
Authority to Reallocate Chronically Unused Project-Based Rent Subsidies

Minnesota Housing Finance Agency **Mary Tingerthal, Commissioner**

The Department of Housing and Urban Development's (HUD) Section 8 program and other federal rent subsidies are a scarce and desperately needed resource. A "cost-burdened" household is one in which more than 30 percent of household income goes toward housing. In Minnesota, the percentage of cost-burdened households increased from 37 to 50 percent between 2000 and 2010.¹ Nationwide, over 19 million households, or 49% of total renters, are rent burdened.

The situation is worse for lower-income households (those with annual incomes below \$50,000). From urban areas to the most rural parts of the state, 258,000 (65 percent) of Minnesota's lower-income households were using more than 30 percent of their income to pay rent.² Unfortunately, federal rent subsidies from HUD and USDA are assisting only 60,000 households.³ Clearly, the demand for rent assistance in Minnesota and across the nation is far greater than the supply.

Research has demonstrated that affordable housing is critical to the prosperity of low- and moderate-income individuals and families. Among other positive outcomes, decent, stable, and affordable housing is associated with:

- Increased employment and earnings,
- Better educational outcomes, and
- Improved health and safety.⁴

Affordable housing is the foundation from which individuals and families achieve other successes.

Given its scarcity and importance, rent assistance from HUD and USDA must be used efficiently.

Some of the HUD' Section 8 rent assistance is assigned directly to eligible tenants, and they can take it with them when they move. On the other hand, project-based rent assistance is assigned to a property and can only be used by eligible tenants living there. HUD's project-based Section 8 and the U.S. Department of Agriculture's (USDA) Rural Development rental assistance programs are of the latter

¹ U.S. Census Bureau, 2000 Decennial Census and 2010 American Community Survey.

² In 2010, the statewide median family income was 73,100. A household income of \$50,000 was 68 percent of the statewide area median income (AMI). The AMI for the Minneapolis-St. Paul MSA was 84,000 in 2010. A household income of \$50,000 was 60 percent of the AMI.

³ Minnesota has roughly 31,000 households being assisted through Section 8 project-based assistance, 27,000 through Section 8 tenant-based vouchers, and 7,000 through USDA Rural Development rent assistance.

⁴ Spencer Agnew, *The Impact of Affordable Housing on Communities and Households*, (Minnesota Housing Discussion Paper, 2010) – http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_010263.pdf.

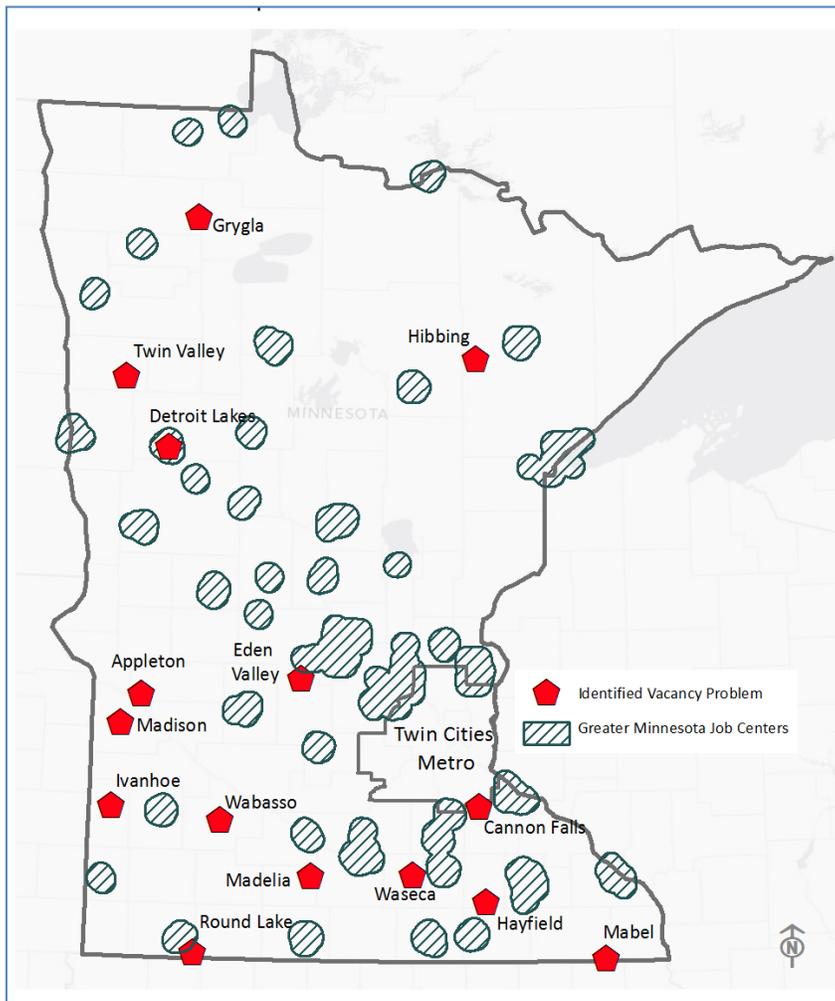
type. The subsidy dollars get used when residents meet eligibility criteria. When a property has more assistance available than eligible tenants to use it, the excess is a wasted resource. The problem is magnified in subsidized projects that have long-term vacancy problems.

