The HOME Line

Section 8 Report #7

November 2001

Can Money Solve the Problem?

A survey of the acceptance of Section 8 vouchers in Anoka, Dakota, and suburban Hennepin Counties, Minnesota

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ACKNOWLEDGEMENTS

This report was prepared by volunteers and staff of HOME Line. Beth Kodluboy, HOME Line's lead tenant organizer, coordinated data collection and processing. The calls were made by Audrey Gustafson, Emily Stewart, Chris Learned, Beth Kodluboy, and Mary Gleason. Charlie Warner, HOME Line's executive director, wrote the text.

We are especially thankful to the Jay and Rose Phillips Family Foundation for a grant which made it possible for us to expand this year's survey to Anoka and Dakota counties. That grant has also supported the expansion of HOME Line's tenant advocacy and education programs into these new areas.

About HOME Line

HOME Line is a Minnesota non-profit tenant advocacy organization. It began in 1992 as a program of the community action agency operating in suburban Hennepin County (Minneapolis) and spun off as an independent entity in 1999. HOME Line's programs for tenants include a statewide hotline that receives over 5,000 calls each year. The hotline staff also conduct a presentation program for local high school seniors to educate them on becoming knowledgeable and responsible renters. HOME Line also works to organize tenants to deal collectively with common problems and has focused much of its organizing work in recent years on tenants of HUD-subsidized complexes at risk of conversion to market rents. HOME Line participates in housing policy advocacy at the state and national levels through its work with organizations such as the Minnesota Housing Partnership, the National Alliance of HUD Tenants, the National Housing Law Project, and the National Low Income Housing Coalition.

Funding for HOME Line's work comes from The Family Housing Fund, The Jay and Rose Phillips Family Foundation, The Minneapolis Foundation, The Otto Bremer Foundation, The Minnesota Housing Finance Agency, the Minnesota Department of Children, Families and Learning, the U.S. Department of Housing and Urban Development, Hennepin County, and the cities of Plymouth, Eden Prairie, and Minnetonka.

SUMMARY

- HOME Line's seventh annual survey to determine acceptance of Section 8 vouchers in suburban Hennepin County reached 332 complexes. This year we also surveyed 125 complexes in Anoka County, and 124 in Dakota County.

- A total of 68,822 rental units are covered by this year's report (42,804 in suburban Hennepin, 8,169 in Anoka, and 17,849 in Dakota), 56% of all rental housing in the surveyed areas.

- Since last year's survey, HUD raised the rent limits for Section 8 vouchers (the "voucher payment standard," or VPS) by 8.5%, allowing rents up to $890 for a 2-bedroom apartment in high rent submarkets to qualify.

- The vacancy rate since last year's survey rose slightly, from 1.5% in 2000 to 2.2% this year, still well below the 5% considered healthy.

- Because of the increase in the VPS, 53% more units in suburban Hennepin County this year are within the rent limits for Section 8 than last year (15,872 in 2001 vs 10,374 in 2000).

- Lower average rents in Anoka and Dakota counties compared to suburban Hennepin result in significantly higher percentages of units qualifying for Section 8 in those areas. Of units surveyed, 77.3% were under the VPS in Anoka County, 43.3% in Dakota, 37.1% in suburban Hennepin.

- Despite the higher VPS and the lower vacancy rate, fewer than one apartment in eight (11.9%) in suburban Hennepin is both affordable *and* available to voucher holders. It's almost one in five (18.9%) in Dakota and better than one in three (37.4%) in Anoka.

- Owners in Anoka and Dakota counties are far more likely to accept Section 8 than those in suburban Hennepin. Sixty one of 125 complexes in Anoka (48.8%), 39 of 124 in Dakota (31.5%), and 66 of 332 in Hennepin (19.9%) have rents under the VPS and accept Section 8. Voucher holders have more choices and a higher likelihood of acceptance in Anoka and Dakota than in suburban Hennepin.

