Housing Choice Voucher Program
Administrative Fee Study

PD&R

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Administrative Fee Study

FINAL REPORT
EXECUTIVE SUMMARY

Updated

Acknowledgments

Expert and Industry Technical Review Group

The study benefited from a strong and active expert and industry technical review group that provided input at critical stages of the study. The study team commends the following expert and industry technical review group members for their valuable service:

- Ray Adair, *Nan McKay & Associates*
- James Armstrong, *Public Housing Authorities Directors Association*
- Steve Beam, *Raleigh Housing Authority*
- Janelle Beverly, *National Association of Housing and Redevelopment Officials*
- Barrett Caldwell, *Purdue University*
- Jason Casterline, *Casterline Associates*
- Jorge Duyos, *JRD & Associates*
- Diana Fiedler, *San Antonio Housing Authority*
- Roberta Graham, *Quadel Consulting Corporation*
- Tamar Greenspan, *National Association of Housing and Redevelopment Officials*
- Dianne Hovdestad, *Sioux Falls Housing and Redevelopment Commission*
- Mike LaRiccia, *U.S. Department of Housing and Urban Development*

- Peggy Morales, *PHEnterprizes*
- Denise Muha, *National Leased Housing Association*
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- Douglas Rice, *Center on Budget and Policy Priorities*
- MaryAnn Russ, *Dallas Housing Authority*
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- John Washek, *Edgemere Consulting*
- Patti Webster, *Housing Authority of Billings*
- Jonathan Zimmerman, *Public Housing Authorities Directors Association*

Participating Public Housing Agencies

The study would not have been possible without the participation of the public housing agencies that participated in the time measurement study and the small program interviews. The study team thanks the leadership of these housing agencies for their support of the study and commends the Housing Choice Voucher program staff who dedicated their time and expertise to the extensive data collection effort. The following 60 agencies participated in the time measurement study:

- Akron Metropolitan Housing Authority (Ohio)
- Brookings Housing and Redevelopment Commission (South Dakota)
- Columbus Metropolitan Housing Authority (Ohio)
- County of Solano Housing Authority (California)
- Darke County Metropolitan Housing Authority (Pennsylvania)
- Dodge County Housing Authority (Wisconsin)
- Dover Housing Authority (New Hampshire)
- Fort Collins Housing Authority (Colorado)
- Fort Worth Housing Authority (Texas)
- Franklin County Housing Authority (Pennsylvania)
- Greene County Public Housing Agency (North Carolina)
- Housing and Redevelopment Authority of Duluth (Minnesota)
- Housing and Redevelopment Commission of the City of Aberdeen (South Dakota)
- Housing Authority of the City of Brownsville (Texas)
- Housing Authority of the City of Brownwood (Texas)
- Housing Authority of the City of Cameron (Texas)
- Housing Authority of the City of Fresno (California)
- Housing Authority of the City of Los Angeles (California)
- Housing Authority of the City of Milwaukee (Wisconsin)
- Housing Authority of the City of Pocatello (Idaho)
- Housing Authority of the City of Redding (California)
- Housing Authority of the City of Santa Barbara (California)
- Housing Authority of the City of Titusville (Florida)
- Housing Authority of the City and County of Denver (Colorado)
- Housing Authority of the County of Huntingdon (Pennsylvania)
- Housing Authority of the County of Santa Barbara (California)
- Housing Authority of Myrtle Beach (South Carolina)
- Housing Authority of Okanogan County (Washington)
- Housing Authority of the Parish of Natchitoches (Louisiana)

- Housing Commission of Anne Arundel County (Maryland)
- Kentucky Housing Corporation (Kentucky)
- Lake County Housing Commission (California)
- Laurel County Section 8 Housing Agency (Kentucky)
- Lewiston Housing Authority (Maine)
- West Hartford Housing Authority (Connecticut)
- Western Carolina Community Action (North Carolina)
- Westland Housing Commission (Michigan)
- Winnebago County Housing Authority (Illinois)
- Yuba County Housing Authority (California)
- Livonia Housing Commission (Michigan)
- Lyon County/Eckan Housing Authority (Kansas)
- Malden Housing Authority (Massachusetts)
- Metropolitan Council (Minnesota)
- Mountain Projects (North Carolina)
- New Jersey Department of Community Affairs (New Jersey)
- Newark Housing Authority (New York)
- Northwest Iowa Regional Housing Authority (Iowa)
- Ocala Housing Authority (Florida)
- Orange County Housing Authority (California)
- Pinellas County Housing Authority (Florida)
- Portsmouth Metropolitan Housing Authority (Ohio)
- Richland County Housing Authority (North Dakota)
- Sanford Housing Authority (North Carolina)
- Scott County Housing Authority (Minnesota)
- Sonoma County Housing Authority (California)
- Suisun City Housing Authority (California)
- Tampa Housing Authority (Florida)
- Town of Coventry Housing Authority (Rhode Island)
- Town of Mamaroneck Public Housing Agency (New York)
- Virginia Housing Development Authority (Virginia)

Foreword

The U.S. Department of Housing and Urban Development (HUD) funds more than 2,300 public housing agencies (PHAs) nationwide that administer approximately 2.1 million housing choice vouchers. The PHA staff conduct intake as well as annual and interim recertifications, inspect units, manage wait lists, and perform other activities.

How much should PHAs be compensated for this work? Since the beginning of the Housing Choice Voucher (HCV) program in the mid-1970s, the formula for allocating administrative fees has largely relied on differences in Fair Market Rents (FMRs) for determining administrative fee allocations, with agencies in areas with high FMRs getting higher fees per voucher than agencies with lower FMRs. This allocation is based on the weak theory that FMRs correlate with wage rates and other costs of operation. This study tests this theory and also theories about other likely, more direct cost drivers of the program, such as wage rates, turnover, tenant characteristics, and size of service area.

The study scientifically tests these theories using Random Moment Sampling (RMS). Frontline staff at 60 high-performing PHAs, representing the different sizes and locations of agencies nationwide, were provided smartphones that randomly buzzed at various times of the day to collect information on what staff were doing at those times. These time data were linked to information on agency expenditures (including all labor, nonlabor, and overhead costs) during the study period in order to translate the time spent on the program into overall program costs. The robust data collected demonstrate what it truly costs to administer the HCV program well. From this research are answers to two very important questions:

(1) How much would be needed annually to fund the program appropriately? This study shows that in 2013/14 Congress appropriated just 77 percent of the amount needed to effectively and efficiently administer the program. This research is definitive that to adequately fund administration of this program requires a higher level of appropriation than in 2013/14.

(2) After the funds are appropriated, how should they be allocated to individual agencies? This study shows the following factors explain most of the variance in cost between agencies: wage rates, program size, health insurance cost, tenants with wage income, size of service area, tenants in relatively high-cost ZIP Codes, and new admissions rate.

We are extremely grateful to the Expert and Industry Technical Review Group (EITRG) from the major affordable housing industry groups, Executive Directors and HCV Program Directors from high-performing PHAs, affordable housing industry technical assistance providers, housing researchers, and industrial engineers. They reviewed the study design and results at separate stages in the study and provided invaluable feedback to the research team. This study is much better because of their input.

I am also personally grateful for the incredible leadership played by Marina Myhre of HUD, who managed this difficult study for more than 5 years; for the entire research team lead by Meryl Finkel and Jennifer Turnham of Abt Associates; and, most importantly, for the 60 PHAs and their 909 staff who agreed to participate in the research and respond to the 581,000 RMS notifications at a time when the program was being funded at very low levels because of sequestration.

Katherine O'Regan

Katherine M. O'Regan
Assistant Secretary for Policy Development & Research
Department of Housing and Urban Development

Executive Summary

The Housing Choice Voucher (HCV) program is the federal government's largest low-income housing assistance program, serving approximately 2.1 million households nationwide. The HCV program is administered nationally by the U.S. Department of Housing and Urban Development (HUD) and locally by approximately 2,300 local, regional, and state agencies, referred to collectively as public housing agencies (PHAs). The federal government provides funding for the HCV program. The funding that PHAs receive for running the HCV program includes the housing subsidy itself plus administrative fees to cover the costs of operating the program.

The main purpose of the HCV Administrative Fee Study is to measure the costs of operating a high-performing and efficient HCV program and to develop a new administrative fee formula. The study seeks to answer five primary research questions:

1. How much does it cost to run a high-performing and efficient HCV program?

2. What accounts for variation in HCV administrative costs?

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

4. What would be an appropriate formula for allocating administrative fees to PHAs operating HCV programs on an ongoing basis?

5. How much does it cost to administer the HCV Family Self-Sufficiency (FSS) program?[1]

This report addresses each research question and presents the findings of the study's time measurement and cost data collection effort, which took place between 2012 and 2014 at 60 PHAs across the country.

Study Background

For much of the voucher program's history—starting with the Section 8 Rental Certificate Program in the 1970s—program administrative fees have been calculated based on the number of vouchers under lease and a percentage of the local Fair Market Rent (FMR). The existing fee formula, in place since 2008, calculates two fee rates—one that applies to the first 7,200 voucher unit months under lease and one that applies to all subsequent unit months. Both fee rates are based on a percentage of the 1993 or 1994 FMR, limited by floor and ceiling amounts, multiplied by an inflation factor that captures the increase in local wage rates over time.

Since 2008, HCV administrative fees have been prorated to remain within the amounts authorized under HUD's appropriations acts. Between 2008 and 2010, the administrative fee proration was 90 percent or higher, meaning that PHAs received at least 90 percent of the administrative fees they would have received if full funding were available. Since 2011, the proration has deepened, dropping to 69.264 in 2013 but rising to 79.769 percent in 2014.

In addition to measuring how much it costs to administer a high-performing and efficient HCV program, another purpose of the HCV Administrative Fee Study is to use the cost measurements to recommend a new formula for reimbursing PHAs.

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[1] Study findings on the FSS program are not included in this executive summary but are included in the full report.

The existing formula is very closely tied to the FMR, which does not have a strong theoretical link to administrative costs. A goal of this study is to improve on the existing formula by incorporating the PHA, market, and program characteristics that have been empirically shown to affect administrative costs.

