

## **Guidance on Calculating Formula Income CY 2021 Operating Fund Grant**

This CY 2021 Formula Income Inflation Factor Guidance document explains how the data is derived, describes the calculations that are performed, communicates the CY 2021 inflation rates. For CY 2021, Formula Income will be determined based on audited FY 2019 Fiscal Year End (FYE) financial statements approved in the Financial Assessment Subsystem (FASS). If an approved FY 2019 audited financial statement is unavailable, the approved FY 2019 unaudited financial statement provided by PHAs through HUD's information systems will be used to determine Formula Income. Because data sources for Mixed-Finance projects varies from what is described above, the methodology for determining Formula Income for mixed-finance properties is explained later in this guidance.

HUD will pre-populate the form HUD-52723 using rental income data from the Financial Data Schedule (FDS) Net Tenant Rental Revenue, Line Item 70300. The per unit month (PUM) Formula Income amount is calculated by dividing the Net Tenant Rental Revenue by Unit Months Leased (UMLs). Since PHAs have differing fiscal year ends (FYE), the PUM Formula Income amount is inflated to the current year using a proportionate number of months and an annual rental income inflation factor of -5% for CY 2020 and -5% for CY 2021. The inflation factors of -5% and -5% are derived based on an assessment of Total Tenant Payment (TTP) data, reported by PHAs in the form HUD-50058. Unlike previous years, because of the impact of COVID 19 and as described further below, HUD determined not to use a five-year average of TTP data. Five-year averages are used to smooth the data, moderating the impact of spikes in any given year. Because of the significant impact of the pandemic, which is expected to continue into 2021, HUD determined that utilization of a smoothing methodology was not appropriate, as that would mask the severe and immediate impact of the pandemic. The resulting PUM Formula Income is pre-populated in the form HUD-52723, Section 3, Part B, Line 01.

## Application of Rental Income Inflation Factor to the PUM Formula Income and Fiscal Year End

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Fiscal Year End	2019 PUM Rent	# of Months to Mid-2020	Annual 2020 Inflation	Total 2020 Inflation (Col C x Col B/ 12)	2021 Inflation Rate	Total Inflation Rate for 2021 (Col D + Col E)	Inflation Factor for Calculation (1 + Col F)	Sample 2021 Inflated PUM Rent (Col A x Col G)
3/31/2019	\$281.69	15	-5.00%	-6.25%	-5.00%	-11.25%	0.8875	\$250
6/30/2019	\$277.77	12	-5.00%	-5.00%	-5.00%	-10.00%	0.9000	\$250
9/30/2019	\$273.97	9	-5.00%	-3.75%	-5.00%	-8.75%	0.9125	\$250
12/31/2019	\$270.27	6	-5.00%	-2.50%	-5.00%	-7.50%	0.9250	\$250

The form HUD-52723, Part B, Line 04 is auto-calculated [line 04 = (Part B, Line 03) x (Section 2, Column B, Line 15, Total Unit Months)] to produce the Total Formula Income.

PHAs may only substitute the pre-populated PUM Formula Income amount with a more recently submitted FY 2019 FDS audited statement. PHAs that change the prepopulated data based on more recent FDS data must certify to the Field Office that the data is derived from its more recently available approved audited FY 2019 FDS submission.

Where HUD has not pre-populated the form HUD-52723 with a PUM Formula Income because the FY 2019 FDS financial statement was unavailable at the time that HUD pre-populated the form HUD-52723, the PHA will populate the form HUD-52723 using its PUM Formula Income amount from their highest and best approved FY 2019 financial statement. If the audited FY 2019 FDS financial statement has not been approved, the PHA may substitute a PUM Formula Income based on its approved unaudited FY 2019 FDS financial statement. If an approved version of a FY 2019 FDS financial statement is not available, a version that has not been approved may be used. The FY 2019 FDS financial statement income must be inflated as shown in the Table above (herein on Page 2).

Where FDS data is not available for “Mixed-Finance projects” Formula Income will not be prepopulated and PHAs must use owner entity financial statements and rent rolls to calculate formula income. Where the owner entity financial statement reflects rental income from occupancy other than public housing families, a PHA must submit a worksheet showing the PUM Formula Income that is attributable to public housing occupancy. PHAs must submit owner-entity audited financial statements and rent rolls to the Field Office for Mixed-Finance projects where the FDS does not include a Formula Income figure. Note that if the Mixed-Finance project’s FY 2019 financial statement has a different FYE than that of the PHA, the PUM Formula Income MUST be inflated based on the FYE of the Mixed-Finance project.

