



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

Special Attention of:	Notice	PIH 2005- 27 (HA)
Public Housing Agencies	Issued:	July 12, 2005
Public Housing Hub Office Directors	Expires:	July 31, 2006
Public Housing Program Center Directors		
Regional Directors		
Field Office Directors		
Resident Management Corporations	Cross Reference:	

SUBJECT: Transition of Operating Subsidy Funding to a Calendar Year Basis and Associated Modifications to the Federal Fiscal Year 2005 Calculation of Operating Subsidy

1. Purpose

This notice provides public housing agencies (PHAs) and field offices with guidance necessary to understand the calculation of Federal Fiscal Year (FFY) 2005 operating subsidy in accordance with the Consolidated Appropriations Act of 2005 (Public Law 108-447).

2. Background

The Consolidated Appropriations Act of 2005 directed HUD to convert from funding operating subsidy based on PHA fiscal year to funding based on the calendar year. This change will allow HUD to predict more accurately initial subsidy proration (when necessary). It will also provide all PHAs with an equal amount of time to submit revision requests.

3. Public Housing Operating Fund Appropriation Language

Included below is the full text of the language from the Consolidated Appropriations Act of 2005 relating to this change to a calendar year funding basis:

“...Provided further, That any such 2005 payment shall be provided in an amount sufficient to cover only the period beginning with the start of a public housing agency’s fiscal year and ending December 31, 2005: Provided further, That for fiscal year 2006 and all fiscal years thereafter, the Secretary shall provide assistance under this heading to public housing agencies on a calendar year basis: Provided further, That in fiscal year 2005 and fiscal years hereafter, no amounts under this heading in an appropriations Act may be used for payments to public housing agencies for the costs of operation and management of public housing for any year prior to the current year of such Act.”

4. Funding Cycle

In the past, PHAs received 12 months of operating subsidy funding based on their fiscal year beginning. For example, the FFY 2004 Appropriations Act funded PHAs with the fiscal years January 1, 2004, to December 31, 2004; April 1, 2004, to March 31, 2005; July 1, 2004, to June 30, 2005; and October 1, 2004, to September 30, 2005.

As per the Consolidated Appropriations Act of 2005, FFY 2005 is a transition funding year for the Public Housing Operating Fund Program. HUD will fund PHAs with fiscal years that begin in 2005 only for the number of months within that PHA’s fiscal year that are in calendar year 2005. Accordingly, with FFY 2005 appropriations, PHAs with fiscal years beginning January 1, 2005, will receive twelve months of funding; PHAs with fiscal years beginning April 1, 2005, will receive nine months of funding; PHAs with fiscal years beginning July 1, 2005, will receive six months of funding; and PHAs with fiscal years beginning October 1, 2005, will receive three months of funding. The following chart shows the number of months funded for each PHA from the FFY 2005 appropriations.

PHA Fiscal Year	FFY 2005 Appropriations	
	Time Period Funded	Months Funded
01/01-12/31	01/01/05-12/31/05	12 months
04/01-03/31	04/01/05-12/31/05	9 months
07/01-06/30	07/01/05-12/31/05	6 month
10/01-09/30	10/01/05-12/31/05	3 months

Beginning with the FFY 2006 appropriations, all PHAs will receive 12 months of funding for calendar year 2006, regardless of their fiscal year beginning and ending dates. The FFY 2006 appropriations will fund all PHAs for the period beginning January 1, 2006, and ending December 31, 2006.

This transition of operating subsidy funding to a calendar year basis is shown in the Funding Cycle Table, below.

