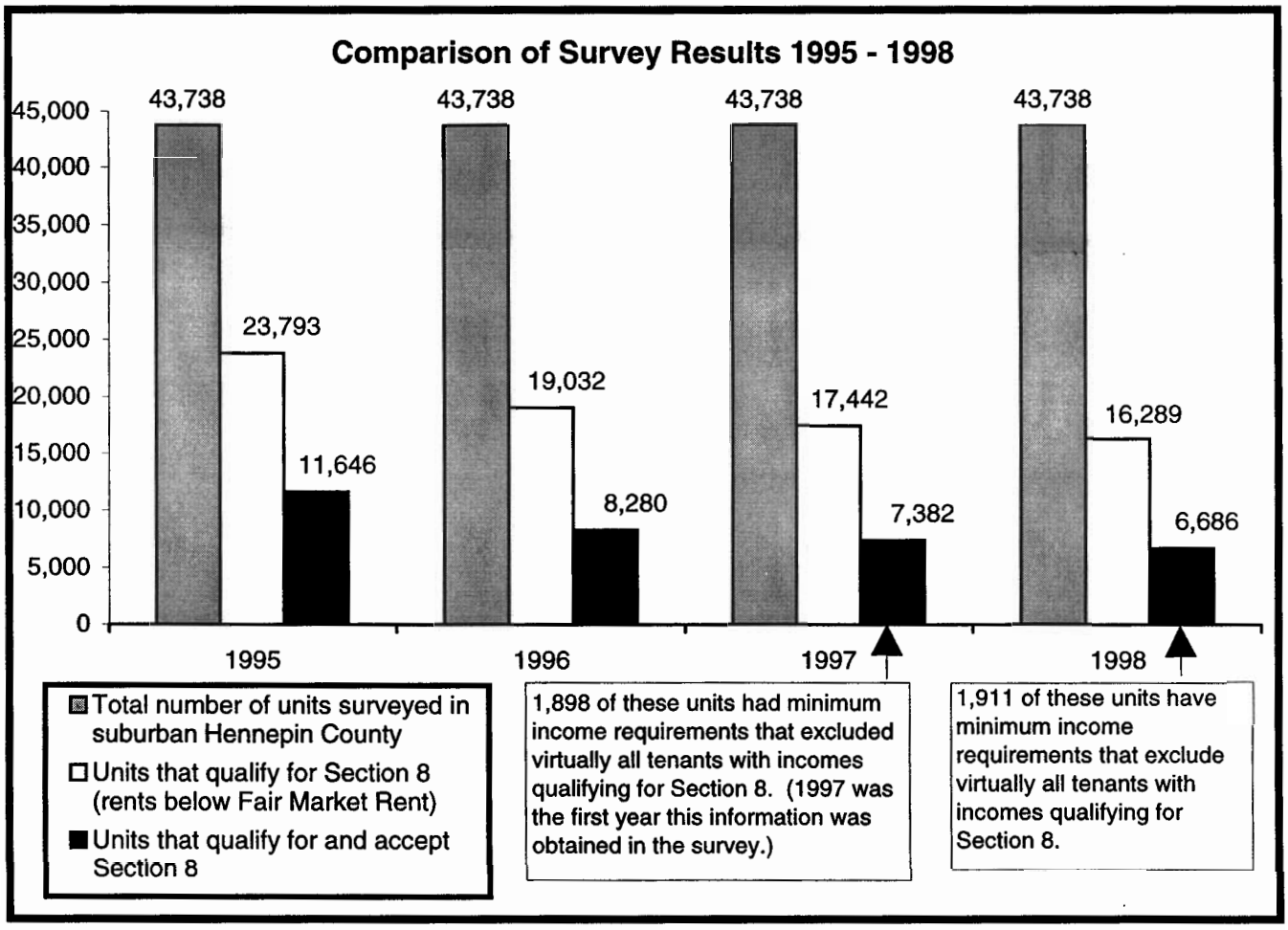
# DIMINISHED CHOICES 4:

## The crisis worsens for Section 8 tenants in Suburban Hennepin County




## Landlord acceptance of Section 8 continues to decline

Over the four years of this survey, the percentage of units that both qualify for Section 8 (rents below the Fair Market Rent) and accept Section 8 has dropped from 27% in 1995 to a disturbingly low 15% in 1998. This year, a home seeker with Section 8 would have, at best, a one-in-seven chance of getting an apartment in the units surveyed in suburban Hennepin County.

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## INTRODUCTION

Families need safe, decent, and affordable housing in order to survive and thrive. The federal government has long recognized this truth. Since 1974, when it was authorized by Congress, the Section 8 program has been the mainstay of government-assisted housing in the United States. The Section 8 program provides subsidies to private landlords on behalf of low and moderate income families and individuals. One of the basic tenets of the Section 8 program is that it is supposed to offer increased locational choice for participating households. Our four years of research indicates otherwise: options for Section 8 homeseekers have been steadily decreasing through the years of our surveys. In 1995 when we began documenting Section 8 acceptance by landlords, 27% of the units in our study were available to renters on Section 8; this year, that figure is down to a mere 15%--fewer than one unit in six.

