Housing Choice Voucher Program Administrative Fee Study: Final Results

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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Overview of Study Results

- This study shows public housing agencies (**PHAs) have been significantly underfunded to run the Housing Choice Voucher (HCV) program**.
- Across a broad sample of 60 high performing PHAs, this study measured the **actual costs of operating a well-run HCV program**.
- The **average cost** of administering the program in 2013 was **$70.03 per voucher per month**.
- The study proposes a **new formula** based on **7 variables** that cover **a broad range of cost drivers capturing the actual costs of running a high performing and efficient HCV program**.
- **92% of PHAs** would have **higher fees under the proposed formula** compared to the actual fees received (existing formula at 75 percent proration) between July 1, 2013 and June 30, 2014.
- HUD intends to seek public comment soon, and when available, the public will be able to comment on www.regulations.gov.

Why this study was undertaken?

- The HCV program provides rental assistance to help approximately 2.2 million very low income families rent decent, safe and sanitary housing on the private rental market.
  - The HCV program is administered locally by around 2,300 local, regional, and state agencies, collectively referred to as PHAs.
  - PHAs receive administrative fees to cover the costs of running their HCV programs.
- The existing administrative fee formula is based on the Fair Market Rent with no documented connection to what it really costs to administer the HCV program.
- There is a need to document the actual cost of administering the program to support the budget needs for optimal administration.
- The study addresses four main questions:
  1) What accounts for the variation in administrative costs across PHAs?
  2) How much does it cost to run a high performing and efficient HCV program?
  3) What would be an appropriate formula for allocating administrative fees to PHAs?
  4) Is there a minimum size below which an HCV program cannot successfully operate on administrative fees alone?

How did we do the study?

Rigorous, multi-method design to obtain the highest quality data with the resources and time available:

- Site visits and SEMAP used to identify sample of 60 high performing and efficient PHAs administering the HCV program.
- Time spent on the program by frontline staff measured using smartphones and Random Moment Sampling (RMS).
- Time data linked to labor, non-labor, and overhead costs to calculate overall program costs.
- Regression analysis to identify cost drivers and develop proposed formula.
- Survey of 130 small PHAs (<250 vouchers) to ascertain smallest size for a viable HCV program.
- Large, active Expert and Industry Technical Review Group (EITRG) reviewed the study design and results at multiple stages and provided invaluable feedback.

What is RMS?

- RMS, or Random Moment Sampling, provides a highly accurate picture of HCV work.
- RMS uses a smartphone to collect detailed information on what staff are working on.
- Each staff is assigned a smartphone and receives 12-15 notifications per day at random, for a period of 40 days.
- Staff indicate what they are working at the time of the notification by clicking through a series of touch screens:
  - Which program? Which program area? Which activity? Which household type?
- Over 40 days, the responses to RMS provide a detailed profile of each staff's workload, including how much time they spend on the HCV program and on each activity within the program.

How did the time measurement work?

PHAs measured

60

Response Rate to RMS Notifications

99.1%

PHA employees

909

Median Response Time

18.1 minutes

RMS Notifications

581,000

Android Smartphones

260

How much time is spent on the HCV program and what are the main activities?

- PHAs spend an average of **13.8 hours per voucher per year in frontline HCV work,** including **6.8 hours ongoing occupancy work** for existing HCV households.
- The remaining time is spent on:
  - Intake and lease-up for new households (2.3 hrs.)
  - Unit inspections for new and existing households (2.2 hrs.)
  - Program monitoring and supervisory work (2.2 hrs.)
  - Supportive services (not FSS) (.3 hrs.)
- Study found extra time spent on project-based and VASH vouchers for PHAs receiving new allocations, and extra time for the voucher homeownership program. However, small sample sizes for special purpose vouchers and large variations across PHAs didn't allow for definitive time estimates.

What accounts for the variation in administrative costs across PHAs?

- Study team conducted analyses on a large number of PHA characteristics, program characteristics, and market characteristics that could be potential cost drivers.
- Study team tested more than 50 potential cost drivers; 7 of which were highly related to the variation in per unit voucher costs observed across the 60 study PHAs.
- Study found program size (large programs have lower costs) and the wage index (PHAs in markets with higher wages have higher costs) were highly correlated with per unit month costs and explained 35% of the variation in costs.
- Study found the additional 5 cost drivers explain an additional 30% of the variation in costs.

What are the components of the proposed administrative fee formula?

Variable Name	Explanation
Program size	PHAs receive a higher amount per voucher if they have fewer than 750 vouchers under lease.
Wage index	The ratio of the statewide average metropolitan or nonmetropolitan wage rate for local government workers in the PHA's state, to the national average wage rate for local government workers.
Health insurance cost index*	The ratio of the average health insurance cost for employers in the PHA's state, to the national average health insurance cost.
Percent of households with earned income*	The percent of the PHA's voucher households with income from wages.
New admissions rate*	The number of households admitted to the voucher program as a result of turnover or new allocations of vouchers in the year as a percent of the PHA's vouchers under lease.
Small area rent ratio	A measure of the share of a PHA's voucher participants residing in high rent neighborhoods.
60 miles	Percent of voucher holders living more than 60 miles from the PHA's headquarters.

* All formula variables are updated annually, but 3 variables are defined as a 3-year average to control for volatility.

What does the proposed formula capture?

