

# Using Analytical Review to Evaluate PHA Performance

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AHACPA LAS VEGAS

JUNE 22, 2018

# Topics

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1. PHA Solvency Concerns
2. Trend Analysis
3. Audit Considerations
4. Questions

# PHA Solvency Concerns

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INDUSTRY NEGATIVE TRENDS



# Number of PHAs Operating in U.S.

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Type	Number
Section 9 only	1,616
Section 8 only	862
Combined	1,325
<b>Total</b>	<b>3,803</b>

# PHA's Primary Sources of Revenue

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## Section 9

### Operating Fund

- Operating Subsidy
- Rental income

### Capital Fund

- Capital Fund Grant

## Section 8

### HCVP

- Administrative Fees
- HAP

# FFY 2018 HUD Budget PHA Programs

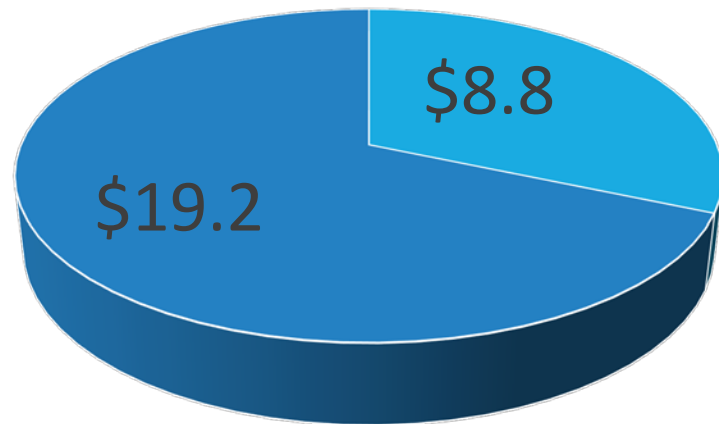
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Program	FFY 2017 Enacted	FFY 2018	% Change
Sec 9 Operating Fund	\$4.40 Billion	\$4.55 Billion	3.4%
Sec 9 Capital Fund	\$1.94 Billion	\$2.75 Billion	41.6%
Housing Choice Vouchers	\$20.29 Billion	\$22.01 Billion	8.5%
<b>TOTAL</b>	<b>\$26.63 Billion</b>	<b>\$29.31 Billion</b>	<b>10%</b>

# Total HUD Grants 2016 = \$28B

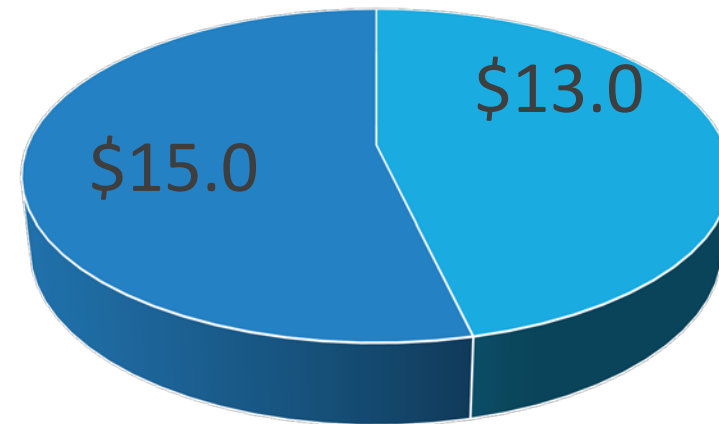
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## 25 Largest PHAs (\$ Billions)



■ Top 25 ■ All Others

## 50 Largest PHAs (\$ Billions)



■ Top 50 ■ All Others

# Root Causes of Solvency Concerns

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Operating fund proration

Decreased capital fund investment

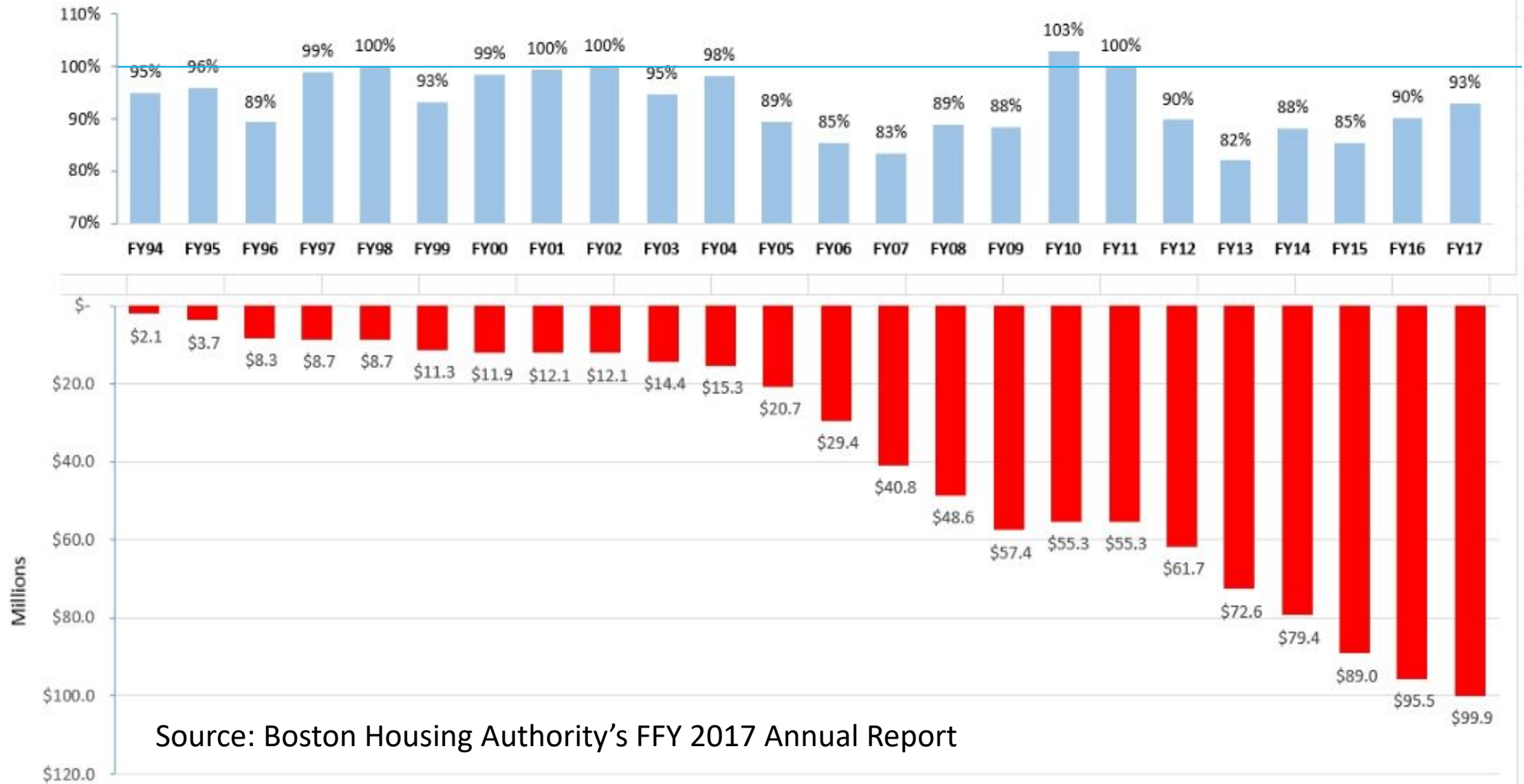
Prorated HCVP administrative fees

Divestiture of public housing units

Fixed operating cost



## Annual Operating Subsidy Proration and Cumulative Funding Loss



Source: Boston Housing Authority's FFY 2017 Annual Report

# Capital Fund

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Intended for modernization, substantial rehabilitation, or new construction

