



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of:
Public Housing Agencies
Public Housing Hub Office Directors
Public Housing Program Center Directors
Regional Directors
Field Office Directors
Resident Management Corporations

Notice PIH 2005-34 (HA)

Issued: November 2, 2005

Expires: November 30, 2006

Cross Reference:

SUBJECT: Information Regarding Implementation of the Final Rule to the Public Housing Operating Fund Program, 24 CFR Part 990

1. Purpose

This notice provides public housing agencies (PHAs) and field offices with initial implementation guidance regarding the Public Housing Operating Fund Program final rule, published in the Federal Register on September 19, 2005 (79 FR 54983) and the Revisions to the Public Housing Operating Fund Program; Correction to Formula Implementation Date notice (Correction Notice) published in the Federal Register on October 24, 2005 (70 FR 61366).

This notice is for informational purposes only. It informs PHAs of various upcoming notices and other activities tied to the implementation of the final rule. No action is required on the part of PHAs at this time.

2. Implementation of New Operating Fund Formula

In accordance with the Correction Notice, the Department will implement the new operating fund formula for the Federal Fiscal Year (FFY) 2007 appropriations, i.e., calendar year 2007. Therefore, operating subsidy for calendar year 2006 will be calculated under the interim (current) operating fund formula (see item #3, below).

The Department will provide formal training on the calculation of 2007 subsidy under the final rule in the summer of 2006. PHAs will be contacted by their field offices for training dates and locations.

3. Calculation of 2006 Operating Subsidy under the Interim Formula

In accordance with Notice PIH 2005-31, Federal Fiscal Year (FFY) 2006 Initial Determination and Obligation of Operating Subsidy, PHAs will receive operating subsidy for the first six months of 2006 based on what they received in 2005. PHAs will be required to submit their 2006 subsidy forms under the interim (current) formula by December 31, 2005. A subsequent

PIH notice will be issued in the near future that will contain the detailed processing instructions. PHAs should not start to prepare their 2006 subsidy forms until this notice is issued. Once PHAs submit their 2006 subsidy forms, HUD will determine the amount of operating subsidy that should be obligated for the calendar year beginning January 1, 2006, through December 31, 2006. HUD will then deduct the amount of operating subsidy that has already been obligated to PHAs for the first six months to determine the additional amount of operating subsidy that must be obligated for the remainder of the 2006 calendar year.

4. Listing of Development Characteristics and Project Expense Levels (PELs)

In the near future, the Department will send each PHA (via e-mail) an electronic spreadsheet that contains: (1) a listing of each public housing development and its associated characteristics as shown in the Public and Indian Housing Information Center (PIC); (2) the formula coefficients for each development; and (3) the calendar year 2005 PEL for each project.

PHAs should review this spreadsheet for any discrepancies in reported characteristics. In most cases, PHAs should be able to make any necessary changes in project characteristics in PIC. When there are discrepancies that PHAs cannot resolve themselves, PHAs should contact their PIC coach. Detailed instructions will be provided with the spreadsheet.

Please note that these PELs are for the new formula, which will not be implemented until 2007. These figures are to assist with planning efforts. **PHAs will not use these PELs for 2006 operating subsidy calculations.**

5. Project Identifications (Property Groupings)

Section 990.265 of the final rule provides that, for asset management purposes, PHAs may identify projects as presently identified under the ACC or in a reasonable grouping of projects or portions of projects under the ACC. The Department will issue a notice in the near future with guidance on making project identifications, along with associated processing instructions. In that notice, PHAs will be advised that they have until March 31, 2006, to submit their new project identifications. The new project identifications are critical for the FFY 2007 subsidy processing.

PHAs will, with justification, have an opportunity to change their project groupings, once identified. PHAs will be able to make these changes not more frequently than once each year.

6. Frozen Rental Income

Under § 990.195(c) of the final rule, for the purposes of calculating operating subsidy, PHAs will have their rental income frozen at FFY 2004 levels. Section 990.170(e) of the final rule provides that increases/decreases in utility allowances shall result in a commensurate increase/decrease in operating subsidy. For example, a PHA had a frozen rental income of \$100 per unit month (PUM). However, the average utility allowance has increased \$10 PUM over the 2004 level. In effect, the frozen rental income will be decreased by the \$10 PUM increase in the average utility allowance.

FFY 2004 rental income figures are available to the Department from each PHA’s year-end Financial Data Schedule (FDS) that was submitted to the Real Estate Assessment Center under the Public Housing Assessment System (PHAS). If a PHA was exempt from reporting or did not report financial data through PHAS, alternate methodologies, such as rent rolls or hard-copy audited financial statements, will be used to establish the PHA’s formula income.

