Guidance on Calculating Formula Income

CY 2020 Operating Fund Grant

In order to provide PHAs with additional transparency on how inflation factors are derived, HUD has expanded the level of detail provided in its annual inflation factor guidance. This CY 2020 Formula Income Inflation Factor Guidance document explains how the data is derived, describes the calculations that are performed, provides the CY 2020 inflation rates and additional access to data which the industry can use to more deeply analyze the resulting inflation factors.

For CY 2020, Formula Income will be determined based on audited FY 2018 Fiscal Year End (FYE) financial statements approved in the Financial Assessment Subsystem (FASS). If an approved FY 2018 audited financial statement is unavailable, the approved FY 2018 unaudited financial statement provided by PHAs through HUD's information systems will be used to determine Formula Income. Data sources for Mixed-Finance projects may vary therefore, the methodology for determining Formula Income for mixed-finance properties is explained later in this guidance.

HUD will pre-populate the form HUD-52723 using rental income data from the Financial Data Schedule (FDS) Net Tenant Rental Revenue, Line Item 70300. The per unit month (PUM) Formula Income amount is calculated by dividing the Net Tenant Rental Revenue by Unit Months Leased (UMLs). Since PHAs have differing fiscal year ends (FYEs), the PUM Formula Income amount is inflated to the current year using a proportionate number of months and an annual rental income inflation factor of 4.25% for CY 2019 and 3.31% for CY 2020. The inflation factors of 4.25% and 3.31% are derived from Total Tenant Payment (TTP) data, reported by PHAs in the form HUD-50058. The calculation of inflated Formula Income (including the starting PUM Formula Income amount and Formula Income Inflation Factor) is published in the pre-pop data file posted on the CY 2020 Operating Fund Grant web page. The resulting inflated PUM Formula Income is pre-populated in the form HUD-52723, Section 3, Part B, Line 01.

Application of Rental Income Inflation Factor to the
PUM Formula Income and Fiscal Year End

Fiscal Year End	A Sample 2018 PUM Rent	B # of Months to Mid-2019	C Annual 2019 Inflation	D Total 2019 Inflation (Col C x Col B/ 12)	E 2020 Inflation Rate	F Total Inflation Rate for 2020 (Col D + Col E)	G Inflation Factor for Calculation (1 + Col F)	H Sample 2020 Inflated PUM Rent (Col A x Col G)
3/31/2018	$238.00	15	4.25%	5.31%	3.31%	8.62%	1.0862	$259
6/30/2018	$241.00	12	4.25%	4.25%	3.31%	7.56%	1.0756	$259
9/30/2018	$243.00	9	4.25%	3.19%	3.31%	6.50%	1.0650	$259
12/31/2018	$246.00	6	4.25%	2.13%	3.31%	5.44%	1.0544	$259

The form HUD-52723, Part B, Line 04 is auto-calculated [line 04 = (Part B, Line 03) x (Section 2, Column B, Line 15, Total Unit Months)] to produce the Total Formula Income.

PHAs may only substitute the pre-populated PUM Formula Income amount with a more recently submitted FY 2018 **FDS audited statement**. PHAs that edit the PUM Formula Income must certify to the Field Office that the data is derived from its more recently available audited FY 2018 FDS submission.

Where HUD has not pre-populated the form HUD-52723 with a PUM Formula Income because the FY 2018 **FDS financial statement** is unavailable **at the time that HUD pre-populated the form HUD-52723**, the PHA will populate the form HUD-52723 using its PUM Formula Income amount from their highest and best submitted FY 2018 financial statement. If the FY 2018 audited financial statement has not been **submitted**, the PHA may substitute a PUM Formula Income based on its submitted unaudited FY 2018 **FDS financial statement**. If an approved version of a FY 2018 financial statement is not available, a version that has not been approved may be used. The FY 2018 financial statement income must be inflated as shown in the Table above (herein on Page 2).

For "Mixed-Finance projects" where the project financial statement reflects rental income from occupancy other than public housing families, a PHA must submit a worksheet showing the PUM Formula Income that is attributable to public housing occupancy and a rent roll based on a financial statement. PHAs that submit a PUM Formula Income based on the project's status as a mixed-finance

project must notify HUD, via the comment section of the form HUD-52723, that the data is based on its FY 2018 audited or unaudited FDS submission; or, if not available, then the project owner's single asset audited financial statement. PHAs must submit owner-entity audited financial statements and rent rolls to the Field Office for Mixed-Finance projects where the FDS does not include a Formula Income figure. Note that if the Mixed-Finance project's FY 2018 financial statement has a different FYE than that of the PHA, the PUM Formula Income MUST be inflated based on the FYE of the Mixed-Finance project.

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Primarily New Projects

If a PHA's project financial statement data is inadequate or unavailable in HUD's information systems, HUD may determine a PUM Formula Income using data from **prior year audited or unaudited submitted financial statements, financial statements from similar projects**, or an alternative methodology including certifications or hard copy reports and communications with PHAs in accordance with 24 CFR 990.195(d), *Calculation of Formula Income when data are inadequate or unavailable*.

