

Standard & Poor's Local Housing Authority Evaluation

Philadelphia Housing Authority, Pennsylvania

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NEW RATING

LOCAL HOUSING AUTHORITY EVALUATION

CATEGORY RANKING Very Large Strong

Outlook: Stable

Rationale

Standard & Poor's assigns the Philadelphia Housing Authority (PHA), Pa. a 'strong' ranking. PHA owns and operates 15,749 family and elderly units in 44 developments and administers 18,000 section 8 vouchers.

The 'strong' ranking reflects:

Strengths:

- An overall vision to establish and maintain the authority as a major real estate development and asset management organization;
- Well-conceived and aggressive strategic plans and policies supporting the overall vision of the authority;
- Extensive support from the city and the board in the development and implementation of the authority's long-term plans and related programs;
- A strong and creative development arm that maximizes externally leveraged resources to create attractive new communities that replaces demolished housing;
- Strong financial performance in the housing program, as evidenced by a high level of profitability, achieved through the financial support from the mixed-income sites; and
- Highly sophisticated technological capabilities.

Challenges:

- Distressed state of housing in the City of Philadelphia and the authority's burden as the city's leading developer in areas of blight;
- Severely-deteriorated conditions of neighborhoods in which many of the scattered sites are located—significantly impacting the overall desirability and marketability of the properties; and
- Lack of consistent condition of properties in terms of overall cleanliness and curb appeal.

Outlook

PHA is a strong authority that has developed clear, directive strategic plans to maximize its position as a premier real estate development and management company. The authority's major strengths in community development and asset management are key for the authority to continue its successful operation, given the current state of the private housing stock in certain areas of the city, the severity of housing conditions, and the overwhelming task of redeveloping those communities.

Management

Standard & Poor's assigns a 'strong' ranking to PHA's management. This ranking reflects:

Strengths:

- A strong senior staff that has a track record of positive achievements over the last four years;

- Thorough strategic planning that encompasses a range of activity detailed to the employee level;
- Close and cooperative interaction with external partners, including the City of Philadelphia;
- Innovative approaches to improving operations and accessing financing; and
- Effective employee relations with a large and predominately union workforce.

Challenges:

- Maintaining focus on clear organizational goals within a large organization, and
- Keeping open lines of communication with residents.

PHA has a senior staff of 27, starting with an executive director, general counsel and human resources, and an executive deputy director. Four executive general managers, one general manager, and one special assistant report directly to the executive deputy director. These managers oversee the areas of asset management, supply chain management (i.e., contracts, procurement, and warehouse), real estate development, operations, and finance and community partnerships.

The board comprises five members—the mayor appoints two, the city controller appoints two, and the fifth member is a public housing resident. Members serve five-year terms, which are staggered so that experienced members will be on the board through regular turnover. The in-

herent effectiveness of the board's composition is well grounded via a 1993 written agreement between the city and HUD, under which the mayor agreed to serve as a

member along with a member of the city council. This structure begs for the intrinsic cooperation of the key members of the city's governmental body who are respon-

sible for housing, economic, and community development in Philadelphia. The result of this structure and its effects has led the authority to move from a troubled agency to one of the more notable owner and operator of rental housing in Philadelphia. The current mayor has kept with the spirit of this agreement by appointing his chief of staff as the board chair. Other members are from diverse backgrounds, including a union representative and one resident as mandated by the federal Quality Housing and Work Responsibility Act of 1998 (QHWRA).

The board made a key strategic decision in 1998 when it hired Carl Greene as executive director. Greene became the sixth executive director since 1984, the year at which the authority began to change executive directors once every two to four years. Green came from the Detroit Housing Authority, which was removed from the 'troubled' list of the U.S. Department of Housing and Urban Development during his tenure.

Under Greene, PHA has implemented internal, external, and financial strategic initiatives. Internally, the authority has a strategic operational plan, which breaks down nine goals into hundreds of objectives and tasks. Each task has a starting date, scheduled completion date, and actual ending date, along with individual contacts for each task. The nine goals are as follows:

- One, achieve excellence in property management;
- Two, achieve excellence in the management of the section 8 program and enforce program compliance;
- Three, develop affordable quality housing that supports balanced communities;
- Four, implement public safety programs that promote the well being of Philadelphia neighborhoods and the accountability of program participants;
- Five, engage other institutions to leverage resources and assist in promoting economic enhancement and supportive services for PHA residents;
- Six, improve the productivity and cost effectiveness of PHA's operations;
- Seven, improve program compliance, reporting, performance, and accountability;

Economy

Philadelphia, approximately 90 miles southwest of New York City, is the nation's fifth largest city with a population of 1.5 million. The regional economy is highly diversified, with an emphasis on health care services, pharmaceutical manufacturing, aerospace manufacturing, education services, and transportation services. While buffering the Philadelphia economy from more severe downturn, this diversity has also limited its expansion as many of the sectors that form the region's economic base are growing slowly. The region's other weaknesses include relatively high business costs, a large number of poorly educated workers that live in Philadelphia, and high tax rates.

