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Trump Administration Blocks Housing Voucher Policy That Would Expand Opportunity and Reduce Costs

By Will Fischer

On August 11, 2017, the Trump Administration suspended part of a 2016 rule designed to reduce segregation and expand opportunity for low-income families with Housing Choice Vouchers. The suspended provision would have required state and local housing agencies in 23 metropolitan areas to adopt a promising policy — called small area fair market rents (SAFMRs) — that ties voucher subsidies to market rents in a given neighborhood rather than an entire metropolitan area. SAFMRs are designed to ensure that voucher subsidies are adequate to enable families to move to neighborhoods that have low poverty rates and strong schools, but also above-average housing costs — while at the same time avoiding excessive subsidies in lower-rent, high-poverty neighborhoods.

As a justification for the suspension, the Department of Housing and Urban Development (HUD) cited a new interim evaluation examining SAFMR implementation through 2015 at seven agencies that tested the approach, but that study's findings actually support moving ahead with the 2016 requirement.

- **The evaluation found that when agencies used SAFMRs, more voucher holders moved to high-opportunity neighborhoods while overall subsidy costs fell.** This finding affirms earlier research showing that SAFMRs can cost-effectively help low-income families move to low-poverty neighborhoods with low crime and well-performing schools. Other studies show that such moves can sharply improve children's long-run earnings and college attendance and adults' mental and physical health.
- **The evaluation also found some adverse outcomes at agencies implementing SAFMRs, but the 2016 rule anticipated those problems and made policy changes to prevent them from recurring.** Most significantly, the evaluation found that on average the amount of rent paid by voucher holders (beyond the amount covered by the voucher subsidy) rose somewhat at SAFMR-implementing agencies, but the 2016 rule contained strong protections that should enable state and local agencies to prevent such rent increases.
- **SAFMRs added some administrative costs, but these appear to have been modest.** The added costs, which stemmed largely from one-time expenses such as adjusting computer systems, were almost certainly much smaller than the *savings* generated by using SAFMRs. Nonetheless, HUD should assist agencies with administrative burdens by providing technical assistance, promptly implementing laws passed in 2015 and 2016 that would streamline other

aspects of voucher administration, and targeting supplemental administrative funds on agencies required to implement SAFMRs.

Suspension Undercuts Promising Policy

Housing Choice Vouchers are the nation's largest form of low-income rental assistance. Families with vouchers generally pay 30 percent of their income for rent and utilities, and the voucher covers the rest, up to a limit called the payment standard. A family can choose to rent a unit for more than the payment standard, but must pay the excess rent itself, in addition to the 30 percent of income it would otherwise pay. State and local housing agencies that administer vouchers set payment standards within 10 percent of a fair market rent (FMR) that HUD establishes annually, usually at the 40th percentile of market rents for standard-quality, recently rented units in a geographic area.[1]

Historically, HUD has set FMRs for entire metropolitan areas or rural counties. Market rents can vary greatly from one neighborhood to another, so payment standards based on metro-wide FMRs are often too low to cover rents in some neighborhoods and higher than needed in others. When a neighborhood's payment standard is too high, families can afford units that are larger or have more amenities than they need, and owners can potentially charge above-market rents (unless housing agencies strictly enforce rules requiring that rents be reasonable in the local market). This reduces the cost-effectiveness of the voucher program and encourages families to use vouchers — and owners to accept them — in the lowest-rent neighborhoods.[2] When a neighborhood's payment standard is too low (as is often the case in neighborhoods with low poverty, low crime, and well-performing schools), many families will struggle to find units they can afford to rent with their voucher.

Metro-level FMRs are one reason that vouchers have not enabled as many families as they could to move to neighborhoods with low poverty rates. Just 13 percent of families with children in the voucher program live in low-poverty neighborhoods, defined as those where fewer than 10 percent of residents are poor. This is modestly above the share of poor children overall who live in those neighborhoods, but far lower than the share of *all* children there.[3] This aspect of the voucher program's performance has important implications for efforts to address poverty and expand economic opportunity, since research shows that children whose families use vouchers to move to low-poverty neighborhoods when they are young are much more likely to attend college, are less likely to become single parents, and earn significantly more as adults.[4] Living in a low-poverty neighborhood also substantially improves adults' mental and physical health.[5]

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[1] Agencies can set payment standards above 110 percent or below 90 percent of the FMR if they meet certain criteria, but in most cases this requires approval from HUD.

