REPORT TO THE LEGISLATURE

The Availability of Affordable Housing for Low Income Minnesotans

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Prepared by the Department of Human Services
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Executive Summary

The availability of affordable housing for public assistance recipients and low income Minnesotans generally can be summed up as follows: the State is in the midst of a housing crisis. There is not enough affordable housing available in many parts of the state and the situation will not be resolved easily. A national research organization has found that "the reason more welfare families do not receive housing assistance is *not* for the most part that they have adequate, affordable housing, but rather that the supply of housing assistance is so limited." One result of the affordable housing crisis is increasing levels of homelessness, particularly among women and families with children.

This report uses data from many sources including the Minnesota Housing Finance Agency, HUD, and local nonprofit organizations to show that affordability is an issue that goes far beyond families on public assistance. More than 90,000 households or 6% of households statewide can be categorized as eligible for housing assistance.

Finding a job and getting off welfare do not grant immunity to the problem. In their report *Working Doesn't Always Pay for a Home*, the Family Housing Fund details the widening gap in affordability for many working families in Minnesota. Since the goal of Minnesota's welfare reform program, the Minnesota Family Investment Program (MFIP) is to get people into the workforce, this fact has special significance. Their report shows that it would require a household income of over $12 hour for full-time work to pay for a typical 2-bedroom apartment in the metropolitan area while remaining within the 30% guideline of affordability. (Housing costs including utilities should not exceed 30% of income.)

Affordability is used in many ways, but for the purposes of this report we focus on the HUD program-based 30% of income figure. It is also noted that HUD programs may serve households with incomes far higher than those of MFIP or General Assistance (GA) recipients and that many recipients of housing subsidies may still pay more than 30% of their income for shelter.

The report also delves into the many reasons for the lack of affordable housing. They include:

- **Little private market development**
- **Extremely tight rental housing market**
- **Fewer federal housing resources**
- **Conversion of existing affordable housing stock**
- **Less acceptance of subsidy programs by landlords**
- **Tighter tenant selection and screening**

Following a summary of major housing assistance programs, the report considers the role of home ownership as a source of affordable housing. Because there has been much focus on access to homeownership at both the state and federal level and a booming economy with low interest rates, ownership numbers are at an all time high. These facts still do not make homeownership feasible for the lowest income households, including many on MFIP and GA.

The impact of the lack of affordable housing on State assistance programs is considerable. The effect of this crisis may be to reduce the effectiveness of the incentives in the MFIP program for work participation. Even so, affordable, stable housing is a not completely understood factor in a family's move from welfare to work.

The lack of coordination between housing programs and income assistance programs also exacerbates problems that begin with a lack of resources for affordable housing. One positive trend is that new resources from HUD are being developed to specifically address the importance of housing affordability to the success of welfare reform, and to require cooperation between welfare and housing agencies.

The report concludes that the housing crisis in Minnesota is pervasive and long-term. It is not subject to easy, quick or inexpensive solutions. The lack of affordable housing has outstripped the current resources of local, State, and federal governments and continues despite substantial involvement by the nonprofit sector. Private sector employers are also beginning to face the issue because they see the housing crisis as an impediment to the growth and prosperity of the State as a whole. With the involvement of all sectors of society and a more integrated approach to the development and use of affordable housing, there is some hope that support for solutions for the future can be found.

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Overview

The availability of affordable housing for Minnesota Family Investment Program (MFIP), General Assistance (GA) recipients, and low income Minnesotans can be summed up in a single statement: There is not enough affordable housing available in many parts of the state, and the situation is getting worse instead of better. The average MFIP family of one parent and one child has a grant level just over $8,500 per year, and individuals on GA receive less than $2,500 in annual support. Depending on whose data are used, approximately 34 to 40% of Minnesota's MFIP recipients are currently in Section 8 or Public Housing.[1] Of the rest, a recent study by the Center on Budget and Policy Priorities estimates that at least 75% of poor families in the metropolitan area (36,000), with incomes below $12,000 per year, pay more than 30% of their income for housing. The study went on to state: "The reason more welfare families do not receive housing assistance is *not* for the most part that they have adequate, affordable housing, but rather that the supply of housing assistance is so limited."

In 1995, a report by the Minnesota Housing Finance Agency (MHFA) [2] found that at least 6% of all households statewide could be categorized as eligible for rental assistance. This percentage equals 92,451 households. The report, which provides some of the most current statewide data, used two criteria for determining need: an annual household income of less than $12,000, and more than 30% of that household income spent on rent. The distribution of eligible households was generally similar to the overall distribution of households statewide. At that time 34% of the households resided in the central cities metropolitan area. The yearly cost to the state to create affordable housing for all eligible rental households was estimated to be $281 million in 1995 dollars. There is no reason to believe that the need has been substantially reduced since 1995. Another approach to determining the availability of affordable housing is to look to data on homelessness. One of the results of a crisis in affordable housing is increasing levels of homelessness.

- **Increase in Homelessness**

During the past year, local newspaper articles describing the affordable housing crisis have begun to focus on the increasing rate of homelessness among families with children and among the working poor.[3] One of the most recent Star-Tribune articles quotes data from the 1998 Wilder Foundation Homeless Census [4] which provided a striking picture of the rise in homelessness in Minnesota. This study, represents a "snapshot" of the total population of persons in Minnesota who are homeless on a single day in 1997. Their estimate of the total number of homeless and precariously housed persons in Minnesota on October 23, 1997, is 15,759. "This is almost double the estimate on October 24, 1991."

