



U.S. Department of Housing and Urban  
Development

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**Notice PIH 96-57 (HUD)**

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**Special Attention:**  
**Secretary's Representatives; State and  
Area Coordinators; Public Housing  
Office Directors; Native American  
Programs Office Administrators; Public  
Housing Agencies; Indian Housing  
Agencies**

**Issued: 7/31/96**  
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**Cross References:**

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**Subject: Guidelines and Procedures for Approving Housing Agency (HA) Request for  
Higher Administrative Fees**

- I. **PURPOSE**. This Notice updates Notice PIH 95-3, which extended Notice 93-63, and provides updated guidelines and procedures for State/area offices to follow when approving and/or disapproving a housing agency's (HA) request for an increase in administrative fees. Please note that the requests for increased administrative fees may only apply to increases in the administrative fee percentage **as opposed** to increases in the two-bedroom Fair Market Rent (FMR).
- II. **GENERAL GUIDELINES**.
- A. An increase in administrative fees may only be approved to cover higher administrative costs incurred by the HA as a result of administering a small program or administering a program over a large geographic area. The Department defines a small program as one where the total certificates, vouchers, and moderate rehabilitation units under ACC are less than 200 in the current HA fiscal year; and a large geographic area as an area covering multiple counties which are predominantly non-metro. When an HA's jurisdiction covers multiple counties, HA staff must generally travel long distances to do routine business (e.g. HQS inspections, rent reasonableness).

- B. The maximum administrative fee that the State/area office may approve for both the certificate and voucher programs is the higher of the monthly fees which are listed under Column A or Column C from the January 24, 1995 Federal Register. If the State/area office determines that the monthly per unit fee from Column A or Column C is not an adequate increase, the State/area office may submit to Headquarters written justification for a higher fee for the HA.
- C. Any increase in administrative fees will only be good for one HA fiscal year and is not retroactive to a prior fiscal year, or to the beginning of the HA's current fiscal year. The higher fee may only be approved prospectively for a future fiscal year.
- D. An HA cannot qualify for the higher administrative fee if the HA projects that the Administrative Fee Reserve (formerly operating reserve) balance at the end of the current budget year will exceed 20 percent of the projected administrative expenditures for the next HA fiscal year (year in which the higher fee is requested). In accordance with Handbook 7420.7, Chapter 8, HAs are required to pay any excess administrative expenses from the Administrative Fee Reserve.
- E. If an HA's lease-up rate is below 95 percent, the HA must submit a statement which explains the reason it cannot achieve a 95 percent lease-up rate. If the reason is due to the HA's compliance with Section 403(c) of the January 26, 1996 Continuing Resolution which required HAs to delay reissuance of all turnover certificates and vouchers resulting from termination of assistance to a participating family for the lesser of three months or until October 1, 1996, the HA then must include in its statement the number of turnover units.

New funding increments are excluded from the calculation of the lease-up rate.

- F. An HA can qualify for a higher administrative fee if: 1) the HA's projected Administrative Fee Reserve balance at the end of the current budget year will equal 20 percent or less of the program projected administrative expenditures for the next HA fiscal

year; and 2) the projected administrative fees to be earned in the next HA fiscal year will not cover projected administrative expenditures.

III. **HA PROCEDURES**. The HA must submit a request in writing to the HUD State/area office for an increase in administrative fees. This request must explain why the current earned administrative fees for the program are insufficient to cover the program operating expenses.

The HA request should include:

- A. The HA's subsequent year budget, Form HUD-52672 and HUD-52673 and a certification that the HA's projected Administrative Fee Reserve balance at the end of the current budget year will be 20 percent or less of the projected administrative expenses for the subsequent budget year. The certification should specify the amount of the projected Administrative Fee Reserve balance and include a statement that funds in the Administrative Fee Reserve will not be used for any housing purposes other than the administration of the certificate and voucher programs.
- B. The HA must explain all withdrawals shown on line 78 in the Administrative Fee Reserve (formerly called Operating Reserve) section (Part IV) of the most recent Form HUD-52681, and subsequent withdrawals in the current budget year. In addition, the HA must certify that all funds withdrawn from the Administrative Fee Reserve were used for Section 8 housing related purposes. If the HA fails to do this, the State/area office shall reject the HA request for a higher administrative fee.
- C. The HA must document and justify all administrative expense items found on the most recent Form HUD-52681. This requirement may be met by the submission of relevant invoices, payroll runs, and travel expense schedules that tie back to the Form HUD-52681.
- D. The HA must prepare an analysis of its ACC Program Reserve Account to determine whether or not the reserves are sufficient to cover the higher fees. Amendment funding will not be provided to cover the higher fees; thus, the ACC Program Reserve Account must be sufficient to meet the HA's needs over the

