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Part IV

Department of Housing and Urban Development

**Public Housing Operating Fund; Variable
Coefficients for Public Housing Operating
Fund Project Expense Levels; Notice**

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5016-N-01]

Public Housing Operating Fund; Variable Coefficients for Public Housing Operating Fund Project Expense Levels

AGENCY: Office of the Assistant Secretary for Public and Indian Housing, HUD.

ACTION: Notice.

SUMMARY: This notice provides supplemental information to public housing agencies (PHAs) and members of the public regarding HUD's method of calculating public housing operating subsidy in accordance with the Public Housing Operating Fund Program regulation at 24 CFR part 990. Subpart C of the final rule describes how formula expenses will be calculated under the new Operating Fund Formula. This notice explains the computation of the project expense level (PEL), which is one factor in the formula expenses component of the Operating Fund Formula.

DATES: Effective Date: January 27, 2006.

FOR FURTHER INFORMATION CONTACT: The Office of Public and Indian Housing, Real Estate Assessment Center (PIH-REAC), Attention: Wanda Funk, Department of Housing and Urban Development, Real Estate Assessment Center, 550 Twelfth Street, SW., Suite 100, Washington, DC 20410; telephone the PIH-REAC Technical Assistance Center at (888) 245-4860 (this is a toll free number). Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at (800) 877-8339. Additional information is available from the PIH-REAC Web site at <http://www.hud.gov/reac/>.

SUPPLEMENTARY INFORMATION:

Purpose of the Notice

The purpose of this notice is to provide additional information about the computation of the operating subsidy under the revised Operating Fund Program rule. HUD published a final rule, Revisions to the Public Housing Operating Fund Program (79 FR 54983), in the **Federal Register** on September 19, 2005, revising the Department's Public Housing Operating Fund Program regulation at 24 CFR part 990 and adopting a final Operating Fund Formula for determining the payment of operating subsidies to PHAs. The final rule, developed through negotiated rulemaking conducted in

2004, became effective November 18, 2005.

The new Operating Fund Formula for calculating operating subsidy is comprised of three major components. These three components are: Eligible unit months, formula expenses, and formula income. The formula expense component, as described in subpart C of the final rule, consists of the project expense level (PEL), the utility expense level, and other formula expenses (add-ons). This notice provides a step-by-step description of the computation of the PEL. In the event that insufficient funds are available, as noted in the final rule at 24 CFR 990.210(c), HUD shall have discretion to revise, on a pro rata basis, the amounts of operating subsidy to be paid to PHAs.

Variables and Coefficient Values

In accordance with 24 CFR 990.165 of the final rule, HUD will calculate the PEL for each public housing project using the ten variables and associated coefficients from the Harvard University Graduate School of Design Cost Model (cost model). The PEL will be expressed as a per unit per month (PUM) amount.

The coefficient for each of the ten formula variables that determine a PEL is expressed in percentage terms. The proper coefficients applied to a particular variable for a project depend on the physical, demographic, or geographic characteristics of the project. Therefore, the coefficient that will be applied for each of the variables depends upon the characteristics of the project. The ten variables are listed in Table 1:

TABLE 1.—OPERATING SUBSIDY VARIABLES

Number	Variables
1	Size of Project.
2	Age of Property.
3	Unit Size (Bedroom Mix).
4	Building Type.
5	Occupancy Type.
6	Location.
7	Neighborhood Poverty Rate.
8	Percent of Households Assisted.
9	Ownership Type.
10	Geographic.

The coefficient values for variables one through nine are set forth in Appendix A. The value for the tenth coefficient, Geographic, is set forth in Appendix B.

In addition to the ten variables described above, the PEL calculation includes the application of what are called "cost adjustments." There are four cost adjustments and they are:

(1) A national floor of \$200 PUM for elderly projects and of \$215 PUM for family projects.

(2) A national ceiling of \$420 PUM for all projects, except for projects owned by the New York City Housing Authority (NYCHA), which have a ceiling of \$480 PUM.

(3) When the calculated PEL is over \$325 PUM, the result is reduced by 4 percent, but it will not be reduced to less than \$325 PUM. Note: This step does not apply to NYCHA properties.

(4) The reduction in the amount of audit costs as a PUM reported for FFY 2003.

All of the variables and the cost adjustments will yield a PEL for a project in year 2000 dollars. After the PEL in year 2000 dollars is created, it will be inflated using the HUD-determined annual inflation factor on Line A7 of the form HUD-52723, Operating Fund Calculation of Operating Subsidy, OMB Approval Number 2577-0029, expires June 30, 2006, from 2001, 2002, 2003, and 2004, to arrive at the initial PEL in year 2004 dollars. The initial PEL in 2004 dollars then will be adjusted annually beginning in 2005 by the HUD-determined local inflation factor (see 24 CFR 990.165).

