Vouchers to Nowhere

(Diminished Choices 6)
The Ever Shrinking Market for Section 8 Vouchers
in Suburban Hennepin County, Minnesota

Comparison of Survey Results 1995-2000

October 2000

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ACKNOWLEDGEMENTS

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

About HOME Line

HOME Line is a Minnesota non-profit which originated as a program of Community Action for Suburban Hennepin (CASH), the community action program operating in suburban Hennepin County outside the city limits of Minneapolis. In July 1999, HOME Line's tenant services were spun off from CASH as an independent entity. HOME Line's programs for tenants include a hotline that receives approximately 5,000 calls from tenants 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.
This year, we renamed our report. The new title, “Vouchers to Nowhere,” more vividly conveys the message of this, our sixth survey. It was inspired by the photo shown below of Wellington Webb, Mayor of Denver, Colorado, carrying a hand-lettered sign with those words. He was dramatizing the potential loss of affordable housing at East Village Apartments in his city because the owner of the federally subsidized building gave notice that it would be converted to market rents. The tenants had been told that they would receive vouchers and could move anywhere they liked. But Denver, like the Twin Cities, is a hot housing market and the Mayor, and the low income residents of East Village, knew the tenants’ chances of finding other affordable housing were slim. This report, with place names and the specific numbers changed, could be written for Denver and many other parts of the country.
SUMMARY OF FINDINGS

In the summer of 2000, HOME Line conducted its sixth annual survey of suburban Hennepin County rental property owners to determine their willingness to participate in the Section 8 rental subsidy program. Many callers to our hotline complain they are unable to use their Section 8 subsidy; local administrators of the Section 8 voucher program report difficulty in getting them used.

The results of this year’s survey document a continuing decline in choices available to voucher holders. Even fewer units than before have rents that qualify for the Section 8 program and have owners willing to accept renters with a Section 8 subsidy. Also, incentive programs requiring owners to accept Section 8 tenants appear not to be working. This year’s results show:

Voucher Acceptance

- 344 apartment complexes with a total of 42,947 rental units were surveyed, approximately two-thirds of the rental housing in suburban Hennepin County.
- Only 7.1% of the surveyed units met the rent requirements of the Section 8 program and accepted Section 8 renters. (compared to 10% in 1999, 15% in 1998, 17% in 1997, 20% in 1996 and 27% in 1995).
- 32,387 of the survey units, 75%, had rents higher than the qualifying Voucher Payment Standard set by the issuing agency, the same as last year.
- Of the 10,720 units that do have qualifying rents, only 3,045 accepted Section 8. This is 1,165 fewer qualifying and accepting units than in our 1999 survey of the same apartment complexes.
- Of the 3,045 qualifying and accepting units, 893, or nearly 30%, had some sort of management-set minimum income requirement that exclude almost all Section 8 renters. This left only 2,152 units--just 5% of those surveyed--where Section 8 tenants could use their vouchers without paying more than 30% of their income.

Tax Credit and Property Tax Incentives

Again this 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. Our results indicate that compliance is poor.

- Only one tax credit project of the seven surveyed had qualifying rents and accepted voucher holders without income restrictions; four of the seven had rents above the Voucher Payment Standard.
- Of the 55 surveyed properties receiving 4d property tax reduction, five reported that they did not accept Section 8 and three had rents in excess of the 4d limit; sixteen had minimum income requirements that exclude Section 8 tenants.
CONCLUSIONS AND RECOMMENDATIONS

Housing vouchers are helping many low income families in suburban Hennepin County, and across the nation, afford their housing. They have enabled some to move and live closer to their jobs in outlying communities. Vouchers can contribute to the racial and economic integration of the suburbs. But our survey shows that, over the years, fewer and fewer voucher holders are being afforded these opportunities in suburban Hennepin County.

In Minnesota, and throughout the country, owners of rental complexes subsidized with project-based Section 8 subsidies are converting to market rents. Tenants are issued vouchers and, when they move out, add to the competition for the increasingly scarce units available to voucher holders.

Many of these assisted complexes were built in suburban locations; they often represent the only affordable housing where most job growth is occurring and the only suburban housing with diverse occupancy. Terminating project-based subsidies reduces fair housing choices significantly in an already highly race-segregated housing market.

