Financial Impact of 2013 Cost Savings Proposals

- This information was previously shared with industry and advocacy groups in February 2012 after the President’s 2013 Budget was released.
- Information not previously provided as part of the 2013 President’s Budget roll-out is considered pre-decisional.
- These cost savings proposals were not included as part of the 2012 Estimate of Operating Subsidy, therefore no assumptions are provided for these cost savings proposals as they relate to the 2012 estimate. No cost savings proposals included in the 2012 estimate.
- The 2012 Congressional Justification provides detail for the assumptions included in the development of the 2012 Estimate of Operating Subsidy needs.

### Impact of a $75 Minimum Rent on Assisted Households\(^1,2\)

<table>
<thead>
<tr>
<th>Program</th>
<th>Total Households</th>
<th>Households Affected</th>
<th>Percent of Households Affected</th>
<th>Average Family Contribution, current policy ($)</th>
<th>Average Family Contribution, proposed policy ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Choice Vouchers</td>
<td>1,873,903</td>
<td>185,972</td>
<td>10.7%</td>
<td>$76.53</td>
<td>$101.41</td>
</tr>
<tr>
<td>Public Housing</td>
<td>1,136,003</td>
<td>151,614</td>
<td>13.3%</td>
<td>$42.64</td>
<td>$75.00</td>
</tr>
</tbody>
</table>

### Impact of a Medical Deduction Increase from 3% to 10% on Assisted Households

<table>
<thead>
<tr>
<th>Program</th>
<th>Total Households</th>
<th>Households Affected</th>
<th>Percent of Households Affected</th>
<th>Average Family Contribution, current policy ($)</th>
<th>Average Family Contribution, proposed policy ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Choice Vouchers</td>
<td>1,873,903</td>
<td>110,875</td>
<td>10.7%</td>
<td>$377.22</td>
<td>$394.22</td>
</tr>
<tr>
<td>Public Housing</td>
<td>1,136,003</td>
<td>122,715</td>
<td>10.8%</td>
<td>$288.11</td>
<td>$307.37</td>
</tr>
</tbody>
</table>

\(^1\) All counts and percentages are based on the assumption that current minimum rent exemptions remain in place.
\(^2\) MTW households are not included on the assumption that the change in minimum rents will not affect them.
The Interaction Between an Increased Minimum Rent and Medical Deduction Threshold on Assisted Households$^{,4}$

There is almost no overlap between the households impacted by the increase in the minimum rent and the households impacted by the change in the medical allowance threshold. This is not a surprise given that households affected by the medical allowance threshold generally have income.

<table>
<thead>
<tr>
<th>Program</th>
<th>The number of households no longer affected by the change in minimum rent after the medical threshold is increased</th>
<th>The number of households whose minimum rent is reduced by the change in the medical allowance threshold</th>
<th>Total reduction in Estimated Minimum Rent Savings due to a concurrent change in the Medical Allowance Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Choice Vouchers</td>
<td>241</td>
<td>612</td>
<td>$51,528</td>
</tr>
<tr>
<td>Public Housing</td>
<td>378</td>
<td>1174</td>
<td>$103,420</td>
</tr>
</tbody>
</table>

Number of Households with Hardship Exemptions

<table>
<thead>
<tr>
<th>Exemptions</th>
<th>Households with Exemptions</th>
<th>Percent of households with exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCV</td>
<td>6,088</td>
<td>0.3%</td>
</tr>
<tr>
<td>PH</td>
<td>4,841</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

$^{3}$ All counts and percentages are based on the assumption that current minimum rent exemptions remain in place.

$^{4}$ MTW households are not included on the assumption that the change in minimum rents will not affect them.
2013 Operating Subsidy Flat Rent Cost Savings Proposal

Current Statute
Generally, households in public housing pay an income-based rent, unless they choose a flat or ceiling rent, discussed below. A flat or ceiling rent “caps” the tenant contribution a household would otherwise pay if they were to select an income-based system rent. The impact of this choice is that the Operating subsidy amount provided to the PHA is increased by the foregone rent. A total of 167,884 households, or approximately 14.4% of public housing tenants, are paying a flat rent (or ceiling rent). Of these households, 67,804 are served by the New York City Housing Authority (NYCHA).

Flat Rents
Flat rents were created by the Quality Housing and Work Responsibility Act of 1998 (QHWRA) and are intended to be calculated based on market rents charged for comparable units, taking into consideration location, size, age, maintenance, utilities, and any services offered in the development. Utility allowances are not paid under a flat rent.