The downturn in the Philadelphia economy has been mild relative to national and statewide conditions. The peak to trough employment downturn has been less than 1%, about half the national rate and well below declines experienced during the recessions of 1990-1991 (nearly 3% decline) and 1973-1975 (nearly 5% decline). The city's 6.3% unemployment rate, in keeping with many urban centers, remains well above the state (4.7%) and nation (4.3%). A long history of out-migration has fostered a large disparity in education and income levels between central city and suburban residents. Effective buying incomes within the city represent only 82% of the U.S. benchmark, while per capita incomes for the metro area represent 117% of the national average.

Health services comprise a large 10.5% of metro area jobs. Growth prospects are good for the metro area's core of knowledge-based industries, which include health services, pharmaceuticals, education, and biotech, chiefly due to a highly educated workforce drawn from suburban areas. Hospitals employ over 116,000 workers, while private colleges and universities employ more than 56,000. Leading employers in the metro area include the University of Pennsylvania (27,450 jobs), Jefferson Health System (18,523), Merck Pharmaceuticals (10,000), and Tenet Healthcare Corp. (9,070). However, hi-tech industries provide a relatively low number of jobs and represent only 4.5% of total employment.

Manufacturing, which lost 11,000 net jobs over the past year, appears to be bottoming out, as recently lengthened workweeks may serve as a leading indicator for permanent employment growth in the sector. Non-durable manufacturing employment continues to outpace that of durables. In addition to Merck, leading manufacturers include Lockheed Martin (6,770 employees) and Boeing Co. (5,400).

Tourism, an important driver of the local economy, has performed steadily as convention bookings have been locked in and the city's draw as a regional travel destination has filled the void left by a downturn in long distance travel in the post September 11th environment.

The Philadelphia housing market has sustained relatively well during the recent economic downturn. Vacancy rates are hovering near their cyclical low of 9%, which approximates the national average. The regional housing market is further supported by a stable supply of apartments. New multifamily housing starts dropped 10.6% from 2000 to 2001 and have remained stable through 2002. The median monthly rent in Philadelphia in 2000 was \$569 and median cost of a home was \$59,700. Over half of the residents in Philadelphia are homeowners.

- Eight, maximize the use of technology to improve efficiency and accountability of PHA operations; and
- Nine, expand inter-governmental initiatives to enhance the ability of PHA to deliver sound and effective public services.

The wide range of goals illustrates the ambitions and strategic vision of PHA. Goals seven through nine seek improvement of internal capacity of the authority. Goals one through four strive to improve specific programs of PHA. Goals five and nine reach beyond the authority and engage partners outside of PHA. The strategic plan provides a clear and exhaustive path for the authority to pursue. Beyond its scope, the plan is also a living document, embedded in every employee's performance objectives. Each employee has specific objectives with time schedules related to one or more elements of the strategic plan. All the monitoring and accountability tracking is made possible by an extensive PeopleSoft computer application.

Progress is evident for all nine goals. The authority has improved the condition of its properties, enhanced its programs, expanded its internal efficiency, and leveraged external resources. In addition, the authority entered into the HUD's "Moving to Work" demonstration program, and becoming the second housing authority in the country to leverage HUD's capital funds through the issuance of bonds. These accomplishments have enabled the authority to gain greater financial flexibility and accelerate the revitalization of its properties.

The authority's improvement over the last four years is evident within every department. Internal operations run more effectively, external relations are more positive, and the authority has a clearer sense of its direction. The staff deserves credit for this change, most of which occurred following the arrival of Greene. Under the authority's succession plan, the deputy executive directors would step in as the interim executive director until such time a permanent replacement has been appointed.

PHA is unique among the authorities that Standard & Poor's has evaluated in that it has almost 7,500 scattered-site units. PHA's

units blend in with various neighborhoods, blocks and streets more than most other authorities. As a result, the authority is woven into the city to a larger degree, requiring a strong external presence and cooperation with the many citizens, neighborhood businesses, and community institutions. Among the many effects of this high level of proximity is mutual dependence between PHA and Philadelphia.

Anecdotally, the authority can point to better relations with the City of Philadelphia regarding building demolition and urban revitalization in recent years. More substantially, the city has modeled the authority's revitalization efforts in developing its Neighborhood Transformation Initiative (NTI), which is aimed at stabilizing and revitalizing Philadelphia's neighborhoods. Begun in 2001, NTI's goals are to achieve the following:

- Facilitate and support community-based planning,
- Eliminate blight,
- Prevent blight,
- Redevelop sections through assembly of land,
- Invest in housing and neighborhood preservation, and
- Leverage resources.

