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–N–01, HUD Administrative Fee Formula — Solicitation of Comment

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.

Generally, the Housing Choice Voucher administrative fee study is very well done and we support many of Abt's recommendations. The following summarizes our comments:

1) **Expanding housing opportunities:** We strongly urge HUD to add a "pay for location performance" factor to the base administrative fee formula that would reward high-performing housing agencies for successful efforts in expanding families' housing opportunities. We also recommend that HUD provide supplemental fees to agencies that are not among the highest performers but substantially improve their performance in expanding opportunities.

2) **Proposed Small Area Rent Ratio:** We support the inclusion of the SARR factor in the formula to reflect some of the additional work required to enable families to use vouchers in higher cost areas. Our analysis, however, indicates that it will be ineffective at expanding housing opportunities for families coming from neighborhoods of concentrated poverty, and that additional policies, such as those we recommend, are therefore needed.

3) **Supplemental fees for serving homeless and other "hard to house" households:** We recommend providing supplemental fees to encourage and compensate agencies for efforts

in support of compelling policy goals, such as reducing homelessness. But we question the value of providing supplemental fees to support special purpose or project-based vouchers except when they are associated with such compelling policy goals.

4) **Program Size Adjustment:** Taxpayers should not pay for inefficiency unless there is no viable alternative. We therefore recommend that HUD limit eligibility for a program size adjustment to agencies that are the only viable regional source of program administration.

5) **Other issues:** We also recommend that HUD phase in the reformed administrative fee formula over three years to minimize funding disruptions, and revise the formula to take into account significant relevant policy changes, subsequent to Abt's data analysis, such as changes in inspection or recertification requirements.

Strengthening Incentives and Compensating Housing Agencies for Expanding Housing Opportunities

Expanding housing opportunities is central to the voucher program's core goal of promoting housing choice for low-income families. Recent research by Harvard economist Raj Chetty and others provides strong evidence of the potentially powerful benefits for low-income children of avoiding segregated areas of concentrated poverty and growing up in safe, low-poverty neighborhoods with good schools. This research reinforces the importance of housing choice and helping HUD-assisted families to access neighborhoods that best meet their needs.[1]

Already, the Housing Choice Voucher (HCV) program makes a positive difference for African American and Hispanic families — groups that are placed at risk disproportionately in neighborhoods of concentrated poverty — but the program could do much better. Children in African American families using housing vouchers are roughly *half* as likely to live in extreme poverty neighborhoods (where the poverty rate exceeds 40 percent) and *twice* as likely to live in low-poverty neighborhoods (where the poverty rate is less than 10 percent) than children in poor African American families overall. (Positive outcomes are also substantial, if somewhat smaller, for children in Hispanic families.)

Still, nearly one-quarter of families with children using housing vouchers live in neighborhoods in which more than 30 percent of residents are poor — including 10 percent who live in extreme-poverty neighborhoods — and only one-fifth live in low-poverty areas.[2] Moreover, the Abt administrative fee study confirms that housing agencies do little to expand families' access to better neighborhoods. Only about half of the sampled housing agencies devoted *any* staff time to

[1] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," http://www.equality-of-opportunity.org/images/mto_paper.pdf; and Raj Chetty and Nathaniel Hendren, "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates," http://www.equality-of-opportunity.org/images/nbhds_paper.pdf. For a summary of other recent research, see Barbara Sard and Douglas Rice, "Creating Opportunity for Children: How Housing Location Can Make a Difference," http://www.cbpp.org/research/creating-opportunity-for-children.

[2] Sard and Rice, ibid., based on 2010 data.

expanding housing opportunities for families, and none deployed significant staff resources.[3] While sequestration funding cuts implemented during the study period may partly explain these findings, there's little evidence that housing agencies spent significant amounts of time on these activities prior to sequestration.[4]

While disappointing, this is not surprising, as the work of expanding housing opportunities is challenging and current program incentives are misaligned. Tasks such as researching the characteristics of neighborhoods, recruiting landlords with properties in low-poverty areas, and educating voucher recipients about housing options and their potential benefits can consume considerable staff time, yet agencies currently receive no compensation for such efforts (and would receive little compensation under the proposed formula).

