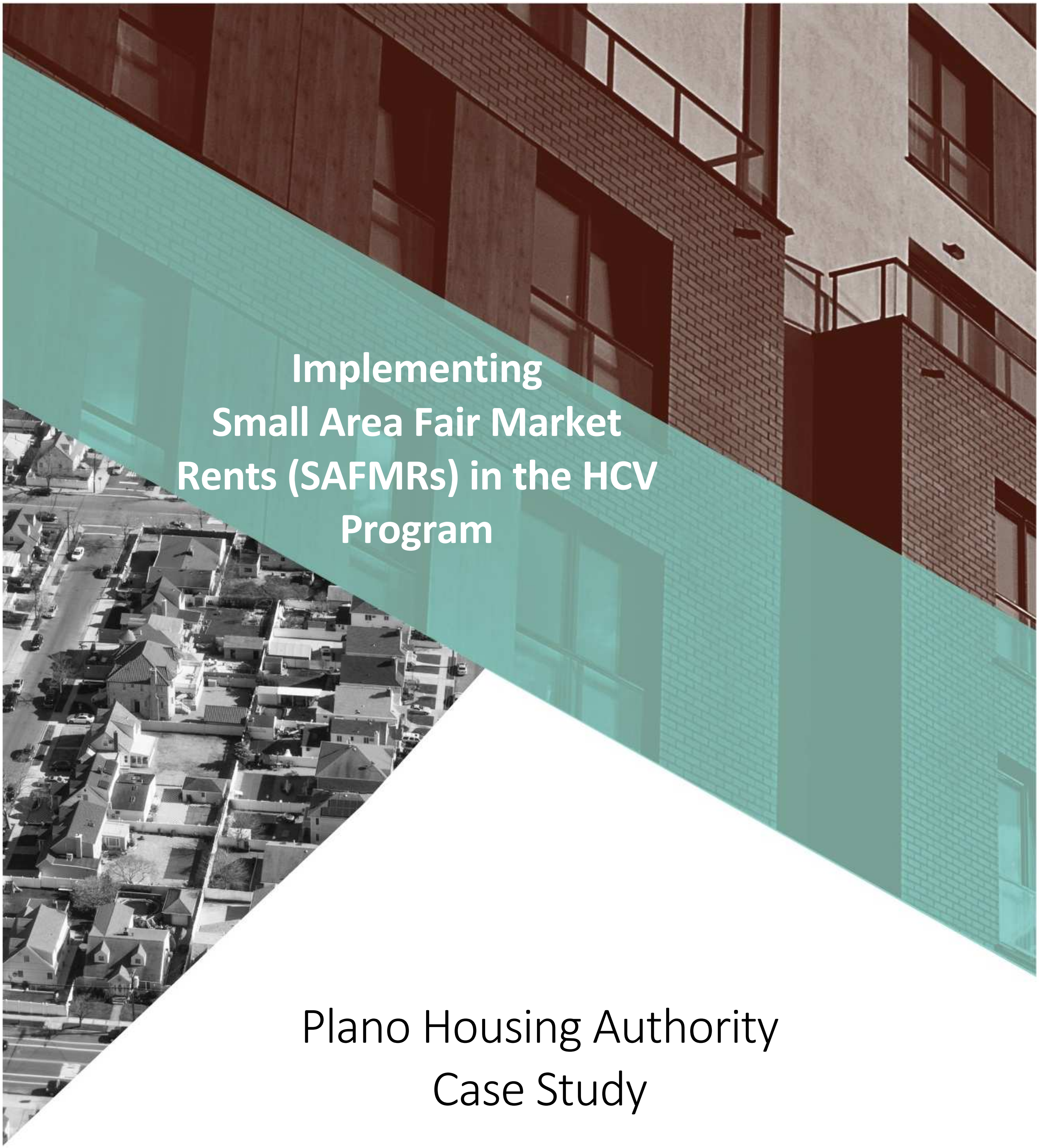

Implementing Small Area Fair Market Rents (SAFMRs) in the HCV Program

Plano Housing Authority Case Study

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Background

The Plano Housing Authority (Plano HA) administers the Housing Choice Voucher (HCV) program in a relatively affluent area of the Dallas metropolitan area, covering about 25 square miles in Collin and Denton counties. Although its geographic area is large, including 160 ZIP codes, the Plano HA is a relatively small PHA, administering 923 vouchers.