Over the past ten years, the Administration and Congress have evolved housing policies based on the assumption that "tenant based" Section 8 certificates and vouchers are the way to deliver housing assistance to lower income households. (See the appendix "About Section 8," later in this report, for an explanation of the various versions of the Section 8 program.) The argument goes that renters with a Section 8 certificate or voucher will have wide freedom of choice and can avoid the "concentrations of poverty" associated with the large public housing projects of yesteryear. In a perfect world, these argument would probably hold up. But in the real world of the Twin Cities rental housing market, this survey shows that argument to be fatally flawed.

Our metropolitan area is experiencing the most severe rental housing crisis in decades. According to the Minneapolis StarTribune, the current metro-wide vacancy rate for apartments is 1.3%. For housing at the low end of the market, most experts agree that vacancies are virtually nil. Housing economists describe a "healthy" market as one with 5% vacancies; at the 5% rate, owners can get a reasonable return on their investments and consumers can get reasonable choices of places to live. The squeaky-tight market we are in allows owners to raise rents sharply and still have people waiting in line for units. It offers consumers, other than those at the high end of the market, little, if any, freedom of choice.

The Metropolitan Housing and Redevelopment Authority (HRA), has reported having hundreds of idle Section 8 certificates that renters have been unable to use. In other words, large numbers of households who were lucky enough to obtain Section 8 certificates, after waiting months and even years, were unable to find rental housing where they would be able to use the subsidy. It was indicators such as these, as well as an increasing number of calls to HOME Line advocates and other similar organizations that inspired the first annual survey of this kind four years ago. Since that time, we have conducted a phone survey annually to assess the level of Section 8 acceptance among suburban Hennepin County owners and managers.

## WHAT THE 1997 SURVEY SHOWS

### Declining Acceptance

Of the 43,738 units surveyed through the four years of this project, more than 27,449 units (63%) year are eliminated this year because the rents are higher than the Fair Market Rent (FMR), the qualifying rent for the Section 8 program. In 1995, the first year of this survey, only 40% were disqualified because of too-high rents. Of the 16,289 units that qualify in 1998 for Section 8, only 6,686 accept section 8. This is considerably less than half (41%) of the rent-eligible units and only about one-seventh (15%) of all units surveyed. The graph on the front of this report shows the trend clearly.

SUMMARY

In the summer of 1998, Community Action for Suburban Hennepin (CASH) conducted its fourth annual survey of suburban Hennepin County property owners regarding their participation in the Section 8 rental subsidy program. This survey continues to be conducted in response to a number of calls from tenants to HOME Line, CASH's tenant hotline, complaining that they were unable to find housing where they could use their Section 8 subsidy.

As in previous years, the results of the 1998 survey are not promising for low income renters. Even fewer units than before have rents that qualify for the Section 8 program and have management willing to accept renters with a Section 8 subsidy. The decline in the number of units in both categories from year to year is steady and significant.

Recently, another problem has emerged to fuel the housing crisis for lower income renters. The owners of a number of subsidized apartment buildings in the metropolitan area have announced that they intend to end their participation in federal housing assistance programs. These owners have notified the tenants--senior citizens, disabled people, recent non-English speaking immigrants, families with children, "working poor" households--that they were converting to market-rate housing. With these announcements have come notices of rent increases of up to $200. The hundreds of tenants in these buildings get Section 8 vouchers which allow them to remain in place for one year; after that, they face displacement. As this report shows, they will have an extremely difficult time finding another home in suburban Hennepin County. Our experience working with numerous Twin Cities housing organizations suggests that this problem extends throughout the metropolitan area.

Since last year, we have incorporated an additional finding into the survey that documents yet another obstacle for low income renters. Of those few rental properties where rents are below the Fair Market Rent (FMR) and management has expressed a willingness to accept Section 8 subsidies, many require applicants to meet minimum income requirements that have the practical effect of excluding Section 8 renters from buildings.

This year's results show:

- 364 apartment complexes with a total of 43,738 rental units were surveyed. This represents approximately two-thirds of the rental housing in suburban Hennepin County.
- Less than 15% of the surveyed units met the rent requirements of the Section 8 program and accepted Section 8 renters. (compared to 17% in 1997, 20% in 1996 and 27% in 1995)
- 27,449 of the survey units (63%) disqualify for the Section 8 program because the rents are higher than the Fair Market Rent (FMR) set by HUD. (up from 60% in 1997)
- Of the units that do have qualifying rents (16,289), only 6,686 accept Section 8. (This is 696 fewer "qualifying and accepting" units than in our 1997 survey of the same apartment complexes, and 4,960 fewer units than in 1996.)
- 1,161 of the qualifying and accepting units only accept tenants with Section 8 vouchers (vs. certificates), even though about two thirds of Section 8 subsidies are certificates.
- Of the 6,686 qualifying and accepting units, 3,583 (or 54%) have indicated that they have some sort of minimum monthly income requirements to be eligible for occupancy. Of these 1,911 units are in properties whose income requirements effectively exclude almost all Section 8 renters.

