

HF40 - 1A - State Rent Assistance Program Established

Chief Author: **Michael Howard**
 Committee: **Housing Finance and Policy**
 Date Completed: **2/14/2022 1:18:59 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	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	1,520,000	1,520,000	1,520,000	
Housing Finance Agency	-	-	-	-	-	-
Total	-	-	1,520,000	1,520,000	1,520,000	
Biennial Total			1,520,000		3,040,000	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-
Housing Finance Agency	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

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

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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		FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	1,520,000	1,520,000	1,520,000	-
Housing Finance Agency	-	-	-	-	-	-
Total	-	-	1,520,000	1,520,000	1,520,000	-
Biennial Total			1,520,000		3,040,000	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures	-	-	-	-	-	-
Transfers Out	-	-	1,520,000	1,520,000	1,520,000	-
Housing Finance Agency	-	-	1,520,000	1,520,000	1,520,000	-
Total	-	-	3,040,000	3,040,000	3,040,000	-
Biennial Total			3,040,000		6,080,000	
2 - Revenues, Transfers In*						
General Fund						
Revenues	-	-	-	-	-	-
Transfers In	-	-	1,520,000	1,520,000	1,520,000	-
Total	-	-	1,520,000	1,520,000	1,520,000	-
Biennial Total			1,520,000		3,040,000	

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 and redevelopment 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. Additionally, currently Minnesota Housing does not use state appropriations to pay for agency operations.

The bill language includes a blank amount of the appropriation that would be available locally for administration. There would be costs to implement this new 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 \$1,005 per voucher adjusting for inflation to 2021 dollars. With 220,000 vouchers, the annual administrative expenses would be roughly \$0.22 billion (~15% of the direct assistance). There may be up-front and additional costs to implement the new program (e.g. process and eligibility determination for the initial wave of applicants).

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

- There are about 220,000 Minnesota renter households with income at or below 50% of AMI who are cost burdened (paying more than 30% of their income on housing).
- The median income of these households is about \$20,000 (in 2021 dollars).
- The average Payment Standard for Housing Choice Vouchers in Minnesota was about \$1,075 per month in 2021. This is a 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 current 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 would then be about \$575 per month or \$6,900 annually.
- The overall assistance cost would be roughly \$1.52 billion.

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 220,000 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 220,000 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	220,000	\$20,000	\$575/month	\$126,500,000	\$1,520,000,000

DATA SOURCES: Minnesota Housing Analysis of the 2019 American Community Survey (IPUMS microdata, 5-year sample adjusted to 2021 dollars) and Payment Standard data from the state's PHAs/HRAs.

Long-Term Fiscal Considerations

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

Local Fiscal Impact

N/A

References/Sources

Sources listed above.

Agency Contact:

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