

## Transition Funding – Questions and Answers

### General Information

1) What is transition funding?

Transition funding is a concept found in the final rule that assists public housing agencies (PHAs) to transition to their new operating subsidy funding levels. This concept takes into consideration the difference in a PHA's operating subsidy eligibility between the interim and final rule and accordingly increases or decreases a PHA's operating subsidy level over a certain number of years. For PHAs that will lose operating subsidy under the final rule, the reduction to the final rule amount will be phased-in over five years. For PHAs that gain funding under the final rule, the increase will be phased-in over in two years.

The amount of transition funding is based on the difference in subsidy levels between the interim and the final rule formula. The difference is calculated using FY 2004 data, will not be recalculated each year, and is stated as a per unit month (PUM) amount.

2) What is meant by the terms “Final rule” and “Interim rule”?

The final rule is the term used to describe the Public Housing Operating Fund Rule (24 CFR part 990) that was published in the Federal Register on Monday, September 19, 2005. This rule contains the new operating fund formula that will be used in calendar (CY) 2007 and is based on the results of Harvard Cost Study. This rule also contains the new requirements for asset management.

The interim rule is the term used to describe the Public Housing Operating Fund Rule (24 CFR part 990) that was published in the Federal Register on March 29, 2001. This rule contains the currently used operating fund formula by which a PHA's operating subsidy eligibility is calculated. This interim rule remains in effect through CY 2006.

3) Why was transition funding calculated using FY 2004 Data, when more recent data is available?

The final rule (§990.225) required HUD to calculate transition funding using fiscal year (FY) 2004 data. Generally, data from the FY 2004 form HUD 52723 – Calculation of Operating Subsidy and from approved Financial Data Schedules (FDS) for PHA fiscal year ends 03/31/2004, 06/30/2004, 09/30/2004, and 12/31/2004 submitted to the Department through the Financial Assessment Sub-system were used in the calculation.

4) Is Line 18 “Final Rule Formula Eligibility” in my transition report the amount of subsidy my PHA will receive in CY 2007?

No. The transition funding amount’s “Final Rule Formula Eligibility” on Line 18 is an estimate of your PHA’s subsidy eligibility for FY 2004 had the final rule been in effect. In addition to inflation, certain characteristics of your agency may change from 2004 to 2007 that may affect your CY 2007 subsidy eligibility. For example, the number of Eligible Unit Months may change or the amount of your Utility Expense Level.

- 5) How does the transition funding amount affect my operating subsidy and can you provide an example?

The PUM transition funding amount will be gradually added to or deducted from a PHA’s operating subsidy under the final rule. PHAs experiencing an operating subsidy increase or reduction will have their operating subsidy increase or reduction phased-in as shown in the tables below.

**Subsidy Increase**

Effective For	Increase Limited To
Calendar Year 2007	50% of the Transition Funding Amount (PUM).
Calendar Year 2008	100% of the Transition Funding Amount (PUM).

**Subsidy Reduction**

Effective For	Reduction Limited To
Calendar Year 2007	24% of the Transition Funding Amount (PUM).
Calendar Year 2008	43% of the Transition Funding Amount (PUM).
Calendar Year 2009	62% of the Transition Funding Amount (PUM).
Calendar Year 2010	81% of the Transition Funding Amount (PUM).
Calendar Year 2011	100% of the Transition Funding Amount (PUM).

Below are two examples that show the effect of transition funding on a PHA’s operating subsidy eligibility.

**Example 1: Operating Subsidy Increase.** A PHA’s operating subsidy level in FY 2004 under the interim rule was \$200,000. Its operating subsidy level in FY 2004, had the final rule been in place, would have been \$255,000. Eligible Unit Months (EUMs) in FY 2004 were 1,000. This PHA would have received \$55,000 more in FY 2004 under the final rule than it received under the interim rule – an increase in operating subsidy. Converted to a PUM amount, the difference in operating subsidy levels is \$55.00 PUM (the \$55,000 whole dollar difference divided by 1,000 EUMs). This increase of \$55.00 PUM will be phased-in over a two-year period.

