

Section Eight | Public Housing Assessment Systems:  
**Public Housing Assessment System  
(PHAS) Reform Discussion**



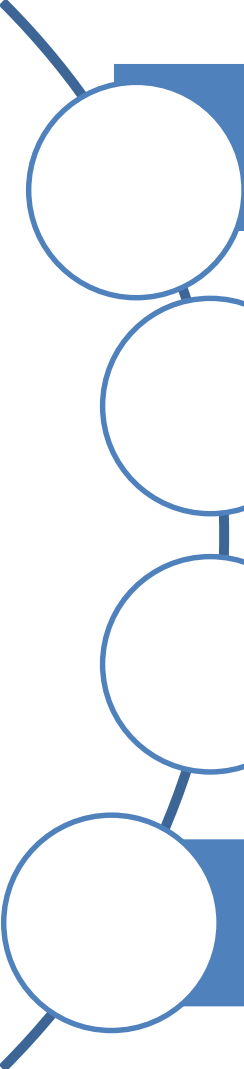
**U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

*September 2016*

# Rationale For Change

- Address Interim Rule status of PHAS that has been in effect since 2011; fulfills HUD commitment to finalize the PHAS rule
- Current Interim Rule does not address many of the 6(j) statutory compliance indicators
- Current Interim does little to incentivize a PHA's behavior
- Need to address adequacy of board governance – key indicator of a PHA performance
- Adopt a similar construct for the HCV and public housing program assessment to simplify understanding of each assessment and to ensure consistency of emphasis between the programs

# Guiding Principles



**Assessment information should be based on data currently collected by HUD (limit additional PHA reporting requirements)**

**Measurement focus should be outcome-based not process-based (i.e., results-oriented)**

**Increases in scores / designation cannot be based on a PHA's self-certification of data**

**Seek to reduce or minimize PHA burden and provide flexibility to PHAs**

# Alternative Framework for Consideration

Incentives



- Targets secondary program goals such as locational outcomes, vacant unit turnaround
- 3 indicators
  - Worth approx. 10 points

Performance Indicators



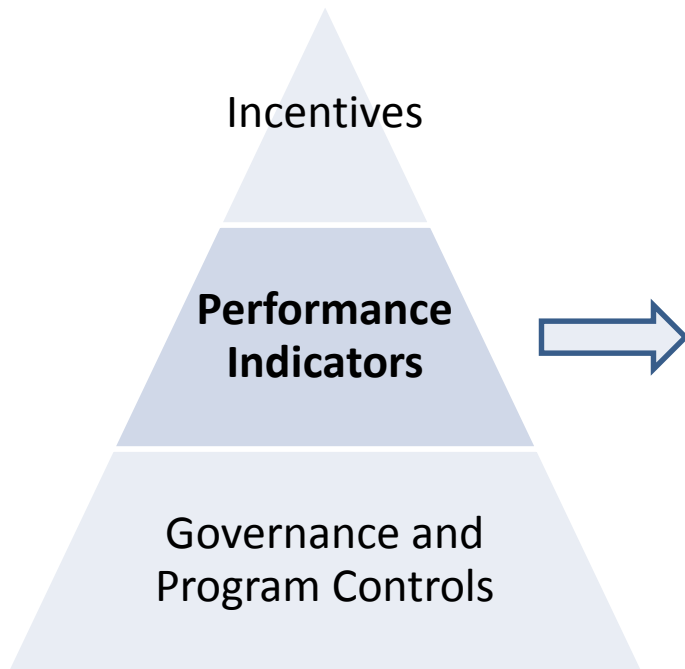
- Targets key areas of program operations, such as inspections and occupancy
- 4 indicators (with subindicators)
  - Worth approx. 100 points

Governance and Program Controls



- Targets Board oversight and administrative policies
- 7 indicators
  - Points not applicable to a PHA's numerical score

# Performance Indicators



## Four Indicators:

1. Physical Inspection
2. Occupancy
3. Financial Condition
4. Annual Reexamination

- Indicators for physical inspections and occupancy are similar to the Interim PHAS.
- Additional financial condition sub-indicators and new annual reexamination indicator.

