

How to Design a Project-Based Accounting System

PHA Finance

“Times Are A Changing”

- Old Way

- Agency wide financial data
- One budget for the entire agency
- Centralized Operations
- Cost allocation to low rent program
- PHAS financial indicators based on entire public portfolio

- PBA Way

- Individual project-based financial statements
- Budget for each project or property
- Decentralized decision-making, central support
- Management Fee and fee for service
- Indicators at the project level

PHA Finance

How to Design a Project- Based Accounting System



PHA Finance

Steps to Implement a PBA System

- **Step # 1 – Assess Your Organizational Readiness**
 - Conduct a skills inventory of property managers and take a hard look at how your agency is setup and currently operates
 - Re-structure departments and associated cost centers
 - Conduct interviews of staff
 - Identify turnover rate /vacancies
 - Conduct work order analysis
 - Identify services that are contracted out/ done in-house
 - Review property sites and locations

PHA Finance

Steps to Implement a PBA System

- Step #2 – Assess Your software/GL package and system automation and setup

PHA Finance

System Automation

- Must have software/GL system that will give you the ability to track income & expenses on a Project-level
- Ability to create allocation schemes
- Ability to create & track cost centers
- Ability to generate project-based financial reports
- Ability to track and report on qualitative property-based data
- Flexible report writing

PHA Finance

Steps to Implement a PBA System

- **Step # 3** – Ensure that information in the PIC System is Accurate
 - Print out info from PIC and review the data
 - This is where HUD will obtain the data to calculate the amount of Funding you will receive under the new system

PHA Finance

PEL – Project Expense Level

- HUD will calculate an Allowable expense level for each of your projects based on the Harvard Cost Study model
- The PEL will cover the following Costs:
 - ✓ Administration
 - ✓ Management Fees
 - ✓ Maintenance
 - ✓ Protective Services
 - ✓ Leasing
 - ✓ Occupancy
 - ✓ Staffing
 - ✓ General expenses
- It doesn't cover utility expenses or Add-ons

PHA Finance

PEL – Project Expense Level

- The PEL for each of your Projects is based on the following 10 Characteristics:
 - ✓ Size – Number of units in a property
 - ✓ Age of Property - From the Date of Full Availability (DOFA)
 - ✓ Unit Size – Percentage of 2 bedroom, 3 bedroom, and 4 or more bedroom units within a property
 - ✓ Building Type –
 - Walkout
 - Garden Style
 - Semi-detached
 - Detached
 - Row/Townhouse
 - High-Rise

PHA Finance

PEL – Project Expense Level

- The PEL for each of your Projects is based on the following 10 Characteristics:
 - ✓ **Occupancy Type** –
 - Family/Senior
 - ✓ **Location – Type of Community**
 - Rural
 - City central metropolitan
 - Non-city central metropolitan (suburban)
 - ✓ Neighborhood Poverty rate – poverty percentage where property is located (based on 1990 census)
 - ✓ Percent Assisted - # of units in a property that receive federal assistance (100% for all public housing properties)

PHA Finance

PEL – Project Expense Level

- The PEL for each of your Projects is based on the following 10 Characteristics:
 - ✓ Ownership Type – Legal ownership structure of a property
 - Non-profit
 - For profit
 - Limited dividend
 - (Non-profit structure is assumed for all public housing properties)
 - ✓ Geographic Area
 - Rural
 - Metropolitan

PHA Finance

PEL – Project Expense Level

- In addition to the ten characteristics that HUD is using to calculate the PEL there are “Out of Model Cost Adjustments:
 - ✓ \$200 floor for senior property
 - ✓ \$215 floor for family property
 - ✓ \$420 ceiling
 - ✓ 4% reduction for any PEL calculated over \$325
- ✓ Other Factors
 - ✓ A Non-Profit Coefficient of 10% would be added to the Sum of the 9 Coefficients
 - ✓ Subtraction of FY 2004 actual audit costs
 - ✓ Inflation Factor will be based on Current Inflation Factor Methodology

PHA Finance

BUDGETING UNDER PBA

PHA Finance

The Operating Fund Formula

Now we have our Complete Subsidy Calculation

Project Expense Level (PEL)

+

Utilities Expense Level (UEL)

