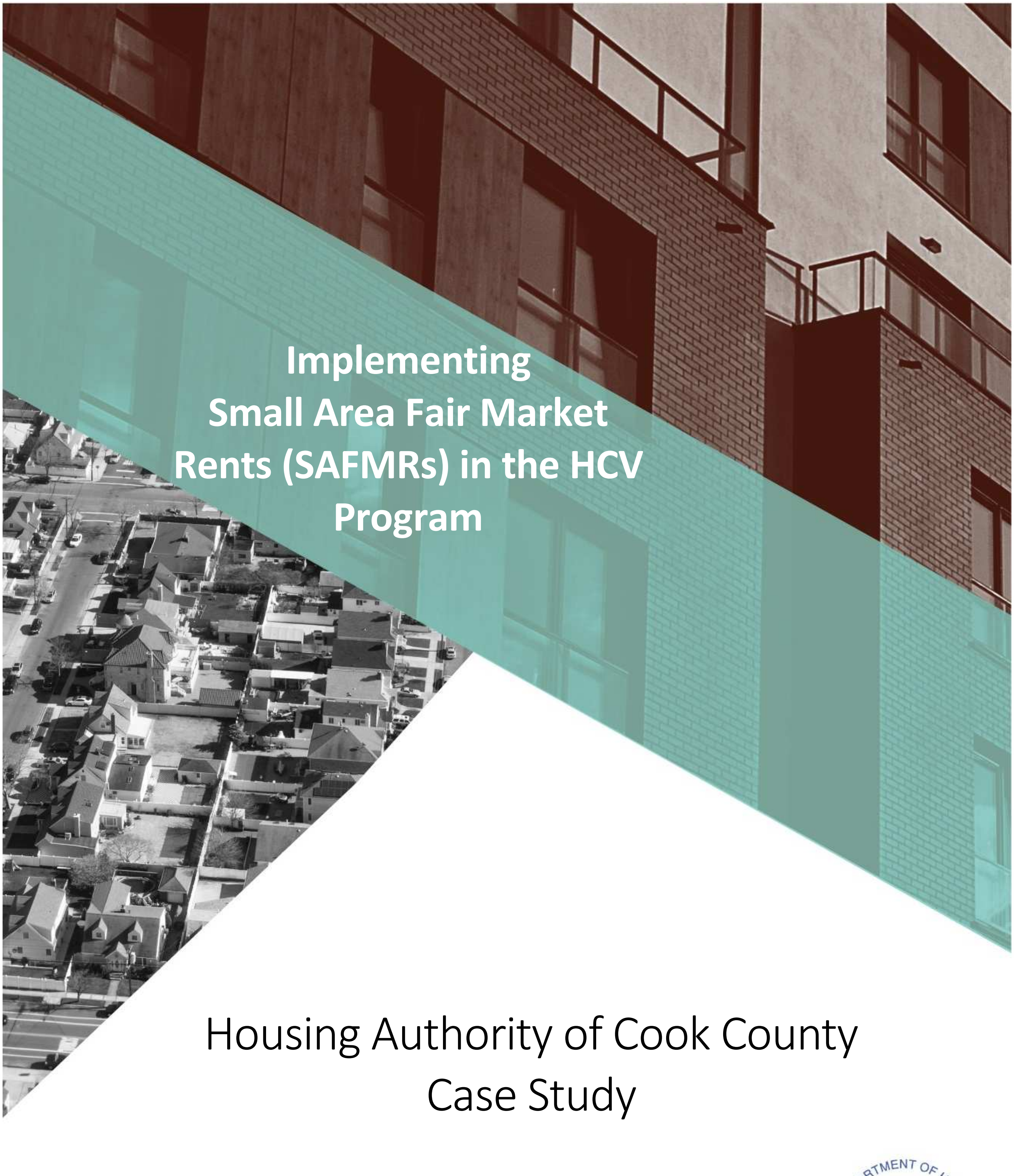

Implementing Small Area Fair Market Rents (SAFMRs) in the HCV Program

Housing Authority of Cook County Case Study

Contents

Background

The Housing Authority of Cook County (HACC) Housing Choice Voucher (HCV) program assists more than 12,000 households in the suburban areas of the Chicago, Illinois, metropolitan area, a region that includes suburban Cook County with the exception of Cicero, Maywood, Oak Park, Park Forest, and Elgin. HACC's jurisdiction covers an area with moderate to high levels of income segregation. The high-rent neighborhoods tend to be clustered in the northern suburbs of Chicago, while low-rent areas are clustered outside the southern edge of the city's perimeter. The south side of the city has higher vacancy rates than the north side, and the north side is home to more single-family residences than other parts of the city's suburban areas.

