Study of Rents and Rent Flexibility

U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

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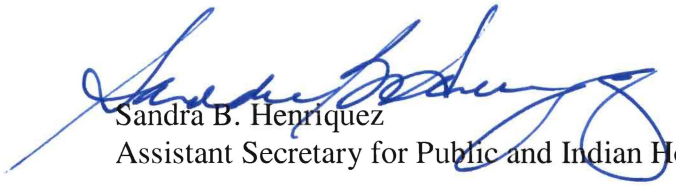
FOREWORD

This report, "Study on Rents and Rent Flexibility" provides information on alternative methods for establishing rent policies in federal housing subsidy programs, including public housing and the Section 8 Housing Choice Voucher program. The study is intended to help policymakers, local housing agencies and affordable housing advocates to assess potential changes to the current Brooke Amendment rent structure, under which assisted housing tenants pay 30 percent of their income for rent. The report assesses alternative rent structures, and their impact on HUD's target population, especially households making 0-15% of Area Median Income, excluding elderly and disabled households.

The report contains insights from interviews with housing agency staff, newly admitted residents and low-income persons currently on waiting lists for assistance. The interviews focused on their knowledge and opinions about rent, income, expenditures, and equitable rental policy. To our knowledge, this is one of the first studies of its kind to interview individuals who are still on the waiting list for public housing for their views on rents and income.

The study affirmed that housing authorities are committed to developing innovative methods to increase program flexibility and better utilize resources, while continuing to assist extremely low-income families. For instance, in interviews, housing agency staff identified an additional six components of the current process that could be improved to reduce administrative burden without eliminating income-based rents: verifying income; conducting interim reexaminations; calculating asset income; documenting deductions for medical, disability, and childcare expenses; applying the Earned Income Disregard; and basing rent calculations on prospective income.

It is our hope that this report adds to the discussion on rent, income and alternative rent setting systems for federally assisted housing. It will also better inform the design of the Rent Reform Demonstration that HUD will implement in FY 2012.



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Executive Summary

The Study of Rents and Rent Flexibility addresses a wide spectrum of questions that focus on the impacts of revised methods of calculating the tenant-paid portion of rent in the public housing and Housing Choice Voucher (HCV) programs. The purpose of the study is to help policymakers in deliberations about how changes in the rent calculation can remedy weaknesses in the current programs.

The current system for calculating tenant rent payments bases rent on either 30 percent of a household's adjusted income or, for public housing residents, an optional flat-rent schedule tied to market rents that are established by each local Public Housing Agency (PHA). The advantage of an income-based system is that it limits the burden on tenants of paying excessive rents. The alleged weaknesses of such a system are that it creates a disincentive to work or increase earnings, to report all sources of income, or to include an additional working adult in the household—any of which could result in increased rent payments. It has also been criticized for its inequitable treatment of similar households, as participants receive a deep subsidy, while equally needy household receive no assistance. Finally, the current system has been the target of criticism for its administrative complexity, invasiveness, and tenant burden.

Study Particulars and Methods

The study analyzes the likely implications of the following:

- Changing the rent structure to alternatives that are not based purely on tenants' income;

- Other ways of structuring the rent system to encourage tenants to increase earnings;
- Policies intended to reduce the underreporting of income; and
- Possible changes to benefit levels in order to serve a greater number of eligible households.

The study also examines how PHAs use their existing flexibility to set rents. All PHAs have the flexibility to set a minimum rent of up to $50, establish optional flat rents for their public housing developments, and set the payment standard in the HCV program. The 33 PHAs in the Moving to Work (MTW) demonstration have broader flexibility in establishing rent policies than the other PHAs. Their experiences are also included.

To address these topics, the study drew on information from previous research, analyses of secondary and administrative data, and analyses of data collected specifically for the study. The new data come from in-person interviews with staff during site visits to 25 PHAs, a telephone survey of PHA staff from 175 PHAs, and more than 1,200 interviews with persons living in public housing, using a voucher, or on the waiting list for such assistance.

PHA Use of Existing Flexibility to Determine Rent

We explored the PHAs' decisions and views on the three areas in which they currently can exercise flexibility in making policy decisions that affect the tenant portion of rent: establishing the minimum rent and related hardship exemption policy; determining the optional flat rent for public housing; and setting the payment standard for the HCV program.

Minimum Rents (Section 2.1). The enactment of the Quality Housing and Work Responsibility Act (QHWRA) in 1998 granted PHAs flexibility in setting a minimum rent of up to $50 for both the public housing and HCV programs. The law also requires PHAs with a minimum rent above $0 to implement a hardship policy that, in certain circumstances, exempts people from the minimum rent. One initial concern with the hardship exemption was that it would be used with such frequency that it would render the minimum rent irrelevant. Our investigation revealed otherwise. We found the following:

- Nearly three-quarters of all PHAs (72 percent) set their minimum rents at $50, which is the statutory maximum.
- Hardship exemptions provide a safety net and appear to be used sparingly. Approximately 10 percent of assisted households pay the minimum rent established by their PHA, and only 1 percent of all assisted households receive a hardship exemption.

PHA staff interviewed by telephone for the study offered their opinions on the amount of the maximum allowable minimum rent.

- The most common response from PHA staff (40 percent) called for keeping the maximum allowable minimum rent at $50.
- Nonetheless, a slight majority of respondents (54 percent) suggested amounts above the current $50 minimum; most commonly, they preferred a doubling of the current minimum rent to $100.
- Another indication of PHA preferences for allowable minimum rents is the actions of the MTW PHAs, which are permitted to set minimum rents above $50. Approximately one-quarter of MTW PHAs have established minimum rents above $50.

Staff in favor of a higher minimum rent see it as a means to encourage self-sufficiency and generate revenue so that they could serve more needy households in their community. Staff opposed to a higher minimum rent pointed to concerns about rent burden among the lowest-income renters.

Optional Flat Rents (Section 2.2). Under QHWRA, PHAs must offer public housing residents a flat rent set at the market rate for their unit as an alternative to an income-based rent.

- A majority of PHAs report that they use flat rents as a way to encourage higher-income families to remain in public housing.
- When setting rents, most PHAs do not go far in trying to reflect the actual market value of the public housing units they own. They typically set flat rents by bedroom size in reference to local rent levels as reflected in Fair Market Rents (FMR) rather than differentiating rents by the location or physical quality of the public housing units.
- PHAs appear to set the optional flat market rents relatively low, though still much higher than the rent paid by the typical public housing resident. In 2008, about two-thirds of flat rents (69 percent) were set at less than half the FMR. Nevertheless, the average rent paid in 2008 by non-elderly/non-disabled public housing tenants selecting the flat-rent option was $454 per month, more than twice as high as the $205 per month average paid by other non-elderly/ non-disabled public housing tenants.

The optional flat rent appears to offer the best of both worlds for the relatively higher-income assisted households that tend to choose such rents. These flat-rent households benefit from a rent that is lower than their income-based rent and that will not increase if their income increases. If flat-rent households' income decreases, the households may switch back to an income-based rent at annual recertification. Increased awareness of the flat-rent option and its advantages may explain why more households have chosen flat rents over time. We found the following:

- An upward trend in the share of households choosing flat rents. Fifteen percent of all public housing households (and nearly 17 percent of non-elderly/non-disabled households) chose a flat rent in 2008 compared to 10 percent in 2004 and 6 percent in 2001.

- Households that choose the flat rent tend to have higher incomes and are more likely to be working than households that stay with the income-based rent. In 2005, flat rent households had an average income of $28,150 compared to $9,426 for other public housing households.

Payment Standards (Section 6.2). In the HCV program, the tenant-paid rent is typically 30 percent of adjusted income plus any part of the gross rent exceeding the payment standard. With this rent structure, tenants pay the same amount for any unit that rents between 30 percent of tenants' adjusted income and the payment standard, but they must pay an additional dollar for each dollar of gross rent exceeding the payment standard.

Since passage of QHWRA, PHAs have exercised flexibility in setting the payment standard between 90 and 110 percent of the local FMR.

- About 42 percent of PHAs set their payment standard above the FMR, 26 percent set it equal to the FMR, and 32 percent set it below the FMR.
- To control the higher costs associated with serving households that need several bedrooms, some PHAs set lower payment standards (relative to the FMR) for four-bedroom units.

We also analyzed trends in payment standards from 2003 to 2008 and found the following:

- The median payment standard declined by 3.6 percent in inflation-adjusted dollars from 2003 to 2008 (from $1,016 to $979 in $2008).
- This decrease seems to be related to changes in program funding. In 2004, Congress changed the funding mechanism for the HCV program from a unit-based system (based on local rental costs and the number of units served) to a dollar-based method (where PHAs receive funding based on last year's funding adjusted by inflation). The entire decline of 3.6 percent occurred between 2004 and 2006.

Greater Flexibility in Setting Rents and Payment Standards (Section 6.1). PHA staff interviewed by telephone were asked if PHAs should be granted greater flexibility in setting

rents and payment standards than allowed under current rules. Seventy-two percent responded "yes," of whom almost all said that their PHAs would make changes if given additional flexibility. PHA staff were also asked the most important reason they perceived a need for greater flexibility.

- Two of the four most common reasons related to working households, with 27 percent of PHA staff noting that increased flexibility would permit them "to encourage more households to work" and 15 percent noting that it would "make rent fairer to residents who report earnings."
- The second most common reason was "to assist more households not currently being served" (20 percent).
- The third most common reason was "to make rent flows and PHA budgeting more predictable" (19 percent).

The Effect of Alternative Rent Structures on Assisted Households

The study investigated the implications of changing the current income-based rent structure to the following:

- ***A flat-rent/flat-subsidy system*** in which the rent paid by public housing households (and thus the implied subsidy provided by the PHA) is the same for all income levels and the housing subsidy provided to voucher holders is the same for all income levels.
- ***A stepped-rent system/stepped-down subsidy system*** in which the rents of public housing households start out at a relatively low level and increase for each year that a household remains in the program. For voucher holders, the housing subsidy would be relatively generous in the first year and decrease for each year of program participation thereafter.
- ***A hybrid system*** that sets a flat rent up to some income threshold and then charges a percent-of-income lower than the current 30 percent above that threshold. The model used in this study applies a $150 minimum flat rent for all household reporting income of less than $6,000 and then a percent-of-income rent above that level.

We studied each alternative to understand how it might address the current system's weaknesses.

Work Effort (Section 3.1). Given that it "taxes" income, the income-based rent structure for the public housing and HCV programs draws criticism for creating a disincentive to employment and economic mobility; each dollar added to household income translates into payment of an additional 30 cents in rent. An alternative structure not based on income, such as a flat rent or a flat-voucher subsidy, would eliminate this employment disincentive by not tying additional earnings to an increase in a household's rent payment. However, an alternative subsidy structure would not eliminate the work disincentive created by housing assistance and other income transfers: the subsidy reduces the need for earnings to cover basic living expenses.

Possibly offsetting the disincentives of the income-based rent subsidy and the subsidy itself is the greater housing stability enjoyed by assisted families, making it easier for adults to work, work more hours, or move into better jobs. Whether the net result is an increase or decrease in work effort in response to housing assistance has long been a matter of debate. Research based on rigorous experimental design has finally begun to measure how housing assistance—under the current rent structure—affects employment and earnings. Based on our review of the available information (Section 3.1), we arrived at the following conclusions:

- Compared to the current rent structure, a flat rent/flat-subsidy structure would increase the incentive for assisted households to work, but the actual increase in work effort is likely to be small.

- A hybrid rent system would increase the incentive to work, but possibly not as much as a flat-rent/flat-subsidy system. Above a certain threshold, additional earnings would incur a rent tax, though a lower rent tax than under the current system.
- A stepped-rent/stepped-down subsidy would be similar to a flat rent/flat subsidy in that it would eliminate the rent tax on additional earnings. Depending on how high and fast the tenant's portion of the rent increased, a stepped system could also create a time limit. The subsidy would decline to zero over time even if a tenant's income did not increase.

Additional Adults in the Household (Section 3.2). The potential effect of housing assistance on marriage and cohabitation parallels the same logic related to work effort. The additional discretionary income (from reduced housing expenses) provided by public housing and HCVs may enable a parent to get along without the income of a second adult. Furthermore, the form of an income-based subsidy adds another potential incentive. Income-based rents may cause a parent not to live with a partner whose income would be "taxed" by the program's rent calculations. Some see the predominance of mother-only households in the public housing and HCV programs as evidence that housing assistance discourages the formation or retention of two-parent families. We found the following:

- Although research shows that the current housing assistance program leads to households with fewer adults, the evidence indicates that residents are not reacting to the increased rent associated with another adult in the household. Instead, the subsidy is permitting them to leave a temporary living arrangement for one they prefer more—usually one where not living with an older adult relative.
- Two-thirds of respondents on the waiting list for assistance and living with at least one other working adult expected to live with fewer working adults once they received assistance. When asked directly if their decision not to live with other working adults after receiving assistance would change if their income did not affect their rent, 93 percent said that their decision would remain unchanged.
- An alternative to the percent-of-income rent structure would likely result in a small increase in the number of multiple-adult households receiving assistance.

Underreporting of Income (Section 3.3). In addition to its potential to depress income, the current system provides an incentive for participants to underreport income in order to minimize their contribution to their total rent. When households underreport income, HUD must pay higher subsidies than needed. Underreported income also challenges one of the fundamentals of the current rent system—two households with the same adjusted income should pay the same rent.

- A quality control study conducted for the U.S. Department of Housing and Urban Development (HUD) found that, in 2008, unreported earned income and unreported unemployment compensation income resulted in $239 million in extra subsidies in the public housing and HCV programs. The estimated excess subsidies attributable to unreported income represents approximately 1.3 percent of HUD's public housing and HCV subsidy costs. The amount of underreporting of *non-verifiable* sources of income—such as "under the table" jobs or child support—is unknown.

HUD is combating the practice of underreporting of *verifiable* sources of income—specifically, wages, unemployment compensation, and Social Security and Supplemental Security Income (SSI) benefits—through the Enterprise Income Verification (EIV) system. Most PHA staff agreed that the EIV is a valuable tool for increasing the accuracy of reported income.

- Almost all the PHA respondents to our telephone survey reported that EIV has increased the accuracy of income reported at their PHAs either a great deal (51 percent) or somewhat (42 percent).

We also asked the site visit PHA staff for their input on whether alternative rent systems would reduce underreporting of income.

- PHA staff reported that alternative rent structures that are not entirely percent-of-income based would substantially reduce or even eliminate (in the case of the flat rent) the incentive to underreport income and, thus, would likely substantially

reduce the underreporting problem. However, the housing assistance rent structure is not the only reason for underreporting; therefore, while alternative rent structures could reduce the problem, they would not eliminate it.

- Some PHA staff pointed out that some households underreport income for reasons other than avoidance of a rent increase. They might want to hide income from other income-based programs or the Internal Revenue Service, or they might fear disclosure of an illegal source of income or someone ineligible to be on the lease. An alternative rent structure would not address these motivations for underreporting.

Rent Burden (Section 3.4). Although other methods of modeling affordability of housing are being debated (using expenditure data, basing rents on what unassisted households of similar income pay), rent as a percentage of income or rent burden is a common way of measuring housing need among low-income renters, and reduction of rent burden is now a primary purpose of rental housing assistance. The standard rule of thumb is that rent above 30 percent of monthly income is a moderate burden and that rent above 50 percent is a severe burden.

We compared the rent burden under alternative rent structures (e.g., flat rent/flat subsidy and hybrid system) to the rent burdens under the current housing assistance system and to rent burdens of very low-income, unassisted households (Section 3.4.). We found the following:

- The current system and all simulated alternatives substantially reduce the rent burden for assisted households compared with unassisted households. Very low-income unassisted renters have a median rent burden of 50 percent compared to assisted households' median rent burden of 28 percent under the current rent system and between 25 and 33 percent under the alternative rent systems tested.
- For households with income above 30 percent of the local area median income (AMI), rent burdens for assisted households almost always fall below 30 percent in both the current system and the alternatives tested.
- The alternative rent structures tested double to triple the share of the lowest-income households (income below 15 percent of AMI) with severe rent burdens

compared to the current system. On the other hand, based on studies of expenditures relative to income, residents may have significantly higher income than reported. Under a model that upwardly adjusts incomes based on research that shows expenditures exceed income at the lowest levels of income, the alternative rent structures do not result in any severely rent burdened households.

- Despite the high rent burdens of the lowest-income households under the alternatives, average rent under all of the alternatives tested is still less than one-fourth the rent of unassisted households with similar reported incomes.
- The hybrid system is more promising than the single flat rent in terms of rent burden. The two hybrid system tested demonstrate reasonable rent burdens for households above 15 percent of AMI and substantially fewer of the lowest-income households have severe rent burdens than the single flat rent alternative tested. For example, based on the reported income of assisted households, the single flat rent would impose a severe rent burden on 77 percent of the lowest-income households (income below 15 percent of AMI) compared to 48 percent under the hybrid system and 23 percent under the current system.

PHA and Household Views of Alternative Rent Structures

The groups most affected by changes to the current rent system would be PHA staff administering the public housing and HCV programs, along with program participants. Any change would likely influence PHA staffs' administrative burden and relationships with clients, how communities perceive PHAs, and PHAs' ability to meet their goals for their housing assistance program. For residents, a change in the rent system could affect where they live, how much rent they pay, and how long they receive assistance. Therefore, we asked PHA staff and households for their views on both the current system and alternative rent systems.

PHA Staff Views (Section 4.1)

- A majority of PHA staff participating in the telephone survey said that the current rent system has only minor flaws, but one-third of respondents reported major flaws. Only 13 percent were satisfied with the current system.

- Just under half of PHA staff respondents reported that a hybrid system and a flat-rent system were worth considering. A stepped-rent system generated less support.
- The main concern of PHA staff about flat rents was how to achieve a rent low enough to be affordable to the lowest-income tenants yet high enough to be able to subsidize the same number of people.

Household Views (Section 4.2). We asked households that recently started receiving assistance or were on the waiting list for assistance for their views.

- Households reported considerable support for a flat rent; in fact, 59 percent reported a preference for a flat rent (dollar amount unspecified) over a rent tied to income. However, the details matter. When given a choice of a $300 flat rent or the current system, 53 percent of households preferred the flat rent. When given a choice of a $500 flat rent or the current system, only 24 percent preferred the flat rent.
- The preference for alternative rent structures was stronger among relatively higher-income households, households on the waiting list, and working households. A respondent's length of time on the waiting list or residence in a household that received welfare was not correlated with preferences.
- Many households expressed a willingness to pay higher rents if it meant reduced time on the waiting list for assistance, but willingness varied with the tradeoff of rent versus waiting time. Three-fifths of respondents expressed a willingness to spend $100 more a month in rent to shorten the waiting time by two years, whereas only 42 percent chose the higher rent if it would reduce waiting time by one year.

Potential Administrative Cost Savings for PHAs

We looked at possible ways to realize cost savings for PHAs if an alternative rent structure were implemented and if the current income-based system remained.

Potential Savings from Alternative Rent Structures (Sections 5.1 and 5.2). A flat rent or flat-subsidy structure could reduce the amount of time spent by PHA staff in verifying income, investigating fraudulent income reporting, preparing interim reexaminations and

retroactive payments, and verifying deductions. In addition, a voucher program with a flat subsidy could make the rent reasonableness test unnecessary because assisted households would pay every dollar of rent above the subsidy amount and thus would have as strong an incentive as unassisted households to pay fair market value for their units. A hybrid rent would be less likely to reduce administrative costs because it would tie rent to income when income exceeds the minimum threshold.

- PHA staff interviewed during the site visits voiced dramatically different opinions on whether a flat rent/flat-subsidy system would generate administrative savings. Some PHA staff pointed out that the administrative functions related to income verification would still be required with a flat rent/flat-subsidy alternative. Other respondents reported that even the current optional flat-rent system for public housing had led to a reduced workload. In addition, staff from two PHAs that have implemented alternative rent systems under MTW authority reported that they have achieved savings.
- Eliminating the rent reasonableness test in a flat-subsidy voucher system could generate additional administrative savings, but such savings must be balanced against HUD's possible risk in subsidizing housing at above-market rates or even providing subsidies greater than the value of a unit.

Potential Savings without Replacing Income-Based Rents (Sections 3.3, 5.2 and 5.3).

During the site visits and telephone surveys, PHA staff were asked about ways to reduce the administrative burden of the current percent-of-income rent system. They called for the following:

- Reduce the time spent on the income eligibility verification by modifying the EIV system to provide income verification data for applicants admitted into PHA programs. The current system permits use of the EIV system only for households already receiving assistance.
- Reduce the number of interim reexaminations by establishing the minimum decrease for which a tenant can request an interim reexamination. According to the Office of Public and Indian Housing Information Center (PIC) data, PHAs conducted approximately 2.5 million interim examinations between 2003 and 2008.

- Exclude asset income from the income calculation. PHA staff said that the calculation is labor intensive and not cost effective; the amount—if any—of additional rent collected by the PHA is usually less than the cost of the associated staff time.
- Replace the deduction for unreimbursed medical expenses with a single, higher, standard deduction for elderly and disabled families.
- Eliminate or modify the current earned income disregard (EID). PHA staff reported that the EID is a source of confusion and requires manual tracking of disallowances and each resident's status in "using up" the 12 months of 100-percent disregard and 12 months of 50-percent disregard during the EID's four-year period. One statutory change that could reduce the burden is to limit the EID to a continuous 12-month period rather than requiring PHAs to track monthly "on" and "off" periods.

We analyzed several ways to strengthen the EID under the current income-based systems. We examined each option in terms of incentives for adults to work, simplicity of implementation, costs, and equitable treatment of participants with the same level of earnings.

We concluded that the best alternative is to disregard a percentage of all workers' earned income. Such an alternative would offer several advantages. First, it would provide an incentive for both non-working and already-working adults to increase their work effort. Second, the alternative would be much easier to understand and implement than the EID as currently structured. Third, it would treat all workers equitably and not single out workers in certain categories. Fourth, it would provide uniform treatment of income from work and non-work sources by excluding some earnings in order to compensate workers for costs of working (e.g., payroll taxes and transportation costs) that are not borne by people receiving income from non-work sources such as welfare. The disadvantage is that the costs of

providing work incentives to all assisted households would be great; more than half of assisted families with children include a working adult.

Serving More Households by Reducing Voucher Benefit Levels

Federal housing assistance is not an entitlement, and the number of eligible households in need of assistance always outstrips available resources. The HCV program could be modified to increase the number of households served. The program could, for example, lower the payment standard to reduce the average subsidy per recipient, increase the percent of income paid in rent, switch to a flat subsidy with a lower average subsidy amount, or set a time limit for assistance.

PHAs can set the payment standard below FMR to maximize the number of eligible households served within their budget, or they can set the payment standard above FMR so that assisted households have more affordable housing options in low-poverty neighborhoods. We simulated what would happen if all PHAs reduced their payment standard by 10 percent. The result would be a reduction in the average voucher subsidy for non-elderly/ non-disabled households from $662 to $604, an 8.8 percent reduction (Section 6.3).

- A 10 percent reduction in the payment standard would allow PHAs to serve approximately 97,000 additional households with their current funding.
- 72 percent of voucher holders would have a gross rent above the payment standard, as opposed to 39 percent now. Voucher holders are responsible for the entire rent above the payment standard and therefore would either have to pay more in rent or move.
- 80 percent of tenants in low poverty neighborhoods would have a gross rent above the payment standard (less than 50 percent do now).

We also simulated what would happen if the rent system changed to a flat subsidy, with the average subsidy reduced by 5 percent—from $662 to $629 (Section 6.3.).

- A flat subsidy that averages 5 percent below the current voucher subsidy would serve approximately 5.3 percent more households (66,000 additional households).

The full report that follows has more extensive analysis and discussion of both how PHAs operate the current public housing and HCV programs, PHAs' and participants' perspectives on making changes to the program and what is known from previous research and this study's analysis of how these changes would affect the programs.

1. Introduction

The Study of Rents and Rent Flexibility addresses a wide spectrum of questions on the impacts of revised methods of calculating the tenant-paid portion of rent in the public housing and Housing Choice Voucher (HCV) programs. The purpose of the study is to help policymakers who may, over time, consider basic changes to the methods for determining the subsidy amount and tenant-paid portion of rent under the public housing and HCV programs.

Some Public Housing Agencies (PHAs) already are experimenting with alternatives to the current system under the Moving to Work (MTW) demonstration authority.[1] Additional PHAs may design such alternatives under current MTW authority or under an expanded MTW program. This study of how alternatives might be designed and the implications of different systems will be useful for guiding further experimentation.

The study analyzes the likely implications of:

- Changing the rent structure to alternatives that are not based purely on tenants' income;
- Other ways of structuring the rent system to increase tenants' earnings;
- Policies intended to reduce the underreporting of income;
- Possible changes to benefit levels in order to serve a greater number of eligible households; and
- The study also describes how PHAs use their current flexibility to set rents.

[1] Thirty PHAs (later expanded to 33) were granted broad flexibility to make changes to their public housing and HCV programs through the MTW demonstration authorized by the Omnibus Consolidated Recissions and Appropriations Act of 1996.

To address these topics, the study drew on information from previous research, analyses of secondary and administrative data, and analyses of data collected for the study. The new data come from in-person interviews with staff during site visits to 25 PHAs, a telephone survey of PHA staff from 175 PHAs, and more than 1,200 interviews with people living in public housing, using a voucher, or on the waiting list for such assistance.

1.1. Background

The public housing and HCV programs provide decent, safe, and affordable rental housing for low-income renters. To be eligible for assistance, a household must have income below 80 percent of the Area Median Income (AMI) for public housing and below 50 percent of AMI for the HCV program. Further, PHAs set income targets for new admissions to the programs: 40 percent of newly admitted households in public housing must have extremely low income (below 30 percent of AMI), and 75 percent of newly admitted HCV participants must have extremely low income.

The rental amounts in both programs are structured such that participants pay 30 percent of their adjusted household income for rent and utilities (i.e., gross rent). Adjusted income is total household income less standard deductions for disabled or elderly household members and for each child in the household and deductions for certain medical and childcare expenditures. If 30 percent of income is below 10 percent of gross income or a PHA-established minimum rent, then the tenant pays the higher amount instead. PHAs may exercise flexibility in setting the minimum rent at up to $50 per month and in establishing criteria for exemptions for minimum rents for households with financial hardship.

With implementation of the Quality Housing and Work Responsibility Act (QHWRA) of 1998, public housing households may choose each year whether to pay 30 percent of their adjusted household income in monthly rent ***or*** a flat monthly rent established by the PHA.[2] Under QHWRA, housing agencies are required to establish flat rents based on the market value of the public housing unit and to offer such rents as alternatives to income-based rents.

In the voucher program, in addition to 30 percent of adjusted income, participants have to pay any rent amount above the payment standard set by the PHA. PHAs may set the payment standard between 90 and 110 percent of Fair Market Rents (FMR), which the U.S. Department of Housing and Urban Development (HUD) calculates for each metropolitan area and non-metropolitan county group. FMRs are set at the 40th percentile (or, for a few metropolitan areas, the 50th percentile) of the local rents of housing units of standard quality that have turned over to new households in the past two years.[3] During the first year in a unit, a voucher holder may not have a gross rent above the payment standard that would result in tenant payments exceeding 40 percent of adjusted income. In addition, the voucher unit must pass a Housing Quality Standards (HQS) inspection and a rent reasonableness test. The HQS inspection ensures that the unit meets basic quality standards for health and safety. The rent reasonableness test compares the voucher rental unit cost to the cost of similar, unsubsidized rental units to ensure that the landlord is not charging an above-market rent.

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[2] QHWRA was established under Pub. L. No. 105-276, 112 Stat. 2461, tit. V, Oct. 21, 1998.

[3] For information on how FMR is calculated, see HUD (2007).

In summary, the fundamental elements of the current rent system are as follows.

- An assisted household's out-of-pocket housing costs for rent and utilities is based on a percentage (usually 30 percent) of the household's actual income.
- The voucher program's subsidy is based on the expectation that an assisted household will rent a housing unit at about the middle of the rent distribution of the local housing market.

Both of these elements represent public policy choices about how much a family or individual should be expected to pay for rent and what quality of housing (including location) a family or individual should be subsidized to occupy. As described below, the current rent structure offers both advantages and disadvantages. The current system's basic elements could be modified or changed in any of several ways to address its weaknesses. This study investigates some of the options.

Advantages of the Current Rent System

Advocates of percentage-of-income rents argue that the current rent system offers the following advantages.

Provides larger subsides for households with greater needs. Under the current system, relatively poorer households receive larger public benefits than relatively better-off households. Despite the system's vulnerability to errors and fraud that may weaken the relationship between actual income and the subsidy amount, the overall objective of a percentage-of-income rent system is "vertical equity."

Discourages less needy households from receiving subsidies at all. The current system creates an automatic "phase-out" of the subsidy to prevent households without substantial

need from receiving a subsidy. Households above a certain income level will not choose to live in public housing because 30 percent of their income is more than the housing is worth. Similarly, the same households will not choose to receive a voucher subsidy because either 30 percent of income equals or exceeds the payment standard or the subsidy is so low that it is not worth the restrictions and burdens of program participation.

Avoids hardship for assisted families. Limiting housing costs and allowing deductions for medical expenses and child care ensure that a family or individual with housing assistance has adequate income for other necessities such as food, clothing, and transportation. Within a fixed budget, PHAs face a clear trade-off between providing additional support to assisted families and providing some support to equally needy unassisted families.

Avoids concentrations of poverty. A percent-of-income rent makes it equally easy for relatively better-off and relatively worse-off households to live in any public housing development. Such a formula discourages the concentration of eligible higher-income households in the most desirable public housing developments and poorest households in the least desirable public housing developments. Concentration of poverty might occur if public housing rents were related to the quality or market value of housing.

Similarly, the current level of voucher subsidies is intended to make it possible for assisted families to afford to live in many different neighborhoods and not concentrate in relatively "low rent" portions of metropolitan areas. The trade-off between enabling assisted

households to rent in relatively more affluent neighborhoods and assisting a larger total number of households has been a topic of debate since inception of the voucher program.

Ensures that voucher recipients do not live in crowded or dilapidated housing. The current system of relatively high FMRs, percent-of-income rents, and housing quality inspections enables recipients to live in decent housing that is structurally safe and not overcrowded.

Disadvantages of the Current Rent System

While the fundamental elements of the current system—and their implied policy choices—have been in place since the early 1970s, the current system has come under criticism over time, and especially in recent years, for its flaws. Critics of the percentage- of-income system argue that the current rent system suffers from the following disadvantages:

Work disincentives. In common with other programs that provide a larger subsidy for households with lower actual incomes, public housing and the HCV program often are thought to discourage work (securing better jobs, increasing hours of work) by "taxing" earnings—in the case of housing assistance, at 30 cents for every additional dollar earned.

Inequitable treatment of income from work. The current system has been criticized for not providing as great a benefit for working families as for those receiving benefit income because it fails to account for costs associated with earned income, including payroll taxes, transportation, and work clothing.

Unfair treatment of unassisted households. Many renters have economic circumstances similar to those of assisted households and would live in a public housing unit or use a voucher if they could. However, both programs operate with limited budgets and are unable to serve all needy households; therefore, they turn to waiting lists. Critics have argued that the current system is not "horizontally equitable" because households in the same economic circumstances are treated differently—some receive a generous subsidy and some receive no assistance.

Complexity and vulnerability to error. Percent-of-income rents require periodic verification of information on the actual incomes of assisted households and the calculation of tenant rent that incorporates allowable adjustments to income. HUD's numerous quality control studies have documented high rates of error in both the verification of income and calculation of rent.

Vulnerability to fraud. It is widely believed that households conceal some types of income (such as informal child support and earnings from irregular work) from PHAs because the available data verification systems are not able to capture such income.

High administrative costs. The current system imposes administrative costs associated with PHAs' staff-intensive tasks of income documentation and verification. The percent-of-income system for public housing and vouchers has been particularly complex. In addition to annual verification of income, it requires "interim" adjustments when the income of an assisted household changes by more than a minimal amount.

1.2. Study Approach

To identify the rent structures for consideration as alternatives to the current system, we obtained input from staff in HUD's Office of Program Policy and Legislative Initiatives, reviewed literature on proposals to modify the current system, and examined the rent structure changes implemented by MTW PHAs. The alternatives considered in this report are as follows:

- ***A flat rent/flat subsidy system*** in which the rent paid by public housing households (and thus the implied subsidy provided by the PHA) is the same for all income levels and the housing subsidy provided to voucher holders is the same for all income levels.
- ***A stepped rent system/stepped down subsidy system*** in which the rents of public housing households start out at a relatively low level and increase each year of a household's program participation. For voucher holders, the housing subsidy would be relatively generous in the first year and decrease with each year of program participation.
- ***A hybrid system*** that sets a flat rent up to some income threshold and then charges a percent-of-income lower than the current 30 percent above that threshold.

This report also considers a variety of modifications to the current system that maintain the current income-based structure. The modifications are based on input from PHA staff interviewed for this study and on discussions with HUD staff and within the research team.

For each study topic, we assembled material from the existing literature, relied on analyses of HUD's administrative data and other secondary data, and drew on the information we collected from PHAs and households. In some cases, we used simulations to model what would happen if the current system were modified. Given that changes to the rent system would likely focus on households with working-age adults who do not have disabilities that limit their work participation, this study focuses on non-elderly/non-disabled households.

For example, to address a question about changes to the current system that could increase work effort, we first reviewed studies that estimated the work disincentive of the current voucher program. We then presented the perspectives of PHA staff on whether a flat rent would produce a different effect based on the PHAs' experiences with households' response to the current optional flat rent. Finally, we presented data from one MTW PHA that had implemented a flat rent on earnings growth of flat-rent households compared to other assisted households.

To estimate the effect of a non–income-based structure on the lowest-income households, we conducted three simulations that modeled what would happen to rent burden under the alternative rent structures. We then compared the outcomes to rent burdens under the current system and the rent burdens of unassisted households. For the three simulations, we assumed no change in income as in the current system, increased work effort (based on parameter estimates from the literature), and substantial underreporting of actual income (again, based on parameters from the literature).

The simulations pointed out that modifying the current system's primary weakness—the disincentive to work—by moving to a flat rent would reduce the advantages of the current system by making subsidized housing less affordable for the lowest-income households and eliminating vertical equity (in which relatively higher-income households are subsidized less than lower-income households). This type of trade-off also was apparent in an analysis of ways to increase the incentive to work within the current income-based system. The earnings

disregard we judged most promising in terms of equity, work effort, and ease of implementation would also be particularly costly to implement.

Ultimately, changes to the current system will necessitate trade-offs between the loss of some advantages and the redress of some disadvantages. Drawing on the available evidence, this report provides policymakers with information on the advantages and disadvantages of changing the current system.

1.3. Data Collection Overview

The project team analyzed data collected for the study through site visits, telephone surveys, and in-person interviews. We describe these three data collection activities below, followed by a brief description of administrative and secondary data sources.[4]

Site Visits to 25 PHAs

The purpose of the site visits was to understand PHAs' rationales and methods for setting minimum rents, QHWRA flat rents, and payment standards and to obtain staff insights into potential changes to the current rent system. The site visitors asked staff about their preferences for additional flexibility in how PHAs operate their program and how PHAs would use that flexibility. The site visitors also presented staff with various alternative rent structures, as well as with potential changes to the collection of income data and setting of

[4] The Data Dictionary deliverable provided to HUD on July 16, 2009, contains a description of each variable in the three primary data collection data sets as well as copies of the original data collection instruments.

payment standards, and asked their opinion of these options and the rationale for their opinions.

Eligibility for the site visit sample was limited to PHAs in metropolitan areas with a combined total of at least 500 public housing and voucher units. Four PHAs were selected with certainty because they were MTW sites that had made or planned to make significant changes to their rent structure. Therefore, it is important to understand their experiences. The four PHAs are Tulare, Keene, Cambridge, and Keene.

- The Housing Authority of the County of Tulare (California) changed to a flat rent/flat-subsidy structure for its non-elderly/non-disabled households.
- The Keene Housing Authority (New Hampshire) implemented a stepped-rent structure for non-elderly/non-disabled households that increased the rent in public housing and reduced the subsidy in the voucher program for each year a household participated in the program.[5]
- The Cambridge Housing Authority (Massachusetts) adopted a tiered rent structure that established a flat rent within income groups. The flat rent was set at 30 percent of adjusted income at the lower end of the income range for each income group and then decreased below 30 percent for the rest of that income range.[6]
- The Vancouver Housing Authority (Washington) planned to implement a flat rent but did not institute the change during the period of the study.

We selected the other 21 PHAs randomly after stratifying the PHAs to ensure that they were representative—by region of the country, PHA size, and rental market prices—of PHAs with at least 500 combined units operating in metropolitan areas. We had 100 percent cooperation rate among PHAs selected for the site visit. Appendix A presents a list of the site visit sites and a detailed description of the sampling methodology used to select the PHAs.

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[5] Even though it serves a non-metropolitan area, the Keene Housing Authority was selected for a site visit because of the importance of its use of MTW flexibility.

[6] Appendix E presents the tiered rent structure for the Cambridge Housing Authority.

Telephone Surveys with Staff from 175 PHAs

The team conducted 1.5- to 2-hour telephone surveys with staff from 175 PHAs to learn about their current policies and their opinions on and recommendations for potential changes to their housing assistance programs. Unlike the site visits, the interviewers did not engage in in-depth discussions with the respondents but instead asked predominantly close-ended questions. The benefit of this approach is that it allowed us to gather comparable information from a large number of PHAs that could be weighted to be nationally representative.

As with the site visit sample, the telephone survey sample was restricted to PHAs with at least 500 combined public housing and voucher units, but it included PHAs in both metropolitan and non-metropolitan areas. We selected 200 PHAs for the telephone survey sample and completed interviews with staff from 175, for a response rate of 88 percent. The selected sample included 12 sites selected with certainty and 188 sites selected randomly within strata based on whether the PHA operates in a metropolitan on non-metropolitan area, the size of its programs, and whether the payment standard was above or below the median.[7]

The PHAs selected with certainty were generally chosen for their large size (e.g., the New York City Housing Authority and the Housing Authority of the City of Los Angeles).

[7] To avoid overburdening site visit PHAs, we did not include them in the sample for selection of telephone survey PHAs. Both samples excluded the 10 PHAs that HUD reported were under receivership at the time of sample selection in January 2008.

The telephone survey results were weighted to be representative of all PHAs with at least 500 combined units. Appendix B contains a list of the PHAs selected for this survey and a description of the method for selecting the sample and calculating the weights.

In-Person Interviews with 1,204 Applicants and New Admission Households

The team conducted 40-minute, in-person interviews with 1,204 applicants and households admitted to the public housing and HCV programs within a year of the start of the survey in June 2009. The interviews asked about current living conditions, waiting list experience, and knowledge and opinions about the current rent structure and alternative subsidy structures.

The response rate for the household sample was 66 percent overall and 83 percent among those whom we located. Appendix C describes the methodology for selecting the household sample, along with the number of completed surveys by PHA and by household type (wait list or new admission, public housing or voucher program). The interviewed households were from the 25 site visit PHAs.

The responses from the surveyed households are not weighted by sampling strata. Instead, we report responses separately for six groups: households on the waiting list or newly admitted households by three types of PHAs as follows.

- Households in "rent reform" PHAs that have used their flexibility under the MTW program to change from the percent-of-income rent structure to an alternative subsidy structure—that is, the 3 MTW PHAs in the site visit sample that implemented a substantial change to their rent structure: Tulare, Keene, and Cambridge.
- Households in large PHAs with over 4,000 combined public housing and voucher units (6 PHAs).

- Households in medium to small PHAs with between 500 and 4,000 combined units (16 PHAs).

Other Sources of Data and Information for the Study

As part of the study, we reviewed and summarized the literature on housing assistance and other means-tested programs and analyzed administrative and secondary data (that is, data collected outside of this study).

We identified relevant research from academic journals and research reports based on the study team members' knowledge of the literature, direction provided by the HUD Government Technical Monitor (GTM) and her colleagues, Internet searches, and literature cited in summary articles. For literature on means-tested programs such as welfare reform, we also asked researchers specializing in these fields for advice on the most relevant literature. In addition to identifying information in the literature that shed light on the research topics, we used some empirical estimates from the literature as parameters in simulations of the possible effects of alternative rent structures.

We made extensive use of an Office of Public and Indian Housing Information Center (PIC) data set that contained income, rent, and demographic information for a representative sample of 5 percent of nonelderly, non-disabled public housing and voucher recipients from 2003 to 2008. We used the data for simulating effects of alternative rent structures on rent burden and for providing factual information on rents, FMRs, and payment standards. We matched the PIC sample with Census data on neighborhood characteristics for analysis of

locations of public housing and voucher units. We also matched the PIC data set with some information from the PHA telephone survey for analysis of PHA-specific policies.

Finally, we used American Housing Survey (AHS) and Census data to provide nationally representative information on low-income unassisted households, the characteristics of neighborhoods where assisted households live, and context for the income and housing situation of assisted households.