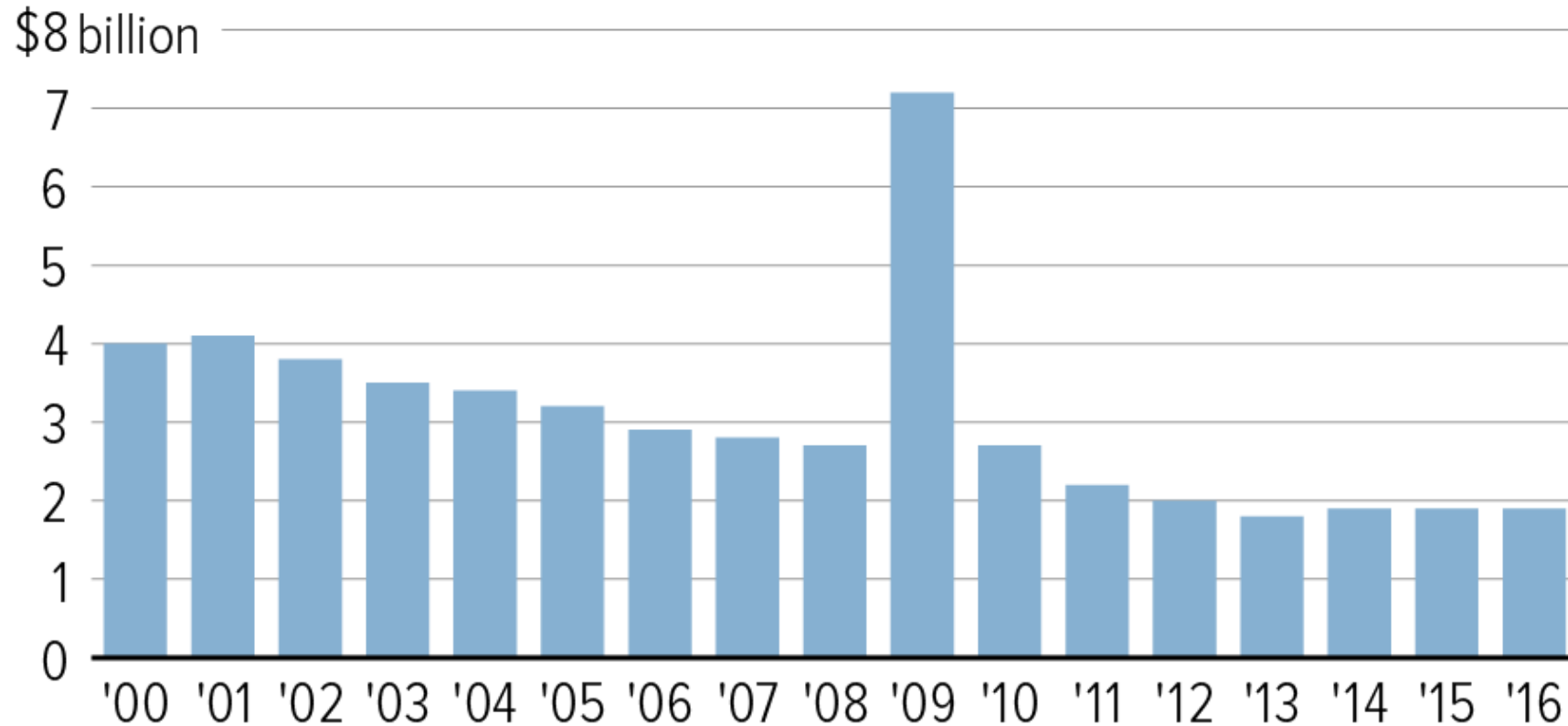
Under CFFP PHAs can pledge a portion of its grant to repay private borrowing for capital improvements

Small PHAs (<250 units) can spend up to 100% of the grant on operations

20% of capital funds may be used for operating expenses

# Capital Funds Cut Substantially

Budget authority, in billions of 2016 dollars



# 2010 Capital Need Assessment

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<b>Category of Need</b>	<b>Estimate</b>
Inspection-based estimate of need	\$20,653,780,000
Additions for Alaska, Hawaii, Guam, and USVI	\$233,514,000
Additions for lead paint abatement	\$306,788,000
Additions for accommodating persons with disabilities	\$264,473,000
Additions for improving energy and water efficiency	\$4,149,439,000
<b>TOTAL</b>	<b>\$25,607,994,000</b>

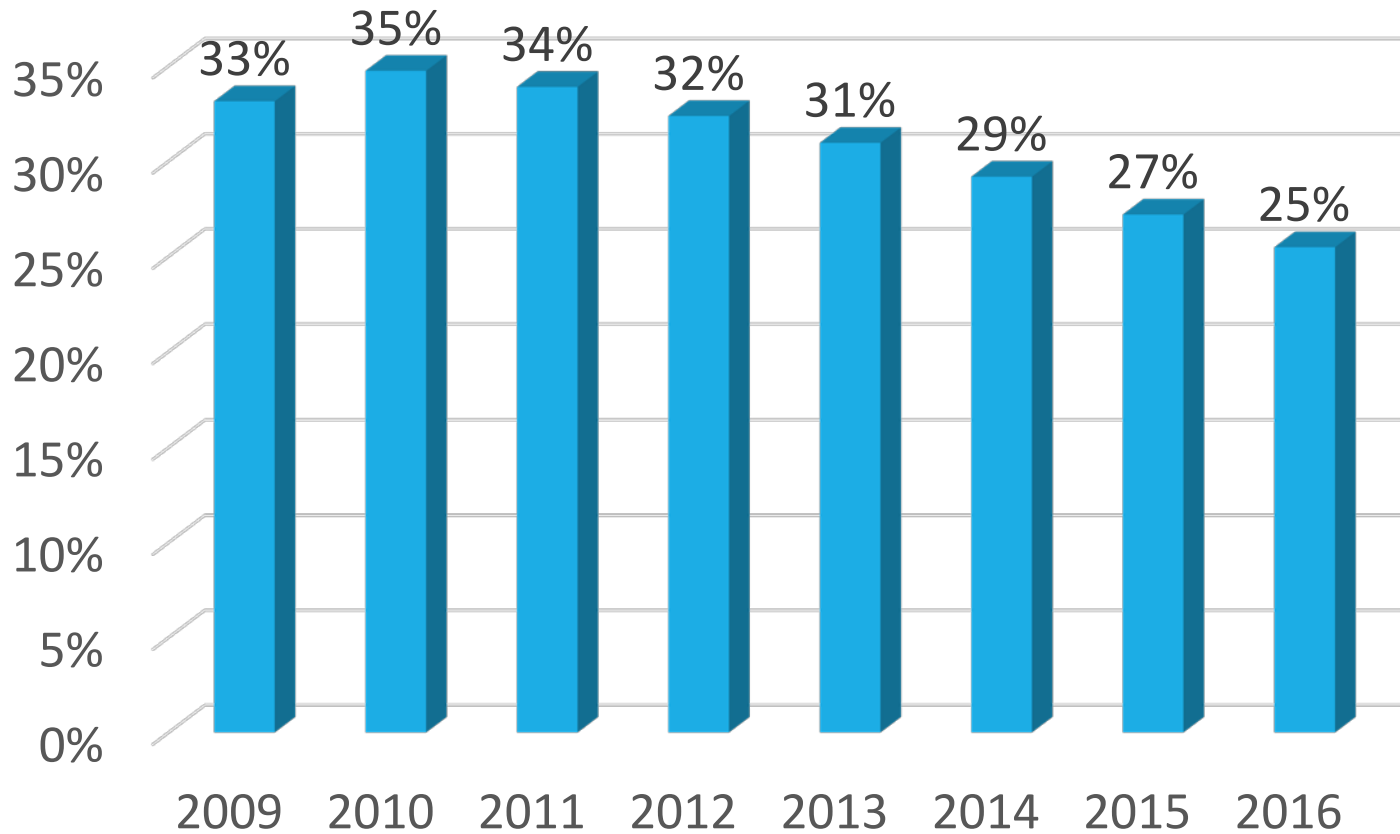
# Remaining Useful Life

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1. Measures the remaining useful life of the PHA's capital assets
2. Based on the cost assumption that an asset's useful life expires when it is fully depreciated
3. Higher the % of remaining useful life, generally the longer the asset will be able to remain in service
4. As the % approaches 0 capital assets typically require repositioning or additional capital investment

