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REPORT BY THE

Comptroller General

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OF THE UNITED STATES

Variable Housing Allowance: Rate Setting Criteria And Procedures Need To Be Improved

Congress authorized the uniformed services to begin paying a variable housing allowance in October 1980, and it became an entitlement on September 30, 1981.

The variable housing allowance is currently based on the amounts military members say they pay for housing. GAO disagrees with this basis for rate setting because it has a built-in propensity for cost growth and the potential for abuse.

If the current basis is retained, however, GAO believes that procedures should be revised and clarified. GAO found that the fiscal year 1981 allowances tended to favor officers and senior enlisted members.

GAO recommends that the House Subcommittee on Military Personnel and Compensation either introduce legislation to revise the basis for setting variable housing allowance rates, or clarify various aspects of the current basis.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-204293

The Honorable Bill Nichols
Chairman, Subcommittee on Military
Personnel and Compensation
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

In response to the Subcommittee's March 2, 1981, request we have evaluated the Department of Defense's (DOD's) methods for computing fiscal years 1981 and 1982 variable housing allowance (VHA) authorized for qualified members of the uniformed services. Our evaluation indicates that the Congress needs to correct certain weaknesses in the VHA legislation and that DOD needs to correct certain procedural problems.

We believe that the current basis for setting VHA rates does not fully support the objectives of the legislation, has a built-in propensity for uncontrolled cost growth, and offers the potential for abuse. Presently VHA rates are based on reported housing costs--what service members say they are paying for housing--rather than on some external measure of what their civilian peers pay for housing. These reported costs are not independently verified.

We are also concerned that the current methodology results in inaccurate VHA rates and may favor officers and senior noncommissioned officers. We believe that resolving these concerns will improve the VHA program.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objectives, in accordance with the Subcommittee's request (see app. II), were to

- evaluate the method used by DOD to establish the fiscal year 1981 VHA rates, including (1) identifying other sources of housing cost information, (2) assessing the usefulness of this other information in setting appropriate VHA rates, and (3) recommending improvements to DOD rate-setting methods;

- evaluate, to the extent possible, the revisions DOD is making in its method for setting fiscal year 1982 VHA rates;
- evaluate the adequacy of the fiscal year 1981 VHA by comparing the reported housing costs, both rental and owner, to the total housing allowance provided by a combination of Basic Allowance for Quarters (BAQ) and VHA;
- identify housing allowance systems provided under similar circumstances to employees of other Federal agencies and private companies and compare these systems to the VHA; and
- determine the type of housing that can be rented in the Washington, D.C., area and compare the cost of such housing with the total housing allowance provided for that area.

We were unable to identify housing allowance systems in Federal agencies, other than those covered by the VHA, or in private companies; however, as your office suggested, we compared the total military housing allowance with the housing allowances paid to embassy personnel located in the Washington, D.C., area.

We conducted our study from February to August 1981, in the Washington, D.C., area. We obtained data and interviewed officials from DOD's Variable Housing Allowance Team; DOD's Per Diem, Travel and Transportation Allowance Committee; the Bureau of Labor Statistics; the Bureau of Census; the Embassies of Australia, Austria, Canada, the Federal Republic of Germany, and Switzerland; and the various local government housing departments in the Washington, D.C., area.

To evaluate DOD's fiscal year 1981 VHA rate-setting procedures, we selected for analysis the five largest military housing areas ^{1/} which account for about 25 percent of the population eligible for VHA--San Diego, California; Norfolk, Virginia; Washington, D.C.; Fayetteville, North Carolina; and San Antonio, Texas. We selected five other areas because they had a relatively small survey response to the fiscal year 1981 VHA survey--Fort Benning, Georgia; Fort Dix/McGuire Air Force Base, New Jersey; Fort Leavenworth, Kansas; 29 Palms, California; and Fort Campbell, Kentucky.

For these 10 military housing areas, we used generally accepted statistical techniques to analyze (1) the data used by

^{1/}A military housing area is, in most cases, that area represented by a single county or group of contiguous counties in which one or more duty stations are located.

DOD to calculate the fiscal year 1981 VHA and (2) the actual fiscal year 1981 VHA results. DOD's VHA team provided us with this raw data. Using this data, we computed median housing costs and statistical confidence intervals, compared rental and owner costs, and determined how well the total housing allowances--BAQ and VHA--covered reported costs. The results we obtained are representative of the 10 locations, but because the locations were not randomly selected, the results of the analyses cannot be projected statistically over the universe of military housing areas. The comparisons and the specific techniques used to make them can be found in appendix I.

Since, at the time of our review, DOD was in the early stages of collecting housing cost data for the fiscal year 1982 VHA, our evaluation of the 1982 revisions deals only with DOD's questionnaire and its planned analysis of the cost data produced by the survey.

INTRODUCTION

Public Law 96-343 authorized the uniformed services to begin paying VHA in October 1980, although it was not to become an entitlement until September 30, 1981. VHA was originally estimated to cost \$360 million during fiscal year 1981, but it is currently estimated that \$657 million will be paid to over 665,000 uniformed service members.

Two categories of uniformed service members are eligible to receive VHA: (1) those who are stationed in the United States, except Alaska and Hawaii and receive BAQ, (2) those who are serving an unaccompanied duty tour outside the United States, and whose dependents reside in the United States, except Alaska and Hawaii.

The VHA legislation provides for a two-phased implementation of VHA. During fiscal year 1981, the legislation states that a qualified member "may be paid" a VHA and that the monthly amount of a variable housing allowance for any member may not exceed the difference between (1) the average monthly cost of housing in that area for members of the uniformed services serving in the same pay grade as that member and (2) 115 percent of the amount of the basic allowance for quarters to which that member is entitled.

