

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING Architectural Consultant Services
Roosevelt Homes Six-Plex
AMP 4; Contract No. 13-031

DATE October 24, 2012

Staff requests Board approval to enter into a contract with Blumentals/Architecture, Inc., Minneapolis, in an amount not to exceed \$58,900 for architectural and engineering services for the construction of a six-unit rowhouse at Roosevelt Homes (AMP 4, MN 1-2).

The consultant will evaluate the site and develop construction documents for the new six-unit building after meeting with PHA and City staff and residents. The new rowhouse building will consist of five 2-bedroom two-story units and one 2-bedroom single-level unit that will be accessible for persons with disabilities. The new building will be built on the Ames Avenue site vacated when the original six-unit building was demolished after a fire caused by a natural gas leak in 1980.

The construction budget for the new six-unit apartment building will be \$759,352 (\$126,559 per unit) in accordance with HUD's Housing Construction Cost (HCC) guidelines. About 40% of the construction costs (\$306,021) will be paid from grants provided by HUD's Replacement Housing Factor between 2007 and 2012. Staff hopes that the balance of funding will be provided by a grant from Minnesota Housing in response to the PHA's application submitted in June 2012 under this year's Consolidated Request for Proposals (SuperRFP). The PHA Board approved submitting the funding application for the State's Multi-Family Housing program on May 23, 2012. Minnesota Housing's Board will approve the grant awards at their meeting on October 25, 2012. If Minnesota Housing does not approve the PHA's request, staff will

investigate using other PHA Operating or Capital Fund Program resources. Staff expects that HUD's Minneapolis Field Office will approve the PHA's development application soon after the funding is secured, so the project can begin without delay.

Under the contract Blumentals/Architecture, Inc. will provide all professional architectural and engineering services and a site survey. The contract will call for all construction documents to be completed to allow bidding in late winter of 2012, award of the construction contract at the February 2013 Board Meeting, start of construction in March of 2013 and completion of construction by mid December of 2013.

Five architectural firms submitted proposals to provide the necessary architectural and engineering services. After evaluating all of the proposals on the basis of related experience, technical competence, M/W/DBE participation, Section 3 action plan and cost, staff selected the two highest rated firms for interviews. Blumentals received the highest interview scores and the highest overall evaluation. Blumentals estimated maximum fee was fourth lowest among the five proposals. A summary of the proposal ratings is attached.

Blumentals has previously performed work satisfactorily for the PHA. A copy of the Equal Employment Opportunity Employer Information Report for Blumentals and the second highest-rated firm, Adsit Architecture and Planning, are attached. Blumentals will subcontract 31% of their work to a woman-owned business (WBE) and will either 1) hire Section 3 employees, 2) subcontract 25% of the work to Section 3 companies, or 3) contribute 2.5% of the contract amount to the PHA's Section 3 Training Fund. There is sufficient FFY 2012 Capital Fund Program funding available for this contract.

DAL/mlp

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING Flat Rents in Public Housing

DATE October 24, 2012

Staff recommends Board approval of Resolution No. 12-10/24-2 to increase the current “flat rents” for all public housing units, as explained below. Staff is proposing increasing flat rents by 10% in the coming year, with the goal of further increasing the flat rents over five years until they reach HUD’s published Fair Market Rents (FMRs) for the Twin Cities metropolitan area. However, rather than adopting a firm timetable now, staff is recommending evaluating the results after the first round of higher rents is fully implemented, and then bringing the issue back to the Board for consideration. Staff proposes that the higher flat rent apply to new households moving into public housing on or after January 1, 2013, and to current resident households whose annual recertifications are effective dated January 1, 2013 and later. The only residents who would be directly affected are the 328 households who currently pay flat rents, 183 individuals (7%) in hi-rises and 145 families (9%) in family units.