[2] Barbara Sard and Douglas Rice, "Realizing the Housing Voucher Program's Potential to Enable Families to Move to Better Neighborhoods," Center on Budget and Policy Priorities, January 12, 2016, http://www.cbpp.org/sites/default/files/atoms/files/11-9-15hous.pdf, note 43, page 22.

[3] Sard and Rice, 2016.

[4] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," National Bureau of Economic Research Working Paper No. 21156, May 2015.

[5] Jens Ludwig *et al.*, "Long-Term Neighborhood Effects on Low-Income Families: Evidence from Moving to Opportunity," *American Economic Review*, 103(3), 226-231, 2013.

In recent years, HUD has tested small area fair market rents, an alternative approach that bases FMRs on market rents in a particular zip code so that they reflect neighborhood rents more accurately than metro-level FMRs. SAFMRs were first implemented in the Dallas metropolitan area in 2011 under a settlement of fair housing litigation claiming that metro-wide FMRs prevented minority voucher holders from moving to predominantly white neighborhoods with higher rents. In late 2012, HUD initiated an SAFMR demonstration allowing five agencies elsewhere in the country to test the approach.

Based on early findings showing that SAFMRs enabled voucher holders to move to higher-opportunity areas without raising costs overall and after soliciting and reviewing public comments, HUD issued a rule in November 2016 allowing all housing agencies in metro areas to use SAFMRs, and requiring agencies to do so starting in January 2018 in 23 additional metro areas where vouchers are highly concentrated in low-income neighborhoods.[6] This policy change extended SAFMRs to cover about 230,000 additional voucher holders, 10 percent of the national total.[7]

On August 11, 2017, HUD sent the approximately 175 state and local housing agencies that administer voucher programs in those 23 areas letters stating that the requirement would not go into effect as planned and the agencies would not be required to use SAFMRs until January 2020 (and HUD might opt to delay the requirement further or even eliminate it).[8] Agencies will still be

[6] The 23 metro areas are: Atlanta-Sandy Springs-Marietta, GA; Bergen-Passaic, NJ; Charlotte-Gastonia-Rock Hill, NC-SC; Chicago-Joliet-Naperville, IL; Colorado Springs, CO; Fort Lauderdale-Pompano Beach-Deerfield Beach, FL; Fort Worth-Arlington, TX; Gary, IN; Hartford-West Hartford-East Hartford, CT; Honolulu, HI; Jackson, MS; Jacksonville, FL; Monmouth-Ocean, NJ; North Port-Bradenton-Sarasota, FL; Palm Bay-Melbourne-Titusville, FL; Philadelphia-Camden-Wilmington, PA-NJ-DE-MD; Pittsburgh, PA; Sacramento-Arden-Arcade-Roseville, CA; San Antonio-New Braunfels, TX; San Diego-Carlsbad-San Marcos, CA; Tampa-St. Petersburg-Clearwater, FL; Washington-Arlington-Alexandria, DC-VA-MD; West Palm Beach-Boca Raton-Delray Beach, FL. The rule also requires agencies in a 24th metro area, Dallas, to use SAFMRs, but a legal settlement has required those agencies to use SAFMRs since 2011. "Establishing a More Effective Fair Market Rent System; Using Small Area Fair Market Rents in the Housing Choice Voucher System Instead of the Current 50th Percentile FMRs," *Federal Register,* Volume 81, Number 221, November 16, 2016, pp. 80567-80587.

[7] The estimate of the number of voucher households potentially impacted excludes 135,000 vouchers in the 23 mandatory SAFMR areas that are administered by agencies participating in the Moving to Work demonstration, which are eligible for waivers from many statutes and regulations and would not be required to use SAFMRs. It also excludes 12,000 vouchers that agencies have "project-based," that is, entered into contracts requiring that vouchers be used in a particular housing development. The 2016 rule exempts project-based vouchers from mandatory SAFMRs, but gives agencies the option to use SAFMRs in new project-based voucher developments and with the owner's agreement at existing project-based voucher developments.