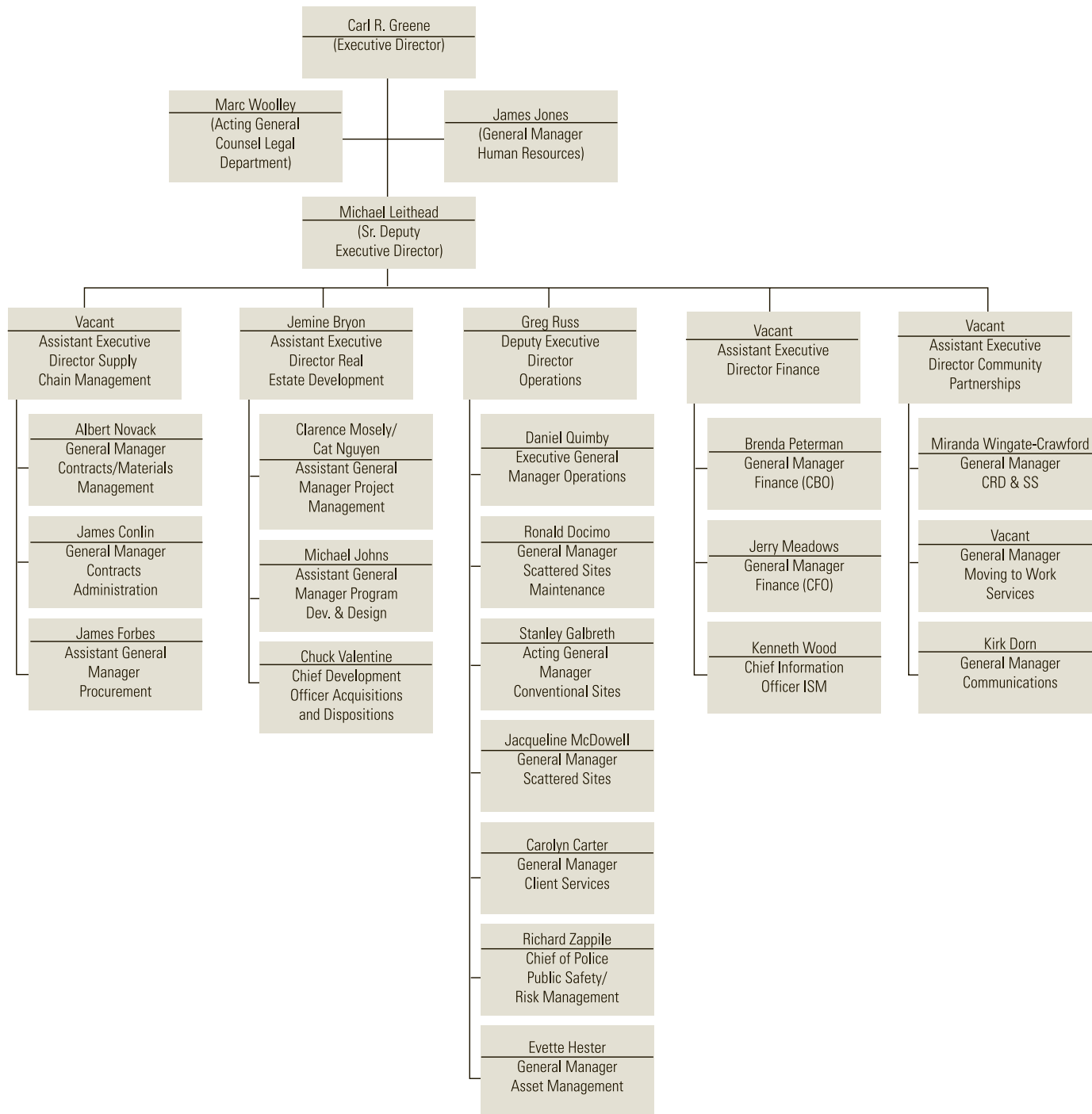
Although NTI is a city initiative that is distinct from the authority's revitalization programs, PHA's efforts in recent years have helped shaped the direction of the NTI plan. PHA has the property, personnel, strategic planning, and financial resources to further the common goals shared by its mission and that of the NTI program. In fact, the city has looked to the authority to develop property funded from the tax credit equity investments associated with the NTI plan. The authority's efforts have been at the forefront of addressing the daunting task of revitalizing the current state of multifamily housing in the city. By 1950, the city had sufficient housing stock for 2.5 million residents, at which time the population was 2.1 million. The population then shrunk to its current 1.4 million, leaving Philadelphia with approximately 54,000 abandoned houses, 31,000 vacant lots, and 30,000 abandoned vehicles.

NTI took shape when the city issued its first bond transaction, the first of five that could reach \$250 million. These blight removal bonds will help address the overflow of dangerous buildings in the city. Another \$195 million in bonds will fund building demolition and \$55 million will fund neighborhood reinvestment like



PHA's development team has successfully completed new construction and reconstruction projects.

**Philadelphia Housing Authority
Senior Staff**



home improvement and acquisition of up to 5,000 parcels of land. These efforts will complement the authority's redevelopment activities, which have already been underway in recent years.

The city has benefited from PHA's HOPE VI development, and has demonstrated its support to the development and implementation of plans as appropriate. PHA considers its resources to be the catalyst for urban renewal, such as using section 8 as mortgage assistance to foster homeownership and neighborhood stability. The city is somewhat constrained by its civil service labor requirements, so it can contract with PHA like a non-profit, allowing more flexibility. PHA will do much of the planning, and bring more resources than the city has available.

