

Introduction to Metropolitan Council Housing and Redevelopment Authority Budget

September 3, 2019

Community Development Committee



Today

- Regional Trends
- Rent Standards
- 2019 Budget
- 2020 Budget

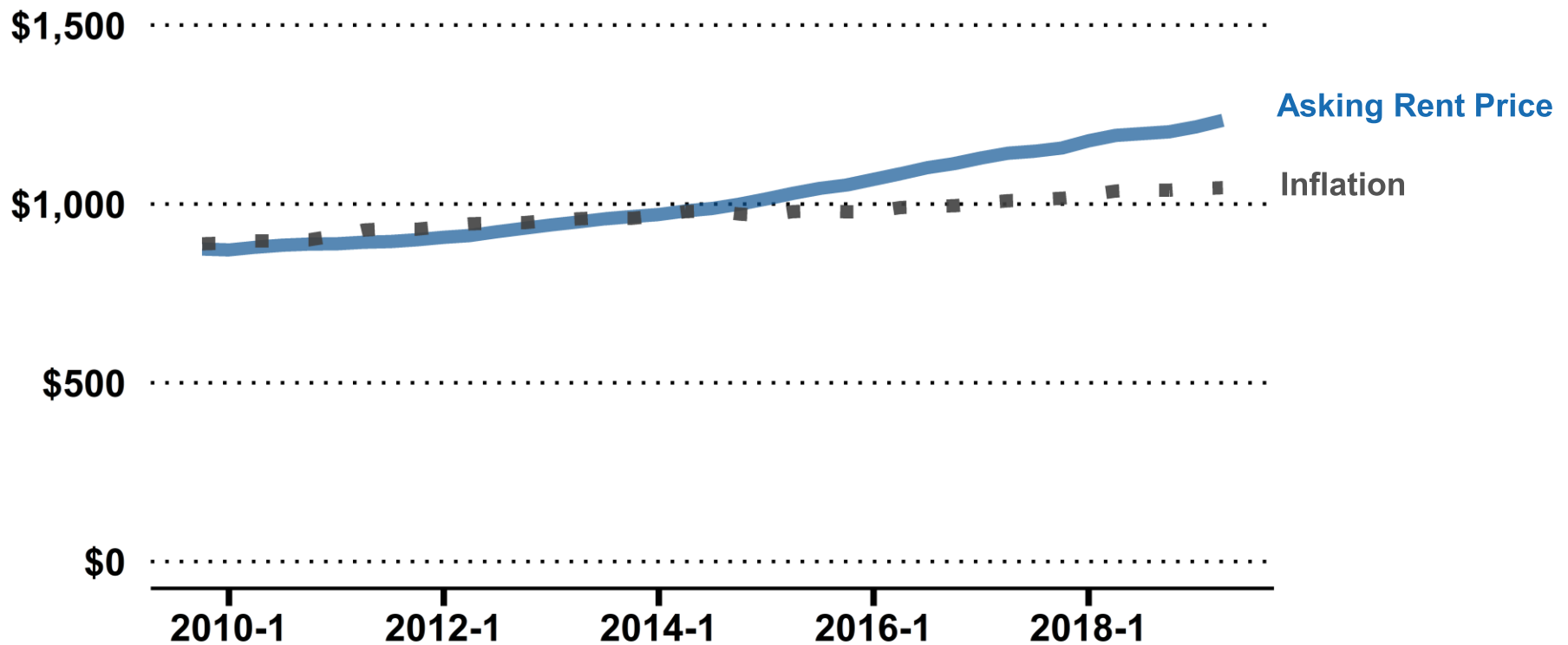
In recent years:

- Housing production has lagged population growth
- Rental vacancy rates have been below healthy levels
- Rent prices have grown faster than inflation

