



TACOMA HOUSING AUTHORITY

RESOLUTION 2020-10-28 (1)

Date: October 28, 2020

To: THA Board of Commissioners

From: Michael Mirra
Executive Director

Re: Update to Payment Standards

This resolution would authorize Tacoma Housing Authority (THA) to adopt new 2021 payment standards for use in THA's rental assistance programs.

Background

Each year the Department of Housing and Urban Development (HUD) releases rent data for the Tacoma-Pierce County metropolitan rental market. These data set HUD's "fair market rents" (FMR) for our area for the following year, in this case, 2021. Housing authorities must set their payment standards within 90-110% of the HUD FMR. The payment standards are then used in determining the maximum amount of subsidy THA will pay to landlords. They are also used in the calculation of THA tenant and participant rents. Presently, THA sets its payment standard at 100% of HUD's FMR for the various bedroom sizes.

THA is required to complete an assessment of its tenant data and make adjustments to its payment standards based on this data. In addition to tenant data, THA uses a compilation of 3rd party reports and data to assess the region's rental market. The payment standards were last changed effective March 2020 to be at 100% of the FMR.

The following table compares the HUD 2021 FMR to the existing 2020 FMRs:

	FY2020 FMR	FY2021 FMR	\$ Change	FMR % of Increase From 2020 – 2021
Studio	\$961	\$1101	\$140	14.6%
1 bedroom	\$1075	\$1126	\$51	4.7%
2 bedroom	\$1408	\$1461	\$53	3.8%
3 bedroom	\$2031	\$2091	\$60	3.0%
4 bedroom	\$2472	\$2530	\$58	2.3%
5 bedroom	\$2843	\$2909	\$66	2.3%
6 bedroom	\$3214	\$3289	\$75	2.3%
7 bedroom	\$3584	\$3668	\$84	2.3%
8 bedroom	\$3955	\$4048	\$93	2.3%

Analysis

THA staff considers the following factors during the payment standard review:

- shelter burden (% of household income paid for rent and utilities)
- vacancy rate and rent by Tacoma neighborhood
- comparison with average Tacoma rents
- inspection pass or fail rate
- how long it takes clients to find a unit under the current payment standards
- the extent to which clients cannot use a voucher
- the extent to which clients seek to take their voucher to other jurisdictions
- Requests for rent increases
- The financial impact on THA

1. **Shelter Burden (% of households paying more than 30% of income towards rent)**

HUD has established a standard that households should pay no more than 30% of their income toward rent. When a household selects a unit where the gross rent (rent & utilities) exceeds the payment standard the household pays the difference. This results in a larger out of pocket expense for the client. Increasing the payment standards helps offset some of that expense.

- 1.1. **September 2020** – 31% of traditional Housing Choice Vouchers (HCV) and 50% of Housing Opportunity Program (HOP) clients were paying more than 30% of their income toward rent.

The average rent burden for HCV is 27%, but 31% of all HCV households pay more than 30% of their income to rent. The average rent burden for HOP is 29%, but half (50%) of all HOP households pay more than 30% of their income to rent. This is because in most cases HOP provides a shallower subsidy in order to serve more households.

2. **Vacancy Rate and Rent by Tacoma Neighborhood**

A lower vacancy rate and higher rents make it difficult for clients to compete for units. Increasing the payment standards helps them compete for those units with less out of pocket expenses.

In the past, THA has relied heavily on the vacancy report provided by Dupre & Scott. That company went out of business in January 2018. THA has been using various compilations of on-line resources and a rental property survey that McCament and Rogers conduct twice a year. McCament and Rogers is a real estate consulting firm that also does market studies for the City of Tacoma and Lakewood. Within the report, McCament & Rogers separates the market into four categories: low-income, affordable, market-rate, and outside downtown.

McCament & Rogers defines low-income, affordable, and market-rate in the following ways:

- **Low-Income rents** have some sort of subsidy attached to them but could have some affordable units not subsidized within the community.
- **Affordable rents** would be communities that are older and mostly smaller units, however, on dollar per square foot, some are as high as market rate.

- **Market rents** would be the rent on most newer properties set at the highest rate the market will bear. The current communities adjust the rents on a daily basis depending on demand. For example one day a one-bedroom may be \$1500 the next it could be \$1200 because they have some vacancy in that style of unit.

September 2019 (McCament and Rogers Survey)

	Low Income	Affordable Market	Market Rate	Out of Downtown
Vacancy Rate (%)	2%	3%	2%	5%
Average Rent (\$) 2 Bdrm	\$1052	\$1353	\$2265	\$1775

September 2020 (McCament and Rogers Survey)

	Low Income	Affordable Market	Market Rate	Out of Downtown
Vacancy Rate (%)	1%	3%	7%*	3%
Average Rent (\$) 2 Bdrm	\$1018	\$1918	\$2498	\$2525

* The Napoleon and Brewery Block Lofts are classified as having completed the lease-up phase since both properties are experiencing turn-over of their initial rentals. If they had not been reclassified, the vacancy rate would be 5%.

