



Real Estate Assessment Center  
PHA- Finance

**FINANCIAL INDICATOR  
METHODOLOGY &  
ANALYSIS GUIDE  
(For FYE 9/30/01 and after)**

September 14, 2001



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## SUMMARY OF CHANGES

### **Changes Resulting from the Public Housing Assessment System (PHAS) Interim Assessment Methodology and new government accounting standards for Public Housing Authorities (PHAs) with Fiscal Years Ending on or after September 30, 2001.**

The following represents changes made to this document due to the establishment of an interim assessment methodology and new government accounting standards for PHAs. Changes have also been made to provide additional clarification and explanation:

- The “Effective Period” section was added to the beginning of this document.
- Clarification of the following terminologies was included:
  - Indicator - refers to the four assessment indicators under PHAS, i.e. physical, financial, management, and resident service and satisfaction.
  - Component - refers to the actual scoring factors under each “indicator” that calculate and construct the assessment indicator score.
- The “Current Methodology” section was renamed “Current Public Housing Assessment System” to better reflect its content.
- The “Financial Data Schedule (FDS)” section was renamed “Advisory vs. Enforceable Scores.” The advisory and enforceable score effective periods were also updated.
- The “sample Financial Data Schedule” and the “Appendix A: Sample Housing Authority” sections were excluded from this document.
- A new section, “Scoring Methodology” was added to this document. In this section, the paragraphs describing the six financial assessment indicator components were included.
- For the six financial assessment components, detailed FDS line item computations and the calculation methodology for translating the component values into scores were added to this document.
- The scoring methodology for the Current Ratio and the Month Expendable Fund Balance components was updated to reflect the interim assessment scoring methodology.
- New FDS line items 115 (Cash – restricted for payment of current liability) and 135 (Investments – restricted for payment of current liability) were added to the Current Ratio, Months Expendable Fund Balance, and Net Income components.
- A new FDS line item 706.1 (Capital grants) was added to the Net Income component.
- The denominator of Month Expendable Fund Balance component was changed from 12 months to “reporting period - months”.
- The denominator of Tenant Receivables Outstanding component was changed from 365 days to “reporting period - days”.



## I. EFFECTIVE PERIOD

This document describes the interim scoring methodology for the financial assessment of Public Housing Agencies (PHAs) evaluated by the U.S. Department of Housing and Urban Development (HUD) Real Estate Assessment Center's Public Housing Assessment System (PHAS). Under the interim financial assessment, the scoring methodology has been revised for the Current Ratio and the Months Expendable Fund Balance components. This interim assessment is effective for PHAs with fiscal year ends (FYE) of September 30, 2001 and up to a period of one year, inclusive of PHAs with FYEs of September 30, 2002. After that period and barring the issuance of amendments to the PHAS rule, the Department will use the scoring process described in the Financial Condition Scoring Notice published December 21, 2000 to determine a PHA's PHAS Financial Condition Indicator score.

## II. EXECUTIVE SUMMARY

This Financial Indicators Methodology & Analysis Guide was prepared by the HUD Real Estate Assessment Center (REAC). This guide is intended to assist its users in understanding and calculating the financial indicator components used to assess the financial condition of Public Housing Authorities (PHAs) under the Public Housing Assessment System (PHAS). All PHAs that administer programs under the terms of an annual contributions contract (ACC) with HUD are subject to the assessment, including:

- Public housing,
- PHAs administering Section 8 Housing Assistance Payment Programs, and
- Owners of housing receiving Section 8 Project-Based Housing Assistance.

The financial condition of each PHA will be assessed annually by REAC to determine whether the PHA:

- Has sufficient financial resources, and
- Is managing those resources effectively to support the provision of housing that is decent, safe, sanitary, and in good repair.

REAC's assessment and analysis will be based upon the financial data schedule (FDS) submitted electronically by the PHA using the Financial Assessment Subsystem (FASS). This financial data is required to be reported in accordance with the generally accepted accounting principles (GAAP), as mandated by the Uniform Financial Reporting Standards Rule. The established financial indicator components will be automatically calculated and scored using FASS, as described in the PHAS rule.