remaining term of the ACC. It is critical that the HA be aware of the financial repercussions of an administrative fee increase prior to its implementation. If the ACC Program Reserve Account is insufficient, the higher administrative fee cannot be approved by the State/area office.

In Federal Fiscal Years 1995 and 1996, the Department authorized the use of ACC Program Reserves to extend expiring certificate and voucher increments. Area Offices must take into consideration the amount of ACC Program Reserves (if any) used to extend an HA's expiring increments to determine whether the remaining reserves are sufficient to cover the cost of higher administrative fees.

- E. For HAs that qualify for a higher administrative fee, the Department will allow an increase in the administrative fee percentage up to the point that the fee fully funds the HA's administrative expenses (with a ceiling equal to the higher of Column A or Column C). This means that the HA's year-end Administrative Fee Reserve Balance (for the HA fiscal year in which the administrative fee was increased) will not change from the previous year-end Administrative Fee Reserve balance except for interest earned on Administrative Fee Reserve investments.
  
- F. At the end of the HA fiscal year in which the administrative fee increase was approved, the HA must fully document and justify all administrative expenses of the related Form HUD-52681. In addition, a schedule must be submitted supporting the calculations of the HA's administrative fee at the higher rate of Columns A or C for its entire certificate or voucher program. This administrative fee schedule will be part of the documentation submitted with the related Form HUD-52681. The administrative fees earned at the higher rate will be put on Line 19 of the related form HUD-52681.

- IV. **FIELD OFFICE RESPONSIBILITIES**. Before the request for higher administrative fees can be approved, the State/area office must review Part IV, analysis of the Administrative Fee (Operating) Reserve, on the most recent Form HUD-52681 to determine the adequacy of the Administrative Fee Reserve. The HA must have sufficient funds to cover projected day-to-day expenses through the remaining ACC terms. HUD staff must verify the adequacy of those funds by performing the following analyses:
- A. The amount on Line 80, net income or deficit, should be reviewed together with amount on line 80 for the previous two years to determine whether the HA is annually spending more or less than the administrative fees earned by the HA. If the HA has not spent more than the annual fees and the HA's request does not identify any reasons why this will change in the next FY, an increased rate is not needed.
  - B. If the HA has been running operating deficits, Line 85, Administrative Fee Reserve Balance, should be reviewed against recent annual deficits shown on Line 80 to determine whether the Administrative Fee Reserve is sufficient to cover similar deficits for the remainder of the HA's ACC term. If the Administrative Fee Reserve is sufficient to cover future deficits, and the HA's request does not identify any reason why this will change, an increased rate is not needed.
  - C. The HA's analysis of its ACC Program Reserve Account must be reviewed by the State/area office to determine whether there are sufficient reserves to cover higher administrative fees. If the ACC Program Reserves are not sufficient to cover the higher fees, the higher rate cannot be granted.
  - D. The State/area office should review the HA's lease-up rate for the moderate rehabilitation, voucher, and certificate programs. HAs are expected to document lease-up rates that fall below 95 percent for the overall Section 8 programs.
  - E. It should be noted that if an HA also administers a Low Rent Public Housing (LRPH) program, the State/Area office must review the allocation of costs between the Section 8 program(s) and LRPH program to assure that the method of allocation is reasonable and supportable.

- V. **FIELD OFFICE APPROVAL.** If the HA's request meets all of the criteria discussed in Sections III and IV, the State/area office may approve the higher administrative fee. If the HA's request does not meet all of the criteria, but the State/area office believes the administrative fee should be increased, the State/area office must submit to Headquarters written justification as to why the higher administrative fee should be approved. Likewise, if the HA's request meets the criteria for a fee increase, and the State/area office analysis discloses that the fee rate in Columns A or C is not an adequate increase, the State/area office may submit to Headquarters written justification for a higher fee. **Fees that exceed the administrative fee rates from Columns A or C must be approved by Headquarters.**

If the State/area office approves the HA's request for an increase in administrative fees, the office shall restrict the use of the Administrative Fee Reserve account to expenditures for Section 8 housing purposes.

