

# Guidance on Calculating Formula Income

## CY 2023 Operating Subsidy Grant

To provide Public Housing Agencies (PHAs) with additional transparency on how inflation factors are derived, HUD expanded the level of detail provided in its annual inflation factor guidance. This CY 2023 Formula Income Inflation Factor Guidance document explains how the data is derived, describes the calculations that are performed, communicates the CY 2023 inflation rates, and provides additional access to data which the industry can use to analyze the resulting inflation factors more deeply.

For CY 2023, Formula Income will be determined based on audited FY 2021 Fiscal Year End (FYE) financial statements approved in the Financial Assessment Subsystem (FASS). If an approved FY 2021 audited financial statement is unavailable, the approved FY 2021 unaudited financial statement provided by PHAs through HUD's information systems will be used to determine Formula Income. Data sources for Mixed-Finance projects may vary therefore, the methodology for determining Formula Income for mixed-finance properties is explained later in this guidance.

HUD will pre-populate the 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 Formula Income PUM amount is inflated to the current year using a proportionate number of months and an annual rental income growth rate of 2.30% for CY 2022 and 1.69% for CY 2023. The inflation factors of 2.30% and 1.69% are derived from Total Tenant Payment (TTP) data, reported by PHAs in the HUD-50058. The calculation of inflated Formula Income (including the starting PUM Formula Income amount and Formula Income Inflation Factor) is published in the pre-pop data file posted on the CY 2023 Operating Subsidy Processing web page. The resulting inflated PUM Formula Income is pre-populated in the 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	2021 PUM Rent	# of Months to Mid-2022	Annual 2022 Inflation	Total 2022 Inflation (Col C x Col B/12)	2023 Inflation Rate	Total Inflation Rate for 2023 (Col D + Col E)	Inflation Factor for Calculation (1 + Col F)	Sample 2023 Inflated PUM Rent (Col A x Col G)
3/31/2021	\$239.08	15	2.30%	2.88%	1.69%	4.57%	1.0457	\$250
6/30/2021	\$240.42	12	2.30%	2.30%	1.69%	3.99%	1.0399	\$250
9/30/2021	\$241.74	9	2.30%	1.73%	1.69%	3.42%	1.0342	\$250
12/31/2021	\$243.10	6	2.30%	1.15%	1.69%	2.84%	1.0284	\$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 2021 **FDS audited statement**. PHAs that edit the PUM Formula Income must certify to the Field Office that the data is derived from its more recently available audited FY 2021 FDS submission.

Where HUD has not pre-populated the form HUD-52723 with a PUM Formula Income because **the FY 2021 FDS financial statement is 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 submitted FY 2021 financial statement. If the FY 2021 audited financial statement has not been **submitted**, the PHA may substitute a PUM Formula Income based on its submitted unaudited FY 2021 FDS financial statement. If an approved version of a FY 2021 financial statement is not available, a version that has not been approved may be used. The FY 2021 financial statement income must be inflated as shown in the Table above (herein on Page 2).

For “Mixed-Finance projects” where the project 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 and a rent roll based on a financial statement. PHAs that submit a PUM Formula Income based on the project’s status as a mixed-finance project must notify HUD, via the comment section of the form HUD-52723, that the data is based on its FY 2021 audited or unaudited FDS submission; or, if not

available, then the project owner's single asset audited financial statement. 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 2021 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 financial statement data is inadequate or unavailable in HUD's information systems, HUD may determine a Formula Income PUM 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 may receive an adjustment to the portion of Formula Income attributable to utility allowances on the HUD-52723, Section 3, Part B, Line 2. Guidance on how to calculate the RPU benefit is located on the CY 2023 Grant Fund Processing webpage. (Click on the weblink below.)

[https://www.hud.gov/program\\_offices/public\\_indian\\_housing/programs/ph/am/of/opfnd202](https://www.hud.gov/program_offices/public_indian_housing/programs/ph/am/of/opfnd202)

### **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 Subsidy 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 HUD-52723 submission. The Field Office may require supporting documentation to validate that such allocations were made correctly.

# How to Calculate the 2023 Formula Income Inflation Factor

## 2023 Formula Income Inflation Factor Methodology

	A	B	C	D	E	F	G	H
Fiscal Year End	2021 PUM Rent	# of Months to Mid-2022	Annual 2022 Inflation	Total 2022 Inflation (Col C x Col B/12)	2023 Inflation Rate	Total Inflation Rate for 2023 (Col D + Col E)	Inflation Factor for Calculation (1 + Col F)	Sample 2023 Inflated PUM Rent (Col A x Col G)
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### Step One: Calculate 2022 and 2023 Inflation Rates

Using the Average Tenant Rent, calculate the 5-Year Average Growth rates.

Tenant Rent is the Total Tenant Payment (TTP) from the data reported by PHAs in the HUD-50058. Where tenants pay for utilities directly, the TTP is net of a utility allowance. Average Tenant Rent is an average of each tenant's TTP in a given project.

Reporting Year	Average Tenant Rent	Growth Rate
2016	\$275	
2017	\$281	2.18%
2018	\$284	1.07%
2019	\$294	3.52%
2020	\$296	0.68%
2021	\$308	4.05%
<b>2022 Inflation (5-yr. Avg. Growth) 2.30%</b>		

Reporting Year	Average Tenant Rent	Growth Rate
2017	\$281	
2018	\$284	1.07%
2019	\$294	3.52%
2020	\$296	0.68%
2021	\$308	4.05%
2022	\$309	0.32%
<b>*2023 Inflation (3-yr. Avg. Growth) 1.69%</b>		

\*Transitioned from 5-yr to 3-yr Avg. Growth Rate

**Note:** Tenant Rents are based on living data collected on the 50058, stored in 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**

**Annualized Inflation Rates** = [2022 Inflation Factor] X [number of months between the end of the 2021 Fiscal Year, and 6/30/2022]

Fiscal Year End	# of Months to Mid-2022	Annual 2022 Inflation	Total 2022 Inflation
3/31/2021	15	2.30%	2.88%
6/30/2021	12	2.30%	2.30%
9/30/2021	9	2.30%	1.73%
12/31/2021	6	2.30%	1.15%

### **Step Three: Apply 2022 Inflation Factors**

Add the Total 2022 Inflation (Annualized) to the Annual 2023 Inflation

**Total Inflation Rate for 2023** = [Total 2022 Inflation (Annualized)] + [Annual 2023 Inflation]

Fiscal Year End	Total 2022 Inflation	2023 Inflation Rate	Total Inflation Rate for 2023
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6/30/2021	2.30%	1.69%	3.99%
9/30/2021	1.73%	1.69%	3.42%
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## **Step Four: Inflate 2021 Rent by both 2022 and 2023 Inflation Rates**

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**Sample 2023 Inflated PUM Rent** = [2021 PUM Rent] X [Inflation Factor for Calculation]

2021 PUM Rent will be prepopulated in the 2021 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	2021 PUM Rent	Total Inflation Rate for 2023	Inflation Factor for Calculation	Sample 2023 Inflated PUM Rent
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## **Additional Background and Resources**

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### **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 HUD Form 50058.

**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.