Payment Standards Discussion

Metropolitan Council Housing and Redevelopment Authority
Payment Standards

• Payment Standards = Rent Limits
• Limited by Fair Market Rents (FMR) Set between 90% and 110% of FMR
  • High enough to allow choice in all neighborhoods
  • Low enough to serve as many families as possible
• Small Area Fair Market Rents implemented July 2020
Council Policy Direction

• 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

• Council’s housing goal
  • Become a region with a broader housing spectrum where all people can thrive.
2020 Increased Payment Standard Areas

Increase in Units in Census Tract
- Increase of 0-4 Units
- Increase of 5-9 Units
- Increase of 10-14 Units
- Increase of 15+ Units

Change in 2BR PS 2019-2020
- Increase 0-9
- Increase 10-24
- Increase 25-99
- Increase 100+
2020 Decreased Payment Standard Areas
2020 Payment Standards Combined Map
Vacancy rate and rent prices

• Rent prices have grown faster than inflation

• This occurs when vacancy rates are low

• Rent was flat in 2020, increasing again now

Rent prices have grown faster than inflation since 2010, but prices were flat in 2020

Source: CoStar average asking rent and vacancy rate
And here’s the main problem

Class B and particularly Class C rent prices have grown faster than inflation, but not luxury

Source: CoStar average asking rent price
Studio prices grew slower

Source: CoStar average asking rent price
Rent price growth in context

Minneapolis/Saint Paul rent prices have grown faster than most typical metros. Vacancy rates have consistently been below “healthy” or “natural” levels.

Payment Standard Considerations

HUD Rule
• Federal government directs us to serve as many families as possible within budget authority
  • Council can issue up to 6,894 vouchers
  • $70M projected federal revenue

Higher Rent Limits
• Higher average subsidy
• Fewer vouchers issued
• Higher success rates

Lower Rent Limits
• Lower average subsidy
• More vouchers issued
• Lower success rates
Payment Standards Review

Vacancy Rates

Average Rents Review

Tenant Rent Burden

Payment Standards
Tenant Rent Portions

- Tenants pay between 30% and 40% of income towards rent
- Unit Rent within the payment standard
  - Tenant pays 30%
- Unit Rent above the payment standard
  - Tenant pays 30% of income plus the difference
  - Tenant cannot pay more than 40% of income at initial move-in
Payment Standard Example

2 Bedroom in Maplewood (zip code 55109)
Rent = $1150

Payment Standard $1110
- Rent is $40 over the payment standard
- Tenant pays 30% of income plus $40

Payment Standard $1175
- Rent is within the payment standard
- Tenant pays 30% of income
Average Per-Family Subsidy Cost

Average annual historical subsidy growth = 2%
Average annual subsidy growth since 2016 = 5%
Budget vs. Average Subsidy Cost

- The Metro HRA has 6,894 Vouchers
- Subsidy Budget = $70 million
- Higher per-family subsidy = fewer families served
- $25 increase in average subsidy = service to 200 fewer families

<table>
<thead>
<tr>
<th>Average Per-Family Subsidy</th>
<th># Families Served</th>
<th>% of Vouchers Used</th>
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<tbody>
<tr>
<td>$800</td>
<td>7,290</td>
<td>100%</td>
</tr>
<tr>
<td>$850</td>
<td>6,860</td>
<td>Near 100%</td>
</tr>
<tr>
<td>$900</td>
<td>6,480</td>
<td>93%</td>
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Payment Standard Options for Consideration

**Option 1**
- Minimal changes to bring payment standards into required range

**Option 2**
- Changes based on market and average rents

**Option 3**
- Adjust all to 100% of new SAFMRs
Option 1
Minimal changes to bring payment standards into required range (90% - 110% SAFMRs)

<table>
<thead>
<tr>
<th>Increases vs. Decreases</th>
<th>Tenant Impact</th>
<th>Implementation Cost</th>
</tr>
</thead>
</table>
| • Increases in 80 zip codes  
  • Most 0 to 2-bedrooms  
  • Decreases in 3 zip codes  
  • 9 families | • Current Rent burden = 48%  
  • Future Rent burden = 48%  
  • Not within goal range | • $1 million  
  • Reduction in service up to 100 families  
  • If enough federal funding = no service reduction |
Option 2

Changes based on market and average rents – new payment standards between 95%-99% SAFMR

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</table>
| • Increases in 100 zip codes  
  • Decreases in 24 zip codes  
  • 34 families | • Current Rent burden = 48%  
  • Future Rent burden = 36%  
  • Within goal range | • $2.2 million  
  • Reduction in service up to 190 families  
  • If enough federal funding = no service reduction |
Option 3
Adjust all zip codes and bedroom sizes to 100% of new SAFMRs

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<th>Tenant Impact</th>
<th>Implementation Cost</th>
</tr>
</thead>
</table>
| • Increases in 115 zip codes  
  • Decreases in 9 zip codes  
  • Rural Areas  
  • 15 families | • Current Rent burden = 48%  
  • Future Rent burden = 24%  
  • Within goal range | • $3.4 million  
  • Reduction in service up to 410 families  
  • Dependent upon federal funding |
We did not make any substantive changes in 2020
Increased payment standards provide increased choice
Budget impact vs. number of families served

**Higher Rent Limits**
- Higher average subsidy
- Fewer vouchers issued
- Higher success rates

**Lower Rent Limits**
- Lower average subsidy
- More vouchers issued
- Lower success rates
Next Steps

• November 1: CDC action
• November 10: Council action
• February – March 2022: Implement new SAFMRs
Thank you!

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