Our results bring into question our national housing policy that relies on the private market to provide low-income people with affordable housing. Even with changes to the program that make it easier for landlords to participate, the survey shows a continuing shrinkage of options for Section 8 renters. This survey has shown, once again, that the prospects for area Section 8 certificate or voucher holders are less than encouraging, and are getting worse.

These results show a drop of 4,960 "qualifying and accepting" units since 1995, when there were 11,646 qualifying and accepting units. The decrease in "qualifying and accepting" units is due both to units no longer qualifying for the Section 8 rents and fewer owners willing to rent to Section 8 applicants. The situation is not all negative. There are a number of landlords who are new participants in the Section 8 program each year. At the same time, however, a larger number of landlords have been dropping out of the program. The result, again, has been a net loss of 4,960 "qualifying and accepting" units since 1995.

Vouchers Only

In the 1998 survey, nine complexes had rents within the FMR but reported that they only accept tenants with vouchers. There are a total of 1,161 units in these developments; they represent 17% of all Section 8-accepting units. Most (about two-thirds in the Twin Cities and three-fourths overall) of all tenant-based subsidies are certificates, so these voucher-only units are not available to the majority of Section 8 tenants, further restricting their choices of places to live.

Income Requirements

More than half (54%) of the units with rents at or below the FMR that report willingness to accept Section 8 have minimum income policies for applicants that have the practical effect of excluding low income tenants. Of the 6,686 below-FMR units in 1998 that claim to accept Section 8 tenants, 3,583 have minimum income requirements. The policies vary among complexes, and a few would not seem to exclude Section 8 renters; however, a majority of these complexes have income policies that would exclude most or all of Section 8 renters.

Of the 3,583 units with income requirements, 1,911 have indicated that applicants' incomes must be at least three times the monthly rent (one complex even asks for four times the monthly rent), and have indicated that the Section 8 subsidy will not be considered income.

This leaves only 4,775 units that have rents below the FMR and accept Section 8 subsidies without restrictive minimum income requirements--just 10.9% of the 43,738 surveyed units.

**How income requirements exclude Section 8 renters**

To illustrate this point, consider the following: The starting wage at two Suburban Hennepin Burger Kings is $6.00. At this wage, a full time employee will earn $12,480 per year, or $1,040 per month. The Fair Market Rent for a two bedroom unit is $644. If a landlord requires income that is three times the rent, the wage earner would have to make more than $1,900 per month. This apartment is clearly beyond the reach of this family given this requirement; rent would consume 65% of their income. Even with a very inexpensive two bedroom apartment renting at $450 per month (an extreme rarity in this market), the wage earner would still have to earn $1,350 per month, or $7.80 per hour, to meet the three-times-the-rent requirement.

The irony is that, with a Section 8 certificate, the wage earner could afford to live in either of these apartments--both have rents within the FMR limit--because they would only have to spend 30% of their income on rent. Essentially, requiring income three or four times the rent excludes Section 8 renters because, if they earned three or four times the rent, they would not need Section 8.

THE COLLAPSE OF PROJECT-BASED SUBSIDIES

An alarming trend has begun in Minnesota as owners of rental complexes subsidized with project-based Section 8 subsidies (see "About Section 8" for an explanation) have given notice to tenants that they no longer intend to participate in the program. Rent increases of up to $200 have been announced by the owners. Oak Grove Towers and Rivergate Apartments in Minneapolis, Hopkins Village in Hopkins, Boulevard Villa in Coon Rapids, Franklin Lane in Anoka, and Shingle Creek Towers in Brooklyn Center are examples. Together, just these complexes contain over 700 units. In the metropolitan area suburbs there are dozens more properties with thousands of units that are similarly threatened with conversion to market rents.

All of these projects were developed in the 1970s under a HUD mortgage program called Section 236. The 236 program provided 100% of the financing for these developments and, in addition, provides an on-going interest rate subsidy to the owner that reduces the effective interest on the mortgage to 1%. In exchange for these lucrative benefits and the enormous tax shelters available to the owners, they are required to limit occupancy to low and moderate income tenants, maintain the buildings according to HUD minimum property standards, and limit rents to what it costs to operate the buildings, service the subsidized debt, and provide a limited profit to the owners--HUD controls all rent increases. Because of the subsidies used to develop them and because of HUD's controls on rent increases, these developments operate profitably with rents that are often below surrounding market rents. Many 236 project owners also have been allocated Section 8 assistance for some or all of the units in their projects.