The flat rents now range from \$400/month including utilities for a hi-rise efficiency apartment (zero-bedroom), to \$1,420/month plus utilities for a six-bedroom scattered site home, as shown below:

Current Flat Rents	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	\$400	\$530	\$640				
Family Development Units Excluding Utilities Costs		\$480	\$540	\$740	\$840	\$980	\$1,130
Scattered Site Family Units Excluding Utilities Costs				\$930	\$1,070	\$1,240	\$1,420

Since family residents who choose the flat rent also pay an additional amount for utilities, the PHA’s flat rents incorporated staff estimates for utility costs as follows:

Utility Cost Estimates for Setting Flat Rents	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	\$0	\$0	\$0				
Family Development Units Utilities Cost Estimate		\$50	\$100	\$100	\$100	\$100	\$100
Scattered Site Family Units Utilities Cost Estimate				\$130	\$130	\$130	\$130

Combining the residents’ flat rent payments to the PHA and the utility cost estimates shown above, the cost of the current flat rents and utilities looks like this, compared to the Fair Market Rents:

Current Flat Rent Plus Utilities	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	\$400	\$530	\$640				
Family Development Units Including Utilities Costs		\$530	\$640	\$840	\$940	\$1,080	\$1,230
Scattered Site Family Units Including Utilities Costs				\$1,060	\$1,200	\$1,370	\$1,550
Fair Market Rents Effective 10/1/2012	\$592	\$736	\$920	\$1,296	\$1,529	\$1,758	\$1,988

Those cost figures for flat rents plus utilities are well below the new Fair Market Rents:

Current Flat Rent Plus Utilities as a Percentage of Fair Market Rents	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	68%	72%	70%				
Family Development Units Including Utilities Costs		72%	70%	65%	61%	61%	62%
Scattered Site Family Units Including Utilities Costs				82%	78%	78%	78%

These low percentages, combined with the current high demand for public housing, prompted staff to offer this recommendation to increase flat rents.

The PHA’s current flat rents were set in 2005, benchmarked at 75% of FMR for units in hi-rises and family developments and 95% for scattered site homes. To help with marketing the hard-to-rent hi-rise efficiency apartment, that flat rent was set at 67% of the FMR. Changes in the FMRs since 2005, based on changes in the rental market and in the FMR formula, have resulted in the differential percentages shown above.

With the recommended 10% increase, and rounding to the nearest \$10, the new flat rents would be as follows:

Proposed Flat Rents (10% Increase, rounded to nearest \$10))	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	\$440	\$580	\$700				
Family Development Units Excluding Utilities Costs		\$530	\$590	\$810	\$920	\$1,080	\$1,240
Scattered Site Family Units Excluding Utilities Costs				\$1,020	\$1,180	\$1,360	\$1,560

Adding in the utility cost estimates from above yields the following amounts for flat rent plus utilities:

Proposed Flat Rent Plus Utilities	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	\$440	\$580	\$700				
Family Development Units Including Utilities Costs		\$580	\$690	\$910	\$1,020	\$1,180	\$1,340
Scattered Site Family Units Including Utilities Costs				\$1,150	\$1,310	\$1,490	\$1,690
Fair Market Rents Effective 10/1/2012	\$592	\$736	\$920	\$1,296	\$1,529	\$1,758	\$1,988

With the recommended increase in flat rents, the new percentages would be as follows:

10% Increase in Flat Rents (Plus Utilities) as a Percentage of Fair Market Rents	0BR	1BR	2BR	3BR	4BR	5BR	6BR
All Hi-Rise Units	74%	79%	77%				
Family Development Units Including Utilities Costs		79%	75%	71%	67%	67%	68%
Scattered Site Family Units Including Utilities Costs				89%	85%	85%	85%

The flat rent is the maximum rent for a household in public housing, if the resident chooses to pay the flat rent instead of income-based rent (30% of adjusted income for rent and utilities).

With the flat rent, a household may pay less than 30% of their income for rent and utilities. The flat rent allows the resident to pay the same fixed amount, with no adjustment of changes in income, for up to three years at a time. The resident and the PHA can forego the detailed annual and interim income redeterminations, verifications and rent changes that are required for residents who pay income-based rents.

Background: Since 1999, federal law has required PHA’s to give public housing residents a “choice of rents”, either paying rent based on their income (30% of adjusted income) or a “flat rent” based on the market value of their unit. Currently about 8% of St. Paul PHA households have chosen the flat rent: 183 (7%) in hi-rises and 145 or (9%) in family units. These numbers are almost identical to a similar review in 2008, but lower than in December 2005 when the Board last approved an increase in flat rents. In 2005 11% public housing households had chosen the flat rent: 301 (12%) in hi-rises and 171 (10%) in family units.

