

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT****[Docket No. FR-4120-N-01]****Office of the Assistant Secretary for Public and Indian Housing;  
Assessment of the Reasonable Revitalization Potential of Certain Public Housing Required by Law****AGENCY:** Office of the Assistant Secretary for Public and Indian Housing, HUD.**ACTION:** Notice.

**SUMMARY:** This notice implements section 202 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996. Section 202 requires PHAs to identify certain distressed public housing developments that will be required to be replaced with tenant-based assistance if they cannot be revitalized by any reasonable means. In that eventuality, households in occupancy would be offered tenant-based or project-based assistance and would be relocated, if sufficient housing will not be maintained, rehabilitated, or replaced on the current site, to other decent, safe, sanitary, and affordable housing which is, to the maximum extent practicable, housing of their choice.

**DATES:** Effective date: September 30, 1996.

Comment due date: November 25, 1996. HUD expects to receive significant comments. HUD may determine to make changes in the Notice based upon comments received, but the Notice will go into effect September 30, 1996. This is in keeping with the directive in Section 202 that HUD establish standards to permit implementation in Fiscal 1996.

**ADDRESSES:** Interested persons are invited to submit comments regarding this notice to the Office of the General Counsel, Rules Docket Clerk, room 10276, Department of Housing and Urban Development, 451 Seventh Street, S.W., Washington, D.C. 20410-0500. Comments should refer to the above docket number and title. A copy of each communication submitted will be available for public inspection and copying during regular business hours (weekdays 7:30 a.m. to 5:30 p.m. Eastern time) at the above address. Facsimile (FAX) comments are not acceptable.

**FOR FURTHER INFORMATION CONTACT:** Rod Solomon, Director, Special Actions, Public and Indian Housing, Room 4116, Department of Housing and Urban Development, 451 7th Street, SW, Washington, DC 20410, telephone (202) 708-0713. For hearing or speech

impaired persons, this number may be accessed via TTY by contacting the Federal Information Relay Service at 1-800-877-8339.

**SUPPLEMENTARY INFORMATION:****Information Collection Requirements**

The information collection requirements contained in this notice have been approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520), and assigned OMB control number 2577-0210. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

**General Requirement and Scope**

Section 202 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Pub.L. 104-134, approved April 26, 1996) ("OCRA") requires PHAs to identify certain distressed public housing developments that will be required to be addressed. Households in occupancy would be offered tenant-based or project-based assistance (that can include other public housing units) and would be relocated, if sufficient housing will not be maintained, rehabilitated, or replaced on the current site, to other decent, safe, sanitary, and affordable housing which is, to the maximum extent practicable, housing of their choice. After residents are relocated, the distressed developments (or affected buildings) for which no reasonable means of revitalization exists will be removed from the public housing inventory.

As explained further below, this requirement covers developments that (1) are on the same or contiguous sites, (2) contain at least 300 units, (3) have a vacancy rate of at least ten percent for units not in funded, on-schedule modernization programs, (4) are more expensive than tenant-based assistance, and (5) cannot be revitalized through reasonable programs. These developments must be removed from the public housing inventory within five years, or up to ten years where HUD extends the deadline because five years is impracticable. Plans to do so must be developed in consultation with affected public housing residents and the local government containing the public housing. The term "developments," as used in the statute and in this Notice, includes applicable portions of developments. Tenant-based assistance or relocation to other public or assisted housing (of the tenant's choice) must be

offered to public housing residents whose developments will be removed from the inventory.

HUD field offices will assist PHAs by notifying them which, if any, of their developments, according to HUD records, contain at least 300 units and 10 percent vacancies not in funded, on-schedule modernization. HUD's records indicate that approximately 130 developments across the country meet this description, including a significant number that already are taking necessary revitalization actions. Notwithstanding HUD's determination of a list of developments and notification to PHAs or lack thereof, however, PHAs are responsible for determining all developments or portions of developments that fall within the definition contained in section 202.

**Purpose and Overview**

Section 202 expresses Congress' intent that the continued operation of large, obsolete public housing developments which provide unfit living environments for families will not be tolerated where these developments are more costly than tenant-based assistance and no reasonable revitalization program can be carried out. For various reasons, including previous Federal rules such as the one-for-one replacement law and also because of local factors, some public housing developments with excessive costs, obsolete designs, and unsuitable environments remain in operation today. Section 202 requires that appropriate action be taken with respect to such developments by PHAs or, if necessary, as required by HUD.

