CLPHA
Strengthening Neighborhoods.
Improving Lives.

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Regulations Division
Office of General Counsel
US Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410-0500

Re: [Docket No. FR-5874-P-03] Housing Choice Voucher Program New Administrative Fee Formula – Solicitation of Comment

To Whom It May Concern:

CLPHA is a non-profit organization that works to preserve and improve public and affordable housing through advocacy, research, policy analysis, and public education. We support the nation's largest and most innovative housing authorities by advocating for the resources they need to solve local housing challenges and create communities of opportunity. Our members own and manage nearly half of the nation's public housing program, administer a quarter of the Housing Choice Voucher (HCV) program, and operate a wide array of other housing programs.

We appreciate the opportunity to respond to HUD's notice of proposed rulemaking and solicitation of comment on a new administrative fee formula for the HCV program. Our remarks address some of the specific solicitations of comment but generally detail our position on the formula itself.

When CLPHA responded to last year's *Notice and Solicitation of Comment on HUD's Administrative Fee Formula,* published on June 26, 2015 (80 FR 36832), we detailed several issues relating to the limitations of the Administrative Fee Study's methodology, findings, and resulting formula. We raised concerns about:

- the Administrative Fee Study's regression model, which predicts costs significantly below actual costs for 51.9% of high-performing public housing authorities (PHAs);
- the high degree to which funds are reallocated from large housing authorities to small housing authorities;
- HUD's misleading data comparisons, which overestimated the percent of gainer PHAs under the then-proposed fee formula;
- the omission of additional cost factors that account for the extra work associated with special voucher programs, and homeless and hard-to-house populations; and
- our contention that the formula factors including "wages," "PHA program size," the "health insurance cost index," "percent households with earned income," the "Small Area Rent Ratio" (SARR), and the "distance from main office over 60 miles" are not fully developed.

CLPHA supports the significant and impactful changes that HUD has made to the fee formula by: 1) removing the SARR variable; 2) replacing the health insurance cost index variable with the benefit load variable; and 3) basing the wage index variable on a PHA's metropolitan Core Based Statistical Area (CBSA) instead of the Quarterly Census of Employment and Wages (QCEW) recommended by the study.

Despite these significant formula changes, we continue to oppose the fee formula under this proposed because of its differential impacts and unintended consequences. We believe strongly that HUD lacks the authority to implement its proposed changes, and that further study is required to determine an appropriate formula that includes administrative cost-drivers not identified in the Administrative Fee Study.

While the fee formula under this proposed rule has yielded positive results for many decliner agencies under the formula proposed by the study, these increases are grossly overstated. HUD's misleading analysis of fees under the proposed rule compared to current funding levels overstates gains and understates losses in administrative fees under this proposed rule because it assumes 100 percent funding of the HCV program. A more reliable, apples-to-apples comparison would instead compare administrative fees at current funding levels to the fees proposed in the rule under a similar proration environment such as 81.565 percent, which was the proration level in CY 2015.

As set forth by the Conference Report to accompany H.R. 2112, report number 112-284, the Administrative Fee Study was commissioned to "review PHA administrative costs." To that end, CLPHA considers the Administrative Fee Study to have achieved the purpose set out by the directive, as it outlines the significant costs to run a high performing and efficient HCV program. However, to implement a fee formula based on the study goes beyond the directive set forth in the aforementioned legislative report.

We also question the assumption that the Administrative Fee Study's simple regression is an appropriate basis upon which to calculate and allocate administrative fees. We continue to be troubled by the prospect of allocating funds based on a model that leaves more than one-third of the variation in costs across housing authorities unexplained.

The potential for administrative overreach if this proposed rule were to be implemented is exacerbated by the Administrative Fee Study's statistical inadequacies. HUD's extensive solicitations of comment within this proposed rule further emphasize that the current fee formula is profoundly flawed and requires further research before any changes can be implemented.

Ultimately, the fee study confirmed what PHAs implicitly understood: that the HCV program is severely underfunded. Without additional funding, the proposed fee formula will have little impact to improve the efficiency and effectiveness of the HCV program. Rather, the proposed fee formula simply reallocates fees among PHAs without reducing cost burdens or rewarding innovation.

CLPHA encourages HUD to implement an administrative fee formula that is more flexible through the use of supplemental fees. Supplemental fees are a critical component if HUD is to address administrative functions not identified as cost-drivers in the study, and offset unintended bias within the variables identified as having significant impacts on cost.