Rent price trends

Rent prices growing much faster than inflation

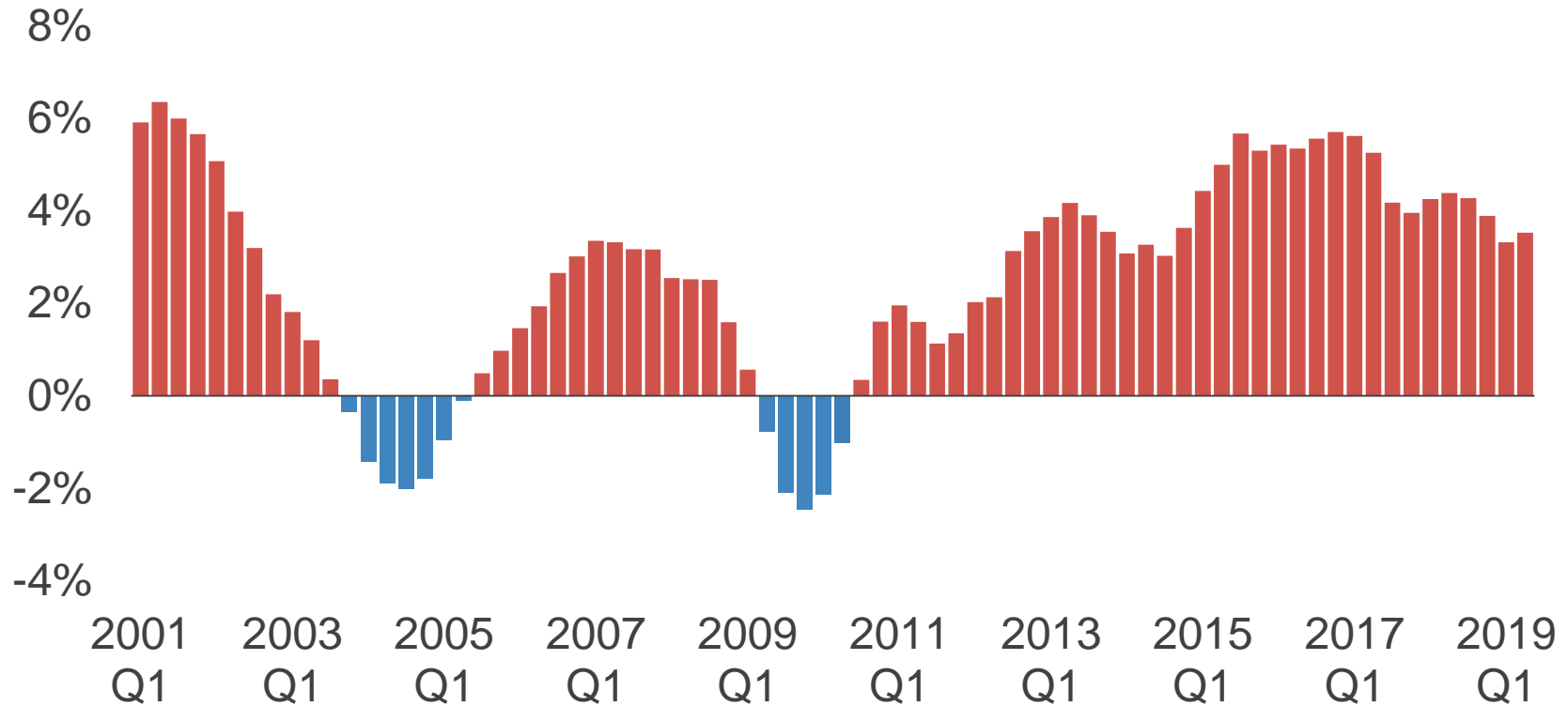
Average Twin Cities multifamily rent price



