



Commonwealth of Massachusetts  
**DEPARTMENT OF HOUSING &  
 COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ♦ Karyn E. Polito, Lieutenant Governor ♦ Janelle L. Chan, Undersecretary

**Public Housing Notice 2019-01**

To: Local Housing Authorities  
 From: Amy Stitely, Associate Director, Division of Public Housing  
 Date: January 18, 2019  
 Re: Revisions to PMR Criteria for 1<sup>st</sup> Publishing Year

As DHCD begins a new cycle of the Performance Management Review (PMR) program, we would like to announce a few changes and additions to the PMR Criteria, which will be implemented with the commencement of the 1<sup>st</sup> Publishing Year.

**When will the Publishing Year Begin?**

The Publishing Year will begin with the 3/31/2019 Fiscal Year End (FYE) Local Housing Authorities (LHAs) and continue for each LHA fiscal year-end.

LHA FYE	1 <sup>st</sup> Publishing Year
3/31	3/31/2019
6/30	6/30/2019
9/30	9/30/2019
12/31	12/31/2019

**Where will the PMR results be Published?**

Each LHA’s PMR report will be posted for download on DHCD’s website, in the same location as their AUP report (and eventually their Annual Plan).

**What’s changed in the Performance Management Review (PMR)?**

The following criteria has been revised and will become effective for all PMRs, beginning with FYE 3/31/19:

- **Section A : Replacing “Budget to Actual” Rating with “Adjusted Net Income” Rating**  
 The *Budget to Actual* metric, previously used for the PMR Planning Years, measured the variance of spending from the LHA’s budget for each of the total budgeted line items. DHCD is replacing this metric with a new one called *Adjusted Net Income*, which focuses on LHA

spending within its bottom line and differentiates between over- and underspending. (For more information, see Section A below).

- **Section B: Revising “Operating Reserve” Rating**

In FY2018, DHCD provided Direct Cost Exemptions to LHAs to augment their operating reserves based on need. With this augmentation, DHCD also established new threshold rules for operating reserve expenditures (See [Public Housing Notice 2018-04](#)). In accordance, DHCD is adjusting the PMR *Operating Reserve* criteria and adding a new rating of ‘Operational Guidance.’ (For more information, see Section B below)

- **Section C : New “Board Member Training” Rating**

The PMR includes a new metric that tracks the completion of DHCD’s online training for board members. The rating will be based on the total percentage of board members that have completed the board training, in accordance with the statutory requirements. (For more information, see Section C below)

**Section A: Replacing “Budget to Actual” Rating with “Adjusted Net Income” Rating**

The PMR’s original *Budget to Actual* rating measured the variance of the spending for each of the LHA’s budgeted line items. With the goal of focusing more on variance at the “bottom line” and to differentiate between over- and underspending, DHCD is implementing a new PMR measure to capture the impacts of both revenue and expenses. This new metric is called *Adjusted Net Income*.

The *Adjusted Net Income* metric calculation starts with an LHA’s net income and backs out Depreciation, GASB 45, GASB 68, Extraordinary Maintenance, and Equipment Purchases – Non Capitalized. This adjusted net income figure is then divided by the Total Expenses of the LHA, thereby putting any overspending or underspending in perspective of the size of the LHA.

If this *Adjusted Net Income* metric is positive, it means the LHA underspent their budget. In this case, the rating criteria is as follows\*:

<i>Positive Adjusted Net Income as % of Total Expenses</i>	<i>Underspending Rating</i>
0% up to 9.9%	No Findings
10% up to 14.9%	Operational Guidance
15% or higher	Corrective Action

If the *Adjusted Net Income* metric is negative, it means the LHA overspent their budget. In this case, the rating criteria is as follows\*:

<i>Negative Adjusted Net Income as % of Total Expenses</i>	<i>Overspending Rating</i>
0% up to -4.9%	No Findings
-5% up to -9.9%	Operational Guidance
-10% or below	Corrective Action

In the example below, the *Adjusted Net Income* metric is positive and is less than 9.5% of the Total Expenses, which results in a rating of ‘No Findings’ based on the rating criteria of underspending.

