

**BEFORE THE
PENNSYLVANIA WATER COMMISSION**

TESTIMONY OF KIRK DORN

**ON BEHALF OF
THE PHILADELPHIA HOUSING AUTHORITY**

**FY2009-2012 Rates
August 13, 2008**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Kirk Dorn. I am the General Manager of Communications for the
3 Philadelphia Housing Authority, (“PHA”). Our business address is 12 S. 23rd St.,
4 Philadelphia, PA 19103.

5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

6 A. I have worked for PHA since September, 2002. Before joining PHA, I was a journalist
7 and news department manager for several organizations over a 20-year period, including
8 KYW Newsradio and the Associated Press.

9 **Q. PLEASE DESCRIBE PHA’S CURRENT OPERATIONS.**

10 A. PHA was established in 1937 and is the nation’s fourth largest housing authority. PHA is
11 the largest landlord in Pennsylvania. We develop, acquire, lease and operate affordable
12 housing for City residents with limited incomes. Some 88 percent of PHA’s households
13 are below 30% of the area median income. Rent for these residents is based on less than
14 30 percent of their income, thus rent revenue to PHA is very limited.

15 We house approximately 84,000 people in the City of Philadelphia. We offer a
16 variety of residences, including conventional apartment buildings and town home
17 communities (“Conventional Sites”), and apartments and houses located throughout the
18 City (“Scattered Sites”). We currently employ approximately 1,133 people to deliver
19 services to our clients. Our annual revenues for CY 2008 are \$343,000,000, with a public
20 housing operating budget of approximately \$140,000,000.

21 **Q. WHAT ARE THE PRINCIPAL SOURCES OF PHA'S FUNDING?**

1 A. We receive the majority of our funding from the U.S. Department of Housing and Urban
2 Development ("HUD").

3 **Q. ARE PHA'S ALLOTMENTS ENOUGH TO COVER THE FULL AMOUNT OF**
4 **ITS BUDGET?**

5 A. No, they are not. HUD has cut the budgets of PHA and other cities' and counties' housing
6 authorities by more than 20 percent in the past six years. For CY 2007, there were even
7 further reduction with PHA funded at 82% of budget, which necessitated an additional
8 reduction of \$27,018,172.00 in expenditures. The funding for CY 2008 is estimated at
9 80% of allowable subsidy. In spite of this, utility costs are dramatically rising. PGW has
10 recently increased gas charges.

11 **Q. WHAT EFFECTS, IF ANY, HAVE THE ABOVE BUDGET CONSTRAINTS HAD**
12 **UPON PHA'S OPERATIONS?**

13 A. The cumulative effects have been devastating. In January 2007, we were forced to lay
14 off approximately 350 employees, about 22 percent of our workforce.

15 Over a period of years we had systematically reduced our workforce as we
16 converted ourselves into a lean, efficient organization. However, this large and unplanned
17 reduction has placed a tremendous strain on our staff. In February 2000, PHA employed
18 2,508 men and women. As of April 2008, we are down to less than half of that total, with
19 about 1225 employees. During that same period, our tenant responsibilities have
20 increased. Our February 2000 resident population was about 50,000. Today, it is more
21 than 83,000, an increase of more than 60 percent.

1 PHA's staffing reductions have had a particularly significant impact on our police
2 force and maintenance staffing, two areas with real impact on our residents' physical
3 comfort and security.

4 In 2007, we were forced to cut about 20 police officers and 10 lobby monitors.
5 Today, as a result of both the lay-offs and attrition, PHA has only 41 officers and 12
6 lobby monitors. In addition, we laid off 10 lobby monitors. These security personnel
7 reductions make it far more difficult to keep our properties and our residents safe.

8 The layoffs also are affecting our maintenance operations, and are forcing tenants
9 to wait longer for routine repairs. Moreover, as tens of thousands of people remain on our
10 waiting list for housing, we have to defer or cancel repair of vacant units instead of
11 making them ready for occupancy. Unfortunately, these layoffs were merely a highly
12 visible symptom of a financial crisis that impacts the quality of life for all of PHA's
13 residents.

14 Despite our efforts to converge on behalf of our residents, we are reaching the
15 limits of our demonstrated ability to do more with less.

16 **Q. PLEASE DESCRIBE PHA'S WATER DISCOUNT FOR ITS PROPERTIES.**

17 A. Prior to 1998, the City recognized that PHA would pay its water charges and that it
18 provides a vital public service. Therefore, PHA received a 25% discount in water rates.
19 In 1998, that discount was slashed to 5%. Our residences are low income and senior
20 residents. We are facing the most rigorous financial challenges of our history. A return
21 to the 25% discount is warranted. This discount is similar to other governmental

1 agencies such as the municipal facilities, schools and various public entities like health
2 care facilities. There is no reason that PHA should not be extended a similar discount.

3 **Q. PLEASE DESCRIBE PHA'S AND ITS RESIDENTS' FINANCIAL SITUATIONS.**

4 A. Our residents are no less conscious than we are of the cost of necessities, and no less
5 harmed than we are when those costs rise. PHA's residents are low-income and senior
6 residents who meet stated financial criteria. The average annual income of PHA
7 households is roughly \$11,000, and approximately 75% of our residents live at or below
8 the poverty level.

9 PHA residents pay a portion of their monthly incomes to PHA as a form of rent.
10 PGW recently raised gas rates for PHA properties. PECO is also planning rate increases.
11 On the other hand, HUD is decreasing the levels of PHA funding. The resulting financial
12 crunch exacerbates an already difficult financial situation.

13 **Q. PLEASE DESCRIBE THE PROJECTED EFFECTS OF THE PROPOSED RATE**
14 **INCREASES UPON PHA'S OPERATIONS.**

15 A. HUD's funding reductions already threaten PHA's ability to meet current demands for its
16 housing stock, as well as the safety of our properties and our ability to provide services to
17 our residents. Forcing PHA to allocate further funds to increased water costs makes the
18 situation even more dire.

19 Our experts estimate that under the proposed rate increases, PHA's water costs
20 would rise by approximately \$ 700,000 in the first year after the increase is approved.
21 That increase would equal approximately 8.03 percent of our current gas expenditures. A
22 chart prepared by our financial department is attached.

1 If the rate increases affecting PHA residents is granted, PHA is faced with the
2 unenviable and inequitable choice of having to cut costs in one area to pay for water for
3 its residents. These cuts would almost certainly have to come from equally vital programs
4 and services such as the various educational, job training and social programs PHA offers
5 to help its residents improve their situations, and the already depleted resources for
6 maintenance and security, as well as the renovation of existing units to make them more
7 energy-efficient.

8 **Q. WHY DID PHA LOSE ITS 25% DISCOUNT IN 1998?**

9 A. Prior to 2003, The United States Department of Housing and Urban Development
10 provided a mechanism in which PHA would be reimbursed for any increases as a result
11 of a rate hike. In 2003, the City reduced the 25% discount after it determined that PHA
12 could use a year end HUD adjustment to fund shortfalls in water charge changes.

13 **Q. DID THAT POLICY CHANGE?**

14 A. Yes, in 2003, HUD sent all housing agencies a memo reflecting a major change in
15 funding policy. That memo, attached as Exhibit A, has been followed up with other
16 memos in succeeding years, also in the Exhibit A. It has been clear policy of HUD that
17 “HUD is no longer permitted to make utility adjustments or any other type of retroactive
18 payment.” There could be no “catch up” of funding at the end of each fiscal year as there
19 had been in the past.

20 **Q. IF THE DISCOUNT HAD BEEN KEPT IN EFFECT, WOULD PHA HAVE HAD**
21 **ADDITIONAL GENERAL REVENUE?**

1 A. I asked our staff to review the actual charges both with a 25% discount and as actually
2 paid. In Exhibit B, it shows what the actual charges were both with the given 5%
3 discount and with the prior 25% discount. Due to the lack of discount, PHA paid almost
4 \$9 million dollars more.

5 **Q. HOW CURRENT IS PHA ON ITS UTILITY PAYMENTS?**

6 A. PHA routinely pays 100% of the outstanding water charges. We are current on meter and
7 usage charges, absent processing delays. The Water Department and PHA are disputing
8 responsibility for certain damages at Abbotsford properties, and this is showing as a
9 receivable on Water Department records. We hope to resolve this soon.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes, it does.