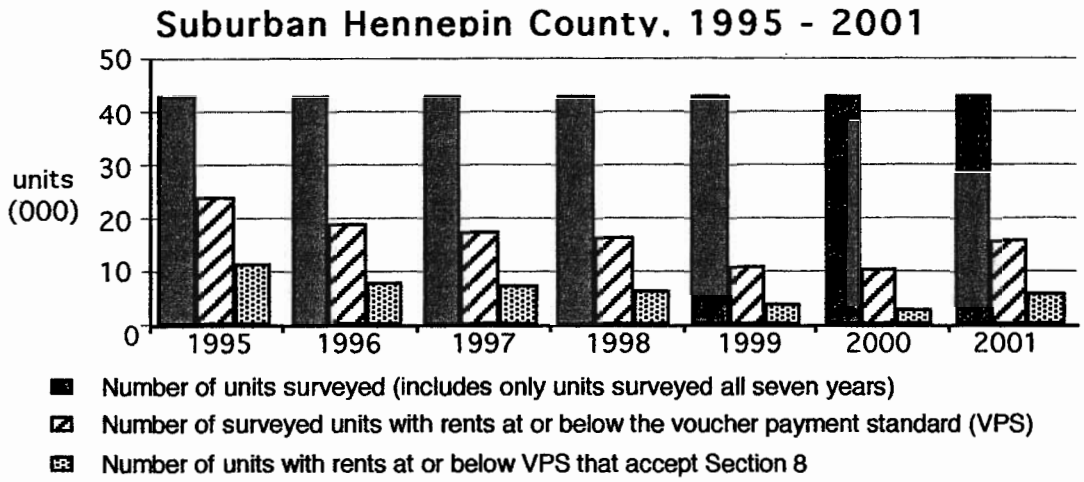
- Staff of housing agencies administering Section 8 report that applicants experience great difficulty finding a unit where their voucher will be accepted. To utilize their vouchers, to get them under lease, these agencies issue multiple vouchers. Metro HRA reported only a 1-in-3 success rate; Dakota County CDA said 5-7 vouchers had to be issued to get one leased up.

INTRODUCTION

In the summer of 2001, HOME Line conducted its seventh annual survey of suburban Hennepin County rental property owners to determine their willingness to participate in the Section 8 rental subsidy program. This year we expanded our survey to include Anoka and Dakota counties in addition to suburban Hennepin. While we do not have the long-term data for Anoka and Dakota counties that would permit us to identify trends, we are able to make some comparisons between the different markets.

For the first time in the seven years of this survey, we saw an increase from the previous year in the number of units in suburban Hennepin County priced at or under the Section 8 rent limit that were available to applicants with vouchers. However, it must be noted that even this year's slightly improved numbers still show that only one unit in eight (11.9%) we surveyed in Hennepin County had affordable rent and was available to apartment seekers with vouchers when restrictive minimum income requirements are considered.

Figure 1



We believe this is partly attributable to a slight softening in the Twin Cities rental market in the past year. The reported vacancy rate increased from 1.5% during last year's survey to 2.2% during this year's. But the largest single factor behind the increase was probably the 8.5% hike in the value of a voucher approved last fall by HUD, the largest increase in FMRs since this study began. (See Appendix V, "FMRs.") The purchasing power of a Section 8 voucher reached $890 for a two bedroom apartment in many metro area submarkets. Rents on 5,498 of the units in suburban Hennepin County that were too high for Section 8 in last year's survey fell within the limit this year. Owners of only about half (2,843) of those newly qualifying units, however, said they accept Section 8 tenants.

Based on this reasoning, we should expect an even greater number of apartments to be affordable and available to Section 8 voucher holders next year. The faltering economy suggests further softening of the rental market and HUD has raised the Section 8 rent limits again, this time by over 16%, almost doubling

the last increase.

The slightly positive trend toward increased availability we saw this year could be stymied if many owners and managers continue to refuse to participate in the Section 8 program. A close look at this year's suburban Hennepin data show that over 600 units were lost as owners' acceptance of Section 8 went from the "yes" to the "no" column--only partially offset by the owners of some 200 units that went the other way.

