APPENDIX A: OPERATING FUND RULE

HUD uses the Operating Fund Rule to calculate annual subsidies for housing authorities. Instead of using actual expenses, HUD calculates expense costs for each housing authority, and makes adjustments if necessary. The calculation uses a regression model with 10 independent variables: number of units, age of property, bedroom mix, building type, occupancy type (family, senior), neighborhood poverty rate, percent of households assisted, ownership type (profit, non-profit, or limited dividend), location (central city, suburban, rural), and metropolitan area. NYCHA’s monthly per-unit subsidy cannot exceed $480 before utilities, which is higher than the $420 ceiling for all other authorities.

Utility expenses are calculated as a product of each utility’s rate, consumption level, and an inflation factor, with an incentive to reduce consumption. Each utility’s rate is equal to actual costs divided by actual consumption. The consumption level is based on the actual consumption levels of each utility during the 12-month period ending June 30th that is six months prior to the first day of the funding period. The consumption level is adjusted for an incentive to reduce consumption; current consumption levels are compared to a rolling base consumption level, which is calculated over the three preceding years. If current levels increase, then the public housing authority absorbs 75 percent of the increase; if current consumption decreases, then the housing authority retains 75 percent of the decrease. After the adjustment is made, the consumption level is multiplied by the utility rate and an inflation/deflation factor provided annually by the Bureau of Labor Statistics.

Housing authorities can request additional operating subsidies for energy loan amortization, payments in lieu of taxes, asset management fees, and information technology fees. Once all expenses are calculated, the formula subtracts rent charged to tenants; as a result, increases in rent revenue generally lower the operating subsidy, all else being equal.