Center on Budget and Policy Priorities

PRRAC
Poverty & Race Research Action Council

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Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th St. SW, Room 10276
Washington, DC 20410-0001
Submitted electronically through www.regulations.gov

Re: Docket No. FR–5874–P–03, Housing Choice Voucher Program — New Administrative Fee Formula

To whom it may concern:

These comments are submitted by the Center on Budget and Policy Priorities and the Poverty & Race Research Action Council. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues affecting low- and moderate-income families. The Center's housing work focuses on improving the effectiveness of federal low-income housing programs, and particularly the Section 8 housing voucher program. The Poverty & Race Research Action Council (PRRAC) is a civil rights policy organization based in Washington, DC committed to expanding access to housing and educational opportunity for low income families.

The Abt Associates' Housing Choice Voucher (HCV) administrative fee study demonstrates persuasively that fee eligibility under the current formula is only weakly related to public housing agencies' (PHAs') actual costs. HUD's proposal to revamp the formula is a substantial improvement over the current formula, and we generally support it. Nevertheless, we urge HUD to further improve the administrative fee policy in several areas to make the HCV program more effective in achieving critical policy goals. The following summarizes our comments:

1) **Expanding housing opportunities:** The HCV program must do much more to expand families' housing opportunities, and administrative fee reform has a critical role to play in achieving this goal. Specifically, we strongly recommend that HUD add a base formula factor to compensate and reward housing agencies that demonstrate the most successful efforts in expanding families' housing opportunities. In addition, HUD should provide supplemental fees to agencies that are not among the highest performers but substantially improve their performance in expanding location-related opportunities.

2) **Program Size Adjustment:** Taxpayers should not pay for inefficiency unless there is no viable alternative. We strongly urge HUD to eliminate or significantly reduce the program

size factor, which provides housing agencies with a very large incentive to remain small, thereby rewarding inefficiency while missing an opportunity to reduce administrative costs and improve families' access to housing in higher-opportunity areas.

3) **Earned Income Factor:** We fully agree with HUD's analysis regarding the earned income factor, and urge HUD to retain it in the final formula. Similarly, we support various other provisions that HUD has proposed, such as the floors and ceilings on variable values and on year-to-year changes in fee eligibility, and the treatment of portability.

4) **Supplemental fees for serving homeless and other "hard to house" households:** We also support one-time supplemental fees for assisting homeless individuals and families, including veterans. Indeed, this policy is an essential lever in the effort to expand agencies' efforts to address homelessness, which is necessary if we are to continue to make progress in alleviating the problem.

Expanding Housing Opportunities

Enabling low-income families to choose the housing and community that best meets their needs is one of the Housing Choice Voucher (HCV) program's core goals. Indeed, the program has no more important goal, save that of enabling families to live in a decent home they can afford.

Recent research has reinforced this goal's importance, particularly for families with children. Exposure to neighborhoods of concentrated disadvantage, particularly those where violent crime is more common — can contribute to "toxic stress" in children, which affects brain development, early learning, and the body's stress response system in ways that can have a long-term effect on young children's cognitive development and physical health, according to a growing body of research.[1] Children growing up in extreme-poverty neighborhoods are also much more likely to attend low-quality schools, and to be exposed to lead and other health hazards.[2]

Other research shows that growing up in safe, low-poverty neighborhoods with good schools improves children's academic achievement and long-term chances of success, and may reduce inter-generational poverty. A rigorous study led by Stanford economist Raj Chetty found, for example, that young children in families that used a voucher to move to lower-poverty neighborhoods were 32 percent more likely to attend college and earned 31 percent more — nearly $3,500 a year — as

[1] "Toxic stress" describes the activation of the body's stress response system that occurs when a child experiences frequent, persistent, or excessive fear or anxiety as a result of being exposed to abuse, neglect, violence, or severe hardship, particularly when the child does not receive adequate adult support in coping with the stress. See Jack P. Shonkoff et al., "The Lifelong Effects of Early Childhood Adversity and Toxic Stress," American Academy of Pediatrics, 2012, www.pediatrics.org/cgi/doi/10.1542/peds.2011-2663.

[2] For sources, see notes 6 and 7 in Barbara Sard and Douglas Rice, "Creating Opportunity for Children: How Housing Location Can Make a Difference," Center on Budget and Policy Priorities, October 15, 2014, http://www.cbpp.org/research/creating-opportunity-for-children#_s1_edn6.

young adults than those in families that did not receive a voucher. Girls in these families were also 30 percent less likely to be single parents as adults.[3]

Over the past decade, efforts to expand families' housing opportunities have become more urgent, as the concentration of poor families with children in high-poverty neighborhoods has worsened, partly reversing past progress. A recent analysis of Census data found that 14 million Americans were living in extremely poor neighborhoods in 2014, 5 million more than before the Great Recession, and more than twice the number that were in 2000.[4] The concentration of African American and Hispanic households living in extreme-poverty neighborhoods rose even more sharply.