Section 202 includes both a "cost relative to tenant-based assistance" test and a "susceptible to reasonable revitalization program" test. The Department recognizes that any projected cost comparison between public housing and tenant-based assistance is inexact, and that the viability and susceptibility to revitalization of particular properties may depend on many factors which vary greatly by locality. HUD will administer this mandate accordingly.

Costs of tenant-based assistance are compared to public housing operating costs per occupied unit. The most recent actual costs initially are to be used, rather than projections of such costs per unit after reductions in density and modernization. As noted above, a development is subject to required removal from the public housing inventory only if its costs are higher than tenant-based assistance costs and it cannot be made viable with a reasonable

revitalization plan. Thus, a development with excessive current costs per occupied unit might still pass the "reasonable revitalization" test by a strong indication that revitalization can be accomplished within reasonable cost constraints, can be funded from a realistic source of funds, can sustain structural soundness and full occupancy for at least twenty years, will not exceed reasonable standards of density and concentration of extremely low-income families, and will not suffer from site impairments that should disqualify the site's continued use as public housing.

HUD expects that the various objective and subjective tests regarding costs and viability will improve as experience grows, and this will be taken into account in the initial administration of section 202. However, where a development's costs are clearly excessive and its living environment not likely to be made acceptable through a reasonable and realistic revitalization plan, as discussed later, PHAs and HUD must promptly take the necessary conversion steps.

#### Time Frames

Section 202 requires HUD to establish standards to permit implementation in fiscal year 1996. Accordingly, this Notice contains standards which HUD will require for assessments under this section until such time as HUD decides to take further regulatory action. These standards track section 202(a) of the Act.

During the next sixty days, HUD will accept public comments which may be used in connection with further regulatory action. Notwithstanding the above, the standards in this Notice are effective September 30, 1996.

In keeping with the directive regarding implementation in fiscal 1996, the following deadlines will apply. PHAs shall take not more than 90 days from September 30, 1996 (i.e., until December 29, 1996) to accomplish Standards A to D set out below to identify developments or portions thereof covered by this section, and PHAs shall take not more than 150 days from September 30, 1996 (i.e., until February 27, 1997) to accomplish Part E of the Standards set out below to identify developments or portions thereof covered by this section. PHAs shall submit applicable tenant-based assistance conversion plans within an additional 180 days (i.e., as soon as practicable thereafter, but at least by August 26, 1997).

#### Standards for Identifying Developments

Until further notice, PHAs shall use the following standards for identifying

developments or portions thereof which are subject to section 202's requirement that PHAs develop and carry out plans for the removal over time from the public housing inventory. These standards track section 202(a) of the Act; the Act's language is italicized. The development or portions thereof must:

(A) Be on the same or contiguous sites. This standard and standard (B) refer to the actual number and location of units, irrespective of HUD development project numbers. (OCRA Sec. 202(a)(1)).

(B) Total 300 or more dwelling units. (OCRA Sec. 202(a)(2)).

(C) Have a vacancy rate of at least ten percent for dwelling units not in funded, on-schedule modernization. For this purpose, PHAs and HUD shall use the data the PHA relied upon for its last Public Housing Management Assessment Program (PHMAP) certification, except in exceptional circumstances that are brought to HUD's attention by the PHA. (OCRA Sec. 202(a)(3)).

(D) Have an estimated cost of continued operation and modernization of the developments as public housing in excess of the cost of providing tenant-based assistance under section 8 of the United States Housing Act of 1937 for all families in occupancy, based on appropriate indicators of cost (such as the percentage of total development cost required for modernization). (OCRA Sec. 202(a)(5)).

The estimated cost of the continued operation and modernization as public housing shall be calculated as the sum of total operating, modernization (backlog), and accrual costs, with costs expressed on a monthly per occupied unit basis for the most recent period for which reliable data are available (typically, the most recent period with actual operating cost data). This shall be compared to the estimated Section 8 monthly cost per unit of providing the same bedroom distribution of occupied units. The Section 8 cost shall be the unit-weighted average of the Fair Market Rents plus the administrative fee during the period of the cost comparison. At the end of this Notice, the required methodology for the cost comparison of paragraph D is detailed in an appendix ("Appendix: Detailing the Cost Comparison of Part D").

