U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

Special Attention of:
Public Housing Agencies
Public Housing Hub Directors
Public Housing Program Center Directors
Regional and Field Office Directors
Resident Management Corporations

Notice PIH-2023-18

Issued: July 19, 2023

Expires: This notice remains in effect until amended, superseded, or rescinded.

Subject: Implementation of Public Housing Operating Fund Shortfall Funding from Federal Fiscal Year (FFY) 2023 Appropriations

1. Purpose

This notice implements a provision in the FFY 2023 Consolidated Appropriations Act (Public Law P.L. 117-328), referred to hereafter as "the Act," which provides a $25 million set-aside to assist Public Housing Agencies (PHAs) experiencing or at risk of financial shortfalls. This notice provides guidance regarding eligibility, the application process, and other requirements for participation in the program.

2. Background

The Act states "$25,000,000 shall be available to the Secretary to allocate pursuant to a need-based application process notwithstanding section 203 of this title and not subject to such Operating Fund formula to public housing agencies that experience, or are at risk of, financial shortfalls, as determined by the Secretary: Provided, That after all such shortfall needs are met, the Secretary may distribute any remaining funds to all public housing agencies on a pro-rata basis pursuant to such Operating Fund formula."

Further, the Division L - Transportation, Housing and Urban Development and Related Agencies Joint Explanatory Statement (JES) accompanying the Act provides additional guidance to HUD related to the distribution of these funds. Specifically:

> *"…the agreement directs that the allocation of financial shortfall funds shall first be prioritized to PHAs with 249 or fewer public housing units that are determined to be experiencing shortfalls and have fewer than one month of reserves before allocating funds to larger PHAs."*

3. Changes and Additions to This Notice

Compared to Notice PIH-2022-17, this Notice includes the following changes and additions:

- Changes to the Moving to Work (MTW) funding flexibility calculation to include transfers out (Line 10020) in the total grants transferred out. PHAs that use their MTW flexibility in a manner that diminishes their public housing reserves are not eligible for

Shortfall Funding. With this change, HUD more accurately captures funds that the PHA transferred out of their PH program.

- If a PHA has more than one active Shortfall grant from different fiscal years, it is only required to submit one budget for all applicable years.
- Initial budgets are now due on the first day of the next fiscal year after the initial deadline for the improvement plan.
- Tier 2 Grant 1 now depends only on the PHA's submission of a Shortfall Improvement Plan (SIP), instead of submission of the SIP and the initial budget.
- The Field Office Regional Director (or their designee) is now identified as the person responsible for approving PHA's budgets and SIP.

4. Applicability

This notice applies to all PHAs administering the Public Housing program, including those participating in the MTW Demonstration. All information used to make eligibility determinations, including Public and Indian Housing Information Center (PIC) and Financial Data Schedule (FDS) data, will be based upon the data in PIC and FDS as of July 14, 2023**.**

5. Eligibility for Shortfall Funding

Shortfall and Eligibility

HUD uses several metrics to measure the financial health of PHAs operating a public housing program. For example, when measuring financial health through the Public Housing Assessment System (PHAS), HUD examines a PHA's Quick Ratio (a measure of liquidity) and Months Expendable Net Assets Ratio (a measure of the adequacy of reserves).

Another such metric is if a PHA experiences "financial shortfall." For the purposes of this notice, HUD defines "financial shortfall" as an instance in which a PHA has fewer than 3 months of operating expenses held in reserve. Eligibility for the Shortfall Funding Program is based on a PHA's Monthly Operating Reserves (MOR) according to its most recently approved FDS submission (audited or unaudited).

The 2023 Shortfall program will provide funding to PHAs to increase their reserves to a level that is the equivalent of 3 months of operating expenses. Any PHA with fewer than 3 months' worth of operating expenses in reserve will be eligible to receive Shortfall funding. The amount of funding a PHA is eligible to receive under this set-aside is equal to the difference between the PHA's actual MOR based on the FDS for the PHA's Fiscal Year End (FYE) and the amount equal to 3 months of reserves for that PHA (as described below).