Of this population, the Census shows that from 1985 to 1997 the number of homeless children in the Twin Cities rose 881% from 240 to 2,354 and the number of homeless women rose from 275 to 1,304, a 374% increase. The percentage of employed homeless persons rose from 18.5% in 1991 to 34.2% in 1997. At the same time the Census found that the percentage of persons not employed for 12 months or longer had dropped from 55% in 1991 to 33% in 1997.

There was also a decrease in the number of homeless persons who said they were not able to pay anything for rent. The percent in 1991 was 24%, while in 1997, 14% said they could not contribute to rent. The connection between homelessness and the lack of affordable housing is clear to many experts in the field. Greg Owen, project director for the homeless census conducted by Wilder was quoted in the Star-Tribune article as saying, "If we don't do something more to create affordable housing, no matter how many shelters we build, they will not be adequate."

- **Working Poor Families**

Because the demand for affordable housing goes beyond the poorest citizens of Minnesota, it has implications for the success of MFIP in helping families off welfare and out of poverty. According to the 1998 HUD report, *Rental Housing Assistance-The Crisis Continues,* [5] the number of families nationally, with at least one full-time worker, having worst case housing needs, "skyrocketed" by 265,000 or 24% from 1991 to 1995 as low wage jobs failed to keep pace with rapidly rising housing costs. Ironically, during the economic recovery between 1991 and 1995, which continues today, "worst case" needs increased fastest among working households. Such households have income less than 50% of the area median and pay over half their incomes for rent. "Having a low paid job is increasingly unlikely to lift a family out of poverty or resolve worst case housing needs." the report found, because such individuals typically begin working at a very low wage level. When a parent enters the workforce and a family begins to move off welfare as a result of welfare reform, it is still likely to have worst case needs for housing assistance.

Working families are often unable to find affordable housing in the metropolitan area and in many regional centers in greater Minnesota. The Minneapolis HUD office found that there are over 38,000 renter households in the metropolitan area alone with worst case housing needs. What this means is that approximately one-third of all area renters at or below $30,000 in income are paying more than 50% of their income for some place to live. Those closest to the poverty line are likely to pay the highest percentage of their income.

In an aptly titled report *Working Doesn't Always Pay for a Home,* [6] the Minnesota Family Housing Fund details the widening gap in affordability for many working families in Minnesota. Since the goal of the MFIP program is to get people into the workforce, the data provided in this report has special significance.

The report ties typical hourly wages to the cost of modest rental and owned housing. The findings are grim. A typical two-bedroom apartment in the metropolitan area requires a household income of $25,000 or $12/hour to be within the 30% of income affordability guideline. To purchase a modest cost house that sells for $93,000 requires a higher income. In fact, the report goes on to state, even with two family members working full-time in jobs that pay minimum wage, such a family could not afford the typical two-bedroom apartment or three-bedroom house.

- **What Does "Affordable" Mean?**

Affordability can be defined in many different ways. Affordable housing is typically defined by a ratio of specified monthly housing costs to monthly household income. Monthly costs for homeowners include payments for real estate taxes, insurance, mortgages, utilities and fuel. For renters, monthly costs include rent plus an estimated average monthly cost of utilities and fuel if the renter pays for them.

One of the most common standards of affordability defines "affordable" as 30% or less of household's income spent on housing. This is the standard used in the major HUD subsidized housing programs. In 1969, this standard was set at 25%. It was then raised to 30% for some subsidized units in the late 1970's. In 1981, the standard was raised to 30% as part of that year's federal budget reductions. It would seem that nothing much more than common sense and widespread use have provided the basis for the standard, and that it is subject to change at the federal level for reasons unrelated to affordability issues such as the need for Congressional budget cuts.

It is important to note that under some subsidy programs families can choose to pay more than 30% of their income in rent to live in housing that costs more than the approved rental limit. This is one of the features of the Section 8 voucher program which makes it more useful in a tight housing market.

In general, HUD eligibility criteria focus on various percentages of an area's median income, while other programs may use federal poverty guidelines or welfare income eligibility levels. HUD housing subsidy programs have income limits that are significantly higher than the income limits for most state income assistance programs like MFIP or GA. This means that housing assistance may not always go to the households with the least income, nor is housing assistance an entitlement program at either the state or federal level.

Comparison of Income Limits Across Programs

HUD	**Median Family Income**	**80% Median Family Income (Low Income)***	**50% Median Family Income (Very Low Income)****	**30% Median Family Income (Extremely Low Income)*****
Urban Only	$60,800	$48,640	$30,400	$18,240
Mn. Average****	$51,800	$46,240	$25,900	$15,540
		>>>>>>>>>>>>>> **Eligibility Level for Sec. 8, Public Housing, Sec. 236**	>>>>>>>>>>>>>>>	>>>>>>>>>>>>>>>
Minnesota MFIP	**Grant Level -2 person family**	**Grant Level -3 person family**	**Grant Level -4 person family**	**Grant Level-5 person family**
(Includes Food Stamps)	$356/mo. $4,272/yr.	$626/mo. $7,512/yr.	$783/mo. $9,396/yr.	$928/mo. $11,136/yr.
Minnesota GA	**Individual Grant**	**Married Couple- no children**		
	$206+Food Stamps $2,492/yr.	$260+Food Stamps $3,120/yr.		

* Low income is defined as 80% or less of the median family income for the area subject to specified adjustments.

** Very low income is defined as 50% or less of the median family income for the area subject to specified adjustments.

*** Extremely low income is defined as 30% or less of the median family income for the area subject to specified adjustments.