VERIFICATION

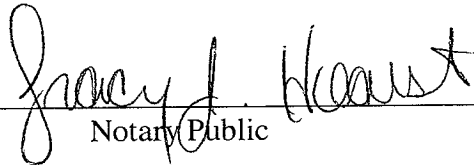
Kirk Dorn, being duly sworn according to law, deposes and says that he is General Manager of Communications for the Philadelphia Housing Authority; that as such he is authorized to offer this testimony on its behalf; and that the foregoing testimony is true and correct to the best of his knowledge, information and belief.



KIRK DORN

Sworn to and subscribed before me

this 13 day of August, 2008



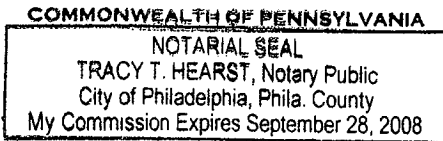
Notary Public

Exhibit "A"

**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of

Notice PIH 2003-18 (HA)

Issued: July 28, 2003

Public Housing Agencies
Regional Directors;
State/Area Coordinators;
Division; Resident Management
Corporation (RMCs)

Expires: July 31, 2004

Cross Reference: OMB Approval Number 2577-0029

Subject: Federal Fiscal Year (FFY) 2003 Issuance of Instructions for Adjustments and Revisions to Operating Subsidy Eligibility, and Updated Information on Proration Factor and Approval of Calculations.

General: This Notice provides Public Housing Agencies (PHAs) with additional information needed to complete the FFY 2003 subsidy eligibility calculations. It includes updated instructions to historical revision and adjustment policies. Additionally, this Notice updates the proration factor.

Objectives: This Notice is designed to implement two primary objectives during FFY 2003: 1) to distribute operating subsidies equitably to all PHAs regardless of their fiscal year start dates and 2) to make no obligations beyond the amounts appropriated by Congress for FY 2003.

Revisions to Operating Subsidy Calculations: All PHAs must submit any revisions to their operating budget to HUD by August 15, 2003. Revisions will be limited to mathematical, clerical and informational system errors only. Supporting documentation to verify the revision must be submitted along with the respective form(s).

Adjustments: Under 24 CFR 990.112 (c) of the regulations, "In the event that insufficient funds are available to make payments approvable under the Operating Fund Formula 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 2003 proration percentage, HUD field offices are instructed not to process any utility adjustments (Line 01 of part F of form HUD -52723; Utility Adjustments for Prior Years). PHAs are still required to submit all utility adjustments to the Department within the required time frame. The Department will analyze future funding conditions to determine whether these amounts can be processed.

Current Pro-ration Level: A PHA will receive subsidy based on 93% of the amount of this year's eligibility, before adjustments. This Notice is a guide for planning purposes and does not constitute an obligation by the Federal Government. Additionally, this is not necessarily the final proration factor for the year. The final determination will not be made until all 2003 budgets and requests for revision have been received and processed. HUD will use the submitted documentation and exercise all available adjustment powers as needed to determine an appropriate level for FFY 2003. HUD will then approve Operating Budgets and/or operating subsidy calculations at that level by September 30, 2003.

Paperwork Reduction: The information collection requirements contained in this Notice have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3502) and assigned OMB control number 2577-0029. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

_____/s/_____
Michael Liu, Assistant Secretary
for Public and Indian Housing



U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

Special Attention of

Directors, Public Housing Hub Offices;
Directors, Public Housing Program Centers;
Director, Office of Field Operations;
Public Housing Agencies;
Regional Directors;
State/Area Coordinators;
Resident Management Corporations (RMCs)

Notice PIH 2004-9 (HA)

Issued: May 25, 2004

Expires: May 31, 2005

Cross Reference: OMB Approval Number
2577-0029

SUBJECT: Operating Fund - Final Proration Factor for Federal Fiscal Year (FFY) 2003 and Processing Notes for FFY 2004.

Purpose: This Notice provides Public Housing Agencies (PHAs) with the final proration factor for FFY 2003. It also identifies and clarifies some miscellaneous processing issues for FFY 2004, such as initial funding level, obligating documents for the Operating Fund, requirements pertaining to the Elderly/Disabled Service Coordinator Program, the disablement of the Line of Credit Control System (LOCCS) Voice Response System (VRS), treatment of utility and other non-processed adjustments, and processing for new and deprogrammed units.

Proration Factor: The final proration for FFY 2003 was 94.7 percent. All PHAs with fiscal years beginning January 1, April 1, July 1, and October 1, 2003 have been funded at this level. As stated in the Notice PIH 2003-22, HUD will use the submitted documentation and exercise all available adjustment powers as needed to determine an appropriate level for FFY 2004. At this time, HUD has started funding PHAs with fiscal years beginning January 1, 2004 and April 1, 2004, using a proration factor of 93 percent. This is not the final funding level. The funding level is expected to increase as more Operating Fund calculation forms are received.

Obligating Documents: Effective for PHAs with fiscal years beginning January 1, 2004, and after, *Operating Fund Calculation of Operating Subsidy: PHA-Owned Rental Housing* (form HUD-52723) will serve as the final obligating document for PHAs submitting under the Public Housing Operating Fund Program. *Calculation of Subsidies for Operations: Non-Rental Housing* (form HUD-53087) will serve as the final obligating document for PHAs submitting under the PHA-Owned Turnkey III or Mutual Help Homeownership Programs. PHAs required to submit an *Operating Budget* (form HUD-52564) to HUD for review and approval will continue to do so, but this form will no longer serve as an obligating document.

Operating Budget: The Operating Budget is a planning tool for PHAs and HUD, and is based on requested budget estimates. PHAs submitting an *Operating Budget* (form HUD-52564) under the Public Housing Operating Fund Program should enter a conservative estimate for Operating Subsidy on the HUD-52564. When estimating Operating Subsidy, PHAs should consider:

- Funding for FFY 2004 is currently being provided at 93%.
- The amount entered may not be greater than the PHA's FFY 2004 eligibility on Part E. Line 3 of the HUD-52723.
- If the estimate turns out to be higher than the final proration percentage, the PHA may need to use its operating reserves.
- The budget can be amended throughout the PHA's fiscal year as more information is provided on the proration factor.

The estimated amount should be entered on the following three lines of the HUD-52564:

- 630, Contributions Earned – Op. Sub – Cur. Yr.
- 680, Total Operating Subsidy – current year
- 690, HUD Contributions.

PHAs submitting Operating Budgets under the PHA-Owned Turnkey III Homeownership Program and the PHA-Owned Mutual Help Homeownership Program also should enter an estimate on the corresponding lines of the HUD-52564.

Note that Part F. Line 12 of the HUD-52723 and Part I. Line 15 and Part II. Line 14 of the HUD-53087, all titled "Funds obligated in subject fiscal year," state that the amount entered "must be the same as line 690 of the Operating Budget, form HUD-52564, for the subject fiscal year." This is no longer the case. Line 690 of form HUD-52564 will now be a budget estimate and not an actual obligation amount.

Because the *Operating Budget* (form HUD-52564) will no longer serve as an obligating document, Field Offices may review and approve the HUD-52564 and return it to the PHAs.

Elderly/Disabled Service Coordinator (EDSC) Program: As stated in Notice PIH 2003-22 titled *Guidance on Methods and Schedules for Calculating Federal Fiscal Year (FFY) 2004 Operating Subsidy Eligibility and Issuance of Local Inflation Factors, Formula Expense Level Equation Multipliers, and Related Tables*, the Elderly/Disabled Service Coordinator (EDSC) Program will be funded through Operating Subsidy in FFY 2004. PHAs that were previously funded for an EDSC Program through the Resident Opportunity and Self Sufficiency (ROSS) grant will be funded through Operating Subsidy at the same level (with a reasonable adjustment for inflation) as their existing program was funded through ROSS. Eligible costs of the EDSC Program to be funded through Operating Subsidy include the reasonable cost of salary, fringe benefits, and related administrative costs. Although related administrative costs were not mentioned as an eligible cost in Notice PIH 2003-22, they were included as an eligible cost of the EDSC Program in past Notices of Funding Availability (NOFAs) of the ROSS grant and will continue to be an eligible cost under Operating Subsidy. At this time, HUD will not provide funding for any new EDSC Programs.