The housing crisis for lower income people grows worse as owners terminate project-based subsidies and landlords refuse to accept voucher holders. Clearly, no single measure can solve it. The problem this survey documents and the context in which it occurs suggest that many steps must be taken. The following are a few that, taken together will offer some relief. The principal ingredient needed is the political will to accomplish them.

- The federal government must get back into the production of affordable rental housing. The projects now being converted to market rents were built with federal programs that ended in the 80s. Since then HUD has relied almost solely on vouchers. State and local governments are not capable of mounting an effort on the scale needed to deal with the thousands of households in Minnesota and millions across the country who need affordable housing. Any new production program should favor nonprofit ownership to ensure long-term affordability.

- Congress must enact legislation to preserve the remaining stock of project based assisted housing. A two-year campaign to gain such legislation, a bipartisan effort spearheaded by Minnesota congressmen, fizzled out in the late days of this session due to political wrangling. A preservation measure must be reintroduced and passed by the new Congress and signed into law by the new President.

- The state and localities need to enforce the Minnesota Human Rights Act which makes it an offense to discriminate against tenants on housing assistance. Refusing to rent to voucher holders is clearly discriminatory. The Departments of Treasury, Justice, and Housing and Urban Development recently announced steps to ensure that low-income housing tax credit projects are in compliance with the Fair Housing Act. Compliance with the program's Section 8 requirement should be added to this effort.

- The requirements of the federal low income housing tax credit program and
the state's 4d property tax program need to be more closely enforced to assure that owners' requirements to accept voucher holders are fulfilled. The Minnesota Housing Finance Agency has enforcement jurisdiction over the 4d program and, as allocator of tax credits for suburban Hennepin projects, can play a role assuring those projects meet Section 8 requirements.

- HUD's process for setting Fair Market Rents needs to be adjusted so that vouchers will work in escalating markets like the Twin Cities. HUD's recent move to raise the benchmark for FMR's to the 50th percentile of rents in 39 tight markets across the nation is a step in the right direction.

- In recent years, the rental housing industry has received property tax reductions amounting to $100 million a year; next year, they are expected to return to the Legislature for even larger tax relief. At a minimum, Minnesota legislators should condition any further tax breaks to the rental housing industry on binding commitments to participate in the Section 8 program.

- Rental housing developed with public assistance (tax increment financing, tax-exempt bonds, land write-downs, deferred loans, grants, etc.) should be required to accept tenants with vouchers.

- The state should enact legislation requiring new housing developments to have a minimum percentage of rental units affordable to lower income families and to accept voucher holders for those units. Developments involving homeownership should be required to include units that can be purchased by families participating in the new Section 8 "homeownership option."

BACKGROUND

Families need safe, decent, and affordable housing in order to survive and thrive. The federal government has long recognized this truth. The Section 8 program has been the mainstay of government-assisted housing in the United States since 1974, when it was authorized by Congress. 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 six years of research indicates otherwise: options for Section 8 voucher holders 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 and affordable (at 30% of income) to renters on Section 8; in 2000, that figure is down to a mere 5%.

During the past ten years, the Administration and Congress have evolved housing policies based on the assumption that "tenant based" Section 8 vouchers are the way to deliver housing assistance to lower income households. The argument goes that renters with a 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 reality of the Twin Cities rental housing market, this survey shows that argument to be 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 1.5%. 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 tight Twin Cities market 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.

Owners, recognizing their advantage in this tight market, are raising rents to what the market will bear. A Banc One market analysis of the Twin Cities area reports rent increases of 6% last year. This is more than twice the inflation rate. Housing costs generally, ownership and rental, are rising faster than incomes for all but those in the top 20%.

The Metropolitan Council's Housing and Redevelopment Authority (HRA) administers the largest number of Section 8 tenant-based subsidies in the Metro area. They have reported that most tenants issued certificates or vouchers have had great difficulty finding a place to use them. In the Twin Cities' tight housing market, the HRA has learned that it must "overbook" the voucher program, issuing several vouchers for every one that eventually gets leased.

An alarming trend has reached fullblown proportions in Minnesota, and throughout the country, as owners of rental complexes subsidized with project-based Section 8 subsidies 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.