Income limits are adjusted for family size so that larger families have higher income limits. The base number in the table is calculated for a family of 4. One person is 70% of the 80%, 50% or 30% median income number, 2 person households are 80%, and 3 person households are 90% of those figures. These are general parameters, as other calculations related to fair market rents might change the limits.

The estimate of median family income for Minnesota is $51,800 for FY 98; median income estimates are for all families regardless of size. The estimate of median family income for the metropolitan area (thirteen counties) is $60,800. The FY 98 median family income estimates are based on the1990 Census median family income estimates updated to 1998 with a combination of Bureau of Labor Statistics earnings and employment data and Census Divisional P-60 median family income data. Income limits are by Metropolitan Statistical Area (MSA) for urbanized areas and by county for rural locations.

****A complete set of income limits with estimated median family incomes for all parts of Minnesota can be viewed and downloaded from: **http:\\www.hud.gov\local\min\minmfi2.html**

Why is Affordable Housing Not Available?

There are many reasons why affordable housing is not available. At the most basic level, housing is not immune from the laws of supply and demand. Not only has new construction lagged behind population growth, but the average size of households has decreased as well, adding to the need for more units.

- **Little Private Market Development of Affordable Housing**

It is clear that the private housing market has not kept up with the demand for affordable housing. For example, nationally, the overall supply of rental housing grew 48% between 1970 and 1995 but there was a substantial shift toward higher cost units. In the early 1970s, there were approximately 5 million unsubsidized rental units in the country with rental costs measured in 1995 dollars of $300 or less. By 1995, the number had fallen to 2.8 million.[7] When businesses cannot make money on building housing, the housing does not get built.

High construction costs for new or substantially rehabilitated units play an important role in the lack of supply. Changes in the tax laws in 1986 also contributed to the loss of affordable units by reducing tax breaks associated with rental property development and ownership. The rent or house payment required to service the costs of new construction, along with taxes and utilities, price the unit out of the low income household's reach. Today, there is almost no unsubsidized, market rate development of housing affordable by households with one-third or less of the median area income (currently $18,240/year).

In 1998, the average cost of a new home in greater Minnesota was $90,000, and in the metropolitan area, $120,000. A newly constructed townhouse style apartment would cost at least $85,000 to build in most parts of the state. Even under the most optimistic of economic assumptions, these units would cost at least $700/month to own, and even more to rent. [8] The maximum HUD unit development cost limits for1998 also provide evidence of the high construction costs of many types of housing. The lowest cost unit is an efficiency apartment in a walkup building in rural Minnesota which could cost no more than $43,200 in order to be eligible for HUD financing. Most units will cost more. Even this unit would need to rent for more than $400/month in order for the owner to break even.

Local HUD officials point out that the problem can be especially acute in outstate Minnesota. Often the price a home can be sold for cannot pay for the actual cost of construction. This was the experience of many individuals affected by the floods in the northwestern part of the State last spring. As one HUD staffer said, "If you build a house for $85,000 but can only sell or mortgage it for $65,000, who is going to 'eat' the remaining $20,000?"

- **Extremely Tight Rental Housing Market**

In Minnesota, because of the extremely tight rental housing market, finding affordable rental housing is even more difficult. A current metropolitan vacancy rate of 1.1% (December 1998) is down from 2.5% in March 1997. (HUD data that can be used for comparison show that from 1997 through the first half of 1998, the rental vacancy rate in the Midwest generally has been averaging 7.7%.) [9] According to the quarterly HUD report on housing market conditions for the region, "many suburban markets have even lower vacancy rates, some below one percent." [10] The impact on rents can be shown in the year-to-year average rent increase of 4.17% with the most recent quarter's increase of 1.23 % suggesting that the annual rate is escalating.

- **Fewer Federal Housing Resources**

From 1995 until Congress passed the FY 1999 HUD budget in October 1998, there had been no net increase in the supply of federally subsidized housing for low income families. In fact, during the same time, public housing units were demolished, subsidized housing contracts expired and were at risk of not being renewed. As a result, the number of households receiving federal housing subsidies declined for the first time in the history of these programs. Families seeking federal housing assistance often wait for several years before receiving aid. Some local housing authorities close down waiting lists because they are too long. In Dakota County, people searching for affordable housing outstrip the current supply of such housing by a ratio of nearly 3 to 1. *In all of 1996, only 788 new units of affordable rental housing were developed in the entire metropolitan area.* None of these units are affordable to families earning below $18,000/year. With 87% of the job growth occurring in the suburbs, the impact of the lack of affordable housing where jobs are located may be significant on welfare to work efforts.[11]

More recently, the tide may have begun to turn. For FY 1999, Congress has appropriated funds for 50,000 additional housing vouchers targeted to families making the transition from welfare to work.[12] These vouchers will be awarded on a competitive basis to housing agencies that, in conjunction with their local or state welfare agency, develop a comprehensive plan to help families move from welfare to work. Families could use these vouchers to move to areas with better job opportunities and transportation links if they can find a landlord willing to accept the vouchers.

As a rule of thumb, Minnesota typically receives 2% of a federal program, a number that can also be a guideline for competitively based programs, which would mean that the State should be eligible for at least 1,000 vouchers. Conversations with local HUD officials, however, indicate their concern about the impact on local grant applications of state law changes to the MFIP program which would reduce grants to recipients who lived in subsidized housing.