# Remaining Useful Life of Capital Assets

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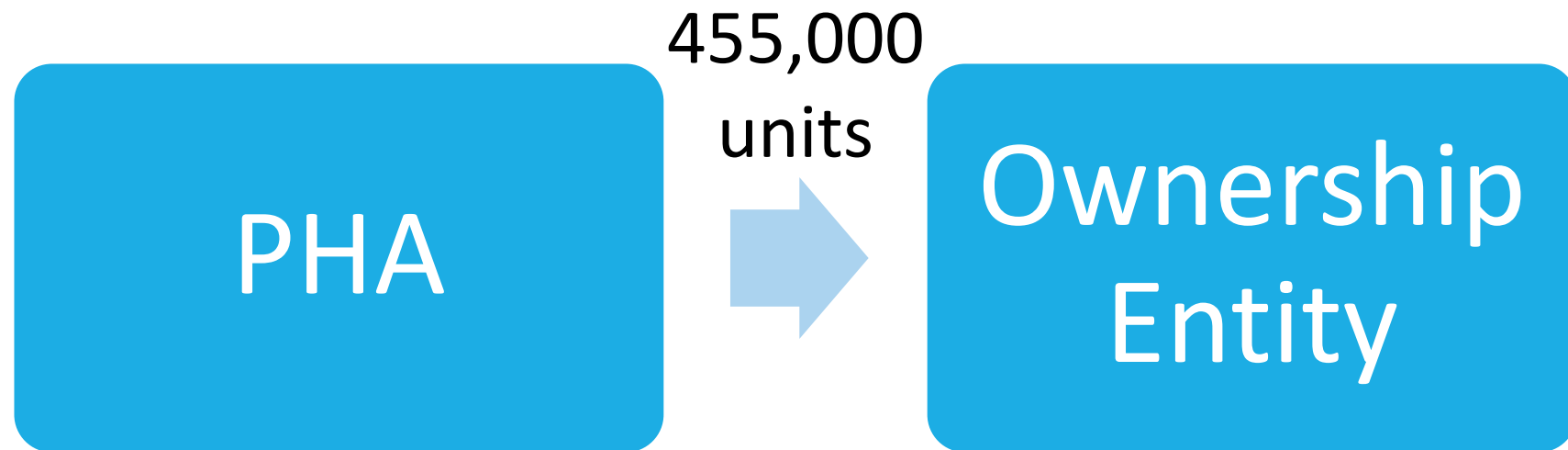
# Rental Assistance Demonstration (RAD)

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1. Authorized by the Consolidated and Further Continuing Appropriations Act of 2012 and expanded by the Bipartisan Budget Act of 2018
2. Cap raised from 225,000 units (2017) to 455,000 units (by 2024)
3. Goal is to convert 1.1 million public housing Sec. 9 units to finance replacement/renovation
4. Converting revenue stream from Sec. 9 funding to Sec. 8 PBV and/or PBRA
5. Impacts PHAS financial indicator score
6. Decreases revenue streams available to service legacy costs

# Divestiture of Public Housing Units

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# Fixed Operating Costs

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Salaries and benefits based on union contracts

Pension costs based on PERS

High maintenance costs

COCC's operating at a loss

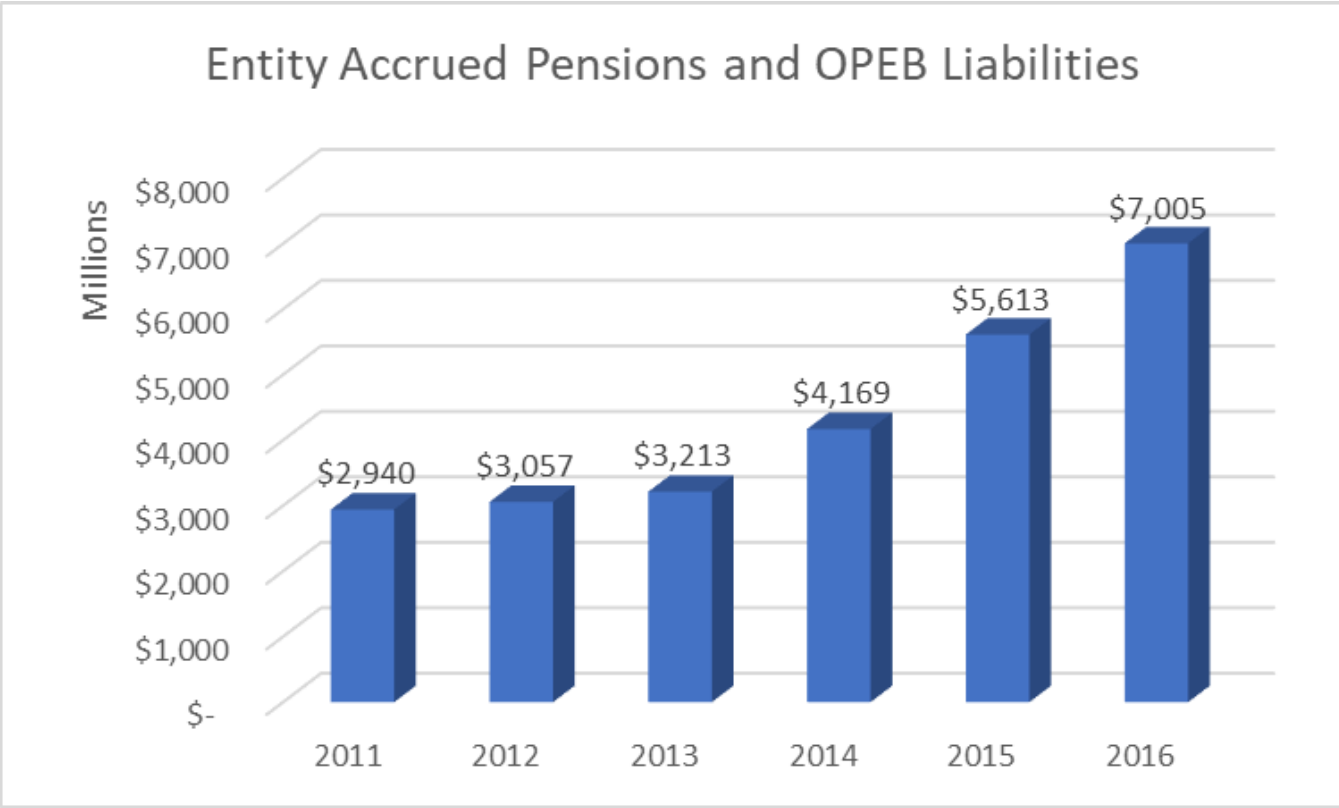
# Unfunded Pension and OPEBs 2016

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<b>Liability</b>	<b># of PHAs</b>	<b>Total Amount</b>	<b>% of Total</b>
> \$4 billion	1	\$ 4,047,577,640	0.0%
> \$100 million and < \$4 billion	3	\$ 427,958,469	0.1%
> \$50 million and < \$100 million	3	\$ 222,083,058	0.1%
> \$25 million and < \$50 million	11	\$ 387,629,560	0.3%
> \$10 million and < \$25 million	35	\$ 547,705,989	0.9%
> \$5 million and < \$10 million	53	\$ 491,354,365	1.4%
> \$1 million and < \$5 million	287	\$ 633,239,080	7.5%
> \$1 dollar and <\$1 million	831	\$ 247,325,757	21.7%
No reported liability	357	\$ -	68.0%
<b>Totals</b>	<b>3,827</b>	<b>\$ 7,004,873,918</b>	<b>100%</b>

# Pension and OPEB Liabilities

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# Unfunded Pension and OPEBs 2016 RAD

