

HF11 - 0 - State Rent Assistance Program Established

Chief Author: **Michael Howard**
 Committee: **Housing Finance and Policy**
 Date Completed: **2/6/2023 2:41:23 PM**
 Agency: **Housing Finance Agency**

| State Fiscal Impact | Yes | No |
|---------------------------|-----|----|
| Expenditures | X | |
| Fee/Departmental Earnings | | X |
| Tax Revenue | | X |
| Information Technology | | X |
| Local Fiscal Impact | | X |

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

| State Cost (Savings) | Biennium | | | Biennium | | |
|------------------------|----------------------|------------------|------------------|------------------|------------------|------------------|
| | Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Housing Finance Agency | - | - | - | - | - | - |
| Total | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Biennial Total | | | 4,002,418 | | 4,002,418 | |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|--------------------------------------|----------|--------------|--------------|--------------|--------------|
| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | - | - | - | - |
| Housing Finance Agency | - | 12.75 | 12.75 | 12.75 | 12.75 |
| Total | - | 12.75 | 12.75 | 12.75 | 12.75 |

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Chloe Burns **Date:** 2/6/2023 2:41:23 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

| State Cost (Savings) = 1-2 | | Biennium | | | Biennium | |
|--|----------|------------------|------------------|------------------|------------------|------------------|
| Dollars in Thousands | | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Housing Finance Agency | - | - | - | - | - | - |
| Total | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Biennial Total | | | 4,002,418 | | 4,002,418 | |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | | | | | | |
| Expenditures | - | - | - | - | - | - |
| Transfers Out | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Housing Finance Agency | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Total | - | 4,002,418 | 4,002,418 | 4,002,418 | 4,002,418 | 4,002,418 |
| Biennial Total | | | 8,004,836 | | 8,004,836 | |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | | | | | | |
| Revenues | - | - | - | - | - | - |
| Transfers In | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Total | - | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 | 2,001,209 |
| Biennial Total | | | 4,002,418 | | 4,002,418 | |

Bill Description

The bill creates a new rental assistance program. Section 2 of the bill:

- establishes the program,
- creates definitions for the program,
- allows the agency to make grants to local housing authorities to provide the rent assistance,
- provides details on the amount and type of rent assistance and
- sets percentage of the local housing authority grant that could be used to pay administrative costs.

Assumptions

The language under Section 2 of the bill allows Minnesota Housing to act as a pass-thru to local housing authorities to administer the program. The agency anticipates utilizing this authority since local housing and redevelopment authorities already administer the Housing Choice Voucher (HCV) program that is federally funded through the Department of Housing and Urban Development.

All costs shown below are 2024 dollars using the consensus forecast from the Philadelphia Federal Reserve Bank's national survey of economic forecasters.

The assumptions used to generate the direct assistance estimate are as follows:

There are an estimated 212,000 Minnesota renter households with income at or below 50% of AMI who are cost burdened (paying more than 30% of their income on housing). See reference 1 below.

The estimated median income of these households will be about \$24,000 (in 2024 dollars). See reference 2 below.

The average Payment Standard for Housing Choice Vouchers in Minnesota will be about \$1,300 per month in 2024.

This is based on an inflation-adjusted weighted average of the payment standards across unit sizes (number of bedrooms) and Minnesota's 87 counties (and zip codes where Public Housing Agencies/Housing and Redevelopment Authorities (PHAs/HRAs) are using Small Areas Fair Market Rents (FMR)). This estimate uses the payment standards, rather than assuming 110% of the FMRs, as the gross rent that will be charged. The assumption is that the PHAs/HRAs will continue to run vouchers programs as they currently are.

The average subsidy per household is estimated at approximately \$700 per month or \$8,400 annually.

The reason that the average monthly subsidy increased to \$700 compared to last year is twofold: (1) incomes have not kept pace with rents for households with incomes at or below 50% of AMI who are cost burdened, and (2), this year's estimate is in 2024 dollars to reflect the year and costs when the program becomes operational more accurately.

The assumptions used to generate the local administration/operations estimate are as follows:

Under the bill, Minnesota Housing assumes local housing authorities would be required to do the following activities:

- Administer the local program, including determining whether the program is tenant vouchers, project-based, or a combination of the two
- Contracts with property owners and conduct contract renewals, including any necessary due diligence
- Property inspections and, when applicable, tracking corrective actions
- Compliance activities, including tenant eligibility reviews, renewals, record-keeping, and monitoring
- Reporting and auditing
- Processing payments to property owners and related accounting

These activities are consistent with the work local housing authorities currently do for the Housing Choice Voucher program. In 2015, HUD carried out an administrative cost study for Housing Choice Vouchers (*Housing Choice Voucher Program: Administrative Fee Study*; June 2015). Nationwide, the average administrative cost was \$840 per voucher in 2013, which is \$1,118 per voucher adjusting for inflation to 2024 dollars. Staff also reviewed estimates from Minnesota National Association of Housing and Redevelopment Officials as well as Metropolitan Council Housing and Redevelopment Authority (Metro HRA).