Funding Cycle Table

PHA Fiscal Year	2004				2005				2006			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
PHA: 01/01-12/31	2004 Appropriations				2005 Appropriations				2006 Appropriations			
PHA: 04/01-03/31		2004 Appropriations			2005 Appropriations				2006 Appropriations			
PHA: 07/01-06/30			2004 Appropriations		2005 Appro...			2006 Appropriations				
PHA: 10/01-09/30				2004 Appropriations		2005...			2006 Appropriations			

(Qtr 1 is January 1st – March 31st; Qtr 2 is April 1st – June 30th; Qtr 3 is July 1st – September 30th; and Qtr 4 is October 1st – December 31st)

As an example, consider the Anytown PHA whose fiscal year begins July 1st and ends June 30th:

- **FFY 2004.** Under fiscal year funding, the Anytown PHA began receiving operating subsidy from the FFY 2004 appropriations on July 1, 2004 (Qtr 3 in 2004). The Anytown PHA received 12 months of operating subsidy from the FFY 2004 appropriations through June 30, 2005 (Qtr 2 in 2005).
- **FFY 2005.** During the transition year, the Anytown PHA began receiving operating subsidy from the FFY 2005 appropriations on July 1, 2005 (Qtr 3 in 2005). The Anytown PHA will receive six months of operating subsidy from the FFY 2005 appropriations through December 31, 2005 (Qtr 4 in 2005). The remainder of the PHA's fiscal year operating subsidy will be provided under the FFY 2006 appropriations.
- **FFY 2006.** Under calendar year funding, the Anytown PHA will begin receiving operating subsidy from the FFY 2006 appropriations on January 1, 2006 (Qtr 1 in 2006). The Anytown PHA will receive 12 months of operating subsidy from the FFY 2006 appropriations through December 31, 2006 (Qtr 4 in 2006). Essentially, the first six months of subsidy will be provided for the last six months of the PHA's fiscal year beginning July 1, 2005, and the remaining six months of subsidy will be provided for the first six months of the PHA's fiscal year beginning July 1, 2006.

5. Explanation of Modifications HUD Headquarters (HQ) Will Make to the Calculation of Operating Subsidy (form HUD-52723) Due to the Calendar Year Shift

For FFY 2005, PHAs and field offices continued to follow PIH Notice 2004-14, *Guidance on Methods and Schedules for Calculating Federal Fiscal Year 2005 Operating Subsidy Eligibility*, and the instructions on HUD's operating subsidy forms. Forms were prepared for the PHA's entire fiscal year without regard to the calendar year shift. **HQ will make all modifications to the Calculation of Operating Subsidy, form HUD-52723, that are necessary to comply with the FFY 2005 appropriations.**

Individual line items that HQ will modify include the following:

- **Line A02 –Age Factor; line A07 – Inflation Factor; and line B09 – Rental Income Adjustment Factor.** These factors are based on the assumption that a PHA will receive 12 months of funding. To move to calendar year funding during FFY 2005, HQ will recalculate these three factors by using an adjustment factor based on the PHA's fiscal year. The adjustment factor is calculated by dividing the number of months a PHA is to be funded from the FFY 2005 appropriation by 12. This approach is similar to the procedure HUD uses for PHAs that change their fiscal year ends.

PHA Fiscal Year Beginning	Adjustment Factor for the Age, Inflation, and Rental Income Adjustment Factors
January 1, 2005	1.00
April 1, 2005	.75
July 1, 2005	.50
October 1, 2005	.25

- **Line A02 – Age Factor.** The age factor of .005 is given on the form HUD-52723 and will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, HUD would apply an adjustment factor of .50 to the age factor, reducing the age factor from .005 to .0025 (.005 times .50).
- **Line A07 – Inflation Factor.** The inflation factor is given in Appendix 1 of PIH Notice 2004-14 and the numbers to the right of the decimal point will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, where the inflation factor is 1.022, HUD would apply an adjustment factor of .50 to the numbers to the right of the decimal point of the inflation factor, reducing the inflation factor from 1.022 to 1.011.
- **Line B09 – Rental Income Adjustment Factor.** The rental income adjustment factor of 1.03 is given on the form HUD-52723 and the numbers to the right of the decimal point will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, HUD would apply an adjustment factor of .50 to the numbers to the right of the decimal point of the rental income adjustment factor, reducing the rental income adjustment factor from 1.03 to 1.015.
- **Lines A12 and E2 – Audit Costs:** Because audit costs are a one time yearly expense for a PHA, no adjustment will be applied to this line item beyond the final proration factor in determining the operating subsidy for FFY 2005.
- **Line D14 – Other Approved Funding, Not Listed:** On a case-by-case basis, HQ will evaluate *Line D14 – Other Approved Funding, Not Listed*. Depending on what the amount reflected on line D14 represents, the amount may be adjusted by the number of months for which the PHA is to receive operating subsidy or the amount may only be adjusted by the final proration factor. Examples of amounts that will only be adjusted by the final proration factor include operating subsidy for new or deprogrammed units.