HUD is changing the requirement in Notice PIH 2003-22 for PHAs to include the Elderly/Disabled Service Coordinator in their PHA Plans. While PHA Plan regulations at 24 CFR Part 903 permit HUD to request other information in addition to the required plan components, HUD is undertaking efforts to streamline rather than expand PHA Plan submission requirements. Accordingly, *PHAs will not be required to include the EDSC Program in their PHA Plan*. Instead, PHAs should provide support for the subsidy amount entered on Part D. Line 3 of form HUD-52723, *Calculation of Operating Subsidy*, in Section 3, *Remarks*, of the same form or as an attachment to the form. Support should include a breakdown of the requested amount into the number of EDSCs funded, the salary and fringe benefits of each EDSC, and other administrative costs.

Line of Credit Control System (LOCCS) Voice Response System (VRS): As previously communicated, effective January 1, 2004, PHAs are no longer able to drawdown Operating Subsidy using LOCCS VRS (i.e., via telephone). All PHAs must use electronic LOCCS (eLOCCS) to drawdown Operating Subsidy (i.e., via the internet). Guidance on using eLOCCS to drawdown Operating Subsidy is in Notice PIH 2002-28 (HA) titled *Use of eLOCCS (electronic Line of Credit Control System) to Request Operating Subsidy Payments and Elimination of Form HUD-52721*.

Utility Adjustments: Under current appropriation law, HUD is no longer permitted to make utility adjustments or any other type of retroactive payment. Effective immediately, PHAs are instructed to write any amount(s) associated with these adjustments off their books of account, whether due to or due from HUD. These amounts include most notably:

- FFY 2001 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2001) utility adjustments that would normally have been processed in the FFY 2003 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2003) Operating Subsidy calculation; and
- Any other unprocessed adjustments from FFY 2000 and prior, including utility, investment income, audit, and unit months available adjustments as well as any other allowable adjustments during this time frame. Many of these adjustments were not processed in accordance with Notices PIH 99-13 (HA) and 2000-03 (HA).

PHAs also are instructed not to record a receivable or payable on their books of account for the FFY 2002 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2002) utility adjustment that would normally flow into the FFY 2004 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2004) Operating Subsidy calculation. PHAs are still required to submit all utility adjustment forms to HUD within the required time frame for informational purposes. The amount should be reviewed and reported on the *Operating Fund Calculation of Operating Subsidy* (form HUD-52723) in Part F. Line 1, "Utility Adjustment for Prior Years."

New Units: PHAs will be allowed to adjust form HUD-52723, *Operating Fund Calculation of Operating Subsidy*, for their 2004 budget period to incorporate new units that reach the End of Initial Operating Period (EIOP) on or after September 30, 2003 (i.e., FFY 2004), as follows:

1. **New units eligible to receive subsidy in FFY 2004 (i.e., reached EIOP on September 30, 2003 and after) but still in the PHA's 2003 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2003).** The amount of Operating Subsidy for these units should be shown on Part D., Line 14, "Other Approved Funding, not listed," of the FFY 2004 form HUD-52723. The PHA should base the calculation of subsidy amount on the allowable expense level, allowable utility expense level, rent information, etc. of the PHA's 2003 budget period. The amount on Part D. Line 14 should not be prorated because it will ultimately be prorated at the 2004 proration level.
2. **New units eligible to receive subsidy in FFY 2004 and in the PHA's 2004 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2004).** These new units should be reflected in Section 1 (d) "Units," and (e) "Units Months Available (UMAs)," of the FFY 2004 form HUD-52723 and therefore will be included when calculating the amount of Operating Subsidy for the PHA's 2004 budget period.

The calculation of Operating Subsidy will be based on the actual certified EIOP date. A request to receive additional funding for new units must be supported by:

1. Form HUD-52344, *Notice of End of Initial Operating Period*, which establishes the EIOP date; and
2. Documentation confirming the number of new units associated with the EIOP date.

All revisions resulting from new units will be accepted until August 15, 2004. All other types of revisions are limited to mathematical, clerical, and informational system errors for PHAs' 2004 budget periods only and must be submitted to HUD via the schedule established in Notice 2003-22 (HA). No adjustment will be due any PHA for new units that had reached EIOP but were not funded prior to September 30, 2003. Under current appropriation law, HUD is prohibited from making retroactive payments using current funds. However, provided that the EIOP date has been reached for these units, HUD will provide funding from FFY 2004 appropriations from October 1, 2003 to the end of the PHA's 2003 budget period as described above. Any PHA not adhering to the above time frame will jeopardize its funding for these units.

PHAs with new units that will reach EIOP on September 30, 2003 or after should contact their local Field Office for more information.

Deprogrammed Units: PHAs that have changes in their inventory due to deprogrammed units should submit a revised HUD-52723, *Operating Fund Calculation of Operating Subsidy*.

1. **Units deprogrammed in FFY 2004 (i.e., on September 30, 2003 and after) but still in the PHA's 2003 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2003).** If units deprogrammed in FFY 2004 but in the PHA's 2003 budget period result in a change in subsidy, the change should be reflected on Part D., Line 14, "Other Approved Funding, not listed," of the FFY 2004 form HUD-52723. If the change is a decrease, the amount should be listed as a negative number. The PHA should base the calculation of subsidy amount on the allowable expense level, allowable utility expense level, rent information, etc. of the PHA's 2003 budget period. The amount on Part D. Line 14 should not be prorated because it will ultimately be prorated at the 2004 proration level.
2. **Units deprogrammed in FFY 2004 and in the PHA's 2004 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2004).** The appropriate revisions should be made to Section 1 (d) "Units" and (e) "Units Months Available (UMAs)," Part A. Line 13, "Costs attributable to deprogrammed units," and Part D. Line 8, "Phase Down for Demolitions" of the FFY 2004 form HUD-52723 and therefore will be included when calculating the amount of Operating Subsidy for the PHA's 2004 budget period.

Revisions resulting from deprogrammed units will be accepted until August 15, 2004. Again, no accommodation can be made for units deprogrammed but not funded prior to September 30, 2003, due to current appropriation law.

PHAs with units that will be deprogrammed on September 30, 2003, or after should contact their local Field Office for more information.

Paperwork Reduction: The information collection requirements in this notice have been approved by the Office of Management and Budget under the Paperwork Reduction Act of 1995 (44 U.S.C. 3820) and assigned OMB numbers 2577-0029 and 2577-0067. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to a collection of information unless the collection displays a currently valid OMB control number.

/s/

Michael Liu, Assistant Secretary
for Public and Indian Housing



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of

Directors, Public Housing Hub Offices;
Directors, Public Housing Program Centers;
Director, Office of Field Operations;
Public Housing Agencies;
Regional Directors;
State/Area Coordinators;
Resident Management Corporations (RMCs)

Notice PIH 2004-14 (HA)

Issued: August 9, 2004

Expires: August 31, 2005

Subject: Guidance on Methods and Schedules for Calculating Federal Fiscal Year (FFY) 2005 Operating Subsidy Eligibility and Issuance of Local Inflation Factors, Formula Expense Level Equation Multipliers, and Related Tables

1. **Purpose.** This Notice provides Public Housing Agencies (PHAs) with information needed to complete their FFY 2005 operating budgets and subsidy eligibility calculations. It includes a schedule for the submission of certain items to HUD, as well as local inflation factors, data needed for the recalculation of the Formula Expense Level, and other special notes related to the operating subsidy calculation and processing. Following a review of the submitted material, HUD will determine funding levels. The amount obligated by HUD will be available for electronic Line of Credit Control System (eLOCCS) drawdown.

2. **Calculations.**

Local Inflation Factors: Appendix 1 of this Notice contains Local Inflation Factors. If a PHA is unsure whether it should apply the metro or non-metro inflation factor, it should consult the listing of metropolitan areas contained in Appendix 2.

Recalculation of Formula Expense Level: A small number of PHAs may have to adjust their Allowable Expense Levels (AELs) in FFY 2005 to reflect significant changes to the characteristics of their unit inventories. In order to compute the adjustment (known as a "long delta" calculation), these PHAs will need the information contained in Appendices 3 and 4. In advance of preparing their operating budgets, PHAs are advised to contact their respective local HUD office to determine if their AELs need adjustment.