Even without Section 8 assistance the 236 controls have kept rents affordable to low and moderate income tenants and well below those in their immediate market areas. Oak Grove is in the up-scaling Loring Park neighborhood of Minneapolis and Hopkins Village is in a convenient suburban location that is experiencing sharply escalating rent levels.

The term of the 236 mortgage is 40 years; but, a provision of the 236 program allows owners, after 20 years of operation as subsidized housing, to elect whether or not to continue in the program. Many 236 projects have passed or are approaching their 20-year anniversary and, as the examples indicate, owners are exercising their prerogative to get out of the low income housing business. Coupled with the owners' termination of the 236 program have come terminations of the Section 8 subsidies attached to units in some of the complexes. Federal law requires owners to give a year's notice of Section 8 terminations but 236 mortgage programs can be terminated with as little as a month's notice to tenants.

In order to mitigate the impact on tenants, Congress has authorized "sticky vouchers" for residents of converted projects. These vouchers will cover the increased rent for only one year; after that, increases above the payment standard must be paid out-of-pocket by the tenants. Moreover, owners are not obligated to accept the sticky vouchers after the first year. This means that most tenants will be turned out into the marketplace. Many of these are elderly people--some were elderly when they moved into these complexes years ago when the projects were first opened and are now in their 80s and 90s. Most had expected to live out their lives in these complexes and now are experiencing severe stress at the prospect of displacement. The hardship will also be severe on physically and mentally disabled people as well as families with children who must face a rental market with the lowest vacancy rates in recent history (currently a mere 1.3%) and steadily increasing rents. And, as this survey shows with stark clarity, they will be entering a market that is less and less inclined to accept Section 8 tenants.

These early examples of owner terminations are only the first of what advocates expect to be a deluge during the next few years. Minnesota was a leader in the use of the Section 236 and Section 8

development programs. Many assisted complexes were built in now-desirable locations where the lure of vastly increased profits can be expected to induce owners to convert to market rate housing. The projects located in suburbs often represent the only affordable housing in those areas where job growth is occurring. They are often the only housing there with diverse occupancy; terminating subsidies has the collateral effect of reducing fair housing choices significantly in an already highly race-segregated housing market. With our tight rental market and the ever-diminishing number of places accepting Section 8 renters, the "vouchering out" of these subsidized tenants represents a major crisis.

THE NEED FOR AFFORDABLE RENTAL UNITS

According to the most recent Hennepin County Consolidated Plan, 13% of households in suburban Hennepin County (approximately 34,000 households) have incomes at or below 50% of the median income ($30,400), the qualifying level of income for the Section 8 program. Only about 1 out of 5 of those who qualify actually receive a housing subsidy--7,200 households, including those living in public housing and project-based Section 8 units as well as those utilizing tenant-based Section 8 certificates and vouchers. In addition, a person with a Section 8 certificate or voucher in the 7-county Twin Cities metro area can look for housing anywhere in the metro area, a concept know as "portability." This means that people from Minneapolis and St. Paul could also be looking for housing in suburban Hennepin County, although some communities do give preference for assistance to current residents.

In addition, households earning more than $30,400 often occupy or are looking for these same lower-cost units. All of this demand puts a strain on the private housing market to meet the needs of lower income families. The task of finding an affordable unit is especially difficult for households with Section 8 subsidies because, as this survey shows, many property owners or managers chose not to participate in the program. The housing market is further complicated in the Twin Cities metro area because of low vacancy rates; the Minneapolis Star Tribune reported a June, 1998 vacancy rate of 1.3% for the metro area.

The Family Housing Fund has published a study documenting the disparity between the housing needs of low income Twin Citians and the affordable housing available to them. The report shows there to be 185,000 households in the metro area with incomes below $30,000 paying more than 30% of their income for housing. About half of these households live in the inner cities (95,000), the rest (90,000) in the suburbs. The Fund's report also documents 38,000 households with what HUD calls "worst case housing needs:" incomes below 50% of the median; rent burdens of more than 50% of income or living in substandard housing. Again, the city-suburban split between these households is about 50-50.

The Wait for Section 8

There are a number of reasons that only one in five qualifying households receive subsidies. One of them, certainly, is the status of the Section 8 waiting lists maintained by area Housing and Redevelopment Authorities (HRAs). The chart below lists the HRAs providing the majority of Section 8 certificates and vouchers used in suburban Hennepin County.

| HRA | # Certificates | # Vouchers | Estimated wait |
|---|---|---|---|
| Bloomington | 306 | 187 | 3 years |
| Plymouth | 89 | 0 | 3 mo. to 3 yrs. |
| Richfield | 0 | 242 | 3 to 5 years |
| St. Louis Park | 175 | 64 | 2 to 6 years |
| Metro Council | 3,680 | 1,100 | 2 years |

## CONGRESSIONAL ACTIONS AFFECTING SECTION 8

In recent years, Congress has enacted a number of changes to the Section 8 program in an effort to make it more acceptable to property owners and managers. These changes had been made by tacking them onto appropriations bills, so they were effective for only one year at a time. This year, these changes have been enacted into permanent legislation.