The reconcentration of poverty is occurring in the HCV program, too. In 2014, African American families using vouchers were one-third less likely than other poor African American families to live in extreme-poverty neighborhoods. But the share of African American families using vouchers that were living in extreme-poverty areas had grown by six percentage points since 2010.[5]

The HCV program must do more to improve families' housing opportunities, and administrative fee reform — in addition to implementing AFFH and Small Area Fair Market Rents (SAFMRs) effectively and reforming SEMAP, the consortia rule, and other regulations — has a critical role to play in achieving this goal. It can do this by:

1) Ensuring that public housing agencies (PHAs) are appropriately compensated for the work that expanding families' housing opportunities requires; and

2) Giving PHAs incentives to achieve this goal.

Experience in Dallas, Baltimore, and elsewhere shows that PHAs can successfully expand families' housing opportunities, but that to do so requires commitment and work. At a minimum, agencies must effectively recruit and retain landlords in lower-poverty areas, assemble and disseminate understandable information about housing opportunities to participants, and be able to promptly and effectively address tenant and landlord concerns when they arise. One lesson of the Abt Associates' time study, which found that the high-performing PHAs in the analysis spent virtually no time on landlord outreach or other activities designed to enable more families to live in higher opportunity areas, is that it's unreasonable to expect PHAs to do this work without compensation and incentives for their efforts.

We recommend a two-pronged approach to expanding families' housing opportunities by improving the allocation of administrative fees:

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[3] Raj Chetty et al., "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," August 2015, http://www.equality-of-opportunity.org/images/mto_paper.pdf.

[4] Elizabeth Kneebone and Natalie Holmes, "U.S. concentrated poverty in the wake of the Great Recession," The Brookings Institution, March 31, 2016, https://www.brookings.edu/research/u-s-concentrated-poverty-in-the-wake-of-the-great-recession/.

[5] Barbara Sard and Douglas Rice, "Realizing the Housing Voucher Program's Potential to Enable Families to Move to Better Neighborhoods," Center on Budget and Policy Priorities, updated January 12, 2016, http://www.cbpp.org/sites/default/files/atoms/files/11-9-15hous.pdf.

1) Include a coefficient in the base fee formula to compensate PHAs that are successful in helping families with children to use vouchers to live in low-poverty neighborhoods and avoid high-poverty areas.

2) Provide supplemental fees to PHAs that are not performing at a high level but have significantly improved their performance in expanding families' housing opportunities over time.

In our view, supplemental fees are appropriate to provide incentives to PHAs to achieve important policy goals, or to cover one-time costs, such as the initial costs associated with helping a formerly homeless person with mental illness to move from the street into supportive housing. In contrast, the base formula factors should be reserved to compensate PHAs for the recurring costs associated with meeting core program goals efficiently and effectively. Our proposed two-pronged approach is consistent with this distinction.

Base Formula Coefficient

With respect to the base formula coefficient, we recommend grounding it in a measure of PHAs' success in expanding opportunities that is based on the following four components:

- **Relative concentration of HCV families with children in low- and high-poverty areas:** We propose that PHAs' success be measured by their actual performance in helping families to locate in lower poverty neighborhoods, relative to the rental market opportunities that exist within their jurisdictions. Specifically, HUD should compare the percentages of HCV families with children in low- and high-poverty areas to the percentages of 2-bedroom or larger rental units in those areas within the PHA's jurisdiction. We suggest that the measure have the following features:
  - *It should focus on families with children*, as children's well-being and chances of long-term success are most sensitive to neighborhood influences. This focus also reduces the overall incremental cost of adding a location-based coefficient. Other types of households may also see their housing choices expand as PHAs become better business partners to attract more landlords to participate.
  - As *opportunity benchmarks,* we recommend using (1) a census tract poverty rate of 10 percent or less, and (2) R/ECAP census tracts, as defined for the purposes of AFFH assessment. For PHA jurisdictions that include no R/ECAP areas, a census tract poverty rate of greater than 30 percent should be used.
  - To reflect *PHA effort* in light of the prevailing rental market, it should compare concentration of vouchers used by families with children to the concentration of 2BR+ rental units in the PHA's jurisdiction, as the latter defines the appropriate range of opportunities that typically are suitable for families with children. HUD should consider limiting the units in the comparison group to those with gross rents up to 110 percent of the SAFMR, which would more precisely delineate the range of units that PHAs can make available to families using vouchers than the metro-wide FMR. (HUD's proposed SAFMR rule enables PHAs that are not required to use SAFMRs to opt to use them, or to request exception payment standards based on the SAFMRs for particular areas.)

— Any vouchers that families have *ported out* of the PHA's jurisdiction but the PHA is continuing to pay for should be included in the calculation.

