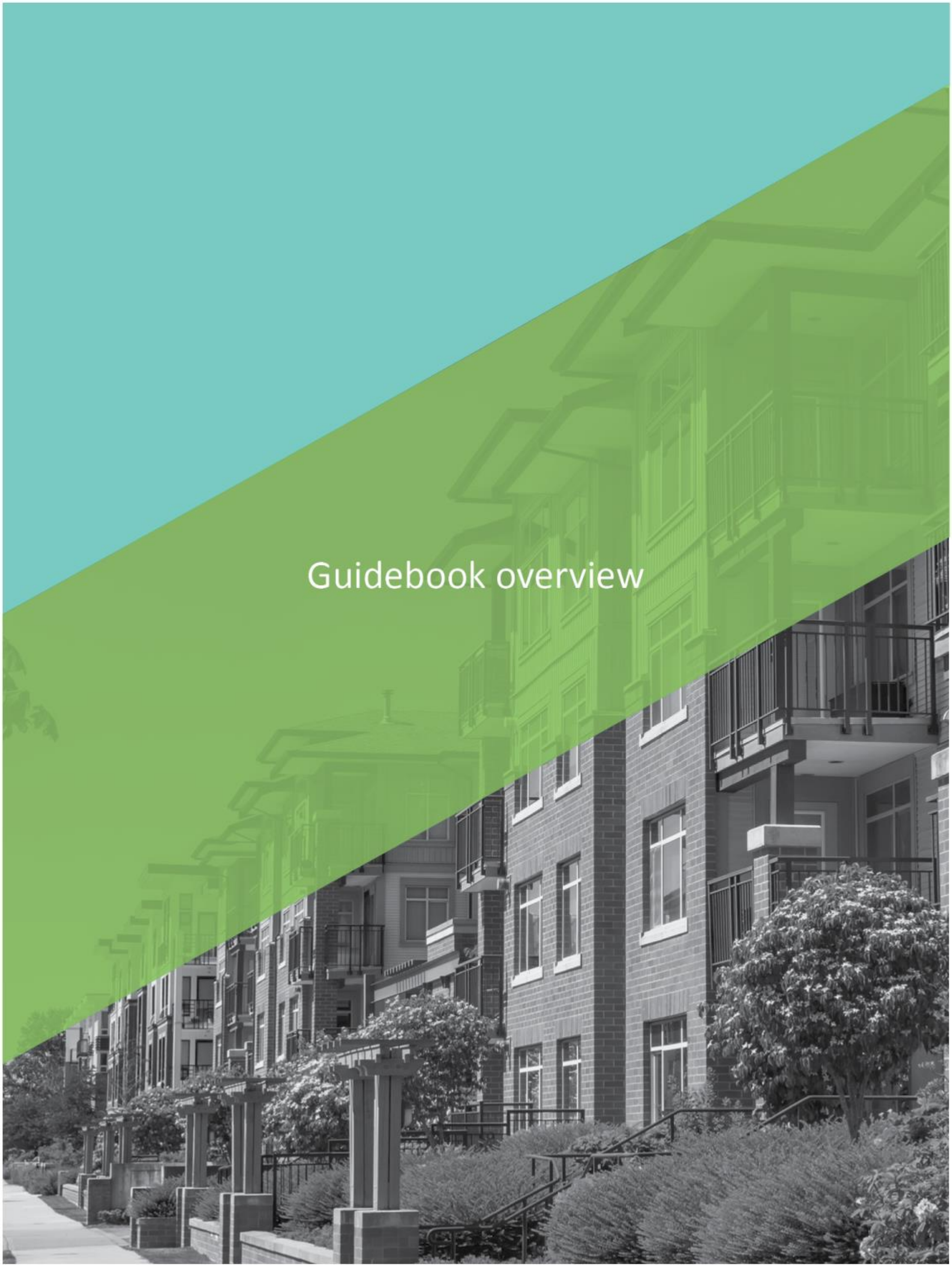
Implementing Small Area Fair Market Rents (SAFMRs)

Implementation Guidebook

Contents

Guidebook overview



Guidebook overview

In November 2016, the U.S. Department of Housing and Urban Development (HUD) issued the Small Area Fair Market Rent (SAFMR) Final Rule (FR-5855-F-03, “Establishing a More Effective Fair Market Rent System; Using Small Area Fair Market Rents in the Housing Choice Voucher Program Instead of the Current 50th Percentile FMRs; Final Rule,” published in the *Federal Register* on November 16, 2016). The rule, which became effective January 17, 2017, made a number of changes to the Housing Choice Voucher (HCV) program. One of the major changes was to implement SAFMRs (i.e., FMRs established at the ZIP code area level) to replace the 50th percentile FMRs previously required in metropolitan areas with high concentrations of renters with vouchers.

This Guidebook is intended as a resource for public housing agencies (PHAs) that are required to adopt SAFMRs (Designated FMR PHAs) because part or all of the PHA jurisdiction is in an SAFMR designated area where use of SAFMRs is mandatory, as well as for PHAs that voluntarily choose to use SAFMRs (Opt-in SAFMR PHAs). PHAs are encouraged to use the Guidebook in consultation with the SAFMR Final Rule and Notice PIH-2018-01, which serve as source materials for the Guidebook and are referenced throughout. The Guidebook also draws on examples from the SAFMR Demonstration Evaluation Interim Report, which was published by HUD in August 2017.

This Guidebook is organized into seven chapters, which provide an overview of program fundamentals as well as a discussion of strategic questions to be considered when administering SAFMRs:

Chapter 1: What are SAFMRs, where do they apply, and when do they need to be implemented? This chapter provides an introduction to the key provisions of the SAFMR Final Rule and changes to the HCV program for Designated and Opt-in SAFMR PHAs.

Chapter 2: Revising payment standards based on SAFMRs. This chapter describes how the transition to SAFMRs may affect payment standards and reviews the options available to PHAs for setting payment standard amounts. This chapter also discusses key factors to consider in determining how to set payment standards in SAFMR ZIP code areas.

Chapter 3: Determining the PHA policy on applying decreases in the payment standard amount during the HAP contract term. This chapter describes the three policy options that are available to PHAs on how to apply decreases in the payment standard amount to families under HAP contract and discusses key factors to consider in determining which of these options to implement.

Chapter 4: Factors to consider when deciding whether to apply SAFMRs to the project-based voucher program. This chapter outlines factors that PHAs will want to take into account when deciding whether to employ SAFMRs in their project-based voucher (PBV) program.

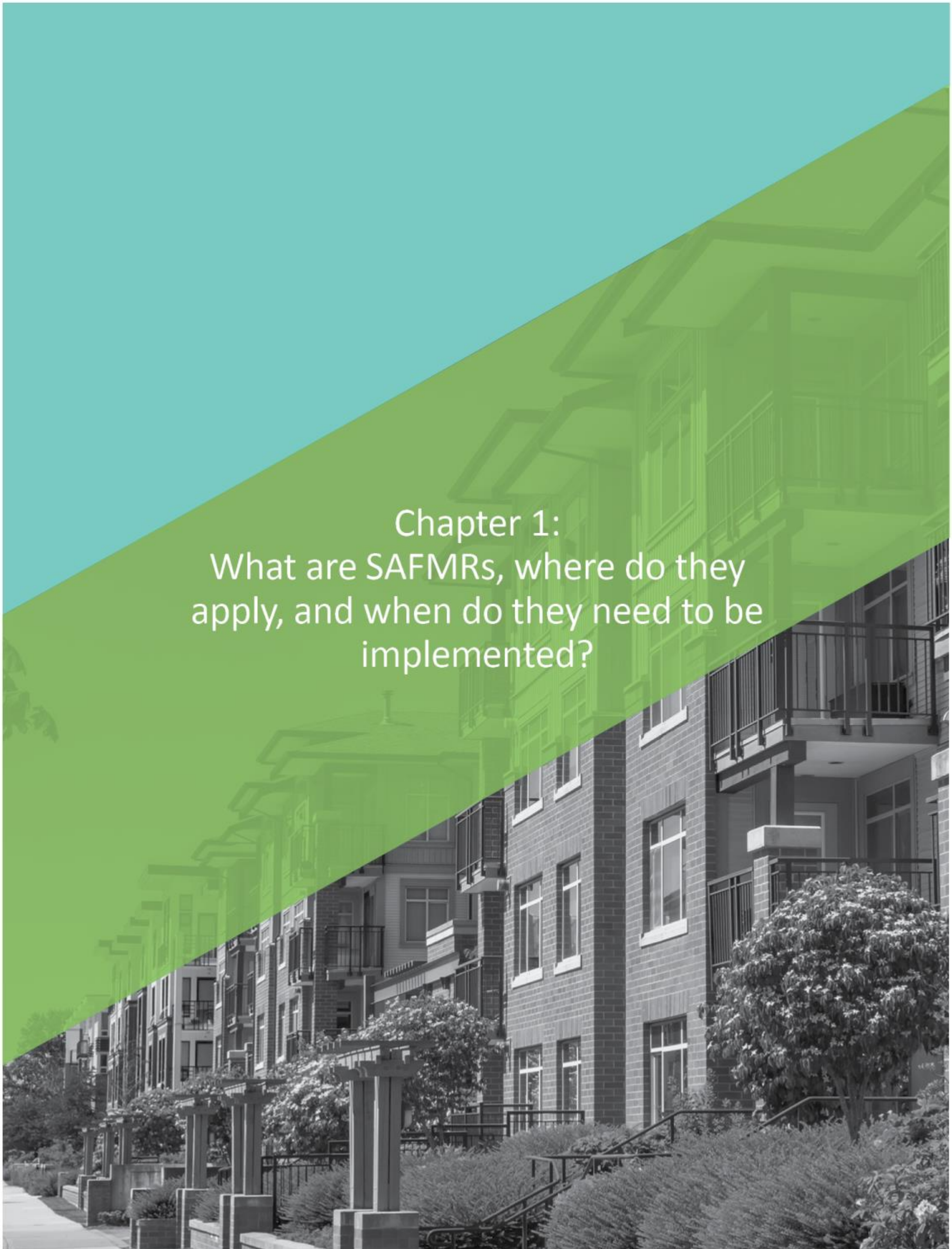
Chapter 5: Factors for non-Designated PHAs to consider when deciding whether to adopt SAFMRs. This chapter describes two options for non-Designated PHAs that are interested in adopting SAFMRs for some or all areas in their jurisdiction, and considerations when deciding whether to implement either approach.

Chapter 6: Communicating about SAFMRs with tenants, owners, and other stakeholders. This chapter describes strategies for effectively communicating about SAFMRs in order to increase understanding of SAFMRs and maximize opportunities to help families move to areas of higher opportunity and lower poverty.

Chapter 7: System of record adaptations, Administrative Plan modifications, and other administrative impacts of SAFMRs. This chapter describes other potential administrative impacts of SAFMRs for Designated and Opt-in SAFMR PHAs.

Appendix A describes the application of provisions in the SAFMR Final Rule for different types of PHAs. Appendix B lists metropolitan areas where the use of SAFMRs is mandatory as of FY 2018. Appendix C includes links to other resources.

Chapter 1: What are SAFMRs, where do they apply, and when do they need to be implemented?



1. What are SAFMRs, where do they apply, and when do they need to be implemented?

1.1 Background

Small Area Fair Market Rents (SAFMRs) are Fair Market Rents (FMRs) calculated at the ZIP code level, rather than for the entire metropolitan region. As described in the SAFMR Final Rule, "the main benefit of SAFMRs is that, through setting rental subsidy amounts at a more local level, assisted households will be more able to afford homes in areas of high opportunity than under current policy. Such moves are expected to benefit both individual households, for example, through access to better schools or safer neighborhoods, and areas as a whole through reducing concentrated neighborhood poverty." (81 FR 80569)

In metropolitan areas that have not adopted SAFMRs, subsidies for HUD's Housing Choice Voucher (HCV) program are determined by a formula that considers rent levels across the entire metropolitan area. However, rents often vary substantially within a single metropolitan area, with much higher rents in low-poverty areas and much lower rents in high-poverty areas. In a previous effort, HUD aimed to address high concentrations of voucher families in certain metropolitan areas by increasing the level of FMRs from the 40th percentile to the 50th percentile of the distribution of gross rents for recent movers (those who moved into their current residence in the last 24 months). However, this change proved insufficient to consistently reduce concentrations of voucher use in these areas.

The use of SAFMRs is intended to increase the share of households that choose to use their vouchers in low-poverty areas. To this end, SAFMRs are being implemented in metropolitan areas with both significant voucher concentration challenges and market conditions where establishing FMRs by ZIP code areas has the potential to significantly increase opportunities for voucher families. ZIP codes were chosen because they are small enough to reflect neighborhood differences, and it is possible to compare rents between ZIP codes in a metropolitan area.

(SAFMR Final Rule, 81 Fed. Reg. 80567 (November 16, 2016))

1.2 Definition of SAFMRs

SAFMRs are annual ZIP code-based estimates of rent plus the cost of utilities (except telephone) that are set by HUD for use in the administration of tenant-based assistance under the HCV program. SAFMRs are required to be used by PHAs in areas designated by HUD and may also be used on a voluntary basis by PHAs that choose to adopt SAFMRs. PHAs in areas designated for mandatory use of SAFMRs are referred to as "Designated SAFMR PHAs," and PHAs that voluntarily choose to adopt SAFMRs are referred to as "Opt-in SAFMR PHAs." PHAs outside of designated areas that choose not to adopt SAFMRs are called "Non-SAFMR PHAs;" they continue to use Metropolitan Area Fair Market Rents (MAFMRs), which establish a single rent standard by bedroom size for an entire metropolitan area.

(24 CFR §888.113(a))

1.2.1 Selection criteria for Designated SAFMR areas

HUD has designated 24 metropolitan areas as the first set of metropolitan areas subject to mandatory use of SAFMRs. These areas were determined based on meeting all five of the following selection criteria:

1. At least 2,500 HCVs under lease in the metropolitan FMR area.
2. At least 20 percent of the standard quality rental stock within the metropolitan FMR area is located in ZIP codes where the SAFMR is more than 110 percent of the MAFMR.
3. At least 25 percent of families with HCVs live in concentrated low income areas. "Concentrated low income areas" are census tracts with a poverty rate of 25 percent or more, or where at least 50 percent of the households earn less than 60 percent of the area median income and are designated by HUD as Qualified Census Tracts in accordance with section 42 of the Internal Revenue Code.
4. The percentage of renters with vouchers living in concentrated low income areas relative to the percentage of all renters within these areas over the entire metropolitan area exceeds 155 percent.
5. The vacancy rate for the metropolitan area is greater than 4 percent.

The selection values underlined in items 1 through 5 above were specified in a *Federal Register* Notice published on November 16, 2016 (81 Fed. Reg. 80678). These selection values may be updated by HUD through a future *Federal Register* notice, subject to public comment.

HUD will review and update the list of Designated SAFMR areas every five years as new data becomes available. In contrast with the 50th percentile FMR methodology, under which areas where reassessed every three years and then potentially reverted to 40th percentile FMRs, once an area has been designated an SAFMR area, it remains an SAFMR area.

(24 CFR §888.113(c))

1.3 Scope of the SAFMR Final Rule

The SAFMR Final Rule includes provisions for mandatory adoption of SAFMRs by Designated SAFMR PHAs and voluntary adoption by Opt-in SAFMR PHAs. The SAFMR Final Rule also includes changes to payment standards and rent reasonableness requirements that apply to all PHAs, whether or not they adopt SAFMRs. (See Appendix A for a table that shows the application of provisions in the SAFMR Final Rule for Designated SAFMR PHAs, Opt-in SAFMR PHAs, and Non-SAFMR PHAs.)

1.3.1 Designated SAFMR areas where use of SAFMRs is mandatory

The SAFMR Final Rule implements SAFMRs as HUD's FMR voucher deconcentration tool in areas where HCV tenants are living in concentrated low-income areas. (See Appendix B for a list of the first set of metropolitan areas designated for mandatory use of SAFMRs.) The SAFMR rule eliminated the 50th percentile FMR rule which was HUD's former deconcentration tool.[1] Since designated SAFMR agencies are required to adopt SAFMRs, they need not amend their Administrative Plans to indicate that they will be doing so.

(Notice PIH 2018-01(2); 24 CFR §982.503(b)(1)(i))

[1] While 50th percentile FMRs as a deconcentration tool are eliminated in the SAFMR Final Rule, the current 50th percentile FMRs in areas that have not been designated by HUD for SAFMRs are being phased out over a three year period.

1.3.2 PHA jurisdictions that include both Designated SAFMR areas and non-SAFMR areas

In some cases, a PHA's jurisdiction will include both Designated SAFMR areas and non-SAFMR areas. This scenario is particularly likely for regional and state PHAs. For these PHAs, SAFMRs will apply in the Designated SAFMR areas *only*, and MAFMRs and non-metropolitan county FMRs will apply in all other areas, unless the PHA chooses to adopt SAFMRs for one or more metropolitan areas that are not Designated SAFMR areas throughout its jurisdiction. (SAFMRs are not available for non-metropolitan counties, so those areas would continue to use non-metropolitan county FMRs.)

PHAs may request HUD approval to apply SAFMRs to vouchers administered outside of the SAFMR area, following the procedures for Opt-in SAFMR PHAs (see Chapter 5).

1.3.3 Opt-in SAFMR PHAs

PHAs that administer vouchers in a metropolitan area where adopting SAFMRs is not required may request approval from HUD to adopt SAFMRs voluntarily at any time. See Section 5.1 of this Guidebook for more information on the impacts analysis that PHAs must complete before submitting a request.

If HUD approves the request of a PHA to opt in to SAFMRs, the PHA must then amend its Administrative Plan, stating in its plan that it will operate according to SAFMRs and also identifying any policies it has adopted with respect to SAFMRs (e.g., applying SAFMRs to its PBV program, adopting tenant protections as described in Notice PIH 2018-01(4)(e)).

A PHA that opts in to SAFMRs may later opt out, returning to the use of MAFMRs via revision of its Administrative Plan and notification to its local HUD field office (via SAFMRs@hud.gov), after taking into consideration any disruptions to its program, families, and owners that may result from opting out.

(Notice PIH 2018-01(5)(b))

1.3.4 Applicability of SAFMRs to all tenant-based vouchers and special housing types

For all Designated SAFMR PHAs and Opt-in SAFMR PHAs, SAFMRs will apply to all tenant-based vouchers in the applicable metropolitan areas, including special purpose vouchers (i.e., vouchers specifically provided for by Congress in line item appropriations which distinguish them from regular vouchers, such as those issued for the Veterans Affairs Supportive Housing (HUD-VASH) program and Family Unification Program (FUP)) and special housing types such as Single Room Occupancies (SROs) and homeownership vouchers discussed further below. However, both Designated and Opt-in SAFMR PHAs have a choice of whether or not to apply SAFMRs to project-based vouchers. See Chapter 4 of this Guidebook for a discussion of this issue.

For SROs, the payment standard is 75 percent of the zero-bedroom payment standard amount on the PHA payment standard schedule. If the PHA revised the payment standard schedule as a result of the applicability of SAFMRs, the payment standard for SRO units would likewise be revised to reflect 75 percent of the applicable zero-bedroom payment standard amount.