Like many public housing authorities, PHA has substantial unionization. Eleven unions and seven collective bargaining units comprise the majority of the authority's 2,600 employees. Limited flexibility regarding personnel and labor costs could emerge as a concern, but the authority seems to have positive labor relations, as evidenced recently through performance indicators. The authority is taking a proactive approach to create a high-performance environment through training, internship programs, benefits, and opportunities for advancement. PHA has a program for recent graduates, aimed at recruiting and promoting new employees in management roles. The authority is also developing a corporate university open to all employees. The training would be designed by IREM, Nan McCay, Deloitte and Touche, and Pierce College, and is planned to be operational by the end of the year.

Concerns of the residents are also important. Asset managers contact resident councils in their region on a weekly basis to resolve issues, provide support and technical assistance, and identify new partnerships. PHA conducts monthly pre-board meetings that rotate among PHA sites. PHA senior staff and resident leaders discuss all resolutions anticipated to be presented to the board the following week. Residents have an opportunity to comment on these issues and learn about new programs and initiatives.

Operations

Standard & Poor's assigns a 'strong' ranking to PHA's operations. This ranking reflects the following:

Strengths:

- A strong development arm that serves as the driving force in the process of blight elimination in the city's transformation plan;
- Creative and aggressive financing transactions that provide funding for the authority's development activity;
- Institutionalized private property and asset management practices;
- Improved policies for overall maintenance procedures; and
- Outsourced resident services program provided through a resident-based organization.

Challenges:

- Seventy-eight percent section 8 utilization rates—a challenge that is offset by the authority's need to warehouse vouchers for its extensive relocation efforts; and
- High unit turnaround count—this challenge is offset by the strategic method by which PHA is approaching its overall modernization and reconstruction plan.

Development

PHA demonstrated great foresight by establishing a strong development team, which is an essential component to the success of the agency. PHA's development agenda is aggressive, and addresses major redevelopment needs of the city in impacted areas. As a catalyst in the urban revitalization of the city, PHA has systematically identified opportunities to substantially improve its portfolio. In most cases, the authority proactively takes the lead in developing master plans for neighborhoods targeted for PHA development activity. This is evidence of the city's dependency on the authority to lead the way in transforming the distressed areas of Philadelphia.

PHA development activity is grounded in generally accepted real estate development principals and practices. The Philadelphia Housing Authority Development Corp., a 501(c)(3) affiliate of the organization, serves as its development arm. Special purpose entities are created for mixed-financed projects. Development projects are carefully planned and include components designed to alleviate the existing blight in the area. PHA has maximized the HOPE VI redevelopment program through four HOPE VI revitalization grants and seven HOPE VI demolition grants over the last nine years. In addition, the authority has a

Table 1

PHA Key Statistics					
	2001	2000	1999	1998	1997
Average senior income (as of 10/02)	\$8,900	N.A.	N.A.	N.A.	N.A.
Average family income (as of 10/02)	\$11,100	N.A.	N.A.	N.A.	N.A.
Average senior tenant income (% of area median)	N.A.	N.A.	N.A.	N.A.	N.A.
Average family tenant income (% of area median)	N.A.	N.A.	N.A.	N.A.	N.A.
Total population (public housing)	31,200	30600*	33500*	36000*	38200*
Total households (public housing - occupied)	12,464	12,074	13,210	13,760	14,370
Units of federal public housing (standing units**)	17,218	18,831	20,446	20,692	21,070
PHAS score	79	75	70.66	N/A	N/A
PHMAP score	N/A	N/A	N/A	67.99	60.24
HUD performance designation	Advisory	Advisory	Standard	Standard	Standard
Percent of non-senior heads of household with employment as a major source of income	N.A.	N.A.	N.A.	N.A.	N.A.
Units of section 8 (as of 9/30)	15,996	N.A.	N.A.	N.A.	N.A.
<i>Units of non-federal public housing</i>					
N/A—Not applicable. N.A.—Not available. * Estimations—data not tracked.					

number of other mixed-finance transactions for new development and major construction. These projects have or will result in the elimination of distressed conditions through demolition and reconstruction. New development projects are designed to reduce density, to create a sense of community and provide the general amenities that are consistent with the standard market rate housing in Philadelphia.

PHA's foresight and private market approach is impressive, and it has allowed for a number of creatively financed projects with significant support from the Pennsylvania Housing Finance Authority. Amounts total \$623 million in tax-exempt bonds and tax credit equity for 10 development, including the securitization of capital funds for the redesign and development of Tasker Homes—the second major capital fund securitization project undertaken by a housing authority in the country. The authority has garnered a significant amount of support from the state housing finance agency. No other housing authority evaluated by Standard & Poor's to date has received support of this level from their respective state housing finance agencies. In addition, PHA has secured an additional \$223 million in funds, including HOME, CDBG, and

HOPE VI, for the substantial rehabilitation of another seven developments. The development pipeline includes the construction or substantial rehabilitation of more than 4,600 of the agency 15,000 units.