- **Minimum eligibility threshold:** With respect to calculating a PHA's relative concentration of HCV families in low- and high-poverty areas, we recommend that HUD look at the differences between the percentages of HCV and rental units in low- and high-poverty areas (not the ratios), and then combine the results to generate a single value.[6] For example, if 10 and 20 percent of a PHA's family vouchers are located in low- and high-poverty areas, respectively, while 20 and 15 percent of 2BR+ rental units are located in those areas, then the differences are -10 percent and -5 percent, for a combined total of -15 percent.[7] In intuitive terms, this result shows that, if the PHA's family vouchers were distributed across neighborhoods in proportion to the distribution of suitable rental units in its jurisdiction, then an additional 10 percent of families would live in low-poverty areas, while 5 percent fewer families would live in high-poverty areas.

  Only PHAs that are relatively successful in expanding families' housing opportunities should be eligible for increased fees under the base formula. We do not have access to the data required to recommend a specific minimum eligibility threshold, but HUD could easily do so using the data at its disposal. In setting the threshold, we suggest that HUD consider the facts that, while a small share of PHAs — including the Dallas, Baltimore, Cook County, King County, and San Diego housing authorities — are devoting significant resources towards, and have been somewhat successful in, expanding families' housing opportunities, the vast majority of PHAs do not make such efforts. Accordingly, we suggest that the eligibility threshold be set at a high level, so that only PHAs such as those above (at least, those whose administrative fee eligibility is not determined by MTW agreements) would be eligible.

  For instance, HUD could set the minimum eligibility threshold at the 20th or 25th percentile of PHAs' combined scores for the relative concentration of HCV families in low- and high-poverty areas, as described above. Because a fixed standard would have stronger incentive effects than a moving standard, we recommend re-benchmarking the minimum eligibility threshold no more frequently than every 5 years.

- **Formula coefficient (dollar amount per UML):** How much of a fee increase should PHAs that are successful in expanding housing opportunities receive? One way to approach this question is to consider two further questions: (1) How much does it cost to administer a successful mobility program?; and (2) how large are PHAs' administrative fee "losses" if they

[6] In its recent SAFMR rule, HUD proposed to measure the concentration of housing vouchers in low-income areas (CLIAs) relative to that of all rental units by calculating the ratio of the percentage of vouchers in low-income areas to the percentage of rental units in such areas. As we explained in our submitted comments, this approach has serious drawbacks — specifically, areas with high concentrations of poverty overall are more likely to have relatively low ratios (because the denominator is so high), even if vouchers are highly concentrated in high-poverty neighborhoods.

[7] In calculating the differences for low- and high-poverty areas, we reverse the order of the operation (i.e., for low-poverty areas, it's the HCV percentage minus the rental unit percentage, while for high-poverty areas, it's the rental unit percentage minus the HCV percentage). This is so that, in each case, the higher the result, the better the PHA's performance.

successfully help families to locate in higher rent areas, and as a result serve fewer families in lower rent areas?

Under the current and proposed formulae, administrative fees are unit-based; that is, the more vouchers PHAs lease, the higher their administrative fee eligibility. We support this policy, as it provides a strong incentive for PHAs to use all of their available voucher subsidy (HAP) funds to serve families. But the policy also has an unintended consequence: it discourages PHAs from helping families to locate in good neighborhoods where rents are higher. This is because, for a given amount of available HAP funds, a PHA will earn greater administrative fees if it leases more vouchers in low-rent areas and fewer vouchers in higher-rent areas. Our review of rent data from 10 large metro areas found that, on average, a PHA could lease 5 vouchers in units at the 75th percentile of rents for every 4 vouchers it could lease in units at the 25th percentile of rents. Put another way, for every voucher leased in the more expensive area, a PHA "loses" 20 percent of the potential fees it could earn by leasing the voucher in the less-expensive area.[8]

To mitigate this disincentive, we recommend that the additional fee that PHAs receive for successfully expanding housing opportunities be sized at a level that would provide *at least* a 20 percent increase in the fee for every family that is successfully served (see example below). But we recommend that the per-voucher fee increase be set at an even higher level to compensate PHAs for the additional work associated with expanding housing opportunities. We put forth this recommendation while acknowledging the uncertainty that exists about the size of these administrative costs. Very successful mobility programs like the one in Baltimore appear to cost $4,000 to $4,500 per family. Yet this cost is likely spread over several years, and it also may be the case that PHAs can significantly improve their performance at a lower cost.

- **Share of PHAs' vouchers leased by families:** The calculation of PHAs' fee eligibility for expanding housing opportunities should be prorated according to the share of their leased vouchers that are used by families with children. This ensures that the fee increase amount will be roughly proportional to the share of the PHAs' administrative burden that is devoted to serving these households.

[8] For 10 metro areas of different sizes and housing markets, we examined 2BR SAFMRs at the 25th and 75th percentiles. To estimate HAP costs at the extremes, we subtracted the average TTP for voucher holders in the metro area, as reported via the Resident Characteristics Reports on HUD's web site. The differences in estimated HAP at the 25th and 75th percentiles ranged from $180 to $350 per month. On average, the HAP difference equaled about 20 percent of the 75th percentile SAFMR.