# Physical Inspections

- Proposed indicator would be worth about 30 of 100 points for the performance category. (Currently 40 points under Interim PHAS)
- Methodology would remain largely the same as under current Interim PHAS:
  - Projects will continue to be inspected by independent contractors;
  - Frequency of inspections will be based on project inspection scores;
  - An overall Physical assessment score for the PH program is calculated by weighting each project's score based on the units associated with each project; and
  - Changes to the PH physical score can be made through a technical review or database adjustment
  - Project inspection would continue to be scored from 100 points and then converted to a 30-point scale
- PHAs could increase their Physical Condition score through points earned under the Capital Fund incentive (discussed in the incentive section of this presentation).

# Occupancy

- Proposed indicator would be worth about 20 of 100 points for the performance category. (Currently 21 points under Interim PHAS (16 points for Occupancy indicator under MOPS and 5 points for Capital Fund Occupancy subindicator).
- Proposed scoring for two occupancy rates:
  - **Assisted tenant rate** – occupied units by assisted tenants divided by ACC units
  - **Funded rate** – all occupied units divided by ACC units less HUD approved vacancies and special use units
- Occupancy rates would be scored at the project level, based on IMS/PIC unit status data at the end of each month for the PHA's fiscal year:
  - Expressed as a percent occupied (i.e., 98% means 98% of the units were occupied)
  - Both ratios exclude units approved for demolition/disposition regardless of vacancy status

# Proposed Scoring Criteria for Occupancy

Proposed Scoring Criteria and Associated Points				
#	Assisted Tenant Rate		Funded Tenant Rate	Score
1	Greater than or equal to 97%		N/A	20
2	Greater than or equal to 95% but less than 97%		N/A	17
3	Less than 95%	and	Greater than or equal to 95%	15
4	Less than 95%	and	Greater than or equal to 90% but less than 95%	10
5	Less than 95%	and	Less than 90%	0
6	Non-reporting or Improper reporting in IMS / PIC			0

- Physical Condition and Neighborhood Environment (PCNE) adjustment will be applied under the Occupancy Indicator to each project (maximum 2 points / maximum score capped at 20 points) based on the Interim PHAS methodology:
  - Physical Condition: 1 point based on the age of the property (28 years old or greater)
  - Neighborhood Environment: 1 point based on poverty rate of census tract (40% of families below poverty rate)



# Improvements Over Interim PHAS

- Proposed occupancy indicator includes two modifications to address concerns that the CFP and MOPS indicators under interim PHAS are unfair, particularly for very small PHAs:
  - Use of 12 data points of occupancy data instead of the last day of the fiscal year (Interim PHAS – Capital Fund Indicator).
  - Adjustments to both the *assisted tenant* and *funded* occupancy for PHAs with 49 or fewer public housing units:
    - PHAs between 1 and 25 units will have 1 additional unit (12 months) of occupancy added to their actual occupied unit count.
    - PHAs between 26 and 49 units will have 2 additional units (24 months) of occupancy added to their actual occupied unit count.
    - There are roughly 730 PHAs with 49 units or less; roughly half would see their PHA score increase due to this adjustment
    - A PHA's occupancy rate cannot be more than 100%

# Financial Conditions

- Proposed indicator would be worth about 40 of 100 points for the performance category. (Currently 25 points under Interim PHAS)
- Methodology would remain largely the same as under current Interim PHAS:
  - Financial ratios will be applied to the projects using data submitted through FASS-PH to provide a base score;
  - An overall PHA-wide financial indicator assessment score will be calculated by weighting each project score based on the units associated with each projects;
  - Mixed Finance and RAD projects will not be assessed; and
  - The results of the PHA's audits could reduce the score (i.e., audit penalties).

# Possible Measures for Financial Conditions

Possible Measure	What Would it Measure?	What Question Would it Answer?	Used Under Interim PHAS?
1. Quick Ratio	Liquidity or solvency of a project	Does the project have enough cash and other current assets to pay the bills that are due?	Yes
2. Months Expendable Net Assets Ratio	Number of months a project can sustain operations without additional funding	Are there adequate operating reserves based on the size of the PHA's project?	Yes
3. Net Income Ratio	Whether project is operating at a net income (loss) for the year and the impact on the program's viability	Is the project operating at a net loss that could jeopardize its sustainability?	No, but used in previous PHAS
4. Tenant Accounts Receivable Ratio	The project's ability to collect rent	Is the project maximizing revenue?	Yes, part of MOPS
5. Expense Management Ratio	The relationship between the project's actual expenses and HUD's determined reasonable expense level (i.e., operating subsidy formula expense level)	Is the project's level of actual operating expenses reasonable?	No, but used in previous PHAS

# Financial Condition Examples

Quick Ratio - Does the project have enough cash and other current assets to pay the bills that are due?