The following key financial indicator components (as published in the Federal Register [FR-4313-P-01]), have been established to assess a PHA's financial condition:

1. **Current Ratio: a measure of liquidity;** measures the PHA's ability to cover its current obligations
2. **Number of Months Expendable Fund Balance: a measure of viability;** measures the PHA's ability to operate using its fund balance without relying on additional funding
3. **Tenant Receivable Outstanding: a measure of rent collectibility;** measures the PHA's ability to collect its tenant receivables in a timely fashion
4. **Occupancy Loss: a measure of the PHA's ability to maximize revenue;** measures the extent to which the PHA is maximizing its rental revenue



- 5. **Expense Management/Utility Consumption: a measure of the operating cost per unit;** measures the PHA’s ability to maintain its expense ratios at a reasonable level relative to its peers (adjusted for size and region)
- 6. **Net Income or Loss: a measure of the net income (loss) impact against viability;** measures how the year’s operations have affected the PHA’s viability

The table below shows the six components that constitute the financial indicator and their assigned points:

Scoring Components	Maximum Possible Points
Current Ratio	9.0
Months Expendable Fund Balance	9.0
Tenant Receivable Outstanding	4.5
Occupancy Loss	4.5
Expense Management/Utility Consumption	1.5
Net Income or Loss	1.5
Total Maximum Possible Points	30.0

This guide:

- Provides background on the historical assessment of PHAs;
- Summarizes the current assessment system;
- Summarizes the advisory scores vs. enforceable scores; and
- Provides detail description and explanation of FASS scoring methodology and indicator component calculations.

### III. BACKGROUND

HUD has historically evaluated the management of PHAs using indicators and scoring. The Public Housing Management Assessment Program (PHMAP) was the historical analytical tool and consisted of eight (8) indicators. Each indicator had components that were calculated separately, but analyzed as a group. The indicators/components were:

- Vacancy Rate and Unit Turnaround Time
  - Vacancy percentage and progress in reducing vacancies over the last three years
  - Unit turnaround time
- Modernization
  - Unexpended funds over three years old
  - Timeliness of fund obligation
  - Contract administration
  - Quality of the physical work
  - Budget controls
- Rents Uncollected



- Work Orders
  - Emergency work orders
  - Non-emergency work orders and progress during the last three years
- Annual Inspection of Units and Systems
  - Annual inspection of units
  - Annual inspection of systems
- Financial Management
  - Cash reserves
  - Energy consumption
- Resident Services and Community Building
  - Economic lift (HUD funded programs)
  - Resident organization
  - Resident involvement
  - Resident programs management (HUD funded programs)
- Security
  - Tracking and reporting crime
  - Screening of applicants
  - Lease enforcement
  - Grant program goals (HUD funded programs)

The points by indicator were calculated after calculating each component's score. The points were converted into a percentage through a series of calculations. The PHA was then rated based on the percentage. High performers were those PHAs receiving total PHMAP scores of 90 percent or better, standard performers were those PHAs with total PHMAP scores equal to or greater than 60 and less than 90 percent, and troubled performers were those PHAs with total PHMAP scores of less than 60 percent<sup>1</sup>.

HUD, specifically REAC, developed and published a new methodology to assess the overall condition of each PHA. For the financial condition assessment specifically, REAC is requiring the PHAs to electronically report financial data, prepared in accordance with GAAP, using a predetermined reporting format, the Financial Data Schedule (FDS). REAC's objective is to analyze the operating results and financial condition of each PHA. This methodology was tested and verified as useful and applicable by REAC by:

- Meeting with industry leaders and discussing the composition and calculation of each indicator component;
- Meeting with fee accountants and auditors in the practice of consulting and auditing for public housing programs;
- Modeling financial data for PHAs, using both GAAP and non-GAAP data;
- Developing an assessment and scoring prototype for calculating advisory scores;
- Developing and testing scoring models; and
- Pilot testing the financial data schedule and FASS system.

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<sup>1</sup> Source: PHMAP Training Coursebook, Adjustments and Scoring, 1997 U.S. Housing and Urban Development



The results supported that the financial indicator components designed will appropriately collect financial information necessary for assessing the financial condition of each PHA.

#### IV. CURRENT PUBLIC HOUSING ASSESSMENT SYSTEM

As mentioned at the end of the previous section, REAC developed a new assessment system to evaluate the overall condition of each PHA in order to obtain results that are objective, uniform and verifiable. The new methodology uses four evaluation tools referred to as PHAS indicators. These indicators are published in 24 CFR Part 901 and 902, Public Housing Assessment System (PHAS); Final Rule. The four indicators are:

1. Physical condition
2. Financial condition
3. Management operations
4. Resident service and satisfaction

Each indicator will be separately evaluated and scored, with physical condition, financial condition, and management operations each worth 30 points respectively, and resident service and satisfaction worth 10 points - for an overall available score of 100 points. The scores will then be accumulated and the PHA will be identified, based on the total score, as a:

- High Performer
- Standard Performer
- Troubled Performer

To obtain a **High Performer** status, a PHA must score at least 60 percent of the points available in each of the four indicators and achieve an overall PHAS score of 90 percent or greater. High performers will be afforded incentives that include relief from specific HUD requirements, public recognition and bonus points in funding competitions.