The development staff is highly trained and has the wherewithal to complete sophisticated development projects. Newly developed neighborhoods are attractive and make a significant impact on the areas in which they are located. PHA acknowledges that its most significant development challenge is coming up with a plan to deal with the numerous scattered-site units in its portfolio that are either in poor condition or are in severely distressed neighborhoods. Because the city is plagued with vacant lots and vacant, deteriorated structures, it is difficult for the authority to address collectively many of its scattered sites in an efficient manner. One pending plan with the city under the NTI calls for unit swaps between the city and PHA, which will move residents from an area of blight where the unit may be only one or two on a block standing to a unit on a more stable block. This swap plan will permit the city to create assemblages of lots to offer for development while moving the PHA resident into a better neighborhood.

Standard & Poor's believes that, given sufficient funding, the authority's development team can construct and redesign existing housing that will be useful and marketable for years to come. Nonetheless, funding and the severe impact of the condition of some areas present a timely and significant challenge for the authority.

Property and Asset Management

PHA employs private market property and asset management practices. More than 94% of the management and asset management staff are accredited as residential managers under the Institute for Real Estate Management.

Effective management of the portfolio is made even more difficult for the authority due to the fact that almost 40% of its portfolio is scattered sites. To get a handle on managing these units, the authority instituted 10 community management offices throughout the city, from which the scattered sites are managed. This allows PHA staff to focus efforts in specific geographic regions of the city and address residents' needs more quickly. Conventional sites are monitored by six area supervisory asset managers who oversee the property management of the developments in their respective geographic areas.

As with conventional developments, scattered sites are inspected annually. However, property managers have occasion to visit units at least once on a quarterly basis. This permits staff to monitor closely the condition of the units as well as to provide individualized service to the residents.

PHA prudently established an independent asset management function—much like a private market owner of a diverse portfolio. Asset managers monitor properties on a monthly basis by reviewing vacancy, rent collection, and other relevant performance factors on a monthly basis and identifying variances from the projected performance ratios for the specific property. Asset managers work with managers to bring properties within planned numbers, as well to ensure that the authority is adhering to all compliance issues. This department works with all properties—conventional, scattered sites, and unsubsidized/privately



Severely deteriorated developments have been slated for demolition and reconstruction.

managed units. All asset management functions are computerized and feed directly into the PeopleSoft system.

Upon the decentralization of the scattered-site operation and the creation of the asset management department, there was an immediate increase in the administrative expenses per unit from almost \$1,400 in 1999 to more than \$2,300 in 2000. However, the year 2000 has seen a decrease to \$2000 per unit. Standard & Poor's believes that the initial costs indicated in 2000 will begin to trend down, as marketed improvements in efficiency will occur. One increase of efficiency evidenced in the agency's performance is its rent collection efforts. Rent collection has improved dramatically by more than 16% points, going from about 81% in 1997 to almost 97% in 2001.

Occupancy has remained steady at 92% over the last five years, with its low at 88% in 2001. The decrease in occupancy is directly attributed to the massive relocation efforts being undertaken by the authority, and the need to have sufficient units to house residents as properties are demolished and reconstructed, or substantially rehabilitated. PHAS advisory scores improved slightly from 75 in 2000 to 79 in 2001. Although Philadelphia is an MTW and exempt to PHAS scoring, it continues to submit reports in an effort to measure and record the effectiveness of its procedures.

PHA's security efforts are impressive—due to the existence of its own police force. More than 200 officers and 50 civilians provide security on PHA property, oversee section 8 inspections, perform all record checks, and provide alternative drug prevention programming for young residents. Positive effects of the police department's efforts are evidenced in the 26% reduction from year-to-date 2001 to year-to-date 2002 in reported incidents in criminal activity, and a 35% decrease in arrests for the same period.

Maintenance and Construction. Maintenance policy and procedures are institutionalized in detailed policy and procedure manuals. Unit turnover is handled in two categories—units that can be turned over in 10 days (handled by the maintenance

staff), and units that need more time (which are handled by a special turnaround reduction team).

Unit turnover averaged 177 days over the last five years, with a peak of 187 days in 2000. The agency attributes high unit turnover to the significant age of its stock, and the large number of scattered sites (by far the most of any public housing authority in the country). Because much of the housing stock, both the scattered sites and public housing, ages from 60-150 years old and many conditions' are obsolete, the authority must take great pains to ensure that units are brought up to code, and are marketable and desirable units. This requires additional time, and negatively affects the unit turnaround number. Even given these factors, PHA turns an average of 5-10 units per week in its scattered sites portfolio.

In addition, the PHA has units within its portfolio that are in historic districts, as well as units that must be retrofitted to be compliant with the American with Disabilities Act. Additional work and time is often associated with addressing the special needs of these units. Also, under its strate-

gic plan, the authority is identifying the units in the most distressed condition to determine the feasibility of repairing these units or demolishing them—thereby removing them off the unit turnaround count. Nonetheless, PHA must continue to carefully monitor its unit turnaround days, and ensure that the approach to these units are feasible, given their condition, and that the overall modernization plan addresses the need to turn over units more quickly.