### Elimination of federal preferences

As housing problems for low-income people became increasingly critical in the 1980s, HUD established priorities for the Section 8 program. Homeless families, people displaced by government action, and households with "severe rent burden" (paying more than half of income for housing) were given preference in getting assistance. These preferences are no longer in effect.

### Increase in security deposits required

Prior to 1996, landlords could only charge the equivalent of the tenant's portion of the rent for a security deposit. When the tenant moved out, if the damage amount was more than the deposit, the landlord could collect the remainder from the agency issuing the Section 8 subsidy. This restriction has been removed, allowing landlords to require the same security deposit from a Section 8 tenant as they do for a "market" tenant. In the tightened Twin Cities rental market, it has become practice for landlords to charge higher security deposits: two months' rent is not uncommon. Section 8 tenants who do not have the money for these increased security deposits are asking for Emergency Assistance from the county, being forced to move from their current homes, or are not renting in places that require large security deposits.

### Elimination of "for cause only" evictions

For many years, under the Section 8 program landlords were required to show "good cause" in order to terminate a tenant's lease. This has now been changed to allow landlords to terminate a Section 8 lease simply by giving notice. One consequence of this change is that Section 8 tenants may be less likely to report repair needs or problems with their rental units because of fear of losing their apartment.

### Repeal of "take one-take all" provision

Previously, landlords had to have a valid reason for not accepting Section 8 tenants, once they initially accepted one tenant with a Section 8 subsidy. Now, landlords who already have tenants using Section 8 can exclude new Section 8 applicants simply because they are utilizing the program.

All of these changes were made to induce landlords to accept Section 8 tenants in their buildings. The Metro HRA, which administers the Section 8 program for many cities in the Twin Cities metro area, sent out a notice in 1996 announcing these changes to all landlords who were participating in the Section 8 program. As the graph at the beginning of this report clearly shows, landlords are not joining the Section 8 program, even with these changes. In fact, looking at those complexes in our survey that met the FMRs in all four years, there is a net loss of 967 units that accept Section 8.

Even with the removal of tenant protections that were seen as burdensome by landlords, the availability of housing for Section 8 renters has still decreased. This brings into question the policy of moving toward a reliance on the market place to supply affordable housing.

New Section 8 certificates/vouchers

Since 1974 when Section 8 was first authorized, the number of Section 8 certificates and vouchers has always been increased to account for increases in the population and in the number of people who qualify for Section 8. This held true until 1995. The 1995 budget did provide funding for 520,000 new Section 8 certificates and vouchers; however, as part of the "balance the budget" move, that budget was rescinded by Congress and no new Section 8 funding was provided. The fiscal years 1996 and 1997 budgets, likewise, contained no new units. This year, however, there was an appropriation for 50,000 new vouchers; these are targeted primarily for welfare-to-work participants.

Delay in reissuing "unneeded" Section 8 certificates and vouchers

For the past two years, Congress has enacted legislation requiring housing authorities to hold for three months all Section 8 certificates and vouchers returned by tenants who were unable to use them in the 120 days they had to find an apartment. As this survey suggests, this was not a rare occurrence. In fact, national housing advocates estimate that the cumulative effect of this policy was the equivalent of cutting the Section 8 program by 40,000 units. Fortunately, this year's housing bill eliminates this Scrooge-like policy, aimed at saving money; the lawmakers had concluded that if the Section 8 wasn't used it must not have been needed.

Minimum rent

Under Section 8, a tenant's rent payment is calculated at 30% of the tenant's "adjusted gross income." Adjustments in income are allowed for such things as the number of children in the household and extraordinary expenses such as medical costs. Many Section 8 tenants, especially elderly people on Social Security or small pensions have medical expenses that cause their adjusted income, and therefore their rent payment, to be zero. In October 1996 legislation, a measure was passed to allow local housing authorities the discretion of charging anywhere from $0 to $50 for minimum rents. This feature has now been made permanent.

(The housing authorities administering the majority of Section 8 certificates and vouchers in suburban Hennepin County have adopted the following minimum rents: Bloomington: $25; Plymouth: $35; Richfield: $25; St. Louis Park: $0; Metro Council: $25.)