A PHA that achieves a total PHAS score of less than 90 percent but not less than 60 percent and does not achieve less than 60 percent of the total points available under any of the PHAS Indicators 1, 2, or 3 shall be designated as a **Standard Performer**. All standard performers must correct reported deficiencies. All standard performers that receive a score of less than 70 percent but greater than 60 percent shall be subject to additional oversight. This oversight includes the submission of an Improvement Plan to eliminate deficiencies in the PHA's performance within 30 days after the issuance of the PHAS score. The PHA must correct the deficiencies within 90 days or within the period provided by HUD in the Approved Improvement Plan.

A PHA can be designated as a **Troubled Performer** overall or in one area. A PHA that achieves a total PHAS score of less than 60 percent or achieves a score of less than 60 percent of the total points available under more than one of the PHAS Indicators 1, 2, or 3 shall be designated as **Troubled Overall** and shall be referred to the newly established Troubled Agency Recovery Center (TARC). PHAs referred to the TARC will be required to submit a Recovery Plan and a Memorandum of Agreement (MOA). The MOA will be a binding contractual agreement between HUD and the PHA and include annual and quarterly performance targets, strategies to achieve performance targets, incentives for meeting such targets and the consequences of failing to meet the targets. The maximum recovery period, unless extended by the TARC, is the first full fiscal year following execution of the MOA.



A PHA that achieves less than 60 percent of the total points available under only one of the PHAS Indicators 1, 2, or 3 shall be considered *Troubled in One Area* and will be considered a substandard physical, substandard financial, or substandard management performer. The PHA will be referred to the TARC, as described above.

TARC-referred PHAs that fail to show significant improvement the following year will automatically be referred to the HUD Enforcement Center which shall initiate proceedings for judicial appointment of a receiver and other sanctions as may be appropriate.

In exceptional circumstances, HUD may withhold designation even though a PHA has satisfied all of the PHAS Indicators for high performer or standard performer designation. HUD may conduct any review, as it deems necessary and may deny or rescind incentives, high performer designation, or standard performer designation in special cases. Some examples are in the case of a PHA that:

- Is operating under a special agreement with HUD;
- Is involved with litigation that bears directly upon its physical, financial, or management performance;
- Is operating under a court order;
- Demonstrates substantial evidence of fraud or misconduct;
- Demonstrates substantial noncompliance in one or more areas of a PHA's required compliance with applicable laws and regulations.

**V. ADVISORY VS. ENFORCEABLE SCORES**

Currently, the financial indicator components are calculated and analyzed on an entity-wide basis to include the total financial position of each PHA. During the first year submissions, the PHAs with fiscal years ending September 30, 1999, December 31, 1999, March 31, 2000, and June 30, 2000 received two advisory scores, one for their public housing operating subsidies program (low-rent) and one for their entity-wide operations. PHAs with fiscal years ending September 30, 2000, December 31, 2000, March 31, 2001, and June 2001 will receive one advisory score for their entity-wide operations. PHAs with fiscal years ending on and after September 30, 2001, scores will be enforceable and PHAs will receive FASS scores that are based on the PHA's entity-wide operations only.

The following chart summarizes the financial scoring process in the fiscal year 2000 and beyond:

**Financial Condition Scores Advisory vs. Enforceable**

Fiscal Year Ending	Low-Rent	Entity-Wide
9-30-99	Advisory	Advisory
12-31-99	Advisory	Advisory
3-31-00	Advisory	Advisory
6-30-00	Advisory	Advisory
9-30-00	N/A	Advisory
12-31-00	N/A	Advisory
3-31-01	N/A	Advisory
6-30-01	N/A	Advisory
9-30-01 and beyond	N/A	Enforceable





## VI. SCORING METHODOLOGY

PHAs are evaluated and assigned scores based on their financial performance on an entity-wide basis. There are six components currently used to assess the financial condition of PHAs. The six components are Current Ratio, Months Expendable Fund Balance, Tenant Receivables Outstanding, Occupancy Loss, Expense Management, and Net Income. After the financial indicator score is calculated, an audit adjustment may be applied to the overall FASS score. (See Public Housing Assessment System Financial Condition Scoring Process Notice published on the HUD website for detail.) The financial condition of each PHA is evaluated to determine whether the PHA has sufficient financial resources and is managing those resources effectively to support the provision of decent, safe, and sanitary housing.

In this section the following information is provided:

- The area of measurement for each component;
- A general description of the accounts used to construct each component;
- A detailed Financial Data Schedule (FDS) line item computation for each component;
- The calculation methodology for translating the component values into scores; and
- A quick reference of the FDS line item descriptions under each component.