Families must be given a choice annually between paying flat and income-based rent. Presumably, families electing to pay a flat rent will have higher incomes and choosing the flat rent will result in a lower rent contribution than choosing an income-based rent. Nationally, the average total income (not adjusted) of a household paying an income-based rent was $10,015 in 2011 while the average income of a household paying a flat (or ceiling) rent was $32,420.

There are several benefits associated with flat rents. Under QHWRA, flat rents were intended to encourage increased self-sufficiency among public housing residents and to help de-concentrate poverty within public housing developments. Households choosing a flat rent generally enjoy a lower rent and are not subject to, what is considered a disincentive to increased work, the 30% “tax” of an income based rent. As a result, families receive the full benefit of their work activity, public housing developments enjoy increased stability and retain higher income households, thereby reducing concentrations of poverty.

PHAs also receive administrative relief as flat rent households are not subject to an annual income recertification. Instead, flat rent households are required to update their household composition on an annual basis and undergo income recertification once every three years.

Ceiling Rent
Prior to October 1, 1999, PHAs could elect to set ceiling rents based on (1) the fair market rent for Section 8 units in the area (2) the imputed debt service and operating costs for the unit or (3) the rental rates of comparable, non-assisted rental units in the community. After October 1, 1999, any PHAs that were already using ceiling rents were allowed to continue using these rents for an additional 3 years, at

5 24 C.F.R. 960.253(b)(2)
which time the ceiling rent amounts had to be adjusted to the level of flat rents. While no new ceiling rents can be adopted by PHAs, units that previously had set ceiling rents can continue to offer these; however, because flat and ceiling rents are now set at the same level, PHAs must still determine the market value of the unit in order to set the ceiling rent, essentially setting a flat rent. (An advantage of continuing to offer ceiling rents is that households can elect ceiling rents at any time during a year whereas flat rents are only available at annual reexamination.)

Proposed Change
PHAs have discretion to establish flat rents that are based on the rental value of the unit. The statute also provides that the PHA shall be considered to comply if the flat rent “does not exceed actual monthly costs”. This proposal establishes a minimum threshold for setting flat rents at no lower than 80% of the respective fair market rental. The proposed language also removes any perceived maximum for setting rents, thereby allowing PHAs to charge full market value as appropriate and consistent with their housing mission.

After full implementation, the estimated impact would reduce the annual Operating Subsidy eligibility by and estimated $429 million. In the first year of implementation, the budget impact in 2013 is estimated at $150 million. The 2013 budget proposal includes language that permits the Secretary to recognize this savings in 2013 – which is a change to the Operating Subsidy negotiated rule. This flexibility is important given that flat rents are not widely distributed among all housing authorities. As noted 37% of all flat/ceiling rent households are located at one PHA, and account for roughly 61%.

Assumptions
- The rent increase occurs at the time of the lease renewal
- Families choose to pay the lower of the income based rent or the new flat rent.
- Participants do not leave.
- MTW agencies are not included in the analysis given their broad flexibility in setting rent policy.

Implementation Strategy
- New flat rents are phased in over 3 years and must be fully implemented by October, 2015.
- No family would see their rent increase by more than 35% in a given year.
- Families retain their option to annually select either an income based rent or a flat rent.

Elimination of Flat Rents
During the Senate briefing, the question was raised as to what would be the impact of eliminating flat rents entirely. The following table presents the estimated budget impact of moving everyone to an income based rent. This estimate represents the impact of full implementation, although the one year savings of $150 million would hold under a similar phase in strategy.

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6 24 C.F.R 960.253(d). Families who elect a flat rent are not eligible for utility reimbursements, while ceiling rents are eligible for utility reimbursements. In order to ensure that the flat and ceiling rents are equal, ceiling rents in units where tenants pay for utilities should be set to the flat rent amount plus any utilities.
7 §960.253(f)(1); 960.253(a)(1)
Impact of Eliminating Flat Rents on Assisted Households

<table>
<thead>
<tr>
<th>Program</th>
<th>Estimated Savings (millions)</th>
<th>Total Households</th>
<th>Households Affected</th>
<th>Percent of Households Affected</th>
<th>Average Family Contribution, current policy ($)</th>
<th>Average Family Contribution, proposed policy ($)</th>
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<tbody>
<tr>
<td>Public Housing</td>
<td>$670</td>
<td>1,136,003</td>
<td>167,888</td>
<td>14.4%</td>
<td>$446.41</td>
<td>$783.72</td>
</tr>
</tbody>
</table>

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8 All counts and percentages are based on the assumption that current minimum rent exemptions remain in place.
9 MTW households are not included on the assumption that the change in flat rents will not affect them.