The Department does not, however, maintain data on changes in utility allowances. As a consequence, PHAs are reminded that they will need to track these changes in utility allowances in order to properly determine operating subsidy in FFYs 2007 – 2009.

For FFYs 2008 and 2009 funding, when the Department moves to a property-level funding system, project-level rental income figures from FFY 2004 will be required. Consequently, the Department is asking PHAs to keep in mind that when they submit their project-level subsidy forms in the fall of 2007 for FFY 2008 funding, they will be required to report the frozen rental income for each project, along with any corresponding changes in project-specific utility allowances. (Note: Pursuant to section 990.325 of the final rule, PHAs are required to maintain the supporting back-up data.) The project information should reconcile with information the PHA submitted through PHAS at an agency level.

The Department will further address the issues of frozen rental income and changes in utility allowances in the 2007 operating subsidy processing notice.

7. PEL Appeals

Under subpart G of the final rule, PHAs have five grounds for appeals. The Department will publish a notice on appeals this fall. PHAs that are considering appealing a PEL should wait until publication of that upcoming notice for appropriate guidance.

8. Discontinuation of Subsidy Reduction as a Result of Conversion to Asset Management

Under subpart F of the final rule, PHAs can have their subsidy reduction discontinued upon demonstration of successful conversion to asset management (commonly referred to as “stop loss”). The Department will issue a notice later this year regarding how PHAs can apply to have their subsidy reductions discontinued as a result of such conversion. In accordance with the Correction Notice, the dates for stop loss are as follows:

Funding Period	Demonstration Date By	Reduction Limited To
Prior to year 1	October 1, 2006	5 percent of the difference between the two funding levels.
Year 1	October 1, 2007	24 percent of the difference.
Year 2	October 1, 2008	43 percent of the difference.
Year 3	October 1, 2009	62 percent of the difference.
Year 4	October 1, 2010	81 percent of the difference.
Year 5	October 1, 2011	Full reduction reached.

9. Transition Funding

Under subpart F of the final rule, PHAs that experience a gain in subsidy under the new operating fund formula will have that increase phased in over two years. PHAs that experience a decrease in subsidy will have that decrease phased in over five years. The amount of the increase or decrease in operating subsidy is the PHA's transition funding amount. Accordingly, PHAs that gain under the new formula will receive 50 percent of the difference in the two funding levels in 2007 and 100 percent in 2008. Conversely, PHAs that experience a decrease in operating subsidy under the new formula will be decreased by 24 percent of the difference between the two funding levels in 2007; 43 percent in 2008; 62 percent in 2009; 81 percent in 2010; and the full amount of the reduction in 2011. Later this fall, the Department will release each PHA's calculation of transition funding.

10. Project-based Budgeting and Accounting

PHAs required to comply with asset management must prepare project-based budgets prior to the start of their initial compliance years (for internal use only and not to be submitted to HUD) and must, at the conclusion of their initial compliance year, prepare project-level financial statements (which will be submitted to HUD as part of their FDS).

To provide PHAs adequate time to prepare for the new project-based budgeting and accounting requirements pursuant to subpart H of the final rule, PHAs must be in compliance with project-based budgeting and accounting in accordance with the following schedule:

- For PHAs with fiscal years beginning July 1, the initial compliance year is the PHA fiscal year July 1, 2007 – June 30, 2008.
- For October 1 PHAs, the initial compliance year is the PHA fiscal year October 1, 2007 – September 30, 2008.
- For January 1 PHAs, the initial compliance year is the PHA fiscal year January 1, 2008 – December 31, 2008.
- For April 1 PHAs, the initial compliance year is the PHA fiscal year April 1, 2008 – March 31, 2009.

The above schedule only applies to PHAs with 250 or more units or to PHAs with less than 250 units that elect to convert to asset management.

Later this year, the Department will issue a notice providing guidance on project-based budgeting and accounting. Included in the guidance will be information regarding changes needed to the FDS and the adoption of a "fee-for-service" approach for the treatment of overhead costs and other centrally-provided property management services.

The Department will provide training to all PHAs in project-based budgeting and accounting in early 2006. Also in early 2006, HUD will provide asset management training to all PHAs

required to convert (250 or more units) and all PHAs that have elected to convert (less than 250 units) to asset management. Training dates and locations will be announced at a later time.

11. Other

Asset management reflects a significant change in direction and methods employed by many PHAs and by HUD. The regulatory changes made by the final rule are a significant initial step in the direction of asset management. As such, in addition to the items listed in this notice, other conforming changes will be implemented over the next several years. These changes may include revisions to PHAS to support a new focus on “projects,” as well as changes in various administrative or procedural requirements to facilitate a shift to asset management.

/s/

Paula O. Blunt, General Deputy Assistant Secretary
for Public and Indian Housing