Work orders average three days for completion, and the authority handles more than 800 work orders per month. Since 1998, the work order backlog has been reduced from 25,000 to 1,000. This was accomplished through establishing the special unit turnaround teams and freeing up maintenance workers to address work orders. Emergency work orders are handled within 24 hours.

Inventory is managed through a centralized warehouse, and through 13 stocking locations, which are necessary due to the wide geographic area covered by the portfolio. The inventory system is fully computerized and monitored through the

Chart 1
Scattered Sites Property Condition Distribution

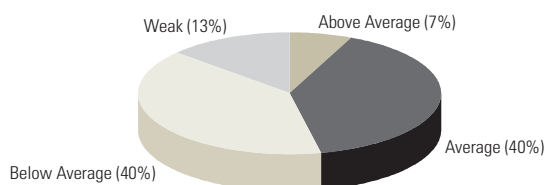


Table 2

PHMAP Submission Statistics					
Rents Collections - (Public Housing Only)	2001	2000	1999	1998	1997
Rent collected (% of gross rents)	96.82	96.38	86.81	82.67	80.79
Occupancy % (adjusted for HUD approved exclusions)	88.64	92.19	95	95.95	90.26
Unit turnaround days	182.55	186.79	176	183	159
Total vacant units	3,590	4,490	4,081	5,424	5,672

PeopleSoft computerized system. PHA plans to move to the e-procurement system, which will allow for total computerized ordering and inventory monitoring.

Section 8. PHA administers more than 18,000 vouchers—of which 14,000 are utilized. Units are located diversely around the city and include private homes, high-rises, elderly units, and PHA homeownership programmed units.

PHA recently took eight months to purge its 10-year old waiting list of 10,000 families, and reopened its waiting list and received 27,000 applications. At present,

PHA is working to certify 7,500 families for the 4,000 unused vouchers. These vouchers will also provide alternative housing for resident relocation due to on going demolition or substantial rehabilitation projects.

Inspections are covered by staff reporting to the security department, and are made upon move-in/move-out, resident or landlord complaint, and annually. Regularly scheduled landlord briefings and tenant briefings permit staff to keep landlords and participants informed on program policies. In addition, the unit regularly

holds landlord fairs to recruit new owners and educated them on the benefits of the section 8 program.

Residents Services. PHA was designated a “Moving to Work” (MTW) agency in 2001. One of the major goals of the plan is to improve the overall quality of life of residents through job training, education, and self-sufficiency opportunities. The Community Resources Department successfully oversees contracts for resident and community services, and will coordinate the MTW supportive services efforts. Staff are involved in grant writing to support consultants and homeownership programming. Since 1999, the department has increased its supportive services grant awards amount seven times over. This has helped the authority to provide the funds to support more service programs through its affiliate organization.

As part of the authority’s mission to limit its functions to real estate development and property management, PHA contracted out its resident services to one of its 501(c)(3) arms—the Tenant Support Services Inc. The nonprofit was established in the late 1980’s and resurrected in 1998 in order to oversee the provision of supportive services to residents. This predominantly resident-staffed entity now provides PHA services, including conducting the PHAS portion of the resident survey, coordinating volunteers, raising funds for supportive programming, and overseeing the Family Self Sufficiency program. In addition, the nonprofit oversees contracts with agencies providing on-site Head Start and senior services, as well as after school and summer programming.

Standard & Poor’s believes that it is prudent for the authority to focus on developing its capacity as a real estate business entity, and that contracting out resident services is a prudent means to ensure that quality of life programs are offered to its constituency. This allows organizations with expertise in the provision of these services to accurately identify and meet the needs of PHA residents. Relations between the authority and PHA are good, as evidenced by the score of 9 (out of a possible



PHA's portfolio includes a diverse property type, including high-rise buildings.

10) in the resident survey section of the 2001 PHAS score.

PHA also promotes resident self-sufficiency through its section 5(h), Lease to Purchase Turnkey, and section 8 homeownership programs. Under these three programs, more than 200 units of homeownership have been sold to residents in the last five years. Many homes go to participants in the Family Self Sufficiency program—which will be expanded under the MTW program to include public housing residents. At present, there are more than 273 residents in the escrow account program, up from 70 in 1999. The savings from the escrow account program can be used for homeownership.

Modernization. PHA has an aggressive modernization plan that is designed to alleviate distressed housing from its portfolio. All units benefit from the authority's SPARKLE program, under which modernization funds are used to improve the overall curb appeal of the properties through extensive landscaping and exterior work.

In reviewing the authority's overall modernization efforts, Standard & Poor's found that modernization efforts generally fall within three categories. The first are properties that have outlived their useful lives either due to their distressed condition or due to the obsolescence of the design and the community lay out. These properties are handled through the development department and are included in the master revitalization planning, including HOPE VI and NTI efforts for demolition and reconstruction. The second category includes older properties that are viable and still have some useful life for which the authority targets its general modernization. PHA established the SMART team program—which identifies properties in need of modernization and disburses teams to complete rehabilitation on these units, including kitchen and bathroom upgrades, windows, flooring, etc. Nonetheless, the condition of some units has affected the authority's ability to turn around the units in a timely manner when they do become vacant. PHA will need to be sure that a plan is developed to address all of the properties in this category.