Revisions to the payment standard as a result of the implementation of SAFMRs also apply to the voucher homeownership program (see 24 CFR §982.625 through 982.641). PHAs must use the same payment standard schedule and payment standard amounts for the homeownership option as for the rental voucher program. The same protections that PHAs may employ for families under Housing Assistance Payments (HAP) contract when the payment standard decreases (i.e., holding harmless (no reduction in subsidy) or applying reductions in subsidy based on payment standards above the basic range, or continuing to use

HUD-approved exception payment standard amounts that were in place prior to the adoption of SAFMRs) would apply to families assisted under the voucher homeownership option.

(Notice PIH 2018-01(4)(e))

Furthermore, the payment standard for a family with a homeownership voucher is always the greater of (a) the payment standard used at the commencement of homeownership assistance for occupancy of the home and (b) the current payment standard in effect at the most recent regular reexamination.

Note that SAFMRs also apply to vouchers used to subsidize the rent of a manufactured home space. The payment standard amount used for a unit assisted under the manufactured home space rental special housing type is the same payment standard amount used for regular rental units under the PHA's HCV program (see Notice PIH 2017-18).

(Notice PIH 2018-01(5)(c)(v); 24 CFR §888.113(g))

1.3.5 Applicability of SAFMRs to MTW agencies and adoption of an alternative payment standards policy

Moving to Work (MTW) PHAs with jurisdiction in designated SAFMR areas may be exempt from the requirement to use SAFMRs, depending on policies in their HUD-approved Annual MTW Plans:

- An MTW PHA is exempt from the requirement to use SAFMRs if that agency has an alternative payment standards policy in its HUD-approved Annual MTW Plan.
- An MTW PHA is required to use SAFMRs as outlined in the SAFMR Final Rule if it does not have an alternative payment standard policy in its HUD-approved Annual MTW Plan.

An "alternative payment standards policy" is a policy that involves payment standards that an MTW agency may adopt following HUD approval in the Annual MTW Plan. For example, an MTW agency may adopt a policy establishing its own submarket-based payment standards, multi-tiered payment standards, or payment standards above the basic range of 90 to 110 percent of the Fair Market Rent (e.g., 150 percent).

Any MTW PHA that does not operate in a metropolitan area where the use of SAFMRs is mandatory may choose to adopt SAFMRs, following the procedures outlined in Notice PIH 2018-01.

(Notice PIH 2018-01(6))

1.3.6 Inapplicability to other HUD programs

SAFMRs apply only to the HCV program. Other programs that use FMRs (e.g., HOME tenant-based rental assistance, the rental assistance component of the Housing Opportunities for Persons With AIDS (HOPWA) program, Continuum of Care Rental Assistance, Legacy Shelter Plus Care program) continue to use MAFMRs or non-metropolitan county FMRs regardless of whether SAFMRs have been designated for HCV tenant-based assistance within the same metropolitan area and regardless of whether the PHA uses SAFMRs for the HCV program. [2]

---

[2] If the PHA or participating jurisdiction has adopted HCV payment standards for their rental or tenant-based rental assistance (TBRA) programs, and the local PHA implements SAFMRs on a Designated or Opt-in basis, then the PHA or participating jurisdiction would use SAFMR-based payment standards for its rental or TBRA programs.

The use of SAFMRs in HUD’s Rental Assistance Demonstration (RAD) is addressed in Notice PIH 2012-32 (HA) H-2017-03, REV-3. Generally, under RAD, an owner may use the SAFMR in place of the MAFMR in the computation of PBV rents, with HUD approval.

(Notice PIH 2018-01(7); SAFMR Final Rule, 81 Fed. Reg. 80571 (November 16, 2016))

1.4 Limits on reductions in SAFMRs from MAFMR in the first year and in subsequent years

In the year that a metropolitan area first transitions to a designated SAFMR area, the SAFMR for a ZIP code area may be no less than 90 percent of the area’s MAFMR in the previous fiscal year. In subsequent years following the transition, the relationship between the SAFMRs and the MAFMRs will no longer be relevant. The only applicable restriction from that point forward is that the SAFMRs will be no lower than 90 percent of the previous year’s SAFMRs for that ZIP code area.[3]

To illustrate, consider a metropolitan area that previously had an MAFMR of $1,200 for a two-bedroom apartment and is transitioning to a designated SAFMR area.

- In the first year of the transition, the SAFMR for a two-bedroom apartment in any ZIP code in the metropolitan area may be reduced by no more than $120 (10 percent of $1,200), for a minimum SAFMR of $1,080.
- In the second year of the transition, any reductions in the SAFMR are subject to limits based on the SAFMR for that individual ZIP code in the previous year. For example, if the SAFMR for a ZIP code area had decreased to $1,080, the second year SAFMR decrease would be limited to 10 percent of $1,080, or $108. The lowest amount the SAFMR for a two-bedroom apartment in the second year could be for that ZIP code is $972 (90 percent of $1,080).

Non-SAFMR PHAs are subject to the same limitation: where MAFMRs or non-metropolitan FMRs are in use, the FMR will be no lower than 90 percent of the previous year’s FMR.

The extent to which reductions in FMRs result in reduced payment standards for HCV families under HAP contract at the time the reductions become effective is subject to PHAs’ discretion and addressed in Chapter 3 of this Guidebook.

1.5 Portability moves into and out of SAFMR areas

An eligible family that has been issued a voucher may use that voucher to lease a unit anywhere in the United States where there is a PHA operating an HCV program. Under portability, the receiving PHA’s policies and payment standards will be applicable to the porting family. The initial PHA’s payment standards and/or use of SAFMRs have no relevance with respect to the subsidy calculation for a porting family.

For example, under the HOME program some participating jurisdictions use the local PHA’s HCV payment standards for their TBRA programs. In this case, if the local PHA has adopted SAFMRs, then the participating jurisdiction would use SAFMR-based payment standards for its TBRA program.

[3] HUD applies the decrease limits in the annual FMR calculations; therefore, PHAs using HUD’s posted values do not need to make further adjustments to the posted values.

1.5.1 Port-ins to PHAs in Designated SAFMR areas

If the family is porting to, or planning to port to, a Designated SAFMR area, in general the receiving PHA's payment standards will be based on SAFMRs. (If the PHA implements a HUD-approved exception payment standard that applies to the area to which the family is porting, then the exception payment standard will apply.)

1.5.2 Port-ins to PHAs in Non-SAFMR areas

If the family is porting to, or planning to port to, a non-SAFMR metropolitan area, the applicable payment standard will be based on the MAFMR, unless the receiving PHA has voluntarily implemented SAFMRs for that metropolitan area. The payment standard for families porting to non-metropolitan counties will be based on the non-metropolitan county FMR.

1.5.3 Potential impacts on PHAs

Portability can have impacts on initial PHAs that have large numbers of port-outs or frequent port-outs to PHAs in Designated SAFMR areas that do not absorb porting families. When these families move to high-cost areas with higher payment standards, the initial PHA's Per Unit Costs (PUCs) may increase substantially. These potential cost increases will need to be taken into consideration in managing leasing and HCV utilization. Alternatively, if large numbers of port-outs tend to move to lower-cost areas, PUCs will decline. PHAs can only deny portability moves for insufficient funding in accordance with PIH Notice 2016-09.

(Notice PIH 2018-01, (5)(c)(iv))

1.6 Suspensions and temporary exemptions

In certain cases, HUD may suspend SAFMRs for a metropolitan area or temporarily exempt individual PHAs from use of SAFMRs. This action may be initiated by HUD or at the request of a PHA. The suspension or exemption must be based on a documented determination by HUD that such action is warranted due to adverse rental housing market conditions.

1.6.1 Circumstances for suspension or temporary exemption by HUD

In the event of an adverse rental housing market condition, HUD will issue a Notice of Suspension or Exemption with information on the adverse rental housing market condition that is the reason for the suspension, the duration and timing of the suspension, and other details as determined by HUD.

1.6.2 PHA requests for suspension or exemption

An individual PHA (or group of PHAs) that administers more than 50 percent of the vouchers leased in a metropolitan area may request a suspension of the SAFMR designation for the metropolitan area. An individual PHA may also request a temporary exemption from the use of SAFMRs within the designated SAFMR area. In either case, the request must be based on documentation of an adverse rental housing market condition currently affecting the area and/or the PHA(s) making the request. PHAs may only request a suspension of the SAFMR designation or a temporary exemption from the use of SAFMRs on the basis of *actual* conditions, and not an anticipated scenario that has not yet occurred.

PHA requests for suspension or temporary exemption must be emailed to SAFMRs@hud.gov.

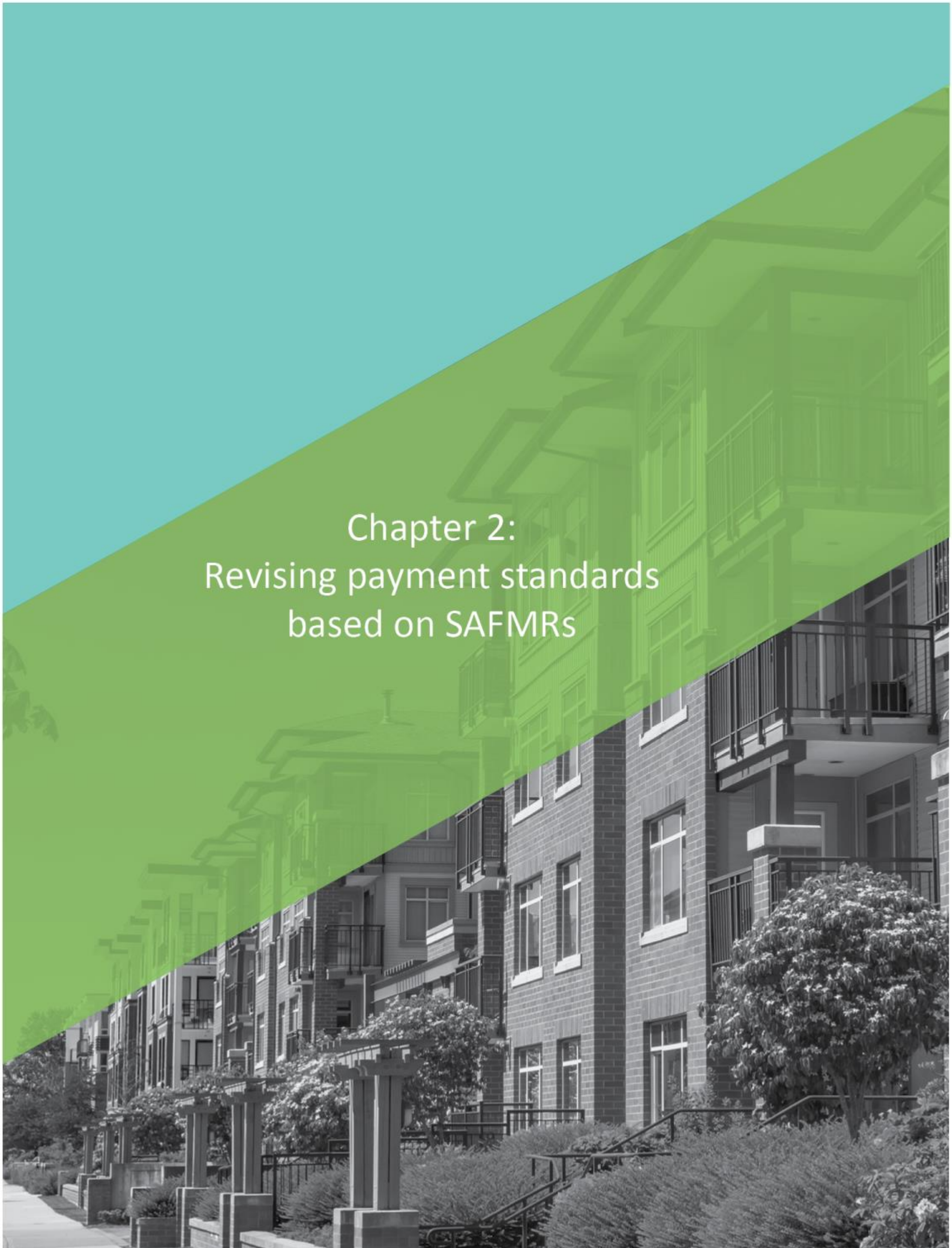
(Notice PIH 2018-01, (9); 24 CFR §888.113(c)(4))

Adverse rental housing market conditions

Conditions that may serve as the basis for a suspension or temporary exemption of SAFMRs may apply to the rental housing market as a whole, or may be unique to the segment that is affordable and available to families with HCVs. They include but are not limited to:

- A Presidentially declared disaster area that results in the loss of a substantial number of housing units
- Other events that contribute to a sudden loss of rental units
- Current vacancy rates falling below four percent
- A rapid increase in the PHA’s Per Unit Costs causing the PHA to experience a funding shortfall
- A sudden influx of households into the metropolitan area
- Other events as determined by the Secretary

Chapter 2:
Revising payment standards based on SAFMRs



2. Revising payment standards based on SAFMRs

Payment standards determine the maximum subsidy amount that a PHA can pay on behalf of a voucher family. Payment standards are based on FMRs set by HUD, but are determined locally by PHAs.

The transition to SAFMRs may require some PHAs to revise their payment standard amounts and schedules. Section 2.1 discusses potential impacts on payment standards following the transition to SAFMRs. Section 2.2 describes two types of flexibility that Designated and Opt-in SAFMR PHAs have in establishing payment standards: (1) setting payment standard amounts within the basic range, and (2) grouping ZIP codes together to form larger payment standard areas. Section 2.3 reviews key factors for PHAs to consider in establishing payment standards.

2.1 Impacts on payment standards

2.1.1 Revisions to payment standard amounts and schedules

In the HCV program, the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each FMR area in the PHA jurisdiction. The PHA may establish the payment standard amount for a unit size at any amount between 90 and 110 percent of the FMR for that unit size, which is called the basic range. The PHA must revise and implement the new payment standard amount no later than 3 months following the effective date of the published FMR if a change is necessary to stay within the basic range.

In transitioning to SAFMRs, the PHA's most pressing task is to determine if its existing payment standards fall within the basic range of the SAFMR for each covered ZIP code area. If there are areas within the PHA jurisdiction where the payment standard is outside of the basic range, the PHA must revise and implement a new payment standard for that area to bring the payment standard within the basic range. (The exception would be a situation where HUD has approved an exception payment standard or a payment standard below the basic range prior to the adoption of SAFMRs.) For Designated SAFMR PHAs that are transitioning to SAFMRs in FY 2018, PHAs are expected to have made any necessary payment standard revisions no later than April 1, 2018. If a PHA does not believe that it will be able to bring its payment standards into the basic range by April 1, 2018, the PHA must immediately contact the Office of Public Housing in the local HUD field office for assistance.

In FY 2019, if FMRs become effective on October 1, 2018,[4] and result in payment standards outside of the 90 to 110 percent basic range, PHAs could implement a revised payment standard schedule as early as October 1, 2018 (i.e., on the effective date of the published FMR), and would be required to do so no later than January 1, 2019.

(24 CFR §982.503(b)(1)(i))

---

[4] Under the Housing Opportunity Through Modernization Act of 2016 (HOTMA), FMRs must be posted at least 30 days before they become effective. FMRs that become effective on October 1, 2018 must be published by HUD by September 1, 2018.

In ZIP code areas where the payment standard amount is already within 90 to 110 percent of the SAFMR, the PHA may make revisions at any time *as long as* the revised payment standard amount remains within the basic range.

2.1.2 Impacts on voucher families searching for units

When making revisions to the payment standard schedule, the PHA needs to identify the date that the revised payment standard goes into effect (e.g., April 1, 2018). HUD advises PHAs to provide both the current and the pending revised payment standard schedules (including the effective date) to families who have been issued a voucher and whose search will be underway when the PHA transitions to a revised payment standard. It is important for the family to understand when the new payment standard will go into effect and its relationship to the effective date of any HAP contract executed on behalf of the family.

- Use the old payment standard when the effective date of the HAP contract for a newly issued voucher is *prior to* the effective date of the revised payment standard schedule.
- Use the revised payment standard when the effective date of the HAP for a newly issued voucher is *on or after* the effective date of the revised payment standard schedule.

(Notice PIH 2018-01, (4)(c) and (5)(c)(ii); 24 CFR §982.503(b)(1))

2.1.3 Impacts on reexaminations of income

If the PHA has conducted a reexamination of income for a family, and the effective date of the family's reexamination is before the effective date of the new payment standards, then the PHA is not required to recalculate the HAP once the new payment standards go into effect. However, if the effective date of the family's reexamination is on or after the effective date of the new payment standards, then the following requirements apply:

- If the adoption of SAFMRs results in the PHA increasing the payment standard amount, then the PHA must recalculate the HAP based on the new payment standard, and the family's payment standard/HAP calculation must be adjusted retroactively to the effective date of the payment standard change.
- If the adoption of SAFMRs results in the PHA decreasing the payment standard amount, then the PHA is not required to recalculate the HAP based on the new payment standard. The *earliest* date that the lower payment standard may be applied is the effective date of the family's second regular reexamination following the decrease in the payment standard amount. In addition, the PHA must provide the family with at least 12 months' notice of the reduction in the payment standard amount. A PHA that intends to calculate a family's HAP based on the decreased payment standard amount as of the effective date of the family's second regular reexamination must provide the family with notice no later than the date of the family's first regular reexamination following the decrease in the payment standard amount.

2.2 Available options for setting payment standards

2.2.1 Setting payment standard amounts within the basic range

All PHAs – including Designated SAFMR PHAs, Opt-in SAFMR PHAs, and non-SAFMR PHAs – must set payment standards for each unit size at a level that falls between 90 and 110 percent of the FMR (unless HUD has previously approved an exception payment standard or a payment standard below the basic range for the area). PHAs may use different percentages of the FMR for different bedroom sizes.

A PHA that uses MAFMRs may choose to apply a single set of payment standards to the entire metropolitan area that falls within its jurisdiction. Alternatively, the PHA may choose to establish separate payment standard amounts based on the MAFMRs for different areas in its jurisdiction that are covered by the MAFMRs. By contrast, PHAs that use SAFMRs (Designated SAFMR PHAs and Opt-in PHAs) will generally have multiple payment standards schedules in effect for different parts of the metropolitan area (i.e., their jurisdictions will traverse multiple ZIP code areas). HUD does not specify how many different payment standards a Designated or Opt-in PHA must set, or what percentage of the SAFMR to use for each ZIP code area, only that payment standards in effect for the ZIP code area are within the basic range of the applicable SAFMR. In some ZIP codes and for some unit sizes it may be advantageous to set payment standards at the top of the basic range, while in others a PHA may set payment standards at the bottom or middle of the range. Section 2.3 discusses considerations for making these decisions.