1.4. Report Overview

The report is organized around the following topics:

- **Chapter 2: Flexibility under the current rent system.** How and at what level are PHAs setting the minimum rent and the optional flat-rent allowed under QHWRA? Does the hardship exemption to the minimum rent undermine its effectiveness?
- **Chapter 3: Implications of alternative rent structures.** What effect would a rent subsidy structure not based on income have on participant work effort, household formation, accuracy of income reporting, rent burden, turnover, participant characteristics, and concentrations of poverty?
- **Chapter 4: PHA and household views on alternative structures.** What alternative rent structures are worth consideration, according to PHA staff? What are household preferences for alternative rent structures?
- **Chapter 5: Implications for PHA budgets of alternative rent systems.** What are the challenges associated with implementing a new rent structure? How would revenues and administrative costs be affected? Are there ways to achieve efficiencies without shifting to a new rent system? Can the incentive to work be increased without shifting to a new rent system?
- **Chapter 6: Implications of changing the voucher benefit level.** How do PHAs currently set payment standards? What are the implications if the rules for setting payment standards were changed? How many more households could be served if payment standards or voucher subsidy levels were lowered? Would a flat subsidy affect rents in the unassisted market?

2. How Do PHAs Use the Current Flexibility to Run Their Programs?

The Quality Housing and Work Responsibility Act (QHWRA) provided Public Housing Agencies (PHAs) with greater flexibility in operating their public housing and Housing Choice Voucher (HCV) programs.[8] QHWRA followed welfare reform and was a compromise between encouraging self-reliance among those able to work and protecting the most vulnerable families receiving assistance.

QHWRA required all PHAs to establish an optional flat rent for public housing residents and allowed PHAs to set a minimum rent of up to $50 for all assisted households. The optional flat rent was intended to encourage relatively higher-income households to remain in the public housing program and increase their work effort, while the minimum rent was intended to increase work effort among the lowest-income households.

This chapter examines how PHAs have used minimum rents and flat rents. Changes to the rent system under way or under consideration can be informed by an understanding of how PHAs use the flexibility given them by QHWRA. Such potential changes include the following.

- The U.S. Department of Housing and Urban Development (HUD) has changed how it funds operating costs, pushing PHAs to treat each development as a separate "asset." When PHAs treat each development as a separate asset, they must understand the implications of setting minimum and flat rents so that they can make optimal use of their resources for each development.

[8] Pub. L. No. 105-276, 112 Stat. 2461, tit. V, October 21, 1998.

- The public housing industry and HUD are discussing proposals that would go beyond asset-based management of public housing and would replace the current subsidy system with a rent subsidy. Depending on how HUD and key stakeholders ultimately design the rent subsidy, PHAs could compete for voucher holders against other owners of rental housing and could rent to a broader range of incomes than represented by current residents of public housing.[9] If HUD accords PHAs more rent-setting flexibility in a competitive environment, it needs to understand PHAs' experience with the current level of flexibility.
- The Section 8 Voucher Reform Act (SEVRA) (H.R. 3045), approved by the Financial Services Committee of the House of Representatives in 2009, included a provision to expand Moving to Work (MTW) to 60 agencies. HUD needs to understand use of the current minimum and optional flat-rent flexibilities (as well as alternative rent structures) if it is to guide PHAs in deciding how to use the increased MTW flexibility.[10]

2.1. What are PHAs' Current Minimum-Rent and Hardship Policies?

Minimum rents were established because many public housing and voucher families were paying no rent because they reported zero income. Other households made negligible rent payments.

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[9] The rent subsidy might be modeled on the subsidies paid by HUD to private owners of Section 8 projects. With some exceptions, those subsidies cover the difference between the tenant-paid rent and the market value of the assisted units. (In the public housing program, HUD pays PHAs an operating subsidy, a capital subsidy, and an administrative fee for operating the program. The Project-Based Section 8 Programs presume that those costs are covered by the market rent.) Alternatively, the rent subsidy might be an HCV that is tenant- rather than property-based. PHAs would compete for voucher holders against other owners of rental housing and could rent public housing developments at market rents to a broader range of low-income households. This approach would be similar to that used for housing developed under the Low Income Housing Tax Credit (LIHTC). LIHTC developments charge flat rents within a statutorily determined maximum and rent to some households with vouchers and to some without vouchers.

[10] Of the 33 current MTW agencies, 29 have implemented or are planning to implement rent reform activities (HUD 2009c) that address income or asset disregards, minimum and maximum rents, recertification schedules, standard deductions, fixed rents, rent simplification, and time limits. Some of the MTW PHAs that have changed their rent structures or added a work requirement have also enhanced their supportive services to enable tenants to become more self-sufficient and reduce the rent burden under the new rent structure.

Public housing and voucher households are subject to the minimum rent if the rent based on their income would be less than the PHA-established minimum. Hence, only households with the lowest reported incomes pay minimum rent. For example, with a $50 minimum rent, a household's gross income would have to be under $500 a month ($6,000 per year) and its adjusted income below $167 a month ($2000 per year) for the minimum rent to determine the tenant-paid portion of the rent.

PHAs that choose a minimum rent above $0 must establish a hardship policy that describes the circumstances under which they grant a hardship exemption and the process for how a tenant obtains the exemption. In theory, most households subject to the minimum rent could be given a hardship exemption, nullifying the effect of the minimum-rent policy.

Understanding PHA and household experiences with the current minimum-rent policy is important for policy discussions on allowing higher minimum rents. Furthermore, a minimum rent is similar to a flat rent, and the experience with minimum rents may shed light on what to expect if PHAs implement either a flat rent set at a level higher than current minimum rents or a hybrid system with a higher minimum rent up to an income threshold but a lower percent-of-income paid in rent above that threshold.

Current Minimum Rents

Close to three-quarters (73 percent) of PHAs participating in the telephone survey reported a $50 minimum rent (Exhibit 2-1). During the case study site visits, PHA staff at agencies

with a minimum rent of $50 reported that they chose that amount both to encourage assisted households to work and to increase PHA revenue. Some said that "everybody should pay something" and that $50 was "reasonable" in view of substantially higher local market-rate rents.

Exhibit 2-1. Current Minimum Rents

Current Minimum Rent Amount	PHAs (n 173)
$100[a]	Less than 1%
$50	73%
$30	1%
$35	1%
$25	13%
$0	11%

[a] Only MTW PHAs currently have the flexibility to set minimum rents above $50.

Source: Rent Study Telephone Survey of PHAs weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Staff at PHAs with a minimum rent below $50 primarily cited concerns about affordability for their lowest-income renters as the rationale behind the rent. A few PHA officials reported setting a $0 minimum rent to avoid adoption of a hardship policy, contending that administration of a hardship system is burdensome.

More than four-fifths (84 percent) of PHAs participating in the telephone survey have not changed their minimum rent recently. During the site visits, staff from several PHAs explained that they set the minimum rent at $50 as soon as they were allowed to do so and have no plans to change it. Among those making changes, only one PHA had decreased its minimum rent.

We analyzed PHAs' use of the minimum rent to determine if PHAs with a minimum rent below $50 exhibited common characteristics. While no type of PHA characteristic accounted for a high share of minimum rents set below the maximum allowable amount, the

telephone survey results show that PHAs in the West or with higher Fair Market Rents (FMRs) (above the national median) are somewhat more likely than other PHAs to set minimum rents below the allowable maximum (Appendix D, Exhibit D-1). A lower minimum rent for PHAs in higher FMR areas is somewhat surprising; the expectation was that these PHAs would respond to higher housing costs in their areas with a higher floor for tenant-paid rent.

Very large PHAs are less likely than PHAs of other sizes to set a minimum rent below the allowable maximum. Given that these PHAs manage a large portion of the public housing and HCV programs, $50 minimum rents affect most current program participants.

Hardship Policies

A hardship exemption allows tenants to pay less than the minimum rent after a PHA determines that the minimum rent would impose too great a burden on families facing financial hardship.

The program regulations state that a PHA must describe its hardship policy and make the policy available to the public. The regulations go on to note that financial hardship includes the following situations:[11]

- The family has lost eligibility or is awaiting an eligibility determination for a federal, state, or local assistance program.
- The family would be evicted if it had to pay the minimum rent.

[11] See 24 CFR § 5.630 for exact wording of the regulations.

- The family's income has decreased because of changed circumstances, such as loss of employment.
- A death in the family has occurred.
- HUD or the PHA identifies other circumstances.

Typically, PHAs publish a document with language similar to that in the regulations and spell out the details of what constitutes a hardship either in that document or in operational guidance to staff. For example, a policy may explain that a death in the family is a condition of exemption only if the death results in a loss of earned income or benefits.

PHAs also determine how the hardship application process will operate, including how cases are evaluated. In some PHAs, case managers have the authority to grant a hardship exemption almost automatically in certain circumstances, such as when job loss or the death of a wage-earning adult occurs. In other PHAs, a formal internal board may meet periodically to review all hardship requests. In still other PHAs, an external panel convenes to judge the merits of hardship appeals.[12] Two-thirds (67 percent) of PHAs participating in the telephone survey do not limit the amount of time a household may receive a rent reduction under a hardship policy, and 85 percent do not limit the number of times an exemption may be granted.

As seen in Exhibit 2-2, when PHA staff were asked to estimate what percentage of households subject to the minimum rent used a hardship exemption in the past year, almost all (95 percent) replied that 10 percent or fewer of such households did so, and 82 percent of

[12] Based on information from the 25 site visits to PHAs.

PHAs reported that fewer than 1 percent of minimum-rent households requested hardship exemptions.

Exhibit 2-2. Percentage of Minimum-Rent Households Using Hardship Exemptions in Past Year

Percentage of Minimum Rent Households Using a Hardship Exemption in Past Year	PHAs (n 99)
Fewer than 1%	82%
1 to 10%	13%
11 to 50%	4%
More than 50%	1%

Source: Rent Study Telephone Survey of PHAs reporting a minimum rent greater than $0 and able to provide an estimate of the share of households with a hardship exemption (53 of the 152 eligible PHAs were unable to provide an estimate). The estimates were weighted to be nationally representative of all such PHAs that had a combined public housing and voucher total of at least 500 units.

The more intensive review of policies at the 25 site visit PHAs confirmed low use of the hardship exemption. A senior staff member at a PHA stated that she could not remember the hardship policy because it was used so infrequently. Staff from three other PHAs expressed surprise at how infrequently the hardship exemption was used and speculated that participants may not know about it.

Data from the Office of Public and Indian Housing Information Center (PIC) confirmed the low use of hardship exemptions reported by PHA staff. This study compared the minimum of the 175 PHAs participating in the telephone survey with the total tenant payment (TTP) shown by 2008 PIC data for households without an elderly or disabled head served by those

PHAs.[13] If the TTP is lower than the minimum rent, this indicates that the household received a hardship exemption.

According to the analysis in shown in Exhibit 2-3, only one percent of non-elderly/non-disabled households had a TTP lower than the minimum rent, whereas 14 percent had a TTP equal to the minimum rent. When only households newly admitted to the public housing or HCV program in 2008 are considered, a slightly higher share paid the minimum rent (17 percent), and 2 percent appeared to have received a hardship exemption.

Exhibit 2-3. Total Tenant Payment (TTP) Compared to the PHA's Minimum Rent in 2008

	Public Housing and Voucher Holder Households in 2008 (n 53,638)	Newly Admitted Public Housing and Voucher Holder Households in 2008 (n 8,464)
TTP less than minimum rent	1%	2%
TTP equal to minimum rent	14%	17%
TTP greater than minimum rent	85%	81%

Source: Minimum rents come from the Rent Study Telephone Survey of 175 PHAs that had a combined public housing and voucher total of at least 500 units. TTPs come from the 5 percent sample of non-elderly/non-disabled households in the 2008 PIC data for the 175 PHAs in the telephone survey. The estimates are weighted to be nationally representative.

We do not have information on PHA minimum rents for the 175 telephone survey PHAs for prior years and the PIC data set for the study did not include a field specifying the minimum rent used by other PHAs.[14] Without this field, we can only place an upper bound on the

[13] The TTP is the amount of the gross rent (i.e., rent to the landlord plus utilities) that the participant is expected to pay. Actual rents may differ from the TTP when, for example, a voucher holder rents a unit above the payment standard or actual utility costs are higher or lower than the utility allowance.

[14] Line 9h of HUD Form 50058.

number of households subject to a minimum-rent policy by assuming that all PHAs have $50 minimum rents and identifying households with TTPs of $50 or less. We did this analysis to examine trends over time in the number of households subject to the minimum rent.

Appendix D (Exhibit D-2) shows the results of the analysis. For the public housing and HCV programs, the percentage of non-elderly/non-disabled households with a TTP of $50 or less decreased from 19.2 percent to 17.5 percent. The share of households with a TTP of exactly $50 actually increased during this period (from 6.5 to 11.2 percent), so this downward trend in TTPs of $50 or less was driven by a large decrease in the percentage of households with a TTP of $49 or less (from 12.7 to 6.3 percent).

The overall decline in households with a TTP of $50 or less may, in part, be driven by the fact that the allowable minimum rent was not adjusted for inflation, so did not keep up with increases in wages and non-wage income over that time period. If the $50 maximum rent allowed by QHWRA had been adjusted for inflation, it would have been $65.81 in 2009.[15] Failure to index for inflation has effectively lowered the maximum threshold for the minimum rent by approximately 25 percent since 1998. The decline in households with TTPs less than $50 while the share of households with TTPs of exactly $50 likely reflects the increasing share of PHAs that have adopted the $50 minimum rent over time and may indicate that fewer household have received hardship exemptions over time.

[15] Inflation calculation based on the Bureau of Labor Statistics' Consumer Price Index inflation calculator, available at http://data.bls.gov/cgi-bin/cpicalc.pl.

PHA Preferences for Minimum-Rent Levels

The telephone survey asked PHA staff for their opinions on the appropriate dollar amount of the maximum allowable minimum rent.[16] The most common response (40 percent) called for keeping the maximum allowable minimum rent at $50 (Exhibit 2-4), although a slight majority of respondents (54 percent) either provided a specific amount above $50 or gave answers in terms of operating costs, utility costs, or the FMR that suggested a minimum rent above the current maximum. Among the PHA staff who wanted to allow a higher minimum rent, doubling the current minimum rent to $100 was the most common suggestion. A quarter of all respondents proposed a minimum rent at that level.

Reasons given by PHA staff interviewed during the site visits for preferring a higher minimum rent were encouraging self-sufficiency and generating revenue to serve a greater number of needy households in the community. Some PHA staff remarked that they found reports of little or no income implausible and said that a higher minimum rent was needed to ensure that program participants paid their fair share. Staff from one PHA said that they would like to raise the minimum rent to $150 because "people cannot live on zero income, and people take better care of their unit if they have to pay more in rent."

[16] Respondents were told to assume that current hardship policies would continue and that any additional revenue would go to assisting more households.

Exhibit 2-4. PHA Preferences for Allowable Minimum Rents

Minimum Rent Amount	PHAs (n 159)
More than $50	**54%**
$200 or higher	4%
$150	6%
$125	1%
$100	25%
$75	5%
Utility costs/utility allowance	6%
10 to 100% of FMR[a]	4%
50 to 100% of operating costs	2%
$50	**40%**
Less than $50	**5%**
$25	2%
$0	2%
10% of adjusted income	1%
Other	**1%**
Total	**100%**

[a] A minimum rent of 10 percent of FMR or higher was determined to be above $50 based on a calculation of $50 as a percent of the FMR using 2008 PIC data: $50 was above 10 percent of two-bedroom FMRs at only 2 percent of PHAs and not above FMRs at any PHAs for larger bedroom sizes.

Source: Rent Study Telephone Survey of PHAs, weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

MTW PHAs may set minimum rents above $50. A review of 28 MTW plans and reports as of the summer of 2009 found 8 MTW PHAs with minimum rents above $50 (Exhibit 2-5). Their choices suggest that, if a higher minimum rent were allowed, a significant share of PHAs would set their minimum rent above $50.

Exhibit 2-5. MTW PHAs with Minimum Rent Higher than $50

PHA[a]	Minimum Rent	Household Minimum Rent Applies to: All Households	Household Minimum Rent Applies to: Non Elderly/ Non Disabled Households
PHAs Increasing Minimum Rent			
Chicago Housing Authority	$75[b]	✓	
Atlanta Housing Authority	$125		✓
Housing Authority of the County of San Bernardino	$125	✓	
PHAs Implementing Stepped Minimum Rent			
San Antonio Housing Authority	$50 in Year 1, increasing each year to $135 in Year 10	✓	
Portage Housing Authority	$25 in Year 1, increasing biennially to cap of $250		✓
Pittsburgh Housing Authority	$150 unless working or in approved self-sufficiency program; minimum rent never less than $25		✓
PHA Implementing Flat Rent			
Housing Authority of Tulare County	Mandatory flat rent much higher than current minimum rents—e.g.,$270 for one-bedroom units		✓
PHA Implementing Hybrid Rent			
Keene Housing Authority[c]	Minimum rent greatest of $125, 30 percent of income, or the welfare rent for first step (Year 1). Mandatory flat rents for second and third steps are much higher than current minimum rent—e.g., $279 for one-bedroom units for the second step and $404 for the third step	✓[d]	

[a] Cambridge Housing Authority, one of the site visit MTW agencies, set a $50 minimum rent.
[b] Minimum rent for HCV program.
[c] Minimum rent for Keene's public housing program. The minimum rent for the HCV program (called the Section 8 Housing Assistance Coupon Program) is $50 under the 1st Step (Year 1). Keene has received approval for the complete disposition of its public housing units. In place of a public housing program, the agency will operate a greatly enlarged HCV program.
[d] Elderly and disabled households may choose to have their rent calculation based on either the Step Rent or income-based method.

Household Views of Minimum Rents

Households receiving housing assistance or on the waiting list for housing assistance participated in a survey that asked hypothetical questions about minimum rents not related to the household's own situation. About two-thirds of survey participants agreed that "[e]veryone should pay at least something for rent, regardless of their income level" (Exhibit 2-6). Only one-third agreed that"[i]t's OK for some people to pay nothing for rent if they

have really low income." Among the respondents favoring a minimum rent, the most common reason (44 percent) was that paying rent makes people responsible renters.

Exhibit 2-6. Households' Preferences Regarding Minimum Rent

	Percent
Which of the following statements do you most agree with…? (n = 989)	
Everyone should pay at least some rent each month regardless of income level	66%
It's OK for some people to pay nothing if they have really low income	34%
What is the main reason you think everyone should pay at least some rent? (n = 643)[a]	
People who pay something are more responsible renters	44%
It would not be fair if some people paid zero rent	32%
So that more people can be helped	21%
Other	3%
What is the minimum amount of rent every household should pay for its public housing or voucher unit each month? (n = 932)[b]	
No minimum rent	36%
Less than $50	8%
$50 to $100	22%
$100 to $150	12%
$150 to $200	13%
More than $200	10%

[a] This question was only asked of households responding that everyone should pay at least some rent each month.

[b] Respondents agreeing that it was okay for some people to pay zero rent were not asked at what level the minimum rent should be set. For this analysis, we imputed an answer of $0. Such respondents comprise most of the respondents who prefer a minimum rent under $50.

Source: Rent Study Household Survey, non-disabled respondents.

When asked the level at which the minimum rent should be set, a majority of respondents (56 percent) chose a rent of $50 or higher, including 35 percent of all respondents who thought it should be higher than $100.

Summary of Findings on Minimum Rent

The current minimum-rent system appears to be effective in requiring assisted households to pay some amount of rent. About 14 percent of households without an elderly or disabled head pay minimum rent. The extremely limited use of the hardship exemption (less than 1 percent of households subject to minimum rent) and the rarity of PHAs reducing the minimum rent suggest that a $50 minimum rent is not causing widespread problems for the poorest assisted households and that the hardship exemption is a safety valve that does not nullify the effect of minimum rents. However, we do not know if the minimum rent has caused some of the poorest assisted households to sacrifice other necessities or exit the program.

Three-fourths of the PHAs in the study have set a maximum allowable minimum rent of $50. Several MTW PHAs have implemented higher minimum rents. Information collected for the study suggests that nearly half of PHA staff support an increase in allowable minimum rents to a level above $50. Responses to the household survey suggest that many assisted tenants would also consider as reasonable a minimum rent above $50.

2.2. How Do PHAs Set QHWRA Optional Flat Rents?

By statute, all public housing households (including elderly or disabled households) are given the choice annually to select an income-based rent and a flat rent.[17] The statutory

[17] MTW PHAs may choose rent systems that do not provide this option for public housing residents.

language on flat rents says that rents should be set to reflect the public housing unit's market value and that PHAs may adopt any "reasonable method" to do so.[18]

Enactment of the optional flat rent responded to concerns about the effect on residents of concentrations of poor households in public housing. Starting in the 1950s, public housing occupants were almost exclusively poverty-level families and individuals. The optional flat-rent requirement was designed to make public housing more attractive to relatively higher-income households by not tying earning increases to higher rents. The idea was that, if flat rents for public housing were appropriately set, households with sufficient income to rent elsewhere would still elect to live in public housing, creating a "broader range of incomes" within public housing developments.

This section provides information on the use of flat rents and methods for setting flat rents at particular levels. The discussion describes how the current policy operates and will inform any changes to the rent structure involving flat rents.

Exhibit 2-7. Percent of All Public Housing Households Paying Flat Rent[a]

Year	Percent
2001	6%[b]
2003	10%
2004	10%
2005	11%
2006	13%
2007	14%
2008	15%

[a] Unlike the PIC data set used in the analysis conducted for this study, these estimates include elderly and disabled households.
[b] An estimate of the share of households paying ceiling rents which were later grandfathered into the QHWRA flat-rent system.

Source: HUD (2009a).

Use of Flat Rents

Exhibit 2-7 lists the percentage of all public housing households charged flat rents. Reliance

[18] 24 CFR 960.253(d).

on flat rents has increased steadily since 2001.[19] Analysis of the PIC data set for this study found that 81,437 non-elderly/non-disabled public housing households (16.9 percent) paid a flat rent in 2008. After excluding households in New York City, 42,672 non-elderly/non-disabled public housing households (10.7 percent) paid flat rent in 2008. Overall, 47.6 percent of all flat renters reside in New York City, a historically tight housing market in which public housing may be especially attractive to households with relatively higher incomes who could benefit from flat rents.

The increased use of flat rents by public housing households may in part have resulted from PHA policies that responded to a freeze on the rental income side of the operating subsidy formula between 2004 and 2009.[20] Since PHAs were permitted to keep additional rental income during that period, they may have set flat rents at levels that encouraged higher-income households to remain in public housing and pay the flat rent when they would have otherwise been inclined to leave the program.

Finkel and Lam (2008) looked at the characteristics of units with flat rents and found that 12 percent of the heads of household paying flat rents were disabled, compared with 22 percent of heads of households not paying flat rents. They found no differences between households choosing flat rents and other households in racial identity or in whether the household included children. The average age of head of households paying flat rents was 51.3 years

[19] The first year for which information on households paying flat rents was available in the PIC Form-5008 module was 2001.

[20] Chapter 5 discusses the freeze further.

compared to 50.5 years for households paying income-based rents. However, looking at the incomes of the two types of households, Finkel and Lam found that households paying flat rents had significantly higher income, a higher share of income from wages, and a lower share of income from welfare than households choosing the percent-of-income rent.

Finkel and Lam also compared public housing developments with and without large shares of households paying flat rents to examine the effect of optional flat rents on poverty deconcentration. High concentration developments were defined as those where at least 20 percent of tenants were paying a flat rent. The authors found that public housing developments with large clusters of flat-rent households had a wider tenant income distribution than other public housing developments.[21] Assuming some of the households choosing the flat rent would have moved out without that option, this suggests that the optional flat rent is increasing the mix of incomes in some developments.

PHA Objectives for Setting Flat Rents

When asked about the most important purpose of flat rents, 34 percent of PHA staff participating in the telephone survey said that flat rents are a strategy for retaining higher-income households—those that otherwise would likely leave public housing as their incomes (and therefore payments toward rent) increased (Exhibit 2-8). An additional 14 percent of

[21] Finkel and Lam (2008) used the coefficient of variation as their measure of the income distribution. The coefficient of variation for the income distribution of public housing developments was calculated by dividing the standard deviation (the square root of the variance) of income by the mean of income. The advantage of this common measure of dispersion is that it normalized (by dividing by the mean) so that dispersion around the mean can be compared across populations with different means.

respondents said that the most important purpose of flat rents was to attract relatively higher-income households to public housing in order to "encourage mixed-income communities."

Exhibit 2-8. PHA Identified Most Important Purpose When Setting Flat Rents

Most Important Purpose	PHAs (n 135)
Retain higher-income households	34%
Encourage tenants to sustain or increase earnings	17%
Encourage mixed-income communities	14%
Improve tenant sense of stability	8%
Encourage tenants to report income accurately	7%
Allow PHA to improve accuracy of rent revenue projections	7%
Reduce income verification workload	6%
Allow tenant to increase income without penalty	2%
Other responses (less than 2% each)	5%
TOTAL	**100%**

Note: Forty of the possible 135 respondents did not answer the question.

Source: Rent Study Telephone Survey of PHAs. The question was asked of the 135 PHAs that operate public housing units. Results were weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Other common responses related to encouraging work or income growth (19 percent) and PHA administrative issues such as the improved predictability of rental revenue or a reduction in the income verification workload (13 percent).

Methods for Setting Optional Flat Rents

QHWRA requires flat rents to be set to reflect the units' market value but allows PHAs to choose any "reasonable method" to approximate the price at which the PHA could rent the unit in the private market, taking into account the unit's location, quality, type, size, age, amenities, utility payments, and other services associated with the unit.

When asked in the PHA telephone survey about the unit characteristics considered in setting flat rents for different public housing units, most PHA staff (82 percent) said that a determining characteristic was the number of bedrooms in the unit (Exhibit 2-9). Only 22 percent of respondents cited location of the housing—a strong driver of market value—even though they could choose more than one answer.

Exhibit 2-9. Factors Used by PHAs to Vary Flat-Rent Amounts

Factors[a]	PHAs (n 135)
Bedroom size	82%
Location	22%
Amenities	18%
Recent modernization	10%
Household size	6%

[a] Factors are not mutually exclusive.

Source: Rent Study Telephone Survey of PHAs. The question was asked of the 135 PHAs that operate public housing units. Results were weighted to be nationally representative of all such PHAs that had a combined public housing and voucher total of at least 500 units.

As shown in Exhibit 2-10, PHA respondents often said that they set flat rents in proportion to the FMR (47 percent), the payment standard (27 percent), or both. Apart from differences for the number of bedrooms, these factors rarely vary in a PHA's service area.

Exhibit 2-10. Method for Setting Public Housing Flat Rents

Method[a]	PHAs (n 135)
In proportion to FMRs	47%
Based on private market surveys	46%
Based on rent reasonableness data	44%
In proportion to payment standard	27%
Based on operating cost for a unit	15%
95th percentile of actual tenant rents	10%
Other percentile of actual tenant rents	5%
No data sources used	2%

[a] Percentages add to more than 100 percent because methods are not mutually exclusive.

Source: Rent Study Telephone Survey of PHAs. The question was asked of the 135 PHAs that operate public housing units. Results were weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

On the other hand, many PHAs reported use of rent reasonableness

data or private market surveys as one of the tools for setting flat rents (Exhibit 2-10). Through the use of these rent data, PHAs may indirectly take account of location and other unit features.

Among the few PHAs whose staff were able to articulate how they used rental market data to set flat rents during the study's site visits, only one relied on an exact formula. The formula was simply the FMR for the region in which the development is located minus tenant-paid utility costs. At another PHA, the starting point is the FMR, which is then discounted for public housing in the lower-priced parts of the PHA's service area. At still another PHA, staff said that high rent "islands" scattered within each Census tract make the FMR an ineffective basis for determining flat rents. Therefore, they conduct their own rental market research for each public housing development and unit type.

The frequency with which flat-rent amounts undergo review and adjustment varies across PHAs, with 40 percent of PHA telephone survey respondents indicating that they update their flat rents annually and 48 percent indicating that they adjust them on an as-needed or ad hoc basis.

Level of Flat Rents

Exhibit 2-11 compares the 2008 rent levels in flat-rent units with rents in other public housing units. It shows that the average flat rent paid by non-elderly/non-disabled public housing households in 2008 was $454 per month, which is more than twice as high as the $205 per month average paid by other non-elderly/non-disabled households. Excluding units

in New York City, the average flat rent was $405, still more than double the average rent of $195 paid by other public housing residents outside New York City.

As shown in the bottom portion of Exhibit 2-11, about two-thirds of flat rents (69 percent) were equal to or below 50 percent of the FMR in 2008, including 2 percent that were less than 25 percent of FMR.

Exhibit 2-11. Public Housing Flat Rents Compared with Other Rent Levels in 2008 (with New York City)

	Flat Rent Units (n 4,328)	Other Public Housing Units (n 19,406)	All Public Housing Units (n 23,734)
Rent Level Charged			
Mean	$454	$205	$250
Median	$495	$153	$202
Standard deviation	$163	$188	$207
Percentile Statistic			
10th percentile	$254	$30	$49
25th percentile	$347	$50	$63
75th percentile	$495	$300	$380
90th percentile	$619	$451	$504
Rent-to-FMR Ratio[a]			
Median	38%	16%	22%
> 1	<1%	<1%	<1%
0.76–1	4%	1%	1%
0.51–0.75	27%	8%	11%
0.26–0.5	67%	26%	33%
0.10–0.25	1%	33%	27%
<0.10	<1%	33%	27%

[a] The percent of FMR was calculated by dividing the tenant rent by the area's FMR for the unit size for which the household was eligible based on household size and composition.

Source: Five percent PIC data sample. Excludes elderly and disabled households as well as MTW PHAs.

Summary of Optional Flat-Rent Findings

The use of flat rents in the public housing program has increased steadily since their introduction under QHWRA. While the reason for their increased use is not known, the characteristics of the households paying flat rents—more likely to have higher income and a greater percentage of income from wages—suggests that the public housing program is achieving the goal of retaining higher-income households.

When setting flat rents, most PHAs do little to ensure that those rents reflect the actual value of the public housing units they own. The most common practice is to set different rents for different-sized units with some reference to local rent levels per FMRs and payment standards but not to differentiate among locations or other attributes of public housing units. About two-thirds of flat rents are at or below half of the local FMR, a low level even considering the location and stigma of public housing. If PHAs had to depend on the revenues generated by flat rents to operate their housing, they might adopt a different rent-setting process. Determination of optimal flat rents under a mandatory system would require accurate assessments of the market value of public housing developments and well-informed decisions on how to balance the objectives of flat rents (retaining and attracting relatively higher-income tenants, increasing work incentives, increasing PHA revenues) with the objective of keeping rents affordable for relatively poorer households.

3. How Would an Alternative Rent-Setting System Affect Assisted Families?

Two major reasons for interest in alternative rent systems among Public Housing Agencies (PHAs) and policymakers are that assisted housing may depress work effort and may provide negative incentives for marriage or cohabitation. The additional income (in the form of reduced housing expenses) provided by the public housing and Housing Choice Voucher (HCV) programs may make it possible for a parent to get along without additional work effort or without the income of a second adult. Income-based rents are an additional disincentive to work or to include an additional working adult in the households as each dollar of income results in 30 cents more paid in rent.[22] On the other hand, possibly offsetting the negative incentives of the form of the subsidy and the subsidy itself, is the greater housing stability enjoyed by assisted families, which could make it easier for adults to go to work, work more hours, or move into better jobs.

Other reasons for interest in alternative rent structures include: reducing the incentive for households to underreport their income to minimize their rent payment; and decreasing the concentration of poverty in public housing by encouraging the poorest households to increase their income and providing a financial incentive for relatively higher income households to stay in public housing.

[22] Concerns about negative incentives to work and to form multiple-adult households are not unique to housing programs. Any means-tested income transfer or subsidy, particularly subsidies that decline as income rises has the same issues. For families participating in more than one program—for example, both public housing and food stamps—the combined "tax" rate can be very high.

On the flip side are concerns that moving away from a percent-of-income rent system will result in high rent burdens for the neediest public housing households and make the program so financially attractive to relatively higher income households that the neediest households will be crowded out of the assistance programs.

This chapter explores each of the fundamental issues of incentives and fairness as they relate to the income-based system of public housing rents and voucher subsidies and to alternatives that might be implemented either nationally or by PHAs with the flexibility granted under the Moving to Work (MTW) demonstration. Specifically, the chapter examines the possible impacts of an alternative rent subsidy structure on earnings (Section 3.1), household composition (3.2), underreporting of income (3.3), rent burden (3.4), length of stay (3.5), characteristics of applicants (3.6), and concentrations of poverty (3.7). The major findings of this analysis are:

- The structure of the housing rent subsidy does not appear to be a primary determinant of earnings or household composition. However, a small but significant subset of assisted households would likely be motivated to work more or add additional adult members if the income-based subsidy were changed.
- The Enterprise Income Verification (EIV) system has been effective in detecting and preventing underreporting of verifiable income according to PHA staff. EIV could be expanded so that it can be used in the initial rent determinations of newly admitted households. Underreporting of unverifiable income might be reduced in an alternative rent system.
- Rent reform alternatives such as setting a mandatory flat rent for all assisted households or raising the minimum rent but taxing income at a lower rate could be budget neutral and provide benefits to a majority of assisted households. However, these alternatives would not be affordable to a large number of assisted families who report extremely low incomes.
- In theory, any alternative rent system that de-coupled tenant rent and income would encourage longer lengths of stay for higher income households and might also lead to shorter lengths of stay for lower income households. The limited evidence available suggests that a flat rent could encourage relatively higher

income households to stay on assistance longer, but there is no conclusive evidence on the relationship between the structure of the rent subsidy and the length of stay of lower income households.

3.1. Would Alternative Subsidy Structures Increase Households' Work Effort?

Previous Research Findings of Effect of Housing Assistance on Work

There is a substantial literature addressing the impact of rental assistance on employment and earned income. Some studies have found large negative effects of housing assistance on labor force participation and earned income, while other studies have found that housing assistance has the opposite effect. In a comprehensive review of the literature, Shroder (2002) concluded that "housing assistance is not persuasively associated with any effect on employment."

Since Shroder's review, two rigorous, experimental design studies have measured the effect of housing assistance on earnings. These studies suggest that housing assistance has a small negative effect on work (less than 10 percent decrease in earnings), but the effect may only be temporary (Mills et al., 2006, Jacobs and Ludwig, 2008). These studies compared the earnings of households with housing assistance in an income-based system to the earnings of households randomly assigned to receive no assistance, but this study of rent reform is concerned primarily with comparing the earnings effects of housing assistance in an income-based system and an alternative rent system.

Another rigorous study, Jobs-Plus, came closer to the objective of studying the effect of alternative rents. One public housing development at each of six PHAs was randomly

selected the Jobs-Plus treatment and one similar public housing development at the same PHAs was selected as a control development (i.e., no Jobs-Plus treatment). The households in the Jobs-Plus development were given rent incentives to increase income and a wide array of employment-related supportive services (e.g., job search help, childcare and transportation services) and community support for work (e.g., neighbor-to-neighbor networking to share information). The rent incentive was a flat rent that would not increase when income increased and a safety net that rent would not exceed 30 percent of income if a household's income decreased. The households in the control developments continued to pay 30 percent of their income for rent and did not receive any extra services from the program.

In 2003, four years after the program was implemented, the researchers found that earnings had increased by 6 percent more for the households in the Jobs-Plus developments than for the households in the control developments (Bloom et al., 2005). The researchers also found that earnings increased by a much higher amount (14 percent) relative to the control group at the three PHAs that were judged to have fully implemented the Jobs-Plus program. Furthermore, a follow-up study found that the Jobs-Plus households at the three full-implementation PHAs had maintained or increased their earnings advantage in 2006, three years after the program ended (Riccio, 2010). The study did not find significant impacts of the Jobs-Plus model on employment rates (whether the household worked or not) and could not disentangle the earnings effects of the rent incentives from the employment services. Hence, there is no definitive study on whether changing the rent structure alone will increase work effort.

Previous Research Findings on the Effect of Welfare Reform

Experience with welfare reform can provide some additional insights into the potential employment effects of changing from an income-based rent to a flat rent. In 1996, two years before the Quality Housing and Work Responsibility Act (QHWRA), Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). PRWORA included strong incentives to promote employment and income gains, most notably the establishment of time limits for welfare benefits under the Temporary Assistance for Needy (TANF) program.

A review of the welfare reform literature suggests that recipients of assistance responded to reforms designed to incentivize earnings and self-sufficiency. However, the positive impacts of welfare reform appear to be sensitive to overall economic conditions. PRWORA followed a period of experimentation in which 27 states received waivers to federal welfare regulations. States used their flexibility for a variety of purposes, including expanding work requirements, placing time limits on assistance, and raising the limits on the amount of earnings recipients could keep without losing their welfare eligibility. Schoeni and Blank (2000) found that, after controlling for economic conditions, states that had received waivers had significantly higher work participation and lower poverty rates among all women 16 to 54 years old than states that did not receive waivers.

After TANF replaced Aid to Families with Dependent Children (AFDC) in the mid-to late 1990s,[23] establishing work requirements and time limits for all welfare recipients, there was a

[23] The implementation date of TANF varied by state.

large initial increase in the employment rates of welfare recipients (Acs and Loprest 2007). Most studies attribute at least some of that increase to welfare reform. However, since 2000, the employment rates and income of TANF recipients and former TANF recipients has stagnated or declined, and there has been a substantial increase in the percentage of former TANF recipients living in deep poverty (Acs and Loprest 2007).

Jencks et al. (2006) analyzed the impact of welfare reform on the well-being of single mothers from 1996 to 2003. The authors concluded that welfare reform "was neither as grim as critics had feared nor as encouraging as advocates had promised." From 1996 to 2000, the percentage of single mothers living in poverty declined from 21 percent to 15 percent, a decrease the authors attributed to a variety of factors, including welfare reform, the expansion of the Earned Income Tax Credit, an increase in the minimum wage, and the strong economy. Poverty rates rose slightly, from 15 to 17 percent from 2000 to 2003 for this group, coinciding with an increase in the national unemployment rate. However, the overall trend from 1996 to 2003 was a slight increase in income for single mothers and a decrease in the percent living in poverty. The rise in income for working mothers was offset by a rise in work-related expenses such as child care and transportation, resulting in little change in discretionary income or overall well-being for most households. Additionally, the number of single mothers in severe poverty (incomes below 70 percent of the poverty line) increased during this period, as a subset of single mothers appeared unable to find employment or other income supports to compensate for the loss of AFDC income.

In summary, research on welfare reform suggests that incentives to work in housing assistance programs—such as work requirements and time limiting assistance—could increase work effort. However, it likely to have an uneven impact on affected households with some household increasing earnings and discretionary income, other households breaking even with increased earnings and corresponding increased work-related expenses, and some households worse off and in deep poverty.

Effect of Alternative Rents on Work Effort: MTW Rent Reform Sites

Some MTW PHAs have established mandatory flat rents or a variation of flat rents, including three PHAs that our part of this study's site visits and household survey samples: Cambridge, Keene, and Tulare County. This section pulls together what we can learn from their experiences on the effect of alternative rents on work efforts. However, these PHAs did not set up their rent reforms as part of a research study, and each PHA has changed the rent structure in a different way (see text box), limiting what can be learned.

Rent Reform Sites[24]

Cambridge (MA): Tiered rents. Rents for public housing residents vary by income tier and bedroom size.

Keene (NH): Stepped rents. Public housing residents pay an increasing percent of Fair Market Rent (FMR) over time, and voucher holders receive a subsidy worth a decreasing percent of the payment standard over time.

Tulare (CA): Flat rents. All public housing residents pay a flat rent, and voucher holders receive a flat subsidy that varies only by unit size. Households can only receive assistance for five years.

We compared the employment rates of newly admitted households at the three rent reform PHAs to employment rates of households at the other 22

[24] These are the three MTW rent reform sites that were in our site visit sample and thus in our household survey sample. There are several other MTW sites with alternative rent structures that were not selected for site visits.

PHAs in the study. As can be seen in Exhibit 3-1, the employment rate of non-disabled households at the reform PHAs (59 percent) is considerably higher than at the other PHAs (44 to 46 percent). This is particularly noteworthy given that the employment rate of waiting list households is almost exactly the same across PHAs. The lower employment rates for newly admitted compared with wait list households might be explained by the targeting quotas for extremely low-income households in the public housing and HCV programs. The higher employment rates of the newly admitted households at the rent reform PHAs compared with other PHAs could be due to their alternative rent structures. However, there are too many caveats to make that anything but a possible explanation. For example, the three rent reform PHAs are operating in unique circumstances relative to the other PHAs in the site visit sample,[25] and there is no control group of households operating under the income-based rent structure at the rent reform PHAs.

In the household survey, we asked the newly admitted public housing households at the three MTW Reform PHAs about the effect of the "flat rent" on their hours spent working. The number of respondents eligible for this question and who answered it is so small that findings should be viewed cautiously. That said, more than two thirds of the 29 respondents from these PHAs (69 percent) indicated that the rent structure had not made a difference in their hours spent working. This was the case even for the households served by the Tulare PHA, which has implemented simple flat rents with no reference to income.

[25] Keene is the only PHA in the study operating in a non-metropolitan area, Tulare is in a large agricultural county, and Cambridge is operating in a city next to Boston with high housing costs and two major universities.