If the cost of continuing to administer the development as public housing exceeds the Section 8 cost, as calculated under the required methodology, then the development must undergo a further test, as described in (E), below.

(E) Be identified as distressed housing that the PHA cannot assure the long-term viability as public housing through

reasonable revitalization, density reduction, or achievement of a broader range of household income. (OCRA Sec. 202(a)(4)).

A fundamental aspect of this standard is the definition of long-term viability. For this purpose, HUD will consider twenty years to be "long term". Twenty years is in keeping with the expected life of modernization improvements, as reflected by the length of annual contributions contracts covering modernization grant awards. See section 14(b)(2) of the United States Housing Act, as amended.

The term "viability" is defined in current modernization regulations as including achievement of structural/system soundness and full occupancy at reasonable cost. See 24 CFR 968.315(e)(4). Experience has shown, however, that achievement of physical soundness and full occupancy is not always enough to achieve the housing program's goal, as stated in the Housing Act of 1949, of "a decent home and a suitable living environment". Section 202's inclusion of "density reduction" and "achievement of a broader range of household income", as measures to be taken in pursuit of long-term viability, indicate Congress' understanding that excessive density and concentration of very-low-income households are additional serious impediments to the viability of public housing.

Accordingly, section 202(a)(4) shall be applied in the following fashion:

PHAs are charged with identifying "distressed housing". For this purpose, all developments (including portions thereof) that meet the standards of paragraphs (A), (B), and (C) above (at least 300 units on contiguous sites with at least 10% vacancies in units not in funded, on-schedule modernization) shall be considered "distressed housing", unless the PHA demonstrates and HUD approves that any such developments are not "distressed". Therefore, PHAs must conduct the analysis required by this paragraph for all developments that meet the standards of paragraphs (A), (B), and (C) above.

PHAs will meet the test for assuring long-term viability of identified housing only if it is probable that, after reasonable investment, for at least twenty years the development can sustain structural/system soundness and full occupancy; will not be excessively densely configured relative to standards for similar (typically family) housing in the community; will not constitute an excessive concentration of very low-income families; and has no other site impairments which clearly should disqualify the site from continuation as

public housing (taking into account the liberalized standards for location of replacement housing authorized by Congress in section 18(f) of the U.S. Housing Act of 1937, added by the fiscal 1995 rescissions act (Public Law 104-19) and continued in effect by the OCRA).

PHAs will be able to show that distressed developments can achieve long-term viability through reasonable revitalization, density reduction, or achievement of a broader range of household income if such proposed actions meet the following requirements.

Proposed revitalization costs must be reasonable. First, such costs must not exceed, and ordinarily would be substantially less than, 90 percent of HUD's total development cost limit for the units proposed to be revitalized (100 percent of the total development cost limit for new construction initiatives), unless HUD approves in extraordinary circumstances a higher cost as reasonable. Of course, costs approaching this magnitude only would be considered either for new construction or where the resulting quality will approach new construction. The revitalization cost estimate used in the PHA's most recent comprehensive plan for modernization is to be used for this purpose, unless a PHA demonstrates or HUD determines that another cost estimate is clearly more realistic.

Second, the proposed revitalization plan must indicate how unusually high current operating expenses (e.g. security, supportive services, maintenance, utilities) will be reduced as a result of post-revitalization changes in occupancy, density and building configuration, income mix and management. The plan must make a realistic projection of overall operating costs per occupied unit in the revitalized development, and use this estimate together with the estimate of modernization costs and accrual needs to develop a per unit monthly cost of continuing the development as public housing. That per unit monthly cost of public housing must be compared to the Section 8 cost for the same number of units, using the method provided in the Appendix.

If the overall projected cost of the revitalized development substantially exceeds the Section 8 cost (even if the cost of revitalization is a lower percentage of the TDC than the limits stated above), the PHA must be able to demonstrate that the revitalization plan meets the other standards contained in this Notice and that there are special circumstances why keeping the revitalized development as public

housing is desirable despite its cost relative to tenant-based assistance. Such special circumstances must include at least some elements of the following: substantial leveraging of private investment that will benefit the community; acute need for replacement housing or its equivalent to create a viable neighborhood on the public housing site; creation of a substantially better living environment for very low-income households than tenant-based assistance could provide; and development of housing likely to remain viable for far past twenty years.