PHAs whose jurisdiction includes both Designated SAFMR areas and non-SAFMR areas will need to maintain payment standards based on SAFMRs (for the Designated SAFMR areas) and MAFMRs (for the non-SAFMR areas) *unless* the PHA voluntarily chooses to implement SAFMRs for the non-SAFMR areas.[5] PHAs must provide voucher families who are searching for housing with payment standard information for each area in their jurisdiction. (See Section 6.1 of this Guidebook for more information on working with tenants.)

2.2.2 Using payment standards for individual ZIP codes and grouped ZIP codes

PHAs using SAFMRs may adopt a unique payment standard schedule for each ZIP code area within their jurisdiction, or may instead create a smaller number of payment standard areas by grouping multiple ZIP code areas together into a single payment standard area. Payment standards for a group of ZIP code areas must remain within the basic range of the SAFMR for each ZIP code area in the group. However, a PHA does not need to apply the same percentage of the SAFMR to each ZIP code area within a payment standard area.

Consider, for example, a PHA whose service area covers six ZIP codes, each with a different two-bedroom SAFMR (Exhibit 2-1). The PHA could choose to have six separate payment standards—one for each of the ZIP code areas (Option A). Or, the PHA could group the ZIP codes into a smaller number of payment standard areas—either three payment standard areas (Option B) or two payment standard areas (Option C). Other configurations are possible, but the PHA could not have fewer than two payment standard areas since the basic range for the lowest SAFMR, $650 (basic range of $585 to $715) does not overlap with the basic range for the highest SAFMR, $900 (basic range of $810 to $990).

---

[5] If the PHA jurisdiction includes non-metropolitan counties, the payment standard will be based on the non-metropolitan county FMR for the non-metropolitan counties in the PHA jurisdiction, as HUD does not provide ZIP code SAFMRs for non-metropolitan counties.

Exhibit 2-1. Examples of Grouping ZIP Codes into Payment Standard Areas

		Option A, 6 payment standard areas		Option B, 3 payment standard areas		Option C, 2 payment standard areas	
	SAFMR (2BR)	2 BR payment standard	Percent of SAFMR	2 BR payment standard	Percent of SAFMR	2 BR payment standard	Percent of SAFMR
ZIP code 1	$650	$650	100%	$675	104%	$700	108%
ZIP code 2	$700	$700	100%	$675	96%	$700	100%
ZIP code 3	$750	$750	100%	$775	103%	$700	93%
ZIP code 4	$800	$800	100%	$775	97%	$850	106%
ZIP code 5	$850	$850	100%	$875	103%	$850	100%
ZIP code 6	$900	$900	100%	$875	97%	$850	94%

(Notice PIH 2018-01, (5)(c)(ii))

2.3 Key factors for consideration

Some PHAs' payment standards will remain within the basic range following the transition to SAFMRs. This will especially be the case in metropolitan areas where there is not a lot of variation in rents across neighborhoods and most ZIP codes have a median rent that is close to the median for the metropolitan area, or where PHAs are already implementing HUD-approved exception payment standards. These PHAs may choose not to modify their current standards, or to make only minor changes.

In areas with greater variations in rent across jurisdictions, however, PHAs will need to consider a variety of factors when determining how many payment standards to establish and at what levels, including the configuration of existing neighborhoods; unit availability, rent burden, and access to low-poverty areas; PHA budget impacts; the complexity of implementation; and practices at neighboring PHAs and PHAs with overlapping jurisdiction. PHAs are encouraged to balance the goals of increasing access to low-poverty, resource-rich neighborhoods and serving the greatest number of eligible households when making these decisions, while also understanding the potential impact on HAP costs and minimizing administrative burden and opportunities for error.

2.3.1 Neighborhood configuration

SAFMRs are based on ZIP codes, which are administrative areas that may not reflect the way that neighborhoods are actually configured within cities. When deciding whether to establish payment standards based on ZIP code groups, PHAs may want to consider how ZIP code boundaries map to neighborhood boundaries that are meaningful at the local level – with respect to rent levels, tenant search patterns, landlord presence, housing types, or any other characteristics. This process can enable PHAs to then identify any logical ZIP code clusters.

2.3.2 Availability of units, rent burden, and access to low-poverty areas

The FMRs that PHAs use to determine payment standard levels in SAFMR areas are based on market data at the ZIP code level. Therefore, any payment standard amount within the basic range will provide a relatively close reflection of the cost of rental housing within that ZIP code area. However, the size of the basic range (90 to 110 percent of SAFMR) leaves PHAs with flexibility to further target payment standards to achieve their programmatic goals. In a ZIP code with an SAFMR of $1,100 for a two-bedroom apartment, for example, a PHA could set the payment standard as low as $990 or as high as $1,210 without special approval from HUD – a difference of $220 per month.

PHAs may wish to consider the overall availability of units, the potential impact on families' rent burdens, and access to low-poverty neighborhoods in determining where to set payment standards within the basic range. Another key consideration, discussed in Section 2.3.3, is the anticipated impact of the new payment standards on the PHA's budget.

Overall availability of units

The transition from MAFMRs to SAFMRs is intended to increase the number of rental units available to HCV families in high-cost areas; however, it may also decrease the number of rental units available to HCV families in lower-cost areas. In establishing their SAFMR-based payment standards, PHAs are encouraged to consider how best to preserve access to available units.

Rent burden on existing HCV families

The transition from MAFMRs to SAFMRs may result in lower payment standards (and therefore, lower subsidy amounts) in lower-cost ZIP codes. Voucher families who are living in these ZIP codes will be most significantly affected by the implementation of SAFMRs. The SAFMR Final Rule includes a number of measures to mitigate the potential negative consequences for HCV families in these areas. For example, HUD will limit the amount by which HUD's published SAFMRs will decline from year to year (see Section 1.4). As for PHAs, they will have the discretion to retain HUD-approved exception payment standard amounts that were in place prior to the adoption of SAFMRs, even if such amounts are above the basic range in the ZIP code or for the bedroom size where they apply (see Section 2.4). Additional discretionary measures include a "hold harmless" option that keeps payment standards at current levels for tenants under HAP contract and an option to phase in payment standard reductions over time. (These options are described in greater detail in Section 3.1 of this Guidebook.) PHAs can develop internal procedures to monitor rent burdens, including using reports from IMS/PIC and/or the PHA housing management software. Where potential rent burdens on existing HCV families are identified, PHAs are encouraged to consider the use of these discretionary protections.

For PHAs that opt to apply the lower payment standard during the HAP contract term, it will be important to consider the resulting rent burden on these households. Depending upon the severity of rent burdens, PHAs may want to reevaluate the percentage of the SAFMRs used to set payment standards and/or review their rent reasonableness determinations to ensure rent levels are reasonable.

Effectiveness in facilitating access to low-poverty areas

SAFMRs are intended to improve HCV families' access to low-poverty areas by providing rental assistance at a level that makes the higher rents in such areas affordable to them. The level at which payment standards are set relative to SAFMRs can influence the size of the pool of units available to HCV families in applicable areas. In some high-cost ZIP code areas, for example, it may be necessary to set payment standards at the high end of the basic range (110 percent of the SAFMR) in order to maximize the availability of units to HCV families. In others, the increase in FMRs in low-poverty areas may be sufficient to enable access by HCV families even with payment standards at the middle- or low-end of the basic range for some or all unit sizes. In order to optimize payment standards for this and other factors, PHAs can use different percentages of the FMR for different ZIP codes and for different bedroom sizes within each ZIP code.

In metropolitan areas where few HCVs have been used in high-cost areas, PHAs may need to engage in additional market analysis to inform this decision, including assessing current rent levels, vacancy rates, and other factors that may influence the level at which payment standards are set to enable access to neighborhoods that provide the greatest opportunities. PHAs are encouraged to evaluate the actual locations of HCV-leased units in the years following the implementation of SAFMRs to determine whether adjustment to payment standards is needed to improve access to these neighborhoods.

2.3.3 PHA budget impacts

The implementation of SAFMRs will have an impact on program budgets and HAP expenditures. If declines in HAP payments in lower-cost ZIP codes and potential savings resulting from implementation of SAFMRs are insufficient to offset increases in HAP payments in high-cost areas and other administrative costs, the PHA may encounter a budget problem. The only way to estimate the potential impact of SAFMRs is to do some basic modeling.

There are several ways to model the financial impacts of SAFMR implementation. HUD has developed a Two-Year Tool and a Payment Standard Tool that will allow a PHA to test the impact of multiple payment standard strategies.[6] Some PHAs may be able to do the same type of modeling through the use of reports generated with their housing management software. Regardless of the tool chosen, it is very important that a PHA understand the financial implications of SAFMRs and its payment standard policies.

Desired outcomes when modeling HCV budget utilization with SAFMRs

Successful implementation of SAFMRs is dependent upon the PHA knowing and understanding the impacts of its policy on its budget and on voucher families. Local policies will have budget implications. By modeling different policies, a PHA can develop a local policy that is responsive to its community as well as its budget. The key elements to evaluate include:

- Financial cost for each payment standard option
- Changes in tenant rent/rent burden for families
- The time it will take to see changes in program costs

Program management considerations that impact HAP costs

There are multiple program management factors that influence and affect HAP costs. While not specifically attributable to the SAFMR implementation, PHAs may wish to review the following program areas at least annually:

- Utility allowance schedules
- Subsidy standards

[6] Visit https://www.hud.gov/sites/documents/TYT_PST_OVERVIEW.PDF for an overview of the Two-Year Tool and Payment Standard Tool, and https://www.hud.gov/program_offices/public_indian_housing/centers/fmc/highlights#foretool to access HCV program project tools.

In addition, as noted above, PHAs are encouraged to regularly monitor rent burden to determine whether payment standard adjustments may be needed.

Utility allowance schedules

With the implementation of SAFMRs, voucher families may be able to gain access to neighborhoods that include units that were built with higher efficiency building materials or have Energy Star appliances. Some may even have solar panels or other renewable energy solutions. A PHA can amend its utility allowances to reflect these options.

Subsidy standards

Subsidy standards directly affect the amount of HAP that is provided for each voucher family. Families that are over housed (have a subsidy standard that is greater than their household need) are more expensive to subsidize. PHAs are encouraged to develop an internal review procedure to assure that families are assigned the appropriate subsidy standard and that there are procedures in place to make adjustments to the subsidy standard at each reexamination.

Budget forecast limitations

The purpose of cost modeling is to estimate the potential impact that particular policy decisions may have on the HAP fund. Regular monitoring of program costs is essential to assure that the PHA is maximizing the HAP funds it receives and avoids accumulating large balances in its HAP reserve account (Restricted Net Position) or potentially over-spending, resulting in a HAP shortfall. Program management areas that PHAs may choose to monitor include:

- Number of vouchers issued/new families searching
- ZIP codes/payment standard areas where assisted families currently live
- Short-term and long-term impact of any policy changes (e.g., utility allowances, subsidy standards, etc.)

2.3.4 Complexity of implementation

The administrative impact of analyzing and setting payment standards will likely be most significant in the first year, as PHAs transition from a single set of FMRs to multiple market areas. Ongoing impacts will be related to payment standard-setting, which may be more complex and require additional analysis than under MAFMRs. Increased vigilance and quality assurance processes will also be required to minimize input errors as PHA staff select from multiple payment standard schedules.

Some PHAs may find that grouping ZIP codes to set a smaller number of payment standard areas helps to reduce the administrative burden of managing multiple payment standard areas. For PHAs that have a large number of ZIP codes in their jurisdiction, especially, the process of establishing and managing separate payment standards for each ZIP code may require a significant amount of time and introduce opportunities for error in data entry and program implementation. Maintaining a large number of payment standards may also increase the complexity of communications with HCV families who may have more questions about applicable rents in multiple locations. For these reasons, some PHAs will choose to group multiple ZIP codes together to produce a smaller number of payment standard areas than the number of ZIP codes.

Alternatively, some PHAs will choose to maintain a unique payment standard schedule for each ZIP code in their jurisdiction. PHAs whose jurisdiction includes ZIP codes where SAFMRs vary widely may find it difficult to create payment standards that remain within the basic range for each ZIP code area in a consolidated group. In addition, maintaining separate payment standards for each ZIP code may help to maximize voucher families' access to housing in high-cost areas. Once PHAs have made necessary modifications to their automated systems to accommodate additional payment standards, they may determine that the ongoing costs of administering multiple payment standards are relatively minor and don't warrant consolidation of multiple ZIP code areas.

To reduce the complexity of implementation for PHAs whose jurisdiction includes both mandatory SAFMR areas and non-SAFMR areas, these PHAs may wish to adopt SAFMRs for areas (1) within their jurisdiction that (2) are outside mandatory SAFMR areas in order to avoid administering MAFMR- and SAFMR-based payment standards. (SAFMRs are not available for non-metropolitan counties, so those areas would continue to use non-metropolitan county FMRs.)

Example: Housing Authority of Cook County (HACC)

To reduce the administrative complexity of managing payment standards for each ZIP code, HACC consolidated ZIP codes into groups. HACC currently has 21 payment standards per unit size, instead of one for each of the 170 ZIP codes in its jurisdiction.

Example: Chattanooga Housing Authority (CHA)

Following the transition to SAFMRs, CHA initially set all payment standards at 100 percent of the SAFMR. At the end of the two-year hold harmless period, CHA raised payment standards to 110 percent in areas where SAFMRs required declines in the payment standard. CHA made this change to reduce the administrative burden of handling decreases in payment standards and to reduce the risk of errors in selecting the correct payment standard.

2.3.5 Payment standards at neighboring PHAs and PHAs with overlapping jurisdiction

When ZIP codes cross jurisdictional boundaries, two PHAs may operate in the same area. Where possible, PHAs with overlapping jurisdiction can develop a consistent strategy for setting payment standards in such areas, both to avoid confusion for landlords and tenants and to prevent landlords from shifting their participation from one PHA to another with higher payment standards and contract rents. Even where jurisdiction does not overlap, PHAs may find it helpful to coordinate with neighboring PHAs and, to the extent possible, set payment standards that provide some level of consistency across neighboring ZIP code areas.

2.4 Exception payment standards

Exception payment standards and payment standards below the basic range that were approved by HUD prior to the adoption of SAFMRS may remain in effect following the adoption of SAFMRs, subject to conditions in the approval letter. In some cases, exception payment standards will fall within the basic range following the adoption of SAFMRs, and are no longer exceptions. Where exception payment standards remain above the basic range, they must be maintained following the adoption of SAFMRs unless the PHA subsequently elects to reduce its payment standards. (A PHA may revise its payment standard amounts at any time for a ZIP code area, provided the revised payment standard amounts remain within the basic range.)

(Notice PIH 2018-01, (5)(c)(i))

In some cases, market analysis and/or experience administering SAFMRs will indicate a need for additional variability in subsidy amounts that goes beyond payment standards in the basic range. The SAFMR Final Rule establishes the circumstances in which PHAs may request HUD approval for new exception payment standards or establish exceptions for reasonable accommodation requests.

2.4.1 Requesting HUD approval for payment standards outside of the basic range

At the time of this writing, HUD has not yet implemented criteria that a PHA would use to request, and HUD would use to approve, exception payment standards for SAFMR areas. HUD will issue a separate *Federal Register* notice proposing such conditions and procedures. Once this *Federal Register* notice has been published, Designated SAFMR PHAs and Opt-in SAFMR PHAs that do not already have HUD-approved exception payment standards (and those that do have prior HUD approval for exception payment standards but wish to establish a new, higher payment standard) may request HUD approval to establish exception payment standards that fall outside of the basic range for a ZIP code (90 to 110 percent of the SAFMR).

(Notice PIH 2018-01, (4)(d)(ii))

2.4.2 Requests within ZIP codes and for greater than 50 percent of the population

PHAs that use MAFMRs may not establish exception payment standards for areas that include more than 50 percent of the population of the FMR area. This cap may be impractical when applied within a ZIP code. Under the SAFMR Final Rule, the 50 percent threshold has been eliminated for PHAs that implement SAFMRs, and PHAs may request exception payment standards for any part of a ZIP code. As noted above, HUD has not yet implemented the criteria that Designated and Opt-in SAFMR PHAs would use to make this request.

(24 CFR §982.503(c)(5))

2.4.3 Reasonable accommodation requests

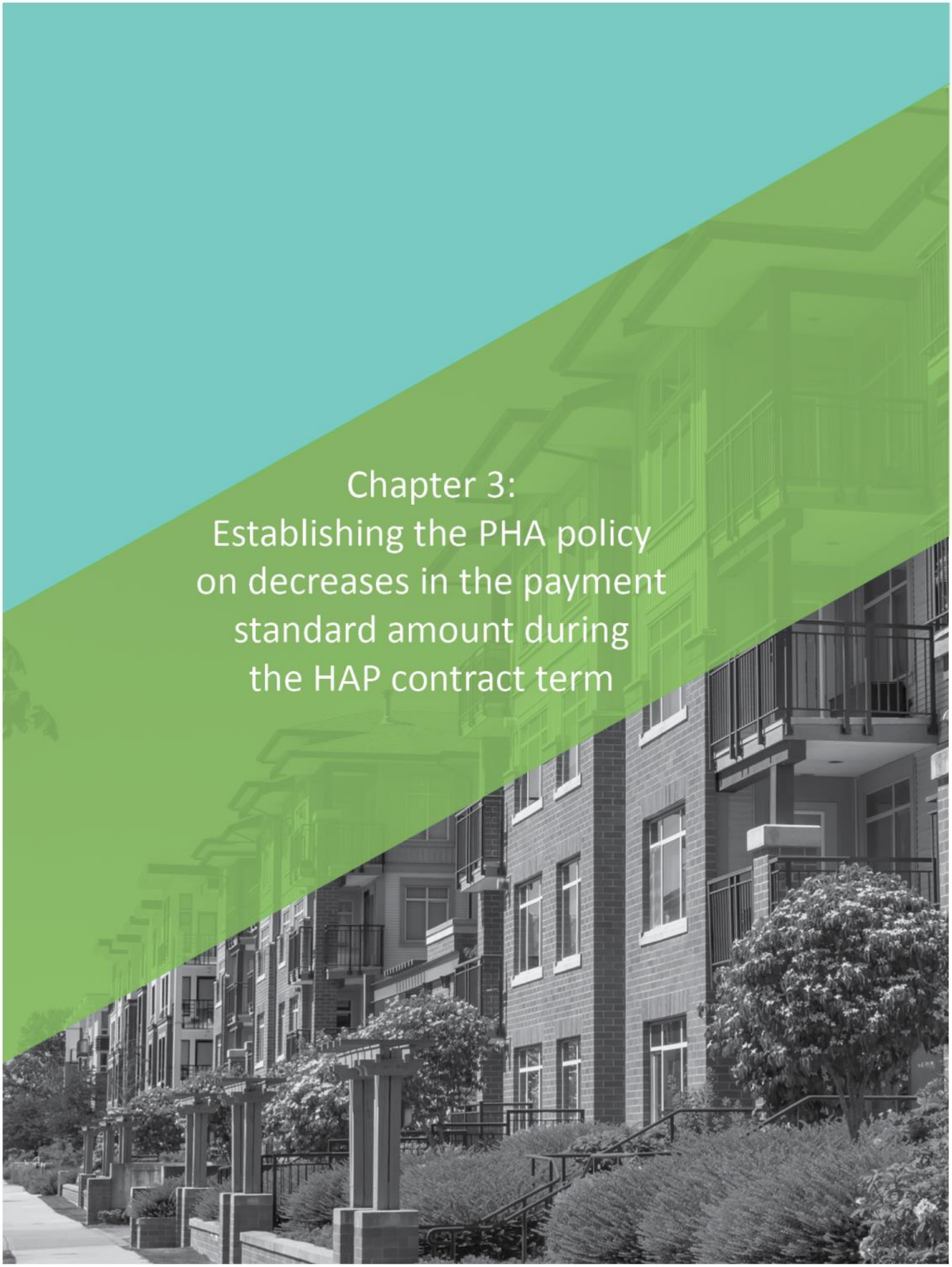
If required as a reasonable accommodation for a family that includes a person with a disability, any PHA may, without HUD approval, establish an exception payment standard of up to and including 120 percent of the relevant FMR (i.e., the SAFMR for the applicable ZIP code area in PHAs implementing SAFMRs or the MAFMR for non-SAFMR PHAs).