Exhibit 3-1. Employment Status

	New Admit Households at:			Waiting List Households at:			
	MTW Rent Reform PHAs (n 101)	Large PHAs (n 176)	Medium Small PHAs (n 205)	MTW Rent Reform PHAs (n 151)	Large PHAs (n 161)	Medium Small PHAs (n 217)	Total (n 1011)
Worked during previous week or employed but temporarily absent	59%	44%	46%	54%	55%	54%	52%

Note: Respondents who self-identified as disabled *and* reported disability-related income were excluded from the sample for this analysis. Data represent findings for non-disabled respondents.

Source: Rent Study Household Survey. Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units.

We also reviewed Tulare's April 2009 Quarterly Moving to Work Statistics report to elicit further information on the effects of mandatory flat rents on earnings. The Tulare PHA reported that 1,132 households were in the PHA's mandatory flat rent/flat subsidy program as of March 31, 2009. These households, who could have entered the program no earlier than April 1, 2004 because of Tulare's 5-year time limit, increased their income by 36 percent between their initial program entry and March 31, 2009. Tulare reported that 140 households were still paying an income-based rent as of March 31, 2009. These households had the ability to opt-out of the flat-rent/flat subsidy because they were receiving assistance prior to Tulare's implementation of the flat system. Tulare reports that households paying an income-based rent increased their income 20 percent between their program entry and December 2009 (Housing Authority of the County of Tulare 2009).

We used the Office of Public and Indian Housing Information Center (PIC) data to compare the income growth of Tulare flat rent/flat subsidy households to a comparison group of

assisted households across the nation.[26] This comparison group had an average income increase of 16 percent, which was 20 percentage points lower than the Tulare flat rent/flat subsidy households.

Tulare staff attributed some of the increase to more accurate reporting of income, particularly an acknowledgment of additional wage-earning household members, but believe that most of the increase was the result of an actual increase in earnings.

We also asked PHA staff at the 175 PHAs that participated in the telephone survey about the earnings effect of the current optional flat rent system. Most respondents do not consider increasing household earnings as the primary purpose of the current system of optional flat rents (see Section 2.2). When asked about the actual impact of flat rents, nearly three fifths of PHA telephone respondents (59 percent) said that establishing flat rents has had no effect on household earnings. However, 37 percent said that optional flat rents had increased earnings, and 4 percent said they didn't know.

Work Incentive Effect on Different Types of Households

Previous studies have indicated that the more disadvantaged households are less likely than other households to respond to a change in the rent structure by increasing their work effort. The Jobs-Plus study found the flat rent option appeared to have had little impact on the employment behavior of households not already employed (Gardenhire-Crooks et al., 2004).

[26] The comparison group was non-elderly, non-disabled households receiving assistance as of 2008 who began receiving assistance no earlier than 2004 (to replicate Tulare's 5-year time limit). The analysis was based on a five percent sample of PIC data records.

The authors went on to say that the households not taking advantage of the optional flat rents tended to be those with more significant barriers to employment, such as:

- poor physical or mental health of household head or other family members for whom the head was the primary caretaker;
- poor job skills; or
- a head of household pursuing an education.

Other research has found high levels of serious health problems among original public housing residents in HOPE VI developments (Manjarrez, Popkin and Guernsey 2007). These findings, along with those from research on the "hard-to-house" public housing population (Popkin, Cunningham, and Burt 2005),[27] suggest that only a portion of assisted households would respond to a change in rent structure by increasing work or work income.

Even work-oriented households face challenges with respect to job tenure. The Jobs Plus evaluation suggests that a flat rent may provide an incentive to maintain employment among people already employed. Such an impact would be of particular significance because research on public housing and voucher households has found considerable job cycling, often with periods of unemployment between jobs. Studies of assisted households in different program contexts[28] have identified similar reasons for heads of households moving into and out of employment:

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[27] Popkin, Cunningham and Burt (2005) define the "hard-to-house" as public housing residents who are at risk of losing their housing for reasons that go beyond affordability. They identify six categories of hard-to-house households: multiple barrier households, households that include a disabled member, elderly households without children, grandfamilies (elderly headed households with grandchildren), large households, and households with one-strike problems.

[28] Studies of HOPE VI (e.g., Levy and Woolley, 2007), the voucher program (e.g., Mills et al., 2006) and the Jobs Plus demonstration (e.g., Gardenhire-Crooks et al., 2004).

- lack of affordable childcare;
- poor health or caring for a family member with poor health;
- lack of reliable transportation;
- jobs that have limited flexibility for dealing with emergencies;
- jobs that offer limited or no ability to take time off; and
- lack of job search or employment skills.

Exhibit 3-2 shows job instability for the employed respondents to our household survey. More than 40 percent of the people who reported working in the previous week also reported being out of work in the past year. To the extent that job cycling results from individual choice, pressure from a flat rent structure might provide an incentive to stay employed or cycle back to employment quicker. However, these data suggest that even households with greater motivation to sustain work, such as waiting list households, have trouble maintaining stable employment.

Exhibit 3-2. Job Instability Among Employed Respondents

	New Admit Households at:			Waiting List Households at:			
Job Instability	MTW Rent Reform PHAs (n 59)	Large PHAs (n 74)	Other PHAs (n 89)	MTW Rent Reform PHAs (n 81)	Large PHAs (n 87)	Medium Small PHAs (n 116)	Total (n 506)
Had been out of work in past year	44%	39%	45%	48%	40%	48%	44%

Source: Rent Study Household Survey, non-disabled respondents who reported working for pay in the previous week. Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units.

Summary of Possible Effects of Alternative Subsidy Structures on Work Effort

Without data from an experimental design study on mandatory flat rents, it is difficult to estimate the impact of a mandatory flat rent on work behavior relative to the income-based

system. However, based on the findings from prior research, the experience of MTW rent reform sites, and the more than one third of agency staff say that the optional QHWRA flat rents have led to positive employment outcomes, our conclusion is alternative rents such as mandatory flat rents would lead to a small increase in work effort. Research on Jobs Plus, welfare reform and optional flat rents suggests that that segment would include households that are less disadvantaged households (but still eligible for assistance), such as those already employed or with a history of employment.

However, findings from this study and other research also indicate that the work behavior of many households is unlikely to change in response to a mandatory flat rent. Factors other than rent structure are involved with respondents' willingness and ability to take and hold a job. Family and job supportive services might assist some households to find employment and retain it over time. Nevertheless, households with more severe personal or family challenges may not respond to any positive incentive to employment provided by a change in rent structure.

3.2. Would Alternative Subsidy Structures Lead to the Inclusion in Assisted Households of Additional Adult Wage Earners?

The income-based rent system used for public housing and HCVs has been criticized for undermining family stability by creating a disincentive to have additional wage-earners in the home. Housing assistance recipients might choose not to marry, not to live with a partner, or not to live with another adult who has income that would factor into rent payment calculations. This potential result of housing assistance is viewed as negative, because

poverty is strongly related to the composition of households, and larger households may be able to share expenses other than housing and to provide other supports.

Previous Research Findings of Effect of Housing Assistance on Household Composition

In his review of the literature on the effects of housing assistance on assisted households, Shroder (2002) concluded that a "strong empirical association exists between housing assistance and lower rates of participation in the household by more than one adult." He pointed to research that found differences between the U.S. Department of Housing and Urban Development (HUD)-assisted households and other low-income families, in this case families using welfare. The households with housing assistance had fewer "other" adults than did households that either remained on or left welfare. A study that examined the impact of housing assistance on household composition in New York City found that those in assisted housing were less likely to marry or live with partners, but there was little evidence that "housing assistance contributed to the dissolution of [existing] partnerships" (Freeman 2005).

An experimental study on the impact of voucher use on welfare recipients found that using a voucher reduced multigenerational households and increased single parent households, but did not have a significant impact on marriage or cohabitation. Overall, using a voucher led to smaller household sizes (Mills, et al. 2006).

Researchers have offered varying explanations for why housing assistance affects household composition. Some point to the tax on earnings of income-based rent systems and argue that

people seeking to maintain as low a rent payment as possible will limit the number of income-earning adults in the home. Others point to the "income effect" of housing assistance. The additional resources provided by housing assistance permit people to leave overcrowded housing or an abusive relationship (Mills et al. 2006; Shroder 2002). The evidence from research conducted so far shows only that using housing assistance affects household composition and not whether this results from the rent structure or from the increase in total effective income provided by the subsidy.

PHA Staff Views on Whether Housing Assistance Affects Household Composition

PHA staff participating in the telephone survey were almost evenly split on whether the income-based rent structure has a negative effect on the stability of primary relationships. Just over one-half (53 percent) said that income-based rents discourage adult partners of household heads from staying in households that receive housing assistance.

However, many of the PHA staff interviewed during site visits said the rent structure has little impact on who lives in a household but some impact on who is *reported* living in the household. Staff said that some households hide boyfriends or adult children from the housing authority by not listing them on the lease. Depending on the reason for keeping a household member off the lease, a change in the rent structure might or might not affect this practice. For example, an alternative rent structure would not make a difference for households with members not on the lease because of their crime record. Staff said that background checks related to criminal activities lead to dishonesty about who officially lives in a household. This was mentioned more often than rent avoidance as the reason not all

household members were placed on the lease. Staff also said that even if it did not affect rental assistance, some households would still fail to report all members in an effort to keep information from TANF or Medicaid in order to protect benefits. A change in rent structure would be unlikely to have an effect on these households.

What Households Say About the Relationship between Housing Assistance and Household Membership

A majority of waiting list households interviewed for this study anticipate reducing the number of adults living in their households once they receive housing assistance. Among respondents who had at least one other adult in the home, 68 percent said that not all of the other adults would continue to live with them once they received housing assistance, as shown in Exhibit 3-3.

Exhibit 3-3. Anticipated Effect of Housing Assistance on Household Composition

	MTW Rent Reform PHAs	Large PHAs	Medium Small PHAs	Total
Waiting list households living with at least one adult				
Not all adults living with respondent will continue to do so after receiving assistance	58%	75%	70%	68%
All waiting list households				
Additional adults will live with respondent after receiving assistance	7%	5%	5%	6%

Source: Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units. The total sample size for waiting list households with at least one adult (minimum age 18) is 344 (MTW rent reform PHAs, n=102; Large PHAs, n=110; Medium-Small PHAs, n=132). The total sample size for all waiting list households is 557 (MTW rent reform PHAs, n=152; Large PHAs, n=175; Medium-Small PHAs, n=230).

Households from rent reform sites were the least likely to say they planned to live in households with fewer adults. Nevertheless, even in these sites, a majority of respondents (58 percent) said not all adults would continue to live with them.

Waiting list households also said they were unlikely to add adults not currently in the household when they began to receive assistance. Only six percent of the respondents from the wait list sample said additional adults would live with them. This result was consistent across all three groups of PHAs, as can be seen in Exhibit 3-3.

These survey results are consistent with earlier research showing that receipt of housing assistance is associated with a reduction in the number of adults in a household, though the role of rent structure is not clear. To find out whether the rent structure was an important reason, respondents to the household survey were asked directly whether the structure of housing assistance affected their decisions about living with other working adults. Most respondents indicated that it did not, as shown in Exhibit 3-4.

Exhibit 3-4. Anticipated Effect on Rent Structure of Living with Other Working Adults

	MTW Rent Reform PHAs	Large PHAs	Medium Small PHAs	Total
Waiting list respondents that do not expect to continue living with other working adult after receiving assistance				
Decision would not be affected even if income from other adult did not affect rent amount	96%	93%	92%	93%
Waiting list respondents living with a non-working adult or a working adult is not expected to continue living with them after receiving assistance				
Would not add another working adult after receiving assistance even if additional income did not affect rent	82%	91%	89%	88%

Source: Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units. The total sample size for waiting list households that did not expect to continue living with other working adult after receiving assistance is 88 (MTW rent reform PHAs, n=23; Large PHAs, n=28; Medium-Small PHAs, n=37). The total sample size for waiting list respondents who were living with a non-working adult or a working adult that is not expect to move with them is 293 (MTW rent reform PHAs, n=74; Large PHAs, n=98; Medium-Small PHAs, n=121).

Why are Households Smaller After Receipt of Assistance?

As part of the experimental study of the effect of vouchers on welfare families, the researchers explored, through in-depth interviews, why housing assistance recipients chose to reduce household size (Mills et al. 2006). Interviewees placed importance on independent living and said they wanted to leave multigenerational households as part of the process of becoming responsible adults. They reported that leaving such households did not reduce the level of support, such as childcare, provided by extended family members who were no longer living under the same roof. Some others saw housing assistance as a means to leaving difficult or abusive relationships (Mills et al. 2006). As Freeman concluded in his study of housing assistance and household composition in New York City, "[b]y subsidizing the largest item in most household budgets, housing assistance provides recipients with living arrangement options they might otherwise not have" (Freeman 2005).

The household survey asked waiting list respondents who indicated they would have fewer working adults in their home after receiving housing assistance why they intended to make such a change. The top two reasons, shown in Exhibit 3-5, were that they preferred to live on their own and that living with another adult has been a temporary arrangement. Factors related to the structure of housing assistance do not appear to be important. Only two percent of respondents said they were planning to reduce the number of adults in their household because the income of an additional person would make them ineligible for housing assistance, and only one percent said that the income of an additional person would lead to a higher rent.

Exhibit 3-5. Reasons for Not Wanting to Live With Other Working Adults

	MTW Rent Reform PHAs (n 25)	Large PHAs (n 29)	Medium Small PHAs (n 38)	Total (n 92)
Prefer to live on their own or be independent	64%	62%	55%	60%
Living with that person is a temporary arrangement	52%	52%	37%	46%

Source: Rent Study Household Survey, all respondents on waiting list who indicated that not all the adults (minimum age 18) living with them would continue living with them once they received housing assistance. Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units.

Summary of Effect of Alternative Rent Structure on Household Composition

Both the household survey data collected for this study and previous research on housing assistance indicate that factors other than rent structure are likely to be the primary drivers of household composition. While a majority of respondents did say they would reduce the number of working adults in their home after they received housing assistance, the reasons

offered for the change were not based on rent structure. Taken as a whole, the data suggest that in most cases household composition is sensitive to receipt of housing assistance but not to whether the assistance formula is based on the household's income.

3.3. Would a Flat Rent/Flat Subsidy Structure Lead to More Complete Reporting of Income and Household Composition?

Households currently have an incentive to underreport their income by concealing sources of income or additional earners, because the less income they report the less they have to pay in rent. While HUD has been combating the practice of underreporting of *verifiable* sources of income—wages, unemployment compensation, Social Security, and Supplemental Security Income (SSI) benefits—through the EIV system, the practice of underreporting *non-verifiable* sources of income still persists.

Underreporting of income is problematic because it results in HUD paying higher subsidies than necessary and because it challenges one of the fundamentals of the current rent system—that two households with the same adjusted income should pay the same rent. This is considered fair for the households involved and for the taxpayers paying for assistance.

One possible solution is to reduce the incentive to underreport by implementing a flat rent for public housing or a flat subsidy for vouchers. Since the program would still need to have income limits, households would have to report their income to demonstrate their eligibility, but only a small number of households close to the limit would have as strong an incentive to hide income as they do with income-based rents. Absent a change in the rent structure, HUD could also reduce underreporting by strengthening its EIV system.

Extent of Underreporting

Since the 1970s PHAs administering the public housing and housing voucher programs have been required to conduct thorough interviews with households about their income sources and to verify income through documentation from third parties, such as employers and welfare agencies. The recent implementation of the EIV system has made that verification easier and more accurate.

HUD has conducted a series of studies of the accuracy of income reporting in housing assistance programs.[29] Early "quality control" studies did not try to verify income reported by assisted households but instead focused on errors PHAs made when determining the adjusted income used for making rent calculations. A more recent study (ORC Macro, 2009) included a match between income data from the National Directory of New Hires (NDNH) and the Unemployment Compensation (UC) system and income data reported by households. The study found that unreported earned income resulted in an estimated overpayment of $239 million in annual HUD subsidy costs for the public housing and HCV programs. This is equal to roughly 1.3 percent of HUD's total subsidies for these programs.[30]

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[29] See ORC Macro (2001, 2004, 2008, and 2009).

[30] The 1.3 percent is estimate is from dividing estimated error subsidy costs $239,121,000 by total subsidy costs of $14,694,506,000 for the HCV program plus $4,194,060,000 for the public housing program. Both estimates of total subsidy costs are from HUD's "Congressional Justifications Estimates: Fiscal Year 2009" available at: http://www.hud.gov/offices/cfo/reports/2009/main_toc.cfm. The HCV subsidy cost is the contract renewals amount on page C-21 and the public housing subsidy cost is operating subsidy cost on page E-5 of Office of Public and Indian Housing budget justification.

Exhibit 3-6 shows the numbers of households in each program for which additional sources of earned income were identified through the income match process and the estimated total amounts of unreported income and unreported unemployment compensation.

Exhibit 3-6. Estimated Amount of Unreported Earned Income and Unemployment Compensation

Program	Unreported Earned Income (n 1,602)	Unreported Unemployment Compensation (n 1,602)
Public Housing		
Households in error	23,000	0
Unreported income	$307,383,000	$0
Subsidy cost	$49,213,000	$0
Section 8 Vouchers		
Households in error	53,000	7,000
Unreported income	$696,496,000	$32,092,000
Subsidy cost	$180,264,000	$9,644,000
Total		
Households in error	76,000	7,000
Unreported income	$1,003,879,000	$32,092,000
Subsidy cost	$229,477,000	$9,644,000

Source: Reproduced from ORC Macro (2009) Exhibit 5, page 7. The study examined the records of a sample of 802 public housing households and 800 HCV households and found that 42 households underreported earned income and 3 households underreported unemployment compensation income. The sample estimates were weighted to represent the entire public housing and HCV programs.

In addition to HUD's quality control studies, there is a substantial body of literature that shows that households underreport their transfer income to national surveys. Bruce Meyer and a number of co-authors compared the amounts of several income transfers implied by national surveys with total amounts of such transfers reported in administrative data (Meyer et al., 2003; Meyer et al., 2007; Meyer et al., 2009). The 2009 study looked at ten different types of transfers across five major surveys: the Current Population Survey, the Survey of

Income and Program Participation, the Panel Study of Income Dynamics, the American Community Survey, and the Consumer Expenditure Survey. The researchers found that the survey estimates of transfer amounts were significantly lower than the transfer amounts reported by agencies administering the programs. The percent that was reflected varied by survey and by year. For some transfers (such as social security and disability payments) reporting rates are generally high, but reporting rates are lower for other transfers (from 33 to 82 percent depending on the transfer program and year).

It is unclear if households would be more or less likely to conceal transfer income during income certifications by PHAs than when responding to surveys. While PHA staff are supposed to ask more probing questions than survey administrators about sources and amounts of income, households have an incentive to conceal income from PHAs in order to pay a lower rent. On the other hand, households have more to lose by concealing income from PHA staff because their information is independently verified and there are consequences if they are caught.

Other research compares income and expenditure data. For example, Meyer and Sullivan (2007) compared reported income and expenditures from the 1993 to 2003 Consumer Expenditure Surveys and found that, among households headed by single mothers, those in the lowest decile of reported income reported an average annual income of $4,315, but average annual expenditures of more than twice that amount: $9,921 (in 2005 dollars). Edin and Lein (1997) found that households with annual incomes below $5,000 reported spending an average of $920 more per month than their monthly income. The poor mothers who were

the subject of their study reported income from earnings, food stamps, Supplemental Security Income (SSI), and AFDC that averaged only about two thirds of their expenditures. After intensive follow-up to reconcile income and expenditures, the authors discovered that the remaining income came from unreported work (15 percent of total income) and from family and friends (17 percent of total income). Family and friends often were the mothers' boyfriends or fathers of their children. These findings suggest that residents may underreport income to PHAs, especially sources that cannot be detected by the EIV system.

Impact of the Enterprise Income Verification System on the Accuracy of Reported Income

The EIV system was developed in 2002 to streamline the third party verification process and help reduce the occurrence of assisted households underreporting their income. EIV provides four types of income information: monthly employer new hires (W-4 forms); quarterly wages; quarterly unemployment compensation; and monthly Social Security (SS) and SSI benefits.

All of the PHAs that were part of the telephone survey conducted for this study in 2009 indicated that they use the EIV system, and staff from 43 percent of the PHAs reported they had used the system for four or more years (Exhibit 3-7).[31]

[31] Of the 175 PHAs that participated in the phone survey, 173 said they used the EIV system and two PHAs did not complete this question.

Exhibit 3-8 shows the opinions of PHA staff that were part of the telephone survey on the effect of the EIV system. Almost all (93 percent) responded that EIV increased the accuracy of income either somewhat or a great deal. Furthermore, nearly all PHA staff interviewed during the site visits to 25 PHAs viewed the EIV system as a valuable tool.[32] Staff from several PHAs said that many residents believe the EIV system has greater capabilities than it really has, and this "threat" encourages the residents to report their income fully.

The EIV system does not provide information on TANF benefits or child support. Also, as currently designed, the system does not provide information for determining the eligibility of program applicants or the initial rent of new

Exhibit 3-7. Length of Time PHAs Have Been Using EIV

Years Using EIV	PHAs (n 155)
Less than one year	<1%
One year	9%
Two years	2%
Three years	30%
Four years	21%
Five or more years	22%
When HUD required	9%
When EIV first became available	7%

Note: Of the173 PHAs that reported using EIV, 18 PHAs were missing this information so the total number of responses was 155.

Source: Rent Study Telephone Survey of PHAs weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Exhibit 3-8. Whether PHAs Believed EIV has Increased or Decreased the Accuracy of Verifying Income

Impact of EIV on Verifying Income	PHAs (n 143)
Increased accuracy a great deal	51%
Increased accuracy somewhat	42%
Had no effect on accuracy	6%
Decreased accuracy	1%

Note: Of the173 PHAs that reported using EIV, 30 PHAs were missing this information, so the total number of responses was 143.

Source: Rent Study Telephone Survey of PHAs weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

[32] Staff at 18 of the 25 PHAs (72 percent) indicated that EIV was useful, six (24 percent) indicated it was somewhat useful and one (<1 percent) had no opinion.

participants. Therefore, PHAs have to use additional resources to verify TANF benefits and child support income for all participants and to verify all sources of income for newly admitted households.

Impact of an Alternate Subsidy Structure on Accuracy of Income Reporting

An alternative subsidy structure that de-coupled the amount of income residents report to housing agencies from the amount of rent they pay would, in theory, encourage more accurate income reporting. During the telephone survey, PHA staff were asked whether the implementation of optional flat rents had affected the accuracy of reported income. Sixty percent reported that flat rents had not done so, perhaps because flat rents are used by only a small percentage of public housing families, or perhaps because flat-rent households were reluctant to report all their income sources in case the household decided to switched back to the income-based system. In contrast, staff at MTW PHAs with mandatory alternative rent structures indicated during site visit interviews that residents had become more likely to report obtaining a job or increasing their income.

Several PHA staff members interviewed during site visits said that they thought that an income-based system was the only way the agency could fulfill its mission of serving those most in need while not giving those with relatively higher incomes more subsidy than they required. While they agreed that underreporting exists, they would prefer to have a better system to verify income, such as an up-to-date EIV system, rather than jettisoning the 30 percent of income policy. Further, some agency staff said that a segment of the population always would underreport its income no matter how the rent system was structured.

Finally, some staff did not view the underreporting of income as a wide-spread problem. These PHA staff members said that underreporting is usually the result of oversight by residents and not an omission to avoid rent increases.

Summary of Findings on Underreporting

The full extent of underreporting can never be known, since some income is unverifiable through any reasonable system. The most recent HUD quality control study (ORC Macro, 2009) calculated $239 million of extra subsidies because of verifiable earnings that are not reported, or a little more than one percent of total subsidies paid. While some instances of underreporting may be accidental, others probably are deliberate efforts to pay a lower rent.

PHA staff say that the EIV system has increased the accuracy of reported income by providing a tool to conduct third party verification of some sources of income more easily and more thoroughly. An expansion of EIV to include data on applicants could lead both to an increase in the accuracy of reported income and to an increase in the accuracy of PHA compliance with income targeting requirements for new admissions.[33]

[33] Data on applicants could be made available through the EIV system through either a redesign of the EIV system or the Form-50058 and MTW modules. The Department could either modify the EIV system to allow users to manually enter SSNs of applicants (for which the EIV system would then pull income data for) or the Department could add an "applicant" action code to the Form HUD-50058 and Form HUD-50058 MTW to use for households entering the waiting list and those being admitted to public housing and the HCV program.

The EIV system will never fully eliminate underreporting if residents continue to have an incentive to underreport unverifiable income in order to pay a lower rent. When the idea of implementing a flat rent or flat subsidy system was discussed with PHA staff as a way to remove the incentive for underreporting, responses were mixed. Some noted that, even if an alternative system improved the accuracy of reporting, it still might not be the best approach because of the hardship it would cause to some of the neediest families.

3.4. How Would an Alternative Rent Structure Affect Assisted Households' Rent Burden?

One of the biggest challenges to any possible rent reform is designing a rent subsidy that promotes work and self-sufficiency and accurate reporting of income, while at the same time making housing affordable for very poor households.

In this section we present findings from simulations that use Public and Indian Housing Information Center (PIC) data on public housing and HCV recipients to estimate the effect of alternative rent systems on the rent burden of recipient households. We do multiple simulations under different assumptions about the income of recipients under both the current rent structure and several alternative rent structures. We first describe the income measures and the alternative rent structures and then present the results of the rent burden simulations.

Measures of Household Income

Rent burden is measured as a household's total monthly rent payment divided by its total monthly income.[34] We estimate the impact of alternative rent structures on rent burden using three different estimates of households' total income.

- In Model One, we assume households will have the same level and distribution of income that current participating households report to PHAs.
- In Model Two, we adjust reported income to account for underreporting of income. The upward adjustment is based on the findings of research on the disparity between reported expenditures and reported income in household surveys. This research was discussed in Section 3.3.
- Finally, in Model Three, we make a modest upward adjustment to reported income to account for a possible increase in earnings in response to alternative rent structures that do not increase tenant rent if household income increases. The research on which this adjustment is based was discussed in Section 3.1.

For Model One, we simply use the total reported income of each household as the PHAs recorded it in PIC. Presumably, this is the reported income after PHAs have completed their income verification process.

For Model Two, to account for underreporting, households' reported incomes were adjusted based on annual expenditure levels reported in the Consumer Expenditure Survey. We used the information on reported expenditures relative to reported income that researchers Meyer and Sullivan report in a 2007 article.

[34] Although HUD calculates tenant rent payments and tenant rent burden based on adjusted income, which makes deductions from total income for children, medical expenses, and other factors, we chose to calculate rent burden using total monthly income. We did so because we judged it is the appropriate income measure for estimating the financial burden of housing. It also has the benefit of allowing for a direct comparison of rent burden with unassisted but income-eligible households (for whom we do not have a measure of adjusted income).

- Households are assumed to have a minimum income of $7,200 ($600 per month). This minimum is roughly equal to the average annual expenditures of single-female headed households in the bottom decile of reported income.
- Reported incomes between $7,200 and $10,800 are increased 20 percent, and reported incomes between $10,800 and $14,400 are increased 10 percent.
- Incomes above $14,400 are not adjusted. Once income rises to this level, we assume it comes from more formal sources that are harder to conceal from PHAs.

For Model Three, we assume that current reported incomes are accurate but that income would increase in an alternate rent structure because households would be more motivated to work. In this model, we increase the average earnings of employed households by $912 per year and increase the overall employment rate of assisted households by 3.6 percentage points. These estimates are based on the Ludwig and Jacobs (2009) experimental design study of employment and earnings among Chicago households applying for HCVs. We do not report the results of simulations with this measure of income in the text, because the modest adjustment to income resulted in very small changes to rent burden compared to rent burden measured with actual reported income. Appendix D, Exhibit D-3 shows the rent burden estimates for Model 3.

Alternative Rent Structures Tested

Our analysis compares current household rent burdens to simulated rent burdens under three alternative rent structures. The three simulated alternative rent systems are:

- a flat rent system – all assisted households pay a single flat rent equal to the current average tenant rent payment ($283);
- a single-rate hybrid system – a hybrid of the income-based and flat rent structures. Households pay a minimum rent of $150 per month plus 22 percent of income above $500 per month ($6,000 per year);

- a progressive-rate hybrid system – similar to a single-rate hybrid system except that, like the federal income tax, income is taxed at a progressively higher marginal rate as income increases.

In our progressive-rate hybrid simulation, all households pay a minimum rent of $150 per month, plus:

- 15 percent of all adjusted income between $6,000 and $12,000;
- 20 percent of all adjusted income between $12,000 and $18,000;
- 25 percent of all adjusted income between $18,000 and $24,000;
- 30 percent of all adjusted income between $24,000 and $30,000; and
- 35 percent of all adjusted income above $30,000.[35]

Tenant rent for public housing households for this rent structure is capped at either the household's current flat or ceiling rent or 75 percent of the local Fair Market Rent (FMR). We assume that tenants would exit public housing before paying above this level, because of the relatively low market value of most public housing.

For the sake of simplicity, we assume that, for each of the alternatives, a single rent structure would be implemented nationally for all assisted households and would not vary by local market conditions.[36] Each simulated alternative rent system was designed to be revenue

[35] The purpose of the progressive-rate hybrid system is to set a high enough minimum rent to encourage self-sufficiency, while retaining the progressivity of the current system. Aside from the constraint that the progressive-rate system be revenue neutral, the specific income breaks and tax rates were chosen because they are round numbers that seemed reasonable. It is easy to envision a simplified version of this system with fewer income brackets or a more progressive system with higher tax rates at the highest income brackets.

[36] We did preliminary modeling with a flat rent/flat subsidy structure that varied across PHAs. For each PHA, the public housing flat rent was set at the average of the current rent paid by assisted households by bedroom size. Similarly, the flat subsidy for the voucher program was set at the current average subsidy by

neutral, meaning that the same number of people could be served as are served in the current system without an increase in the budget.

Rent Burden Estimates

Exhibit 3-9 presents the current rent payments and rent burdens for both assisted and unassisted households, as well as the simulated rent burdens for assisted households under the three alternative subsidy structures. Rent burdens are calculated assuming that reported incomes are accurate (Model One) and with an adjustment for presumed widespread underreporting of income among the lowest income households (Model Two).

The exhibit also shows the current rent burdens of unassisted non-elderly, non-disabled renters whose incomes are at or below 50 percent of Area Median Income (AMI) and at or below 30 percent of AMI. These comparisons can help assess another aspect of the system's fairness—that is, whether households with a relatively high rent burden in the simulated housing assistance program nonetheless are better off than they would be if unassisted.

In Model One all of our alternative rent systems lead to dramatically lower rent burdens than those currently reported by unassisted households, but none of the alternatives are as effective in ensuring an affordable rent burden for all households as the current system, under which 87 percent of households are not rent burdened. With a $283 flat rent, 53 percent of

bedroom size for each PHA. We did not continue with this model, because the preliminary results were not very different from the single-flat rent model presented in this report.

assisted households would be at least moderately rent burdened, while 34 percent would be severely rent burdened.

Exhibit 3-9. Effect of Alternate Rent Systems on Rent Burden

	Median Monthly Rent Payment	Median Rent Burden	Percent of Households with a Rent Burden (rent as a percent of total income) Between…		
			0-30% (Not Rent Burdened)	31 50% (Moderate Rent Burden)	>50% (Severe Rent Burden)
Model 1: Reported incomes are accurate (Median monthly income = $862)					
Current system (n=74,049)	$230	28%	87%	3%	10%
Flat rent	$283	33%	47%	19%	34%
Single-rate hybrid	$215	26%	69%	10%	21%
Progressive-rate hybrid	$189	25%	67%	13%	20%
Unassisted households (30% or less of AMI) (n=4,044,001)	$662	82%	7%	15%	78%
Unassisted households (50% or less of AMI) (n=7,921,139)	$692	50%	17%	34%	49%
Model 2: Incomes adjusted to account for possible underreporting (Median monthly income = $1,010)					
Current system	$230	23%	99%	1%	0%
Flat rent	$283	28%	54%	46%	0%
Single-rate hybrid	$215	25%	100%	0%	0%
Progressive-rate hybrid	$189	25%	98%	2%	0%
Unassisted renters (30% or less of AMI)	$662	71%	9%	61%	30%
Unassisted renters (50% or less of AMI)	$692	48%	18%	67%	15%

Source: HUD's PIC tenant data systems for non-elderly, non-disabled public housing and Housing Choice Voucher households receiving assistance in 2008. Total income relative to area median income categorizes households. Households with a total income above 80 percent of area median income (AMI) are excluded; they represent 1.2 percent of all assisted HUD households. Total income excludes food stamps and certain sources of monetary income, but does not exclude allowances used to determine adjusted income. While rent burden was calculated based on total income, the assisted household's portion of the rent was determined based on adjusted income as is done in the current system. Data on unassisted households comes from the 2007 American Housing Survey.

Two-thirds of assisted households would not be rent burdened in either the single-rate or progressive-rate hybrid simulation Because the hybrid simulations increase the minimum rent to $150, the percentage of severely rent-burdened households would be higher than

under the current system (20 or 21 percent vs. 10 percent) but lower than under a flat rent of $283. The flat rent of $283 is well below the median monthly rent of unassisted households ($662 to $692), and the share of unassisted renters with severe rent burdens is very high—for example, 82 percent of unassisted renters with income at or below 30 percent of AMI have a severe rent burden.

In Model Two, in which we adjusted household incomes to account for presumed underreporting, no assisted households would be extremely rent burdened in our simulated flat rent system. Because in this model the minimum monthly income is $600, the highest possible rent burden is 47 percent ($283/$600). However, 46 percent of households would be moderately rent burdened. Similarly, in Model Two, no assisted households would be rent burdened by our simulated hybrid single-rate system, under which households pay a $150 minimum rent plus 22 percent of all income over $500 per month. In this simulation, the lowest income households would have a rent burden of 25 percent ($150/$600), and all other households would have a rent burden below 25 percent.

The majority of unassisted households are no longer extremely rent burdened under the income-adjustment of Model Two, which we also applied to unassisted renters on the assumption that income is underreported to the American Housing Survey. However, most are at least moderately rent burdened.

Rent Burden Estimates by Household Income Level

Exhibit 3-10 shows how our alternative rent simulations would affect households at each income level. All the rent alternatives tested would benefit most households with income above 30 percent of AMI. Except for the single-flat rent, households with income between 16 and 30 percent of AMI would do as well in terms of rent burden in the alternative systems as in the current system. For the 44 percent of assisted households that have incomes of 15 percent or less of AMI, the current rent system is the only system that provides affordable housing assuming reported incomes are accurate.

The median monthly reported income for the lowest income group is $309. Thus, our simulated flat rent of $283 leads to a rent burden of 91 percent ($283/$309) at the median income level of the households that report income below 15 percent of AMI. In our simulated hybrid systems, the $150 minimum rent leads to a rent burden of 49 percent ($150/$309). Although these rent burdens are high, they are far lower than the 223 percent median rent burden for unassisted households with incomes of 15 percent or less. This median rent burden based on incomes reported to the American Housing Survey implies that the median unassisted household with income at or below 15 percent of AMI has a monthly rent more than double its total monthly income. In some cases, this may reflect the tenuous housing arrangements of extremely poor households or very temporary income loss. However, it also supports the assumption used in Model Two: reported incomes for the lowest income households are lower than their actual incomes.

Exhibit 3-10. Rent Burden by Income Group Assuming Reported Incomes are Accurate (Model One)

	Median Monthly Rent Payment	Median Rent Burden	Percent of Households With a Rent Burden Between…		
			0-30% (Not Rent Burdened)	31 50% (Moderate Rent Burden)	>50% (Severe Rent Burden)
Lowest income (0-15% of AMI) [a]					
Current system	$72	27%	70%	7%	23%
Flat rent	$283	91%	3%	20%	77%
Single-rate hybrid	$150	48%	29%	23%	48%
Progressive-rate hybrid	$150	48%	29%	23%	48%
Unassisted	$658	223%	4%	2%	94%
Extremely low income (16-30% of AMI) [b]					
Current system	$287	27%	99%	1%	0%
Flat rent	$283	27%	64%	32%	4%
Single-rate hybrid	$272	25%	98%	2%	0%
Progressive-rate hybrid	$242	23%	98%	2%	0%
Unassisted	$662	61%	9%	21%	70%
Very low income (31-50% of AMI) [c]					
Current system	$495	29%	100%	0%	0%
Flat rent	$283	15%	98%	2%	0%
Single-rate hybrid	$337	25%	100%	0%	0%
Progressive-rate hybrid	$438	25%	93%	7%	0%
Unassisted	$715	39%	26%	51%	23%
Low income (51-80% of AMI) [d]					
Current system	$632	27%	100%	0%	0%
Flat rent	$283	10%	100%	0%	0%
Single-rate hybrid	$569	23%	100%	0%	0%
Progressive-rate hybrid	$615	23%	87%	13%	0%
Unassisted	$756	28%	60%	35%	5%

[a] This group has 44% of assisted households. Their reported median monthly income is $309.
[b] This group has 29% of assisted households. Their reported median monthly income is $1,054.
[c] This group has 21% of assisted households. Their reported median monthly income is $1,825.
[d] This group has 6% of assisted households. Their reported median monthly income is $2,773.

Source: HUD's PIC tenant data systems for non-elderly, non-disabled public housing and housing choice voucher households receiving assistance in 2008. Total income relative to area median income categorizes households. Households with a total income above 80% of median area income are excluded—they represent 1.2 percent of all assisted HUD households. Total income excludes food stamps and certain sources of monetary income, but does not exclude select allowances used to determine adjusted income. Adjusted income is the basis of rent computations for all alternatives involving reported income. Data on unassisted households comes from the 2007 American Housing Survey.

Exhibit 3-11 shows the results of the effect of our rent simulations on each income group using Model Two income estimates. The adjustments to income for presumed

underreporting have the biggest impact on households with income at or below 15 percent of AMI. Most of these households' reported income is well below this model's assumed minimum monthly income of $600. The income adjustment nearly doubles the median monthly income for this group, from $309 to $600. The lowest income household would pay 25 percent of its total income ($150/600) in both hybrid systems and 47 percent of its monthly income ($283/$600) in the flat rent simulation. As shown, in Exhibit 3-11, the median household in the lowest income group pays just 12 percent of its total income towards rent in the current system, indicating that if the assumptions underlying Model Two are accurate, many assisted households could afford to pay much higher rents than they do now.

The Model Two income estimates do not have much impact on households with incomes greater than 15 percent of AMI, because we assume that underreporting is not common for these households.

Exhibit 3-11. Rent Burden by Income Group Assuming Underreporting of Income (Model Two)

	Median Monthly Rent Payment	Median Rent Burden	Percent of Households with a Rent Burden Between…		
			0-30% (Not Rent Burdened)	31 50% (Moderate Rent Burden)	>50% (Severe Rent Burden)
Lowest income (0-15% of AMI) [a]					
Current system	$72	12%	98%	2%	0%
Flat rent	$283	47%	6%	94%	0%
Single-rate hybrid	$150	25%	100%	0%	0%
Progressive-rate hybrid	$150	25%	100%	0%	0%
Unassisted	$658	104%	7%	6%	87%
Extremely low income (16-30% of AMI)					
Current system	$287	25%	100%	0%	0%
Flat rent	$283	24%	80%	20%	0%
Single-rate hybrid	$272	23%	100%	0%	0%
Progressive-rate hybrid	$242	21%	100%	0%	0%
Unassisted	$662	57%	10%	27%	63%
Very low income (31-50% of AMI)					
Current system	$495	28%	100%	0%	0%
Flat rent	$283	15%	100%	1%	0%
Single-rate hybrid	$337	25%	100%	0%	0%
Progressive-rate hybrid	$438	25%	93%	7%	0%
Unassisted	$715	39%	26%	52%	23%
Low income (51-80% of AMI)					
Current system	$632	27%	100%	0%	0%
Flat rent	$283	10%	100%	0%	0%
Single-rate hybrid	$569	23%	100%	0%	0%
Progressive-rate hybrid	$615	23%	87%	13%	0%
Unassisted	$756	28%	60%	35%	5%

[a] This group has 44% of assisted households. Their estimated median monthly income is $600.
[b] This group has 29% of assisted households. Their estimated median monthly income is $1,158.
[c] This group has 21% of assisted households. Their estimated median monthly income is $1,825.
[d] This group has 6% of assisted households. Their estimated median monthly income is $2,773.

Source: HUD's PIC tenant data systems for non-elderly, non-disabled public housing and housing choice voucher households receiving assistance in 2008. Total income relative to area median income categorizes households. Households with a total income above 80 percent of median area income are excluded—they represent 1.2 percent of all assisted HUD households. Total income excludes food stamps and certain sources of monetary income, but does not exclude select allowances used to determine adjusted income. Data on unassisted households comes from the 2007 American Housing Survey.

Rent Burden Information From MTW Rent Reform PHAs

Our simulations predict what would happen if all PHAs switched to the same alternative rent system. A more realistic scenario is that HUD would give PHAs greater flexibility in how they structured their rent subsidies—for example, through an expansion of MTW.