[8] HUD's suspension letter is available at http://nlihc.org/sites/default/files/Small-FMR-Letter-A_081117.pdf. In order to eliminate the requirement, HUD would need to revise the rule (which became final on January 17, 2017) through a formal rulemaking process.

permitted to use SAFMRs,[9] but many housing agencies likely won't do so without a requirement.[10] In addition, SAFMRs are likely to be less effective and efficient if they are implemented by only one or a few agencies in an area, since voucher holders may then have difficulty moving to high-opportunity neighborhoods in other agencies' jurisdictions and agencies will have less ability to collaborate to achieve administrative efficiencies.[11] As a result, the suspension can be expected to result in far fewer low-income families and children benefiting from the opportunities SAFMRs could provide.

HUD's letters offered three reasons for suspending the 2016 requirement: (1) HUD had not yet provided needed guidance and technical assistance to state and local agencies; (2) HUD wished to review public comments it received through a regulatory review process in the spring of 2017 before implementing the SAFMR requirement; and (3) HUD's review of findings from an interim report on the SAFMR demonstration suggested that further analysis was needed, "particularly with respect to the impact on rent burdens on participating families and the availability of units in the metropolitan area." Later, HUD officials put forward a fourth reason, claiming that agencies require more time to implement SAFMRs. But each of these points make little sense.[12]

- The SAFMR requirement in the 2016 rule is sufficiently clear that agencies could implement it without further information from HUD, although it would be preferable if HUD provided agencies with guidance and technical assistance. Moreover, HUD should be able to produce guidance (which the letter acknowledges was under development before the suspension) fairly quickly.
- HUD solicited two rounds of public comments on SAFMR expansion in 2015 and 2016 and received wide-ranging input from housing agencies, advocates, private landlords, and others — including comments both for and against requiring agencies in certain metro areas to use SAFMRs — that informed the final rule. It seems unlikely that stakeholders will provide

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[9] The suspension leaves in place all aspects of the 2016 rule except the requirement that agencies in those 23 metro areas use SAFMRs. This includes provisions in the rule that phase out HUD's policy of setting metro FMRs at the 50th percentile of market rents rather than the 40th percentile in certain metro areas where vouchers are concentrated in a small number of neighborhoods. HUD intended the rule to replace this policy, which research suggests was not effective at broadening opportunities for voucher holders, with the requirement that agencies in unduly concentrated metro areas use SAFMRs. Over the next three years, HUD will reduce FMRs to the 40th percentile in the 17 metro areas that currently have 50th percent FMRs; of those, 8 are among the 23 areas where the 2016 rule would require agencies to use SAFMRs.

[10] Agencies may choose not to adopt SAFMRs to avoid transitional administrative costs, due to opposition from landlords in low-rent neighborhoods whose subsidies would be reduced, or for other reasons.

[11] All 23 of the metro areas affected by the suspension are served by at least two voucher agencies, and 15 are served by at least five agencies.

[12] In addition, it does not appear that HUD can legally suspend the SAFMR requirement on these grounds through a letter, without formal regulatory action. The November 2016 rule permits HUD to suspend mandatory SAFMRs in response to "events" after making a documented determination that suspension is warranted. (24 C.F.R. § 888.113(c)(4).) The official discussion accompanying the rule indicates that this provision was added to allow HUD to respond to "adverse rental housing market conditions" in a particular metro area, such as "a significant loss of housing units as a result of a natural disaster." (81 *Federal Register* 80569.) The arguments HUD made in its August 2017 letters do not meet the stated grounds for suspension.

crucial SAFMR-related comments in response to the regulatory review — which did not specifically request input on SAFMRs — that they withheld earlier.

- Contrary to HUD's assertions, the evaluation report is consistent with earlier research on SAFMRs and provides strong support for moving forward with SAFMR expansion, as discussed further below.[13]
- Agencies had more than 13 months between the issuance of the November 2016 rule and the January 1, 2018 implementation deadline, which should have been sufficient time for them to put SAFMRs in place. They would certainly not require three years of lead time, which is what they would receive under HUD's suspension.