To illustrate, a PHA with an SAFMR of $800 for a one-bedroom apartment in a particular ZIP code could establish a payment standard within the basic range, between $720 (90 percent of the $800 SAFMR) and $880 (110 percent of the $800 SAFMR), without HUD approval. Where needed to serve a family that includes a person with a disability, however, the payment standard could be increased to $960 (120 percent of the $800 SAFMR) without special approval from HUD.

PHAs may also request HUD approval to establish a payment standard that exceeds 120 percent of the FMR if needed as a reasonable accommodation for such a family. Note, however, that in either case the applicable unit still must meet reasonable rent requirements.

(Notice PIH 2018-01, (4)(d)(iii)); 24 CFR §982.503(b)(v, vi))

Chapter 3: Establishing the PHA policy on decreases in the payment standard amount during the HAP contract term



3. Establishing the PHA policy on decreases in the payment standard amount during the HAP contract term

The transition to SAFMRs may result in lower payment standards in the lower-cost areas of a PHA's jurisdiction. HCV families searching for units will be impacted by this change to the extent that adjustments in payment standard amounts affect the number and location of rental units available to them. Existing tenants who are already under HAP contract in areas where payment standards decrease may choose to move to higher-cost areas, but some will opt to stay in their current units or neighborhoods.

One of the major regulatory changes resulting from the SAFMR Final Rule is that PHAs are no longer required to reduce the payment standard amount used to calculate the subsidy for families under HAP contract as long as the HAP contract remains in effect. PHAs may establish a policy to hold families under HAP contract harmless from decreases in the payment standard during the term of the HAP contract, or may reduce the payment standard to an amount that is higher than the normally applicable amount on the PHA voucher payment standard schedule. This administrative discretion applies for any decrease in the payment standard, not just decreases resulting from changes in the FMR such as the transition to SAFMRs.

Section 3.1 describes the policy options available to PHAs for applying a decrease in payment standard amounts to the subsidy calculation during the term of a HAP contract. Section 3.2 provides key factors to consider when determining which approach to take.

3.1 PHA options for applying payment standard decreases during the term of the HAP contract

Under the Housing Opportunity Through Modernization Act of 2016 (HOTMA), no PHA is required to reduce a family's payment standard during the HAP contract term based on a reduction in the applicable FMR – whether the PHA is implementing SAFMRs on a Designated or Opt-in basis or is a non-SAFMR PHA. Prior to this change, if the amount on the PHA's payment standard schedule decreased during the term of the HAP contract, the PHA was required to use the lower payment standard to calculate the family's HAP beginning on the effective date of the family's second regular reexamination following the effective date of the decrease in payment standard.

The SAFMR Final Rule amends the voucher program regulations at 24 CFR §982.505(c)(3) to reflect the change made by HOTMA. The SAFMR Final Rule further expands the PHA's administrative discretion to not apply decreases in the payment standard during the term of the HAP contract to any payment standard decrease, not just payment standard decreases that are required by a decrease in the FMR. Where families are under HAP contract on the effective date of a decrease in the payment standard amount, PHAs have three options:

- *Hold harmless – no reduction in subsidy*. The PHA continues to use the payment standard that was in effect prior to the decrease when calculating the family's subsidy, as long as the HAP contract for the unit remains in effect.
- *Reduction in subsidy based on payment standards above the basic range.* The PHA reduces the payment standard amount used to calculate the family's subsidy to a level between (1) the payment standard that was in effect prior to the decrease and (2) the normally applicable payment standard

amount that is within the basic range for the SAFMR. This above-basic range payment standard may be gradually reduced over time to the normally applicable payment standard amount or held at this level indefinitely.

- *No change in policy*. The PHA uses the lower payment standard to calculate the family's HAP.

If the PHA opts to reduce the payment standard amount – whether on a phased-in basis or all at once — the *initial* reduction cannot take place before the effective date of the family's second regular reexamination following the effective date of the decrease in payment standard. Phased-in reductions may then proceed on an annual basis. This hold harmless period means that PHAs will need to maintain existing payment standards for in-place tenants and new payment standards for new admits and those choosing to move.

The PHA must provide the family with at least 12 months' written notice that the payment standard is being reduced during the term of the HAP contract, including the dollar amount of the new payment standard following the reduction, before the effective date of the reduced payment standard amount. This requirement applies whether the reduction is phased-in or taken all at once. Appendix B to PIH Notice 2018-01 provides PHAs with tips for strengthening their written notices to such families.

A PHA may establish different policies regarding a decrease in payment standards for designated areas within its jurisdiction (for example, for different ZIP code areas). Within each designated area, the policy must be applied uniformly to all families under HAP contract (i.e., PHAs may *not* establish a hold harmless policy limited to elderly households or those that include a person with a disability) and described in the PHA's Administrative Plan.

(Notice PIH 2018-01, (4)(e))

3.1.1 Examples of decreases in the payment standard amount during the HAP contract term

To illustrate how families in different scenarios might be impacted by decreases in payment standard amounts during the HAP contract term, this section describes three potential scenarios for families currently under HAP contract at Designated SAFMR PHAs where implementation of SAFMRs is mandatory: Scenario A, in which the PHA implements a hold harmless policy and holds the HAP constant; Scenario B, in which the PHA reduces the HAP based on payment standards above the basic range; and Scenario C, in which the PHA makes no change in policy and uses the lower payment standard to recalculate the family's HAP.

Scenario A. Existing HAP contract, hold harmless policy

Family A is currently assisted under a HAP contract that became effective in June 2015. The family's most recent annual reexamination took place in June 2017, at which point its payment standard was $770.

In keeping with requirements in the SAFMR Final Rule, the PHA adjusts payment standards on March 1, 2018, to fall within the basic range of the SAFMR for each ZIP code. As part of this adjustment, the PHA reduces the applicable payment standard for the ZIP code area where Family A lives by 10 percent, to $693. (See Exhibit 3-1.) The PHA's analysis indicates that this is a low-cost ZIP code with a large number of seniors and people with disabilities who would have a difficult time moving. To avoid a scenario where these households are faced with a high rent burden, the PHA decides to implement a hold-harmless policy for the ZIP code area, with no reduction in the payment standard for families during the term of the HAP contract. In keeping with requirements in the SAFMR Final Rule, the PHA updates its

Administrative Plan to establish the ZIP code as a "designated area" within which a hold harmless policy has been applied.

Family A's first regular reexamination following adoption of SAFMRs and the new March 2018 payment standards takes place in June 2018. At this first reexamination, Family A is automatically held harmless from any reduction in payment standards. Even if the PHA had not adopted a hold harmless policy for the ZIP code area in which Family A lives, the payment standard used to calculate the family's HAP would still be $770, because a PHA may only use a lower payment standard to calculate a family's HAP at the effective date of the family's ***second regular reexamination following the effective date of the decrease in the payment standard***.

In January 2019, the PHA reduces the payment standard for the area where Family A lives by 2 percent, from $693 to $679. In June 2019, Family A has another regular reexamination. Because the PHA has adopted a hold harmless policy for HCV families under HAP contract in Family A's ZIP code, the payment standard used to calculate Family A's HAP is unchanged from $770. If the PHA had *not* adopted a hold harmless policy, this second regular reexamination following adoption of SAFMRs and the 2018 payment standards would have been the PHA's first opportunity to reduce the payment standard for Family A.

At subsequent reexaminations, in keeping with the PHA's hold harmless policy, Family A's HAP continues to be based on a payment standard of $770 until the family moves or the payment standard for the area exceeds $770. If the payment standard for the ZIP code area where Family A lives increases to above $770 in a future year, Family A's HAP would be based on that higher payment standard.

Exhibit 3-1. Scenario A: Existing residents held harmless from reductions in payment standards

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family A	Change for Family A	Notes
6/1/2017	Family A reexamination	$770	n/a	$770	n/a	Family A is currently assisted under a HAP contract.
3/1/2018	2018 payment standard	$693	-10%			
6/1/2018	Family A reexamination			$770	0%	Since this is only the first reexamination for Family A following the effective date of the 3/1/18 reduction in the payment standard, the new payment standard has no effect on the calculation of the family's HAP. This would be true regardless of whether the PHA had adopted a hold harmless policy.

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family A	Change for Family A	Notes
1/1/2019	2019 payment standard	$679	-2%			
6/1/2019	Family A reexamination			$770	0%	Since this is the second reexamination for Family A following the effective date of the 3/1/18 reduction in the payment standard, the lower payment standard could have been used to determine the family's HAP if not for the PHA's hold harmless policy. In future years, Family A's HAP will continue to be based on a payment standard of $770 unless the normally applicable payment standard for the area increases to above that amount.

Scenario B. Reduction in subsidy based on payment standards above the basic range

Family B is currently assisted under a HAP contract that became effective in June 2015. The family's most recent annual reexamination took place in June 2017, at which point its payment standard was $770.

In keeping with requirements in the SAFMR Final Rule, the PHA adjusts payment standards for ZIP code areas in its jurisdiction on March 1, 2018. As part of this adjustment, the PHA reduces the applicable payment standard for the ZIP code area where Family B lives by 10 percent, to $693. (See Exhibit 3-2.) The PHA also decides to apply a gradual reduction in subsidies for existing voucher families, limiting reductions to the payment standard amount used to calculate the family's subsidy to 5 percent per year until the payment standard amount for the family meets the normally applicable payment standard amount on the PHA's voucher payment standard schedule.[7] In keeping with requirements in the SAFMR Final Rule, the PHA updates its Administrative Plan to establish the ZIP code as a "designated area" within which payment standards will be reduced on a phased-in basis.

Family B's first regular reexamination following adoption of SAFMRs and the new 2018 payment standards takes place in June 2018. At this first reexamination, Family B is automatically held harmless from any reduction in payment standard. At this reexamination, Family B receives written notification that the payment standard on which its HAP is based will be reduced to $732 (a 5 percent decrease) in 12 months (June 2019).

[7] Alternatively, the PHA could have applied a one-time or gradual reduction in payment standards until the payment standard amount used to calculate the family's HAP was somewhere between the basic range for the SAFMR and the initial payment standard amount.

In January 2019, the PHA reduces the payment standard for the area where Family B lives by another 10 percent, from $693 to $624. Family B's regular reexamination in June 2019 is their *second* regular reexamination following the effective date of the decrease in payment standards in April 2018. Because the PHA has limited the reduction during the term of the HAP contract to 5 percent in a given year, however, Family B is not subject to the full reduction; instead, the payment standard used to calculate the family's HAP is reduced to $732, or 5 percent less than the initial payment standard of $770. At this reexamination, Family B receives written notification that the payment standard on which its HAP is based will be reduced to $695 (a 5 percent decrease) in 12 months (June 2020).

Family B's payment standard will continue to be reduced by 5 percent at each regular reexamination, with appropriate written notification, until it falls below the normally applicable payment standard for the area, at which point Family B's HAP payment will be based on the normally applicable payment standard. If the payment standard were subsequently reduced again during the term of the family's HAP contract, Family B would be held harmless from this reduction until the family's second regular reexamination following the effective date of the reduction, at which point the family would again be subject to a 5 percent reduction in the payment standard used to calculate their HAP, with similar reductions each subsequent year until it reaches the normally applicable payment standard for the area.

Exhibit 3-2. Scenario B: Phased in payment standard reductions

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family B	Change for Family B	Notes
6/1/2017	Family B reexamination	$770	n/a	$770	n/a	Family B is currently assisted under a HAP contract.
3/1/2018	2018 payment standard	$693	-10%			
6/1/2018	Family B reexamination			$770	0%	This is the first reexamination for Family B since the 3/1/18 payment standard effective date. The PHA provides 12 months' written notice that the family's payment standard will decrease to $732 (not $624) in accordance with the PHA's gradual reduction policy.
1/1/2019	2019 payment standard	$624	-10%			

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family B	Change for Family B	Notes
6/1/2019	Family B reexamination			$732	-5%	Since this is the second reexamination for Family B following the 3/1/18 payment standard decrease, the PHA may reduce the payment standard used to calculate the family's HAP. However, due to the PHA's policy of limiting reductions to a 5% decrease from the previous year; the PHA uses a payment standard of $732 to calculate the family's HAP. The PHA provides the family with 12 months' written notice that the payment standard will be reduced to $695 at the family's next regular reexamination.
1/1/2020	2020 payment standard	$611	-2%			
6/1/2020	Family B reexamination			$695	-5%	The PHA reduces the family payment standard to $695 to calculate the family's HAP. The PHA provides the family with 12 months' written notice that the payment standard will be reduced to $660 in accordance with its gradual reduction policy at the next regular reexamination.
1/1/2021	2021 payment standard	$611	0%			
6/1/2021	Family B reexamination			$660	-5%	The PHA reduces the family's payment standard to $660. The PHA provides the family with 12 months' written notice that the payment standard will be reduced to $627 in accordance with its gradual reduction policy at the next regular reexamination.
1/1/2022	2022 payment standard	$599	-2%			

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family B	Change for Family B	Notes
6/1/2022	Family B reexamination			$627	-5%	Because the family's payment standard is still well above the normally applicable payment standard for its area, it is reduced by 5% to $627 in keeping with the PHA's policy of gradual reductions in payment standard amounts. The PHA provides the family with 12 months' written notice that the payment standard will decrease to $596 at the next regular examination.
1/1/2023	2023 payment standard	$611	0%			
6/1/2023	Family B reexamination			$611	-3%	Applying the gradual reduction of 5% provided in the PHA's last 12 month written notice would result in a payment standard ($596) that is lower than the payment standard that would normally apply to the family ($611), so the gradual reduction policy is no longer applicable to this family. Family B instead receives the 1/1/23 payment standard of $611.

Scenario C. Existing HAP contract, no change in policy; reductions in the payment standard can lead to reductions in HAP payments for existing contracts

Family C is currently assisted under a HAP contract that became effective in June 2015. Their most recent annual reexamination took place in June 2017, at which point their payment standard was $770.

In keeping with requirements in the SAFMR Final Rule, the PHA adjusts payment standards for ZIP code areas in its jurisdiction on March 1, 2018. As part of this adjustment, the PHA reduces the applicable payment standard for the ZIP code area where Family C lives by 10 percent, to $693. (See Exhibit 3-3.) The PHA also decides to use the lower payment standard to calculate families' HAP, rather than adopting a policy to hold families currently under HAP contract harmless or to gradually reduce the payment standard amount. In keeping with requirements in the SAFMR Final Rule, the PHA updates its Administrative Plan to establish the ZIP code as a "designated area" within which there will be no change in policy.

Family C's first regular reexamination following adoption of SAFMRs and the new 2018 payment standards takes place in June 2018. At this first reexamination, Family C is automatically held harmless from any reduction in payment standard because the reduced payment standard may not be applied any

earlier than the second annual reexamination following the effective date of the reduced payment standard. At this reexamination, Family C receives written notification that the payment standard on which their HAP is based will be reduced to $693 (a 10 percent decrease) in 12 months (June 2019).[8]

In January 2019, the PHA reduces the payment standard for the area where Family C lives by another 10 percent, from $693 to $624. At Family C's second regular reexamination following adoption of SAFMRs and the 2018 payment standards, in June 2019, their payment standard is reduced to $693 in accordance with the 12 months' written notice the family received from the PHA. While the payment standard for the area where Family C lives was reduced to $624 in January 2019, the family must receive at least 12 months' written notice of the decreased payment standard amount before it may be applied to the family's HAP calculation. At this reexamination, Family C receives written notification that the payment standard on which their HAP is based will be reduced to $624 (a 10 percent decrease) in 12 months (June 2020).

[8] If the difference between the MAFMR and the SAFMR is more than 20 percent, then the PHA may be able to anticipate the payment standard that will be in effect at the family's second regular reexamination in June 2019. In this case, the PHA could provide Family C with 12 months' notice of a payment standard reduction to $624.

Exhibit 3-3. Scenario C: No change in policy; reductions in the payment standard lead to reductions in HAP payments for existing contracts

Effective Date	Event	Payment standard for SAFMR area	Change in payment standard	Applicable payment standard for Family C	Change for Family C	Notes
6/1/2017	Family C reexamination	$770	n/a	$770	n/a	Family C is currently assisted under a HAP contract.
3/1/2018	2018 payment standard	$693	-10%			
6/1/2018	Family C reexamination			$770	0%	This is the first reexamination for Family C since the 3/1/18 payment standard effective date. The PHA provides the family with 12 months' written notice that the payment standard will decrease to $693 at the family's next regular reexamination.
1/1/2019	2019 payment standard	$624	-10%			
6/1/2019	Family C reexamination			$693	-10%	This is the second reexamination for Family C following the 3/1/18 effective date of the reduction of the payment standard. The decreased payment standard of $693 is put into effect in calculating HAP in accordance with the written notice provided to the family. The PHA provides the family with 12 months' written notice that the payment standard will decrease to $624 at the family's next regular reexamination.
1/1/2020	2020 payment standard	$624	0%			
6/1/2020	Family C reexamination			$624	-10%	The PHA reduces the family's payment standard to $624 in accordance with the notice provided to the family.

3.2 Key factors for consideration

This section describes factors for PHAs to consider when deciding which of the three options to implement in each ZIP code area for families under HAP contract on the effective date of a decrease in the payment standard amount, including impacts on rent burden, unit availability and the PHA's budget, as well as implications for the complexity of implementation.

3.2.1 Rent burden

Unless the PHA decides to implement a policy to not reduce payment standards during the term of the HAP contract, HCV families under HAP contract in areas where payment standards are reduced will likely see their family share increase as the HAP amounts decrease and the owner's rent remains constant (or potentially increases). If a large share of a PHA's families live in areas where payment standards will decrease substantially under SAFMRs, the PHA may wish to consider not applying payment standard decreases or phasing in decreases during the HAP contract term.