Finally, there are the newly rehabilitated and/or constructed units. Although these units are in excellent condition, PHA has developed a timeline to proactively maintain their useful lives through preventive maintenance and modernization efforts.

Standard & Poor's finds this approach to modernization an effective way for the authority to approach its large and diverse portfolio—with a wide range in property condition. This plan should, however, continue to be monitored carefully as it relates to the reduction of unit turnaround. It is essential that the authority continue to use its scarce modernization funds wisely in order to maximize modernization efforts. Leveraging private resources, capital fund securitization, and other such efforts should continue to be part of the authority's plan to address its overwhelming modernization needs.

Portfolio Assessment

Standard & Poor's assigns an 'average' ranking to PHA's portfolio. This ranking reflects:

Strengths:

- New construction, mixed-financed, and HOPE VI properties;
- Overall rehabilitation of a portion of the older portfolio; and
- A fairly well maintained scattered-site portfolio.

Challenges:

- Poor condition and/or physical obsolescence of some older properties for which there is no immediate plan to revitalize due to funding availability;
- Neighborhoods in which the majority of the scattered-site units are located are in complete deterioration, which has a significant impact on the overall marketability of those sites; and
- Lack of consistent property management practices negatively affecting the curb appeal of some sites.

Standard & Poor's conducted an in-depth site assessment of the authority's portfolio by visiting all 44 public housing and non-subsidized developments, and a representative sample of the scattered sites. The portfolio is diversely located throughout the city, with developments in neighbor-

hoods ranging from the most deteriorated to historic districts.

Because the properties are of varying quality, Standard & Poor's applied a weighted average analysis to determine the overall portfolio's condition. The average ranking reflects the wide range of conditions of the properties. One key observation was the range of the overall maintenance of the properties. Some properties, while in good overall condition, were not maintained as well as others—affecting the marketability and curb appeal for that property. PHA must ensure that property condition policies are consistently applied

Table 3

Conventional Sites Visited by S&P	
Property	Units
Abbottsford Homes	700
Arch Homes	77
Bartram	500
Bently Hall	100
Emlen Arms	158
Germantown House	219
Gladys B. Jackobs	80
Haddington	148
Harrison	300
Haverford	24
Hill Creek	335
Home Crest	84
Johnson Homes	535
Katie B. Jackson	59
Liddonfield	450
Mantua	153
Martin Luther King	UC
Mill Creek	0
Norman Blumberg	508
Norris	324
Oxford Village	200
Pascall Apartments	223
Point Breeze	72
Queen Lane	120
Raymond Rosen	300
Richard Allen	150
Schylkill Falls	UC
Spring Garden	203
Tasker	UC
West Park	325
Wilson Park	152

to preserve the long-term condition of the property and to maintain an overall appealing curb appeal authority wide.

Standard & Poor's found that the properties fall within four major categories:

- One, the scattered-sites portfolio;
- Two, new construction properties;
- Three, major rehabilitation units; and
- Four, obsolete sites and properties in poor condition.

Scattered Sites. The scattered-site portfolio consists primarily of single-family row homes located throughout the city. Many of the residents have lived in the units in upwards of 20 years. With as many as six bedrooms, these properties range in quality from poor to strong. PHA began to address the condition of these units through its SMART rehabilitation program to alleviate hazardous and habitability conditions in some of the units. The authority continues to upgrade a number of these units as turnover occurs. In addition, many residents make improvements to their units, with the authority's permission, that enhance the value of the property.

The single factor most impacting the scattered sites, however, is the severity of the distressed environments in which many scattered-site units are located, and the significant impact on the overall marketability of these properties. The level of blight is such that, despite PHA's best efforts to maintain the property, some scattered-site units have outlived their usefulness merely due to their location. This is a significant challenge to the authority because it does not have management or development authority over these surroundings. The authority should continue its work with the city's NTI program to identify these highly impacted areas, relocate residents to more desirable communities, and make these units available to the city to permit the city to assemble contiguous lots for redevelopment.

Nonetheless, the authority's aggressive exterior maintenance program, SPARKLE, has been successful in upgrading the exterior of the buildings and maintaining good overall curb appeal. This effort, coupled with the resident's efforts to make im-

provements on their units, have often made some of the scattered sites the best-maintained property in the area.

New Development. The newer units in the mixed-finance and HOPE VI portfolio, such as the Raymond Rosen development, are in excellent condition and provide a welcome revitalization of the areas in which they are located. These properties, which include the single-family homeownership featured at Richard Allen, town house rentals and multi-family senior dwellings (Gladys B. Jacobs), have been designed to blend with the overall area and provide a sense of community where large traditional public housing developments formerly stood. Amenities and services proposed include on-site health facilities, full service community centers, and retail strip malls.

