the first 3% of vacancy. That is, HUD will continue to provide operating subsidy for the first 3% of vacant units. For example, if the PHA had 1,000 units and 970 units were occupied (97% occupancy), the PHA would receive operating subsidy for all 1,000 units.

The operating subsidy formula works a little differently for PHAs that operate 100 or less units. For PHAs that have 100 units or less, the PHA would receive operating subsidy for the first 60-unit months that are vacant (that is, the equivalent of 5 units that are vacant for one year). For example, if the PHA had 95 units of 100 units occupied, the PHA would receive operating subsidy for all 100 units.

Slide 19: National Assessment – Occupancy Results

The data shows that PHAs are generally keeping their units occupied.

- Row 1 of the Funded Rate which is columns B, C, and D on the table shows that on average, for the last 3 years, at least 51% of all PHAs had a funded rate of 98%.
- Rows 1 and 2 of the Assisted Rate which is columns E, F, and G on the table shows that roughly 56% of all PHAs have an assisted occupancy rate of 97% which is HUD's strategic goal.
- On the other side of the equation, Rows 4, 5, and 6 shows that regardless of the methodology used, approximately 19% to 26% of the portfolio had an occupancy rate below 95%.

Slide 20: Public Housing Ratios – Factors Impacting Occupancy Rate

PHAs that are experiencing a low occupancy rate should examine their waitlist and unit turnaround time process. For PHAs that utilize a two-step application process, the PHA should examine their pre-application and application process to determine whether they are contacting the next families on the waitlist in a timely fashion to inquire whether they are still interested in housing, collect any outstanding information needed from the applicant, and finalize eligibility so that there is minimal lag time when a unit is ready for occupancy.

PHAs should also track the down time, make ready, and lease-up time associated with getting a unit ready for occupancy. Down time, make ready, and lease-up time are components of unit turnaround time. PHAs were previously scored on these components in the PHA assessments prior to current PHAS. Many of the management information systems used by PHAs still have the capability of tracking these components.

- **Down time** is the time from the date the unit was vacant until the date that maintenance is notified to start cleaning/fixing the unit. Down time should typically be 1 day.
- **Make ready** is the time from when maintenance is notified that the unit is vacant, makes all repairs to the unit (including painting and final cleaning), and then notifies management that the unit is ready for lease. In situations where the tenant has given notice that they will be moving out, the PHA should conduct an inspection of the unit before the tenant moves to assess the maintenance work that must be completed and any possible tenant charges.

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- **Lease-up** is the time from when maintenance turns the unit to management to the date of move in of new resident. The next applicants near the top of the waitlist for the unit (based on bedroom size) should be processed as soon as there is notice of a vacancy.

Slide 21: 4. Public Housing Ratios – Tenant Account Receivable (TAR)

The Tenant Account Receivable or TAR is another PHAS assessment indicator that is well known to PHAs. The TAR measures the PHA's ability to collect rent. The indicator measures whether the project or program is maximizing revenue by collecting tenant charges. Tenant charges include tenant rent and other charges such as maintenance charges and excess utility charges.

The TAR is expressed as the percent of tenant charges that were not collected by the project or program. For example, a PHA that had an outstanding tenant charge of 1.5% means that the PHA collected 98.5% of tenant charges.

According to the table, a 98.5% collection rate would result in the PHA receiving the maximum 5 points available for this indicator. A PHA that collects at least 97.5% of tenant charges but less than 98.5% would receive some points under this indicator. A PHA that collects less than 97.5% of tenant charges would receive 0 points for this indicator.

Slide 22: National Assessment – TAR Results

Most PHAs are collecting tenant rent and other charges. Row 1 of the table shows on average, over the last three years – roughly 76% of all PHAs have a collection rate of 98% or better and another 12% as shown on Row 2 of the table, have a collection rate of at least 96% or more. A high collection rate is indicative of good PHA management. A high collection rate indicates that PHAs are collecting rent and following their write-off and eviction procedures.

Roughly 12% of the portfolio have a low collection rate, defined as a collection rate of 95% or less.

Slide 23: 5. Public Housing Ratios – Net Income

The Net Income indicator is one of the new financial indicators that HUD is considering adding either as part of financial assessment under PHAS or simply for better monitoring. The Net income indicator was a part of the prior PHA assessment prior to the current PHAS and this net income indicator is similar. When used with trending analysis, the Net Income indicator becomes a good predictor of a PHA's financial condition.

