The Small Area FMR Demonstration

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Abstract

Fair Market Rents (FMRs) are used to define payment standards that govern the amount of assistance that Housing Choice Voucher Program (HCVP) participants receive. The U.S. Department of Housing and Urban Development (HUD) currently publishes a single FMR for each HUD metropolitan FMR area. To provide program participants with wider access to opportunity areas, the Department developed Small Area Fair Market Rents (SAFMRs). SAFMRs represent a fundamentally different way of operating the HCVP in metropolitan areas; therefore, HUD is testing SAFMRs through a demonstration program to better understand the programmatic effects.

Fair Market Rents (FMRs) are primarily used to determine payment standard amounts for the Housing Choice Voucher Program (HCVP). Local administrators of the HCVP set the payment standards that are used to calculate the value of the housing subsidy for each voucher holder. FMRs are gross rent estimates: they include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. The U.S. Department of Housing and Urban Development (HUD) sets FMRs to assure that a sufficient supply of rental housing is available to program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. Currently, a single FMR[1] is produced for each metropolitan area and for each nonmetropolitan county in the country.

At the direction of HUD Secretary Shaun Donovan, the Office of Policy Development and Research (PD&R) undertook the task of developing FMRs that vary within metropolitan areas.

[1] HUD estimates FMRs for units of different sizes as measured by the number of bedrooms, from zero-bedroom (efficiency) units to four-bedroom units. For purposes of this discussion, the set of FMRs HUD estimates for an area is referred to as "the FMR."

After examining a variety of levels of geography, PD&R developed Small Area Fair Market Rents (SAFMRs) for ZIP Codes within metropolitan areas. SAFMRs are designed to enable HCVP tenants to access more units in neighborhoods of opportunity, because they more accurately reflect the cost of rental housing in these areas. At the same time, and for the same reason, SAFMRs will discourage HCVP tenants from locating in neighborhoods of concentrated poverty.

An SAFMR is calculated by first dividing the median gross rent across all unit sizes for the small area (ZIP Code) by the median gross rent for the whole metropolitan area. This rent ratio is then multiplied by the current two-bedroom 40th percentile rent for the entire metropolitan area containing the small area to generate the current year's two-bedroom SAFMR. In small areas where the median gross rent is not statistically reliable, because the rental sample is too small, HUD substitutes the median gross rent for the county containing the ZIP Code in the numerator of the rent ratio calculation. The methodology used to determine the two-bedroom 40th percentile rent for the entire metropolitan area is identical to the methods used previously to calculate metropolitan FMRs. For fiscal year 2013 SAFMRs, the rent ratio calculation is based on 2006 through 2010 5-year ZIP Code Tabulation Area median gross rent data in the numerator and 2006 through 2010 5-year median gross rents for metropolitan areas, as defined by the Office of Management and Budget, in the denominator.

SAFMRs represent a fundamentally different way of operating the HCVP in metropolitan areas; therefore, HUD is testing SAFMRs through a demonstration program to better understand the programmatic effects. The purpose of the SAFMR Demonstration is twofold: (1) to evaluate the effectiveness of the SAFMR in improving tenants' housing choices in areas of opportunity and the effect on tenants in areas with SAFMRs that are less than the metropolitan FMR, and (2) to understand and evaluate the administrative and budget effects of converting to operating the HCVP using SAFMRs.

