CY 2012 Guidance on Funding of New Projects/Units

Purpose

This document provides instructions to public housing agencies (PHAs) on the treatment of new projects/units for purposes of operating subsidies under the Operating Fund Program at 24 CFR 990.

Please note that projects/units only can be added to the program in accordance with 24 CFR 941, Public Housing Development.

Background

Generally, a project's operating subsidy eligibility for an upcoming calendar year (also called the "funding period") is based on the status of units during the period July 1 – June 30 immediately preceding the funding period (called the "reporting period"). For the Calendar Year (CY) 2012 funding period, the reporting period is July 1, 2010 – June 30, 2011. Because new projects/units are not in the reporting period, special operating subsidy processing procedures have been established for the funding of new projects/units when they initially come on-line, i.e., are added to the Annual Contributions Contract (ACC) and are occupied.

Operating Subsidy Processing

The following are the three processing categories for new projects/units:

1. **Units that come on line between January 1 and revisions deadline**. [1]PHAs will prepare a subsidy revision request prior to the revisions deadline. Once the revision is approved and processed, the subsidy for the new units will be retroactive to the month of initial occupancy.

2. **New units that come on line between the revisions deadline and September 30. There is not** sufficient time for HUD to review and process subsidy revisions for projects/units that come on-line between the revisions deadline and September 30. [2]Hence, these units cannot be funded for that specific time period; however, a PHA can begin to receive operating subsidy for these projects/units for the period beginning October 1. PHAs should include these new projects/units with their subsidy request for the upcoming funding period. For example, assume that a PHA had a new project that comes on line August 15, 2010 (after the subsidy revision deadline for CY 2010). The PHA would not be eligible for operating subsidy for the months of August and September of 2010; however, in preparing its subsidy request for CY 2011 (HUD-52723, Section 2, Line 4), it would include these new projects/units for the period beginning October 1, 2010.

[1]In order to obligate subsidies by September 30th of each year, HUD typically establishes a deadline of mid-July for PHAs to submit operating fund revisions.

[2]Under appropriations law, HUD must obligate all operating subsidies by September 30th of each year. The revisions deadline is generally established based on the last date that HUD can reasonably process revisions within this deadline.

3. **New units that come on line between October 1 and December 31**. When units come on line before the PHA submits its subsidy request for the upcoming funding period, the PHA will include these units on its initial subsidy request (HUD-52723, Section 2, Line 04). If the units come on line after the PHA submits its initial subsidy request, the units should be included in a subsidy revision request, similar to Number 1, above. The PHA then would be funded for the occupied unit months for October – December of the previous funding year.

Frequently Asked Questions

When does HUD process subsidy revision requests?

Currently, subsidy revisions are reviewed by HUD Field Offices following submission by PHAs and processed by HUD Headquarters during August in order to meet Departmental final funding obligation deadlines. (HUD is exploring the feasibility of periodic processing of revisions and associated funding obligations.)

When does a unit become eligible for operating subsidy?

In accordance with 24 CFR 990.120 (b) and 24 CFR 990.140, a PHA is eligible to receive operating subsidy for a unit once it is both placed under the ACC and occupied by a public housing-eligible family under lease. The eligibility date does not change the Date of Full Availability (DOFA) or the date of the End of Initial Operating Period (EIOP), nor does this provision place a project into management status.

Although the DOFA does not designate the date of eligibility of a project or units, it is a key data element in determining the Project Expense Level (PEL) and timing of initial funding. Based on the date in the PIH Information Center (IMS-PIC), DOFA sets the age coefficient for the PEL and places the project under management status. (See Federal Register Notice FR-5016-N_02, "Public Housing Operating Fund Variables Coefficients for Public Housing Operating Fund Project Expense Levels.")

How should PHAs handle the "lag" in payment for projects/units that come on-line after the initial subsidy submission?

PHAs and developers should plan to establish and use an initial operating deficit reserve for the addition of new projects/units. PHAs/developers should carefully consider phasing based on the scale of the development, operating deficit reserve needs and operating subsidy needs.

Where is guidance regarding the identification of projects?

Notice PIH 2006-10 provides instructions and guidance for "Identification of Projects for Asset Management." For subsequent changes in project groupings, see Notice PIH 2007- 28 "Changes in the Project Numbering System and Process for Requesting Changes in Project Identifications."

Are mixed-finance projects separate project numbers?

Yes, each mixed finance project must have a unique project number.

Are PHAs funded for units based on occupancy at the beginning or end of the month?