For example, a PHA with a $220,000 of MOR and $100,000 of monthly operating expenses, would have a Shortfall eligibility of $80,000.

($100,000 x 3) - $220,000 = $80,000

There are some limitations on the FDS data that HUD will use for this calculation. First, because FDS data for Mixed-Finance Public Housing projects does not reflect the operation or financial condition of those projects, HUD will (for the purposes of calculating Shortfall) exclude FDS data associated with Mixed-Finance developments. Additionally, HUD will exclude Projects in the Low Rent Public Housing column utilizing the Other Project designation in FDS from the Shortfall eligibility calculation for FFY 2023 because they are not funded under the Operating Fund (OpFund) Grant Program. Further, PHAs that have removed all Section 9 Public Housing Annual Contributions Contract (ACC) units from their public housing programs, and those that have submitted requests to do so as of the date HUD pulls the required data from PIC, will not be eligible to receive Shortfall funding. Finally, PHAs that are not eligible to receive CY 2023 Operating Funds will not be eligible to receive Shortfall funding.

Operating Reserves and Monthly Operating Expenses

The following table details the line items from the FDS that HUD uses to determine Operating Reserves[1], as well as the calculation of monthly Operating Expenses[2]. The 14.PHC and LRPH columns will be combined for each of the FDS items listed below to create a single Public Housing value. Note that the LRPH column represents the combined Capital Fund and Operating Fund values in the FDS.

Operating Reserves = (Restricted & Unrestricted Assets) – Current Liabilities

Restricted & Unrestricted Assets *(sum of)*	**Current Liabilities** *(difference of)*
Cash: Unrestricted (ITEM_111) (LRPH + 14.PHC)	Total Current Liabilities (ITEM_310) (LRPH + 14.PHC)
Cash: Tenant Security Deposits (ITEM_114) (LRPH + 14.PHC)	Current Portion Long Term Debt: Capital Projects (ITEM_343) (LRPH + 14.PHC)
Cash: Other Restricted (ITEM_113) (14.PHC)	
Cash: Restricted Payment of Current Liabilities (ITEM_115) (LRPH + 14.PHC)	
Total Receivables (ITEM_120) (LRPH + 14.PHC)	

[1] HUD defines Public Housing Operating Reserves as the amount of current assets that are available in the Public Housing program reported in the PHA's FDS after subtracting liabilities due within the next year (i.e., current liabilities).

[2] Monthly Expenses are defined as the total Operating Expenses divided by the number of months in the PHA's FDS. HUD will determine the amount of a PHA's Operating Reserves and Operating Expenses by adding, from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (14.PHC) and Low Rent Public Housing (LRPH) columns, each of the public housing projects reported in the FDS. The MOR will be calculated as the Operating Reserves divided by the Monthly Expenses.

Investments: Unrestricted (ITEM_131) (LRPH + 14.PHC)	
Investments: Restricted for Payment Current Liability (ITEM_135) (LRPH + 14.PHC)	
Prepaid Expenses and Other Assets (ITEM_142) (LRPH + 14.PHC)	
Inter-program: Due From (ITEM_144) (LRPH + 14.PHC)	
Assets Held for Sale (ITEM_145) (LRPH + 14.PHC)	

HUD will calculate the Operating Reserves for each PHA based on the PHA's FDS submission for the following FYE dates:

- December 31, 2021
- March 31, 2022
- June 30, 2022
- September 30, 2022

The data used to calculate the Operating Reserves is taken from the PHA's accepted audited financial submissions as of the date shown above. If an accepted audited financial submission is not available, HUD will use the accepted unaudited data. If no accepted data exists for a PHA for the period used, it will not be eligible for funding under this set-aside.