**A Couple of "Affordable Housing" Anomalies**

Low Income Housing Tax Credits

In 1986, Congress passed major legislation affecting tax laws. On major feature created by the 1986 Tax Act is the Low Income Housing Tax Credit (LIHTC). Tax credits are a means to encourage private sector (primarily corporate) investment in "low income housing." Investors receive a dollar-for-dollar credit against taxes owed--as distinct from a deduction against taxable income--for money put into qualifying rental housing projects. To qualify, units produced with tax credits must have rents affordable (at no more than 30% of income) to households earning no more than 60% of the area median income.

In the Twin Cities, the median income figure is $60,800, one of the highest in the nation. This means that, under this program, an apartment renting for up to $912 would be defined as "low income housing" and could qualify for tax credit subsidies to investors. As a practical matter, the Minnesota Housing Finance Agency, which

administers the bulk of tax credit allocations, limits eligibility to developments with rents affordable to households at 50% of the median, or renting for up to $760 in the metro area, well above the Section 8 FMR limit.

Another irony of the tax credit program is the inefficiency in the way it actually works. Because of the extremely complex nature of the program (it is, in fact, the largest single chapter in the entire Internal Revenue Code) it has very high "transaction costs," the lawyers' fees, accountants' fees, discounts by investors, syndication charges, and the like. These come off the top; so, for every dollar the investors get in reduced taxes, only about 50 or 60 cents actually go into the housing.

Tax credits are what they in Washington call "tax expenditures," meaning that rather than the government appropriating funds from tax revenues--the way Section 8 is funded, for example--the government forgoes tax revenues by allowing LIHTC investors to deduct the amount they invest in the housing from what they would otherwise owe in taxes. From the government's point of view, there is no difference between paying out a dollar and not getting that dollar in the first place. But when it comes to getting housing produced, the tax expenditure method provides the most benefit to corporate LIHTC investors to the detriment of the "low income" people the program is supposed to help.

Livable Communities

In 1996, the Minnesota state legislature passed the Livable Communities Act (LCA), in part, to encourage affordable housing in the Twin Cities suburbs. A limited state appropriation under LCA provides subsidies for development of affordable rental units. The act defines "affordable" housing as rent plus utilities costing no more than 30% of the income of a family earning 50% of the metro median income. This translates to a rent of up to $760 per month qualifying as affordable.

In 1998, the Fair Market Rent (the rent that qualifies the unit for the Section 8 program) for a two-bedroom unit in the Twin Cities metro area is $644. A few high rent suburbs have qualified for "exception FMRs" as high as $773 (see chart in Appendix II: About the Survey). The economic and political realities of developing affordable housing in the suburbs, high land costs and such local demands as two-car garages and low density, almost always push the rents up to the maximum. Thus, when utility costs are figured in on top of the rent, virtually no LCA-developed rental housing will qualify for the Section 8 program under existing FMRs.

## AFTERWORD

It is readily apparent that the marketplace, even with subsidies provided through the tenant-based Section 8 program, cannot or will not meet the housing needs of low income people. We hope that our survey will help to convince policy makers at every level of government that a housing crisis exists for low wage workers, people on fixed incomes, and people with special needs. It is unfortunate that it's necessary for so many to suffer before any action is taken.

APPENDIX I: About Section 8

Since 1974, when it was authorized by Congress, the Section 8 program has been the mainstay of government assisted housing in the United States. Section 8 operates in the private rental housing market, providing rent subsidies to owners on behalf of qualified tenants. The U.S. Department of Housing and Urban Development, HUD, funds the program nationally, although Section 8 subsidies may be administered through state, regional, county, or local agencies.

(Public housing, like Section 8, serves very low income households and operates under many of the same rules; but, it is owned by public entities: housing and redevelopment authorities or public housing agencies. In suburban Hennepin County, only four municipalities--Bloomington, Hopkins, Mound, and St. Louis Park --operate public housing; the total number of public housing units, tallied in the County's Consolidation Plan, is 334, of which 98 are for families, the rest for elderly and handicapped renters. These units are not part of this report.)

Basic Elements of Section 8

Through the years, a number of variations of the Section 8 program have been devised. However, there are common features to all the versions of Section 8 as it currently operates:

- Tenants pay a percentage of their incomes, currently 30%, for housing (rent and household utilities) and the federal government pays the rest to the landlord.
- The housing must be inspected and determined to meet minimum quality standards to be eligible for a subsidy.
- Locally established "fair market rent" standards apply (areas in high cost markets may be approved by HUD for "exceptions rents" that may be 10% to 20% above the region's normal FMR. See Appendix II, following, for a chart showing communities with exception FMRs).
- Tenants' incomes, adjusted for family size, must be at or below 50% of the area median income to qualify.
- Tenants are covered by federal renter protections, such as a prohibition against arbitrary evictions and the right to appeal adverse decisions.