The State/area office must notify the HA in writing as to whether the higher fee has been approved or disapproved. In addition, the State/area office must send a copy of its approval or disapproval of higher administrative fees to the Office of Rental Assistance, Attention: Finance Division.

- VI. **END OF THE YEAR REVIEW.** After the HA submits its Form HUD-52681 covering the HA fiscal year in which the higher fee is earned, the State/area office must review the Form HUD-52681 to determine if the higher fees were actually warranted. The State/area office must review the Administrative Fee Reserve Balance to make certain that it does not exceed 20 percent of the current year's projected operating expenses. If the State/area office determines that the HA has received an overpayment of administrative fees, or if HUD owes the HA additional fees, the overpayment/underpayment should be handled in accordance with the procedures found in 7420.3 REV-2 CHG-14.
- VII. **SUBSEQUENT YEAR REQUESTS.** If the HA needs a higher administrative fee for the next HA fiscal year, the HA must again send a request in writing to the HUD State/area office. The request should be submitted with the HA's subsequent year budget. The request should be in the form of a certification by the HA's authorizing official that (A) the HA's projected Administrative Fee Reserve Balance at the end of the current budget year will be equal to 20 percent or less of the programs' projected administrative expenditures for the next HA



Example: Housing Authority of Anytown  
Request for Administrative Fee Increase  
Voucher Program  
For Fiscal Year Beginning 7/01/96-HA FY 1997

The following information is provided at 4/30/96:

Projected Administrative Fee Reserve Balance at FYE 6/30/96 is \$8,000

Number of Units in Program = 100

Pre-1989 units = 50, Post 1988 units = 50

2 BR FMR = \$368

Projected administrative expenditures for FY 1996 = \$50,000

1. The Administrative Fee Reserve balance at FYE 6/30/96 is \$8,000, below the floor of \$10,000 (.20 X \$50,000). The HA requests an administrative fee increase for FY 1997.
2. The HA provides the following documents to the HUD State/area office:
  - a. A formal request for an administrative fee increase for FY 1997 and the reason for the increase. The increase can only be accepted if the higher administrative costs incurred by the HA are caused by either administering a program over a large geographic area or a small program (under 200 units for the certificate, voucher and moderate rehabilitation.
  - b. A workpaper certification showing that the Administrative Fee Reserve balance at FYE 6/30/96 will be equal to or below 20 percent of the projected administrative expenses for FY 1997.
  - c. The Form HUD-52681 for the FYE 6/30/95 with copies of invoices, payroll runs and travel expense schedules that tie back to that specific Form HUD-52681. If the HA has withdrawn funds from the Administrative Fee Reserve during FY 1996, the purpose of the withdrawal(s) must be explained. The HA must explain the allocation method for all indirect costs charged to the Section 8 program.
  - d. An analysis of the ACC Project Reserve Account which documents that the reserves are sufficient to cover the higher fees **without cost amendments.**

The Area Office when determining the ACC Project Reserve Account must take into consideration the (if any) amount of reserves used to extend an HA's expiring increment(s) to determine whether the remaining reserves are sufficient to cover the higher administrative fees.

3. The HUD State/area office reviews the submitted documentation from the HA to: (1) see if the programs's administrative charges and Operating Reserve withdrawals and deposits are reasonable, and (2) completes the steps listed under the State/area Office responsibilities in Section IV.
4. The HUD State/area office concurs with the HA's administrative fee increase request and calculates the maximum administrative fee percentage for the HA in FY 1997 based on the HA's FY 1997 projections:

- a. The State/area office calculates the administrative fee using the monthly per unit fee amount published in the January 24, 1995 Federal Register based on full lease-up:

$$100 \text{ units} \times 12 \text{ months} = 1200 \text{ UMs}$$

The proration between the HA's pre-1989 and post 1989 units is evenly split at 50%.