Net income measures whether the program has net income or loss for the year and how this result impacts the project or program's viability. **In other words, does the program or project's net loss jeopardize the sustainability of the project or program?**

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The ratio is calculated by comparing a project or program's net income to the project's net income or less to the project's or program's available operating reserves. The first step in the calculation for Net Income, is to determine if the PHA is operating at a loss. If the PHA produced net income, full points are awarded. However, if the PHA is operating at a loss, the next step is to examine whether the project or program has adequate reserves by looking at the Months Expendable Net Asset Ratio (MENAR).

In short, the Net Income indicator states that it is okay for a PHA to operate at a loss if there are sufficient operating reserves to cover the loss. However, if the PHA is operating at a net loss for several years, and therefore reducing its operating reserves, this pattern is not sustainable over time.

Again, this is an indicator that HUD is considering but is not currently in effect. However, the Net Income is a good indicator that PHAs may want to consider using for their internal financial assessment. The point value that HUD is considering for Net Income is minimal – 6 points of proposed maximum 40 points for Financial.

Slide 24: Net Income Example

Here we provide more detail examples of the Net Income Ratio.

- In Example 1, the PHA has net income of \$10,000 and net current assets of \$80,000. These figures illustrate a PHA that has operating reserves and has increased its reserve. The PHA would receive full points.
- In Example 2, the PHA had net loss of \$10,000 for the year but has net current assets of \$80,000. These figures illustrate a PHA that has a loss for the year, but the loss is minor when compared to their reserves. Meaning, the PHA can still easily provide the same level of services for the next few years (the program is sustainable). The PHA would receive full points.
- In Example 3, the PHA is shown to be breaking even and having no reserves.
- In example 4, the PHA is shown as having a large net loss of \$100,000 and no reserves. The program would not be considered sustainable, or said another way, the PHA would be considered high risk and would fail this ratio.

Slide 25: National Assessment – Net Income Ratio Results

How are PHAs doing on the Net Income ratio? Row 1 of the table shows that over the past 3 years, on average, 70% of the portfolio generated net income and the percentage of PHAs with net income has steadily increased from 2014 to 2016. However, Rows 4 and 5 shows that 5% of all PHAs are producing a net loss each year and have small reserve levels. These PHAs with a net loss and low reserve levels pose a significant risk to the portfolio.

While not shown on the slide, it should be noted that depreciation expense is not included in the calculation of net income because depreciation is not associated with a cash payment and most of the depreciation expense is related to capital activity that was funded through the Capital Fund program.

Slide 26: 6. Public Housing Ratios – Expense Management

The last public housing ratio in this section is the Expense Management indicator.

Does HUD tell PHAs how much it should cost to operate a project? The answer is yes. The formula expense level that is part of the Operating Subsidy formula provides an estimate of what HUD believes it should cost the PHA to operate each project. The Expense Management indicator measures if the project's actual operating expense is within the HUD-determined reasonable expense level for the project.

Again, this is a new indicator that HUD is considering adding as part of changes to PHAS or as improvements to its monitoring efforts. The point value that HUD is considering for expense management is minimal – 4 points of proposed maximum 40 points for Financial.

Slide 27: 6. Public Housing Ratios – Expense Management (continued)

The Expense Management is an indicator that many fee accountants calculate for their PHA clients. The calculation is based on the project's actual operating expenses divided by the project's Operating Subsidy formula expense.

- The Actual Operating Expense is based on the PHA's financial statements that are submitted to HUD's FASS-PH system. Specifically, the actual operating expense is calculated using FDS Line 96900 (Total Operating Expense minus FDS Line 10091 (inter Project Excess Cash Transfer In)).
- The Operating Subsidy formula expense is based on the HUD Form 52723 (Operating Fund Calculation of Operating Subsidy). Specifically, the formula expense is calculated using Part A, line 17 and Part C, line 2 of the HUD Form 52723. Unless the project has large amounts of non-operating subsidy or non-tenant rent revenue, this formula expense amount is an important number, as it caps the amount of funds the project will have to operate with for any given year.

Information on how to access the FASS-PH system, PHAS ratio scores, and the Operating Subsidy amount provided to each project is provided at the end of this section, on slides 32 to 34.

The Expense Management indicator is expressed in dollar term. Amounts greater than \$1.00 indicates that the project's actual expenses are more than the estimated cost. For example, a project with an expense management ratio of \$1.20 is spending 20% more than what HUD considered to be reasonable cost based on the project's operating subsidy.

The table shows what HUD is considering for the Expense Management scoring criteria. A project with an expense management ratio of greater than \$1.20 or is spending more than 20% of what HUD considers to be reasonable would receive zero points. Conversely, a project that spends equal to or less than \$1.00 – roughly the amount that HUD considers to be reasonable for the project, would receive the full points for this indicator.

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Slide 28: Expense Management Example

Here we provide examples of the Expense Management ratio.