Model Base Formula Factor for Expanding Families' Housing Opportunities

Under CBPP's proposal, the base administrative fee formula would include a factor that reflects the costs of high-performing PHAs that are successful in expanding families' housing opportunities. As explained in the text, the factor is made up of four basic components:

- a measure of voucher families' concentration in low- and high-poverty areas, relative to the availability of suitable rental units in those areas;
- performance criteria to determine PHA eligibility under the concentration measure;
- a formula coefficient that converts PHAs' score under the prior two components into a dollar amount per UML; and
- the share of a PHAs' leased vouchers that families with children use.

To illustrate how the proposal would work, the following table shows the voucher concentration scores for several hypothetical PHAs:

	Percentage of HCV families in low- and high-poverty areas*		Percentage of 2BR+ units in PHA jurisdiction**		Differences (higher = better)		Concentration score (sum of differences)	Share of HCVs that are families
	≤ 10%	R/ECAP	≤ 10%	R/ECAP	≤ 10%	R/ECAP		
PHA #1	18%	21%	29%	15%	-11%	-6%	-17%	50%
PHA #2	8%	20%	20%	10%	-12%	-10%	-22%	40%
* In PHA jurisdictions without R/ECAPS, the measure should look at units in areas where poverty rates exceed 30 percent. ** The comparison group should be limited to units at no greater than 110% of SAMFR.								

To determine eligibility, each PHA's concentration score is compared to criteria set by HUD. We do not have the data required to determine what the precise criteria should be, but we recommend setting the bar high, such that only 20 to 25 percent of PHAs are eligible. For the purposes of illustration, suppose that PHAs are eligible only if their concentration score is higher than -20%. Under that threshold, PHA #1 would be eligible, while PHA #2 would not.

To calculate PHA #1's fee, the difference between its concentration score and the eligibility threshold (3%) is multiplied by the HUD-established formula coefficient (hypothetically $30) and the share of its vouchers leased by families (50%):

3% * $30 * 50% = $0.45 per UML

PHA #1 helped 3% of its families to locate in better neighborhoods, relative to the performance benchmark, and it would receive a fee increase of $180 per year for each of those families.

The coefficient of $30 is equivalent to a per-UML fee increase of roughly 40% for every family located in a better neighborhood, relative to the benchmark. This is consistent with our recommendation that the fee increase be significantly greater than 20% to mitigate the disincentive built into unit-based fees, and to cover the extra administrative work of expanding families' opportunities. But HUD could refine this based on further analysis of PHA data.

Finally, we agree with many of the concerns expressed by HUD as the rationale for omitting from the proposed rule the Small Area Rent Ratio (SARR) factor that was included in the study recommendations. Most generally, the SARR would at best measure the relative difficulty that PHAs confront in leasing vouchers in their jurisdictions, relative to that in the greater metro. But this provides no information about PHAs' efforts to expand housing opportunities or their success in doing so. In contrast, our proposal provides a direct assessment of PHAs' performance in improving families' outcomes.

Supplemental Fee

Above we propose that HUD include a factor in the base formula that is grounded in an assessment of PHAs' success in expanding families' housing opportunities, and recommend that HUD set the eligibility threshold high enough to reward only high-performing PHAs. Yet it is also critically important to provide immediate incentives to PHAs that do not meet the minimum eligibility criteria of the base formula, including those that, even by devoting substantial focus and resources, will require many years to reach that threshold. Improving families' housing opportunities at low-performing PHAs is just as valuable, for the families affected, as compensating PHAs that are already performing at a high level.

We recommend that HUD achieve this important goal by providing supplemental administrative fees to PHAs that significantly improve their performance in expanding families' housing opportunities, where their performance does not meet the minimum eligibility threshold of the base formula. To determine supplemental fee eligibility, we suggest using a method very similar to the base formula method proposed above. Eligibility for supplemental fees would be grounded on the same voucher concentration measure described above, which is a function of the PHA's voucher family locations in low- and high-poverty areas, relative to the distribution of suitable rental units in those areas. And the fee would take into account the share of the PHA's leased vouchers used by families, as above.

But the supplemental fee should differ from the formula factor in two key ways:

- the performance criteria used to determine eligibility under the concentration measure should be based on the *change in the PHA's concentration score over time*, in relation to the PHA's performance baseline, rather than in comparison to a HUD-determined threshold of high performance;
- the formula coefficient should be somewhat lower than the coefficient used in the base formula, reflecting the fact that eligible PHAs are still performing at a relatively low level on this component of HCV administration.

For example, if a PHA's concentration score in the first year was -25%, and it improved in the second year to -23%, it would be eligible for a fee supplement equal to:

2% * formula coefficient (e.g., $15) * PHA's share of HCVs used by families (e.g., 50%).

The PHA would continue to be eligible for supplemental fees in future years so long as its performance remained above its initial year baseline (or, until is improved so much that it crossed the high-performance threshold under the base formula).