Calculation of Projected Rental Revenue and Dwelling Rental Adjustment Factor: PHAs are instructed to calculate projected rental revenue based on a rent roll dated on the first day of the month which is six months before the first day of the requested budget year (RBY) pursuant to 24 CFR 990.109(b)(2)(i). If there is a change in the rent roll in a subsequent month before the beginning of the RBY, and before the submission of the RBY calculation of operating subsidy

eligibility, the PHA may use the latest changed rent roll for the purpose of the computation. [Note that the instructions for Part B, Line 01, "Total Rent Roll (as of / /)," on the current form HUD-52723 are incorrect for determining the date of the rent roll used to calculate projected rental revenue.]

The Dwelling Rental Adjustment Factor is provided pursuant to 24 CFR 990.109(b)(5). PHAs will use 3 percent as the adjustment factor for their FFY 2005 calculation.

Funding for Elderly/Disabled Service Coordinator Program: For FY 2005, the public housing share of the reasonable cost of salary, fringe benefits and other administrative costs for the Elderly/Disabled Service Coordinator (EDSC) program will again be funded through operating subsidy. Only PHAs that previously received funding through the Resident Opportunities and Self-Sufficiency (ROSS) grant for the EDSC program will be eligible to receive operating subsidy to fund this activity. PHAs will be funded at the same level as through the ROSS grant program with an annual adjustment for inflation. For FFY 2005, the adjustment for inflation shall be no greater than the Local Inflation Factor provided in Appendix 1. The subsidy amount for the EDSC program will be entered on Part D, Line 03, "Family Self-Sufficiency Program," of form HUD-52723, Calculation of Operating Subsidy.

The Family Self-Sufficiency (FSS) program will again be funded as a competitive grant under the ROSS grant program. PHAs with FSS programs will no longer receive operating subsidy for the coordinator salary and fringe benefits. However, operating subsidy support will continue to be available for FSS program supportive service dwelling unit(s). This amount should be reported on Part D, Line 06, "Non-dwelling Units Approved for Subsidy," of form HUD-52723.

Moving-to-Work (MTW) Agencies: PHAs that are participants in the MTW demonstration will compute their operating subsidy eligibility according to their agreements.

Utility Adjustments: As stated in Notice PIH 2004-9, *Operating Fund: Final Proration Factor for Federal Fiscal Year (FFY) 2003 and Processing Notes for FFY 2004*, under current appropriation law, HUD is no longer permitted to make utility adjustments or any other type of retroactive payment. Accordingly, PHAs shall not record a receivable or payable on their books of account for the FFY 2003 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2003) utility adjustment that would normally flow into the FFY 2005 (PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2005) operating subsidy calculation. PHAs are still required to submit all utility adjustment forms to HUD within the required time frame for informational and review purposes. The amount should be reviewed and reported on Part F, Line 1, "Utility Adjustment for Prior Years," of form HUD-52723.

New Units and Deprogrammed Units: Notice PIH 2004-9 also explains that PHAs may no longer estimate new units and deprogrammed units for the purpose of determining operating subsidy and its associated components including units, unit months available, occupancy percentage, etc. PHAs may adjust forms HUD-52723, HUD-52728, HUD-52722-A, and other associated forms for new units and deprogrammed units. PHAs may adjust these forms for their 2005 budget period to incorporate new units that reach the End of Initial Operating Period

(EIOP) on or after September 30, 2004 (i.e., FFY 2005). Similarly, PHAs may adjust these forms to incorporate changes in inventory due to deprogrammed units.

1. **New units eligible to receive subsidy or units deprogrammed in FFY 2005 (i.e., reached EIOP on September 30, 2004, and after) but still in the PHA's 2004 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2004).** The amount of operating subsidy for these units should be shown on Part D, Line 14, "Other Approved Funding, Not Listed," of form HUD-52723. The PHA should base the calculation of subsidy amount on the allowable expense level, allowable utility expense level, rent information, etc., of the PHA's 2004 budget period. The amount on Part D, Line 14 should not be prorated because it will ultimately be prorated at the 2005 proration level.
2. **New units eligible to receive subsidy or units deprogrammed in FFY 2005 and in the PHA's 2005 budget period (i.e., PHA fiscal years beginning January 1, April 1, July 1, and October 1, 2005).** These new units or changes in deprogrammed units should be reflected in Section 1(d), "No. of HA Units," and (e) "Units Months Available (UMAs)" of form HUD-52723, and therefore, will be included when calculating the amount of operating subsidy for the PHA's 2005 budget period. In the case of deprogrammed units, these changes may also be reflected in Part A, Line 13, "Costs Attributable to Deprogrammed Units," and Part D, Line 8, "Phase Down for Demolitions."

3. Submissions.

Preparation of Subsidy Calculation Forms: With the release of the above factors and information, PHAs are now equipped to determine their FFY 2005 operating subsidy eligibility. PHAs may download the forms needed for their subsidy calculation from the following website, www.hud.gov/offices/pih/divisions/ffmd, and prepare them according to the form instructions. Required certifications and PHA Board approval will also be needed. A Dun and Bradstreet Universal Numbering System (DUNS) identification number will be required for all PHAs requesting operating subsidy. All PHAs should have already obtained this number as it was also a requirement for FFY 2004. The SF-424, "Application For Federal Assistance," is again a required submission as part of a government-wide grants management initiative.

Generally, a PHA will be submitting the following completed forms:

- **Form SF-424, Application For Federal Assistance**
- **Form HUD-52723, Calculation of Operating Subsidy**
- **Form HUD-52728, Calculation of Occupancy Percentage For a Requested Budget Year (RBY)**
- **Form HUD-52722-A, Calculation of Allowable Utilities Expense Level (for the RBY)**
- **Form HUD-52722-B, Adjustment for Utility Consumption and Rates (for FYEs 12/31/03, 3/31/04, 6/30/04, or 9/30/04, as appropriate)**

- **Form HUD-52574**, PHA Board Resolution
- **Form HUD-50071**, Certification of Payments to Influence Federal Transactions

Please note the following:

- A PHA that is designated a Troubled PHA will also be submitting its Operating Budget, **form HUD-52564**. However, as stated in Notice PIH 2004-9, the Operating Budget is no longer an obligating document and should be completed using a budget estimate for operating subsidy.
- PHAs should use only current forms provided by HUD when submitting their budget information. The submission of older or alternate forms may result in a delay in processing and obligating funds.

Schedule for Submission of Operating Subsidy Calculation: For operating subsidy funded in FFY 2005, PHAs will use the following schedule in submitting to the appropriate Field Office:

- PHAs with fiscal years beginning January 1, 2005, **must submit their required documentation by October 22, 2004.**
- PHAs with fiscal years beginning April 1, 2005, **must submit their required documentation by November 12, 2004.**
- PHAs with fiscal years beginning July 1, 2005, **must submit their required documentation by April 1, 2005.**
- PHAs with fiscal years beginning October 1, 2005, **must submit their required documentation by May 13, 2005.**

PHAs' adherence to this schedule is necessary for HUD to determine an accurate initial operating subsidy funding level prior to January 1, 2005. Initial funding levels may be adjusted throughout the year.

A PHA that fails to submit its required documentation according to the above schedule will be subject to a suspension and/or loss of operating subsidy payments.

Revisions to Operating Subsidy Calculations: For FFY 2005, revisions to a PHA's operating subsidy eligibility will be limited to revisions due to new units and deprogrammed units, and mathematical, clerical and informational system errors only. Given this limitation, it is advisable that PHAs with tenant-purchased utilities amend, as appropriate, their utility allowance schedules in advance of the date by which projected rental revenue is calculated. Revisions to operating subsidy calculations must be submitted according to the following schedule:

- PHAs with fiscal years beginning January 1 and April 1, 2005, must submit their revisions and the required supporting documentation by June 3, 2005, with the exception of revisions due to new or deprogrammed units.
- PHAs with fiscal years beginning July 1 and October 1, 2005, and PHAs with fiscal years beginning January 1 and April 1, 2005, that have revisions due to new or deprogrammed units, must submit their revisions and the required supporting documentation by August 12, 2005.

Issuance of Initial Operating Subsidy Distribution Level and Approval of Operating Subsidy Calculations: HUD will use the submitted documentation and exercise all available adjustment powers as needed to determine an appropriate level for FFY 2005. HUD will then approve operating subsidy calculations at that level.