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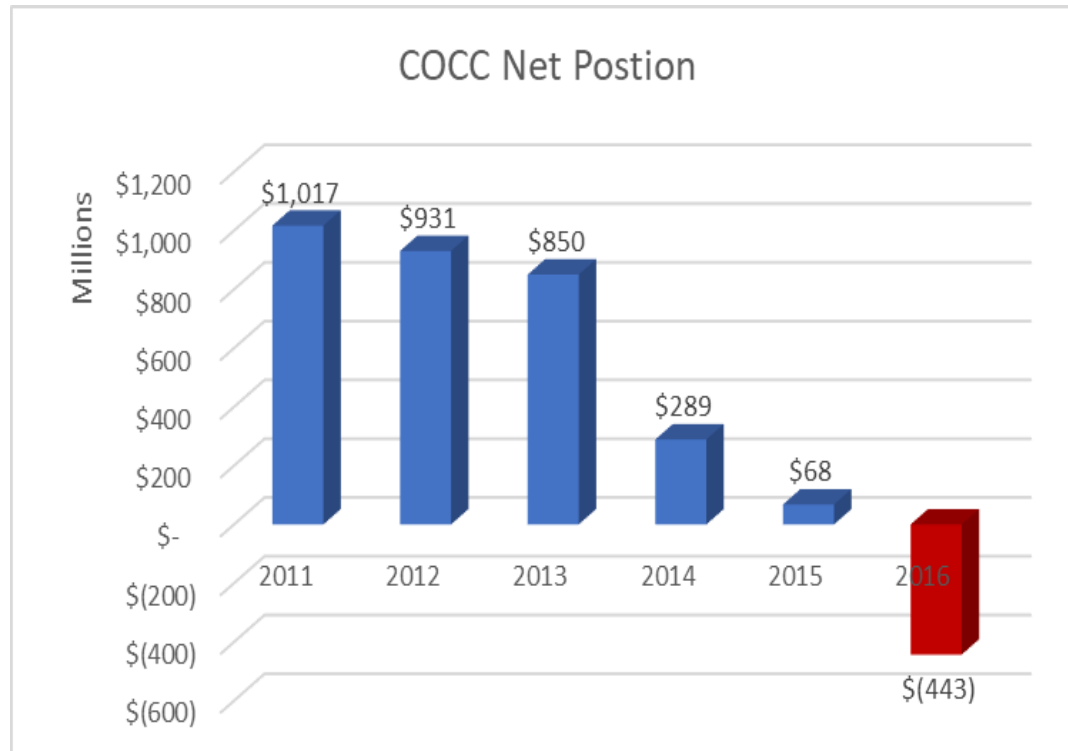
<b>Liability</b>	<b># of PHAs</b>	<b>Total Amount</b>	<b>% of Total</b>
> \$4 billion	1	\$ 4,047,577,640	0.3%
> \$100 million and < \$4 billion	2	\$ 315,983,887	0.5%
> \$50 million and < \$100 million	2	\$ 139,064,784	0.5%
> \$25 million and < \$50 million	2	\$ 61,267,847	0.5%
> \$10 million and < \$25 million	16	\$ 246,186,800	4.2%
> \$5 million and < \$10 million	30	\$ 216,051,835	7.8%
> \$1 million and < \$5 million	64	\$ 158,282,172	16.7%
> \$1 dollar and <\$1 million	79	\$ 30,593,910	20.6%
No reported liability	357	-	48.8%
<b>Totals</b>	<b>383</b>	<b>\$ 5,215,008,875</b>	<b>100%</b>

# Net Position

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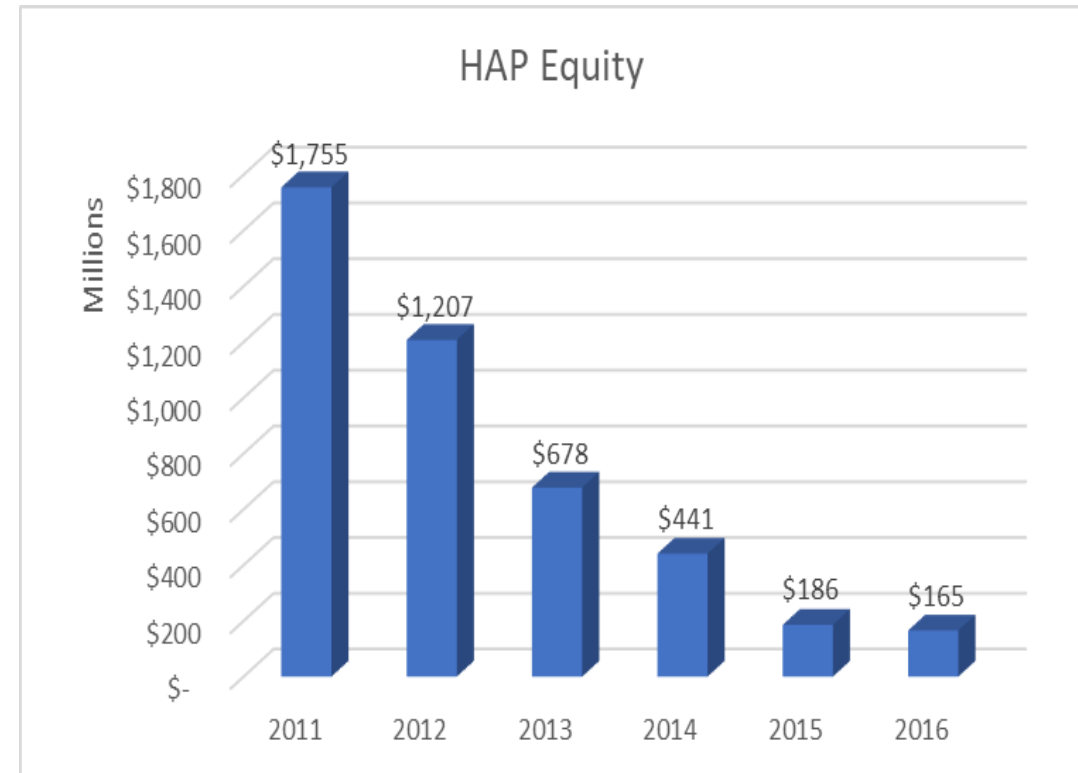
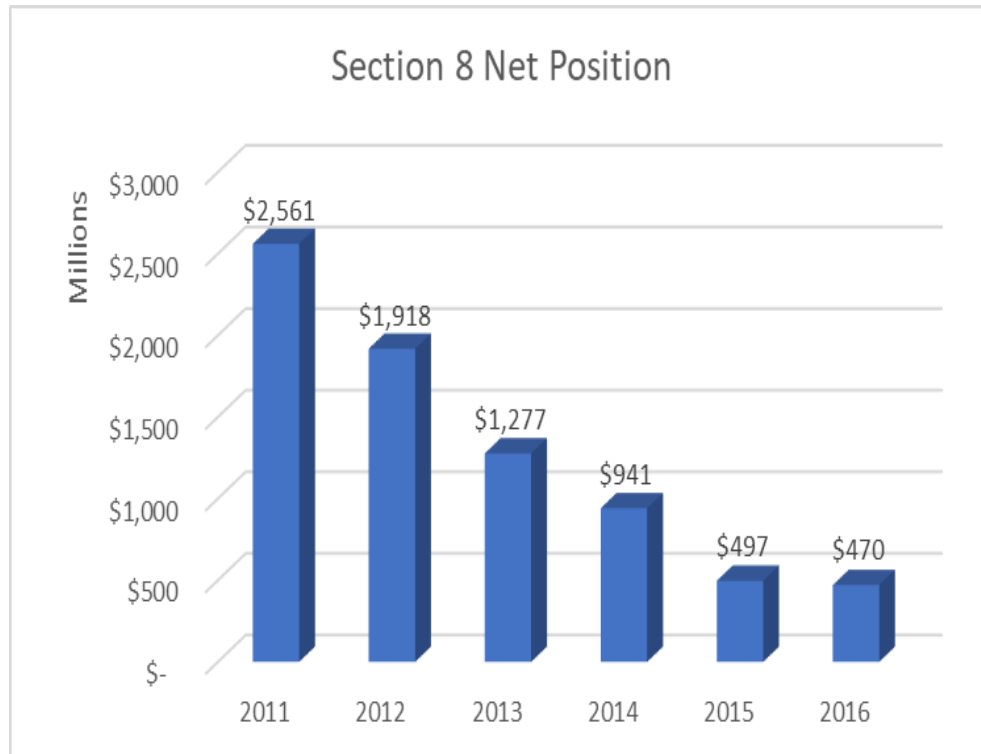
1. Measures the net position of the PHA and its associated programs
2. Entity-wide net position represents the PHA's worth (i.e. net position equals assets minus liabilities)
3. Increase in net position over time generally suggests that financial position has improved
4. Decrease suggests that financial position has deteriorated
5. Consistent trend suggests financial stability