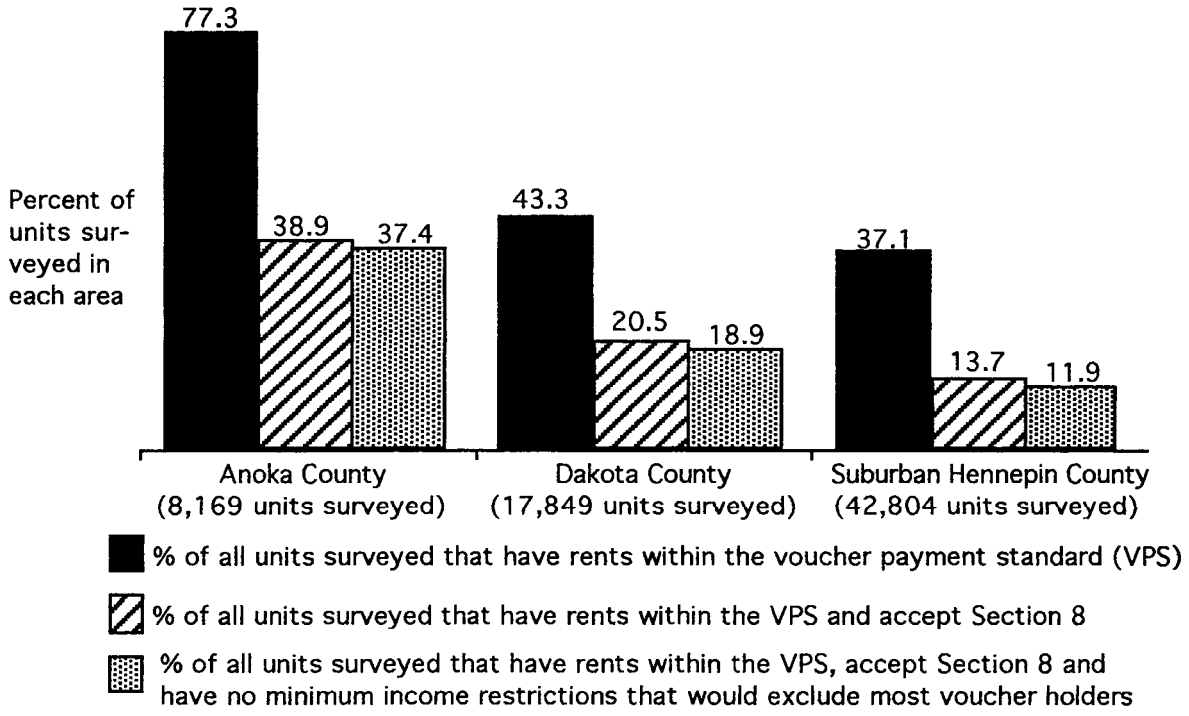
THE FINDINGS

The results of this year's survey document a first-time-ever increase in the number of apartments available to voucher holders in suburban Hennepin. There were 2,837 more units with rents that qualified for the Section 8 program and had owners willing to accept renters with a Section 8 subsidy than there were last year.

We also note marked differences between the three counties in the proportion of units within the Section 8 limits and, most interesting, the proportion of owners willing to accept Section 8 tenants.

Figure 2

Comparison of Anoka, Dakota, and suburban Hennepin Counties



The acceptance of Section 8 appears to correlate inversely with the average rent levels in Anoka, Dakota, and Hennepin--the higher the rent, the lower the acceptance of Section 8. According to the Minneapolis *StarTribune*, the average 2-bedroom rents when the survey was taken were: Anoka County, $813; Dakota County, $898; suburban Hennepin, $954.

Units Surveyed

This year's expanded survey covered Anoka and Dakota counties in addition to suburban Hennepin. The units sampled represent a majority of the rental housing in those areas as shown in the chart below. For a more detailed description of what was included, see "About the Survey" in Appendix I.

Chart 1: Complexes and units covered by the survey

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Total number of rental units in 2000 Census	75,392	17,688	28,530	121,610
Number of complexes surveyed	332	125	124	581
Number of units in survey	42,804	8,169	17,849	68,882
Surveyed units as a percent of total	57.1%	46.5%	63.5%	56.6%

Rents Within the Voucher Limit

This survey compares the reported rents to the voucher payment standard, or VPS, used in each municipality. The Section 8 program permits vouchers to have different values in different submarkets (see "Housing Choice Vouchers and the Voucher Payment Standard," in Appendix II, and "VPSs by suburb" in Appendix III). Suburban Hennepin County complexes we surveyed had comparatively higher rents relative to the VPS than those in Anoka County or Dakota County, as shown below.

HUD's 8.5% increase in the Fair Market Rents for the Twin Cities metro area since our last report resulted in 5,498 more units in suburban Hennepin qualifying for Section 8. The owners of only 2,843 of those units, however, chose to participate in the program.

Chart 2: Complexes and units with rents qualifying for Section 8

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,804	8,169	17,849	68,882
Number of complexes surveyed	332	125	124	581
Complexes with rents within VPS	171	109	69	349
Units with rents within VPS	15,872	6,317	7,724	30,119
Percent of units with rents within VPS	37.1%	77.3%	43.3%	43.5%

Voucher Acceptance & Minimum Income Requirements

A significantly higher proportion of owners in Anoka and Dakota counties were willing to accept Section 8 tenants than in suburban Hennepin. However, as already noted, about 2,800 more units in suburban Hennepin County were reported to be affordable

and available to Section 8 voucher holders than last year, the highest number since our 1998 report. This is still only 14% of the units surveyed, just one in seven. When owner-mandated minimum income requirements are applied that drops to 11.9%, or about one in eight.