Several studies of HCV program costs have been conducted in the past, including one study in the late 1980s that measured costs directly and determined an average cost per voucher (Leger and Kennedy, 1988).[2] Past studies, however, have focused on large, urban PHAs rather than PHAs of all sizes and market types. In addition, no past studies have combined direct measurement of program costs with development of an alternative fee formula.

Study Features

The HCV Administrative Fee Study has several important features designed to ensure that its findings are accurate, credible, and appropriate for developing a fee formula.

- **The study used a time-measurement approach**, directly measuring the time that PHA staff spent on the HCV program overall and on core HCV program activities. The study measured time spent at 60 PHAs across the country, conducting 8 consecutive weeks of time measurement at each PHA. Of the 60 PHAs, 4 served as pretest sites and were measured in the spring of 2012. For the remaining 56 PHAs, time measurement was conducted in cohorts of 6 to 8 PHAs from January 2013 through April 2014. The study collected detailed data on labor, nonlabor, and overhead costs for the same period as the time data, which enabled us to translate the time spent on the HCV program into overall program costs.

- **A Random Moment Sampling (RMS)** approach was used to collect detailed, accurate information on how much time PHA staff spent on the activities required for HCV administration. At each of the 60 PHAs, during the 8-week period, HCV staff reported on what they were working on at 12 to 15 random points during the day using a specially programmed device, similar to a smartphone. The study collected 581,000 responses from more than 900 PHA staff across the 60 PHAs. These responses were used to create estimates of the time staff spent on different activities within HCV program administration with high levels of accuracy.

- **The study was designed to capture all costs incurred by the HCV program**, including costs for items that may be provided to the HCV program free of charge by another entity (such as local government), funded through the PHA's HCV administrative reserves, or funded through another program or line of business operated by the PHA. Including all costs, regardless of funding source, and excluding costs that may be funded by the HCV program but not incurred by the program helps to address concerns about the potentially circular relationship between the administrative costs measured

through the study and the administrative fee that PHAs receive. The study's cost estimates include costs that were eliminated or reduced in response to reduced administrative fee funding between 2011 and 2013 but that are necessary to operate a high-performing program.

- **All the PHAs in the study were high performing and efficient at the time the sample was selected.** The sampling universe for the time-measurement study was PHAs that administered at least 101 vouchers, that were not participating in the Moving to Work (MTW) demonstration, and that scored as high performers on HUD's Section 8 Management Assessment Program (SEMAP) in the previous 3 years or in at least 2 of the previous 4 years for those PHAs not rated each year. PHAs that did not meet the SEMAP high-performance score criteria listed previously, but were determined by HUD headquarters and field staff to have high-performing HCV programs and were recommended for inclusion in the study, were also included in the sampling universe. In addition, each of the 60 PHAs in the time-measurement study met performance and efficiency criteria confirmed through a site visit conducted by the study team.

- **The study was based on a diverse sample of PHAs**, including PHAs with HCV programs ranging in size from 101 to more than 45,000 vouchers; PHAs operating in all regions of the country and in urban, suburban, and rural settings; PHAs with different organizational structures; and PHAs that differ from one another in terms of the characteristics of their HCV program participants. The study applies sampling weights to the raw data from the sample of 60 so that the study findings can be interpreted as representing the sampling universe of HCV programs with more than 100 vouchers and at least 2 years of high-performer ratings on SEMAP. The study findings are not weighted to be representative of the HCV program as a whole. The study weights ensure that the weighted sample accurately represents the universe of high-performing HCV programs along key dimensions, including program size, program type (HCV only versus combined), and participant characteristics.

- **The study had a large and active Expert and Industry Technical Review Group (EITRG)** consisting of representatives from the major affordable housing industry groups, Executive Directors and HCV program directors from high-performing PHAs, affordable housing industry technical assistance providers, housing researchers, and industrial engineers. This group of 20+ individuals met five times during the course of the study, reviewing the study design at different stages and reviewing preliminary and revised findings. EITRG feedback played an important role in strengthening the study's approach and presentation of findings.

The remainder of this executive summary presents key findings from the study.

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[2] Other studies of voucher and certificate program costs are HUD/PD&R (1994); Maloy et al. (1977); Westat (1977); and Westat and Coopers & Lybrand (1981).

Descriptive Findings From Time Measurement

The time-measurement data collection using Random Moment Sampling resulted in a robust set of time data. As shown in Exhibit ES-1, the response rate to RMS notifications was 99 percent across the 60 study sites. The median response time to notifications was 18 minutes, suggesting that most staff responded quickly to notifications and therefore would have had good recall of what they were working on. In total, the study collected 581,000 data points from more than 900 PHA employees on how they spent their time during the 8-week RMS period.

EXHIBIT ES-1. TIME-MEASUREMENT STUDY OVERVIEW

PHAs measured	Response Rate to RMS Notifications
60	**99.1%**
PHA employees	Median Response Time
909	**18.1** minutes
RMS Notifications	Android Smartphones
581,000	**260**

PHA = public housing agency. RMS = Random Moment Sampling.
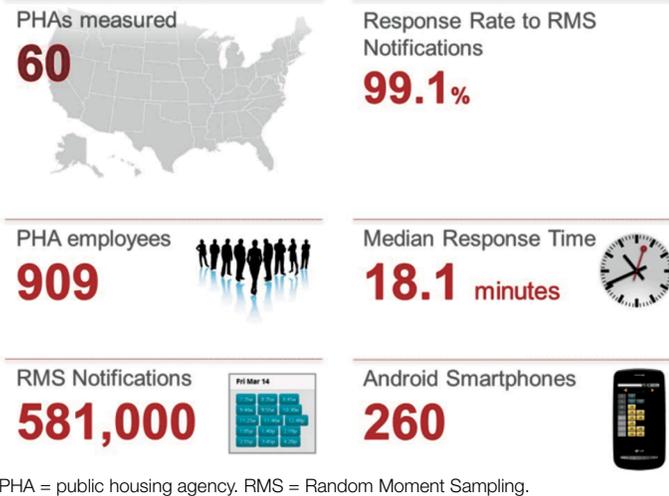
For every voucher under lease, the 60 PHAs in the study spent, on average, **13.8 hours per year on frontline HCV activities**. The 95-percent confidence interval for this average is 12.9 to 14.6 hours per voucher under lease per year. The time estimates from this study are for frontline activities only. Frontline activities are those related to the day-to-day operations of the HCV program. They include all the core program activities—such as intake, lease up, annual recertifications, and inspections—and are specific to the HCV program. The study defines vouchers under lease as the study PHA's own vouchers under lease plus any port-in vouchers that the study PHA administers on behalf of other PHAs minus any port-out vouchers that have left the study PHA's jurisdiction and are being administered by other PHAs.

In addition to frontline activities, overhead activities also are associated with operating the HCV program. Overhead activities in general are not directly attributable to a program or project but support the agency as a whole. They include PHA upper management, human resources, legal, finance, accounting and payroll,

information technology, risk management, procurement, and quality control activities that are not specific to the HCV program.[3] Overhead activities are included in the study's cost estimates, but we do not have time estimates for work done by overhead staff. Thus, the 13.8 hours spent per voucher per year is for the frontline work of administering the HCV program.

Exhibit ES-2 shows the average distribution of frontline staff time for the five core categories of HCV work. Of all the frontline time spent on the program, the largest share is for ongoing occupancy activities—that is, the work done on behalf of existing HCV participants. On average, 50 percent of frontline staff time is spent on ongoing occupancy activities. This category is followed by intake, eligibility, and lease-up activities for households applying to and entering the program (16 percent of frontline staff time), monitoring and supervisory activities for all aspects of the program (15 percent of frontline staff time), and Housing Quality Standards (HQS) inspection activities for new admissions and existing participants (16 percent of frontline staff time). On average, frontline staff spent only 2 percent of their time providing supportive services to HCV participants outside the FSS program.

EXHIBIT ES-2. AVERAGE DISTRIBUTION OF FRONTLINE STAFF TIME FOR CORE HCV ACTIVITIES, 2013
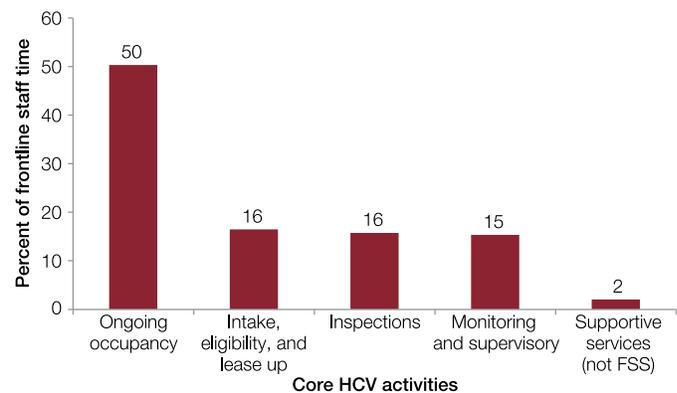
FSS = Family Self-Sufficiency (program). HCV = Housing Choice Voucher (program).
Note: N = 60 public housing agencies.
Source: Random Moment Sampling data collection

The modest share of time spent on intake is consistent with the fact that the HCV programs in the study were not growing during the study period, as was true of the HCV program as a whole. Thirty-seven of the 60 PHAs in the study experienced a decline in the number of vouchers under lease between 2011 and 2013, with an average decrease of -4.5 percent. For the remaining 23 PHAs, the number of vouchers under lease increased by an average of 8 percent. Across the sample as a whole, the average growth in vouchers under lease was less than 1 percent.

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[3] Many HCV management functions, such as staff supervision, data management, quality control, SEMAP, preparation and disbursement of housing assistance payments, and program and budget monitoring, are frontline HCV activities and are captured in the RMS data collection.

