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EXECUTIVE DIRECTOR
SUNIA ZATERMAN

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By Email

Neera Tanden
Director, U.S. Domestic Policy Council

Shalanda Young
Director, U.S. Office of Management & Budget

Tom Perez
Director, Intergovernmental Affairs, The White House

Joe Carlile
Associate Director, U.S. Office of Management & Budget

RE: Renewal Funding Inflation Factor (RFIF) Methodology Changes for the Housing Choice Voucher (HCV) Program

Dear Directors Tanden, Young, Perez, and Carlile,

The Council of Large Public Housing Authorities ("CLPHA") writes to The White House to express our serious concerns about a forthcoming methodology change to the Renewal Funding Inflation Factors (RFIFs) for the Housing Choice Voucher (HCV) program.

CLPHA is a non-profit organization that works to preserve and improve public and affordable housing through advocacy, research, policy analysis, and public education. Our membership of more than eighty large public housing authorities ("PHAs") that own and manage nearly half of the units in the nation's public housing program, administer more than a quarter of the subsidies in the Housing Choice Voucher (HCV) Program, and operate a wide array of other housing programs. CLPHA supports the nation's largest and most innovative PHAs that own and manage housing and vouchers for nearly 3.3 million households by advocating for the resources they need to solve local housing challenges.

RFIFs are a key funding formula used by the U.S. Department of Housing and Urban Development (HUD) to adjust the allocation of HCV program funds to PHAs. The proposed RFIF methodology for Fiscal Year (FY) 2024 will result in drastically underfunded Housing Assistance Payment (HAP) renewals, which would greatly undermine PHAs' ability to serve their residents and confront the housing crisis.

Background

As you are aware, RFIFs are used to adjust the allocation of HCV program funds to PHAs for local changes in rents, utility costs, and tenant incomes. To calculate RFIFs, HUD first forecasts a national inflation factor, which is the annual change in the national average Per Unit Cost (PUC). HUD then calculates individual area inflation factors, which are based on the annual changes in the two-bedroom Fair Market Rent (FMR) for each area. Finally, HUD adjusts the individual area inflation factors to be consistent with the national inflation factor. HUD subsequently applies the calculated individual area inflation factors to eligible renewal funding for each PHA based on Voucher Management System (VMS) leasing and cost data for the prior calendar year.

HUD's forecast of the national average Per Unit Costs (PUCs) is based on forecasts of gross rent and tenant income. The forecast of gross rent is itself based on forecasts of the Consumer Price Index (CPI) Rent of Primary Residence Index and the CPI Fuels and Utilities Index. Forecasted values of these series are applied to the Fiscal Year national average two-bedroom FMR to produce a Calendar Year value. A “notional” PUC is calculated as the difference between gross rent value and 30% of tenant income (the standard for tenant rent contribution in the voucher program). The change between the forecasted current calendar year notional PUC and the previous calendar year’s notional PUC is used by HUD to determine the expected national change in PUC, which is subsequently factored into the RFIF calculation.

Proposed Inflation Factor would be Extremely Low

CLPHA strongly supports recalculating the RFIF. We have been informed that the HUD formula for calculating the RFIFs would change prior practice in a way that drastically reduces the official projection of what funds our PHAs will need to keep up with rising local rents and costs. We have been made aware that the FY 2024 RFIF will soon be published. If the FY24 RFIF places an 85% weight on CPI and only 15% weight on FMR as has come to our attention, the resulting calculation would lead to *flat renewal funding* and even *negative renewal funding* amounts for PHAs compared to the FMR. This weighting would place too little emphasis on Per Unit Costs and FMRs.

We strongly urge that FMRs should be given heavier weighting because FMRs reflect the costs of what the Voucher program buys, housing, whereas the Consumer Price Index Fuels & Utilities Index reflects costs of goods and other items beyond the scope of the HCV program. HUD even summarized that recent research on rents shows that overall rent CPI data lags rent inflation for new tenants by one year, which further undermines accuracy of the calculation if the CPI is weighted too heavily. CLPHA supported HUD’s decision to change its FMR methodology to continue using private sector rental data from multiple sources in the FMR calculation process, as CLPHA has recommended for many years that HUD should incorporate the use of commercial data to obtain more accurate gross rents.

HUD’s FY 2023 Renewal Funding Inflation Factors for the HCV Program set an expected 9.60% change in national Per Unit Cost (PUC) for the HCV program to each PHA based on the change in FMRs for their operating area. HUD’s FY 2023 methodology is the same as that which was used in FY 2022. PHAs are already struggling to meet the need for affordable housing in communities in the context of insufficient federal funding and an inflationary environment. Costs for construction materials are increasing, and the Operating Cost Adjustment Factors (OCAF) used for adjusting or establishing Section 8 rents for projects assisted with Section 8 Housing Assistance Payments (HAP) have not yet fully taken inflation into account.

