Subject: FY 1999 Subsidies for Operation of Low-Income Housing Projects

The purpose of this Notice is to advise Public Housing Agencies (HAs) of the proration of operating budget approvals during Federal fiscal year 1999 (HA fiscal years beginning January 1, April 1, July 1, and October 1, 1999). The 1999 Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act includes $2,818,000,000 for FY 1999 operating subsidy requirements. Under current authorizations, the amount appropriated in the FY 1999 Appropriations Act will not be sufficient to cover total subsidy requirements for both Performance Funding System (PFS) and non-PFS projects. Accordingly, payments to all HAs will be based on 92.5 percent of the full eligibility of each as determined by the PFS, or the appropriate alternate approach for the non-PFS HAs and projects. Under 24 CFR 990.112(c) of the regulations, “In the event that insufficient funds are available to make payments approvable under PFS for operating subsidy payable by HUD, HUD shall have complete discretion to revise, on a pro rata basis or other basis established by HUD, the amounts of operating subsidy to be paid to PHAs.”

In order to maximize the FY 1999 proration percentage, HUD Offices were instructed on January 21, 1999, not to process any year end adjustments (Line 33 “Prior Years’ Net Year-End Adjustments” of Form HUD-52723). They are also instructed not to approve mid-year rental and utility adjustments. (Note: In a fully funded year, under some circumstances, HAs may receive mid-year adjustments to rental income or utilities.) HAs are still
required to submit all mandatory year-end adjustments within the
required time frames to enable the Department to analyze our
ability to process them in the future if the FY 1999 funding
shortfall situation changes as a result of Congress enacting a
supplemental or operating subsidy requirements being lower than
anticipated.

In FYs 1996 and 1997 the Department adopted three changes to
the PFS to allow HAs to offset PFS funding shortfalls. In order
to maximize the FY 1999 proration percentage, these changes will
not be adopted for FY 1999.

A. Three percent rental income change factor will be used in FY
1999. For FY 1999 the Department will not suspend the three
percent change factor applied to project an HA’s dwelling
rental income. To do so would lower the proration percentage
for all HAs, and many HAs are achieving the income projection.
Therefore, for Federal fiscal year 1999, all HAs will enter
1.03 on Line 15 of Form HUD 52723, Calculation of Performance
Funding System Operating Subsidy.

B. Incentive for HAs to increase Other Income. For FY 1999 the
Department will not adopt the other income incentive to permit
HAs to retain additional other income, above that permitted
under the PFS formula.

C. Incentive for HAs which adopt Optional Earned Income
exclusions or deductions. HAs which adopt optional earned
income exclusions or deductions must make an adjustment in
reporting the rent roll used for calculating operating
subsidy. The rent roll amount reported on Line 12 must be
adjusted by adding back the total value of all optional earned
income exclusions and deductions. This step results in a
decrease in operating subsidy that can be made up through the
adjustment when the HA achieves an increase in rents from
earnings. The amount of the potential incentive is calculated
by comparing the rental income per occupied unit resulting
from earned income on the April 1, 1996 rent roll to the
rental income per occupied unit resulting from earned income
on the date of the rent roll used for the FY 99 PFS
calculation. During Federal Fiscal Year 1999 the HA qualifies
for an adjustment in operating subsidy in an amount that is
less than or equal to the total of the optional earned income
exclusions and deductions reported on Line 12. The incentive
will be entered on Line 38 of Form HUD-52723 and will increase
the operating subsidy. A sample format for calculating this
adjustment is included as Appendix A.
If additional information is needed, please contact Joan DeWitt, Director of the Funding and Financial Management Division, Office of Public and Assisted Housing Delivery, at (202) 708-1872, or Joan_W._DeWitt@hud.gov.

/s/

Harold Lucas
Assistant Secretary for Public and Indian Housing
## Appendix A

**SAMPLE FORMAT FOR FY 1999 OPTIONAL PFS EARNED INCOME EXCLUSIONS/DEDUCTIONS ADJUSTMENT**

<table>
<thead>
<tr>
<th>HA Name:</th>
</tr>
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</table>

**Fiscal Year 1999 (12/99, 3/00, 6/00, 9/00)**

For HAs with optional earned income exclusions/deductions

**Note:** Line references are to PFS form HUD-52723. Calculate PFS subsidy eligibility and proration before completing this worksheet.

**Dwelling Rental Income Adjustment:** HA must certify that it is making significant efforts to utilize Optional Earned Income Exclusions/Deductions for current residents.

<table>
<thead>
<tr>
<th><strong>A</strong></th>
<th>April 1, 1996 rent roll: Total Tenant Payment from wages and self employment divided by total no. of occupied units: (This number reflects the subtraction of any exclusions/deductions)</th>
</tr>
</thead>
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<table>
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<tr>
<th><strong>B</strong></th>
<th>From actual rent roll for used for Line 12 of FY 1999 PFS calculation: Total Tenant Payment from wages and self employment divided by total no. of occupied units: (This number reflects the subtraction of any exclusions/deductions)</th>
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<tr>
<th><strong>C</strong></th>
<th>PUM change in Total Tenant Payment from earned income (B minus A): If negative, stop here, no adjustment earned.</th>
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<tr>
<th><strong>D</strong></th>
<th>Increase in Total Tenant Payment from earned income (C times PFS UMA):</th>
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</table>

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<tr>
<th><strong>E</strong></th>
<th>Earned income exclusions/deductions in subject year’s PFS rent roll month per occupied unit times PFS occupancy percentage and UMAs. This amount must be added to Line 12 of HUD-52723. In description column of Line 37 enter as a comment: &quot;Line E for FY 99 = _____&quot;</th>
</tr>
</thead>
</table>

<table>
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<tr>
<th><strong>F</strong></th>
<th>Actual adjustment (Enter the smaller of D or E.)</th>
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</table>

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<tr>
<th><strong>G</strong></th>
<th>Multiply F by FY 1999 Proration Factor and enter on Line 38 of HUD 52723.</th>
</tr>
</thead>
</table>