Program Size Factor Creates Incentives for Inefficiency

We strongly urge HUD to eliminate or significantly reduce the program size factor, which provides housing agencies with a very large incentive to remain small, thereby rewarding inefficiency while missing an opportunity to reduce administrative costs and improve families' access to housing in higher-opportunity areas.

The Abt study found that small housing agencies (i.e., those administering 500 or fewer vouchers) are generally less cost effective than larger agencies. Small agencies' per-voucher administrative costs were about 12 percent higher, on average, than larger agencies' costs, after accounting for differing wage scales, and the smallest agencies had the highest costs.[9] One reason for this difference is that small agencies expended significantly more staff time per voucher than larger agencies, according to Abt's time study, likely due to the "fixed" time needed for basic activities that don't vary by the number of families served.

The large number of small agencies also reduces program effectiveness and limits housing choices for households using vouchers. For instance, agencies with fewer than 250 authorized vouchers (about 44 percent of all HCV agencies) score significantly lower on SEMAP, on average, than agencies with more vouchers, and are about four times more likely to be designated as troubled or near troubled.[10]

Small agencies also typically have insufficient scale to devote staff time to planning and implementing new initiatives, and are less likely to take advantage of options that provide additional types of housing opportunities, such as supportive housing for people with disabilities or assisted homeownership. Similarly, smaller PHAs are less able to spare staff time to develop partnerships with community agencies that could improve families' finances or assist homeless individuals in navigating the housing application process and finding an appropriate unit in the private market if they receive a voucher. Small agencies also invest less in technology, making them less able to track various components of program operations to increase efficiency and improve outcomes, GAO found.[11]

More generally, small agencies contribute to the fragmentation of HCV program administration, which restricts housing choices for families. In most metropolitan areas, one agency administers the HCV program in the central city and one or more separate agencies serve suburban cities and towns. This pattern is the case in 97 of the 100 largest metro areas, where 71 percent of households in the

[9] See Exhibit 8-2 of the study.

[10] Barbara Sard and Deborah Thrope, "Consolidating Rental Assistance Administration Would Increase Efficiency and Expand Opportunity," Center on Budget and Policy Priorities, April 11, 2016, http://www.cbpp.org/research/consolidating-rental-assistance-administration-would-increase-efficiency-and-expand.

[11] U.S. Government Accountability Office, "Housing Choice Vouchers: Options Exist to Increase Program Efficiencies," GAO-12-300, March 2012.

HCV program lived in 2015. In 35 of the 100 largest metro areas, voucher administration is divided among ten or more agencies.

This fragmentation often impedes families' use of vouchers in higher-opportunity areas. Agency staff may be unfamiliar with housing opportunities outside of their jurisdiction and unlikely to encourage families to make such moves, particularly because agencies lose administrative fees when families use their voucher in another jurisdiction. And PHAs in destination communities may be reluctant to accept new families or assist them in finding a willing landlord, seeing newcomers as potential competition with current residents for scarce rentals.[12]

Proposed Size Factor Would *Nearly Triple* Agencies' Incentive to Remain Small

The proposed program size adjustment increases fee eligibility for agencies that administer up to 749 vouchers, and the adjustment amount is greatest for smaller agencies. The maximum adjustment is $14 per UML for agencies administering 250 or fewer vouchers, and is phased down for agencies administering between 250 and 749 vouchers. On average, the proposed size factor increases by *24 percent* the fee eligibility of the agencies to which it applies, we estimate.[13]

This small agency "bonus" is thus very large. Indeed, it is twice the size of the average per-voucher cost differential between small and large agencies that the Abt study identified (12 percent), and is nearly *triple the size* of the fee increase for which small agencies are eligible under the current policy.[14] The program size factor is also costly: based on the eligibility estimates that HUD released, we estimate that it would have cost about $45 million in 2015, or 2.6 percent of total fee eligibility under the proposed formula. These funds could be better used to provide supplemental fees to PHAs that are assisting more homeless or other hard-to-house families, or improving their success in expanding families' housing opportunities.

HUD Should Eliminate the Small Agency Incentive, Except in Special Cases

Taxpayers should not pay for inefficiency unless there is no viable alternative. We recognize that local governments may, for any number of reasons, be anxious to maintain local control of the voucher program. But local governments should then be willing to contribute resources for this purpose, and federal taxpayers should not foot the bill for it so long as there are other feasible administrative options.

Accordingly we propose that HUD limit eligibility for the program size adjustment to housing agencies that are isolated and therefore represent the only viable regional source of program

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[12] Sard and Thrope (2016).

[13] Based on our review of HUD's estimates of agency fee eligibility in 2015 under the proposed formula, which are posted at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/new_admin_fee_formula_proposed_rule.

[14] Under current policy, agencies receive 7.65 percent of a base amount for the first 600 vouchers they administer and 7.0 percent of that amount for any additional vouchers. It follows that, with respect to the size factor, the maximum fee differential between small and larger agencies is about 9 percent.

administration. For instance, HUD could limit eligibility to small housing agencies that are the only agency (or consortium of agencies) in a metro area or non-metro county.[15] This limitation would remove the strong incentive that the size factor provides agencies against consolidating or merging operations.

