Housing Choice Voucher Program Administrative Fee Formula Proposed Rule

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Summer 2016

Why Propose a New Admin Fee Formula?

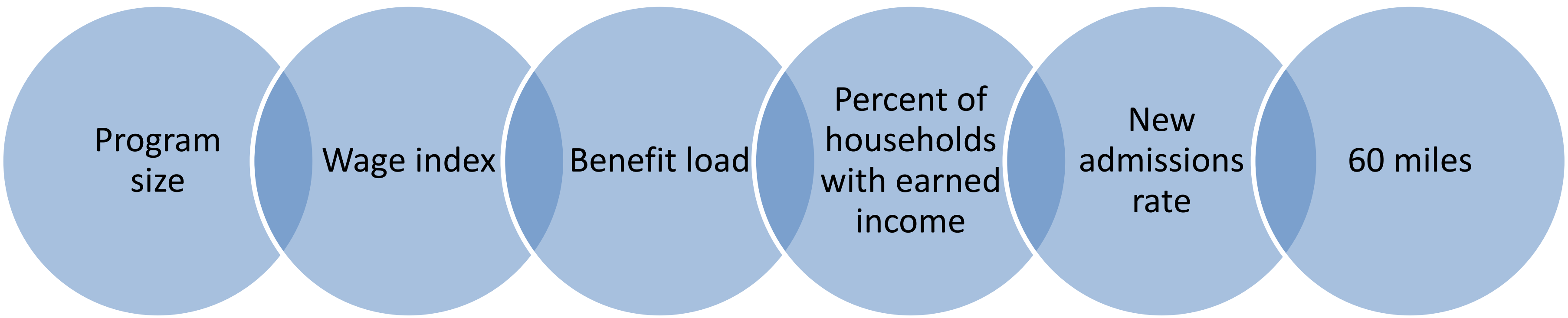
- HUD completed the *Housing Choice Voucher Program Administrative Fee Study* in April 2015
- The study filled a critical need for data on the cost of administering the HCV program and showed that:
  - Most PHAs do not receive enough administrative fee funding
  - The current fee formula does not adequately reflect the actual costs of administering a high performing and efficient HCV program
  - Current formula's allocation of funds is problematic
- The study recommended that HUD adopt a new administrative fee formula that would:
  - Provide a strong basis for HUD to request sufficient funding for administrative fees
  - Allocate the funding based on the PHA, program, and market characteristics shown to affect HCV administrative costs

How Did HUD Get From the Study to the Proposed Rule?

- Proposed rule is based on recommendations of the study and subsequent stakeholder feedback
- After the publishing the study report, HUD took several actions to communicate the findings:
  - Public webcast and listening sessions in 7 locations across the country
  - Online tools for PHAs to assess impact of the study's recommended formula on their funding
  - Solicitation of Comment notice published on June 26, 2015
- 95 written comments received, primarily focused on:
  - Study's recommended formula variables
  - Impact of the study-recommended formula on PHA operations
- HUD carefully reviewed all comments received and modified three formula variables and added an implementation plan to minimize the impact of transition to the new formula on PHA operations

What are the Elements of the Formula?

- Six formula variables:



- Formula variables reflect the study findings on the actual costs of operating a high performing and efficient HCV program and the factors that affect per unit costs across PHAs
- The proposed rule explains 62% of the variation in per unit costs across the PHAs in the study, compared to 33% for the current formula

How Does the Proposed Rule Formula Differ from the Study Formula?

Wage Index Calculated at a Smaller Geographic Level

- Study recommended using state average wage data for metro and non-metro areas
- Proposed rule uses CBSA-level data where available

Benefits Costs Captured Using PHA Data

- Study recommended using data on health insurance costs for measuring variation in benefits costs
- Proposed rule uses data that PHAs report to HUD on benefits paid to HCV staff

Small Area Rent Ratio (SARR) Dropped

- Study recommended the SARR to capture outcomes associated with expanding housing opportunities
- Proposed rule eliminates the SARR and seeks comments on alternatives

How Does the Formula Protect PHAs Against Fee Declines?

