

# Understanding Financial Statements to Improve PHA Financial Performance

THA Conference & Tradeshow 2022

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# Hello!



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6 years with Lindsey Software, an MRI  
Company

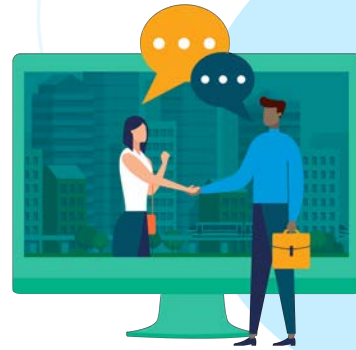


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# Today's agenda

1. Restart of Public Housing Assessment System (PHAS)
2. Understanding how Balance Sheet/Income Statements are reported on the FDS
3. Q & A



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## Restart of Public Housing Assessment System (PHAS)



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## Return of PHAS Assessment (PIH NOTICE 2022-02, ISSUES FEBRUARY 4, 2022)

Notice 2021-14 provided CARES Act waiver that suspended PHAS assessment for PHAs with FYE of 3/31/202 to 12/31/2021

- A PHA's last PHAS score was carried over

Notice 2022-02 – PHAS scoring resumed starting with 3/31/2022 FYE PHAs

Unaudited Submissions		
FYE	Normal Due Date	Extended Due Date
12/31/2019	2/29/2020	8/31/2020
3/31/2020	5/31/2020	11/30/2020
06/30/2020	08/31/2020	10/30/2020
09/30/2020 & Forward	2 Months After PHA FYE	N/A

PHA can appeal and request that no PHAS score be issued for FYE 2022 if their PHAS score has been negatively impacted by the pandemic

Audited Submissions		
FYE	Normal Due Date	Extended Due Date
3/31/2020	12/31/2020	6/30/2021
6/30/2020	3/31/2021	9/30/2021
9/30/2020	6/30/2021	12/31/2021
12/31/2020	9/30/2021	3/31/2022
3/31/2021	12/31/2021	6/30/2022
6/30/2021	3/31/2022	9/30/2022
9/30/2021	6/30/2022	N/A
12/31/2021	9/30/2022	N/A
3/31/2022 & Forward	9 months after PHA FYE	N/A



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## PUBLIC HOUSING ASSESSMENT SYSTEM (PHAS) INDICATORS



#	PHAS Indicator	Interim PHAS Rule Maximum Points
1	Financial Condition	25 points
2	Management Operations	25 points
3	Physical Condition	40 points
4	Capital Fund Program	10 points
	<b>Overall PHAS Score =</b>	<b>100 Points</b>

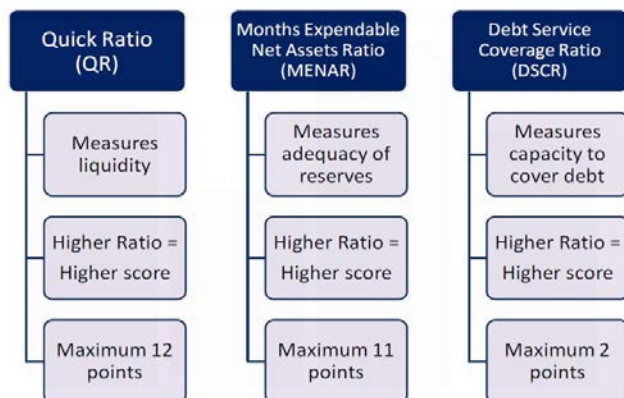
} Based on FDS Data



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## FASS Financial Condition Sub-Indicators



- Financial Condition Indicator measures the financial performance of each project
- Data used to calculate the sub-indicators ingathered from the Financial Data Schedule (FDS) submitted to REAC
- To arrive at an overall score, the individual projects' scores will be combined using a weighted average calculation



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## PHAS – PUBLIC HOUSING ASSESSMENT SYSTEM SCORES

The Public Housing Assessment System, or PHAS, is the system that HUD uses to assess a PHA's performance in managing its low-rent public housing program.