Effective September 30, 1981, the legislation states that a qualified member "is entitled" to a VHA and that the monthly amount of a variable housing allowance under this paragraph for any member is the difference between (1) the average monthly cost of housing in that area for members of the uniformed services serving in the same pay grade as that member

and (2) 115 percent of the amount of the basic allowance for quarters to which that member is entitled. This difference in legislative language was to allow DOD the flexibility to address unforeseen problems which may arise in the first year's implementation of this program.

While both sections are similar with regard to the prescribed basis for computing VHA rates, there are two key differences. During fiscal year 1981 VHA is not an entitlement, but rather DOD may pay a VHA in an amount not-to-exceed the difference between the "average monthly cost of housing" and 115 percent of BAQ to which the member is entitled. However, effective September 30, 1981, qualifying members will be entitled to VHA at rates which will be the difference between "the average monthly housing cost" and 115 percent of BAQ to which the member is entitled. The importance of this difference is that for fiscal year 1981 DOD had some flexibility with regard to rate-setting procedures so long as the required basis was followed, and the rates stayed within the not-to-exceed rule. However, with VHA as an entitlement, qualifying members acquire a legal right to receive an amount computed strictly in accordance with the legislation.

For purposes of computing housing allowances, average housing costs include utilities, except telephone, garbage collection, and other expenses related to owning or renting a home.

ALLOWANCES ARE BASED ON WHAT
MEMBERS SAY THEY PAY FOR HOUSING

Currently, VHA rates are based on the amounts service members say they are paying for housing. We disagree with the idea of having benefit recipients set the amount of benefits they receive, without independent verification.

DOD's VHA team made no attempt to verify the accuracy of the 1981 questionnaire responses although considerable evidence indicates that there were numerous inaccuracies in the survey data. For example, nearly 30 percent of the questionnaires returned had to be discarded because they had missing or obviously erroneous answers to key questions, or because they were no longer eligible for BAQ. DOD has no assurance that the questionnaire data finally used in the data analysis were reasonably accurate. At the present time DOD is not planning to verify the accuracy of the fiscal year 1982 survey results.

Our evaluation indicates that during the early years of VHA, the allowance, based on the current criteria for setting rates, will be sufficient to pay for adequate housing only if members, on

average, had already decided to live in "adequate" housing and to pay the difference between their total housing costs and BAQ from other sources. If members generally lived in inadequate housing, the basis prescribed for calculating VHA rates would merely permit members to more fully cover the cost of their already inadequate housing.

To evaluate the results of the current basis for setting rates, we compared the total military housing allowances with the median civilian rental and owner housing costs for comparable civilian income groups in five metropolitan areas. This comparison showed that, for members receiving allowances at the "without-dependents" BAQ and VHA rates, only the very senior enlisted grades and most of the officers received enough housing allowance to cover the median rental housing costs. Almost none receiving allowances at "without-dependent" rates received enough to cover median owner costs. This should not be interpreted to mean that all pay grades should be able to cover median owner costs with their housing allowances.

The situation was somewhat better for those receiving allowances at the "with-dependent" rates. A similar comparison showed that members in almost all pay grades receiving "with-dependent" rates received enough housing allowance to cover the median rental cost for civilians in comparable income groups. Only the very senior enlisted and officer grades received enough housing allowance to cover median owner costs. (See app. I., p. 2.)

We also made other comparisons, which, while not conclusive, indicated that not all members were able to obtain adequate housing with their housing allowances. These comparisons are presented in appendix I.

Potential for abuse and uncontrolled cost growth

Our evaluation of VHA rate-setting indicates that the current basis offers the potential for abuse and, over time, for substantial cost growth over which the Congress will have little control.

- The potential for abuse is introduced by having individuals who benefit from the program provide the data from which the amount of benefit is determined. This potential problem is exacerbated because DOD does not verify the data submitted by the service members.
- There is a built-in propensity for cost growth in that, collectively, the more a group spends for housing, the more they receive, and there is no counterbalancing check to assure that allowances do not exceed the true cost of "adequate" housing.

Other sources of housing-cost information

We have identified two sources of published housing-cost information which could be used as a basis for establishing an external measure of what civilian peers pay for housing. These are:

--"Current Housing Reports"--a series of reports published jointly by the Department of Housing and Urban Development and Bureau of Census. These reports reflect the results of an annual national housing survey and quadrennial surveys of 60 standard metropolitan statistical areas.

--"Family Budgets"--Bureau of Labor Statistics annual publications of urban family budgets which contain housing-cost information.

The VHA team said it could not use these sources to set VHA rates because (1) the data are not sufficiently current and (2) military housing areas do not necessarily coincide with the housing areas used in the published sources. Furthermore, they said that these sources do not separately identify service members' housing costs, and they believe the law requires that rates be based on the average housing cost for service members at each pay grade.

We agree that the published housing cost information is not as current as desired, but we believe that working together with the Bureau of Census and the Bureau of Labor Statistics, DOD could refine the data as needed. Also, where the boundaries of the military housing areas and housing areas used in published sources are not the same, the data could be supplemented with DOD's own surveys. The VHA team's statement that the law requires VHA rates to be based on members' average housing costs may be correct; however, this provision of the VHA legislation could be changed.