- In Example 1, HUD's operating subsidy formula shows that the project's expenses should be about \$500,000 a year. The project's actual operating expenses is \$0.95 or 95% of the HUD formula-generated amount.
- In Example 2, the HUD formula-generated amount remains at \$500,000 but the project has cost overruns of \$550,000 and is spending \$1.10 or 10% more than what HUD considers reasonable.
- In Example 3, the project is spending 20% more than what HUD considers reasonable. HUD considers a reasonable expense level for the project to be \$500,000 and the property is spending \$600,000. In other words, for every dollar that HUD provides to the project, the project spends \$1.20.

While the expense management ratio highlights actual costs that are over what HUD considers reasonable cost. This ratio can also highlight those PHAs that are not spending enough on the physical upkeep of their properties.

This ratio is best viewed with trend analysis. For any given year costs may be high or low for a variety of reasons but if the trend shows large costs overruns year after year, it normally indicates the PHA's expenses are too high and that the PHA is using its reserves or capital funds to cover the costs.

Slide 29: National Assessment – Expense Management Ratio Results

Rows 1 and 2 of the table shows that for 2014 to 2016, on average, about 48% of all PHAs are spending less on their projects than what HUD considered to be reasonable. The expense management indicator should also be examined relative to a project's physical condition score under PHAS. It could be the case that the projects' physical condition scores are good and that the lower spending for the project is warranted. However, if the projects' physical condition scores are poor, the question should be asked as to why the PHA is not spending more to improve the physical condition of the projects.

Row 5 shows that for 2015 and 2016, on average – approximately 28% of PHAs have expenses that are 11% higher than what HUD considers reasonable and is more than the funding provided by HUD. This trend of high project expenses could pose a risk to the project and PHA.

Slide 30: Actual PHA – Ratio Analysis with Trend Information

This example illustrates the importance of ratio analysis and trending and is based on a PHA's actual data.

- If the PHA's Board report shows just the FASS grade and FASS score for the Public Housing program from 2013 to 2016, the Board would think correctly that the PHA is performing well. The PHA has a grade of "A" and a FASS score of 36 of 40 points in each year.

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- However, if the PHA's Board report also shows Rows 3 and 4 for Quick Ratio and MENAR respectively, the Board may reach a different conclusion. The Quick Ratio on Row 3 shows that the PHA's quick ratio is declining from 15.7 in 2013 to 9.0 in 2016. The MENAR is showing a similar decline for the same four-year period.
 - If the Board report only showed the Quick Ratio of 9.0 and MENAR of 8.7 for 2016 with no data for the prior years, the Board could not evaluate whether the PHA is doing better or worse.
 - The display of multiple years would have the Board ask what is the likely QR and MENAR projection for 2017 and why.
- The Board report also shows that the PHA has been operating at a loss (more than \$175,000) for the past four years. These losses would explain the decline in the MENAR because the PHA is using the operating reserves to cover these losses.
- Similarly, the Expense Management ratio shows that for the past four years, the PHA's expenses has been 25% higher than the amount that HUD considers reasonable and is more than the funding provided by HUD.

Slide 31: PH Financial Trends & Corrective Actions Examples

Here we provide examples of possible corrective actions based on decline in a PHA's liquidity, occupancy rate, or rent collection.

- **Decline in QR, MENAR, and net loss that is not sustainable.** If the PHA's financial position is declining from year to year, the PHA needs to identify areas where expenses could be cut. For example, the PHA should examine staffing levels, positions, and salaries. The PHA should also examine whether a change in the service level option could reduce costs and examine possible reductions in services, starting with those services that may have the least impact on residents such as frequency of reexaminations.
- **Decline in occupancy rate.** If the PHA's occupancy rate is declining, the PHA should check whether the PHA has an adequate waitlist, review waitlist procedures, and review unit turnaround time and procedures.
- **Decline in collection of tenant charges.** A decline in collection of tenant charges should prompt a review of the application process; whether the PHA is enforcing the 14-day notice and eviction procedures; and is implementing repayment agreements.

Slide 32: PHAS Ratio Detail Information

PHAs may be interested to know how to access the financial and PHAS scores for their PHAs so that they can populate their Board reports with trending data.

Here we show a screen shot of HUD systems that are available to PHAs through HUD's Secure Systems.

- The PHA's financial data that is submitted to HUD is available by selecting the link for "Financial Assessment Submission – PHA (FASPHA)".

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- The PHA’s PHAS scores at the indicator and detail level for the current and prior years can be accessed by selecting the link “Public Housing Assessment System: Scores and Status (NASS)”.

