In 2017, the Operating Fund proration increased from 2016, even though overall funding decreased. The FY 2017 omnibus provided $4.4 billion to support the operation and management of public housing. This was $100 million less than FY 2016 funding levels. Although 2017 Operating Fund levels were less than 2016 levels, the amount provided by the omnibus was sufficient to fund 92.9 percent of PHAs’ anticipated formula eligibility for 2017, higher than the 2016 proration. This was due to declines in Operating Fund formula eligibility from 2016 to 2017. Eligibility is determined by project expense level (PEL), including income, the utility expense level (UEL), add-ons, and transition funding. High formula PEL income inflation factors coupled with UEL deflation due to declining oil and natural gas costs led to a decline in income eligibility.

Less money was made available to the Operating Fund overall due to the impact of the inflation and deflation factors on formula eligibility. As not all PHAs saw increases in incomes or declines in utility expenses in 2017, some PHAs experienced declines in Operating Fund subsidies for 2017 as compared to 2016, even though the proration for 2017 was higher.

For 2017, HUD applied inflation factors between 6 percent and 8 percent for 2017 formula income. This was significantly higher than HUD’s inflation factor for any other year. It is most likely that external occurrences drove the significant increase in the income inflation factor.

HUD also applied a 7.01 percent deflation factor for the utility expense level (UEL) due to declines in oil and natural gas costs. HUD uses data from the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U) to determine utility expense levels. HUD applies this deflation factor at the national level, regardless of the energy source used by an Asset Management Project (AMP). Although AMPs that utilize oil or natural gas have seen savings, those that rely on other sources of energy have not.

Many PHAs experienced significant subsidy decreases in early 2017 due to declining formula eligibility for the Public Housing Operating Fund and a conservative Operating Fund proration. HUD employed such a conservative proration (85 percent) for the beginning of the year as Congress had yet to pass a budget for FY 2017. PHAs experienced decreases in Operating Fund subsidies earlier in the year due to HUD’s use of an 85 percent proration for January, February, March, April and May. The 2017 data, which included the income inflation factors and utility expense level deflation, were first applied to subsidy calculations in March. At this time, many PHAs saw an additional decrease in their subsidy. On top of this, because HUD used 2016 data for January and February, which were based on higher formula eligibility than 2017 data, HUD overpaid agencies for those months. As such, some PHAs saw a dramatic decline in their Operating Fund subsidy in March as HUD had to “true-up” the subsidy – this often involves HUD providing a lower subsidy for the month to account for the over-payments in January and February. PHAs also saw a “true up” for June funding due to the increase in the proration once the FY 2017 budget was passed.

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