+

Add-Ons

-

Income

=

Subsidy

PHA Finance

Utility Expenses - UEL

- Will be measured on a 12 month basis ending June 30 of every year
- PHA will need to supply HUD with actual consumption figures for *each project* for a 36 month period to establish a Rolling base period for each project –
 - The Rolling Base period will be:
 - Year 1 – 7/1/01 through 6/30/02
 - Year 2 – 7/1/02 through 6/30/03
 - Year 3 – 7/1/03 through 6/30/04
- Utility Rate will be calculated by dividing the actual utility cost by the actual utility consumption for the latest 12 months ended June 30

PHA Finance

Utility Expenses - UEL

- HUD will be combining the 52722A & 52722B forms
- No more year end adjustment
 - PHA will retain 75% of savings
 - PHA will absorb 75% of increase in costs

PHA Finance

The Operating Fund Formula

- Funding is based on eligible units
 - Eligible units are –
 - Each occupied dwelling unit
 - A dwelling unit with an approved vacancy
 - Units undergoing modernization
 - Units that are used for resident services, resident organizations, or self-sufficiency and anti-crime activities
 - Litigation
 - Disasters
 - Casualty Losses
 - Changing market conditions
 - Eligible unit months is based on unit months for the period July 1 to June 30 of the year preceding the requested Budget Year (First or last day of each month)
 - HUD will fund for vacant units if vacancy rate for the year was 3% or less. For small PHAs (Less than 100 units) HUD will fund vacant units up to 5 vacant units –

PHA Finance

Steps to Implement a PBA System

- **Step # 4** – Identify how you will report your projects to HUD
 - A project means a public housing building or set of buildings grouped for management purposes. A project may be identified under the ACC or may be a reasonable grouping of projects or portions of a project under the ACC.
 - HUD shall retain the right to disapprove a PHAs re-designation or redefining of a project or projects

PHA Finance

Identifying Projects

1. Use of HUD assigned Numbers based on ACC
2. Combining Scattered Sites
 - PHAs may group up to 250 scattered-site dwelling units into a single project
3. Combining Contiguous sites
 - Logistics (Geographic Location)
 - Type of Housing Stock
 - No unit count restriction
4. Combining by Project Manager
5. Combining by Zones or areas
6. Occupancy type (Family vs. Elderly)
7. PEL of newly defined projects
8. Warehousing, Equipment needs

PHA Finance

Steps to Implement a PBA System

- **Step # 5** – Re-Calculate the Funding using HUD's new Formula (Project Expense Level-PEL) for each of your NEW – Redefined projects.

PHA Finance

Steps to Implement a PBA System

- **Step # 6** – Set up Chart of Accounts to correspond to your Project Setup

PHA Finance

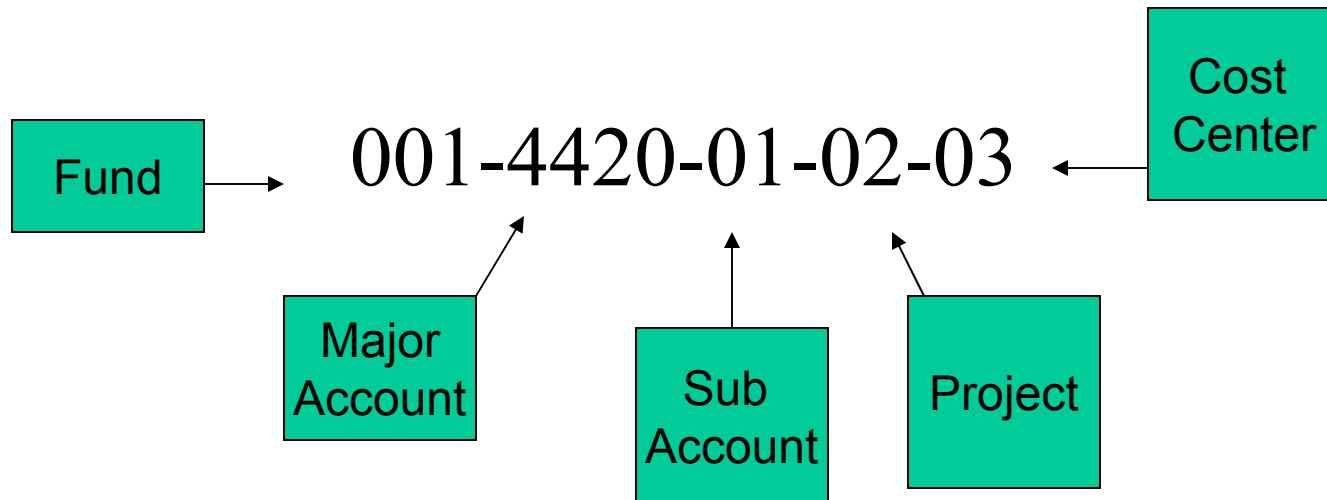
Chart of Account Considerations

- Overall organizational structure (cost centers)
- Central costs
- Property-specific income
 - Dwelling rent
 - Non-dwelling rent
 - Property-specific operating subsidy
- Property-specific expenses
 - Direct admin
 - Utility
 - Maintenance
 - Protective services