Alternatively, we encourage HUD to reduce the proposed program size factor by at least 50 percent (i.e., reduce it to $7 or less from $14 per UML). On average, small agencies would still do well under a reduced program size factor, relative to current formula eligibility. For example, we estimate that nearly 60 percent of agencies leasing no more than 500 vouchers would experience increased fee eligibility, relative to the current formula, if the size factor were reduced by 50 percent; and a majority would still see increased fee eligibility if the size factor were reduced by two-thirds (to $4.60 per UML) (see appendix tables).

In addition, if HUD retains any program size adjustment, it should continue eligibility for the adjustment for a period of three years for agencies that would otherwise lose eligibility due to consolidating or joining a consortium with other agencies, in order to help agencies meet the one-time costs of such administrative changes.

Earned Income Factor

We fully agree with HUD's analysis regarding the earned income factor, and urge HUD to retain it in the final formula. As HUD notes, there are strong theoretical and empirical reasons to include the factor. The Abt study found a significant positive correlation between administrative costs and the share of an agency's vouchers used by households with earned income. This makes perfect sense, given the work that agencies must do to verify earned income; HUD also notes that households with earned income are more likely to require interim recertifications.

Indeed, we agree with HUD that excluding the factor would leave agencies with a strong incentive NOT to serve families with children, who make up most households with earned income. If agencies cannot recoup their costs in serving such families, they may feel pressure to direct assistance to other household types to the extent legally permissible. This would be particularly unfortunate, as the number of families with children that receive federal rental assistance has already been declining, despite the sharp increases in "worst-case housing needs" among families.[16]

Some stakeholders have complained that it is also costly to assist seniors and other fixed-income households — for instance, because they may deduct a portion of their unreimbursed medical expenses, and validating such expenses can be time-consuming. We are unpersuaded by this argument, and not only because the Abt study found a negative correlation between costs and

[15] Alternatively, one could eliminate the program size adjustment altogether and increase the base amount for the fee factor associated with the share of administered vouchers that are located more than 60 miles from the agency headquarters, as it is likely the case that most isolated agencies would be eligible for fee adjustments under the distance factor.

[16] Alicia Mazzara, Barbara Sard, and Douglas Rice, "Rental Assistance to Families with Children at Lowest Point in Decade," Center on Budget and Policy Priorities, May 24, 2016, http://www.cbpp.org/research/housing/rental-assistance-to-families-with-children-at-lowest-point-in-decade.

serving seniors or people with disabilities. Our analysis of 2015 HUD program data finds that only 1 in 4 senior households, and 1 in 8 households headed by people with disabilities, claims the medical deduction. Moreover, medical deduction claims will fall markedly in the future, once HUD raises the deduction threshold from 3 percent to 10 percent of income, as required under the recently-passed HOTMA bill.[17]

Floors and Ceilings on Variable Values and Fee Eligibility Changes

We support the basic design of the proposed administrative fee formula, which is to allocate fees on the basis of what it costs to run a high-performing housing agency. Under this design, it makes sense to impose floors and ceilings on the formula variable values, as the Abt study recommended and HUD proposed, as the study provides no evidence that values outside of study range are reasonable for a high-performing agency. That said, we do not have strong views about whether these floors and ceilings should be based on the minimum and maximum values uncovered in the Abt study, or by restricting values to within the range of values at the 25th and 75th percentiles. We support the special floors that HUD has proposed for agencies in the territories.

We also support the use of floors and ceilings to limit year-over-year changes in fee eligibility during the initial years of implementation. HUD's general approach seems reasonable. In addition, we support the policy of limiting fee eligibility increases during the phase-in period, as needed to limit or eliminate fee declines due to an overall funding proration.

Supplemental Fees for Homeless and Other "Hard to House" Households

In our view, supplemental fees have important roles to play in (1) compensating agencies for significant one-time costs, and (2) providing incentives for agencies to pursue important policy goals that are not addressed by the base formula. Above, we recommend that HUD provide supplemental fees as incentives to agencies that have significantly improved families' housing opportunities, where they are not eligible for increased fees under the corresponding base formula factor. Below, we discuss another area where supplemental fees would be worthwhile.

Broadly, we urge HUD to treat supplemental fees in the same manner as formula-based fees, i.e., to pay them on a prorated basis when funding is inadequate, rather than treating them as discretionary fees that should be dropped when funding is inadequate. Treating supplemental fees as discretionary on HUD's part considerably weakens the incentive effects of such fees, because it increases PHAs' uncertainty about whether the fees will be available. Because supplemental fees provide incentives towards meeting critical policy goals, HUD's policy should be one that strengthens, rather than weakens, the fees' incentive effects.

