Question: Can a PHA use fee-for-service prior to its first required year of project-based budgeting and accounting, i.e., its first "compliance" year?

Answer: The Department has received numerous inquiries from PHAs, particularly those applying for stop-loss, asking if they could start fee-for-service sooner than their first compliance year under project-based budgeting and accounting. Our 12-29-06 FAQ instructed PHAs that they should not use fee-for-service prior to their first compliance year. Primarily, this instruction was based on the fact that the Department will not have the Financial Data Schedule (FDS) ready for receipt of asset management data until fiscal years ending June 30, 2008. However, if PHAs want to establish fee-for-service sooner, they may do so as long as they comply with/agree with the following:

- One, they must notify their field offices and REAC’s Financial Management Division (FMD) that they are converting to the fee-for-service approach prior to their first compliance year of project-based budgeting/accounting.
  - The PHAs should notify their Field Office and the REAC FMD of their intent to start fee-for-service sooner than their first compliance year under project-based budgeting and accounting by sending an e-mail to REAC_OpSub@hud.gov with a carbon copy (cc) to their Field Office representative. The Field Office and FMD will acknowledge receipt of their e-mail.
- Two, they must use the current version of the FDS to report their financial activity. Thus, there will not be supplemental schedules for projects. Instead, PHAs will need to roll up the project data into a total Low Rent Column). Moreover, there will not be a separately identified Central Office Cost Center Column. Instead, PHAs will need to use one of the three "Business Activity" or "Other Federal Programs" columns to report the COCC. Third, there will not be a separate "Elimination" column. Hence, the PHA will need to produce a "net" COCC/Business Activity column/Other Federal Programs.
- Three, PHA’s will need to submit a year-end excel file to REAC, along with their normal FDS, which contains the income statement and balance sheet for each AMP, the COCC, and the eliminations that can be reconciled to the submitted FDS, above.
- Four, the PHA must assign assets and liabilities between the COCC and projects at the end of the first fiscal year end of fee-for-service. (Upon this assignment, PHAs should follow the guidance as issued by the Department for ‘‘cost reasonableness’’.)
- Five, the PHA cannot begin fee-for-service for the Capital Fund or the Replacement Housing Factor Fund prior to Federal Fiscal Year 2007 grants.
- Finally, the Department highly recommends that PHAs contact their auditors to review this change from an allocation system to a fee-for-service approach to
preclude the PHA from receiving an audit opinion other than unqualified. This change may be considered a change in accounting principle.

For agencies applying for stop-loss that do not want to change to a fee-for-service earlier than their first year of compliance, they need only show, for purposes of Criteria No. 3 (Central Office Cost Center), that the fees to be earned exceed their overhead costs. They do not need to convert to fee-for-service prior to their first compliance year.