- **Conversion of Existing Affordable Housing Stock**

Another significant factor that could make the affordable housing shortage worse in Minnesota is the national trend of "conversion." Owners of rental complexes that are subsidized with project-based Section 8 subsidies may give notice to tenants that they no longer intend to participate in the program. The background on this development is that there were many projects developed in the 1970s under the HUD Section 236 program. Minnesota, in particular, took full advantage of this program. The program provided 100% of the financing for rental projects and also provided an ongoing interest rate subsidy to the owner that reduced the effective interest rate on the project's mortgage to 1% to 3%. In exchange for these benefits and the significant tax shelters available to the owners, they were required to limit occupancy to low and moderate income tenants, and limit rents to what it cost to operate the buildings while maintaining the buildings according to HUD minimum property standards.

Many Section 236 projects also had been allocated Section 8 assistance to further reduce the rents for tenants in order to increase affordability for those with very low incomes. Section 236 mortgages are for 40 to 50 years, but there is a provision that allows owners to choose whether or not to continue in the program after 20 years. Many projects in Minnesota have passed the 20-year mark. In suburban Hennepin County alone, the Metropolitan Interfaith Council on Affordable Housing has estimated that from 1986 to 1996 over 1,000 affordable units of housing were lost through demolition, renovation, or conversion to market rates.

The MHFA estimates that in the next five years there are at least 37 developments throughout the state, totaling 2,155 units, vulnerable to conversion.[13] The staff memorandum goes on to say that, "This housing continues to provide the most affordable rental housing for the low and very low income residents of our state and it is far less costly to preserve and leverage these federal housing resources than to attempt to replace them."

In order to reduce the impact of project conversions on tenants, Congress has authorized "sticky vouchers" for residents of converted projects. These vouchers will cover the increased rent for only one year. After that, the tenants must pay increases above the payment standard. Moreover, owners are not obligated to accept the sticky vouchers after the first year. This means that most tenants in converted projects will be turned out into a marketplace that is less able and less inclined to rent to them.

During the 1998 session, the Minnesota Legislature approved an appropriation of $10 million per year for three years for the preservation of federally assisted rental housing in the State. Low interest or deferred loans are available for rehabilitation, rent subsidies, or to assist in the transfer of the housing to a Housing Redevelopment Authority (HRA) or a nonprofit sponsor.

- **Fewer Landlords Accepting Section 8 Certificates/Vouchers**

There is a disturbing new trend in the metropolitan area of suburban landlords simply not accepting tenants with vouchers. This concern is on top of the fact that until the fall of 1998, Section 8 type subsidies had not increased for years, and fewer than one in three eligible households actually received them. In the summer of 1998, the Community Action for Suburban Hennepin (CASH) conducted its fourth annual survey of suburban Hennepin County property owners regarding their participation in the Section 8 program.[14] The findings of the survey are:

> *"...not promising for low income renters. Even fewer units than before have rents that qualify for the Section 8 program and have management willing to accept renters with a Section 8 subsidy. The decline in the number of units in both categories from year to year is steady and significant."* ***The survey shows that of the 364 apartment complexes with a total of 43,738 rental units surveyed, less than 15% of the units met the rent requirements of the Section 8 program and accepted Section 8 renters."*** *(Emphasis added.)*

Compare the 15% acceptance level in 1998 to 17% in 1997, 20% in 1996 and 27% in 1995.

In conclusion, the report states that:

> *"Our results bring into question our national housing policy that relies on the private market to provide low-income people with affordable housing. Even with changes to the program that make it easier for landlords to participate, the survey shows a continuing shrinkage of options for Section 8 renters. This survey has shown, once again, that the prospects for area Section 8 certificate or voucher holders are less than encouraging, and are getting worse."*

- **Tighter Tenant Selection/Screening**

In meetings with the Minneapolis HUD office staff, housing experts also pointed out the impact of tenant screening systems being used with increasing frequency by private and public landlords. With a tight housing market, landlords are free to be selective regarding tenants. Credit reports, minimum income levels, criminal background checks, and reviews of past rent history, including any unlawful detainers are not unusual. Not only does some tenant screening make business sense to the property owners, but also HUD itself is becoming increasingly strict about the landlord's responsibility for preventing illegal drug use in subsidized units. Local Public Housing Authorities (PHA) also use screening devices for similar reasons. No longer is public housing the housing of last resort. Any potential tenant with a criminal background or a history of unlawful detainers will have a very difficult time finding an apartment to rent.

In recent years, the focus of federal housing assistance has also shifted from poor families toward families with slightly higher incomes. From 1988 to 1996, federal law targeted most housing assistance under Section 8 and public housing programs to families who met federally established "preference" rules which focused on worst case housing needs, e.g. families who paid more than 50% of their income for housing, or who were in substandard housing. Since 1996, these rules have been eliminated, and local housing programs may establish their own preferences. More recently, under the *Quality Housing and Work Responsibility Act,* some portion of assistance in each program is now reserved for families with incomes at or below 30% of the area median income. "A greater proportion of housing resources than in the past, can, however, be made available to families with incomes above 50% of the area median."[15] It has been argued that the increased local flexibility will encourage a better mix of incomes in federally subsidized housing, and possibly increase support for working poor families by giving them preference. As is the case with many scarce resources, however, the battle for the subsidy is fought among the poorest and the total amount of support is not increased.