Project-based vs. Tenant-based Section 8

There are two basic types of Section 8. In the first, the subsidy is "attached" to the housing; this is the project-based model in which a private owner contracts to have all or a portion of the units in a given building covered by the program. An eligible household living in a project-based Section 8 unit automatically receives the rent-geared-to-income benefit. Rents in project-based Section 8 buildings are controlled by HUD and, even without Section 8 subsidies, are often below prevailing rents in the area, especially in market areas like the suburbs. The owner's contract for the project-based subsidies may run from 15 to 40 years; at 5-year intervals, owners and HUD have the option to continue or terminate the program. Recently, Congress has limited refunding of project-based contracts to one year at a time.

The second type of Section 8 is called tenant-based. Here, an eligible household is issued a document from a local or regional housing authority--often after months or even years on a waiting list--verifying for a potential landlord that the person or family is in the Section 8 program. The household then has 60 days to find a willing landlord with an eligible unit for rent; another 60 days may be given if a home seeker is unable to find a "qualifying and accepting" unit in the initial time period.

The rented unit may be an apartment, a townhouse, of even a single-family home. The landlord executes a lease with the tenant and a contract with the administering agency. The tenant pays 30% of his or her income to the landlord and the agency, with funds from HUD, pays the difference.

Tenant-based subsidies are currently funded by Congress on a one-year basis (it used to be a five-year term). Administering agencies enter into funding contracts with HUD for an allocation of units or for a

dollar amount which may yield differing numbers of units, depending on the mix of unit sizes under lease. Nationally, Section 8 subsidies are split roughly equally between tenant- and project-based types; in suburban Hennepin County, only about 2 in 5 Section 8 subsidies are tenant-based.

Certificates & Vouchers

There are two categories of tenant-based Section 8: certificates and vouchers. Nationally, there are about three certificates for each voucher. In suburban Hennepin the ratio is about one voucher for every three certificates. As long as the rent on the unit is within the fair market rent set by HUD, these two versions operate similarly. However, if the rent exceeds the FMR, there are significant differences between the two.

Certificate holders may not enter into a lease for a unit renting above the FMR. Section 8 leases initially run for a one-year term, and usually convert to a month-to-month arrangement thereafter. If the rent goes up during the first year, the tenant may remain in place until the lease has run its term but may have to move after that if the rent increase exceeds a locally applied "adjustment factor."

Vouchers may be used in a unit even if the rent exceeds the FMR; however, tenants must pay dollar-for-dollar the full amount that the rent exceeds the FMR. They pay this amount in addition to 30% of their household income. Thus, vouchers may be used more widely in the marketplace than certificates; but voucher-holding tenants may also be subject to paying more than the federal standard of 30% of income for housing. The Metropolitan HRA reported last year that a full 40% of voucher holders are paying more than 30% of their incomes. In tight housing markets like suburban Hennepin County, an excessive cost burden for the tenant may be the price of housing choice. It should be noted that voucher-holders who rent a unit costing more than the FMR can not be counted as having "affordable housing," despite being on Section 8.

"Sticky Vouchers"

A new version of tenant-based Section 8 has been added to the list with the advent of owners' conversions of formerly assisted housing to market rents. As described in the Summary section, owners of housing developments produced in the 70s and 80s under the Section 236 mortgage program have, in recent years, begun exercising their option to pre-pay the federal loan, thereby terminating participation in the assisted housing program. This has resulted in rent increases of up to $200 in the 700-plus units already converted here in the metro area. Nationally, over 50,000 units have been permanently lost from the inventory and rent increases have averaged 50% overall.

The Administration and Congress have devised a band-aid palliative to blunt the effects of this wholesale reduction in the nation's affordable housing stock. These are called, variously, "sticky," "enhanced," and "preservation' vouchers. The principle feature of these vouchers is that they allow the to-be-displaced tenants a one-year reprieve during which they may continue to pay 30% of their income for housing, even with the rent increased above the FMR.

But, there are major problems with sticky vouchers. First, as noted, they aren't really all that sticky: they are only good for one year. After that, the converting owner is under no obligation to continue accepting them. Second, if the owner raises again rents after the first year, the tenant has to pay the increase out-of-pocket, rendering their housing unaffordable as measured against the 30%-of-income standard. Third, unlike "regular" Section 8, tenants' incomes (and rents) cannot be adjusted downward if there is an adverse event in their lives, such as reduction in income (job loss, death of breadwinner, etc.), change in family size (a new baby or adopted child), or increase in medical expenses (a common occurrence, especially for the elderly). The tenant's rent will rise, however, if income goes up.

