PHADA
Helping House America

ISSUE BRIEF

Public Housing Authorities Directors Association

Flat Rent Rule Plays Havoc with Residents and Agency Finances

Using a "One Size Fits All" Approach Does Not Work

The "Quality Housing and Work Responsibility Act of 1998" (QHWRA) required Housing Authorities (HAs) to establish private unassisted market rental values of each of their public housing developments – flat rents – based on their location, quality, size, unit type, age, amenities, housing services, maintenance, and utilities. However, the FY 2014 Consolidated Appropriations Act required HAs to set flat rents at no less than 80 percent of HUD's Fair Market Rents (FMRs) regardless of the individual characteristics as established under QHWRA.

Under QHWRA, the intent of flat rents was to: 1) reflect the market value of public housing units; and 2) not discourage households striving to be economically self-sufficient through employment or through their own efforts from continuing to live in public housing.

The new law's unintended consequences are now coming to light. PHADA's flat rent survey (May 2014) of just under 10% of housing authorities administering 10% of Public Housing units in rural, suburban and urban areas in 40 States shows that the new law:

Penalizing Working Residents

Gross Earnings | After taxes | After Taxes and flat rent increases

1. Discourages Some People From Working and Moving Up the Ladder of Self-Sufficiency.

- Approximately 38% of existing flat rent payers are families with children – who will move out as a result of new much higher flat rents including some who are participating in the Family Self-Sufficiency (FSS) program.

2. Hurts Some Elderly and Disabled Individuals.

Among all HA survey respondents, approximately 35% of existing elderly flat rent payers will move out because of higher rent and approximately 39% of disabled flat rent payers will do the same.

3. Creates Upheaval and Turmoil With More Move Outs, Potential Vacancies and Greater Concentrations of Very Poor People.

- Survey respondents expect problems in the following areas due to changes to their flat rents: occupancy – 82%; unit turnover – 79%; loss of rental revenue – 67%; concentration of extremely low-income households – 53%; and waiting list – 36%.
- The *average* total household income of flat rent paying households is made up largely of extremely low-income and very low-income households. The *average* total household income for existing flat rent paying households as a percentage local Area Median Income (AMI) is: 35% AMI – 0 BR, 37% - 1 BR, 40% - 2BR, 43% - 3BR, 49% - 5BR.
- In most instances, when a flat rent paying household moves out they are replaced by an eligible household with an income that is approximately half of a rent paying household. As a result, more Operating Fund subsidy will be needed.

4. Results in Lost Tenant Rental Revenue and Will Drive Up Need For More Federal Assistance.

Already underfunded agencies will be harmed by the loss of tenant rental revenue that provide 100% support for flat payer housing units.

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Other Unintended Consequences

Geographic Area Used for FMRs Do Not Reflect Non-Metro Area Rents – Many HAs are located in areas where unassisted rental units are much lower than 80% of HUD's Fair Market Rents. Therefore new flat rents are not reliable.

Diverse Public Housing Stock – Many HAs have a wide variety of public housing stock, from very modest small apartments to single family detached residence with garages/carports. It is hard to believe that each dwelling is worth no less than 80% of applicable FMRs. It also flies in the face of existing rent reasonable requirements.

Flat Rent Paying Households Are Important Assets To Mixed-Income Communities – In the time before public housing-assisted flat rent paying households and/or FSS participant households leave public housing, they provide an important asset to the community and make substantial contributions in rent. This is particularly important as Federal appropriations for the Operating Fund continue to be funded well below the authorized level.

Prevents HAs' from Assisting Families with Referrals to Service Providers – In an effort to assist elderly, disabled and families with children residing in public housing, Housing Authorities have formal and informal relationships with a range of service providers at local, county and state levels. As flat rent paying households move out into the unassisted housing market as a result of new higher rents, low-income households will no longer have access to information and referral services from HAs which have proven to be instrumental to their health, education and employment.

Related Resources – More detailed materials are available at: www.phada.org/pdf/PHADAFlatRentBriefing.pdf. A seven minute DVD of four flat rent paying households with the Bowling Green (KY) Housing Authority is available at: http://youtu.be/v23CHu8ghyk.

PHADA's Flat Rent Legislative Solution

Results of PHADA's survey also show that some HAs will not experience any impact from changes to the flat rents, and others will find the new flat rent requirement will help increase rent revenues. In all instances, local housing and market conditions determine the impact. HAs need the following flexibility to implement flat rent changes:

1. Housing Authorities conduct a flat rent assessment of the rental value of their public housing units among a variety of methods including but not limited to:
   a. local rental market studies apart from or in combination with applicable Fair Market Rents (FMRs);
   b. the existing rent reasonableness methodology under existing Section 8 tenant-based and project-based voucher programs;
   c. a percentage of applicable FMRs rather than a national fixed percentage across-the-board;
   d. HUD's Small Area / FMRs (SAFMRs do not include many non-metropolitan counties); and/or
   e. in proportion to area HAs' voucher payment standards by bedroom size and neighborhood.

2. HAs may adjust their flat rents and discretionary policies in a way that will not discourage households striving to become economically self-sufficient from continuing to live in public housing.
3. a 5-year phase in period for existing tenants and new tenants (move-ins).
4. a rent reasonableness study will be reviewed no less than every 5 years.
5. an opportunity for households who may not have been adequately addressed by the measures, to demonstrate a hardship for an HA's review.

Public Housing Authorities Directors Association
511 Capitol Court NE • Washington, DC 20002 • (202) 546-5445 • www.phada.org