PHAs that have an approved Energy Performance Contract (EPC) with Resident-Paid Utilities (RPU) benefit will calculate Formula Income as stated above, and may receive an adjustment to the portion of Formula Income attributable to utility allowances on the form HUD-52723, Section 3, Part B, Line 2. Guidance on how to calculate the RPU benefit is located on the CY 2020 Operating Fund (OpFund) Grant Processing webpage. (Click on the weblink below.)

https://www.hud.gov/program_offices/public_indian_housing/programs/ph/am/opfnd2020

How to Calculate the 2020 Formula Income Inflation Factor

2020 Formula Income Inflation Factor Methodology

	A	B	C	D	E	F	G	H
Fiscal Year End	Sample 2018 PUM Rent	# of Months to Mid-2019	Annual 2019 Inflation	Total 2019 Inflation (Col C x Col B/ 12)	2020 Inflation Rate	Total Inflation Rate for 2020 (Col D + Col E)	Inflation Factor for Calculation (1 + Col F)	Sample 2020 Inflated PUM Rent (Col A x Col G)
3/31/2018	$238.00	15	4.25%	5.31%	3.31%	8.62%	1.0862	$259
6/30/2018	$241.00	12	4.25%	4.25%	3.31%	7.56%	1.0756	$259
9/30/2018	$243.00	9	4.25%	3.19%	3.31%	6.50%	1.0650	$259
12/31/2018	$246.00	6	4.25%	2.13%	3.31%	5.44%	1.0544	$259

Step One: Calculate 2020 Inflation Rates

Using Average Tenant Rents to calculate the 5-Year Average Growth rates:

Tenant Rent is the Total Tenant Payment (TTP) from the data reported by PHAs in the form HUD-50058. Where tenants pay for utilities directly, the TTP is net of a utility allowance. Average Tenant Rent is an average of each tenant's TTP in a given project.

2020 Inflation Calculation		
Reporting Year	**Average Tenant Rent**	**Growth Rate**
2015	$266	6.40%
2016	$275	3.38%
2017	$281	2.18%
2018	$285	1.42%
2019	$294	3.16%
2020 Inflation (5-yr. Average Growth)		3.31%

Note: Tenant Rents are based on living data collected on the form 50058, stored in PIC, and calculated by HUD's Office of Policy Development and Research (PD&R).

To ensure the most accurate estimates, FMD uses the most up to date data available, which can cause small fluctuations in Average Tenant Rent levels as our data matures

Step Two: Annualize Inflation Rates per PHA's Financial Calendar

Annualized Inflation Rates = [2019 Inflation Factor] x [Number of months between the end of the 2018 Fiscal Years, and 6/30/2019]

Fiscal Year End	# of Months to 6/30/2019	Total 2019 Inflation (Annualized)	Total 2019 Inflation
3/31/2018	15	4.25%	5.31%
6/30/2018	12	4.25%	4.25%
9/30/2018	9	4.25%	3.19%
12/31/2018	6	4.25%	2.13%

Step Three: Apply 2020 Inflation Factors

Add the Total 2019 Inflation (Annualized) to the Annual 2020 Inflation

Total Inflation Rate for 2020 = [Total 2019 Inflation (Annualized)] + [Annual 2020 Inflation]

Fiscal Year End	Total 2019 Inflation	Annual 2020 Inflation	Total Inflation Rate for 2020
3/31/2018	5.31%	3.31%	8.62%
6/30/2018	4.25%	3.31%	7.56%
9/30/2018	3.19%	3.31%	6.50%
12/31/2018	2.13%	3.31%	5.44%

Step Four: Inflate 2018 Rent by both 2019 and 2020 Inflation Rates

Sample 2020 Inflated PUM Rent = [2018 PUM Rent] x [Inflation Factor for Calculation]

2018 PUM Rent will be prepopulated in the 2020 form HUD-52723 for each project that reports revenue data in FDS. Instructions for those projects that do not report such data can be found earlier in this document.

Fiscal Year End	2018 PUM Rent	Total Inflation Rate for 2020	Inflation Factor for Calculation	Sample 2020 Inflated PUM Rent
3/31/2018	$238.00	8.62%	1.0862	$259
6/30/2018	$241.00	7.56%	1.0756	$259
9/30/2018	$243.00	6.50%	1.0650	$259
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Additional Background and Resources

Picture of Subsidized Housing

The Picture of Subsidized Housing can be used by the public to test the mean TTP figures used to derive the Formula Income Inflation Factor. https://www.huduser.gov/portal/datasets/assthsg.html).

Total Tenant Payment (TTP)
This tenant rent data is reported by PHAs on form HUD-50058.

Average Monthly Tenant Rent represents the sum of monthly TTP during a reporting period (7/1 – 6/30) divided by the total number households multiplied by twelve. A household is defined as an occupied public housing unit.