Many of the 33 current MTW PHAs have stayed with income-based rents, using their demonstration authority in other ways. However, three MTW PHAs in this study—Tulare, Cambridge, and Keene—have used the increased flexibility they have as MTW PHAs to implement alternative rent systems. Staff at these three PHAs report that rent system changes are helping their residents and not creating huge burdens for assisted households. Cambridge has a tiered rent system for public housing residents, referred to as "rent simplification" and similar to our progressive-rate hybrid rent simulation.[37] Rent payments are determined based on unit size and income range. Changes in income do not affect rent unless they are large enough to put a household into a different income band. The rents are set so that the rent plus utilities equals 30 percent of income for households at the *lower* end of each income band. As income goes up, the percent of income households pay towards rent decreases until the household reaches the next income band.[38]

Before implementing rent simplification, the Cambridge Housing Authority (CHA) conducted an analysis to understand how households would be affected by the change in rents. Through this analysis, CHA found that, while 66 percent of households would pay a

[37] Appendix E shows Cambridge's rent simplification payment matrix.

lower rent under rent simplification, the rent for some households would increase more than $200. CHA made adjustments to the rents of these households and capped their rent increases at $100 for the first year (or two years, depending on when the household was phased over to the new rent system). In CHA's 2008 Resident Satisfaction Survey, 55 percent of public housing residents reported that rent simplification helped them save money to use for other household expenses.

The Keene Housing Authority has a stepped rent system, under which rents go up over time for public housing tenants and subsidies decrease over time for voucher holders.[39] In their first year, public housing tenants pay the greater of a $125 minimum rent or 30 percent of their adjusted income. After their first year, public housing tenants pay 45 percent of the FMR. After their third year, tenant rent plateaus at 65 percent of FMR. Voucher holders pay 20 percent of their adjusted income, or a $50 minimum rent, in their first year. After their first year, they receive a subsidy worth 55 percent of the payment standard, and after their third year the value of the subsidy is reduced to 35 percent of the payment standard.

Keene HA staff report that their stepped rent system allows households to save money. However, the PHA recently requested that HUD allow an increase in the Step 2 subsidy from 55 percent of the payment standard to 65 percent and their Step 3 subsidy from 35 percent to

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[38] In contrast, the Low Income Housing Tax Credit (LIHTC) sets the maximum allowable flat rent at 30 percent of the *upper* end of the income band.

[39] After we completed data collection for this study, Keene received approval for the complete disposition of its public housing units. In place of a public housing program, the agency will have a greatly enlarged HCV program.

45 percent because of an increase in utility costs in the area, suggesting that rent burdens are a problem.

In 1999 Tulare implemented a flat rent, flat subsidy (FRFS) system with a five-year time limit for all non-elderly, non-disabled households. Public housing tenants pay a flat rent that varies only by unit size, and voucher holders receive a flat subsidy varying only by unit size. Households who were receiving assistance at the time of the switch were given the option of converting to the FRFS system or continuing to pay an income-based subsidy. Exhibit 3-12 compares the rent burden of Tulare households paying the flat rent or receiving the flat subsidy to those households that continue to pay an income-based rent. This data was reported by Tulare in its April 2009 Quarterly MTW Statistics report. Unlike our simulations, this exhibit includes elderly and disabled households.

Exhibit 3-12. Housing Authority of the County of Tulare's Reported Rent Burdens as of March 31, 2009

		Rent Burden (as a percentage of *adjusted income*)		
	Number of Households	0 30% (Not rent burdened)	31 to 50% (Moderate rent burden)	>50% (Severe Rent Burden)
Public Housing Income-Based	187	100%	0	0
Public Housing - MTW flat rent	286	81.1%	11.8%	6.9%
Section 8 Income-Based	798	78.9%	18.2%	2.8%
Section 8 MTW flat subsidy	1,642	67.8%	21.5%	10.7%

Source: Tulare Quarterly MTW Statistics 4-3-2009 (http://www.hatc.net/Pdf/QuarterlyMTWStatistics.pdf)

None of Tulare's public housing residents and only 2.8 percent of Tulare voucher holders have extreme rent burdens under the income-based system.[40] However, 10.7 percent of Tulare voucher holders receiving a flat subsidy and 6.9 percent of Tulare public housing residents paying a flat rent pay more than 50 percent of their income towards rent (Exhibit 3-12). This is very similar to our national estimates of severely rent burdened households in the current system. In contrast, in our simulated flat rent system, we estimate that 34 percent of households would be extremely rent burdened (Exhibit 3-9).

There are several possible explanations for why the actual reported rent burdens in Tulare's FRFS system are lower than the estimated rent burdens in our flat rent simulation. First, while other PHAs are required to ensure that 75 percent of households newly admitted to the voucher program and 40 percent of new admits into public housing each year have incomes at or below 30 percent of the area median, Tulare is only required to ensure that 75 percent of voucher and 40 percent of public housing new admits have incomes at or below 50 percent of the area median. Tulare was granted this exemption because the median income in its service area is so low that elderly and disabled households receiving social security benefits have a total income above 30 percent of AMI. Our simulations show that very few assisted households with incomes of above 30 percent of AMI would be extremely rent burdened in a flat rent system, so Tulare's targeting exemption could make a difference. We do not have income data from Tulare, so we do not know if the incomes of assisted households in Tulare

[40] Ordinarily, voucher holders are not allowed to choose a unit for which their rent burden would exceed 40 percent of adjusted income in their first year in a unit. Tulare requested and received an exemption from this rule so that elderly households could stay in their current unit without switching to a flat subsidy.

relative to AMI are significantly higher than the incomes of assisted households in other parts of the country.

Second, Tulare reported a large increase in income among assisted households after switching to a mandatory FRFS system (see Section 3-1). Absent an experimental design study, it is unclear if this increase can be attributed to rent reform and whether it would be replicated in other areas.

Third, Tulare is a rural area with a low cost of living and may be better suited to a simple FRFS system than a large, expensive urban area with a greater variation in household income. Larger PHAs that have a wider gap between the lowest and highest income households may have more difficulty setting a revenue neutral FRFS that is also affordable.

Summary of the Effect of Alternative Rent Structure on Rent Burden

If reported incomes are accurate, many currently assisted households would have a very difficult time affording a revenue-neutral flat rent or even a $150 minimum rent. However, comparisons of income and expenditure survey data suggest that underreporting of income is widespread when poor households respond to surveys, and many assisted households' reported income is well below what some researchers would consider credible. When we adjust our simulations to account for perceived underreporting of income, the estimated impact of alternative rent structures shows no household with an extreme rent burden. Moderate rent burdens (between 30 and 50 percent of income) would be experienced by

almost half of households under a flat rent system, but not under a hybrid system with a minimum rent of $150.

The truth about household income may lie somewhere in the middle. Many assisted households probably do not disclose all of their income to PHAs, but much of that income is informal and may be unreliable. There are certainly some households whose income truly is less than $7,200 a year, at least temporarily.

However, it may not be unreasonable to expect non-elderly, non-disabled households to pay $150 for rent each month, with a hardship exemption for households who are temporarily unable to afford rent. PHA staff at MTW sites claim that rent system changes are helping their residents and not creating huge burdens for assisted households. A rigorous experimental design study of the impact of alternative subsidy structures on residents is needed to find out whether the concerns about severe rent burdens are misplaced or whether the rent reform MTW sites have had unique experiences with their reported success.

3.5. How Would Flat Rents or Flat Subsidies Affect Lengths of Stay in Assisted Housing?

An alternative rent structure might affect lengths of stay in assisted housing, which in turn would affect the turnover rate and the number of households who would receive housing assistance over time.

Depending on which households leave more quickly—or stay longer—lengths of stay also could affect the profile of assisted households—that is, the extent to which the limited stock

of housing assistance is used by different types of households.[41] Understanding the impact of flat rents or subsidies on lengths of stay could suggest how alternative subsidy structures should be combined with income limits or targets for serving families in different income bands.

Hypothetical Effects of Flat Rents or Flat Subsidies on Lengths of Stay

Under an income-based voucher subsidy system, as a household's income increases, its housing subsidy decreases, until the household reaches a point at which it receives no subsidy at all. This transitions relatively higher-income households out of assistance and into paying market-rate rent. For public housing, an income based subsidy can result in rent at a level at which private-market housing is a better deal.

If housing assistance were no longer tied to household income, relatively higher income households would no longer have this financial incentive to exit housing assistance. On the other hand, such a rent system could help relatively higher income households save money and motivate all households to increase their incomes and become financially self-sufficient.

Despite the financial incentive for relative higher income households to continue receiving assistance in a flat rent system, once households were financially capable of being self sufficient, they could decide to stop receiving assistance for a number of other reasons: they might not want the restrictions of assisted housing; they might think there is stigma associated with assistance or pride in being independent of assistance; they might believe

[41] So would which households are induced to come into the program, discussed in the next section.

assistance should be for needier people than themselves; or they might want to become homeowners.

At the other end of the income distribution, some of the lower-income assisted households in public housing might have shorter lengths of stay with a mandatory flat rent if they could not afford the rent payments and were evicted. Similarly, depending on the level of the flat subsidy, some voucher households might be unable to stay in their current units and unable to find affordable units that meet HUD's housing quality standards, causing them to leave subsidized housing to live with friends or family or to live in substandard housing.

In addition to implementing alternative subsidy structures, a number of MTW PHAs, including Tulare, Keene, Philadelphia, and Louisville, have also implemented time limits for portions of their programs. These PHAs consider that, when flat rents or subsidies are offered, it is important for PHAs to have some controls on the length of time households can receive assistance. They consider time limits important for the households receiving assistance, as well as for households on waiting lists. Time limits may encourage households receiving assistance to become self sufficient, as well as ensure that households will leave the program at some point, enabling other, equally or more needy households to begin to receive assistance.[42]

[42] Some MTW PHAs that proposed time limits backed off because of pressure from their community, changes in the economy, or concerns about what would happen to households forced to exit assistance. Tulare County has not faced significant opposition to its 5-year time limit, perhaps because its flat rent is set relatively low and households that reach the limit can immediately get back on the waiting list. Tulare

Evidence from Previous Research on Income and Lengths of Stay

Studies of tenure in assisted housing have had mixed findings on the relationship between income and length of stay under income-based rent systems. Using a 2000 extract of Multifamily Tenant Characteristics System (MTCS) data,[43] Lubell et al. (2003) found that higher average earned income is associated with a slightly longer average stay among non-elderly, non-disabled public housing households. However, they concluded that the relationship was not sufficiently strong for income to be considered a significant contributor to the increased length of stay. Other recent analyses (HUD 2008; Cortes et al., 2007) show that households who exited housing assistance generally had lower incomes than those who remained in the assistance programs.

Conversely, some studies have shown that relatively higher income households stay in subsidized housing for shorter periods of time under an income-based system (e.g., Susin, 1999; Freeman, 1998; Bahchieva and Hosier 2001). However, the authors of these studies concluded that having a higher income is only one of many factors associated with shorter stays, along with growing up in a two-parent household, being non-Hispanic, having more than a primary school education, and living in an area with a higher vacancy rate.

It appears that most exits from assisted housing are not related to changes in income. Susin (1999) found that more than half of all exits were precipitated by a change in family circumstances such as a birth or a marriage. Similarly, a recent analysis by Gubits et al.

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also has a hardship exemption to its time limit, but relatively few household have applied for it and only a handful have been granted the exemption.

(2009) of in-depth interviews with 141 voucher program participants found that 20 percent of those interviewed had given up their vouchers, but not a single case resulted from an increase in income. A study of households that were relocated from distressed developments undergoing HOPE VI revitalization (McInnis et. al., 2007) found that one-fifth of the exits from housing assistance were for positive reasons such as marriage or higher incomes.

Information from the Household Survey on Income and Lengths of Stay

The household survey conducted for this study asked how long households expected to receive assistance and why they expected to leave subsidized housing. Less than half of respondents (43 percent) said that they expected to receive assistance for more than five years (Exhibit 3-13).

Exhibit 3-13. How Many Years Do You Expect to Receive Assistance

	mission		Wait List		
	Rent Reform (n 95)	Other PHAs (n 404)	Rent Reform (n 129)	Other PHAs (n 353)	Total (n 981)
Less than one year	1%	0%	0%	1%	<1%
One Year	2%	4%	10%	9%	6%
2-3 Years	12%	28%	28%	34%	29%
4-5 Years	31%	19%	19%	23%	21%
More than 5 Years	55%	49%	43%	34%	43%

Notes: Out of the 1204 households, 223 answered "don't know" or refused to answer the question. There were no differences in expectations based on PHA size category among non-rent reform PHAs, so the two categories were combined in this exhibit.

Source: Household survey, all respondents.

[43] MTCS is the predecessor to PIC.

Analysis of PIC data by HUD staff (HUD, 2008) shows actual lengths of stay in assisted housing are only a bit longer than the survey respondents say they expect to stay. About half (51 percent) of public housing residents and 54 percent of voucher holders as of 2006 had received assistance for more than five years (Exhibit 3-14). This analysis included elderly and disabled households, who we would expect to receive housing assistance for longer periods. Additionally, a snapshot of current assisted households will be more heavily weighted toward the long stayers than a sample of new admits and wait list households.

Exhibit 3-14. Length of Tenure of Public Housing Residents and Voucher Holders in 2006 for Households with Children

Length of Tenure	Public Housing	Housing Choice Vouchers
0 to <2 Years	28%	19%
2 to <5 Years	21%	27%
> 5 Years	51%	54%

Source: A modified version of Table 3a in Benjamin et al. (2008).

Waiting list households expected to receive assistance for shorter periods than newly admitted households (Exhibit 3-13). This may be because households still eligible for assistance when they are selected from the waiting list have fewer housing alternatives and, therefore, expect to stay in assisted housing longer. Waiting list households are also a little more optimistic than newly admitted households about their income growth following their admission to subsidized housing. Of the households who expect to receive assistance for less than five years, 81 percent of waiting list households expect income growth to make their household ineligible compared to 73 percent of newly admitted households.

Effect of Optional Flat Rents on Length of Stay

PHA staff interviewed for this study indicated that the effect of the optional flat rent on length of stay depended on where the flat rent was set relative to FMR and on the characteristics of the local rental market. Staff from some PHAs said that their optional flat rents are set close enough to market rents that households that can afford an optional flat rent instead choose an unsubsidized unit to avoid "the hassle and invasion of privacy of living in a [public housing] unit." Staff from other agencies—for example, in high cost areas of California—said that their rental markets are so expensive that even higher income households choose to stay in public housing and pay a flat rent. They view this as problematic, as some very high income households (incomes greater than $100,000) continue to receive assistance while needier households are on the waiting list.

Using PIC data, we compared the current tenure as of 2008 for all non-elderly, non-disabled households in public housing based on whether or not they were paying a flat rent.[44] On average, households paying a flat rent had stayed in public housing half a year longer than other public housing households (6.8 years versus 6.3 years), and the median length of stay was nearly a year longer, 4.0 years compared to 3.1 years (Exhibit 3-15).

Flat rent households have almost three times the average income of other public housing tenants. When we compare non-elderly, non-disabled flat rent households just with other non-elderly, non-disabled public housing residents whose incomes are greater than 30

[44] The analysis excludes New York City, which accounts for approximately half of all flat rent/ceiling rent households and has a unique housing market.

percent of the area median (third column), we find that flat rent households have somewhat shorter lengths of stay (mean 6.8 years versus 7.1 years and median 4.0 years versus 4.1 years). However, the relatively higher income households who chose an income-based rent have incomes not quite as high as those who chose the flat rent (median income is $6,000 lower). Therefore, the optional flat rent could still be motivating the households that chose flat rents to stay longer than they otherwise would.

Exhibit 3-15. Length of Stay to Date for Flat Rent and Other Public Housing Households

	Households Paying Flat Rents	Other Public Housing Residents	Other Public Housing Residents (non extremely low income)
Number of households	37,334	293,895	56,268
Percent of all households	11.3%	88.7%	17.0%
Mean length of stay to date (in years)	6.8	6.3	7.3
Median length of stay to date (in years)	4.0	3.1	4.1
Mean income	$29,727	$8,974	$21,740
Median income	$26,151	$6,696	$20,193
Average income as a percent of area median	53.8%	16.2%	41.2%

Note: A more detailed version of this exhibit is in Appendix D, Exhibit D-4.

Source: Data are from 2008 PIC system excluding elderly and disabled households and all New York City (NYC) households. NYC has approximately half of the optional flat rent households in the nation, but was excluded because of its unique housing market.

We can draw only limited inferences from experience with optional flat rents. If PHAs were to adopt a mandatory flat rent, they might set the flat rents below the current optional flat rents to make public housing affordable for households with lower incomes than those

choosing flat rents in an optional system. Or they might set flat rents higher in order to gain rental income for the PHA.

Evidence from MTW Sites that Have Implemented Alternative Rent Systems

The respondents to the household survey from the three MTW rent reform PHAs were more likely than waiting list and newly admitted households in other PHAs to expect to receive assistance for more than five years (see Exhibit 3-13 above). For example, 55 percent of newly admitted households in rent reform PHAs expected to receive assistance for more than five years, compared with 49 percent of such households in other PHAs.

Exhibit 3-16 shows the expected length of assistance reported separately for households at each of the three MTW rent reform sites. The exhibit includes both new admissions and waiting list households. The higher length of stay for rent reform sites is primarily driven by Cambridge, which uses a tiered income-based rent structure. Cambridge had the longest expected lengths of assistance, with 66 percent of respondents expecting to stay more than five years. However, Cambridge staff indicated that the longer expected stays result primarily from the housing market characteristics of Cambridge, where rents are high and affordable housing is scarce, rather than the tiered rent structure.

Exhibit 3-16. Expected Length of Assistance for Rent Reform Sites

	Cambridge (Tiered Rents) (n 58)	Keene (Stepped Rents) (n 81)	Tulare (Flat Rent) (n 85)
Less than One Year	0%	0%	1%
One Year	2%	15%	2%
2-3 Years	17%	22%	22%
4-5 Years	16%	14%	39%
More than 5 Years	66%	49%	35%

Source: Household Survey. Includes both new admissions and wait list households.

Households in Keene were the most likely to expect to receive assistance for only one year. This is probably because, after their first year in the program, public housing residents must pay 45 percent of FMR and voucher holders receive a subsidy worth only 55 percent of the payment standard.

The Tulare Housing Authority requires all public housing participants to pay a flat rent and provides a flat subsidy to all non-elderly, non-disabled voucher holders.[45] The mandatory flat rent varies from 39 to 47 percent of FMR, depending on unit size, well below the optional flat rents set by most PHAs. As part of the switch to a flat rent and flat subsidy, Tulare implemented a 5-year time limit for assistance and declares households ineligible for assistance once their income exceeds 120 percent of AMI. A 2005 presentation posted on the Tulare Housing Authority's website states that "58 percent of timed-out households would have had zero subsidy had they been income-based."[46] These households would have had to

[45] Households in the program prior to the implementation of the new system in 1999 had the option of switching to the flat rent, flat subsidy program or continuing to pay an income-based rent.

[46] Testing New Approaches in Public Housing. Housing Authority of the County of Tulare 4/6/2005 http://www.hatc.net/Pdf/PHADAMovingToWork.pdf

leave rental assistance earlier if not for the flat subsidy system; hence the flat subsidy appears to be contributing to longer lengths of stay of relatively higher income households in Tulare County.

Summary of Effect of Alternative Rent Structure on Length of Stay

In theory we would expect a flat rent or flat subsidy system to increase time on assistance for households at the upper end of the income spectrum, because they no longer have a financial incentive to leave assisted housing as income increases. We might also expect such a system to decrease time on assistance for households at the lower end, if they cannot afford even the flat rent. However, the limited available information from current optional flat rents and from the MTW rent reform PHAs does not provide conclusive evidence on the impacts of a flat rent or flat subsidy system on length of assistance, particularly for the low-income households where there is no available empirical evidence. Currently, residents who pay the optional flat rents have longer lengths of stay compared with the overall public housing population, but *shorter* lengths of stay compared to just public housing households with income above 30 percent of AMI. In Tulare, the PHA reported that a majority of assisted households would have been receiving no subsidy under an income-based system when the five-year time limit for mandatory flat rents was reached. The Tulare information suggests that relatively higher income households are staying longer than they might have under and income-based system. Under a mandatory flat rent system, the flat rents might be set below the current optional flat rents, which would provide a larger incentive for the highest income eligible participants to continue receiving assistance.

3.6. How Would a Flat Rent or Flat Subsidy System Affect the Types of Households that Apply for and Accept Assistance?

Without controlled experiments that implement alternative rent schemes, we cannot be sure how alternative rent systems would affect who applies for and who receives housing assistance. The best we can do is to use available information to speculate on possible effects. The information that we examine includes:

- A comparison of current assistance recipients with the pool of eligible non-applicants in the population. If those who currently receive assistance are different from non-applicants in ways that relate to the rent system in place, then changes in the system (including benefit levels associated with one or another system) may affect who applies for and accepts assistance.
- The experience of PHAs that have implemented alternative rent systems, both optional flat rents and MTW PHAs.
- Information collected specifically for this study, including site visits, the telephone survey of PHA staff, and the survey of newly admitted households and households on the waiting list.
- Literature on experience with other assistance programs, including housing programs and other types of assistance.

Changes in the rent system may make housing assistance more or less attractive to different types of eligible households, leading to changes in the characteristics of program applicants. The extent of the impact of a change in the rent calculation method depends on the degree to which the potential applicant population understands the differences between the current and new systems. If potential applicants have a good understanding of how a new rent structure works, we would expect to see an increase in interest in the program from the groups that stand to gain and a decrease in interest from groups that stand to lose. For example, we might expect that in a flat rent or flat subsidy system relatively higher income households (from among the eligible population) would be more motivated to apply for assistance since

their potential benefit would increase. However, if potential applicants do not have a clear understanding of how the system works, we would expect small-to-no impact from a change to the system.

The characteristics of the population actually served also will be affected by the program's income limits and quotas of households that must be admitted from different income tiers. For instance, HUD—or an MTW PHA—might decide to combine a flat rent, which might make housing assistance more attractive for higher-income households, with higher quotas on the number of admitted households with extremely low incomes.

Comparison of Assistance Recipients with Eligible Non-Recipients

A comparison of the characteristics of current housing assistance recipients with characteristics of eligible non-participants can indicate the *upper limit* of possible changes in the recipient population. The source of information for this analysis is the May 2008 HUD report, *Characteristics of HUD-Assisted Renters and Their Units in 2003*. Using the biennial American Housing Survey, this report compares HUD-assisted households with families who are income eligible for but do not receive HUD housing assistance.[47] Exhibit 3-17 presents information from the HUD report for three groups of households: (1) Eligible Unassisted

[47] To describe how assisted households were identified in this analysis, HUD indicates "For this report, specialists at the Census Bureau matched records from the 2003 AHS [American Housing Survey] and the two HUD administrative record systems [PIC and TRACS] using computerized matching algorithms and techniques. These matching techniques use information on the AHS and HUD records, including first name, last name, date of birth, detailed addresses (street number, street name, street direction/location), unit or apartment number, city, state, and ZIP code, to match households" (p. 5). Additional information on match rates and estimation weights can be found in the HUD report.

Renters, in this case defined as those with incomes between zero and 50 percent of area median income; (2) Tenants in Public Housing; and (3) Voucher Recipients.

Exhibit 3-17. Comparison of Characteristics of Eligible Unassisted Households, Public Housing Tenants and Voucher Recipients

	Eligible Unassisted Renters[a] (n=12,298)	Tenants in Public Housing (n=1,094)	Voucher Recipients (n=1,800)
Race/Ethnicity			
Head is White	71%	44%	53%
Head is Black	22%	52%	41%
Head is Hispanic	22%	21%	16%
Age of Household Head			
Head is under 29	30%	16%	20%
Head 65 and older	17%	28%	15%
Median Age of Head	39	49	43
Income			
Median HH income	$13,969	$9,900	$10,703
Wages majority of income	61%	34%	44%
Social Security or pensions majority of income	22%	37%	26%
Welfare or SSI majority of income	14%	36%	40%
Household Type			
Married couple, no nonrelatives	23%	10%	10%
One-person households	40%	51%	33%
Female householder	23%	32%	24%
Children with one adult	16%	26%	37%
Education of Household Head			
No HS diploma	33%	53%	36%

[a] Eligible unassisted renters are defined as renters with incomes at 50 percent or less of the local area family median who do not live in a public housing unit, are not using a voucher, and are not subsidized tenants in privately owned assisted housing.

Source: U.S. Department of Housing and Urban Development, Office of Policy Development and Research. 2008. *Characteristics of HUD-Assisted Renters and Their Units in 2003*.

An important caveat is that who receives assistance also is powerfully affected by the geography of housing assistance—where public housing developments are located and which PHAs have large numbers of voucher subsidies available. Another caveat is that, while

households with incomes between 30 and 50 percent of AMI are eligible for housing assistance, HUD income targeting requirements ensure that most households admitted into housing assistance programs have less than 30 percent of AMI. For this reason alone, assisted households would be poorer on average than unassisted households with incomes below 50 percent of AMI.

Experience of PHAs that have Implemented Alternative Rent Systems

The PHA Telephone Survey asked staff whether they had seen changes in the characteristics of households applying for public housing since their agencies put optional flat rents into place. The vast majority (89 percent) reported no change in who applied to live in public housing developments. In the handful of PHAs where changes were reported, six of ten officials said they saw more wage earners.

Staff from the Tulare PHA, which implemented the most sweeping flat rent time limit system, said that the move to the new subsidy system did not alter who applied for or accepted housing assistance.

Potential Effects of Alternative Systems

During site visits to PHAs for this study, agency staff were asked to speculate on how alternative rent calculation systems might influence who would apply for housing assistance. Responses can be divided into two categories: (1) those who speculated that more working and higher income families might apply ("Flat rents work for those with more income"); and

(2) those who thought that alternative systems would have no effect ("Whatever system is in place…[people] will apply for it if they become desperate").

The second perspective is supported by the household survey data collected for this study, which shows that, prior to receiving assistance, many applicants do not understand how rent is calculated. It is often at the introductory briefing (once a household is deemed eligible and assistance is available) that the household learns how the housing agency will determine its rent (Exhibit 3-18). Many applicants learn about the program through word-of-mouth, and prior to the briefing their understanding of how housing assistance and rent calculations work are not specific enough to enable them to gauge their actual benefits.

Exhibit 3-18. How Newly Admitted Households Found Out How PHA Would Determine Rent

	Admit Households at:		
	MTW Rent Reform PHAs (n 33)	Large PHAs (n 120)	Other PHAs (n 70)
Told how rents work during a briefing	64%	68%	70%

Source: Rent Study Household Survey, new admit respondents responding to survey question on how information was provided on rent determination. Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs." Large PHAs have over 4,000 combined public housing and voucher units.

Non-Financial Influences on Who Uses Assistance

Some PHA agency staff interviewed during the site visits said that, while an alternative rent system might provide relatively higher income households with a greater benefit and perhaps a greater incentive to apply, non-financial considerations would prevent some eligible households from ever applying.

This view is consistent with literature on why eligible households apply for other government assistance. Although overall participation rates in assistance programs are typically higher for lower income households within the eligible population (Bartlett and Burstein 2004), a sizable minority of even the neediest households never applies for assistance. Some extremely poor families whose finances are "fragile and complex" may not apply for government benefits because of program factors (hassle, paperwork, sanctions) or personal reasons such as pride or a lack of knowledge about the program or its rules (Zedlewski et al. 2003).

For the food stamps program, researchers have consistently found that a common reason for nonparticipation is confusion about eligibility (McConnell and Ponza 1999; Bartlett and Burstein 2004). Bartlett and Burstein found that, even though eligible nonparticipants experienced fairly high levels of food insecurity, 35 percent of households who had not previously received food stamps said they would never apply. Overwhelmingly, respondents who said they would not apply cited their desire for personal independence, a dislike for charity, or a feeling that they could get by without benefits. If some portion of households eligible for housing assistance (perhaps a significant portion) will not apply for benefits regardless of their need, it is difficult to estimate accurately how changes to the benefit level will alter who applies.

Summary of Effect of Alternative Rent System on Applicants and Participants

In theory we might expect an alternative rent system to change the group of program applicants and participants. We would expect higher participation levels from households

who stand to benefit more. Under a flat rent flat subsidy, this would mean higher participation levels among relatively higher-income households.

In practice, however, we might not see large changes in the applicant pool, because prior to entering the program recipients often do not understand the rent calculation. In addition, even if there were changes to the applicant pool, the characteristics of the population actually being served might be more affected by PHA preferences and program requirements establishing targets for households with extremely low incomes than by changes in who applies.

3.7. How Would Alternative Rents System Affect Concentrations of Poverty?

Because most public housing is in multi-unit buildings devoted exclusively to the public housing program, and because most residents of public housing have incomes below the poverty line, public housing concentrates families with extremely low incomes in close proximity to one another. The stigma associated with concentrations of poor people discourages families with somewhat higher incomes from choosing public housing, even when it clearly is in their financial interest to do so.

A major purpose of the optional flat rents PHAs must offer to public housing residents and for the lighter income targeting for public housing under QHWRA is to offset poverty concentrations in public housing by encouraging families with relatively higher incomes to remain in public housing and, perhaps, to move in (see Section 2.2). However, in 2007, 73

percent of public housing residents had extremely low incomes, far exceeding the 40 percent quota (HUD 2008).

The HCV program also serves predominately families with poverty-level or extremely-low incomes. Because the voucher program is by its nature scattered site, the issue of poverty concentration is different from the issue for public housing. Only a small fraction of voucher families live in neighborhoods with very high concentrations of poor people—defined as neighborhoods where at least 30 percent of households have incomes below the poverty level (Devine et al. 2003). Overall, voucher families live in the same types of neighborhoods as poor families generally (Newman and Schnare 1997; Mills et al. 2006; Gubits et al. 2009). Many housing policy makers and analysts consider this a disappointing result of the voucher program, since in theory the FMRs and payment standards used for the program should make housing available in all types of neighborhoods across metropolitan areas (Devine et al. 2003).

A flat rent system might decrease concentrations of poverty within public housing developments by encouraging higher income residents to remain in the program and lower income residents to leave. In contrast, a flat subsidy system might increase concentrations of poverty in the voucher program by encouraging households to choose units in lower cost neighborhoods.

Impacts of a Flat Rent System on Concentrations of Poverty in Public Housing

Finkel and Lam (2008) used PIC data to compare public housing developments with and without large shares of households paying flat rents.[48] The authors found that households with flat rents had higher incomes than other public housing residents and those public housing developments with large clusters of flat-rent households had a wider tenant income distribution than other public housing developments.[49]

Impacts of a Flat Subsidy System on Concentrations of Poverty in the Voucher Program

A flat subsidy not tied to income might increase concentrations of poverty in the voucher program for several reasons. Here we describe only the potential effect of a flat voucher subsidy. The potential effect of a hybrid system would be more complex.

First, with a flat subsidy, voucher holders might choose to maximize their after-rent disposable income by choosing less expensive units. Less expensive units are more likely to be concentrated in higher poverty areas. Second, landlords in high-value locations might be less willing to accept vouchers in a flat subsidy system. Under the current system, if the tenant's income dropped, the PHA would increase their Housing Assistance Payment (HAP) and the tenant's portion of the rent (the Total Tenant Payment [TTP]) would decrease. In contrast, under a flat subsidy system, if the tenant's income dropped, the HAP and the TTP

[48] High concentration developments were defined as those where at least 20 percent of tenants were paying a flat rent.

[49] This finding was discussed in Section 2.2.

would not be affected. This would mean the landlord would have to have a greater degree of trust that the tenant would be able to pay the TTP no matter what. Landlords would then become more selective about which voucher recipients they rented to. Third, with a flat subsidy, some assisted households would be less able to afford rental units in low poverty areas. Currently, any voucher holder, regardless of income, can afford to rent a unit at the payment standard. With a flat subsidy, many families would not be able to do so.

The rest of this section presents evidence on the likely impact of each of these factors on the poverty concentrations of voucher families. The discussion focuses primarily on the incentive for voucher families to choose less expensive units (the "shopping incentive"), because the study's data collection provides the most insights into this area.

Choosing Lower-Cost Housing. Under the current subsidy system, for all units with rents that are at or below the payment standard, the actual market value of the unit has no impact on the tenant's rent payment. In contrast, if households received a flat subsidy and then had to cover the difference between the subsidy and market rent, they would have an incentive to find less expensive units. This could lead to voucher holders becoming more concentrated in low-rent areas with (presumably) higher concentrations of poverty.

This study's survey of newly admitted households and households on the waiting list for assisted housing included several questions on factors respondents considered when shopping for housing. Responses to these questions give some insight into how sensitive voucher holders might be to differences in price. Households on the wait list answered this question

about their most recent experience shopping for housing without a voucher, and they were more likely to say that they had a maximum rent in mind than were households using a voucher issued by non-rent-reform PHAs (Exhibit 3-19). Furthermore, voucher users in MTW PHAs that had implemented alternative rent systems were much more likely to consider price when selecting a unit than were voucher holders in other PHAs (Exhibit 3-19). This was particularly the case for households newly admitted to the voucher program in Tulare and Cambridge. Tulare has flat subsidies, and Cambridge has subsidies that are flat within income bands. These survey results suggest that a flat subsidy might motivate voucher holders to find less expensive housing

Exhibit 3-19. Do You Have the Highest Rent You Would be Willing to Pay in Mind When Shopping for a Rental Unit?

	ew Admissions			Waiting List			
	Rent Reform (n 58)	Large PHAs (n 85)	Other PHAs (n 167)	Rent Reform (n 56)	Large PHAs (n 47)	Other PHAs (n 65)	Total (n 478)
Percent Yes	84%	56%	58%	74%	63%	75%	66%
Percent No	16%	44%	42%	26%	37%	25%	34%

Source: Household survey of new admits into the voucher program, who did not lease in place, and households on the waiting list for housing assistance. Households were interviewed from three "MTW Rent Reform PHAs," six "Large PHAs," and sixteen "Other PHAs."

Tulare has had a mandatory flat subsidy since 1999, and there is no evidence that voucher holders there who receive a flat subsidy select units with lower gross rents than voucher holders still receiving an income-based subsidy, as shown in Exhibit 3-20. However, households in Tulare were not randomly assigned to receive a flat subsidy or continue to use an income-based subsidy. Instead, households in the program as of 1999 were permitted to continue to receive an income-based subsidy if they wanted to, and households headed by an

elderly or disabled person also may continue to have an income-based subsidy. Households with income-based subsidies may differ from households with flat subsidies in ways that affect the type of housing they choose to rent or are able to rent.

Exhibit 3-20. Average Gross Rents of Voucher Holders in Tulare County

	0 BR	1 BR	2 BR	3 BR	4 BR	5 BR
Households receiving an income-based subsidy	$438	$527	$641	$871	$973	$1138
Households receiving a flat subsidy	$362	$594	$740	$928	$1034	$1113

Source: Gross rents in voucher program as of 12/31/2008 Housing Authority of Tulare County MTW Quarterly Report. Gross Rents were calculated by adding the average HAP to the average tenant rent.

Answers to the survey question on the reasons for applying for housing assistance suggest that some households may not, in fact, choose poorer neighborhoods, regardless of the form of the subsidy. Slightly over half of all surveyed households (52 percent) said that one of the reasons they applied for housing assistance was to live in a better neighborhood.

Landlord Acceptance. In interviews conducted as part of this study's site visits, some PHA staff said they thought a flat subsidy system would be less attractive to landlords because they would no longer be guaranteed that the full rent would be paid even if the household lost its income. However, the landlord is still guaranteed the flat-subsidy portion of the rent, which is more than they would be guaranteed with an unassisted household that suffered a loss of income. On the other hand, it could be harder for a landlord to evict a voucher holder than an unassisted tenant. The only available evidence on landlord acceptance is from Tulare. Staff from Tulare reported that landlords have not become less willing to accept vouchers from households with flat subsidies.

Limited Affordability in Low Poverty Areas. Recent administrative data continue to show that, compared to public housing residents, voucher holders tend to live in neighborhoods with lower concentrations of poverty (Exhibit 3-21).

How a flat subsidy would change the pattern of where voucher-holders are located is complex. Relatively poorer households—those for whom the flat voucher subsidy would supplement their rent-paying ability less than the current system—might be less able to rent in lower poverty, higher rent locations. On the other hand, households for whom the flat subsidy would be greater than their current income-based subsidy might be more likely to choose higher-rent locations.

Exhibit 3-21. Distribution of Poverty Rate by Household Rent Type

	Pubic Housing		Vouchers	
Tract Poverty Rate	Flat Rent Units (39,450 units)	Other Public Housing Units (307,895 units)	All Voucher Households (824,164 units)	Households in 10 largest MSAs (198,172 units)
0–10%	8.3%	7.6%	30.0%	26.7%
10–20%	29.8%	22.9%	32.0%	24.2%
20–30%	26.3%	23.1%	19.8%	20.6%
30%+	35.6%	46.5%	18.2%	28.5%
Total	100%	100%	100%	100%
Average Poverty Rate	27.4%	31.7%	19.6%	22.8%

Source: Data are from 2008 PIC system. Excludes elderly and disabled households and records for which poverty concentrations are not available. Public housing data also excludes all NYC households. Voucher data includes NYC but excludes all voucher holders that were exiting the program.

Summary of Effect of Alternative Rent Structure on Concentrations of Poverty

We might expect a flat rent system for public housing to reduce concentrations of poverty in public housing by encouraging higher income residents to remain or move into public

housing. The very limited evidence from the current optional flat rent system seems to support this view. Households paying optional flat rents have higher incomes than other public housing residents, and public housing developments with large clusters of flat-rent households have a wider tenant income distribution than other public housing developments.

In contrast, the incentive in a flat subsidy system for households to find the lowest cost acceptable housing could increase concentrations of poverty in the voucher program by encouraging households to choose units in lower cost neighborhoods. However, there is no direct evidence on whether this possibility is likely to occur.

4. How Do PHAs and Low-income Households View Alternative Rent-Setting Systems?

Public Housing Agency (PHA) staff administering the public housing and Housing Choice Voucher (HCV) programs have much at stake with any changes to the current rent system. Any change could influence a PHA staff's administrative burdens and relationship with clients, how the PHA is perceived in the community, and the PHA's ability to meet the goals for its housing assistance programs.

Recipients of housing assistance have an even larger stake. A change in the rent system could affect where they live, how much they pay in rent, and how long they receive assistance. Consideration of stakeholder preferences can help policymakers determine which changes to the rent structure will address weaknesses of the current system and make the roll-out of such changes successful.

4.1. What are PHAs' Preferences for Rent Structure?

The telephone survey conducted for this study asked PHA staff about their level of satisfaction with the current rent system—that is, a percent-of-income system with minimum rents, hardship exemptions, and an optional flat rent for public housing tenants. As shown in Exhibit 4-1, 87 percent of respondents indicated that the system has flaws, although a majority rated the flaws as minor. Only 13 percent of respondents reported total satisfaction with the rent system as currently structured.

Exhibit 4-1. PHA Satisfaction with Current Rent System

Level of Satisfaction	PHAs (n 174)
Satisfied with system as currently structured	13%
Satisfied, but system has minor flaws	34%
Not satisfied; system has minor flaws	20%
Not satisfied; system has major flaws	33%

Source: Rent Study Telephone Survey of PHAs, respondent PHAs weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Survey data also indicated that a majority of PHA staff (72 percent) think that housing authorities should have greater flexibility than currently allowed to set tenant rents and voucher payment standards. PHA staff reported that greater flexibility would permit them to increase the number of working households receiving assistance, to serve more households overall, and to have a more predictable stream of rental revenue (e.g., by implementing flat rents). PHAs would reportedly use the flexibility to change the rent structure, raise the minimum rent, simplify the income calculation, or reduce the frequency of annual recertification.[50]

PHA Views of Alternative Rent Structures

PHA staff interviewed during the site visits to 25 PHAs and for the telephone survey of 175 PHAs were asked about the following four alternative rent structures:

- A mandatory flat rent that varies only by bedroom size;
- A hybrid system with a flat rent up to a certain income threshold and then an additional percent-of-income rent for income above the threshold;

[50] See Chapter 5 for a discussion of changes to income verification and changes to income calculations under income-based rents.

- A stepped public housing flat rent that starts low and increases by $50 to $75 for each year of a household's program participation; and
- A stepped-down voucher payment standard that decreases for each year of a household's program participation.

The surveys provided specific dollar figures for each alternative in order to provide the rent systems with context. None of the rent structures were deemed worth considering by a majority of telephone respondents, though two models came close to a majority (Exhibit 4-2).

Exhibit 4-2. Percent of PHAs Reporting Alternative Rent Structures Worth Considering

Reform Proposals	Percent of PHAs that Thought Proposal Worth Considering (n 115)
Hybrid System: Minimum rent of $150 below income threshold of $6,000; additional 10% of income in rent for income above $6,000	48%
Flat Rent: Rents between $150 and $300 based on number of bedrooms, not on income; annual change for inflation	46%
Stepped Rent: Flat rents starting at $150, rising annually by $50 to $75	38%
Stepped-Down Payment Standard: Payment standards set at 90% of Fair Market Rent (FMR), decreasing by 5% of FMR each year	21%

Source: Rent Study Telephone Survey of PHAs, weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units. The Hybrid-System, Flat-Rent, and Stepped-Rent questions were asked of the 135 PHAs with public housing units, but approximately 15 percent of eligible PHAs (n=20) answered "Don't Know" or otherwise did not answer the rent preference questions. The Stepped-Down Payment Standard question was asked of the 170 PHAs with vouchers, but 7 percent of these PHAS (n=12) did not answer the question. The percent calculations do not include the missing responses.