PROBLEMS NEEDING CORRECTION IF THE
CURRENT BASIS FOR RATE SETTING IS RETAINED

Our evaluation of DOD's fiscal year 1981 and planned fiscal year 1982 VHA rate setting procedures revealed several problems that need to be corrected if the current rate setting basis is retained. These procedural problems resulted in

- an increase in the overall cost of the VHA program,
- VHA rates that favored officers and the more senior non-commissioned officers, and
- possible overpayments of VHA in violation of Public Law 96-343, sec. 4(c).

These various problems raise a reasonable doubt about the accuracy of the fiscal year 1981 VHA rates. In some cases we were able to estimate a dollar impact of the specific technical problems, but even in those cases where we could not precisely measure the effect, we believe the impact could be significant. Some of the technical problems are being corrected by the revised fiscal year 1982 survey procedures, but most others are not. Also, the legal questions with regard to the fiscal year 1982 rate-setting procedures will be somewhat different than they were for fiscal year 1981.

The legal questions generally stem from the difference in legislative language between that section of Public Law 96-343 which applies to fiscal year 1981 rates and the section which applies to fiscal year 1982 and subsequent year rates. In addition, the phrase, "average monthly cost of housing" was not clearly defined in the current legislation. As explained in the introduction, this will not create a legal problem in fiscal year 1981, but it could create a problem in fiscal year 1982 and in subsequent years. The specific technical problems we identified, and their legal implications, are summarized below.

Use of rental versus ownership housing-cost data

Although VHA legislation did not define "average monthly cost of housing," DOD VHA team officials defined it as the average cost associated with rental housing. Initially they planned to use only rental-cost data to compute VHA, but the fiscal year 1981 survey did not produce enough rental data to establish VHA rates. Consequently, DOD arbitrarily adjusted the unverified owner-cost data they received to make them more closely reflect rental value. DOD then used a combination of rental and adjusted owner-cost data to compute VHA. This use of adjusted owner-cost data, in combination with rental-cost data, increased the VHA rates over what they would have been if rental-cost data had been used exclusively. But, adjusting the owner-cost data decreased the rates from what they would have been if unadjusted owner-cost data were used along with rental data.

If the Congress intended that "average monthly cost of housing" be defined exclusively as rental costs, then DOD's use of adjusted owner-cost data tended to overpay higher graded officers and noncommissioned officers because a substantially higher proportion of people in these grades reported owner costs. If the Congress intended, however, that "average monthly cost of housing" include both owner and rental costs, then these same groups may have been underpaid as a result of the adjustments made to the owner-cost data.

Assuming that Congress intended both rental and owner costs to be used, DOD's use of adjusted owner costs, along with rental costs, would not appear to raise a legal question regarding the fiscal year 1981 VHA rates because the effect of using adjusted rather than unadjusted owner-cost data was to lower VHA rates. Thus, the fiscal year 1981 rates would stay within the not-to-exceed rule.

DOD officials said that for fiscal year 1982 they plan to use rental-cost data and rental-equivalency data in place of owner costs to determine VHA rates. However, with VHA as an entitlement, individual service members could question DOD's use of a combination of rental and adjusted owner-cost data because the legislation governing fiscal year 1982 and subsequent year VHA rates states that the rates will be the difference between "the average monthly cost of housing" and 115 percent of the member's monthly BAQ. If the current legislative language is retained without any clarification of "average monthly cost of housing," a member may be able to claim entitlement to a higher VHA rate on the basis that unadjusted owner-cost data should have been used, and that this would have resulted in a higher VHA rate.

Arbitrary rate adjustments

DOD's VHA team made numerous arbitrary adjustments to the VHA rates which resulted in some individuals receiving more VHA, and others receiving less, than the 1981 survey data indicated would be appropriate. One or more adjustments were made to the data based rates in 295 of the 324 military housing areas. VHA team officials said the adjustments were made for the following reasons:

- To prevent a higher graded member from receiving less total housing allowance than a lower graded member.
- To allow no more than a 10 percent interval between the 2 officer pay grade groups.
- To make the VHA rates more appropriate in the team's judgment.

The total dollar value of these adjustments for fiscal year 1981 was about \$34 million--about \$13 million in increases and \$21 million in decreases. Generally, the adjustments increased the more senior members' VHA rates and decreased the junior members' rates.

Because the VHA legislation for fiscal year 1981 contains a not-to-exceed rule (see p. 3), only those adjustments which decreased the VHA would be consistent with the legislation.

Therefore, it appears that the arbitrary adjustments which increased VHA may result in overpayments of about \$13 million during fiscal year 1981.

Since the legislation governing VHA rates for fiscal year 1982 and subsequent years states that VHA is an entitlement and that the rates will be the difference between average monthly cost of housing and 115 percent of the member BAQ for each grade, it appears that any adjustments to the rates--either up or down--could be questioned.

Computation of average housing costs

In calculating the VHA rate, DOD officials defined the "average" housing cost as the arithmetic average--the mean--rather than as the median--the point at which 50 percent of the respondents are above and 50 percent are below. Selecting the mean rather than the median as the definition of average housing costs resulted in increasing VHA payments by about \$22.9 million in the five largest military housing areas we reviewed. While the mean is the most commonly used definition of average, statisticians consider the median to be a better measure of "average" when dealing with a distribution which has more values at one end than the other. The housing costs reported in the VHA survey conform to this pattern of distribution.

DOD plans to use regression analysis techniques for determining fiscal year 1982 VHA rates. This will eliminate the need to decide between using the mean or the median as the definition of average. The use of regression analysis, however, raises other questions concerning compliance with the legislation governing how fiscal year 1982 and subsequent year rates are to be established. Using regression analysis techniques means that the rates established for a particular pay grade will not depend totally on the data provided by members in that pay grade. Furthermore, those pay grades for which more data is provided will have a stronger influence on the rates than those grades for which little data is provided. A combination of these two aspects of regression can result in rates considerably different than the average for a given pay grade. Since rates computed on this basis may differ from rates computed using the average housing cost, the use of regression techniques may be inconsistent with the legislation.