Although the study's time estimates are expressed as hours (or minutes) per voucher under lease, the time includes work done on behalf of program applicants and new admissions, administrative work related to handling new voucher allocations, and work related to managing the files and documentation for past and current households in the program. Time per voucher under lease is a useful way of presenting time estimates that can be compared across PHAs with different program sizes, but it does not mean that the time is only for households under lease. The study also uses transaction counts to show time per activity, such as time per HQS inspection.

Time on Intake, Eligibility, and Lease Up

Intake, eligibility, and lease up cover all the frontline work conducted on behalf of new applicants to the HCV program from the time a household applies to the program to the time the household comes under lease, with the exception of time spent on HQS inspections for new households.[4]

Across all the vouchers under lease in the program, PHAs spent an average of **2 hours and 18 minutes per voucher per year working on intake, eligibility, and lease-up work**. This set of activities includes all activities related to managing the waiting list, processing new applicants, and helping newly admitted households lease a unit. The 95-percent confidence interval for this average is 1 hours and 42 minutes to 2 hours and 54 minutes per voucher under lease per year.

The most time-consuming aspects of intake, eligibility, and lease up were managing the wait list and applications (average of 49 minutes per voucher under lease per year), determining eligibility (average of 33 minutes per voucher under lease per year), and issuing vouchers and assisting households through the search process (average of 16 minutes per voucher under lease per year).

In addition to calculating time spent on intake, eligibility, and lease-up work per voucher under lease, the study also used the transaction counts collected from the study PHAs to calculate time spent on these activities on a per-voucher-issued basis. For every new or turnover voucher issued, PHAs spent an average of 3 hours and 16 minutes on eligibility determinations and 1 hour and 25 minutes on voucher issuance and assistance through the housing search process.

Time on Ongoing Occupancy

Ongoing occupancy, as defined by the study, covers all the work conducted for the tenancy of existing HCV participants, with the exception of time spent on HQS inspections, which is treated separately. For every voucher under lease, PHAs spent an average of **6 hours and 49 minutes per year on ongoing occupancy**, performing tasks associated with maintaining households already in the program, not including inspections, management tasks,

and supportive services. The 95-percent confidence interval for this average is 6 hours and 12 minutes to 7 hours and 24 minutes per voucher under lease per year.

Two activities account for more than three-fourths of the time spent on ongoing occupancy for the average PHA. These activities are annual recertifications, required for all households in the program, and interim recertifications, required under certain circumstances. PHAs spent an average of **3 hours and 48 minutes on each annual recertification** and an average of **2 hours and 36 minutes on each interim recertification**. Other ongoing occupancy activities—such as processing moves, processing terminations, and providing reasonable accommodation services—took far less time overall because they occurred less frequently.

Time on Portability

An important feature of the HCV program is that voucher holders may move with their vouchers to another PHA's jurisdiction. This feature is known as portability. Households that move into the PHA's jurisdiction from another PHA's jurisdiction are known as port-ins and households that move out of the PHA's jurisdiction and into another PHA's jurisdiction are known as port-outs. For most PHAs, the number of port-in and port-out vouchers is small relative to the number of vouchers under lease. PHAs must follow time-consuming procedures, however, to process port-ins and port-outs. The study measured the work associated with processing port-ins and port-outs, including paperwork, inter-PHA communication, and billing.

For port-ins, the study found that on average, PHAs spent **2 hours and 35 minutes on port-in related activities for every port-in household** (defined as new port-ins plus existing port-ins administered by the PHA through a billing arrangement). The time spent per port-in household, however, varied greatly among PHAs, resulting in a wide 95-percent confidence interval for this average: from 1 hour and 42 minutes to 3 hours and 29 minutes. The median time spent on port-in activities was 1 hour and 40 minutes per port-in household.

For port-outs, PHAs spent an average of **1 hour and 11 minutes on port-out related activities for every per port-out household** (defined as new port-outs plus existing port-outs administered by another PHA through a billing arrangement). The 95-percent confidence interval for this average is 47 minutes to 1 hour and 35 minutes. The median time spent on port-out activities was 41 minutes per port-out household.

Time on Inspections

For the 47 PHAs in the study that conducted their HQS inspections using in-house staff, we collected information on the time spent on inspections overall and on different types of inspections.[5] Taking into account all the work that goes into

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4 Time on inspections is captured in the "Inspections" category (see discussion below).
5 This information was not available for nine PHAs that contracted out their HQS inspections during the RMS data collection period and for four PHAs that were making the transition to contracted-out inspections during the RMS data collection period.

each inspection, including work scheduling the inspection and completing post-inspection paperwork, the total time spent on inspections averaged **1 hour and 44 minutes per inspection**. The 95-percent confidence interval for this average is 1 hour and 29 minutes to 1 hour and 59 minutes.

Considering only the time associated with conducting the inspection and getting to and from the inspection, PHAs spent an average of 53 minutes per inspection, with a 95-percent confidence interval of 42 to 64 minutes. The average time per inspection was slightly higher for first inspections (52 minutes) than for reinspections (47 minutes).

We observed wide variation among PHAs on the time spent on complaint, emergency, and special inspections, which is not surprising given that these types of inspections occur relatively infrequently. The average time spent conducting and getting to and from complaint, emergency, and special inspections was 1 hour and 54 minutes and the median time was 75 minutes.

Exhibit ES-3 summarizes the estimates of frontline staff time for select HCV activities related to intake, eligibility, lease up, ongoing occupancy, and inspections.

EXHIBIT ES-3. ESTIMATED FRONTLINE STAFF TIME PER ACTIVITY (HOURS PER YEAR) FOR SELECT HCV ACTIVITIES, 2013
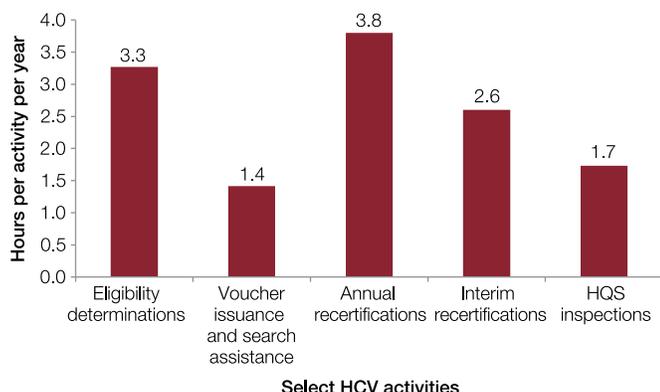
HCV = Housing Choice Voucher (program). HQS = Housing Quality Standards.
Note: N = 60 public housing agencies.
Source: Random Moment Sampling data collection

Time on Monitoring and Supervisory Activities

Monitoring and supervisory activities are mainly done by HCV program supervisors but are still considered frontline activities because they support the HCV program only. This category includes reporting to HUD, internal program monitoring and reports, quality control activities, audit and board support, and staff supervision. On average, PHAs spent **2 hours and 12 minutes per year for every voucher under lease on frontline monitoring and supervisory activities**. The 95-percent confidence interval for this average is 1 hour and 45 minutes to 2 hours and 39 minutes.

Planning and monitoring work took up the largest share of this time (51 minutes per year per voucher under lease), followed by work associated with preparing budgets and Housing Assistance Payments, or HAP, disbursements (43 minutes per year per voucher under lease). The amount of time spent on HUD reporting was modest on a per-voucher basis—an average of 24 minutes per year per voucher under lease—but nevertheless translates to about 410 hours per year for a program of 1,000 vouchers, or about one-fourth of a full-time equivalent staff person. The average time on staff supervision was 13 minutes per year per voucher under lease, or about 220 hours per year for a program of 1,000 vouchers.

Time on Supportive Services Outside the FSS Program

The PHAs in the study spent very little time on supportive services outside of the FSS program. Such services include providing case management and service referrals, working with service partners, helping households with homeownership, and working on expanding housing opportunities. The study estimated that, across all vouchers under lease, the average PHA spent less than 30 minutes per voucher per year providing these types of services. The PHAs in the study reported that they did not have the resources to invest substantial staff time in supportive services or expanding housing opportunities, although they valued these activities.

Time by Special Voucher Type

In addition to measuring time spent on the regular voucher program, the study measured time spent on eight types of special vouchers: (1) project-based, (2) tenant protection, (3) Veterans Affairs Supportive Housing (HUD-VASH), (4) non-elderly disabled (NED), (5) family unification program (FUP), (6) 5-year mainstream, (7) disaster, and (8) homeownership vouchers. HUD-VASH, NED, FUP, 5-year mainstream, and disaster vouchers are programs with special appropriations of funds that PHAs have been encouraged to apply for in order to serve populations with special needs. Tenant-protection vouchers are issued to replace public housing or project-based Section 8 units that have left the assisted housing stock. Project-based vouchers and homeownership vouchers are options available to a PHA for using the funds that have already been allocated to them.

The study asked PHA staff to record time working on special voucher programs whenever they were aware of working on these programs, with the goal of estimating a time per voucher for certain special voucher programs that could be compared with the time per voucher for the regular program. Collecting time data related to special vouchers was challenging because of the very small size of the special voucher programs. Of the 60 PHAs, 9 had no special vouchers at all, and special vouchers represented 15 percent of the portfolio for the remaining PHAs.

Because the sample sizes were small, we were only able to examine the time spent per voucher per year for three special voucher types: (1) project-based vouchers, (2) homeownership

vouchers, and (3) HUD-VASH vouchers. We excluded time spent on inspections from the special voucher analysis because the inspectors in the study had said at the time of data collection that they could not reliably identify what type of voucher they were working with for a given inspection and therefore would tend to report their work as relating to regular vouchers. We also restricted the comparison with the set of PHAs that had each type of voucher so that time spent on a given special voucher type would be compared with time spent on regular vouchers by the same PHAs.

Project-Based Vouchers

We were able to develop time estimates for 27 of the 29 PHAs in the study that had made the decision to use some of their voucher funding as project-based vouchers. The 27 PHAs all had at least one project-based voucher under lease and recorded time spent on project-based vouchers during the RMS period.