Hybrid System. Forty-eight percent of PHA staff responded that the hybrid system was worth considering. During site visits, the housing authority staff who liked the hybrid model said that, compared to a simple flat-rent approach, it would allow households to retain more of any income gains, would work to residents' advantage during an economic downturn, and would be fair because it accounts for income. Staff also said that the hybrid approach would

be more politically acceptable than a flat-rent approach, again because it is based in part on household income.

Some PHA staff interviewed during the site visits criticized the hybrid system because it would not simplify the rent calculation and would still require households to report income changes and PHA staff to conduct annual income recertifications and verify changes in income.

Flat Rent. Interviews conducted during site visits indicated both considerable interest in a mandatory flat-rent model and substantial concerns about it. PHA staff said that a flat-rent or subsidy system would encourage households to earn more money but that it might create difficulties for the most disadvantaged tenants. PHA staff also said that a flat-rent system would reduce the incentive to underreport income, help working households save for the front-end costs of renting an unassisted unit or purchasing a home, and mimic the unassisted housing market in that the household would be responsible for the same amount of rent in both good times and bad. A rent structure similar to the unassisted market could help households transition from relying on housing assistance to renting a unit without assistance in the private market.

The possibility of higher rates of housing instability led some PHA staff to oppose a flat-rent system altogether. The agency staff were concerned that the most disadvantaged or neediest households would be unable to pay rent and thus face the risk of eviction and homelessness. Some staff thought a mandatory flat-rent system would undermine households whose head

lost a job or whose income decreased during an economic turndown. A few staff members made the observation that it would be difficult, if not impossible, to design a single flat-rent system to work well across income groups and across cyclical economic conditions.

As for administrative considerations, some PHA staff thought a mandatory flat-rent system would allow PHAs to link their planning efforts to more predictable rent collections. Others, however, said that PHAs' administrative burden and costs might increase under a flat-rent system because of the costs associated with a greater number of hardship exemptions and evictions, an increased rate of turnover, and possible uncollected rents. However, if the flat rent were to be set at a level affordable for most tenants, and thereby avoid those consequences, revenue would be insufficient to cover costs.

A number of PHA staff also said that before switching to a flat-rent system, housing agencies should establish a high-quality self-sufficiency program that, for example, would provide mandatory and intensive education and case management services to support households' efforts to move toward financial independence. Such a program, however, would be costly. Nonetheless, some Moving to Work (MTW) PHAs reportedly have been able to use administrative cost savings and the flexibility in the use of funding permitted under the MTW demonstration authority to couple a change in the rent system with increased services. The Atlanta Housing Authority (AHA), which increased the minimum rent to $125 and implemented a work requirement, developed a service provider network. According to an Office of Housing and Urban Development (HUD) report (2008b), "AHA is able to provide a significantly enhanced level of services and linkages to human services providers for AHA-

assisted families to ensure significant progress towards facilitating economically independent families, educated children, and self-sufficient elderly and disabled persons."

Some PHA staff interviewed during site visits discussed the fairness of a mandatory flat rent, speculating that housing assistance would shift to households that are not the neediest and thus would undermine the PHAs' mission. Staff also feared that local political supporters of the housing agency might oppose a regressive rent structure under which households with the lowest income pay a higher percentage of income toward rent than households with more money.

Stepped Rent. In the hypothetical stepped-rent system presented to PHA staff in the telephone survey, the flat rent would start at $150 and increase annually by $50 or $75. Only 38 percent of respondents—smaller than the share of PHAs favoring the hybrid or simple flat- rent system—stated that the stepped rent was worth considering.

Staff interviewed during the site visits voiced opinions about stepped rents similar to those regarding the flat-rent model. In their opinion, while the stepped-flat rent might provide an incentive to seek or retain employment, it would benefit households relatively better off more than the most disadvantaged households. Moreover, a stepped rent would have to be coupled with a hardship policy and a high-quality self-sufficiency program to help families achieve the income gains needed to pay increased rents. Some staff also pointed out that the stepped-flat rent implied a time limit to housing assistance and were concerned about public opposition to time limits.

The Stepped-Down Payment Standard. The hypothetical stepped-down rent subsidy presented to PHA staff would start the payment standard at 90 percent of Fair Market Rent (FMR) and decrease it annually by 5 percent of FMR. Accordingly, in the second year of assistance, the payment standard would be 85 percent of FMR. Only 21 percent of PHAs responding to the telephone survey voiced interest in this system. Staff interviewed during the site visits said that the stepped-down rent would be burdensome for PHAs and would confuse landlords and program participants. For example, if the same apartment building submitted two requests for lease approval, the first one could be accepted and the second one rejected because the latter household had been in the program longer and was subject to a lower payment standard.

Characteristics of PHAs Expressing Interest in Alternative Rent Structures

Using respondent PHAs' characteristics, we sorted PHA views on whether alternative rent structures were worth considering and then analyzed whether the characteristics of PHAs in our telephone survey were related to their interest in each of the proposed rent reforms. The characteristics were satisfaction with the current system, FMRs in the PHA's jurisdiction as compared to the national median FMR, Census region, urbanicity, and size of the PHA's programs (Exhibit 4-3). Not surprisingly, PHA respondents reporting that the current rent system had major flaws were the most receptive to considering the hybrid and flat-rent systems. Two-thirds of such PHAs reported that the simple flat rent was worth considering

Exhibit 4-3. Percent of PHAs Reporting Alternative Rent Structure Is Worth Considering—by PHA Characteristics

PHA Characteristic	Percent of Respondents in PHA with Given Characteristic Reporting Alternative Rent Structure Is Worth Considering		
	Hybrid System	Flat Rent	Stepped Rent
All PHAs (n = 115)[a]	48%	46%	38%
Satisfaction with Current System			
Satisfied as currently structured[b]	38%	24%	38%
Satisfied, but minor flaws	48%	40%	42%
Not satisfied, but minor flaws	46%	44%	36%
Not satisfied, major flaws	52%	65%	35%
FMR in PHA's Jurisdiction[c]			
Below median FMR	55%	49%	35%
Above median FMR	37%	43%	40%
Region			
Northeast	28%	53%	34%
South	78%	60%	24%
Midwest	52%	36%	38%
West	41%	45%	50%
Urbanicity			
Rural	49%	41%	37%
Urban	48%	47%	38%
Size of PHA[d]			
Small (500 to 799 units)	52%	28%	33%
Medium (800 to 1,999 units)	44%	51%	43%
Large (2,000 to 3,499 units)	53%	54%	33%
Very large (3,500 units or larger)	46%	58%	36%

[a] Approximately 15 percent of 135 eligible PHAs said "Don't Know" or otherwise did not answer the rent preference questions. The percent calculations did not include the missing responses.
[b] This row indicates that, of the PHA respondents reporting satisfaction with the system as currently structured, 38 percent reported that a hybrid system is worth considering, 24 percent reported that a flat rent is worth considering, and 38 percent reported that a stepped rent is worth considering.
[c] Median FMR was calculated separately for rural (non-metropolitan area) and urban (metropolitan area) PHAs, and the FMR of each PHA was compared to the relevant median.
[d] Rural PHAs have slightly different size categories than shown in the exhibit; rural PHAs with 500 to 699 units are in the small category, and all rural PHAs with 700 or more combined units are in the medium category. The difference in the size categories is attributable to differences in how the sampling strata were defined for rural and urban areas.

Source: Rent Study Telephone Survey of PHAs, weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units. Questions were asked of the 135 PHAs with public housing units.

as compared to 24 percent of PHAs whose staff said they were satisfied with the current system and 40 to 44 percent of respondents who thought the current system had only minor flaws.

Staff from very large PHAs, PHAs in the South, and PHAs with below-median FMRs were also more likely than other PHAs to respond that the hybrid system and simple flat rents were worth considering. Urban and rural PHAs showed almost no differences in their rent structure preferences.

Differences across PHA characteristics with respect to stepped rents were smaller; when differences occurred, the pattern varied from the pattern for the hybrid and flat-rent systems. For example, PHAs in the South were least likely to support consideration of stepped rents, whereas the same respondents had been the most interested in the hybrid and flat-rent systems.

We do not have a clear explanation for the patterns. The differences in who prefers which system could be a function of their preferences for the "carrot" versus a "stick" approach to reducing disincentives to working and reporting income. Respondents to the survey questions may consider a simple flat rent or a hybrid system with a flat rent up to a certain threshold and then a percent-of-income system to be a positive or "carrot" approach. A stepped rent may be considered a negative or “stick" approach” with rents increasing to the point that the recipient could find a more reasonable rent without assistance.

4.2. What Are Households' Preferences for Rent Structure?

The household survey asked several questions about hypothetical alternative rent systems, in this case characterized as choices between two options. The responses to the questions (Exhibit 4-4) indicated that households seemed to prefer a lower rent even when coupled with a longer wait time for housing assistance or a time limit on assistance. Sixty-five percent of households said that they would prefer to wait longer for assistance if the wait meant a lower rent, and 85 percent said that they would prefer a lower rent with regular income verification rather than a higher rent with no income verification after initial eligibility determination. The latter finding suggests that, for many households, the income verification process is not so great a burden that households are willing to pay to avoid it. The income verification process may be burdensome only for households with several or complicated sources of income.

Most respondents did not care for the prospect of a stepped rent. Instead, they preferred (1) a flat rent with a time limit over a "rent with annual increases" and (2) the current 30-percent-of-income rent with a six-year time limit to a stepped rent starting at $300 and increasing by $50 each year.

Households reacted favorably to the idea of a flat-rent amount, with 59 percent preferring "rent doesn't change with income" to "rent that varies with income" when no specific flat-rent levels were suggested. When presented with a specific flat-rent option of $300 versus an option of rent based on 30 percent of income, a slight majority of respondents (53 percent) selected the flat rent. The opposite was the case for a $500 flat rent, with three-fourths

preferring an income-based rent to a flat rent. The difference in responses to $300 and $500 flat rents makes it clear that households are sensitive to the specifics of the rent structure.

Exhibit 4-4. Households' Rent Structure Preferences

Choices Offered	Preferred First Option (n 1,154)[a]
Hypothetical Comparisons with No Specific Dollar Figures or Times	
Flat rent, but time limit OVER rent with annual increases (stepped rent)	66%
Flat rent OVER rent varies with income	59%
Higher rent, shorter wait OVER lower rent, longer wait	35%
Higher rent, no verification OVER lower rent, annual income verification	15%
Hypothetical Comparisons with Specific Dollar Figures and Time Periods	
$100 more in rent per month, ***immediate*** housing OVER rent of 30% of income, 2-year wait[b]	60%
$100 more in rent per month, ***1-year wait*** OVER rent of 30% of income, 2-year wait	42%
$300 flat rent OVER rent of 30% of income	53%
$500 flat rent OVER rent of 30% of income[c]	24%
Stepped rent starting at $300 and increasing by $50 a year OVER rent of 30% of income with 6-year time limit	29%

[a] 4 to 13 percent of the 1,204 eligible respondents answered "Don't Know" to each of these preference questions and are not included in the percentage estimates.
[b] If the respondent answered that (s)he preferred $100 more in rent with a one-year wait, we assumed the household would prefer $100 more in rent and immediate housing; we imputed the response.
[c] If the respondent chose the 30-percent-of-income rent over the $300 flat rent, we assumed s(he) would prefer the income-based rent over the $500 flat-rent option; we imputed the response.

Source: Rent Study Household Survey, all respondents. Households were interviewed from 3 MTW Rent Reform PHAs, 6 large PHAs, and 16 small or medium PHAs. The large PHAs have more than 4,000 units in their combined public housing and voucher programs. Medium and small PHAs have between 640 and 3,900 combined units.

The same sensitivity is evident in the preferences for higher rent with a shorter wait time. Sixty percent of respondents preferred paying $100 more in rent to reduce the wait time for assistance by two years, but only 42 percent preferred the additional rent if it reduced wait time by only one year.

Characteristics of Households Interested in Alternative Rent Structures

This section examines differences in preferences for alternative rent structures across households. The first panel of Exhibit 4-5 shows that households with a disabled head or spouse were less likely than non-disabled households to want the current system to change. The most notable difference between the two groups is that only 12 percent of disabled households preferred a $500 flat rent to the current system compared to 26 percent of non-disabled households. Households with a disabled head or spouse could be less interested in changes to the rent system because they are more likely to be on fixed income and less likely to be able to increase their income. The remaining analysis excludes households with disabilities because such households probably would not be subject to a mandatory flat-rent system even if such a system were implemented nationally.

Households on the waiting list, working households, or the households with relatively higher incomes were more likely than other households to prefer an alternative to the current system. However, the length of time a respondent had been on the waiting list or whether the household had received welfare income during the past year was not correlated with preferences.

Exhibit 4-5. Households' Rent Structure Preferences by Household Characteristics

	Choice Offered				
	$100 More in Rent, Immediate Housing over 2 Year Wait	$100 More in Rent, 1 Year Wait over 2 Year Wait	$300 Flat Rent over 30% System	$500 Flat Rent over 30% System	Stepped Rent Starting at $300 over 30% System with 6 Year Time Limit
All Respondents (n=1,154)					
All Households	60%	42%	53%	24%	29%
Disabled Status (n = 1,154)					
Disabled households	54%	31%	47%	12%	23%
Non-disabled households	61%	44%	54%	26%	30%
Housing Assistance Status (Non-Disabled Households n = 1,011)					
Waiting list	64%	47%	58%	30%	32%
New admittees	56%	40%	50%	22%	29%
Monthly Income of Household (Non-Disabled Households)					
<$500	63%	42%	40%	18%	30%
$501 to $1,000	55%	41%	48%	20%	23%
$1,001 to $1,500	60%	48%	60%	26%	31%
$1,501 to $2,000	59%	41%	63%	31%	39%
>$2,000	75%	52%	70%	47%	45%
Whether Respondent Worked in Week before Survey (Non-Disabled Households)					
Worked	62%	45%	59%	31%	32%
Did not work	59%	43%	50%	21%	28%
Receipt of Welfare Income in Past Year (Non-Disabled Households)					
Received welfare	61%	49%	52%	22%	27%
Did not receive welfare	61%	42%	55%	27%	31%
Years Expect to Be on Housing Assistance (Non-Disabled Household)					
1 year	80%	63%	51%	24%	30%
2 or 3 years	72%	52%	52%	25%	26%
4 or 5 years	55%	42%	58%	31%	36%
More than 5 years	56%	37%	56%	24%	32%
Reported Years on Waiting List (Non-Disabled Households)					
Less than 1 year	64%	47%	49%	23%	28%
1 year	64%	51%	54%	26%	32%
2 years	60%	39%	54%	25%	31%
3 years	62%	46%	63%	31%	30%
4 years	50%	35%	49%	25%	28%
5 or more years	57%	42%	57%	26%	36%

Notes: About 15 percent of the 135 eligible respondents answered "Don't Know" to each of these preference questions and are not included in the percentage estimates. If the respondent answered that (s)he preferred $100 more in rent with a one-year wait, we assumed the household would prefer $100 more in rent and immediate housing; we imputed the response. Similarly, if the respondent chose the 30-percent-of-income rent over the $300 flat rent, we assumed s(he) would prefer the income-based rent over $500 flat-rent option; we imputed the response.

Source: Rent Study Household Survey, all respondents. Households were interviewed from 3 MTW Rent Reform PHAs, 6 large PHAs, and 16 small or medium PHAs. The large PHAs have more than 4,000 units in their combined public housing and voucher programs. Medium and small PHAs have between 640 and 3,900 combined units.

Not surprisingly, the largest differences in choices among alternatives were based on household income. Survey respondents with the highest incomes (over $2,000 per month) were most likely to choose a higher rent to reduce the wait time for assistance as well as alternatives to an income-based rent. The most striking difference across income groups was in the preference for a $500 flat rent over the current rent system: 47 percent of the highest-income group preferred the flat rent versus 31 percent of the next highest-income group ($1,501 to $2,000 per month) and 18 to 20 percent of the lowest-income groups (less than $1,000 per month).[51] Respondents' preferences clearly were strongly influenced by how the alternative would affect their rent payments given their income level. The fact than any respondents in the lowest-income groups chose the $500 flat option suggests that either their survey-reported income was lower than their actual income or they preferred the stability of a fixed and known rent over a rent that varies with income. The flat rent, even at $500, may also be appealing to these respondents because it is lower than they would pay in the private market and it allows them to avoid the hassle of the income-certification process after initial eligibility has been determined.

The amount of time that respondents expected to use assistance correlated highly with their willingness to pay a higher rent if it meant a shorter wait time for assistance, but not with their preference for alternative rent structures. Eighty percent of respondents who expected to need housing assistance for only one year preferred to pay $100 more in rent in order to

[51] Income in this analysis is self-reported total household income for the past year converted to monthly income with no deductions or adjustments to income such as made in the current system for determining rent.

obtain immediate assistance rather than wait two years for assistance. By contrast, only 54 to 55 percent of respondents who expected to need housing assistance for four or more years preferred higher rent to a shorter wait time.

Obviously, households that expect to need assistance for a short time would be subject to the higher monthly rent for a shorter time and may see themselves in an immediate, but temporary crisis that can be overcome once they are housed. PHAs interested in serving such households might use MTW authority for vouchers that serve people in crisis so that such households do not have to spend a long time on the waiting list, but the PHAs might make the vouchers valid for only the short period needed by the households to recover from the crisis. Grantees of HUD's Homeless Prevention and Rapid Re-Housing Program make short-term rental assistance available to homeless families and individuals.

Households' Choice of Flat Rents under the Quality Housing and Work Responsibility Act (QHWRA) System

Another indication of assisted households' preferences for an income-based or flat-rent system is the choices made by households under the current QHWRA optional flat-rent system.

Since the optional flat rent has been available to public housing residents, a small but growing share of households has taken advantage of the alternative. In 2008, 15.1 percent of all public housing units were rented under the flat-rent option, more than double the share of flat-rent units in 2001 (6 percent) and one-third higher than in 2004 (10.1 percent). Not surprisingly, public housing households with relatively higher incomes usually select the

optional flat rent.[52] It is important to note, however, that a mandatory flat rent might be set at a lower or higher level than the current optional flat rent, which would affect the number of households who prefer it relative to the income-based system.

4.3. Conclusion

The study's surveys demonstrate that PHA staff, along with households participating in or on the waiting list for public housing or the voucher program, expressed a willingness to consider alternative rent structures such as flat rents. A little under half of PHA staff expressed interest in both a flat-rent system and a hybrid. The household survey did not ask households directly about a hybrid system, but a majority of respondents indicated that they would prefer a flat rent to an income-based rent system when asked a general question. That majority held when a hypothetical flat rent was set at $300, but not at $500. Likewise, the willingness of households to pay higher rent to obtain housing assistance faster depended on the degree to which the wait would be reduced. PHA staff also said that the details are important, suggesting, for example, that a public housing flat rent should be set at a level that would not make assisted housing unaffordable for extremely low-income renters while still generating sufficient revenue to support PHA operations.

[52] Chapter 2 discusses current optional flat rents in more detail.

5. Implications for PHA Budgets of Alternative Rent Systems

Any discussion about changes to the current rent system needs to address the potential impact on Public Housing Agencies' (PHA) operating budgets. The U.S. Department of Housing and Urban Development (HUD) provides funds to PHAs to cover the costs associated with administering the public housing and Housing Choice Voucher (HCV) programs.

Under the current system of funding for the administrative costs of operating the public housing and HCV programs, restrictions on how PHAs may spend any excess operating subsidies and administrative fees achieved through cost-saving measures weaken the incentive for reducing administrative costs. PHAs participating in Moving to Work (MTW) face no such restrictions and therefore have an increased incentive to achieve administrative cost savings.

Some of the requirements associated with administering the public housing and HCV programs are burdensome for staff to implement and use a higher share the administrative fees than PHA leaders believe is optimal. This chapter explores two categories of changes that could reduce administrative costs for PHAs and, in some cases, improve program integrity: (1) changes that might result from a switch to an alternative rent structure, and (2) changes that could be implemented while maintaining current income-based rents.

5.1. Potential Savings from Alternative Rent Structures: Income Verification and Annual Reexaminations

Under current regulations, PHAs need to collect and verify income information from applicants to determine eligibility, ensure compliance with the income-targeting requirements under the Quality Housing and Work Responsibility Act (QHWRA), and calculate rent. For public housing, the PHA also uses income information to help determine whether the household should select an income-based or flat rent. Every year thereafter, agencies conduct reexaminations to verify income, calculate rent, and help public housing residents determine whether they should continue with an income-based or flat rent. While public housing residents paying an optional flat rent may have their income verified and rent calculated up to only once every three years, they must still undergo an annual check on family composition (which affects the size unit for which they qualify) and on compliance with the community service requirement.

An alternative rent system such as flat rents could reduce some of the workload and costs associated with administering an income-based rent system by reducing staff time currently spent on verifying reported income reporting. Whether annual income verification would need to continue at all under a flat-rent system would depend on whether the program introduced income limits for ongoing participation. Unlike the income-based system, the structure of the subsidy in a flat rent system would not provide an automatic income limit for continued occupancy.[53]

[53] The current income-based rent system has an embedded income limit for the HCV program; as a household's income increases, the subsidy decreases and eventually reaches zero. In the public housing program, the income-based rent would rise to the point where most households would prefer to rent

PHA Views of Possible Administrative Cost Savings from an Alternative Rent Structure

PHA staff from some of the agencies participating in the site visits said that they would expect to realize administrative savings from an alternative rent structure because of reduced staff time spent on the reviews and calculations needed for income-based rents. Staff from other agencies argued that they would realize no net savings because they would have to continue to:

- Verify income eligibility for newly admitted households;
- Verify household composition; and
- Verify compliance with the community service requirement for public housing residents.

In addition, they would have to:

- Process more hardship exceptions than under the current system; and
- Process additional evictions from public housing or terminations of voucher assistance for residents who could not meet their rent obligations under a flat rent system.

Staff interviewed during the site visits also pointed out that much of the work associated with verifying and calculating income-based rents is now computerized and, therefore, more efficient.

PHAs participating in the telephone survey were asked how the flat rents mandated by QHWRA had affected the workload associated with income verification or tenant turnover.

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independently in the private market. A time limit is a possible alternative to an income limit for continued housing assistance in a rent structure not based on income.

While flat rents are optional for public housing residents (and only a small percentage choose a flat rent), more than one-third of PHA respondents said that flat rents have led to a decrease in the workload associated with income verification (39 percent) or to lower tenant turnover (34 percent), as shown in Exhibit 5-1. Among PHAs with at least a quarter of public housing tenants paying flat rents (only 6 percent of PHAs in the survey), more than half (53 percent) said that the workload associated with income verification had decreased.

Exhibit 5-1. Impact of Optional Flat Rents for Public Housing on Administrative Costs and Burden

Impact		PHAs (n 95)
Income Verification Workload	Increased	3%
	Decreased	39%
	No effect	58%
Rate of Tenant Turnover	Increased	2%
	Decreased	34%
	No effect	64%

Source: Rent Study Telephone Survey of PHAs, all respondent PHAs with public housing weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Two of the MTW agencies participating in the site visits said that they had realized administrative savings through the implementation of alternative rent systems. Staff from Tulare said that the mandatory flat rent has reduced staff time spent so that the agency now operates with one fewer staff member.

Staff from the Cambridge Housing Authority reported that agency's alternative rent structure, which charges flat rents within income tiers, saved the housing agency $30,000 in administrative costs in 2007, as determined in a study conducted for the agency. Staff said that the savings are even greater now.

While the transition to an alternative rent system could result in administrative savings, shifting tenants to a new system has cost implications. For example, if PHAs set policies that allowed tenants currently paying income-based rents to remain under that rent structure, the agencies would have to maintain two systems until all tenants under income-based rent system had left the program.

Summary of PHA Views on Administrative Cost Savings from Alternative Rent Structure

Agency staff participating in the study had widely divergent opinions on whether an alternative rent system would generate administrative savings. PHA staff pointed out that several administrative functions related to income would still be required under a flat-rent/flat-subsidy system. At the same time, many PHA staff stated that even the current optional flat-rent system for public housing had resulted in a reduced workload. In addition, agencies that have implemented alternative rent systems under MTW authority claim that they have realized savings.

5.2. Potential Savings from Alternative Rent Structures: Rent Reasonableness

PHAs are required to ensure that rents paid under the HCV program are "reasonable." To do this, PHAs compare the voucher rent to rents for comparable but unsubsidized units and reject units that are determined to be priced at above-market rents. The data collection source used to obtain market-rate rents and the methodology used to analyze the data for rent reasonableness vary greatly across PHAs.

The income-based voucher-subsidy system includes a rent reasonableness test in recognition of the possibility that voucher holders might not be price-sensitive. Voucher holders pay the same 30 percent of adjusted income for any rent up to the payment standard. They pay nothing more to rent a higher-priced unit as long as the rent is below the payment standard. Landlords might try to take advantage of voucher holders' price insensitivity by charging above-market rents.

Methods to determine rent reasonableness include:

- Gathering comparables from online sources, newspapers, or landlords and then analyzing the data in-house;
- Engaging the services of appraisers; and
- Using software programs sold by vendors.

During the site visits, several PHA staff members indicated that they found rent reasonableness burdensome because of the time required to obtain information on unsubsidized rental housing.

Continued Need for Rent Reasonableness under an Alternative Voucher Subsidy

The rent reasonableness test might not be needed if the HCV program instituted a subsidy that was the same regardless of a unit's cost. Under such a scenario, a voucher holder would save a dollar for every dollar less of total rent. Households under this system would have a financial incentive to ensure that their rent does not exceed the current market rent.

To help understand whether voucher holders would respond to the shopping incentive created by a flat-subsidy system, the household survey asked waiting list households and newly

admitted households questions about how they shopped for their current unit. Nearly three-quarters (71 percent) of waiting list households and two-thirds (62 percent) of newly admitted households reported that they had a maximum rent amount in mind. That more waiting list households indicated that they had a maximum amount in mind when renting their last unit (in the private market) is not surprising because they were responsible for paying the full rent.

Exhibit 5-2 shows the main factor used by newly admitted households to determine the highest rental amount they could pay. Although the most common response related to households' financial situation (37 percent), most of the other responses came down to the payment standard—i.e., PHAs advised households that they would have to pay more if the rent were higher. Consistent with the incentives under the current HCV program, only 5 percent said they had in mind an amount determined by the housing market.

Analyses of survey responses on other aspects of shopping behavior showed that 46 percent of waiting list households and 32 percent of newly admitted households reported turning down a unit because of the rent. Of these, 59 percent of waiting list households and 43 percent of newly admitted households turned down the unit because the rent was too high for the size of the unit. About one-fifth of each group turned down a unit because the rent was too high for the unit's condition. The results suggest that households under a flat subsidy would be somewhat more price-sensitive when selecting a unit than a household with an income-based rent.

Exhibit 5-2. Reason Voucher Participants Selected Maximum Rental Amount

Main Factor	Percentage (n 177)
Participant determined the amount based on income and other expenses	37%
Participant told by PHA that the rent was the payment standard or FMR	22%
Participant had an amount written on paperwork from PHA	13%
Participant told that they could not rent a unit higher than the amount	12%
Participant told that they would have to pay more if they selected a rent higher than that amount	7%
Participant selected an amount as the going market rate for rents based on personal, family, or friends' experience	5%
Other	4%
Total	100%

Source: Household Survey of newly admitted households that reported looking for housing with a pre-determined maximum rental amount.

Possible Cost Savings from Eliminating Rent Reasonableness under an Alternative Rent Structure

The rent reasonableness test that must be performed by PHAs administering the HCV program can be both cumbersome and expensive, although the degree of burden can vary widely as PHAs expend a range of effort in gathering and analyzing the data for the test. Eliminating the HCV program's rent reasonableness test as part of a move to a flat-voucher subsidy makes theoretical sense. Households with vouchers would not be willing to pay more for a housing unit than its market value, although the results from the household survey were inconclusive with respect to how households assess the market rent of the units they considered renting.

One concern about eliminating the rent reasonableness test in a flat-subsidy system is the risk that HUD could provide subsidies greater than the value of a unit or subsidize a unit priced substantially above market level. In such an event, the resultant negative publicity could

undermine support for the voucher program. This is part of the reason that the Housing Authority of Tulare County continues to conduct rent reasonableness tests in its flat-subsidy program. Furthermore, the rent reasonableness test can provide information on whether the subsidy level can be lowered to serve more households and can help set flat rents in the public housing program.

5.3. Potential Administrative Savings without Replacing Income-Based Rents

While PHA agency staff said that a flat-rent structure would reduce or eliminate the need for income verification, some voiced concern about how the lowest-income households would be able to afford the rent and whether a mandatory flat-rent system would increase the number of hardship exemptions to be processed by PHAs. The extent of the concern expressed by the PHA staff participating in the site visits and telephone survey suggests that, if given a choice, a majority of PHAs would continue with the burden of income verification rather than switch to a mandatory flat-rent system.

During the site visits and in the telephone survey, PHAs identified six components of the current income calculation process that are particularly burdensome and suggested ways to reduce the burden without eliminating income-based rents. The components are:

- Verifying income;
- Conducting interim reexaminations;
- Calculating asset income;
- Documenting deductions given to households for unreimbursed medical, disability, and childcare expenses;
- Applying the Earned Income Disregard (EID); and

- Basing rent calculations on prospective income;

For each component, we found that changes could be made to reduce the current administrative burden and PHA costs.

Income Verification. Seventy-three percent of the PHA staff participating in the telephone survey responded that they "agree" or "strongly agree" with the statement that the current rent system requires PHAs to spend far too many housing authority resources on verifying income. Staff from 16 of the 25 site visit PHAs (64 percent) said that the process was burdensome, although staff from 2 agencies qualified their responses to indicate that, even though the process was burdensome, it represented an important and worthwhile use of staff time.

The agency staff who viewed the income verification process as burdensome spoke about the process of collecting documentation and conducting third-party verification. They did not focus on the Earned Income Verification (EIV) system. PHA staff noted that the burden of third-party verification is exacerbated by the failure of other public agencies to respond to PHA requests for information.

The Section Eight Voucher Reform Act (SEVRA) bill approved by the Financial Services Committee of the U.S. House of Representatives in late 2009 contains a measure to ease the burden of income verification on PHAs. The bill would allow agencies to use determinations of income made for other federal means-tested public assistance programs in place of

additional third-party verifications. This provision could eliminate the need to request and verify some sources of income through the EIV system.

Interim Reexaminations. Interim reexaminations are reviews of family income and household composition that occur between the family's regularly scheduled annual reexaminations. HUD regulations allow families to request an interim reexamination in response to any changes in family income or composition (24 CFR 960.257(b)). The PHA also must establish policies for what changes must be reported to the agency and when.

During the site visits and in the telephone survey, PHA staff noted that the reduction in rent realized as a result of a resident's decline in income was often minimal.

PHA staff submitted 2,466,429 interim reexamination records to the Office of Public and Indian Housing Information Center (PIC) between 2003 and 2008. Based on a conservative estimate of 30 minutes per interim reexamination, the time spend was more than 1.2 million agency staff hours (total) between 2003 and 2008, or approximately 99 full-time employees (FTE) per year. For a fully loaded salary of $50,000, the annual reduction in 99 FTEs for six years would approximate $30 million in savings for PHAs.

The SEVRA bill proposes a limit on interim reexaminations and would allow residents to request a reexamination only when their adjusted annual income decreases by more than

$1,200.[54] PHAs would have the option to set a threshold below $1,200 and could choose not to process any interim reexaminations in the three-month period leading up to a family's annual reexamination.

Asset Income. Current regulations require PHA staff to calculate the imputed income from assets when the sum of assets exceeds $5,000 and to use in rent calculations the higher of the imputed income or the actual income realized from the assets. Staff from several site visit PHAs said that the process is labor-intensive and not cost-effective, as the amount—if any—of additional rent collected by the PHA is usually less than the cost of the staff hours spent to verify assets. Agency staff also noted difficulties in obtaining needed information from banks. Some residents do not return signed released forms, and some banks do not provide the information requested by the agency. PHA staff members recommended excluding from the rent calculation any asset-derived income.

Deductions. Under the public housing and HCV programs, a household's rent is based on its adjusted income. Adjusted income is calculated by applying the following set of statutory deductions to the household's annual income:

- $480 for each dependent;
- $400 for each elderly or disabled family member;
- Any reasonable childcare expenses that enable a family member to be employed, actively seek employment, or further his or her education; and
- Certain medical, attendant, and auxiliary apparatus expenses for the elderly and disabled.

[54] If an assisted household's income decreased by $1,200 per year (i.e., a decrease of $100 per month), their monthly rent would decrease by $30 (30 percent of $100) if the PHA conducts an interim reexamination.

Many PHA staff mentioned the level of burden associated with compiling the documentation and calculating the deduction for unreimbursed medical expenses. Staff from one PHA recommended a single, higher standard deduction for elderly/disabled families instead of the medical deduction.

The SEVRA bill would increase the standard elderly/disabled deduction from $400 to $725, with future adjustments for inflation, and deduct only unreimbursed medical expenses that exceed 10 percent of income. This approach would provide relief to households with very high medical costs while reducing the burden on PHA staff. Few residents will have expenses exceeding 10 percent of income.

Earned Income Disregard (EID). PHA staff described the current EID as burdensome and difficult to implement. One of the quality control studies conducted for HUD (ORC-Macro 2008) found that, of the 2,404 households in the study, 57 households included a member possibly entitled to the EID. About a third (37 percent) had some type of error.

The PHA staff participating in the site visits for this study reported that the EID requires manual tracking of disallowances and each resident's status toward "using up" the 12 months of 100 percent disregard and 12 months of 50 percent disregard. Manual tracking is difficult and often leads to mistakes. The EID is tracked at the individual rather than household level, and more than one family member may be simultaneously eligible for EID, but with different "on" and "off" periods. PHAs explain that, each time a resident switches from "on" to "off"

the disregard, the rent for the family must be recalculated and a Form HUD-50058 interim recertification record processed.

PHA staff participating in the telephone survey were asked to identify two changes they would make to the current rents system. "End or revise the Earned Income Disregard" received the fourth-highest number of responses of 38 options.

The EID could be limited to one 12-month disallowance of all of new wage income to be used over one continuous 12-month period. If the individual did not stay employed for the full 12 months, he or she would lose the remainder of the EID benefit. Such an approach would reward individuals who begin working or increase their earning potential through training and retain a job for 12 consecutive months while reducing the administrative burden placed of tracking "on" and "off" periods. (Section 5.4 discusses other options for the EID.)

Retrospective Income. In the current system, tenant-paid rent is based on an estimate of households' prospective income for the upcoming 12 months. During site visits, PHA staff gave the following reasons for changing to a retrospective system:

- **Improves accuracy.** PHAs would no longer need to set a rent based on income that may never materialize and instead could use last year's actual income from an applicant or resident's tax return.[55]
- **Reduces costs.** PHA staff would have to process fewer income verifications and interim reexaminations because rent would not be adjusted in real time in response to changes in income.

[55] If tax returns were used, the definition of income under 24 CFR 5.609 would need to be changed because the regulation includes types of income not reported on a tax return.

- **Models private market.** Residents with decreases in income would be forced to act like renters in the private market and find ways to continue paying rent if their income went down.

PHA staff also gave some reasons for *not* moving to a retrospective system:

- **Removes the safety net.** Income among the assisted population is too unstable for a retrospective system to be feasible. Residents need the option of a rent adjustment any time they experience a decline in income.
- **Limits PHA revenue.** PHAs could lose revenue from residents who experience an increase in income; rent would not be adjusted to reflect the increase until the resident's next annual reexamination.

The SEVRA bill would require PHAs to estimate prospective income when calculating a household's initial income determination upon entry into the program and when preparing interim reexaminations in response to changes in income. The PHA would otherwise use retrospective income for regular annual reexaminations. This hybrid approach would allow PHAs to offer safeguards for residents who experience a significant decrease in income—the safety net that many PHA staff identified as critical for the population served.

Summary of Potential Cost Savings without Replacing Income-Based Rents

Several components of the current system of income-based rents could be changed to reduce workload for PHA staff. Continued improvements to the EIV system could make income verification more straightforward and accurate. Limits could constrain the frequency of resident requests for interim reexaminations. Rent calculations could exclude asset-derived income and imputed asset income, producing only a negligible effect on rental income. The current medical and dependent-care deductions and the EID could be simplified. Finally, retrospective rather than prospective income could be used to calculate rent, at least in part.

5.4. Increasing Incentives to Work and Report Income without Replacing Income-Based Rents

The first part of this section discusses an approach already used to some extent by PHAs to encourage assisted households to report all of their income. PHAs question households about expenditures that appear to exceed the family's reported income. The second part of this section discusses options for a stronger earnings disregard beyond the minor simplification of the EID as proposed in Section 5.3.

Using Consumption or Expenditure Data

One approach to addressing underreporting of income is to supplement the current collection of income data with consumption (also referred to as expenditure) data for select households. Meyer and Sullivan (2007) found substantial inconsistencies in the amount of income reported on national surveys compared to the amount of income in administrative data, including significant underreporting of government transfers, an income source that is often significant for households receiving housing assistance (See Section 3.3).

Staff from several of the 25 site visit PHAs reported that they request expenditure and consumption data under limited circumstances, such as when residents report zero income. They said that asking residents who claim zero income to complete detailed questionnaires often helps such residents recall sources of income. None of the agencies provided data on the subsidy savings realized through the collection of consumption and expenditure data or indicated that the data were available.

PHA staff also pointed to several reasons that consumption and expenditure data could not be used directly as the basis for calculating rent:

- What a resident spent in the past does not necessarily indicate current or future income.
- Expenditure data is just as hard to obtain as income data. Verification of the information would present additional issues.
- It is not clear how deficit spending and in-kind sources of income would be used in calculating rent.

As shown in Exhibit 5-3, 62 percent of PHA staff participating in the telephone survey indicated that they collect rent data, expenditure information, or both.

Exhibit 5-3. PHA Collection of Expenditure Data

Expenditure Data Collected from Applicants	PHAs (n 171)
No	38%
Yes, rent and other expenditures	34%
Yes, rent only	14%
Yes, only other expenditures	14%

Source: Rent Study Telephone Survey of PHAs, all respondent PHAs weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Of the PHAs that collect rent or other expenditure information, 12 percent use the information to verify reported household income only at the time of admission, and 52 percent use the information at the time of admission and in subsequent years. Thirty-six percent of the PHAs that collect rent or other expenditure information do not use the information to verify reported household income but only to implement a preference for rent-burdened families at the time of admission

A Stronger Earnings Disregard

The current EID implemented under QHWRA is intended to encourage assisted households to increase earned income by disregarding new income so that their rent will not increase immediately. The EID provides a 100 percent exclusion of new earnings for 12 months and

a 50 percent exclusion for an additional 12 months. However, the benefit is limited to certain populations. The EID applies to new earnings of previously unemployed public housing residents and of previously unemployed voucher users with disabilities. In addition, the EID excludes wage income from participants in an economic self-sufficiency or training program and the increased earnings of any person who received Temporary Assistance for Needy Families (TANF) cash benefits or non-cash benefits of at least $500 within the previous six months. As an employment and self-sufficiency incentive, EID has shown little evidence of encouraging work.[56]

Below, we describe five options for improving the earned income disregard system. We briefly analyze the options in terms of incentives for adults to work, simplicity of implementation, costs, and equitable treatment of households with the same level of earnings.

Option 1: Extend the time frame for current income disregard policies. Option 1 might extend the 100 percent earnings disregard from one to two years or might extend the 50 percent disregard beyond a year. The justification for either approach is that a longer disregard period would provide a greater incentive for eligible households to increase their earnings. It would increase the total amount of after-rent disposable income that a household gains from newly reported earned income and provide less incentive to hide new or previously unreported earnings eligible for the disregard.

[56] HUD (2008) reported that the earnings disregard does not seemed to have been used much. For households that used it, they achieved an earnings increase in the first year of the disregard, but not thereafter.

Option 1 would cost more than the current EID by deferring cuts in the subsidy for new earnings for the same time as the current disregard period plus additional time. While higher earned income in the post-disregard period might offset some of the costs, increased earnings (and thus increased rent from tenants) are highly unlikely to be sufficient to offset much of the cost of the extended disregard. Further, most of the current system's shortcomings would apply to a more generous version of the same system; that is, PHA staff would still find the system burdensome to implement, participants would have difficulty understanding it, and it would apply to only a limited set of households, such as those with unemployed or disabled adults.

Option 2: Provide a standard deduction for households with earned income. For each household with earned income, Option 2 would provide a standard deduction of up to several hundred dollars per month in the income used for calculating rent. In Option 2's simplest version, households would not be eligible for the deduction if their earnings were below the deduction amount. In a more complex version, households could be eligible for a deduction up to the amount of their earnings even if their earnings were below the deduction amount. Either way, Option 2 would be relatively easy to implement and easy for participants to understand. It would also provide a strong earnings incentive (even if for earnings only at the deduction amount) because the first few hundred dollars of earnings would not change a household's rent.

Option 2's main shortcoming is that it would not provide any incentive to earn income above the standard deduction amount; all such earnings would result in a 30 percent rent tax. It

would also be costly to implement. More than half of all currently assisted households have some earned income.[57] The cost of such a disregard would depend on the amount of the maximum deduction, but a small deduction would provide little incentive to increase work effort.