Quick Ratio			
Line Description	Example 1	Example 2	Example 3
Current Assets (i.e. Cash)	\$100,000	\$100,000	\$100,000
Current Liabilities (i.e. Amounts Owed)	\$20,000	\$100,000	\$200,000
Formula	$\frac{\$100,000}{\$20,000}$	$\frac{\$100,000}{\$100,000}$	$\frac{\$100,000}{\$200,000}$
<b>Quick Ratio</b>	<b>5.0</b>	<b>1.0</b>	<b>0.5</b>

# Financial Condition Examples

MENAR - Are there adequate operating reserves based on the size of the PHA's project?

MENAR		
Line Description	Example 1	Example 2
Current Assets (i.e., Cash)	\$100,000	\$100,000
Current Liabilities (i.e. Amounts Owed)	\$20,000	\$20,000
Annual Expense (i.e. Amounts Spent)	\$120,000	\$960,000
Average Monthly Expense (i.e. Average Amounts Spent)	\$10,000	\$80,000
Formula	$\frac{(\$100,000 - \$20,000)}{\$10,000}$	$\frac{(\$100,000 - \$20,000)}{\$80,000}$
<b>MENAR</b>	<b>8.0</b>	<b>1.0</b>
Line Description	Example 3	Example 4
Current Assets (i.e. Cash)	\$100,000	\$100,000
Current Liabilities (i.e. Amounts Owed)	\$95,000	\$200,000
Annual Expense (i.e. Amounts Spent)	\$120,000	\$120,000
Average Monthly Expense (i.e. Average Amounts Spent)	\$10,000	\$10,000
Formula	$\frac{(\$100,000 - \$95,000)}{\$10,000}$	$\frac{(\$100,000 - \$200,000)}{\$10,000}$
<b>MENAR</b>	<b>0.5</b>	<b>-10.0</b>

# Financial Condition Examples

Net Income - Is the project operating at a net loss that could jeopardize its sustainability?

Net Income		
Line Description	Example 1	Example 2
Net Income	\$10,000	(\$10,000)
Net Current Assets	\$80,000	\$80,000
Line Description	Example 3	Example 4
Net Loss	\$0	(\$100,000)
Net Current Assets	\$0	\$0

# Frequency of Reexaminations

- Proposed indicator worth about 10 of 100 points for the performance category.
- Similar to the reexamination indicator currently used under SEMAP:
  - PHA must complete a reexamination for each participating family at least once every 12 months and submit the results of the reexamination to PIC (i.e., 50058 transmission).
    - Changes in frequency of reexaminations requirements would be reflected in indicator.
  - Current SEMAP reexamination indicator measures the percent of reexaminations that are more than 2 months overdue.
  - Example scoring criteria based on current SEMAP
    - 10 points → Fewer than 5 percent of all PHA reexaminations are more than 2 months overdue
    - 5 points → 5 to 10 percent of all PHA reexaminations are more than 2 months overdue
    - 0 points → More than 10 percent of all PHA reexaminations are more than 2 months overdue

# Discussion of Performance Indicators

- Overall feedback on four proposed indicators and relative weights
  - What does not belong?
  - What is missing?
- Specific questions on indicators:

## Physical Inspections

- Are there alternative approaches or suggestions on how best to assess this performance indicator?

## Occupancy

- Are there alternative approaches or suggestions on how best to assess this performance indicator?