All 12 PHAs in the Dallas metropolitan area, including the Plano Housing Authority, were required to implement SAFMRs in FY 2011 – two years before HUD's SAFMR Demonstration started – as a result of a settlement related to a desegregation lawsuit. Although the Plano HA did not implement SAFMRs voluntarily, staff members said they saw SAFMRs as an opportunity for voucher families to move to higher-opportunity areas.

Motivations for Implementing SAFMR

Market conditions

As a relatively affluent area, Plano has relatively few low-rent neighborhoods (those with median rents below 90 percent of the metro area median). Only one ZIP code, containing 9 percent of all rental units in the Plano HA's jurisdiction, falls into this category. Correspondingly, a relatively large share of rental units is in high-rent neighborhoods (those with median rents above 110 percent of the metro area median). Although high-rent neighborhoods are typically low density and contain relatively few rental units, in the Plano HA's jurisdiction these neighborhoods make up 58 percent of ZIP codes and contain 44 percent of all rental units.[1]

Because a large share of Plano's rental units is in high-rent neighborhoods, the adoption of SAFMRs significantly increased the total number of units affordable to voucher families within the PHA's jurisdiction. That is, there were more units with rents below the HUD-defined SAFMRs for Plano's jurisdiction than units with rents below the metropolitan area fair market rent (MAFMR). The difference was sizeable. In terms of numbers of units, in 2015, there were a total of roughly 80,000 rental units with rents below HUD's FMRs but more than 101,000 units with rents below HUD's SAFMRs. In other words, SAFMRs expanded the number of units that were potentially accessible by voucher families.

Neighborhood types

Low-rent: Neighborhoods with median rent below 90% of the metro area median rent

Moderate-rent: Neighborhoods with median rent from 90% to 110% of the metro area median rent

High-rent: Neighborhoods with median rent above 110% of the metro area median rent

Not surprisingly, the gains in affordable units came from the high-rent neighborhoods (where there was a nearly 40 percent increase in the number of units renting below the applicable SAFMR). As expected, the number of units affordable to voucher families under SAFMRs in low- and moderate-rent neighborhoods dropped. The combined decrease in the number of units falling below the applicable SAFMR in low- and moderate-rent neighborhoods was only 12 percent compared with the MAFMR.[2]

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

[2] Ibid.

Despite these favorable conditions for voucher families, other market forces have worked to make rental units harder to find since the Plano HA adopted SAFMRs. Plano HA staff reported that the rental market was relatively loose when SAFMRs were first implemented, which meant there were more opportunities for voucher families to find owners willing to participate. Since then, several large employers have opened offices in the Plano area, and this has increased demand for housing and made it harder for voucher families to find units in high-rent neighborhoods.

Strategic Decisions

Approach to setting payment standards

The Plano HA took a straightforward approach to setting payment standards: all payment standards are simply 100 percent of the SAFMR. The Plano HA did not seriously consider alternatives to this approach, such as grouping ZIP codes into larger payment standard areas or making individual adjustments to payment standards within the basic range of 90 percent to 110 percent of the SAFMR.

For the Plano HA, this approach was motivated by a desire to avoid any appearance of promoting segregation, which was the basis for the lawsuit that resulted in SAFMR implementation in the metro area. The lawsuit was settled on the basis of an agreement to use ZIP code-level FMRs rather than MAFMRs. Dave Young, the Finance Director at the Plano HA, explained that setting payment standards any other way runs the risk of perpetuating the segregation that SAFMRs are designed to avoid. Young also noted that although this approach is administratively burdensome because of the added labor time of entering many different payment standards into software and accurately tracking each tenant’s payment standard, the HA’s leadership and board view it as faithful to the intent of SAFMRs.

Following similar logic, the Plano HA does not have policies in place to avoid decreases in payment standards for families under HAP contract when SAFMRs drop. Consistent with longstanding HUD regulations Plano HA payment standard decreases are applied during the term of the HAP contract on the second annual recertification of income after payment standards drop. At that point the new payment standard is applied to the tenant’s rent calculation (i.e., there is no optional hold harmless or reduction policy as allowed by the final SAFMR rule).

Budgeting challenges

A key challenge for the Plano HA in implementing SAFMRs was budgeting for future Housing Assistance Payment (HAP) expenses. Young describes budgeting under MAFMRs as being relatively simple: with a single payment standard, the HAP per voucher issued was quite predictable. As a PHA shifts from MAFMRs to SAFMRs, however, budgeting becomes more challenging because of the variations in payment standards from one area to the next and because the PHA does not know what kinds of changes in residential location patterns to expect after the shift.

