

NEWS AND UPDATES FROM BDO PHA FINANCE

FLASH ALERT



WHY PUBLIC HOUSING OPERATING SUBSIDY IS LOWER IN 2017

BDO PHA Finance saw subsidy funding levels decrease across the nation when calculating CY 2017 subsidy. We determined the contributing factors for the subsidy decreases include the rental income inflation factor and the utility expense level *deflation* factor. The utility expense level is typically inflated, but for the past two years (2016 and 2017) HUD has applied a deflation factor.

The operating fund calculation has a formula expense level and a formula income level. HUD Form 52723 calculates subsidy funding by taking the formula expense level and subtracting the formula income level. The difference is the amount of subsidy that each project (Asset Management Project [AMP]) is eligible to receive. Thus, the higher the formula expense level and the lower the formula income level, the more subsidy each AMP will receive.

The formula expense level is comprised of a project expense level, a utility expense level, add-ons and transition funding. The formula income level is solely dwelling rental income typically calculated from the last submitted Financial Data Schedule (FDS) for each AMP. For example, HUD used fiscal year 2015 FDS to capture dwelling rental income for calendar year 2017 subsidy calculation.

The Project Expense Level (PEL) was established by the Final Rule in 2005 and includes 10 variables and their associated coefficients. The PEL is the primary funding component of the subsidy calculation for each AMP. Since 2005, it has inflated by an inflation factor each year. The average national inflation factor for the PEL for CY 2017 is about 2 percent. HUD determined via rulemaking how the PEL's inflation factor will be calculated as referenced in 24 CFR 990.165 (d):

"Annual inflation factor. The PEL for each project shall be adjusted annually, beginning in 2005, by the local inflation factor. The local inflation factor shall be the HUD-determined weighted average percentage increase in local government wages and salaries for the area in which the PHA is located, and non-wage expenses."

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ABOUT BDO PHA FINANCE

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The UEL and add-on's formula amounts are based on the current data, while the transition funding amount is based on a per unit month amount from the stop-loss calculation.

As mentioned, the subsidy calculation is:

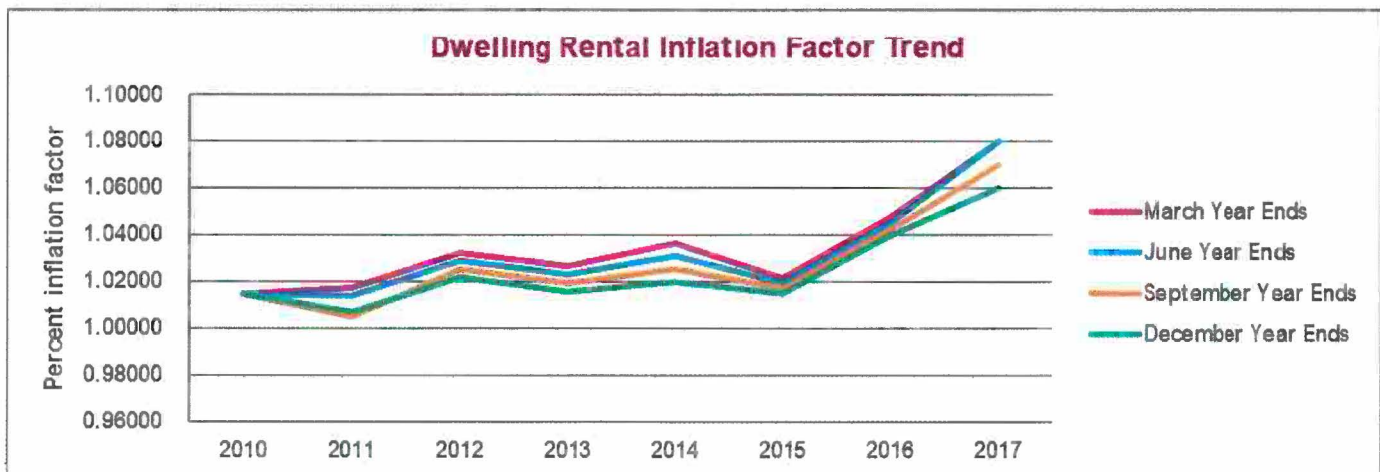
$$\begin{aligned} &\text{Formula expense level} - \text{formula income level} = \text{subsidy eligibility} \\ &\text{or} \\ &(\text{PEL} + \text{UEL} + \text{add-ons} + \text{transition funding}) - (\text{dwelling rental income}) = \text{subsidy eligibility} \end{aligned}$$

The higher the formula income, the lower the subsidy eligibility will be.

Similar to the PEL, dwelling rental income (formula income) has an inflation factor applied each year. HUD never published any clear guidance in the CFR to calculate the dwelling rental inflation factor. When HUD does provide guidance for the dwelling rental income inflation factor calculation, it has been vague.

From calendar year 2010 to 2012, HUD stated the dwelling rental inflation factor was based on data to determine HUD's budget. For calendar years 2013 and 2014, HUD stated they used growth trends to determine the dwelling rental inflation factor and for calendar years 2015 to 2017, HUD used data from HUD Form 50058 to calculate the dwelling rental inflation factor. So basically, HUD has free range to adjust the inflation factor and reduce operating subsidy to PHAs. It is similar to a proration factor, but hidden in the calculation. Calendar year 2017 reported the highest inflation factors since the inception of the project based operating subsidy calculation.

Below is a line graph of dwelling rental inflation factors from calendar year 2010 to 2017. Inflation factors between 6% and 8% are being for calendar year 2017 depending on the PHA's fiscal year.



The second factor contributing to reduced subsidy for calendar year 2017 is the deflation factor of 7.01% for the utility expense level. HUD does provide guidance on this calculation. HUD utilizes data from the Bureau of Labor Statistics (BLS) "Consumer Price Index for All Urban Consumers (CPI-U)." Please [click here](#) to see the guidance on the UEL inflation factor calculation.

In 2017, the dwelling rental income inflation factor is far outpacing the PEL inflation factor, which in itself would result in long-term decreases to operating subsidy. More immediately for this funding year, the apparently arbitrary dwelling rental inflation factor (between 6% and 8%) coupled with a substantial UEL deflation factor of 7.01% has resulted in many PHAs experiencing significant pre-proration decreases in operating subsidy eligibility. With so much at stake for PHA funding in upcoming 2017-18 appropriations, we hope HUD will strive to act with both transparency and accountability.

For details and insights on the latest HUD updates, visit [BDO PHA Finance](#) today.