### **Primarily New Projects**

If a PHA's project FDS financial statement data is inadequate or unavailable in HUD's information systems, HUD may determine a PUM Formula Income using data from **prior year audited or unaudited submitted financial statements, financial statements from** similar projects, or an alternative methodology including certifications or hard copy reports and communications with PHAs in accordance with 24 CFR 990.195(d), *Calculation of Formula Income when data are inadequate or unavailable*.

### **Projects with Energy Performance Contracts that have a Resident Paid Utility Incentive**

PHAs that have an approved Energy Performance Contract (EPC) with Resident-Paid Utilities (RPU) benefit will calculate Formula Income as stated above and, pursuant to the EPC approval, may enter an amount on the form HUD-52723, Section 3, Part B, Line 2 to adjust the utility allowance, which is part of the Formula Income. Guidance on how to calculate the RPU benefit is located on the CY 2021 Grant Fund Processing webpage. (Click on the web link below.)

[https://www.hud.gov/program\\_offices/public\\_indian\\_housing/programs/ph/am/of/opfnd2021](https://www.hud.gov/program_offices/public_indian_housing/programs/ph/am/of/opfnd2021)

### **Other Items for Consideration**

Non-Asset management PHAs that report a single project in their FDS submission, but have multiple projects in PIC, will have a tool deployed for each project, but Formula Income pre-populated only for the project reported in the FDS. PHAs will need to allocated Formula Income from the project for which it was pre-populated, to the projects which did not have Formula Income pre-populated. In this case, PHAs must include a comment on their form HUD-52723 submission. The Field Office may require supporting documentation to validate that such allocations were made correctly.

### **Family Self Sufficiency (FSS)**

For Operating Fund Grant eligibility purposes, rental income excludes the amount of the rent charge that is credited to the FSS escrow account. If the formula income pre-populated by HUD includes the FSS escrow portion, PHAs can change the pre-populated formula income to exclude the escrow portion. In this case, PHAs must include a comment on their form HUD-52723 submission. The Field Office may require supporting documentation to validate that such allocations were made correctly.

# How to Calculate the 2021 Formula Income Inflation Factor

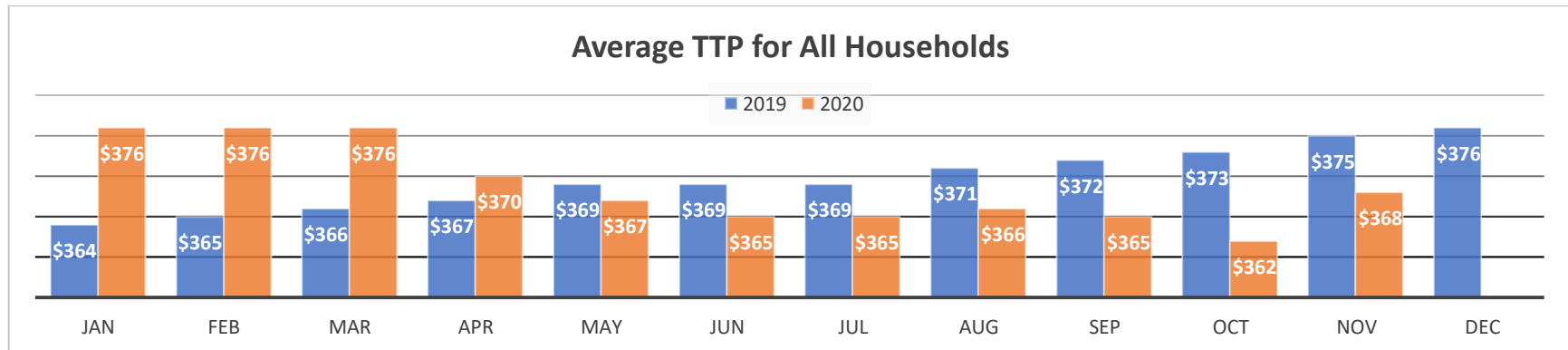
## 2021 Formula Income Inflation Factor Methodology