- Proposed formula recommends that per unit fees:
  - May not DECREASE by more than 5% from one year to the next
  - May not INCREASE by more than 40% from one year to the next
- A PHA's per unit fee cannot be less than 95% of the per unit fee the PHAs was paid last year:
  - In the first year of implementation, no PHA would receive a per unit fee that is lower than 95% of the fee it received the prior year under the existing formula, adjusted for inflation.
  - Once the new formula is in place, no PHA would receive a per unit fee that is lower than 95% of the per unit fee it received the prior year, adjusted for inflation.
- In the event of insufficient appropriations, HUD could cap gains at a lower percentage (e.g., 20%) in order to prevent declines of more than 5%.
  - The proposed rule also seeks comment on how to handle other funding scenarios, for example if appropriations are so low that all PHAs would experience a decline.

How Does the Formula Calculation Work?

- Each PHA has its own values, unique to the PHA, for each of the six formula variables
  - The data for the PHA values come from VMS, FASS, PIC, and Bureau of Labor Statistics and are updated each year for each PHA
  - The formula sets a maximum and minimum for each value based on the range observed in the HCV Administrative Fee Study
- Each variable has a coefficient that represents the variable's weight in the formula and apply to all PHAs
  - The coefficients were determined by the study's regression formula
- The PHA's base fee is the sum of each variable value times its coefficient, minus the regression model intercept
- The base fee is then subject to the formula's fee floors and ceilings and adjusted for inflation before becoming final

What is the Program Size Variable?

- Provides additional fee for smaller PHAs based on the study finding that PHAs with 500 vouchers or fewer have higher per unit costs
- Coefficient value is $13.94 and PHA values range from 0 to 1:
  - PHAs with 250 or fewer vouchers have a value of 1, PHAs with 750 or more vouchers have a value of 0, and PHAs with 251-749 vouchers have a value between 1 and 0.
- The minimum a PHA can receive for this variable is $0 and the maximum is $13.94.
- PHA values are updated each year based on the last 12 months of VMS data.

Requests for Comment

- ❖ Should the size of the coefficient be reduced so that program size has less impact on per unit fees?
- ❖ Should the size thresholds be changed so that some of the upward fee adjustment accrues to PHAs with more than 750 vouchers?
- ❖ Should the formula be modified to not discourage very small PHAs with adjoining or overlapping jurisdictions from consolidating or forming consortia?

What is the Wage Index Variable?

- Provides additional fee for PHAs located in high wage areas
- Data source is Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW)
- Coefficient value is $31.53 and PHA values range from 0.64 to 1.46:
  - CBSA-level data used for PHAs in metropolitan and micropolitan areas
  - State average data used for PHAs in other areas
- The minimum a PHA can receive for this variable is $20.18 and the maximum is $46.03
- PHA values are updated each year based on most recent annual data

Requests for Comment

❖ Does the proposed approach to the wage index variable adequately capture variation in local labor costs?

What is the Benefit Load Variable?

- Provides additional fee for PHAs in states with high benefit costs relative to salaries
- Data source is FASS data on PHA salary and benefit costs for HCV employees
- Coefficient value is $0.78 and PHA values range from 22.56 to 60.48 (state average of HCV benefits ÷ HCV salaries)
- The minimum a PHA can received for this variable is $17.60 and the maximum is $47.17
- PHA values are updated each year based on most recent 3 years of data

Requests for Comment

❖ Does the variable adequately capture variation in local benefits costs?

❖ Is there a preferable alternative?

What is the Households with Earned Income Variable?

- Provides additional fee for PHAs serving a high percentage of households with earned income
  - Study found that serving working families increases per unit costs
- Data source is PHA's own PIC data
- Coefficient value is $1.02 and PHA values range from 15.58 to 56.11 (percent of PHA's households with any earned income)
- The minimum a PHA can receive for this variable is $15.89 and the maximum is $57.23
- PHA value is updated each year based on most recent 3 years of data

Requests for Comment

- ❖ Should the size of the fee adjustment associated with variable be reduced?
- ❖ Should the variable be modified to ensure that PHAs do not have a disincentive to serve non-working families (e.g., homeless)?
- ❖ Should the variable be removed from the formula?

What is the New Admissions Rate Variable?