If additional information is needed, please contact your local Field Office.

Paperwork Reduction: The information collection requirements contained in this notice have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C.3520) and assigned OMB control numbers 2577-0026, 2577-0029 and 2577-0066. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

/s/
Michael Liu
Assistant Secretary for Public and
Indian Housing

Attachments:

Appendix 1, Operating Fund Local Inflation Factors

Appendix 2, Listing of Metropolitan Areas

Appendix 3, Operating Fund Calculation of Formula and Delta
for Requested Budget Year FFY2005

Appendix 4, Formula Expense Level Increase Worksheet for FFY 2005
Fiscal Years Beginning 1/1/05, 4/1/05, 7/1/05, and 10/1/05

Distribution: W-3-1

Previous editions are obsolete

form HUD-21-B (3/80)



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of:	Notice	PIH 2005- 27 (HA)
Public Housing Agencies	Issued:	July 12, 2005
Public Housing Hub Office Directors	Expires:	July 31, 2006
Public Housing Program Center Directors		
Regional Directors		
Field Office Directors		
Resident Management Corporations	Cross Reference:	

SUBJECT: Transition of Operating Subsidy Funding to a Calendar Year Basis and Associated Modifications to the Federal Fiscal Year 2005 Calculation of Operating Subsidy

1. Purpose

This notice provides public housing agencies (PHAs) and field offices with guidance necessary to understand the calculation of Federal Fiscal Year (FFY) 2005 operating subsidy in accordance with the Consolidated Appropriations Act of 2005 (Public Law 108-447).

2. Background

The Consolidated Appropriations Act of 2005 directed HUD to convert from funding operating subsidy based on PHA fiscal year to funding based on the calendar year. This change will allow HUD to predict more accurately initial subsidy proration (when necessary). It will also provide all PHAs with an equal amount of time to submit revision requests.

3. Public Housing Operating Fund Appropriation Language

Included below is the full text of the language from the Consolidated Appropriations Act of 2005 relating to this change to a calendar year funding basis:

"...Provided further, That any such 2005 payment shall be provided in an amount sufficient to cover only the period beginning with the start of a public housing agency's fiscal year and ending December 31, 2005: Provided further, That for fiscal year 2006 and all fiscal years thereafter, the Secretary shall provide assistance under this heading to public housing agencies on a calendar year basis: Provided further, That in fiscal year 2005 and fiscal years hereafter, no amounts under this heading in an appropriations Act may be used for payments to public housing agencies for the costs of operation and management of public housing for any year prior to the current year of such Act:"

4. Funding Cycle

In the past, PHAs received 12 months of operating subsidy funding based on their fiscal year beginning. For example, the FFY 2004 Appropriations Act funded PHAs with the fiscal years January 1, 2004, to December 31, 2004; April 1, 2004, to March 31, 2005; July 1, 2004, to June 30, 2005; and October 1, 2004, to September 30, 2005.

As per the Consolidated Appropriations Act of 2005, FFY 2005 is a transition funding year for the Public Housing Operating Fund Program. HUD will fund PHAs with fiscal years that begin in 2005 only for the number of months within that PHA's fiscal year that are in calendar year 2005. Accordingly, with FFY 2005 appropriations, PHAs with fiscal years beginning January 1, 2005, will receive twelve months of funding; PHAs with fiscal years beginning April 1, 2005, will receive nine months of funding; PHAs with fiscal years beginning July 1, 2005, will receive six months of funding; and PHAs with fiscal years beginning October 1, 2005, will receive three months of funding. The following chart shows the number of months funded for each PHA from the FFY 2005 appropriations.

PHA Fiscal Year	FFY 2005 Appropriations	
	Time Period Funded	Months Funded
01/01-12/31	01/01/05-12/31/05	12 months
04/01-03/31	04/01/05-12/31/05	9 months
07/01-06/30	07/01/05-12/31/05	6 month
10/01-09/30	10/01/05-12/31/05	3 months

Beginning with the FFY 2006 appropriations, all PHAs will receive 12 months of funding for calendar year 2006, regardless of their fiscal year beginning and ending dates. The FFY 2006 appropriations will fund all PHAs for the period beginning January 1, 2006, and ending December 31, 2006.

This transition of operating subsidy funding to a calendar year basis is shown in the Funding Cycle Table, below.

Funding Cycle Table

PHA Fiscal Year	2004				2005				2006			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
PHA: 01/01-12/31	2004 Appropriations				2005 Appropriations				2006 Appropriations			
PHA: 04/01-03/31		2004 Appropriations			2005 Appropriations				2006 Appropriations			
PHA: 07/01-06/30			2004 Appropriations		2005 Appro...				2006 Appropriations			
PHA: 10/01-09/30				2004 Appropriations			2005...		2006 Appropriations			

(Qtr 1 is January 1st - March 31st; Qtr 2 is April 1st - June 30th; Qtr 3 is July 1st - September 30th; and Qtr 4 is October 1st - December 31st)

As an example, consider the Anytown PHA whose fiscal year begins July 1st and ends June 30th:

- **FFY 2004.** Under fiscal year funding, the Anytown PHA began receiving operating subsidy from the FFY 2004 appropriations on July 1, 2004 (Qtr 3 in 2004). The Anytown PHA received 12 months of operating subsidy from the FFY 2004 appropriations through June 30, 2005 (Qtr 2 in 2005).
- **FFY 2005.** During the transition year, the Anytown PHA began receiving operating subsidy from the FFY 2005 appropriations on July 1, 2005 (Qtr 3 in 2005). The Anytown PHA will receive six months of operating subsidy from the FFY 2005 appropriations through December 31, 2005 (Qtr 4 in 2005). The remainder of the PHA's fiscal year operating subsidy will be provided under the FFY 2006 appropriations.
- **FFY 2006.** Under calendar year funding, the Anytown PHA will begin receiving operating subsidy from the FFY 2006 appropriations on January 1, 2006 (Qtr 1 in 2006). The Anytown PHA will receive 12 months of operating subsidy from the FFY 2006 appropriations through December 31, 2006 (Qtr 4 in 2006). Essentially, the first six months of subsidy will be provided for the last six months of the PHA's fiscal year beginning July 1, 2005, and the remaining six months of subsidy will be provided for the first six months of the PHA's fiscal year beginning July 1, 2006.

5. Explanation of Modifications HUD Headquarters (HQ) Will Make to the Calculation of Operating Subsidy (form HUD-52723) Due to the Calendar Year Shift

For FFY 2005, PHAs and field offices continued to follow PIH Notice 2004-14, *Guidance on Methods and Schedules for Calculating Federal Fiscal Year 2005 Operating Subsidy Eligibility*, and the instructions on HUD's operating subsidy forms. Forms were prepared for the PHA's entire fiscal year without regard to the calendar year shift. **HQ will make all modifications to the Calculation of Operating Subsidy, form HUD-52723, that are necessary to comply with the FFY 2005 appropriations.**

Individual line items that HQ will modify include the following:

- **Line A02 –Age Factor; line A07 – Inflation Factor; and line B09 – Rental Income Adjustment Factor.** These factors are based on the assumption that a PHA will receive 12 months of funding. To move to calendar year funding during FFY 2005, HQ will recalculate these three factors by using an adjustment factor based on the PHA's fiscal year. The adjustment factor is calculated by dividing the number of months a PHA is to be funded from the FFY 2005 appropriation by 12. This approach is similar to the procedure HUD uses for PHAs that change their fiscal year ends.