Source: CoStar data on multifamily rentals in the Twin Cities region

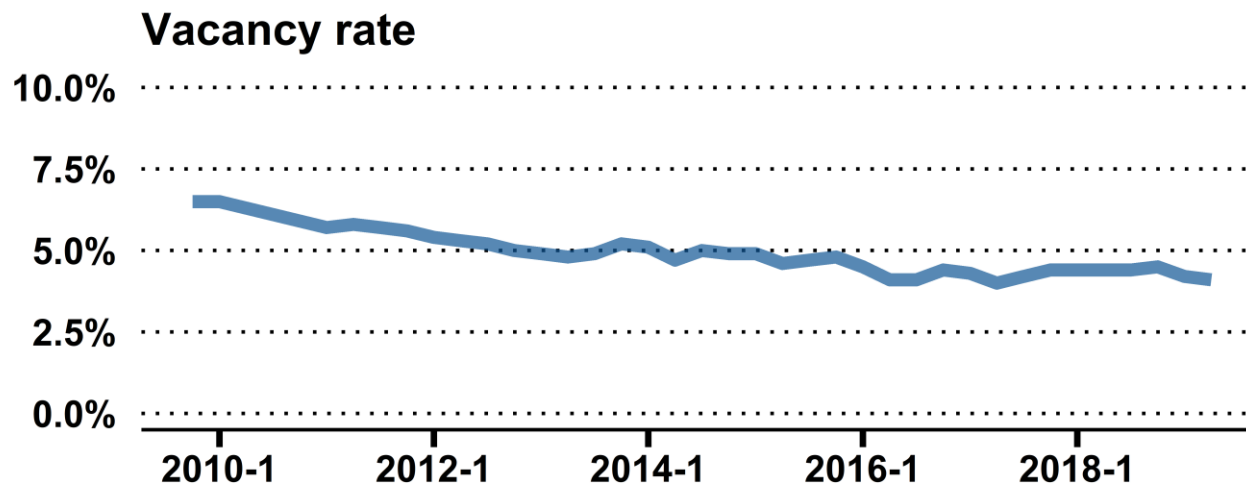
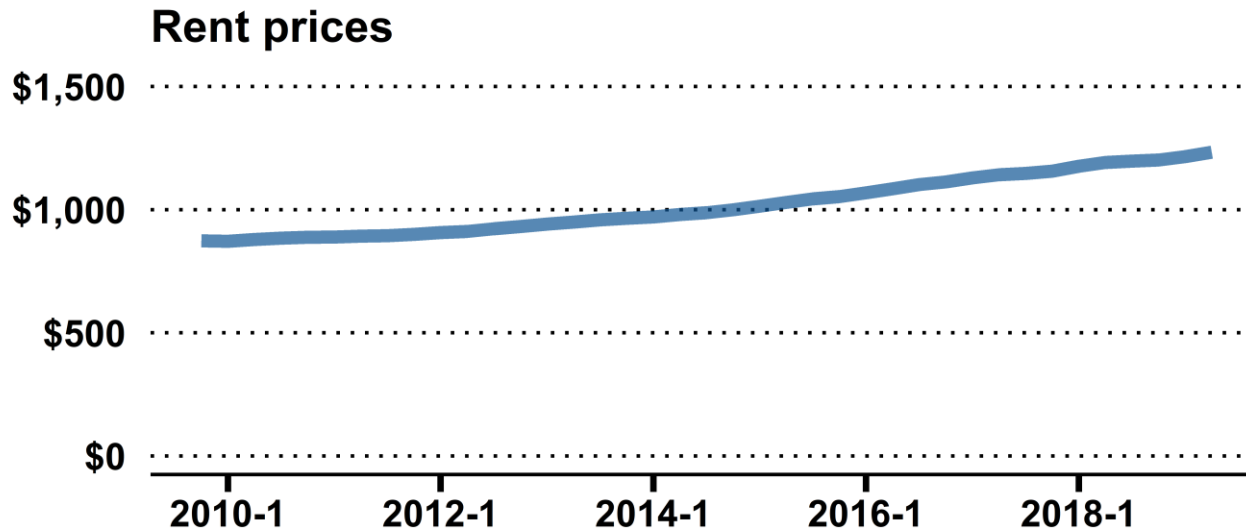
Rent price change (nominal)

Year-over-year % change in multifamily average rent price



Source: CoStar data on multifamily rentals in the seven-county Twin Cities region