If adopted, the FY24 RFIF methodology will add pressure to the already strained resources of PHAs. OMB must be mindful that insufficient HAP renewal funding will hinder every PHA's ability to fulfill their mission to deliver affordable housing. PHAs will be unable to issue new vouchers to unhoused families or families on waiting lists struggling to maintain housing, a freeze which will last far longer than necessary. Vouchers are critical to getting local families safely housed, but this artificially low inflation factor will prevent PHAs from meeting that need.

Furthermore, if this RFIF pattern is locked in for the next several years, it will have a devastating impact on the capacity of PHAs' voucher programs to help America's low-income families get a fresh start in stable housing. It would slow the progress of residents entering affordable housing at a time of severe shortage by reducing the number of vouchers that can be funded.

<u>Impacts: New York City</u>
An analysis of the New York City region, for example, illustrates the potential impacts. Below is a table showing HUD's combined "notional" PUC factor and RFIF for New York City compared with the difference in the two-bedroom Fair Market Rent for New York City from FY 2018 to FY 2024. From FY 2019 – FY 2023 there were slight percentage differences both positive and negative. However, under HUD's combined FY 2024 estimate of "notional" PUC factor and the New York City Housing Authority's RFIF, there would be a substantial underfunding of HAP renewal funding of ***-7.69 percent*** relative to the percentage change of the two-bedroom FMR in New York City. If HUD moves forward by revising its RFIF data sources and methods in FY 2024, the result would be substantial underfunding of HAP relative to annual inflationary rental housing costs in New York City and annual changes in voucher-assisted households' income.

Fiscal Year	HUD's Combined "Notional" Per Unit HAP Cost Inflation Factor and PHA's HAP Renewal Funding Inflation Factor (RFIF) from Its October and November Two-Year-Tool for the City of the New York City Housing Authority (NY005)	Fiscal Year	HUD's Annual Average Percentage Change in Fair Market Rents (2BRs), Percentage Change for the Housing Authority of the New York City Housing Authority (NY005)	Product of HUD's "Notional" Annual Per Unit Cost (PUC) Minus HUD's National Average Annual FMR Change (2BR)
2019	**2.17%**	2019	**2.35%**	**-0.18%**
2020	**4.76%**	2020	**6.55%**	**-1.79%**
2021	**5.81%**	2021	**5.23%**	**0.59%**
2022	**13.17%**	2022	**13.98%**	**-0.80%**
2023	**7.50%**	2023	**4.74%**	**2.76%**
2024	**4.59%**	2024	**12.28%**	**-7.69%**

<u>Impacts: Boston</u>
The Boston Housing Authority reported that in Boston, the prior RFIF formula would have factored in a 5.23% increase; yet under the proposed formula, it would be ***just 0.05%*** (essentially flat). For Massachusetts' statewide agency (EOHLC), it drops under the new formula from 5.3% to ***just 1.3%***. It is 0.4% in Andover and Yarmouth, 0.3% in Worcester, 0.2% in Chelsea, 0.1% in Brookline, and *completely flat* (i.e. 0% inflation) in municipalities such as Lowell, Revere, Oxford, Watertown, Chelsea, and Cambridge. These are extremely low numbers in light of the FMR for a two-bedroom unit in the

Boston metro area increasing by 7.2% from 2023 to 2024 (the 7.2% FMR increase likely lags behind actual market costs). The Boston Housing Authority, Massachusetts Housing Secretary Ed Augustus, along with the leaders of housing agencies in every Massachusetts congressional district, sent a letter to OMB and the Domestic Policy Council on March 29, 2024, outlining these same concerns.

Need for Transparency

In addition to the issues around the weighting of CPI and FMR inflation factors, we have repeatedly raised concerns with HUD about the lack of transparency regarding the process and methodology for establishing inflation factors. We believe that HUD is required to promulgate any updates to the RFIF methodology through a transparent public process, preferably through notice and comment in the Federal Register that includes much more detail and explanation than HUD has provided in the past. Any housing subsidy losses that happen this year due to an inadequate formula could be locked in for many years to come, so we are hopeful to have an opportunity to remedy the RFIF methodology for this year as well as in future years.

Conclusion

We urge swift White House action on this significant policy matter, which is within White House control. If left unaddressed, it will have a severely negative effect on the ability of PHAs to address our national housing crisis.

As always, we are grateful to the Biden Administration for your unflagging support for affordable housing programs, and we look forward to continuing discussions with you on this important matter.

Sincerely,

Sunia Zaterman

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Council of Large Public Housing Authorities

Cc:
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