PHA Fiscal Year Beginning	Adjustment Factor for the Age, Inflation, and Rental Income Adjustment Factors
January 1, 2005	1.00
April 1, 2005	.75
July 1, 2005	.50
October 1, 2005	.25

- **Line A02 – Age Factor.** The age factor of .005 is given on the form HUD-52723 and will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, HUD would apply an adjustment factor of .50 to the age factor, reducing the age factor from .005 to .0025 (.005 times .50).
- **Line A07 – Inflation Factor.** The inflation factor is given in Appendix 1 of PIH Notice 2004-14 and the numbers to the right of the decimal point will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, where the inflation factor is 1.022, HUD would apply an adjustment factor of .50 to the numbers to the right of the decimal point of the inflation factor, reducing the inflation factor from 1.022 to 1.011.
- **Line B09 – Rental Income Adjustment Factor.** The rental income adjustment factor of 1.03 is given on the form HUD-52723 and the numbers to the right of the decimal point will be adjusted by the applicable factor. For example, in the case of the Anytown PHA, HUD would apply an adjustment factor of .50 to the numbers to the right of the decimal point of the rental income adjustment factor, reducing the rental income adjustment factor from 1.03 to 1.015.
- **Lines A12 and E2 – Audit Costs:** Because audit costs are a one time yearly expense for a PHA, no adjustment will be applied to this line item beyond the final proration factor in determining the operating subsidy for FFY 2005.
- **Line D14 – Other Approved Funding, Not Listed:** On a case-by-case basis, HQ will evaluate *Line D14 – Other Approved Funding, Not Listed*. Depending on what the amount reflected on line D14 represents, the amount may be adjusted by the number of months for which the PHA is to receive operating subsidy or the amount may only be adjusted by the final proration factor. Examples of amounts that will only be adjusted by the final proration factor include operating subsidy for new or deprogrammed units.

6. Reflection of Modifications on the Calculation of Operating Subsidy (form HUD-52723)

The modified eligibility for each PHA will be determined based on the individual line items that require special treatment described above and the number of months the PHA is to be funded in calendar year 2005. Proration will then be applied to each PHA's

modified eligibility to determine the final obligation. These changes will be reflected as follows:

- **Line F05 – Other (specify).** After HQ calculates a PHA's modified eligibility as described above, the change will be reflected on *Line F05 - Other (specify)*. For example, in the case of the Anytown PHA, the PHA's original eligibility before any adjustments is \$1,015,000, of which \$10,000 represents audit costs and new units.
 - After the modifications to the age factor, inflation factor, and rental income adjustment factor are applied to the Anytown PHA's calculation, the eligibility is reduced to \$1,010,000.
 - The \$1,000,000 eligibility without audit costs or new units is multiplied by 6/12 (fraction representing the number of months in calendar year 2005 for which the PHA will be funded), resulting in a modified eligibility without audit costs or new units of \$500,000.
 - The \$10,000 in audit costs and new units is added back for a modified eligibility of \$510,000.
 - The difference between the original eligibility (\$1,015,000) and modified eligibility (\$510,000) of -\$505,000 will be reflected on Line F05.
- **Line F07 – Unfunded portion due to proration.** The FFY 2005 appropriation will be divided by the modified eligibility of all PHAs to determine the proration level. Then, this proration level will be applied to each PHA's modified eligibility to determine the final obligation amount. As always, the difference between eligibility and the final obligation resulting from the proration level will be reflected on *Line F07 – Unfunded portion due to proration*. For example, in the case of the Anytown PHA:
 - Assuming a proration level of 89%, the modified eligibility of \$510,000 is multiplied by .89 for a final obligation of \$453,900.
 - The difference between the modified eligibility (\$510,000) and the final obligation (\$453,900) of -\$56,100 will be reflected on Line F07.

Each PHA will receive its final Calculation of Operating Subsidy, form HUD-52723, that will show the net change in Line F05 – Other (specify), and Line F07 – Unfunded portion due to proration. Each PHA will also receive a detailed calculation showing all of the modifications and the impact on the PHA's eligibility.

7. Other Processing Notes

PHA-Owned Mutual Help and Turnkey III Homeownership Opportunity Projects:

PHAs with PHA-Owned Mutual Help and Turnkey III projects will have their final obligation amount based only on:

- The operating subsidy eligibility before adjustments on their submitted and approved FFY 2005 form HUD-53087, Calculation of Subsidies for Operations – Non-Rental Housing;
- The number of months to be funded in calendar year 2005; and
- The final proration level.

PHA Fiscal Years and Operating Budgets:

The change to a calendar year funding cycle does not affect a PHA's fiscal year. The funding cycle change does not change any fiscal year related reporting requirements, such as the operating budgets, financial statements, or the audit. At this time, HUD is not approving fiscal year end changes based solely on the change in the funding cycle.

FFY 2006 Calculation of Operating Subsidy:

The change to a calendar year funding cycle also will impact the FFY 2006 Calculation of Operating Subsidy. HUD is currently preparing a Notice to that effect.

Paula O. Blunt, General Deputy Assistant for
Public and Indian Housing



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of	Notice PIH 2005- 35 (HA)
Public Housing Agencies	Issued: November 15, 2005
Public Housing Hub Office Directors	Expires: November 30, 2006
Public Housing Program Center Directors	
Regional Directors	
Field Office Directors	
Resident Management Corporations	Cross Reference:

Subject: Guidance on Methods and Schedules for Calculating Federal Fiscal Year (FFY) 2006 Operating Subsidy Eligibility and Issuance of Local Inflation Factors, Formula Expense Level Equation Multipliers, and Related Tables

1. Purpose

This notice provides public housing agencies (PHAs) with information needed to complete their FFY 2006 operating subsidy forms. It includes a schedule for the submission of certain items to HUD, local inflation factors, data needed for the recalculation of the formula expense level, and other special notes related to the operating subsidy forms and processing.

As described in the Federal Register notice, Revisions to the Public Housing Operating Fund Program; Corrections to Formula Implementation Date (70 FR 61366), published October 24, 2005, the Department will implement the new operating fund formula beginning in calendar year 2007. Therefore, in accordance with the instructions provided in this notice, PHAs will calculate their operating subsidy for calendar year 2006 under the current (interim) formula.

2. Calendar Year Funding

In the Consolidated Appropriations Act of 2005 (Public Law 108-447), Congress provided the following language under the Public Housing Operating Fund:

“...Provided further, That any such 2005 payment shall be provided in an amount sufficient to cover only the period beginning with the start of a public housing agency’s fiscal year and ending December 31, 2005; Provided further, That for fiscal year 2006 and all fiscal years thereafter, the Secretary shall provide assistance under this heading to public housing agencies on a calendar year basis...”

As described in Notice PIH 2005-27, *Transition of Operating Subsidy Funding to a Calendar Year Basis and Associated Modifications to the Federal Fiscal Year 2005 Calculation of Operating Subsidy*, to comply with the appropriation language, HUD provided operating subsidy from the FFY 2005 appropriation to all PHAs eligible to receive it through December 31, 2005,

regardless of their fiscal year end. Therefore, in accordance with the guidance in this notice, all PHAs will be funded from the FFY 2006 appropriation for the calendar year January 1, 2006, through December 31, 2006.

3. Overview of FFY 2006 Processing

In order to allow adequate time for PHAs to submit, field offices to review, and Headquarters to process the operating subsidy forms, HUD will initially obligate two calendar quarters of operating subsidy to PHAs based on their FFY 2005 operating subsidy forms. (See Notice PIH 2005-31, *Federal Fiscal Year (FFY) 2006 Initial Determination and Obligation of Operating Subsidy*). HUD may need, however, to obligate funds in several increments over the first two calendar quarters if HUD is under a Continuing Resolution. Once PHAs submit their FFY 2006 operating subsidy forms under the current (interim) formula, HUD will determine the amount of operating subsidy that should be obligated to PHAs for the calendar year beginning January 1, 2006. HUD will then deduct the amount that has already been obligated based on the FFY 2005 operating subsidy forms to determine the additional amount of operating subsidy that needs to be obligated to PHAs for the balance of calendar year 2006.

The remainder of this notice provides instructions for submission of the FFY 2006 operating subsidy forms.

4. Calculations (Including Special Instructions Due to the Calendar Year Transition)

The FFY 2006 operating subsidy forms must be completed for the period of January 1, 2006, through December 31, 2006. For FFY 2006, all references to requested budget year (RBY) in 24 CFR part 990 and on the operating subsidy forms will refer to this period. Unless otherwise noted, the following instructions apply to form HUD-52723, Operating Fund Calculation of Operating Subsidy, OMB approval number 2577-0029, expires June 30, 2006.

Units and Unit Months Available (UMA). Section 1(d), of form HUD-52723, "No. of HA Units," and (e), "Units Months Available (UMAs)," should reflect units and UMAs from January 1, 2006, through December 31, 2006.

Operating Fund Project Number. For all PHAs, the last three digits of the operating fund project number will be "06D."

