# Part I - Rent Reform Information

## (I) Alternative Rent Policy Selection and Rationale

Kern seeks to implement alternative rent policy MTW Test Rent #2: Stepped Rent. The rationale for why MTW Test Rent #2: Stepped Rent was chosen is that it closely aligned with Kern's goals and vision. As stated at the beginning of the application, Kern's overall vision for the MTW program is to streamline administration of the HCV and LIPH programs, incentivize residents/participants to increase their income, and discover new ways to help them secure housing in higher opportunity neighborhoods. The Stepped Rent policy will streamline administration of the HCV and LIPH programs by reducing income recertifications and simplifying rent calculation. It will incentivize participants and tenants to increase their income by decoupling rent from income increases, thereby encouraging them to increase their income. It will also help free up resources to help participants find housing in higher opportunity areas through the use of housing navigators and exception payment standards.

The information that follows describes the program in detail providing clarity as to how it aligns with our goals and mission. The Stepped Rents policy includes a variety of foundational provisions. They are as follows – annual Stepped Rent increases: Kern will establish an annual Stepped Rent increase of 3%, by unit size. After year 1, each household's rent will increase by 3% of the FMR, with exceptions for hardships. Initial rent: each household will begin by paying rent equal to 30% of their total annual gross income in the prior year, or a minimum rent of $50, whichever is larger. Utility allowance: the household will receive a utility reimbursement if applicable. Voucher rents: an HCV household cannot pay more than the actual gross rent for their unit. If the gross rent is above the payment standard, the household is responsible for any amount over the payment standard. Reexaminations: regular income reexaminations will occur every three years. These reexaminations are called triennial income reexaminations. When these occur, Kern will document household income and any changes in household composition. However, the triennial income reexamination will not affect the household's rent. A hardship policy: a hardship policy will be put in place that provides temporary rent relief. Moves: if a household moves, rent will be recalculated according to the characteristics of the new unit. Finally, measurement of income: the Stepped Rent policy will use "gross income" rather than "adjusted income". For regular income reexaminations, Kern will measure income for the prior year. For hardship requests, the PHA will measure current/anticipated income.

The "rent" resulting from the Stepped Rents policy is the tenant's total contribution, including a utility allowance. If a public housing household has a Stepped Rent of $300, they would pay an amount equal to $300 minus their utility allowance. If an HCV household has a Stepped Rent of $300, they would pay their landlord an amount equal to $300 minus their utility allowance. Also, the Stepped Rent's utility allowance must allow for utility reimbursements. That is, if a household has a utility allowance greater than their Stepped Rents, they will receive a utility reimbursement from Kern. Kern may utilize a simplified utility allowance.

HCV households cannot pay more than the actual gross rent for their unit. If an HCV household has a Stepped Rent of $700, but they live in a unit with gross rent of only $650, the household would pay the full $650 and receive zero HUD subsidy. Even if the payment standard and FMR are higher (say, $900) this household would receive zero HUD subsidy. If, however, such a household moved to a different unit with a gross rent of $900 (and the FMR/payment standard allowed for this amount), their rent would be subsidized $200.

If an HCV household rents a unit with gross rent above the payment standard, they are responsible for that incremental amount above the payment standard. This incremental amount would be added to their base Stepped Rent.

Regular income reexaminations will happen every three years. Reducing the frequency of reexaminations from annual to triennial will reduce Kern's administrative burden and enable tenants to increase their income, within the three-year period, without a corresponding rent increase. Kern will use this triennial reexamination to document income and household changes, and to confirm eligibility, but not to calculate the household's rent. The rent would continue to increase according to the Stepped Rent policy. The triennial reexamination will also serve as an opportunity for to monitor how the household is doing under the Stepped Rent policy.

The hardship policy provides temporary rent relief, between 1 month and 12 months, that can be renewed as needed. A household will receive a hardship if their rent burden exceeds 40% of their current/anticipated total annual gross income or for other circumstances as determined by Kern. The hardship rent will equal 30% of the household's current/anticipated total annual gross income. Hardships must be requested by the household. Upon request, Kern will conduct a hardship review and determine the household's *current/anticipated total annual income*.

The hardship rent will last for 1 to 12 months and can be renewed as needed. Kern may determine the duration of the hardship rent for each family, tailored to that family's circumstances. The purpose of the hardship policy is to provide a household with rent relief until they increase their income to the point where the hardship rent is no longer needed. Kern will have some additional discretion to offer hardships in situations where a household would not normally qualify, but requires temporary rent relief to avoid eviction or other similar consequences. For example, if a household's income has not decreased, but they face a major unanticipated medical bill, Kern can determine an appropriate remedy.