### 1) *Current Ratio*

**Area of Measurement:** The current ratio is a liquidity measure of the PHA’s ability to cover its current obligations. It is measured by using the adjusted current ratio that is primarily designed to show available, unrestricted current assets divided by the current liabilities. It is designed to indicate if a PHA could meet all current obligations if they became immediately due and payable. A PHA should generally have available current resources equal to or greater than their current obligations in order to be considered financially liquid. The maximum point value for this component is **9.0** points.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Current Receivables}}{\text{Current Liabilities}}$$

$$\text{Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142)}{(310-347)}$$

**Translating the Component Value into Scores:** A PHA with a Current Ratio value of less than one will receive zero points for this component. If the value for Current Ratio is equal to, or greater than one, the PHA will receive the full nine points. This means that for the Current Ratio, a value equal to or greater than one indicates current resources are equal to, or greater than current obligations. There is no score other than zero or nine points for Current Ratio under the interim scoring process. The scoring method is summarized in the table below:

Component	Value < 1	Value ≥ 1
Current Ratio	0 points	9 points



**Quick References: FDS Line Item Description for Current Ratio Component**

Line	Numerator - Available Current Resources
111	Cash -unrestricted
114	Cash - tenant security deposits
115	Cash - restricted for payment of current liability
120	Total receivables, net of allowances for doubtful accounts
131	Investments - unrestricted
135	Investments - restricted for payment of current liability
142	Prepaid expenses and other assets

Line	Denominator - Current Obligations
310	Total current liabilities
347	Interprogram due to

**2) Number of Months Expendable Fund Balance**

**Area of Measurement:** This is a viability measure of the PHA’s ability to operate using primarily its net available, unrestricted resources without reliance on additional funding.

This component compares the net available unrestricted resources to the average monthly operating expenses. The result of this calculation shows how many months of operating expenses and the repayment of operating debt principal can be covered with currently available, unrestricted resources.

The net available, unrestricted resources, also defined as Expendable Fund Balance (EFB), includes all current resources available to the PHA after subtracting the amount needed by the PHA to pay current obligations and the long-term portion of operating debt. Under the interim financial assessment, the number of months expendable fund balance a PHA should have in order to be considered financially viable is at least one month. The maximum point value for this component is **9.0** points.

PHAs utilizing the governmental fund model may not record certain items as operating expenses (i.e., compensated absences, self-insurance liability, unrecognized transition liability, special term/severance benefits liability, and allowance for doubtful accounts liability). Therefore, the changes in the associated liability accounts must be considered when calculating total operating expenses for the purpose of calculating financial component ratios and comparing the results to PHAs utilizing the enterprise fund model. However, all liabilities associated with operating borrowings, whether current or long-term, are recognized as current liabilities.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Expendable Fund Balance}}{\text{Average Monthly Operating and Other Expenses}}$$



Detail Line Item Calculation =

$$\frac{(111+114+115+120+131+135+142)-(310-343-347)-352}{(969+971+972+977+978+1102+1105+1106+1107+1108+1109+1110)/\text{reporting period} - \text{months}}$$

**Translating the Component Value into Scores:** A PHA with a Months Expendable Fund Balance value of less than one will receive zero points for this component. If the value is equal to or greater than one, a PHA will receive the full nine points. This means that for Months Expendable Fund Balance a value equal to or greater than one indicates that at least one month of reserves is sufficient to receive the full nine points. The only scores awarded will be zero or nine points for this component under the interim scoring process. The scoring method is summarized in the table below:

Component	Value < 1	Value ≥ 1
Months Expendable Fund Balance	0 points	9 points

**Quick References: FDS Line Item Description for Months Expendable Fund Balance Component**

Line	Numerator - Available Current Resources
111	Cash - unrestricted
114	Cash - tenant security deposits
115	Cash - restricted for payment of current liability
120	Total receivables, net of allowances for doubtful accounts
131	Investments - unrestricted
135	Investments - restricted for payment of current liability
142	Prepaid expenses and other assets
310	Total current liabilities
343	Current portion of long-term debt - capital projects
347	Interprogram due to
352	Long-term debt, net of current - operating borrowings

Line	Denominator - Total Operating and Other Expenses
969	Total operating expenses
971	Extraordinary maintenance
972	Casualty losses - non-capitalized
977	Debt principal payment - governmental funds
978	Dwelling units rent expense
1102	Debt principal payments - enterprise funds
1105	Changes in compensated absence liability (in the GLTDAG)
1106	Changes in contingent liability balance (in the GLTDAG)
1107	Changes in unrecognized pension transition liability (in the GLTDAG)
1108	Changes in special term/severance benefits liability (in the GLTDAG)
1109	Changes in allowance for doubtful accounts - dwelling rents
1110	Changes in allowance for doubtful accounts - other



### 3) Tenant Receivable Outstanding

**Area of Measurement:** Tenant receivable outstanding measures rent collectibility. The purpose of this indicator is to calculate the average number of days it takes a PHA to collect its tenant accounts receivable.

This indicator divides the gross tenant accounts receivable, including receivables for rent, maintenance charges, excess utility charges and other adjustments, by the total tenant revenue. The total tenant revenue is the revenue shown on the rent roll plus revenue for excess utilities and other tenant charges. The allowance for doubtful accounts is excluded from the gross tenant accounts receivable.