Allowable Expense Level (AEL). Part A, Line 01, of form HUD-52723, "Previous allowable expense level," must equal Part A, Line 08, "Revised allowable expense level," of the FFY 2005 form HUD-52723. Due to the calendar year transition in FFY 2005, Headquarters modified the amount on Part A, Line 08, of the FFY 2005 form HUD-52723. PHAs must enter the modified amount from Part A, Line 08, of the FFY 2005 form HUD-52723 on Part A, Line 01, of the FFY 2006 form HUD-52723. The AEL for each PHA that should be entered on Part A, Line 01, of the FFY 2006 form HUD-52723, is also available on the Operating Subsidy website at:

<http://www.hud.gov/offices/pih/divisions/ffmd/of/>

Recalculation of Formula Expense Level. A small number of PHAs may have to adjust their AELs in FFY 2006 to reflect significant changes to the characteristics of their unit inventories. If a PHA needs to complete Part A, Line 03, "Delta from form HUD-52720 B, if applicable" (known as a "long delta" calculation), it should refer to the information contained in Appendices 3 and 4.

Local Inflation Factors. Part A, Line 07, of form HUD-52723, "Inflation factor," should be completed using Appendix 1 of this notice. If a PHA is unsure whether it should apply the metropolitan or non-metropolitan inflation factor, it should consult the listing of metropolitan areas contained in Appendix 2.

Allowable Utilities Expense Level. Part A, Line 11, of form HUD-52723, "Allowable utilities expense level from form HUD-52722 A," is calculated using form HUD-52722 A, Calculation of Allowable Utilities Expense Level. On the form HUD-52722 A for FFY 2006:

- Lines 01 through 03, "UMA and actual consumption for old projects for 12 month period which ended...." PHAs should continue to enter UMA and consumption data on Lines 01 through 03 based on their fiscal year end, as follows:

Form HUD-52722	UMA and Actual Consumption Based on PHA Fiscal Year End			
	12/31	3/31	6/30	9/30
Line 01	12/31/04	3/31/05	6/30/05	9/30/05
Line 02	12/31/03	3/31/04	6/30/04	9/30/04
Line 03	12/31/02	3/31/03	6/30/03	9/30/03

- Line 08, "Estimated UMA and consumption for new projects." PHAs should estimate UMAs and consumption for new projects for the period of January 1, 2006, through December 31, 2006.
- Line 13, "Rate." As stated in the instructions for form HUD-52722 A, PHAs should enter the current applicable rate in effect at the time of submission, except where prior to the date of submission, the appropriate utility commission has approved and published rate changes for future implementation. If a PHA is using an approved rate increase, it must submit appropriate supporting documentation.

Audit Cost. Part A, Line 12, of form HUD-52723, "Actual PUM cost of Independent Audit." PHAs should continue to enter their most recent actual audit cost related to the Operating Fund Program if the PHA has not yet received operating subsidy for the audit.

Average Monthly Dwelling Rental Charge per Unit. The dwelling rental income calculation in Part B of form HUD-52723 utilizes a three-year average monthly dwelling rental charge per unit.

- Part B, Line 03, of form HUD-52723, "Average monthly dwelling rental charge per unit for current budget year." This amount is calculated by dividing Part B, Line 01, "Total rent roll," by Part B, Line 02, "Number of occupied units as of rent roll date." 24 CFR §

990.109(b)(2)(i) instructs PHAs to use a rent roll dated on the first day of the month which is six months before the first day of the RBY. If there is a change in the rent roll in a subsequent month before the beginning of the RBY, and before the submission of the RBY operating subsidy forms, the PHA may use the latest changed rent roll for the purpose of the calculation. (Note that the instructions for Part B, Line 01, "Total Rent Roll," on the current form HUD-52723 are incorrect for determining the date of the rent roll used to calculate the average monthly dwelling rental charge per unit.) For FFY 2006, all PHAs should use a rent roll dated July 1, 2005, unless there is a change in rent roll in a subsequent month before January 1, 2006, in which case the PHA may use the latest changed rent roll.

- Part B, Line 04, of form HUD-52723, "Average monthly dwelling rental charge per unit for prior budget year." PHAs should enter the amount on Part B, Line 03, of the form HUD-52723 for FFY 2005.
- Part B, Line 05, of form HUD-52723, "Average monthly dwelling rental charge per unit for budget year 2 years ago." PHAs should enter the amount on Part B, Line 04, of the form HUD-52723 for FFY 2005.

Rental Income Adjustment Factor. Part B, Line 09, of form HUD-52723, "Rental Income Adjustment Factor," is provided pursuant to 24 CFR § 990.109(b)(5). PHAs will use 3 percent as the adjustment factor for their FFY 2006 calculation.

Occupancy Percentage. Part B, Line 11, of form HUD-52723, "Projected occupancy percentage from form HUD-52728," is calculated using form HUD-52728, HA Calculation of Occupancy Percentage for a Requested Budget Year (RBY), OMB approval number 2577-0066, expires December 31, 2005. On form HUD-52728, PHAs are instructed to use a report date that, unless otherwise approved by HUD, will be the last day of the month ending six months before the start of the RBY, or the monthly average for the month ending six months before the start of the RBY. For FFY 2006, all PHAs should use a report date of June 30, 2005, or the monthly average for June 2005, unless otherwise approved by HUD.

Add-ons. In general, add-ons in Part D of form HUD-52723 should be calculated for the period from January 1, 2006, through December 31, 2006. For example, on Part D, Line 08, "Phase down for demolitions," a PHA that is eligible to receive a phase down for demolitions must determine the applicable percentages (100 percent, 66 percent, or 33 percent) of funding during the period of January 1, 2006, through December 31, 2006 (and exclude those units from the number of units and UMAs in sections 1(d) and (e), as applicable).

Elderly/Disabled Service Coordinator Program. For FFY 2006, the public housing share of the reasonable cost of salary, fringe benefits and other administrative costs for the Elderly/Disabled Service Coordinator (EDSC) Program will again be funded through operating subsidy. Only PHAs that previously received funding through the Resident Opportunities and Self-Sufficiency (ROSS) grant for the EDSC program will be eligible to receive operating subsidy to fund this activity.

PHAs will be funded at the same level as through the ROSS grant with an annual adjustment for inflation. For FFY 2006, the adjustment for inflation shall be no greater than the local inflation factor provided in Appendix 1.

The subsidy amount for the EDSC program will be entered on Part D, Line 03, "Family Self-Sufficiency Program," of form HUD-52723. Please note that, contrary to its title, Part D, Line 03, "Family Self-Sufficiency Program," may only include an amount for the EDSC program (if the PHA is eligible to receive it).

- The Public Housing Family Self-Sufficiency (FSS) Program will again be funded as a competitive grant under the ROSS grant. PHAs with Public Housing FSS programs will no longer receive operating subsidy for the Public Housing coordinator salary and fringe benefits. However, PHAs may continue to receive operating subsidy for FSS program supportive service dwelling unit(s). This amount should be reported on Part D, Line 06, "Non-dwelling units approved for subsidy," of form HUD-52723. No amount pertaining to the FSS program may be entered on Part D, Line 03.
- The ROSS grant also funds the Resident Services Delivery Model – Elderly/Persons with Disabilities Program. This amount continues to be funded as a competitive grant under ROSS. No amount pertaining to the Resident Services Delivery Model – Elderly/Persons with Disabilities Program may be entered on Part D, Line 03.

Utility Adjustments. Under current appropriation law, HUD is no longer permitted to make utility adjustments or any other type of retroactive payment for prior years. Accordingly, PHAs shall not record a receivable or payable on their books of account for the FFY 2004 (PHA fiscal years ending December 31, 2004, March 31, 2005, June 30, 2005, or September 30, 2005) utility adjustment that would normally flow into the FFY 2006 (beginning January 1, 2006, for all PHAs) operating subsidy forms. PHAs are still required to submit all utility adjustment forms to HUD within the required time frame for informational and review purposes. The amount should be reviewed and reported on Part F, Line 01, "Utility Adjustment for Prior Years," of form HUD-52723.

New Units and Deprogrammed Units. PHAs may no longer estimate new units and deprogrammed units for the purpose of determining operating subsidy and its associated components including units, UMAs, etc. PHAs may adjust forms HUD-52723, HUD-52728, HUD-52722 A, and other associated forms for new units and deprogrammed units. PHAs may adjust these forms for FFY 2006 to incorporate new units that reach the end of initial operating period on or after September 30, 2005. Similarly, PHAs may adjust these forms to incorporate changes in inventory due to deprogrammed units.