Option 3: Disregard a percentage of the earnings of the second adult earner in the household. Option 3 would encourage both increased work effort and the formation of multiple-adult households. The earnings disregard would apply to the lower earner and could range from a modest percentage to 100 percent of the second person's earnings. The larger the share of the income disregarded, the greater would be the incentive to have a second earner, but the higher the cost of the policy. For PHAs, such an earnings disregard would be easier to implement than the current EID; it would apply to every household with multiple earners and would be permanent. PHAs would not have to determine whether the household's previous employment history made it eligible for the disregard and would not have to track how long the household had been receiving the disregard.

While Option 3 would be easy to implement, it could be cumbersome if the earnings of adult household members varied substantially from month to month such that the lower earner changed from month to month. It also would create a horizontal equity issue. A household with a single worker earning the same amount as another household with two earners would pay a higher share of household earnings in rent. The horizontal equity issue and some of the

[57] PIH (2007) reported that 53 percent of public housing households and 51 percent of voucher households had some income from work in 2006.

complications in determining the second earner each month may make Option 3 a poor candidate for an earnings disregard policy.

Option 4: Disregard a percentage of earned income of all workers. Option 4 would disregard some percentage of all earned income in rent calculations without a cap. The justification for such an approach is that: (1) earned income is taxed (while benefit income is not), and (2) working entails costs associated with transportation to and from work, clothing, and work supplies as well as payroll taxes, which do not apply to benefit income. If the disregard percentage were based on the costs of working, it would also have the benefit of treating earned and means-tested income more equitably. It would base rent on the net "after costs of obtaining this income" level for both types of income.

Option 4 would make the rent calculation equitable across working households by providing the same benefit to households with the same amount of earned income regardless of whether the earned income is derived from one or more than one earner. It also is consistent with the goal of encouraging participants to become self-sufficient by providing the earnings disregard for every dollar earned until participants are no longer eligible for assistance.

Option 4 would be straightforward in its implementation. To calculate adjusted income, PHAs would simply reduce the level of earnings by the percentage of the earnings disregard. Participants would find Option 4 easy to understand: you get a discount on rent from earned income, but not from other income.

A major problem with Option 4 is that it would be extremely costly in terms of increased subsidies. For example, if the "rent tax" on earned income were reduced from 30 percent to 25 percent, the reduction in PHA rent revenue under the current level of work effort would reduce the number of households that could be subsidized by about 100,000.[58] Even if this option motivated an increase in earnings, the earnings increase would be unlikely to be sufficiently large to offset much of the increased subsidy cost. Instead, it would need to be offset by an increase in PHAs' budgets or other program changes (e.g., a higher minimum rent) that increase PHAs' rental revenue.

Option 5: SEVRA Earnings Disregard. The SEVRA bill proposes to disregard from rent calculations 10 percent of the first $9,000 in earnings of all employed individuals. The bill offers many of the advantages of the alternative just discussed. It provides an incentive to earn a non-trivial amount of income and is simple for participants to understand. However, its implementation is more complicated than a straight percentage-of-earned income deduction because each individual's aggregate earnings would need to be tracked throughout the year to determine if the individual's earnings exceeded or fell below the $9,000 threshold. In addition, it would not provide any incentive to earn income above $9,000 because as all such earnings would result in a 30 percent rent tax. It also would provide a larger potential benefit to households with more than one earner. For example, a household with one person earning $12,000 a year would receive the disregard only for the first $9,000, whereas a

[58] Estimates are from a 5 percent sample of all households from 2008 PIC data. Foregone revenues were calculated for each household as (0.3 – 0.25) times earnings. Before the calculation, earnings were capped at adjusted income and 0.3 times earnings was capped at Total Tenant Payments (TTP) for voucher holders and the lower of TTP, ceiling rent (if above $200), or optional flat rent (if above $200) for public housing households.

household with two people earning $6,000 would receive the disregard for the entire $12,000 in earnings. However, the incentive for the formation of multiple-adult households might be considered sufficiently important to offset this inequity.

The SEVRA bill's financial benefit to assisted households is modest and reflects budget realities. It would reduce the percent-of-earnings charged in rent from 30 to 27 percent for the first $9,000 of annual earnings, and the maximum rent deduction would total $270 per year (or $22.50 per month) for a single-earner household.[59] It would reduce the inequity in the treatment of income from earned and non-earned sources and take a step toward encouraging earnings and self-sufficiency.

Household Views on Earnings Disregards

The household survey asked waiting list households and households newly admitted to assisted housing for their views on whether the share of earnings paid in rent should be lower than the share from income from other sources. Specifically, survey respondents were asked if a $100 increase in earnings should raise rent by the same as, less than, or more than a $100 increase in welfare income. As shown in Exhibit 5-4, more households (40 percent) said that

[59] The $270 calculation is based on subtracting 30 percent of $8,100 ($2,430) from 30 percent of $9,000 ($2,700) , where $8,100 is the income that rent is calculated from after the 10 percent disregard from $9,000 in earnings.

an increase in earnings should increase rent *more* than an increase in welfare than that earnings should increase rent less than welfare (30 percent) or that both sources of income should increase rent by the same amount (30 percent).

Exhibit 5-4. Household Perceptions of How Type of Income Should Affect Rent

	Increase in Income from Earning and from Should Be Treated in Determining Rent			
	Earnings and Welfare Treated the Same	Earnings Increase Rent Less Than Welfare	Earnings Increase Rent More Than Welfare	Total
All Non-Disabled Households (n = 728)	**30%**	**30%**	**40%**	**100%**
MTW Rent Reform PHA Households (n = 191)	50%	25%	25%	100%
Other (Small and Medium) PHA Households (n = 316)	26%	32%	42%	100%
Large PHA Households (n = 221)	19%	33%	48%	100%
Waiting List Households (n = 404)	32%	30%	38%	100%
New Admit Households (n = 324)	29%	30%	41%	100%
Households with Earned Income, No Welfare Income (n = 571)	33%	32%	35%	100%
Household with Welfare Income (n = 153)	25%	26%	48%	100%

Note: 283 (or 28 percent) of the 1,011 potential respondents from non-disabled households answered "Don't Know" to this question and are not included in the calculations.

Source: Rent Study Household Survey, all respondents in non-disabled households (n = 1,011). Households were interviewed from 3 MTW Rent Reform PHAs, 6 Large PHAs, and 16 Other PHAs.

Even among working households without welfare income a high share said that earnings should be taxed at a higher rate, although they were more likely than welfare households to respond that earnings should increase rent less or that earnings and welfare income should increase rent by the same amount. Respondents from the three MTW rent reform sites were the most likely to respond that both sources of income should receive equal treatment.

These survey results may reflect a perception that those receiving welfare are needier than working households. On the other hand, the somewhat surprising response may simply

reflect difficulty in answering a conceptually complex, wordy question in a close-ended survey.[60] A large number of respondents (27 percent) answered "Don't Know."[61]

Households indicating that a $100 increase in income from earnings should raise rent *less than* a $100 increase in income from welfare were asked to explain the reason behind their responses. They most commonly cited the costs associated with working, including transportation and childcare costs (45 percent) and earnings taxes (44 percent). Those responses are consistent with the case for an earnings disregard to offset the costs associated with earned income. More than one-quarter (24 percent) gave as the reason for their response that working is a way to get ahead or become self-sufficient. Those responses are consistent with the case for an earnings disregard as an incentive for households to earn enough income to gain self-sufficiency and transition off of housing assistance.

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[60] The survey question: Now I'm going to ask about how an increase in income could change the rent a family pays. Right now, if a person's income goes up, their rent also goes up. It doesn't matter if the additional income is from a job or some other source. For example, a $100 increase in income would cause a $30 increase in rent. It wouldn't matter whether the $100 extra was from a job or something else.

Now I'm going to read three statements about different ways increased income could affect rent. I just want you to tell me which *one* you agree with most.

A $100 increase in income from earnings and a $100 increase in income from welfare should increase rent by the same amount.....1

A $100 increase in income from earnings should raise rent less than a $100 increase in income from welfare.....2

A $100 increase in income from welfare should raise rent less than a $100 increase in income from earnings.....3

REFUSED.....97

DON'T KNOW.....98

[61] These respondents were not included in the estimated percentages in the exhibit.

Summary of Increasing Incentive to Work and Report Income without Replacing Income-Based Rents

Some PHAs have already been able to increase the degree of accuracy in their rent calculations by collecting consumption or expenditure data from select residents, such as rent history from households on the waiting list and those ready to be admitted to the public housing or HCV programs. All PHAs should be encouraged to adopt a similar practice to verify the income of households that report zero or trivial amount of income.

The current EID system is flawed. PHAs experience difficulty in implementing it, and participants experience difficulty in understanding it. Moreover, it provides only temporary rent relief, which reduces the incentive effect, and applies to only a narrow set of households. Several possible alternatives are easier to implement than the current system. These alternatives would provide an increased number of households with a greater incentive to work and would lead to fairer treatment of earned income (and the associated costs of work) and unearned income. Our conceptual analysis suggests that the most promising option is a permanent disregard of a set percentage of each household's earned income. The current SEVRA bill that proposes to disregard 10 percent of each individual's earned income for the first $9,000 is a reasonable approach to strengthening the EID, although the disregard percentage is too low to have a substantial impact on work effort.

6. What are the Implications of Changing Voucher Benefit Levels?

Federal housing assistance is not an entitlement, and resources are not sufficient to provide assistance to all who are eligible. More households are eligible than apply for assistance, and more apply for assistance than receive it. Given this reality, it is appropriate to ask whether and how alternative rent calculation systems might affect the distribution of benefits among the eligible population. Would an alternative system change the proportion of eligible households that receive assistance? The issue is one of horizontal equity or equal treatment for people with the same income level.

The equity issues are similar in the public housing and voucher programs, but because serving more people in the public housing program would generally require building more public housing, this chapter focuses primarily on the voucher program. The first section of this chapter discusses possible ways of increasing horizontal equity among equally needy eligible people who are and are not served by the program. The remaining sections discuss trends in the payment standard and the implications of addressing horizontal inequity in the voucher program by reducing payment standards or cutting voucher benefit levels in order to serve a higher proportion of eligible households. The last section discusses whether a flat subsidy rent structure would mitigate possible effects on the market rents paid by eligible, but unassisted renters.

6.1. What are the Alternatives for Addressing Horizontal Equity Issues?

Waiting Lists for Housing Assistance

Horizontal equity is improved as more of the eligible population is served. Almost 16 million renter households have incomes below 50 percent of the area median income (AMI), while about 4.5 million households are subsidized by the public housing, Housing Choice Voucher (HCV), and project-based Section 8 program, only about a quarter of the potentially eligible households.[62] However, not all of the unserved households want or need assistance. Some may be served by other housing subsidy programs and others may judge that their current living situation is better than it would be with housing assistance. Still others may consider their low incomes temporary or not want to accept government help.

An indication of excess demand for housing assistance is the waiting lists for housing assistance. No systematic data collection and analysis of the length of waiting lists exists nationally, but the long wait for assistance is a common newspaper story and complaint of housing advocates. A 2004 National Low Income Housing Coalition (NLIHC) report used waiting list data from 134 Public Housing Agency (PHA) Annual Plans and found that the median waiting list size for PHAs with at least 250 units of public housing was almost 2,000 households for public housing and more than 6,000 households for vouchers. NLIHC also found that 40 percent of voucher wait lists were closed, as were 16 percent of public housing

[62] The estimated number of renter households with incomes below 50 percent of AMI (15.9 million) is from Abt Associates' calculations of 2007 American Housing Survey data. The estimated number of voucher holders (2,030,000) is from a 2009 Center of Budget and Policy Priorities (CBPP) report, and the estimated number of public housing households is from a 2008 CBPP report. HUD (2008) estimates that between 30

wait lists.[63] In another study, Florida Housing (2001) surveyed PHAs in the state in 2000 and 2001 and found that 69 percent of the waiting lists were closed to new applicants. Even though the waiting lists were mostly closed, 22 percent of PHAs said that it would take more than two years to serve those currently on the list. An earlier U.S. Department of Housing and Urban Development (HUD, 1999) report found that a family's average time on the wait list at the largest public housing authorities was 33 months—nearly three years.

For this study, we asked the PHA staff who took part in the telephone survey how long their wait lists were. Agency staff at 69 percent of PHAs indicated that it took voucher applicants two years or longer to get assistance, including 19 percent of PHAs where the wait was five years or longer. It took public housing applicants two years or longer at 40 percent of PHAs (Exhibit 6-1). The longer waiting time for voucher applicants is consistent with the NLIHC (2004) analysis of Annual Plans that found a much larger number of households on voucher than on public housing wait lists.

to 32 percent of renters with income below 30 percent of AMI are served by the public housing and HCV programs alone.

63 The NLIHC (2004) report also identified several data quality problems with the waiting list data from Annual Plans, which made them more challenging to use to fully understand unmet demand for assistance.

Exhibit 6-1. Time on Waiting List Before Receipt of Public Housing or Voucher

Length of Time on Waitlist	Public Housing[a] (n 122)	HCV[b] (n 122)
Less than one year	48%	17%
One year	13%	14%
Two years	22%	21%
Three years	9%	20%
Four years	2%	9%
Five or more years	7%	19%

[a] For PHAs with public housing units only or that have separate waiting lists for public housing and vouchers. Ten of the 132 eligible PHAs for this question have missing information on the length of wait list question.

[b] For PHAs with vouchers only or separate waiting lists for public housing and vouchers. One-quarter of the eligible PHAs for this question have missing information on the length of wait list question.

Source: Rent Study Telephone Survey of PHAs. Results were weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Possible Ways of Addressing Horizontal Inequity

At any point in time, the number of households served is a function of the total subsidy dollars available and the rent calculation system that determines the distribution of subsidies. Over time, the number of households served is also a function of the duration of benefit receipt. The shorter the time period households use assistance, the more people that can be served over time. To serve more people in the voucher program and thus reduce inequity, the total program subsidy (appropriation) must be increased, the subsidy-per-household must be reduced, or the length of time households receive assistance must be cut.

Increase the appropriation for the voucher program. The program could serve a larger number of households by spending more money. Under this scenario, the program design could stay the same but the program would be expanded to provide more vouchers to communities with excess demand. Such a decision by Federal budget appropriators would have to take in many considerations beyond the scope of this study, such as tradeoffs among

housing programs and tradeoffs between housing and other government responsibilities. We do not explore this scenario further, but note that the House Section 8 Voucher Reform Act (SEVRA) Bill proposes to authorize funding for up to 150,000 incremental tenant-based or project-based vouchers for extremely low-income families (CBPP, 2009a).

Reduce average subsidy levels under the current rent structure. In the current voucher program, participants receive a subsidy for the difference between the lower of gross rent or the payment standard and 30 percent of their adjusted income. Three approaches could be used to reduce the average subsidy level to serve more participants under the current rent structure: increase the percentage of income paid in rent to above 30 percent, decrease the payment standard, or increase the minimum rent.[64]

Increasing the percentage of income paid in rent while maintaining the current payment standards would directly increase the rent burden of participating households.[65] The "pain" of the increased rent would be borne by households in direct proportion to their income (thus maintaining the current level of vertical equity),[66] except that those already paying the minimum rent would not see an increase in their rent. This change is not likely to affect where most households choose to live, since they would be paying the same percentage of

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[64] A fourth way to reduce the voucher benefit level is to reduce the income exclusions and income deductions so that the adjusted income on which rent is determined would be higher. These changes to the current rent system are discussed in Chapter 5.

[65] One Moving to Work (MTW) PHA (the Delaware State Housing Authority) used its flexibility to increase the percent-of-income payment from 30 to 35 percent. This PHA was not part of the site visit or telephone survey sample, so we do not have any information on the experience with this percent-of-income rent.

[66] Vertical equity relates to whether the rent system provides a larger subsidy to households with less ability to pay and a smaller subsidy to households with a greater ability to pay.

their income no matter where they lived. However, it could affect the choice of some households that currently are renting units above the payment standard. Unlike households renting units below the payment standard, they could reduce their rental costs in the voucher program by moving to a lower cost unit. For some households the extra 5 percent of income for rent might be enough to induce them to make that change. Increasing the base percentage of income voucher holders pay in rent would also reduce the housing choices of households when they first rent a unit with their vouchers, if the restriction to paying no more than 40 percent of adjusted income in the first year were retained.

Another way to reduce voucher benefit levels is to reduce the payment standard. This would reduce the amount of the subsidy and increase the rent for participants who rent a unit at a cost above the new payment standard. This group includes everyone who rents above the current payment standard, plus the households that would now be renting above the new payment standard. The lower payment standard could affect a substantial number of households, because gross rents tend to be clustered near the payment standard. Households renting above the new payment standard could reduce their rent by moving to a lower cost unit. A reduction in the payment standard would also reduce the number of units affordable with a rent burden below 40 percent and could affect the types of neighborhoods where voucher holders live. This option is explored further in Section 6.3, after a discussion of current payment standards and trends in Section 6.2.

A third way to reduce the voucher benefit level under the current system is to increase the minimum rent. This would increase the rent for households currently paying the minimum

rent, as well as for households that would have an income-based rent below the new minimum rent. This approach would increase rent burdens only for the households reporting the lowest incomes and thus would increase vertical inequity. However, if the lowest income households are systematically underreporting income, a higher minimum rent would increase horizontal equity, because currently households that underreport their income are paying a lower share of their income in rent than households that report their full income. A non-trivial minimum rent might also create incentives to increase income. The minimum rent was discussed in detail in Chapter 2.

Reduce average subsidy level under a flat subsidy system. To serve more people when the overall budget is fixed, a flat subsidy could be set at a level lower than the current average voucher subsidy. This would increase the amount of funding available to serve additional households from the wait list. A flat subsidy would increase the rent burden for lower income participants relative to higher income participants, thus increasing vertical inequity. But similar to raising the minimum rent, horizontal equity might increase as a flat rent provides the same subsidy for underreporters and full reporters of income that have the same actual income. In theory, a flat subsidy also would increases incentives for households to increase their income, as discussed in Chapter Three. The implications of a flat subsidy on the number of households served and the other implications are the subject of the last three sections of this chapter, Sections 6.3 to 6.5.

Reduce the duration of assistance. Under the current system, the most direct way to reduce the time households receive assistance is to set a time limit. This would open up some

voucher slots sooner, because some households would use the voucher for a shorter time period than they would in the absence of a time limit. We used the Office of Public and Indian Housing Information Center (PIC) data to estimate how many households this would be: Of the 135,000 non-elderly, non-disabled voucher holders that started receiving assistance in 2003, 69,500 (51 percent) were still receiving assistance after five years. If subsequent cohorts of voucher users are similar, this means that a five-year time limit would create approximately 70,000 additional openings each year for households on the waiting list.[67] A problem in terms of horizontal equity is that the households being terminated from the program may still be as needy as people on the wait list. However, measuring horizontal equity over time, having two households receiving housing assistance for five years is more equitable than one household receiving it for 10 years and the other not at all. Some of the Moving to Work (MTW) PHAs have established time limits. Their experiences are discussed in an Applied Real Estate Analysis and Urban Institute (2007) report for HUD.

An alternative rent structure such as the stepped-down voucher subsidy discussed elsewhere in this report could also reduce the duration of assistance if the reductions in subsidies eventually reduced the subsidy to zero or close enough to zero that households no longer considered it worthwhile to remain in the program.

Another option is to provide employment and other supportive services to voucher holders to help households become self-sufficient and thus transition off housing assistance sooner than

[67] The full 69,500 new slots would not be available each year, because households that use assistance for more than five years would have left the program at some later point. Some of these slots would have been available each year in a system without a time limit, as households left after six or more years.

they would otherwise. Some PHA staff members interviewed for this study recommended that a rent structure that decoupled income and tenant rent, such as a flat subsidy, should be accompanied by intensive supportive services to help the lowest income tenants increase their income.

PHA Views on Horizontal Equity

The survey of PHAs sheds some light on the importance PHA staff place on serving more of the eligible population than is currently being served. We know from the survey of PHAs that assisting more households is one of the main reasons PHA staff give for wanting more flexibility in setting rent and payment standards (Exhibit 6-2). This idea also was expressed by PHA staff interviewed during the site visits. While many respondents from these PHAs sought to serve more households, they did not agree on what type of rent system would prompt such outcomes.

We also asked PHA staff interviewed during the site visits a question specifically related to horizontal equity. We asked whether they would prefer to serve more people with shallower subsidies or fewer people with deeper subsidies. Many of those interviewed were conflicted about this tradeoff. Some would answer quickly but then, after discussing their reasoning, might change their minds. People within the same agency often had different views. Many respondents could see "both sides" of the issue. Reasons for favoring "serve more people with shallow subsidies" included:

- Serve as many people as possible;
- To get a little help is better than nothing; and

- Encourage people to seek and retain work.

Exhibit 6-2. PHAs' Most Important Reason for Requesting Greater Flexibility

Reason for Requesting Greater Flexibility	PHAs (n 143)
Encourage more working households	27%
Assist more households not currently being served	20%
Make rent flows and HA budgeting more predictable	19%
Make rents fairer to current residents who report earnings	15%
Increase variety of housing options/geographic locations	6%
Adapt to/reflect local market conditions	3%
Decrease HA administrative burden	3%
Increase household stability	3%
Make system easier for tenant to understand	3%
Other	1%
TOTAL	100%

Source: Rent Study Telephone Survey of PHAs who said they wanted more program flexibility. Results wee weighted to be nationally representative of PHAs that had a combined public housing and voucher total of at least 500 units.

Reasons for favoring "serve fewer people with deeper subsidies" included:

- Need to give families enough to make a difference;
- Truly needy families need deep subsidies;
- Help families get on their feet quicker;
- High cost markets need high subsidies to be effective; and
- Subsidy needs to be large enough to increase housing options for the household.

Summary of Alternatives for Addressing the Horizontal Equity Issue

Since Federal housing assistance is not an entitlement, and available resources are not sufficient to provide assistance to all who are eligible, many eligible households who would like to receive assistance cannot do so. This section discussed several ways in which the voucher program could be modified to increase the number of households served:

- The program could serve a larger number of households using the same program model if the government allocated more money to the program. However, it is unlikely that sufficient funds could be appropriated to serve all eligible households that desire assistance.
- If the average subsidy per recipient were reduced, more households could be served with the same total funds. Under the current rent structure, the average voucher subsidy could be reduced by: (1) increasing the percentage of income paid in rent to above 30 percent; (2) decreasing the payment standard; or (3) increasing the minimum rent. Each approach has benefits: the number of households served would increase. But each also has risks: raising the rent burdens for the lowest income households.
- A flat subsidy set at a level lower than the current average voucher subsidy would enable additional households to be served with the same overall budget. But again, the risk would be an increase in rent burden for the lowest income participants.
- Another way to increase the number of households served within the same budget envelope is to set a time limit. This would open up some voucher slots sooner and enable the PHA to serve more people over time. However, at the end of their assistance period, exiting households might continue to be in need of assistance.

PHA staff expressed mixed feelings about the tradeoffs between serving more people with shallower subsidies or fewer people with deeper subsidies. While many agreed that a shallow subsidy would enable them to serve more households, they also noted that a shallow subsidy might not be sufficient to enable recipients to afford decent units in decent neighborhoods.

6.2. How are Payment Standards Currently set by PHAs?

The payment standard is one of the key determinants of the subsidy level for voucher holders and is the maximum monthly subsidy that a PHA can provide. The subsidy level or Housing Assistance Payment (HAP) is the lower of the payment standard minus the percent-of-income tenant rent payment or the unit's actual gross rent minus the tenant payment. If a household selects a unit with a rent higher than the payment standard, the household must

pay the difference between the gross rent of the unit and the payment standard in addition to the Total Tenant Payment (TTP). Households cannot select units for which the total rental payment exceeds 40 percent of their adjusted income in their first year using a voucher or in a subsequent year that is their first year in a particular housing unit.

PHAs must set the payment standards for each unit size within 10 percent of the fair market rent (FMR) for the area in which the voucher unit is located. Payment standards between 90 to 110 percent of FMR are considered in the "basic range," and payment standards outside this range are "exception rents" that require HUD approval. The FMRs are normally set at the 40th percentile of the rent distribution; that is, the dollar amount below which 40 percent of standard, market-rate housing units are rented in a given geographic area.

As can be seen in Exhibit 6-3, PIC data indicate that 80 percent of PHAs had payment standard ratios within the basic range of 90 to 110 percent. Only three percent of the payment standard ratios were below the basic range, and just over 18 percent were in the exception range above 110 percent of FMR. PHAs set slightly higher payment standard ratios for one-bedroom units compared with other bedroom sizes: 23 percent of PHAs have payment standards above the basic range for one-bedroom units, but only 11 percent for four-bedroom units. One possible explanation is that the FMRs are more likely to be underestimates of housing prices for one-bedroom units and more likely to be overestimates for four-bedroom units. Another possibility is that PHAs are trying to control the higher costs associated with serving households that need several bedrooms. A third possibility is that PHAs are more conservative with payment standards for larger units as a way to equalize

the absolute value of the subsidy for households with the same income level but different bedroom size needs.

Exhibit 6-3. Distribution of Payment Standard by Bedroom Size

	Payment Standard as a Percent of FMR		
Unit Size	Less than 90%	Basic Range 90 to 109%	110 120%
1 bedroom	2%	75%	23%
2 bedrooms	3%	79%	19%
3 bedrooms	4%	79%	17%
4 bedrooms	8%	81%	11%
All 1 to 4 bedroom units	**3%**	**80%**	**18%**

Source: HUD Public and Indian Housing Information Center System data from 2008.

Sample Size: 1,060 PHAs for 1-bedroom units; -1,987 for 2-bedroom units; 1,977 for 3-bedroom units; and 845 for four bedroom units.

Sample Description: The authors calculated the median payment standard for each PHA by bedroom size if at least 10 household records with that bedroom size after excluding elderly and disabled households, households with an end-of-participation code, records in which the payment standard was less than $50 or greater than $3,000 or the number of bedrooms was greater than the number of household members or were missing data on payment standard, FMR, or census tract. Individual records where the payment standard was less than 80 percent or more than 130 percent of FMR were also filtered out as suspect records.

As part of the telephone survey, respondents from the 170 PHAs with HCV programs were asked to identify the three most important factors that affect the level at which the PHA sets its payment standard. Exhibit 6-4 shows that the most common factor, cited by almost half the respondents, was housing authority budget constraints. This makes sense, since the payment standard is the main policy lever by which PHAs can influence subsidy levels and thus voucher program costs. PHAs have less direct influence over the other two factors affecting subsidy levels. Participant incomes can be affected somewhat by PHA admission preferences and by discretionary policies on income determination. Given a payment

standard level, gross rents can only be influenced by making sure voucher units are not rented at above-market rents.

Exhibit 6-4. Most Important Factors Affecting How PHAs Set Payment Standards (Staff from each PHA Selected up to Three Factors)

Factor	Percent of PHAs (n 170)
Housing authority budget constraints	49%
Success rates of tenant searches	35%
Data used for rent reasonableness determinations	33%
A traditional percentage of FMR	32%
Experience based on rent reasonableness determinations[a]	23%
Landlord willingness to participate	22%
Efforts to deconcentrate households with vouchers	18%
Experience based on previous HCV rents	16%
Other private rental housing market data	14%
Same percentage as last year	6%
Pressure from waiting lists	4%

[a] Experience based on rent reasonableness determinations indicate that the PHA did not quantitatively analyze a dataset with rent data gathered in rent reasonableness determinations, but used their impressions from these tests on how their payment standard related to the market rental prices.

Source: Rent Study Telephone Survey of PHAs with voucher programs. Results were weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

About one-third of the PHAs responding to the telephone survey cited tenant success rates, data from rent reasonableness tests, and their agency's traditional payment standard to FMR ratio as important factor in setting payment standards. Only four percent of respondents cited "pressure from the waiting list" as an important consideration. Evidently, most agency staff do not think of setting payment standards as a way to reduce voucher benefit levels to have more subsidies available to serve additional households.

The responses from staff interviewed at the 25 site visit PHAs were consistent with the telephone survey responses and offered some additional insights on how payment standards are set.

- Utility costs often are taken into account by the PHAs when setting payment standards. Some PHAs have increased their payment standards, not because of increased rents charged by landlords, but because of increased utility costs.
- Payment standard ratios are sometimes adjusted in order to maintain a steady payment standard amount. This means, that when the FMR goes up or down, the PHA tries to maintain the same payment standard from year-to-year. This would decrease the payment standard ratio when FMRs are increasing, and increase the ratio when FMRs are decreasing. PHA decision makers may believe that maintaining this consistent dollar value makes the program simpler for landlords and participants to understand. It also can be a way to gently decrease the real value of payment standard levels over time—by allowing the nominal value of the payment standard to stay the same, while the real, inflation-adjusted value of the payment standard declines.

Trends in Payment Standards Relative to FMRs and Gross Rents

Based upon an analysis of PIC data from 2003 to 2008, the national trend (in inflation-adjusted 2008 dollars) was an increase in median voucher gross rents, FMRs, and payment standards from 2003 to 2004; a decrease from 2004 to 2006; and then an increase from 2006 to 2008 (see Exhibit 6-5). By 2008, the median gross rent had returned to the 2003 level of $925, while the median FMR decreased slightly from $982 to $963, and the median payment standard declined substantially from $1,016 to $979.[68]

The fact that all three variables move together is not surprising. Actual gross rents that are above the payment standard must be paid by the voucher holder, and there is a 40 percent-of-income maximum for the first year in a unit. Because the current subsidy structure pays the

[68] The median is used in this section instead of the mean in order to lessen the impact of outlier values.

entire voucher holder's rent between 30 percent of their income and the payment standard, voucher holders have no financial incentive to find units that are priced much below the payment standard.

Exhibit 6-5. Change in Median Gross Rent, FMR, and Payment Standard, 2003–2008

	Percentage Change from One Year to the Next					
Variable	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2003 2008
Gross Rent	4.1%	-1.1%	-3.6%	0.7%	0.0%	-0.1%
Fair Market Rent	3.2%	-2.3%	-5.0%	1.8%	0.5%	-1.9%
Payment Standard	3.4%	-4.8%	-6.0%	1.8%	2.3%	-3.6%
Number of observations in earlier year	881,206	811,663	769,563	864,265	866,151	869,318

Note: Constant 2008 Dollars used in calculations. Nominal dollars adjusted to 2008 dollars using the Consumer Price Index for all urban consumers (available at http://data.bls.gov/cgi-bin/cpicalc.pl).

Source: HUD PIC data for all households in the HCV program between 2003 and 2008. The following households/records were excluded from the analyses shown above: disabled and elderly households; voucher records that were not geocoded; studio units; units with five bedrooms or larger; records with missing FMR or payment standard; records where the ratio of payment standard to FMR is less than .8 or more than 1.3; records where number of household members is not greater than number of bedrooms; end participation and voucher expiration records are excluded as are records with payment standards less than $50 and greater than $3,000.

From 2003 to 2008, the average payment standard decreased by 3.6 percentage points in inflation-adjusted dollars, driven by large decreases between 2004 and 2006. A major change in HCV program funding starting in 2004 might explain this. Since 2004, funding for PHAs' voucher programs has been determined using a dollar-based method. PHAs are provided a set amount of funds based on previous years' subsidies, with an inflation adjustment. Because PHAs have a set amount of funding—rather than unlimited funding to serve a certain number of households—they must consider the impact of the subsidy given to each household on the overall program budget. Thus, using the payment standard to influence subsidy levels has been even more important since the voucher program budget changes implemented in 2004.

A question important to the voucher program is whether changes over time in gross rents of voucher holder's unit are driven by market conditions or by PHA policy decisions. Exhibit 6-5 shows that the rate of change in gross rents, FMRs, and payment standards from 2003 to 2004 was similar for all three variables. To examine the relationship between gross rents, payment standards and FMRs, we calculated the Pearson correlation coefficient for each combination of variables. The Pearson Correlation measures the linear relationship between two variables and ranges between -1 (perfect negative correlation) and 1 (perfect positive correlation). A rule of thumb is that correlation coefficients above 0.7 are considered strong correlations. The results of the analysis can be seen in Exhibit 6-6. The correlation coefficients between each pair of variables are extremely high. However, the relationship between the gross rent and the payment standard is slightly stronger than the relationship between the gross rent and FMR. This stronger relationship was also found in analysis in which we regressed the voucher holders' gross rent against both the applicable FMR and payment standard (not shown). The regression coefficient on both variables was statistically significant, as expected, but the coefficient on the payment standard was larger than the coefficient on the FMR, indicating a stronger relationship between gross rents and the payment standard than between gross rents and the FMR.

Exhibit 6-6. Correlation Coefficient between Gross Rents, FMR, and Payment Standards

Variables	Correlation Coefficient
Gross Rent and FMR	.93
Gross Rent and Payment Standard	.95
FMR and Payment Standard	.98

Source: HUD Public and Indian Housing Information Center System (PIC) data for non-elderly, non-disabled households in the voucher program at anytime between 2003 and 2008 (545,770 observations) The following observations were also excluded: records with missing FMR or payment standard; records where the ratio of payment standard to FMR is less than .8 or more than 1.3; records where number of household members is not greater than number of bedrooms; end participation and voucher expiration records are excluded; and records with payment standards less than $50 and greater than $3,000.

In summary, gross rents are highly correlated with both FMRs and the payment standard, but the Pearson Correlation coefficient and regression analysis conducted with individual observations suggests that the relationship between gross rents and payment standards is slightly stronger.

6.3. How Would a Reduction in the Voucher Benefit Level Affect Voucher Holders?

A reduction in the voucher benefit level might occur either through a reduction in the payment standard used for the current income-based subsidy formula or through a flat voucher subsidy set lower than the current average. This section first uses data from the HUD PIC system to estimate how many additional households could be served if there were a 10 percent reduction in the payment standard and how such a reduction might affect assisted households' ability to find affordable housing in good neighborhoods. We then look at the implications of reducing the average benefit level through a flat subsidy.

Reducing the Payment Standard

Exhibit 6-7 shows that if all PHAs reduced their payment standards by 10 percent, the average monthly HAP just for non-elderly, non-disabled households would decrease from $662 to $604 (a decrease in the average HAP of 8.8 percent), saving HUD an estimated total of $58.8 million each month in subsidies.[69] Dividing the total savings ($58.8 million) by the estimated new average HAP ($604), we estimate that about 97,000 additional households could be served if payment standards were reduced by 10 percent and all else remained equal—for example, if household incomes and gross rents were unaffected.[70]

Exhibit 6-7. Estimated Number of Additional Households Served if Payment Standard Reduced by 10 Percent

	Average Monthly HAP	Sum of Monthly HAPs (in millions)	Additional Revenue	# of New Households Served[a]
Current Payment Standard	$662	$670.2	–	–
10% Reduction in Payment Standard	$604	$611.4	$58.8	97,146

[a] This was calculated by taking the sum of HAPs in the current system minus the sum of HAPs under the proposed reduction divided by the average HAP with the proposed reduction.

Source: PIC five percent sample of 38,407 non-elderly, non-disabled households where payment standard was not missing and transaction type was not equal to 'End of Participation'. We also removed 12,219 records where the current TTP + HAP was not equal to either the gross rent or the payment standard. Since this is a five percent sample, the sum of HAPs and the # of new households served have been multiplied by 20 to estimate the national impact of proposed changes.

[69] The estimated savings was realized by reducing the HAP subsidy for each household by the amount of the gross rent between the old and new payment standard. For example, if a household's gross rent was $950 and the payment standard was decreased by 10 percent from $1000 to $900, this household's HAP would be $50 lower under the new payment standard.

[70] The additional number of households served would be larger if elderly and disabled households had been included in the analysis.

A reduced payment standard might make it more difficult for households to find housing that qualifies for the program in terms of quality and affordability. If this were the case, PHAs would need to take in more applicants in order to have the same number of units under lease, thereby increasing their administrative costs.

Voucher holders can choose to live in a unit with gross rent above the payment standard, but must pay the difference between the gross rent and the payment standard. However, the prohibition on voucher holders paying more than 40 percent of their income in rent in the first year in a unit means that reducing the payment standard would put some additional units out of reach for voucher holders, particularly those with lower incomes.

Exhibit 6-8 shows that 39 percent of voucher holders currently rent units with gross rents greater than the payment standard. The share of voucher holders paying gross rents above the payment standard is higher for households in lower poverty neighborhoods. Many voucher holders seem to be willing to pay more to live in better neighborhoods. If the payment standard were reduced by 10 percent, the percent of voucher units with rents above the payment standard would rise from 39 to 72 percent, assuming households continued to rent the same units. Furthermore, 80 percent of units in the lowest poverty neighborhoods would now have rents above the payment standard, as would 61 percent of units in the highest poverty neighborhoods.

Exhibit 6-8. Effect of a 10 Percent Reduction in the Payment Standard on Households Renting Above the Payment Standard

	N	Current Payment Standard		10% Reduction in Payment Standard	
		Above Payment Standard	At or below Payment Standard	Above Payment Standard	At or below Payment Standard
All Units	41,855	39%	61%	72%	28%
Units in 0-10% poverty tracts	10,159	48%	52%	80%	20%
11-20% Poverty Tracts	14,038	41%	59%	75%	25%
21-30% Poverty Tracts	8,809	36%	64%	69%	31%
>30% Poverty Tracts	8,849	28%	72%	61%	39%

Note: Analysis assumes households will stay in current units after 10 percent Payment Standard reduction.

Source: Five percent sample of PIC data for non-elderly, non-disabled households where payment standard was not missing and transaction type was not equal to 'End of Participation.' We also removed households paying a minimum rent ($50 or less) because they currently do not pay 30 percent of income towards rent.

Exhibit 6-9 shows that 12 percent of voucher holders currently have a rent burden greater than 40 percent. If the payment standard were reduced by 10 percent, 39 percent of assisted households would have a rent burden above 40 percent: 46 percent of voucher holders in the lowest poverty neighborhoods and 33 percent of voucher holders in the highest poverty neighborhoods would have a rent burden of greater than 40 percent of adjusted income.

Exhibit 6-9. Effect of a 10 Percent Reduction in the Payment Standard on Rent Burden

		Current Rent Burden		Rent Burden after 10% Reduction in Payment Standard	
	N	More than 40% of Income	40% or less of income	More than 40% of Income	40% or less of income
All Units	41,855	12%	88%	39%	61%
Units in 0-10% poverty tracts	10,159	15%	85%	46%	54%
11-20% Poverty Tracts	14,038	12%	88%	40%	60%
21-30% Poverty Tracts	8,809	11%	89%	36%	64%
>30% Poverty Tracts	8,849	10%	90%	33%	67%

Note: Analysis assumes households will stay in current units after 10 percent Payment Standard reduction.

Source: PIC five percent sample of 41,855 non-elderly, non-disabled households where payment standard was not missing and transaction type was not equal to 'End of Participation'. We also removed households paying a minimum rent ($50 or less) because they currently do not pay 30 percent of income towards rent. Adjusted income was used in calculating rent burden.

Implementing a Flat Subsidy Lower than the Current Average Subsidy

A flat subsidy system that set the average subsidy at some specified amount less than the current average subsidy would be able to serve a slightly greater percent more households. For example, a flat subsidy that averaged five percent less than the current average would be able to serve approximately 5.3 percent more households.[71] The average voucher subsidy was $662 in 2008 for the nearly 1.3 million non-elderly, non-disabled voucher households.

[71] To see how a five percent reduction could serve more than five percent more households, assume that 100 households received a voucher worth $100 for a total voucher cost of $10,000. If the voucher value were reduced to $95, the voucher could serve 105.26 people ($10,000 divided by $95) or 5.26 percent more than a $100 voucher. This effect is larger the larger the percentage decrease in the voucher cost. So reducing the voucher value by 10 percent results in enough voucher funding for 11.1 percent more households.

A five percent reduction in the average subsidy would mean a flat subsidy of $629 and approximately 66,000 more households could receive a voucher.[72]

Administrative costs are higher the more people that are served, so a five percent reduction in the average subsidy might not result in the ability to appropriate all the subsidy saving for additional voucher subsidies. On the other hand, as discussed in Chapter 5, a flat subsidy system might have lower administrative costs per voucher user because of reduced staff time spent verifying income for rent determination. The net administrative cost difference would be relatively small.

Like a lower payment standard, a flat subsidy lower than the current average would increase the rent burdens of participants, assuming their gross rents stayed the same in the new system. However, under a flat subsidy, several factors might mitigate the potential increase in rent burden. First, a flat subsidy system would provides an incentive for a voucher holder to choose a lower cost housing unit, because the voucher holder pays each dollar of rent above the voucher subsidy level. Second, voucher holders might increase their labor market effort in a flat subsidy system, because increases in earnings will not result in paying higher rent as they do in the income-based system.

[72] The estimates of the average subsidy ($662) and number of non-disabled, non-elderly voucher households (1,260,035) estimates were calculated from the 100-percent sample of PIC data for non-MTW sites provided by HUD. The estimate of 66,000 more households served is from taking 5.26 percent of 1,260,035 and then rounding the number to the nearest 1000.

Rent burden under either the current income-based system or a flat subsidy may be lower than it appears based on income reported to the PHA, because participants may fail to report all income, especially unverifiable income.