Rehabilitated Properties. There are also a number of older developments that have extended their useful lives due to moderate and substantial rehabilitation in recent years, including Emlen Arms, Norman Blumberg, and Abbottsford. These properties have or are being modernized to provide a good quality housing that is sorely

needed. However, it is essential that PHA aggressively continue its upkeep of these units through capital improvement projects, and to ensure that proactive property management practices are consistently applied, so that they can remain a useful and marketable part of the authority's portfolio.

Site Obsolescence and/or Properties in Poor Condition. Finally, a portion of PHA's portfolio is in either poor condition or in a distressed state. This includes the vacated Mill Creek development, which is slated for demolition under the authority's most recent HOPE VI grant award, and the Tasker development, which will undergo substantial redesign and rehabilitation funding under a Capital Fund Securitization bond issue. Standard & Poor's believes that the authority should continue its creative funding approach through bond financing, tax credit investment, HOPE VI grant awards, and other financial leveraging opportunities to either demolish or significantly improve the condition of the properties over time.



Some of PHA's units are located in very stable neighborhoods of Philadelphia.

Financial Management

Standard & Poor's assigns a 'strong' ranking to PHA's financial management. This ranking reflects:

Strengths:

- High level of financial sophistication and innovation,
- Unit-based accounting and budgeting,
- Long-term financial planning,
- Positive net income and sufficient reserves, and
- Extensive information system.

Challenges:

- High reliance on HUD revenues, particularly in public housing rent subsidies.

The Finance Department consists of approximately 33 staff working in six areas: budget, general ledger, accounts payable, accounts receivable, treasury, and fixed assets. PHA's financial management benefits from thorough planning and budgeting, and implementation enhanced through an extensive financial reporting system.

The budget cycle is most advanced for public housing. Each site receives training on budget preparation in the fall. The Finance Department provides sites with two to three years of historical information. Draft budgets are complete by January or February. The budget request is always higher than available revenues, so cut back adjustments are made by March.

Other programs have a more streamlined process. The section 8 budget is divided between the "Moving to Work" and non-"Moving to Work" programs. For "Moving to Work," PHA receives block grants and an inflation factor. Multiplying the two together yields the MTW section 8 allocation. Non-MTW is based on unit leasing schedules. Social services are budgeted based on the grants received. PHA works closely with affiliates for non-public housing units. Much of the detail regarding expenditures and revenues depends on contract. Generally, the authority revisits budgets and projections on an annual basis.

The authority prepares a HUD-mandated five-year agency plan, but does longer-term planning at its own initiative. The authority has a 20-year capital needs projection and has detailed 10- and 20-year operational plans for its new develop-

ments. This level of financial projection is important for an authority of PHA's size, with its diversity of units, and its increasing portfolio of market-based units, which should increase revenues, but add uncertainty to its income.

In addition to strategic financial planning, PHA monitors its budget very effectively on a daily basis. The reporting level goes down to the individual unit so that the authority can budget and allocate costs per unit. The technological infrastructure, which is discussed later, enables data to be accessed on a real-time basis from remote sites.

The authority's revenue stream is almost entirely from federal subsidies, with rent subsidies covering an average of 90% of operating expenses over the last five years in the public housing program, which includes some market rate units. Rental income covers only about 13% of operating expenses. This is a high percentage from rental subsidies for public housing, which is probably higher since the public housing program also includes expenses for non-public housing units.

Despite the reliance on federal subsidies, PHA has shown positive net income over the last five years. Adjusting for a one-time influx of revenue from the sale of homes in 1999, and for depreciation in 2000 and 2001, net income has averaged \$22 million over the last five years. At the same time, reserves have remained relatively high. Reserves have been at least \$3,000 per unit over the last three years, with a high of \$4,200 in 1999. These reserves have generally covered half of all operating expenses, enabling the authority to operate for six months with no additional income.

Another positive development for PHA is its innovative financing strategies, primarily the securitization of HUD capital grants to support the issuance of \$150 million in revenue bonds. The funds will go toward the rehabilitation, renovation, or construction of more than 1,000 units. PHA is only the second housing authority in the country to pursue this type of financing.

Technology. PHA has the most sophisticated information technology systems of any authority that Standard & Poor's has evaluated. The technological sophistica-



PHA has the difficult task of managing severely deteriorated scattered sites units.

tion is part of the authority's strategic operational goals. A staff of 24 plans and maintains a technological infrastructure that includes 2,000 personal computers and web applications. The authority uses PeopleSoft as its main application, handling human resources and payroll, tenant accounting for section 8, general ledger, purchase orders, accounts receivable, work orders, inventory, grants, and projects. Emphasis Computer Systems manages housing eligibility. Lotus Notes is used for email, section 8 management, vacancy tracking, and tracking progress on the strategic plan. The authority is planning to provide web access to all applica-

tions so that employees can work on applications from non-PHA locations.

Virtually every aspect of PHA operations runs through the information system. Unit inspections are done on handheld devices and then loaded into the system. Inventory is tracked by location in various warehouses and expensed to units when deployed. Strategic planning and employee performance is tracked through the system. Units are managed for vacancy and turn-around through the computer. In large part, the information system permits the authority to achieve a high level of performance in many key areas: strategic planning, project management, daily financial operations, and long-term financial planning.

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