- 1) **New units eligible to receive operating subsidy or units deprogrammed between October 1, 2005, and December 31, 2005.** These new units or deprogrammed units were not known at the time of the FFY 2005 revision deadline and, therefore, could not be included on the FFY 2005 operating subsidy forms. The amount of operating subsidy for these units for the three-month period from October 1, 2005, through December 31, 2005, should be reflected on Part D, Line 14, "Other Approved Funding, Not Listed," of the FFY

2006 form HUD-52723. PHAs should calculate the amount on Part D, Line 14, based on the allowable expense level, allowable utility expense level, rent information, etc., from the PHA's FFY 2005 operating subsidy forms. The amount entered on Part D, Line 14, should not be prorated because it will ultimately be prorated at the FFY 2006 proration level.

- 2) **New units eligible to receive operating subsidy or units deprogrammed between January 1, 2006, and the FFY 2006 revision deadline.** These new units or deprogrammed units should be reflected in Section 1(d), "No. of HA Units," and (e), "Units Months Available (UMAs)," of form HUD-52723 and, therefore, will be included when calculating the amount of operating subsidy for FFY 2006. In the case of deprogrammed units, these changes may also be reflected in Part A, Line 13, "Costs attributable to deprogrammed Units," and Part D, Line 08, "Phase down for demolitions." A PHA may submit a revision for new units or deprogrammed units. All revisions must be submitted by July 7, 2006.

Moving-to-Work (MTW) Agencies. PHAs that are participants in the MTW Demonstration Program will compute their operating subsidy eligibility according to their agreements.

5. Submission of Operating Subsidy Forms

Preparation of Operating Subsidy Forms. With the release of the above factors and information, PHAs are now equipped to determine their FFY 2006 operating subsidy eligibility. PHAs may download the operating subsidy forms needed for their operating subsidy eligibility calculation from the Operating Subsidy website.

PHAs shall prepare them according to the form instructions. A Dun and Bradstreet Universal Numbering System (DUNS) identification number will be required for all PHAs requesting operating subsidy. All PHAs should have already obtained a DUNS identification number as it was also a requirement for FFYs 2004 and 2005.

Generally, a PHA will be submitting the following completed operating subsidy forms:

- **Form SF-424**, Application For Federal Assistance
- **Form HUD-52723**, Operating Fund Calculation of Operating Subsidy
- **Form HUD-52728**, HA Calculation of Occupancy Percentage For a Requested Budget Year (RBY)
- **Form HUD-52722 A**, Calculation of Allowable Utilities Expense Level (for the RBY)
- **Form HUD-52722 B**, Adjustment for Utility Consumption and Rates (for FYEs December 31, 2004, March 31, 2005, June 30, 2005, or September 30, 2005, as appropriate)
- **Form HUD-50071**, Certification of Payments to Influence Federal Transactions

The following are no longer required as part of the operating subsidy forms, but must still be submitted prior to the beginning of the PHA's fiscal year:

- **Form HUD-52574**, PHA Board Resolution
- A PHA that is designated a troubled PHA shall also submit **form HUD-52564**, Operating Budget. As stated in Notice PIH 2004-9, the operating budget is no longer an obligating document and should be completed using a budget estimate for operating subsidy.

PHAs should use only current forms when submitting their operating subsidy eligibility calculations. The submission of older or alternate forms may result in a delay in processing and obligating funds.

PHAs can also use an Excel Tool available at the Operating Subsidy website. The Excel Tool may be used by PHAs to assist with their calculations. Instructions for using the Excel Tool are also provided on the website.

Schedule for Submission of Operating Subsidy Forms. For FFY 2006, all PHAs must submit their required documentation to the field office by December 31, 2005. **A PHA that fails to submit its required documentation by December 31, 2005, will be subject to a suspension and/or loss of operating subsidy payments.**

Revisions to Operating Subsidy Forms. For FFY 2006, revisions to a PHA's operating subsidy forms will be limited to revisions due to new units and deprogrammed units, and the correction of errors only. Given this limitation, it is advisable that PHAs with tenant-purchased utilities amend, as appropriate, their utility allowance schedules in advance of the date by which projected rental revenue is calculated. All revisions to operating subsidy forms must be submitted by July 7, 2006.

Mutual Help and Turnkey III Projects. The operating subsidy provided to a Mutual Help or Turnkey III Project is partially based on the project's operating budget. PHAs requesting operating subsidy for Mutual Help and Turnkey III Projects should base the FFY 2006 operating subsidy calculation on the most recent approved operating budget at the time of submission, which is December 31, 2005.

Approval of Calculations. HUD will use the submitted documentation and exercise all available adjustment powers, as needed, to determine an appropriate level for FFY 2006. HUD will then approve calculations at that level. If additional information is needed, please contact your local field office.

Paperwork Reduction. The information collection requirements contained in this notice have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C.3520) and assigned OMB control numbers 2577-0026, 2577-0029 and 2577-0066. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

6. Questions

If you have any questions regarding this notice, please contact your local Public Housing field office.

/s/

Paula O. Blunt, General Deputy Assistant Secretary
for Public and Indian Housing

Attachments:

Appendix 1, Operating Fund Local Inflation Factors

Appendix 2, Listing of Metropolitan Areas

Appendix 3, Operating Fund Calculation of Formula and Delta for FFY 2006

Appendix 4, Formula Expense Level Increase Worksheet for FFY 2006

Exhibit "B"

EXHIBIT B

The schedule below reflects PHA's water expenses for the last 5 fiscal years and the effect of the reduced discount rate.

PHA FY	PHA paid (5%)	25% Discount	Difference
FY 2004	\$7,229,579.52	\$5,707,562.78	\$1,522,016.75
FY 2005	7,715,395.10	6,091,101.40	1,624,293.70
FY 2006	8,422,585.89	6,649,409.91	1,773,175.98
FY 2007	9,862,410.41	7,786,113.48	2,076,296.93
FY 2008	9,358,535.13	7,388,317.21	<u>1,970,217.92</u>
		Difference	\$8,966,001.28

CERTIFICATE OF SERVICE

I hereby certify that on this date, a true and correct copy of the foregoing Direct Testimony of Kirk Dorn, General Manager of Communications of the Philadelphia Housing Authority, in accordance with the requirements of 52 Pa. Code §1.54 has been served by hand-delivery upon the following person(s):

Harris T. Bock, Esquire
Hearing Officer
The Dispute Resolution Institute
660 Two Logan Square
Philadelphia, PA 19103

Michael L. Galbraith
Hearing Officer
The Dispute Resolution Institute
660 Two Logan Square
Philadelphia, PA 19103

Philip A. Bertocci, Esquire
Thu B. Tran, Esquire
Community Legal Services
1424 Chestnut Street
Philadelphia, PA 19102

Andre Dasent, Esquire
1650 Market Street
Philadelphia, PA 19103

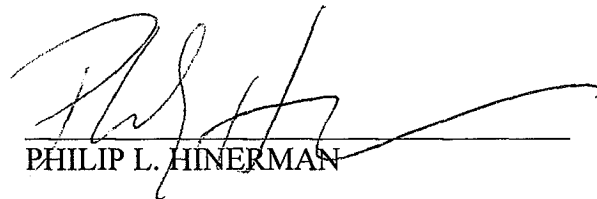
James P. Dougherty, Esquire
Charis Mincavage, Esquire
Shelby A. Linton-Keddie, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P. O. Box 1166
Harrisburg, PA 17108-1166

Daniel Delaney, Esquire
Kirkpatrick & Lockhart Preston Gates Ellis, LLP
17 North Second Street, 18th Floor
Harrisburg, PA 17101

Christine Knapp
Eastern Pennsylvania Outreach Coordinator
Citizens for Pennsylvania's Future
1518 Walnut Street, Suite 1100
Philadelphia, PA 19102

Kirk Dorn, General Manager, Communications
Finance and Administration
Philadelphia Housing Authority
12 South 23rd Street, 5th Floor
Philadelphia, PA 19103

Dianne Rosenthal, Assistant Executive Director
Finance and Administration
Philadelphia Housing Authority
12 South 23rd Street, 5th Floor
Philadelphia, PA 19103


PHILIP L. HINERMAN

Dated: August 13, 2008