Because the PHA will submit its operating subsidy calculation forms under the final rule, the forms will reflect the higher operating subsidy level (i.e. the full increase) under the final rule. However, because the PHA should only receive 50% of its increase in subsidy in CY 2007, the other 50% of the increase will need to be deducted from the higher operating subsidy level under the final rule. In CY 2007, assume EUMs are 1,100. Therefore, in CY 2007, HUD will multiply 50 percent of the PUM difference between the two operating subsidy levels (\$27.50 PUM) by calendar year 2007 EUMs (1,100) and then will deduct this amount (\$30,250) from the PHA’s CY 2007 operating subsidy eligibility calculation. In CY

2008, no transition amount will be deducted from the PHA’s operating subsidy eligibility calculation because the full increase will be phased-in.

**Example 2: Operating Subsidy Reduction.** A PHA’s operating subsidy level in FY 2004 under the interim rule was \$255,000. Its operating subsidy level in FY 2004, had the final rule been in place, would have been \$200,000. EUMs in FY 2004 were 1,000. This PHA would have received \$55,000 less in FY 2004 under the final rule than it received under the interim rule – a reduction in operating subsidy. Converted to a PUM amount, the difference in operating subsidy levels is \$55.00 PUM (the \$55,000 whole dollar difference divided by 1,000 EUMs). This reduction of \$55.00 PUM will be phased in over a five-year period.

Because the PHA will submit its operating subsidy calculation forms under the final rule, the forms will reflect the lower operating subsidy level (i.e. the full decrease) under the final rule. However, because the PHA should only be reduced by 24% of its decrease in subsidy in CY 2007, the other 76% of the decrease will need to be added to the lower operating subsidy level under the final rule. In CY 2007, assume EUMs are 1,100. Therefore, in CY 2007, HUD will multiply 76 percent of the PUM difference in the two funding levels (\$41.80 PUM) by CY 2007 EUMs (1,100) and then will add this amount (\$45,980) to the PHA’s CY 2007 operating subsidy eligibility under the final rule (reducing the PHA’s operating subsidy eligibility by only 24 percent, or \$13.20 PUM). For this PHA, the PUM amounts shown in the table below will be multiplied by EUMs for that year, and this amount will be added each year to the operating subsidy calculation during the five-year phase-in of the reduction in subsidy.

**Example of Five-Year Transition Funding**

Transition Funding Amount	2007 Transition Funding Amount (76% of the difference)	2008 Transition Funding Amount (57% of the difference)	2009 Transition Funding Amount (38% of the difference)	2010 Transition Funding Amount (19% of the difference)	2011 Transition Funding Amount (phased-out)
\$55.00 PUM	\$41.80 PUM	\$31.35 PUM	\$20.90 PUM	\$10.45 PUM	\$0 PUM

**Units & Eligible Unit Months**

- 1) Why are the units used in the calculation of transition funding different from my actual ACC units and the latest WAPEL report?

For the calculation of transition funding, the Department used HA Units as reported on the FY 2004 form HUD 52723 – Calculation of Operating Subsidy as a proxy for ACC units. The WAPEL report used the latest information contained in PIC. These two items may differ from a PHA’s own ACC count for a variety of reasons. For the transition funding calculation, HUD will continue to use the units reported on the form HUD-52723. However, in general, the Department is in the process of reconciling reported information in its various databases and will issue to PHAs clarifying guidance on reporting units in PIC.

- 2) How were units off-line for self-sufficiency, anti-crime, and other special unit status categories handled in the transition funding calculation? How will this affect my future operating subsidy calculations?

The transition funding calculation amount used only unit months available (UMAs) and HA Unit data as reported on the FY 2004 form HUD 52723 – Calculation of Operating Subsidy. Add-on eligibility for these units (ones off-line for self-sufficiency, anti-crime, and other special categories) is reported in Part D of the form and therefore these units are not included in the UMA number. Depending on how an individual PHA reports its HA Unit data, these units may or may not be included. If anything, the transition funding calculation might slightly overstate the “loss” due to the treatment of these units, but in most cases we anticipate the impact to be minimal.

For the determination of actual operating subsidy eligibility in CY 2007 and beyond, such units are considered a “dwelling unit with an approved vacancy” and are therefore eligible to receive operating subsidy.

- 3) In FY 2005 our PHA began demolishing units and will replace these units with new units. How are these changes in our inventory reflected in the transition funding calculation and future operating subsidy calculations?