The source of funding for such a revitalization program must be identified within the PHA's five-year comprehensive plan for modernization, or from other resources already available or likely to be available to the PHA within the necessary time frame. If the resources assumed are rehabilitation with HOPE VI grants, this assumption must be stated and shown to be reasonable. Where more than one development in a Housing Authority is being reviewed at this stage, the sources of funding of each of these developments should be shown side-by-side and relative to total funding resources.

Density reduction measures would have to result in a public housing community with a density approaching that which prevails in the community for similar types of housing, or a lower density.

Measures generally will be required to broaden the range of resident incomes to include over time a significant number of working households (for example, at least twenty-five percent in the 30-50% of median area income range) when the site (1) is large in terms of units or acreage and (2) exclusively or predominantly serves families with extremely low incomes (not significantly above the median for the public housing program, or 17% of the area median income). Measures to achieve a broader range of household incomes must be realistic in view of the site's location. Evidence of such realism typically would include some mix of incomes of other households located in the same census tract or neighborhood, or unique advantages of the public housing site.

For purposes of judging appropriateness of density reduction and broader range of income measures, PHAs should consider the overall size of the public housing site and its number of dwelling units. The concerns these measures would address generally are greater as the site's size and number of dwelling units increases.

Developments with HOPE VI implementation grants that have approved HOPE VI revitalization plans will be treated as having shown the ability to achieve long-term viability with reasonable revitalization plans. Future HUD actions to approve or deny proposed HOPE VI implementation grant revitalization plans will be taken with consideration of the standards for section 202. Developments with HOPE VI planning grants are fully subject to section 202 standards and requirements.

When a future (not yet funded) HOPE VI grant is the projected major source of revitalization funding and when a substantial portion of the units under the revitalization plan will be demolished, the Housing Authority should proceed with the next stage of the notice, which is the plan for removal of development units from the public housing inventory, unless the Housing Authority provides an alternative deadline for implementation and reasons for delay that HUD approves.

#### Plan for Removal of Units From Public Housing Inventories; Implementation

With respect to identified developments, within the time frame stated at the beginning of this Notice, PHAs must develop the required plan for removal of units from the public housing inventory. The plan should consider relocation alternatives for households in occupancy, including other public housing and Section 8 tenant-based assistance, and shall provide for relocation from the units as soon as practicable. For planning purposes, PHAs shall assume that HUD will be able to provide in a timely fashion any necessary Section 8 certificates. The plan shall include:

- (1) a listing of the public housing units to be removed from the inventory;
- (2) the number of households to be relocated, by bedroom size;
- (3) identification and obligation status of any previously approved CIAP, modernization, or major reconstruction funds for the distressed development and PHA recommendations concerning transfer of these funds to Section 8 or use for on-site rehabilitation or alternative uses;
- (4) the relocation resources that will be necessary, including a request for any necessary Section 8 and a description of actual or potential public or other assisted housing vacancies that can be used as relocation housing;
- (5) a schedule for relocation and removal of units from the public housing inventory;
- (6) provision for notifying families residing in the development, in a timely fashion, that the development shall be

removed from the public housing inventory; informing such families that they will receive tenant-based or project-based assistance; providing any necessary counselling with respect to the relocation, including a request for any necessary counseling funds; and assuring that such families are relocated as necessary to other decent, safe, sanitary and affordable housing which is, to the maximum extent possible, housing of their choice; and

(7) a record indicating compliance with the statute's requirements for consultation with applicable public housing tenants of the affected development and the unit of local government where the public housing is located.

Section 18 of the United States Housing Act of 1937 shall not apply to demolition of developments removed from PHA inventories under this section, but shall apply to any proposed dispositions of such developments or their sites. HUD's review of any such disposition application will take into account that the development has been required to be removed from the PHA's inventory.