At SAFMR-Implementing Agencies, Share of Families in Opportunity Neighborhoods Rose While Overall Subsidy Costs Fell

The evaluation report that HUD cited examined implementation of SAFMRs at the five SAFMR demonstration agencies and two Dallas-area agencies that were required to use SAFMRs.[14] Much of the study compares outcomes in 2015 (the third year the demonstration agencies used SAFMRs and the fifth year the Dallas-area agencies did) to those in 2010 (the year before SAFMRs were first implemented by the Dallas-area agencies).

The study found that during this period the share of SAFMR agencies' voucher holders that lived in high-opportunity neighborhoods — identified through an index that considered poverty rate, school quality, access to jobs, and exposure to environmental toxins — rose from 11 percent to 13 percent. While it is not certain that this increase resulted from SAFMRs rather than other factors, the share of voucher holders living in high-opportunity neighborhoods did not change at a set of comparable housing agencies examined by evaluators that did not use SAFMRs.

Among voucher families at SAFMR agencies that moved from one zip code to another, 15 percent moved to high-opportunity areas after SAFMR implementation, up from 9 percent before. Again, there was no change in this percentage at the comparison agencies. The Dallas metropolitan area, where SAFMRs applied throughout the area and had been in place the longest, saw some of the largest improvements in opportunity for voucher holders. For example, among voucher holders at the Dallas Housing Authority that moved from one zip code to another, the share moving to high-opportunity neighborhoods tripled, from 5 percent to 15 percent.[15]

The evaluation also found early signs that SAFMRs allowed voucher holders, who were over 85 percent minority at the agencies studied, to move to more racially integrated communities. The

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13 In discussion accompanying the November 2016 final rule, HUD rejected a comment recommending that it wait for the results of the SAFMR demonstration before implementing the policy on a large scale, stating, "HUD believes that it is not premature to implement Small Area FMRs on this limited basis in those areas where it has the potential to address significant voucher concentration concerns." 81 FR 80579.

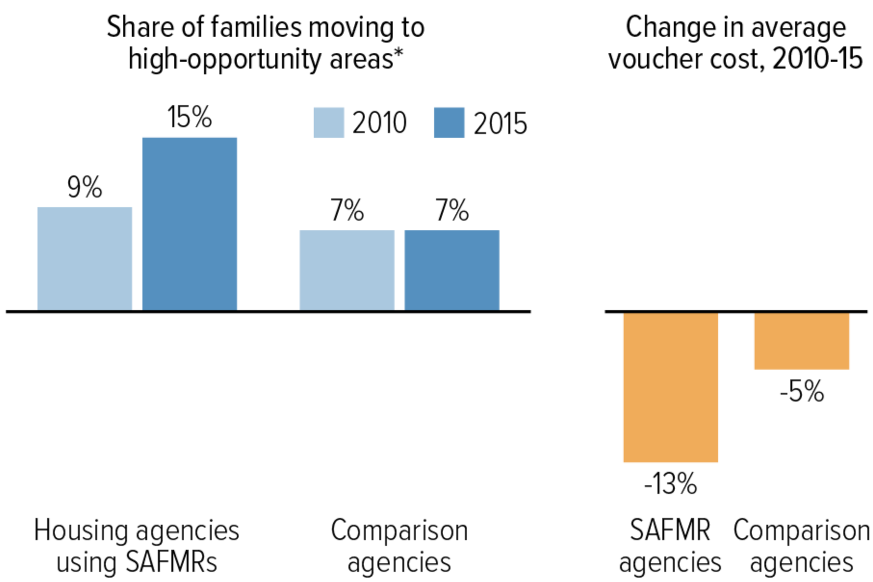
14 Meryl Finkel *et al.,* "Small Area Fair Market Rent Demonstration Evaluation: Interim Report," prepared for U.S. Department of Housing and Urban Development, August 2017, https://www.huduser.gov/portal/publications/SAFMR-Interim-Report.html.