## Financial Condition

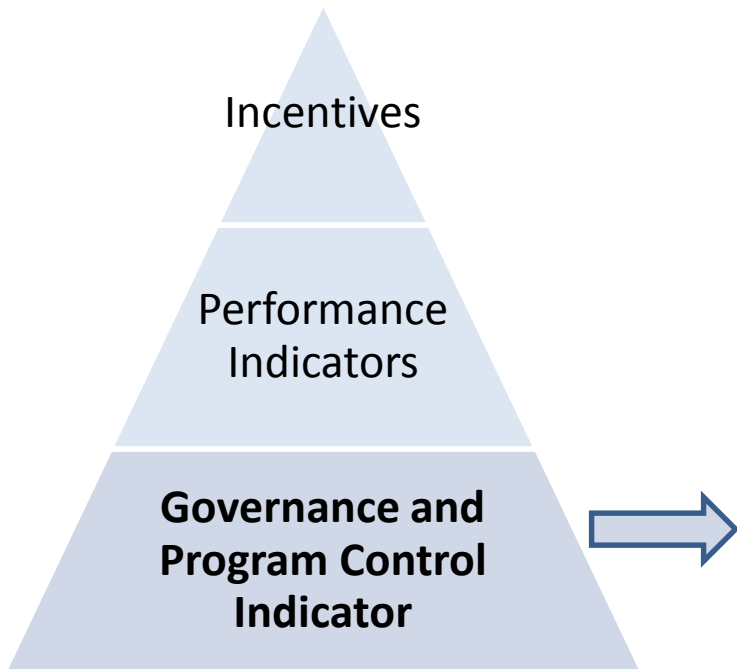
- Are there alternative ratios that should be considered?
- Are there issues with the ratios and scoring thresholds that are currently used under Interim PHAs

## Reexamination

- What should be the scoring thresholds?



# Governance and Program Controls



## Two self-certified surveys:

- 1) Governance survey completed by the PHA Board
- 2) Program Controls survey completed by the Executive Director that covers major compliance areas associated with the Public Housing Program

# Governance and Program Controls Surveys

- Surveys would be designed to cover seven (7) topics:
  - Governance
  - Waitlist management: placement and selection
  - Rent determination
  - Capital fund obligation
  - Maintenance work orders
  - Annual inspections of units and systems
  - Anti-crime strategies
- Surveys reflect minimum standards for Board oversight and administration
- Surveys would be completed and self-certified by PHA via HUD online system (similar to SEMAP certification within HUD's IMS/PIC system)
- Surveys would be pass/fail, scored separately
- PHA would not earn points for passing surveys; but overall designation could be lowered for fails
  - Propose that a PHA that fail Governance/Program Controls cannot be a High Performer

# Governance Survey: Possible Questions/Topics

Survey Section	Possible Questions/Topics
Board Structure	<ul style="list-style-type: none"><li>• Does the Board have the required number of members?</li><li>• Does the Board include a resident Board?</li></ul>
Board Members	<ul style="list-style-type: none"><li>• Number of Board meetings</li><li>• Average meeting attendance</li><li>• Methods of disseminating information about Board meetings and minutes</li></ul>
Board Function	<ul style="list-style-type: none"><li>• Role of Board in evaluating Executive Director performance and compensation</li></ul>
Financial and Program Oversight	<ul style="list-style-type: none"><li>• Role of Board in reviewing financial statements and discussing PHA's financial health</li><li>• Timeliness of budget adoption by Board</li><li>• Are the results of quality control testing (or internal controls) communicated to the Board?</li></ul>

# Program Controls

#	Program Control Area
1	Waitlist Management
2	Rent Determination
3	Capital Fund Obligation
4	Maintenance Work Orders
5	Percent of Units Inspected
6	Anti-crime

- Slightly different questions for PHAs that administer a PH program of 250 or more units versus administering a program of fewer than 250 units.
- PHAs with 250 or more PH units will be required to complete a quality control sample (similar to SEMAP).
  - 42% of PHAs with a public housing program administer 250 or more PH units
- A number of the Program Controls (3 – 6) are required to be part of an assessment under QHWRA.
- Program Controls 1 and 2 exists under SEMAP.

# Example Questions on Waitlist Management for PHAS with 250 or More Units

Example Questions	Possible Points
1. Does the PHA use a quality control sample to test compliance with policies for placing and selecting families from the wait list?	Yes: 5 points No: 0 points
2. Does the PHA use a site-based waiting list, PHA-wide waiting list, or mixed (both) waiting list?	Not scored, used for informational purposes
3. Of the quality control sample for <u>placement on the waiting list</u> , what percentage was compliant?	>=98%: 10 points <98%: 0 points
4. Of the quality control sample for <u>selection from the waiting list</u> , what percentage was compliant?	>=98%: 10 points <98%: 0 points
5. Does the PHA have written policies and procedures for managing the PH waitlist that comply with applicable laws and regulations?	Yes: 5 points No: 0 points