Rent prices and vacancy rates

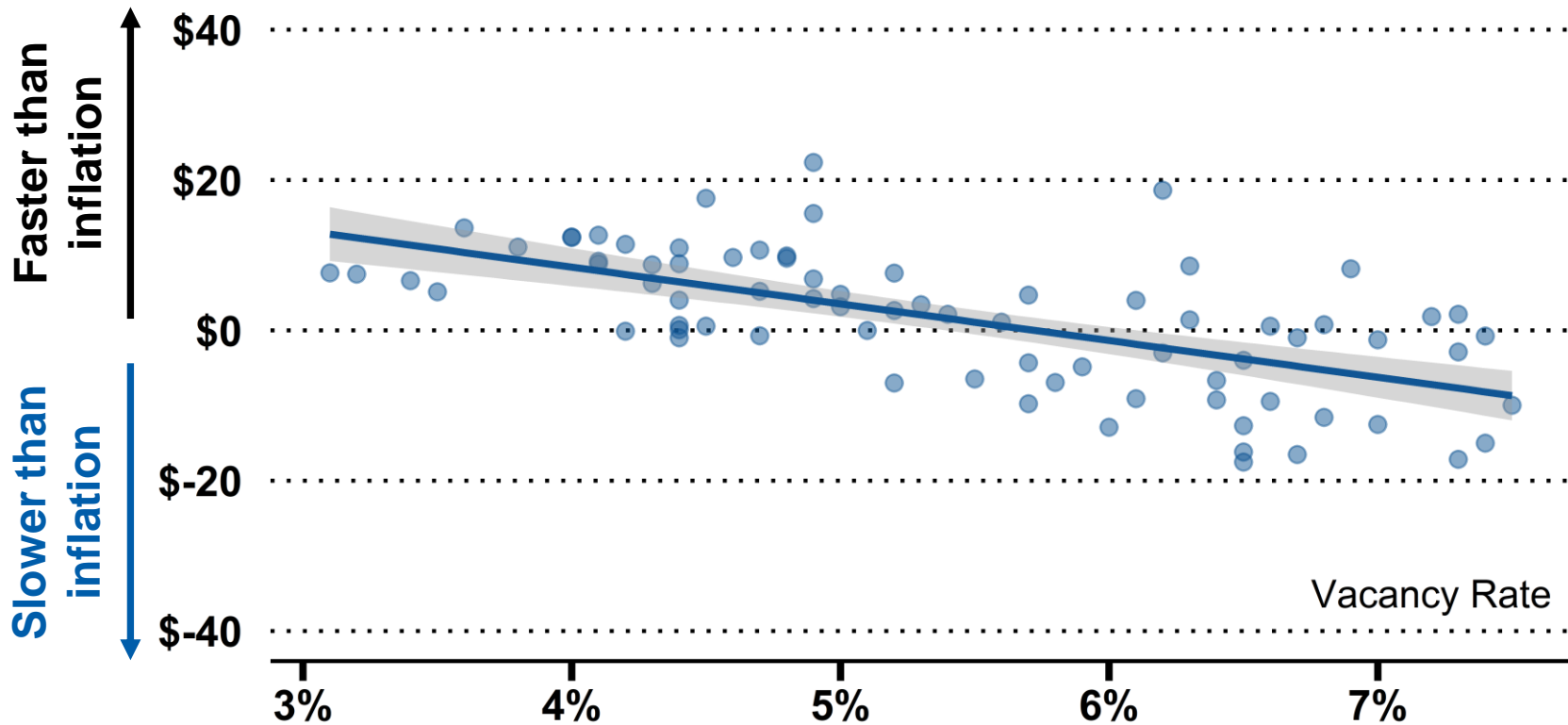


Source: CoStar data on multifamily rentals in the Twin Cities region

Healthy vacancy rate is ~5-6%

Rent price changes follow inflation at healthy rate

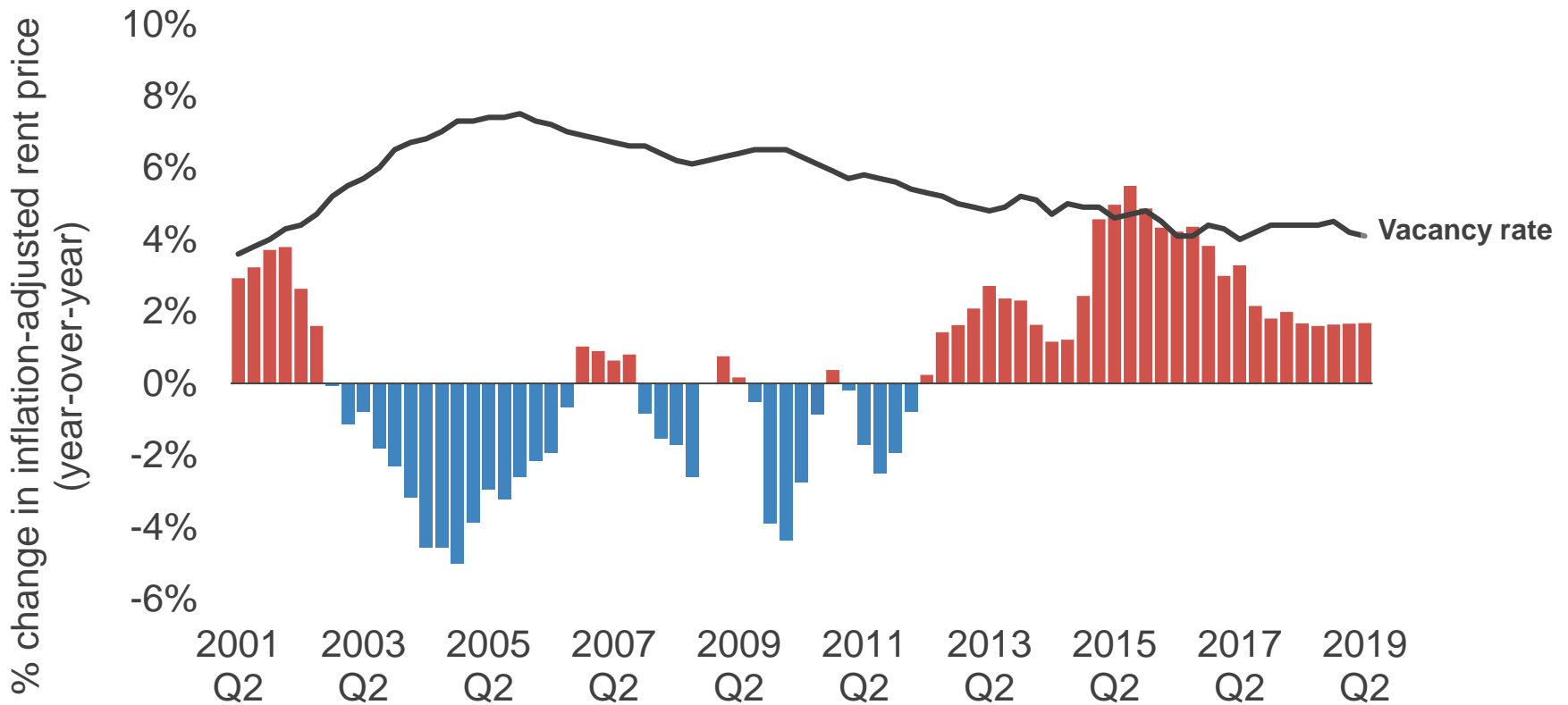
Quarterly change in inflation-adjusted rent prices



Source: CoStar data on multifamily rents in the Twin Cities region

Inflation-adjusted change

Rent prices grow faster than inflation when vacancy rates are below healthy levels