Slide 33: PHAS Ratio Detail Information (continued)

From the NASS system link, the PHA will be able to access the PHA Score report as shown in the first table. The indicators associated with the Financial and Management assessment can be accessed by selecting either “Financial” or “Management”.

The second screen shot shows an example of the Tenant Accounts Receivable calculation that is available under the “Management” link.

Slide 34: Final 52723 Data (Operating Subsidy Calculation)

In this section, we have discussed how to calculate the Expense Management ratio using the Operating Fund formula expense level. Here we show how to access the Operating Subsidy HUD Form 52723 data for each project using the link.

- **Step 1.** On the web page, there is a menu of “Resources and Links” which shows the Operating Subsidy data by fiscal year. Select the fiscal year of funding.
- **Step 2.** Select the link for the final HUD Form 52723s (Operating Fund Calculation of Operating Subsidy).
- **Step 3.** A drop-down box will be available showing the 52723 by state and territory. From here, select the state and PHA code.

Slide 35: (Session Break) HCV Program Ratios

This session covers the HCV ratios that can be used to more easily monitor the financial health and utilization of program resources. Information is also provided on the projected assessment results for each indicator at the national PHA portfolio level.

Slide 36: Overview of HCV Ratios

HUD has been discussing changes to the current SEMAP indicators to address HUD’s Inspector General findings. HUD’s Inspector General has issued findings due to the fact that the current SEMAP indicators are largely self-certifying. That is, a PHA is not only able receive a passing grade on SEMAP but can also be a high-performer by giving themselves full points on all the self-certifying indicators. HUD IG recommended that HUD develop a more objective, data-driven assessment for the HCV program, like what has been established for PHAS.

In addition, HUD’s IG recommended that HUD also assess the HCV program on the physical inspection of the units and to perform a more comprehensive financial assessment of the HCV program. Currently, other than lease-up, the SEMAP does not have any other financial indicators.

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This section of the training focuses on the financial indicators that HUD is considering when monitoring the financial health of the PHA's HCV program. The use of these financial indicators are a best practice as they provide a useful way of reviewing a PHA's HCV program's financial performance and what a future SEMAP may look like for a PHA.

Slide 37: HCV Administrative Fee Indicators (Reform to SEMAP)

Other than a review of cash and unrestricted net position balances, the current SEMAP or HUD monitoring does not currently examine the financial position of a PHA's HCV Administrative Fee account. However, HUD thinks that it is important to examine the Administrative Fee account. First, the HCV Administrative Fee account receives approximately \$1.65 billion annually – HUD's oversight agencies are interested in how well these funds are used. Second, the financial position of the PHA's HCV Administrative account may have important consequences and pose significant risks on the PHA's ability to manage the program effectively and the overall financial health of the PHA.

Therefore, the same liquidity ratios or indicators used currently or proposed for the public housing portfolio, is also contemplated for the HCV Administrative Fee account. Note: These indicators would be proposed for the Administrative Fee account only and not the Housing Assistance Payment (HAP) account. The indicators are:

- Quick Ratio
- Months Expendable Net Asset Ratio (MENAR)
- Net Income

The definitions and calculation method for each indicator are discussed under the Public Housing ratios section of this module.

The table shows the scoring weights that HUD is considering for the HCV indicators. The financial assessment would be worth a maximum of 26 points of 100 points.

Slide 38: National Assessment – Administrative Fee Account Ratio Results

The table shows the financial health of the HCV administrative fee account for 2014 through 2016. Using data from the FASS-PH system a quick ratio, MENAR and net income ratio was calculated and scored for each PHA. Each ratio score was then added together to give an overall score and then converted to a grade. For example, a grade of A would mean the PHA received 90% of the 26 possible points. A grade of E and F means the PHA received less than 60% of the possible points, with a grade of E representing that the PHA scored at least some points and a grade of F meaning the PHA received zero points.

The table show that about 66% to 69% of the PHAs would receive a grade of A and 20% to 24% of the portfolio would receive a grade E or F, a fail.

As a portfolio, the overall HCV portfolio financial scores are much lower than the public housing scores. This difference is likely the result of two items. The first is the financial health of HCV administrative fee

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account has never been measured in this manner and therefore PHAs have not been asked to manage the program in this way - where financial health was a measured outcome. The second item is the reduction of Appropriations for the administrative fee account, which PHAs are still adjusting to.

If HUD formally adopts these or similar financial ratios, it is likely that HUD will include an advisory period so PHAs are giving a proper period of time to understand the ratios and the possible impact on their assessment and designation.