- The study's proposed formula explains 65 percent of the variation in PHA per unit costs to administer the HCV program.
- This is very good compared to the current administrative fee formula that only explains 33 percent of the variation in PHA per unit costs to administer the HCV program.
- The seven variables in the study's proposed administrative fee formula cover a broad range of cost drivers.
- The formula recognizes that smaller PHAs have higher per unit administrative costs and that costs vary locally based on differences in the prevailing wage rate and the local cost to employers of providing health insurance.
- The formula also reflects aspects of the program that take extra time: admitting new households to the program, serving households with earned income, assisting households to lease up in relatively high-cost areas, and administering the program over a larger geographic area.

How much does it cost to administer the HCV program?

- Study provides the first research-based data on the cost of running a high-performing and efficient program since the late 1980s.
- This study shows **PHAs have been significantly underfunded to run the HCV program**.
  - The **average cost** of administering the program in 2013 was **$70.03 per voucher per month**. The **minimum cost** was **$42.06 per voucher per month**.
  - The **average fee received** between July 1, 2013 and June 30, 2014 (existing formula at 75 percent proration) was **$51.64 per voucher per month**. The **minimum fee received** was **$30.11 per voucher per month**.
  - Only 2 of the 60 PHAs in the study sample received enough fee to cover their costs during this period.

What are the implications of the proposed formula for program costs?

- Estimated cost of study's proposed formula is **$1.84 billion** (for July 2013-June 2014) or **95 percent** of the cost to fully fund the current fee formula (including a fixed amount of $268 million for MTW PHA admin fees) for that same time period.
- In order to make sure that fees keep pace with inflation and reflect current program characteristics, the fees would be updated each year based on the formula variables and a blended inflation factor that would capture inflation in wages, benefits, and non-labor costs.

How does the proposed formula handle portability?

- The study's proposed formula recognizes the costs borne by both issuing and receiving PHAs, removes administrative fee cost-based disincentives for porting, and decreases administrative burden for PHAs.
- The new formula would remove inter-PHA billing for administrative costs associated with portability:
  - The receiving PHA would receive 100% of its own fee directly from HUD for a port-in voucher administered on behalf of another PHA.
  - The initial PHA would receive 20% of its own fee for port-out vouchers administered by other PHAs under the billing option.

  - PHAs would only bill for HAP costs.

Does the proposed formula set a floor on fees?

- The study found that, among the 60 study PHAs, **per unit costs for CY 2013 ranged from $42.06 per UML to $108.87 per UML**, with an average cost of $70.03 per UML and a median cost of $64.84 per UML.
- The PHA with the lowest cost ($42.06 per UML) had below average values for four of the formula variables.
- A straight application of the formula would result in fees that fall below the lowest observed cost of $42.06 per UML for a small number of PHAs.
- The study recommends that the formula establish a **floor of $42 per UML for PHAs not in U.S. Territories** that would otherwise receive less than $42 per UML based on having low values for the formula variables.
- Because the costs of providing housing are believed to be higher in U.S. Territories, the study also recommends that the formula establish a **floor of $54 per UML for PHAs in U.S. Territories**.
- **Most PHAs have higher costs than $42 per UML** (or $54 per UML for PHAs in U.S. Territories) and the formula is designed to capture the actual costs for those PHAs.

Is there a minimum size below which an HCV program cannot successfully operate on administrative fees alone?

- The cost estimates for the 130 small HCV programs show an inverse pattern of costs per unit, decreasing steadily with the increase in the number of vouchers under lease.
- While the study found that PHAs with fewer than 50 vouchers under lease fare worse and had the highest estimated costs relative to fees, there were a number of PHAs in higher size categories that were not financially feasible.
- For this reason, the study did not find a clear difference from one size category to another that would suggest a specific number of vouchers below which operating on fees alone is not financially feasible.

What would be the impact of the proposed formula for PHAs?

- Fees received for the July 2013 through June 2014 period **only covered 77 percent of the estimated cost for the average PHA**.
- **Compared to the actual fees received** (the existing formula at 75 percent proration) between July 1, 2013 and June 30, 2014:
  - **92% of PHAs** would have **higher fees** under proposed formula (costing approximately $344 million in additional fees)
  - **8% of PHAs** would have **lower fees** under proposed formula (losing approximately $14.25 million in fees)
  - **65 of the 181 "decliner" PHAs bear most of the losses** ($10 million), experiencing losses ranging from 10.2 percent to 37.4 percent.

What would be the impact of the proposed formula on PHAs by size category?

Percent of PHAs:	Compared to Existing Fee Formula at 75% Proration					
	<250	250-499	500-1,249	1,250-5,249	5,250-9,999	10,000+
Total "gainer" PHAs	94%	96%	86%	86%	85%	90%
Total "decliner" PHAs	6%	4%	12%	13%	15%	10%
Number of PHAs	**1,142**	**391**	**405**	**263**	**35**	**20**

What would be the impact of the proposed formula on PHAs by region?

	Compared to Existing Fee Formula at 75% Proration				
Percent of PHAs:	Midwest	Northeast	South	West	U.S. Territories
Total "gainer" PHAs	99%	91%	96%	78%	53%
Total "decliner" PHAs	1%	9%	4%	21%	48%
Number of PHAs	**590**	**556**	**778**	**252**	**80**

What are the next steps?

- The study is now complete and HUD now has empirical data on the actual costs to administer the HCV program. HUD intends to seek public comment soon, and when available, the public will be able to comment on www.regulations.gov.