

Public Housing Operating Fund Training

Part 3: Calculation of Operating Subsidy Eligibility Transcript

Slide 1: Title Slide. This presentation is Part three of a four-part series on HUD's Public Housing Operating Fund.

Slide 2: Learning Objectives. For this part of the Operating Fund training series, we will explain the formula used to calculate Operating Subsidy eligibility for a public housing project as well as provide an overview of the forms and inputs used to determine Operating Subsidy eligibility.

Slide 3: Operating Fund Formula [Section Header Slide]. First, we will discuss the subsidy calculation itself.

Slide 4: The Operating Fund Formula. The amount of Operating Subsidy each project is eligible for is derived by the Operating Fund Formula, which was established through negotiated rule making. Operating Subsidy eligibility is the difference between the formula's estimated costs of operating and managing a project and the estimated income received from the project.

The Operating Fund Formula calculation is displayed in Section 3 of HUD Form-52723. We will discuss this form in more detail later in this presentation.

First, the Project Expense Levels, or PEL, are added to the Utilities Expense Levels, or UEL, and the sum is multiplied by Eligible Unit Months. Add-on costs, additional project costs that will be discussed later in this video, are added to that product. Then, the product of formula income, or the estimated income received from the project, and eligible unit months, is subtracted from that sum. In addition, a few PHAs have a Moving to Work, or MTW, Alternate Subsidy Calculation. This will be discussed in further detail in a later slide in this presentation.

This final number is the amount of Operating Subsidy that a project is eligible to receive in a year.

We will break down each part of the formula in more detail in the following slides.

Slide 5: Project Expense Level (PEL). The Project Expense Level, or PEL, is the estimate of how much it costs to operate a well-run Public Housing project and is calculated in HUD Form-52723 on a Per Unit Month cost.

This amount does not include add-on costs and utility costs.

The specific costs included in PEL include the cost of administration, management, maintenance, protective services, leasing, occupancy, staffing, and other expenses, such as project insurance.

For more guidance on computation of PEL, please see 24 CFR 990.165 as well as the notices listed on this slide.

Slide 6: Utilities Expense Level (UEL). The Utilities Expense Level, or UEL, for each PHA is based on its actual consumption and cost for each utility for the reporting period, the average rates for each utility derived by dividing costs by consumption, and an applicable inflation or deflation factor.

This methodology does not apply when a utility is billed to a PHA based upon a flat rate. In such circumstances, the flat rate is multiplied by the inflation/deflation factor.

The UEL compares consumption for the current reporting period to the average consumption for the prior three reporting periods. The formula provides a slight increase if consumption decreased, and a slight decrease if consumption increased. UEL is expressed in per unit month, or PUM, costs.

UEL is the Base Utility Expense, which is the utility rate times payable consumption, for each utility times the inflation/deflation factor.

Slide 7: Utilities Expense Level (UEL) Primary Inputs. The primary Inputs for UEL Include:

- Utility Type: Water, Gas, Electricity
- Incentive Type: Frozen, Non-Frozen, Flat
- Unit of Consumption: Gallon, Cubic Feet, KWH
- Actual Consumption: Units consumed during the latest reporting period, must match utility bills.
- Actual Utility Costs: Amount paid during the latest reporting period, must match utility bills
- Rolling Base Consumption: Three years of historical data, or if applicable the frozen rolling base (FRB).

The Rate Reduction Incentive or RRI Program, the Energy Performance Contract or EPC Program, and the Small and Rural Frozen Rolling base program impact the completion of the 52722 and require nuanced explanations. These are addressed in separate training presentations.

For additional guidance on UEL, please see 24 CFR Section 990.170 - Computation of utilities expense level or UEL.

Slide 8: Other Formula Expenses/Add-ons. We have mentioned add-ons as being a part of the Operating Fund Formula. These are other formula expenses that do not fit into the previously mentioned categories.

The add-ons that can be added to the formula include:

- self-sufficiency--this includes the cost of a self-sufficiency coordinator or coordinators and other costs to run the program.
- EPC energy loan amortization
- Payments in lieu of taxes or PILOT
- the cost of independent audits
- funding for resident participation activities
- asset management fees
- IT fees
- Asset repositioning fees or ARF, and;

- Costs attributable to changes in federal law, regulation, or the economy.

Slide 9: Formula Income. Formula income is an estimate of the PHA's net tenant rental revenue divided by the unit months leased, or UMLs, and is expressed as a per unit month, or PUM amount. The FDS data is 2-years old so the PUM formula income is multiplied by the formula income inflation factor.

The formula income is pre-populated based on audited Fiscal Year End (FYE) financial statements approved in the Financial Assessment Subsystem (FASS). Formula income may not have been prepopulated for the following reasons:

- The PHA is a Non-Asset Management PHA, and a PHA with multiple projects that report only one project in FDS,
- The project is a mixed finance project
- Approved FDS data was not available at the time FMD pulled data used to prepopulate the 52723.