Low questionnaire response rate

DOD received a 50 percent useable response rate to its fiscal year 1981 survey questionnaire. Such a low response rate can cause a larger than desired sampling error and can increase the impact of nonsampling errors. We could not quantify the nonsampling error in this survey, but if, for example, housing costs of nonrespondents differed from that of respondents by as

little as \$20.00, the VHA would be inaccurate by \$10.00 which would result in a total error of over \$6.6 million during fiscal year 1981.

With regard to the sampling error, DOD officials said that the survey was designed to obtain estimates accurate to within 5 percent at the 95 percent level of statistical confidence. However, the VHA team did not compute sampling errors based on the useable data, and we questioned whether, in view of the lower than anticipated response rate, the estimates were as precise as DOD had intended. We selected five military housing areas, based on their having a relatively small sample, and computed statistical confidence intervals for each of the five pay grade groups in these housing areas. None of the 25 intervals was within DOD's 5 percent target at the 95 percent confidence level.

DOD did not attempt to increase the 1981 response rate by following up with nonrespondents. DOD believes the response rate will be better for fiscal year 1982, but could provide no assurance that it will be. The team is not planning any followup steps to improve the response rate.

CONCLUSIONS

Regardless of whether VHA rates continue to be based on what military members say they pay for housing, or on an external measure of what civilian peers pay for housing, we think it is appropriate that the authorizing legislation be clarified to allow adjustments in rate setting procedures. We believe that VHA is an important program, but we are concerned that unless improvements are made the program will be subject to criticism and its effectiveness reduced.

The basis used by DOD to compute VHA rates under Public Law 96-343 is subject to question in that VHA rates are based on what service members say they are paying for housing. Such a basis introduces not only the potential for abuse, but also the potential for uncontrolled cost growth that will not be visible to the Congress until after this growth has occurred. It is also questionable whether, in the early years of the program, this method will enable service members to obtain adequate housing. We believe that a better basis for establishing a housing allowance would be some external measure of what the members' civilian peers pay for housing.

If the current basis for setting VHA rates is retained, additional revisions and clarifications are needed to improve the VHA program. We believe that:

- A clear statement is needed in the legislation as to whether "average monthly cost of housing" was intended to be limited to rental housing costs, or whether it was meant to include adjusted or unadjusted home ownership costs.
- Arbitrary or judgmental adjustments which would cause the rates to deviate from those based on the legislated basis should not be made. While some adjustments made by DOD to the fiscal year 1981 VHA rates may appear reasonable, we can find no basis in the current legislation for making such adjustments once VHA becomes an entitlement.
- The use of regression analysis techniques in establishing fiscal year 1982 VHA rates may be questionable since rates computed using this technique may result in rates which differ from rates computed using average housing costs.
- A procedure for following up with nonrespondents would help reduce the sampling error caused by the low questionnaire response rate and reduce the impact of the nonsampling error.
- A procedure for selective validation of the survey results would reduce the potential for both intentional and unintentional error.

Since VHA became an entitlement on September 30, 1981, DOD's flexibility in setting rates and managing the programs has been substantially reduced. Clarification of the legislation would restore some of the flexibility needed to establish fair and equitable rates.

RECOMMENDATIONS

We recommend that the Subcommittee prepare an amendment to:

- Public Law 96-343, sec. 4(a), which amended section 403(a) of Title 37, United States Code, to delete the provision which requires that VHA be computed on the basis of service members average cost of housing, and to insert a requirement that by September 30, 1982, DOD establish a method for setting VHA rates based on an external measure of what military members' civilian peers pay for housing in various geographic areas. The specific procedures for accomplishing this should be left to DOD discretion, but the amendment should encourage DOD to use, to the extent possible, existing housing data gathered by various Governmental and private agencies, supplemented

by DOD's own surveys of local housing markets as necessary. The amendment should also clarify whether the external measure of housing costs should include both rental and owner costs or be limited to rental costs.

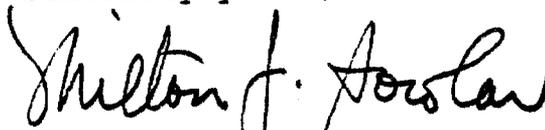
If the Subcommittee should decide against the above recommendations and decide to retain the existing basis for setting VHA rates--basing it on members' average cost of housing--the Subcommittee should:

- Clarify whether the phrase "average monthly cost of housing" was intended to be limited to rental housing costs, or whether it was meant to include homeowner costs. If homeowner costs are to be included, DOD should be provided guidance on which of several alternative approaches should be used in measuring these costs.
- Clarify whether certain procedures used by DOD to set VHA rates--including the possible use of regression analysis techniques and arbitrary rate adjustments--are consistent with the legislation requiring that VHA rates be the difference between (1) the average monthly cost of housing in that area for service members at the same pay grade and (2) 115 percent of the BAQ to which the member is entitled.
- Require that DOD (1) develop a followup procedure to improve the questionnaire response rate and (2) perform some verification of the questionnaire to verify the accuracy of the survey data.

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As your office requested, we did not obtain comments from DOD on this report. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 20 days after its issue date. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Comptroller General
of the United States

COMPARISONS INVOLVING TOTAL HOUSING ALLOWANCEPAID TO MILITARY PERSONNEL

As requested, we compared the total housing allowance (BAQ plus VHA) paid to military personnel with the median housing costs of nonmilitary personnel of similar income levels, the reported housing costs used by DOD to develop the fiscal year 1981 VHA rates, and the housing allowances paid to embassy personnel located in the Washington, D.C., area. Also, we determined the type of housing which can be rented in the Washington, D.C., area and compared the costs of such housing with the total military housing allowances.