In addition, the existing Section 8 Management Assessment Program (SEMAP) emphasizes procedures rather than outcomes in assessing agency performance, and provides agencies with weak incentives to expand housing opportunities for families. There also are tradeoffs between expending resources to expand housing opportunities and increasing the number of families that housing agencies can serve, and the financial incentives are strongest in favor of the latter, given that the administrative fees that agencies receive are determined in part by the number of households they serve.

Reforming the administrative fee formula — in combination with expanding the use of Small Area FMRs (SAFMRs), revising SEMAP to improve HUD's assessment of housing agencies' performance in expanding housing opportunities, enforcing strong requirements to affirmatively further fair housing, and providing better guidance to housing agencies on how to help more voucher holders to rent in opportunity-rich neighborhoods — could do much to improve locational outcomes by realigning housing agencies' incentives and compensating housing agencies more adequately for the work required.

Paying for Performance in Expanding Families' Housing Opportunities

Housing Choice Voucher administrative fee policy should provide more adequate compensation and stronger incentives for housing agencies to successfully expand families' housing opportunities. In general, an effective policy would:

- Include sufficient incentives to motivate housing agencies to improve performance in expanding families' housing opportunities outside neighborhoods of concentrated poverty and in low poverty areas;

- Base payments for housing agencies on positive location outcomes for families rather than on the creation or implementation of housing agency procedures alone;

[3] Of those that logged staff time for expanding housing opportunities, none expended more than one percent of total time for this purpose. See p. 128 of the Abt study.

[4] PRRAC recently identified 16 agencies with housing mobility programs (many of them quite small), out of a universe of about 2,300 agencies that administer voucher programs. While efforts to expand housing opportunities are not limited to creating formal mobility programs such as those identified by PRRAC's survey, it is informative about the limited scope of PHA activities in this area.

- Build on, or at least be consistent with, the required analyses and performance measures used under the Affirmatively Further Fair Housing (AFFH) rule and forthcoming reformed Section 8 Management Assessment Program (SEMAP).

To achieve these goals, we recommend that HUD incorporate two new elements into HCV administrative fee policy:

1) Add a "pay for location performance" factor to the base administrative fee formula that would reward high-performing housing agencies for successful efforts in expanding families' housing opportunities outside neighborhoods of concentrated poverty and in low poverty areas; and

2) Provide supplemental fees to housing agencies that are not among the highest performers but have substantially improved performance in expanding opportunities.

There are many ways to design an effective "pay for location performance" factor. One option would be to build on a strengthened SEMAP indicator for expanding housing opportunities. For instance, the administrative fee formula could include a factor that would increase fee eligibility for housing agencies that score in the top 20 percent of all agencies under the new SEMAP indicator. A fee eligibility increase of 5 percent for such agencies would provide a significant performance incentive: for instance, an agency leasing 1,500 vouchers could receive an increase in fee eligibility of about $60,000, an amount sufficient to cover the costs of a full-time staff person in many communities. Moreover, this incentive would increase total administrative fee eligibility by only about one percent, much less than the cost of the proposed program size adjustment (discussed below).[5]

Alternatively, HUD could establish an eligibility measure separate from SEMAP. For example, one could construct a combined measure of agencies' success in helping families to access low-poverty neighborhoods and avoid areas of concentrated poverty. The first component could consist of the ratio of (1) the percentage of a housing agency's leased vouchers in census tracts where the poverty rate is less than 10 percent to (2) the percentage of total rental units in the agency's jurisdiction in such census tracts.[6] Low-poverty ratios ranged from 0.1 to 21.0 in 2013, we estimate, with a median value of 0.7.[7]

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[5] Under the proposed formula, the average administrative fee eligibility per Unit Month Leased (UML) would have been about $69 in 2014. A 5 percent "pay for location performance" factor would thus cost $3.43 per UML, with a total cost of about $15 million. This estimate uses the simplifying assumptions that (1) the top 20 percent of agencies administer roughly 20 percent of the leased vouchers at non-MTW agencies, and (2) the average fee eligibility for such agencies under the proposed formula is equal to the average for all agencies.