PHAs should only adjust pre-populated formula PUM income for allowable income disregard programs, or in the case of Non-Asset Management PHAs with multiple projects that report only one project in FDS, or the prepop was based upon unaudited FDS, and an audited FDS submission was subsequently approved. PHAs should also see guidance provided in the annual operating subsidy processing notice.

To calculate the formula income in whole dollars, the per unit month amount will be multiplied by eligible unit months to determine the final amount.

Slide 10. Transition/Stop Loss Funding. PHAs may be eligible for stop loss funding as part of their Operating Fund Formula.

When the Operating Fund regulation at 24 CFR part 990, went into effect, it implemented Asset Management over a 5-year period.

Where the formula under this regulation resulted in reductions to what PHAs were previously receiving, the formula allowed PHAs to limit those reductions, or stop their losses, by transitioning to Asset Management during the 5-year period.

PHAs must continuously implement Asset Management in order to be eligible for this stop loss in their operating fund formula.

Slide 11: Moving to Work (MTW) Alternate Operating Subsidy Calculation. Moving to Work or MTW PHAs with an alternative Operating Fund formula agreement shall submit Operating Subsidy forms in accordance with Attachment A of the MTW Agreement.

On the HUD Form-52723, enter data in accordance with the MTW agreement, which generally would include entries for Sections 1; Section 3, Part C, Lines 01 and 04; and Part D, Lines 01 and 03.

MTW agencies with an alternative Op sub fund formula that is completely different from the Operating Fund formula do not submit form HUD-52722.

Slide 12: Data Tools Used to Calculate Operating Subsidy. Now that we understand what the inputs are for the Operating Subsidy formula, we will review how HUD determines Operating Subsidy eligibility for a public housing project.

Essential to the Operating Subsidy calculation process are the specific data tools that PHAs and HUD use to determine the amount of Operating Subsidy eligibility for each project. The HUD-52723 Operating Subsidy Calculation form is the primary form used to determine the eligibility amount. It uses data from the HUD-52722 Utility Expense Level form.

PHAs must complete the HUD-52722 to obtain the UEL input for Form HUD-52723.

Slide 13: Form HUD-52722: Calculation of Utilities Expense Level. The tool that is used to determine Operating Subsidy UEL is the Form HUD-52722: Calculation of Utilities Expense Level, or UEL.

UEL is used to estimate the cost of utilities per unit, per month.

Slide 14: Form HUD-52722 Form. The HUD Financial Management Division will make the 52722 available on the OpFund Portal with prepopulated rolling base utility cost and consumption data from the prior year.

PHAs are responsible for verifying the data that is on the form. PHAs should report any errors to their HUD field office.

PHAs will take the prepopulated form and enter current year cost and consumption levels into the 52722 based on the PHA's previous submission when available. PHAs should also make any necessary adjustments to rolling base data at this time.

The PHA uses this information to calculate the UEL, which is adjusted by the pre-populated UEL inflation/deflation factor. The form calculates UEL based on utility data and EUMs entered from 52723.

Slide 15: Form HUD 52723: Calculation of Operating Subsidy. The primary tool that is used to determine operating subsidy eligibility is Form HUD-52723, Calculation of Operating Subsidy.

The 52723 includes unit status data, inputs from Form HUD-52722, formula income inputs, and other formula data elements, including PEL, UEL and add-ons, to determine the amount of operating subsidy eligibility for a project.

The unit status data entered on the form is from the 'reporting period' of the one-year period of July 1st through June 30th that precedes the beginning of the funding period.

Slide 16: Unit Status Data. Unit status is an important variable in calculating operating subsidy eligibility and Section 2 of Form HUD-52723 focuses on unit status data.

Column A of the form addresses Available Unit Months, which are the total number of project units in inventory expressed in months for a specified timeframe. AUMs are used to calculate IT fees and Asset Management fees (if the PHA complies with Asset Management requirements).

Column B of the form focuses on Eligible Unit Months, or EUMs, which are the actual number of Public Housing units in categories eligible for full Operating Subsidy expressed in months for a specified time frame. This column is self-populated by the tool for eligible statuses from Column A.

Column C contains information about Resident Participation Unit Months, which are used to determine the funding for resident participation activities in Section 3, Part A, Line 11 of the 52723. This column is self-populated by the tool for eligible statuses from Column A.

Slide 17: Form HUD-52723 Tool. HUD Form-52723, like the 52722, is posted to the OpFund portal but prepopulated with unit data from FDS and IMS/PIC. Most fields with prepopulated data will be locked for editing by the PHA, and as mentioned earlier, PHAs should contact their field office and note requested changes in the comments section of the tool if they notice any errors in the locked fields. Edits should be rare as the data is prepopulated from PIC data, which PHAs are responsible for ensuring is up to date and accurate on an ongoing basis.

PHAs are responsible for verifying the data that is on the form and completing any missing information.

Slide 18: Key Takeaways. In summary, the operating subsidy eligibility for a project is the difference between the estimated cost to operate a Public Housing project and the estimated income that a project derives from net tenant rent.