Tenants Accounts Receivables (TARS) Adjustment and Monthly Operating Reserves
HUD recognizes that PHAs may experience financial hardships due to an increase in unpaid tenant rents, reflected in the growth of their TARS. The growth in TARS has been abnormally high since the start of the COVID-19 pandemic. To support PHAs that experienced a cumulative increase in TARS since the start of the pandemic, for the FFY 2023 Shortfall calculation, HUD will adjust the shortfall calculation to factor in increases in TARS.
To offset the impact of higher TARS, HUD plans to modify the MOR and eligibility calculation with a one-time Excess TARS adjustment[3]. For example, if a PHA had a TARS Ratio of 6% prior to the pandemic as reflected on its 2019 FDS, and the TARS Ratio is now 15%, HUD will reduce the PHA's reserves by 9% (15%-6%) of its current tenant rents as

[3] Excess TARS will be calculated by normalizing a PHA's TARS Ratio for the Shortfall FYEs previously mentioned. The TARS Ratio is the calculation used in the MASS indicator under PHAS. Please see the following link for more information on the MASS indicator https://www.hud.gov/sites/documents/MASS-TRAINING.PDF

reported on Line 70500 of the FDS. This will lower the PHA’s MOR, which increases its Shortfall eligibility amount and increases the probability of the PHA being eligible.
HUD will use the 2019 FYE and FDS data for each Shortfall-eligible PHA to calculate a normalized, baseline TARS Ratio. HUD will then apply the baseline TARS Ratio to the Shortfall FYE tenant rent amount to calculate a normalized TARS amount. HUD will subtract the normalized TARS amount from the Shortfall FYE TARS amount to calculate the Excess TARS adjustment. Only positive Excess TARS values will be retained. HUD will then subtract the Excess TARS amount from the PHA’s Operating Reserves calculation. This will lower the PHA’s MOR and raise its eligibility amount.

Normalized Shortfall TARS = Baseline TARS Ratio x Shortfall Tenant Rents

Baseline TARS Ratio (2019 FYE)	Shortfall Tenant Rents (Shortfall FYE)
Tenant Receivables FDS 126 (LRPH + 14.PHC)	Tenant Rents FDS 70500 (LRPH + 14.PHC)
(Divided by)	
Tenant Rents FDS 70500 (LRPH + 14.PHC)	

Excess TARS = Higher of (Shortfall TARS - Normalized Shortfall TARS) or Zero

Shortfall TARS (Shortfall FYE)
Tenant Receivables FDS 126 (LRPH + 14.PHC)

Months of Reserves (MOR) = Operating Reserves / Monthly Expenses

Operating Reserves	Monthly Expenses
Restricted & Unrestricted Assets	Total Operating Expenses FDS 96900 (LRPH + 14.PHC)
(minus)	(Divided by)
Current Liabilities	Number of months in FDS
(minus)	
Excess TARS	

6. Eligibility of PHAs Participating in the Rental Assistance Demonstration
For FFY 2023, HUD will exclude projects that underwent a partial or full Rental Assistance Demonstration (RAD) conversion before the PHA’s Fiscal Year End (FYE) used for Shortfall eligibility from the Shortfall eligibility calculation. HUD has determined that excluding projects with partial RAD conversions is an appropriate adjustment to the Shortfall eligibility calculation because of the distortions such removals have on financial data. Full RAD conversions are no longer in the Public Housing program and are ineligible for Operating Fund Grant assistance. HUD will use the RAD indicator found in the FASS system to remove these projects from the Shortfall eligibility calculation.

7. Eligibility of PHAs Participating in the MTW Demonstration

PHAs participating in the MTW Demonstration are generally eligible to receive funding under this set-aside provided they have not utilized their MTW funding flexibility in a manner that reduced their Operating Reserves. To make this determination, HUD has reviewed the most recent 5 years of accepted audited/unaudited financial statements from each MTW PHA and calculated the net funds transferred into or out of the PHAs' Public Housing Programs. If the net funds transferred into/out of the Public Housing Programs are less than the total amount of grant revenue reported, then the PHA will not be eligible for funding.

For FFY 2023, HUD will incorporate CARES Act funding into the MTW calculation due to the MTW funding flexibility criteria. Transfers will be offset by any transfers into the CARES Act Public Housing program funding.