[6] In measuring agency performance in expanding families' housing opportunities, one could restrict the analysis to outcomes for families with children. For instance, one could calculate the ratio of the share of voucher families with children in low-poverty neighborhoods to the share of suitable rental housing, e.g., units with two or more bedrooms, in such neighborhoods in the agency's jurisdiction. Such an approach would tighten the relationship between the performance measure and a core policy rationale, which is to improve children's long-term outcomes by expanding families' housing opportunities.

[7] These figures represent the range of ratios for Metropolitan Statistical Areas (MSAs) rather than housing agencies; the values for housing agencies are likely to be somewhat different.

The second component could consist of the ratio of (1) the percentage of a housing agency's leased vouchers in census tracts of extreme poverty to (2) the share of rental units in the housing agency's jurisdiction in extreme-poverty census tracts.[8] In 2013, we estimate that high-poverty ratios ranged from 0 to 12.1, with a median value of 1.0 (in contrast to the low-poverty measure described above, low ratios in the high-poverty measure designate high performance).

In both the low and high-poverty measures, "ported" vouchers — that is, vouchers leased outside of an agency's jurisdiction and billed to the agency — would be included in the ratio (but rental units outside of the agency's jurisdiction would not). This would ensure that agencies receive credit for voucher ports that are potentially beneficial to the family.

Under this option, housing agencies would receive a combined ranking based on their respective rankings under the two performance ratios. Agencies that ranked in the top 20 percent would be eligible for an increase in eligibility under the administrative fee formula. Those in the bottom 80 percent would not be eligible for a performance-based increase in eligibility.

Supplemental Fee for Housing Agencies that Substantially Improve Performance in Expanding Opportunities

While high-performing agencies should be compensated for their success in expanding families' housing opportunities, it would also be good policy to reward lower-performing agencies that improve performance significantly, as this brings real benefits to the low-income families served.

Accordingly, we propose that HUD also set aside a modest portion of administrative fee funds to provide supplemental fees to agencies that substantially improve performance in expanding families' opportunities. HUD could restrict such bonus fees to a small share of the agencies that are not eligible for fee increases under the expanding housing opportunities factor described above.

For instance, one could rank agencies based on improvements in (1) the share of their vouchers leased in low-poverty census tracts and (2) the share of their vouchers leased in extreme-poverty census tracts. Only agencies that improved their performance would be eligible, and HUD could set even higher minimum thresholds of improvement, e.g., only agencies that increased their share of vouchers leased in low-poverty neighborhoods by at least 5 percent over the prior year could be made eligible. To reduce the cost of the policy, it could reward only the most improved agencies. For example, agencies that rank in the top 10 percent in terms of improvement could receive a modest supplemental fee to reward their efforts.

Proposed Small Area Rent Ratio Factor Is Helpful But Insufficient Incentive to Expand Housing Opportunities

The proposed administrative fee formula incorporates a Small Area Rent Ratio factor (SARR). Administrative fee eligibility is unit-based — that is, housing agencies' eligibility is a function of the

[8] "Extreme poverty" is where poverty rates exceed 40 percent. Where a housing agency's jurisdiction includes no census tracts where poverty rates exceed 40 percent, a threshold of a 30 percent poverty rate would be used on both sides of the ratio. Alternatively, one could use a measure similar to the R/ECAP (racially/ethnically concentrated areas of poverty) indicator proposed for the assessment of efforts to affirmatively further fair housing.

number of families they assist, as well as other factors. This feature of the formula is appropriate, as agency costs are also a function of the number of families they serve, and it encourages agencies to use available funds to serve as many families as possible. But it also gives agencies an incentive to push families — for instance, through the setting of lower payment standards — into areas where housing costs are low, even if families would otherwise choose to live in other neighborhoods. The SARR factor would provide a useful counterbalance to this incentive, and would partly compensate agencies for any work associated with leasing up vouchers in high rent areas.