# Example Questions on Waitlist Management for PHAS with Fewer than 250 Units

Example Questions	Possible Points
1. Does the PHA have internal controls in place and monitors those controls to ensure that policies for placing and selecting families from the wait list comply with applicable laws and regulations?	Yes: 5 points No: 0 points
2. Does the PHA have written policies and procedures for managing the PH waitlist that comply with applicable laws and regulations?	Yes: 5 points No: 0 points

# Discussion of Governance and Program Controls

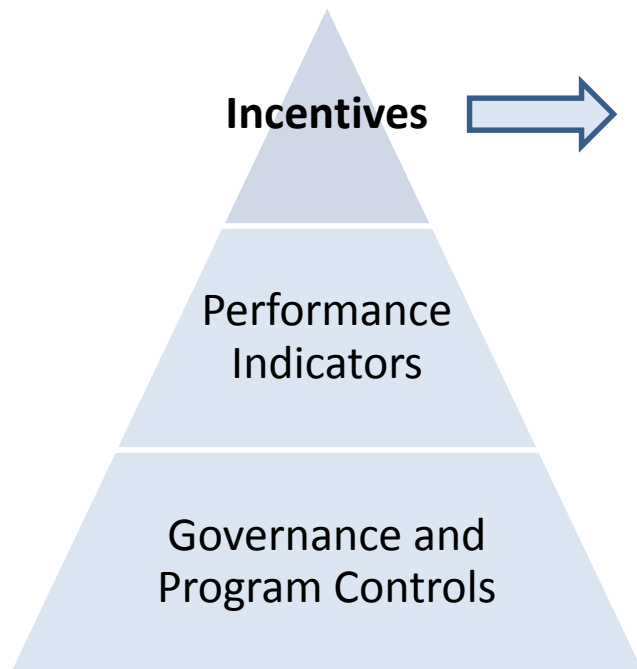
- Overall feedback on assessing governance and program controls
- Feedback on self-certified survey approach and example survey topics and questions
- Does it make sense to have different governance or program control standards based on PHA size?
  - What are the appropriate size thresholds?

# Proposed Approach to Incentives

- Incentives are “bonus” points that are applied to the performance indicator score
- A PHA’s assessment score can only be increased (i.e., a PHA does not lose points for not having met an incentive standard)
- Incentives are targeted at improving HUD-specific goals but allow for a PHA’s local discretion in prioritizing the activity
- Incentives must be measurable using data currently available to HUD
- Incentives must be outcome-based and the outcome must be mostly in the control of the PHA
- A PHA may not be able to earn points for each incentive
- The maximum number of points that a PHA can earn for incentives is 10 points



# Potential Areas for Incentives



## Areas for Incentives (& Possible Indicators)

1. Reaching program objectives that provide opportunities for families to improve self-sufficiency or live in better economic areas:
  - Family self-sufficiency (Max: 5 pts)
2. Improvements to the PH program through the use of standards, procedures, and quality control that are above current requirements:
  - Use of capital funds for modernization (Max: 4 pts)
  - Vacant unit turnaround time (Max: 2 pts)

# Proposed Capital Fund Incentive

- A PHA could receive bonus points based on the percentage of Capital Funds used for modernization, capital activity, and vacancy reduction efforts.
- The bonus points would be calculated at a PHA level and applied to a PHA's PH physical score. The Physical Condition Indicator score would be capped at 30 points.
- FASS-PH and eLOCCS data will be used to determine the percent of Capital Funds used for modernization and vacancy reduction efforts.
- Bonus points (scoring scale) will be calculated taking into account the number of public housing units that are administered by the PHA (i.e., very small, small, large PHAs).

# Discussion of Incentives

- Overall feedback on proposed areas for incentives: family self-sufficiency, use of capital funds for modernization, vacant unit turnaround time
- What other areas should HUD consider?
- Feedback on reliance on PIC data for incentive indicators:
  - Where data is not available in HUD's system to support the incentive, would PHAs be agreeable to provide the data (i.e., increase the reporting requirements?)
- Feedback on proposed approach to capital funds bonus

# Possible Assessment Designations

Designation	Discussion Item
High Performer	
Above Standard Performer (new)	<ul style="list-style-type: none"> <li>Recognizes PHAs that are performing at above a standard performance level.</li> <li>PHA with a score of 80-89 points overall <u>and</u> earned 60% of the possible points for each performance indicator <u>and</u> passed both governance and program controls.</li> <li>PHA with a score of 90-100 points overall <u>and</u> earned 60% of the possible points for each performance indicator <u>but</u> failed either governance or program controls.</li> </ul>
Standard Performer	
Sub-standard Performer	
Troubled Performer	

## Other Discussion Items

- Besides a CFP funding bonus, what other bonus could HUD provide to PHA that has been designated as a high performer?
- Should HUD formally recognizes (i.e., as part of a PHA's designation, a letter, etc.), PHAs that have received incentive bonus points?