Each calendar quarter staff reviews and reports the number and percentage of public housing households paying flat rent, as part of the Monthly Management Report that is shared with the Board at each meeting. In 2008 staff provided a more detailed informational report to the Board

explaining that the number of flat rent payers had dropped since 2005. Staff did not recommend changing the flat rents in 2008 and the Board took no action.

The premise underlying flat rents is that public housing communities benefit from a mix of resident income levels, because working adults and households pursuing self-sufficiency activities can provide good role models and encouragement for neighbors who do not work and have extremely low incomes. Congress and HUD recognized that households with relatively higher incomes (although still in the low income range) would not stay in public housing and provide that mix of incomes, if the income-based rent formula pushed their rent higher than the cost of a comparable unit in the private market. However, if the goal is to maintain a mix of incomes in public housing, flat rents should be neither too high, which would cause most residents to move out before their income-based rent reaches the flat rent level; or too low, since flat rents lower than market value provide too strong an incentive for higher-income families to stay on, depriving very low income families of subsidized housing.

HUD regulations require PHAs to set flat rents for all units and to review them annually, and to adjust them when necessary to reflect rental market values. Staff has been monitoring the flat rents from year to year and comparing them to changes in the Fair Market Rates as determined by HUD.

When considering whether to recommend an increase in the flat rents, staff took the following factors into account:

- Equity. Flat rent payers are paying less than 30% of their adjusted income for rent and utilities. They are the residents with relatively higher incomes, yet they are getting a “better deal” than residents with lower incomes.
- Demand for affordable housing. The PHA has over 8,000 households on its Public Housing waiting list, which adds new applicants every month; and almost 2,000

households are still on the Section 8 Voucher waiting list, more than five years since applications were last accepted. If families and individuals who can afford to rent decent units in the private market move out because the flat rent increases, more families on the waiting list will receive assistance.

- Potential revenue enhancement. With HUD operating subsidies highly uncertain and reduced by “proration” factors most years, the PHA would benefit from collecting higher rents from the residents who have relatively higher incomes. If current flat rent payers stayed and paid higher flat rents, the PHA would collect additional rent revenues.
- Income mix vs. low-income targeting; potential revenue loss. The original purpose of flat rents was to create or maintain a mix of incomes in public housing. If a higher-income resident moves out rather than paying a higher flat rent, the unit becomes available for an eligible applicant or transferring resident, who is likely to have a lower income. That would offset the potential revenue gains of higher flat rents and reduce the income mixing effect.
- Comparison to Other PHAs. The PHA’s current flat rents for most types of units are similar to flat rents at the Minneapolis Public Housing Agency (MPHA) and the Dakota County Community Development Agency (CDA). Dakota CDA’s flat rents are lower than the Saint Paul PHA’s flat rents for large scattered site units.

Staff discussed the flat rent analysis with the Resident Advisory Board (RAB), which includes the Resident Council officers. The RAB members did not express a strong consensus on maintaining or changing the flat rents. Some RAB participants advocated for raising the flat rents to the FMR over time, while others advised keeping the flat rents at current levels.

If the Board approves the recommended increases, staff will give a written notice to all residents and accept comments for 30 days. Staff will report to the Board if any written comments are received. The flat rent increase would not begin to take effect for current residents until January 1, 2013.

FAH/MW

Attachments: Resolution No. 12-10/24-2
24 CFR Section 960.253 Choice of Rent

**SAINT PAUL PUBLIC HOUSING AGENCY
RESOLUTION NO. 12-10/24-2**

**REVISION TO THE PUBLIC HOUSING
ADMISSION AND OCCUPANCY POLICIES;
FLAT RENTS**

WHEREAS, the Public Housing Agency of the City of Saint Paul (PHA) has in effect Public Housing Admission and Occupancy Policies ("Policies") dated February 23, 2000 as amended; and

WHEREAS, there have been presented and considered at this meeting of the Board of Commissioners staff's recommendation to amend the Policies to revise flat rents in public housing, as required by HUD to maintain compliance with the Public Housing Reform Act of 1998 and related regulations; and

WHEREAS, these changes have been discussed with and are supported by the Resident Advisory Board; and

WHEREAS, the Board of Commissioners finds that the proposed revisions are necessary and appropriate to the administration of the public housing program;

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the PHA as follows:

The Public Housing Admission and Occupancy Policies dated February 23, 2000 as amended are hereby amended to revise the flat rents as shown below, effective January 1, 2013 both for new households moving into public housing on or after that date, and for annual recertifications for current resident households with effective dates on or after January 1, 2013.