One PHA was very different from the others in that it recorded 95 hours of work time on project-based vouchers during the RMS period but had only one project-based voucher under lease at that time (and only two project-based vouchers under lease 6 months later). During the RMS period, this PHA was in the process of developing and issuing a request for proposal (RFP) for project-based vouchers and was therefore expending a lot of time on the program before having that type of voucher under lease. The PHA's HCV director recorded 52 hours of work during the 8-week RMS period under the "monitoring and supervisory" activity that included developing and issuing the RFP. This amount of time is indicative of the upfront work involved in the project-based voucher program, but should be considered a lower bound as the upfront work may have begun before and continued after the 8-week period.

The other 26 PHAs with project-based vouchers under lease were not seeking to create new project-based units and therefore were operating the program in a steady state. These 26 PHAs, on average, spent about the same amount of time per voucher for project-based vouchers as for regular vouchers after the project-based vouchers were under lease. The average time per project-based voucher was 10.3 hours per voucher per year compared with 11.4 hours per voucher per year for regular vouchers. The 26 PHAs had wide variations in the time each PHA spent per voucher on project-based vouchers, however, and a large confidence interval around the average (4.6 to 16.0 hours). If HUD is contemplating incentivizing project-based vouchers through administrative fees, further research is needed into both the upfront and ongoing costs of project-based vouchers.

Homeownership Vouchers

We were able to develop time estimates for 27 of the 33 PHAs in the study that had chosen to use some of their voucher funding for a homeownership program. On average, excluding time spent on inspections, the 27 PHAs spent 22.1 hours per voucher per year for homeownership vouchers compared with 13.6 hours

per voucher per year for regular vouchers. As was the case with project-based vouchers, substantial variation existed across the 27 PHAs in the time spent per voucher on homeownership vouchers and thus a wide confidence interval around the average— 6.2 hours to 38.1 hours. The main driver of the higher average time per voucher was the large amount of time spent on supportive services for homeownership vouchers. This process includes all the work related to counseling families about homeownership and supporting them through the home-buying process.

Seven of the 27 PHAs with homeownership vouchers experienced homeownership closings during the RMS period. As would be expected, the average time per voucher was higher among the PHAs with homeownership closings. These PHAs spent an average of about 6 hours per homeownership voucher during the 8-week RMS period compared with about 3 hours per homeownership voucher among the PHAs without closings, and about 2 hours per regular voucher.

HUD-VASH Vouchers

We collected time data for 21 PHAs in the study that administered HUD-VASH vouchers, a program with separate appropriations with the purpose of ending veteran homelessness. Two of the 21 PHAs recorded very large amounts of time spent on HUD-VASH during the RMS data collection period but had very few HUD-VASH vouchers under lease. One PHA recorded 59 hours spent on HUD-VASH during the 2-month data collection period, with only one HUD-VASH voucher under lease. The other PHA recorded 30 hours spent on HUD-VASH during the 2-month period, with only three HUD-VASH vouchers under lease. These two PHAs were in the process of developing new HUD-VASH programs and logged a large amount of time developing partnerships and providing service referrals for clients.

The large amount of time spent by the two PHAs with new programs suggests that the HUD-VASH program is very time consuming in the early stages. Further research and a larger sample size would be needed to make this claim definitively, however, and would help to estimate the upfront time needed for an average PHA starting a HUD-VASH program.

The study results were not conclusive regarding the amount of time spent on the HUD-VASH program after it was established. The study's time estimates did not show that the HUD-VASH program takes more time than the regular voucher program to administer on an ongoing basis. The average time per HUD-VASH voucher was 10.4 hours per voucher per year compared with 13.0 hours per voucher per year for regular vouchers. The 95-percent confidence interval around the average time spent per HUD-VASH voucher was 7.5 to 13.2 hours.

PHAs in the study told us that HUD-VASH is a very time-consuming program even after the initial start-up phase. The study, however, did not find definitive evidence that administering HUD-VASH vouchers takes more time than administering regular vouchers. The study may have underestimated the time spent on HUD-VASH

vouchers because the program is so small (less than 5 percent of the voucher portfolio for most study sites) and some aspects of program administration are done for several voucher types at the same time. It could also be that PHA staff had difficulty differentiating among voucher types for some activities and therefore defaulted to recording their time under regular vouchers. Another possibility is that senior managers—overhead staff, who at many study sites did not participate in RMS—conducted part of the additional work required for the HUD-VASH programs. In view of the policy objective of the HUD-VASH program and the importance of encouraging PHAs to apply for and administer HUD-VASH, we recommend that HUD undertake further research into the type and amount of work required for the ongoing administration of the HUD-VASH program and how the work may differ from that required for the regular HCV program.

Time by Household Type

The study collected data on the time spent on annual recertifications for five categories of households: (1) homeless at admission, (2) elderly, (3) non-elderly disabled (NED), (4) small family (one to five members), and (5) large family (six or more members). The study found that the average time to conduct annual recertifications was lower for elderly and NED households than it was for family households and for households that were homeless at admission. **The average time spent on annual recertifications was 3.0 hours per voucher per year for elderly households and 2.4 hours per voucher per year for NED households compared with 5.6 hours per voucher per year for family households**.

At the time of RMS data collection, 45 of the 60 PHAs in the study served at least one household that was homeless at admission. These households only represented a small percentage of the total households served, however, and PHA staff had difficulty identifying at the time of data collection which households had been homeless at admission. Only 14 of the 45 PHAs recorded any time spent on annual recertifications for homeless households during the RMS period and for 2 PHAs the time recorded was unrealistically small given the number of homeless households served. Thus, the study was able to estimate time per annual recertification for homeless households for only 12 PHAs.[6] Across the 12 PHAs, the average time spent on annual recertifications was 4.6 hours per voucher per year for homeless households, higher than for some other household types, but the 95-percent confidence interval around this average was very wide—2.2 to 7.1 hours. Given this uncertainty and HUD's

interest in providing further incentives to PHAs to serve homeless households, we recommend that HUD undertake additional research to determine which elements of the program take more time for these households on a per household basis.

How Much Does It Cost To Run a High-Performing and Efficient HCV Program?

Across the 60 PHAs, the average administrative cost per voucher for calendar year 2013 ranged from $42.06 per unit month leased (UML) to $108.87 per UML.[7] The average cost per UML for the 60 PHAs was $70.03 and the median cost per UML was $64.84. The 95-percent confidence interval for the average PHA was $65.11 to $74.95. The average annual administrative cost for 2013 was $840 per voucher and the median annual cost was $778 per voucher.[8]

The study's cost estimates include all costs associated with administering the HCV program for the period when the time and cost data were collected, which for most study sites was 2013.[9] The cost estimates include costs for regular vouchers and for special vouchers. They include frontline labor costs (wages plus all employee benefits), frontline (direct) nonlabor costs, and overhead costs (including both labor and nonlabor costs).

Frontline labor costs are the largest component of HCV program costs, representing 57 percent of program costs on average, with a 95-percent confidence interval of 53 to 61 percent. After frontline labor, the next largest cost component is frontline nonlabor costs (24 percent on average, confidence interval of 20 to 28 percent), followed by overhead costs (19 percent on average, confidence interval of 15 to 24 percent).

The study team compared the study's estimates of 2013 costs with the fees received by the 60 PHAs between July 1, 2013, and June 30, 2014. During this time period, which includes two different fee rates, the administrative fee proration averaged 75 percent. Only 2 of the 60 PHAs in the study received sufficient fees during this period (with proration) to cover their estimated costs for 2013. For the average PHA in the study, the fees received during this period (with proration) covered 77 percent of the estimated cost of administering the program (95-percent confidence interval of 72 to 82 percent). Across the 60 PHAs, the percent of costs covered by the fees received (with proration) ranged from 45 to 115 percent.

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[6] The study was unsuccessful in estimating the time spent on intake for households that were homeless at admission compared with other household types because we did not have reliable counts of the number of homeless families who were issued vouchers during the data collection period.

[7] UML is calculated as total unit months leased plus port-in months leased minus port-out months leased.

[8] As a point of comparison, the 1988 study of the voucher program estimated an average annual cost per voucher of $326 ($27.17 per month) for large urban PHAs (Leger and Kennedy, 1988). This calculation translates to $642 per year ($53.50 per month) in 2013 dollars compared with the current study's estimate of $840 per year ($70.03 per month).

[9] Data collection took place in 2012 for four PHAs. For these PHAs, we applied an inflation factor based on the Bureau of Labor Statistics Quarterly Census of Employment and Wages to estimate the costs for 2013. Data collection took place in 2014 for seven PHAs. We did not convert the costs for these seven PHAs to 2013 dollars because data collection was complete by April 2014.

Cost by Activity

In addition to estimating the total HCV administrative costs per voucher, the study estimated costs per activity. Exhibit ES-4 shows cost estimates for key HCV activities, in 2013 dollars.

EXHIBIT ES-4. ESTIMATED COST PER ACTIVITY, 2013

Activity	Average Cost per Activity	95% Confidence Interval
Eligibility determinations	$199	$132–$266
Annual recertifications	$226	$183–$269
Interim recertifications	$144	$119–$169
Inspection of any type, conducted by PHA staff	$98	$84–$112
First inspection conducted by PHA staff	$103	$83–$123
Reinspection conducted by PHA staff	$94	$76–$112

PHA = public housing agency.
Note: N = 60 PHAs.
Source: Random Moment Sampling and cost data collection

Is There a Minimum Size Below Which an HCV Program Cannot Successfully Operate on Administrative Fees Alone?

The study analyzed financial data collected through HUD's Financial Assessment Subsystem of Public Housing (FASS-PH) and conducted interviews with 130 PHAs operating HCV programs with fewer than 250 units to examine the feasibility of operating a small HCV program relying on administrative fees alone.

The financial information reported to the FASS-PH does not always include all HCV program costs. From the interviews with 130 PHAs operating HCV programs with fewer than 250 vouchers, we learned that most HCV programs incur costs that are not attributed to the HCV program on the FASS-PH. The most common types of costs that are not attributed to the HCV program are costs associated with office space and personnel costs. In some cases, the PHA pays rent or a mortgage but those costs are covered by another program; in other cases, the PHA enjoys free office space, often donated by the city or county, and none of the PHA's programs pay what it would cost to rent or own a comparable space on the private market. The study estimated office space costs for all the HCV programs studied, because this cost needs to cover the administrative fee if program fees were required to cover all costs.