Motivations for Implementing SAFMRs

HACC volunteered for the SAFMR Demonstration program, and staff were pleased to be selected. They felt that the policy made sense for their jurisdiction, which includes a wide range of neighborhood types with significant variation in income and rent levels. They also saw it as a way to strengthen their efforts to help voucher families move to areas of higher opportunity, as well as to promote fair housing and improve the negative perception of the HCV program among some landlords.

The PHA has had a mobility counseling program in place for a number of years that has provided varying combinations of incentives, search assistance, and counseling to help families move to higher-opportunity neighborhoods. PHA staff said that the mobility program has not always been very effective because it was difficult to persuade landlords to accept rents that, under Metropolitan Area FMRs, were often below market. SAFMRs helped address this issue.

One staff member said, "we would never be able to place [voucher families] in opportunity areas without SAFMRs."

> **Neighborhood types**
>
> Low-rent: Neighborhoods with median rent below 90% of the metro area median rent
>
> Moderate-rent: Neighborhoods with median rent from 90% to 110% of the metro area median rent
>
> High-rent: Neighborhoods with median rent above 110% of the metro area median rent

HACC used SAFMRs to strengthen its mobility counseling efforts, significantly expanding its investment in the program at the same time. Along with implementing SAFMRs, HACC hired more mobility counselors (increasing the number from one to five) and focused on assisting families earlier in the housing search process (while families are still on the waitlist for a voucher). HACC funded the additional mobility counselors by cutting inspection expenses, shifting from annual inspections to a biennial schedule.

External factors affecting SAFMR implementation

The shift to SAFMRs in suburban Cook County was affected by a number of external factors and events that impacted implementation. Key among these was simply that SAFMRs were new. Sheryl Seiling, HACC's HCV director, said, "we had to invent the wheel and then get it moving smoothly. You could say it's like a 'do it yourself' project that might be a stretch to begin with, but then to find the directions are written in a foreign language."

In addition, like most areas across the country, the housing market in the Chicago metro area was deeply impacted by the most recent housing market crash. The ensuing drop in property values and rents prompted a decline in MAFMRs and, ultimately, payment standards. Many rental properties went into foreclosure, and tenants were forced to move, causing unusually high turnover among voucher families in the years following the crash. By 2013, when HACC implemented SAFMRs, the metro area was still recovering from the impacts of the downturn.

HACC found that SAFMRs were helpful in improving relations with existing landlords as well as in attracting new landlords to the HCV program. HACC staff reported few complaints about declines in payment standards in low-rent neighborhoods, which they attribute in part to a rigorous rent reasonableness process that meant that actual rents paid to landlords were close to market rents. As a result, relatively few units were affected by decreases in payment standards.

Seiling noted, “if you’re truly doing rent reasonableness, it shouldn’t be that big of a deal.”

In high-rent neighborhoods, where the payment standards were now more reflective of market rents, the PHA was able to more effectively market the HCV program to landlords. HACC staff said that the switch to biennial inspections also made it easier for landlords to work with the HCV program, further improving relations.

HACC staff reported that an anti-discrimination law adopted by Cook County in 2013 also helped to increase the number of landlords participating in the HCV program. The law prevents owners from discriminating against tenants on the basis of their source of income, which includes tenants using a Housing Choice Voucher. Local fair housing organizations accompanied the ruling with outreach about source-of-income discrimination to landlords in the area.

Staff at HACC believe that the timing of the anti-discrimination law made it easier for tenants to find landlords willing to accept vouchers. That said, HACC staff thought that SAFMRs deserved more of the credit for the increase in participating landlords than the source-of-income law.

Strategic Decisions

Approach to setting payment standards

HACC chose to group ZIP codes into 10 payment standard areas, rather than use separate payment standards for each of the 193 ZIP codes in the jurisdiction. Seiling noted that investing in software that would automatically convert a ZIP code to a payment standard was too costly. HACC had already been administering four different payment standards (including exception payment standards), so 10 payment standards seemed like a manageable number from an administrative standpoint. HACC leadership also believed that fewer payment standards would be easier for landlords and voucher families to understand.

To create the 10 payment standards, the PHA reviewed all the SAFMRs by ZIP code. Similar SAFMRs in different ZIP codes, which were often geographically contiguous, were grouped together. These ZIP code groups are designed to comply with HUD rules — each ZIP code is in a payment standard that falls within its basic range (90 to 110 percent of all of the SAFMRs in the group) — but also to maximize access to high-rent ZIP codes for voucher families. Seiling reported that, without guidance on how to create ZIP code groups or a pattern to follow from other PHAs, the process of creating the payment standards took several months. Like all changes to payment standards, the approach required the approval of HACC’s board of directors.