While there is a correlation between neighborhood rents and neighborhood quality, however, the SARR factor alone is inadequate to achieve the goal of expanding housing opportunities for families. While we support its inclusion in the formula, therefore, it should be supplemented by other policies, such as those described above, that aim to expand housing opportunities more directly.

As a policy to expand housing opportunities, the SARR factor has clear weaknesses. First, while high rents can be a barrier to families seeking to live in high-opportunity areas, SARRs are, at best, only a rough guide to the geography of opportunity. There is a strong body of research evidence that links neighborhood characteristics such as poverty, the educational attainment of residents, and school quality to the health, well-being, and long-term success of children. Indeed, HUD's new AFFH data tool acknowledges the importance of such factors in determining families' opportunities. Yet the research base linking area rents to opportunity is relatively meager, and rent factors are noticeably absent from the AFFH data tool. For example, Raj Chetty and his colleagues found that, while area rents are correlated with positive long-term outcomes for children, the correlations are stronger for characteristics such segregation, poverty, income inequality, school quality, crime, and the presence of two-parent families, and "there is substantial scope for households to move to areas within their [commuting zone] that produce better outcomes for children without paying higher rents."[9] In short, there is little evidence that justifies introducing SARRs in this context as a new, untested measure of access to opportunity.

Second, the SARR factor largely targets the wrong housing agencies with incentives. For instance, because the consequent of the SARR is based on metro-area rents, housing agencies operating in relatively high-cost suburbs, for example, would tend to receive higher fees simply by virtue of their location, while those operating in disadvantaged urban cores would receive lower fees. While there may be legitimate reasons to raise fees for agencies operating in high-cost suburban areas — for instance, to compensate them for the work of recruiting landlords in relatively competitive markets — it is important to provide incentives for agencies in poorer urban cores to improve performance, too.

Related to this point, the SARR gives agencies no credit for porting vouchers out of their jurisdiction to higher cost areas. This can be an important strategy — particularly for agencies operating in relatively poor jurisdictions — for improving opportunities for families using vouchers.[10]

The SARR factor also targets the wrong agencies in another way. Abt proposes to use a floor value of 0.93 for agencies to receive any credit under the SARR factor, meaning that agencies with

[9] Chetty et al. (2015), op cit., p. 8.

[10] The proposed treatment of fees for ported vouchers also provides no added incentive for port-out agencies.

measured SARR factors that are below that amount will not benefit. As Abt argues, this makes sense, as the study provides no evidence that lower ratios are correlated with lower costs. Because of the floor, however, such agencies — which among all agencies have had the least success in helping families to access higher-cost areas — would have little incentive to improve their performance, at least if their measured SARR factor is well below the 0.93 level.[11]

The weaknesses of the SARR factor make clear that additional policy measures are needed to succeed in expanding families' housing opportunities. Our proposals above would address these weaknesses.[12]

Finally, HUD's request for comments asks if SARR creates a disincentive for agencies in higher-cost areas to merge with agencies in their region operating in lower-cost areas. It probably does — for instance, SARR provides an incentive for small, suburban agencies to resist merging or forming consortia with urban agencies operating in lower-cost areas. But the magnitude of the disincentive is dwarfed by that created by the proposed program size adjustment, as discussed below.

Supplemental Fees for Agencies Using Project-Based Vouchers and Serving the "Hard to House"

We recommend providing supplemental fees to encourage and compensate agencies for efforts in support of compelling policy goals, such as reducing homelessness. A recent HUD survey found that only about one in four housing agencies have adopted policies aimed at helping homeless individuals and families.[13] According to the survey, one of the many reasons for this disappointing effort is the added administrative cost of bringing homeless people into the program, including the costs of creating and sustaining partnerships with other local agencies, providing additional housing search assistance for homeless people, and negotiating with landlords. There's evidence that a one-time fee supplement may be appropriate, as many of these costs are initial rather than ongoing costs. More study may be needed to determine what a reasonable fee amount would be.