PHAs utilizing the governmental fund model directly reduce their tenant revenue by the allowance for doubtful accounts. Therefore, the change in the balance of the allowance account will be considered when determining the net tenant revenue for financial indicator ratios (i.e., increase the revenue for bad debts recognized during the current year). The maximum point value for this component is **4.5** points.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Tenant Accounts Receivables}}{\text{Average Daily Rental Income}}$$

$$\text{Detail Line Item Calculation} = \frac{126}{(705+1109+1110)/\text{reporting period} - \text{days}}$$

**Translating the Component Value into Scores:** Under the Tenant Receivables Outstanding component, the PHA is evaluated and assigned a score based on its financial performance relative to its peers, which means that all PHAs as a group determine the mean score and each PHA is then ranked accordingly. Scoring thresholds were developed to make the peer grouping assessment possible. The thresholds are estimated by examining the distributions of component values by peer group. Peer groupings are established according to the size of the PHA, i.e., the total number of units operated by the PHA for all programs and activities. The current size peer groupings are as follows:

Size Category	Unit Count
Extra Large	10,000 $\leq$ count
Large	1,250 $\leq$ count $\leq$ 9,999
High Medium	500 $\leq$ count $\leq$ 1,249
Low Medium	250 $\leq$ count $\leq$ 499
Small	50 $\leq$ count $\leq$ 249
Very Small	count $\leq$ 49

The following table has the Tenant Receivables Outstanding component values and the corresponding score calculations derived from the thresholds. For example, a Large size PHA with a tenant receivables outstanding value of 5.0 will receive the full 4.5 points. If this Large PHA has a component value of 12.0, the PHA will receive a score of 3.67 points (the calculation is:  $5.71 - (12.0 * 0.17) = 3.67$ ). If this Large PHA has a component value of 35.0, the PHA will receive zero points.



Extra Large Peer Group

Score	Values
4.5	0.0 to 13.0
5.36 – (Indicator Value * 0.07)	13.0 to 81.0
0.0	Greater than 81.0

Large Peer Group

Score	Values
4.5	0.0 to 7.0
5.71 – (Indicator Value * 0.17)	7.0 to 33.0
0.0	Greater than 33.0

High Medium Peer Group

Score	Values
4.5	0.0 to 5.0
5.44 – (Indicator Value * 0.19)	5.0 to 29.0
0	Greater than 29.0

Low Medium Peer Group

Score	Values
4.5	0.0 to 4.0
5.17 – (Indicator Value * 0.17)	4.0 to 31.0
0	Greater than 31.0

Small Peer Group

Score	Values
4.5	0.0 to 2.0
4.88 – (Indicator Value * 0.19)	2.0 to 26.0
0	Greater than 26.0

Very Small Peer Group

Score	Values
4.5	0.0 to 1.0
4.63 – (Indicator Value * 0.13)	1.0 to 37.0
0	Greater than 37.0

**Quick References: FDS Line Item Description for Tenant Receivables Outstanding Component**

Line	Numerator - Total Tenant Accounts Receivable
126	Accounts receivable - tenants - dwelling units

Line	Denominator - Total Daily Tenant Revenue
705	Total tenant revenue
1109	Changes in allowance for doubtful accounts - dwelling rents
1110	Changes in allowance for doubtful accounts – other

**4) Occupancy Loss**

**Area of Measurement:** Occupancy loss measures the maximization of rental revenue. It measures the extent to which the PHA is not realizing potential rental income due to unoccupied units or units taken off-line under the low rent program or other state and local programs.

This component compares unit months available to the unit months leased. The unit months available is the total number of units managed by a PHA under all programs (HUD, state, or other funds) multiplied by 12, with the exception of unit months vacant due to:

- Demolition,
- Conversion,
- On-going modernization, and
- Units approved for non-dwelling purposes.



The unit months leased is the actual number of months each unit was rented during the fiscal year as calculated from the PHA’s tenant rent rolls or Housing Assistance Payments records.

The ability of management to keep units in service and occupied can be estimated based on this calculation. If the occupancy loss ratio is high, and operating expenses per unit are low, the PHA may not be managing or maintaining the housing units in a manner that encourages or optimizes occupancy. The maximum point value for this component is **4.5** points.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = 1 - \frac{\text{Unit Months Leased}}{\text{Unit Months Available}}$$

$$\text{Detail Line Item Calculation} = \left(1 - \frac{1121}{1120}\right) * 100$$

**Translating the Component Value into Scores:** Under the Occupancy Loss component, the PHA is also evaluated and assigned a score based on its financial performance relative to its peers, hence the scoring thresholds are estimated by examining the distributions of component values by peer groups. The current size peer groupings are listed in the previously mentioned Section VI. 3) Tenant Receivables Outstanding component.