To estimate the difference in HAP costs between MAFMRs and SAFMRs prior to implementation, the Plano HA created a spreadsheet of all current voucher families, the bedroom size, ZIP code, and the MAFMR-based and SAFMR-based payment standards. Although neither decreases nor increases in payment standards under SAFMRs immediately affected HAP costs for units under lease (due to the HUD regulatory provision described above and existing contracts with landlords), the comparison between MAFMR- and SAFMR-based payment standards gave the Plano HA an idea of how HAP costs could change in the future. For example, the Plano HA also had to consider the effects of voucher families

moving from low-rent to high-rent ZIP codes. Finally, Young noted that in ZIP codes where payment standards increased, landlords were quick to request rent increases for units currently under HAP contract.

SAFMRs have also changed the Plano HA's approach to issuing vouchers. Young explained that with HAP costs being less predictable under SAFMRs due to large variations from one ZIP code to the next, the Plano HA's strategy has been to be somewhat more conservative in issuing vouchers – for example, by assuming that tenants will move to high-rent neighborhoods – to avoid budget overutilization.

Young reports that the Plano HA now has fewer vouchers in use, and this may be the result of a combination of this conservative approach to issuing vouchers, somewhat higher HAP costs in Plano related to SAFMRs, and rising rents in the area generally. The increase in HAP costs in Plano related to SAFMRs was not true of all of the Demonstration sites, as the shift to SAFMRs was associated with a decrease in average HAP costs of 13 percent from 2010 to 2015.[3]

Because administrative fees are related to unit utilization, the reduction in the number of units under lease has had consequences for the agency's administrative budget. Young noted that the Plano HA has benefitted from having some administrative fee reserves but has nevertheless had to take steps to reduce administrative costs, including reducing staff.

Program Implementation Steps

Up-front SAFMR implementation costs

The process of implementing SAFMRs involved some up-front costs, such as modifications to software and the PHA's website as well as updates to the Administrative and PHA plans, for most of the SAFMR Demonstration evaluation PHAs. Among the PHAs included in the SAFMR Demonstration evaluation, experience in implementing SAFMRs ranged widely. For the Plano HA, the most significant expenditure of time and effort in implementing SAFMRs was related to updating its automated systems, and in particular its Lindsey housing management software. The Plano HA reported spending about 120 hours of the Finance Director's time to update the software to accommodate multiple payment standards rather than the single payment standard used under MAFMRs. This included creating a table for each ZIP code to store the payment standard values and linking each property to the correct table.

Other changes to the Plano HA's infrastructure were relatively modest. Young reported spending about 24 hours to make needed modifications to the Administrative Plan (primarily to reflect new payment standards in effect), and only about 2 hours to make minor changes to the PHA Plan.

Although out-of-pocket expenditures were not involved, another key investment of staff time for the Plano HA was in re-processing reexaminations of income and eligibility. Young explained that PHAs generally conduct a reexamination 60 to 90 days in advance of its effective date. If payment standards change after a reexamination is complete but before the effective date, it will have to be reprocessed using the new payment standard. The Plano HA had to retroactively apply payment standard increases due to the implementation of SAFMRs for several months, which meant that some work had to be redone. Young noted that PHAs implementing SAFMRs in a tight timeframe may encounter similar issues. For

[3] HAP costs at a group of comparison PHAs that did not implement SAFMRs also declined over this period, but by 5 percent compared with 13 percent among the Demonstration evaluation PHAs.

example, for most PHAs an implementation date for SAFMRs of April 1 means that new payment standards may need to be applied to reexaminations being processed earlier.

Changes in procedures

The Plano HA reports that the most significant effort has been related to annual payment standard changes, annual audits, and quality assurance of data entry. Other procedures have changed only slightly, if at all. The following is a brief summary of key changes that have been needed in a range of areas:

Payment standards: Because the Plano HA sets its payment standards at 100 percent of HUD’s published SAFMRs, updating payment standards each year is a straightforward task. It requires updating the tables in the housing management software and materials for tenants (estimated at about 6 hours annually), but otherwise the additional time and effort required is minimal.

Inspections: No change in procedures.

Rent reasonableness: The Plano HA uses an automated system to determine rent reasonableness, so no changes have been needed in the rent reasonableness process due to SAFMRs.

Contract rent adjustments: The Plano HA reported that many HCV landlords requested rent increases when payment standards increased.