3. Comparison of Current Payment Standard and Rents

Comparing the current payment standards to actual rents THA is paying for units provides a metric that can help determine the affordability of an increase. This is important in our dynamic market to allow increases that keep pace with real-time asking rents.

The following table compares the **current** payment standards and THA actual average contract rent amount.

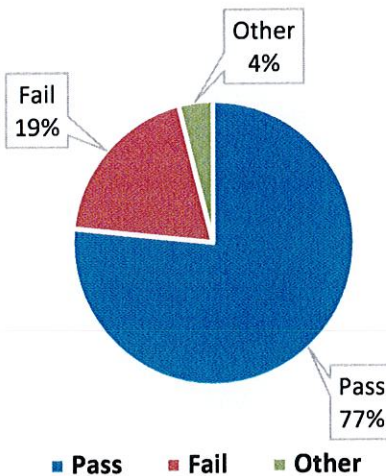
	2020 Payment Standards	Avg. Contract Rent for New Admissions & Movers
Studio	\$961	\$745
1 bedroom	\$1075	\$855
2 bedroom	\$1408	\$1170
3 bedroom	\$2031	\$1431
4 bedroom	\$2472	\$1818
5 bedroom	\$2843	\$2067

4. HQS Pass/Fail Rates

Tracking the pass/fail rates of initial unit inspections provides a measurement that is used to determine if the payment standard amounts are allowing clients to select higher quality units.

Currently, a little over 75% of all units selected by clients pass inspections. This is based on comparing the number of initial inspections in relation to the number of failures and returned vouchers. There is no significant change from last year to report.

Disposition of Inspections

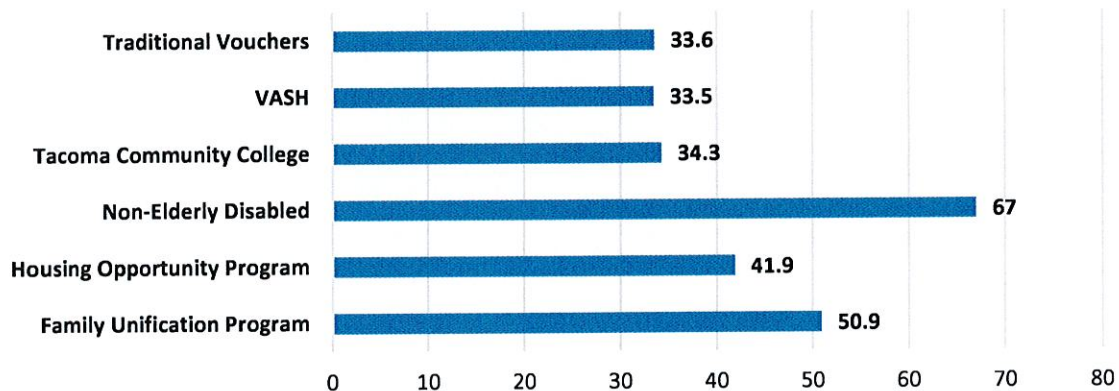


5. Shopping Days

Tracking the amount of time it takes for our clients to find and secure a unit helps determine if the payment standards give them sufficient buying power in the market. A longer shopping time could mean that the payment standard is not competitive with the market rate rents.

In 2020 we saw a decrease from 46 to 34 days for traditional vouchers and from 61 to 42 days for the Housing Opportunity Program (HOP) clients.

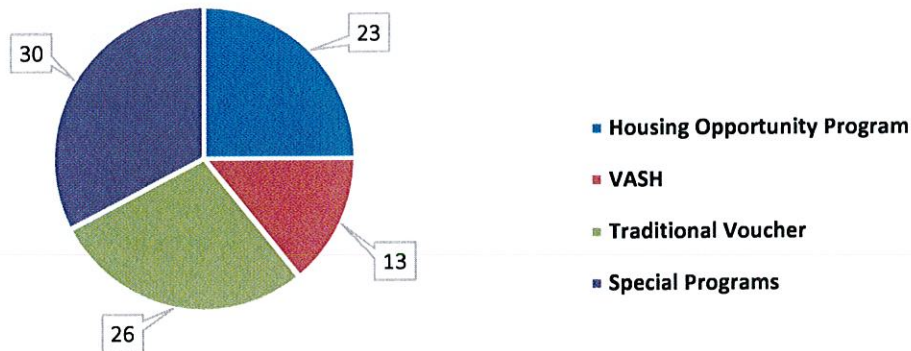
Average Days Shopping by Program for 2020



6. Expired and Unused Vouchers

Returned subsidies can be a barometer for client shopping success as well. An increase in returned subsidies could indicate an inability to compete for units in the market. Of the 459 vouchers issued so far this year, 92 subsidies (20%) have expired or, gone unused so far for 2020. This is a slight decrease from 22% (996/223) in 2019. The chart below shows the breakdown of the major programs. These vouchers include households shopping for housing while new to the program and households hoping to move between assisted units.