Response to Specific Issues for Comment:

Program Size

Specific solicitation of comment #3: *Does the size variable discourage creating greater efficiencies through consortia or consolidation? How may the size variable be adjusted with respect to consortia or consolidated programs?*

> Last year, CLPHA raised concerns about the differential impact of the PHA program size variable on housing authorities with small or very large HCV programs. Under the proposed fee formula, small PHAs leasing 750 vouchers or less would receive disproportionately large fee increases when compared to large agencies that collectively administer 80 percent of the HCV program. We oppose bias that favors small agencies administering the HCV program.
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> The program size variable has an inherent bias towards PHAs with small HCV programs. Despite a lack of evidence, the variable assumes economies of scale will emerge for larger programs. To the contrary, our members indicate that there are eventual diseconomies of scale for larger programs. The functions and requirements of PHAs with large HCV programs are not reduced by having more vouchers. These programs spend more time and staff resources on screening of applicants and experience greater voucher turnover and should be compensated for that effort. CLPHA supports a supplemental fee for large PHAs with at least 1,250 vouchers to offset diseconomies of scale in the program size variable.

Specific solicitation of comment #4: *Should HUD adopt a policy for a small PHA when another PHA has an overlapping jurisdiction?*

> CLPHA is concerned that the program size variable fundamentally disincentivizes small PHAs from becoming more administratively efficient through consolidation or consortia. HUD can encourage administrative efficiencies for small authorities with overlapping jurisdictions by reducing the relative weight of the program size variable in the base formula, and awarding a supplemental fee to small agencies that are sole providers of HCV's within a jurisdiction.

Households with Earned Income

Specific solicitation of comment #7: *Should the households with earned income variable be removed from the formula, or should the coefficient be constrained to reduce the weight given to the variable?*

> The fee study team observed that time-consuming activities like wage verification, interim examinations, and move processing are highly correlated with earned income households, and thus are worthy of inclusion in the administrative fee formula. Although CLPHA agrees that accounting for households with earned income significantly impacts administrative costs

when controlling for local wage rates and program size, the variable does little to account for the costs to assist special needs households.

Our members report that serving households requiring special services or exiting homelessness takes additional time. These claims are supported by the fee study itself, which cautions that the cost estimate regarding households identified as homeless at admission "is not very precise," and "less reliable than the estimates for other household types."

Another major concern regarding the households with earned income variable is its potential to bias PHA admissions preferences. The variable carries unintended consequences that may influence PHA preferences based on incentives in the fee formula Unlike other variables in the fee formula, the households with earned income variable is weighted heavily and our members have commented that changes up or down on this variable created the most significant changes to the fee. PHAs should not be penalized for the populations they serve.

New Admissions Rate

Although we agree with the fee study finding that activities associated with new HCV admissions result in higher costs, we are concerned that the variable is insensitive to the upfront administrative costs of port-in vouchers, and expanding housing options in areas of opportunity. PHAs, particularly those in high cost/low vacancy areas, spend considerable time and effort.

The variable is also insensitive to PHAs serving special needs populations and those PHAs in high cost/low vacancy areas, both of which experience low voucher turnover rates. These PHAs are effectively penalized for market conditions beyond their control. PHAs should not be expected to absorb these upfront costs.

Distance from Main Office Over 60 Miles

Specific solicitation of comment #10: Would a 50-mile point-to-point calculation better account for the potential deficiencies in the 60-mile "point-to-point" calculation method currently in place? Should the formula constrain the coefficient estimate for the 60 mile variable so that greater weight is given to other cost variables while still providing an adjustment in the base fee amount for PHAs that serve households residing more than 60 miles from the PHA headquarters? How should HUD establish an additional threshold that would adjust the formula variable for cases where a significant portion of the PHA's families is clustered beyond the distance threshold from the PHA headquarters?

In our previous comments, CLPHA expressed concern about the "distance from main office over 60 miles" variable because it disproportionally advantaged the fees of state and regional authorities. It is clear that distance between HCV program administrators and their voucher holders will impact service costs. Distance alone is an inadequate indication of the correlated time to travel a given distance. A 50-mile point-to-point distance calculation can no better account for time to travel than a 60-mile point-to-point distance calculation.

We suggest replacing this distance variable with a population density variable. This variable can be calculated using the mean population density of all CBSAs. PHAs that fall in the tails of the distribution, above or below two standard deviations of the mean, would receive an additional fee of equal value.

By replacing the “60-mile” variable with a “population density” variable, HUD captures related travel time costs for PHAs with great distances between their headquarters and HCV households *and* those in congested areas.

Success Rates

In rental markets with high rents and low vacancies, PHAs often perform a substantial amount of work for voucher holders who do not ultimately lease units. Measuring success based only on actual lease-ups diminishes the value of a PHA’s efforts to serve hard-to-house populations in tight rental markets. CLPHA believes that the fee formula should include a vacancy rate factor that measures success considering market conditions.

Availability of Affordable Housing

Specific solicitation of comment #12: Are there other approaches to measuring rental markets in order to determine what, if any, impact this factor may have in administrative fee costs, and to incorporate it into the formula, if appropriate?