There are other societal factors worth mentioning that have an impact on the loss of affordable housing, including urban renewal and suburban growth. One legislative response to these pressures can be found in the Metropolitan Livable Communities Act which creates an Incentive Account which allow communities in the Twin Cities metropolitan area to compete for certain tax funds generated by high value homes if the community volunteers to develop more affordable housing. These tax dollars would otherwise be redistributed to less affluent metropolitan communities under fiscal disparities laws.

Background on Major Federal Housing Programs

- **Section 8 Tenant-Based Vouchers and Certificates**

The Section 8 program has been the mainstay of federal government assisted housing in the US since 1974 when Congress authorized it. Section 8 works in the private rental housing market by providing rent subsidies to owners on behalf of qualified tenants. The program is administered through state, regional, county or local agencies. In Minnesota, the MHFA does not directly administer the Section 8 tenant-based program. Typically, the local HRA, or PHA administers tenant-based Section 8 assistance.

Section 8 vouchers and certificates work as follows: tenants currently pay 30% of their incomes for housing rent and household utilities and the federal government pays the rest to the landlord up to the Fair Market Rent (FMR). Locally established FMRs are determined for each size unit. The FMRs are usually set at 40% of the median rent for a non-luxury apartment in the area. In areas of high cost, there may be exception rents that are set above the region's FMR. The metropolitan area has a number of these exception rents. According to HUD, the average FMR rent for a 2-bedroom apartment in the metro area is currently $644.

In general, to be eligible for Section 8 assistance, a tenant's income must be at or below 50% of the area median income as adjusted for family size. As of January 1998, 50% of the metropolitan area median income equals $30,400. Median incomes are set by Standard Metropolitan Area (SMA) in urban areas, and by county in rural areas.

Certificates are different from vouchers, in that a tenant with a certificate may not rent a unit that costs more than the area FMR. On the other hand, if a tenant with a voucher rents housing that costs more than the FMR, the tenant may pay the full additional cost. Housing vouchers are intended to provide tenants with more flexibility in their choice of housing arrangements. This means that not all Section 8 tenants are paying less than 30% of their income for housing; those with vouchers may pay more or less, depending on the cost of the unit. The most recent HUD appropriations act, *The Quality Housing and Work Responsibility Act of 1998,* requires that a substantial number of available vouchers and certificates serve "poor" families, i.e. families with incomes below 30% of the area median. This law will also speed the consolidation of certificates and vouchers so that, in the future, only vouchers will be available.

The MHFA estimates that Section 8 rental subsidies assist 13,025 Minnesota households at a cost of approximately $66,000,000 per year. [16]

- **Section 8 Project-Based Assistance**

Project-based Section 8 assistance means that rental units in buildings owned and operated by private owners have received a subsidy. The owners can be either for-profit or non-profit entities. Project-based assistance can cover all or a portion of the units in a building. The subsidy is tied to the unit. Tenant rents, which are paid to the project's owner are set at 30% of the tenant's income, the remainder, or subsidy is paid by HUD. Generally speaking, project-based Section 8 programs are not administered by the local housing authority. Owners often contract either with HUD or through the MHFA. Owners of these buildings maintain their own waiting lists, and determine eligibility subject to federal guidelines.

- **Public Housing**

Public housing consists of rental housing units owned and operated by public housing authorities, which are governmental entities. Public housing units may be found in high rise buildings, townhouse developments and even single family homes. (It should be noted that construction of high rise public housing has been prohibited since the late 1960s.) As with Section 8, rents are usually set at 30% of a tenant's income. Rent payments go to the PHA and are used to help meet the operating and maintenance costs of public housing. Federal subsidies also cover a portion of PHA operating expenses based on a formula.

- **Section 236 Mortgage Subsidy**

Like project-based Section 8, these are rental units owned and operated by private owners. The subsidy takes the form of a large mortgage subsidy that reduces interest rates to as little as one percent. As a result, rents for Section 236 units are generally flat or fixed and do not vary according to tenant income. Tenants can therefore pay more than 30% of their income in rent. This type of subsidy is often called a "shallow" subsidy. Section 236 developments may also be paired with Section 8 assistance for a deeper subsidy per unit.

- **Low-Income Housing Tax Credits**

Another type of housing subsidy used to encourage development of affordable housing is Low Income Housing Tax Credit (LIHTC). The LIHTC program provides a means by which developers may raise capital to develop low income housing by selling the tax credits and other economic benefits to limited partner investors. The investors contribute equity capital to the development. In exchange, rents are generally set at a level affordable to households with incomes at or below 60% of the area median income. Rents do not vary with income.

In Minnesota, the MHFA awards low income housing tax credits in three highly competitive rounds during a year. Unlike most other states, Minnesota has suballocators in addition to the MHFA. The suballocators of

Minneapolis, St. Paul, Bloomington, Duluth, Rochester, St. Cloud, Washington County, and Dakota County may accept applications for projects in their jurisdictions. Projects apply for the credits and must compete on the basis of priorities listed in state law and local guidelines. The first round is limited to Single Room Occupancy (SRO) projects, family housing projects, or projects targeted toward special needs populations. Housing developments for the elderly are permitted in the second round.

Any developer who uses these credits is required to comply with the affordability requirements in both federal and state law. To qualify for funding, projects must set aside at least 20% of the housing units for tenants whose incomes are 50% or less of the area's median income, or at least 40% of the housing units must be set aside for tenants whose incomes are 60% or less of the area's median income. Additional requirements include the following: gross rents cannot exceed 30% of the applicable income ceiling, and owners of qualified residential rental projects must satisfy the minimum set-aside and gross rent requirements for a 15 year period.