Modeling the effect of a payment standard change on program costs can be challenging. HUD's Payment Standard Tool can be used in conjunction with its Two-Year Tool to enable the PHA to model different policies and see how those policies affect HAP and tenant rent burden.[9]

Families who plan to stay in lower-cost areas after payment standards have decreased may be among those who are least able to move (e.g., elderly households, large households, or those that include a person with a disability). These households may also be least able to handle an increase in their share of the rent. While protections must apply to all families under HAP contract in the designated area, the effect on particularly vulnerable families may be taken into consideration when determining whether to adopt a hold harmless policy. See Section 6.1.2 for further discussion on working with existing voucher families under HAP contract.

3.2.2 Likely increases or decreases in the availability of units in other areas

A key benefit of SAFMRs is that payment standards are now based on FMRs that reflect the rental market of a particular ZIP code. PHAs will find that some neighborhoods with modest units that were previously difficult to access because of higher rents may now be more affordable to HCV families. Similarly, a PHA may discover that some neighborhoods with units that had gross rents that were reasonable and below the payment standard now have rents that exceed the payment standard. For these reasons, PHAs are encouraged to carefully analyze the impact that payment standard policies might have on the local market and the families currently leased as well as the way families with vouchers (new admissions and movers) may be affected.

In jurisdictions that include areas where unit availability is likely to decline based on reduced SAFMRs, this reduction may be balanced out by increases in other areas that would allow HCV families to access units in higher-cost areas. If a PHA is unable to determine whether units in higher-cost areas will become accessible to families with a voucher, or determines that such units will not become accessible, the PHA may wish to implement a hold harmless policy that allows families currently under HAP contract to remain in their current units without incurring higher rent burdens.

As part of this analysis, PHAs are encouraged to consider not only the additional number of rental units that will be available in areas where payment standards increase, but also the likelihood that voucher families will be able to successfully rent units in these areas. (See Section 6.2.1 for information on owner recruitment.) On the other hand, where implementation of SAFMRs will result in significant increases in unit availability in high-cost ZIP codes that offer greater access to opportunity, PHAs may wish to

---

[9] See https://www.hud.gov/sites/documents/TYT_PST_OVERVIEW.PDF for a description of both tools.

consider no change in policy or they may consider a gradual decrease in payment standards in lower-cost areas to ease the transition for current voucher participants to new housing.

If a hold harmless policy is adopted, it is important that the families under HAP contract being protected clearly understand the impact of moving (i.e., the loss of hold harmless status and the potential for a decrease in their payment standard depending on where they relocate).

3.2.3 Budget impacts

To the extent that a PHA has not adopted a hold harmless policy, decreasing payment standards in areas with significant numbers of families under HAP contract will result in HAP savings for the PHA (and a potentially higher rent burden for families currently under HAP contract). On the other hand, to the extent that voucher families move to areas with higher payment standards, a PHA may experience higher HAP payments.

PHAs are encouraged to carefully monitor monthly HAP obligations and expenses as implementation of SAFMRs proceeds. Depending on each individual family's situation (income, rent, family size, etc.), changing a payment standard may affect the rent paid by the tenant and the subsidy paid by the PHA. As such, the PUC will change, which will change projections of overall PHA HCV program spending.

Generally, increases in the payment standard will increase PUC and decreases in the payment standard will reduce PUC. Payment standard increases take effect at the family's next annual reexamination (as such, the full effect on PUC will lag the introduction of the payment standard increase) or when the family moves. Payment standard decreases take effect when the family moves, has a change in family composition/size, or at the second annual reexamination (again, there is a varying lag in the effect on PUC). HUD's Two-Year Tool looks at how much money a PHA has to spend and how much money it has spent/is projected to spend, and calculates the difference. The Payment Standard Tool helps PHAs determine the impact payment standard policies will have on program costs.[10]

It is also important to note broader program changes that may arise from changing payment standards; for example, increasing the payment standard will increase the buying power of the voucher which may, then, cause the success rate of issued vouchers to increase and impact the number of vouchers the PHA will need to issue to maintain full utilization of the program. In some cases it may result in the ability to utilize more funding and lead to more renewal funding.

Experience from the SAFMR demonstration suggests that, at least in the initial years, the savings from reductions in HAP payments for voucher participants living in areas where payment standards decline may outweigh the extra costs associated with voucher families moving to areas where payment standards increase; however, PHAs participating in the SAFMR demonstration did not have the hold harmless or gradual reduction payment standard flexibility.[11] Additionally, SAFMRs were not limited to an annual 10 percent decline as was added in the SAFMR rule. To the extent the initial savings pattern holds true for Designated and Opt-in SAFMR PHAs, PHAs may be able to afford to phase in payment standard

---

[10] See https://www.hud.gov/sites/documents/TYT_PST_OVERVIEW.PDF for a description of both tools.

[11] SAFMRs were implemented in the Dallas metropolitan area in 2011 and in five demonstration sites beginning in the fall of 2012. The SAFMR demonstration evaluation interim report is available for download at https://www.huduser.gov/portal/publications/SAFMR-Interim-Report.html.

decreases or even hold voucher families under HAP contract harmless, at least for a period of time. However, the savings a PHA may realize from decreasing payment standards will not be immediate, and it may take time for voucher families to move to areas with higher payment standards. Individual PHAs will need to make their own judgments based on local conditions.

At a minimum, PHAs are encouraged to monitor the impacts of decreased payment standards when preparing monthly voucher management system (VMS) reports, analyzing spending, and planning voucher issuances. For agencies with funding that does not support the number of Annual Contributions Contract (ACC) units authorized, decreasing payment standards presents an opportunity to serve additional families from the waiting list as HAP savings are realized, or alternatively, to phase in payment standard declines or hold voucher families harmless for some period of time to ease the transition for families under existing HAP contracts. This must be weighed against the possibility of related increases in rent burden. Rent burden may be modeled using the Payment Standard Tool, prior to setting payment standards.

3.2.4 Implications for complexity of implementation

As described in Section 3.1, if the amount on the payment standard schedule is decreased during the term of the HAP contract, PHAs have several options.

- PHAs may choose to adopt a hold harmless policy, in which families under HAP contract are not subject to any reductions in in the payment standard during the term of the HAP contract (see Scenario A in Section 3.1.1).

Because this approach maintains current payment standards for families under HAP contract, it may simplify PHAs' interactions with those families and the owners of their units. However, adoption of a hold harmless policy means that the PHA will need to administer multiple payment standards for a single ZIP code area for as long as those HAP contracts remain in effect. It also will reduce the likelihood and amount of HAP savings associated with declining payment standards; such savings may be helpful for offsetting increases in HAP payments in high-cost areas.

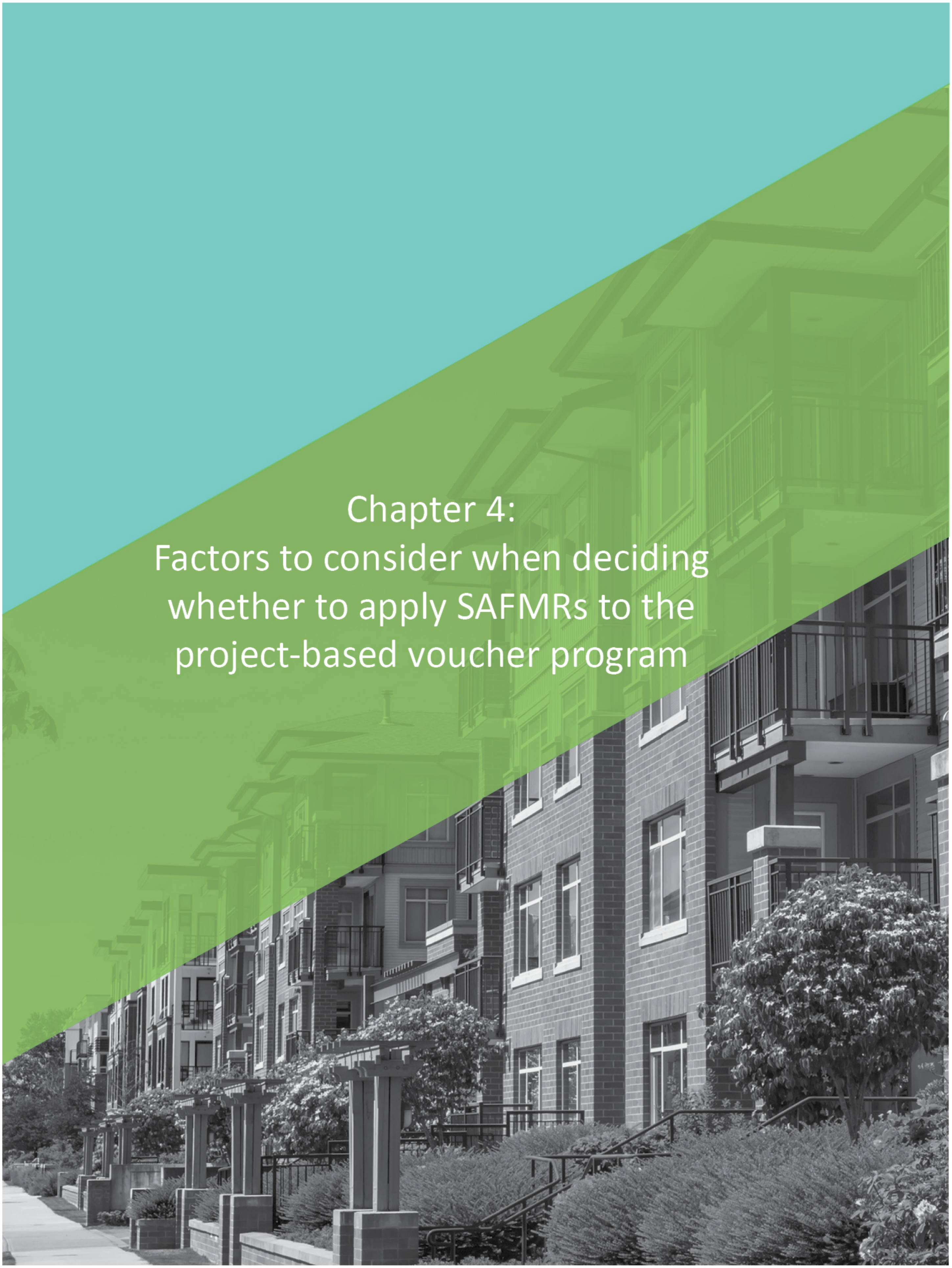
- PHAs can phase in reductions in the payment standard amount used to calculate the HAP payment during the term of HAP contract by a defined dollar amount or percentage each year.

This approach can be an effective way to ease the transition to SAFMRs for families under HAP contract, but may also be more complex to administer than other options (see Scenario B in Section 3.1.1). This approach reduces the impact of payment standard reductions on existing tenants through gradual decreases in payment standard amounts, but could increase the number of times the payment standard decreases for a given family as a large drop in the overall payment standard is phased in for existing HAP contracts. As with all options, tenants and owners will require clear communication from the PHA on what to expect from year to year.

- PHAs may reduce the payment standard amount for families who remain under HAP contract to the current payment standard amount in effect on the PHA voucher payment standard schedule (see Scenario C in Section 3.1.1).

This approach will limit the need for the PHA to administer multiple payment standards for a single ZIP code area to the one- to two-year transition period that automatically applies to all families under HAP contract. This approach simplifies the PHA's administration of payment standards. In addition, this approach will maximize budgetary savings associated with reductions in payment standards; these savings may offset or even exceed the higher costs associated with HAP payment increases in high-cost areas. Because this approach could result in unsustainable rent burdens, PHAs may want to assess other options to prevent or mitigate disruption in families’ tenancies (e.g., setting payment standards at 110 percent of the basic range) or take steps to help families who are subject to reductions to move to new units, including holding one-on-one briefings to review available units in other neighborhoods and providing mobility counseling services (or referrals to local agencies that provide this type of service). This approach will also require clear communication with tenants and owners regarding upcoming program changes.

Chapter 4:
Factors to consider when deciding whether to apply SAFMRs to the project-based voucher program



4. Factors to consider when deciding whether to apply SAFMRs to the project-based voucher program

PHAs that administer project-based vouchers (PBVs) are not required to use SAFMRs for their PBV program.[12] PHAs that operate under SAFMRs must determine whether to apply MAFMRs or SAFMRs to their PBV program.

A PHA that chooses to apply SAFMRs to its PBV program must adopt such a policy in its Administrative Plan and must apply SAFMRs uniformly for all projects within its jurisdiction for which notice of owner selection under 24 CFR §983.51(d) was made after the effective dates of the agency's adoption of both SAFMRs and a revised Administrative Plan. For any project where the notice of owner selection was made prior to either or both of these effective dates, the PHA and owner have the option of continuing with the existing contract or mutually agreeing to apply SAFMRs to the project. If the owner's rent under PBV will increase as a result of this mutual agreement, the rent increase shall go into effect no earlier than the first anniversary of the HAP contract and must comply with the requirements of 24 CFR §983.302(b) regarding rent increases.

PBV and SAFMR key points

- PHAs are not required to use SAFMRs in PBV programs
- PBV payment standard policies **MUST** be defined in the PHA's Administrative Plan
- The SAFMR policy must be applied uniformly to all project-based vouchers within the PHA's jurisdiction
- Any rent increases must occur in accordance with 24 CFR §983.302(b)

For any PBV project to which SAFMRs have been applied, an owner and PHA may not subsequently choose to apply the MAFMR, even if the PHA changes its policy regarding the applicability of SAFMRs to the PBV program.

In considering whether to apply SAFMRs to the PBV program, HUD recommends that PHAs compare the HAP contract rents of current PBV-assisted projects (if any) within their jurisdiction with what the rents would be under the SAFMR policy.

If the adoption of SAFMRs would create a significant discrepancy in individual ZIP code areas between the rents of existing PBV-assisted projects and newly developed projects under an SAFMR policy, PHAs will want to consider the effect on neighborhoods and HCV applicants and program participants before making a decision about whether to apply SAFMRs to their PBV program.

Consider the ZIP codes described in Exhibit 4-1, for example. A family can reside in any of these ZIP codes at a lower cost to the PHA under MAFMRs than SAFMRs. If the PHA has existing properties in these ZIP codes governed by MAFMRs, the adoption of SAFMRs for new PBV projects could lead to a situation in which existing owners put pressure on the PHA to amend the agreement to allow for higher

[12] A non-SAFMR PHA that adopts an exception payment standard for a ZIP code of up to and including 110 percent of the SAFMR must apply it to the entire ZIP code area, for both its HCV and, if applicable, PBV program. For the PBV program, this means that the rent to owner may not exceed the new exception payment standard amount, provided the rent is still reasonable (24 CFR §983.301(b)).

contract rents based on the new SAFMRs. On the other hand, if the PHA has struggled to find owners willing to participate in the PBV program in these high-cost areas because the MAFMR is below market rents, a shift to SAFMRs may allow for the development of PBV properties that provide access to areas with lower poverty, quality schools, and other important neighborhood resources.

Exhibit 4-1. Example of Higher PBV Maximum Rent to Owner under SAFMRs

ZIP code	MAFMR	Maximum rent to owner	SAFMR	Maximum rent to owner
90010	$1,545	$1,700	$2,130	$2,343
90013	$1,545	$1,700	$1,630	$1,793
90014	$1,545	$1,700	$1,810	$1,991
90024	$1,545	$1,700	$2,290	$2,519
90025	$1,545	$1,700	$2,000	$2,200

Alternatively, if a PHA adopts SAFMRs for its tenant-based program but not for its PBV program, and places properties in any of the ZIP codes described in Exhibit 4-2, the PHA may be called upon to justify why it is paying so much more for PBVs in these areas than for tenant-based vouchers. Applying SAFMRs to PBVs will help to equalize rents across the tenant-based and PBV programs, potentially helping to reduce HAP payments associated with PBV properties.

Exhibit 4-2. Example of Lower PBV Maximum Rent to Owner under SAFMRs

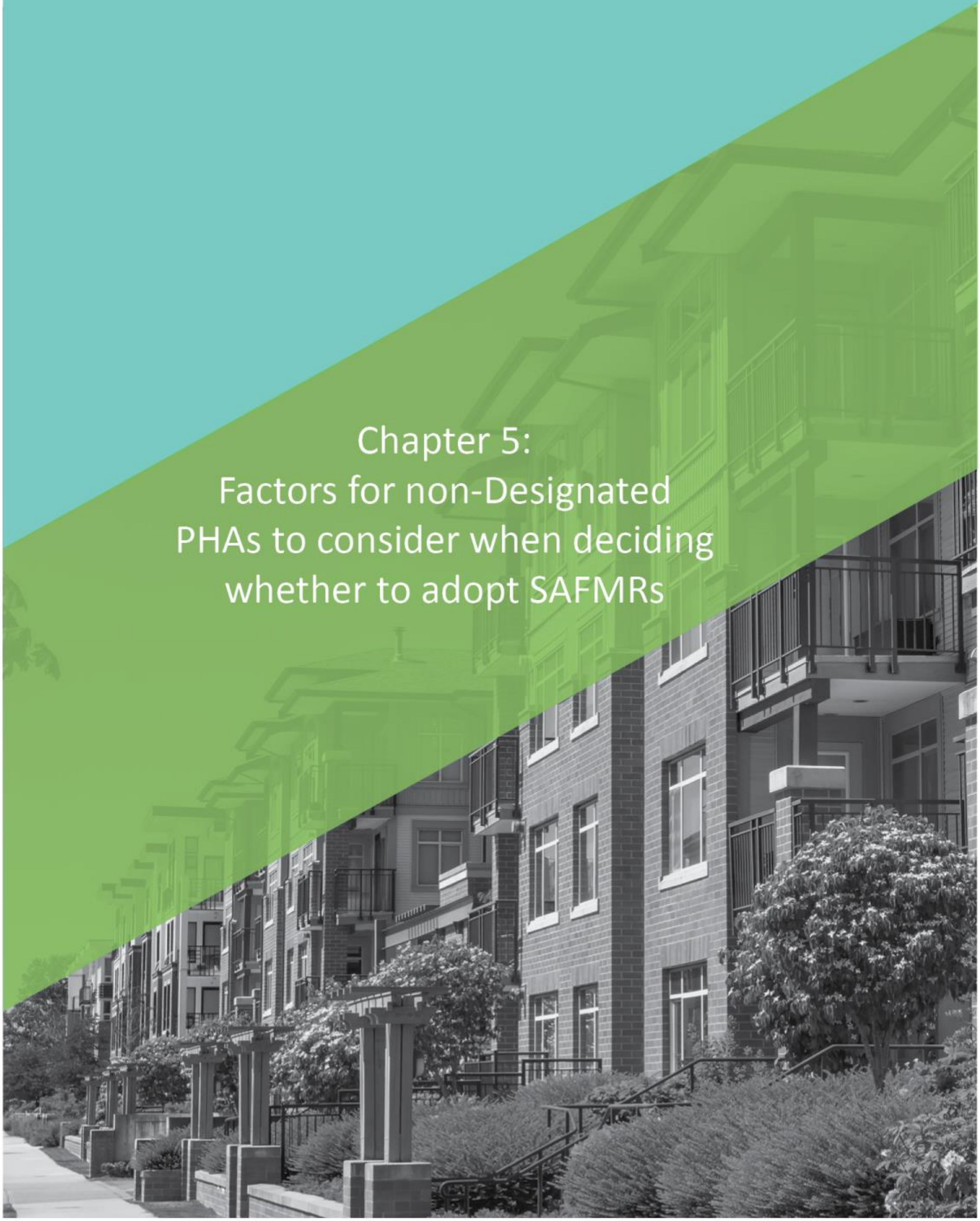
ZIP code	MAFMR	Maximum rent to owner	SAFMR	Maximum rent to owner
90005	$1,545	$1,700	$1,190	$1,309
90006	$1,545	$1,700	$1,170	$1,287
90011	$1,545	$1,700	$1,240	$1,364
90029	$1,545	$1,700	$1,230	$1,353
90033	$1,545	$1,700	$1,170	$1,287

Despite the change in rules that provides an explanation for the difference, a PHA may face pressure to terminate (or at least not extend) the PBV HAP on pre-SAFMR properties, with potential consequences for tenants, lenders, and investors.