15 At the seven SAFMR agencies in the evaluation, 18 percent of voucher holders who had received assistance for at least two years before 2015 moved from one zip code to another during that period.

share of voucher holders making inter-zip code moves who relocated to neighborhoods with the highest concentration of black and Hispanic residents (compared to other neighborhoods in that metro area) fell at agencies that used SAFMRs, while there was not a similar trend at the comparison agencies.[16]

FIGURE 1

Small Area Fair Market Rents (SAFMRs) Allow Moves to Better Neighborhoods and Lower Program Costs



Comparison agences = A group of comparable agencies not using SAFMRs.

*Figures measure, among voucher holders changing zip codes, the percentage who moved to a neighborhood scoring in the top 25th percentile on an index reflecting poverty rate, school quality, access to jobs, and exposure to environmental toxins.

Source: Meryl Finkel et al., "Small Area Fair Market Rent Demonstration Evaluation: Interim Report."

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The evaluation findings confirmed earlier research showing that SAFMRs enabled voucher holders to live in improved neighborhood environments. One study estimated that three years after SAFMRs were implemented in Dallas, families that used vouchers to move lived in neighborhoods with 17 percent less violent crime and poverty rates 2 percentage points lower than they would have

[16] At SAFMR agencies the share of *all* vouchers that were used in neighborhoods with high Hispanic concentration fell only slightly and the share used in neighborhoods with a high percentage of black residents remained unchanged. This suggests that the drop in the share of zip code movers who relocated to neighborhoods with high minority concentrations was offset by some other trend, such as more rapid exits from the program by voucher holders living in neighborhoods with low minority concentrations.

lived in under metro-level FMRs.[17] The large crime rate shift that the study found — an issue the new interim report did not examine due to data limitations — is consistent with other research suggesting that when low-income families' housing choices expand, they prioritize finding homes in neighborhoods with less crime.[18]

The impact of SAFMRs, to be sure, falls far short of what would be needed to provide the bulk of voucher holders the option to live in high-opportunity or racially integrated neighborhoods. SAFMRs' effects are striking, however, because they were achieved without raising costs. In fact, average voucher subsidy costs *fell* by 13 percent at SAFMR agencies from 2010 to 2015 in inflation-adjusted terms. During this same period, inflation-adjusted costs at the comparison agencies declined by just 5 percent. This suggests that while some of the cost reduction at SAFMR agencies may have been driven by other factors, the bulk likely resulted from SAFMRs, presumably because subsidy reductions in low-rent neighborhoods exceeded increases in high-rent neighborhoods.

Adverse Outcomes Were Limited and Could Be Avoided Going Forward

HUD's suspension letters expressed concern about the interim evaluation's findings in two areas: "the impact on rent burdens on participating families" and "the availability of units in the metropolitan area." If SAFMRs cause these types of problems, the primary cause would likely be payment standard reductions in neighborhoods where SAFMRs are substantially below the metro FMR. Lower payment standards would cover a smaller share of the rental stock in those neighborhoods and could leave some families paying higher rent burdens if they wish to remain in their unit or are unable to find housing elsewhere.

The adverse effects the evaluation found are less severe than HUD's letters imply. But more importantly, HUD was aware of the risks SAFMRs pose in low-rent neighborhoods when it issued the 2016 rule, and it made a series of improvements to SAFMR policy to address them.

Adverse Outcomes at SAFMR Agencies Were Limited

The SAFMR interim evaluation found that from 2010 to 2015, the amount of rent that tenants at SAFMR agencies paid rose by 18 percent, adjusted for inflation.[19] Much of that increase was likely driven by factors other than SAFMRs; inflation-adjusted tenant rent payments also rose by 9 percent at the comparison agencies. It is not surprising that payments would have increased at both sets of agencies during this period, since some agencies responded to deep 2013 budget cuts through policy changes that shifted costs to tenants (such as higher minimum rents for the lowest-income tenants or reductions in payment standards unrelated to SAFMRs), and many of those measures remained in place in 2015. Also, the amount voucher holders must pay toward rent is tied to their income, and family incomes grew to some extent as the economy recovered from the 2007-09 recession.

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[17] Robert A. Collinson and Peter Ganong, "The Incidence of Housing Voucher Generosity," May 2015, http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2255799.

[18] Michael C. Lens, Ingrid Gould Ellen, and Katherine O'Regan, "Do Vouchers Help Low-Income Households Live in Safer Neighborhoods?" *Cityscape,* 13:3, 2011, http://www.huduser.org/portal/periodicals/cityscpe/vol13num3/Cityscape_Nov2011_dovouchers_help.pdf.