MILITARY HOUSING ALLOWANCE COMPARED
WITH MEDIAN HOUSING COSTS

In five metropolitan areas, we compared the total military housing allowance by pay grade with the median rental and owner costs of nonmilitary personnel in similar income levels. The five metropolitan areas--Baltimore, Maryland; Chicago, Illinois; San Diego, California; Seattle, Washington; and Washington, D.C.--were selected because median housing-cost data were available for these metropolitan areas. The available median housing-cost data, however, were not current, and therefore we adjusted the data by the consumer price index to make it comparable with the current military housing allowance. The nonmilitary income levels were also adjusted to make them comparable to the current military income levels. Because of these adjustments, the median cost data is not as precise as we would like, but it still provides a useful comparison.

The comparison of the total military housing allowance with the median housing costs in the five metropolitan areas indicates that, of those receiving BAQ at the "without-dependent" rates, only the upper pay grades receive enough housing allowance to cover the median rental housing costs in all five metropolitan areas and that almost none of the pay grades at the "without-dependent" rates receives enough housing allowance to cover the median home ownership costs. The comparison further indicates that, of those receiving BAQ at the "with-dependent" rates, almost all pay grades receive enough housing allowance to cover the median cost of rental housing and that the upper pay grades receive enough housing allowance to cover the median cost of home ownership. This is shown in the following table.

Pay Grades of Individuals Receiving Enough Housing
Allowance to Cover Median Housing Costs

Metropolitan area	"Without-dependents" rates		"With-dependents" rates	
	Rental costs	Owner costs	Rental costs	Owner costs
Baltimore, Maryland	E-8 to E-9 W-1 to W-4 O-2 to O-10	0-5 to 0-10	All	E-8 to E-9 W-3 to W-4 O-3 to O-10
Chicago, Illinois	E-7 to E-9 W-1 to W-4 O-2 to O-10	None	All	0-6 to 0-10
San Diego, California	E-9 W-1 to W-4 O-2 to O-10	None	All	0-7
Seattle, Washington	W-4 O-4 to O-10	None	E-5 to E-9 W-1 to W-4 O-1 to O-10	E-8 to E-9 W-4 O-4 to O-10
Washington, D.C.	E-8 to E-9 W-1 to W-4 O-2 to O-10	None	All	0-5 to 0-10

MILITARY HOUSING ALLOWANCE COMPARED
WITH REPORTED HOUSING COSTS

We compared the total military housing allowance paid to military personnel in the five military housing areas having the largest DOD populations with the reported housing costs, both rental and owner, used by DOD to develop the fiscal year 1981 VHA. The 5 areas accounted for about 25 percent of the military personnel receiving housing allowances. We determined the percentage of sampled personnel in each pay grade group for whom the total housing allowance

- overpays reported costs by \$600 or more per year,
- pays within \$600 per year of reported costs, or
- underpays reported costs by \$600 or more per year.

The results of this comparison are shown in the following table. The numbers of military personnel in the table are sample sizes, not projected population totals.

Military Personnel Receiving More, About the Same, or Less
Housing Allowance Than Reported Housing Costs

Location	Pay grade group (note a)	Total military housing allowance					
		Overpays housing costs by at least \$600 per year		Pays within \$600 per year of reported housing costs		Underpays housing costs by at least \$600 per year	
		Number	Percent	Number	Percent	Number	Percent
San Diego, California area	E-1 to E-3	57	7.8	376	51.2	302	41.1
	E-4 to E-6	396	17.7	1,046	46.6	801	35.7
	E-7 to E-9	261	25.7	315	31.0	440	43.3
	0-1 to 0-3	313	28.5	390	35.5	397	36.1
	0-4 to 0-10	238	28.3	226	26.8	378	44.9
Norfolk, Virginia area	E-1 to E-3	50	8.4	269	45.4	273	46.1
	E-4 to E-6	242	15.3	758	48.0	578	36.6
	E-7 to E-9	145	19.0	300	39.2	320	41.8
	0-1 to 0-3	144	16.8	335	39.0	379	44.2
	0-4 to 0-10	173	21.4	294	36.4	341	42.2
Washington, D.C. area	E-1 to E-3	35	9.2	153	40.2	193	50.7
	E-4 to E-6	284	17.2	750	45.5	615	37.3
	E-7 to E-9	152	24.3	229	36.6	245	39.1
	0-1 to 0-3	313	20.7	560	37.1	636	42.1
	0-4 to 0-10	620	26.4	655	27.9	1,075	45.7
Fayetteville, North Carolina area	E-1 to E-3	18	7.2	126	50.4	106	42.4
	E-4 to E-6	42	12.9	200	61.3	84	25.8
	E-7 to E-9	23	12.6	83	45.6	76	41.8
	0-1 to 0-3	19	7.5	131	51.8	103	40.7
	0-4 to 0-10	31	14.5	94	43.9	89	41.6
San Antonio, Texas area	E-1 to E-3	36	8.9	222	55.1	145	36.0
	E-4 to E-6	174	16.6	481	45.8	395	37.6
	E-7 to E-9	139	23.7	214	36.5	233	39.8
	0-1 to 0-3	101	15.8	278	43.5	260	40.7
	0-4 to 0-10	120	19.8	199	32.9	286	47.3

a/The 0-1 to 0-3 pay grade group also includes W-1 to W-3 pay grades, and the 0-4 to 0-10 group also includes the W-4 pay grade.