PHAs choose whether to count units occupied as of either the beginning or end of month, provided the selection is consistent method for all units. Thus, for a PHA that uses the end-of-month method, a unit that came on line October 15 and is still occupied at the end of the month would be treated as occupied for the full month for subsidy purposes. (Occupied units must have a "Family Report" HUD-50058 submitted in IMS-PIC.)

Is the disbursement of operating funds to mixed-finance developers tied to HUD's disbursement to a PHA?

Payment by the PHA to the developer is independent of HUD's processing of operating subsidies. Payment procedures are set in the Regulatory and Operating (R&O) agreement between the PHA and developer.

What determines the PEL for new projects and how long does it take to calculate?

Before a PEL can be calculated, the project characteristics must be entered into IMS-PIC and reviewed and approved by the appropriate HUD Field Office. Key IMS-PIC data and project characteristics include:

- Project Number (full 11 digits)
- HA Physical Address (usually the address of the project's management office)
- Mixed Finance (Y/N)
- Building numbers, type, and addresses
- Units and bedroom sizes
- Units ACC status (Y/N)
- Actual Date of Full Availability (DOFA)

Once this has been completed, the Field Office will submit the following information to the Public Housing Financial Management Division (FMD) and request that a PEL be determined:

- ACC number
- Project number
- Actual DOFA date
- Geo-coding data
- Mixed Finance designation/R&O Agreement date or Date Mixed-Finance Proposal was submitted to HUD
- Assigned Field Office

The FMD will provide the new PEL and electronic HUD-52723 to the Field Office, who will in turn provide them to the PHA. After the project has been loaded in IMS-PIC by the PHA and received approval by the Field Office, the PHA should expect to receive the new PEL within 30-45 days.

To estimate a PEL for budgeting purposes, use the PEL Calculator available at the FMD Asset Management website.

For new projects, what should a PHA use as "formula income"?

For projects entering service after FY 2004, the PHA should use rental income that is the most "representative" for the new project. Representative rental information is considered to be rental income for a one to three month lease up period that reflects the area's normal vacancy rate. If this information is not available, comparable data for another new development may be used if one exists. Once a representative base is established, HUD may adjust the frozen formula income to reflect actual rental income. This adjustment would not be retroactive but, instead, be carried forward to future subsidy calculations.

For new projects, what should a PHA use as the Utility Expense Level (UEL)?

For new projects, consumption and rate data from a comparable property will be used as the initial basis for determining the UEL. Estimate a full 12 months of consumption on line 14 of the HUD-52722. For rates, use the actual rate from a comparable property on the form and include a comment that the rates from the similar property are being used for the first year.

For a new project that will be funded for less than 12 months, in order to receive the correct amount of utility subsidy and for proper calculation of the UEL, Line 25, Eligible Unit Months, *must be annualized on the HUD-52722 since Line 14 annualizes the consumption for the projects*. Accordingly, Line 25 must include the number of additional units for the new project times 12 instead of a partial year (e.g. instead of times 3).

If the new project is not part of an existing AMP, use "flat rates" during the first year to calculate the UEL; otherwise, the applicable rate will calculate as "0". For Line 16, Actual Utility Costs, enter an estimate and submit full documentation of the determination of the estimate to the Field Office.

After the first year, follow the regular HUD-52722 instructions for new units.

For new projects, what should a PHA use as the PILOT add-on?

The PILOT add-on is based on the following line items from the Low Rent Public Housing column of the project's most recent approved audited FASS-PH Financial Data Schedule (FDS) submission:

- 703 Net Tenant Rental Revenue
- 931 Water
- 932 Electricity
- 933 Gas
- 934 Fuel
- 936 Sewer
- 938 Other Utilities

The add-on is calculated by subtracting the sum of lines 931 through 934, 936 and 938 from line 703 and multiplying the result by 10%. The calculated amount is posted to the Asset Management website prior to the beginning date of submissions for the upcoming funding year. To determine a project-level PILOT amount, PHAs must reasonably allocate these amounts to each project. The sum of the allocations should not exceed the FDS PILOT for the PHA. A higher amount for new projects may be requested based on proof of payment. Amounts based on estimated PILOT costs cannot be used.

For new projects, what should a PHA use as the audit cost add-on?

The audit cost add-on is based on the PHA's most recent approved audited FASS-PH FDS submission (FDS Line 912), Low-Rent Public Housing column, which is posted to the Asset Management website prior to the beginning date of submissions for the upcoming funding year. To determine a project-level audit cost amount, PHAs must reasonably allocate these amounts to each project. The sum of the allocations should not exceed the FDS audit cost. A higher amount for new projects may be requested based on proof of payment. Amounts based on estimated audit costs cannot be used.