Slide 39: Current SEMAP Lease-Up Indicator

The current SEMAP lease-up indicator measures the PHAs ability to lease-up its authorized vouchers and answers the basic question – ***Is the PHA leasing its vouchers or maximizing its annual budget authority?***

The lease-up indicator is worth 20 points but when converted to a 100- point scale, this indicator is worth only 14 points.

The table shows how the resulting ratio are converted to score. For example, if a PHA lease-up 98% of its vouchers or uses 98% of its budget authority the PHA receives all 20 points.

Slide 40: National Assessment – SEMAP Lease-Up Indicator Ratio Results

The table shows the SEMAP lease-up scores and grades for calendar year 2016 for all PHAs.

- For 2016, 88% of the portfolio (1,923 PHAs) received all 20 points (a grade of “A”), meaning the PHAs had a HAP Utilization or a Voucher Utilization of 98% or greater
- 6% of PHAs (137 PHAs) received 15 points for utilization (a grade of C), meaning the PHAs had a HAP Utilization or a Voucher Utilization of 95% to 97%
- 6% of PHAs (125 PHAs) received zero points (a grade of “F”), meaning the PHAs had a HAP Utilization and Voucher Utilization below 95%.

Slide 41: Proposed HCV Utilization Indicator (Reform to SEMAP)

HUD is considering modifying the lease-up indicator, including a name change to HCV utilization indicator. While the essences of the indicator remain unchanged in that the indicator will consider vouchers leased during calendar year (voucher utilization) and takes into account percentage of budget authority expended during calendar year (HAP utilization), there are some differences. These differences better align themselves to how PHAs are asked to manage the program and HUD’s two-year forecasting tool.

The first major difference is that the indicator will take into account a PHA’s beginning HUD held reserves, beginning restricted net position (RNP), and an ending reserve target. Meaning, when evaluating how well the PHAs is managing its HAP funding, PHAs needs to consider all available HAP funding not just annual budget authority. It should be noted that, when determining “all available HAP funding” HUD understands

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that PHAs must have some reasonable level of HAP reserves to operate and the formula will allow for a reasonable level of HAP reserves.

The second change, is that the current SEMAP lease-up indicator provides full points for non-compliance, which needs to be addressed. Most notably is that if a PHA over-leases, a PHA receives full points under the SEMAP lease-up indicator, even though the PHA is non-compliant. Secondly, a PHA can spend all its annual budget authority, HUD held reserves and restricted net position, be in shortfall position and having to possibly terminate families from assistance. Under the current SEMAP, the PHA would receive full points. In these two cases, full points do not seem warranted. Under the new methodology, a PHA scores would be adjusted downward for these two items.

The last change is the points assigned to the leased-up indicator – now HCV Utilization indicator, is increased from 14 points (on a 100 points scale) to 34 points.

Slide 42: Proposed HCV Utilization Indicator (Reform to SEMAP) (continued)

Another difference between the current SEMAP lease-up indicator and this utilization indicator is how ratio results are converted to a score. Under the utilization indicator, HUD would likely consider using three separate scoring scales – one scoring scale for PHAs that manage 1 to 49 vouchers, one for PHAs that manage 50 to 249 vouchers and a third scoring scale for PHAs that manage over 250 vouchers.

Another difference is that under the current SEMAP lease-up indicator a PHA can earn 20, 15 or zero points. Since HUD is considering making the utilization indicator worth 34 points, PHAs would be able to earn the following numbers of points based on seven different thresholds – 34, 30, 26, 22, 18, 12, and 0 points.

The table shows how resulting ratio values could be converted to a score for PHAs managing 50 to 249 vouchers.

Slide 43: National Assessment – Proposed Utilization Indicator

The table shows the utilization scores and grades for all PHAs based on the new methodology.

For 2016, 49% of all PHAs (1,074 PHA) would have received all 34 points, meaning the PHA had a HAP utilization rate of at least 100% or a voucher utilization rate of 98% or more. 21% of all PHAs scored less than 60% of possible points.

Because this is a new methodology and takes into consideration other HAP funding sources, the scores are lower when compared to current SEMAP lease-up indicator. The other point to keep in mind is that 12% of the PHAs would receive a score of zero, which would not only likely require corrective action by the PHA, the PHA would be only 6 points above being designated as troubled. However, this methodology aligns with how HUD is asking PHAs to administer the HCV program and the two-year forecasting tool.

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Slide 44: Factors that Impact HCV Utilization

If the PHA's HCV utilization is declining, the PHA should examine whether the HCV waitlist is of adequate size and the procedures used in placing people on the waitlist. The PHA should also examine the voucher success rate; the annual voucher turnover rate; and the time from issuance to HAP effective date and modify the PHA's procedures for processing vouchers accordingly.