When the hardship rent expires, if the household does not request (or Kern does not approve) a hardship renewal, the household's rent will return to where it was prior to the hardship. Time spent in a hardship status will effectively pause the Stepped Rent increases. If a household receives a hardship 11 months into the study period, and that hardship lasts 6 months, their first Stepped Rent increase would be applied after 18 months.

If a household spends 12 consecutive months in a hardship status, and at the end of that time the household requests an ongoing hardship rent, Kern has two options. First, Kern could continue to provide the household with temporary hardships as described above. As an alternative, Kern could reset the household's Stepped Rent. Kern could approve a Stepped Rent reset even if the household does not have a rent burden above 40%. The household's new rent would be based on 30% of their prior year income and would apply for a full year. At the end of that year, the household would resume the Stepped Rent increases.

If a household moves in between regular triennial reexaminations, its rent may change. For example, if an HCV household moves to a new unit, its rent will be recalculated based on the gross rent and payment standard corresponding to the new unit.

The stepped-rent policy uses a definition of income that differs from the existing rent rules. Kern will not apply the allowances or deductions typically used to calculate "adjusted income." Instead, income will be defined as total annual income (field 7i from the HUD-50058 form), also referred to sometimes as gross income.

Under the existing rent rules, income is defined as the amount that the family expects to receive in the next 12 months. This is sometimes referred to as "current/anticipated income." With stepped-rent, the triennial income reexaminations will measure gross income over the prior year. This should improve the accuracy of income reporting and better represent a household's long-term earnings potential.

Although the alternative rents will use prior year gross income for triennial reexaminations, when a tenant's income drops substantially (such as when they lose employment) their prior year gross income is no longer a good representation of their circumstances. Therefore, Kern will continue to use current/anticipated income when reviewing hardship requests.

**(II) Describe Alternative Rent Policy to the Public**

Kern understands that we must go through a public process and that it is important to clearly describe the selected alternative rent policy to the public. After HUD selects the PHAs for Cohort #2, they anticipate six to twelve months to finalize the rent policies, train staff, update data/software systems, and complete any other tasks required before the rent policies can be implemented. After that point, the enrollment period will begin. During the enrollment period, each eligible household will be randomly assigned to the control group rent or the treatment group rent, performed by HUD staff members. Eligible households will undergo a regular income examination, be asked to complete a baseline survey, and receive notifications regarding their rent. HUD expects the enrollment period to last approximately one year, so that regular income examinations and other PHA tasks can be spread out over time. During the enrollment period, any new admissions who qualify as eligible households are expected to undergo random assignment and participate in the study. After the enrollment period is concluded, Kern plans to continue to newly admitted non-elderly, non-disabled households will be subject to the alternative rent policy.

After the enrollment period is concluded, the study is expected to last six years. Kern will continue to administer the alternative rent policy throughout that six-year study period. Households randomly assigned to the new rent rules or existing rent rules must remain in that group for six years unless they leave assistance, port out to another jurisdiction, or are exempted from the study for other reasons such as a disability.

Making a clear distinction over which households will be eligible and which will not be is of upmost importance. Eligible households will include residents/participants in both the public housing and HCV programs, including existing, currently assisted households and new households admitted during the alternative rent enrollment period. Elderly and disabled households will be excluded. Households with special purpose vouchers and homeownership vouchers will be excluded. Households paying a public housing flat rent or ceiling rent will be excluded. Households already participating in the Family Self-Sufficiency (FSS) program will be excluded. HUD and the independent research team will consider other exclusions in partnership with selected PHAs.

The alternative rent can be beneficial for assisted households by decoupling rent increases from wage increases and it will create an incentive for increasing income. To complement this, through MTW flexibility, we plan to create a dedicated source of funding outside of the FSS program to help ensure all non-elderly, non-disabled participants, whether in the stepped-up rent group or not, have access to employment, training, and work experience resources to facilitate self-sufficiency.

The "hardship policy" will help assisted households if household income decreases or if it is determined the household cannot keep pace with the rent increases. More specifically, a household will receive a hardship if their rent burden exceeds 40% of their current/anticipated total annual gross income or for other circumstances as determined by the PHA. The hardship rent will equal 30% of the household's current/anticipated total annual gross income. The hardship rent will last for 1 to 12 months, at Kern's discretion, and can be renewed as needed.