In terms of personnel costs, we found that some PHA staff costs are charged to other PHA programs or lines of business at a higher percentage than they report working on these programs. In these cases, we adjusted the HCV cost to reflect the true

amount of work reportedly done for the HCV program. With these and other adjustments, the study produced cost estimates for the 130 PHAs surveyed that more accurately reflect the true costs of administering the HCV program, if the program had to pay for all the costs incurred.

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. Without adjusting for differences in local labor costs, costs per unit per month in the smallest PHAs (fewer than 50 vouchers) are 60 percent higher than in the largest PHAs (200 to 249 vouchers). Because the smallest programs are often in low-cost areas, the difference is even greater after adjustments for local labor costs. After adjusting for differences in local labor costs, costs per unit per month in the smallest PHAs (fewer than 50 vouchers) are 91 percent higher than in the largest PHAs (200 to 249 vouchers).

Comparing the study's estimated program costs with the administrative fees received between July 1, 2013, and June 30, 2014, we find that all but 5 of the 130 PHAs received fees, at 75-percent proration, that were lower than their study-estimated costs. If the PHAs had received full fees based on the existing formula with no proration, most of the largest PHAs in the small program sample (PHAs with 200 to 249 vouchers) would have covered their costs but the others would not.

PHAs with fewer than 50 vouchers under lease had the highest estimated costs relative to fees. Among PHAs with fewer than 50 vouchers, the average percent of study-estimated costs covered by fees (at 75-percent proration) was only 52 percent. All PHAs in the sample with fewer than 50 vouchers had study-estimated costs that exceeded the fees they received at 75-percent proration, and 88 percent of these PHAs had study-estimated costs that exceeded the fees they would have received had there been no proration. Although PHAs with fewer than 50 vouchers fared worse than the other size categories, the study did not reveal 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 Accounts for Variation in HCV Administrative Costs?

The cost estimates produced by the study indicate that administrative costs vary substantially across PHAs. To explain the variation in HCV administrative costs, the study team conducted univariate and multivariate analyses on a large number of PHA characteristics, program characteristics, and market characteristics that could be potential cost drivers. In all these analyses, the dependent variable was the administrative cost per UML for each of the 60 PHAs in the time-measurement study. The independent variables were the potential cost drivers, such as program size, the local wage rate, and the characteristics of HCV participants at each PHA.

The first step to identify the factors driving variation in HCV administrative costs was to work with HUD and the EITRG to identify a list of PHA, program, and market factors that could theoretically be expected to affect per-voucher administrative costs. Through this process we identified more than 50 potential cost drivers. We then ran correlations to examine, for each variable identified as potential cost drivers, whether there was a relationship between that variable and the variation in per-voucher costs observed across the 60 PHAs in the study.

The correlation analysis showed that HCV program size was highly correlated with per-unit administrative costs. After testing many different ways of measuring program size, we found that PHAs with 500 vouchers or fewer had per-unit administrative costs that were statistically significantly higher than the cost per unit in larger programs, so we selected a binary variable that captured whether the PHA had 500 vouchers or fewer under lease to control for size.

The correlation analysis also found that per-unit administrative costs were highly correlated with a local wage index derived from

the U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (QCEW). The wage index captures local variations in average wages paid to local government workers, which serves as a proxy for local variations in what PHA staff are paid.

Together, these two variables—program size and wage index—explained 35 percent of the observed variation in per-voucher administrative costs.

To improve on this model, we tested the other potential cost driver variables one by one and in combination with each other. Through this process, and carefully considering the theory behind how each variable could affect HCV administrative costs, we identified seven final cost drivers. Exhibit ES-5 presents the cost drivers identified and their relationship to administrative costs. The R-squared on the regression model with these seven cost drivers is 0.62, meaning that the model is able to explain approximately 62 percent of the variation in administrative cost per UML observed across the 60 PHAs in the study.[10]

EXHIBIT ES-5. HCV ADMINISTRATIVE COST DRIVERS (1 OF 2)

Variable Name	Explanation	Data Source	Relationship to HCV Administrative Costs
Program with 500 or fewer vouchers	The model has two size categories—500 or fewer vouchers under lease and more than 500 vouchers under lease.	Average vouchers under lease from HUD VMS data (total UML + port-ins – port-outs, divided by 12).	Large programs have lower per-voucher administrative costs because many tasks have a small marginal cost to perform the task for one extra voucher.
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.	Index created from the BLS QCEW, Annual Wage Data on Local Government Employees, and HUD geocoded data for county in which PHA main office is located.	The wage rates paid to HCV staff are based in part on the prevailing wage in the area where the PHA is located. PHAs operating in markets with higher than average prevailing wages will have higher administrative costs.
Health insurance cost index	The ratio of the cost (to employers) of health insurance in the PHA's state to the national average cost (to employers) of health insurance.	Index created from the U.S. Department of Health and Human Services Medical Expenditure Panel Survey.	Benefits costs are a substantial component of labor costs for the HCV program. The benefits costs a PHA faces are related to the costs of health insurance in the state where the PHA is located.
Percent of households with earned income	The percentage of the HCV households served that have any income from wages.	Count of households served during the year with income from wages, divided by total number of active households. From HUD PIC.	Income certification and recertification is more complex for households with income from wages, increasing administrative costs.
New admissions rate	The percentage of HCV households served that are new admissions to the PHA's HCV program, as a result of turnover or new allocations.	Count of households admitted to the program during the year divided by total number of active households. From HUD PIC.	The intake and lease-up work associated with admitting new households to the program increases administrative costs.

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[10] In the process of updating the study data for calendar year 2014, HUD identified a more accurate method for calculating the new admission rate than the method HUD used previously. This new method resulted in new values for the new admissions rate variable and slight changes to the other variables based on Public and Indian Housing Information System (PIC) data. The new variable values changed the R-squared on the cost driver model from 0.63 to 0.62.

EXHIBIT ES-5. HCV ADMINISTRATIVE COST DRIVERS (2 OF 2)			
Variable Name	**Explanation**	**Data Source**	**Relationship to HCV Administrative Costs**
Small area rent ratio	A measure of how the average rents in the ZIP Codes where a PHA's voucher participants live compare with the average rents for the overall area.[a]	HUD PIC data on HCV participant addresses geocoded to small area FMR data.	PHAs that have a higher share of program participants living in relatively high-cost areas may have higher costs associated with serving those participants.
60 miles	The percentage of HCV households served that live more than 60 miles away from the PHA's headquarters.	HUD PIC data on HCV and PHA headquarters addresses.	PHAs that serve large geographic areas have higher costs because inspectors have to cover larger distances and/or the PHA has to establish branch offices.

BLS = Bureau of Labor Statistics. FMR = Fair Market Rent. HCV = Housing Choice Voucher (program). HUD = U.S. Department of Housing and Urban Development. PHA = public housing agency. PIC = Public and Indian Housing Information System. QCEW = Quarterly Census of Employment and Wages. UML = unit months leased. VMS = Voucher Management System.

[a] For PHAs in metropolitan counties, the small area rent ratio is calculated as the median gross rent for the ZIP Codes where voucher holders live, weighted by the share of voucher holders in each ZIP Code, divided by the median gross rent for the metropolitan area. For PHAs in nonmetropolitan counties, the small area rent ratio is calculated as the unadjusted two-bedroom FMR for the nonmetropolitan counties where the PHA operates divided by the published FMR.

What Would Be an Appropriate Formula for Allocating Administrative Fees to PHAs Operating HCV Programs on an Ongoing Basis?

One of the most important outcomes of this study is the development of a proposed formula for allocating HCV administrative fees. The team used the following criteria to guide the formula development work:

- The formula should be consistent with the findings of the time-measurement study, cost study, and cost driver analysis.

- The elements that comprise the formula and how they affect administrative costs should have a sound theoretical basis.

- The formula should be based on data that are available for all PHAs through HUD's data systems or publicly available datasets.

- The formula should be understandable to a wide range of readers and stakeholders.

- The final implemented formula should be predictable from year to year to allow time for PHA planning.

- The final implemented formula should consider a phase-in plan or provisions for protecting PHAs against changes from their current level of funding that could potentially jeopardize high-performing and efficient administration of the program.

Based on these criteria, the report presents a proposed fee formula and a discussion of potential modifications to the formula over time. The proposed fee formula is derived from a regression model based on the seven variables that the study found to drive per-unit administrative costs.

Components of the Proposed Fee Formula

The variables in the proposed fee formula are the seven final cost drivers described in Exhibit ES-5, with the exception of the program size variable, which is defined somewhat differently to avoid sudden drops in fees as PHAs increase in size. The seven formula variables are—

1. **Program size:** the number of vouchers under lease, including port-ins and excluding port-outs. PHAs receive an additional fee per voucher if they have fewer than 750 vouchers under lease, with the most additional fee received by PHAs with 250 or fewer vouchers under lease.[11]

2. **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.[12]

3. **Health insurance cost index:** the ratio of the cost (to employers) of health insurance in the PHA's state, to the national average cost (to employers) of health insurance.

4. **Percent of households with earned income:** the percentage of the HCV households served that have any income from wages.

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[11] The cost driver analysis found that PHAs with 500 or fewer vouchers under lease had significantly higher per unit costs. In a fee formula, a binary variable that separates PHAs into two groups—one with 500 vouchers or fewer and one with more than 500 vouchers—would result in a cliff effect; that is, a substantial dropoff in fees after a PHA exceeds 500 vouchers under lease. To avoid the cliff effect, the formula provides additional fees to PHAs with fewer than 750 vouchers under lease on a sliding scale. The study team tested different ranges and found that the 250-to-750 range minimized the cliff effect without weakening the formula's accuracy in predicting costs.

