Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT
Charles D. Baker, Governor ◆ Karyn E. Polito, Lt. Governor ◆ Janelle Chan, Undersecretary

ADDENDUM #7 to Public Housing Notice 2019-14

To: All Local Housing Authority Executive Directors
From: Ben Stone, Associate Director, Division of Public Housing
Subject: **PEHO ROUND II State Public Housing Operating Funding Assumptions**
Date: January 9, 2020

Notice of Funding Availability - Public Housing Innovations (PHI)

Partnership to Expand Housing Opportunities (PEHO) Round II & Gateway Cities Revitalization Programs

1. **THIS ADDENDUM APPLIES TO PEHO ROUND II ONLY AND PROVIDES A CLARIFICATION ON THE OPERATING FUNDING ASSUMPTIONS:**

Page 7 of the PHI NOFA, "Operating Funding" states: *"DHCD will commit to maintaining the public housing operating subsidy at current levels for the replacement public housing units. The replacement public housing units will retain the same gross per-unit funding levels as are currently provided by DHCD, inflated by the same ANUEL increase (decrease) as the rest of the state public housing portfolio."*

When formulating the project operating budget, of key importance in assuming the appropriate operating assistance for the replacement state public housing units is the Allowable Non-Utility Expense Level, or "ANUEL," and not operating subsidy. The ANUEL is established by DHCD each year for all state public housing units statewide, and for each of the three program types (c.200 family, c.705 scattered-site family, and c. 667 elderly).

Importantly, the ANUEL sets the limit on the amount that an LHA (or other owner, if the property is no longer under LHA control) can spend on the state public housing's proportionate share of operating expenses, other than utility costs. As long as an owner does not exceed its ANUEL limit, it can assume that DHCD will provide enough operating subsidy to pay for operating expenses that tenant rents are not able to cover.

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In addition to filling this non-utility operating expense gap, the subsidy also pays the public housing unit's proportionate share of actual utility costs. Together, the ANUEL and the share of actual utility costs represent the gross per-unit funding level the owner can expect to receive as project revenue. The applicant should assume that the existing gross per-unit funding level will be retained for the replacement units.

For illustrative purposes only: in a given year the ANUEL for a c.200 project is $500 per unit month (PUM) and the actual utility cost is $75 per unit month. The applicant may assume that the gross per-unit funding level, or the revenue it will receive for the replacement units, is $575 per unit month. If tenants are paying rent of $100 per unit month, then state operating subsidy will make up the difference of $475 per unit month. Importantly, applicants should not add together tenant rent plus subsidy to determine the projected revenue for the replacement units.

Operating Subsidy Formula (for illustrative purposes only):
Total Budget (the sum of the ANUEL plus the actual cost of utilities) minus Non- Subsidy Income (mostly tenant-paid rent) equals State Operating Subsidy or ($500 +$75) - $100= $475.

Subject to DHCD review, the initial operating budget should calculate projected revenue for the replacement units as the ANUEL plus actual utility costs based on the LHA's historical utility cost data for the applicable development. In the illustration above, the applicant would assume that the project will receive $575 per unit month in revenue for the replacement units from all sources, including rent and subsidy.

For trending purposes, the ANUEL will inflate by the same increase (or decrease) as the rest of the state public housing portfolio. The 10-year historical average ANUEL increase is 3.1%; though, there may be years in which there is no increase, a decrease, and other years in which the increase exceeds the historical average. Applicants are responsible for determining utility cost inflation rates, using a sound basis in market indicators and trends.

Thus, in year two of the above example, if the statewide ANUEL increases by 3% and actual utility costs total $80 PUM, the owner is entitled to an operating budget of $595 PUM [($500*1.03)+$80].

When drafting a Request for Proposals pursuant to the PEHO II NOFA, LHAs should contact DHCD through the emails below in order to confirm the correct projected revenue figure for the state public housing replacement units.

GENERAL NOTICE: Prospective applicants should review the original NOFA, all addenda and all related attachments to the NOFA before drafting their applications for funding. **All documents can be found at: https://www.mass.gov/service-details/public-housing-admin-notices under the heading "2019-14 Public Housing Innovations (PHI)."**

If you have additional questions about the NOFA, please submit them via email to ben.stone@mass.gov and paul.mcpartland@mass.gov.