HUD's two-year forecasting or similar tool should also be used by the PHA in managing utilization. The forecasting tool helps optimize a PHA's utilization rate and takes into consideration a PHA's available HAP funding, authorized vouchers and other items that a PHA must manage, such as success rate and annual voucher turnover rate. One of the results of the tool is to provide a plan for the issuance of vouchers that will help ensure a high utilization rate.

The PHA should also determine whether there are external factors that impact utilization such as the local rental market conditions, the Fair Market Rent (FMR) standard, and landlord participation in the program.

The changes that HUD seeks to make to the SEMAP assessment is still under discussion. However, today's reality is that HCV utilization is important because the size of a PHA's HCV HAP funding for the next year is based largely on last year's HAP expenses. In short, in years of low pro-ration and offsets, the PHA may be permanently shrinking their HCV program.

Slide 45: HCV Financial Trends & Corrective Actions Examples

Here we provide examples of possible corrective actions based on a decline in a PHA's financial ratios and HCV utilization rate.

- **Decline in QR, MENAR, and net loss that is not sustainable.** If the PHA's financial position is declining from year to year, the PHA needs to identify areas where expenses could be cut. For example, the PHA should examine staffing levels, positions, and salaries. The PHA should also examine whether a change in the service level option could reduce costs and examine reductions in services, starting with those services that may have the least impact on residents such as frequency of HQS inspections.
- **Decline in HCV utilization rate.** If the HCV utilization rate is declining, the PHA should check whether they have an adequate waitlist, review waitlist procedures, and examine HCV metrics such as success rate, voucher turnover rate, etc.

Slide 46: (Session Break) Board Package and Monitoring Reports

Next we provide information on the Board package and Monitoring Reports that are part of the templates that are provided with this training.

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Slide 47: Board Meeting Package

There are several items that HUD requires to be approved by the Board, most notably the annual operating budget and PHA policies such as financial, procurement, personnel, and program policies (i.e., the Admissions and Continued Occupancy Policy – ACOP for public housing and the Administrative Plan for the HCV program). It would seem apparent that these materials need to be included in a Board package at the appropriate time for the Board’s approval. In addition, states have Open Meeting Act laws that normally require an advance publication of the Board meeting agenda and so it would seem that the agenda should be part of the Board reporting package. However, what else is required?

When it comes to Board reporting packages, HUD does not define what needs to be provided. However, certain information is common. This slide provides a list of items that are recommended to be included in a Board package.

- Meeting agenda with items requiring Board approval identified.
- Minutes of the prior Board meeting.
- Financial statements for all periods since the last meeting – the financial statements should be prepared in a format specified by the Board. In general, the financial statements provided to the Board should include entity-wide and project/program-specific balance sheets and income statements with budget to actuals.
- Program monitoring reports and dashboards – these reports and dashboards will be discussed in the next slides.
- The Executive Director’s report including a discussion of notable items.
- Supporting documentation for items needing Board approval.
- Other reports that are requested by the Board.
- Other report needed to meet policy objectives.

Slide 48: Program Monitoring Reports and Dashboard

Program monitoring reports and dashboards provide summary data or key information that can be used to monitor the performance of each program. Examples of program monitoring reports for Public Housing, Capital Fund, and the Housing Choice Voucher programs are provided with this training.

- Reports for the Public Housing and Capital Fund programs may share common indicators such as occupancy rate.
- However, PHAs should tailor each report to fit their needs since each PHA can administer a different set of programs and activities.
- The reports should be tailored to include items and areas of risk or concern to the PHA.

Slide 49: Dashboard Reports – Public Housing Program

The example dashboard report provided for Public Housing has two-parts: 1) key performance indicators and 2) a monitoring trending dashboard.

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The Public Housing key performance indicators include the following information provided by project and on a monthly basis for trending purposes:

- Cash;
- Investments;
- Tenant Accounts Receivable;
- Dwelling Rent Collections;
- Monthly Net Operating Income;
- Units Leased; and
- Occupancy.

The monitoring/trending dashboard report for public housing contains separate tables with information on:

- **Occupancy** – Includes information on leasing, waitlist, move-in/move-out activity, vacant unit status, and evictions.
- **Rent Collection** – Includes information on rent collection; aged tenant accounts receivable; and lease violations.
- **Work Orders** – Number of non-emergency and emergency work orders opened, completed, and outstanding.
- **Miscellaneous information** – For example, reexaminations and annual unit inspections pending and completed.

The information is provided at a project level. For each category of information, the target that is set by management is shown along with the current and results for the prior 3 to 4 years.