PBVs can be a tool to help PHAs create stable affordable housing opportunities throughout their jurisdiction, including in higher-cost areas where the MAFMR may not be high enough to secure rental units. However, in addition to the considerations above, there may be a number of circumstances in which a PHA may want to consider maintaining MAFMRs for the PBV program. These include:

- If an owner has 30-year debt on a project and the appraised value has declined at the point of extension due to the adoption of SAFMRs. In this scenario, the adoption of SAFMRs could create problems for the ongoing viability of the property.
- If the PHA or community is seeking to encourage investment as part of a comprehensive community development plan in low-cost neighborhoods where MAFMRs would be greater than SAFMRs.
- If the PHA has a goal of renovating properties in low-cost neighborhoods to include more energy-efficient materials and appliances. Continued use of the MAFMR in these areas will allow for a higher maximum rent to owner to help cover the cost of these upgrades.

Chapter 5: Factors for non-Designated PHAs to consider when deciding whether to adopt SAFMRs



5. Factors for non-Designated PHAs to consider when deciding whether to adopt SAFMRs

A PHA that administers vouchers in a metropolitan area where the use of SAFMRs is not required may request approval from HUD to voluntarily adopt SAFMRs. There are two options for implementing SAFMR-based payment standards. One option is to become an Opt-in SAFMR PHA and adopt SAFMRs for the PHA's jurisdiction that falls within a metropolitan area or areas. A second option is to use exception payment standards above the MAFMR basic range and up to 110 percent of the SAFMR for one or more ZIP code areas within the PHA's jurisdiction. This section discusses issues to consider in determining whether or not to exercise one of these options.

5.1 Option 1: Voluntarily adopting SAFMRs for a metropolitan area

In PIH Notice 2018-01, HUD provides a list of factors that Non-SAFMR PHAs must consider in evaluating whether to opt in and adopt SAFMRs for a metropolitan area or areas. Under this framework, PHAs must compare the applicable SAFMRs and MAFMRs for the metropolitan area or areas under consideration to:

- Consider whether adoption of SAFMRs is likely to have an adverse effect on the availability of rental housing that is both affordable and available to program participants and applicants;
- Estimate the effect on families of SAFMR adoption and consider whether to adopt the *hold harmless* or *gradual reduction in subsidy* options (see Chapter 3 of this Guidebook for further discussion of these options);
- Identify any areas where the difference between the MAFMR and the (lower) SAFMR is exactly 10 percent and opt-in will therefore trigger the need for rent reasonableness determinations (see Section 7.3 of this Guidebook for further discussion of rent reasonableness);
- Consider whether to apply SAFMRs to the PBV program, if applicable, in which case PBV-assisted projects may also be subject to a rent reasonableness determination (see Chapter 4 of this Guidebook for further discussion of applying SAFMRs to the PBV program).

(Notice PIH 2018-01(5)(b))

To supplement this evaluation, PHAs may also want to assess the opportunities created by implementing SAFMRs, the adequacy of available budget resources, and the administrative resources and capacity.

If a PHA chooses to voluntarily implement SAFMRs for a metropolitan area, it must use the SAFMRs for its entire jurisdiction that falls within the metropolitan area. A PHA with jurisdiction in multiple metropolitan areas may choose to voluntarily adopt SAFMRs for all metropolitan areas in which the PHA administers the HCV program, or for only one or some of the metropolitan areas in which the PHA administers the HCV program.

5.1.1 Opportunities created by adopting SAFMRs

SAFMRs have the potential to provide HCV families with access to low-poverty areas that offer a variety of benefits. PHAs that are considering whether to adopt SAFMRs throughout their jurisdiction are encouraged to consider the extent to which use of SAFMRs would create opportunities for voucher families to live in these areas. As part of this analysis, PHAs can determine the share of voucher families currently living in low-poverty or opportunity areas, and then analyze how much more rental housing in these areas would be accessible to voucher families after moving to SAFMRs.

If this analysis indicates there could be value in shifting from MAFMRs to SAFMRs, PHAs are encouraged to consider possible downsides. For example, if most rental units are located in lower-cost areas, and therefore will be subject to reduced payment standards under SAFMRs, an insufficient number of units may be available following conversion to SAFMRs to provide HCV families with a meaningful choice of units. This could lead to lower voucher success rates, requiring the issuance of more vouchers to achieve full utilization. In addition, if a PHA does not adopt the *hold harmless* or *gradual reduction in subsidy* options for existing voucher participants, rent burdens may increase for families in lower-cost areas.

As part of this analysis, PHAs are encouraged to assess, based on their knowledge and experience, the likelihood that owners in higher-cost neighborhoods will participate in the HCV program in sufficient numbers to make up for the loss of units in lower-cost areas. Factors to be considered include whether the community has a law that prohibits discrimination on the basis of source of income (and whether that law specifically references HCVs), the current state of the PHA’s owner recruitment efforts, and whether the PHA has the resources to increase outreach to owners and encourage families to rent in higher-cost neighborhoods.

PHAs may also choose to model the potential impacts of different payment standard levels within the basic range. Even in places where a shift from MAFMRs to SAFMRs leads to a reduction in the number of rental units falling below the FMR, PHAs may be able to compensate for this reduction by adopting payment standards at the higher end of the basic range in some or all ZIP codes.

5.1.2 Available budget resources

In addition to modeling the impact of a shift to SAFMRs on the availability of rental units affordable to HCV families in the jurisdiction overall and in low-poverty areas specifically, PHAs can also look at the budget impact of various scenarios and consider whether they can make the transition work with current resources. If increases in HAP payments in high-cost areas and other administrative costs exceed reductions in HAP payments in lower-cost ZIP codes and potential savings resulting from implementation of SAFMRs, the PHA may face a budget shortfall requiring them to take cost-cutting measures such as reducing the number of families served.

PHAs considering adoption of SAFMRs may also want to consider where payment standards are set in neighboring jurisdictions, as well as the likelihood that implementation of SAFMRs will lead to increases in port-ins to high-cost ZIP code areas. Specifically, PHAs whose practice is to absorb port-ins for administrative reasons are encouraged to assess the impact that a large number of port-ins to high-cost areas will have on the PHA’s Per Unit Costs (PUCs), and consider whether to begin billing the initial PHA if they don’t have the capacity to absorb these costs. (Conversely, PHAs with large numbers of participants who port to higher-cost areas may now be billed at much higher costs, and will need to assess the impact on their PUCs.)

5.1.3 Administrative resources and capacity

Regardless of the analysis of unit availability and budget resources, PHAs will need to determine whether they have the administrative capacity to handle a transition to SAFMRs. Adoption of SAFMRs will result

in one-time impacts (activities and costs required initially to establish SAFMRs), transitional impacts during the first year of implementation, and continuing impacts that will endure for the life of the program. The PHA is encouraged to make an honest assessment of whether they can handle the extra work with available staff resources and capacity.

A PHA that chooses to adopt SAFMRs throughout its jurisdiction must submit a written request to its local HUD Office of Public Housing via SAFMRs@hud.gov, stating that it has completed the required evaluation specified in Section 5.1 of this Guidebook. The request must indicate the PHA's proposed effective date of SAFMR implementation. If HUD approves the request, the PHA must then amend its Administrative Plan, stating in its plan that it will operate according to SAFMRs and also identifying any policies it has adopted with respect to SAFMRs. A PHA that opts in to SAFMRs may opt out, returning to the use of MAFMRs, via revision of its Administrative Plan and notification to its local HUD field office, again at SAFMRs@hud.gov, after taking into consideration any disruption to its program, families, and owners that may result.

5.2 Option 2: Using payment standards based on SAFMRs as exception payment standards in one or more ZIP codes

Under 24 CFR §982.503(b)(1)(iii), a PHA that is not required to adopt SAFMRs and does not wish to opt in to the use of SAFMRs may nevertheless choose to adopt payment standards based on SAFMRs within one or more ZIP code areas. As stated in PIH Notice 2018-01, a "non-SAFMR PHA may establish an exception payment standard for a ZIP code area of up to and including 110 percent of the SAFMR determined by HUD for that ZIP code area. Regardless of the level of the exception payment standard compared to the MAFMR, the PHA must simply send an email to SAFMRs@hud.gov to notify HUD that it has adopted an exception payment standard based on the SAFMR." There is no need to obtain HUD approval, and the limitation at 24 CFR §902.982(c)(5), governing the total population of HUD approved exception areas, does not apply.

PHAs that adopt an exception payment standard pursuant to this authority must apply the exception payment standard to the entire ZIP code area for both the HCV and, if applicable, PBV programs. This means that the rent to owner in the PBV program may be based upon the new exception payment standard amount, provided the rent is still reasonable (24 CFR §983.301(b)). A PHA that adopts such an exception payment standard must revise its briefing materials to make families aware of the exception payment standard(s) and area(s) covered.

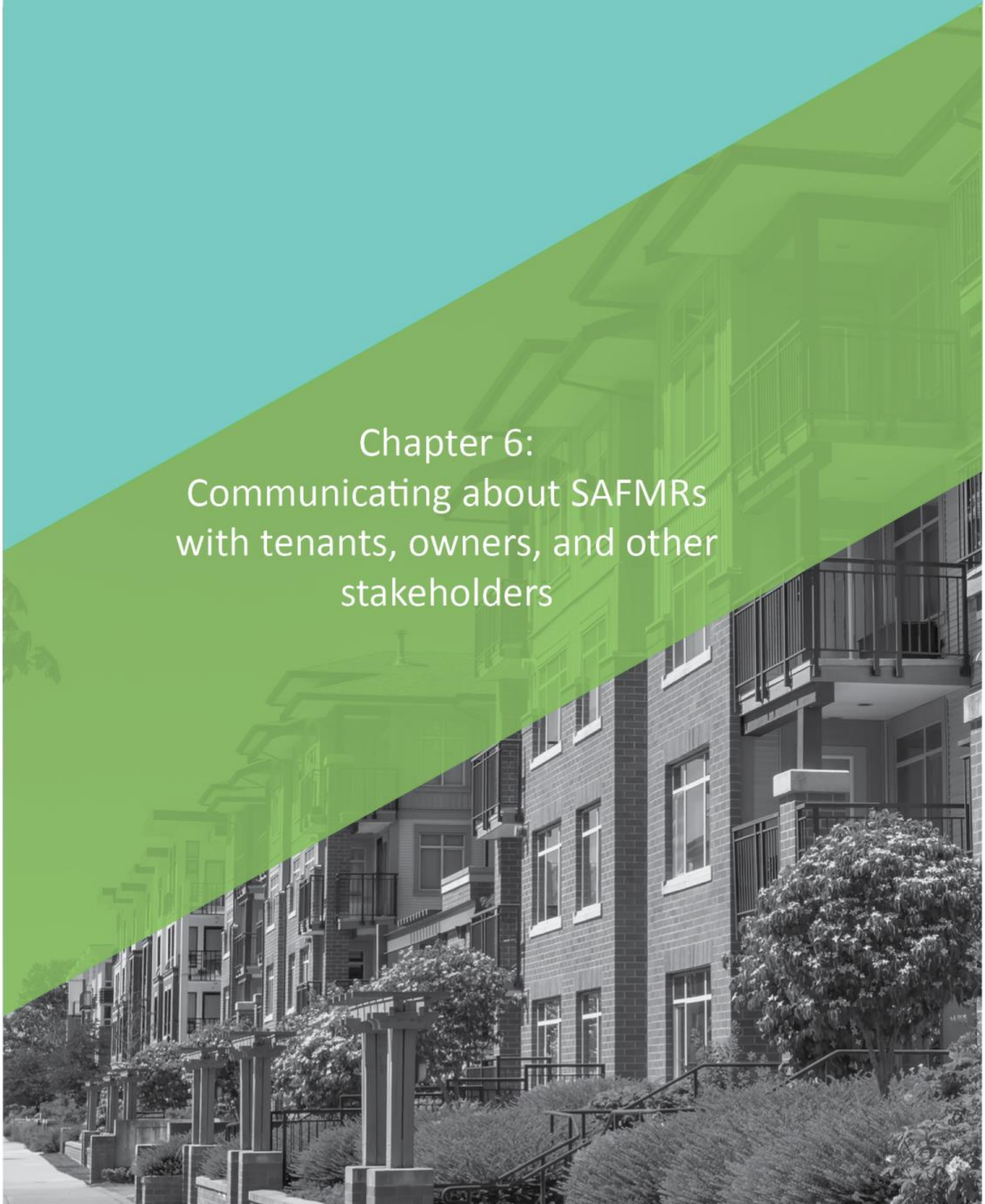
(PIH Notice 2018-01 (4)(d)(i))

This option could be useful for a PHA that generally finds the MAFMRs to work well for purposes of giving HCV families a meaningful choice of units, but wishes to increase payment standards within specific low-poverty or opportunity areas to expand opportunities for HCV families to live within these areas. Using SAFMRs as the basis for increasing payment standards within a limited number of ZIP codes can help to reduce challenges associated with reductions in payment standards for HCV families with existing HAP contracts, as the rent burden on families in low-cost neighborhoods will not be affected. However, a decision to use SAFMRs only to raise payment standards without a corresponding reduction in payment standards in other parts of the PHA's jurisdiction could lead to increases in per-unit costs that may create budgetary challenges for the PHA. (See Section 2.3.3 for additional discussion of the budgetary issues associated with shifting to payment standards based on SAFMRs.)

A non-SAFMR PHA can also choose to request that HUD approve exception payment standards below the basic range of MAFMRs in certain low-cost areas under the provisions of 24 CFR §982.503(d). While these requests require satisfaction of the standards for HUD approval (notably related to the rent burden of existing residents), this process together with the process for increasing payment standards based on SAFMRs under 24 CFR §982.503(b)(1)(iii) can allow PHAs to increase payment standards in specific high-cost areas and reduce payment standards in specific low-cost areas. This approach differs from a full adoption of SAFMRs in that the PHA would be adopting higher and lower payment standards based on SAFMRs only for certain ZIP code areas, as opposed to in all areas of its jurisdiction that fall within that metropolitan area. Balancing payment standard increases with payment standard decreases could potentially help reduce budgetary concerns.

A PHA that chooses to adopt exception payment standards based on SAFMRs within specific ZIP codes, rather than opting in to SAFMRs, will need to notify HUD every time the PHA wishes to adjust an SAFMR-based exception payment standard, to inform HUD of its plan to adopt a new exception payment standard for those areas.

Chapter 6:
Communicating about SAFMRs with tenants, owners, and other stakeholders



6. Communicating about SAFMRs with tenants, owners, and other stakeholders

When implemented, SAFMRs may bring considerable change and possibility to HCV families and owners alike. The strategies that PHAs use to inform stakeholders of the challenges and opportunities presented with SAFMRs will have a significant impact on the ability of PHAs to successfully manage the transition. PHAs are encouraged to review existing points of contact and communication vehicles to ensure accurate, timely, and accessible information about SAFMRs is available to tenants and owners, and tailor their messaging and approach to each audience.

6.1 Working with tenants

6.1.1 Prospective and current voucher participants

PHAs are currently required to provide information to families selected to participate in the HCV program regarding where they can rent units, payment standards for each area in their jurisdiction, and the benefits of living in areas with lower concentrations of low-income families.

(24 CFR §982.301)

This information is of central importance to families seeking to lease a unit in the program for the first time, and this briefing will likely be the introduction to what can be a confusing set of payment standards in PHAs' jurisdictions. Since these families are new to the HCV program, however, they will not have to navigate a transition from MAFMRs. There are several points that PHAs may want to emphasize in communicating with new tenants:

- *Affordability*: PHAs need to explain how payment standards affect the family share, in combination with gross rent and other factors. Specifically, PHAs are encouraged to provide details regarding how the varied payment standards make it easier for families to afford housing in higher-cost areas. Additionally, payment standards may change from year to year, a factor that families may want to take into account when selecting a unit. Many PHAs encourage families to avoid renting units at or above the payment standard ceiling because any changes in future years (in payment standard, gross rent, family income or composition, etc.) will influence affordability and could result in higher cost burdens for families.

Special programs

A PHA operating Special Programs may want to take into account how those programs are impacted by SAFMRs. For example, a PHA operating a mobility program may find that higher SAFMRs do not correspond to where the PHA has identified opportunity areas. In this example, the PHA would have to consider its communication strategies if opportunity areas and high-cost areas do not intuitively align following implementation.

- *Opportunity:* PHAs can provide information that shows how high-cost areas may offer greater opportunity in terms of school quality, proximity to jobs, and neighborhood diversity and safety.

- *Availability*: PHAs may want to inform tenants that SAFMRs have not always been in effect, and, prior to their implementation, it may have been difficult for voucher families to afford units in higher-cost areas. Voucher families may therefore be more likely to encounter owners who are reluctant to participate in the HCV program. These owners may not be aware of the PHA's new payment standards, and assume their rents are still unaffordable to voucher families. The PHA's efforts to educate landlords will hopefully persuade many of them to explore participating in the program. In some cases, however, voucher families may interact with landlords prior to the PHA and, as a result, share some of the burden of educating landlords. Furthermore, voucher families can likely expect increased competition for units in high-cost areas, from both subsidized renters and unassisted renters with higher incomes and long-standing interest in these communities.

Updating briefing materials

Implementing SAFMRs will require changes to briefing materials for voucher families. PHAs are encouraged to use this opportunity to improve the materials to ensure the objectives of SAFMRs are reflected throughout not only the written materials, but oral presentations as well. Briefing materials can highlight the increased value of the voucher in high-cost areas, emphasize the location and benefits of opportunity areas, and coach families on how to interact with potential landlords to increase their chances of successfully leasing in high-cost areas.

Briefing port-ins

A family porting into a PHA, regardless of their tenure in the HCV program, is not likely to be familiar with SAFMRs and the receiving PHA's schedule of payment standards. However, they may be familiar with the HCV program of the initial PHA and may not require much additional education. PHAs may consider each family's experience and knowledge of the HCV program in deciding what type of briefing to offer. Depending on the resources available to handle the volume of port-ins, PHAs may be able to provide one-on-one briefings or invite port-ins to briefings regularly scheduled for applicants or existing voucher families. Regardless of the preferred method of briefing, for a successful search, it is necessary to provide families with an understanding of the varied payment standards, and information regarding what different parts of town offer in terms of affordability, access to opportunity, and the availability of units.