Net Amount of Op/Cap Block Grants Used for Low Rent Program = Total Public Housing Funding Transferred In – Total Grants and Transfers Out

Total Public Housing Funding Transferred In ***(sum of the most recent 5 years of accepted audited/unaudited financial statements)***	**Total Grants and Transfers Out** ***(sum of the most recent 5 years of accepted audited/unaudited financial statements)***
• Line 10010 (Operating Transfer In) of 14.PHC	• Line 70600 (HUD PHA Operating Grants) of Column 14.OPS MTW Demonstration Program for Public Housing
• Line 10010 (Operating Transfer In) of Low Rent Program (Project Total)	• Line 70600 (HUD PHA Operating Grants) of Column 14.CFP MTW Demonstration Program for Capital Fund
	• Line 70610 (Capital Grants) of Column 14.CFP MTW Demonstration Program for Capital Fund
	• Line 10020 (Operating Transfer Out) of 14. PHC Low Rent Program (Project Total)
	• Line 10020 (Operating Transfer Out) of LRPH

8. Eligibility for PHAs that Received Shortfall Funding for FFY 2022

If a PHA received Shortfall funding from the Shortfall Funding Program for FFY 2022, it is still eligible to receive Shortfall funding for FFY 2023

9. Application Process

Using existing FDS and PIC data, HUD has completed the calculations described in Sections 5, 6, and 7 of this Notice, and published a list of PHAs and their eligibility amounts to: https://www.hud.gov/program_offices/public_indian_housing/programs/ph/am/opfnd2023

This site features a worksheet showing each PHA's eligibility. It also contains a list of PHAs that are ineligible to receive Shortfall funding and the reason for their ineligibility. Reasons for ineligibility may include:

- A non-current FDS submission (before 12/31/2021),
- PHAs with reserves of three months or more,
- PHAs planning to leave the Public Housing program,[4]
- MTW PHAs that use their block grant flexibility in a manner that reduced funds available in their Public Housing programs,
- PHAs that currently have zero ACC units,
- PHAs that have not received Operating Funds for CY 2023,
- PHAs awarded 2022 Shortfall Funds that did not submit a SIP by the due date

To ensure that all PHAs are fully informed about Shortfall funding, upon publication of this Notice, HUD will transmit information using the PHA email address on record in IMS/PIC. This email will contain the MOR calculation and resulting Shortfall funding eligibility and any MTW transfer calculation described above.

PHAs included on the list of eligible PHAs described above may apply for Shortfall funding by visiting the OpFund Web Portal. PHAs must apply, via this website, by 5:00 p.m. Eastern Time on **August 17, 2023**. Please use the link at the end of this sentence for guidance on how to navigate to the Operating Fund Portal.

If HUD staff determine after review that a Shortfall Application is deficient, the application will be returned to the PHA. In these instances:

1) The PHA will receive a notification via email that HUD has returned its application.
2) The PHA will have 7 calendar days from either the date of this notification or the actual application deadline (whichever comes first) to correct any deficiencies and resubmit the Shortfall Application via the OpFund Web portal.
3) If HUD staff find additional deficiencies following the first re-submission of a cured application, the PHA will continue to be under the original correction timeline. As such, PHAs are encouraged to correct deficiencies quickly and accurately to avoid missing the deadline to cure additional deficiencies.

For example: If a PHA submits its application on the deadline August 17, 2023, and HUD finds an error on August 22, 2023, the PHA must resubmit its application, including all corrections, by 5:00 p.m. Eastern Time on August 29, 2023 (7 calendar days after HUD returned its application).

[4] PHAs are projected to leave Public Housing if they have zero ACC units after subtracting all entered, submitted, and approved Demolition Disposition Applications (DDAPs)

10. Eligibility Appeals Due to FDS Data Errors
If HUD determines that a PHA is ineligible to receive Shortfall funding and the PHA believes that the information HUD used to determine its eligibility or the FDS data itself is inaccurate, the PHA may submit an appeal to HUD. All appeals must be submitted through the OpFund Web Portal via the “Shortfall Appeals” link.