- Provides additional fee for PHAs with a high percentage of new admissions, either from turnover or new voucher allocations
- Data source is PHA’s own PIC data
- Coefficient value is $0.15 and PHA values range from 2.93 to 52.19 (percent of PHA’s households that are new admissions)
- The minimum a PHA can receive for this variable is $0.44 and the maximum is $7.83
- PHA value is updated each year based on most recent 3 years of data

Requests for Comment

❖ Should HUD count households that port-in without being absorbed as “new admissions” for purposes of the formula variable? (Would boost the new admissions rate for some PHAs.)

What is the 60 Miles Variable?

- Provides additional fee for PHAs serving households that live more than 60 miles from the PHA's headquarters
- Data source is PHA's own PIC data, measuring the shortest distance between the household address and the PHA headquarters address
- Coefficient value is $0.83 and PHA values range from 0 to 47.39 (percent of PHA's households living more than 60 miles from PHA headquarters)
- The minimum a PHA can receive for this variable is $0 and the maximum is $39.33
- PHA value is updated each year based on one year of PIC data

Requests for Comment

- ❖ Should distance be measured using average road distance from PHA's headquarters or some other method?
- ❖ Should HUD take into account how households are clustered geographically?

Example Formula Calculation

Formula Variable	Applies to	Calculation	Sample PHA Value	Fee Amount
Program size 1	PHAs with 250 or fewer units	+ $13.94 ($13.94 x 1)	n/a	--
Program size 2	PHAs with 251 to 750 units	+ $13.94 x [1-(units-250)/500]	0.66 (420 vouchers)	$9.20
Program size 3	PHAs with more than 750 units	+ $0 ($13.94 x 0)	n/a	--
Wage index	All PHAs	+ $31.53 x PHA's wage index	0.90	$28.38
Benefit load	All PHAs	+ $0.78 x PHA's benefit load	29.57	$23.06
Households with earned income	All PHAs	+ $1.02 x % of PHA's households with earned income	33.93	$34.61
New admissions rate	All PHAs	+ $0.15 x % of PHA's households that are new admissions	25.15	$3.77
60 miles	All PHAs	+ $0.83 x % of PHA's households more than 60 miles from PHA HQ	5.10	$4.23
Intercept	All PHAs	- $33.47		- $33.47
Base Fee per unit month leased, not inflated	All PHAs	**= $**		**= $69.78**

What are the Fee Floors and Ceilings?

- The proposed formula recommends floors and ceilings for the base fees calculated
  - The floors and ceilings are based on the actual costs measured through the administrative fee study as of 2013
  - The formula applies the floors and ceilings before adjusting the calculated fee for inflation that has taken place since 2013
- Fee floor is $42 per UML ($54 per UML for PHAs in the U.S. Territories) and fee ceiling is $109 per UML
- For most PHAs, the formula produces fees that are higher than the fee floor and lower than the fee ceiling

How Does the Formula Account for Inflation?

- Each year the formula is adjusted for inflation
  - An inflation adjustment is necessary because the coefficients in the formula are based on the study’s cost data and are in 2013 dollars
- The inflation factor is a national factor that reflects inflation in both labor and non-labor costs
  - 70% of the inflation factor reflects inflation in wages and benefits (captured by the Employer Costs for Employee Compensation survey)
  - 30% of the inflation factor reflects inflation in goods and services (captured by the Consumer Price Index)
- HUD seeks comments on the proposed inflation factor

Review of Steps in Calculating Fee Rates

Calculate the base per unit fee rate using formula coefficients and PHA values for formula variables

Apply the floor and ceiling fee rates to ensure the per unit fee is between $42 (or $54) and $109

Apply the inflation factor to inflate the per unit fee rate to present-day dollars

Adjust as needed to ensure that no PHA's fee is less than 95% (or more than 140%) of the fee it received the previous year

How Does the Formula Handle Portability?

- Under the proposed formula, a PHA earns 100% of its fee for non-ported vouchers and port-in vouchers, plus 20% of its fee for port-out vouchers
  - For non-ported and port-in vouchers, the PHA earns fees equal to 100% of its per unit fee rate multiplied by the number of unit months under lease
  - For port-out vouchers, the PHA earns fees equal to 20% of its per unit fee rate multiplied by the number of unit months under lease
- The proposed rule formula eliminates billing for administrative fees, though billing for HAP remains

Does the Formula Offer Supplemental Fees?