#### HUD Enforcement Authority

Section 202 provides HUD authority to ensure that certain distressed developments are properly identified and removed from PHA inventories. Specifically, HUD may direct a PHA to cease additional spending in connection with a development which meets or is likely to meet the statutory criteria, except as necessary to ensure decent, safe and sanitary housing until an appropriate course of action is approved; identify developments which fall within the statutory criteria where a PHA has failed to do so properly; take appropriate actions to ensure the removal of developments from the inventory where the PHA has failed to adequately develop or implement a plan to do so; and authorize or direct the transfer of capital funds committed to or on behalf of the development (including comprehensive improvement assistance, comprehensive grant amounts attributable to the development's share of funds under the formula, and major reconstruction of obsolete projects funds) to tenant-based assistance or appropriate site revitalization for the agency. Because the greatest short-term financial risk to the government would be a PHA's commitment of substantial additional capital funds to developments required by section 202 to be removed from the inventory (e.g., for substantial rehabilitation that is far beyond measures needed to ensure decent, safe and sanitary housing until

an appropriate course of action is approved), HUD expects that if any of the enforcement mechanisms are used in the coming months the limitation on spending commitments is the most likely. HUD field offices are being directed to undertake reviews of the developments preliminarily subject to section 202 to determine whether (1) the developments are likely to meet the standards of section 202 for required conversion to tenant-based assistance and (2) there are proposed capital commitments in the immediate future that require further scrutiny in this regard.

In addition, HUD will be deploying teams of consultants to make independent viability assessments of approximately fifty of the Nation's most problematic developments. The consultants will be directed to consider the views of affected PHAs, residents and others, but to form their own conclusions.

A substantial number of developments covered by this section are likely to be assessed by the consultants. PHA responsibilities under this section are independent of any activities of the consultants. HUD may make adjustments to the timing requirements of this notice, however, where this would accommodate a PHA's request and commitment to rely on the work of the consultants and would not delay the development identification and planning process substantially.

#### Source of Funding for Conversions of Distressed Public Housing to Vouchers or Certificates During FY 1996

Section 202 specifies that CIAP, Comprehensive Grant modernization, and major reconstruction funds previously obligated for the public housing development subject to removal from the inventory may be transferred to the Section 8 certificate and voucher programs or used for appropriate revitalization.

There may be limited additional Fiscal 1996 certificate or voucher funds available for this purpose (the original Notice of FY 1996 Funding for the Section 8 Rental Voucher Program and Rental Certificate Program, was published on July 19, 1996, 61 FR 37756). PHAs may apply for any such funds, notwithstanding the timing of this Notice, by requesting a specific number of certificates in connection with a particular development, certifying that the development will be subject to section 202 and certifying that the certificates will be needed because at least that many units in the development will be required to be converted to certificates, by October 21,

1996. Any required resolution by the Board of Directors can be submitted subsequent to the application. To expedite the application process, PHAs are encouraged to submit a letter from the Chief Executive Officer of the unit of general local government commenting on the PHA application in accordance with 213 (c) of the Housing and Community Development Act of 1974 (Pub.L. 93-383). Because HUD cannot approve an application until the 30-day comment period is closed, the 213 letter should state that no additional comments will be forthcoming from the unit of general local government.

Conversions to the certificate or voucher program will be funded from the public housing CIAP, Comprehensive Grant modernization, and major reconstruction funds committed to distressed developments if HUD determines that new Section 8 funding is inadequate or inappropriate. Procedures for conversion of public housing funds to the Section 8 program will be provided to field offices at a later date. HUD may leave funds with the original PHA for modernization at other developments or replacement housing if HUD determines that adequate Section 8 resources are otherwise available and the PHA has a need for the funds. Under no circumstances will PHAs that choose to demolish housing that would be required to be converted to certificates or otherwise addressed under section 202 be left worse off than if HUD must require conversion.

#### PHA Records; Updates

PHAs shall keep records sufficient to indicate that they have reviewed all developments with at least 300 dwelling units on contiguous sites and vacancy rates of ten percent or higher, and have identified any developments that meet the standards contained in section 202(a). PHAs shall submit to HUD field offices the development-by-development results of their reviews and planning on the following schedule:

Results of reviews relative to standards A-D above: on or before December 29, 1996.

Results of reviews relative to standard E above: on or before February 27, 1997.

Conversion plans: on or before August 26, 1997.

PHAs shall conduct an annual review and certify with their Comprehensive Plan Annual Updates that they have reviewed updated information regarding the applicability of these standards on their developments, and submitted to the field offices any necessary supplemental information. Such supplemental information shall include information regarding all developments

newly subject to review in that year under this section, or newly subject to review under part E above, and any changes in the outcome of reviews with respect to any development.