Since then, HACC has increased the number of payment standards to 22 in order to increase the affordability of units where needed. This revision reflects updated SAFMRs from HUD as well as input

from case workers and landlords about whether the payment standards accurately reflect the median rent in each ZIP code. Specifically, the PHA found that in some high-rent neighborhoods, the payment standards still were not high enough to make desirable units affordable to voucher families. Creating separate groups for those neighborhoods allowed HACC to increase the payment standard, for example from 103 percent to 110 percent of the SAFMR. PHA leadership plans to continue to update the payment standard areas as needed, using the same process of review and input from case workers and landlords.

In addition to being administratively manageable and easy to comprehend, Seiling noted that there is another benefit to payment standard groups. Because payment standards can fall anywhere within the basic range, not all payment standards have to be updated every year when HUD issues new SAFMRs. Those that are still within the basic range can be updated less often, or on a schedule that fits better with HACC's workflow. Grouping payment standards in this way helped to reduce the administrative burden of updating payment standards annually.

PHAs have 90 days to implement changes to payment standards to stay in compliance (within the basic range) after new SAFMRs are released. Seiling reported that the process of reviewing new SAFMRs, creating new payment standards, and getting a board resolution to approve the new payment standards is time consuming. In the meantime, Seiling said, "you've already done your recert for 90 days out."

In other words, reexaminations of income and eligibility that have already been done but not yet become effective need to be re-processed based on new payment standards that are still in the process of approval. HACC's payment standard areas generally allow for a more relaxed timeframe, as they remain in compliance as long as the new SAFMRs in each ZIP code are still within the basic range.

Seiling's primary advice to other PHAs implementing SAFMRs is to create a plan for how to implement SAFMR that starts with the date SAFMRs will become effective and work backward. In order to avoid re-doing reexaminations, she suggested allowing four months to prepare for reexamination using the new payment standards.

Budgeting challenges

SAFMRs did not initially affect HACC's HAP costs. Voucher families did not experience declines in payment standards (and a corresponding increase in contribution to rent and utilities) because voucher program regulations provide that payment standards are adjusted downward for families during the term of the HAP contract only on the second annual reexamination of income after the effective date of payment standard decreases. As a result, few voucher families moved from low-rent to high-rent neighborhoods.

However, Seiling believes that even after the payment standard decreases for such families went into effect, SAFMRs would not have increased HAP costs in the absence of a mobility counseling program. In other words, she estimates that decreases in payment standards in low-rent neighborhoods would have balanced out increases in high-rent neighborhoods if not for mobility counseling. Seiling said, "Mobility counseling has increased the HAP costs. If you aren't doing mobility counseling and you just put in payment standards, it doesn't matter. [Voucher families] aren't considering making a move. … Where we start to see the increase [in HAP costs] was when we hit mobility counseling."

HACC estimates that HAP costs have increased an average of $40 per unit. Because of both the increase in HAP costs and funding proration, HACC found themselves in a HUD-projected shortfall in 2016, four years after having adopted SAFMRs. To balance their budget, HACC made a number of changes including changing the subsidy standard to allow for two people per bedroom regardless of gender, restricting moves to the first of the month, and putting a hold on landlord rent increases that would increase the subsidy portion of the rent.

Program Implementation Steps

Changes in procedures

HACC reports that they made very few changes to their procedures as a result of SAFMRs. In fact, Seiling said that now that the transition period is over, SAFMRs are no more or less administratively burdensome than operating the program under MAFMRs. According to HACC staff, no changes were made to inspections, the rent reasonableness process, or to contract rent adjustments.

As described above, the process of setting payment standards is now more involved than it was under MAFMRs. HACC plans to continually update the payment standard groups as SAFMRs change so that payment standards accurately reflect rents in different ZIP codes. HACC reports that creating and updating the spreadsheet of ZIP codes and payment standards has taken a total of 100 hours to date.

HACC reported one other procedural impact related to SAFMRs. Because staff have to look up ZIP codes on a large spreadsheet when entering data for each property, there has been an increase in HUD-50058 errors since implementing SAFMRs. Many of these are due to transposing digits when looking up ZIP codes. Due to budget limitations, HACC does only minimal data entry quality checks.

Communication and support for voucher families and owners

HACC conducted a marketing and outreach campaign in order to communicate the changes in payment standards to voucher families and owners. Prior to implementing SAFMRs, HACC identified the households who would be affected by declines in payment standards and sent a letter explaining the changes. The PHA also updated briefings for voucher families interested in moving to include information about new payment standards. Staff reported that incorporating this information did not require considerable changes to briefing materials. HACC also added information about the changes to payment standards on its website.

For voucher families who felt that they could not afford to stay in their current unit because of a decrease in payment standards, HACC offered support through the mobility counseling program, which helped these households find new more affordable units.