We support reasonable efforts to assess a PHA’s market conditions. A supplemental fee that considers the availability of affordable housing can compensate housing authorities within tight rental markets where the supply of available affordable housing is low. Vacancy rates, as measured by the percentage of all rental units in a CBSA that are vacant, can be an appropriate indicator to compensate PHAs facing challenging rental market conditions.

Variable Value Calculations

Specific solicitation of comment #14: Should HUD use a longer time period, such as a 5 year average, for some or all of the variables?

Multiple year averages are useful to compensate for volatility in year-to-year data. The methodology for calculating the “benefit load,” “new admissions rate,” and “households with earned income” variables currently relies on three-year averages to accommodate fluctuations.

Our members find, however, that such three-year averages are relatively short-term metrics for the purposes of budgeting and planning. During the period of sequestration, many housing authorities reduced their program size, and consequently had fewer staff and new admissions. Likewise, historically deep prorations have weakened the HCV program’s growth in spite of increased service demands from the Administration.

Under a short-term, three-year average like the one proposed, housing authorities would be limited by a legacy of underfunding and would lack the budgetary flexibility to account for increases to lease-ups in the current year of spending. Longer-term calculations of at least five years for the “benefit load,” “new admissions rate,” and “households with earned income" variables can further reduce the risk of year-to-year volatility, however, we also support a streamlined fee mechanism that will allow housing authorities to request additional funding.

Supplemental Fees and Additional Cost Factors
Homeless:
Specific solicitation of comment #18: *Is the homeless new admissions fee amount appropriate, and will the additional fee alleviate concerns about how the "households with earned income" variable might inadvertently impact homeless admissions?*

CLPHA strongly supports HUD's consideration of the additional costs of lease-up activities for homeless populations. The proposed supplemental fee formula of 30 percent of a PHA's annualized administrative fee is an adequate starting point, but we urge HUD to seek advice from a group of industry experts to determine the most appropriate formula structure. We also urge HUD to define the category of homeless households for this supplemental fee in the broadest terms possible to include households that are chronically homeless, lack rental histories, or have come from unstable living arrangements.

Although CLPHA supports a supplemental fee for homeless new admissions, we do not believe that it corrects for the unintended consequences of the "households with earned income" variable which excludes special needs populations.

Specific solicitation of comment #20: *What amount would be appropriate for the new allocation fee for HUD-VASH and other voucher allocations that require partnership with other services? Is a fee for ongoing HUD-VASH administration warranted? If so, what would be an appropriate amount and rationale in support of such fee?*

CLPHA appreciates the proposed HUD-VASH supplemental fee. We encourage HUD to foster partnerships with key stakeholders at the Department of Veterans Affairs, local program administrators, and research groups to identify the most appropriate fee structure.

Low Vacancy Areas
Housing authorities in low vacancy areas face unique challenges to place voucher holders into affordable housing. CLPHA supports a supplemental fee that encourages the efforts of PHAs to expand housing options for their tenants despite low market supply. CLPHA suggest using vacancy rates within a CBSA as an appropriate proxy for an area's housing market conditions. Another suitable proxy may be an agency's exit rate or End of Participation rate, which can indicate the level of voucher turnover.

Expanding Housing Opportunities and PHA Performance Incentives:
Specific solicitation of comment #21: *How can HUD effectively structure an incentive fee for improving locational outcomes of HCV households?*

We support a supplemental fee that rewards housing authorities for administrative efficiency and effectiveness, but we agree with HUD that performance incentives should not be based on SEMAP scores. Leaders across jurisdictional and regional boundaries should be engaged to identify the most appropriate indicators of PHA performance and success.

The fee study estimated that PHAs spent less than 30 minutes per voucher per year on supportive services, including activities to expand housing opportunities because PHAs "did not have the resources to invest substantial staff time …although they valued these activities." In addition to a supplemental fee for expanding housing opportunities, we encourage HUD to implement regulatory changes that streamline the HCV program so that PHAs can spend more time on supportive services like working with case managers, service providers, and property owners.

In sum, while we appreciate the revisions made to the fee formula, these changes do not rectify two key issues. First, the administrative fee study was not commissioned to become the basis of an administrative fee formula, but rather to assess administrative cost. Second, the proposed fee formula is based on a statistically unreliable regression model that explains only 63-65 percent of the variation in costs. Incorporating supplemental fees into the formula may help to recapture some of this unexplained variation. Without additional funding for the HCV program, however, costs are simply reallocated among PHAs.

As a result of these significant concerns, CLPHA urges the Department not to implement the formula in its current form. Thank you for the opportunity to submit these comments and for your continued consideration of this matter.

Sincerely,

Sunia Zaterman

Sunia Zaterman
Executive Director