Minimum income requirements being used by owners and managers vary. Most are expressed as a multiple of the rent. Where there were such requirements, we probed to learn how they were being applied to Section 8 applicants. If the multiplier was 3x and it applied to the *unit's market rent* (as opposed to the "tenants portion," which is 30% of their income under Section 8 rules) virtually all Section 8 holders would be disqualified. This was the case for the 1,191 units mentioned above.

To illustrate, if the rent is $800 and the multiplier is three, an applicant would need to have a $2,400 monthly income to qualify. This is an annual income of $28,800; to earn that much requires an hourly wage of $13.85. According to the agencies issuing vouchers, almost all their applicants have significantly lower incomes. The 1999 (latest available) national average income for a voucher holder was $9,560, or $4.60 per hour; naturally this includes many people on pensions or public assistance and working low wage jobs, the very people most in need of subsidized housing. The $800 rent in our illustration is more than the entire monthly income of the "national average" tenant, so virtually any multiplier would disqualify him or her.

Chart 3: Complexes and units that are affordable AND available to voucher holders

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,804	8,169	17,849	68,882
Number of complexes surveyed	332	125	124	581
Complexes within VPS and accept Sec. 8	66	61	39	166
Units within VPS and accept Sec. 8	5,858	3,178	3,656	12,692
% of units within VPS that accept Sec. 8	13.7%	38.9%	20.5%	18.4%
Complexes with income requirements that exclude Section 8 tenants	10	1	2	13
Units with income requirements that exclude Section 8 tenants	783	126	282	1,191
Units affordable and available to Section 8 tenants	5,075	3,052	3,374	11,501
Percent of units affordable and available to Section 8 tenants	11.86%	37.36%	18.90%	16.71%

The Bottom Line

The Section 8 "Housing Choice Voucher" program works if and only if a tenant can find an apartment in a building that 1) accepts applicants with vouchers, 2) has rents within the voucher payment standard, and 3) has no minimum income requirements that have the effect of excluding voucher holders. Only units that satisfy all three of these conditions can be said to be available and affordable to Section 8 tenants. It is

these "bottom line" numbers shown above in Chart 3 and depicted earlier in Figure 2.

Tax Incentives

For a second year, we focused special attention on housing subsidized through the federal Low Income Housing Tax Credit program and the state's "4d" property tax break. The tax credit and 4d programs both require owners to accept Section 8 voucher holders (See Appendix VI for details).

STATE 4d PROPERTY TAX PROGRAM

Our results indicate that compliance with the 4d program's requirement that owners accept Section 8 has improved somewhat. Last year, seven suburban Hennepin complexes said they did not accept Section 8 tenants; this year, it was down to four.

The following chart summarizes what we learned about compliance with the state's 4d program, set to expire at the end of 2003.

Chart 4: Compliance with the 4d property tax incentive program

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,804	8,169	17,849	68,882
Number of complexes surveyed	332	125	124	581
Complexes participating in 4d	53	22	24	99
Units in 4d complexes	5,790	1,380	3,024	10,354
Complexes with rents above VPS	15	2	6	23
Units with rents above VPS	2,102	170	731	3,003
Complexes not accepting Sec. 8	4	0	1	5
Units in "refusing" complexes	380	0	120	500

Twenty three of the 99 buildings surveyed that participate in the 4d program had rents above the VPS; there were 3,003 units in these buildings. This means that almost one-third of all 4d units surveyed had rents too high for the Section 8 program. Five 4d properties with 331 units had exclusionary minimum income requirements.

FEDERAL LOW INCOME HOUSING TAX CREDITS

In the three survey areas a total of 26 complexes containing 2,426 units were assisted through tax credits. In suburban Hennepin there were 15 tax credit properties in our survey; there were six in Anoka County and five in Dakota County, Compliance with the tax credit program among the 26 properties surveyed was improved from last year. Two properties, both in suburban Hennepin, containing 204 units reported not accepting Section 8 applicants.

HOME Line has joined a number of area advocacy organizations in a thorough metro-wide investigation of tax credit property owners' compliance with the federal statutes requiring Section 8 acceptance. As owners continue to withdraw from project-based

housing assistance programs these tax credit projects represent an important supply of units where vouchers can be used.