Determination of Coefficients

For each PEL calculation, the proper coefficient for each variable will be determined as follows:

- *Size of Project.* The size of project is the total number of ACC units in the project.
- *Age of Property.* The age of the project is determined by the difference between the Date of Full Availability (DOFA) and December 31, 2000. When different projects are combined or buildings from different projects are combined to form a "new project," the age of the property will be the weighted average age of the different buildings in the new project based on their number of units (unit weighted average).
- *Unit Size (Bedroom Mix).* The unit size of a project is determined by the percentage of two, three, and four or more bedroom units in that project.
- *Building Type.* The building type is determined by the type of structure(s) that comprise the project. For example, a single family home is a detached/semi-detached building type. When there are different building types in one project (e.g., detached and row/townhouses), the building type is determined by the majority of the units in that project.
- *Occupancy Type.* The occupancy type is determined by the percentage of efficiency and one bedroom units in the

project. If there are more than 50 percent efficiencies and one bedroom units, the project is considered senior. All other properties are considered family properties. When different projects are combined, or buildings from different projects are combined to form a "new project," the occupancy type will be the weighted average occupancy type of the different buildings in the new project based on their number of units (unit weighted average).

- *Location.* The location variable is based on the property census tract. The property is classified as within the central city of a Metropolitan Statistical Area (MSA), a non-central city area of an MSA, or a rural area.

- *Neighborhood Poverty Rate.* The neighborhood poverty rate for each project is taken from the 1990 Census, using the project address to determine the census tract. If buildings in a project are in different census tracts, the tract with the highest number of units determines the neighborhood poverty rate.

- *Percent of Households Assisted.* Although there are five categories within the cost model for the percentage of units within a project that are assisted, for purposes of the PEL calculations for public housing, all PHA projects will be considered to be 100 percent assisted.

- *Ownership Type.* The ownership type for all public housing projects is non-profit.

- *Geographic.* The geographic coefficient is taken from the table in Appendix A that provides a coefficient for each area listed.

The PEL Calculation Process

HUD will calculate the PEL for each project using the following steps in the order presented.

Step 1: For a given project, the proper coefficient for each of the ten variables from which the cost model is constructed is determined using Appendices A and B. The proper coefficient to be applied for each variable depends on the physical, demographic, or geographic characteristics of the project.

Step 2: Sum the coefficient values identified in step 1 for the following eight variables:

- Size of Project.
- Age of Property.
- Building Type.
- Occupancy Type.
- Location.
- Neighborhood Poverty Rate.
- Percent of Households Assisted.
- Geographic.

Step 3: Determine the coefficient value of the Unit Size (Bedroom Mix)

variable by calculating the percentage of two, three, and four or more bedroom units in the property. The percentage of two, three, and four or more bedroom units in the property is then multiplied by the applicable coefficient.

- The percentage of 2 bedroom units is multiplied by 17.61 percent, the coefficient for 2 bedroom units.

- The percentage of 3 bedroom units is multiplied by 37.65 percent, the coefficient for 3 bedroom units.

- The percentage of 4 or more bedroom units is multiplied by 48.73 percent, the coefficient for 4 bedroom units.

The resulting values for each bedroom size are then summed.

Step 4: Add the totals of steps 2 and 3 to 520.18 percent, the formula constant.

Step 5: Compute the exponent of the result of step 4. In Microsoft (MS) Excel, the formula for determining the exponent is: EXP (sum of coefficients). For example, if the result in step four is 575.6 percent, in MS Excel the exponent is determined by EXP (575.6 percent). For this example, the exponent would be 316.08 and it would be expressed as a dollar amount.

Step 6: Multiply the result from step 5 by the product of one plus the coefficient value of the Ownership Type variable. Because the ownership type of public housing is non-profit, the product of one plus the coefficient value of the Ownership Type variable (i.e., non-profit adjustment) is 110 percent, or 1.10. This result is also expressed as a dollar amount.

Step 7: When the result of step 6 is greater than \$325, the result is reduced by 4 percent, but it will not be reduced to less than \$325.

Note: This step does not apply to NYCHA properties. The dollar amount that results from step 7 represents the PEL before the floor and ceiling cost adjustments and before the application of the inflation factor.

Step 8: Apply the following floor and ceiling cost adjustments, as necessary:

- If the result of step 7 is less than \$200 and the project Occupancy Type is identified as senior, the result is raised to \$200.

- If the result of step 7 is less than \$215 and the project Occupancy Type is identified as family, the result is raised to \$215.

- If the result of step 7 is greater than \$420 and the project is not owned by the NYCHA, nor is the project NYCHA mixed finance rental housing, the result is decreased to \$420.

- If the result of step 7 is greater than \$480 and the project is either owned by the NYCHA, or is NYCHA mixed

finance rental housing, the result is decreased to \$480.

Step 9: Subtract the PUM cost of the audit expenses for FY 2003 from the result of step 8. To determine the initial PEL, the PUM audit expenses are taken from Line A12 of the PHA's 2003 form HUD-52723, Operating Fund Calculation of Operating Subsidy, OMB Approval Number 2577-0029, expires June 30, 2006.