[19] Finkel *et al.,* 2017, exhibit 7-7, p 94.

Nonetheless, tenant rent payments did grow more rapidly at SAFMR agencies than at the comparison agencies. It is not certain that the full 9 percent gap between the rent increases at the two sets of agencies resulted from SAFMRs, rather than other factors.[20] But if it did, it would correspond to a roughly $33 average increase in monthly tenant rent payments; this is a substantial amount, and some families could have faced increases much higher than $33.

It is not clear that the other issue HUD flagged (a reduction in the "availability of units") reflects a significant concern. The interim evaluation found that in areas served by the seven SAFMR agencies, the share of rental units with rents below the SAFMR was 48.5 percent, while the share below the metro FMR was 50.2 percent. This is a small difference, and the same evaluation findings suggest that SAFMRs *broadened* the choices available to voucher holders by increasing the range of neighborhoods where a sizeable share of units were affordable to voucher holders.

SAFMRs gave voucher holders broader neighborhood choices because the reduction the evaluation found in units affordable to voucher holders occurred mainly in the lowest-rent neighborhoods, where 73 percent of units had rents below the metro FMR but just 46 percent of unit rents were below the SAFMRs. But this shift would still leave nearly half of the units in those neighborhoods affordable to voucher holders (if agencies set payment standards at 100 percent of the SAFMR), which would generally be enough to enable voucher holders that wish to live there to find an affordable unit. Meanwhile, the share of units affordable to voucher holders in high-rent neighborhoods rose from just 26 percent of units under metro FMRs to 54 percent under SAFMRs, greatly expanding voucher holders' access to neighborhoods otherwise unavailable to them — and ones scoring much higher on the evaluation's opportunity index than low-rent neighborhoods.

Moreover, even the modest overall reduction in affordable units partly reflects the evaluation's focus on the portions of metro areas served by the agencies studied, rather than on whole metro areas. SAFMRs are designed to cover the same share of units as metro FMRs across an entire metro area[21] but not in the local service area of an individual agency, which may be primarily made up of low- or high-rent portions of the metro area. The only agency where the evaluation found the share of units with rents below the SAFMR to be more than 2 percentage points lower than share below the FMR was the Long Beach Housing Authority, which serves 13 disproportionately low-rent zip codes out of the nearly 600 zip codes in the Los Angeles metropolitan area.

Policy Changes in Final Rule Address Risks in Low-Rent Neighborhoods

When it proposed the 2016 rule expanding SAFMRs, HUD requested comments on how to protect families in low-rent neighborhoods from the effects of lower SAFMRs and ensure that SAFMRs do not reduce the housing opportunities available to voucher holders. The final rule made

[20] The details of the evaluation findings raise questions about whether this gap resulted entirely from SAFMRs. If the difference in the rent trend between the SAFMR and comparison agencies was driven by SAFMRs, it should be concentrated among households in low-rent neighborhoods, where SAFMRs could compel agencies to lower payment standards. But tenant payments in high-rent neighborhoods also rose faster at SAFMR agencies than at comparison agencies. Families in high-rent neighborhoods at SAFMR agencies paid $46 more in 2015 than in 2010, while those at comparison agencies paid just $4 more in 2015 than in 2010. This suggests that the gap may reflect other factors, such as greater increases in tenant incomes at SAFMR agencies or other policy changes at those agencies.

[21] For a variety of technical reasons, even over a full metro area the shares may not come out precisely the same.

substantial policy improvements that should be adequate to ensure that state and local agencies can avoid higher rent burdens or a reduction in available units.