<u>Column A</u>	<u>Column C</u>
600 UMs	600 UMs
x \$35.10	x \$20.83
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\$21,060	\$12,498

**The HA is only entitled to \$33,558 in administrative fee. For FY 1997, the HA projects administrative expenses to be at \$50,000.**

Using the higher fee amount from Column A, the HA will be able to receive an administrative fee of \$42,120 (1200 UMs x \$35.10)

- b. The State/area office may only approve the higher of Columns A or C. If the State/area office believes that the HA is entitled to receive a fee higher than Columns A or C, the HA's request and State/area office justification must be submitted to Headquarters for approval.

The State/area office calculates the **breakeven** administrative fee percentage needed by the HA to cover the FY 1997 projected administrative expenses of \$50,000 assuming full lease-up.

100 units x 12 UMs X 368 X unknown = \$50,000  
 1200 UMs X \$368 2br FMR X unknown = \$50,000  
 \$441,600 X unknown = \$50,000  
 unknown = \$50,000/441,000

new higher administrative fee percentage = 11.34% of the 2br FMR.

The higher fee of 11.34% of the 2br FMR would have to be approved by Headquarters. The State/area office should not delay approval of the HA's budget pending Headquarter's approval of the higher fee. The budget should be approved at the higher of Columns A or C. If Headquarters approves a fee higher than the fee rates of Columns A or C, the higher fee will be retroactive to the beginning of the HA's fiscal year, and can be claimed by the HA on its Form HUD-52681.

The following information is available at FYE 6/30/97:

Actual occupancy for FY 1997 - 95%  
 FY 1997 actual administrative expenses = \$48,000  
 FY 1998 projected administrative expenditures = \$55,000  
 Operating Reserve floor (48,000 X .20) = \$9,600

1. HA calculates their fee rate on the actual occupancy during FY 1997:
  - a. Calculate the administrative fee earned and compare it to the actual administrative expenses incurred:

Actual expenses incurred = \$48,000

Fee earned under the regular rate:

1200UMs X .95% = 1140 UMs  
 1140 \* .50% proration between pre-1989 and post-1989

<u>Column A</u>		<u>Column C</u>
570 UMs		570 UMs
x \$35.10		x \$20.83
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\$20,007	+	\$11,873

Difference: \$48,000 actual expenses  
 less \$31,880 actual fees earned  
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 (\$16,120) loss if the HA was not given  
 the higher fee increase

- b. With actual administrative expenses of \$48,000 and a maximum earned fee of \$40,014 using the higher rate from Column A or C (95 x 12 UMs x \$35.10), the loss on operations will be \$7,986 for FY 1997.

Maximum Administrative Fee Earned = \$40,014  
 Actual Administrative Expenses = (\$48,000)  
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 Loss on operations: (\$7,986)  
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- c. If Headquarters approve the higher fee based on 11.34% percent of the 2-BR FMR, the administrative fee earned is \$47,574 (1140 UMs X \$368 2br FMR X 11.34%). The loss on operations will be \$426.
2. The HA submits the HUD-52681 for the FYE 6/30/97 to the HUD State/area office for approval. The HA must once again fully document and justify all administrative expenses. If the State/area office believes that some of the administrative expenses are not justified, the increased administrative fee percentage of 11.34 may be reduced down to the higher rate of Column A or Column C or to the actual allocation of fees that the HA was entitled as published in the Federal Register Notice dated January 24, 1995. If the State/area office believes that the 11.34 percent fee is justified, the State/area office may approve the Form HUD-52681.
3. If the State/area office approved a higher administrative fee percentage on the HA's budget for FYE 6/30/97, and the HA's subsequent submission for the Form HUD-52681 for 6/30/97 reflects a much higher Administrative Fee Reserve balance than the operating reserve that was projected, the State/area office shall make the necessary adjustments to the administrative fee percentage on the HA's Form HUD-52681 for 6/30/97.

Even if an higher administrative fee percentage is approved on the HA's budget, all criteria must be met at the time the HA submits its Form HUD-52681 for the year in which the higher fee is paid. If all criteria are not met at year-end, the State/area office must make the necessary reductions to the administrative fee on the HA's Form HUD-52681.

4. If the HA needs a higher administrative fee for FY 1998, the HA must again send a request in writing with a certification by the HA's authorizing official that the HA's projected Administrative Fee Reserve Balance at the end of the current budget year will be equal to 20 percent or less of the projected administrative expenditures for the next HA fiscal year.