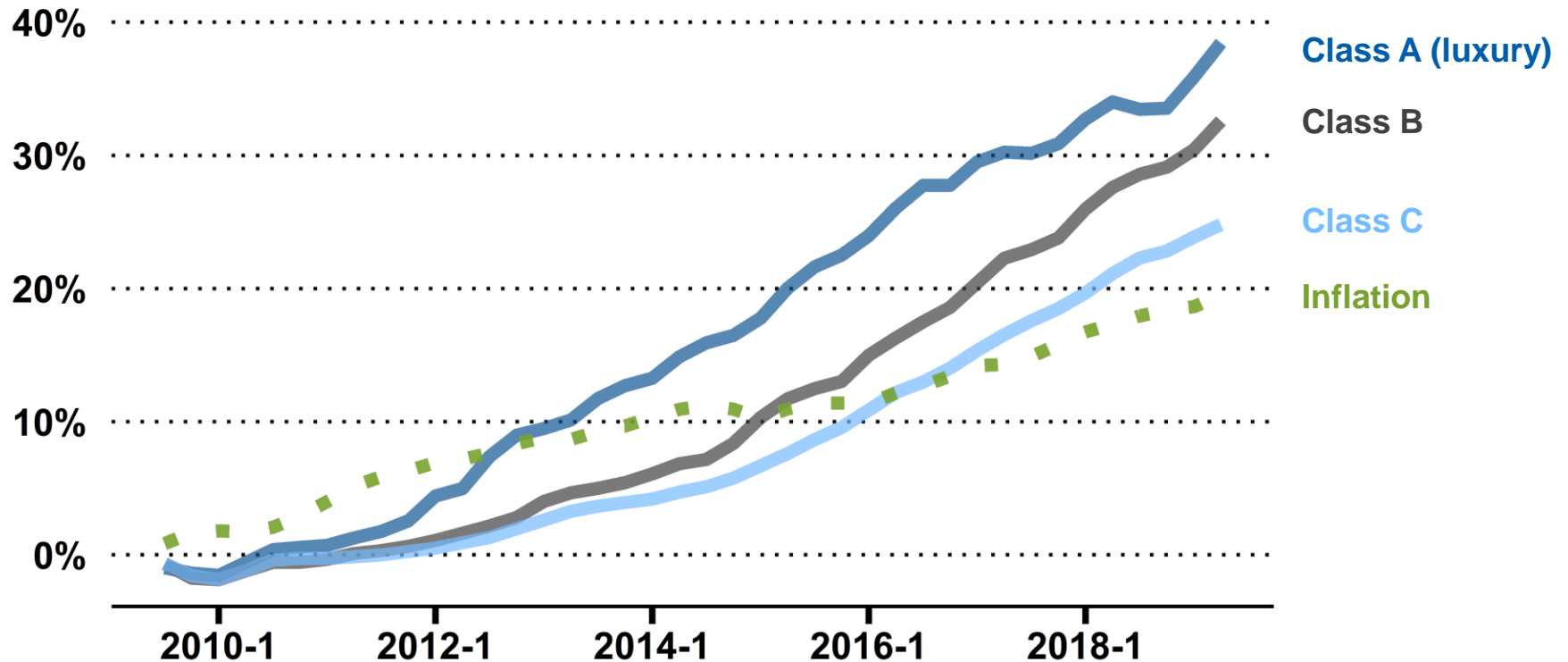


Source: CoStar data on multifamily rentals in the seven-county Twin Cities region