Rather than the SAFMR Demonstration being fully voluntary, public housing authorities (PHAs) were selected at random from a pool of eligible PHAs to be invited to participate. PHAs were offered a lump-sum increase in administrative fees, which varied by the number of vouchers administered by the PHA to a maximum of $300,000 for the largest PHAs, if they accepted the invitation. Selecting participating PHAs at random, but still providing invitees with an opportunity to decline the invitation, afforded HUD the ability to ensure that differences observed in SAFMR agencies are because of the Demonstration rather than preexisting (often unmeasured) characteristics of the agency or the local housing market. PHAs eligible for the Demonstration (1) had at least 500 HCVP tenants as of September 30, 2011; (2) had at least 10 HCVP tenants living in ZIP Codes where the SAFMR exceeded the metropolitan FMR by more than 10 percent; (3) had at least 10 HCVP tenants living in ZIP Codes where the SAFMR was more than 10 percent less than the metropolitan FMR; (4) had attained at least 95 percent HCVP-family reporting in the Office of Public and Indian Housing (PIH) Information Center (PIC); (5) were not *troubled*, as determined by the Section 8 Management Assessment Program; (6) had the administrative capacity to carry out the program, as determined by PIH's Office of Field Operations; and (7) had not been involved in litigation that would seriously impede their ability to administer the HCVP.

Invited PHAs (and alternates) were randomly selected from stratified sets of eligible PHAs. The eligible PHAs were clustered according to (1) HCVP program size, (2) metropolitan FMR, and (3) percentage of working-age heads of household. One PHA from each cluster was presented with the participation agreement, including an offer of supplemental administrative fees to cover the necessary expenses they would likely incur, and given the option to decline to participate. These fees are only to be used for administrative expenses related to the implementation of SAFMRs, not for Housing Assistance Payments. If a PHA declined to participate, an offer was presented to the next alternate until the full slate of Demonstration PHAs was established.

All PHAs that agreed to participate in the Demonstration will operate under SAFMRs for the period from October 1, 2012, through September 30, 2016. Several years of data are needed to examine the effect of SAFMRs because of several tenant protections in the HCVP. For instance, those tenants living in small areas in which the SAFMR is less than the metropolitan FMR who do not move will not experience any reduction in payment standards until their second annual recertification, which means that the entire universe of tenants will not be affected by SAFMRs until September 30, 2014. All new program entrants will immediately use SAFMRs, however, as will any existing tenants who decide to move. In addition, tenants who currently reside in a small area in which the SAFMR is greater than the metropolitan FMR who also rent a unit with a gross rent of more than their current payment standard will see their payment standards increase at their first annual recertification.

The following PHAs will participate in the SAFMR Demonstration.

1. The Chattanooga (Tennessee) Housing Authority.
2. The Housing Authority of the City of Laredo (Texas).
3. The Housing Authority of the City of Long Beach (California).
4. The Housing Authority of the County of Cook (Illinois).
5. The Town of Mamaroneck (New York) Public Housing Agency.

HUD expects to find that SAFMRs will provide HCVP tenants with greater ability to move into opportunity areas—where jobs, transportation, and educational opportunities exist—and prevent undue subsidy in lower rent areas. SAFMRs will alter some administrative responsibilities of PHAs that administer the HCVP, but it is unclear what the net effect will be. For example, SAFMRs are likely to reduce the time needed to determine whether rents are reasonable, because local area baseline rents will largely be embedded in the SAFMR, reducing the need for comparative data. SAFMRs will also increase the number of payment standards used in a metropolitan area, which may increase the time spent administering the program. The Demonstration will help HUD determine if SAFMRs should be implemented nationwide.

The evaluation will collect information from Demonstration PHAs on the additional administrative burdens imposed by the program and on any benefits from increased tenant success rates or other savings that the program may offer. This project will also look at tenant data to determine the extent to which tenants are using the expanded set of payment standards to move into opportunity areas.

HUD analysts using data from HUD's administrative systems, principally PIC historic extracts maintained by PD&R, will perform the primary evaluation studies of the SAFMR Demonstration.

The evaluation will seek to answer the following questions.

1. Are SAFMRs more difficult to administer than metropolitan FMRs?
2. Do SAFMRs incent tenants to move to different neighborhoods more than metropolitan FMRs do?
3. How do SAFMRs affect assistance program costs compared with metropolitan FMRs?

Researchers may have other questions than those listed, which may or may not be possible to answer with administrative data, and we encourage them to contact us with suggestions.

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