- **Hold-harmless for tenants in place.** Most importantly, the 2016 rule allows housing agencies to exempt families that continue to use their voucher in the same unit from payment standard reductions resulting from FMR declines, implementing a statutory change enacted as part of the 2016 Housing Opportunity Through Modernization Act. The rule also allows agencies that choose not to use the full hold-harmless flexibility to apply only part of the payment standard reduction to families in place or phase their reductions in over time. In the demonstration, agencies were required to implement payment standard reductions — and any resulting rent increases — at a family's second annual review after the change (which would occur 12 to 24 months later). The change in the 2016 rule will allow agencies to reduce rent burdens for many families and should enable them to ensure that no families are displaced from their homes due to SAFMRs.
- **Expanded payment standard flexibility in SAFMR areas.** The 2016 rule retains agencies' existing flexibility to set voucher payment standards anywhere from 90 to 110 percent of FMRs (including SAFMRs). The evaluation findings suggest that this flexibility could be sufficient to enable agencies to prevent higher average rent burdens.[22] In addition, the rule expands agencies' flexibility by allowing them to request HUD approval to set payment standards above 110 percent of the SAFMR if they meet certain criteria (which will likely include showing that market rents justify the higher standard).
- **Phase-in of SAFMR reductions.** The rule also limits the amount by which SAFMRs may fall below the prior year's metro FMR to 10 percent per year. This will give families more time to explore relocating before the full effects of the largest declines from FMR to SAFMR are felt. Unlike the hold harmless and payment standard flexibility described above, this will apply to all agencies rather than just those that choose to adopt it.
- **Metro-wide SAFMRs.** The requirement in the 2016 rule that HUD recently suspended would have compelled all agencies in 23 metro areas to use SAFMRs. Metro-wide coverage is vital to provide families with access to a broader range of neighborhoods and reduces the risk that SAFMRs could lead to fewer total units being affordable to voucher holders. Indeed, it would avoid situations like the one in Long Beach, where SAFMRs were only used in a relatively low-rent portion of the metro area.
- **Exemption of low-vacancy metro areas.** HUD's 2016 rule does not require SAFMR use in any metro area with a vacancy rate of 4 percent or less, even if the area meets HUD's other criteria for mandatory SAFMRs. It would be more difficult for voucher holders in low-vacancy markets to rent in high-rent, high-opportunity neighborhoods even with SAFMRs, due to intense competition for available units. As a result, had SAFMRs been required in those areas, more families might have faced higher rent burdens because they could not leave

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[22] The $33 monthly rent increase potentially attributable to SAFMRs was just 3 percent of the average payment standard at SAFMR agencies, so even a small adjustment in payment standards at SAFMR agencies would have been adequate to offset the higher rent burdens. Based on the evaluation, it appears that few if any SAFMR agencies set all payment standards at 110 percent of the SAFMR during most of the period studied (although Long Beach did so in April 2015) so they had at least some room to raise payment standards without exceeding the 110 percent limit.

a unit in a low-rent neighborhood with a rent above the new payment standard.[23]

The hold-harmless policy, higher payment standards, and SAFMR phase-in would all raise voucher costs to some degree. However, as noted, the evaluation found that without these measures, SAFMRs substantially *reduced* average voucher costs. Indeed, the average subsidy cost reduction potentially attributable to SAFMRs — $60 a month — was nearly twice the increase in tenant rent payments, suggesting that agencies could take steps adequate to eliminate the increase in average rent payments while still generating significant savings.

Administrative Costs From SAFMRs Appear to Be Modest

The evaluation report found that agencies implementing SAFMRs incurred some added administrative costs, stemming in large part from one-time or transitional expenses such as modifying computer software to calculate voucher subsidies using a wide range of payment standards.[24] The report does not provide an overall estimate of the added costs, but the available information suggests that they were fairly modest.

HUD provided the agencies participating in the SAFMR demonstration with one-time supplemental administrative funding, with the amount of those funds determined based on HUD's estimate of the added costs incurred by the Dallas-area agencies during their earlier implementation of SAFMRs.[25] Some agencies told evaluators that the supplemental funds HUD provided covered the full cost of implementing SAFMRs, while others stated that they had to divert some resources from other administrative tasks to pay a portion of their added expenses. However, the supplemental funds, together with agencies' regular administrative funding, were sufficient to enable the agencies to implement SAFMRs while in most cases maintaining or increasing the total number of families they assisted. Those supplemental funds amounted to about $560,000 for the five demonstration agencies, which was just 3 percent of the administrative funds those agencies received annually during this period and a small fraction of the reduction in voucher subsidy costs that occurred as those agencies implemented SAFMRs.[26]

If needed, agencies could generally absorb costs of the magnitude needed to implement SAFMRs, so the SAFMR requirement in the 2016 rule should go into effect whether or not policymakers take

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23 Only one of the five agencies that implemented SAFMRs as part of the demonstration (the Cook County Housing Authority in the Chicago area) is in a metro area where the 2016 rule would require use of SAFMRs.

