

discounting required for the cost comparisons. The OMB circular provides guidance on the discount rates to be used in evaluating federal programs whose benefits and costs are distributed over time. HUD believes that adoption of the policies and procedures outlined in OMB Circular A-94 will result in more accurate comparisons of the cost of tenant-based assistance with the costs of continuing to operate developments as public housing. Application of these procedures will also ensure that the approach used for the cost comparison is consistent with the way other federal programs and policies are evaluated. A copy of OMB Circular A-94 may be downloaded from the following Internet Web site: <http://www.whitehouse.gov/omb/circular/a094/a094.html>.

2. *Discounting of public housing operating subsidy and Section 8 voucher costs.* Consistent with OMB Circular A-94, the proposed cost methodology compares the net present value of the stream of costs associated with continued use as public housing with the net present value of the stream of costs associated with vouchers. The period over which costs, both initial and ongoing, are recognized is generally 20 years, but may be a longer period (30 years for new construction) or a shorter period (15 years) under voluntary conversion. Costs are discounted using the real discount rate provided on the OMB Web site at <http://www.whitehouse.gov/OMB/Budget>.

The methodology contained in this proposed rule replaces the approach used in the July 23, 1999, proposed rule on voluntary and required conversions in which public housing and voucher costs were converted to a single-period cost (per unit per month average) by amortizing initial and ongoing modernization costs.

3. *Use of revitalization plan in conduct of cost test.* This proposed rule revises the proposed cost methodology to clarify that, particularly for voluntary conversion, the required cost comparison will not always be based on a revitalization plan.

4. *Calculation of accrual.* The proposed cost methodology has been revised to provide that accrual will be calculated using the portion of the latest published HUD unit Total Development Cost (TDC) limits for the area that HUD attributes to the costs of housing construction. In addition, the amortization period has been changed so that the amounts used for accrual are consistent with the amounts estimated in the HUD-sponsored comprehensive study of public housing capital needs released in 2000.

5. *Additional costs of providing tenant-based assistance.* HUD has clarified the proposed cost methodology to provide that a PHA must consider the following expenses as part of the cost of providing Section 8 tenant-based assistance:

- The cost of addressing environmental concerns related to demolition; and
- An amount equal to \$1,000 (or a higher amount allowed by HUD) for relocation assistance costs (including counseling).

6. *Use of payment standard in calculating cost of providing tenant-based assistance.* HUD has revised the proposed cost methodology to provide that, for purposes of the required cost comparison, the PHA should use the higher of the average cost for voucher units occupied by recent movers, or the applicable Section 8 payment standard for the jurisdiction or designated part of the Fair Market Rent (FMR) area. The term cost as used here means the gross rent of the units (contract rent plus any utility allowance). PHAs have discretion in defining a reasonable time period for measuring recent mover costs.

IV. Discussion of Public Comments on Proposed Cost Methodology

As noted above in this preamble, the cost methodology was originally contained in HUD's July 23, 1999, proposed rule on voluntary conversions. The comment period on the proposed rule closed on September 21, 1999. By close of business on this date, HUD had received six public comments. Comments were submitted by a private citizen, one PHA, two of the three main organizations representing PHAs, and two legal aid organizations. Several of the commenters raised issues concerning the proposed cost methodology. This section of the preamble presents a summary of the significant issues raised by the public commenters on the proposed methodology, and HUD's responses to these comments.

Comment: The proposed cost methodology incorrectly applies cost methodologies developed to deal with distressed housing to non-distressed housing. Two commenters recommended that the cost test not be based on the preparation of a revitalization plan. One of the commenters wrote that PHAs wishing to convert may not always have a completed revitalization plan to serve as the basis for the required cost analysis. The other commenter wrote that the proposed cost methodology incorrectly assumes that the projects to be converted are distressed projects that

need to be revitalized. This commenter wrote that "any project, including viable projects and projects in good condition, are subject to voluntary conversion." The commenter worried that requiring the inclusion of revitalization expenses in the cost methodology would drive up the cost of operating public housing and, thus, increase the likelihood that a development will fail the cost test.

HUD response. HUD has revised the language of the July 23, 1999, proposed rule to be more sensitive to the concerns expressed by the commenters, and to the reality that the renovations needed so that public housing will be usable over its remaining useful life, as contemplated by section 22 of the 1937 Act, will sometimes be less extensive than a revitalization plan.

Comment: Additional costs of providing tenant-based assistance. Section III of the proposed methodology describes the procedures for determining the cost of providing Section 8 tenant-based assistance. One commenter suggested that this section be revised to include the following expenses:

1. Any costs related to dealing with the environmental aspects of demolition;
2. The costs of the various studies required to establish grounds for conversion; and
3. The costs of a strong mobility project. According to the commenter this is necessary to affirmatively further fair housing.

HUD Response. HUD agrees that the cost of providing tenant-based assistance must include expenses incurred to address environmental concerns related to demolition, and has clarified the cost methodology accordingly. HUD has also revised the cost methodology to require the inclusion of \$1,000 (or a higher amount allowed by HUD) for relocation assistance, including counseling.

HUD does not agree that the costs of the required studies should be included in the cost of providing tenant-based assistance. These studies are conducted to determine whether conversion is permissible. Accordingly, the costs of the studies are incurred before the commencement of the conversion process and cannot appropriately be considered as expenses related to the provision of tenant-based assistance.

Comment: Section 8 cost calculation should require PHAs to consider alternatives to the FMR. One commenter wrote that Section III of the proposed cost methodology incorrectly requires PHAs to focus on FMRs in determining the cost of providing tenant-based assistance. The commenter wrote that