HACC also conducted outreach to owners about the changes to payment standards under SAFMRs. Staff sent letters to owners in ZIP codes where payment standards decreased and where payment standards increased. Letters to property owners in areas with increasing payment standards explained the change to SAFMRs. These letters also explained that because the rent had already been determined to be reasonable, the rent owners could charge would not automatically increase under SAFMRs, unless the quality of the property or the neighborhood improved.

HACC also conducted a series of monthly briefings for owners to answer questions about the change in policy. Staff at the mobility program have also worked on recruiting new owners in high opportunity neighborhoods. They review listings of units in these areas and reach out to owners even if a voucher family is not currently interested in the unit.

SAFMR Impacts

Affordability of units

By design, SAFMRs reduce the number of rental units affordable to voucher families in low-rent neighborhoods, and increase the number in high-rent neighborhoods. Rental units in HACC's jurisdiction are concentrated in moderate-rent neighborhoods, which include 45 percent of all rental units. Another 33 percent are in low-rent neighborhoods, and the remaining 22 percent are in high-rent neighborhoods.

Overall, across the jurisdiction SAFMRs had the effect of reducing the number of units affordable to voucher families by 1.7 percent—a decrease of 2,652 units compared with MAFMRs. This decline was smaller than the average across all seven SAFMR Demonstration Evaluation PHAs, where there was an average decline in units affordable to voucher families of 3.4 percent.[1]

As expected, the largest decrease in units affordable to voucher families in suburban Cook County was in low-rent neighborhoods (about a 14 percent decline). This decline was nearly offset by an increase in units affordable in high-rent neighborhoods (about a 14 percent increase). The net decline in affordable units came from moderate-income neighborhoods, which saw a decrease of about 1 percent in units affordable to voucher families.

Impact on voucher families

An evaluation of the SAFMR Demonstration analyzed the impact of SAFMRs on the location decisions of families with vouchers. This analysis suggests that SAFMRs had an impact on the number of voucher families who moved to high-rent areas. The share of new voucher families[2] who moved into high-rent ZIP codes increased by almost a quarter between 2010 and 2015, from 17 to 21 percent. The share of voucher families moving into low-rent ZIP codes stayed the same (going from 39 percent to 38 percent).[3]

Among program participants who moved with continued assistance to a new ZIP code, the share who moved to a high-rent neighborhood also increased by a quarter, from 24 percent to 30 percent between 2010 and 2015. The share who moved to a low-rent neighborhood dropped slightly, from 33 percent to 31 percent.

There is no evidence that SAFMRs increased the family share of rent in low-rent neighborhoods in Cook County. Family shares increased from 2010 to 2015, but only slightly, and the differences between low-rent and high-rent neighborhoods were minimal. In low-rent ZIP codes in Cook County, family shares increased by 8 percent, from $356 to $384. This was a substantially smaller increase than the 22 percent average increase across all PHAs in the SAFMR Demonstration Evaluation. It was also only about half the rate of increase of a group of comparison PHAs that did not implement SAFMRs, which saw increases in family shares of 15 percent.

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[1] Small Area Fair Market Rent Demonstration Evaluation: Interim Report, 2017.

[2] "New voucher families" refers to families who received their first voucher after the change to SAFMRs. In the case of Cook County, this means families who first received their voucher in 2013 or after.

[3] Ibid.

As expected, the change in the family share of rent in high-rent ZIP codes in Cook County was slightly smaller than the change in low-rent ZIP Codes. In high-rent neighborhoods, the average family share increased by 6 percent, from $375 to $397 between 2010 and 2015. This was only about half of the 12 percent average increase among PHAs included in the SAFMR Demonstration Evaluation.[4]

Conclusion

HACC offered several reflections and lessons learned from the experience of implementing SAFMRs. Given the size of HACC's jurisdiction, Seiling believes that grouping ZIP codes into payment standard areas was essential to making SAFMRs administratively manageable. Although the process of creating the ZIP code groups was time-consuming at the outset of implementation, it ultimately was successful, not only because case workers found it an easy adjustment from the MAFMRs, but also because it was easier for voucher families and owners to understand. The approach continues to pay dividends, as well, in that it frees the PHA from hasty, labor-intensive updates to payment standards after SAFMRs are released annually by HUD. According to Seiling, administering 100-plus payment standards "would have been overwhelming for anybody."

Aside from changing payment standards, HACC was required to make very few adjustments to their procedures in response to SAFMRs. At the same time, SAFMRs have been essential in helping HACC achieve its goal of offering voucher families a robust mobility counseling program. HACC has seen rising Housing Assistance Payment (HAP) costs in response to its success in helping families move to higher-opportunity neighborhoods, but reports that the budget-saving measures needed to accommodate HAP costs, such as changing the family subsidy standards and restricting moves to the first of the month, have been worth it.

[4] Small Area Fair Market Rent Demonstration Evaluation: Interim Report, 2017.