Data entry quality control: The Plano HA trained staff on SAFMRs and how to use the correct payment standards, but initially there was a high error rate in data entry. Young reported that during the first year after implementation, about 8 percent of payment standards were entered incorrectly. The HA increased efforts to control the quality of data entry – primarily by doing more file reviews – and by the second year, the error rate was back to normal levels of less than 1 percent.

Annual audit: SAFMRs were new to the Plano HA’s auditors, so Young said he spent time educating them up front, by providing documentation and education about the policy and the new payment standards. On an ongoing basis, having multiple payment standards increases the audit time by about half a day.

Communication and support for tenants and owners

To communicate the new policy to tenants and owners, the Plano HA:

- Updated briefing materials (PowerPoint presentations and hand-outs) for tenant voucher issuance and re-examinations
- Lengthened tenant briefings by about 20 minutes to explain SAFMRs
- Updated its website to include materials about SAFMRs and explain the policy
- Updated printed materials for owners
- Conducted owner fairs to explain the policy and recruit new owners.

In addition to these formal communication and outreach efforts, the Plano HA described spending more time communicating via phone and email with owners and tenants to respond to questions. In addition,

tenants interested in porting in to Plano had difficulty understanding SAFMRs because it was a change from the program they were accustomed to. The sending PHAs were often also confused about the policy.

Young suggested that PHAs also brief their board members and county commissioners and other relevant officials who may get phone calls and emails asking about the new policy.

Although Plano HA expressed an interest in offering mobility counseling to families, they ultimately did not offer additional support for moves to high-opportunity neighborhoods because of a lack of funding.

SAFMR Impacts

Tenants

The shift to SAFMRs had an impact on where voucher families chose to live in the Plano HA's jurisdiction. Analysis of PIC data done for the SAFMR Demonstration evaluation shows that, among program participants who moved with continued assistance to different ZIP codes, a greater share moved to high-rent areas in 2015 compared with 2010, prior to SAFMR implementation. In Plano, the share of cross–ZIP code movers who moved into high-rent ZIP codes increased from 39 percent in 2010 to 52 percent in 2015. (This was the largest percentage point increase among the SAFMR Demonstration evaluation PHAs, where the overall average increase was 10 percentage points.)[4]

It is not clear from analysis of HUD's PIC data that voucher families were adversely affected by declining payment standards in low-rent ZIP codes as a result of SAFMRs. Plano HA voucher families in these ZIP codes experienced an increase in their monthly contribution to rent and utilities between 2010 and 2015 of 13 percent (from $379 to $426). However, in high-rent ZIP codes, changes in monthly tenant contributions to rent and utilities were larger, increasing from $405 to $497 (a 23 percent increase).[5]

These changes in tenant contributions to rent can result from several factors other than changes in the payment standard: changes in the actual rents of selected units, changes in voucher family incomes, and changes in the utility allowance.[6]

This pattern of changes in contributions to rent in Plano was not typical. In comparison, in SAFMR Demonstration evaluation PHAs generally, tenant monthly contributions to rent and utilities in low-rent neighborhoods increased from $354 to $431 (an increase of 22 percent). In high-rent neighborhoods, tenant monthly contributions to rent and utilities among these PHAs increased by about 12 percent, from $398 to $444.[7]

Owners

The Plano HA staff reported that there were some owners who left the HCV program in response to declines in payment standards. In fact, one owner interviewed for the SAFMR Demonstration evaluation reported selling his rental property in a low-rent ZIP code after the new payment standards went into

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[4] SAFMR Demonstration Evaluation interim report, 2017.

[5] Ibid.

[6] Ibid.

[7] Ibid.

effect. Others reported to the Plano HA staff that the new payment standards affected their decisions about where to buy rental properties, and that they were more likely to buy property in high-rent ZIP codes following implementation of SAFMRs. At the same time, Plano HA also reported that new owners in high-rent ZIP codes have joined the HCV program as a result of SAFMRs.

Conclusion

The Plano HA's experience in implementing SAFMRs was typical of the experience of other PHAs implementing the policy in some ways, and not in others. All of the PHAs included in HUD's SAFMR Demonstration evaluation, including the Plano HA, experienced a period of transition of roughly a year, during which a number of procedures were redesigned, new materials were created, and a number of efforts were made to consult with and educate staff, board members, tenants, owners, and others about the changes being made. For the Plano HA, the most challenging aspects of this period were updating housing management software to accommodate multiple payment standards and re-processing reexaminations of income and eligibility.

On an ongoing basis, most of these things have become routine. Young summed it up, saying, "once you get your existing tenants on board, existing landlords on board and educated, it becomes another day. We've got this down to an art."