	A	B	C	D	E	F	G	H
Fiscal Year End	2019 PUM Rent	# of Months to Mid-2020	Annual 2020 Inflation	Total 2020 Inflation (Col C x Col B/ 12)	2021 Inflation Rate	Total Inflation Rate for 2021 (Col D + Col E)	Inflation Factor for Calculation (1 + Col F)	Sample 2021 Inflated PUM Rent (Col A x Col G)
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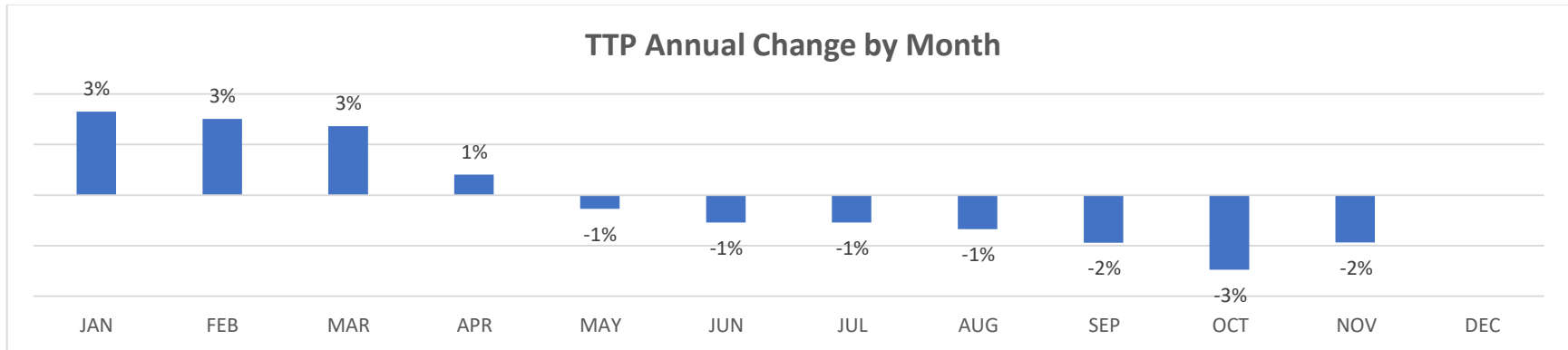
### Step One: Analyze Year-over-Year TTP

#### Average TTP

The Office of Public Housing Program’s Financial Management Division (FMD) along with the help of the Office of Policy Development and Research (PD&R) created a methodology to reflect the economic repercussions of the COVID 19 pandemic. Rather than using a five-year average growth rates of average Total Tenant Payments (TTP), HUD estimated a decline over the course of the pandemic. FMD compared year over year TTP by month over the course of the pandemic. At the time of publication of this document we had compiled both monthly average TTP data from January 2019 through November 2020.

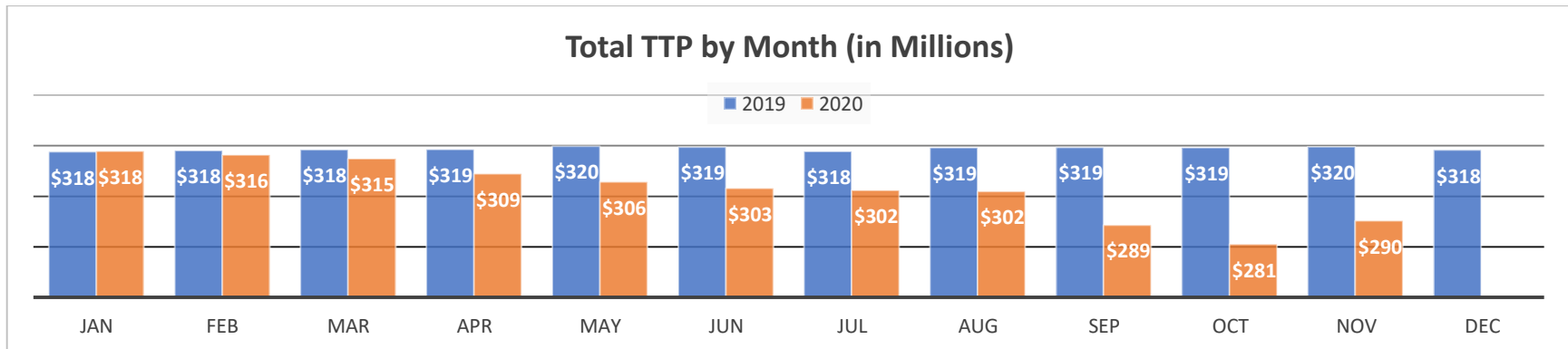


FMD calculated the year over year difference for every month. The first three months of 2020 saw a steady 3% increase over those same months in 2019. The economic affects of the pandemic begin to be felt in April, with slower growth, and then dips to negative growth by May of 2020, hitting the nadir within our time frame at over -3% in October 2020.