- The proposed rule invites comment on supplemental fees to support HUD and PHA objectives
- The rule specifically seeks comment on supplemental fees for:
  - Special purpose vouchers (e.g., HUD-VASH)
  - Serving homeless households
  - Expanding housing opportunities (e.g., through mobility counseling, investment in employment and self-sufficiency initiatives)

What is the Impact of the Formula on PHAs?

Estimated Impact of Proposed Formula on non-MTW PHAs, CY 2015

	Proposed Rule Formula	Current Formula (Actual Funding, 81.565% proration)	Current Formula (Full Funding, no proration)
Total Admin Fees*	$1.67B	$1.39B	$1.71B

* Includes administrative fees paid on Mainstream 5 vouchers.

- 89% of non-MTW PHAs would have higher per unit fees in 2015 under the new formula than the per unit fees they actually received under the current formula at 81.565% proration
- 64% of PHAs would have higher per unit fees in 2015 under the new formula than their 2015 fee eligibility (no proration) under the current formula

How Does the Impact Vary by Program Size?

Estimated Impact of Proposed Formula by Number of Vouchers, Non-MTW PHAs, CY2015

Vouchers Under Lease	Number of PHAs	Average PHA Per Unit Fee Rate, Proposed Rule (Full Funding)	Average PHA Per Unit Fee Rate, Current Formula (Prorated)	Percent Decliners* Relative to Prorated Per Unit Fee Received
500 or fewer	1,501	$71.30	$56.72	8%
501 to 1,000	320	$68.50	$58.27	17%
1,001 to 5,000	334	$68.42	$58.57	16%
5,001 to 10,000	35	$70.56	$59.44	11%
10,001 or more	21	$77.35	$65.68	10%
Overall	**2,211**	**$70.50**	**$57.35**	**11%**

* A PHA is a "decliner" if the per unit fee that it would have received in 2015 under the proposed rule formula is lower than the prorated per unit fee it received in 2015 under the current formula. A PHA that is not a decliner is characterizes as a gainer even if the gain is minimal.

Why Are Some PHAs Decliners?

Characteristic	Decliner PHAs	Gainer PHAs
Avg. program size adjustment	0.53	0.68
Avg. wage index	0.91	0.93
Avg. benefit load	36.58	41.90
Avg. percent households with earnings	25.24	34.24
Avg. percent new admissions	9.47	14.44
Avg. percent households >60 miles from the PHA HQ	0.24	1.16
Avg. per unit fee under proposed rule formula in 2015	**$65.27**	**$71.13**
Avg. per unit fee under existing formula in 2015	**$69.02**	**$55.95**

- On average, decliner PHAs have lower values on the formula variables, producing a lower average fee under the proposed rule
- On average, decliner PHAs receive significantly higher fees under the existing formula

What Comments is HUD Seeking?

- For each formula variable, the rule seeks comment on:
  - How the variable is defined
  - How the PHA values are defined, including minimum and maximum values
- The rule also seeks comment on:
  - Fee floors and ceilings
  - Inflation factor
  - Implementation approach (caps on gains and declines, what to do in the event of insufficient appropriations)
  - Supplemental fees for homeless initiatives, special vouchers, expanding housing opportunities, and PHA performance

How to Submit Comments

- Comments are due October 4, 2016
- Comments may be submitted one of two ways:
  - Electronically via the Federal eRulemaking Portal at www.regulations.gov
  - By mail:

    Regulations Division

    Office of General Counsel

    Department of Housing and Urban Development

    451 7th Street, SW, Room 10276

    Washington, DC 20410-0500

More Information

- See HUD's HCV Program web page for information on the proposed rule
  - Data on each PHA's fee for 2015 using the proposed rule formula
  - Data on each PHA's fee for 2015 using the study formula (for comparison purposes)
  - Tool that allows users to compare the impact of the proposed rule formula on individual PHAs at different levels of funding
  - Links to information on the HCV Administrative Fee Study
- Email AdminFee_Rule@hud.gov for questions on the proposed rule
  - Note that this email address is limited to questions about the proposed rule and is not a means of submitting public comment.

Next Steps

- Comments are due October 4, 2016
- HUD will review the comments and draft a final rule
- HUD expects to release the final rule in late spring or summer 2017
- HUD expects to implement the new formula in CY2018