Questions have been raised about the potential need for supplemental fees for agencies administering special purpose or project-based vouchers. For instance, establishing a project-based voucher agreement may require an agency to complete substantial work upfront, and such agreements are an important tool for expanding families' housing opportunities in low-poverty areas in tight housing markets, or for expanding assistance for homeless or other people with disabilities.

Obviously, such goals overlap somewhat with the goals of the proposed SARR, as well as our proposed incentives to expand housing opportunities for families, both of which would already compensate agencies to a significant extent for work associated with special purpose or project-based vouchers in high-rent or low-poverty areas. Therefore, so long as the final policy includes the SARR, as well as additional strong incentives to expand families' housing opportunities, it may make

[11] In HUD's analysis of 2014 fee eligibility under the proposed formula, 373 agencies had SARRs equal to 0.93; unfortunately, it is impossible to tell from HUD's posted spreadsheet how many of these agencies have ratios that are well below the 0.93 level prior to applying the floor.

[12] Regarding the interaction between the SARR and our proposals to pay agencies for their performance in expanding housing opportunities, we see no reason not to allow agencies to be eligible for both.

[13] See HUD, *Study of PHAs' Efforts to Serve People Experiencing Homelessness*, 2014, http://www.huduser.org/portal/pha_homelessness.html.

sense to provide additional supplemental fees only in cases where there is a compelling separate policy goal, such as strengthening agencies' efforts to reduce homelessness.

Incentivizing Inefficiency: The Program Size Adjustment

The Abt study found that small housing agencies are generally less cost effective than larger agencies. For instance, the study found that small agencies (administering 500 or fewer vouchers) had significantly higher average administrative costs per voucher than larger agencies, after differing wage scales were taken into account, and the smallest agencies had the highest costs.[14]

The proposed program size adjustment provides a large disincentive for agencies to operate jointly through consortia or to fully consolidate operations, and thus incentivizes inefficiency. We encourage HUD to restrict eligibility for size adjustments to smaller agencies that operate in isolated jurisdictions.

The proposed program size adjustment increases fee eligibility for agencies that administer up to 749 vouchers, and the adjustment amount is substantial for smaller agencies. The maximum adjustment is $16 per UML for agencies administering 250 or fewer vouchers, and is phased down for agencies administering between 250 and 749 vouchers. The maximum adjustment amount equals *24 percent* of the 2014 estimated median total fee eligibility of $69 per UML under the proposed formula. Put another way, an agency leasing 750 housing vouchers would potentially receive 24 percent less administrative funding per voucher than an agency serving 250 families, other things being equal, e.g., even if they operated in the same region and faced similar labor costs.

This small agency "bonus" is thus very large — indeed, it is typically much larger, as a share of a small agency's total administrative fee funding eligibility, than the fee increase that such agencies receive under the current policy. It would also be costly: we estimate, based on data released by HUD, that the total cost of program size adjustments would have been $50 million in 2014, or 3 percent of total administrative fee eligibility.

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 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 provide agencies with an incentive to consolidate operations (or merge), thereby improving program efficiency.

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[14] See Exhibit 8-2.

[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.

In addition, HUD should further strengthen the incentive to consolidate or form consortia by extending eligibility for the program size adjustment for a period of three years for agencies that would otherwise lose eligibility due to consolidating or joining a consortium with other agencies.

Other Issues Raised in HUD's Request for Comments

We wish to respond to two additional issues raised in the Request for Comments. First, we strongly recommend that HUD revise the administrative fee formula to take into account relevant policy changes, such as changes in required inspections or income recertifications. Failing to do so would remove a major incentive for Congress and HUD to authorize and implement policy changes to improve program effectiveness.

We also recommend that HUD phase in the reformed administrative fee policy over a period of three years, to reduce potential disruptions at agencies that would experience significantly reduced eligibility under the policy.

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