# Decrease in COCC Net Position

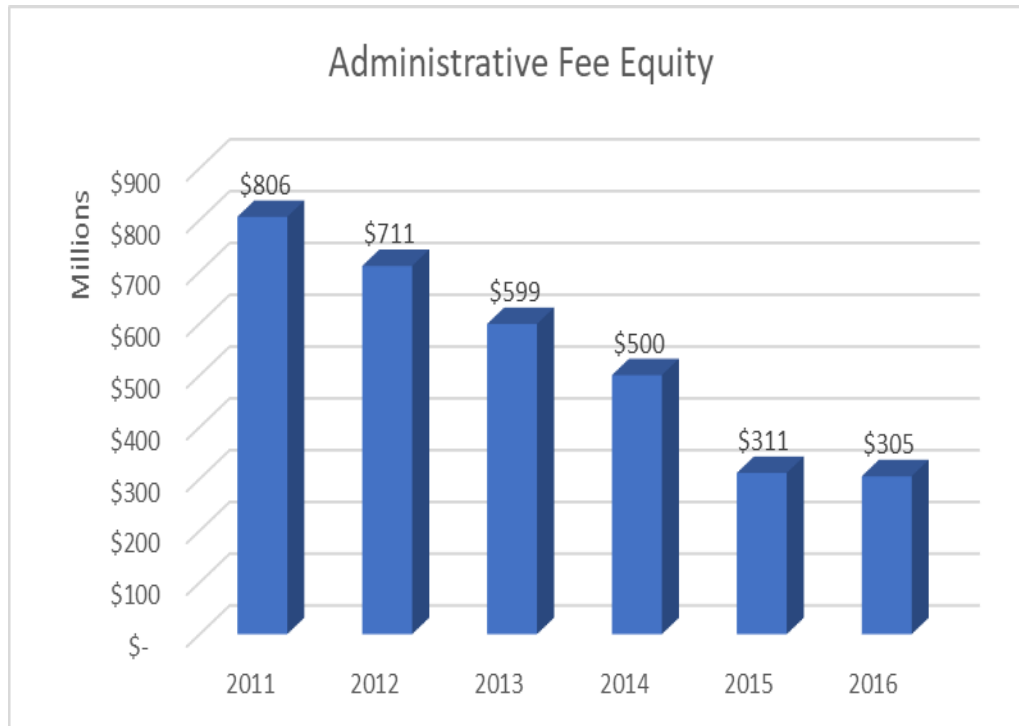


Net Positon	PHAs	Total	% of PHAs
<0	147	(\$1,861,821,910)	24%
Zero	7	0	1%
>0 and <\$1 million	256	\$111,445,276	42%
> \$1 million	203	\$1,307,329,462	33%
<b>Totals</b>	<b>613</b>	<b>(\$443,047,172)</b>	<b>100%</b>

# Decrease in Sec 8 Net Position



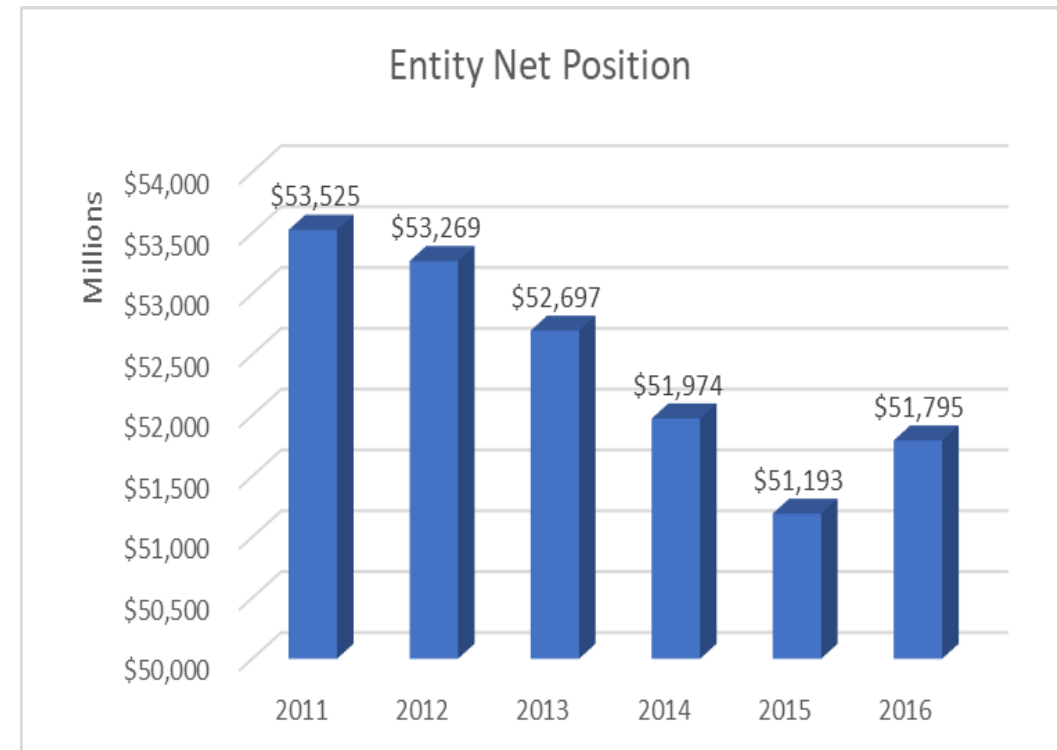
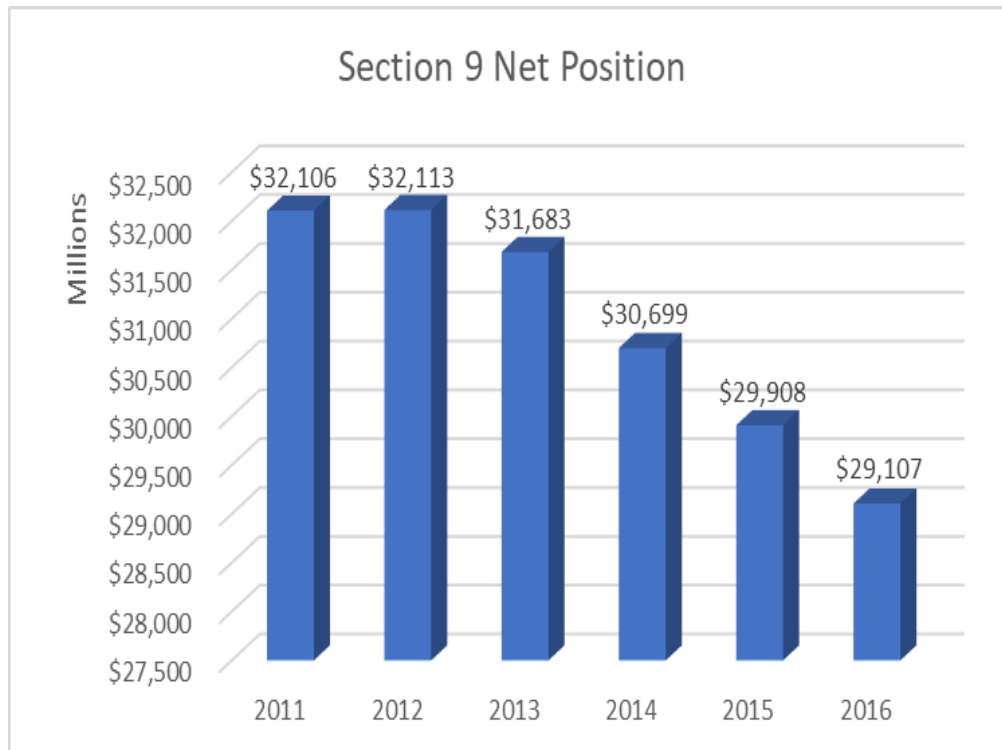
# Decrease in Sec 8 Net Position



Net Positon	PHAs	Total	% of PHAs
<0	440	(\$307,893,382)	20%
Zero	73	\$ -	3%
>0 and <\$1 million	1,518	\$241,288,595	70%
> \$1 million	124	\$371,493,661	6%
<b>Totals</b>	<b>2,155</b>	<b>\$304,888,874</b>	<b>100%</b>



# Decrease in PHA Net Position Over Time



# Trend Analysis

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KEY FINANCIAL TRENDS

# Objectives of Trend Analysis

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Determine the financial position of the:

- Section 9
- Section 8
- All other programs
- Entity

Identify cause of financial distress

# Accounts Included in Trend Analysis

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Cash and Investments

Current Ratio

Due From/Due To

Remaining Useful Life

Net Position

Surplus/Deficit



# Cash and Investments

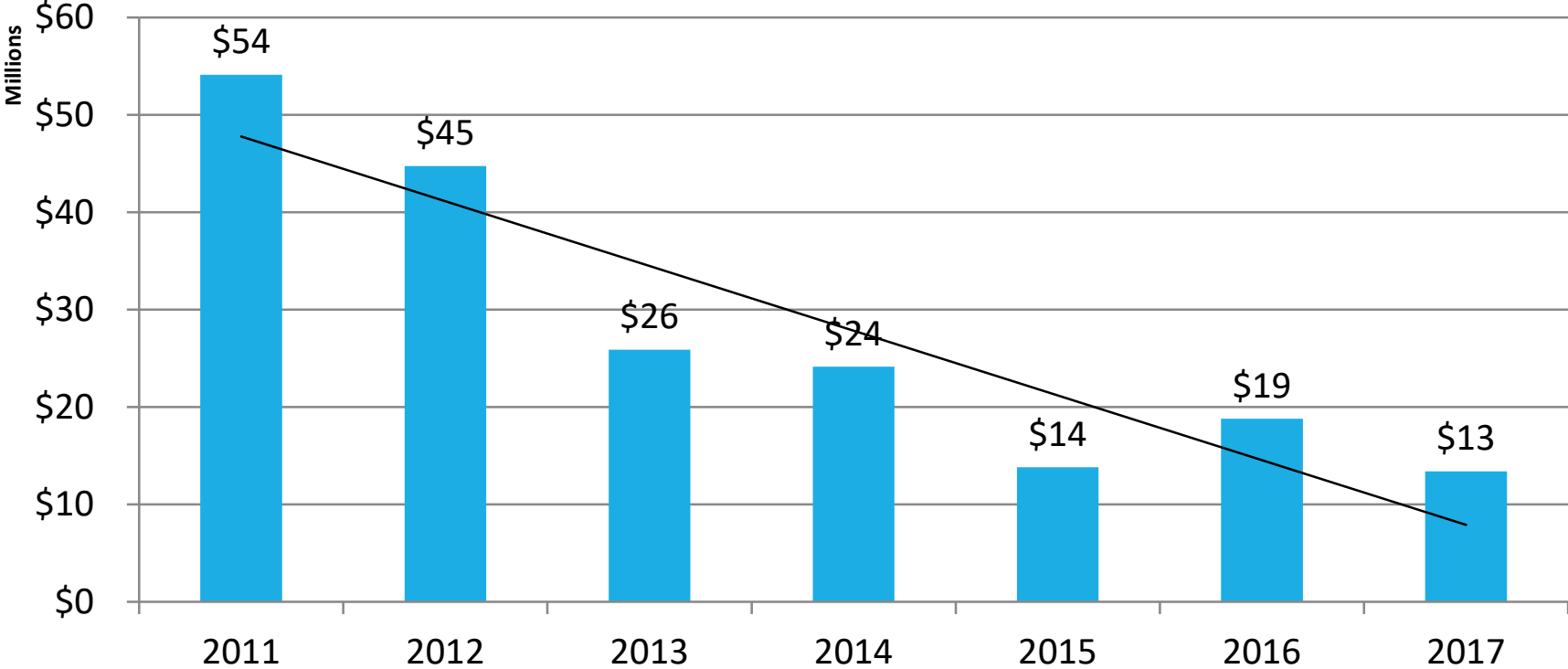
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1. Measures all cash and investments held by the PHA and its associated programs
2. Includes both restricted and unrestricted funds
3. Increase in cash and investment balance over time generally suggests that financial position has improved
4. Decrease suggests that it has deteriorated
5. Consistent trend suggests financial stability

# Entity-Wide Cash and Investments

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**Entity-Wide Total Cash and Investment**



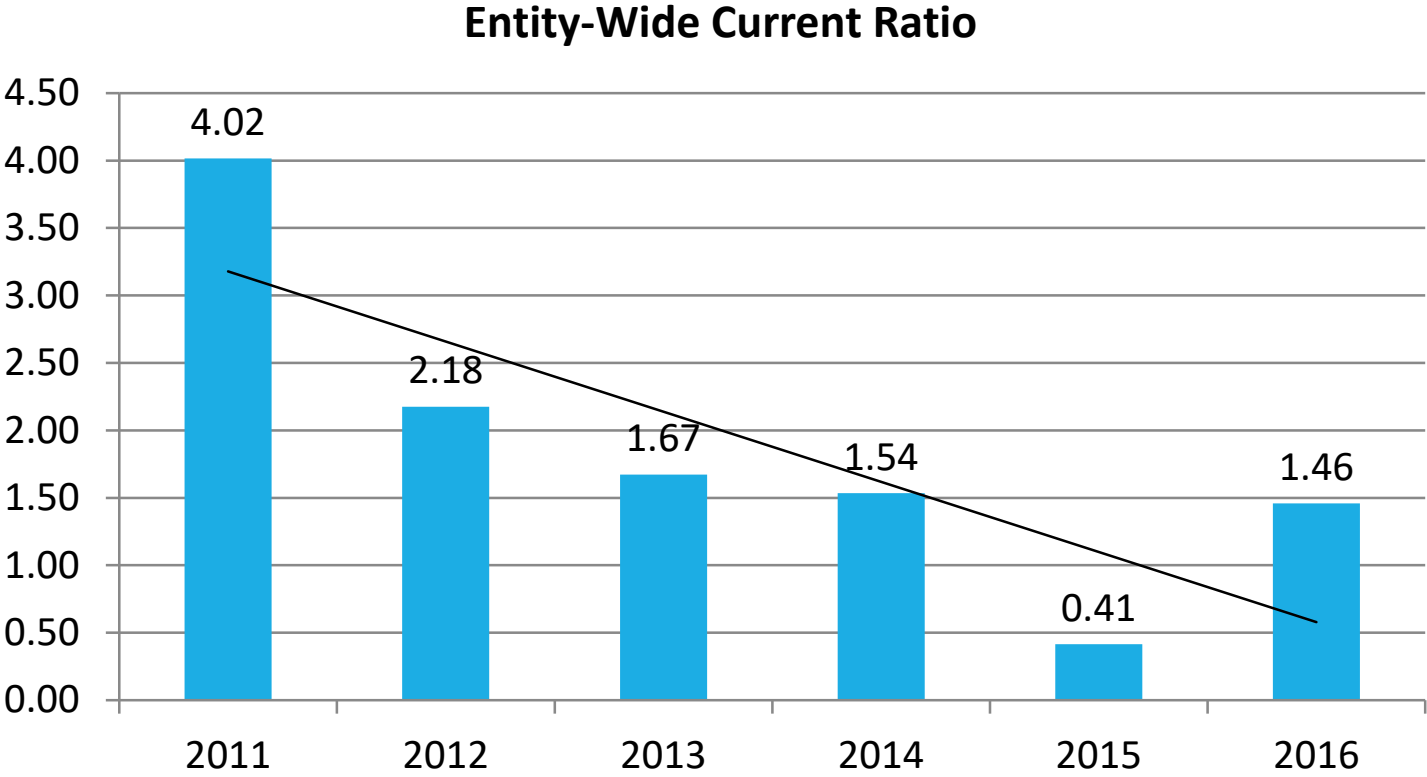
# Current Ratio

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1. Measures the fiscal viability of the PHA and its associated programs
2. Computed by dividing current assets by current liabilities
3. Reflects the current assets available to pay current obligations
4. Consistent or increasing current ratio over time generally suggests an improvement in fiscal viability
5. Decreasing ratio, or a ratio  $<1$  than one suggests potential insolvency

# Entity-Wide Current Ratio

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# Due from/Due to

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1. Measures the net funds loaned (due from) or borrowed (due to) by a program to other programs in the portfolio
2. Positive balance means the program is owed funds from other programs
3. Negative balance means the program owes funds

# Entity-Wide Due From/Due To

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	2011	2012	2013	2014	2015	2016
Entity Wide	\$0	\$0	\$0	\$0	\$0	\$0
Public Housing	(\$5,608,233)	(\$7,015,970)	(\$10,410,471)	\$0	\$805,717	\$154,667
Housing Choice Vouchers	\$1,929,435	\$1,585,983	\$1,349,204	\$0	\$1,176,044	\$947,820
COCC	\$1,051,560	\$2,493,908	\$4,992,666	\$0	(\$805,717)	\$0
Others	\$2,627,238	\$2,936,079	\$4,068,601	\$0	(\$1,176,044)	(\$1,102,487)