The first mortgage "prepayments" and Section 8 "opt-outs" occurred in 1997 in Minnesota. These early examples of owner terminations were only the first of what housing 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 subsidized projects located in suburbs often represent the only affordable housing in those areas where job growth is occurring. They are often the only suburban housing 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.
WHAT THE 2000 SURVEY SHOWS

Declining Acceptance

Of the 42,947 units surveyed through the six years of this project, more than 32,227 units (75%) are eliminated this year because the rents are higher than the Voucher Payment Standard (VPS), the qualifying rent for the Section 8 program. In 1995, the first year of this survey, only 42% were disqualified because of too-high rents. Of the 10,720 units that qualify in 2000 for Section 8, only 3,045 accept Section 8. This is only 28% of the rent-eligible units and a mere 7.1% of all units surveyed.

These results show a drop of 8,240 “qualifying and accepting” units since 1995, when there were 11,285 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 overall decline in Section 8 acceptance is graphically portrayed in the shading of the maps on page 9 comparing 1995 data to this years’. The set of graphs an page 10 shows this in another way for the “top ten” cities.

Voucher Payment Standard (VPS) not Realistic

In 1995, the first year of our survey, well over half (58%) of the units surveyed had rents within the Section 8 FMR’s in effect at the time. This percentage has steadily decreased in each subsequent survey. In 1996, it fell to 45%; in 1997, it was down to 40%; in 1998 the figure declined to 37%; last year it stood at 25%. This year the percentage remained at 25% of the units surveyed that had rents within the VPS.

HUD’s schedule of FMRs for the metro area, effective October 1, increased only 2.6% above the previous levels (those in effect when this survey was conducted). A market analysis by Banc One reports rent increases in the Minneapolis area of 4.5-6% in 1999.

HUD’s recent move to raise the benchmark for FMR’s to the 50th percentile of rents in 39 tight markets across the nation is a step in the right direction. Those new FMRs will go into effect on December 1. (See Appendix II, “FMRs and VPSs” for more detail.) However, even at these newest FMRs, only 14,388 units in our survey, just 33.5%, will qualify for vouchers, 66.5% won’t. This isn’t a major improvement from the 75% that didn’t qualify in this year’s survey.

Minimum Income Requirements

Nearly half (48%) 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 3,045 below-FMR units in 2000 that claim to accept Section 8 tenants, 1,487 have minimum income requirements.

The policies vary among complexes, but a majority have income policies that exclude most or all of Section 8 renters. To illustrate, of the 1,487 units with income requirements, 893 have indicated that applicants’ incomes must be at least three times the monthly rent, and have indicated that the Section 8 subsidy will not be considered income. This leaves only 2,152 units that have rents below the FMR and accept Section 8 subsidies without restrictive minimum income requirements--just 5% of the 42,947 surveyed units.
The wait for Section 8

There are a number of reasons that only one in five qualifying households receives a subsidy. 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 that provide the majority of Section 8 vouchers used in suburban Hennepin County.

<table>
<thead>
<tr>
<th>HRA</th>
<th>#Vouchers Issued in 2000</th>
<th>Estimated Wait</th>
<th>Waiting List Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomington</td>
<td>75</td>
<td>depends on family status</td>
<td>2-3 yrs</td>
</tr>
<tr>
<td>Plymouth</td>
<td>19</td>
<td>1.5 years</td>
<td>when it gets short</td>
</tr>
<tr>
<td>Richfield</td>
<td>40-45</td>
<td>7 mo. if resident</td>
<td>2.5 yrs</td>
</tr>
<tr>
<td>St. Louis Park</td>
<td>43</td>
<td>2-5 years</td>
<td>2-3 yrs</td>
</tr>
<tr>
<td>Metro Council</td>
<td>2000</td>
<td>12 mo.</td>
<td>1 day per month</td>
</tr>
</tbody>
</table>
Housing Choice Vouchers and the Voucher Payment Standard

Last year, HUD merged the Section 8 certificate and voucher programs into a single "Housing Choice Voucher" program. Under this new program, the method of setting the maximum value of the voucher also changed. The "Voucher Payment Standard," or VPS, 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; the remainder of suburban Hennepin 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 (gas for cooking and electricity typically are not in the rent); these are paid by the tenant. So, when the cost of household utilities is figured in, "rent" is often considerably more than what is advertised.

Within limits, the local agencies have the authority to set the maximum amount of rent 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 rent; the agency issuing the voucher pays the landlord the rest, up to the VPS. If the rent exceeds the VPS, the tenant must pay the extra amount out-of-pocket. (See Appendix II, "FMRs and VPSs," for the VPSs in use at the time of this survey.)