[12] If the PHA's headquarters is located in a metropolitan county, the PHA is assigned the average local government wage for the metropolitan counties in the PHA's state. If the PHA's headquarters is in a nonmetropolitan county, the PHA is assigned the average local government wage for the nonmetropolitan counties in the PHA's state.

5. **New admissions rate:** the percentage of HCV households served that are new admissions to the PHA's HCV program, as a result of turnover or new allocations.

6. **Small area rent ratio:** a measure of how the average rents in the ZIP Codes where a PHA's voucher participants live compare with the average rents for the overall area.

7. **60 miles:** the percentage of HCV households served by the PHA that live more than 60 miles away from the PHA's headquarters.

The proposed fee is based on the total cost per UML collected through the study for calendar year 2013. This cost per UML includes costs associated with intake and lease up for households that may or may not end up under lease and costs associated with termination activities for participants who are no longer under lease. The cost per UML includes all costs required for operating a high-performing and efficient HCV program as of 2013, including capital outlays.[13]

Exhibit ES-6 presents the specifications of the proposed fee formula model. The seven variables in the 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 across a larger geographic area.

In contrast to the proposed fee formula, the fee formula currently in place has only one main component, the PHA's Fair Market Rent in 1993 or 1994, which is multiplied by an inflation rate calculated based on the difference between the local wage rate for local government workers in 1993 and in the year for which the fee is being calculated. The existing fee formula assumes that the local FMR is a good proxy for what it costs to administer the HCV program.

We ran a number of correlation analyses to determine which of the significant cost drivers identified through the study were also correlated with the 1993 FMR. We found a strong correlation between the 1993 FMR and three inputs to the proposed formula: (1) wage index, (2) health insurance cost index, and (3) new admissions rate.

EXHIBIT ES-6. PROPOSED FEE FORMULA MODEL SPECIFICATIONS (1 OF 2)

Variable	Coefficient Estimate	Standard Error on Coefficient Estimate	p-value	Range of Values	Unit of Measurement	Standard Deviation of Variable	Relative Impact of Formula Variables[a]
Intercept	– 110.56	39.07	0.0064***		$ per UML.		
Program size	16.07	4.16	0.0003***	0 to 1	For PHAs with 250 vouchers or fewer, value is 1. For PHAs with 251 to 749 vouchers, value is [1 – (number of units under lease–250)/500]. For PHAs with 750 vouchers or more, value is 0.	0.42	$6.75
Wage index	49.21	12.96	0.0003***	0.63 to 1.31	Ratio of the state metropolitan or nonmetropolitan average wage rate to national average wage rate.	0.19	$9.35
Health insurance cost index	27.99	20.11	0.169	0.86 to 1.18	Ratio of local health insurance cost to national average health insurance cost.	0.08	$2.24
Percent of households with earned income	0.93	0.21	< 0.0001***	15.58 to 56.11	Percent (households with wage income/total households served).	7.83	$7.27

[13] The cost per UML includes costs for capital outlays and other costs that the participating PHAs funded with administrative fee reserves during the data collection period. The voucher cost, however, does not include the cost of any additional reserves that a PHA might determine it needs to maintain operations in the face of unexpected costs or an interruption in the flow of income.

EXHIBIT ES-6. PROPOSED FEE FORMULA MODEL SPECIFICATIONS (2 OF 2)

Variable	Coefficient Estimate	Standard Error on Coefficient Estimate	p-value	Range of Values	Unit of Measurement	Standard Deviation of Variable	Relative Impact of Formula Variables[a]
New admissions rate	0.24	0.33	0.472	2.93 to 52.19	Percent (new admissions/total households served).	9.79	$2.31
Small area rent ratio	60.83	35.00	0.0874*	0.93 to 1.14	Ratio of average rent levels in areas where voucher holders live to metro or state average rent level.	0.04	$2.43
60 miles	1.01	0.06	< 0.0001***	0 to 47.39	Percent of voucher holders that live more than 60 miles away from the PHA HQ.	5.18	$5.21
R-squared	0.63						

HQ = headquarters. PHA = public housing agency. UML = unit months leased.

[a] Effect of one standard deviation change in formula variable on estimated costs per unit per month. For example, if the wage index increases by one standard deviation (0.19), costs per unit per month will increase by $10.00.

* Indicates significant at 10-percent level. ** Indicates significant at 5-percent level. *** Indicates significant at 1-percent level.

Notes: N = 60 PHAs. Observations were weighted to represent universe of high-performing PHAs from which the sample was selected.

Based on the results of these correlation analyses, one could argue that the existing formula indirectly captures some of the cost drivers in the proposed formula. The existing formula, however, does not take into account other important cost drivers, such as the size of the PHA's jurisdiction (the 60-mile variable) and the percent of households served with earned income. Moreover, the FMR is negatively correlated with the new admissions rate, suggesting that PHAs in higher FMR areas have fewer new admissions. Using only the FMR as the existing fee formula means that PHAs with lower FMRs receive lower fees while processing more new admissions, which adds cost. For these reasons, the proposed formula improves on the existing formula in capturing the diverse factors that drive HCV administrative costs.

The R-squared on the proposed fee formula model is 0.63, meaning that the model is able to explain approximately 63 percent of the variation in administrative cost per unit observed across the 60 PHAs in the study.[14] An R-squared of 0.63 is high for a regression model in a study of this type, but it nevertheless leaves about one-third of the variation of costs unexplained. In analyzing how well the formula model predicts costs for the 60 PHAs, we found the model predicts well for PHAs in most size categories. The model predicts costs less accurately for the largest PHAs (those with more than 10,000 vouchers under lease). Only 5 PHAs had more than 10,000 vouchers in the study sample and the variation in per-unit costs among these 5 PHAs was wide: 3 out of the 5 were at the upper end of the cost distribution, 1 was in the middle of the cost distribution, and 1 was

at the lower end of the cost distribution. This variation made it more difficult to fit the regression model to these extra-large PHAs. In implementing the new fee formula, as discussed further below, HUD could consider further adjustments for PHAs (of any program size) that would experience gains or losses relative to their current level of funding that HUD determines could jeopardize the PHAs' ability to operate high-performing and efficient programs.

Treatment of Portability Under Proposed Fee Formula

The proposed fee formula recognizes the costs of portability borne by both issuing and receiving PHAs, removes any disincentives for porting related to administrative costs, and decreases administrative burden for PHAs. The proposed fee formula eliminates billing for administrative fees related to portability. Under the proposed formula, PHAs receive 100 percent of their administrative fee for every voucher they administer, including port-in vouchers that they administer on another PHA's behalf and excluding port-out vouchers that are administered by other PHAs. Under the existing formula, PHAs receive 100 percent of the administrative fee for vouchers that remain within their jurisdiction, bill the issuing PHAs for 80 percent of the issuing PHA's fee for port-in vouchers, and are billed by receiving PHAs for 80 percent of their fees for port-out vouchers. This billing for administrative fees is eliminated under the proposed formula; PHAs receive 100 percent of their own fee for vouchers that do not port and for port-in vouchers administered on behalf of other

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[14] The R-squared on the proposed formula model (0.63) is higher than the R-squared for the cost driver model discussed previously (0.62) because the program size variable is defined differently in the two models. The proposed formula model uses a semicontinuous variable with three size categories (250 vouchers or fewer, 251 to 749 vouchers, and 750 vouchers or more), whereas the cost driver model uses a binary variable with two size categories (500 vouchers or fewer and more than 500 vouchers). The R-squared on the proposed formula model (0.63) is lower than the R-squared reported in the draft final report (0.65) because between draft and final reports HUD identified a more accurate method for calculating the new admission rate than the method HUD used previously. This new method resulted in new values for the new admissions rate variable and slight changes to the other variables based on PIC data. The new variable values changed both the coefficients and the R-squared for the proposed formula model.

EXHIBIT ES-7. KEY DIFFERENCES BETWEEN EXISTING ADMINISTRATIVE FEE FORMULA AND PROPOSED FORMULA IN TREATMENT OF PORT-IN AND PORT-OUT VOUCHERS

Type of Voucher	Existing Formula	Proposed Formula
Billed port-in vouchers: Port-in vouchers that the PHA administers on behalf of another PHA	• Excluded from the base for calculating the issuing PHA's administrative fee revenue. • Receiving PHA receives 80% of the administrative fee at the issuing PHA's fee rate.	• Included in the base for calculating the receiving PHA's administrative fee revenue. • Receiving PHA receives 100% of the administrative fee at the receiving PHA's fee rate.
Billed port-out vouchers: Port-out vouchers that are administered by the receiving PHA	• Included in the base for calculating the issuing PHA's administrative fee revenue. • Issuing PHA retains 20% of its fee and sends 80% of its fee to the receiving PHA.	• Excluded from the base for calculating the issuing PHA's administrative fee revenue. • Issuing PHA receives a supplemental fee per billed port-out that is equal to 20% of its fee.

PHA = public housing agency.

PHAs. PHAs also receive a fee equivalent to 20 percent of their own fee for port-out vouchers that are administered by other PHAs. Exhibit ES-7 summarizes these key differences regarding administrative fees for portability.

Addressing Volatility Under the Proposed Formula

Under the proposed fee formula, a new fee rate would be calculated for each PHA each year using the most recent data available for the seven formula variables. HUD would update the PHA-level data each year to calculate each PHA's fee rate. Four of the seven formula variables—program size, wage index, small area rent ratio, and percent of households living more than 60 miles from the PHA headquarters—are not highly volatile, therefore, the study team recommends that HUD use the most recent single year of data for these variables when calculating fee rates. The other three variables—health insurance cost index, percent of households

with earned income, and new admissions rate—are more volatile, so the study team recommends that HUD use a 3-year average rather than a single year of data for these three variables.[15] Using a 3-year average reduces volatility substantially, resulting in more predictable fees for PHAs from year to year. The study team also recommends that HUD monitor the volatility in the formula inputs over time, so that the formula always uses the most recent data available on the cost drivers while avoiding excessive year-to-year swings in fees. If HUD determines that the level of volatility in one or more of the input variables has changed, adjustments should be made to the use of annual versus 3-year average values.