#### Findings and Certifications

##### *Environmental Finding*

A Finding of No Significant Impact with respect to the environment has been made in accordance with HUD regulations at 24 CFR part 50, which implement section 102(2)(C) of the National Environmental Policy Act of 1969. The Finding of No Significant Impact is available for public inspection during regular business hours in the Office of General Counsel, the Rules Docket Clerk, Room 10276, 451 Seventh Street, SW, Washington, DC 20410.

##### *Federalism Impact*

The General Counsel, as the Designated Official under section 6(a) of Executive Order 12612, *Federalism*, has determined that the policies contained in this notice will not have substantial direct effects on States or their political subdivisions, or the relationship between the federal government and the States, or on the distribution of power and responsibilities among the various levels of government. As a result, the notice is not subject to review under the Order. This notice pertains to the administration of certain distressed public housing developments and does not substantially alter the established roles of the Department, the States, and local governments.

##### *The Catalog of Federal Domestic Assistance*

The Catalog of Federal Domestic Assistance numbers for this program are 14.850, 14.855, and 14.857.

##### *Impact on the Family*

The General Counsel, as the Designated Official under Executive Order 12606, *The Family*, has determined that this notice does not have potential for significant impact on family formation, maintenance, and general well-being within the meaning of the Executive Order and, thus, is not subject to review under the Order. This notice pertains to the administration of certain distressed public housing developments and does not substantially alter the requirements of eligibility for the programs involved.

Dated: September 19, 1996.

Kevin Emanuel Marchman,  
*Acting Assistant Secretary for Public and Indian Housing.*

#### Appendix: Detailing the Cost Comparison of Part D

This Appendix details the required methodology for the cost comparison between public housing and Section 8 assistance. First, the methods of estimating the cost of operating the development as public housing will be detailed, after which the methods of estimating the Section 8 cost of operating the occupied units will be detailed. The text will use a consistent example and a summary table at the end to illustrate the methods.

HUD field offices will provide or arrange for assistance for any PHA that requests assistance to carry out the required calculations. The calculations can be done promptly once operating cost, modernization cost, and occupancy information as described in the rule are made available by the PHA.

The estimated cost of the continued operation and modernization as public housing shall be calculated as the sum of total operating, modernization, and accrual costs, expressed on a monthly per occupied unit basis for the most recent period for which reliable data are available (typically, the most recent period for which actual operating cost data are available).

The development's operating cost (including all overhead costs pro-rated to the development and including utilities and utility allowances) shall be expressed as total operating costs per month, divided by the current number of units occupied by households. For example, if a development currently has 1,000 units occupied by households (out of 1,250 units available under contract) and has \$400,000 monthly in non-utility costs (including pro-rated overhead costs) and \$200,000 monthly in utility costs paid by the authority and \$50,000 monthly in utility allowances that are deducted from tenant rental payments to the authority because tenants paid some utility bills directly to the utility company, then the development's monthly operating cost per occupied unit is \$650—the sum of \$400, \$200, and \$50.

PHAs generally have been required to have development-based operating costs for several years under section 6(b)(4)(E) of the United States Housing Act. Where a PHA does not have this information or where HUD or the PHA determine that the per unit operating costs from development-specific data seem unduly low relative to the costs of comparable developments or relative to other

evidence, the development's operating cost shall be estimated by first computing the Housing Authority's monthly operating cost per occupied unit and then multiplying that figure by two measures: (1) the ratio of the Housing Authority's occupancy rate to the occupancy rate of the development and (2) the ratio of the bedroom adjustment factor of the development to the bedroom adjustment factor of the Housing Authority. The bedroom adjustment factor, which is based on national rent averages for units grouped by the number of bedrooms and which has been used by HUD to adjust for costs of units when the number of bedrooms vary, assigns to each unit the following factors: .70 for 0-bedroom units, .85 for 1-bedroom units, 1.0 for 2-bedroom units, 1.25 for 3-bedroom units, 1.40 for 4-bedroom units, 1.61 for 5-bedroom units, and 1.82 for 6 or more bedroom units. The bedroom adjustment factor is the unit-weighted average of the distribution. For instance, if the development with one thousand occupied units had in occupancy 500 two-bedroom units and 500 three-bedroom units, then its bedroom adjustment factor would be 1.125—500 times 1.0 plus 500 times 1.25, the sum divided by 1,000. Where necessary, HUD field offices will arrange for assistance in the calculation of the bedroom adjustment factors of the Housing Authority and its affected developments.