6.1.2 Current participants in the HCV program

For current participants in the HCV program, SAFMRs might contrast with their understanding of how the program operates. Voucher families in areas with decreasing payment standards may experience a negative impact, because their tenant rent might increase as the HAP amount decreases and the owner's rent remains constant (or potentially increases). PHAs must include policies in their Administrative Plan outlining how decreases in the payment standard for families currently under HAP contract will be applied in subsidy calculations for these families. (See Chapter 3 of this Guidebook.) Upon implementation of SAFMRs, PHAs must clearly communicate their policy to participants and explain any regulatory protections that have been adopted by the PHA to minimize the effect on tenants of payment standard decreases, either in writing, at a regular reexamination, or in a special briefing. It is important that PHAs remind voucher participants of the relationship between the payment standards and gross rent during reexaminations.

During the process of notifying families affected by decreasing payment standards and HAP payments, PHAs may consider scheduling meetings or briefings to explain the process and present options for families to consider. Options for HCV families in areas where payment standards decline and the PHA has not adopted a hold harmless policy may include, but are not limited to:

- Remain in the current unit and potentially pay more at the time of the second reexamination
- Ask the owner to reduce the rent
- Consider moving to a more affordable housing unit
- Learn about ways to increase family income

Program regulations protect families under HAP contracts from the effects of reductions in the payment standard during the term of the contract until the second regular reexamination following the payment standard decline. For families seeking to move into a new unit, however, the payment standard changes will be felt immediately.

Describing changes related to the transition to SAFMRs

SAFMRs could provide great advantages to voucher families, but the transition might be disruptive or confusing if not addressed proactively. In communicating with families, PHAs are encouraged to be upfront about both the benefits and limitations of the new methodology, and be clear about the intended goals of making units in lower-poverty, high-opportunity communities more affordable.

The size of the jurisdiction and the manner in which the PHA assigns payment standards across its ZIP codes will determine how many payment standards are applicable for a single PHA. PHAs with multiple payment standards within their jurisdiction are encouraged to take steps to present that information in an easily digestible manner. In many cases, detailed and color-coded maps will increase the family's understanding; however, the more fragmented the jurisdiction, the greater the need for automation or direct support to the family. PHAs with a smaller number of payment standards are likely able to make simple charts available outlining payment standard areas and associated payment standards.

Implementing decreases in payment standards

PHAs have significant flexibility concerning how decreases in payment standards are applied to participants' subsidy calculations. Once the policy is decided, the PHA will have an ongoing responsibility to notify families about payment standard decreases, according to its selected policy. (See Section 3.1.)

Regardless of the policy decision, PHAs must always provide 12 months' notice that the payment standard is being decreased during the term of the HAP contract, giving families the opportunity to plan for the tenant rent changes and move if they determine that the new rent is more than they can or choose to afford. PHAs can minimize the need for additional staff time to explain policies to participants by providing clear and specific information. For example, a notice explaining that a PHA's payment standards are decreasing must state when and how (immediately, or in phases) the decrease will be applied to the family, including the dollar amount of the new payment standard resulting from the decrease. Ideally, the notice will also include a projection of the expected TTP and Tenant Rent if the family is residing at the current unit once the decrease is applied to their subsidy. A best practice for PHAs to consider is to provide families who want to move with landlord referrals to units that will fall within the payment standard limits, based upon the actual unit size and location. Appendix B to PIH Notice 2018-01 provides PHAs with tips for strengthening their written notices to such families.

Communication strategies

Given the potential changes for voucher families considering moving to a new unit, PHAs may make information accessible to the families in a variety of ways. The manner of dissemination of this information can be different depending on the type of move.

Moves corresponding with the reexamination period

In many cases, the end of the lease term will correspond with the regular reexamination effective date. A family may alert the PHA in advance that they are seeking to move, or the PHA may learn after soliciting information from the family. To complete the reexamination process, PHAs have a variety of procedural options, including group briefings, one-on-one meetings, or a mail process. PHAs may want to examine their current procedures and determine whether the implementation of SAFMRs calls for the restructuring of the reexamination process in order to ensure families are adequately educated about the new policies. PHAs are encouraged to take into consideration the size of their HCV program, caseload distribution, staff capabilities, and the complexity of the enacted payment standards in deciding whether to amend their reexamination process.

Communicating the new policies via mail alone can be challenging for PHAs and participants alike. PHAs with limited changes or few payment standards in their jurisdiction will have the best chance for success in providing information in writing. In preparing messages, PHAs are advised to provide enough detail for a family to undertake a housing search with confidence, with as much clarity as possible. When possible, they can point the family to a page on the PHA's website with additional information and tools. PHAs may receive many questions not only upon receipt of this information, but once a family selects a unit. Depending on the clarity of the messages, and the capacity of participants to understand the information, significant staff time may be required to address families' concerns.

Many PHAs hold in-person briefings in either group or individual settings to conduct the regular reexamination process. Group briefings can be an efficient and effective way to provide information regarding the move to SAFMRs. PHAs that already provide these briefings are encouraged to continue to ensure the presenter has adequate presentation skills and is well-versed in the changes and implications for families. PHAs providing one-on-one briefings may consider moving to a group format to increase efficiencies. Additionally, these group settings will provide an opportunity to improve messaging based on the questions participants have that the PHA did not anticipate.

Emergency/Interim moves

As Emergency and Interim moves occur at unexpected times, PHA staff responsible for coordinating these moves and issuing vouchers will need to be well-trained

SAFMR and Updates to Briefing Requirements

PHAs must review and, if needed, update oral briefing protocols. Clearly communicate to families how SAFMRs affect:

- How the program works
- Where a family can lease a unit (inside and outside of the PHA jurisdiction)
- Benefits to living in areas that do not have high concentrations of low-income families

The written information packet that a PHA provides must be updated to inform families:

- How the PHA determines the payment standard for the family
- How the payment standard influences the maximum rent for an assisted unit
- The advantages of living in areas that do not have a high concentration of low-income families.

(24 CFR §982.301)

in SAFMRs. All PHA staff who are responsible for issuing vouchers must be familiar with the voucher briefing requirements (as defined in 24 CFR §982.301). PHAs will need to review their briefing protocols to assure that the oral briefing requirements are appropriately reviewed with families and are updated to include payment standards based upon the SAFMRs.

6.1.3 Supporting tenants

PHAs can provide additional support to help tenants access the high-opportunity areas that SAFMRs seek to make affordable. These offerings can vary widely, and a sample menu of options is below:

- *Affordability calculators:* When a variety of payment standards are in place, families need a quick and easy way to determine a unit's payment standard and whether they are able to afford the unit based on their income. Many PHAs utilize an online affordability calculator that can assist these participants. These calculators require some information from the tenant (income, voucher size, unit bedroom size, unit ZIP code, utility responsibility, and fuel source) and use the PHA's payment standard and utility allowances to determine whether the unit is affordable. These tools do not take into account rent reasonableness and therefore provide only a basic guideline. PHAs without the technical capabilities to provide this tool on their website can design spreadsheets in common applications such as Microsoft Excel that accomplish the same task.
- *Extended search times:* Providing additional time to search for units can aid families who are seeking to rent in areas with which they are unfamiliar. Extending search times has implications for the PHA, particularly as the implementation of SAFMRs may present a challenge for an agency's utilization and HAP renewal funding. However, extended search time can be an incentive for families to put in extra effort to find housing in high-opportunity areas. Extended search times can be particularly valuable for families with children who require larger units. These households stand to benefit greatly from moves to higher-cost communities, which may provide increased school quality.
- *Mobility counseling*: PHAs are required to explain the advantages of areas that do not have a high concentration of low-income families in briefings for families selected to participate in the HCV program as well as in their information packets. In addition to these required notifications, PHAs can provide mobility counseling specifically designed to help interested voucher participants relocate to low-poverty neighborhoods. Some PHAs already offer mobility counseling services for families with vouchers or participants in other rental assistance programs. Those that do not may consider adding these services, which can include one-on-one apartment search assistance, neighborhood tours, aid in negotiating with landlords, and post-search guidance on how to access services in an unfamiliar neighborhood. Additionally, PHAs are encouraged to prepare to discuss potential barriers, such as owner unwillingness to participate in the program, changes in the availability of resources such as public transportation, and the potential absence of existing social networks and support in these new areas. Forming partnerships with local agencies may offer an alternative to providing this counseling in-house.

  PHAs can also provide training (either in-house or through relationships with local groups) to participants on relevant topics such as budgeting and housekeeping. Providing a certificate to those who attend will enhance their standing, and perhaps provide them with an advantage with prospective owners over other renters.

- *Interactive maps:* Web-based maps allow users to enter an address or select a geographic area and see the applicable payment standard, alongside other information such as a community profile. Mapping tools can help families through the search process and reduce inquiries to PHA staff.
- *Landlord outreach*: PHAs are already required to provide a list of landlords known to the PHA who may be willing to lease a unit to the family or other resources that can assist the family in locating a unit. PHAs can conduct outreach specifically to high-cost areas and educate housing providers on SAFMRs and the HCV program generally. Additional information regarding landlord outreach is in the next section.

6.2 Working with owners

Just as existing and prospective program participants need to be educated on the changes associated with a transition to SAFMRs, so do current and prospective owners. Increasing the roster of owners willing to participate in the program, particularly in high-opportunity areas, has been a task many PHAs have considered or undertaken. However, with SAFMRs, additional education will likely be required for current participating landlords in areas where FMRs and payment standards will change.

6.2.1 Owner recruitment

Landlords may have preexisting ideas about the HCV program and its participants, but many will not have great knowledge of how the program operates. The PHA has a crucial role in providing comprehensive information about the benefits of the program in order to recruit new owners in high-cost areas or to persuade participating owners to also make units in those areas available to families with HCVs. Communication strategies can focus on the following advantages of the HCV program:

- *Cash flow*: The HCV program can help to mitigate the challenge of finding and retaining tenants, providing a source of steady rental income. The program also provides protection in case of changes in tenant income, adjusting the subsidy to ensure a decrease in tenant income does not cause a tenant to fail to pay their rent.
- *Advertising*: The HCV program already provides some information about landlords and available units. The program can highlight units in high-opportunity areas and refer tenants to them. The PHA can host open houses where landlords can advertise available units and interview and screen tenants immediately.
- *Support*: The PHA may want to consider ways to improve customer service to landlords in high-cost areas. These landlords may not be familiar with the procedures of the HCV program. Providing a program liaison to landlords in these areas to answer questions, assist in the completion of paperwork, and expedite the leasing process can facilitate owner participation in the program.

PHAs can consider the following communication options to drive recruitment:

- Work with local Realtor® and landlord associations, including leveraging any memberships the PHA may have to provide information to their members.
- Update website content and printed/periodical communication materials.
- Incorporate new ideas into the PHA’s outreach strategy such as hosting a networking event for owners and managers at a location in a high-opportunity community.

Dealing with jurisdictional overlap

There may be cases in which more than one PHA administers voucher in a designated area, or a ZIP code overlaps neighboring counties. In some cases, PHAs may have preexisting arrangements regarding the payment standards for those areas. SAFMR implementation will likely spur a reexamination of those policies, and PHAs are encouraged to initiate a collaborative process to work toward a single payment standard when possible. While landlords may already be adept at working with more than one agency in a jurisdiction and possibly divergent policies, PHAs may want to take advantage of any opportunity to streamline the policies of a single geographical area, including payment standards. A PHA that applies a lower payment standard than another agency may lose landlords and units for its participants due to the difference in payment standard amounts.

6.2.2 Communicating policy changes

PHAs may find that similar messages are useful for both tenants and landlords. However, in communicating broadly to landlords, the theme of increasing participant access to higher-cost areas can be emphasized. Depending on the jurisdiction, SAFMRs may have a negative effect on the number of affordable units available to families with vouchers across the entire jurisdiction, and PHAs will likely need to spend more time and effort focused on recruiting landlords with units that are affordable when using SAFMRs. The PHA's policy decisions and local rental market conditions will have a large impact on landlords' decisions to change their participation status. PHAs can prevent decreases in owner participation by advertising the same benefits that were mentioned above, specifically related to cash flow.

Be Prepared!

Communicating changes with landlords and owners may require significant staff time initially, but this will likely decrease as landlords become more familiar with SAFMRs.

The PHA is encouraged to provide the same type of clear and specific information to owners when decreases in payment standards are applied to a family during the HAP contract term. The changes in TTP and HAP can be detailed by the effective date and provided at the same time notice goes to the tenant.

Landlords who currently participate in the HCV program may have some tenants who are subject to revised payment standards based on SAFMRs and others in the same property who are subject to old payment standards based on MAFMRs. PHAs are encouraged to make landlords aware of the possibility of this scenario. Along these lines, some buildings may include tenants who rent units through the HCV program and others who are assisted through the PBV program. Where the PHA elects to not apply SAFMRs to the PBV program (see Chapter 4 of this Guidebook), the landlord may have identical units that are subject to different payment standards.

Additionally, owners need to understand the voucher program's limits on initial rent burden at lease-up of 40 percent of income. This is a policy that owners may not be largely aware of, but may experience firsthand with various

Contract rent adjustments in the SAFMR Demonstration Evaluation

Some PHAs in the SAFMR Demonstration Evaluation experienced a change in the behavior of current landlords, including an increase in the number of requests for rent adjustments or a protracted rent-setting process. Landlords who had not regularly requested rent adjustments because they knew any additional increase would be borne by the tenant requested increases in greater numbers in areas where the payment standard had gone up.

tenants. PHAs are encouraged to provide examples of how SAFMRs will affect households of different composition and income if the initial rent burden cap is applied. Landlords will benefit from understanding the impact of future rent increases on the family as an increased rent burden could encourage a family to move from a unit.

6.2.3 Other tools

Landlords, including those offering units in high-cost ZIP code areas, could be provided with opportunities to present their properties directly to HCV holders. PHAs can streamline this process by including landlords in briefings or hosting landlord fairs in conjunction with briefings. If PHAs utilize vendors to maintain online listings of available units, they may want to examine providing similar benefits on those platforms, such as keeping those listings at the top of search results, or placing a special icon next to the listing.

For PHAs with online landlord portals, personalized support and efforts to connect them with tenants could be provided. For example, PHAs can give landlords the ability to easily send new listings to the PHA, which in turn can offer the listing directly to households with HCVs. PHAs that maintain email contact information can send weekly updates to families that have been issued a voucher.

6.3 Educating stakeholders

In order to transition successfully to SAFMRs, PHAs will need the buy-in and support of a diverse group of stakeholders including staff, board members, local advocates, and elected officials. PHAs routinely interact with these populations and can use existing points of contact to offer appropriate training sessions and information exchanges. PHAs have to consider the interests of each group and carefully design communication strategies that are likely to result in the creation of allies based on shared goals. The following three sections illustrate specific examples of how these strategies might be implemented.

6.3.1 PHA board and staff members

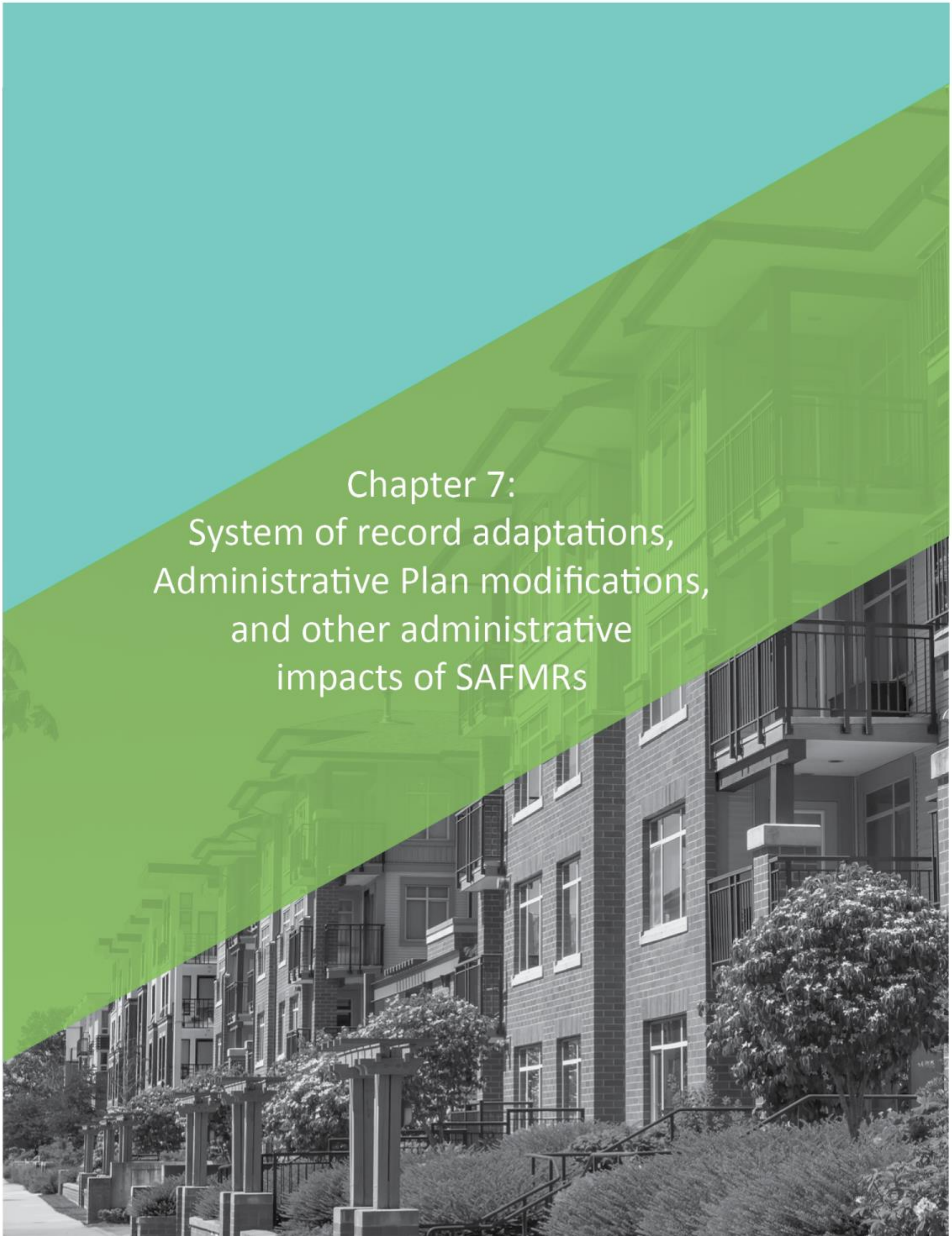
Depending on an individual’s role with the PHA and HCV program, their needs for training will vary widely. PHA board members will need to be educated on SAFMRs so they can make informed policy and programmatic decisions. PHAs may offer a professional development seminar on the program to provide in-depth education to interested board members and/or staff members. For those individuals providing ancillary services or support to the HCV department, an agency-wide email may provide enough information regarding the transition. Staff can be directed to publicly available information on the PHA’s website for further details.