Calculating Fees Under the Proposed Formula

Exhibit ES-8 shows how the proposed fee formula calculates fees per unit per month. The calculation starts with negative $110.56 for all PHAs (the regression model intercept) and then

EXHIBIT ES-8. BASE FEE FORMULA CALCULATION

Variable	Applies to	Calculation
Intercept	All PHAs	– $110.56
Wage index	All PHAs	+ $49.21 x wage index
Health insurance cost index	All PHAs	+ $27.99 x health insurance cost index
Program size 1	PHAs with fewer than or equal to 250 units	+ $16.07
Program size 2	PHAs with 251 to 750 units	+ $16.07 x (1 – [(units – 250) / 500])
Program size 3	PHAs with more than 750 units	+ $0
Percent of households with earned income	All PHAs	+ $0.93 x % of households with earned income
New admissions rate	All PHAs	+ $0.24 x % of households that are new admissions
Small area rent ratio	All PHAs	+ $60.83 x small area rent ratio
Percent of households more than 60 miles from PHA HQ	All PHAs	+ $1.01 x % of households living more than 60 miles from PHA HQ
Fee	Per UML	= $

HQ = headquarters. PHA = public housing agency. UML = unit month leased.

[15] The 3-year average is the average of the latest year available plus the previous 2 years. For example, the 3-year average for 2013 is the average of the variable values for 2013, 2012, and 2011.

adds $49.21 times the PHA's wage index and $27.99 times the health insurance cost index. Next, the formula adds up to $16.07 depending on the number of vouchers under lease for PHAs with fewer than 750 vouchers under lease. The formula then adds $0.93 times the percent of households served by the PHA with earned income. Using the same approach, the formula adds $0.24 times the percent of households served by the PHA that that are new admissions to the program. The formula adds $60.83 times the PHA's small area rent ratio. Finally, the formula adds $1.01 times the percent of households served by the PHA that live more than 60 miles from the PHA's headquarters. The result is a fee expressed in terms of dollars per UML (including port-ins and excluding port-outs).

The study found that across the 60 PHAs, the average administrative cost per voucher, for calendar year 2013, ranged from $42.06 per UML to $108.87 per UML. Within this range, the average cost per UML was $70.03 and the median cost was $64.84. Within the sample, the PHA with the lowest average cost had below average values for four of the formula variables: wage index, percentage of households with earned income, new admissions rate, and percentage of households living more than 60 miles from the PHA's headquarters. A straight application of the proposed formula as shown in Exhibit ES-8 would result in predicted fees that fall below the lowest observed cost of $42 per UML for 26 PHAs outside the U.S. Territories. Because $42 per UML is the lowest cost the study observed under which a PHA with very low cost drivers could operate a high-performing and efficient program, the study recommends that the formula would establish a floor of $42 per UML for PHAs outside the U.S. Territories. All the other PHAs in the study had costs that exceeded this minimum threshold, however, and the formula is designed to capture those actual costs.

In testing the proposed fee formula, the study team found that for 54 of the 80 PHAs located in U.S. Territories, the proposed fee formula would produce fees that are much less than the fees that these PHAs would receive under the existing fee formula, suggesting that the formula may not predict costs well for these PHAs. (The study sample did not include any PHAs from the U.S. Territories, so we do not have any actual cost estimates for these PHAs.) Data on health insurance costs are not collected for the U.S. Territories, so the formula uses the average for the U.S. Pacific region for these PHAs, which may not be accurate. Another issue is that building and other nonlabor costs may be substantially more costly in the U.S. Territories than in the rest of the United States. Given these issues, and pending further consideration from HUD, the study team recommends a floor of $54 per UML for the PHAs in the U.S. Territories.[16] If the formula generates a fee lower than $54 for any PHA in the U.S. Territories, that PHA would be assigned a fee of $54 per UML.

Inflation Adjustments

After the new fee rate is calculated, an inflation factor would be applied to the calculated fee to account for costs that have gone up since 2013, the year for which the study estimated costs. The study team recommends that HUD use a blended inflation factor that takes into account inflation in wages (based on the BLS QCEW), inflation in benefits costs (based on the U.S. Department of Health and Human Services Medical Expenditures Panel Survey), and inflation in nonlabor costs (based on the BLS Consumer Price Index).

Total HCV Administrative Fees Predicted by the Proposed Formula

With the data available during the study's analysis period, we were able to estimate total fees for **the July 1, 2013 through June 30, 2014** period under the proposed fee formula, and compare them with the fees that HUD actually paid during this same period. We used the proposed fee formula to calculate fees for the 2,257 non-MTW PHAs and a HUD-estimated fee amount for the 39 MTW PHAs.[17]

The estimates are shown in Exhibit ES-9. For the July 1, 2013 through June 30, 2014 period, study-predicted administrative fees for the 2,257 non-MTW PHAs, with 1.87 million vouchers under lease, total $1.569 billion.[18] HUD-estimated administrative fees for the 39 MTW PHAs total $268 million. Summing the two components together, the total study-predicted fees are $1.837 billion.

The $1.837 billion in fees is the funding that would have been required to fund the high-performing and efficient administration of the HCV program during the July 1, 2013 through June 30, 2014 period. The fees calculated through the proposed formula do not reflect any stop loss or phase-in provisions or other adjustments that HUD might apply when implementing the formula. To calculate program fees for later periods, HUD would need to update the formula inputs, apply an inflation rate to the resulting per-voucher fee, and multiply the per-voucher fee by projected voucher counts for each PHA. These prospective calculations are beyond the scope of this study.

The $1.837 billion study-predicted fees can be compared with the fees that HUD actually paid during the July 1, 2013 through June 30, 2014 period based on the existing administrative fee formula, the proration rates in effect during that period, and the same numbers of vouchers under lease. With proration, the administrative fees that HUD paid during this period to all PHAs (including MTW PHAs) totaled $1.461 billion. If proration had not been used (that is, if PHAs had been funded at 100 percent of

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[16] $54 is the lowest fee received by the PHAs in the U.S. Territories for the timeframe of July 1, 2013, through June 30, 2014, at 75-percent proration, increased by 4 percent, which is the difference between the cost and fee for the lowest cost PHA in the study sample.

[17] Moving to Work PHAs are currently compensated for HCV program administrative costs using a different funding structure. We have calculated fees using the proposed fee formula for non-MTW PHAs only. To estimate total administrative fees for the HCV program, HUD provided an estimate of administrative costs for MTW PHAs based on HUD's current approach to funding these agencies.

[18] For non-MTW PHAs, we calculated a per-voucher fee for each PHA using the proposed fee formula and formula inputs from calendar year 2013, the most recent year of data available. We then multiplied the per-voucher fee for each PHA by the actual vouchers under lease for the period of July 1, 2013, through June 30, 2014, so that the study-estimated fees reflect the same voucher count as the fees under the existing formula.

EXHIBIT ES-9. ESTIMATED HCV PROGRAM ADMINISTRATIVE FEES WITH PROPOSED FEE FORMULA COMPARED WITH ACTUAL FEES PAID, JULY 1, 2013, THROUGH JUNE 30, 2014

Study-Predicted Administrative Fees	
Total study-predicted administrative fees, non-MTW PHAs	$1,569,122,856
HCV administrative fees for MTW PHAs	$267,844,437
Total	$1,836,967,293
Administrative Fees Under Existing Formula, With Proration	
HCV administrative fees under existing formula, non-MTW PHAs	$1,237,646,734
HCV administrative fees for MTW PHAs	$223,228,057
Total	$1,460,874,791
Administrative Fees Under Existing Formula, No Proration	
HCV administrative fees under existing formula, non-MTW PHAs	$1,654,842,459
HCV administrative fees for MTW PHAs	$267,844,437
Total	$1,922,686,896
Study-Predicted Fees As a Percent of Existing Formula Fees for Non-MTW PHAs	
Study-predicted administrative fees/administrative fees under existing formula, with proration, for non-MTW PHAs	127%
Study-predicted administrative fees/administrative fees under existing formula, no proration, for non-MTW PHAs	95%

HCV = Housing Choice Voucher (program). MTW = Moving to Work (demonstration). PHA = public housing agency.
Notes: N = 2,257 non-MTW PHAs and 39 MTW PHAs. Both the non-MTW and MTW voucher totals include 5-year mainstream vouchers and the other voucher types.
Source: The U.S. Department of Housing and Urban Development provided study formula calculations and data on vouchers leased, port-ins and port-outs, and associated fees for the period of July 1, 2013, through June 30, 2014

the existing fee formula rates), the total administrative fees under the existing formula for this period (including MTW PHAs) would have been $1.923 billion.

As shown in the bottom two rows of Exhibit ES-9, the study's predicted administrative fees for July 1, 2013, through June 30, 2014, for non-MTW PHAs are equal to 127 percent of HUD's administrative fees under the existing formula with proration ($1.569 / $1.238 = 1.27). The study's predicted administrative fees for non-MTW PHAs are equal to 95 percent of HUD's administrative fees under the existing formula with no proration ($1.569 / $1.655 = 0.95).

Gainers and Decliners

Under the proposed formula, most PHAs would experience an increase in fees compared with what they received between July 1, 2013, and June 30, 2014, under the existing formula with 75-percent proration. In large part, this reflects the higher level of overall fees predicted by the proposed formula—$1.837 billion for the period of July 1, 2013, through June 30, 2014, compared with $1.461 billion under the existing formula. But the proposed formula also allocates funding differently among PHAs, resulting in gainers and decliners.

As shown in Exhibit ES-10, 92 percent of non-MTW PHAs would experience an increase in fees under the proposed formula compared with what they received between July 1, 2013, and June 30, 2014, under the existing formula with 75-percent proration, and 8 percent of PHAs would experience a decrease. The report refers

to PHAs that would experience an increase as "gainer" PHAs and PHAs that would experience a decrease as "decliner" PHAs.