USDA Rural Development can shift unused rental assistance from one property to another, but HUD does not have the same flexibility in its project-based Section 8 program. Because some HUD properties have experienced high vacancy rates over the long term, a significant amount of rent assistance is not reaching the intended recipients.

Unused rent assistance has a profound, personal impact on the lives of cost-burdened tenants who need assistance but are not getting it.

To illustrate this issue, Minnesota Housing staff analyzed vacancy rates at HUD Section 8 properties and identified 15 with long-term vacancy problems. Their locations are shown in the map below.

Minnesota Properties with Sustained Section 8 Vacancies



Source: Minnesota Housing analysis of the Section 8 portfolio.

Chronic vacancies and HUD's restrictive transfer policy result in poor use of subsidy dollars.

- The 15 properties hold 496 Section 8 contract units.
- 153 of the units have sustained vacancies amounting to an overall 31-percent vacancy rate. Vacancy rates of individual projects range from 16 percent to an astounding 88 percent.
- An estimated \$670,000 of Section 8 subsidy per year is going unused just among these 15 properties (assuming tenants have an annual income of \$11,000, which is the Section 8 statewide average).

The 15 properties are generally in communities with weak housing markets and less need for affordable housing.

- 12 of the 15 properties are in communities where the gross rents charged at the Section 8 property are higher than the median rents in the community.
- All 15 properties are in Greater Minnesota (outside the seven-county metropolitan area of Minneapolis and St. Paul), and only 1 is located in a regional job center.⁵
- The properties are generally located in small cities, ranging from 221 to 16,361 people; more than half are in communities with declining populations.
- Vacancy rates for all rental properties (subsidized and unsubsidized) averaged 16 percent, twice the statewide average of 7.8 percent.⁶
- 47 percent of lower-income renters in these communities are cost burdened, compared with 65 percent for the state and 56 percent for Greater Minnesota.⁷

HUD program administrators need the flexibility to move resources from locations where they are not being used to locations where there is a critical need.

With a limited supply of desperately-needed assistance, the country must use these resources as efficiently and effectively as possible. To do so, each state needs an enterprise-based approach to managing its portfolio of rent assistance. While buildings cannot be moved, rent assistance can.

RECOMMENDATION

Support a policy allowing state administrators of HUD project-based rental assistance to reallocate chronically unused rental assistance to other affordable housing developments in their states.

With transfer authority, state administrators would have the ability to transfer unused project-based rent assistance to other affordable housing developments where it could be used most effectively. This would include properties that are in good condition, have the right type and mix of units to meet market demand, are in good locations, and have tenants in need. Among other factors, good locations for additional rental assistance are communities with:

- A high concentration of jobs and job growth;

⁵ A Greater Minnesota job center is a five mile buffer around cities that contain one of the top 15 percent of Greater Minnesota census tracts in the number of jobs.

⁶ Minnesota Housing analysis of data from several sources, primarily from the U.S. Census Bureau.

⁷ Ibid.

- Low vacancy rates in both market-rate and subsidized housing;
- A high percentage of cost-burdened, lower-income households (reflecting a strong need);
- Access to transit – fixed route or dial-a-ride/demand response; and
- Access to shopping, services, parks/recreation, and other amenities.

Federal law gives HUD limited authority to transfer rent assistance,⁸ but these provisions focus on the complete transfer of rent assistance from obsolete and nonviable properties. This all-or-nothing approach does not effectively address the need for partial transfers when some units are chronically vacant.

In contrast, USDA Rural Development staff have considerable flexibility to move rental assistance from one property to another after it has gone unused for six months. The policy is described in more detail below and may prove to be a useful model for HUD.