The transition funding amount is a per unit month (PUM) amount that is established based on FY 2004 data and will not be changed. However, because the transition funding amount is a PUM amount and will be multiplied by EUMs each year (e.g. in CY 2007, the PUM transition funding amount will be multiplied by 2007 EUMs) to determine the whole dollar transition amount that will be reflected on the subsidy form, changes in unit inventory are taken into account.

However, besides the transition funding amount, a PHA’s actual operating subsidy calculation will reflect increases and decreases of unit inventory. §990.155 of the final rule specifically address the addition and deletion of units, including generating a change to operating subsidy eligibility due to a change in unit inventory.

### **Project Expense Level**

- 1) Why wasn’t the latest weighted average project expense level (WAPEL) report used in the transition funding calculation?

The project expense levels (PELs) shown on the February 2006 WAPEL report were stated in terms of FY 2005. As required by the final rule, the PEL for the transition funding calculation must be in terms of FY 2004. The Department deflated the FY 2005 PELs by one year to arrive at the PEL used in calculating the transition funding amount.

- 2) What was the deflation rate used to adjust the WAPEL from FY 2005 to FY 2004?

The deflation rate comes directly from Line A7 – Inflation factor from the FY 2005 form HUD 52723 - Calculation of Operating Subsidy, prior to the any change due to the calendar year shift modification. For example, assume your PHA's 2005 WAPEL report shows an agency wide PEL of \$231.73 and Line A7 from the FY 2005 form HUD 52723 is 1.027. The PEL used in the transition funding calculation is \$225.64, which was calculated by dividing \$231.73 by 1.027.

- 3) What will be the project expense level used in CY 2007?

The Department will re-run final WAPEL numbers this summer. The Department may adjust some of the methodology used in calculating PELs and will refresh the PIC information used in the calculation. The PELs in the WAPEL report will again be in FY 2005 dollars. The PEL used for the CY 2007 calculation of operating subsidy will be the PEL shown in this WAPEL report and inflated two more years (CY 2006 and CY 2007).

#### **Add-ons:**

##### Self Sufficiency

- 1) In FY 2004, our self sufficiency number does not represent a full year of cost, as this was a transition year of the Elderly Disabled Service Coordinator (EDSC) Program funding from the ROSS grant to be funded from the Operating Fund. How does this affect our transition funding calculation?

In FY 2004 the Department no longer funded the Family Self-sufficiency program and began funding the EDSC program. The Department acknowledges that FY 2004 was a funding transition year. Some PHAs did not receive the equivalent of 12 months worth of funding for the EDSC program, since the remaining funding in the PHA's open EDSC grant provided the necessary funds to cover the cost associated with the FY 2004 time period. However, because the transition funding calculation attempts to estimate the difference in funding between the two formulas, the fact that a PHA may have received less funding in FY 2004 for the EDSC program due to the change in funding source for this program does not affect the transition funding amount. The funding for EDSC, whatever that amount is, is the same under both the FY 2004 interim formula and the final formula transition funding calculation and therefore does not affect the transition funding amount.

In CY 2007, the first year under the final rule, the PHA will report and be eligible to receive the full amount of the EDSC program.

##### Energy Loan Add-on

- 2) Our PHA failed to report our Energy Loan Add-on on the FY 2004 form HUD 52723 - Calculation of Operating Subsidy. How does this affect our transition funding calculation?

This would have no affect on a PHA's transition funding amount. The methodology used to calculate the transition funding amount for this item merely takes the associated line item

(D04 Energy Add-on for Loan Amortization) from the FY 2004 Calculation of Operating Subsidy. Since the same number is in the interim formula, the difference between the two rules is not affected and, therefore, there is no effect on the transition funding amount.

However, in CY 2007 the first year under the final rule, the PHA would report and be eligible to receive the full amount for this add-on.

#### Payment in Lieu of Taxes (PILOT)

- 3) Why wasn't the actual PILOT payment used from the FASS-PH financial submission?

The final rule states that a PHA will receive an amount for PILOT in accordance with section 6(d) of the 1937 Act, based on its cooperative agreement, or its latest actual PILOT payment. In essence, the PHA will be eligible for a PILOT add-on at the greater of these amounts. Section 6(d) of the 1937 Act prescribes the formula for PILOT and therefore also sets the maximum PILOT payment of a PHA. In the transition funding calculation, the Department therefore modeled the formula set in section 6(d) of the 1937 Act, providing the maximum PILOT add-on based on FY 2004 FASS-PH submission data.