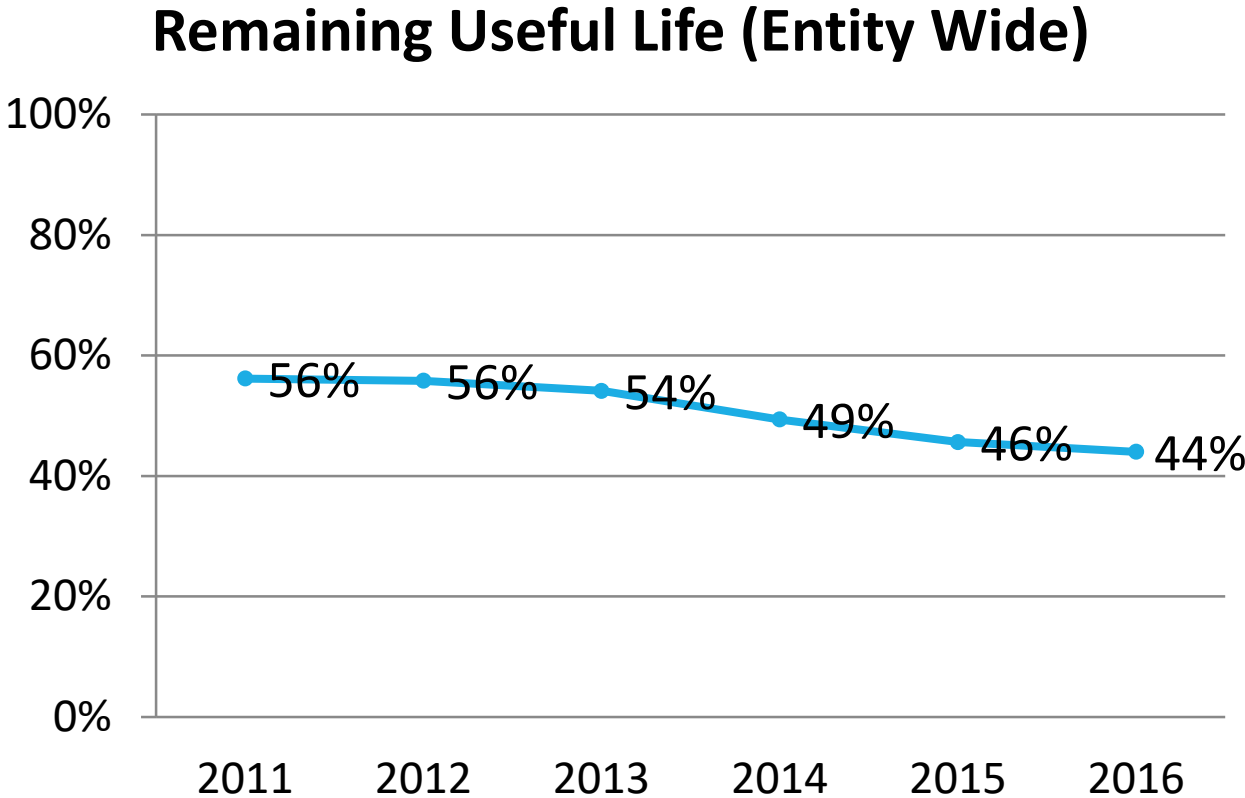
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# Entity-Wide Remaining Useful Life

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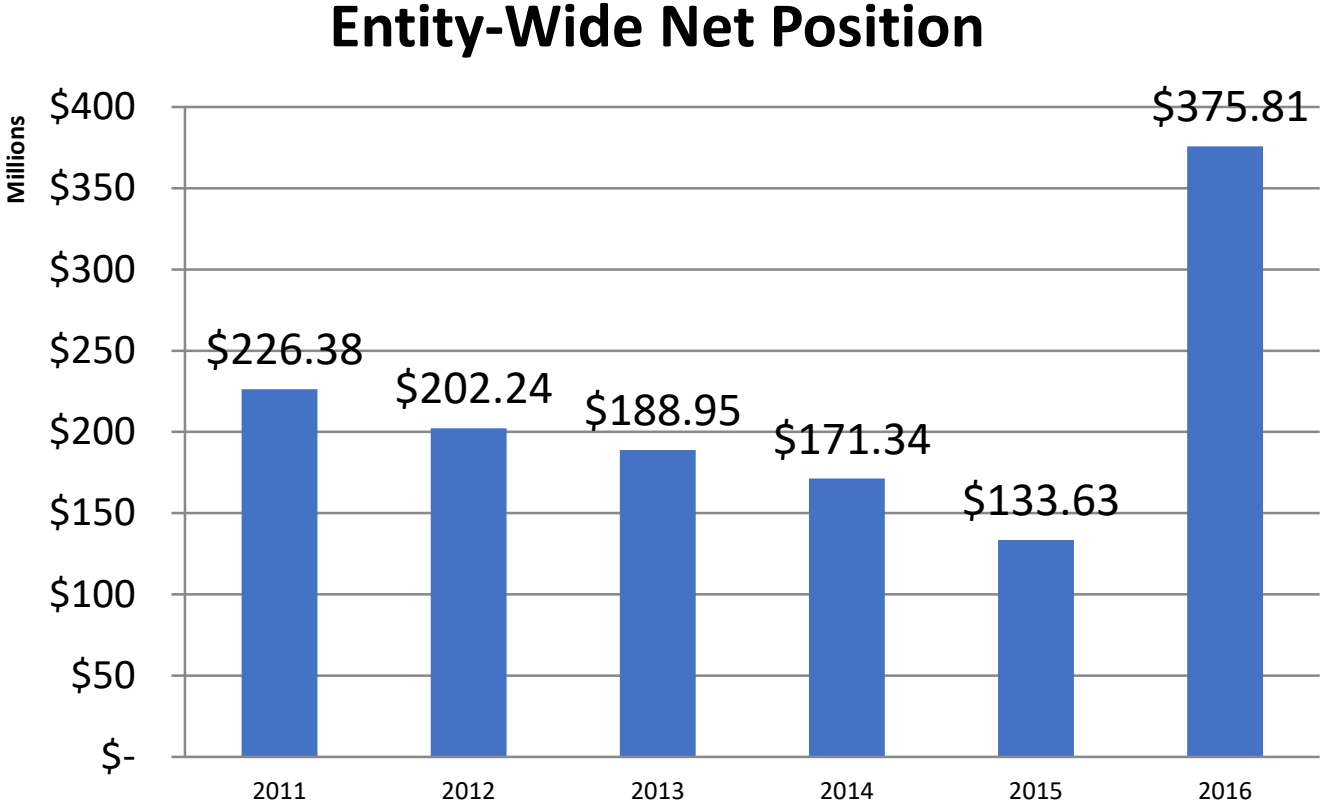
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# Entity-Wide Net Position

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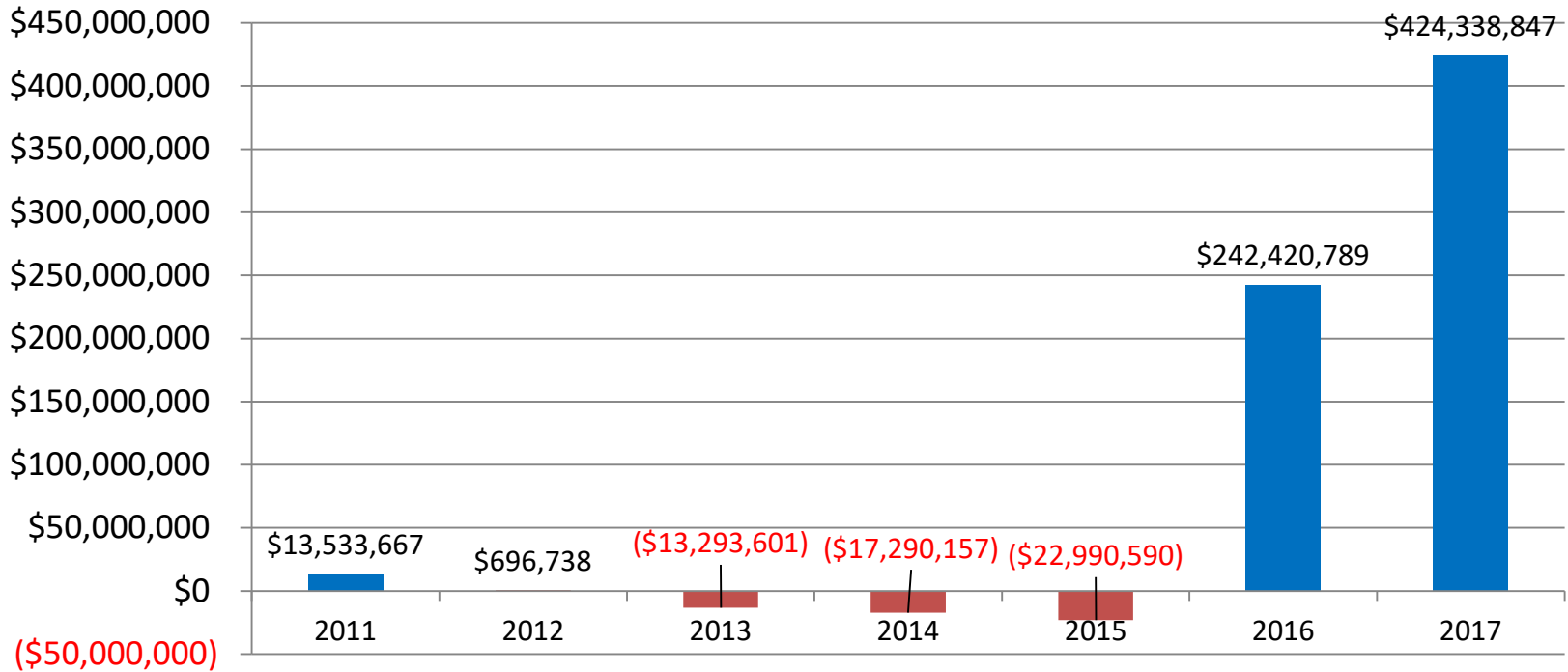
# Net Surplus/Deficit