Summary of the Implications of a Reduction in Benefit Levels

A 10 percent reduction in the payment standard applied just to non-elderly, non-disabled households alone would reduce the average HAP payment enough to serve an estimated 97,000 more households. However, if households stayed in their current units, the share of households with a rent burden greater than 40 percent of income would triple, rising from 12 to 39 percent. The excessive rent burden would affect units in all types of neighborhoods, but a disproportionate number of voucher holders in units in low poverty neighborhoods would face this burden. If such voucher holders had to find a different unit to rent, either because the 40 percent rent burden maximum applied or because they found the unit unaffordable with the lower payment standard, the change would reduce the ability of vouchers to deconcentrate poverty.

An average flat subsidy that is 5 percent lower than the current income-based subsidy would serve approximately 5 percent more households, but would increase the rent burden for households that did not increase their work effort or choose lower cost units in response to the new rent structure.

6.4. Is a Flat Subsidy Likely to have a Different Impact on Rents Paid by Eligible, Non-Participants?

Another aspect of horizontal equity is how the voucher program affects the rents of eligible households that do not participate in the voucher program. If the effect of the voucher program is to drive up rents, non-participants are treated unfairly in two separate ways: they do not receive a benefit just because they have not won the "lottery" for assisted housing, and they are worse off because they pay more for housing than they would in the absence of the voucher program.

Voucher holders are price indifferent for rental costs between 30 percent of the households' adjusted income and the payment standard, because in that range the voucher holders' out-of-pocket rent is the same. One concern is that this could lead the voucher holder to pay rent above what an unsubsidized renter would have to pay for the unit. A second concern with the indifference of voucher holders to prices within a range is that it could drive up market rents for both subsidized and unsubsidized low-income renters by creating additional demand for housing units in that range. This section examines what is known about these two concerns in the current system and then discusses whether a flat subsidy system would mitigate these concerns.

Do Voucher Holders Pay Above Market Rents in the Current System?

Although vouchers holders are price indifferent for rents between 30 percent of their income and the payment standard, this still may not lead to their paying above-market rents. First, voucher holders still have the incentive to get the best unit they can get in that price range. A unit with a true market rent of $900 will be more desirable to the voucher holder than a unit

for which the landlord is trying to get $900 in rent, but that has a true market rent of $800 because it is smaller or has fewer amenities.[73] Second, the housing authority conducts a rent reasonableness test to determine whether the unit is in line with market rents in the area.

We reviewed the literature on the effectiveness of the rent reasonableness test in ensuring voucher holders were not paying above-market rents. Some evidence on this topic comes from a comparison of the voucher and certificate programs that co-existed in the 1980s (Leger and Kennedy, 1990). The voucher program at that time provided a subsidy to each household that was based on its income, but not the rent of the unit: the subsidy was the difference between the payment standard and 30 percent of the household's income. The certificate program provided a subsidy similar to today's HCV program. Despite the fact that the certificate did not have a shopping incentive and the voucher did, the distribution of gross rents was very similar across the two programs, suggesting that the certificate holders were not paying above-market rents. Either the price shopping incentive for the voucher program was not large, or the rent reasonableness test in the certificate program was effective.

A later study of rent reasonableness directly compared both voucher and certificate program rents to market rents to test whether program participants were paying above-market rents (ORC Macro, 2001). Using a sample of 396 voucher and certificate holders in mid-2000, the study compared the program rent of a unit to the average rent of three comparable, but

[73] Some landlords may believe they are entitled to a premium (extra rent) in order to rent a unit to a voucher holder because they have to deal with a housing agency as well as the tenant. In contrast, other landlords may prefer voucher holders because the housing agency will consistently pay their portion of the rent each month.

unassisted units selected by an independent appraisal firm. The comparison found that 71 percent of the voucher or certificate rents were at or below the market rent, and another 16 percent were less than 10 percent above the market rent. Only 13 percent of program participants had rents that were more than 10 percent higher than the independently determined, market rent.

Thus, the limited evidence available from the literature indicates that voucher holders are not systematically paying above-market rents for their units.

Does the Voucher Program Drive Up Market Rents?

The voucher program increases the demand for housing in two primary ways.

- First, it increases the number of households seeking rental units by making it affordable for some people to split from their household and form a new household. For example, a mother and her child living with the mother's parents could split off and form a new household.
- Second, it increases the amount of "income" or income equivalent that voucher program participants have to spend only on housing. Thus, they are expected to consume more housing by renting higher cost units than they would otherwise.

Both of these factors increase the demand for housing in the rent range sought by voucher holders. Two studies have addressed the issue of whether the voucher program has a substantial effect on rental costs for the unsubsidized market. They reached different conclusions.

The Housing Allowance Supply Experiment tested a precursor to the current voucher program in two Midwestern cities in the 1970s, making a subsidy with the same design as a

voucher available to any household for whom the subsidy calculation produced a positive amount. About half of the eligible households participated, much larger than the share of households covered by the HCV program. The conclusion from this study was that the rents increased by about the same amount in the two experimental sites as rents in the rest of the nation.[74] The housing allowance did not appear to have a measurable impact on the rental market for low-income households. However, the study only covered two cities and was conducted more than 30 years ago.

In contrast, Susin (2002) found that low-income households in metropolitan areas with higher concentrations of voucher holders experienced faster rent increases than those in areas with fewer vouchers. In the 90 metropolitan areas with the most vouchers, Susin found that vouchers raised rents in the low-income rental market by an average of 16 percent more than they would have increased in the absence of the voucher program over the period 1974 to 1993. Susin concluded that the increase in rent from the voucher program for low-income subsidized and non-subsidized households exceeds the total amount of subsidy the program provides.

[74] See Lowry (1983).

Susin's finding is puzzling. Without a large growth in the number of households needing housing (or a large decrease in the supply of housing),[75] we would expect to see a price drop in the portion of the market below the range in which voucher holders rent. The study did not find this. Other critiques of the Susin paper's methodology and findings are that the number of observations from each metropolitan statistical area (MSA) is small (median of 33 observations) and that Susin's model has omitted variables (e.g., supply constraints such as restrictive regulations) that could be driving his observed rent increases.[76]

Even if Susin's findings were credible, the implication—that the supply of housing in the lower third of the housing market is very inelastic—may not hold over time. His paper covers the 1974 to 1993 period. Since 1993, the Low-Income Housing Tax Credit (LIHTC) program has placed in service 1.2 million units affordable to households with income less than 60 percent of AMI. GAO (2000) estimated that 12 percent of LIHTC units were occupied by tenants with a tenant-based rental subsidy, approximately the same share they represent in the low-income rental population. Furthermore, a study by Buron et al. (2000) of the LIHTC program in five metropolitan areas found that 78 percent of the tax credit units

[75] Based on various parameter estimates from the literature, we speculate that the voucher program increased the number of new households seeking housing by no more than 272,000 nationally. This estimate was arrived at by multiplying the percent of voucher holder households that have children (56 percent in 2006 from PIH, 2007) by the total number of voucher holder households (2,030,000 from CBPP, 2009b) to arrive at the number of voucher households with children (1,136,800). This number was multiplied by 24 percent (the estimated higher share of single-adult households with children from randomly assigned voucher recipients and a control group from Mills et al., 2006) to arrive at the 272,000 estimate. This is a small portion of the overall low-income rental market (1.7 percent of the 15.9 million renters with income less than 50 percent of AMI according to 2007 AHS) and thus, by itself, not likely to have a large impact on the rental market.

[76] For reviews of Susin (2002), see, for example: Khadduri, Burnett, and Rodda (2004) and Olsen (2003).

had rents below the local FMR.[77] These findings show that the LIHTC program has provided housing for the rental market relevant to voucher holders and other low-income renters. The housing supply for this portion of the market may now be more elastic than it was during the period of Susin's study because of the LIHTC program.[78]

Would a Flat Subsidy's Effect be Different?

A flat subsidy voucher would provide the same subsidy to the assisted household no matter what the gross rent was for the unit that the voucher holder chose and would not vary based on the voucher holder's household income. In this section, we discuss whether this system would have different effects from the current income-based voucher subsidy on rents of unassisted units.

The effect of a flat subsidy on formation of new single-adult households would probably not be much different from the effect of the current income-based voucher. Mills et al (2006) found that receiving a voucher had a statistically significant, negative effect on the likelihood of living with parents or other relatives, but no significant effect on the likelihood of living with a spouse or significant other. As part of that study, the researchers conducted in-depth

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[77] The paper found that approximately half the rents were between 70 and 100 percent of FMR and the other half were fairly evenly split between rents below 70 percent of the FMR and above 100 percent of the FMR. See Appendix D, Exhibit D-5.

[78] A paper by Malpezzi and Vandell (2002) concluded that they could not rule out that the LIHTC program was simply replacing (crowding out) housing that would have been built in the absence of the LIHTC program. If the LIHTC program simply crowds out other housing that would have been built, then the large number of LIHTC units built since 1994 may not mean that the LIHTC program has increased the supply of housing for low-income renters substantially since the time of the Susin's analysis. However, Malpezzi and Vandell state that their findings are inconclusive because of large sampling errors that did not let them reject the hypothesis that none of the LIHTC housing was crowding out housing that would have been built in the absence of the LIHTC program.

interviews with some of the voucher holders. They found that the reasons voucher holders formed new households were independent of the rent structure (e.g., were trying to get out of a negative living situation). These motivations would not change with a flat subsidy system.

A flat subsidy system is likely to provide a higher subsidy to larger families needing a unit with more bedrooms than to smaller families. The receipt of a larger subsidy would provide a financial incentive to live with other adults. An additional adult with earnings or other income could share the tenant portion of the rent, just like in the unassisted market, but the rent paid by the tenant would not automatically rise as it would in the current income-based voucher system. However, this incentive would probably be small relative to the impetus to form new households.

A flat subsidy would completely eliminate the shopping disincentive of the voucher program. Every dollar in increased rental cost above the flat subsidy level would have to be paid by the voucher holder. There is no range above the flat subsidy level in which the voucher holder is price insensitive. However, since there is little evidence that the shopping disincentive results in voucher users paying above market rents in the current system, this reduction in the shopping disincentive might not have much impact on rental market prices.

A flat subsidy would likely have a different impact from the income-based voucher system on demand for housing in the low-income housing market. A flat subsidy would not have the concentrated effect on the portion of the market between 30 percent of voucher holders' income and the payment standard that the income-based system has. Any effect would be

more spread out, since there is no change in the subsidy for different rent levels and, therefore, there would not be a select range of rents where the voucher holder was price indifferent.[79]

Summary of Whether a Flat Subsidy is Likely to Have a Different Impact than the Current System

The voucher program provides subsidies that increase demand for housing, which, in turn, probably increases the market rents for low-income housing, but the question is whether vouchers increase rents by a meaningful amount. We do not know.

Our analysis of the potential market effects of a flat subsidy voucher suggests that such a subsidy would be less likely than the income-based rental system to distort the rental market for low-income households, because households would not be motivated to rent units clustered at the local payment standard. With the current income-based system, voucher holders will primarily choose units with rents close to their local payment standard. In a flat subsidy system, demand for units is expected to increase more equally along the whole spectrum of rents affordable to households with a voucher. Second, while we do not believe a flat subsidy will change the impetus to form new households very much, it might reduce somewhat the number of new households formed by keeping some multiple-adult families together.

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[79] A flat subsidy is an income transfer to the recipient. Assuming the recipient would rent a unit at or above the flat subsidy level in the absence of the program, the income transfer increases the household's available budget for purchasing all goods equally. When income increases, consumers purchase more of all normal goods, including but not limited to housing. For housing consumption, this means they will spend more money to get higher quality housing (e.g., larger or better location) than in the absence of the program. Hence, the demand for housing would increase in some segments of the market, but would not result in the recipient spending the full subsidy on additional housing. The increase in demand for housing would be more spread out across the rental market.

7. Conclusion

The purpose of this study was to draw together existing and new information to help policymakers in deliberations about changes to remedy perceived weaknesses in the current rent system. In some cases, the empirical information on the effect of the rent system was scarce, so the discussion revolved around the theoretical incentives created by the change, preferences expressed by Public Housing Agency (PHA) staff and surveyed households, or what could be ascertained from the experience of a single Moving to Work (MTW) PHA. In other cases, the empirical information was more robust and the likely effects of a change to the rent system more evident. In all cases, there are tradeoffs between addressing a particular weakness of the current system and reducing one of the perceived strengths of the current system. Our thoughts on the key policy implications of the study are as follows.

- ***Policymakers should consider an increase to the maximum allowable minimum rent.*** There is support among both PHA staff and households for doing so to increase a sense of responsibility among participants in housing assistance programs and to increase PHA revenue. The additional rent revenue could be used to serve more households or to provide a financial incentive for participants to increase earnings.
- ***PHAs would like a simpler, more streamlined rent system.*** When asked what specific policies they would like to change, the most common responses were tweaks to the current system—for example, reducing the number of interim re-examinations and simplifying income deductions—rather than wholesale changes to the rent structure.
- ***A hybrid rent system is an alternative worth considering***. In a hybrid rent system, the rent would be set at a flat rent below a certain income threshold, then a percent-of-income above that threshold. As shown in this study, a hybrid rent system can be designed that is revenue neutral and has a percent-of-income rate below the current system's 30 percent. PHAs' hardship exemption policies would need to be well crafted to ensure that the lowest income households are exempted from the flat rent when they have no way to increase their income.
- ***Any rent structure not based on income would need to be accompanied by other program changes.*** Such a rent structure would not have the imbedded incentives of the current system for higher income participants to exit the program (i.e., in the current system, the subsidy decreases towards zero as income increases). The

program changes could be an income limit, a time limit, or a hybrid rent structure with income above a certain threshold subject to a percent-of-income rent.

- ***The details of an alternative rent structure are key.*** The support expressed by newly participating or waiting list households for changes to the rent structure varied dramatically depending on the level of a hypothetical flat rent. A major concern about alternative rents for PHA staff was how to make the tradeoff between protecting the lowest income households serving additional needy households. This tradeoff is embedded in the details of how an alternative rent structure is operationalized.
- ***The current earned income disregard should be dropped.*** It is complicated for PHAs to operate, is targeted too narrowly, and does not appear to be having an effect on participants' work effort.
- ***Disregarding a percentage of all earned income for the rent calculation is a better way to support work effort.*** It provides a permanent incentive to increase earnings at all income levels and all households, is simple to understand and implement and treats all households equitably. However, it would very costly to implement for all earnings, so there would need to be other changes to the rent system to offset these costs.
- ***The Earned Income Verification (EIV) system should be expanded.*** PHA staff believe the EIV is increasing the accuracy of reported income and would like to expand it so that it can be used for the eligibility determination and the initial rent calculation of new participants.

This study learned a great deal on the likely effect of changes to the current, income-based rent structure, drawing on findings from previous research, new analysis of existing data, and analysis of data collected for this study. From the data at hand and from additional data collected in a similar fashion even more could be learned. However, to obtain definitive answers for the most important questions about the impact of alternative rents on households and PHAs, a random-assignment, experimental design study is needed.

Based on the findings reported in this study, an experimental design study should focus on the impact of a hybrid rent system compared to the current income-based rent structure. Based on a separate case study of policies implemented by the Atlanta Housing Authority

(Khadduri and Leopold, 2010), we also believe an experimental design study in which some households are subject to work requirements and others are not would be worth considering.

Ideally, the study should test the effects both of only changing the rent structure and of changing the rent structure plus adding enhanced supportive services and should compare both approaches to the current system.

Furthermore, it is important for an experimental design study to focus on more than just the earnings effect of the alternative rent structure. It should examine the impact of alternative rents on the income profile of who is offered assistance versus who participates, the rent burden of the lowest income households, the success rate of voucher recipients of different income levels in finding a unit, and housing and self-sufficiency outcomes. Any potential impact on landlord willingness to participate in the program should also be gauged as well as any changes in administrative burden for PHAs (e.g., whether additional hardship exemption requests need to be processed and whether time spent verifying income decreases).

The study should also seek to understand what caused any earnings impact or, if no impact, why not. That is, the study should explore the processes through which households react to changes in the rules of the housing assistance system; for example, Does the household add working adults to the household? Does an already working member work more hours or does a non-working adult start working? Does the household understand the impact on their rent and disposable income of additional earnings? This information would be helpful in developing rent policies after the impact of the alternative rent structure was estimated.

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Appendix A. Site Visit Methodology

This study includes data from on-site interviews with staff at 25 Public Housing Agencies (PHAs). The purpose of the interviews was to collection information on PHAs' current practices in setting minimum rents, the Quality Housing and Work Responsibility Act (QHWRA) flat rents, income verification, payment standards and their insights on possible changes to the rent structure, collection of income data, and payment standards.

Selection 25 PHAs

Four of the 25 site visit PHAs were selected with certainty because they were Moving to Work (MTW) sites that had made or planned to make significant changes to their rent structure. These PHAs were:

- The Housing Authority of Tulare County (California): Flat rent for public housing tenants and flat subsidy for voucher holders.
- The Keene Housing Authority (New Hampshire): Stepped rent system where tenant rents increase over time for public housing tenants and subsidies decrease over time for voucher holders.
- The Cambridge Housing Authority: Tiered rent system for public housing residents. Tenant rent is determined based on what income band a household falls into and does not increase or decrease until a change in income puts the household into a different income bands.
- The Vancouver Housing Authority: Had submitted a plan to convert to a flat rent system but had not actually implemented this plan at the time of data collection for this study.

The remaining 21 PHAs were selected through a stratified random sampling method. PHAs were stratified by metro area, census region, PHA size, and rental market characteristics to be

nationally representative of PHAs in metropolitan area with at least 500 combined public housing and Housing Choice Voucher units.

The 21 non-certainty PHAs were selected from 12 metro areas. Eighteen PHAs were chosen from nine metro areas with two or more PHAs and three PHAs were chosen from three metro areas that have only one PHA. This allocation across single-PHA and multiple-PHA metro areas was determined in order to make efficient use of resources. By selecting multiple PHAs from the same metropolitan area, the site visit team (and as discussed in Appendix C, the household interviewers) could visit multiple PHAs in one trip, while still ensuring representation from both types of metro areas.

The first step in the sampling process, after filtering out non-metro PHAs and PHAs with fewer than 500 combined units, was to stratify the remaining PHAs based on whether they were the only PHA in their metro area. Exhibit A-1 shows the proportion of metro areas with one or multiple PHAs.

Exhibit A-1. Distribution of Metro Areas by Number of PHAs

Number of PHAs	Number of Metro Areas
1. One PHA	151
2. Two or more PHAs	172
Total	**323**

Selection of PHAs in multi-PHA metro areas. Multi-PHA metro areas were stratified on three factors: geography, size, and payment standard. The metro areas payment standard was calculated by taking the weighted average of payment standards for each voucher unit.

To account for size and payment standard we created four strata for the sample selection. These four strata combine two categories of payment standards (above and below the median) and two categories of size (unit count of the largest PHA above or below 4,000). Exhibit A-2 shows the distribution of metro areas in the population by the four strata. Since we eventually need to select two PHAs from each selected metro area, the table also shows the total number of PHAs in each stratum.

Exhibit A-2. Distribution of Metro Areas and PHAs by Sampling Strata

Stratum	Number of Metros	Number of PHAs	Average Number of PHAs Per Metro
1. 4000+ and above Median Payment Standard	50	311	6.2
2. 4000+ and below Median Payment Standard	25	91	3.6
3. Less than 4000 and above Median Payment Standard	36	120	3.3
4. Less than 4000 and below Median Payment Standard	61	160	2.6
Total	**172**	**682**	**3.96**

Using this distribution, we allocated the sample of nine metro areas to each stratum in proportion to the number of PHAs in the stratum. Exhibit A-3 shows this sample allocation.

Exhibit A-3. Distribution of the Sample Metros by Sampling Strata

Stratum	Number of Metro Areas	Number of Metro Areas in the Sample
1. 4000+ and above Median Payment Standard	50	4
2. 4000+and below Median Payment Standard	25	1
3. Less than 4000 and above Median Payment Standard	36	2
4. Less than 4000 and below Median Payment Standard	61	2
Total	**172**	**9**

To ensure equal geographic representation in the sample, we then stratified metro areas in each stratum by the nine Census divisions. This created a total of 36 strata. Exhibit A-4 shows the distribution of metro areas by these strata along with the required sample size in each Census division and sampling stratum.

Exhibit A-4. Distribution of Metro Areas by Census Division and Size/Payment Standard

Stratum	NE	MA	ENC	WNC	SA	ESC	WSC	MTN	PA	Total	Targeted Sample Size per Stratum
1	3	8	4	2	11	0	4	5	13	50	4
2	2	3	4	1	4	8	2	0	0	24	1
3	8	8	4	1	5	0	1	4	5	36	2
4	1	6	10	6	13	6	13	3	3	61	2
Total	**14**	**25**	**22**	**10**	**33**	**14**	**20**	**12**	**21**	**171**	**9**
Targeted Sample Size per Census Division	1	1	1	1	1	1	1	1	1	9	

Census Regions: NE = New England, MA = Mid-Atlantic, ENC = East North Central, WNC = West North Central, SA = South Atlantic, ESC = East South Central, WSC = West South Central, MTN = Mountain, PA = Pacific.

To achieve our targeted sample sizes by stratum and by Census division, we had to select four metro areas from Stratum 1 (4000+ and above median payment standard) from four different Census divisions and the select metro areas from the other stratum from the remaining Census divisions. We selected four Census divisions at random (equal probability) for Stratum 1. The selected divisions were New England, East North Central, South Atlantic and West South Central. We then randomly selected East South Central from the five remaining Census divisions from Stratum 2. For Stratum 3, we selected Middle

Atlantic and Pacific from the four remaining census regions, this left West North Central and Mountain as the two remaining divisions in Stratum 4.

Within each of the nine selected strata, two metro areas were selected randomly. Thus, for example each of the three New England metro areas with over 4,000 combined units and a payment standard above the median had a 66.6 percent chance of being selected. Within each of the selected metro areas, two PHAs were chosen randomly to be included in the site visit sample.

Selection of Single-PHA Metro Areas. When selecting the sample of three metro areas with one PHA, we accounted for PHA size and geographic location. Before selecting the sample, we sorted the list of single-PHA metro areas by Census divisions. We then selected three metros areas through systematic random sampling giving each metro area an equal probability of selection and ensuring that the three metro areas would be in different Census divisions.

Exhibit A-5 lists the 25 site visit PHAs, their site type (e.g., certainty, single-PHA metro area or multi-PHA metro area), and their total number of public housing and voucher units.

Exhibit A-5. Site Visit PHAs

Site Visit PHAs		Site Type	Number of Public Housing Units	Number of Vouchers	Total Units
1.	Housing Authority of the City of Austin	Multi-HA	1,901	5,030	6,931
2.	Bessemer Housing Authority	Multi-HA	1,133	382	1,515
3.	Housing Authority of the Birmingham District	Multi-HA	2,715	4,062	6,777
4.	Boise City/Ada County Housing Authority	Multi-HA	159	1,135	1,294
5.	The Cambridge Housing Authority (MTW Site)	Certainty	1,040	2,265	3,305
6.	Charleston-Kanawha Housing Authority	Single HA	1,225	2,866	4,091
7.	Charlotte Housing Authority (MTW Site)	Multi-HA	2,801	4,475	7,276
8.	Chicago Housing Authority (MTW Site)	Multi-HA	10,922	33,603	44,525
9.	City of Dubuque Housing & Community Development	Multi-HA	0	927	927
10.	Eastern Iowa Regional Housing Authority	Multi-HA	157	925	1,082
11.	The Framingham Housing Authority	Multi-HA	233	812	1,045
12.	Gastonia Housing Authority	Multi-HA	378	1,089	1,467
13.	Idaho Housing and Finance Association	Multi-HA	0	3,178	3,178
14.	Keene Housing Authority (MTW Site)	Certainty	193	473	666
15.	Lake County Housing Authority	Multi-HA	575	2,479	3,054
16.	McKeesport Housing Authority [a]	Multi-HA	764	392	1,156
17.	Muncie Housing Authority	Single HA	303	826	1,129
18.	Housing Authority of the City of Pittsburgh (MTW Site) [a]	Multi-HA	2,987	5,189	8,176
19.	The Housing Authority of the City of Santa Barbara	Multi-HA	476	1,944	2,420
20.	Housing Authority of the County of Santa Barbara	Multi-HA	467	3,414	3,881
21.	Somerville Housing Authority	Multi-HA	405	977	1,382
22.	Travis County Housing Authority	Multi-HA	74	566	640
23.	Housing Authority of the County of Tulare (MTW Site)	Certainty	702	2,843	3,545
24.	Vancouver Housing Authority (MTW Site)	Certainty	464	2,097	2,561
25.	Waterbury Housing Authority	Single HA	558	2,001	2,559

[a] McKeesport and Pittsburgh were replacement sites, randomly selected after the initial PHAs selected within their stratum (Atlantic City and Pleasantville) were unable to participate in the study.

Source: The number of public housing units and vouchers from the PIC database as of January 2009.

Site Visit Data Collection

The Executive Directors of each of the 25 site visit PHAs received a letter from the U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH) informing them of their selection for the study. Each of the site visit PHAs were assigned to a member of the research team, composed of staff from Abt Associates, the Urban Institute, Amy Jones and Associates and Applied Real Estate Analysis (AREA). Site visits were conducted between March and May 2009. Site visitors were on site for 1.5 to 2 days. During this time, the site visitor interviewed the Executive Director and other key personnel such as Section 8 directors, public housing directors, board members, and frontline staff. Interviews were open-ended and discussion oriented but addressed the following issues: the agencies service philosophy, admissions preferences, opinions on possible rent reforms, QHWRA flat rents, minimum rents, income verification, and payment standards. The Site Visit Discussion Guide is in the Data Dictionary submitted to HUD in July 2009.

Following the site visits, each site visitor did a complete write-up containing relevant background information about the PHA, their interview responses and any other relevant information gleaned from the visits. These case studies were then compiled and published in a separate report to HUD in August 2009.

In addition to learning about the policies and preferences of PHAs, the site visits served a separate purpose: collecting data on households currently on their waitlist for public housing and/or Housing Choice Vouchers (HCVs). Waitlist data was used for the household survey sampling described in Appendix C.

Appendix B. PHA Telephone Survey Methodology

This study includes data from a telephone survey of staff from a nationally representative sample of 175 Public Housing Agencies (PHAs). We surveyed senior staff from these PHAs to collect information about current PHA policies and to solicit information on agency preferences for potential changes to housing assistance programs.

Telephone survey PHAs were selected to be nationally representative of both PHAs and assisted housing units with at least 500 combined units. PHAs were selected through a stratified random sampling process. The 25 PHAs that were selected for in-person site visits were removed from the sampling frame as their participation would have been redundant and burdensome.[80] PHAs that were under the U.S. Department of Housing and Urban Development (HUD) receivership at the time the sample was selected and PHAs with less than 500 combined public housing and Housing Choice Voucher (HCV) units were also excluded from the sampling frame.[81]

Eight PHAs were selected with certainty for the phone survey because of size and other characteristics.[82] The remaining 192 PHAs were selected through a stratified random

[80] See appendix A for a list of site visit PHAs and an explanation of how they were selected.

[81] As of January 2008 when the phone survey PHAs were selected there were 10 PHAs under receivership: Sarasota Housing Authority; Wellston Housing Authority; Housing Authority of City of East St Louis; Housing Authority of New Orleans; Riviera Beach Housing Authority; Virgin Islands Housing Authority; Detroit Housing Commission; Miami-Dade Housing Agency; Chester Housing Authority; and Housing Authority of Kansas City, Missouri.

[82] The PHAs selected for certainty in the phone survey sample are: Massachusetts Dept of Housing and Community Development; Seattle; Portage (OH); New York City; Los Angeles; Philadelphia; Pleasantville, and Puerto Rico.

sampling process. PHAs were stratified first by metro status, then by size (i.e., number of public housing and voucher units) and finally by where the PHA set their payment standard relative to the national median. This process assigned each eligible PHA into one of 20 substrata. Within each substratum, PHAs were selected using systematic sampling after sorting by census region.

Stratification by Urbanicity, Size, and Payment Standard

The first stage in the sampling process was to divide the PHAs into two groups: metro and rural. Exhibit B-1 shows the distribution of PHAs and PHA units in metro and rural areas. There are far more PHAs located in metro areas than in rural ones and urban PHAs typically have more units than rural PHAs. Thus, the proportion of housing units located in metro areas is even higher than the proportion of PHAs located in metro areas.

Exhibit B-1. Distribution of Rural/Metro PHAs and Units

Type of PHA	Number of PHAs	Total Number of Units	Average Number of Units
Metro	833	2,125,161	2,551
Rural	231	219,399	950
Total	**1,064**	**2,344,560**	**2,203**

The allocation of sample sites between metro and rural areas was based on the proportion of PHAs and the proportion of housing units in each area. Exhibit B-2 shows the allocation if we had based in on the number of PHAs or the number of units in each area and the actual allocation. We designated 160 sample slots to metro PHAs and 32 to rural PHAs, which is in

between the allocation that we would have had if we purely based the allocation on the either the share of PHAs or share of units in each area.

Exhibit B-2. Allocation of the Sample to Metro and Rural Areas

Location of PHA	Allocation in Proportion to Number of PHAs	Allocation in Proportion to the Total Number of Units	Actual Allocation
Metro	150	174	160
Rural	42	18	32
Total	**192**	**192**	**192**

After allocating based on metro status, PHAs were stratified within metro and rural areas based on total number of housing units. Four rural PHAs were considerably larger than other rural PHAs, so were selected with certainty. The remaining 227 rural PHAs were separated into three size groups and 833 metro PHAs were stratified into four size groups. Exhibit B-3 shows the number of PHAs in each size stratum and the allocation of the sample across these strata.

Sample slots for rural PHAs by size stratum were allocated based on the percentage of PHAs in each size stratum. The distribution of units in metro PHAs was highly skewed with the largest PHA group, PHAs with at least 3,500 units, accounting for 17 percent of all metro PHAs but 56 percent of metro units. A sample allocation based on the proportion of metro PHAs in each group would have lead to a heavy sampling of PHAs in the smaller strata while a sample allocation based on the proportion of units would lead to a heavy sampling of PHAs in the largest stratum. To ensure that each stratum has a moderate sample size we allocated based on the square root rule.

In this allocation, we first compute the square root of the total number of units in each stratum. The sample is allocated in proportion to this number. This allocation still accounts for the greater proportion of units in large PHAs, but is more moderate than simply allocating proportional to the proportion of units in each stratum.

Exhibit B-3. Allocation of the Sample by Size Strata

Size Group (Number of Units)	Number of PHAs	Number of Units	Sample Allocation
Rural PHAs			
500-699	110	64,511	12
700-1499	95	95,501	12
1500+	22	43,151	4
Total	**227**	**203,163**	**28**
Metro PHAs			
500-799	225	143,990	30
800-1999	330	417,856	50
2000-3499	137	365,919	30
3500+	141	1,197,396	50
Total	**833**	**2,125,161**	**160**

Finally, the sampling frame was further stratified based on where the payment standard is above or below the median payment standard for metro or rural PHAs. Exhibit B-4 shows the final allocation of sample PHAs by stratum. The sample in each stratum was allocated in proportion to the number of PHAs in each group above and below the median.

Exhibit B-4. Allocation of PHA Telephone Survey Sample by Size and Payment Standard Strata

Size Group	Payment Standard Below Median	Payment Standard Above Median	Missing Information on Payment Standard	Total
Allocation of Rural Sample				
500-699	6	5	1	12
700-1499	5	6	1	12
1500+	2	2		4
Total Rural Sample	13	13	2	28
Allocation of Metropolitan Area Sample				
500-799	15	13	2	30
800-1999	25	24	1	50
2000-3499	15	14	1	30
3500+	21	28	1	50
Total Metro Sample	76	79	5	160
Total	**89**	**92**	**7**	**188**

Notes: This is the sample allocation of the 188 PHAs selected randomly. It does not include the eight PHAs in metropolitan areas and four PHAs in rural areas that were selected with certainty. Determination of whether a PHA's payment standard was above or below the median was done separately for metropolitan and rural areas.

The 28 rural PHAs and the 160 metropolitan area PHAs were selected randomly within strata defined by metro area, size, and payment standard group. To ensure broad geographic representation, the PHAs were ordered by Census region and then the sample PHAs were selected using an equal probability systematic sample. Exhibit B-5 shows the final sample.

Telephone Survey Data Collection

The telephone survey data collection was led by Applied Real Estate Analysis, Inc. (AREA). The interviews were conducted by research staff from AREA, Abt Associates, and the Urban Institute in the spring of 2009. PHA staff persons were asked a series of close-ended questions regarding admission preferences, the wait list, minimum rents, hardship policies,

flat rents (for PHAs with public housing units), perspectives on alternative rent structures, payment standards (for PHAs with voucher units), and income verification. The telephone survey took approximately one hour to complete. A copy of the PHA telephone survey is available in the *Research Plan for a Study of Rents and Rent Flexibility: Data Dictionary July 2009*.

We were able to interview 175 of the 200 PHAs in our sample, a response rate of 88 percent. In our analysis, survey responses were weighted to be nationally representative. The twelve PHAs that were selected with certainty site each received a weight of one, meaning they only represent themselves. All other sample PHAs were given a weight in inverse proportion to their likelihood of being sampled, and then adjusted for non-response rates. A list of the PHAs selected for the phone survey, their final response status, and the weights they were given for analysis of phone survey data is provided in Exhibit B-5.

Exhibit B-5. Telephone Survey Sample by Whether PHA Completed the Survey

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
AK901	Alaska Housing Finance Corporation	Metropolitan	3500+	Complete	3.8
AL005	Phoenix City Housing Authority	Metropolitan	800-1999	Complete	6.9
AL052	HA Cullman	Rural	500-699	Complete	8.7
AL068	Sheffield Housing Authority	Metropolitan	500-799	Complete	9.3
AL118	Eufaula Housing Authority	Rural	700-1499	Complete	11.25
AR004	Housing Authority of the City of Little Rock	Metropolitan	2000-3499	Complete	5.1
AR017	Housing Authority of the City of Pine Bluff	Metropolitan	800-1999	Complete	6.7
AR121	Paragould Housing Authority	Rural	500-699	Complete	8.7
AZ004	Community Services Department of Tucson	Metropolitan	3500+	Complete	2.7
AZ005	City of Mesa Housing Authority	Metropolitan	800-1999	Complete	7.3
AZ028	Chandler Housing & Redevelopment Division	Metropolitan	500-799	Complete	9.9
CA002	Housing Authority of the County of Los Angeles	Metropolitan	3500+	Complete	3.8
CA004	Housing Authority for the City of Los Angeles	Metropolitan	3500+	Complete	1.0

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
CA005	City of Sacramento Housing Authority	Metropolitan	2000-3499	Complete	4.0
CA010	City of Richmond Housing Authority	Metropolitan	2000-3499	Complete	4.8
CA011	County of Contra Costa Housing Authority	Metropolitan	3500+	Complete	2.7
CA027	Housing Authority of the County of Riverside	Metropolitan	3500+	Complete	2.7
CA048	Consolidated Area HA of Sutter County	Metropolitan	800-1999	Complete	6.9
CA053	Kings County Housing Auth	Rural	700-1499	Complete	12.3
CA056	Housing Authority of the City of San Jose	Metropolitan	3500+	Complete	2.7
CA062	City of Alameda Housing Authority	Metropolitan	800-1999	Complete	7.3
CA063	San Diego Housing Commission	Metropolitan	3500+	Complete	3.8
CA067	Alameda County Housing Authority	Metropolitan	3500+	Complete	2.7
CA079	Housing Authority of the City of Pasadena	Metropolitan	800-1999	Complete	7.3
CA094	Orange County Housing Authority	Metropolitan	3500+	Complete	2.7
CA119	Housing Authority of the City of South Gate	Metropolitan	500-799	Complete	9.9
CA120	Housing Authority of the City of Baldwin Park	Metropolitan	800-1999	Complete	7.3
CO001	Housing Authority of the City and County of Denver	Metropolitan	3500+	Complete	2.7
CO028	Housing Authority of the City of Colorado Springs	Metropolitan	2000-3499	Complete	4.8
CO034	Loveland Housing Authority	Metropolitan	500-799	Complete	9.3
CO049	Lakewood Housing Authority	Metropolitan	800-1999	Complete	7.3
CT007	Stamford Housing Authority	Metropolitan	2000-3499	Complete	4.8
CT011	Housing Authority of the City of Meriden	Metropolitan	800-1999	Complete	7.3
CT031	Torrington Housing Authority	Rural	500-699	Complete	9.0
CT051	City of Hartford Department of Developmental Services	Metropolitan	3500+	Complete	3.8
FL001	Jacksonville Housing Authority	Metropolitan	3500+	Complete	2.7
FL006	Area Housing Commission	Metropolitan	500-799	Complete	7.0
FL017	Housing Authority of the City of Miami Beach	Metropolitan	2000-3499	Complete	4.8
FL066	Hialeah Housing Authority	Metropolitan	3500+	Complete	2.7
FL073	Tallahassee Housing Authority	Metropolitan	2000-3499	Complete	5.1
FL083	Delray Beach Housing Authority	Metropolitan	800-1999	Complete	7.3
GA003	Housing Authority of the City of Athens	Metropolitan	800-1999	Complete	10.0
GA007	Housing Authority of the City of Macon	Metropolitan	3500+	Complete	2.7
GA011	Housing Authority of the City of Decatur	Metropolitan	800-1999	Complete	7.3
GA069	Housing Authority of the City of Dublin	Rural	500-699	Complete	13.0
GQ001	Guam Housing & Urban Renewal Authority	Rural	700-1499	Complete	1.0
GQ901		Rural	1500+	Complete	1.0
HI001	Hawaii Public Housing Authority	Metropolitan	3500+	Complete	2.7
HI005	Kauai County Housing Agency	Rural	700-1499	Complete	12.3
IA024	Cedar Rapids Housing Services	Metropolitan	800-1999	Complete	6.9
ID005	Housing Authority of the City of Pocatello	Metropolitan	500-799	Complete	9.3
IL004	Springfield Housing Authority	Metropolitan	2000-3499	Complete	5.1
IL006	Housing Authority of Champaign County	Metropolitan	800-1999	Complete	6.9

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
IL022	Rockford Housing Authority	Metropolitan	3500+	Complete	2.7
IL024	Housing Authority of Joliet	Metropolitan	2000-3499	Complete	4.8
IL083	Winnebago County Housing Authority	Metropolitan	800-1999	Complete	6.9
IL116	McHenry County Housing Authority	Metropolitan	800-1999	Complete	7.3
IN017	Indianapolis Housing Agency	Metropolitan	3500+	Complete	2.7
IN026	Housing Authority of the City of Elkhart	Metropolitan	800-1999	Complete	6.9
KS004	Wichita Housing Authority	Metropolitan	2000-3499	Complete	5.1
KY001	Louisville Metro Housing Authority	Metropolitan	3500+	Complete	2.7
KY012	Housing Authority of Henderson	Metropolitan	800-1999	Complete	6.9
KY107	Housing Authority of Pikeville	Rural	500-699	Complete	8.7
KY132	City of Richmond Section 8 Housing Program	Metropolitan	500-799	Complete	9.3
KY901	Kentucky Housing Corporation	Rural	1500+	Complete	1.0
LA002	Housing Authority of Shreveport	Metropolitan	3500+	Complete	2.7
LA012	Housing Authority of the City of Kenner	Metropolitan	500-799	Complete	9.9
LA190	Bossier Parish Section 8	Metropolitan	500-799	Complete	9.3
MA006	Fall River Housing Authority	Metropolitan	3500+	Complete	3.8
MA010	Lawrence Housing Authority	Metropolitan	2000-3499	Complete	4.8
MA017	Taunton Housing Authority	Metropolitan	800-1999	Complete	7.3
MA036	Newton Housing Authority	Metropolitan	500-799	Complete	9.9
MA055	Salem Housing Authority	Metropolitan	800-1999	Complete	7.3
MA901	MASS DHCD	Metropolitan	3500+	Complete	1.0
MD002	Housing Authority of Baltimore City	Metropolitan	3500+	Complete	3.8
MD006	Hagerstown Housing Authority	Metropolitan	2000-3499	Complete	5.1
MD014	Wicomico County Housing Authority	Rural	500-699	Complete	9.0
MD033	Baltimore County	Metropolitan	3500+	Complete	2.7
ME006	Brunswick Housing Authority	Metropolitan	500-799	Complete	9.9
ME015	Westbrook Housing	Metropolitan	800-1999	Complete	7.3
ME901	Maine State HA	Rural	1500+	Complete	1.0
MI006	Saginaw Housing Commission	Metropolitan	800-1999	Complete	6.9
MI089	Taylor Housing Commission	Metropolitan	800-1999	Complete	7.3
MN001	Public Housing Agency of the City of St Paul	Metropolitan	3500+	Complete	2.7
MN002	PHA In and for the City of Minneapolis	Metropolitan	3500+	Complete	3.8
MN003	HRA of Duluth	Metropolitan	2000-3499	Complete	5.1
MN147	Dakota County CDA	Metropolitan	2000-3499	Complete	4.8
MO004	Housing Authority of St. Louis County	Metropolitan	3500+	Complete	2.7
MO030	Lee's Summit Housing Authority	Metropolitan	500-799	Complete	9.3
MO205	Franklin County Public Housing Agency	Metropolitan	800-1999	Complete	6.9
MS030	Mississippi Regional Housing Authority No. V	Rural	1500+	Complete	10.0
MS040	Mississippi Regional Housing Authority No. VIII	Metropolitan	3500+	Complete	2.7
MS057	Mississippi Regional Housing Authority No. VII	Rural	700-1499	Complete	11.3
MT901	MDOC	Rural	1500+	Complete	1.0
NC002	Housing Authority of the City of Raleigh	Metropolitan	3500+	Complete	2.7
NC009	Fayetteville Metropolitan Housing Authority	Metropolitan	2000-3499	Complete	5.1
NC016	Housing Authority of the City of Salisbury	Metropolitan	500-799	Complete	7.0