- 4) The PILOT payment calculation is not the same that is used to calculate our actual PILOT payment to our local government. Is HUD planning on reissuing new transition funding amounts to account for revised PILOT calculations?

The Department understands that the transition funding calculation for PILOT may differ slightly from actual PILOT payments due to certain information being combined on the FASS-PH submission (FDS line items). While the Department is not planning on reissuing new transition funding amounts, it will research the impact of adding detail accounts to the FASS-PH accounts to refine the calculation of maximum PILOT and take into account the actual PILOT payment for the year in the actual implementation of the formula.

#### Cost of Audit

- 5) How was the cost of audit calculated? It does not agree with our records.

Cost of Audit – PUM was taken directly from Line A12 (Actual PUM cost of independent audit) from the FY 2004 form HUD 52723 - Calculation of Operating Subsidy. Since Line A12 is reported as a PUM amount, this amount was multiplied by EUMs (or FY 2004 UMAs) to compute the Cost of Audit – whole dollars.

#### **Formula Income**

- 1) Why was the Formula Income amount based on the FY 2004 form HUD-52723 - Calculation of Operating Subsidy? Doesn't Subpart B of the rule require use of FASS-PH data for this calculation?

Subpart D of the final rule – “Calculating Formula Income” requires the use of audited information supplied by the PHA (the Department will extract FY 2004 FASS-PH data) as

the basis for frozen formula income when calculating actual operating subsidy. However, in the calculation of transition funding, the rule allows the Department more flexibility in the choices of data sources. For reasons explained in the response to the question that immediately follows, the rent information from the FY 2004 form HUD 52723 - Calculation of Operating Subsidy was more appropriate for use in this calculation.

- 2) Why was Line B05 (Average Monthly Dwelling Rent Charged per Unit for Budget Year 2 Years Ago) used instead of Line B03 (Average Monthly Dwelling Rental Charge per Unit for Current Budget Year) from the FY 2004 form HUD 52723 - Calculation of Operating Subsidy?

The final rule formula incorporates the concept of frozen formula income in the calculation of operating subsidy. Under this concept, FY 2004 formula income (average rental income calculated from FASS-PH data) is reported in the CY 2007 through CY 2009 formula and therefore any increase in rent does not reduce operating subsidy as it does in the interim formula. Over the course of time average rents increase; therefore, to model the effect of this frozen income provision (and to model the true impact of the rule on a PHA's subsidy eligibility), the Department used the oldest rent information available on the FY 2004 form HUD 52723 - Calculation of Operating Subsidy – Line B05.

- 3) Can you review how the formula income was calculated in the transition funding calculation, especially explaining why the rental revenue was not divided by eligible unit months?

Formula income was taken directly from Line B05 (Average monthly dwelling rent charged per unit for budget year 2 years ago) from the FY 2004 form HUD 52723 - Calculation of Operating Subsidy. This line item equals the average monthly rent for units under lease. Since Line B05 is reported as a PUM amount, this amount was multiplied by EUMs to compute the calculation of formula income – whole dollars.

Rental revenue was not divided by eligible unit months as this could only have lowered the average rent calculation, thereby estimating a lower formula income and over-estimating final rule eligibility. The methodology used in this transition funding calculation closely models the actual calculation of formula income to be used in the final rule's calculation of operating subsidy formula. The final rule will use rents charged for a year and the associated number of unit months leased. Unlike the interim rule, the final rule does not fund the lost rental income from allowable vacancies.

- 4) Isn't it possible that the frozen rental income figure used to calculate CY 2007 operating subsidy will be greater than what my PHA actually will collect in rent in CY 2007, thereby negatively affecting subsidy levels?

As described earlier, frozen rental income for CY 2007 subsidy calculations will be based on rental income reported through FASS-PH in 2004, divided by unit months leased and multiplied by eligible unit months. Actual rental income for some PHAs in CY 2007 could be lower, particularly if the PHA has substantial allowable vacancies (because the frozen income is multiplied by eligible unit months, which includes not only occupied units but also

allowable vacancies, the final rule does not pay the lost rental income on these allowable vacancies).

5) Can a PHA appeal its frozen rental income figure?