Exhibit ES-11 shows the gainers and decliners by program size. A large majority of PHAs of all sizes would gain in funding under the proposed fee formula relative to the existing fee formula at 75-percent proration. Across the six size categories, 86 to 96 percent of PHAs would receive more funding under the proposed fee formula than under the existing formula at 75-percent proration. PHAs with fewer than 500 vouchers benefit the most from the proposed fee formula relative to the existing fee formula. Among PHAs with fewer than 500 vouchers, 94 to 96 percent would receive higher fees under the proposed formula compared with the existing formula at 75-percent proration. This figure compares with 87 percent of PHAs with 500 to 1,249 vouchers, 87 percent of PHAs with 1,250 to 5,249 vouchers, 86 percent of PHAs with 5,250 to 9,999 vouchers, and 90 percent of PHAs with more than 10,000 vouchers.

Exhibit ES-12 shows the gainers and decliners by region of the country. Most PHAs in all regions except the U.S. Territories would gain substantially in funding relative to the existing fee formula at 75-percent proration. PHAs in the Midwest, South, and Northeast would be the most likely to experience gains. In these three regions, 92 to 99 percent of PHAs would experience an increase in fees relative to the existing fee formula at 75-percent proration. In the West, 79 percent of PHAs would experience an increase in fees. In the U.S. Territories, only 56 percent of PHAs would experience an increase in fees, but no PHAs would experience a decrease of more than 10 percent.

EXHIBIT ES-10. FEE FUNDING UNDER PROPOSED FORMULA COMPARED WITH FEE FUNDING UNDER EXISTING FORMULA AT 75-PERCENT PRORATION, JULY 1, 2013, THROUGH JUNE 30, 2014

		Number of PHAs	Percent of PHAs
"Gainer" PHAs	Predicted fees more than 30% higher than existing fees	1,358	60%
	Predicted fees 20 to 30% higher than existing fees[a]	262	12%
	Predicted fees 10 to 20% higher than existing fees	241	11%
	Predicted fees 5 to 10% higher than existing fees	104	5%
	Predicted fees 0 to 5% higher than existing fees	119	5%
	Total "gainer" PHAs	**2,084**	**92%**
"Decliner" PHAs	Predicted fees 0 to 5% lower than existing fees	68	3%
	Predicted fees 5 to 10% lower than existing fees	44	2%
	Predicted fees 10 to 20% lower than existing fees	41	2%
	Predicted fees 20 to 30% lower than existing fees	15	1%
	Predicted fees more than 30% lower than existing fees	4	0%
	Total "decliner" PHAs	**172**	**8%**
All PHAs		**2,256**	**100%**

PHA = public housing agency.

[a] Intervals are calculated as more than 20 percent but less than or equal to 30 percent.

Note: N = 2,256 non-Moving to Work PHAs.

Source: The U.S. Department of Housing and Urban Development provided study formula calculations and data on vouchers leased, port-ins and port-outs, and associated fees for the period of July 1, 2013, through June 30, 2014

EXHIBIT ES-11. STUDY-PREDICTED FEES COMPARED WITH FEES BASED ON THE EXISTING FORMULA, BY HCV PROGRAM SIZE, JULY 1, 2013, THROUGH JUNE 30, 2014, NON-MTW PHAS, PHA LEVEL

	Percent of PHAs With—	Compared With Existing Fee Formula at 75% Proration					
		< 250	250–499	500–1,249	1,250–5,249	5,250–9,999	10,000 +
"Gainer" PHAs	Predicted fees more than 30% higher	72%	68%	39%	35%	40%	25%
	Predicted fees 20 to 30% higher[a]	9%	11%	17%	13%	17%	20%
	Predicted fees 10 to 20% higher	6%	11%	16%	22%	14%	15%
	Predicted fees 5 to 10% higher	2%	4%	9%	8%	3%	5%
	Predicted fees 0 to 5% higher	4%	2%	7%	8%	11%	25%
	Total "gainer" PHAs	**94%**	**96%**	**87%**	**87%**	**86%**	**90%**
"Decliner" PHAs	Predicted fees 0 to 5% lower	2%	2%	5%	6%	9%	0%
	Predicted fees 5 to 10% lower	2%	1%	2%	2%	6%	5%
	Predicted fees 10 to 20% lower	1%	1%	3%	3%	3%	5%
	Predicted fees 20 to 30% lower	0%	0%	2%	1%	0%	0%
	Predicted fees more than 30% lower	0%	0%	0%	1%	0%	0%
	Total "decliner" PHAs	**6%**	**4%**	**13%**	**13%**	**14%**	**10%**
Number of PHAs		**1,142**	**391**	**405**	**263**	**35**	**20**

HCV = Housing Choice Voucher (program). MTW = Moving to Work (demonstration). PHA = public housing agency.

[a] Intervals are calculated as more than 20 percent but less than or equal to 30 percent.

Notes: N = 2,256 non-Moving to Work PHAs. Percentages may not add to 100% because of rounding.

Source: The U.S. Department of Housing and Urban Development provided study formula calculations and data on vouchers leased, port-ins and port-outs, and associated fees for the period of July 1, 2013, through June 30, 2014

EXHIBIT ES-12. STUDY-PREDICTED FEES COMPARED WITH FEES BASED ON THE EXISTING FORMULA, BY REGION, JULY 1, 2013, THROUGH JUNE 30, 2014, NON-MTW PHAS, PHA LEVEL

Percent of PHAs With—		Compared With Existing Fee Formula at 75% Proration				
		Midwest	Northeast	South	West	U.S. Territories
"Gainer" PHAs	Predicted fees more than 30% higher	81%	53%	65%	31%	5%
	Predicted fees 20 to 30% higher[a]	9%	14%	13%	12%	3%
	Predicted fees 10 to 20% higher	6%	14%	10%	18%	5%
	Predicted fees 5 to 10% higher	2%	6%	4%	9%	4%
	Predicted fees 0 to 5% higher	1%	5%	4%	9%	40%
	Total "gainer" PHAs	**99%**	**92%**	**96%**	**79%**	**56%**
"Decliner" PHAs	Predicted fees 0 to 5% lower	1%	2%	2%	8%	20%
	Predicted fees 5 to 10% lower	0%	1%	1%	5%	24%
	Predicted fees 10 to 20% lower	0%	3%	1%	6%	0%
	Predicted fees 20 to 30% lower	0%	1%	0%	2%	0%
	Predicted fees more than 30% lower	0%	0%	0%	0%	0%
	Total "decliner" PHAs	**1%**	**8%**	**4%**	**21%**	**44%**
Number of PHAs		**590**	**556**	**778**	**252**	**80**

MTW = Moving to Work (demonstration). PHA = public housing agency.

[a] Intervals are calculated as more than 20 percent but less than or equal to 30 percent.

Notes: N = 2,256 non-MTW PHAs. Percentages may not add to 100% because of rounding.

Source: The U.S. Department of Housing and Urban Development provided study formula calculations and data on vouchers leased, port-ins and port-outs, and associated fees for the period of July 1, 2013, through June 30, 2014

Phasing In the New Formula

In implementing a new fee formula, the study team recommends that HUD consider a transition or phase-in plan to allow time for PHAs to adjust to the new fees. This transition is particularly important for PHAs facing a decrease in funding under the new formula. A transition or phase-in plan could be implemented in many ways. The goal of the plan would be to minimize disruption to program administration for those PHAs that would experience a decrease in fees under the new formula. A simple phase-in approach would be to distribute the loss in fees gradually over a number of years, so that the PHA does not experience a funding decrease in that exceeds a certain percentage in any given year.

Two important considerations for any phase-in approach are the length of the phase in (the number of years over which the gains or declines are spread) and which PHAs should be included. The longer the phase-in period, the less change the PHA would experience in a given year. HUD could choose to apply a phase-in approach to all decliner PHAs, to a subset of decliner PHAs (such as PHAs experiencing a funding decrease greater than a certain percentage), or to gainer and decliner PHAs.

The length of the phase in and which PHAs are included have budgetary implications. The longer the phase in for decliner PHAs, the higher the cost to HUD, as decliner PHAs will only gradually arrive at their final (lower) fee amount. By contrast, the longer the phase in for gainer PHAs, the lower the cost to HUD, as gainer PHAs will only gradually reach their final (higher) fee amount.

In addition to, or in lieu of, a phase-in plan, HUD might consider provisions to protect individual PHAs from changes from their current level of funding if HUD determines that those changes could jeopardize high-performing and efficient administration of the program. The formula model is not able to predict costs perfectly for all PHAs and adjustments may be needed at the time of formula implementation for PHAs whose costs are not well represented. One approach would be to limit the extent of individual PHA gains or losses from the funding received in the year before formula implementation, making sure that such "floors" or "ceilings" on the formula do not inhibit the ability of the fees to respond to the cost drivers identified through the study. Another approach would be to make further adjustments to the formula model to mitigate excessive gains or losses without tying the new fees to current funding levels.

Formula Updates and Future Modifications

The formula proposed in this report is based on the time and cost data collection completed for the study between 2012 and 2014. It draws on the study's findings with respect to administrative cost drivers and careful analysis and testing of the formula's impact on PHAs. Although the study team has no additional recommendations on the formula other than what has been discussed thus far, we recognize and expect that HUD will further analyze and consider the proposed formula and may recommend modifications to the implementation approach. We also expect that HUD may consider modifications to the formula or supplemental fees

to support PHAs in exercising their administrative discretion to address program priorities, strategic goals, and policy objectives at both the local and the national level, or in the event that program requirements change.

At the conclusion of this study, HUD will have the tools to modify the formula and consider supplemental fees. There are many program priorities, strategic goals, and policy objectives that HUD could potentially incentivize or further compensate through administrative fee funding. The report suggests four areas for further analysis and consideration: (1) administering the HUD-VASH program, (2) serving homeless households, (3) providing PHA performance incentives, and (4) expanding housing opportunities. For each of these issues there is more work to be done that is outside the scope of the study. For HUD-VASH, serving homeless households, and expanding housing opportunities, further research is needed to understand and quantify the additional work and cost of these initiatives relative to the regular HCV program. For PHA performance, HUD is working to revise the performance measurement system currently in place for the HCV program. After that effort is complete, HUD might consider how to use the formula to support or incentivize high performance under the new system.

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