However, a family may not pay more than 40% of income for rent when they first receive one of these new vouchers or any time they move to a new unit. If the rent increases 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, especially with the failure of HUD’s rent analysis (the FMR-setting process) to keep pace with the market. Housing agency staff, who first welcomed the flexibility of the new voucher program, have begun to experience problems as more and more apartment seekers run afoul of this 40% limit and are unable to lease a unit. Furthermore, setting a 40%-of-income limit carries an implication that this cost burden is acceptable. Some advocates wonder how long it will be before 40% of income becomes the new definition of "affordable housing."
The Loss of Affordable Housing Choices for Section 8 Voucher Holders

A look at the change in the number of units under private, for-profit ownership with rents below the Voucher Payment Standard that accept Section 8 tenants.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of total units surveyed by city that have rents under the VPS and accept Section 8</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-10%</td>
</tr>
<tr>
<td></td>
<td>10-20%</td>
</tr>
<tr>
<td></td>
<td>20-50%</td>
</tr>
<tr>
<td></td>
<td>50-100%</td>
</tr>
<tr>
<td></td>
<td>Portions of Hennepin County not included in the survey sample</td>
</tr>
</tbody>
</table>

HOME Line mapped the "qualifying and accepting" units as a percentage of the total units surveyed in each city. Qualifying and accepting units are those which have rent under the VPS and also have owners who accept Section 8. In 1995 overall there was a higher percentage of units surveyed that met these two qualifications (as seen by the darker shading). In 2000, the percentage of qualifying and accepting units surveyed has fallen drastically, to less than 10% of the units surveyed in almost every city.

It is important to realize in this comparison that the number of "qualifying and accepting" units surveyed was not very high to begin with in 1995 and has fallen quite drastically since then. These maps are a picture of cities sliding from bad to worse in terms of affordable housing for Section 8 voucher holders.

Note: Due to their small sample sizes, the map of cities such as Mound (one building surveyed) and Maple Plain (two buildings surveyed) are not necessarily showing a trend indicative of the housing stock in that city. Chanhassen, Osseo and Wayzata also have small sample sizes.
Vouchers to Nowhere
by City 1995 and 2000

These charts compare 1995 and 2000 data for the ten cities that have at least 2,000 units (or over 20 buildings) surveyed in that city.
APPENDIX I: About the survey

When and where it was conducted

The survey was conducted by telephone during July, August, and September of 2000. Cities in HOME Line's suburban Hennepin County service area were contacted for directories of rental housing in their jurisdictions. Such lists were received from 24 suburbs, shown below. The survey covered these suburbs.

<table>
<thead>
<tr>
<th>City</th>
<th>City</th>
<th>City</th>
<th>City</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomington</td>
<td>Crystal</td>
<td>Hopkins</td>
<td>New Hope</td>
<td>St. Anthony</td>
</tr>
<tr>
<td>Brooklyn Center</td>
<td>Eden Prairie</td>
<td>Maple Grove</td>
<td>Osseo</td>
<td>Spring Park</td>
</tr>
<tr>
<td>Brooklyn Park</td>
<td>Edina</td>
<td>Maple Plain</td>
<td>Plymouth</td>
<td>St. Louis Pk.</td>
</tr>
<tr>
<td>Champlin</td>
<td>Excelsior</td>
<td>Minnetonka</td>
<td>Richfield</td>
<td>Wayzata</td>
</tr>
<tr>
<td>Chanhassen</td>
<td>Golden Valley</td>
<td>Mound</td>
<td>Robbinsdale</td>
<td></td>
</tr>
</tbody>
</table>

Who was contacted

The survey was restricted to complexes containing two-bedroom apartments and at least six units. It excludes public housing and developments with project-based Section 8; nursing homes and special needs housing are also excluded. Calls were placed by volunteers and staff to the offices of 344 apartment complexes containing 42,947 units.

The volunteers called as potential consumers and spoke to whomever answered the phone. The survey questions were straightforward and few. (See below for a list of the questions.) 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 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 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 some of the difficulties encountered by apartment 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 Voucher Payment Standard (VPS), we contacted each of the voucher-issuing authorities: Bloomington, Hopkins, St. Louis Park, Plymouth, and the Metropolitan Council, which administers vouchers in all of the other suburbs. The high-cost suburbs and their two bedroom VPSs are shown in Appendix II, FMRs and VPSs. 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 $780 and the utility allowance for the unit is $30 and the VPS in that city was $800, the total housing cost exceeds the VPS by $10. In this case, the family would have to pay the extra $10 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.”