- Scores of 90 points or above result in a high performer designation
- Scores below 60 result in a troubled designation



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## FASS (Financial Assessment Subsystem) 25 points

- **PURPOSE** – The purpose of the financial condition indicator is to measure the financial condition of each public housing project.
- **HOW IS IT SCORED?** – FASS is determined by data reported to HUD by the PHA in the Financial Data Schedule (FDS). The FDS is a required report that is sent by the PHA to HUD/REAC **60 days after the end of the Fiscal Year End for the Unaudited** Financial Data and **9 months after the end of the Fiscal Year with the Audited** data. Late Penalty points and Late Presumptive Failure (LPF) for these submissions do apply to FASS Indicator score.



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## FASS (Financial Assessment Subsystem) continued

- Scores are assigned by the following sub-indicators:
  - Quick Ratio (QR) – Measures liquidity and current assets. The maximum points assigned for this sub-indicator is **12 points**.
  - Months Expendable Net Assets Ratio (MENAR) – Measures the adequacy of the financial reserves by determining the number of months a housing authority could operate using the net available resources. The maximum points assigned for the sub-indicator is **11 points**.
  - Debt Service Coverage Ratio (DSCR) – Measures capacity to cover debt obligations through the ability to meet regular debt obligations. The maximum points assigned for this sub-indicator is **2 points**.



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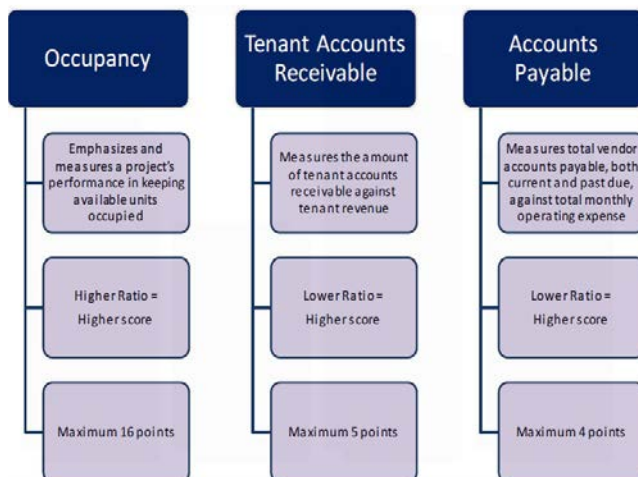
## How to Improve FASS score

- Maintain accurate financial records and review them on a regular basis
- Submit financial reports to HUD on time (FDS)
- Increase Quick Ratio by increasing cash available and reducing Accounts Payable
- Increase Months Expendable Net Assets Ratio by increasing savings in the bank and reducing operating costs



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## Management Operations (MOPS) Sub-Indicators



- The Management Operations Indicator measures the management performance of each project
- Data used to calculate the sub-indicators is gathered from the Financial Data Schedule (FDS) submitted to REAC
- To arrive at an overall score, the individual projects' scores will be combined using a weighted average calculation

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## MASS (Management Assessment Subsystem) 25 points

- **PURPOSE** – The purpose of the management operations indicator is to assess the AMP's and PHA's management operations capabilities.
- **HOW IS IT SCORED?** – MASS is determined by data reported to HUD by the PHA in the **FDS** and is composed of three sub-indicators:
  - **Occupancy** – Emphasizes and measures the AMP's performance in keeping available units occupied. The higher the occupancy rate, the higher the score. The maximum points assigned for this sub-indicator is **16 points**.
  - **Resident Accounts Receivable** – Measures the amount of resident Accounts Receivable against resident Revenue (i.e. rent paid). The maximum points assigned for this sub-indicator is **5 points**.
  - **Accounts Payable** – Measures total vendor accounts payable, both current and past due against total monthly operating expenses. The lower the ratio, the higher the score. The maximum points assigned for this sub-indicator is **4 points**.



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## How to Improve MASS score

- Increase number of occupied units/reduce vacancies
  - Maintain an updated waiting list
  - Turn vacant units around quickly
- Collect the rents on time
  - Enforce rent collection policies as much as possible
  - Increase revenue and lower Tenant Accounts Receivable (TAR) ratio
- Reduce Accounts Payable by paying bills on time



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## TAR Scoring Adjustment

(PIH NOTICE 2022-02, ISSUED FEBRUARY 4, 2022)

TAR scoring adjustment recognized the impact of the federal/state eviction moratoria on a PHA's ability to collect rent and manage rent collection activities