24 The evaluation found that at least some SAFMR agencies faced "significant" administrative burdens in two areas: modifying automated systems (a one-time, up-front cost) and analyzing and setting payment standards (which required the most effort in the first year but also created some ongoing costs in later years). In addition, there were smaller, "moderate" costs in three areas — staff training, rent adjustments, and housing quality inspections — the first two of which were entirely transitional while the third entailed some ongoing costs because inspectors sometimes had to travel further to inspect units in the higher-rent, higher-opportunity neighborhoods to which voucher holders moved. The evaluation also found "minor" costs in several other areas.

25 HUD provided $25,000 in supplemental administrative funds per agency, plus $25 per voucher for agencies with fewer than 2,500 vouchers and $15 per voucher for agencies with 2,500 or more vouchers, up to a maximum of $300,000 per agency.

26 This means that the SAFMR policy reduced overall federal costs per family assisted, but agencies cannot use subsidy savings directly to pay for administrative costs. In order to provide as much as assistance as possible to families, federal law requires that agencies use subsidy funds solely for rent and utility costs.

other measures to reduce the work required for implementation or cover its cost. But agencies would be better able to help families take advantage of the opportunities SAFMRs provide in higher-rent neighborhoods and protect residents in lower-rent neighborhoods if they had additional administrative funds or lower expenses. Policymakers could — and should — take several steps to ensure that housing agencies required to implement SAFMRs have sufficient resources to advance these goals.

First, HUD should use its discretion to target supplemental administrative funds to those agencies. Most voucher administrative funds are allocated by formula, but the 2018 HUD appropriations bills passed by the appropriations committees in the Senate and House of Representatives give HUD broad discretion to allocate $10 million as needed. It would cost about $9 million to provide the same level of supplemental administrative funds to agencies that the 2016 rule requires to implement SAFMRs as HUD provided to SAFMR demonstration agencies. The $10 million in discretionary funds would be enough to cover this amount, but HUD must also use some of those discretionary funds for other purposes. Lawmakers should increase the amount of discretionary funds (which has been as high as $50 million in prior years) to at least $20 million, to ensure that HUD has sufficient discretionary funds to cover SAFMR-related costs and other supplemental funding needs. (They should also increase the overall amount of voucher administrative funding, which has been inadequate in recent years.)

HUD could also reduce the direct costs of implementing SAFMRs through technical assistance, for example by providing sample materials that agencies could use to explain the change to families and landlords and encouraging agencies in each metro area to work together to set zip code payment standards rather than each undertaking this task separately. In addition, HUD could do a great deal to reduce agencies' overall administrative costs, which would leave them with more leeway to absorb any added administrative costs from SAFMRs. HUD should move promptly to implement legislation Congress enacted in 2015 and 2016 that would lower administrative burdens, for example by reducing the frequency and complexity of agency reviews of tenant income. Lastly, HUD should finalize regulations making it easier for agencies to form consortia that would allow them to achieve administrative economies of scale.

Evaluation Provides Support for Moving Forward With SAFMR Expansion

Overall, the evaluation findings reaffirm earlier research on the benefits of SAFMRs and indicate that the policy's risks and administrative costs are modest and manageable. The requirement in the 2016 rule that agencies use SAFMRs in metro areas where vouchers are disproportionately concentrated in low-income areas is a sensible, measured next step to scale up a policy that has proven successful. If it were carried out, the expansion would provide many more low-income families with the opportunity to move to neighborhoods with low crime and strong schools, which could have a profound and lasting positive impact on their children's life chances.

The findings clearly do not support HUD's suspension, which if maintained will permit agencies to continue using the flawed approach of setting voucher subsidies based on metro FMRs that may be far above or below neighborhood rents. HUD should reverse the suspension and implement the SAFMR expansion requirement as soon as possible.