Based on their data and HUD's evaluation, the fiscal note assumes an average monthly fee per voucher of \$86 or \$1,030 annually.

The assumptions used to generate the local administration/operations estimate are as follows:

Additional Minnesota Housing staff would be necessary to complete the following activities:

- Program creation create program guide, documents, templates, manuals, guides, etc.
- Create and administer the Request for Proposal, selection, and allocation processes
- Grant contract administration and due diligence, grant contract renewals
- Process payments to grantees and related accounting
- [Reporting
- Monitoring
- Auditing
- Grantee and tenant support (i.e. program setup, admin support, addressing complaints)

To complete this work for over 200,000 vouchers and hundreds of grantees, Minnesota Housing assumes we need the following 12.75 FTE. These estimates are based on similar costs the agency currently incurs as the Housing and Urban Development's contractor for federal project-based contract administration (PBCA) program.

- Manager (.25 FTE), supervisor (1 FTE), tenant and grantee support (4 FTE), accounting and payments (5 FTE), operations (1 FTE), business and technology support (.5 FTE), finance (.5 FTE) and legal (.5 FTE)
- Additionally, Minnesota Housing estimates need for operating costs including technology estimated at \$150,000 annually.

There are likely secondary impacts of this proposal on the rental market. For example, increased rental assistance resources could increase the demand for higher quality and larger housing (within the Payment Standard), which could put upward pressure on rents. Additionally, it is unclear how the market would handle 212,000 additional households with rental assistance from a supply perspective. Based on information for PHAs/HRAs, voucher holders are currently having a difficult time placing their vouchers.

Expenditure and/or Revenue Formula

Cost Estimate for Rent Assistance

| | # of Renter Households with Incomes <=50% AMI & are cost burdened | Median Household Income of the 212,000 Households | Estimated Monthly Subsidy for a Household Average Difference between Monthly Gross Rent & Tenant Share of Rent (30% of Monthly Income) | Estimated Total Monthly Subsidy for All Households- Sum of Difference between Monthly Gross Rent & Tenant Share of the Rent (30% of Monthly Income) | Estimated Total Annual Subsidy |
|-----------|---|---|---|--|--------------------------------|
| Statewide | 212,000 | \$24,000 | \$700/month | \$148,400,000 | \$1,780,800,000 |

DATA SOURCES: Minnesota Housing Analysis of the 2020 American Community Survey (IPUMS microdata, 5-year sample adjusted to 2024 dollars) and Payment Standard data from the state’s PHAs/HRAs.

Cost Estimate for Local Administration

- Number of vouchers = 212,000 administered
- Average monthly fee per voucher = \$86
- 212,000 vouchers X \$86 per voucher per month X 12 months = \$218.784 million

Cost Estimate for Minnesota Housing

| | Payroll | FTE | Total |
|------------------|------------|-----------------------|--------------|
| AFSCME Employees | \$ 89,617 | 4 | \$ 358,468 |
| MAPE employee | \$ 120,241 | 7 | \$ 841,687 |
| Supervisor/Legal | \$ 155,808 | 1.5 | \$ 233,712 |
| Manager | \$ 165,029 | 0.25 | \$ 41,257 |
| | | Other Costs (e.g. IT) | \$ 150,000 |
| | | Total Staff (rounded) | \$ 1,625,000 |

Long-Term Fiscal Considerations

This program is on-going with amounts appropriated in law.

Local Fiscal Impact

N/A

References/Sources

1. Minnesota Housing analysis of data from the Census Bureau’s 2020 American Community Survey (5-year data,

IPUMS microdata).

2. Minnesota Housing analysis of data from the Census Bureau's 2020 American Community Survey (5-year data, IPUMS microdata). The 2021 average income is inflated to 2024 dollars using the 2021 and 2022 Consumer Price Index and 2023 and 2024 inflation forecasts from the Philadelphia Federal Reserve Bank's national survey of economic forecasters.
3. U.S. Census Bureau, 2021 American Community Survey (5-year sample, IPUMS microdata)
4. 2021 Housing Choice Voucher payment standards from Minnesota's Public Housing Authorities and Housing and Redevelopment Authorities, collected by Minnesota Housing
5. U.S. Department of Housing and Urban Development (HIUD), Office of Planning, Development and Research, Housing Choice Voucher Program Administrative Fee Study (Final Report Executive Summary), June 2015.
6. Average monthly subsidy and administrative fee for the Housing Choice Voucher program provide by the Metropolitan Housing and Redevelopment Authority.
7. Philadelphia Federal Reserve Bank, National Survey of Economic Forecasters.
8. Minnesota Chapter of the National Association of Housing and Redevelopment Officials (NAHRO), Revised Bring it Home, Minnesota: Scaling Data (January 16, 2023)
9. Minnesota Housing analysis of data from the Census Bureau's 2020 American Community Survey (5-year data, IPUMS microdata). The 2021 average income is inflated to 2024 dollars using the 2021 and 2022 Consumer Price Index and 2023 and 2024 inflation forecasts from the Philadelphia Federal Reserve Bank's national survey of economic forecasters.

Agency Contact:

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