[17] In addition, Congress recently modified the statute to allow PHAs to recertify fixed-income households every three years, instead of annually. This change will further reduce PHAs' costs in serving those populations. More generally, we strongly encourage HUD to reweight the administrative fee formula factors after the recently-enacted changes regarding income recertifications, rent policy, and inspection protocols are fully implemented, as these changes will significantly reduce agencies' administrative burdens, and agencies will benefit from these reductions unevenly. The reweighting also could reduce total fee eligibility, which could be important to the political acceptability of the fee policy changes.

We strongly support HUD's proposal to provide supplemental fees to PHAs that assist homeless individuals and families, including veterans. Abt Associates' study of PHA efforts to serve homeless people found that a disappointingly small share are actively engaged in local efforts to reduce homelessness.[18] Yet, the Abt administrative fee study findings notwithstanding, there are sound reasons to believe that PHAs incur additional costs when serving homeless people. To finish the job of eliminating veterans' and chronic homelessness, and to make similar progress in reducing homelessness among families and others, it will be important for many more PHAs to prioritize such applicants for assistance, and to take the administrative steps necessary for them to succeed in leasing up. One-time supplemental fees to cover the not-insignificant up-front costs of assisting homeless individuals and families would provide PHAs with an important incentive, as well as partly compensate them for these efforts.

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[18] Lauren Dunton et al., "Study of PHAs' Efforts to Serve People Experiencing Homelessness," HUD Office of Policy Development & Research, February 2014.

Appendix: Number of HCVs at PHAs That Would Have Received Greater or Lesser Funding in 2015 Under the Proposed Formula than Under the Current Formula, by PHA Size

Table 1: Under HUD Proposed Formula

	All				Reduction > 20%				Reduction > 10%				Reduction > 5%				Reduction Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	9,899	5%	94	43%	18,466	3%	186	37%	24,806	3%	240	37%	32,181	3%	311	38%
250 - 500	141,365	7%	388	18%	7,504	4%	19	9%	22,821	4%	58	11%	33,324	4%	86	13%	42,138	5%	110	13%
500 - 750	125,537	7%	203	9%	19,583	9%	31	14%	39,135	6%	63	12%	50,161	6%	81	12%	65,988	7%	106	13%
750 - 1,250	182,394	10%	190	9%	28,729	14%	30	14%	69,516	11%	73	14%	88,660	11%	92	14%	104,378	11%	108	13%
1,250 - 5,250	637,132	33%	281	13%	90,292	44%	40	18%	236,240	36%	102	20%	301,106	38%	129	20%	363,105	39%	152	19%
5,250 - 10,000	224,567	12%	34	2%	15,174	7%	2	1%	80,355	12%	12	2%	92,136	12%	14	2%	117,436	13%	18	2%
> 10,000	472,594	25%	22	1%	36,147	17%	2	1%	184,958	28%	11	2%	205,385	26%	12	2%	205,385	22%	12	1%
Total	1,903,274		2,211		207,328		218		651,491		505		795,578		654		930,611		817	

	All				Increase > 20%				Increase > 10%				Increase > 5%				Increase Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	52,771	16%	477	68%	69,619	12%	623	61%	78,931	10%	698	58%	87,504	9%	782	56%
250 - 500	141,365	7%	388	18%	44,238	13%	125	18%	73,868	13%	207	20%	86,785	11%	244	20%	99,227	10%	278	20%
500 - 750	125,537	7%	203	9%	21,463	6%	35	5%	30,818	5%	51	5%	46,645	6%	76	6%	59,549	6%	97	7%
750 - 1,250	182,394	10%	190	9%	28,040	8%	30	4%	47,810	9%	51	5%	59,003	7%	63	5%	78,016	8%	82	6%
1,250 - 5,250	637,132	33%	281	13%	73,773	22%	30	4%	145,614	26%	68	7%	202,590	25%	96	8%	274,027	28%	129	9%
5,250 - 10,000	224,567	12%	34	2%	46,091	14%	7	1%	74,516	13%	11	1%	74,516	9%	11	1%	107,130	11%	16	1%
> 10,000	472,594	25%	22	1%	67,344	20%	2	0%	119,218	21%	6	1%	250,770	31%	9	1%	267,210	27%	10	1%
Total	1,903,274		2,211		333,721		706		561,461		1017		799,241		1197		972,663		1,394	

Table 2: Under HUD's Proposed Formula, But With the Program Size Coefficient Reduced by 50%