USDA Rural Development Rental Assistance Transfer Policy

If, after the end of the initial year of an RA agreement, the borrower has not used a portion of the RA units for any ensuing consecutive 6-month period, the State Director may transfer the number of unused units to another project without the borrower's request. If the remaining units go unused after an additional 6-month period, the State Director may authorize its transfer to another project. This would apply only...when:

- *The Loan Servicer has reviewed the project occupancy list and verified that there is no apparent RA need in the project;*
- *The State Director has notified the borrower at least 30 days in advance of the Agency's intent to transfer the RA units and has given the borrower appropriate appeal rights; and*
- *If the borrower appeals the decision, the appeal is resolved in accordance with 7 CFR Part 11 before any transfer action is taken*

Source: Excerpt from Rural Development Handbook-2-3560 (implementing 7 CFR 3560.259).

Rural Development of Minnesota's practice is to reassign unused rental assistance to the neediest (most cost-burdened) tenant in the state, regardless of location. It is a person-based transfer policy that does not target specific properties or communities to receive more assistance. Nevertheless:

Although USDA Rural Development's practice in Minnesota is to assign unused rent assistance to the neediest tenant in the state regardless of location, unused assistance has, over time, shifted to tenants living in communities with stronger rental markets and a higher need for affordable housing.

While Rural Development staff have long believed this to be true based on experience, Minnesota Housing analyzed historical data on the distribution of rental assistance among Rural Development properties over the past 10 years.

⁸ For example, Section 8bb of United States Housing Act of 1937 and the Section 212 of the Treasury-HUD Appropriations Act for 2012.

The analysis showed that Rural Development rental assistance is quite mobile. Over the last 10 years, 166 of USDA Rural Development's properties in Minnesota lost 450 units of rental assistance to the gain of tenants living in 265 receiving properties. On average, the communities with properties gaining rent assistance have stronger rental markets and are in greater need of the assistance than communities losing assistance. Table 1 summarizes the differences in community and market characteristics of the losing and gaining properties.

Table 1: Characteristics of Communities with Rural Development Properties Losing and Gaining Rental Assistance, 2003-2012

| | Losing Rent Assistance | Gaining Rent Assistance |
|---|------------------------|-------------------------|
| Share of properties within a job center^a | 16% | 46% |
| Median Number of Low and Moderate Jobs within 5 Miles of the Community^a | 749 | 1,952 |
| Median Percentage Change in Households(2000-2010)^b | 2% | 10% |
| Median Rent^a | \$530 | \$590 |
| Share of Lower-Income Renters Who are Cost Burdened^b | 48% | 55% |

^a Difference between groups is statistically significant to .01.

^b Difference between groups is statistically significant to .05.

Sources: Minnesota Housing analysis of data from the 2006-2010 American Community Survey, Local Employment Dynamics program of the US Census (2009), and USDA Rural Development.

Allowing state administrators of HUD rent assistance programs to reallocate chronically unused project-based rent assistance will clearly make the current program more effective in reaching eligible tenants. However, several policy and operational issues would need to be addressed.

[Allowing HUD to transfer unused rent assistance could have a detrimental effect on the viability of some affordable housing projects and the communities they serve.](#)

To that point:

- The data analysis in this paper shows that smaller rural communities, often with declining or stagnant populations, would likely be net losers of rent assistance. Continued disinvestment in these communities is a concern.

- Without the rent assistance, owners and managers will have an even harder time renting the chronically vacant units.
- Banks and other funders with existing investments in the properties losing rent assistance may have concerns. With owners and managers having a more difficult time renting the vacant units, they will have more difficulty meeting their financial obligations.
- The change in policy and resulting uncertainty about rent revenues may inhibit funders from investing in Section 8 properties in the future.

These are important policy concerns in states like Minnesota where many rural communities are struggling to stay viable. However, weighing those concerns against the need to make full use of scarce rent assistance resources, getting assistance to tenants in need is paramount. That said, any transfer policy at HUD should have safeguards preventing owners with high-value Section 8 properties from using the policy as a way to leave the Section 8 program and convert to a market rate property.

This paper has been submitted by Mary Tingerthal, Commissioner of Minnesota Housing – a state agency that has invested more than \$10.8 billion and assisted more than 1 million households since its establishment in 1971. Tingerthal previously held senior management positions with the Housing Partnership Network, the National Equity Fund, GMAC Residential Funding and Community Reinvestment Fund and serves on the board of the National Housing Trust.

