



Operating Subsidy Calculation for Mixed Finance Projects

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1. Determining Operating Subsidy Eligibility

There are four major components to the calculation of a PHA's operating subsidy:

- 1. Project Expense Level (PEL).** Model-generated estimate of the cost of operating each project, exclusive of utilities, taxes, and certain add-ons.
- 2. Utility Expense Level (UEL).** Funding eligibility for a project's utilities based on its consumption, applicable rates and inflation factor.
- 3. Add-ons.** Special funding amounts for certain items outside the PEL and UEL.
- 4. Formula Income.** Income recognized by the formula for subsidy purposes.

Subsidy eligibility represents the difference between Formula Expenses (PEL, UEL, and Add-ons) and Formula Income:

$$\text{PEL} + \text{UEL} + \text{Add-ons} - \text{Formula Income} = \text{Operating Subsidy Eligibility}$$

2. Funding of New Projects/Units

- Operating subsidy eligibility for the funding period is based on the status of units during the reporting period.
- Special operating subsidy processing procedures are established for funding new projects/units that come on-line and are not in the reporting period.
- There are three processing categories for new projects/units:

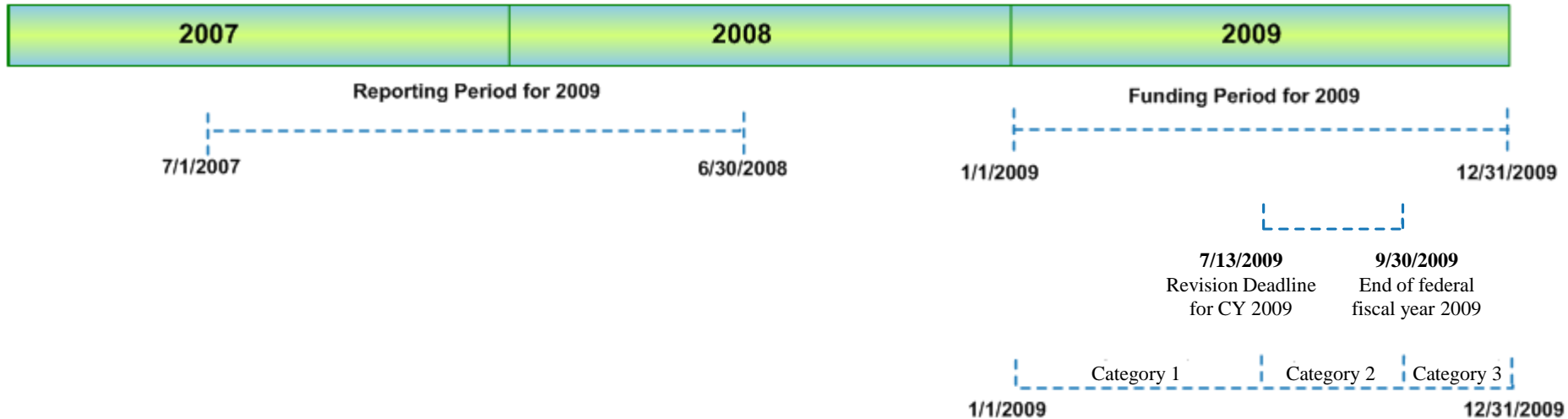
Category 1: New units that come on line between January 1 and the operating subsidy revisions deadline.

Category 2: New units that come on line between the revisions deadline and September 30.

Category 3: New units that come on line between October 1 and December 31.

2. Funding of New Projects/Units (Cont'd)

The following chart illustrates funding scenarios for CY 2009:



<u>Category</u>	<u>Funding Eligibility Begins From</u>	<u>Funding Received In</u>
1	Date of initial occupancy	CY 2009
2	October 1, 2009	CY 2010
3	October 1, 2009 or Date of initial occupancy, whichever is later	CY 2010

The Operating Fund appropriation is a one-year appropriation and, therefore, does not allow funding for prior periods. Due to the appropriations provision, HUD cannot fund units coming online between the annual revisions deadline and September 30th. The period from October 1 through December 31 falls in a new federal fiscal year and, therefore, is eligible for funding from the next year's appropriation.

2. Funding of New Units/Projects (Cont'd)

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<p>PHAs prepare a subsidy revision request prior to revisions deadline.</p> <p>Subsidy for new units will be retroactive to the month of initial occupancy.</p> <p>Ex. Project comes on line on 3/2/2009 and PHA submits revision request prior to revisions deadline. Thus, PHA is eligible for subsidy from 3/2/2009.</p>	<p>PHA can begin receiving subsidy for these units for period beginning October 1.</p> <p>PHAs should include these new units with their subsidy request for the upcoming funding period.</p> <p>Ex. Project comes on line on 8/15/2009. Thus, PHA is not eligible for subsidy for August and September of 2009. Subsidy request for CY 2010 would include these units for the period beginning October 1, 2009.</p>	<p>If units come online:</p> <p><u>Before</u> PHA submits subsidy request for upcoming funding period, PHA will include these units on its initial subsidy request.</p> <p><u>After</u> PHA submits its initial subsidy request, the units should be included in the subsidy revisions request, similar to category 1. The PHA would be funded for the occupied unit months for October – December of previous funding year.</p>

- 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.