The table below has the component values and the corresponding score calculations derived from the thresholds. For example, a Large size PHA with an Occupancy Loss value of 5.0 will receive the full 4.5 points. If this Large PHA has a component value of 12.0, the PHA will receive a score of 2.59 points (the calculation is:  $6.43 - (12.0 * 0.32) = 2.59$ ). If this Large PHA has a component value of 21.0, the PHA will receive zero points.

Extra Large Peer Group

Score	Values
4.5	0.0 to 7.0
$6.60 - (\text{Indicator Value} * 0.30)$	7.0 to 22.0
0	Greater than 22.0

Large Peer Group

Score	Values
4.5	0.0 to 6.0
$6.43 - (\text{Indicator Value} * 0.32)$	6.0 to 20.0
0	Greater than 20.0

High Medium Peer Group

Score	Values
4.5	0.0 to 5.0
$5.91 - (\text{Indicator Value} * 0.28)$	5.0 to 21.0
0	Greater than 21.0

Low Medium Peer Group

Score	Values
4.5	0.0 to 5.0
$5.91 - (\text{Indicator Value} * 0.28)$	5.0 to 21.0
0	Greater than 21.0

Small Peer Group

Score	Values
4.5	0.0 to 3.0
$5.25 - (\text{Indicator Value} * 0.25)$	3.0 to 21.0
0	Greater than 21.0

Very Small Peer Group

Score	Values
4.5	0.0 to 1.0
$4.76 - (\text{Indicator Value} * 0.26)$	1.0 to 18.0
0	Greater than 18.0



**Quick References: FDS Line Item Description for Occupancy Loss Component**

Line	Numerator - Unit Months Leased
1121	Number of unit months leased

Line	Denominator - Unit Months Available
1120	Unit months available

**5) Expense Management/Utility Consumption**

**Area of Measurement:** Expense Management measures the PHA’s ability to manage key areas of its annual expenditures at a level relative to its peers, adjusted for size and geographic location. This component compares summary expenditures to unit months leased for the fiscal year for the Low-Rent Public Housing Program only (CFDA #14.850a). Total routine expenses measured include the following six expense categories: administrative, tenant services, utilities, ordinary maintenance and operation, protective services, and general expenses. This component enables PHA management to determine if the per unit cost is reasonable or if unnecessary operating expenditures should be reduced and/or further analyzed. The maximum point value for this component is **1.5** points.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Sum of Weighted Expenses (Low Rent Only)}}{\text{Unit Months Leased (Low Rent Only)}}$$

$$\begin{aligned} \text{Detail Line Item Calculation} = & (.34 * [911+912+913+914+915+916+1105+1107+1108] + \\ & .10 * [921+922+923+924] + \\ & .03 * [931+932+933+934+935+937+938] + \\ & .10 * [941+942+943+945+971] + \\ & .10 * [951+952+953+955] + \\ & .33 * [961+962+963+964+965+966+967+968+975+977+978+ \\ & \quad 1102+1106+1109+1110]) / 1121 \end{aligned}$$

**Translating the Component Value into Scores:** Under the Expense Management component, the PHA is evaluated and assigned a score based on its financial performance relative to its peers and the geographic location (region) the PHA resides in. The current size peer groupings are listed in Section VI. 3) Tenant Receivables Outstanding. The regional peer groupings are based on the first number of the PHA’s zip code, and are divided as follows:



Region	State
0	CT, MA, ME, NH, NJ, RI, VT
1	DE, NY, PA
2	DC, MD, NC, SC, VA, WV
3	AL, FL, GA, MS, TN, RQ, VQ
4	IN, KY, MI, OH
5	IA, MN, MT, ND, SD, WI
6	IL, KS, MO, NE
7	AR, LA, OK, TX
8	AZ, CO, ID, NM, NV, UT, WY
9	AK, CA, HI, OR, WA, GQ

There are six expense categories that comprise the Expense Management component. A PHA's per unit, per month expense amount in each category is multiplied by the weights listed below, and summed to produce a weighted average. This summed number is compared to the threshold for that PHA's size and regional peer group. If the PHA's weighted average expense amount falls below the threshold, it receives 1.5 points, otherwise the PHA receives zero points. The weights for the categories are as follows:

Expenses	Percent Weight
Administrative Expense	34%
General Expense	33%
Tenant Service Expense	10%
Protective Service Expense	10%
Maintenance Expense	10%
Utilities Expense	3%
Total	100%

The thresholds based on PHAs' size and regional peer grouping are as follows:

Region	Extra Large	Large	High Med.	Low Med.	Small	Very Small
0	\$ 107.26	\$ 107.26	\$ 77.82	\$ 77.82	\$ 103.30	\$ 103.30
1	\$ 83.68	\$ 83.68	\$ 85.85	\$ 85.85	\$ 83.27	\$ 83.27
2	\$ 71.45	\$ 71.45	\$ 65.68	\$ 65.68	\$ 68.36	\$ 68.36
3	\$ 67.57	\$ 67.57	\$ 53.79	\$ 53.79	\$ 57.94	\$ 57.94
4	\$ 95.24	\$ 95.24	\$ 72.93	\$ 72.93	\$ 60.29	\$ 60.29
5	\$ 86.65	\$ 86.65	\$ 64.00	\$ 64.00	\$ 55.13	\$ 55.13
6	\$ 82.95	\$ 82.95	\$ 63.60	\$ 63.60	\$ 53.65	\$ 53.65
7	\$ 62.65	\$ 62.65	\$ 52.51	\$ 52.51	\$ 51.91	\$ 51.91
8	\$ 78.67	\$ 78.67	\$ 72.74	\$ 72.74	\$ 59.00	\$ 59.00
9	\$ 99.45	\$ 99.45	\$ 89.04	\$ 89.04	\$ 77.48	\$ 77.48





The table below is an example of the Expense Management component value and score calculation. The following PHA is in the Extra Large size category, is geographically located in region 0, and has the following expense per unit by the six expense categories:

Expense	Amount	Weighted Average
Administrative Expense	\$115	.34 * \$115 = \$39.10
General Expense	\$105	.33 * \$105 = \$34.65
Tenant Services	\$15	.10 * \$15 = \$1.50
Protective Service Expense	\$20	.10 * \$20 = \$2.00
Maintenance Expense	\$45	.10 * \$45 = \$4.50
Utilities Expense	\$150	.03 * \$150 = \$4.50
<b>TOTAL Weighted Average Expense</b>		<b>\$86.25</b>

The threshold for an Extra Large PHA in Region 0 is \$107.26. Because the PHA has a weighted average expense total of \$86.25 per unit, that is less than the applicable threshold, the PHA receives the full 1.5 points.

**Quick References: FDS Line Item Description for Expense Management Component**

**Administrative Expense (34 percent of total)**

Line	Numerator - Administrative
911	Administrative salaries
912	Auditing fees
913	Outside management fees
914	Compensated absences
915	Employee benefit contributions - administrative
916	Other operating - administrative
1105	Changes in compensated absence liability (in the GLTDAG)
1107	Changes in unrecognized pension transition liability (in the GLTDAG)
1108	Changes in special term/severance benefits liability (in the GLTDAG)

**Tenant Services Expense (10 percent of total)**

Line	Numerator - Tenant Services
921	Tenant services - salaries
922	Relocation costs
923	Employee benefit contributions - tenant services
924	Tenant services – other

**Utilities Expense (03 percent of total)**

Line	Numerator – Utilities
931	Water
932	Electricity
933	Gas
934	Fuel
935	Labor
937	Employee benefit contributions - utilities
938	Other utilities expense



**Ordinary Maintenance Expense (10 percent of total)**

Line	Numerator - Ordinary Maintenance
941	Ordinary maintenance and operations - labor
942	Ordinary maintenance and operations - materials & other
943	Ordinary maintenance and operations - contract costs
945	Employee benefit contributions - ordinary maintenance
971	Extraordinary maintenance

**Protective Services Expense (10 percent of total)**

Line	Numerator - Protective Services
951	Protective services - labor
952	Protective services - other contract costs
953	Protective services - other
955	Employee benefit contributions - protective services

**General Expenses (33 percent of total)**

Line	Numerator - General Expenses
961	Insurance premiums
962	Other general expenses
963	Payments in lieu of taxes
964	Bad debt - tenant rents
965	Bad debt - mortgages
966	Bad debt - other
967	Interest expense
968	Severance expense
975	Fraud losses
977	Debt principal payment - governmental funds
978	Dwelling units rent expense
1102	Debt principal payments - enterprise funds
1106	Changes in contingent liability balance (in the GLTDAG)
1109	Changes in allowance for doubtful accounts - dwelling rents
1110	Changes in allowance for doubtful accounts - other

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Line	Denominator - Total Units Month Leased
1121	Number of Unit Months Leased

**6) Net Income or Loss**

**Area of Measurement:** Net income (loss) measures how the results of the year’s current operations have affected the PHA’s viability.

This component compares the PHA’s adjusted net income (loss) to the net available (unrestricted) current resources (the EFB). It indicates whether the PHA is adequately managing its income and expenses to maintain a balanced budget. A PHA which has excessive net losses will be unable to sustain operations if income is not maximized and expenses are not more efficiently and effectively controlled.



PHAs utilizing the governmental fund model do not record certain items as operating expenses. Therefore, the change in the associated liability accounts must be considered when calculating total net income. FDS lines 1109 and 1110, however, need not be considered since the bad debt expense recognized by PHAs utilizing the enterprise fund model approximately adjusts net income in the same manner that the allowance reduces gross income for PHAs utilizing the governmental fund model. However, all liabilities associated with operating borrowings, whether current or long-term, are recognized as current liabilities. The maximum point value for this component is **1.5** points.

