June 19, 2015

Regulations Division
Office of the General Counsel
Department of Housing and Urban Development
451 7th Street SW
Room 10276
Washington, DC 20410-0500

Re: [Docket No. FR-5857-N-01] Section 8 Housing Assistance Payments Program—Fiscal Year (FY) 2015 Inflation Factors for Public Housing Agency (PHA) Renewal Funding

To Whom It May Concern:

On behalf of the National Association of Housing and Redevelopment Officials (NAHRO), I am pleased to offer the following comments in response to the proposed rule (FR-5857N01) entitled “Section 8 Housing Assistance Payments Program—Fiscal Year (FY) 2015 Inflation Factors for Public Housing Agency (PHA) Renewal Funding,” published in the Federal Register on April 20, 2015. Formed in 1933, NAHRO represents over 20,000 individual and agency members. Collectively, our membership administers approximately 1.7 million vouchers.

NAHRO has serious concerns about the current formula for the Renewal Funding Inflation Factors—which tracks seasonally-adjusted unemployment rate (lagged twelve months), the Consumer Price Index from the Bureau of Labor Statistics, and the “wages and salaries” component of personal income from the National Income and Product Accounts from the Bureau of Economic Analysis over a national area. The formula forecasts the expected annual change in average per unit costs (PUC) for the voucher program on a national basis and then uses this national result to calculate more regional-specific data. This method is flawed because if the national result is negative, then all local factors are set to one, masking the actual inflationary pressures experienced in some local markets. The Department of Housing and Urban Development (HUD) should employ another method to calculate specific local inflation factors when the forecast national PUC is negative.

Using a Flawed Methodology Hurts Voucher Holders
An accurate inflation factor is essential to enabling PHAs to maintain the level of service they provide to their communities. Using a flawed methodology to calculate local inflation factors hurts...
voucher holders. A methodology that does not capture the actual increases in PUC in communities forces deeply undesirable choices on PHAs, which must either reduce payment standards or issue fewer vouchers in order to operate within their given budget. A reduction in payment standards may have serious limitations on voucher holders’ mobility. A lower payment standard means that each voucher holder will have fewer options when choosing his or her place of residence, potentially reducing the overall success rates for lease-up. It also means that it is less likely that a voucher holder will be able to move to “high opportunity” neighborhoods. In many communities, reduced payment standards will also result in higher rent burdens for assisted households. In communities where a PHA elects to cope with its inadequate budget by issuing fewer vouchers, waiting times will increase for households in need of assistance.

The Current Methodology for Determining Regional Inflationary Renewal Factors is Flawed

Currently, in order to predict the likely path of PUC over time, HUD tracks several economic indices that capture key components of the economic climate. These economic components are the seasonally adjusted unemployment rate (lagged twelve months), the Consumer Price Index from the Bureau of Labor Statistics, and the “wages and salaries” component of personal income from the National Income and Product Accounts from the Bureau of Economic Analysis. Using this information, HUD’s model forecasts the expected annual change in PUC for the voucher program on a national basis.

The inflation factor for individual geographic areas is based on the change in the area’s Fair Market Rent (FMR). These changes in FMR are then scaled, by HUD, such that the voucher-weighted average of all individual area inflation factors is equal to the expected annual change in national PUC and also such that no area has a negative factor. HUD then applies these calculated individual area inflation factors to eligible renewal funding for each PHA based on VMS leasing and cost data for the prior calendar year. NAHRO is deeply concerned about the understatement of local variation that results from this process. Communities with large FMR increases do not receive corresponding RFIF adjustments, thereby reducing the value of their total HAP subsidies.

In years when the national expected annual change in PUC is negative—as it is forecasted for 2015—no community receives an inflation adjustment. Even in instances where the national factor is negative, there may be many local rental markets that are experiencing significant inflationary rental pressures and where local wages are not keeping pace. The current methodology used to calculate local inflation factors based on a national factor does not take into account this possibility.

Using localized inflation factors of one when the national inflation factor is negative does not adequately capture the rise in costs in rental markets across the country. Many of our members, who have an intimate knowledge of their local markets, have observed strong inflationary pressure in their markets, despite RFIFs that undervalue or entirely fail to acknowledge these effects. PHAs’ day-to-day experience shows that there have been real cost increases, and the renewal funding inflation factor needs to keep up with those costs. Again, even when the national PUC is negative, those local areas should receive an inflation factor that accurately reflects the market in their community.
A Better Formula Would Use an Alternate Method for Measuring Changes in the Rental Market

A formula that looks to localized regions would better capture the nuances of the many different rental markets in our country. NAHRO recommends developing an alternative formula that focuses on local changes in rent prices rather than attempting to distribute national changes using a voucher-weighted average of all individual area inflation. While no communities should have a negative factor, areas that have positive changes in rent prices should not receive diluted RFIFs.

Future Formula Changes

NAHRO encourages the Department to engage in an open and transparent process that allows for all stakeholders to provide input. To that end, such a process should involve multiple opportunities for engagement throughout the development of a new formula, not just a single comment opportunity.

RFIFs that understate PHAs’ increased HAP costs are very dangerous, locking in the effects of cost-cutting actions and making the budgetary implications of sequestration permanent. NAHRO looks forward to the opportunity to work with the Department to develop a new methodology that more accurately and dependably predicts the true increases in voucher costs.

Sincerely,

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