ACCT NO	Account Class	
2700	Net Income	-72,036
4801	+ Depreciation Expense	8,653
4541	+ GASB- Employee Benefits	5,318
4542	+ GASB- Pension Expense	4,026
4610	+ Extraordinary Maintenance	86,723
4611	+ Equipment Purchases – Non Capitalized	6,230
	= Adjusted Net Income	38,914
4000	/ Total Expenses	408,237
	= <i>Adjusted Net Income</i> as a % of Total Expenses	9.5%

Rating

No Findings

In another example below, the *Adjusted Net Income* is negative and is greater than 10% of the Total Expenses, which means overspending and results in a rating of ‘Corrective Action.’

ACCT NO	Account Class	
2700	Net Income	-77,371
4801	+ Depreciation Expense	48,034
4541	+ GASB- Employee Benefits	0
4542	+ GASB- Pension Expense	-39,878
4610	+ Extraordinary Maintenance	13,589
4611	+ Equipment Purchases – Non Capitalized	1,386
	= Adjusted Net Income	-54,240
4000	/ Total Expenses	525,814
	= <i>Adjusted Net Income</i> as a % of Total Expenses	-10.3%

Rating

Corrective  
Action

## **Budget Revisions for LHAs with Fiscal Year-End 3/31/2019**

Per the DHCD FY2017 Budget Guidelines, budget revisions must be submitted electronically to DHCD no later than the first (1st) day of the eleventh (11th) month of the LHA's current fiscal year. The budget certification with the required signatures must also be electronically submitted with the budget revision.

In the case of the 3/31/2019 FYE LHAs, a budget revision would be due on February 1, 2019; however, since the Budget to Actual variance criteria will be replaced with a new metric called the Adjusted Net Income, DHCD will allow an extension for budget revisions for the 3/31/2019 FYE LHAs.

For those LHAs with a fiscal year-end of 3/31/2019, you may request an extension to submit a budget revision for this year-end, if needed, by contacting, Ayo Yakubu-Owolewa, Finance Manager for the Bureau of Housing Management. All requests must be sent via email to [ayo.yakubu-owolewa@mass.gov](mailto:ayo.yakubu-owolewa@mass.gov)

### **Section B: Revising "Operating Reserve" Rating**

In FY2018, DHCD Provided a Direct Cost Exemptions to LHAs to augment their operating reserves, based on need. With that augmentation, DHCD also established new threshold rules for operating reserve expenditures (See [Public Housing Notice 2018-04](#)). These rules are to ensure that all LHAs maintain the appropriate operating reserve level needed to buffer against any unforeseen events. DHCD is now revising the PMR *Operating Reserve* criteria to account for these new spending threshold rules.

This metric previously had only two ratings: 'No Findings' and 'Corrective Action.' The new metric includes the additional rating of 'Operational Guidance.'

#### **Old Ratings:**

No Findings: 20%+ of maximum operating reserve

Corrective Action: <20% of maximum operating reserve

#### **New Ratings:**

No Findings: 35%+ of maximum operating reserve

Operational Guidance: 20% to 34.9% of maximum operating reserve

Corrective Action: <20% of maximum operating reserve

In the example below, the current operating reserve at the end of the LHA’s fiscal year is at 33.7% of the operating reserve maximum, and the resulting rating is ‘Operational Guidance.’

100% Operating Reserve (Full Reserve)	\$447,798
Current Operating Reserve	\$151,071
% of Maximum Operating reserve at FYE	33.7%
Operating Reserve Rating:	Operational Guidance

**Section C: New “Board Member Training” Rating**

As mentioned in [Public Housing Notice 2017-05](#), Section 5B of Chapter 121B of Massachusetts General Laws requires that DHCD establish and implement a comprehensive training program for board members of state-aided LHAs. In accordance, back in February 2017, DHCD launched a mandatory online training program.

Completion of this training by board members is a new metric being included in PMR. The rating for this metric will be based on the number of board members that have completed training, as follows:

**Ratings:**

- No Findings: 80%+ of board members completed training
- Operational Guidance: 60% up to 79.9% of board members completed training
- Corrective Action: <60% of board members completed training

For example, in a housing authority with 5 board members:

- If at least 4 have completed the online training (80% of board members), then the resulting rating is ‘No Findings’.
- If only 3 of 5 board members complete training (60%), then the resulting rating is ‘Operational Guidance’.
- If fewer than 3 members of the total 5 board members (less than 60%), complete training, then the resulting rating is ‘Corrective Action.’

We hope that with launch of the 1<sup>st</sup> PMR Publishing Year, these program revisions, clarifications, and additions will help to identify best practices and areas for technical support regarding the operations of LHAs. If you have any questions or need further clarification on these PMR Criteria, please contact your DHCD Housing Management Specialist.