Rent price % change since 2009

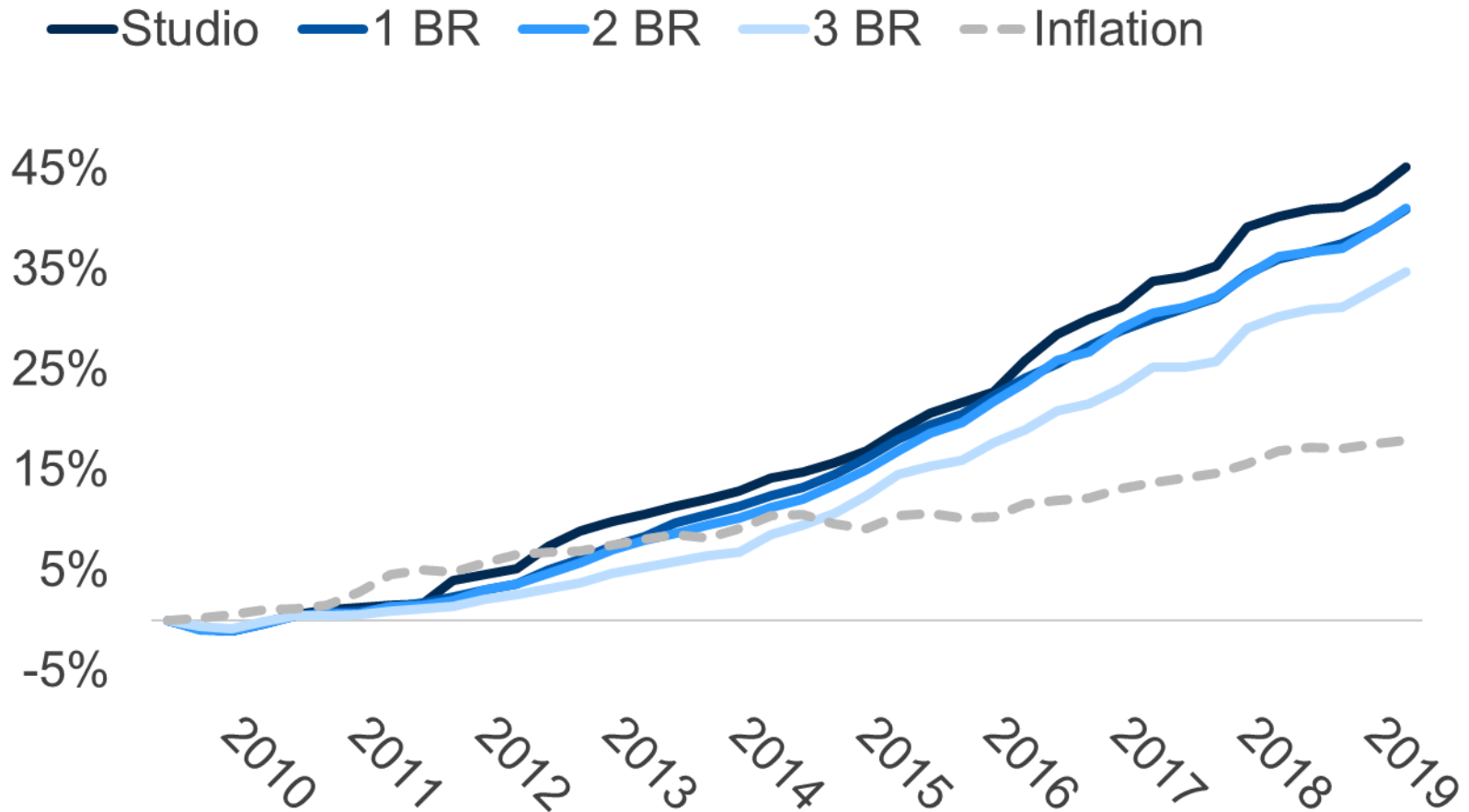
Rent prices are growing faster than inflation

Percent change in rent price since end of recession



Source: CoStar data on multifamily rentals in the Twin Cities region

Rent price % change since 2009



Source: CoStar data on multifamily rentals in the seven-county Twin Cities region

2019 Budget

Payment Standards

- Payment Standards = Rent Limits
 - Amount needed to rent a modest housing unit
- Limited by Fair Market Rents (FMR) set by HUD
 - Issued for October 1, 2018
 - Increased by **5.6% - 6.8%!!!!**
- Federal Requirement
 - Housing Authorities must set rent limits between 90% and 110% of Fair Market Rent by bedroom size

Annual Review Process

- Analysis
 - Local average rental data
 - Average rents by community and bedroom size
 - Rent burden of current assisted families
- Council role (required annually)
 - Set rent limits
 - Past Council practice has been to balance Thrive outcomes
 - High enough to allow choice in all neighborhoods
 - Low enough to serve as many families as possible

Tenant Rent Payments

- Tenants pay between 30% and 40% of income towards rent
- Rent within the payment standard = 30% of income
- Rent above the payment standard = up to 40% of income
 - Tenant pays 30% plus the difference
 - Tenant cannot pay more than 40% of their income toward rent at initial move-in
 - Maximum rent limit based on income

Who is Metro HRA Serving*?

- Average household size = 2.9 members
- Average household annual income = \$16,000
 - 45% households have wage income
 - 47% elderly or disabled households
- Average Tenant Rent Payment = \$390
- Average HRA Payment = \$740
- Families with children = 53% of households

*2018 data

Payment Standard Example

2 bedroom apartment

Rent	\$1025
<u>Utility allowance</u>	<u>+ \$ 57 (electric only)</u>
Gross Rent	= \$1082

2 bedroom payment Standard = \$1090

Tenant Impact

- The gross rent falls within the payment standard
- Tenant will pay 30% of their income towards rent and utilities.