## APPENDIX II: ABOUT THE SURVEY

### When and where it was conducted

The survey was conducted by telephone during July and August of 1998. Cities in CASH's service area were contacted for directories of rental housing in their jurisdictions. Such lists were received from 24 suburbs:

| | | | | |
|---|---|---|---|---|
| Bloomington | Crystal | Hopkins | New Hope | St. Anthony |
| Brooklyn Center | Eden Prairie | Maple Grove | Osseo | Spring Park |
| Brooklyn Park | Edina | Maple Plain | Plymouth | St. Louis Pk. |
| Champlin | Excelsior | Minnetonka | Richfield | Wayzata |
| Chanhassen | Golden Valley | Mound | Robbinsdale | |

### Who was contacted

Calls were placed by volunteers and staff to owners or managers of 364 apartment complexes containing 43,738 units. The survey concentrates on complexes containing two-bedroom apartments and at least six units. It excludes public housing or developments offering project-based Section 8. It should be noted that this is a very small revision of the number of units detailed in our 1995, 1996 and 1997 surveys because it includes only those complexes that we were able to reach in all four years. We contacted owners or managers of 43,987 units in 1995 and in each consecutive year we attempt to contact all of the same units. We were able to contact 43,738 of these units, or 99.4%, in 1998.

The volunteers called as potential consumers and spoke to whomever answered the phone. The survey questions were straightforward and few. The basic purpose of the survey was to get an overview of the prospects for a Section 8 certificate- or voucher-holder to find a place to use the subsidy in suburban Hennepin County.

Because our callers were speaking to whomever answered the phone, we did not always get people with knowledge of the owner's decision-making or of the history of the complex. In fact, it was quite common for us to end up speaking with someone who didn't know whether or not the complex uses income requirements, let alone how these requirements apply to Section 8 renters. The inability to speak to an actual decision-maker (or someone knowledgeable) made the survey process a little more difficult. But more importantly, it demonstrates another of the difficulties encountered by home seekers who end up wasting application fees on complexes where tenancy is unlikely.

### How we figured the results

In determining the number of units renting at or below the Fair market Rent (FMR), account was taken for the fact that HUD has allowed "exception rents" in certain higher cost suburbs. The high-cost suburbs and their two bedroom HUD-approved exception rents are shown below. The Metro Area FMR ($644 for a two bedroom unit) applies in the remainder of the cities surveyed.

| | | | |
|---|---|---|---|
| Bloomington | $772 | Eden Prairie | $773 |
| Edina | $773 | Golden Valley | $717 |
| Hopkins | $714 | Maple Grove | $773 |
| Minnetonka | $773 | Mound | $711 |
| Plymouth | $772 | Richfield | $773 |
| Wayzata | $746 | | |

The survey provides a snapshot of the housing market for tenants with Section 8 vouchers and certificates. Although our concern lies with every tenant seeking affordable housing, this survey looks only at the market for tenants with a Section 8 subsidy.

What was asked:

- What is the rent for a two bedroom apartment?
- Do you accept Section 8? Certificates? Vouchers?
- Do you have any minimum monthly income requirements at your complex? If so, how does a Section 8 subsidy apply?

# Summary of 1998 Survey Results

| City | Total Buildings Surveyed | Total Units Surveyed | Units at or below Fair market Rent | Units at or below Fair Market Rent that Accept Section 8 | Units at or below Fair Market Rent that don't accept Section 8 |
|---|---|---|---|---|---|
| Bloomington | 61 | 6,423 | 3,138 | 998 | 2,140 |
| Brooklyn Center | 30 | 2,410 | 1,791 | 1,223 | 568 |
| Brooklyn Park | 21 | 3,935 | 1,523 | 614 | 909 |
| Champlin | 5 | 338 | 338 | 302 | 36 |
| Chanhassen | 1 | 170 | 170 | 170 | 0 |
| Crystal | 13 | 1,553 | 1,103 | 361 | 742 |
| Eden Prairie | 21 | 3,699 | 745 | 253 | 492 |
| Edina | 23 | 2,980 | 438 | 79 | 359 |
| Excelsior | 5 | 251 | 0 | 0 | 0 |
| Golden Valley | 9 | 565 | 320 | 37 | 283 |
| Hopkins | 23 | 2,648 | 1,048 | 334 | 714 |
| Maple Grove | 4 | 724 | 0 | 0 | 0 |
| Maple Plain | 2 | 140 | 140 | 0 | 140 |
| Minnetonka | 14 | 3,745 | 340 | 0 | 340 |
| Mound | 1 | 87 | 87 | 87 | 0 |
| New Hope | 26 | 2,386 | 2,014 | 1,059 | 955 |
| Osseo | 1 | 86 | 86 | 0 | 86 |
| Plymouth | 26 | 4,464 | 1,299 | 574 | 725 |
| Richfield | 13 | 922 | 400 | 290 | 110 |
| Robbinsdale | 7 | 543 | 331 | 11 | 320 |
| Saint Anthony | 5 | 788 | 177 | 108 | 69 |
| Spring Park | 5 | 484 | 0 | 0 | 0 |
| St. Louis Park | 44 | 4,280 | 725 | 186 | 539 |
| Wayzata | 3 | 117 | 76 | 0 | 76 |
| **Suburban Totals** | **363** | **43,738** | **16,289** | **6,686** | **9,603** |