Chart 5: Compliance with the Low Income Housing Tax Credit program

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,804	8,169	17,849	68,882
Number of complexes surveyed	332	125	124	581
Complexes subsidized with tax credits	15	6	5	23
Units in tax credit complexes	1,498	537	391	2,426
Complexes with rents above VPS	15	2	6	23
Units with rents above VPS	444	82	0	3,003
Complexes not accepting Sec. 8	2	0	0	2
Units in "refusing" complexes	204	0	0	204

Waiting lists and voucher lease-ups

National statistics indicate that only one in five income eligible households actually gets subsidized housing. About a third of the families and individuals that are in subsidized housing are voucher holders. One of the reasons so few get the benefit of subsidized housing is the long wait to get a voucher. This can be up to three years in the metro area. After the wait, there is the often frustrating search for a place to use it. Many apartment seekers with vouchers issued to them simply give up after a while. Others return them unused after the time limit runs out.

Knowing the state of the market, voucher issuing agencies do what the airlines do, they "overbook," that is, they issue more vouchers than they have budget authority to honor, knowing that there will be "no-shows," people who will not find an apartment to lease. This practice puts many low income people through a stressful experience and costs taxpayers money spent on the administration and processing (extra orientation meetings, counseling, paperwork) that comes to nothing.

As a part of this survey, we contacted the housing agencies who issue Section 8 vouchers in the areas our survey covered: Anoka, Dakota, and suburban Hennepin counties. We asked them about their waiting lists, how long it usually takes for someone's name to come to the top of the list and how often it is opened for new additions.

We also asked about their experience in getting voucher holders leased up. Our question was "how many vouchers do you have to issue to get one leased?" As can be seen, the answers varied; but they all reflect the underlying message of this survey: it is hard to find a unit with low enough rent for the voucher to work and a landlord willing to take it. Several of those we contacted said it is becoming more and more difficult to lease up units.

The chart in Appendix IV includes the HRAs that provide the majority of Section 8 vouchers used in the complexes surveyed for this report.

APPENDIX I: About the Survey

When and where it was conducted

The survey was conducted by telephone during July, August, and September of 2001. Cities in Anoka, Dakota and suburban Hennepin counties were contacted for directories of rental housing in their jurisdictions. Such lists were received from 24 suburbs in suburban Hennepin County, 12 in Dakota County, and 10 in Anoka County, shown below. The survey covered apartment complexes in these suburbs.

SUBURBAN HENNEPIN COUNTY

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

DAKOTA COUNTY

Apple Valley	Farmington	Lakeville	Rosemount
Burnsville	Hastings	Lilydale	South St. Paul
Eagan	Inver Grove Heights	Newport	West St. Paul

ANOKA COUNTY

Anoka	Centerville	Coon Rapids	Hilltop	Spring Lake Park
Blaine	Columbia Heights	Fridley	Ramsey	St. Francis

Who was contacted

The survey was restricted to complexes containing two bedroom apartments and a total of at least six units. It excludes: publicly owned housing; developments with project-based Section 8; complexes financed with subsidized mortgages (e.g., Sec. 236 and 202); nursing homes; group homes; assisted living facilities; transitional housing; and special needs housing. For the suburban Hennepin sample, we include only those complexes from the first year's survey that we have been able to contact each and every year.

Calls were placed by volunteers and staff to the offices of a total of 582 apartment complexes in the three counties containing 69,136 units. According to the 2000 Census, the jurisdictions covered by this survey contain a total of 121,610 rental units; thus, we sampled nearly 57% overall. It breaks down as follows: Anoka County - 46% (8,169 surveyed out of 17,699); Dakota County - 63% (17,849 out of 28,530); suburban Hennepin - 57% (42,804 out of 75,392).

We called as potential consumers and spoke to the first person who answered the phone. Because our callers were speaking to whomever answered, we did not always talk to people with knowledge of the owner's decision making or the history of the complex. The inability to speak to an actual decision maker or someone fully knowledgeable made the survey process a little more difficult. But more importantly, it demonstrates some of the difficulties encountered by apartment seekers who end up wasting application fees on complexes where tenancy is unlikely.

What was asked

The basic purpose of the survey was to get an overview of the prospects for a Section 8 voucher holder to find a place to use the subsidy in suburban Hennepin, Anoka, and Dakota counties. The survey questions were straightforward and few:

- What is the rent for a two bedroom apartment?
- Do you accept Section 8 vouchers?
- Do you have any minimum monthly income requirements at your complex, such as "income must be at least three times the rent"?
- If there is a minimum income requirement, how does a Section 8 subsidy apply? Is the tenant's income compared to the market rent or to the portion of the rent the tenant pays as a voucher holder?