What was asked

- 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? (If the tenant’s income was compared to the market rent, this requirement would exclude virtually all voucher holders.)

APPENDIX II: FMRs and VPSs

Twin Cities Metro Area Fair Market Rents

<table>
<thead>
<tr>
<th>Efficiencies</th>
<th>1-bedroom</th>
<th>2-bedroom</th>
<th>3-bedroom</th>
<th>4-bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>In effect at time of survey</td>
<td>$416</td>
<td>$535</td>
<td>$684</td>
<td>$925</td>
</tr>
<tr>
<td>Effective 10/1/00</td>
<td>427</td>
<td>549</td>
<td>702</td>
<td>950</td>
</tr>
<tr>
<td>Effective 12/1/00*</td>
<td>451*</td>
<td>580*</td>
<td>742*</td>
<td>1,004*</td>
</tr>
</tbody>
</table>

*HUD recently 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. These new FMRs, upon which local agencies base their VPSs, will go into effect December 1.

Two bedroom Voucher Payment Standards in use at the time of the survey

<table>
<thead>
<tr>
<th>City</th>
<th>VPS</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomington</td>
<td>$820</td>
<td>(120%)</td>
</tr>
<tr>
<td>Golden Valley</td>
<td>$761</td>
<td>(111%)</td>
</tr>
<tr>
<td>Minnetonka</td>
<td>$820</td>
<td>(120%)</td>
</tr>
<tr>
<td>Richfield</td>
<td>$789</td>
<td>(115%)</td>
</tr>
</tbody>
</table>

The Metro Area FMR—$684—applied as the VPS in the remainder of the cities at the time of the survey. The percentages in parentheses show how much the Voucher Payment Standard exceeded the FMR for the given suburb. Those over 110% required HUD approval.
APPENDIX III: 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 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.

Of the 344 complexes contacted for this year’s survey, 55 were enrolled in the 4d program. In suburban Hennepin, there are more than this number of properties enrolled in 4d but our survey excludes projects that could be in the 4d program, such as project-based Section 8 developments, nursing homes, and special needs housing.

- Seven (7) responded that they did not accept Section 8 applicants;
- Four (4) reported rents in excess of the 4d limit ($886);
- Twenty three (23) had minimum income restrictions that exclude Section 8 applicants.

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 $35,440. The 4d qualifying rent for a 2-bedroom apartment for this household is $886. At the time our survey was conducted, the HUD-approved Fair Market Rent for a 2-bedroom unit was $684. 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 $820. Thus, the 4d program permits rents that are unaffordable to all Section 8 tenants.

While our survey results do not provide conclusive evidence of non-compliance with the 4d program, they do indicate that there are owners taking advantage of 4d’s lower property taxes without providing the required access for Section 8 tenants. Certainly, from the point of view of a caller to those complexes (such as our survey callers), some property owners are benefiting from the program’s low property taxes but do not appear to be complying with its requirement to accept Section 8 applicants and others appear to be out of compliance with its rent restrictions.
The Federal Low Income Housing Tax Credit Program Section 8 requirements

The Federal Low Income Housing Tax Credit Program 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.

Ironically, this, the nation’s major affordable housing production program is a creature not of HUD, but of the Internal Revenue Service. In fact, the laws governing the tax credit constitute the single longest chapter in the IRS code book, due to its complexity.

Tax credits are apportioned to states based on population. Currently, Minnesota receives nearly $6 million per year, based on $1.25 per capita and a population of just under 4.8 million people. Congress is expected to increase the per capita amount this session. 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).

Maximum income limits for two-bedroom units are from $29,550 to $32,850 (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 344 complexes contacted for this year’s survey, seven (7) were enrolled in the tax credit program. In suburban Hennepin, there are more than this number of tax credit properties but those outside the scope of our survey were excluded: project-based Section 8 developments, nursing homes, special needs housing, etc.

- One (1) responded that they did not accept Section 8 applicants;
- Four (4) reported rents in excess of the tax credit limit ($886);
- Of the two (2) with rents below the VPS that accepted Section 8, one (1) had minimum income requirements that disqualified voucher holders.