# Example of Scoring

a.	b.	c.	d.
Public Housing Assessment			
#	Indicators / Incentives / Governance & Program Controls	Max Points	Example Score
1	<b>Performance Indicators</b>		
2	Physical	30	25
3	Occupancy	20	20
4	Financial	40	30
5	Annual Reexamination	10	10
6	<b>Total Performance Indicators</b>	<b>100</b>	<b>85</b>
7	<b>Incentives</b>		
8	Family Self Sufficiency	5	5
9	Use of Capital Funds for Modernization	4	2
10	Vacant Unit Turnaround Time	2	0
11	<b>Incentives (limited to 10 points)</b>	<b>10</b>	<b>7</b>
12	<b>Total Points</b>	<b>110</b>	<b>92</b>
13	Governance Survey	Pass/Fail	<b>Fail</b>
14	Program Controls Survey	Pass/Fail	<b>Fail</b>
15	<b>Performance Designation</b>		<b>Above Standard</b>

- In this example, the PHA's performance indicator score calculates to 85 points (row 6).
- For incentives, the PHA scored 7 points which is below the 10-point limit (row 11).
- The PHA failed both Governance and Program Controls.
- The PHA's score is 92 points and is designated Above Standard (one designation lower than the high performer designation) due to the PHA's failure in Governance and Program Controls.

# Closing Discussion and Summary

#	PHAS & 6(j) Indicators	Max Points	Data Source	SEPHAS: Public Housing Assessment	Max Points	Data Source
1	Vacant Unit Turnaround Time †	N/A	N/A	Incentive - Vacant Unit Turnaround Time (VUTT)	2	PIC
2	Not Applicable	N/A	N/A	Incentive - Use of Capital Funds for Modernization	4	FASS
3	Self-Sufficiency †	N/A	N/A	Incentive - FSS	5	PIC
4	PH Physical Indicator †	40	PASS	Performance Indicator - PH Physical	30	PASS
5	PH Management Indicator - Occupancy †	16	FASS	Performance Indicator - PH Occupancy	20	PIC
6	PH Management Indicator - Accounts Payable	4	FASS	Not Applicable	N/A	N/A
7	PH Financial Indicator - Quick Ratio	12	FASS	Performance Indicator - PH Financial (QR)	14	FASS
8	PH Financial Indicator - MENAR	11	FASS	Performance Indicator - PH Financial (MENAR)	10	FASS
9	PH Financial Indicator - Debt Service	2	FASS	Not Applicable	N/A	N/A
10	Not Applicable	N/A	N/A	Performance Indicator - PH Financial (Net Income)	6	FASS
11	PH Management - TAR †	5	FASS	Performance Indicator - PH Financial (Tenant Acct Receivable)	6	FASS
12	Utility Consumption †	N/A	N/A	Performance Indicator - PH Financial (Expense Management)	4	FASS
13	Not Applicable	N/A	N/A	Performance Indicator - PH Annual Reexamination	10	PIC
14	Not Applicable	N/A	N/A	Governance & Program Controls - Governance	P/F	Self-Certify (PIC)
15	Not Applicable	N/A	N/A	Governance & Program Controls - Waitlist Management: Placement & Selection (QC Sample)	P/F	Self-Certify (PIC)
16	Not Applicable	N/A	N/A	Governance & Program Controls - Rent Determination (QC Sample)	P/F	Self-Certify (PIC)
17	Capital Fund Indicator †	10	LOCCS	Governance & Program Controls - Capital Fund Obligation	P/F	LOCCS
18	Maintenance Work Orders †	N/A	N/A	Governance & Program Controls - Maintenance Work Orders	P/F	Self-Certify (PIC)
19	Annual Inspection of Units & Systems†	N/A	N/A	Governance & Program Controls - Annual Inspection of Units & Systems	P/F	Self-Certify (PIC)
20	Anti-crime Strategies †	N/A	N/A	Governance & Program Controls - Anti-crime Strategies	P/F	Self-Certify (PIC)

† denotes 6(j) statutory indicator