Slide 50: Dashboard Reports – Capital Fund Program

The dashboard report for the Capital Fund program provides summary information of the PHA's open Capital Fund grants. Most PHAs may have 3 to 4 Capital Funds open at a given time. For each open grant, the dashboard report provides obligation and expenditure information by budget line item and by budget to actuals.

Slide 51: Dashboard Reports – Housing Choice Voucher Program

The example dashboard report provided for the HCV program has two-parts: 1) key performance indicators and 2) a monitoring trending dashboard.

The HCV key performance indicators include the target that is set by PHA management for the following indicators for the HCV Administrative Fee and HCV HAP accounts. The information is shown on a monthly basis for trending purposes.

For the HCV Administrative Fee account, key performance indicators are:

- Cash;
- Investments;

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- Operating Expenses
- Monthly Net Operating Income; and
- Year to Date Net Operating Income.

For the HCV HAP account, key performance indicators are:

- Cash at the beginning of the month;
- Annual Budget Authority (ABA) at the beginning of the month;
- HUD held Reserves at the beginning of the month;
- Total HAP Funds available at the beginning of the month;
- Monthly HAP payments;
- Calendar Year to Date – HAP Payments; and
- HAP Funds Remaining at the end of the month.

The monitoring/trending dashboard report for the HCV program contains separate tables with information on:

- **HCV Utilization** – Includes information on leasing, waitlist, voucher issuance and success, voucher turnover, HAP funding/usage; forecast and target leasing.
- **Miscellaneous information** – For example, recertifications and annual unit inspections pending and completed.

Slide 52: Notable Items Reports

The Notable Items report is part of the Executive Director’s report and provides information on high risk or high-profile items that the Board has required that the Executive Director bring to their attention. The report should include items such as:

- All adverse legal actions, including those actions that are likely to be filed;
- Adverse contract and procurement actions;
- Employee grievances;
- Program participant grievances;
- HUD reviews/inspections;
- Other matters including those items that could: 1) adversely impact the financial health and or operations of the PHA; 2) adversely affect the public reputation of the PHA including conflicts of interest; and 3) major upcoming activities (for example, audit, rebid of major contracts, etc.).

It is a best practice that the PHA have a Board Report policy. The Board Reporting policy should include the requirement to provide the above information as part of the Board reporting package. Board members need to be informed and be able to appropriately act on high risk matters to fulfill their governance role. A number of these items would be more appropriately discussed in a closed session.

Slide 53: End of Training Module

This ends the training module on Financial Ratios and Monitoring Reports. Please go to Learning Activity 7.

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Learning Activity 7: Monitoring Using a Dashboard Report

Slide 54: (Title Slide) Learning Activity 7: Monitoring Using a Dashboard Report

Welcome to Learning Activity 7 of the Financial Management Training. The purpose of this learning activity is to have the participant evaluate a PHA's performance using a dashboard report. The participant is instructed to review and interpret data on a dashboard report, in this case for East Farm Road Apartments, a public housing project of the Anywhere Housing Authority. This Learning Activity is based on material covered in Module 9 of the training.

Slide 55: Learning Activity 7: Monitoring Using a Dashboard Report - Background

In this learning activity, you are asked to assume the role of a Board Commissioner for the fictitious, Anywhere Housing Authority. Eric Davidson, the current Executive Director, has added a new Public Housing Financial Monitoring Dashboard to the board package report. The report is designed to provide key information that can be easily reviewed, analyzed, and compared. As a Board member, you have concerns with the performance of East Farm Road Apartments and hope that the dashboard report will provide insight on your concerns.

Slide 56: Learning Activity 7: Monitoring Using a Dashboard Report - Instructions

To complete this learning activity, download and print – **Learning Activity 7: Monitoring Using a Dashboard Report** that can be found in the Resources section of the webpage for this training.

Next, start reviewing the Public Housing Financial Monitoring Dashboard provided in the learning activity and answer the five (5) questions on pages 2 and 3 of the Learning Activity document.

Once you have answered the questions, return to the video for the answers and explanations.

Slide 57: End of Learning Activity 7

This ends the introduction to Learning Activity 7: Monitoring Using a Dashboard Report.

Learning Activity 7: Solutions to Monitoring Using a Dashboard Report

Slide 58: (Title Slide) Learning Activity 7: Solutions to Monitoring Using a Dashboard Report

Let's talk about the solutions to Learning Activity 7 – Monitoring Using a Dashboard Report.

Slide 59: Goal of Learning Activity 7

The goal of this learning activity is to reinforce the concepts of the financial ratios that were presented in Module 9 and to use the ratios in evaluating a project's performance. In addition, this learning activity introduces the use of a dashboard report and trending information for monitoring purposes.

