

# PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

**REPORT TO COMMISSIONERS**

**FROM JON M. GUTZMANN  
EXECUTIVE DIRECTOR**

**REGARDING** Rental Assistance Demonstration (RAD);  
Policy on Phasing In Rent Increases  
After Conversion for Public Housing  
Residents Who Pay Flat Rent

**DATE** August 28, 2019

Staff requests Board approval of Resolution No. 19-8/28-01 to adopt a policy that is required as part of the RAD conversion of public housing units to Project-Based Rental Assistance (PBRA), to soften the impact of rent increases that current “flat rent” payers would experience under PBRA. The policy would spread the rent increases over five years, gradually raising those households’ rent from the artificially low flat rent level up to the income-based rents required for all residents under PBRA (30% of adjusted income). The attached draft shows the full text of the recommended policy.

This policy would apply only to about 127 current households in the eight PBRA projects (3,855 units). Those are the households that have relatively higher incomes and who have chosen to pay the flat rent (based on their unit size) rather than an income-based rent. This “choice of rents” option in the Low Income Public Housing (LIPH) program<sup>1</sup> does not exist in PBRA. In PBRA all residents have to pay 30% of their adjusted income for rent, even if that amount would exceed the “contract rent” for their unit or even the Fair Market Rent published by HUD. Because flat rents will no longer be allowed after the conversion, most flat rent payers will see an increase in their

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<sup>1</sup> Flat rents were adopted as part of the 1998 Public Housing Reform Act, known as the Quality Housing and Work Responsibility Act (QHWRA).

monthly rent payment<sup>2</sup>. The recommended policy will make the increase gradual rather than immediate.

Aside from the flat rent feature in public housing, the rent calculations in LIPH and PBRA programs are similar, with most residents paying 30% of their adjusted household income for rent<sup>3</sup>. For current residents paying an income-based rent, their rent amount will remain about the same after the RAD conversion.<sup>4</sup>

Staff explained this “end of flat rent” requirement of the RAD/PBRA conversion at all of the RAD information meetings with residents. Staff held 23 RAD information meetings with residents at various PHA sites in July 2017, and summarized all of the questions and responses in a 40-page document given to the Board for the August 23, 2017 Board meeting. The PowerPoint presentation on RAD that staff showed at all of those meetings included a slide that stated,

If RAD conversion results in a flat rent payer’s rent going up ... by more than 10% or \$25 per month, the increase will be phased in over a 3 to 5 year period.

Staff held another 19 RAD information meetings with residents over a two-week period in December 2018, again explaining that the flat rent payers were an exception to the general rule that residents would pay the same rent after the RAD conversion as before. Staff again summarized all of the questions and responses from the December 2018 information meetings in a 38-page document given to the Board for the February 27, 2019 Board meeting. In both rounds of

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<sup>2</sup> A few residents choose the flat rent even though it is higher than their income-based rent would be, because they anticipate increasing their income. Residents can only choose the flat rent at the time of their annual reexamination, for the year ahead.

<sup>3</sup> Families with little or no income must pay the minimum rent of \$50 in Public Housing; \$25 in PBRA. Those families pay more than 30% of their adjusted income.

<sup>4</sup> Some families’ rent amount will change by small amounts because of PBRA-required adjustments in utility allowances, changes in minimum rents, and minor differences in income and rent calculations.

information meetings very few residents asked questions about flat rents (most often, “What’s flat rent?”). The written summaries from the second round of meetings show that when residents did ask about the flat rents, staff explained that there would be a five year phase-in period.

HUD rules require the PHA to adopt a rent phase-in policy, with the only option being to spread the rent increase over three years or five years. Staff is recommending the maximum period of five years, to give the affected residents the most time to either adjust to paying the higher rent or to rent or purchase a suitable home in the private market.

Within that group of 127 households paying flat rent (as of August 1, 2019) there is a wide variety of circumstances, as shown in the following estimates:

- About 11% of flat rent payers will actually pay less rent because 30% of their current adjusted income is lower than the flat rent. These households may be experiencing a temporary reduction in earnings, but they chose to keep paying the flat rent because they are anticipating increasing their income soon.
- About 6% of flat rent payers would go directly to income-based rent after their next reexamination after the conversion, because their rent increase will be less than 10% of the flat rent and less than \$25 per month.
- For about 83% of current flat rent payers, their income-based rent will be higher than what they have been paying as flat rent. The recommended five-year phase in period starts by increasing the rent by 20% of the difference in the first year, as follows:
  - 11% of flat rent households would pay an average of \$13 more per month in the first year
  - 19% of flat rent households would pay an average of \$30 more per month
  - 18% of flat rent households would pay an average of \$50 more per month
  - 15% of flat rent households would pay an average of \$70 more per month
  - 5% of flat rent households would pay an average of \$90 more per month
  - 7% of flat rent households would pay an average of \$105 more per month
  - 8% of flat rent households would pay more than \$105 per month in higher rent.

Despite the Twin Cities’ tight rental market and the high cost of homes available for purchase, it is likely that many of the current flat rent payers who face large rent increases will choose to move out before the end of the five-year period over which the flat rents will phase out.