HUD data show that tax credit units are often rented by tenants with incomes higher than 30% of the area median income (just over $18,200/year) which means that this program is only effective for those with higher incomes. Poorer renters who may live in these units, can do so only because they also receive a rental subsidy to help them pay the rent.

The MHFA estimates that for the 1998-1999 biennium there will be approximately $8,000,000 in housing tax credits to award. At this level, the MHFA expects to assist approximately 1,400 units within 50 new or existing developments.

- **Rural Subsidized Housing**

Under the Rural Development Program, the federal government provides development loans and rental assistance for cooperative, single family, and multifamily housing projects that are similar to the Section 238 and Section 8 programs. They may be made to a variety of organizations, state or local agencies or cooperatives. Loans are generally made in towns with populations of less than 10,000. Loans may be made for up to 50-year terms and may be used to build, purchase, or renovate housing.

- **HUD HOME/CDBG Grants**

Since 1992, HOME block grant funds have been provided to states and local governments for use in the design of their own housing programs. HOME funds can be used for both homeownership and rental assistance programs. Funds used for rental programs can be used to provide tenant-based subsidies or to subsidize the construction and rehabilitation of rental housings. As with tax credit units, apartments subsidized with HOME dollars rent for a flat or fixed amount that does not vary with household income. Another HUD program, the Community Development Block Grant Program (CDBG) may also be used for affordable housing projects. Often a variety of programs are used together to bring the cost of a development down to a level where the rents are affordable.

- **Major State Rental Assistance Programs**

State rental assistance programs include the Affordable Rental Investment Fund which provides zero interest mortgages or deferred loans for the rehabilitation or construction of low income rental housing. Households with incomes at or below 80% of the area median income are eligible. The anticipated volume of 1,327 units will cost over $8.6 million for the biennium.

The MHFA's Housing Trust Fund provides deferred loans without interest for the development, construction, acquisition, preservation or rehabilitation of low-income rental housing. This program is targeted to benefit households with incomes of up to 30% of the area median income. The biennial funding level for this program is $5.6 million.

Another way in which the State provides housing assistance is through various emergency or temporary assistance programs which can help renters and homeowners as well as the homeless with shelter emergencies. The Department of Children, Families, and Learning (DCFL) has emergency assistance programs, as does the Department of Human Services (DHS). The common factor in these programs is their temporary nature, but they have an important role in helping preserve housing stability for low-income households. One of the stated goals of MFIP is to use emergency assistance in such a way as to help the family avoid going on welfare altogether.

The MFHA's program of Rental Assistance for Family Stabilization, for example, funds rental assistance for up to a 36-month period. Funding for this biennium is $5.1 million. This program is run in cooperation with local HRAs and local self-sufficiency service providers and is associated with the HUD Self-Sufficiency Program.

A specialized rental assistance program called Bridges operates in 40 counties. Bridges provides temporary rental assistance for participants with serious and persistent mental illness who are on a waiting list for Section 8. The program is serving approximately 400 households for a cost of $2.5 million a biennium.

Since 1993, the State has also funded a Family Homelessness Prevention program that provides assistance to households at risk of homelessness. This program provides grants to counties to encourage innovative approaches to homelessness issues. Up to 16 county grants may be approved for a maximum biennial funding level of $5.8 million.

Role of Homeownership as a Source of Affordable Housing

Nationally, according to the1995 American Housing Survey,[17] approximately 40% of all poor households were homeowners. Minnesota has traditionally had a higher than the national average rate of homeownership at all income levels which seems to translate into higher homeownership percentages across income level. According to the 1995 MHFA report referred to earlier, 72% of all households in the State own the housing unit in which they live, (reflecting a constant homeownership rate since 1980). Of these, only 20% of owning households have incomes below 50% of the State's median family income. This is, however, approximately 60% of all households below 50% of area median income. Five percent of owning households have incomes below the poverty threshold for their household size. This means that approximately 15% of those with extremely low incomes (less than 30% median income) own their own home.

Since the ratio of single-family to multi-family housing units is much higher in non-metro regions, the homeownership rates in these same regions are also higher. In 1995, the MHFA reported that the proportion of owners in each region ranged from 75% in the southwest and southeast to 78% in the northwest and central regions. Sixty-eight percent of metro households own the unit in which they live. MFIP families and GA recipients, however, would have a lower percentage of homeownership because homeownership data includes elderly households who have the highest rate of homeownership of all age groups. On the other hand, because homeownership may be the only option in parts of rural Minnesota, a larger proportion of households receiving public assistance in greater Minnesota would be homeowners. In any event, as is the case with poor renters, poor homeowners also face affordability issues.

Unlike the bad news of rental housing availability and affordability, however, the country is experiencing a housing market that is booming and one which has an increasing number of affordable options and supportive programs available to working families. Over the past decade and a half, numerous state and federal programs have striven to put homeownership within the reach of low-income households. Not only has funding been found for mortgage rate subsidies, downpayment assistance and rehabilitation help, but homeownership counseling has helped families put their financial house in order before actually buying a home. While this is good news for low income working families, the poorest families, particularly those with little chance of working their way off welfare into steadily higher paying jobs, cannot participate in the homeownership boom.

In their presentation to the Governor's Economic Summit, the MHFA provided detailed information on single and multi-family housing costs and affordability by hourly wage and area of the state. The affordable housing shortage had become so severe that Minnesota businesses were seeing its impact on economic expansion throughout the state. The MHFA's data showed that even using the most conservative financial assumptions, few households with jobs that paid under $17/hour would be able to own their own home without substantial subsidies in the construction and financing of the home. They showed that the average wage level of all new jobs being created in Minnesota is $28,000 and range from $15,934 in Lincoln County to $34,415 in Hennepin County.