The final rule allows a PHA to appeal its formula income for economic hardship. The Department will be issuing guidance on the procedures for appeals this summer. A PHA should wait for and then follow this guidance.

**Formula Eligibility**

1) Why does the transition funding amount not take into consideration the FY 2004 appropriation level (i.e. proration amount)?

One of the main purposes of the transition amount was to quantify in dollars the change in subsidy levels between the two formulas for a PHA. In order to make a proper comparison between the two rules' formulas, eligibility or 100% proration was used under both formulas. The use of the FY 2004 appropriation level as the baseline would distort the transition funding amount, since in FY 2004 the Department requested and Congress appropriated funding based on the interim rule budget model and not a final rule budget model.

**Multiple Operating Fund Project Numbers (PPNs)**

1) Our PHA has multiple PAS Project Numbers (PPNs) and, therefore, receives its operating subsidy through the submission of multiple form HUD 52723 - Calculation of Operating Subsidy forms. How was this data combined into an overall agency wide transition funding calculation?

For those items that are reported on the form HUD 52723 in whole dollars (e.g. add-ons) or in whole numbers (e.g. Unit Months Available), this information was simply summed into an overall agency wide total. For those items that are reported on the form HUD 52723 in a per unit month (PUM) amount, those PUM were combined using a weighted average based on UMAs of the respective PPN.

The table below shows an example of the various line items from a form HUD 52723 for a PHA that requests operating subsidy through multiple forms (PPNs).

PHA Code	PHA Name	PPN	UMA	Utility Expense Level	Resident Participation	Eligibility
				A11	D13	E03
XX001	Anywhere HA	XX00100105J	25,284	\$124.57	\$49,375	\$7,439,754
XX001	Anywhere HA	XX00130105J	300	\$98.27	\$575	\$51,425
XX001	Anywhere HA	XX00140105J	480	\$101.69	\$1,000	\$105,261

<b>XX001</b>	<b>Anywhere HA</b>	<b>Combined Agency Wide</b>	<b>26,064</b>	<b>\$123.85</b>	<b>\$50,950</b>	<b>\$7,596,440</b>
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Line items UMA, D13 - Resident Participation, and E03 – Eligibility are simply added as they are reported in whole numbers / dollars. However since A11- Utility Expense level is reported as a PUM amount, a weighted average approach was used. The table below shows the calculation for the combined agency wide A11.

PPN	UMA	Utility Expense Level	Utility Expense Level Multiplied by UMA
		A11	UMA * A11
XX00100105J	25,284	\$124.57	\$3,149,628
XX00130105J	300	\$98.27	\$29,481
XX00140105J	480	\$101.69	\$48,811
Total	26,064		\$3,227,920
Calculation			\$3,227,920/ 26,064
<b>Combined Agency Wide – A11</b>			<b>\$123.85</b>

### **Errors in the 2004 Calculation of Operating Subsidy**

- 1) The FY 2004 form HUD 52723 - Calculation of Operating Subsidy contains errors that affect our PHA’s transition funding amount. Can we submit corrections to this form and have our transition funding amount recalculated?

The Department will issue guidance this summer if it will allow PHAs to submit corrections and, if so, any minimum thresholds or limitations in the type of the corrections to be processed.

### **Miscellaneous Issues**

- 1) Due to our PHA’s “unique reporting requirements,” all of the data elements were not available to the Department to create a transition funding amount for our PHA based on the general methodology used for other PHAs. How did the Department create our agency’s transition funding amount?

There is a small group of PHAs, which, for a variety of reasons, do not have an approved 2004 FASS-PH submission or a FY 2004 form HUD 52723 - Calculation of Operating Subsidy. For these PHAs, the Department used alternate data and means to estimate eligibility under both the final and interim rule. Where the Department used an alternate methodology, the PHA was notified through e-mail how their particular transition funding amount was calculated.

- 2) Our PHA does not usually apply for or is not usually eligible to receive operating subsidy. Will we receive a transition amount?

For those few PHAs that do not usually apply for or are not usually eligible for operating subsidy, the Department will not issue a transition funding amount. However, the Department will issue your agency a WAPEL report in the near future. Your agency is still an active PHA and is eligible to request operating subsidy; however, your subsidy eligibility will not include a transition funding amount.