As an example of estimating development operating costs from PHA operating costs, suppose that the Housing Authority had a total monthly operating cost per occupied unit of \$400 and an occupancy rate of 96 percent and a bedroom adjustment factor of .90, and suppose that the Development had an occupancy rate of 80 percent and a bedroom adjustment factor of 1.125. Then, the development's estimated monthly operating cost per occupied unit would be \$600—or \$400 times 1.2 (the ratio of 96 to 80), times 1.25 (the ratio of 1.125 to .90). When there is reason to believe that the development has extremely high operating costs not captured by the estimating procedure of this paragraph, HUD may require additional data at the development level to estimate the per-unit operating costs of the development.

The total cost of modernization for the development shall be the estimated cost contained in the PHA's comprehensive plan, unless HUD determines that another cost estimate is clearly more realistic. This total modernization cost is converted into a monthly per occupied unit basis by dividing the total cost by the number of occupied units to

be provided for after modernization and dividing this figure by 180 (i.e. fifteen years of months, where fifteen results from an assumed life of twenty years for the capital investment amortized by a three percent annual rate of real interest to account for the cost of undertaking the capital improvements up front). For example, if the total modernization cost of a development is \$30 million and its occupancy by households after modernization is to be 1200 units, its monthly per unit modernization cost will be \$139 (i.e., \$30 million divided by 1200, for a per unit cost of \$25,000, and then divided by 180 for a per unit monthly cost of \$139).

The monthly per occupied unit cost of accrual (i.e., replacement needs) will be estimated by using the latest published HUD unit total development cost limits and applying them to the development's location, structure type and bedroom distribution, then multiplying that figure by .02 (representing a fifty year replacement cycle), and dividing this product by 12 to get a monthly cost. For example, if the development is a walkup structure containing five hundred two-bedroom occupied and five hundred three-bedroom occupied units and if HUD's Total Development Cost limit for the area is \$70,000 for two-bedroom walkup structures and \$92,000 for three-bedroom walkup structures, then the estimated monthly cost of accrual per occupied unit is \$135 (the result of multiplying the cost guideline value of \$81,000 by .02 and then dividing by 12).

The overall current cost for continuing the development as public housing is the sum of its monthly operating cost per occupied unit, its monthly modernization cost per occupied unit, and its estimated monthly accrual cost per occupied unit. For example, if the operating cost per occupied unit month is \$650 and the modernization cost is \$139 and the accrual cost is \$135, the overall monthly cost per occupied unit is \$924.

The overall post-revitalization cost for continuing the development as public housing would use the same methodology, but use post-revitalization operating cost estimates per occupied unit.

The estimated cost of providing tenant-based assistance under Section 8 for all households in occupancy shall be calculated as the unit-weighted averaging of the monthly Fair Market Rents for units of the applicable bedroom size plus the administrative fee applicable to newly funded certificates during the year used for calculating public housing operating costs (e.g., the administrative fee for units funded in FFY 1995 and 1996 is the monthly

administrative fee amount in column C of the January 24, 1995 Federal Register). For example, if the development has five hundred occupied two-bedroom units and five hundred occupied three-bedroom units and if the Fair Market Rent in the area is \$600 for two bedroom units and is \$800 for three bedroom units and if the administrative fee comes to \$46 per unit, then the per unit monthly cost of tenant based assistance is \$746 (\$700 for the unit-weighted average of Fair Market Rents, or 500 times \$600 plus 500 times \$800 with the sum divided by 1,000, plus \$46 for the administrative fee). This Section 8 cost would then be compared to the cost of continuing the public housing development—in the example of this section, the current public housing cost of \$924 monthly per occupied unit would exceed the Section 8 cost of \$746 monthly per occupied unit and a viability test in Part E would be required.

The cost comparison methods of Part D are summarized in the table below, which uses the example in the text.