- Adjusts scoring for the TAR sub-indicator for FY 2022 PHAS assessment cycle:
  - 3/31/2022; 6/30/2022; 9/30/2022; 12/31/2022
- HUD will apply the adjustment automatically for all agencies

#	Interim PHAS	TAR Adjustment - FY 2022	Maximum Points
1	Less than 1.5% (collecting more than 98.5% of tenant charges)	Less than 20% (collecting 80.0% or greater of tenant charges)	Full Points (5 points)
2	Greater than or equal to 1.5% but less than or equal to 2.5% (collecting 98.5% or less but more than 97.5% tenant charges)	Greater than or equal to 20% but less than or equal to 40% (collecting between 60 percent to 79 percent of tenant charges)	2 points
3	Greater than 2.5% (collecting less than 97.5% tenant charges)	Greater than 40% (collecting less than 60 percent of tenant charges)	Zero Points



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## PHAS Occupancy Rate – Management Operations

Numerator	
FDS #	FDS Description
11210	Number of Unit months leased
Denominator	
FDS #	FDS Description
11190	Unit months available

### ◆ Calculation Methodology:

$$\frac{\text{Unit Months Leased}}{\text{Unit Months Available}}$$

- ◆ **Data Source:** PHA Financial Data Schedule (FDS) submitted electronically to HUD's FASS-PH system

### ◆ Detail FDS Line Item Calculation:

$$\frac{11210}{11190}$$



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## FDS: Reporting Units for Public Housing Projects

- 11190 – Unit Months Available: For each Public Housing project, the PHA is to report the total number of months each ACC unit was under ACC in the PHA's fiscal year reduced by the number of months each ACC unit was in any of the following categories/sub-categories
  - Category: Vacant HUD Approved; Sub-category: All
  - Category: Non-Dwelling; Subcategory: Special Use
  - Category: Demolition/Disposition – approved (applies only to vacant units)
- 11210 – Unit Months Leased: For Public Housing, units leased only include those units categorized in PIC in the following sub-categories:
  - Occupied – Assisted, PHA employees, Police officers, and Non-assisted tenants over income
- **REMEMBER: Unit months reported must be on the same basis (i.e., first or last day of the month) the PHA used when reporting units leased on the Form HUD 52723 – Calculation of Operating Subsidy**



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## CFP – (Capital Fund Program) 10 points

- **PURPOSE** – The purpose of the Capital Fund program is to examine the period of time it takes a PHA to obligate the funds provided to it from the Capital Fund program.
  - PHAs must obligate 90% or more of these funds no later than 2 years after funds become available.
  - 100% of CFP funds must be spent no later than 4 years after funds become available.
  - Penalties for failure to meet these deadlines are **SEVERE**



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## CFP – Capital Fund Program Continued

- **HOW IS IT SCORED?** – Uses information in eLOCCS for scoring. Scores are assigned by the following sub-indicators:
  - Fund Obligations – 5 points are assigned if the PHA obligated 90% or more of the CFP by the obligation end date.
  - Occupancy Rate – Measures occupancy rate at fiscal year end after adjusting for HUD approved vacancies. A total of 5 points are assigned for a rate of 96% or greater.
  - If the PHA scored less than 5 points for Timeliness of Fund Obligation, the Occupancy Rate score is **automatically zero**.



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## PHAS Occupancy Rate – Capital Fund Indicator

### Occupancy Rate – Capital Fund Sub-Indicator (PIC) 5 points

- Source of Data: PIC as of the last day of the PHA's FYE (A single snapshot in time)
- The Numerator, Unit Months Leased, same as MOPS Occupancy *but also includes HUD Approved Special Use Units*
- The Denominator, Units Months Available, includes all ACC units regardless of status
  - *Scored only if PHA receives 5 points for obligating 90% of Capital Funds (first sub-indicator)*

**Example:** 100 available units, of which 90 are leased and 6 units are off-line for modernization

Occupancy Rate (MOPS):  $\frac{90 \text{ Leased}}{94 \text{ Available}} = 96\%$

Occupancy Rate (CFP):  $\frac{90 \text{ Leased}}{100 \text{ Available}} = 90\%$



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# Capital Fund Bonus Funding

(PIH Notice 2021-38, issued December 21, 2021)

Under the Capital Fund formula, PHAs designated as **High Performer** under PHAS are eligible to receive “bonus”/additional CFP funds of up to 5%

