

Operating Fund Program Explanation of Proration Percentage for CY 2007

For the first obligation of Calendar Year (CY) 2007 Operating Subsidies for public housing agencies (PHAs), the Department has provided funding at 76% of eligibility (proration). The Department is currently operating under a Continuing Resolution through February 15, 2007. As such, PHA funding is provided for three months (January-March). The following provides an explanation of the proration percentage.

For CY 2007, total PHA operating subsidy eligibility is \$4.536 billion. This amount is based on the operating subsidy forms (HUD Form 52723) submitted by each PHA and reviewed/approved by HUD. Table 1 compares 2007 eligibility to 2006 eligibility. Overall, eligibility increased 10%, or \$394 million. (CY 2007 is the first year of implementation of the new Operating Fund formula, as per 24 CFR Part 990. PHAs that gain under the new formula receive 50% of their gain in 2007; PHAs that decline have their losses capped at 24% of the difference between the old and new formula.)¹

Table 1. Comparison of 2006 and 2007 Operating Subsidy Eligibility

| # | Description | 2007 Amount (in millions) | 2006 Amount (in millions) | Change | Change % |
|---|------------------------------|------------------------------|------------------------------|----------------------|------------|
| 1 | Formula Non-Utility Expenses | \$4,596,452,370 | \$4,387,970,938 | \$208,481,432 | 5% |
| 2 | Formula Utility Expenses | \$1,660,537,206 | \$1,647,240,912 | \$13,296,294 | 1% |
| 3 | MTW Block Grant Eligibility | \$536,382,371 | \$503,585,924 | \$32,796,447 | 7% |
| 4 | Mutual Help and Turnkey | \$886,916 | \$1,033,947 | (\$147,031) | -14% |
| 5 | Less: Formula Income | (\$2,258,169,586) | (\$2,397,560,601) | \$139,391,015 | -6% |
| 6 | Total Eligibility | \$4,536,089,277 | \$4,142,271,120 | \$393,818,157 | 10% |

Note: Formula non-utility expenses include (-) \$75 million in transition funding due to 'gainers' receiving 50 percent of their gains in 2007 and 'decliners' getting their losses capped at 24 percent.

In accordance with the new Operating Fund rule, HUD must hold back 2% of appropriated funds for appeals. If these funds are not used, they will be redistributed to PHAs in the last quarter of the funding year. Table 2 shows the proration calculation. As indicated, total eligibility is \$4.536 billion. After adjusting for the holdback and for the proposed revision to the transition schedule (see Footnote 1), the estimated proration is 76.4%. The Department has then rounded down this percentage (to 76%) to allow for routine year-end budget revisions.

¹ Revised Transition Funding Provision for FFY 2007; Proposed Rule (FR-5105-P-01, 11/24/06) will cap the losses of PHAs that decline at 5 percent of the difference between the old and the new formula. It is estimated that the total operating subsidy eligibility for CY 2007 will increase by \$35 million as a result of this proposed rule. This increase is considered while calculating the initial proration percentage.

Table 2. Proration Calculation, CY 2007

| # | Description | Reference | Amount (in \$ millions) |
|---|---|------------------|----------------------------|
| 1 | Estimated FY 2007 Appropriation | | \$ 3,564 |
| 2 | Less: 2% Holdback for Appeals | | \$ 71 |
| 3 | Available for Formula Allocation | (1) - (2) | \$ 3,493 |
| 4 | Total FY 2007 Eligibility | | \$ 4,536 |
| 5 | Add: Estimated increase in eligibility due to transition rule | | \$ 35 |
| 6 | Total Estimated FY 2007 Eligibility | (4) +(5) | \$ 4,571 |
| 7 | Estimated Proration | (3) / (6) | 76.4% |