6. Reflection of Modifications on the Calculation of Operating Subsidy (form HUD-52723)

The modified eligibility for each PHA will be determined based on the individual line items that require special treatment described above and the number of months the PHA is to be funded in calendar year 2005. Proration will then be applied to each PHA's

modified eligibility to determine the final obligation. These changes will be reflected as follows:

- **Line F05 – Other (specify).** After HQ calculates a PHA’s modified eligibility as described above, the change will be reflected on *Line F05 - Other (specify)*. For example, in the case of the Anytown PHA, the PHA’s original eligibility before any adjustments is \$1,015,000, of which \$10,000 represents audit costs and new units.
 - After the modifications to the age factor, inflation factor, and rental income adjustment factor are applied to the Anytown PHA’s calculation, the eligibility is reduced to \$1,010,000.
 - The \$1,000,000 eligibility without audit costs or new units is multiplied by 6/12 (fraction representing the number of months in calendar year 2005 for which the PHA will be funded), resulting in a modified eligibility without audit costs or new units of \$500,000.
 - The \$10,000 in audit costs and new units is added back for a modified eligibility of \$510,000.
 - The difference between the original eligibility (\$1,015,000) and modified eligibility (\$510,000) of -\$505,000 will be reflected on Line F05.
- **Line F07 – Unfunded portion due to proration.** The FFY 2005 appropriation will be divided by the modified eligibility of all PHAs to determine the proration level. Then, this proration level will be applied to each PHA’s modified eligibility to determine the final obligation amount. As always, the difference between eligibility and the final obligation resulting from the proration level will be reflected on *Line F07 – Unfunded portion due to proration*. For example, in the case of the Anytown PHA:
 - Assuming a proration level of 89%, the modified eligibility of \$510,000 is multiplied by .89 for a final obligation of \$453,900.
 - The difference between the modified eligibility (\$510,000) and the final obligation (\$453,900) of -\$56,100 will be reflected on Line F07.

Each PHA will receive its final Calculation of Operating Subsidy, form HUD-52723, that will show the net change in Line F05 – Other (specify), and Line F07 – Unfunded portion due to proration. Each PHA will also receive a detailed calculation showing all of the modifications and the impact on the PHA’s eligibility.

7. Other Processing Notes

PHA-Owned Mutual Help and Turnkey III Homeownership Opportunity Projects:

PHAs with PHA-Owned Mutual Help and Turnkey III projects will have their final obligation amount based only on:

- The operating subsidy eligibility before adjustments on their submitted and approved FFY 2005 form HUD-53087, Calculation of Subsidies for Operations – Non-Rental Housing;
- The number of months to be funded in calendar year 2005; and
- The final proration level.

PHA Fiscal Years and Operating Budgets:

The change to a calendar year funding cycle does not affect a PHA's fiscal year. The funding cycle change does not change any fiscal year related reporting requirements, such as the operating budgets, financial statements, or the audit. At this time, HUD is not approving fiscal year end changes based solely on the change in the funding cycle.

FFY 2006 Calculation of Operating Subsidy:

The change to a calendar year funding cycle also will impact the FFY 2006 Calculation of Operating Subsidy. HUD is currently preparing a Notice to that effect.

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