In general, even with the availability of homeownership subsidies, the lowest income that would be practical for even the most modest of homeownership opportunities would rarely be less than $15,000/year. Using a 30% figure, it would mean only $450/month would be available for housing costs. Of course, in homeownership situations, families are often willing to exceed the 30% figure for the benefits of living in their own home. Yet, substantial amounts over the 30% figure would significantly decrease the financial stability of a family and would not be acceptable to a mortgagor. The Minnesota Housing Partnership Report showed that a "modest" 3 bedroom house would have sold for $93,000 in 1996, and by the 30% measure would only be available to a family earning approximately $33,000/year. This would require a $16/hour job in order to be affordable.

As the housing crisis has worsened across the state, organizations not traditionally concerned with affordable housing have begun to realize the impact of the tight housing market on economic development and job creation. Traditional housing advocates may have new allies in the battle for state funds for affordable housing. Last year, the Legislature made $5 million available for incentives to increase employer participation in the development of affordable housing. The Greater Minnesota Housing Fund Employer-Assisted Housing Program is another example of an employment based approach to the provision of affordable housing.

- **State Home Ownership Assistance Programs**

Minnesota Mortgage Program-provides below-market interest rate first mortgage loans for low and moderate income first time homebuyers through local lenders. (Similar mortgages are available through local units of government who are suballocators of federal mortgage revenue bonds.)

Homeownership Assistance Fund (HAF)-provides limited monthly payment assistance and entry cost assistance to more modest income first time homebuyers who purchase their first homes through an MHFA mortgage revenue bond program. To be eligible for monthly assistance, borrowers must attend qualified homebuyer training before they select a home.

Urban Indian Housing Program/Tribal Indian Housing Program-provides homeownership and rental housing opportunities for low and moderate income American Indians.

Entry Cost Homeownership Opportunity Program-provides downpayment and closing cost assistance to individuals purchasing a home through a community lending program developed and implemented by private mortgage lenders.

Communities and non-profits may also use the resources of the Homeownership Center which is a collaborative organization providing financial and technical support to community-based organizations in Minneapolis and St. Paul, so that these organizations can offer comprehensive home buyer training.

Welfare Reform and Housing

- **MFIP**

Minnesota's welfare reform law, the Minnesota Family Investment Program (MFIP), is centered on the idea that the support system should expect, support, and reward work as the way parents provide for their children. The goal is to promote work, responsibility, families, lift children out of poverty, and prevent welfare dependency. To that end, recipients who work will always be better off than those who do not work. The table below shows the monthly assistance levels for the transitional standard. As can be seen, there is no penalty in the grant amount for wages up to the amount listed in the Family Wage Level column.

Number of Eligible People	Family Wage Level	Full Standard	Cash Portion	Food Portion
1	$ 392	$ 356	$ 250	$106
2	689	626	437	189
3	861	783	532	251
4	1,021	928	621	307
5	1,157	1,052	697	355
6	1,318	1,198	773	425
7	1,439	1,308	850	458
8	1,586	1,422	916	526
9	1,731	1,574	980	594
10	1,870	1,700	1,035	665
Each Addn'l	$ 138	$ 125	$ 53	$ 72

(It is possible for families to be eligible for only part of the MFIP grant standard.)

Some housing subsidy programs as well as the low income energy assistance program do not count the food portion of the grant as income. In Minnesota, the MFIP total grant (Minnesota's version of a TANF grant) is somewhat higher than the average fair market cost of an apartment, but when the food stamp portion is subtracted, the result is in line with a NAHRO study that shows: "In 49 states and 357 metropolitan areas, the entire maximum TANF grant level does not cover fully the cost of an apartment priced at the fair market rent." [18]

- **General Assistance**

Cash grants for single individuals in the General Assistance program are currently set at $206 per month, and $260 per month for married couples without children. Recipients would also be eligible for food stamp assistance.

- **Impact of Lack of Affordable Housing on MFIP Program**

For a variety of reasons, housing issues have generally been considered apart from the welfare reform debate. The traditional separation of federal agencies responsible for these programs, along with the fact that in the United States housing programs are not entitlement-based, means that the need for welfare assistance is often considered in isolation from the need for affordable housing at both the policy and program levels. In Minnesota, the county-administered MFIP program is quite separate from most housing subsidy programs managed through public housing authorities or housing redevelopment agencies. PHAs and HRAs can be city, regional or county based organizations and they are not as tied to the MHFA as county welfare programs are tied to DHS. This does not mean that in some counties there is not a great deal of cross referral or coordination, but that it is the exception rather than the rule.

A good example of the separation can be found in the debate surrounding the proposed reduction in MFIP grants for families living in subsidized housing. A number of countervailing issues need to be considered regarding this policy, and neither the housing nor the welfare reform experts have the only correct answer. In fact, it is not unusual for housing policies and welfare reform policies to work at cross-purposes. For example, there is evidence that an MFIP grant reduction provision could reduce the overall amount of housing support available in the state.[19] While PHAs can petition HUD to make up their losses, administrators of Section 8 programs do not have that option.

There is also evidence to show that subsidized housing may actually increase welfare use in some cases.[20] On the other hand, there is also evidence from the same study to show that stable housing is a very important factor in the success of families moving permanently from welfare to work.