**Calculation:** The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Net Income or Loss}}{\text{Expendable Fund Balance}}$$

$$\text{Detail Line Item Calculation} = \frac{(970-706.1-971-972-973-975-976-978-1105-1106-1107-1108)}{(111+114+115+120+131+135+142)-(310-343-347)-352}$$

For the Net Income component, a PHA can receive either 1.5 or zero points. A PHA that has a net income for the year receives the full score. If a PHA reports a net loss for the year that does not exceed 20% of its expendable fund balance, the PHA will also receive the full score. This 20% threshold does not vary by region or size. The scoring methodology of the Net Income component is as follows:

	Negative Reserves (Negative Denominator)	Positive Reserves (Positive Denominator)
<b>Net Income</b> (Positive Numerator)	I.  Score = 1.5 Points	II.  Score = 1.5 Points
<b>Net Loss</b> (Negative Numerator)	III.  Score = 0.0 Points	IV.  Net Loss/Reserve > 20% = 0.0 Points Net Loss/Reserve ≤ 20% = 1.5 Points

**Quick References: FDS Line Item Description for Net Income Component**

Line	Numerator - Adjusted Net Income (Loss)
970	Excess operating revenue over operating expenses
706.1	Capital grants
971	Extraordinary maintenance
972	Casualty losses - non-capitalized
973	Housing assistance payments
975	Fraud losses
976	Capital outlays - governmental funds
978	Dwelling units rent expense



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<b>Line</b>	<b>Numerator - Adjusted Net Income (Loss)</b>
1105	Changes in compensated absence liability (in the GLTDAG)
1106	Changes in contingent liability balance (in the GLTDAG)
1107	Changes in unrecognized pension transition liability (in the GLTDAG)
1108	Changes in special term/severance benefits liability (in the GLTDAG)

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<b>Line</b>	<b>Denominator - Available Current Resources</b>
111	Cash -unrestricted
114	Cash - tenant security deposits
115	Cash - restricted for payment of current liability
120	Total receivables, net of allowances for doubtful accounts
131	Investments – unrestricted
135	Investments - restricted for payment of current liability
142	Prepaid expenses and other assets
310	Total current liabilities
343	Current portion of long-term debt - capital projects
347	Interprogram due to
352	Long-term debt, net of current - operating borrowings

**VII. SUMMARY FASS COMPONENT FORMULA AND CALCULATIONS****1.) Current Ratio Component Calculation:**

$$\text{Calculation Methodology} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Current Receivables}}{\text{Current Liabilities}}$$

$$\text{Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142)}{(310-347)}$$

**2.) Months Expendable Fund Balance Component Calculation:**

$$\text{Calculation Methodology} = \frac{\text{Expendable Fund Balance}}{\text{Average Monthly Operating and Other Expenses}}$$

$$\text{Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142)-(310-343-347)-352}{(969+971+972+977+978+1102+1105+1106+1107+1108+1109+1110)/\text{reporting period-months}}$$

**3.) Tenant Receivable Outstanding Component Calculation:**

$$\text{Calculation Methodology} = \frac{\text{Tenant Accounts Receivables}}{\text{Average Daily Rental Income}}$$

$$\text{Detail Line Item Calculation} = \frac{126}{(705+1109+1110)/\text{reporting period-days}}$$

**4.) Occupancy Loss Component Calculation:**

$$\text{Calculation Methodology} = 1 - \frac{\text{Unit Months Leased}}{\text{Unit Months Available}}$$

$$\text{Detail Line Item Calculation} = \left(1 - \frac{1121}{1120}\right) * 100$$

**5.) Expense Management Component Calculation:**

$$\text{Calculation Methodology} = \frac{\text{Sum of Weighted Expenses (Low Rent Only)}}{\text{Unit Months Leased (Low Rent Only)}}$$

$$\begin{aligned} \text{Detail Line Item Calculation} = & (.34*[911+912+913+914+915+916+1105+1107+1108] + \\ & .10*[921+922+923+924] + \\ & .03*[931+932+933+934+935+937+938] + \\ & .10*[941+942+943+945+971] + \\ & .10*[951+952+953+955] + \\ & .33*[961+962+963+964+965+966+967+968+975+977+978+1102+1106+ \\ & 1109+1110])/1121 \end{aligned}$$

**6.) Net Income Component Calculation:**

$$\text{Calculation Methodology} = \frac{\text{Net Income or Loss}}{\text{Expendable Fund Balance}}$$

$$\text{Detail Line Item Calculation} = \frac{(970-706.1-971-972-973-975-976-978-1105-1106-1107-1108)}{(111+114+115+120+131+135+142)-(310-343-347)-352}$$