The PHA cannot submit an appeal after 5:00 p.m. Eastern Time, the date of the application deadline. For example, if the PHA submits its appeal on August 17 at 1:00 pm it will be acceptable, but if it does so on August 17 at 7:00 pm, it will not.

Additionally, HUD requires the following documents for all appeals:

1) a re-calculation of Operating Reserves assuming HUD approves the amount of the requested appeal accepted;
2) a copy of the accepted FDS the PHA used to calculate Shortfall eligibility;
3) an indication of the corrected entries and financial information;
4) for PHAs that will submit a revised financial statement to HUD, a written concurrence from the PHA’s auditor;
5) a signed statement (signed pdf is acceptable) by the PHA’s Executive Director certifying that the submitted information is accurate;
6) other documentation to support the appeal outside of the above categories.

The PHA must upload each document in the OpFund Web Portal before HUD will review or process its appeal. Missing appeal documents or information will result in HUD’s denying the appeal. If a document is not applicable to the appeal, the PHA can upload a document with the words “Not Applicable.”

Appendix A, attached to the end of this Notice, describes the four most common corrections to the FDS, along with additional documentation that HUD requires for each one.

Following the appeal decision, if eligible, the PHA must apply for Shortfall funding within 7 calendars days using the OpFund Web Portal. Furthermore, if HUD approves the appeal, the PHA must submit a corrected FDS to FASS-REAC within 30 days after notification from HUD that the original FDS submission was invalidated. HUD may deny the application and recapture funds if the PHA does not submit its corrected FDS or the submission cannot be accepted due to other errors.

11. Amendments to the Form SF-424 and Shortfall Application
In 2023, a PHA only needs to submit one SF-424 per year through the Operating Fund Portal. That SF-424 will serve all Operating Fund Grants, including both grants made pursuant to the Operating Fund Formula (24 CFR part 990) and Shortfall Notice. To apply for 2023 Shortfall funding, PHAs must only submit a Shortfall Application. The Shortfall Application must be signed with a wet (i.e., a person uses a pen to sign their name) or electronic signature. PHAs are not required to resubmit or revise their form SF-424 for the CY 2023 Operating Fund Grant.

12. Prioritization of Funding

If the total amount of Shortfall funding that all PHAs are eligible to receive exceeds the total Shortfall amount that is available, HUD will not be able to fund or fully fund every eligible PHA.

Shortfall funding will be distributed across five cohorts to maximize its impact on the PHAs with the greatest need. Additionally, the guidance in the JES prioritizes small PHAs in the distribution of funds. Although PHAs of various sizes may currently be below 3.0 MOR, HUD is especially concerned with the ability of small and very small PHAs to generate resources to supplement their public housing programs.

HUD has established five cohorts, to distribute Shortfall funding, based on PHA size. These cohorts are:

1) Cohort 1: PHAs with fewer than 250 units
2) Cohort 2: PHAs with at least 250 and not more than 499 units
3) Cohort 3: PHAs with at least 500 and not more than 1,249 units
4) Cohort 4: PHAs with at least 1,250 and not more than 6,599 units
5) Cohort 5: PHAs with at least 6,600 units

Within each cohort, a PHA will be assigned a rank based on its MOR. Those with a lower MOR will receive a lower rank. HUD will fund each PHA in successive order starting with the lowest rank. HUD will provide PHAs with sufficient Shortfall funding to raise their MORs to 3.0. Once HUD has completely funded a cohort, HUD will allocate funding to the next cohort. This process will continue until HUD has allocated the $25 million or all PHAs have been fully funded.

13. PHA Shortfall Improvement Plans (post award)

To increase the likelihood that PHAs receiving Shortfall funding take appropriate steps to ensure long-term financial solvency, HUD will perform additional monitoring of all PHAs that receive this funding. Specifically, PHAs that receive Shortfall funding must develop a plan identifying action items the PHAs will take to improve their financial performance. Such plans are referred to as Shortfall Improvement Plans (SIPs). All SIPs must be submitted through the OpFund Web Portal.