PHA Finance

Chart of Accounts

More complex account string



PHA Finance

Balance Sheet Accounts

- Petty Cash
- Receivables and allowance for doubtful
- Fraud recovery
- LS&E
- Depreciation
- Notes payable and accrued liabilities
- Undesignated fund balances/retained earnings
- Reserve fund balances

PHA Finance

Back to PBA: New Fee Structure

- There are three types of fees that may be charged to projects:
 - Fixed property management fee
 - A fee-for-service for services rendered and directly chargeable to a project
 - Asset management fee

PHA Finance

Property Management Fee

- In theory, these are the fees used to cover costs of your cost allocation from indirect overhead to breakeven. Some examples include:
 - Central office staff, salaries and benefits
 - Information technology costs
 - Contract administration/purchasing costs
 - Personnel department
 - Centralized work order or warehouse

PHA Finance

Some Important Things to Know

- The property management fee must be fixed
- The fee must be reasonable relative to private management fees in the FHA industry
- Quick calculation:
 - All central office costs divided by total unit months available per year at all sites = the minimum amount of your agency's management fee in order to fund central office operations to breakeven

PHA Finance

Fee For Service

- Assessed and charged by central office
- Think of these as direct costs attributable to projects that are reimbursable via a fee for service: Examples include:
 - Centralized turnaround crew
 - Centralized maintenance
 - Safety services
 - Admissions and occupancy
 - Specialized IT services

PHA Finance

Asset Management Fee (AMF)

- This fee may only be charged if the HA performs all of the asset management activities required by the Federal Register
- The AMF is considered to be a direct expense to the projects over and above the fee for service and property management fees
- You must have fully transitioned to project-based accounting, management and budgeting in order to qualify for the \$4 PUM add-on

PHA Finance

Steps to Implement a PBA System

- **Step #7** – Review and Update Your Internal Controls
 - New risk assessment (environment change)
 - New procedures and policies
 - New people? New roles?
 - Controls over your ability to accurately generate site-based budgets and financial reports.
 - Controls over site-based procedures (lease enforcement, admissions, etc.)

PHA Finance

Steps to Implement a PBA System

- **Step # 8** – Training the Staff
 - New Culture throughout Agency
 - HUD requirements
 - Reading Financial Reports
 - Management Decisions
 - Property management Procedures & requirements
 - Assessment of Staff
 - Procedures for new filing

PHA Finance

Steps to Implement a PBA System

Other items to consider –

- Devise a personnel plan – what new skills will you need to obtain, retrain, or hire
- Collect data on utility costs & consumption for last three years
- Begin separating your centralized costs – which costs can be pushed to the property level
- Figure out your overhead

PHA Finance

Transition Funding

24 CFR 990.225

Transition Funding

The determination of the amount and period of the transition funding shall be based on the difference in subsidy levels between the formula set forth in this part and the formula effect prior to ????. The difference in subsidy levels will be calculated using FY 2004 data.

Transition Funding

24 CFR 990.225

“Stop the Bleeding”

If a PHA can demonstrate a successful conversion to the asset management requirements, HUD will discontinue the reduction at the PHA's next subsidy calculation following such demonstration.

PHA Finance

Transition Funding

Funding Period	Demonstration Date	Reduction Limited To
Prior to year 1	10/1/2005	5% of the difference between the two funding levels
Year 1	10/1/2006	24% of the difference
Year 2	10/1/2007	43% of the difference
Year 3	10/1/2008	62% of the difference
Year 4	10/1/2009	81% of the difference
Year 5	10/1/2010	Full reduction reached

PHA Finance

Transition Funding

24 CFR 990.225

For the purposes of this section, compliance with the asset management (subpart H) will be based on an independent assessment conducted by a HUD approved professional familiar with property management practices in the region or state in which the PHA is located.

A PHA must select from a list of HUD approved professionals to conduct the independent assessment. The professional review and recommendation will then be forwarded to the Assistant Secretary for Public and Indian Housing for final determination of compliance.

PHA Finance

QUESTIONS & ANSWERS

