The Casterline Associates Advisor

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HUD NEWS FLASH!

PUBLIC HOUSING SELF SUFFICIENCY ESCROW FUNDING UPDATE

HUD DISTRIBUTES NEW EMAIL RE: SUBSIDY FORMULA INCOME ADJUSTMENT THAT MAY BE MADE TO AVOID LOSS OF PH FSS ESCROW FUNDING

By: Jason Casterline, CPA

In our November 20th issue did a feature on the funding implications of Accounting Brief #23, "Financial Reporting for the Family Self Sufficiency Program", and discussed how the Public Housing Self Sufficiency escrow entries in that brief appear to negatively impact PHAs' operating subsidy. This problem only affects those PHAs that have a Public Housing Self Sufficiency program of course.

The bottom line, is that the new recommended entry to record the public housing self sufficiency escrow in accounting brief #23 is as follows:

New Entry

Debit (increase) Other General Expense (for the amount of the escrow credit)
Credit (increase) Self Sufficiency Escrow Liability

Whereas previously the accounting procedure followed by most PHAs was previously as follows:

Old Entry

Debit (reduce) Rental Income (for the amount of the tenant charge that represents the escrow credit)
Credit (increase) Self Sufficiency Escrow Liability

Typically the escrow credit is included in the tenant charge, because it is part of the normal rent calculation. That is why in the second entry above it is necessary to debit "rental income" and credit "self sufficiency escrow liability". Without that entry, the PHA's rental income will be overstated and therefore subsidy will be understated, as rental income is a reduction of operating subsidy.

New Information

Thanks to one of our loyal subscribers we were advised that HUD put out an email to FSS-L@HUDLIST.HUD.GOV addressing this topic. We don't know if this is coincidental to the query we sent HUD last month, or if it is related (probably not coincidental!), and we have not received a formal response to our letter.

In essence the email provides a link to the Operating Fund website which contains instructions on how a PHA whose rental income is overstated due to inclusion of self sufficiency escrow may make an adjustment on the operating subsidy form 52723 "formula income" line, to remove the impact of the self sufficiency escrow and to avoid being penalized for that.

Here a the FAQ from HUD's 2015 Operating Fund website (this is found at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/am/of/opfnd2015 - see Frequently Asked Questions link near the bottom of this page).

> *Q1. Our residents participate in a HUD-approved Family Self-sufficiency (FSS) Program under 24 CFR 984. Is the escrow account portion of the family rent included in the rental income amount used to calculate operating subsidy eligibility?*
>
> *A1. For operating subsidy eligibility purposes, rental income excludes the amount of the rent charge that is credited to the FSS escrow account. If the formula income pre-populated by HUD includes the FSS escrow portion, PHAs can change the pre-populated formula income and exclude the escrow portion. In this case, PHAs must include a comment on their HUD-52723 submission.*

So the situation right now is as follows:

- HUD through accounting brief 23 requires that you leave the public housing self sufficiency escrow in rental income, that you debit other general expense and credit self sufficiency escrow, when establishing the escrow liability

- HUD allows you to repair any potential subsidy damage related to this by removing escrow credits from the formula income on the operating subsidy form, through an adjustment to formula income on form 52723.

That is where we are currently, but of course it is possible the situation could change given that we have not received a response yet to our letter.

Note: the adjustment referred to in the bullets above could be confusing, and requires more explaining. I am reluctant to go into that until we see if anything further develops on this – such as HUD revising the accounting brief 23. When we get to the point where HUD is publishing the excel tool for 2016 operating subsidy I will do an update and provide a format for calculating the adjustment to formula income.

The email from HUD that precipitated this news flash is reproduced below:

<<<<<<< >>>>>>>

From: FSS [mailto:FSS@HUD.GOV]
Sent: Monday, December 07, 2015 2:44 PM
To: FSS-L@HUDLIST.HUD.GOV
Subject: Clarification on FSS Escrow Reporting Under HUD's Financial Management Systems

1. FSS Escrow under the Public Housing (PH) Account -

See Accounting Brief No. 23
http://portal.hud.gov/hudportal/documents/huddoc?id=AcctBrief23FSSvf051415.pdf
which supersedes Accounting Brief #20 and requires housing agencies to report on their financial statements and on the financial data schedule the total tenant rent the tenant is required to pay to the housing agency, whether or not the tenant is in a FSS program.

The mechanism to provide operating subsidy to reimburse the housing agency for its PH FSS escrow payments is an adjustment to formula income on the Calculation of

Operating Subsidy form (Form HUD-52723). More specifically, HUD provides instructions for housing agencies to reduce their tenant rent portion of formula income on the HUD-52723 submission by the amount of their FSS escrow payments.

The FSS escrow adjustment to the HUD-52723 submission is described annually on the Operating Fund Webpage. The most recent posting of this is on the "Calendar Year 2015 Subsidy Processing" webpage through the link titled "Frequently Asked Questions – Form 52723." For your convenience that link is:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/am/of/opfnd2015.

2. FSS Escrow under the Housing Choice Voucher (HCV) Account –

Escrow is reported to HUD through the Voucher Management System (VMS). PHAs report both on FSS escrow deposits and FSS escrow forfeitures during the applicable month. Instructions on FSS escrow reporting are found in the VMS User's Manual (http://www.hud.gov/offices/pih/programs/hcv/pubs/instructions.pdf).