Field Office Regional Directors or their designees will review and approve or return the PHA’s SIP within 30 days of the PHA’s submission. The PHA must submit SIPS no later than six months after the date of the grant award letter. Failure to submit a SIP by the 6-month due date will result in suspension or recapture of its Shortfall award.

14. PHA Shortfall Budgets

Participation in the Shortfall program requires PHAs to periodically submit budgets to HUD. If a PHA has more than one active Shortfall grant from different fiscal years, it is only required to submit one budget for all applicable years. HUD requires this information to track and measure the PHA’s financial condition. The PHA will update this document during the year with budget revisions and actuals. Budgeted information must be provided for the current FY. All Shortfall Budgets must be submitted through the OpFund Web Portal.

Timelines

- The initial budget will be due the first day of the PHA Fiscal Year after the deadline for the submission of the SIP.
- Subsequent annual budgets will be due on the first day of the PHA's Fiscal Year thereafter.
- Actuals will be reported by PHAs twice during the fiscal year.
- First-half (1H) actuals will be due 30 days following the end of the PHA's fiscal year mid-point. Typically, this is 6 months after the start of the fiscal year.
- Year-end (YE) actuals will be due 60 days after the PHA's fiscal year end.
- If a PHA has more than one active Shortfall application from different grant years, it only needs to submit a single budget for all years. For example, if a PHA receives a 2023 Shortfall grant and has an open 2022 Shortfall grant, it only needs to submit one budget application via the OpFund portal.

The Field Office Regional Director or their designee must approve PHA budgets no later than 30 days after the submission deadlines outlined above.

HUD recognizes that some PHAs use cash-based or modified accrual accounting throughout most of the fiscal year and make adjusting-entries at year-end to convert to full, GAAP-compliant accrual accounting. PHAs can report their 1H actuals using their normal accounting practices and do not need to make adjusting entries. PHAs will have the flexibility to make corrections to their 1H actuals prior to their final submissions. YE Actuals must include accounting adjustments the PHA used when reporting to FASS-REAC. The YE column must match the unaudited FDS submission for the same FY.

A PHA's failure to make timely updates and submissions of budgets may result in suspension or recapture of its Shortfall award.

15. Access to Funds

Within each cohort, HUD will provide grants in two separate funding tiers. HUD will provide Tier 1 grants to PHAs with MORs fewer than zero and will be made in the amount needed to raise the PHA's MOR to zero. HUD will make Tier 2 grants in the amount needed to raise each PHA's MOR to 3.0.

PHAs that receive Shortfall funding may draw down amounts from their grant awards as needed to fund their immediate needs. PHAs must enter their expenditure information into the Line of Credit Control System (LOCCS) monthly to validate the expenditure of the funding drawn down. Shortfall funding grants must not be placed into the PHA's Operating Reserves.

Tier 1 Funding

HUD will provide PHAs with a negative MOR due to negative Operating Reserves with a single Tier 1 grant.

- Tier 1 funding will be sufficient to raise the PHA's Operating Reserves to zero.
- Tier 1 PHAs will be able to immediately draw down funding upon grant award for paying immediate needs to bring their MORs to zero.

Tier 2 Funding
All Shortfall funded PHAs will receive two Tier 2 grants.

- HUD will place Tier 2 grants in BLI 2000, which restricts access to those funds. Field offices will remove the restrictions on the funds by placing them in BLI 1000 once the PHA meets the milestones below. The Tier 2 amount will be split evenly, rounded, and provided as two grants. Rounding may create an immaterial difference in the amounts between the two grants.
- To access Tier 2 funding, PHAs must submit their Improvement Plans in accordance with the timelines specified in Sections 13.

    - HUD will make the first increment (Tier 2 Grant 1) available to PHAs to draw down as needed to pay for immediate needs upon the finalization of the Improvement Plan required by Section 13 of this Notice.