6.3.2 Local advocates

Local advocates can include affordable housing proponents, fair housing advocacy agencies, and legal services providers, among others. These advocates often share the same interests: expanding the availability of affordable housing, particularly in opportunity areas, and protecting the rights of tenants. However, even with those shared interests, the priorities, strategies, and relationship with the PHA for each of these groups will vary. PHAs are encouraged to emphasize the benefits to families, and, where possible, provide data that illustrates the steps the PHA is taking to minimize harm to participants. The PHA may want to host meetings and discuss how policy decisions were made, with particular emphasis on how public feedback was included in the process. These advocates can also be enlisted to support tenants as they seek housing in higher-cost communities.

6.3.3 Elected officials

Much of the guidance for working with advocates can be used with elected officials and their staff. PHAs are encouraged to consider existing relationships and the interests of elected officials in crafting a communication strategy, highlight the ways in which participants' feedback was included, and explain any protections that were adopted in order to protect existing families who will face rent increases. Additionally, interaction with elected officials can be used as an opportunity to highlight successes at the agency, any support being provided to moving families, and efforts to educate the community. Specific and proactive communications with these individuals will provide them with a basic understanding of PHA policy in the event of complaints from constituents who have been negatively affected by SAFMRs.



Chapter 7:
System of record adaptations, Administrative Plan modifications, and other administrative impacts of SAFMRs

7. System of record adaptations, Administrative Plan modifications, and other administrative impacts of SAFMRs

7.1 Potential need for modifications to automated system, computer hardware/software upgrades

7.1.1 Systems of record adaptations

PHAs will need to evaluate their housing management software to confirm that multiple payment standards will be supported. The first year will likely be the most challenging, potentially requiring significant modifications to systems of record and other automated tools. Many vendors offer solutions that support multiple payment standard areas, although a substantial investment of PHA staff time and money may be required. Coordination with the vendor, and possibly with other users is suggested. The costs associated with upgrades to the system of record may qualify a PHA to access extraordinary administrative fees. PHAs that experience extraordinary costs related to the implementation of SAFMRs are encouraged to consult with their local HUD Field Office.

7.1.2 Rent reasonableness data system

The SAFMR Final Rule does not change the fundamental rent reasonableness requirements (see 24 CFR §982.507). PHAs are still required to determine/re-determine rent reasonableness as follows:

- At the time of initial lease-up
- Before any increase in the rent to owner
- If there is a 10 percent decrease in the FMR (the SAFMR Final Rule increases the size of this reduction from 5 percent)
- If directed by HUD

The factors that a PHA must evaluate when determining rent reasonableness include:

- Location
- Quality
- Size
- Unit type
- Age
- Amenities
- Housing services
- Maintenance
- Utilities

PHAs use a wide variety of systems and methods to determine rent reasonableness. PHAs must assure that the method they choose fully complies with the requirements of 24 CFR §982.507. Some PHAs may find that after the transition to SAFMRs they begin receiving requests to lease up in high-cost areas with which the PHA may not have a lot of prior history. This may require the collection of additional information on comparable rents.

7.2 Administrative Plan required changes and sample language

In lower-cost areas that transition to SAFMRs, the applicable payment standard may be reduced to provide a more accurate reflection of actual rent levels in that ZIP code area. In some instances, reductions in payment standards will affect families under HAP contract. Per 24 CFR §982.54, all PHAs, including those that adopt SAFMRs on a Designated or Opt-in basis and those that do not use SAFMRs, need to indicate in their Administrative Plan how the PHA will handle decreases in the payment standard amount for families under HAP contract. Other requirements for Administrative Plan updates pertain to Opt-in SAFMR PHAs and Designated SAFMR or Opt-in SAFMR PHAs that elect to apply SAFMRs to their PBV program.

7.2.1 Policy for payment standards

Depending on the policies included in a PHA's Administrative Plan prior to the adoption of SAFMRs, PHAs implementing SAFMRs may need to make additional revisions. Some of these considerations and modifications to PHA Administrative Plans related to payment standards may include:

- Payment standard policies – PHAs' current Administrative Plans may set payment standards between 90 and 110 percent of the MAFMR. SAFMRs allow multiple payment standards to address actual market conditions and rent burdens and, in some cases, payment standards that are grouped by ZIP code may be more efficient and effective (see Section 2.2). The Administrative Plan must describe the PHA's process for establishing and revising payment standards.
- When payment standards will become effective
- Payment standard reduction phase-in policies (see Section 3.1)
- Evaluation of rent burdens/effect of policy on tenant rent
- Exception payment standards (see Section 2.4)

7.2.2 Policy for administering decreases in the payment standard during the HAP contract term

As noted above, in lower-cost areas that transition to SAFMRs, the applicable payment standard may be reduced to provide a more accurate reflection of actual rent levels in that ZIP code. In some instances, reductions in payment standards will affect families with existing HAP contracts.

PHAs must ensure their Administrative Plan accurately reflects the PHA's policy on how decreases in payment standards will be implemented for families under HAP contract. If it so chooses, a PHA may establish different policies for designated areas within its jurisdiction (for example, for different ZIP code areas or different payment standard areas), but within each designated area, the policy must be applied uniformly to all families under HAP contract, and any jurisdiction-wide policy must be applied uniformly to all families.

Section 3.1 provides details on the policy options available to PHAs, which include:

- Hold harmless – no reduction in subsidy
- Reduction in subsidy based on payment standards above the basic range
- No change in policy – decreases will be applied at the second regular reexamination

Regardless of the policy option selected by the PHA, the PHA must describe its policy in its Administrative Plan, even if the PHA chooses not to implement a hold harmless policy or reduce subsidies based on payment standards above the basic range.

Sample language

The following is sample language PHAs may wish to use in their Administrative Plans.

Changes in payment standards

When the PHA revises its payment standards during the term of the HAP contract for a family's unit, it will *apply the new payment standards in accordance with HUD regulations*.

Decreases in payment standard during HAP contract period

<u>Sample language – Hold harmless</u>

If the amount on the payment standard schedule is decreased during the term of the HAP contract, the PHA will *continue to use the existing higher payment standard for the family's subsidy calculation for as long as the family continues to receive the voucher assistance in that unit.*

<u>Sample language –Reduction in subsidy based on payment standards above the basic range</u>

(This is an example of two ways to implement this policy. PHA policy may vary in the time between changes and the amount of the gradual decrease.)

Example 1. If the amount on the payment standard schedule is decreased during the term of the HAP contract, the payment standard used to calculate the family's subsidy will be *gradually reduced* until it reaches the amount on the payment standard schedule. The gradual reduction will be implemented for the family as follows:

Step 1: At the second regular reexamination following the effective date of the decrease in the payment standard, the PHA will implement an initial reduction of *5 percent* from the payment standard amount currently applied to the family.

Step 2: The PHA will implement a *5 percent* reduction in the payment standard amount annually from the second regular reexamination until the payment standard for the family is equal to the normally applicable payment standard amount on the PHA's voucher payment standard schedule.

Example 2. If the amount on the payment standard schedule is decreased during the term of the HAP contract, the payment standard used to calculate the family's subsidy will *be reduced to a level between (1) the payment standard that was in effect prior to the decrease and (2) the normally applicable payment standard amount that is within the basic range for the SAFMR*. The reduction will be implemented for the family as follows:

Step 1: At the second regular reexamination following the effective date of the decrease in the payment standard, the PHA will implement a reduction of 5 percent from the payment standard amount currently applied to the family.

Step 2: The amount of the payment standard applied to the family will not be further reduced during the term of the HAP contract.

Sample language – No change in policy

If the amount on the payment standard schedule is decreased during the term of the HAP contract, the initial reduction in the payment standard amount used to calculate *the family's HAP will be applied at the effective date of the family's second regular reexamination following the effective date of the decrease in the payment standard.*

7.2.3 Opt-in SAFMR PHAs

An agency that chooses to adopt SAFMRs for its entire jurisdiction or for a metropolitan area within its jurisdiction, it must submit a written request to its local HUD Office of Public Housing via SAFMRs@hud.gov, following the procedures described in Section 5.1 of this Guidebook. Once HUD approves a PHA's request to adopt SAFMRs, the PHA must amend its Administrative Plan to include its policy of operating in accordance with the SAFMRs. If the PHA later decides to opt-out of SAFMRs, it must revise its Administrative Plan and notify the local HUD field office.

Additional revisions to the Administrative Plan to accommodate the implementation of SAFMRs by Opt-in SAFMR PHAs may be needed to reflect revisions in the methodology for setting payment standards, including use of "grouped" payment standards, and the effective date of revised payment standards.

7.2.4 Policies concerning application of SAFMRs to project-based voucher units

PHAs are not required to use SAFMRs for their PBV program but may elect to do so. (See Chapter 4.) A PHA that operates under SAFMRs must determine whether to apply MAFMRs or SAFMRs to its PBV program. If a PHA chooses to apply SAFMRs to its PBV program, the PHA must adopt such a policy in its Administrative Plan.

Administrative Plan changes in the SAFMR demonstration

In general, PHAs that participated in the SAFMR demonstration were required to make only minor updates to their Administrative Plans related to the implementation of SAFMRs. The extent of modifications depended on whether the PHA already had detailed procedural documentation in their Administrative Plan. Where that is the case, modifications are likely to be more extensive.

7.3 Rent reasonableness re-determinations

Rent reasonableness determinations help to ensure that rent amounts paid by PHAs on behalf of HCV owners are comparable to rent levels at similar unassisted units, based on such factors as the location, quality, size, type, and age of the contract unit and the amenities, services, maintenance, and utilities provided by the owner. The SAFMR Final Rule makes changes to rent reasonableness requirements that apply to all PHAs administering the HCV program, regardless of whether the PHA operates in an area where SAFMRs have been adopted.

All PHAs (including those employing MAFMRs and those that have adopted SAFMRs on a mandatory or opt-in basis) are required to re-determine rent reasonableness in three scenarios:

- Before any increase in rent to owner

- When the applicable FMR decreases by 10 percent (under the SAFMR Final Rule, an FMR will never decrease by more than 10 percent from the previous year's FMR)[13]
- If directed by HUD

Outside of these scenarios, PHAs may choose to re-determine rent reasonableness at any other time.

(Notice PIH 2018-01, (4)(b))

All units assisted under the HCV program must meet rent reasonableness standards as determined by the PHA.

7.3.1 Considerations under SAFMRs

For some PHAs, rent reasonableness determinations following adoption of SAFMRs may require no modifications or only minor modifications to the current process. PHAs that use existing databases or have automated access to rental market information to determine rent reasonableness may need to make adjustments to these tools (a topic addressed in Section 6.1 of this Guidebook), but otherwise impacts on the current process will be minimal.

Alternatively, in some cases rent reasonableness under SAFMRs may pose additional challenges. To the extent SAFMRs enable HCV holders to access ZIP codes where HCVs previously had not been used, PHA staff may need to become more knowledgeable about the housing stock and market in a larger number of sub-markets, including low-poverty, high-cost areas. Smaller PHAs that have not automated their process of reasonable rent determinations may find that it is no longer feasible to do this evaluation manually for multiple SAFMR areas. PHAs may also increasingly work with landlords in neighborhoods where there is higher demand, and who are prepared to more aggressively negotiate for use of a particular comparable unit rent.

---

[13] The SAFMR Final Rule changes the percentage decrease in FMRs that triggers rent reasonableness re-determinations from 5 percent to 10 percent for voucher units in all FMR areas.

Appendices

Appendix A. Application of provisions in the SAFMR Final Rule for different types of PHAs

This table describes how key provisions of the SAFMR Final Rule apply to three categories of PHAs:

- Designated SAFMR PHAs are PHAs that directly administer HCV assistance for any family that resides in a designated SAFMR area (i.e., a metropolitan area where the use of SAFMRs is required). Appendix B lists designated SAFMR areas as of FY 2018.
- Opt-in SAFMR PHAs are PHAs that are not required to use SAFMRs in any part of their jurisdiction but choose voluntarily to adopt SAFMRs.
- Non-SAFMR PHAs are PHAs that are not required to use SAFMRs and choose not to do so.

In some cases, impacts are identical across all three PHA types, and in others they differ across some or all of the categories.

	Designated SAFMR PHAs	Opt-in SAFMR PHAs	Non-SAFMR PHAs
Fair market rents (FMRs)			
FMRs	Mandatory SAFMRs established at the ZIP code level	Use of SAFMRs for metropolitan areas where the PHA has opted in (requires approval from HUD)	MAFMRs established at the metropolitan area level
FMR decreases	Limited to 10% from the applicable FMR in the previous year	Same	Same
Rent Reasonableness			
Rent reasonableness re-determinations	Rent reasonableness re-determinations required in the event of: (1) 10% decrease in the applicable FMR from the previous year; (2) before any increase in rent paid to owners; (3) as directed by HUD	Same	Same
Payment standards			
Payment standard amounts	Set by PHAs in basic range (90% to 110% of applicable FMR)	Same	Same
Timing of payment standard revision and implementation	No later than 3 months following the effective date of the change in FMR if necessary to stay within the basic range	Same	Same

	Designated SAFMR PHAs	Opt-in SAFMR PHAs	Non-SAFMR PHAs
Payment standard reductions for HCV families during the HAP contract term	No reductions required; 3 options available to PHAs, to be applied uniformly to all families within designated areas: (1) hold harmless, no payment standard reduction; (2) reductions in subsidy based on payment standards above the basic range; (3) reduction to new payment standards	Same	Same
Timing of payment standard reductions	Initial reduction no earlier than the effective date of the family's second regular reexamination following the effective date of the decrease in payment standard, with written notice that includes the new payment standard amount following the reduction 12 months before the effective date of the reduced payment standard amount	Same	Same
Exception payment standards or payment standards below the basic range			
NEW exception payment standards or payment standards below the basic range	Above 110% of SAFMR or below 90% of SAFMR with HUD approval; conditions and procedures for such a request forthcoming from HUD in a separate *Federal Register* notice	Same as Designated SAFMR PHAs	Two options: (1) Below 90% or between 110% and 120% of the published MAFMR for an area using the median rent method or the 40th percentile of SAFMR method, with HUD approval; (2) up to 110% of applicable SAFMR with notification to HUD
Existing exception payment standards or payment standards below the basic range	Remain in effect, subject to conditions in the approval letter	Same	Same
Reasonable accommodation requests	Between 110% and 120% of SAFMR for families that include a person with a disability, no HUD approval required; above 120% where needed as reasonable accommodation with HUD approval	Same as Designated SAFMR PHAs	Between 110% and 120% of MAFMR for families that include a person with a disability, no HUD approval required; above 120% where needed as reasonable accommodation with HUD approval

	Designated SAFMR PHAs	Opt-in SAFMR PHAs	Non-SAFMR PHAs
Project-based vouchers			
Project-based vouchers	May apply SAFMRs or MAFMRs	May apply SAFMRs or MAFMRs	Must apply MAFMRs; if the PHA adopts an SAFMR-based exception payment standard for a ZIP code area, then “110% of FMR” limit on PBV units in that ZIP code must be based on SAFMR and not MAFMR

Appendix B: Designated SAFMR Metropolitan Areas

Metropolitan FMRs where the use of SAFMRs is mandatory as of FY 2018:

Atlanta-Sandy Springs-Marietta, GA HUD Metro FMR Area

Bergen-Passaic, NJ HUD Metro FMR Area

Charlotte-Gastonia-Rock Hill, NC-SC HUD Metro FMR Area

Chicago-Joliet-Naperville, IL HUD Metro FMR Area

Colorado Springs, CO HUD Metro FMR Area

Dallas, TX HUD Metro FMR Area (Dallas-Plano-Irving, TX Metro Division)[14]

Fort Lauderdale-Pompano Beach-Deerfield Beach, FL Metro Division

Fort Worth-Arlington, TX HUD Metro FMR Area

Gary, IN HUD Metro FMR Area

Hartford-West Hartford-East Hartford, CT HUD Metro FMR Area

Jackson, MS HUD Metro FMR Area

Jacksonville, FL HUD Metro FMR Area

Monmouth-Ocean, NJ HUD Metro FMR Area

North Port-Bradenton-Sarasota, FL MSA

Palm Bay-Melbourne-Titusville, FL MSA

Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA

Pittsburgh, PA HUD Metro FMR Area

Sacramento-Arden-Arcade-Roseville, CA HUD Metro FMR Area

San Antonio-New Braunfels, TX HUD Metro FMR Area

San Diego-Carlsbad-San Marcos, CA MSA

Tampa-St. Petersburg-Clearwater, FL MSA

Urban Honolulu, HI MSA

Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area

West Palm Beach-Boca Raton-Delray Beach, FL Metro Division

(Small Area Fair Market Rents in Housing Choice Voucher Program Values for Selection Criteria and Metropolitan Areas Subject to Small Area Fair Market Rents, 81 Fed. Reg. 80678 (November 16, 2016))

---

[14] PHAs in the Dallas, TX Metro FMR Area have been using SAFMRs on a mandatory basis since 2011 as a result of a legal settlement.

Appendix C: Links to key resources

This Guidebook is intended to be used in conjunction with other resources guiding implementation of SAFMRs. This section lists some of the key resources that may be helpful to PHAs.

SAFMR Final Rule and Selection Criteria

- Establishing a More Effective Fair Market Rent System; Using Small Area Fair Market Rents in the Housing Choice Voucher Program Instead of the Current 50th Percentile FMRs (Small Area FMR Final Rule, 81 Fed. Reg. 80567, November 16, 2016)

https://www.federalregister.gov/documents/2016/11/16/2016-27114/establishing-a-more-effective-fair-market-rent-system-using-small-area-fair-market-rents-in-the

- Small Area Fair Market Rents in Housing Choice Voucher Program Values for Selection Criteria and Metropolitan Areas Subject to Small Area Fair Market Rents (Small Area FMR Selection Criteria, 81 Fed. Reg. 80678, November 16, 2016)

https://www.federalregister.gov/documents/2016/11/16/2016-27112/small-area-fair-market-rents-in-housing-choice-voucher-program-values-for-selection-criteria-and

HUD data resources

- FY2018 Small Area FMRs

www.huduser.gov/portal/datasets/fmr/smallarea/index.html#2018_data

- FY 2018 Advisory Small Area FMR Lookup System

https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html#2018_query

- PD&R FMR/IL Lookup app

http://m.huduser.gov/fmril/

Other HUD tools and resources

- Guidance on Recent Changes in Fair Market Rent (FMR), Payment Standard, and Rent Reasonableness Requirement in the Housing Choice Voucher Program (Notice PIH 2018-01 (HA))

https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2018-01.pdf

- HUD Office of PD&R Small Area Fair Market Rents webpage

https://www.huduser.org/portal/datasets/fmr/smallarea/index.html

- HCV Two-Year Tool/Payment Standard Tool (requires log-in with WASS username and password)

https://www.hud.gov/sites/documents/TYT_PST_OVERVIEW.PDF

- Area Fair Market Rent Demonstration Evaluation: Interim Report

https://www.huduser.gov/portal/publications/SAFMR-Interim-Report.html

- Small Area Fair Market Rent Frequently Asked Questions

https://www.hudexchange.info/resources/documents/SAFMR-FAQs.pdf