

**Supplemental Information on Calendar Year (CY) Third Quarter Obligation
Operating Fund Program
June 27, 2008**

The lower amount of the obligation for the third quarter, relative to the previous six months, is a function of two factors. The first is the lower estimated proration, from 84 percent to 82 percent. The second is the retroactive nature of the lower proration.

Consider a PHA that has estimated annual eligibility of \$1,200, or \$300 per quarter. Assume that, for the first two quarters, this PHA received \$252 per quarter (84 percent of \$300), for a total of \$504. Now, assume that the proration percentage is updated in the third quarter and gets reduced to 82 percent, for a prorated quarterly obligation \$246. However, to adjust for the previous obligations, the PHA will be funded at just \$234 in the third quarter, which is a reduction of about 7% relative to what the PHA received during the first two quarters, as shown below:

1st and 2nd Quarter Obligation

Subsidy Eligibility Per Quarter	\$300
Proration	<u>x .84</u>
= Obligation Amount	\$252

3rd Quarter Obligation

Subsidy Eligibility Per Quarter	\$300
Proration	<u>x .82</u>
= Funding Eligibility After Proration	\$246
Less Difference in Funding Received In Previous Obligations [(252-246) x2]	<u>-\$12</u>
= Obligation Amount	\$234

As for the lower proration figure, our original estimate, which we used for the first two obligations, was based on approved Calendar Year 2007 subsidy eligibility, adjusted for inflation and transition funding. That amount was approximately \$5.0 billion. The revised subsidy eligibility was based on the most recent data submitted by PHAs in SAGIS (Subsidy and Grant Information System) for their CY 2008 subsidy worksheets as of about June 1, 2008. At the time, SAGIS contained submissions for approximately 90

percent of all projects. However, these figures represent only what PHAs had submitted and not what had been reviewed/approved by the Department. The eligibility for the remaining ten percent was calculated based on the same methodology utilized for the 1st and 2nd quarter obligations. The combination of this methodology, for the entire inventory, resulted in total estimated subsidy eligibility of \$5.126 billion.

As we have previously communicated, the \$5.126 billion is an estimate based on the best data available to the Department at the time. These amounts could go up/down once all submissions have been received, reviewed, and finalized. The Department had the choice of retaining the proration percentage at 84 percent for the third quarter or applying the more recent estimate. If the estimates proved accurate, and we had funded PHAs at 84 percent in the third quarter, the fiscal impact in the fourth quarter would have been compounded.

The Operating Fund Program is funded with what is referred to as “one-year money.” In other words, the Department must obligate all amounts by September 30 of the fiscal year. Further, the Department cannot fund previous years’ eligibility. Prior to 2003, the Department was able to obligate PHA subsidy levels based on estimated amounts, which were then reconciled in subsequent years. As a consequence, we have to wait until all submissions, including revisions, are processed before we can determine final subsidy eligibility and, hence, proration.

For CY 2008, the PHA subsidy revision deadline (the deadline to submit requests to field offices) is July 15. It takes about another two months to complete the review of these submissions to tally national amounts and subsequent proration. Therefore, final proration figures for CY 2008 will not be available until late September.