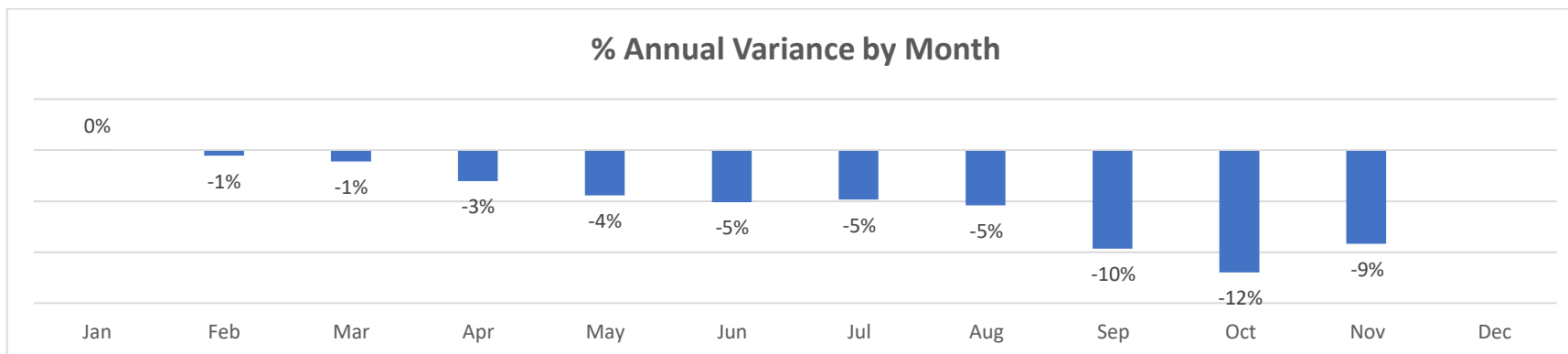


### Total TTP by Month

In addition to average TTP, FMD looked at estimated total TTP the year over year growth/decline by month. This shows the combined effect of lower rent and lower occupancy.



Again, FMD calculated the year over year difference for every month for the total TTP. Unlike 3% increase in each of the first three months, when looking at average TTP first three months of 2020, total TTP reveals that the TTP starts flat, and begins a continued decline, hitting a nadir of -12% in October 2020.



Due to the unprecedented circumstances, FMD will depart from its normal historic trend methodology, and will limit our 2021 TTP growth levels to what PHAs have experienced over the course of this pandemic.

**Note:** Tenant Rents are based on living data collected on the form HUD-50058, stored in IMS/PIC, and calculated by HUD's Office of Policy Development and Research (PD&R). *To ensure the most accurate estimates, FMD uses the most up to date data available, which can cause small fluctuations in Average Tenant Rent levels as our data matures.*

## Step Two: Annualize Inflation Rates per PHA's Financial Calendar

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**Annualized Inflation Rates** = [2020 Inflation Factor] X [number of months between the end of the 2019 Fiscal Year, and 6/30/2020]  
Divided by 12

Fiscal Year End	# of Months to Mid-2020	Annual 2020 Inflation	Total 2020 Inflation
3/31/2019	15	-5.00%	-6.25%
6/30/2019	12	-5.00%	-5.00%
9/30/2019	9	-5.00%	-3.75%
12/31/2019	6	-5.00%	-2.50%

## Step Three: Apply 2021 Inflation Factors

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Add the Total 2020 Inflation (Annualized) to the Annual 2021 Inflation

Total Inflation Rate for 2021 = [Total 2020 Inflation (Annualized)] + [Annual 2021 Inflation]

Fiscal Year End	Total Annual 2020 Inflation	2021 Inflation Rate	Total Inflation Rate for 2021
3/31/2019	-6.25%	-5.00%	-11.25%
6/30/2019	-5.00%	-5.00%	-10.00%
9/30/2019	-3.75%	-5.00%	-8.75%
12/31/2019	-2.50%	-5.00%	-7.50%

## Step Four: Inflate 2019 Rent by both 2020 and 2021 Inflation Rates

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**Sample 2019 Inflated PUM Rent** = [2019 PUM Rent] X [Inflation Factor for Calculation]

2019 PUM Rent will be prepopulated in the 2019 form HUD-52723 for each project that reports revenue data in FDS. Instructions for those projects that do not report such data can be found earlier in this document.

Fiscal Year End	2019 PUM Rent	Total Inflation Rate for 2021	Inflation Factor for Calculation	Sample 2021 Inflated PUM Rent
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## Additional Background and Resources

### Picture of Subsidized Housing

The Picture of Subsidized Housing can be used by the public to test the mean TTP figures used to derive the Formula Income Inflation Factor. <https://www.huduser.gov/portal/datasets/assthsg.html>.

### Total Tenant Payment (TTP)

This tenant rent data is reported by PHAs on form HUD50058.

**Average Monthly Tenant Rent** represents the sum of monthly TTP during a reporting period (7/1 – 6/30) divided by the total number households divided by twelve. A household is defined as an occupied public housing unit.