The preceding table indicates that the VHA established in fiscal year 1981 tended to underpay individuals. However, two factors should be kept in mind when considering this above comparison. First, the VHA legislation specified a 15 percent differential between housing costs and housing allowances. If this differential were included in the above table, the number and percent of "overpaid" personnel would increase and the number and percent of "underpaid" personnel would decrease. Second, the housing costs used in the above comparison are the adjusted costs which DOD used to determine the fiscal year 1981 VHA rates. Because DOD adjusted downward the actual owner costs to make them similar to rental costs, the effect in the above table was to decrease the number and percentage of "underpaid" personnel. If unadjusted owner costs had been used, the number and percentage of underpaid personnel would have increased. This effect can be seen in the following table which shows the total military housing allowance received in Washington, D.C., and the actual unadjusted housing costs--rental and owner.

Military Personnel in Washington, D.C., Housing Area
Receiving More, About the Same, or Less Housing
Allowance Than Unadjusted Housing Costs

Pay grade group (note a)	Total military housing allowance					
	Overpays housing costs by at least \$600 per year		Pays within \$600 per year of actual housing costs		Underpays housing costs by at least \$600 per year	
	Number	Percent	Number	Percent	Number	Percent
E-1 to E-3	27	7.1	169	44.7	182	48.2
E-4 to E-6	251	15.3	733	44.6	660	40.1
E-7 to E-9	114	18.4	143	23.2	361	58.4
O-1 to O-3	184	11.9	389	25.1	977	63.0
O-4 to O-10	188	7.9	222	9.3	1,973	82.8

a/The O-1 to O-3 pay grade group also includes W-1 to W-3 pay grades, and the O-4 to O-10 group also includes the W-4 pay grade.

MILITARY HOUSING ALLOWANCE
COMPARED WITH AVERAGE RENTAL
COSTS IN WASHINGTON, D.C., AREA

We compared the housing allowance received by military personnel in the Washington, D.C., metropolitan area with the average rental costs in the area to determine the type of apartment which could be rented with the individual's housing allowance. Since only January 1979 metropolitan rental data was available, we updated the data to January 1980 using the rental consumer price index for the Washington, D.C., area. The average monthly rental costs in the various metropolitan jurisdictions are shown on the following page.

Average Monthly Rental Cost in
the Washington, D.C. Metropolitan
Area, January 1981

<u>Location</u>	<u>Number of bedrooms</u>			
	<u>Efficiency</u>	<u>One</u>	<u>Two</u>	<u>Three</u>
<u>D.C.</u>				
Washington	\$237	\$259	\$312	\$332
<u>Virginia</u>				
Alexandria	288	341	419	445
Arlington Co.	298	323	379	567
Falls Church	387	345	396	525
Fairfax City	226	299	338	414
Fairfax Co.	313	337	372	430
Loudoun Co.	243	261	269	277
Prince William Co.	217	255	278	321
<u>Maryland</u>				
Montgomery Co.	277	336	395	462
Prince Georges Co.	290	321	364	425

Almost all military personnel stationed in the Washington, D.C., area receive a housing allowance which would allow them to rent at least an efficiency apartment in one of the Washington area jurisdictions. The only exceptions to this are E-1's to E-4's without dependents. Although the comparison shows that most military personnel are able to rent an apartment in the Washington, D.C., area, the comparison does not consider family size, distance to work, utility costs, or the 15 percent differential between housing cost and housing allowance. The following table shows the largest apartment each pay grade could rent with the housing allowance in each jurisdiction. The data in the table on page 6 is rental cost exclusive of utilities. Therefore, renting the size apartment shown on the chart below could leave little or nothing for utilities, except at the upper grades.

LARGEST APARTMENT WHICH COULD BE RENTED WITH THE MILITARY
HOUSING ALLOWANCES IN THE WASHINGTON, D.C., AREA (note a)