Step 10: Inflate the initial PEL from year 2000 dollars to 2004 dollars by multiplying the result of step 9 by the local annual inflation factors for the four intervening years (2001, 2002, 2003 and 2004) and round the result to the nearest penny from the third decimal place with a half a penny or more rounded up (e.g., all values between \$206.005 and \$206.014, inclusive, would be rounded to \$206.01, and all values between \$206.015 and \$206.024, inclusive, would be rounded to \$206.02). The local annual inflation factors are found on Line 7 of the HUD-52723, Operating Fund Calculation of Operating Subsidy, OMB Approval Number 2577-0029, expires June 30, 2006, forms for those years. For example: assume the 2000 PEL is \$397.85 and the 2001 inflation factor is 1.019, the 2002 inflation factor is 1.023, the 2003 inflation factor is 1.015, and the 2004 inflation factor is 1.031.

(1) Multiply: 1.019 times 1.023 times 1.015 times 1.031. This equals 1.090874.

(2) Multiply: \$397.85 times 1.090874. This equals 433.0078.

(3) Round the result to the nearest penny. This equals \$433.01, which is the initial PEL in 2004 dollars.

The initial PEL in year 2004 dollars then will be adjusted annually by the HUD-determined local inflation factor beginning in FY 2005.

PHA PEL Calculation FFY 2007

In FFY 2007, HUD will fund operating subsidy at the PHA level by calculating a PHA's PEL using a weighted average of the PELs for each project in the PHA based on the number of units.

Accordingly, in FFY 2007, the three following steps will be added to the ten steps described above in order to arrive at the PHA weighted average PEL.

Step 11: Multiply each project PEL by the number of ACC units in that property.

Step 12: Sum the amounts calculated in step 11 and divide that number by the total number of units in the PHA. The result is the weighted average 2004 PHA PEL that HUD will use to determine the transition funding for each PHA.

Step 13: The PHA PEL for 2006 will be calculated by multiplying the 2004

PHA PEL by the HUD inflation factors for 2005, 2006, and 2007.

PHA PEL Calculation FFY 2008 and After

Beginning in FY 2008 and every fiscal year thereafter, HUD will calculate a PEL for each project and fund PHA operating subsidy on a project-by-project basis. Accordingly, beginning in FY 2008, the result in step 10 will be the PEL for each project.

PELs for "New" Asset Management Projects

For purposes of asset management, in accordance with subpart H of 24 CFR part 990 of the final rule, PHAs may either combine existing developments, divide existing developments, or combine some or all of the buildings from more than one existing development to create a new project. After these changes are made, HUD will calculate a PEL for the new project and, when applicable, for any existing developments based on the remaining buildings.

A. For each new project, the Age of Property variable will be a unit weighted average age of the buildings from the different developments. To determine the unit weighted average age of the buildings, HUD will:

(1) Calculate the age of each building in days from DOFA until December 31, 2000, using a 360-day year where each month has 30 days.

(2) Calculate the unit days for each building by multiplying the number of units in each building by the age in days for that building.

(3) Total the unit days for all buildings.

(4) Divide the total unit days by the total number of units in all of the buildings in the new project. Divide the

result by 360 and round to the nearest whole number.

HUD will use the result as the applicable age coefficient for that project in accordance with the steps described, above, and shown in Appendix C. Further guidance on grouping projects for purpose of asset management will be provided through a PIH notice.

B. For each new project, the Occupancy Type variable will be a unit weighted average occupancy type of the different buildings in the project. HUD will:

(1) Compute the proportion of units that are in senior buildings by dividing the number of units in the senior buildings by the total number of units in the new project;

(2) Multiply the result by the senior property coefficient, i.e., -5.83; and

(3) Round the result to the nearest hundredth.

HUD will use the result as the occupancy type coefficient for the new project in accordance with the steps described, above, and shown in Appendix C.

Moving-to-Work PHAs

For the PHAs that are participating in the Moving-to-Work (MTW) Demonstration authorized under section 204 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996, PELs will be determined in accordance with the steps set forth above. However, pursuant to 24 CFR 990.165(f), these PHAs may receive operating subsidy as provided in Attachment A of their MTW Agreements executed prior to November 18, 2005, the effective date of the rule.

Mixed Finance Developments

For mixed finance developments that have either closed prior to November

18, 2005, or for which the PHA has filed documents in accordance with 24 CFR 941.606 (as amended prior to such date), the operating subsidy will be funded based on the higher of the new PEL or the former allowable expense level under the regulation that was in effect prior to November 18, 2005.

Example

A step-by-step example of a project PEL calculation and a PHA PEL calculation is set forth in Appendix C.

Data Used for Calculations

The project characteristics that HUD will use to calculate the PELs for all PHA properties in year 2000 dollars will be based on the Development field information in the Public and Indian Housing Information Center (PIC) database. The date upon which HUD will extract the data from PIC for each year's subsidy calculation will be provided in an annual PIH notice.

Environmental Impact

This notice provides operating instructions and procedures in connection with activities under 24 CFR part 990 of the final rule, which has previously been subject to a required environmental review. Accordingly, under 24 CFR 50.19(c)(4), this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Dated: December 9, 2005.

Orlando J. Cabrera,

Assistant Secretary for Public and Indian Housing.

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