3. Project Expense Level (PEL)

- Mixed finance projects are public housing projects developed with private funds. They are subject to a Regulatory and Operating (R&O) Agreement.
- These projects require a separate project number from regular public housing projects. Thus, each mixed finance project must have a unique project number (See Notice PIH 2007-28).
- Disbursement of operating funds to mixed finance developers by the PHA is independent of HUD's processing of operating subsidies.
- If, prior to November 18, 2005, a PHA had either a mixed-finance arrangement that had closed or filed documents in accordance with 24 CFR 941.606 for a mixed-finance transaction, then the project covered by the mixed-finance transaction will receive funding based on the higher of its former Allowable Expense Level (AEL) or the new computed PEL.

4. How to Request PEL?

- Before a PEL can be calculated, the following key data and project characteristics must be entered into PIH Information Center (PIC):
 - 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)
- This data must be reviewed and approved by the appropriate HUD Field Office in PIC.

4. How to Request PEL? (Cont'd)

- Post review, Field Office submits the following information to the Public Housing Financial Management Division (FMD) and requests that a PEL be calculated:
 - 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
- FMD provides new PEL and electronic HUD-52723 to the Field Office, who in turn provides it to the PHA.
- To estimate a PEL for budgeting purposes, PHAs can use the PEL Calculator available at the FMD Asset Management website.

4. How to Request PEL? (Cont'd)

- For mixed finance projects that are developed over extended periods, the PHA can request a “provisional” DOFA, which will allow them to obtain a PEL and, therefore, expedite the receipt of operating subsidy.
- PHA must report the project characteristics for the entire project and not just the units occupied thus far.

5. Utilities Expense Level (UEL)

- If the project has tenant paid utilities, it can still request UEL for common areas.
- For new mixed finance projects, UEL can be computed as below:
 - Consumption – Use consumption from a comparable property.
 - Rate – Use actual rate from a comparable property and include a footnote to this effect.
 - Full 12 months of consumption on line 14 of the form HUD-52722 must be estimated.
 - After the first year the regular form HUD-52722 instructions must be followed.

6. Formula Income

- Formula income, through CY 2009, is based on actual rental income in 2004.
- For projects entering service after FY 2004, the PHA must use rental income that is the most “representative” for the new project.
- Representative rental information is considered to be rental income for a 1-3 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.

7. Add-on: PILOT

- PILOT is based on the following line items from the PHA's most recent approved, audited FASS-PH FDS submission, Low-Rent Public Housing column:
 - 703 Net Tenant Rental Revenue
 - 931 Water
 - 932 Electricity
 - 933 Gas
 - 934 Fuel
 - 938 Other Utilities
- Calculated by subtracting lines 931 through 938 from line 703 and multiplying the result by 10%.
- Calculated amount posted to the Asset Management website prior to the beginning date of submissions for the upcoming funding year.
- Amounts based on estimated PILOT cannot be used.

7. Add-on: PILOT (Cont'd)

- Project-level PILOT amount determined by reasonably allocating these amounts to each project.
- Sum of the allocations should not exceed the FDS PILOT.
- In cases where the actual PILOT payment exceeds the HUD-calculated PILOT add-on, HUD allows the PHAs to report the higher value and submit proof of payment to their Field Office.
- Therefore, if the calculated PILOT is understated because mixed-finance projects were not included in the calculation, the PHA can still request higher amount by providing the required information to its Field Office.

8. Add-on: Audit Cost

- Calculation based on the PHA's most recent approved audited FASS-PH FDS submission (FDS Line 912), Low-Rent Public Housing column.
- Calculated amount posted to the Asset Management website prior to the beginning date of submissions for the upcoming funding year.
- Project-level audit cost amount determined by reasonably allocating these amounts to each project.
- Sum of the allocations should not exceed the FDS audit cost.
- Higher amount for new projects may be requested based on proof of payment.
- Amounts based on estimated audit costs cannot be used.

9. Other Add-Ons

1. Self – Sufficiency (EDSC):
Entry allowed only to PHAs on EDSC List (Posted on the web).
2. Energy Loan Amortization:
Entry allowed only to PHAs that have an EPC contract.
3. Funding for Resident Participation Activities:
\$25 per unit.
4. Asset Management Fee:¹
 - PHAs with more than 400 units: \$4 PUM
 - PHAs with 250 to 400 units that elect asset management: \$4 PUM
 - PHAs with fewer than 250 units that elect asset management: \$2 PUM
 - PHAs with 400 or fewer units that do not elect asset management: \$0 PUM
5. Information Technology Fee:
\$2 PUM.

¹ HUD is operating under a Continuing Resolution until March 6, 2009. The status of the asset management election for PHAs with 250 to 400 units provided for in the 2008 appropriations bill will be determined when a 2009 appropriations bill is passed. HUD will make the necessary adjustments to the subsidy forms.

- Notice PIH 2007- 28: “Changes in the Project Numbering System and Process for Requesting Changes in Project Identifications.”
<http://www.hud.gov/offices/pih/publications/notices/07/pih2007-28.pdf>
- Notice PIH 2006-10: provides instructions and guidance for “Identification of Projects for Asset Management.”
<http://www.hud.gov/offices/pih/publications/notices/06/pih2006-10.pdf>
- Guidance on Funding of New Projects/Units
<http://www.hud.gov/utilities/intercept.cfm?/offices/pih/programs/ph/am/docs/npugsep08.pdf>
- Asset Management Website
<http://www.hud.gov/offices/pih/programs/ph/am/>
- Final Rule to the Public Housing Operating Fund Program, 24 CFR Part 990