How we figured the results

In determining the number of units renting at or below the voucher payment standard (VPS), we contacted the voucher issuing authorities for each of the survey areas: Bloomington, Hopkins, St. Louis Park, Plymouth, Columbia Heights, South St. Paul, Dakota County and the Metropolitan Council, which administers vouchers in all of the other suburbs. The highest suburbs and their two bedroom VPSs are shown in Appendix III, "VPSs by Suburb." Some exceed 110% of the FMR; those required HUD approval.

We did not apply a utility allowance to the rents we were quoted. Because the voucher payment standard is supposed to cover "housing cost" which includes household utilities (except phone and cable), the number of units reported as being within the VPS is actually overstated. For example, if the quoted rent was $810 and the utility allowance for the unit is $30 and the VPS in that city was $816, the total housing cost ($840, rent of $810 plus utilities at $30) exceeds the VPS by $24. In this case, the family would have to pay the extra $24 out-of-pocket, raising their housing cost above 30% of income. Technically, this unit should not be counted in our survey as "qualifying" or "affordable."

There are a variety of "minimum income" requirements being used by owners and managers. Most are expressed as a multiple of the rent. Where there were such requirements, we probed to learn how it was being applied to Section 8 applicants. If applied to the tenant's portion of the rent, the multiple could be up to 3.3 to 1 without disqualifying the applicant, provided the rent was within the VPS. If the multiplier was 3x and applied to the unit's market rent, virtually all Section 8 holders would be disqualified. In this year's survey, we found a 13 complexes, containing almost 1,191 units where this was the case.

APPENDIX II

Housing Choice Vouchers and the Voucher Payment Standard

In 1999, HUD merged the Section 8 certificate and voucher programs into a single "Housing Choice Voucher" program. Under this program, the method of setting a voucher's maximum value (the highest rent it would cover) became the "voucher payment standard," or VPS. It is determined locally by the housing agency issuing vouchers in its jurisdiction.

There are four such agencies in suburban Hennepin County: Bloomington, Plymouth, Richfield, and St. Louis Park; one in Dakota County (the Dakota County CDA); and one in Anoka County (Columbia Heights HRA); the remainder of these counties is served by the Metropolitan Council's Housing and Redevelopment Authority.

Every year, HUD publishes a set of "Fair Market Rents" (FMRs) for each metropolitan area in the nation and for the non-metro areas of each state; FMRs are established for various unit sizes based on a survey of recent moves to dwellings in standard condition, i.e., habitable and up to code. HUD determines the 40th percentile rents for various apartment sizes (40% of all units surveyed have rents below this amount, 60% have rents above it); these are the FMRs.

The term FMR is somewhat misleading because "rent" actually means "housing cost." Housing cost is the rent *plus* utility costs (not including phone and cable). Most apartment rents in Minnesota do not include all utilities; they are paid by the tenant. So, when utility costs are figured in, the unit can exceed the VPS even though the advertised rent may be lower.

Within limits, the local agencies have the authority to set the maximum amount that vouchers will cover; these becomes the VPSs for their areas. They can set it anywhere between 90% and 110% of the FMRs. Going above or below these limits requires approval from HUD. Using vouchers, tenants pay 30% of income towards the housing cost; the agency issuing the voucher pays the landlord the rest, up to the VPS. If the rent plus utilities exceeds the VPS, the tenant must pay the extra amount out-of-pocket. (See Appendix III, "VPSs by suburb," for the VPSs in use at the time of this survey.)

However, a family may <u>not</u> pay more than 40% of income for housing when they first receive a voucher or any time they move to a new unit. If the rent and utilities increase above 40% of the family's income after the initial lease period, they may remain, but will have to pay any increase out-of-pocket, pushing their housing cost past 40%.

This provision excludes a large number of low income tenants from many Twin Cities rental units. Housing agency staff, who first welcomed the flexibility of the new voucher program, have begun to experience problems as apartment seekers run afoul of this 40% limit and are unable to lease a unit. Setting a 40%-of-income limit carries an implication that this cost burden is acceptable and sets the stage for it's becoming the new definition of "affordable housing."

Voucher Payment Standards (VPS) in Effect at Time of Survey
2 bedroom apartment

The cities listed are those where apartment complexes were surveyed this year.