	All				Reduction > 20%				Reduction > 10%				Reduction > 5%				Reduction Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	16,671	8%	164	55%	29,118	5%	281	45%	38,220	5%	366	45%	47,341	5%	449	45%
250 - 500	141,365	7%	388	18%	12,574	6%	33	11%	34,759	5%	91	15%	44,008	5%	116	14%	57,292	6%	154	15%
500 - 750	125,537	7%	203	9%	19,939	9%	32	11%	41,531	7%	67	11%	54,036	7%	88	11%	69,720	8%	113	11%
750 - 1,250	182,394	10%	190	9%	25,483	12%	27	9%	68,313	11%	72	12%	82,696	10%	86	11%	103,503	11%	107	11%
1,250 - 5,250	637,132	33%	281	13%	87,956	41%	39	13%	211,982	33%	94	15%	293,724	36%	125	15%	336,332	36%	143	14%
5,250 - 10,000	224,567	12%	34	2%	15,174	7%	2	1%	74,794	12%	11	2%	92,136	11%	14	2%	104,353	11%	16	2%
> 10,000	472,594	25%	22	1%	36,147	17%	2	1%	172,974	27%	10	2%	205,385	25%	12	1%	205,385	22%	12	1%
Total	1,903,274		2,211		213,944		299		633,471		626		810,206		807		923,926		994	

	All				Increase > 20%				Increase > 10%				Increase > 5%				Increase Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	33,239	11%	315	64%	52,217	10%	473	58%	63,277	8%	566	56%	72,344	7%	644	53%
250 - 500	141,365	7%	388	18%	28,241	9%	78	16%	52,825	10%	145	18%	68,142	8%	188	19%	84,073	9%	234	19%
500 - 750	125,537	7%	203	9%	17,793	6%	29	6%	27,466	5%	45	6%	41,389	5%	67	7%	55,817	6%	90	7%
750 - 1,250	182,394	10%	190	9%	29,071	10%	31	6%	51,780	10%	55	7%	62,633	8%	67	7%	78,891	8%	83	7%
1,250 - 5,250	637,132	33%	281	13%	76,829	26%	32	6%	157,294	29%	75	9%	223,793	28%	105	10%	300,800	31%	138	11%
5,250 - 10,000	224,567	12%	34	2%	46,091	15%	7	1%	74,516	14%	11	1%	83,166	10%	12	1%	120,214	12%	18	1%
> 10,000	472,594	25%	22	1%	67,344	23%	2	0%	119,218	22%	6	1%	267,210	33%	10	1%	267,210	27%	10	1%
Total	1,903,274		2,211		298,607		494		535,317		810		809,607		1015		979,348		1,217	

Table 3: Under HUD's Proposed Formula, But With the Program Size Coefficient Reduced by 67%

	All				Reduction > 20%				Reduction > 10%				Reduction > 5%				Reduction Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	18,993	9%	190	57%	34,431	5%	331	48%	43,660	5%	412	47%	52,172	6%	491	46%
250 - 500	141,365	7%	388	18%	16,218	8%	43	13%	39,785	6%	105	15%	51,146	6%	136	16%	65,545	7%	179	17%
500 - 750	125,537	7%	203	9%	21,634	10%	35	10%	43,124	7%	70	10%	56,951	7%	93	11%	71,466	8%	116	11%
750 - 1,250	182,394	10%	190	9%	24,517	11%	26	8%	66,307	10%	70	10%	81,911	10%	85	10%	100,662	11%	104	10%
1,250 - 5,250	637,132	33%	281	13%	87,956	41%	39	12%	205,590	32%	91	13%	293,724	36%	125	14%	328,025	36%	140	13%
5,250 - 10,000	224,567	12%	34	2%	8,953	4%	1	0%	74,794	12%	11	2%	92,136	11%	14	2%	97,837	11%	15	1%
> 10,000	472,594	25%	22	1%	36,147	17%	2	1%	172,974	27%	10	1%	205,385	25%	12	1%	205,385	22%	12	1%
Total	1,903,274		2,211		214,419		336		637,005		688		824,914		877		921,091		1057	

	All				Increase > 20%				Increase > 10%				Increase > 5%				Increase Any			
PHA size	**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**		**No. HCVs**		**No. PHAs**	
< 250	119,685	6%	1,093	49%	26,497	9%	257	61%	46,392	9%	426	57%	57,869	7%	517	55%	67,513	7%	602	52%
250 - 500	141,365	7%	388	18%	23,405	8%	65	15%	46,638	9%	127	17%	59,174	7%	163	17%	75,820	8%	209	18%
500 - 750	125,537	7%	203	9%	17,282	6%	28	7%	26,937	5%	44	6%	39,789	5%	64	7%	54,071	6%	87	8%
750 - 1,250	182,394	10%	190	9%	29,909	10%	32	8%	54,447	10%	58	8%	62,633	8%	67	7%	81,733	8%	86	7%
1,250 - 5,250	637,132	33%	281	13%	75,499	26%	31	7%	159,036	30%	76	10%	228,783	29%	107	11%	309,107	31%	141	12%
5,250 - 10,000	224,567	12%	34	2%	46,091	16%	7	2%	74,516	14%	11	1%	83,166	10%	12	1%	126,730	13%	19	2%
> 10,000	472,594	25%	22	1%	67,344	24%	2	0%	119,218	23%	6	1%	267,210	33%	10	1%	267,210	27%	10	1%
Total	1,903,274		2,211		286,027		422		527,184		748		798,623		940		982,183		1,154	