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1. Measures the net surplus (deficit) of the PHA and its associated programs
2. All revenue and expense items (including depreciation) are included in this measure
3. Consistent or increasing surpluses over time generally suggest that the PHA (or program) is well managed operating within its financial means
4. Periodic surpluses and slight deficits generally suggests that the PHA's financial operations are stable
5. Consistent or increasing deficits suggests that the PHA's financial operations are deteriorating

# Entity-Wide Surplus/Deficit

**10000: Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**





# Audit Considerations

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USE OF ANALYTICAL PROCEDURES



# Assessing Risks of Material Misstatement

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## AU-C Section 315

.05 The auditor should perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and relevant assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

# Assessing Risks of Material Misstatement

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## AU-C Section 315

.06 The risk assessment procedures should include the following:

- a. Inquiries of management, appropriate individuals within the internal audit function (if such function exists), others within the entity who, in the auditor's professional judgment, may have information that is likely to assist in identifying risks of material misstatement due to fraud or error (Ref: par. .A6–.A13)
- b. [Analytical procedures \(Ref: par. .A14–.A17\)](#)
- c. Observation and inspection (Ref: par. .A18)

# Consideration of Fraud

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## AU-C Section 240

.05 An auditor conducting an audit in accordance with GAAS is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, an unavoidable risk exists that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS.

# Consideration of Fraud

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## AU-C Section 240

.03 Although fraud is a broad legal concept, for the purposes of generally accepted auditing standards (GAAS), the auditor is primarily concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor—misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

# Interim PHAS Scoring

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Indicator	Points
Physical	40
Financial	25
Management Operations	25
Capital Fund	10
<b>TOTAL</b>	<b>100</b>

# PHAS Designation Status

PHAS Status Designation	Composite PHAS Score	Individual Indicator Score
High Performer	Overall PHAS score of 90% or higher	At least 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5)
Standard Performer	Overall PHAS score of at least 60%	Not less than 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5)
Substandard Performer	Overall PHAS score of at least 60%	Less than 60% in one or more of the PASS, FASS, or MASS indicators
Troubled	Less than 60% of the overall PHAS score	---
Capital Fund Program (CFP) Troubled	---	Less than 50% on CFP indicator

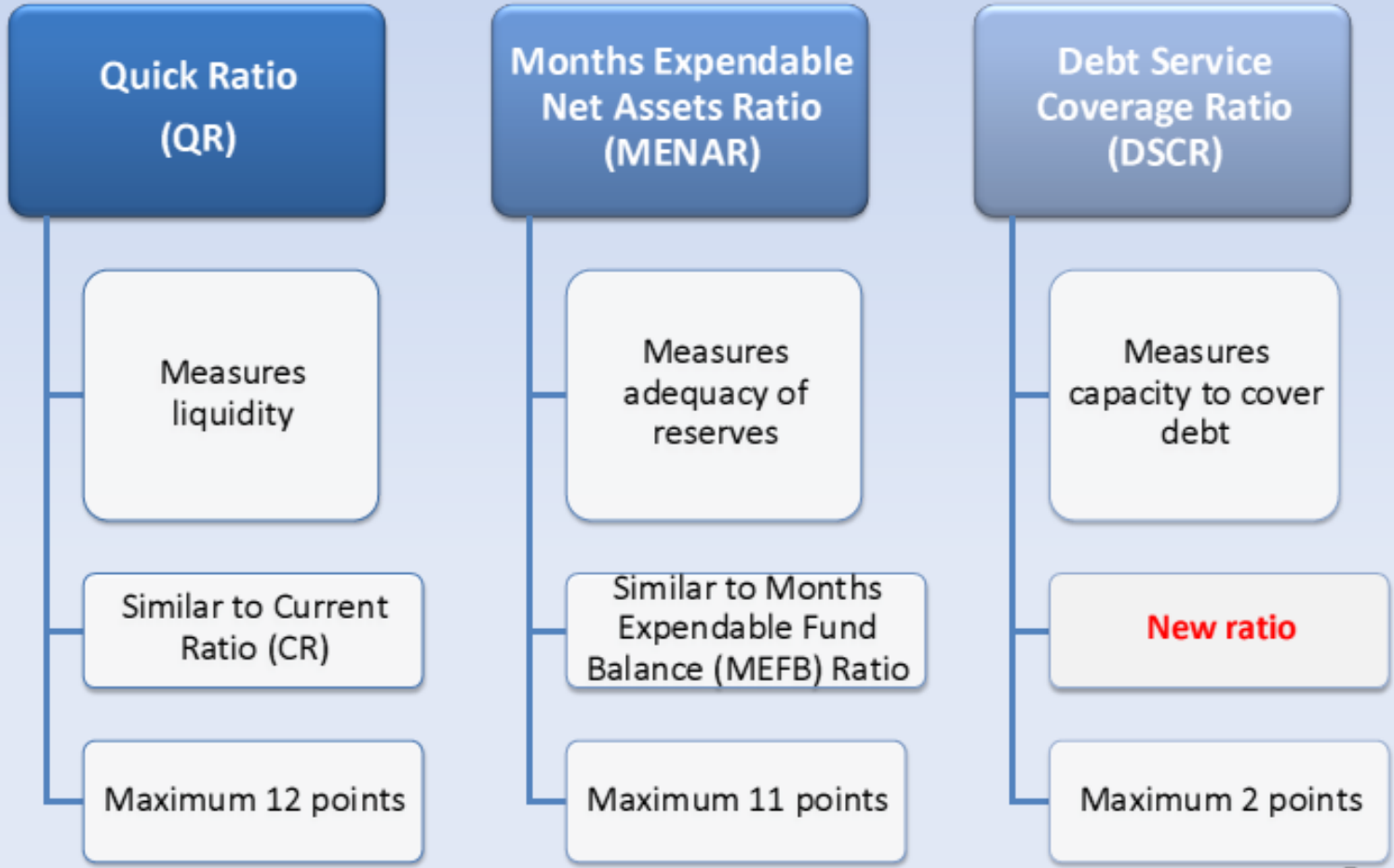
# MASS Indicators

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Occupancy Rate	• 16 points
Tenant Accounts Receivable	• 5 points
Accounts Payable	• 4 points
<b>Total MASS</b>	<b>25 points</b>



# Financial Ratios



# Going Concern Considerations

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## AU-C Section 570

.03 .....the auditor's responsibilities to perform the following:

- a. Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time
- b. Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time

# EOM and Other Matter Paragraphs(AU-C 706)

## Emphasis of Matter

Going concern

Contractual or regulatory reporting frameworks

Consistency

- Litigation uncertainty
- Major catastrophe
- Significant related parties
- Subsequent events

## Other Matter

Audit reports of prior periods presented

Materially inconsistent “other information”

“In relation to” opinion

RSI

General use regulatory F/S

“In connection with” compliance reporting

-“Other” supplementary information

# Questions?

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