Locality	VPS	% of FMR*	Locality	VPS	% of FMR*
Anoka County			**Dakota County**		
Anoka	$ 816	110%	Apple Valley	$ 842	113%
Blaine	852	115%	Burnsville	842	113%
Centerville	816	110%	Eagan	842	113%
Columbia Heights	816	110%	Farmington	702	95%
Coon Rapids	879	118%	Hastings	702	95%
Fridley	816	110%	Inver Grove Heights	815	110%
Hilltop	816	110%	Lakeville	842	113%
Ramsey	890	120%	Lilydale	816	110%
Spring Lake Park	816	110%	Newport	816	110%
St. Francis	816	110%	Rosemount	715	96%
			South Saint Paul	809	109%
			West Saint Paul	734	99%
Suburban Hennepin County					
Bloomington	$ 890	120%	Maple Grove	$ 890	120%
Crystal	816	110%	Maple Plain	816	110%
Brooklyn Center	816	110%	Minnetonka	890	120%
Brooklyn Park	816	110%	Mound	819	110%
Champlin	816	110%	New Hope	827	111%
Chanhassen	816	110%	Osseo	816	110%
Crystal	816	110%	Plymouth	842	113%
Eden Prairie	890	120%	Richfield	789	106%
Edina	890	120%	Robbinsdale	816	110%
Excelsior	816	110%	Spring Park	859	116%
Golden Valley	825	111%	St. Louis Park	816	110%
Hopkins	822	111%	Wayzata	859	116%

* The VPS can be set between 90-110% of the Fair Market Rent (FMR) without HUD approval; higher VPSs (up to the maximum of 120% of the FMR) require HUD approval. The Metro Area 2 br FMR during the survey was $742. The Metro Council HRA which issues vouchers used throughout the 7-county metro area has set its VPS at $816, 110% of the FMR.

Voucher Lease-up and Waiting Lists

A summary of inquiries to housing agencies that issue vouchers used in areas covered by HOME Line's 2001 Section 8 survey.

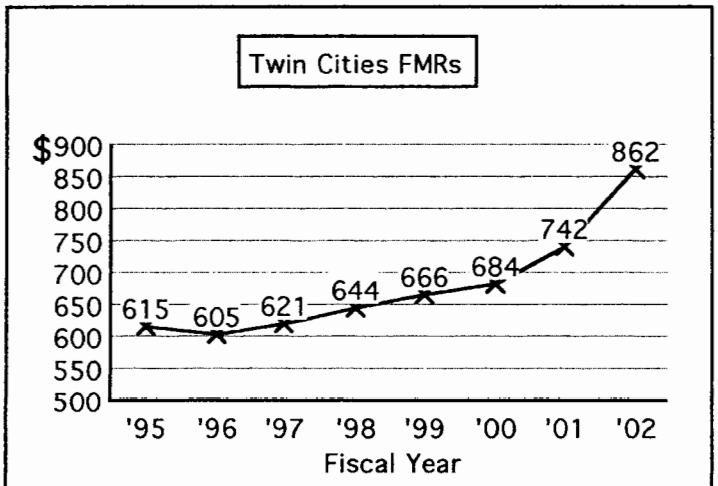
Agency	VPS	Lease-up rate	Average time spent on waiting list	When the waiting list is opened
Metro HRA	$ 816 (more if used in high cost area)	1 in 3 success	About 2 years	Last Thursday of every month
Bloomington HRA	890	Almost 50%	2 months to 4 years	When it gets down to 100 (now 1000)
So. St. Paul HRA	809	40 issued at a time; 2 or 3 are successful	1 year	Always open
Richfield HRA	816	10 out of 40 not leased up. "Should be a higher rate next year. "	18 months	Every 2 1/2 - 3 years
Columbia Heights HRA	816	1 in 3 success	About 2 years	Last Thursday of every month
Dakota County CDA	842	5-7 issued for every 1 that leases up	12-18 months	List is always open
Plymouth HRA	842	60 issued; 13 returned in the last year	1 1/2 years	Every 4 years
St. Louis Park HRA	816	Don't track (believed to be about 50% success rate)	About 3 years	Every 3 years

Twin Cities Metro Area Fair Market Rents

	Efficiencies	1 bedroom	2 bedroom	3 bedroom	4 bedroom
FMRs in effect at time of survey	$ 451	580	742	1,004	1,137
Current FMRs (effective 10/1/01)	524	674	862	1,166	1,312
Increase in FMR (FY01 to FY02)	73	94	120	162	178
Percent increase	16.2%	16.2%	16.2%	16.1%	15.5%

Last year HUD published a notice that in 39 high rent market areas, including the Twin Cities metro area, FMRs would be calculated using the 50th percentile of rents instead of the 40th. This new calculation method went into effect December 1, 2000 and raised 2 bedroom FMRs by $58 over those of the previous year, an 8.5% increase. However, the *current* FMRs that went into use on October 1, 2001 (after our survey was completed) represent the largest increase year-to-year since this survey began--16.2%, nearly double the increase last year. This permits the two bedroom voucher payment standard to reach $1,034 (120% of the FMR) in the highest priced submarkets.