The table below describes current Fair Market Rents (FMR) for Kern and also how large the Stepped Rent increases will be, by unit size, based on the current FMR as provided by Kern's web page, Housing Programs, Payment Standards, https://www.kernha.org/menus/payment-standard.html. Based on current FMR, Kern intends for the monthly rents to increase each year by: $20 for an Efficiency unit, $24 for a one-bedroom unit, $27 for a two-bedroom unit, $39 for a three-bedroom unit, $46 for a four-bedroom unit, and $53 for a five-bedroom unit.

| | Efficiency | One-bedroom | Two-bedroom | Three-bedroom | Four-bedroom | Five-bedroom |
|---|---|---|---|---|---|---|
| Fair Market Rent | $676 | $795 | $899 | $1,297 | $1,542 | $1,775 |
| Rent Increase (3%) | $20 | $24 | $27 | $39 | $46 | $53 |

Kern wants to clarify that an additional factor may affect the total rent increase in any given year and that will be when the FMR changes. It is possible that the FMR, as provided in the table above, may increase or decrease, over the six-year period of the MTW Program. That change will be factored into the rent charged to the resident/participant. For example, if the FMR increases by 1%, the Efficiency FMR would increase to $682.76. The selected stepped-rent increase would be added to that higher FMR. In spite of that possibility, the above chart generally represents the anticipated annual rent increases that Kern might implement. Exceptions would include hardships and triennial income reexaminations.

Kern intends to use the middle of the Stepped Rent range, targeting 3%. Kern does not intend to review and update the size of the Stepped Rent increases each year. Our intention is to set the increase for the full six-year study period. Dollar amounts will be used, if viable, so as to create ease for the general public to understand. If budget-neutrality cannot be achieved through the fixed Stepped Rent increase to which Kern initially commits, the size of the rent increase may be increased, using the most recent FMR's.

To determine what rent will be used for the first year of the program for assisted households under the Stepped Rent policy we will determine what 30% of gross income is for the resident/participant, using existing Kern policies and guidelines, and use that as the first-year rent and the base amount for the successive months. MTW we will review the latest FMR and consider updates to these numbers. As stated above, rents will increase, in subsequent years, based on an annual review of the stepped-up rent increase that was in place during the preceding year. A household will receive a "hardship" accommodation if their rent burden exceeds 40% of their current/anticipated total annual gross income or for other circumstances as determined by Kern. The hardship rent will equal 30% of the household's current/anticipated total annual gross income. The hardship rent will last for 1 – 12 months, at Kern's discretion, and can be renewed as needed. At the triennial income reexamination, Kern will document household income and any changes in household composition. However, the triennial income reexamination will not affect the household's rent.

**(III) Information Technology Plan**

Kern will transition its information technology ("IT") systems to accommodate the new MTW by using successful past information technology systems transitions to guide the MTW transition. The formula includes both a thoughtful planning processes as well as a realistic and well-coordinated implementation plan. As will be evident in the examples that follow, we have recent experience implementing successful large-scale IT transitions. We have a flexible and knowledgeable team, we have a cadre of lessons learned, and we have the experience of success to lead us through this transition successfully.

One example of previous system changes from which Kern will draw experience is our conversion from Yardi 6 to Yardi Voyager 7S. The IT team members, along with administrative leadership team members, began the planning process in late 2018. At that time a select few administrators began discussions with Yardi and an initial plan was conceived. Six people were selected to meet every week to analyze the transition checklist provided by the software developer and create a plan. This group worked with Yardi to successfully transfer a vast amount of information to the new system. Staff members were assigned to test the new version, in all conceivable operations, to ensure all the information was transferred and that there were no glitches in the system. This was an iterative process of using the program, identifying then solving problems, then retesting those functions for accuracy. Kern added additional testers as the process continued to further ensure all aspects were evaluated.

Once this team felt comfortable with the software, the plan for training was implemented. Through a one-week training rollout, a pyramid training plan was enacted. A small group of high-level staff were trained, then they trained a new small group who each trained additional staff. After the one week of training the software went live. Initial challenges arose but they were handled quickly and the whole process was a great success.

A second example of a system change from which Kern will draw experience is our data storage conversion from Document Mall to Laserfiche. Kern stores a large amount of data, 75 years' worth, in fact. Document Mall, our previous system, became too slow for our growing needs. After an RFP was issued and all proposals were thoroughly reviewed, the transition to an RCM content manager called Laserfiche was decided. Kern's IT team initially focused on how to successfully migrate the vast amount of data that would be required. The team worked with a variety of partners to ensure a successful transfer occurred. Training staff was the next step. A local partner provided one day of training, in a total of three sessions, and those folks were required to train staff under their supervision. The training sessions and overall rollout went as planned. Of course, with any major change, there are corrections to be made but the IT staff provided adequate time for staff to experiment with the program, solve issues, and comfortably switch to the new software.

Kern has discussed the potential MTW transition with the Yardi software vendor and is confident the transition will be successful.