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
NC021	Housing Authority of the County of Wake	Metropolitan	500-799	Complete	9.9
NC022	Housing Authority of the City of Greenville	Metropolitan	800-1999	Complete	6.9
NC056	City of Hickory Public Housing Authority	Metropolitan	500-799	Complete	9.3
NC155	Franklin-Vance-Warren Opportunity	Rural	500-699	Complete	9.0
ND012	Grand Forks Housing Authority	Metropolitan	800-1999	Complete	6.9
NE001	Omaha Housing Authority	Metropolitan	3500+	Complete	2.7
NE078	Scotts Bluff County Housing Authority	Rural	500-699	Complete	8.7
NJ002	Newark Housing Authority	Metropolitan	3500+	Complete	3.8
NJ004	North Bergen Housing Authority	Metropolitan	800-1999	Complete	7.3
NJ049	Bridgeton Housing Authority	Metropolitan	500-799	Complete	9.9
NJ050	East Orange Housing Authority	Metropolitan	800-1999	Complete	7.3
NJ214	Lakewood Township Residential Assistance Program	Metropolitan	800-1999	Complete	7.3
NJ215	Burlington County Housing Authority	Metropolitan	500-799	Complete	9.9
NJ912	State of NJ Dept. of Comm. Affairs	Metropolitan	3500+	Complete	3.8
NV001	City of Reno Housing Authority	Metropolitan	2000-3499	Complete	4.8
NV905	Nevada Rural Housing Authority	Rural	1500+	Complete	6.0
NY002	Buffalo Municipal Housing Authority	Metropolitan	3500+	Complete	2.7
NY003	The Municipal Housing Authority City Yonkers	Metropolitan	3500+	Complete	3.8
NY005	New York City Housing Authority	Metropolitan	3500+	Complete	1.0
NY079	Glens Falls Housing Authority	Metropolitan	800-1999	Complete	6.9
NY089	Newark Housing Authority	Metropolitan	500-799	Complete	9.3
NY113	City of New Rochelle Housing Authority	Metropolitan	800-1999	Complete	7.3
NY123	City of Peekskill	Metropolitan	500-799	Complete	9.9
NY409	City of Buffalo	Metropolitan	3500+	Complete	2.7
NY903	DHCR	Metropolitan	3500+	Complete	3.8
OH001	Columbus Metropolitan Housing Authority	Metropolitan	3500+	Complete	2.7
OH005	Dayton Metropolitan Housing Authority	Metropolitan	3500+	Complete	2.7
OH012	Lorain Metropolitan Housing Authority	Metropolitan	3500+	Complete	2.7
OH015	Butler Metropolitan Housing Authority	Metropolitan	2000-3499	Complete	5.1
OH026	Columbiana Metropolitan Housing Authority	Metropolitan	800-1999	Complete	6.9
OH031	Portage MHA	Metropolitan	800-1999	Complete	1.0
OH065	City of Middletown	Metropolitan	800-1999	Complete	6.9
OH076	Marion Metropolitan Housing Authority	Metropolitan	500-799	Complete	9.3
OK073	Housing Authority of the City of Tulsa	Metropolitan	3500+	Complete	2.7
OK099	Housing Authority of the City of Muskogee	Rural	700-1499	Complete	11.3
OR001	Housing Authority of Clackamas County	Metropolitan	2000-3499	Complete	4.8
OR003	Housing Authority of Douglas County	Rural	700-1499	Complete	12.3
OR016	Housing Authority of Yamhill County	Metropolitan	800-1999	Complete	6.9
PA006	Allegheny County Housing Authority	Metropolitan	3500+	Complete	2.7
PA008	Harrisburg Housing Authority	Metropolitan	2000-3499	Complete	4.8
PA009	Reading Housing Authority	Metropolitan	2000-3499	Complete	5.1
PA017	Washington County Housing Authority	Metropolitan	800-1999	Complete	7.3
PA018	Westmoreland County Housing Authority	Metropolitan	3500+	Complete	2.7
PA019	Johnstown Housing Authority	Metropolitan	2000-3499	Complete	5.1

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
PA034	Housing Authority of the County of Franklin	Rural	500-699	Complete	9.0
PA039	Armstrong County Housing Authority	Rural	700-1499	Complete	12.3
PA064	Tioga/Bradford County Housing & Redevelopment Authorities	Rural	500-699	Complete	8.7
PA090	Lancaster County Housing and Redevelopment Authorities	Metropolitan	800-1999	Complete	7.3
RI901	Rhode Island Housing	Metropolitan	800-1999	Complete	7.3
RQ008	Municipality of Ponce	Metropolitan	800-1999	Complete	6.9
SC001	Housing Authority of the City of Charleston	Metropolitan	2000-3499	Complete	5.1
SC002	Housing Authority of the City of Columbia	Metropolitan	3500+	Complete	2.7
SC911	SC State Housing Authority	Metropolitan	800-1999	Complete	6.9
TN004	Chattanooga Housing Authority	Metropolitan	3500+	Complete	2.7
TN007	Jackson Housing Authority	Metropolitan	2000-3499	Complete	5.1
TN076	Elizabethton Housing and Development Agency	Metropolitan	500-799	Complete	9.3
TX003	Housing Authority of the City of El Paso	Metropolitan	3500+	Complete	2.7
TX006	San Antonio Housing Authority	Metropolitan	3500+	Complete	2.7
TX014	Housing Authority of Texarkana	Metropolitan	800-1999	Complete	6.9
TX021	Housing Authority of the City of Brownwood	Rural	700-1499	Complete	11.3
TX073	Pharr Housing Authority	Metropolitan	800-1999	Complete	6.9
TX105	Crystal City Housing Authority	Rural	500-699	Complete	8.7
TX434	Grand Prairie Housing & Neighborhood Services	Metropolitan	2000-3499	Complete	4.8
TX472	City of Amarillo	Metropolitan	800-1999	Complete	6.9
TX480	Travis County Housing Authority	Metropolitan	500-799	Complete	9.9
TX559	Dallas County Health and Human Services (Housing Assistance Program)	Metropolitan	3500+	Complete	2.7
UT007	Housing Authority of the City of Provo	Metropolitan	800-1999	Complete	6.9
VA004	Alexandria Redevelopment & Housing Authority	Metropolitan	2000-3499	Complete	4.8
VA006	Norfolk Redevelopment & Housing Authority	Metropolitan	3500+	Complete	2.7
VA011	Roanoke Redevelopment & Housing Authority	Metropolitan	2000-3499	Complete	5.1
VA018	Franklin Redevelopment and Housing Authority	Rural	500-699	Complete	9.0
VA046	Prince William County Office of Housing and Community Development	Metropolitan	800-1999	Complete	7.3
VA901	Virginia Housing Development Authority	Metropolitan	3500+	Complete	2.7
VT901	Vermont State Housing Authority	Rural	1500+	Complete	1.0
WA001	Seattle Housing Authority	Metropolitan	3500+	Complete	1.0
WA012	HA City of Kennewick	Metropolitan	500-799	Complete	9.3
WA039	Housing Authority of Snohomish County	Metropolitan	2000-3499	Complete	4.8
WI183	Racine County Housing Authority	Metropolitan	800-1999	Complete	6.9
WI207	Eau Claire Housing Authority	Metropolitan	500-799	Complete	9.3
AL077	HA Tuscaloosa	Metropolitan	2000-3499	Incomplete	
NJ025	Housing Authority of the City of Orange	Metropolitan	800-1999	Incomplete	

PHA Code	Housing Authority	Site Type	PHA Size Category	Survey Status	Survey Weight
CT010	Willimantic Housing Authority	Metropolitan	500-799	no response	
CT029	West Haven Housing Authority	Metropolitan	800-1999	no response	
DE002	Dover Housing Authority	Metropolitan	500-799	no response	
GA002	Housing Authority of Savannah	Metropolitan	3500+	no response	
GA006	Housing Authority of the City of Atlanta Georgia	Metropolitan	3500+	no response	
IL025	Housing Authority of the County of Cook	Metropolitan	3500+	no response	
NC020	Housing Authority of the City of Wilson	Rural	700-1499	no response	
NY016	Binghamton Housing Authority	Metropolitan	500-799	no response	
NY018	Plattsburgh Housing Authority	Rural	700-1499	no response	
PA002	Philadelphia Housing Authority	Metropolitan	3500+	no response	
RQ005	Puerto Rico Public Housing Administration	Metropolitan	3500+	no response	
AR197	White River Regional Housing Authority	Rural	1500+	Refused	
FL063	Gainesville Housing Authority	Metropolitan	800-1999	Refused	
FL136	HA Hollywood	Metropolitan	500-799	Refused	
IL057	Housing Authority of Marion County	Rural	700-1499	Refused	
NJ010	Housing Authority of the City of Camden	Metropolitan	2000-3499	Refused	
NJ059	Pleasantville Housing Authority	Metropolitan	500-699	Refused	
PA047	Wilkes Barre Housing Authority	Metropolitan	800-1999	Refused	
RQ014	Municipality of Carolina	Metropolitan	500-799	Refused	
TX017	Housing Authority of the City of Galveston	Metropolitan	2000-3499	Refused	
TX349	Weatherford Housing Authority	Metropolitan	500-799	Refused	
TX440	City of Pasadena Housing Assistance Program	Metropolitan	800-1999	Refused	

Note: Guam had two separate housing authorities listed on the sampling list, but the contact person was the same for both and the respondent answered questions as if the housing authorities were combined. This reduced the number of sample sites from 200 to 199.

Source: List of Public Housing Agencies (PHAs) used for selecting the sample was provided by the U.S. Department of Housing and Urban Development (HUD)

Appendix C. Household Survey Methodology

This study includes survey data we collected from households that were either newly admitted into public housing or the Housing Choice Voucher (HCV) program or were on the wait list for one or both of those programs. The purpose of the survey was to collect information on the economic and housing status of these households, their opinions on current policies, and their preferences regarding possible rent reforms. A copy of the Household survey is available in the *Research Plan for a Study of Rents and Rent Flexibility: Data Dictionary July 2009*.

Household survey participants were selected from the 25 Public Housing Agencies (PHAs) selected for site visits (see Appendix A for a description of the methodology of selecting site visit PHAs). We used the site visit PHAs because site visits were necessary to obtain approval from PHAs to provide contact information for people on their waitlists. PHAs were asked to provide the research team a waitlist dataset that included the following information:

- Head of Household Name;
- Physical Address (where they live);
- Mailing Address;
- Phone Number(s);
- Program (public housing or HCV);
- Date entered waiting list;
- Head of Household Date of Birth;
- Indicator if an Elderly Household; and
- Indicator if a Disabled Household.

The U.S. Department of Housing and Urban Development (HUD) provided a similar dataset on new admitted households based on their Office of Public and Indian Housing Information

Center (PIC) data. For the purposes of this study, new admits were defined as households admitted into public housing or the HCV program on or after June 1, 2008.

In allocating household interviews across PHAs, we sampled 150 households from the three Moving to Work (MTW) rent reform sites: Cambridge, Keene, and Tulare; 125 households from the Chicago Housing Authority, the largest of the other site visit PHAs; 100 households from other PHAs with over 4,000 combined units; and 50 households from the small and medium-sized PHAs. The advantage of this allocation is that it ensures strong representation from PHAs with actual experience implementing rent reform and PHAs in large cities that have varied types of tenants and market areas. The disadvantage of this allocation combined with a sample based on household in only 25 PHAs' jurisdictions is that we cannot extrapolate from the survey responses to make national estimates because the sample variance would be too high.

Within each PHA, the sample was divided into four groups: (1) Newly admitted voucher holders; (2) Newly admitted public housing residents; (3) Households on the voucher waiting list; and (4) Households on the public housing waiting list. When possible, the PHA sample allocation was divided evenly between households on the waiting list and recent admits. In some cases there were not enough new admits in a PHA to select a large enough sample so we had to sample more households from the waiting list. The allocation of waitlist voucher households to waitlist public housing households sampled reflected the allocation of assisted households at that PHA. For example, if 80 percent of assisted households at a PHA were in a public housing unit, then 80 percent of the sampled waiting list households were in public

housing. The new admits sample were allocated based on the proportion of all new admit assisted households. Once the sample was allocated across these groups, we selected a simple random sample from each of the four groups at each PHA.

Our sample consisted of 1,824 households. Once survey households were identified, Abt's survey research group (Abt SRBI) was responsible for scheduling and completing the surveys. Each household was sent a letter informing them of their selection for the study and the procedures for scheduling an interview. During an eight-week period during June and July 2009, professional interviewers hired by Abt SRBI were sent into the field in each of our 25 site visit communities to conduct interviews. The interview was designed to take about 40 minutes and contained close-ended questions on respondents' time on the waiting list, the quality of their housing, current income sources, expenditures, housing search, and their preferences for various rent-setting policies. Before deploying the survey, we performed cognitive testing with wait listed and newly admitted households in the Washington, DC metro area to ensure that the survey questions and survey length were appropriate for the target audience.

We completed 1,204 surveys, a response rate of 66 percent. Exhibit C-1 shows the final disposition of the household sample. Exhibit C-2 presents the total number of completed survey by PHA and sample type.

Exhibit C-1. Final Status of Household Survey Sample

	New Admits: Public Housing	New Admits: Vouchers	Wait list: Public Housing	Wait list: Vouchers	Total	Percent of Sample	Response Rate[a]
Completed Survey	220	380	144	460	1,204	64%	66%
Unable to Locate	41	84	57	184	366	20%	
Located, no appointment	17	33	9	57	116	6%	
Refused	5	37	11	54	107	6%	
Ineligible (Did not pass screener)	2	7	6	20	35	2%	
Homeless	0	1	5	7	13	1%	
Language Barrier	1	2	3	5	11	1%	
Deceased	3	1	0	3	7	<1%	
Other	0	6	2	7	15	1%	
Total	**289**	**551**	**237**	**797**	**1,874**		

[a] Response Rate was calculated as: Completed household surveys divided by (Total sample households minus deceased and ineligible sample households). Ineligible sample members included new admit households that were no longer receiving assistance and wait list households that reported they were no longer on the wait list and no longer wanted housing assistance.

Exhibit C-2. Households Survey Completes by PHA and Sample Type

Housing Authority Name	Respondent Sample Category				
	New Admits		Waitlist		
	Vouchers	Public Housing	Vouchers	Public Housing	Total
Cambridge Housing Authority	29	18	18	10	75
Keene Housing Authority	11	4	65	27	107
Tulare Housing Authority	40	14	34	10	98
Rent Reform Total	***80***	***36***	***117***	***47***	***280***
Austin Housing Authority	15	23	19	5	62
Birmingham Housing Authority	28	15	8	9	60
Charleston/Kanawha Housing Authority	16	7	20	4	47
Charlotte Housing Authority	4	35	22	11	72
Chicago Housing Authority	26	10	35	0	71
Pittsburgh Housing Authority	12	37	30	14	93
Large PHA Total	***101***	***127***	***134***	***43***	***405***
Bessemer Housing Authority	6	12	5	15	38
Boise City Housing Authority	20	0	15	2	37
Dubuque Housing Authority	21	0	12	0	33
Eastern Iowa Housing Authority	15	3	12	3	33
Framingham Housing Authority	16	4	12	1	33
Gastonia Housing Authority	18	6	10	5	39
Idaho Housing Finance Association - Sec 8	19	0	19	0	38
Lake County Housing Authority	12	5	9	4	30
McKeesport Housing Authority	4	14	17	1	36
Muncie Housing Authority	6	7	13	1	27
Santa Barbara City Housing Authority	20	2	9	0	31
Santa Barbara County Housing Authority	10	5	8	1	24
Somerville Housing Authority	14	1	7	4	26
Travis County Housing Authority	6	2	23	2	33
Vancouver Housing Authority	12	7	12	3	34
Waterbury Housing Authority	12	5	6	4	27
Mid-Size PHA Total	***211***	***73***	***189***	***46***	***519***
Total	***392***	***236***	***440***	***136***	***1204***

Note: New Admits are households that started receiving assistance within one year of the start of the survey in June 2009.

Sources: Contact data for new admit households sampling list was provided by HUD from the PIC system. Contact data for waiting list households was provided by the PHAs.

Appendix D. Supplemental Exhibits

Exhibit D-1. Public Housing Agencies (PHAs) with a Minimum Rent below $50

PHA Characteristic	Percent of PHAs with Minimum Rent below $50 (n 175)
All PHAs	27%
FMR Level in PHA's Jurisdiction [a]	
Below Median FMR	22%
Above Median FMR	29%
Region	
Northeast	24%
South	24%
Midwest	25%
West	35%
Metro Status	
Rural	27%
Urban	27%
Size of PHA [b]	
Small (500 to 799 units)	26%
Medium (800 to 1,999 units)	27%
Large (2000 to 3,499 units)	33%
Very large (3,500 units or larger)	21%

[a] Median fair market rent (FMR) was calculated separately for rural (non-metropolitan area) and urban (metropolitan area) PHAs and the FMR of each PHA was compared to the relevant median.
[b] Rural PHAs have slightly different size categories than shown in the exhibit; rural PHAs with 500 to 699 units are in the small category and all rural PHAs with 700 or more combined units are in the medium-size category. The difference in the size categories is because of differences in how the sampling strata were defined for rural and urban areas.

Source: Rent Study Telephone Survey of PHAs weighted to be nationally representative of all PHAs that had a combined voucher and public housing total of at least 500 units.

Exhibit D-2. Percent of Households with Low Total Tenant Payments (TTPs), 2003-2008

Year	Observations	$0	$1-$24	$25	$26-$49	$50	$0-$50	Above $50
Housing Choice Voucher Households								
2003	51,215	2.6%	1.2%	5.2%	3.8%	4.1%	16.9%	83.1%
2004	50,470	2.2%	1.2%	4.3%	3.2%	5.6%	16.4%	83.6%
2005	48,862	1.1%	0.6%	2.8%	1.9%	9.3%	15.7%	84.3%
2006	51,280	1.0%	0.5%	2.1%	1.3%	10.3%	15.1%	84.9%
2007	50,703	0.9%	0.6%	1.7%	1.2%	11.1%	15.4%	84.6%
2008	51,072	1.1%	0.6%	1.7%	1.2%	10.8%	15.4%	84.6%
Public Housing Households								
2003[a]	43,670	0.9%	0.4%	5.1%	2.8%	4.0%	13.2%	86.8%
2004	22,250	1.8%	0.8%	9.3%	4.9%	8.7%	25.5%	74.6%
2005	22,413	1.7%	0.7%	8.4%	3.8%	9.9%	24.5%	75.6%
2006	23,658	1.2%	0.7%	7.4%	2.8%	10.6%	22.7%	77.3%
2007	23,534	1.0%	0.6%	7.0%	2.3%	11.7%	22.7%	77.3%
2008	23,735	0.7%	0.3%	6.7%	2.3%	12.0%	22.0%	78.0%
All Voucher and Public Housing Households								
2003 [a]	94,885	1.8%	0.8%	5.1%	3.4%	4.1%	15.2%	84.8%
2004	72,720	2.1%	1.1%	5.8%	3.7%	6.5%	19.2%	80.9%
2005	71,275	1.3%	0.7%	4.6%	2.5%	9.5%	18.5%	81.5%
2006	74,938	1.0%	0.6%	3.7%	1.8%	10.4%	17.5%	82.5%
2007	74,237	1.0%	0.6%	3.4%	1.5%	11.3%	17.7%	82.3%
2008	74,807	1.0%	0.5%	3.3%	1.6%	11.2%	17.5%	82.5%

[a] The 2003 public housing data does not have the variable to filter out elderly households.

Source: A five percent sample of public housing residents and voucher holders. The analysis presented here is based on non-elderly, non-disabled households in the public housing and voucher program between 2003 and 2008. This analysis excludes voucher households with a housing assistance payment (the subsidy paid by the PHA to the landlord) equal to $0, or missing data on housing assistance payment, gross rent, or total tenant payment.

Exhibit D-3. Rent Burdens in a Flat Rent or Flat Subsidy (FRFS) System Assuming an Increase in Work Effort (Model Three)

	Number of Households [B]	Median Monthly Income	Median Rent Burden	Percent of Household Extremely Rent Burdened
Overall	74,807	$1,000	29%	29%
By Income Group				
Lowest Income (0-15% of AMI)	32,282	$396	66%	63%
Extremely Low Income (16-30% of AMI)	21,761	$1,125	26%	6%
Very Low Income (31-50% of AMI)	15,656	$1,903	18%	0%
Low Income (51-80% of AMI)	4,350	$2,853	12%	0%

Source: A five percent sample of public housing residents and voucher holders. The analysis presented here is based on non-elderly, non-disabled households that lived in public housing or used a voucher in 2008, excluding voucher households with a housing assistance payment equal to $0, or missing data on housing assistance payment, gross rent, or total tenant payment. Applying the results from Ludwig and Jacobs, we assumed a flat rent would increase the average earnings of employed households by $912 and increase the overall employment rate of assisted households by 3.6 percentage points. We created a normal distribution of wage earnings with a mean of $912 and applied it randomly to assisted households with wage income. For assisted households without wage income we assigned wage income to enough households to increase the employment rate by 3.6 percentage points. Unemployed households who were assigned wage income were given earnings equal to the 30^{th} percentile earnings of wage earners within their metro area.

Exhibit D-4. Length of Stay to Date for Flat Rent and Other Public Housing Households

	Households Paying Flat Rents		Other Public Housing Residents		Other Public Housing Residents (non extremely low income)	
Number of households	37,334		293,895		56,268	
Percent of all households	11.3%		88.7%		17.0%	
Mean length of stay to date (in years)	6.8		6.3		7.3	
Median length of stay to date (in years)	4.0		3.1		4.1	
Length of Stay Distribution	**Number of Households**	**Percent**	**Number of Households**	**Percent**	**Number of Households**	**Percent**
<2 years	9,280	25%	94,872	32%	14,539	26%
2 - <5 years	10,976	29%	85,770	29%	15,728	28%
5 - < 10 years	8,472	23%	53,998	18%	11,628	21%
10 - <20 years	6,017	16%	38,494	13%	9,578	17%
20 + years	2,589	7%	20,761	7%	4,795	9%
Mean income	$29,727		$8,974		$21,740	
Median income	$26,151		$6,696		$20,193	
Average income as a percent of area median	53.8%		16.2%		41.2%	

Source: Data are from 2008 PIC system, excludes elderly and disabled households and all NYC households.

Exhibit D-5. LIHTC Rents as a Percentage of FMRs

Gross Rent as a % of FMR	Percent of Units with This Rent Level
70% or less	26%
71-80%	16%
81-90%	18%
91-100%	17%
Greater than 100%	22%

Note: The estimates in this exhibit are based on all the units in a sample of 39 properties in five metropolitan areas that are weighted to represent all units in LIHTC properties placed in service between 1992 and 1994 in the five metropolitan areas. The gross rent information is from 1999.

Source: Buron, Larry, Sandra Nolden, Kathleen Heintz, and Julie Stewart (2000).

Exhibit D-6. Characteristics of PHAs Above and Below Current Average Housing Assistance Payments Relative to FMR

	Number of PHAs	Percent of PHAs with Above Average HAP Relative to FMR	Percent of PHAs with Below Average HAP Relative to FMR	Number of Households	Percent of Households with Above Average HAP Relative to FMR	Percent of Households with Below Average HAP Relative to FMR
Metro Type						
Rural	733	44%	56%	5,214	50%	50%
Urban	1,228	58%	42%	42,540	63%	37%
Census Region						
Northeast	464	56%	44%	10,150	43%	57%
Midwest	519	53%	47%	10,388	73%	27%
South	702	52%	48%	17,225	69%	31%
West	260	54%	46%	9,538	49%	51%
Number of Voucher Units						
Less than 330 units	974	46%	64%	3,720	46%	54%
330 to 524 units	279	51%	49%	2,516	53%	47%
525 to 1,320 units	411	59%	41%	8,361	62%	38%
More than 1,320 units	319	66%	34%	33,705	63%	37%
Median Income of Assisted Households as a Percent of Area Median Income						
Less than or equal to 10%	275	89%	11%	2,419	93%	7%
Between 10 and 20%	926	61%	39%	32.021	77%	23%
Greater than 20%	784	23%	77%	18,637	27%	73%

Source: PIC five percent sample of public housing residents and voucher holders. The analysis presented here is based on non-elderly, non-disabled households that lived in public housing or used a voucher in 2008, excluding voucher households with a housing assistance payment equal to $0, or missing data on housing assistance payment, gross rent, or total tenant payment.

Exhibit D-7. Average Household Subsidy Level Relative to FMR

Average Subsidy by PHA (HAP/FMR)	Number of PHAs	Percent of PHAs	Number of Voucher Recipients	Percent of Voucher Recipients
Less than 40% of FMR	127	6%	341	1%
40-49% of FMR	185	9%	1,951	4%
50-59% of FMR	503	25%	9,531	20%
60-69% of FMR	663	32%	22,491	47%
70-79% of FMR	404	20%	12,213	25%
80% or more of FMR	166	8%	1,760	4%

Source: PIC five percent sample of voucher holders. The analysis presented here is based on non-elderly, non-disabled households that used a voucher in 2008, excluding exiting households, voucher households with a housing assistance payment equal to $0, or missing data on housing assistance payment, gross rent, or total tenant payment. Because this is a five percent sample, the number of households should be multiplied by 20 to estimate the total national number of households receiving each level of subsidy.

Appendix E. Cambridge Housing Authority Rent Simplification Matrix

RENT CALCULATION WORKSHEET – FAMILY PUBLIC HOUSING
(Excludes Washington Elms)

Head of Household Name: _____ Unit Number: _____

Social Security Number: _____

Household Annual Income: _____ ☐1ST ☐2ND ☐Other

Less full-time student income: _____

Less medical deduction: ☐$2,500 ☐$5,000 ☐Hardship

Less childcare deduction: ☐$2,500 ☐$5,000 ☐Hardship

ADJUSTED INCOME: _____

BEDROOM SIZE: ☐1BR ☐2BR ☐3BR ☐4BR ☐5BR+

CERT TYPE (CIRCLE ONE): INTERIM BIENNIAL

Please circle the appropriate rent on the chart:

Medical/Childcare Deductions Table:

Medical Expenses	Medical Deduction	Childcare Expenses	Childcare Deduction
$1-$2,500	0	$1-$2,500	0
$2,501-$5,000	$2,500	$2,501-$5,000	$2,500
$5,001-$7,500	$5,000	$5,001-$7,500	$5,000
$7,501 and over	Go to Hardship	$7,501 and over	Go to Hardship

Rent Simplification Rent Schedule – Family Public Housing Excluding Washington Elms

Utilities already subtracted

Utility Allowances		($42)	($49)	($57)	($67)	($67)	($67)
Income Range		Bedroom size 1	2	3	4	5	6
$0	$2,499	$50 for 12 months					
$2,500	$4,999						
$5,000	$7,499	$83	$76	$68	$58	$58	$58
$7,500	$9,999	$146	$139	$131	$121	$121	$121
$10,000	$12,499	$208	$201	$193	$183	$183	$183
$12,500	$14,999	$271	$264	$256	$246	$246	$246
$15,000	$17,499	$333	$326	$318	$308	$308	$308
$17,500	$19,999	$396	$389	$381	$371	$371	$371
$20,000	$22,499	$458	$451	$443	$433	$433	$433
$22,500	$24,999	$521	$514	$506	$496	$496	$496
$25,000	$27,499	$583	$576	$568	$558	$558	$558
$27,500	$29,999	$646	$639	$631	$621	$621	$621
$30,000	$32,499	$708	$701	$693	$683	$683	$683
$32,500	$34,999	$771	$764	$756	$746	$746	$746
$35,000	$37,499	$844	$826	$818	$808	$808	$808
$37,500	$39,999	$844	$889	$881	$871	$871	$871
$40,000	$42,499	$844	$951	$943	$933	$933	$933
$42,500	$44,999	$844	$1,004	$1,006	$996	$996	$996
$45,000	$47,499	$844	$1,004	$1,068	$1,058	$1,058	$1,058
$47,500	$49,999	$844	$1,004	$1,168	$1,121	$1,121	$1,121
$50,000	$52,499	$844	$1,004	$1,168	$1,233	$1,183	$1,183
$52,500	$54,999	$844	$1,004	$1,168	$1,233	$1,246	$1,246
$55,000	$57,499	$844	$1,004	$1,168	$1,233	$1,364	$1,308

NEW RENT: _____ **EFFECTIVE:** _____

This form was completed by: _____ Date: _____

Effective Date 2/09

Appendix F. Using Flat Rents as Part of a New Operating Subsidy System for Public Housing

Most Public Housing Agencies (PHAs) rely on two sources for the funds they need to operate public housing: the rents they collect from tenants and the operating subsidy paid by the Office of Housing and Urban Development (HUD). Rents charged to tenants are subtracted from a subsidy standard, now called the Project Expense Level (PEL), which was set by using the cost of operating privately owned multifamily housing as a benchmark.[83]

Generally, the amount of rent collected by a PHA does not affect the agency's total revenue available for operating public housing. However, HUD changed the subsidy formula in 2004, allowing PHAs to retain increases in rental revenue above that year's level. Thus, for several years, PHAs operated under a system under which whereby they had a strong incentive to charge and collect more rent from public housing residents either by encouraging current residents to earn more or by attracting or retaining relatively higher-income residents—for example, through the optional flat rents.[84]

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[83] The formula expenses for each project are determined by adding the PEL, the utility expense level (UEL), and additional expenses. The additional expenses include the costs of self-sufficiency program coordinator(s) and other allowable costs, energy loan amortization, payment in lieu of taxes, cost of independent audits, funding for resident participation activities, asset management fees, asset repositioning fee, and costs attributable to changes in federal law, regulation, or the economy.

[84] The freeze in the rental income component of the calculation was part of the negotiated rule in response to a provision in the Quality Housing and Work Responsibility Act (QHWRA). The provision stated that the operating subsidy formula should provide that PHAs benefit from encouraging increases in earned income.

PHAs with Moving to Work (MTW) demonstration authority operate on a somewhat different system. They receive an operating subsidy amount based on historical amounts, adjusted for inflation. If they are able to charge and collect additional rent above that "block grant" amount, they may retain it, although the new 2010 baseline for PHA income applies to some MTW PHAs.

Beyond the operating subsidy, PHAs secure the funds they need to cover capital costs from a separate Capital Fund. Each year, Congress appropriates an amount for the Capital Fund that is based not on a formula but instead on historical amounts of the same appropriation and on what fits within the budget constraints within which appropriators must work. The appropriation then is allocated to PHAs according to a formula that measures the capital needs of a sample of properties and relates property characteristics to needs.

Recently, policymakers have been discussing the possibility of moving beyond the current asset management requirement and changing the public housing operating subsidy to a rent subsidy similar to the rent subsidies paid by HUD for Section 8 projects—or similar to the rent subsidies paid to private owners by PHAs under the Housing Choice Voucher (HCV) program.

If PHAs were to charge flat rents based on the market value of public housing developments, how far would the rental revenues go in covering the operating costs of the properties owned by PHAs? The PHAs in Tulare and San Diego charge public housing rents that cover their operating costs. Could other PHAs do the same either under MTW authority or if the entire

public housing program switched from an operating to a rent subsidy? Could they cover both operating and capital needs? The data collected for this study cannot directly answer these questions. However, PHAs' experience with the optional flat rents set under QHWRA and with alternative rent systems established by MTW PHAs can provide some insight.

As shown in Exhibit F-1, 37 percent of PHAs reported that the optional flat rent increased agency revenues. Only 12 percent said that flat rents decreased revenues while just over half (51 percent) said that they had no effect. PHAs with higher concentrations of flat-rent households were more likely to say that flat rents resulted in increased revenues. Among the small percentage of PHAs with at least 25 percent of residents paying flat rents (fewer than 7 percent of all PHAs), two-thirds said that optional flat rents had generated additional revenue compared with income-based rents.

Exhibit F-1. Impact of Flat Rents on PHA Revenues

Impact		PHAs (n 93)
PHA Revenues	Increased	37%
	Decreased	12%
	No Effect	51%

Source: Rent Study Telephone Survey of PHAs, all respondent PHAs with public housing weighted to be nationally representative of all PHAs that had a combined public housing and voucher total of at least 500 units.

Compared to an optional flat rent, a mandatory flat rent might have a greater impact on increasing PHA revenue because it applies to all households, including those whose income-based rents would have been lower than the flat rent. Revenue increases would be greatest if PHAs were to set the flat rent at units' full market value.

Chapter 2 describes how PHAs set the optional flat rents required by QHWRA and shows that, even though the statute refers to market value, most PHAs do not attempt to reflect the full market value of unsubsidized units in their flat rents. Eighty-two percent of PHA staff indicated that bedroom size affected the flat-rent amount, 22 percent indicated that location influenced the flat-rent amount, and 18 percent indicated that amenities influenced the flat-rent amount.[85] However, many PHAs also said that, in setting flat rents for public housing, they made some use of "rent reasonableness" data—that is, the local rental housing market data they collect in order to compare rents requested by owners in the HCV program with market rents.

Exhibit F-2 shows an analysis using PIC data that compares the average current tenant rents received by PHAs with Fair Market Rent (FMR). PHAs vary widely in how the revenue they generate from public housing tenant rents compares with FMRs, with half (51 percent) of PHAs obtaining median rents between 21 and 40 percent of the local FMR and only 14 percent of PHAs obtaining median rents above 50 percent of FMR. Most current public housing tenants would need a rent subsidy if flat rents were set between half and full FMR. PHAs with a

Exhibit F-2. Distribution of Average Public Housing Tenant Rents by PHA

Ratio of Average Rent to FMR	Percent of PHAs	Number of PHAs
0–10% of FMR	5%	108
11–20%	17%	370
21–30%	28%	622
31–40%	23%	508
41–50%	14%	302
51–60%	7%	148
61–100%	7%	144

Source: Five percent sample of PIC data for 23,734 non-elderly/ non-disabled public housing residents in 2,202 PHAs. For each PHA, the reported figures are the average rent-to-FMR ratio of its tenants.

[85] The factors are not mutually exclusive.

higher average tenant rent payment would have larger numbers of current residents able to afford a flat rent close to the market value of the housing or a flat rent high enough to pay for operating costs.

Tulare sets its flat rent between 39 and 47 percent of FMR, depending on the number of bedrooms in a unit. It chose to set its flat rent within this range in order to cover its operating costs. The PHA does not receive an operating subsidy from HUD. Tulare's operating costs are low enough that most tenants can afford to pay the flat rent and still "save for buying their own home or gaining additional education or purchasing a reliable car…." However, Tulare staff noted that a mandatory flat rent set at operating cost might not work for all PHAs.

Exhibit F-3 cross-tabulates PHAs' average tenant rents paid in public housing with their opinions on flat rents set between $150 and $300. Flat rents at these levels would be relatively low compared with the operating costs of public housing developments. Most current PELs range between about $275 and $600 and do not include the utility costs paid by PHAs rather than by residents (HUD 2009).

Exhibit F-3. PHA Preferences for Alternative Rent Systems Based on Current Average Public Housing Rent

	PHAs with Median Rents in the (n 102)				
	Lowest Quartile	Second Quartile	Third Quartile	Highest Quartile	All PHAs
Flat rents averaging between $150 and $300 based only on number of bedrooms, with no yearly change except an inflation index					
Worth considering	53%	43%	37%	52%	46%
Not worth considering	47%	57%	63%	48%	54%

Sources: The Rent Study Telephone Survey for PHA preferences and the 5 percent sample of PIC data on average tenant rent for non-elderly/non-disabled public housing residents in the 120 sample PHAs with average rent information available. Of the 120 PHAs with average rent information available, 18 did not answer the preference question.

PHAs with current average rents in the lowest and highest quartiles would be most interested in experimenting with a flat rent between $150 and $300. The relatively greater interest in flat rents among PHAs with relatively better-off current tenants (the highest quartile of rents) is not surprising; such tenants would most likely be able to pay flat rents at these levels. The relatively greater interest among PHAs with current tenants in the lowest quartile of rent-paying ability is more surprising but may reflect agencies' dissatisfaction with operating public housing with high concentrations of poor households. They may be interested in a policy that would lead to greater income diversity among the households in their developments.

Exhibit F-4 shows the characteristics of PHAs with public housing total tenant payments (TTP) in each quartile. Current rent-paying ability may suggest which PHAs would be most likely to use discretionary authority in setting flat rents under an expanded MTW. Current rent-paying ability also suggests which PHAs would have to make the most dramatic change in the households they serve in order for some or all of their residents to pay flat rents that cover operating costs without a rent subsidy such as a Section 8 subsidy or voucher.

Exhibit F-4. Characteristics of PHAs Based on Average Total Tenant Payment

	Number of PHAs	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
Average TTP	2,056	<=$154	<=$223	<=$309	>$309
Metropolitan Type					
Rural	1,070	29%	26%	26%	19%
Urban	980	20%	24%	24%	32%
Census Region					
Northeast	277	9%	15%	21%	55%
Midwest	504	31%	22%	26%	22%
South	1,100	29%	30%	26%	15%
West	174	8%	18%	23%	51%
Number of Public Housing Units					
Fewer than 100 units	607	26%	19%	25%	30%
100–500 units	1,089	26%	26%	26%	22%
500–1,000 units	194	22%	29%	23%	26%
More than 1,000 units	166	17%	37%	25%	21%
Median Income of Assisted Households as a Percent of Area Median Income					
Less than or equal to 10%	433	79%	18%	3%	1%
Between 10 and 20%	681	22%	45%	24%	10%
Greater than 20%	942	3%	14%	36%	47%

Source: A 5 percent sample of public housing residents. The analysis is based on Total Tenant Payment of non-elderly/non-disabled households that lived in public housing in 2008.

PHAs with the greatest rent-paying ability among current residents are more likely to live in urban areas in either the Northeast or West rather than in the Midwest or South. They also are somewhat more likely to operate small numbers of public housing units (fewer than 100). On the other hand, PHAs with more than 1,000 public housing units are less likely to have current tenants in the *highest* quartile of rent-paying ability.

For many PHAs, perhaps most, charging flat rents that cover operating costs would mean serving relatively higher-income tenants, receiving rent subsidies, or operating with some combination of both. Low Income Housing Tax Credit (LIHTC) developments charge rents that cover operating costs and sometimes even retire a portion of the debt associated with

development costs. The maximum rent allowable for most LIHTC developments is 30 percent of 60 percent of area median income, and incomes of residents without a rent subsidy usually range from 40 to 60 percent of area median income, much higher than the incomes of typical public housing residents.[86] However, many residents of LIHTC developments have lower incomes and can afford to live in such housing because they have rent subsidies. Public housing developments that charge market-based flat rents also could serve some extremely low-incomes residents who benefit from rent subsidies as well as some residents who have relatively higher incomes and pay the full flat rent.

To understand the revenue implications for PHAs of flat rents set at market levels, we would have to estimate the market value of public housing developments. A HUD (1996) staff study made such estimates in the mid-1990s for public housing developments owned and operated by the Housing Authority of Baltimore City (HABC). The study found that, of the 46 developments owned by HABC at the time, 22 developments, representing about 32 percent of all units, would operate at a surplus if HABC charged market rents reflecting the condition of the housing without any capital improvements or redevelopment.[87] In addition, the study found that "a little over 40 percent of family developments would yield surpluses, while another 27 percent might do so depending on the treatment of [HABC's] central costs." The total estimated deficit (the difference between operating costs and rental revenue) from

[86] A study by Buron et al. (2000) of the LIHTC program in five metropolitan areas found that 78 percent of the LIHTC units had rents below the local FMR. See Appendix D, Exhibit D-5 for a distribution of LIHTC rents relative to FMR found in that study.

[87] The study assumed that current tenants would receive vouchers that they could use either to remain in public housing or to move out.

converting the entire HABC stock to market rents was $19.3 million, or about 21 percent of total operating costs.

Since the Baltimore study was conducted, many of HABC's lowest-value public housing developments have been redeveloped under the HOPE VI program. The HUD study estimated that three of HABC's family high-rise developments accounted for two-thirds of the operating deficit that would have been created by an immediate conversion to a subsidy system based on mid-1990s market rents. Baltimore no longer operates any family high-rise developments.

Summary of Using Flat Rents as Part of a New Operating Subsidy

The section examined whether PHAs could cover operating costs if they were to charge flat rents based on the market value of public housing developments. The initial indication is that, for many PHAs, flat rents could be set at levels that cover a PHA's operating costs. This approach, however, would mean that PHAs would need to serve relatively higher-income tenants, tenants receiving rent subsidies, or some combination of both. As discussed in Chapter 4, many of the PHA staff we interviewed on the site visits were concerned that a flat rent that was revenue neutral would have be set too high to be affordable to the lowest-income participants, which would make it difficult to achieve their PHA's mission of serving the most disadvantaged. In this context, this suggests that having rent subsidies to ensure these developments were still affordable to the lowest income tenants is an important part of changing to a new operating subsidy system.

Appendix G. Rent Study Research Team

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