    - HUD will make the second increment (Tier 2 Grant 2) available to PHAs to draw down upon the approval of an FDS having a MOR that is equal to 1.5 or greater. The MOR will be calculated with the same methodology discussed in Section 5. The FDS submission must be at least one full fiscal year after the submission of the PHA's Improvement Plan. For example: if a 9/30 PHA submits its Improvement Plan on 10/15/2023, the earliest FYE that the PHA can use to demonstrate a MOR of 1.5 or greater will be the FDS based on the 9/30/2025 FYE. <u>It is important that PHAs submit their Improvement Plans quickly to minimize any delay in their ability to access funding.</u> Note that, for the last-funded Tier 2 PHA, if that PHA receives only partial funding, an alternative requirement will apply. The last-funded PHA will have to demonstrate a MOR that is equal to the MOR achieved when adding the Tier 1 grant and the first grant of Tier 2 to its Shortfall Operating Reserves amount.

    - If a PHA does not meet the milestones described above related to submission of an Improvement Plan and budget and maintaining an adequate MOR, that PHA will be unable to draw down applicable funds.

HUD will recapture any unobligated funds remaining at the end of the period of performance (see Section 18).

16. Completing the Shortfall Program
PHAs that successfully complete all the requirements of the Shortfall program are no longer required to submit budgets and actuals. Successful completion of the program includes the following:

- The PHA has submitted its Shortfall Improvement Plan,
- The PHA is current on all its budget and actual submissions, and
- The PHA has achieved an eligible MOR on a subsequent FDS, as defined in Section 5 of this Notice.

17. Eligible Uses of Shortfall Funding

Allowable expenses for Shortfall funds are the same as those for Operating Funds. If a PHA subsequently removes all units from its Public Housing program, and proceeds to close out its Public Housing program and terminate its ACC with HUD, the PHA should refer to Section 6 of Notice PIH-2019-13 or Notice PIH-2014-24 related to remaining Federal Funds.

PHAs may provide Shortfall funding to a mixed-financed owner entity according to its negotiated Regulatory and Operating Agreements (R&O). If the R&O does not require the PHA to provide Shortfall funding, a PHA may elect to provide Shortfall funds to the mixed-financed owner entity to pay for eligible operating expenses. When a PHA provides Shortfall funding to a mixed-financed owner entity, the PHA must include the improvement activities supported with the funds in the SIP.

18. Period of Performance

The period of performance for Shortfall funds starts on the date of award and ends four years from the end of the funding year during which the funds were awarded, which is December 31, 2027. The PHA can use Shortfall funds to pay Operating Fund expenses for obligations incurred during the period of performance. HUD will recapture any unobligated funds remaining at the end of the period of performance. PHAs must liquidate all obligations within 120 days of the end date of the period of performance. LOCCS will be locked 120 days after the end of the period of performance and PHAs will not be able to draw down any additional funds. HUD will recapture any unliquidated obligations remaining 120 days after the end of the period of performance.

For PHAs that fully convert to RAD and still have Shortfall funds remaining in LOCCS:

- If the funds are locked, they will be recaptured by HUD.
- If the funds are unlocked, the PHA can use them for closeout activities.

19. Accounting Treatment

Shortfall funding program activity is associated with Public Housing projects, and, as such, must be reported on the FDS at the project level. PHAs are required to report activities funded from the Shortfall Program in accordance with generally accepted accounting principles (GAAP).

From an accounting perspective, the PHA will recognize the Shortfall funds as revenue when the PHA has incurred an eligible cost which will be funded by Shortfall funds, regardless of when the funds were drawn down.

20. LOCCS Reporting

The PHA is required to report monthly expenditures in LOCCS. The PHA will be able to draw down an amount of funding from its Shortfall funding grant equal to the total expenditures entered in LOCCS. This process will continue until the expenditures reach 100 percent of the grant amount.

21. Further Information

PHAs should email all their questions to the appropriate HUD Field Office.

22. Paperwork Reduction Act
The Office of Management and Budget (OMB) has approved the information collection requirements contained in this accepted Notice under the Paperwork Reduction Act of 1995 (44 U.S.C. § 3520) and assigned it OMB approval numbers 2577-0026, 2577-0029, 2577-0157 and 2577-0246. 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 number.