Payment Standard Example

2 bedroom apartment

Rent	\$1050
<u>Utility allowance</u>	<u>+ \$ 57 (electric only)</u>
Gross Rent	= \$1107

2 bedroom payment Standard = \$1090

Tenant Impact

- The gross is \$17 over the payment standard
- Tenant will pay 30% of their income plus the difference (\$17)

Payment Standard Considerations

HUD Rule

- Federal government directs us to serve as many families as possible within budget authority
 - Council can issue to up 6,616 vouchers
 - \$57.7M projected 2019 federal revenue

Higher Rent Limits

- Higher average subsidy
- Fewer vouchers issued
- Higher success rates
- Build future year funding

Lower Rent Limits

- Lower average subsidy
- More vouchers issued
- Lower success rates
- Risk future year funding

Payment Standard Considerations

- Fair Market Rents increased by 5.6% - 6.8%
 - Significant increase = significant budget impact
- Currently two sets of payment standards
 - Regular standards – cover most of Metro HRA’s service area
 - Exception standards – cover 13 high rent communities
- Thrive “will” statements provide direction
 - Offer housing options that give people in all life stages viable choices for stable housing
 - Develop and provide tools, including competitive rent limits in higher-cost communities, to enable voucher holders to choose a location that best meets their needs

Scenario 1

Maintain Current Rent Standards

Pros

- Ability to issue nearly all vouchers
- Less program deficit than other scenarios

Cons

- Voucher use becomes more difficult
- Rent burden increases for existing families
 - 50% for some families
- Limits housing choice to low rent areas
- Risks future federal funding in 2020 and beyond

Scenario 2

Increase limits for all bedroom sizes

Pros

- Increases voucher placement success some
- Improves housing choice in all neighborhoods
- Reduces rent burden for existing families
- Increases federal revenue base in 2020

Cons

- Results in program structural deficit
 - Reduce vouchers issued
 - Secure additional funding
- Rent limits still not high enough for some bedroom sizes

Scenario 3

Increase limits based on market conditions (Targeted Increase)

Pros

- Reflects market conditions
- Increases voucher placement success
- Improves housing choice in all neighborhoods
- Reduces rent burden to families
- Increases federal revenue base in 2020

Cons

- Results in program structural deficit
 - Reduce vouchers issued
 - Secure additional funding

Long Term Problem?

- Housing voucher deficit is due to rising housing costs and federal revenue is not keeping pace with rent
 - Structure of housing market would need to change to address this problem
 - Research indicates rents are starting to level off
- Council 2019 budget decisions impact
 - Low income families in the region
 - Increase in homelessness
 - Impact on Areas of Concentrated Poverty
 - Council investment in other initiatives
 - Council commitment in Thrive “will” statements
 - Future year federal funding levels

2019 Budget Summary

Council Choices

- Rent Limit Standards
- Reduce vouchers through attrition
- Subsidize program with other Council funds
- Reduce cost through reduced community choice
- Secure alternate funding source(s)

Council Actions

- ✓ Targeted increases to rent limits
- ✓ Issue all vouchers
- ✓ Subsidize program with Council funds
- ✓ Maintain community choice
- ✓ Targeted increases to rent limits

Progress on Budget Issues

- Legal opinion on levy authority
- HUD issued notice that restricts the Council from using local or state funds for vouchers
- Other Housing Authority Solutions
 - Adopt lower rent limits to serve all families
 - Reductions in program size
 - Use of reserves
- Data Analysis
 - Developed rent forecast
 - Refined financial forecasts

Upcoming Discussions

- Rent limits discussion
 - Exception rent limits
 - Community Choice
- Fair Market Rent analysis
 - Justify higher federal funding level
- Minimum Rent discussion

2020 Budget: Next Steps

Council

October

- Capital Budget Presentation
- Adopt Public Comment Draft Budget

December

- Adopt Final Budget/Levies (11)

CD Committee

October

- Capital Budget Presentation
- Rent Limit Standards info item

October / November

- Rent Limit Standards action item

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