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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[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**

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Notice.

SUMMARY: The Consolidated Appropriations Act, 2015 requires that HUD apply “an inflation factor as established by the Secretary, by notice published in the Federal Register” to adjust FY 2015 renewal funding for the Tenant-based Rental Assistance Program or Housing Choice Voucher (HCV) Program of each PHA. HUD began using Renewal Funding Inflation Factors in FY 2012. These Renewal Funding Inflation Factors incorporate economic indices to measure the expected change in per unit costs (PUC) for the HCV program. The methodology for FY 2015 is similar to that used in FY 2014.

DATES: Effective Date: [INSERT DATE OF PUBLICATION]. **Comments Due Date:**
[INSERT DATE 60 DAYS FROM DATE OF PUBLICATION.]

ADDRESSES: Interested persons are invited to submit comments on potential improvements to HUD’s per unit cost (PUC) forecasting model to the Office of the General Counsel, Rules Docket Clerk, Department of Housing and Urban Development, 451 Seventh Street, SW, Room 10276, Washington, DC 20410-0001. Communications should refer to the above docket number and title and should contain the information specified in the "Request for Comments" section. There are two methods for submitting public comments.

1. Submission of Comments by Mail. Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street SW., Room 10276, Washington, DC 20410–0500. Due to security measures at all federal agencies, however, submission of comments by mail often results in delayed delivery. To ensure timely receipt of comments, HUD recommends that comments submitted by mail be submitted at least two weeks in advance of the public comment deadline.

2. Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the <http://www.regulations.gov> Web site can be viewed by other commenters and interested members of the public. Commenters should follow instructions provided on that site to submit comments electronically.

Note: To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the notice.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable.

Public Inspection of Comments. All comments and communications submitted to HUD will be available, without change, for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the

Regulations Division at (202) 708-3055 (this is not a toll-free number). Copies of all comments submitted are available for inspection and downloading at <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: Miguel A. Fontanez, Director, Housing Voucher Financial Division, Office of Public Housing and Voucher Programs, Office of Public and Indian Housing, telephone number 202-402-4212; or Peter B. Kahn, Director, Economic and Market Analysis Division, Office of Policy Development and Research, telephone number 202-402-2409, for technical information regarding the development of the schedules for specific areas or the methods used for calculating the inflation factors, Department of Housing and Urban Development, 451 7th Street, SW, Washington, DC 20410. Hearing- or speech-impaired persons may contact the Federal Relay Service at 800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll free.)

SUPPLEMENTARY INFORMATION:

I. Background

Tables showing Renewal Funding Inflation Factors will be available electronically from the HUD data information page at:

http://www.huduser.org/portal/datasets/rfif/FY2015/FY2015_RFIF_FMR_AREA_REPORT.pdf.

Division K, Title II, Consolidated and Further Continuing Appropriations Act, 2015 requires that the HUD Secretary, for the calendar year 2015 funding cycle, provide renewal funding for each public housing agency (PHA) based on validated voucher management system (VMS) leasing and cost data for the prior calendar year and by applying an inflation factor as established by the Secretary, by notice published in the Federal Register. This notice provides the FY 2015 inflation factors and describes the methodology for calculating them.

II. Methodology

The Department has focused on measuring the change in average PUC as captured in HUD's administrative data in VMS. In order to predict the likely path of PUC over time, HUD has implemented a model that uses three economic indices that capture key components of the economic climate and assist in explaining the changes in PUC. 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. This model subsequently forecasts the expected annual change in average PUC from Calendar Year (CY) 2014 to CY 2015 for the voucher program on a national basis by incorporating comparable economic variables from the Administration's economic assumptions. For reference, these economic assumptions are described in Chapter 2 of the Analytical Perspectives in the President's FY 2016 Budget Proposal.

Using the Per Unit Cost forecasting model, HUD forecasts average PUC to decrease slightly in 2015. The PUC forecast for 2015 uses VMS data and actual performance of economic indices through December of 2014. With no increases in PUCs predicted for 2015, the Renewal Funding Inflation Factor for each area will be 1.0.

III. The Use of Inflation Factors

Typically, the inflation factors have been developed to account for relative differences in the PUC of vouchers so that HCV funds can be allocated among PHAs. However, since the current forecast is for the PUC to decline in 2015, HUD has set all areas to have an inflation factor of 1.0, which is consistent with the statutory requirements governing the Annual Adjustment Factor.

IV. Geographic Areas and Area Definitions

Inflation factors based on PUC forecasts are produced for all FMR areas. The tables showing the Renewal Funding Inflation Factors available electronically from the HUD data information page list the inflation factors for each FMR area and are created on a state by state basis. The inflation factors use the same OMB metropolitan area definitions, as revised by HUD, that are used in the FY 2015 FMRs. To make certain that they are referencing the correct inflation factors, PHAs should refer to the Area Definitions Table on the following webpage: http://www.huduser.org/portal/datasets/rfif/FY2015/FY2015_RFIF_FMR_AREA_REPORT.pdf. The Area Definitions Table lists areas in alphabetical order by state, and the counties associated with each area. In the six New England states, the listings are for counties or parts of counties as defined by towns or cities.

V. Request for Comments

HUD has forecasted the decline in national PUC for 2015 to be -0.79 percent. While more analysis is necessary, HUD is concerned that the current model used to predict the amount of per unit cost, when interacted with voucher program appropriations decisions, may have inadvertently locked in PHA cost reduction behaviors used to cope with funding reductions under sequestration in 2013.

Rather than terminate assistance from families participating in the program, PHAs often respond to reduced funding by not reissuing vouchers when families leave the program. However there is a strong incentive for PHAs to reduce spending in the voucher program by means other than reducing the number of families served because PHA administrative fees are based on the number of vouchers under lease. These policies have the effect of reducing the (average) subsidy cost of vouchers, and as a result, reduce a family's ability to rent in higher rent markets and higher opportunity areas. These policies, while necessary to handle the budget

constraints, may also be viewed as reducing the effectiveness of vouchers in meeting the goals of the program.

One of the primary tools PHAs use in administering the voucher program is through setting payment standards. Payment standards, rather than Fair Market Rents (FMR), form the basis of the subsidy (the lower of the payment standard or gross rent less the total tenant payment – typically 30 percent of adjusted household income) since a tenant selecting a unit with a gross rent higher than the payment standard must make up the additional rent to the owner. When payment standards decrease relative to FMR, the selection of units available to tenants decreases and higher opportunity neighborhoods with generally higher rents may no longer be available for tenants. A reduction of payment standards relative to FMRs is likely to cause gross rents to grow more slowly than FMRs as tenants choose units available within the payment standard.

Other tools PHAs may use to reduce subsidy cost include policies that encourage more earnings among tenants or by approving more cases of tenants paying more than 30 percent of adjusted income toward rent.

Thus, the model's projections for PUC may not accurately forecast the true cost of maintaining a voucher program when there is a significant external event. As stated in prior notices, HUD may update the methodology for future funding estimates to improve the forecasting model, if necessary. HUD is also continuing to review and refine the methodology, especially for area differences in the factors, which will be described in future inflation factor notices. One option the Department is considering is to create a "constant quality" PUC forecast that addresses reduced payment standards and increases in tenant contributions as a way to account for outside disruptions such as sequestration. The Department welcomes comments on

other ways to calculate the Renewal Funding Inflation Factor for the Housing Choice Voucher program for 2016 and beyond.

VI. Environmental Impact

This notice involves a statutorily required establishment of a rate or cost determination which does not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Dated: April 10, 2015

Katherine M. O'Regan, Ph.D.
Assistant Secretary for Policy
Development and Research

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