> *"The results indicate that public and subsidized housing does provide benefits, such as residential stability, that may encourage employment, but that these benefits are unlikely to account for the pattern of MFIP's impacts. The weight of the evidence, although indirect, suggests that another aspect of public and subsidized housing may be important. The work disincentive created by the rent rule [30% of income] may have led to a situation in which many residents in public and subsidized housing were especially responsive to MFIP's employment incentives. The evidence on this issue is only suggestive, however, highlighting the need for further research on the interaction between public housing and welfare reform."*

Without sorting through the conflicting arguments, a coherent and coordinated approach to welfare to work issues is not possible. While it is not the responsibility of this paper to discuss these issues in detail, no discussion of the availability of affordable housing and MFIP should ignore them.

- **New Resources**

In the past, HUD has had a number of public housing programs targeted to help tenants into work or self-sufficiency. These programs were generally voluntary on the part of the PHA and tenant and not in widespread use. On October 21, 1998, however, the President signed into law the FY 1999 appropriations bill for HUD, P.L.105-276, which was referred to earlier. In addition to increasing funding for housing programs, it included legislation called the *Quality Housing and Work Responsibility Act of 1998* which made major changes in public housing programs. The housing reform provisions are generally effective on October 1. 1999. The law marks a substantial departure from previous HUD appropriations bills not only because it includes the first real increase in housing subsidies, but also because it includes provisions directly related to welfare reform efforts. It represents a major effort to cross the divide between welfare and housing programs.

To briefly summarize, the Act reserves 30 to 40 % of new admissions to public housing for households with incomes under 30% of median income. In addition, at least 75% of new Section 8 admissions must go to households earning no more than 30% of median income. As a condition of occupancy, the Act requires able, non-working adults in public housing to contribute either a minimum of 8 hours per month of volunteer work in the community, or to participate in an economic self-sufficiency program.

PHAs are prohibited from increasing the rent for households whose welfare benefits are reduced due to fraud or noncompliance with welfare rules requiring participation in self-sufficiency programs. Loss of benefits due to the expiration of TANF (in Minnesota, MFIP) time limits, however, is permitted. The policies are to be included in public housing leases and agreements for Section 8 assistance. The Act permits PHAs to set their own earned income exclusions as well. For public housing Section 8 tenants, the Act requires PHAs to disregard the first 12 months of earned income in setting the rent of tenants who were previously unemployed a year or more and who had income increases due to HUD's Family Self Sufficiency Program, training, or TANF benefits. Over the next 12 months, rent increases due to employment could not be more than 50% of the rent increase that would otherwise apply. The Act also permits an alternative to the income disregard. At the request of the family, the PHA can collect the higher rent due but must deposit the increase into an individual savings account for the family. The family withdraws funds for a home purchase, education, moving out of public housing or other approved self-sufficiency activities. This provision is tied to a phase-out of the existing Family Self-Sufficiency Program, which had similar provisions for an individual savings account that include incentive contributions by the PHA to the account.

Future for Affordable Housing

- **Demographic Trends**

Housing cannot be built overnight, which means that there is no instant answer to Minnesota's housing crisis. There is little new activity on the horizon that will satisfy the current demand for affordable housing. Demographic trends also do not bode well for amelioration of the housing crisis.[21] Not only are there more households being created, but with the aging of the baby boom there may also be a resurgence in the need for modest cost housing. Two age cohorts, young families and retiring seniors could combine to create higher demand for limited existing affordable housing.

For good or ill, there has been no discernable movement back to large multigenerational households. New households that are smaller than those in the past continue to be developed. In part, this is the result of smaller families, more singles, and divorce as well as general population growth. The continued construction of "starter castles" in many suburban areas also means that our housing stock will not be easy to modify for other types of use as the population ages. If demand is not going to go down in the next few years, supply factors become even more important.

- **Trends in Affordable Housing Development**

Minnesota is fortunate in having a strong nonprofit housing development sector. In recent years, they have played an increasingly important role in the development of affordable housing throughout the state, a role that is likely to be vital in the future. Organizations like the Minnesota Housing Partnership, the Greater Minnesota Housing Fund, the Family Housing Fund, Habitat for Humanity, and the Local Initiatives Support Corporation provide technical advice, funding, volunteer workers, and access to foundation support for affordable housing projects.

Another emerging trend mentioned earlier is the business community's increasing interest in the issue of affordable housing for their employees. As affordable housing becomes critical to the state's economic growth, new partners and perhaps new resources will become available.

Conclusion

All too often in the past, housing policy has been considered in isolation from other forms of public support for poor families. The historical roots of this division are less interesting than the fact that the "silos" in public policy persist. With the onset of the affordable housing crisis in Minnesota and the implementation of welfare reform, an isolationist approach should no longer be tolerated. Affordable, stable housing is an important but not completely understood factor in a family's move from welfare to work. In Minnesota, however, there is ample proof that affordable housing is not widely available to MFIP and GA recipients and that even working families are falling victim to the housing crisis. The unanticipated effect of this crisis is that it may cause serious consequences to the carefully crafted incentives in the MFIP program for work participation. In fact, many experts see the lack of affordable housing as a future impediment to the growth and prosperity of the state as a whole.

Minnesota is one of only 26 states with major housing programs, yet the lack of affordable housing has outstripped the current resources of local, state and federal governments. Substantial involvement by the nonprofit sector needs continued support as do new, more integrated approaches to the development and use of affordable housing.

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[7] See *In Search of Shelter: The Growing Shortage of Affordable Rental Housing*. Page 32.

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