23. Penalty for False Claims and Statements
HUD will seek civil, criminal, or administrative action against individuals and entities that either make, present, submit, or cause to be submitted a false, fictitious, or fraudulent statement, representation, or certification. 18 U.S.C. §§ 287, 1001, 1010, 1012, 1014 and 31 U.S.C. §§ 3729, 3802.

24. Withdrawal from the Shortfall Program
PHAs can withdraw from the Shortfall Funding program at any time. To confirm the PHA's intent to withdraw from the Shortfall program, the PHA must provide the following:

- A letter from the PHA's Executive Director stating that they wish to withdraw from the program and return the funds to HUD with a wet or electronic signature;
- Minutes from a PHA Board Meeting showing that the decision to withdraw from the Shortfall Funding Program has been discussed and agreed on.

The PHA must return any funds withdrawn from eLOCCS to HUD. Once the PHA has submitted required documentation related to its request to withdraw from the program and returned any withdrawn funds, it will no longer be required to submit an Improvement Plan, budget, or actuals.

25. Shortfall Close Out
PHAs must obligate all Shortfall Funding by the end of the Period of Performance. PHAs must submit Federal Financial Reports (SF-425) for each PHA Fiscal Year, 120 days after the PHA's Fiscal Year End. PHA's must report annually until the earlier of the end of the Period of Performance or when their SF-425 reports no unobligated funds, unliquidated obligations, or cash on hand. The Field Office may request additional documentation to verify the eligibility and timing of PHA expenses.

Richard J. Monocchio

Richard J. Monocchio
Principal Deputy Assistant Secretary
for Public and Indian Housing

Appendix A

The four most common corrections to the FDS are described below, in addition to the documentation required for each one.

1) **Incorrect reporting of insurance proceeds.** The Annual Contributions Contract (ACC) requires that insurance proceeds be used to restore, reconstruct, or repair damaged or destroyed property. The PHA must submit: (a) the total amount of proceeds; (b) the amount of proceeds used to restore, reconstruct, or repair the damaged or destroyed property; (c) information on how the PHA has accounted for the proceeds on the FDS; (d) a statement that the PHA intends to use the funds to repair or rebuild the damaged or destroyed property; and (e) any estimated costs of required repairs that have not yet been incurred.
2) **Disaster funds.** Some PHAs received funds or entered into agreements to repair their public housing units that were damaged in a federal state, or other declared disaster. The PHA must submit accepted plans, agreements, and other related documents which show that the funds are still restricted for and will be used to repair or rebuild public units damaged by a disaster and authorization of the use of Operating Reserves to fund the repairs. The PHA also needs to describe the type of disaster and the dates on which the damage occurred.
3) **Non-Federal funds.** Some PHAs may have received funds or grants from non-Federal sources (e.g., state governments, local governments, non-profit organizations, or developer fees) and incorrectly reported those funds on their FDSs in the Public Housing program. When requesting an appeal, a PHA must submit evidence of the receipt of the non-Federal source. It must also document that the unspent amount is still being incorrectly included in the Operating Reserves and that the funds were improperly reported under the Public Housing program.
4) **Disposition Proceeds.** Section 18(a)(5)(B) of the U.S. Housing Act of 1937, 24 C.F.R. § 970.19, and PIH Notice 2020-23 (HA) require that PHAs use Section 18 disposition proceeds for the "provision of low-income housing or to benefit the residents of the public housing agency; or leveraging amounts for securing commercial enterprises, onsite in public housing projects of the public housing agency, appropriate to serve the needs of the residents." To appeal, the PHA must submit the following: (a) the total amount of proceeds; (b) the PHA's proposed use of those proceeds for Section 18(a)(5)(B) purposes; (c) information on how the PHA has accounted for the proceeds on the FDS; (d) a statement that the PHA intends to use the funds for Section 18(a)(5)(B) purposes.