The current flat rents are as follows:

Flat Rents effective 4/1/2018	OBR	1BR	2BR	3BR	4BR	5BR	6BR
	\$711	\$864	\$1,089	\$1,547	\$1,812	\$2,083	\$2,355

Background on flat rents. On November 22, 2017 the Board approved staff’s recommendation to increase the flat rents to equal the 2018 Fair Market Rents (FMRs). On September 26, 2018 the Board approved freezing the flat rents at those amounts, rather than adjusting them to keep pace with changes in the FMRs. For hi-rise residents who choose the flat rent option instead of the income-based rent (30% of adjusted household income), the flat rent is the amount they pay to the PHA each month for rent and utilities. In the family units residents pay their own bills for gas and electricity, so the utility allowance is subtracted from the flat rent to determine the rent amount payable to the PHA.

With a five year phase-in policy, HUD’s Multifamily Housing (PBRA) rules limits the first year’s increase to 20% of the difference between the affected tenant’s flat rent and the income-based Total Tenant Payment (TTP) in PBRA. In subsequent years the rent would increase to 40%, 60% and 80% of the difference, ending at the full income-based rent in the fifth year.<sup>5</sup> The first increase will take place at the first annual or interim recertification after the conversion to PBRA. The rent will increase again at the each successive annual recertification (or an earlier interim recertification), with the tenant beginning to pay the full calculated Multifamily Housing TTP by the fifth annual recertification after the conversion.

MW/LF/KNG/FAH

Attachments: Resolution No. 19-8/28-01; Proposed Rent Phase-In Policy

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<sup>5</sup> The current schedule dictates increases of 20%-40%-60%-80%-100%. HUD has proposed a different schedule but has not implemented it yet (20%-25%-33%-50%-100%). If HUD does implement the revised phase-in schedule, staff will follow HUD’s guidance and seek further Board action if necessary.

**PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL  
RESOLUTION NO. 19-8/28-01**

**RENTAL ASSISTANCE DEMONSTRATION (RAD) CONVERSION TO  
PROJECT-BASED RENTAL ASSISTANCE (PBRA);  
APPROVAL OF POLICY ON PHASING IN RENT INCREASES  
FOR FLAT RENT PAYERS**

WHEREAS, the Public Housing Agency of the City of Saint Paul (PHA) has applied to the U.S. Department of Housing & Urban Development (HUD) to convert 3,855 dwelling units of Low Income Public Housing (LIPH; Section 9) to Project-Based Rental Assistance (PBRA; Section 8), through HUD's Rental Assistance Demonstration (RAD) program, as initially approved by the PHA's Board of Commissioners on August 23, 2017; and

WHEREAS, on July 26, 2019 the PHA received HUD's "RAD Conversion Commitments" (RCCs) for all eight RAD conversion applications, for Asset Management Projects (AMPs 1-8); and the PHA accepted the RCCs on August 14, 2019; and

WHEREAS, public housing agencies that are converting public housing units to PBRA are required to adopt a policy setting the period of time over which rents will increase, for families that previously paid the flat rent in public housing, because in PBRA there is no flat rent and all households must pay 30% of adjusted income for rent; and

WHEREAS, HUD allows housing agencies to adopt a phase-in period of three years, which may be extended to five years; and

WHEREAS, staff have recommended approval of the attached policy which establishes a five-year period for phasing in rent increases for former flat rent payers, after the RAD conversion to PBRA takes effect; and

WHEREAS, the Board of Commissioners finds that the proposed policy is necessary and appropriate, in furtherance of the PHA's applications to convert the public housing units in the PHA's hi-rises and family housing developments to Project-Based Rental Assistance (PBRA) through HUD's Rental Assistance Demonstration (RAD) program, to best serve the needs of PHA residents;

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the Public Housing Agency of the City of Saint Paul as follows:

1. The attached Policy on Phasing In Rent Increases for Flat Rent Payers is approved as presented; and
2. Pursuant to HUD notice dated January 11, 1990, the PHA certifies that no employee is serving in a variety of positions that will exceed 100 percent of his or her work time.

## RENTAL ASSISTANCE DEMONSTRATION (RAD) CONVERSION; POLICY ON PHASING IN RENT INCREASES FOR FLAT RENT PAYERS

Because the Project- Based Rental Assistance Program (PBRA) does not offer residents a choice of rents, the rent paid after conversion by current public housing residents who are paying the flat rent will change to an income-based rent, approximately 30% of their adjusted household income. If the difference between the resident's Total Tenant Payment with the flat rent and PBRA Total Tenant Payment would be more than the greater of 10% of the flat rent or \$25 per month, solely because of the RAD conversion, the resident's new rent will be phased in over five years.

1 <sup>st</sup> year after conversion:	Rent will increase by 20% of the difference between flat rent and income-based rent
2 <sup>nd</sup> year after conversion:	40% of the difference between flat rent and income-based rent
3 <sup>rd</sup> year after conversion:	60%
4 <sup>th</sup> year after conversion:	80%
5 <sup>th</sup> year after conversion:	100% of income-based rent

- The first rent increase will take place with the family's first redetermination of income and rent, either an interim or annual (ACO) redetermination, after the effective date of their project's conversion to PBRA.
- The second rent increase will occur at the family's second annual redetermination after conversion, or at an interim redetermination that occurs at least 12 months after the first interim redetermination after conversion.
- The successive rent increases will occur at the family's following annual redeterminations after conversion, or at an interim redetermination that occurs at least 12 months after the previous interim redetermination.

Note: Residents who were approved to receive the Earned Income Disregard (EID) income exclusion prior to conversion are not eligible for Rent Phase-In. After the EID period ends, the Total Tenant Payment will be 30% of the household's adjusted income.

*Recommended for PHA Board Approval on August 28, 2019*