Slide 60: Solution to Question 1

Question 1: If the goal is to review the performance of East Farm Road Apartments, why did the instructions ask you to review Simon Street also?

Answer – A review of another property's data and metrics that is comparable to the area of interest (in this case, East Farm Road Apartments) can help determine if the trend is unique to that area of interest (East Farm Road) or if the trend is broader. Similarly, other relevant data can help determine what range of data is reasonable and acceptable.

Finally, looking at other relevant data helps eliminate any bias that the reviewer may have. For example, if the data shows that rent collection rates are 98%, it is difficult to say that a specific property manager should not be held to that standard.

In the case of East Farm Road Apartments, a review of the data of Simon Street Apartments makes sense, even though the population the project serves is a little different, the housing stock is similar, operates in the same area, and both projects are public housing. In addition, the reviewer could also compare the data for East Farm Road Apartments to the rural rental housing project, especially since Paul, the property manager manages both properties.

Slide 61: Solution to Question 2

Question 2. After reviewing the data, what are your concerns with East Farm Road Apartments?

Answer – From a general perspective, all metrics show a decline in performance.

- The physical inspection score declined from a score of 90 points to 80 points on a 100-point scale.
- Occupancy has declined from 96.7% to 90.0%.
- The tenant collection rate has declined to 96.6%.

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- The financial metrics show a declining financial position, for example, the property posted net losses in two of the last three years.
- Operating expenses were 9% greater than what funding at 100% proration would provide.
- The decrease in the quick ratio and MENAR indicate that the cash position of the project is eroding.

These same trends do not exist at Simon Street. Further declines in performance at East Farm Road Apartments and the AHA will likely lose its High Performer designation and the associated Capital Fund bonus funding.

Slide 62: Solution to Question 3

Question 3. What steps should be taken to improve the performance at East Farm Road Apartments?

Answer – The first step is to fix any issues that can be easily addressed. For example, ensure that rent is collected, the property manager is enforcing the PHA's lease policy, etc. These items could happen immediately as the PHA already has policies and procedures in place.

Next, further analysis and review should be conducted to help determine the underlying cause of the deterioration. For example, simply moving more CFP funds into operations, would improve the quick ratio and MENAR but if the issue is poor financial management practices, under-trained / non-performing staff, the infusion of CFP funds will help only temporarily. Corrective actions should be focused on the root cause for the deterioration of the properties' performance.

Specifically, for East Farm Road Apartments corrective action should focus on increasing occupancy which has the benefit of generating revenue to help cover losses and improve the financial position of the property. Corrective action should also consider the expense level at the property. Line items should be reviewed to determine whether costs overruns are reasonable and if costs can be further decreased or eliminated. Finally, management, staff, policies and procedures need to be evaluated to ensure that staff is performing, and policies and procedures are effective and are followed.

Slide 63: Solution to Question 4

Question 4. For East Farm Road Apartments, six (6) units have been offline for an extended time. What is the annual loss of revenue from not putting the units back on line assuming a project expense level of \$400, tenant rent of \$280, and a proration of 90%?

Answer – For each month and for each unit, AHA has lost \$280 in tenant rent and \$108 $((\$400-280) \times 90\%)$ in operating subsidy, for a total of \$388 in lost revenue per unit per month. This equates to \$2,328 per month $(\$388 \times 6 \text{ units})$ and \$27,936 annually $(\$2,328 \times 12)$. If the cost to place a unit online is \$12,000 per unit, in three years the PHA would be better off by \$11,808 $(\$27,936 \text{ lost revenue per year} \times 3 \text{ years})$ minus $(\$12,000 \text{ cost per unit} \times 6 \text{ units})$.

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In the short-term, the project's cash position would decrease, long-term the project would be in a better financial position.

Slide 64: Solution to Question 5

Question 5. What other information should be on the dashboard report?

Answer – A dashboard report is not required by HUD but is considered to be a very useful management tool. Dashboard reports are designed to provide key metrics and warnings, similar to a dashboard on a car (e.g., speed, fuel level, maintenance light, etc.) and normally provide trending information to help provide context.

Dashboard reports are effective tools for the Board, management and staff and should be compiled from readily available reports and data. While certain elements of a dashboard report would be common based on the program that is analyzed (for example, occupancy rates in public housing), dashboard reports should be designed for your specific housing authority's need. If vacancy turnaround or maintenance work orders are issues, a dashboard could be designed to provide supporting metrics to help manage and plan. In addition, dashboard reports can be designed for other programs such as the CFP and HCV program.

Slide 65: End of Learning Activity 7 Solutions

This ends the Solution to Learning Activity 7: Monitoring Using a Dashboard Report.