- Overall score of 90% or higher and at least 60% of total points available in Physical (24), Management (15), Financial (15), and 50% of the total points for CFP (5)

PIH NOTICE 2021-14 – When scoring resumes, CARES Act Operating Funds will be excluded from calculation of Financial and Management indicators

Eligibility for the High Performer bonus for FY 2021, HUD will use the final PHAS scores for FY 2019: 12/31/2018, 3/31/2019, 6/30/2019 and 9/30/2019

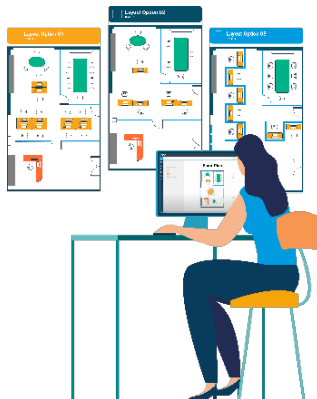
- Final or pending High Performer designation for FY2019, will be eligible for the High Performer bonus
- Final score is not available for FY 2019, HUD will use a PHA's most recent final PHAS score to determine eligibility for the High Performer bonus
- PHA will NOT need to request from HUD a new PHAS score to be considered for the High Performer bonus



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# How to Improve CFP score



- Timely obligation of Capital Program Funds
  - **Plan** for the PHA's use of Capital Funds
- **Track** obligations made and obligation end dates
- **Evaluate** PHA procurement/contracting timeliness and effectiveness



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## PASS (Physical Assessment Subsystem) 40 points

- **PURPOSE** – The purpose of the PASS is to determine whether public housing units are *decent, safe, sanitary and in good repair*, and to determine the level to which the PHA is maintaining its public housing in accordance with housing condition standards.
- **HOW IS IT SCORED?** – The PASS score is determined by an inspection conducted in accordance with HUD's Uniform Physical Condition Standards (UPCS). An independent physical inspection performed and scored for each project/AMP. A statistically valid sample of the units within the AMP is selected, and project scores roll up to a composite PHA score.

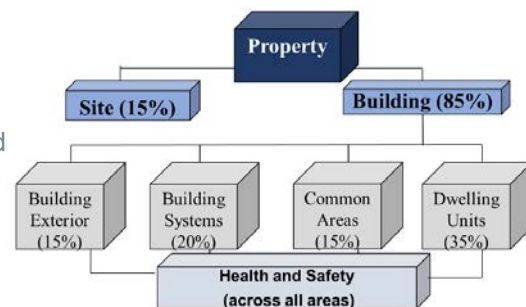


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## PASS Sub Indicators and Weighting

- Projects overall Physical condition Score is based on a weighted average of 5 inspectable areas and exigent health and safety hazards:
  1. Site; 2. Building Exterior; 3. Building Systems; 4. common Areas; 5. Dwelling Units
- When an inspectable area is not present for a project, the remaining areas are re-weighted to add up to 100%
- Mixed finance projects are inspected and scored; will receive a physical score but no financial or management score
- RAD projects are inspected and scored
  - Exception: 100% RAD projects are inspected and receive only an advisory score, i.e., 100% RAD projects are excluded from a PHA's PASS score



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## Physical Condition Indicator – Inspection Schedule

- All projects scoring 90 points or higher will be inspected every 3 years
- Projects scoring between 80 and 90 points will receive an inspection every other year
- Projects scoring less than 80 points will receive an inspection each year
- Projects of PHAs designated as a trouble performer will receive a physical inspection irrespective of the individual project's physical inspection score

Notice 2022-02 – Annual physical inspections resumed starting with 3/31/2022 FYE PHAs.

- HUD will notify PHAs 28 days (instead of 14 days) prior to physical inspection date
- FYE 2022 inspections will be used to establish baseline for assessment cycle and inspection intervals



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## How to Improve PASS score

- Understand and comply with Uniform Physical Condition Standards (UPCS)
- Inspect 100% of units annually using UPCS protocols
- Examine Capital Fund use and prioritization
- Compare maintenance to new development resources. Is maintenance underfunded?
- Maintain accurate building and unit inventory
- Perform routine maintenance on all properties, units and systems throughout the year
- Repair health and safety deficiencies immediately



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## Understanding how Balance Sheet/Income Statements are reported on the FDS



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## Q&A

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