<u>Pay grade</u>	<u>Monthly housing allowance</u>	<u>Washington</u>	<u>Alexandria</u>	<u>Arlington Co.</u>	<u>Falls Church</u>	<u>Fairfax City</u>	<u>Fairfax Co.</u>	<u>Loudoun Co.</u>	<u>Prince William Co.</u>	<u>Montgomery Co.</u>	<u>Prince Georges Co.</u>
E-1 Without dependents	\$170.28	None	None	None	None	None	None	None	None	None	None
With dependents	296.51	1 BR	Efficiency	None	None	Efficiency	None	3 BR	2 BR	Efficiency	Efficiency
E-2 Without dependents	180.18	None	None	None	None	None	None	None	None	None	None
With dependents	296.51	1 BR	Efficiency	None	None	Efficiency	None	1 BR	2 BR	Efficiency	Efficiency
E-3 Without dependents	203.94	None	None	None	None	None	None	None	None	None	None
With dependents	296.51	1 BR	Efficiency	None	None	Efficiency	None	3 BR	2 BR	Efficiency	Efficiency
E-4 Without dependents	207.45	None	None	None	None	None	None	None	None	None	None
With dependents	309.13	1 BR	Efficiency	Efficiency	None	1 BR	None	3 BR	2 BR	Efficiency	Efficiency
E-5 Without dependents	235.35	None	None	None	None	Efficiency	None	None	Efficiency	None	None
With dependents	351.44	3 BR	1 BR	1 BR	1 BR	2 BR	1 BR	3 BR	3 BR	1 BR	1 BR
E-6 Without dependents	244.80	Efficiency	None	None	None	Efficiency	None	Efficiency	Efficiency	None	None
With dependents	382.50	3 BR	1 BR	2 BR	1 BR	2 BR	2 BR	3 BR	3 BR	1 BR	2 BR
E-7 Without dependents	278.54	1 BR	None	None	None	Efficiency	None	3 BR	2 BR	Efficiency	None
With dependents	429.66	3 BR	2 BR	2 BR	2 BR	3 BR	2 BR	3 BR	3 BR	3 BR	3 BR
E-8 Without dependents	327.36	2 BR	Efficiency	1 BR	None	1 BR	Efficiency	3 BR	3 BR	Efficiency	1 BR
With dependents	461.74	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	2 BR	3 BR
E-9 Without dependents	355.26	3 BR	1 BR	1 BR	1 BR	2 BR	1 BR	3 BR	3 BR	1 BR	1 BR
With dependents	499.84	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
W-1 Without dependents	297.78	1 BR	Efficiency	None	None	Efficiency	None	3 BR	2 BR	Efficiency	Efficiency
With dependents	385.56	3 BR	1 BR	2 BR	1 BR	2 BR	2 BR	3 BR	3 BR	1 BR	2 BR
W-2 Without dependents	329.70	2 BR	Efficiency	1 BR	None	1 BR	Efficiency	3 BR	3 BR	Efficiency	1 BR
With dependents	419.58	3 BR	2 BR	2 BR	2 BR	3 BR	2 BR	3 BR	3 BR	2 BR	2 BR
W-3 Without dependents	379.26	3 BR	1 BR	2 BR	1 BR	2 BR	2 BR	3 BR	3 BR	1 BR	2 BR
With dependents	467.46	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
W-4 Without dependents	455.40	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	2 BR	3 BR
With dependents	549.90	3 BR	3 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
O-1 Without dependents	262.92	1 BR	None	None	None	Efficiency	None	1 BR	1 BR	None	None
With dependents	342.30	3 BR	1 BR	1 BR	None	2 BR	1 BR	3 BR	3 BR	1 BR	1 BR
O-2 Without dependents	336.84	3 BR	Efficiency	1 BR	None	1 BR	Efficiency	3 BR	3 BR	1 BR	1 BR
With dependents	426.30	3 BR	2 BR	2 BR	2 BR	3 BR	2 BR	3 BR	3 BR	2 BR	3 BR
O-3 Without dependents	388.08	3 BR	1 BR	2 BR	1 BR	2 BR	2 BR	3 BR	3 BR	1 BR	2 BR
With dependents	478.80	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
O-4 Without dependents	472.50	3 BR	3 BR	2 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
With dependents	570.60	3 BR all areas									
O-5 Without dependents	531.00	3 BR	3 BR	2 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR	3 BR
With dependents	639.45	3 BR all areas									
O-6 Without dependents	576.00	3 BR all areas									
With dependents	702.90	3 BR all areas									
O-7 and above											
Without dependents	641.70	3 BR all areas									
With dependents	802.80	3 BR all areas									

a/January 1981 average monthly rent is used for purposes of comparison. See appendix I, p. 5.

MILITARY HOUSING ALLOWANCE COMPARED
WITH HOUSING ALLOWANCE PAID BY
FOREIGN EMBASSIES

We compared the housing allowances paid by DOD to military personnel stationed in Washington, D.C., with the housing allowances paid by the Governments of Australia, Austria, Canada, the Federal Republic of Germany, and Switzerland to employees of their Washington, D.C., embassies. Unlike DOD, all the embassies contacted, with the exception of the Australian Embassy, pay housing allowances to their employees based on the employee's actual monthly rent, and they expect the employees to pay a part of the rent from their salaries. Switzerland pays that part of its Washington embassy employee's monthly rent which exceeds 20 percent of the employee's gross salary. The Federal Republic of Germany pays that part of its Washington embassy employee's monthly rent which exceeds 18 percent of the employee's gross salary. Austria pays 80 percent of its Washington embassy employee's rent, not including utilities. Canada pays that part of its Washington embassy employee's rent, subject to certain limits, which is above what the employee would pay for similar housing in Ottawa, Canada.

We were unable to obtain the actual rental costs for employees of the embassies. Canada, however, provided its upper limits for rent in the Washington, D.C., area. After deducting the amount that the Canadian Embassy employee must pay and comparing the resulting monthly amount which Canada will pay with the DOD monthly housing allowance, we found that the Canadian allowance for single employees was more than the DOD allowance for single military personnel of similar income levels for all enlisted personnel, all warrant officers, and officers up to and including O-4. A similar comparison of employees with dependents is more difficult because Canada varies its upper limit by the number of dependents. However, comparing the largest housing allowance the Government of Canada will pay its "with-dependents" embassy employees with the DOD housing allowance for "with-dependents" military personnel in a similar income group, we found the DOD housing allowance higher for E-9 enlisted personnel, W-4 warrant officers, and officers who are O-3 or higher. (These comparisons are shown on the following page.) The Canadian Embassy has no employees at income levels comparable to E-1 or E-2 eligible for or being paid a housing allowance.