The chart below shows FMRs beginning with 1995 when this report was first published.



FMRs are set by HUD effective October 1 for the following Fiscal Year (10/1 - 9/30). FY2002 began October 1, 2001.

NOTE: Also see the Appendix II "Housing Choice Vouchers and the Voucher Payment Standard" for an explanation of the relationship between the Fair Market Rent and the Voucher Payment Standard, which is the actual market value of a voucher.

Appendix VI: State and federal tax programs

Minnesota's 4d property tax classification Section 8 requirements

In 1997, the Minnesota Legislature amended the state's property tax laws by adding a new classification, known as 4d, that significantly lowers property taxes on qualifying rental units. Once certified for taxation under 4d, the property will be taxed at a class rate of 1% of market value for land and buildings. This is the lowest rate available in Minnesota, the same rate applied to lower valued owner occupied homes.

To qualify, an owner must:

- rent to households with incomes at or below 60% of the local median income adjusted for family size;
- charge an annual rent equal to or less than 30% of the income limit adjusted for family size;
- assure the property passes an inspection by a qualified inspector at least every three years;
- make available for Section 8 certificate/voucher holders at least 20% (in the Metro area) or 10% (in non-Metro areas) of the units in each project;
- sign a five-year rent restriction agreement and record it with the county.

It should be noted that the rent limit set for the 4d program is calculated as being affordable (not costing more than 30% of income) to a household earning 60% of the area median income. In the Twin Cities metro area, 60% of the median income for a 3-person household is $40,320. The 4d qualifying rent for a 2 bedroom apartment for this household is $1,008. At the time our survey was conducted, the HUD-approved Fair Market Rent for a 2 bedroom unit was $742. Even in those local markets with high rents where HUD has approved a VPS that is 20% above the FMR, the rent limit for a Section 8 voucher holder is $890. Thus, the 4d program permits rents that are unaffordable to all Section 8 tenants.

The 2001 Special Legislative Session enacted major changes to Minnesota's property tax laws. One of the changes phases out the 4d program over the next three years, eliminating this incentive designed to increase housing choice for Section 8 voucher holders. By January 1, 2004, 4d will cease to exist and all rental property taxes will be at the same rate of 1.25%. The Minnesota Housing Finance Agency, which monitors 4d compliance has issued a notice to participating owners that properties currently enrolled in the program will continue to be bound to its requirements through 2003.

The Federal Low Income Housing Tax Credit Program Section 8 requirements

The tax credit was enacted as part of the Tax Reform Act of 1986 and extended a year at a time until Congress made it permanent in 1993. The program offers primarily corporate investors a credit against their federal income taxes based on expenses incurred in acquiring, rehabilitating or constructing "low income" housing. The tax credit is currently the main federal resource for producing affordable housing. It is involved in the development of about 110,000 units per year.

Tax credits are apportioned to states based on population. The Minnesota Legislature designated the Minnesota Housing Finance Agency as the primary apportionment agency for housing tax

credits for the state and also authorized certain cities and counties to administer the tax credits in their respective jurisdictions. These are: St. Paul, Dakota County, Washington County, Minneapolis, Duluth, St. Cloud, and Rochester.

To qualify for tax credit assistance, a project must have a tenant income mix in which either 20% of the total units are set aside for households at or below 50% of the area median income or 40% of the units are for households at or below 60% of median. In suburban Hennepin, that translates into two bedroom units renting for up to $738 (for people at 50% of median income) or $886 (for those at 60% of median).

The current maximum income limits for two bedroom units are from $40,320 to $44,820 (for 3- or 4-person households at 50% of median, respectively) or from $35,460 to $39,420 (3- or 4-person households at 60%). The MHFA gives priority to projects serving the lowest incomes and those that target units for project-based or tenant-based rental assistance.

IRS regulations require owners of tax credit projects to accept Section 8 tenants. Of the 581 complexes contacted for this year' s survey, twenty six (26) were enrolled in the tax credit program; they contained a total of 2,426 units. In the surveyed areas, there are more than this number of tax credit properties but those outside the scope of our survey were excluded: e.g., project-based Section 8 developments, nursing homes, special needs housing, etc.

- Two (2), both in suburban Hennepin, responded that they did not accept Section 8 applicants;
- Seven (7) had rents in excess of the VPS;
- One (1) reported rents in excess of the tax credit limit ($1,008).