Expired and Unused Vouchers (10/5/2020)



7. Port Outs

Tracking the number of clients leaving our jurisdiction provides an indicator that could mean they are searching for an affordable unit elsewhere. 68 clients have ported out so far in 2020. In 2019, there were 200 total port-outs.

8. Rent Increases Processed

So far in 2020, staff have processed approximately 969 rent increase requests. The average increase is approximately \$129.00. In 2019 there were 2036 total requests and the average request amount of \$97.00. This data has been and will continue to be impacted by the State of Washington's rent increase moratorium imposed in response to the COVID-19 pandemic as we stopped accepting requests in March. However, the average request should still be a somewhat reliable indicator that rents are increasing. Additionally, we anticipate a significant increase in requests as soon as the moratoriums on rent increases are lifted. This could happen in early 2021.

9. Estimated Financial Impact on THA

THA is not currently leasing to additional people off the waitlist at this time so an immediate analysis is hard to review. However, for HOP participants, their portion changes only when there is a qualifying event. Therefore, we believe any impact would be minimal and spread out over time.

The Finance Department is in support of increasing the payment standards this year up to 100% of the payment standard.

Recommendation

After a review of our current payment standards and the other factors listed in this analysis, including the decrease that other area agencies experienced this year, we recommend setting studios at 90% of the new higher HUD FMRs. This would increase the payment standard by 3%. We recommend no change in current payment standards for all other bedroom sizes even though HUD's FMRs for those bedroom sizes increased. To keep the payment standard unchanged, we would pay a lower % of the higher FMR. This puts those payment standards at 95-98% of the HUD 2021 FMRs.

Setting our payment standards at these amounts will grant us the ability to absorb a potential decrease in the FMRs next year without having to lower our payment standards. This will also help us to better track and prepare for a difficult and unpredictable market in the coming year.

	Current Payment Standards/FY2020 FMRs	FY2021 FMRs	Proposed 2021 Payment Standards	% of the FMR	% Change from current PS	Proposed HOP Subsidy Amount
Studio	\$961	\$1,101	\$991	90%	+3%	\$496
1 bedroom	\$1,075	\$1,126	\$1,075	95%	0%	\$538
2 bedroom	\$1,408	\$1,461	\$1,408	96%	0%	\$704
3 bedroom	\$2,031	\$2,091	\$2,031	97%	0%	\$1,016
4 bedroom	\$2,472	\$2,530	\$2,472	98%	0%	\$1,236
5 bedroom	\$2,843	\$2,909	\$2,843	98%	0%	\$1,422
6 bedroom	\$3,214	\$3,289	\$3,214	98%	0%	\$1,607
7 bedroom	\$3,584	\$3,668	\$3,584	98%	0%	\$1,792
8 bedroom	\$3,955	\$4,048	\$3,955	98%	0%	\$1,978

This recommendation balances the following factors:

Factors that favor increasing the payment standard:

- We are seeing a decrease in the already extremely low vacancy rates;
- Rents are increasing across most sectors.

Factors that favor retaining the current payment standards:

- The average number of shopping days for clients decreased;
- The average rent for THA clients is below the existing payment standards
- While rent increase requests have decreased, we do expect an influx throughout 2021 after the COVID-19 moratoriums are lifted and with average rents that are well below the existing payment standards, we will be able to absorb any potential rent increases that do occur;
- Of notable interest, most housing authorities in our region experienced a decrease in their FMRs while we saw an increase. This information and the data mentioned above leads us to choose to be conservative and not propose a large increase in the payment standards this year. We never want to go backward in the setting of our payment standards if we don't have to.

Staff recommends approving Resolution 2020-10-28 (1) authorizing THA to adopt new payment standards effective January 1, 2021.



TACOMA HOUSING AUTHORITY

RESOLUTION 2020-10-28 (1) (Update to Payment Standards)

A **RESOLUTION** of the Board of Commissioners of the Housing Authority of the City of Tacoma authorizing the THA Executive Director to increase THA's payment standards.

WHEREAS, HUD sets fair market rents annually; and

WHEREAS, The housing authority sets payment standards based on market and participant data; and

WHEREAS, New payment standards will go into effect January 01, 2021; now, therefore, be it

Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington as follows:

The Board authorizes THA's Executive Director to set THA's payment standards for studios at 90% of the 2021 HUD Fair Market Rents and maintain the current payment standards for all other bedroom sizes.

Approved: October 28, 2020

A blue ink signature of Stanley Rumbaugh, written in a cursive style, is positioned above a horizontal line. Below the line, the text "Stanley Rumbaugh, Chair" is printed.

Stanley Rumbaugh, Chair