DOD Monthly Housing Allowance for Washington, D.C.
Compared With Canadian Embassy Housing Allowance
Limits at Similar Income Levels

DOD pay grade	Without dependents		With dependents	
	DOD allowance	Canadian allowance limit	DOD allowance	Canadian allowance limit
E-3	\$204	\$423	\$297	\$474
E-4	207	423	309	474
E-5	235	420	351	440
E-6	245	463	382	471
E-7	279	459	430	476
E-8	327	492	462	555
E-9	355	467	500	461
W-1	298	459	386	471
W-2	330	502	420	501
W-3	379	486	467	474
W-4	455	538	550	532
O-1	263	469	342	515
O-2	337	502	426	501
O-3	388	467	479	461
O-4	472	523	571	508
O-5	531	476	639	451
O-6	576	476	703	451
O-7 to O-10	642	476	803	451

Australia pays its Washington embassy employees housing allowances based on the employee's rank and dependent status. This is the same basis upon which DOD housing allowances are paid. Australia's monthly housing allowance, depending on the employee's rank, ranges from \$500 to \$1,050 for employees without dependents and from \$600 to \$1,050 for employees with dependents. Employees with dependents also receive \$20 per month additional housing allowance for each dependent.

Australian Embassy employees in Washington, D.C., receive from about \$250 to \$500 more a month housing allowance than U.S. military personnel of similar income and dependent status. A comparison of the DOD housing allowances for Washington, D.C., with the Australian Embassy housing allowances is shown on the following page. We assumed that the Australian Embassy "with-dependents" employee had 3 dependents. The Australian Embassy had no employees at the E-1 through E-4 income levels eligible for a housing allowance.

DOD Monthly Housing Allowance for
Washington, D.C. Compared With the
Australian Embassy Housing Allowance
at Similar Income Levels

<u>DOD pay grade</u>	<u>Without dependents</u>		<u>With dependents</u>	
	<u>DOD allowance</u>	<u>Australian allowance</u>	<u>DOD allowance</u>	<u>Australian allowance</u>
E-5	\$235	\$ 500	\$351	\$ 760
E-6	245	780	382	840
E-7	279	780	430	840
E-8	327	780	462	840
E-9	355	850	500	910
W-1	298	780	386	840
W-2	330	780	420	840
W-3	379	780	467	840
W-4	455	850	550	910
O-1	263	500	342	760
O-2	337	780	426	840
O-3	388	850	479	910
O-4	472	850	571	910
O-5	531	1,050	639	1,110
O-6	576	1,050	703	1,110
O-7 to O-10	642	1,050	803	1,110

While these comparisons provide some insights into housing allowance policies, their usefulness in determining the adequacy of the military housing allowance is limited because of possible differences in (1) the standard of living among individuals from different countries, (2) the job status of embassy employees, and (3) the intent of the embassy allowance programs.

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Mr. Elmer B. Staats
 Comptroller General
 U.S. General Accounting Office
 441 G Street, N.W.
 Washington, D.C. 20548

Dear Mr. Staats:

One of the provisions of Public Law 96-343 authorized a variable housing allowance for members of the uniformed services. This new benefit provides a differential payment in addition to the Basic Allowance for Quarters for members who live on the economy in a high-cost area of the United States. Although this allowance is discretionary during fiscal year 1981, it becomes an entitlement on September 30, 1981. The subcommittee would like to evaluate the operation of the variable housing allowance during fiscal year 1981 before it becomes an entitlement and, to this end, seeks the assistance of the General Accounting Office.

We would find most helpful a critique of the method used by the Department of Defense for establishing the fiscal year 1981 variable housing allowance, including the identification of other relevant sources of housing cost information, an assessment of the usefulness of the other sources in establishing the level of the variable housing allowance or in assessing the appropriateness of the established level, and any recommended improvements to the method used by the Department. The critique of the Department's method should include, but not necessarily be limited to, an evaluation of the administration and content of the survey, the role of ownership and rental costs in the data base, the method the Department used to accommodate recruiters and other isolated personnel, and the groupings, both by location and by grade, used in establishing the level of the variable housing allowance.

The Department is currently revising its method for establishing the level of the variable housing allowance for use in fiscal year 1982. We would find helpful a critique, to the extent possible, of the Department's revised method and identification of any recommended changes. This critique, to be of greatest value, should cover areas similar to your critique of the fiscal year 1981 method.

Mr. Elmer B. Staats
March 2, 1981
Page Two

We would like to evaluate the adequacy of the fiscal year 1981 variable housing allowance by comparing, in specific cases, the reported housing costs to the total housing allowance provided by the Basic Allowance for Quarters, and the variable housing allowance. We would like, also, to identify housing allowance systems provided under similar circumstances to employees of other Federal agencies and private companies and compare these systems to the uniformed services variable housing allowance.

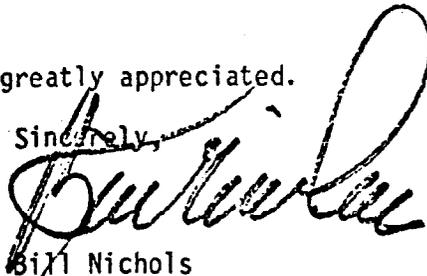
Finally, we would like to attempt to determine the type of housing that could be rented in the Washington, D.C. area, for example, with the Basic Allowance for Quarters and variable housing allowance provided in the Washington, D.C. area. This should include an assessment of the adequacy of the variable housing allowance in meeting the costs experienced by homeowners in representative situations (for example, recognizing the effect of a large down payment vs. minimum down payment and the effect of deducting interest payments for Federal income tax returns).

The subcommittee believes very strongly that the variable housing allowance is an extremely important program. In order to ensure that it does not suffer the constant criticism some other programs receive -- which effectively devalues these programs in the eyes of the service members -- we are anxious to guide the program smoothly through its initial development. I believe your organization can help us achieve this end.

To be of greatest value, your review should be available for our use by mid-June.

Your assistance will be greatly appreciated.

Sincerely,



Bill Nichols
Chairman, Military Personnel and
Compensation Subcommittee

BN:rep

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