#### Detailing the Cost Comparison of Part D: A Summary Table

**Key Data, Development:** The development has 1250 units available, of which 1000 (or 80 percent) are occupied by households. All of the units are in walkup buildings. The 1000 occupied units consist of 500 two-bedroom units and 500 three-bedroom units. The total current operating costs attributable to the development are \$400,000 per month in non-utility costs, \$200,000 in utility costs paid by the PHA, and \$50,000 in utility allowance expenses for utilities paid directly by the tenants to the utility company. Also, the modernization cost in the Comprehensive Plan is \$30,000,000 and is based upon 1200 occupied units.

**Key Data, Area:** The unit total development cost limit is \$70,000 for two-bedroom walkups and \$92,000 for three-bedroom walkups. The two-bedroom Fair Market Rent is \$600 and the three-bedroom Fair Market Rent is \$800. The applicable monthly administrative fee amount, in column C of the January 24, 1995 Federal Register Notice, is \$46.

**Preliminary Computation of the Per-Unit Average Total Development Cost of the Development:** This results from applying the location's unit total development cost by structure type and number of bedrooms to the occupied units of the development. In this example, five hundred units are valued at \$70,000 and five hundred units are valued at \$92,000 and the unit-weighted average is \$81,000.

The Cost Comparison Can Now Proceed for Developments That Have Operating Cost Data (For developments without such data, the procedure is the same, except that a per-unit PHA-based operating cost estimate is initially used for operating costs. This PHA-based estimate is described after the basic example is given.)

#### Current Per Unit Monthly Occupied Costs of Public Housing

**Operating Cost—\$650** (total monthly costs divided by occupied units: in this example, the sum of \$400,000 and \$200,000 and \$50,000—divided by 1,000 units)

**Amortized Backlog Modernization Cost—\$139** (the modernization cost per unit divided by 180: in this example, \$30,000,000 divided by 1200 units and then by 180.)

**Estimated Accrual Cost—\$135** (the per-unit average total development cost times .02 divided by 12 months: in this example, \$81,000 times .02 and then divided by 12)

**Total Per Unit Public Housing Costs—\$924**

#### Current Per Unit Monthly Occupied Costs of Section 8

**Unit-weighted Fair Market Rents—\$700** (the unit-weighted average of the Fair Market Rents of occupied bedrooms: in this example, 500 times \$600 plus 500 times \$800, divided by 1000)

**Administrative Fee—\$46**

**Total Per Unit Section 8 Costs—\$746**

**Result:** In this example, because current public housing costs exceed current Section 8 costs, a Part E viability test is required.

#### If Development-Level Operating Costs Are Not Available:

**Key PHA Data:** PHA total operating costs, the total number of available PHA units, the total number of PHA units occupied by households, and the PHA bedroom distribution of units occupied by households.

**Preliminary Computation of the Bedroom Adjustment Factor:** This intermediate statistic is the weighted average of occupied units, where each bedroom has this value: .70 for zero-bedroom units, .85 for one bedroom units, 1.0 for two-bedroom units, 1.25 for three bedroom units, 1.40 for four bedroom units, 1.61 for five-bedroom units, and 1.82 for six or more bedroom units. In the example, the bedroom adjustment factor of the development is 1.125: the result of multiplying 500 occupied two-bedroom units by 1.0 and multiplying 500 occupied three-bedroom units by 1.25, summing the products of 500 and 625 to 1125, and dividing this sum by the total of 1000

occupied units: 1125/1000 equals 1.125.)

Estimate Development-level

Operating Costs from PHA Costs:

Multiply the monthly operating costs per occupied unit of the PHA times two ratios: (1) the ratio of the PHA occupancy rate to the development's occupancy rate and (2) the ratio of the development's bedroom adjustment factor to the PHA's adjustment factor. Suppose the PHA in this example has total monthly operating costs of \$4,000,000 and has 10,000 occupied units out of 10,417 available (or an occupancy rate of 96%) and a bedroom adjustment factor of .90. Then the estimated per occupied unit operating costs of the development would be \$600—\$400 per occupied unit (\$4,000,000 divided by 10,000) times 1.20 (the ratio of the PHA occupancy rate of 96 percent to the development occupancy rate of 80 percent) times 1.25 (the ratio of the development's bedroom adjustment factor of 1.125 to the PHA's bedroom adjustment factor of .90). In some cases, HUD may require PHA-based estimates to be replaced by estimates using development-level cost data.

This concludes the summary table for Part III's "Appendix: Detailing the Cost Comparison of Part D."

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