CODE OF FEDERAL REGULATIONS

TITLE 24--HOUSING AND URBAN DEVELOPMENT

Sec. 960.253 Choice of rent.

(a) **Rent options—**

(1) *Annual choice by family.* Once a year, the PHA must give each family the opportunity to choose between the two methods for determining the amount of tenant rent payable monthly by the family. The family may choose to pay as tenant rent either a flat rent as determined in accordance with paragraph (b) of this section, or an income-based rent as determined in accordance with paragraph (c) of this section. Except for financial hardship cases as provided in paragraph (d) of this section, the family may not be offered this choice more than once a year.

(2) *Relation to minimum rent.* Regardless of whether the family chooses to pay a flat rent or income-based rent, the family must pay at least the minimum rent as determined in accordance with Sec. 5.630 of this title.

(b) **Flat rent.**

(1) The flat rent is based on the market rent charged for comparable units in the private unassisted rental market. It is equal to the estimated rent for which the PHA could promptly lease the public housing unit after preparation for occupancy.

(2) The PHA must use a reasonable method to determine the flat rent for a unit. To determine the flat rent, the PHA must consider:

(i) The location, quality, size, unit type and age of the unit; and

(ii) Any amenities, housing services, maintenance and utilities provided by the PHA.

(3) The flat rent is designed to encourage self-sufficiency and to avoid creating disincentives for continued residency by families who are attempting to become economically self-sufficient.

(4) If the family chooses to pay a flat rent, the PHA does not pay any utility reimbursement.

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING Section 8 Housing Choice Voucher
Program; Increase Payment Standards

DATE October 24, 2012

Staff requests Board approval of Resolution No. 12-10/24-1 to increase the payment standards for the Housing Choice Voucher Program as shown below. This would be an amendment to the Admission and Occupancy Policies for the Section 8 Housing Choice Voucher Program. With the recommended increases the new payment standards would equal 95% to 108% of increased Fair Market Rents (FMR's) set by HUD for Federal Fiscal Year 2013, effective October 1, 2012. The PHA's current payment standards range from 91% to 108% of the new FMR's; HUD regulations allow housing authorities to set their payment standards between 90% and 110% of the FMR's.

The Section 8 payment standards are the maximum subsidy amount that the PHA can pay for each size of rental unit (by number of bedrooms). The participant pays 30% of monthly adjusted income (minus utility allowances for tenant-paid utilities) towards their rent and the PHA pays the difference up to the contract rent or the payment standard, whichever is lower. If the contract rent stated in the lease plus the utility allowance exceeds the payment standard, the tenant pays any additional costs over the payment standard (subject to the PHA's determination that the rent is reasonable for the unit). The tenant's total payment is limited to 40% of the family's monthly adjusted income at the time of initial move-in but there is no such restriction thereafter.

(Despite its terminology, HUD does not dictate to the rental housing market what the "fair" market value of a unit is. The FMR is simply a reference point used to define subsidy limits for the Section 8 voucher program and other HUD subsidy programs. It is statistically derived from

surveys of large numbers of “standard” rental units in the private market, excluding new and luxury units. The FMRs are adjusted annually for inflation and other factors. For the Twin Cities metropolitan area, HUD now sets the FMR at the 40th percentile of rents, meaning that 40% of standard rental units have rents including utilities at or below that amount. Since the PHA can set its payment standards only between 90% and 110% of the FMR’s, at least half of all rental units have rent and utility costs higher than the FMR.)

The PHA has not changed its payment standards since 2008, when the Board approved an increase for all bedroom size payment standards, effective for FFY 2009. That brought the payment standards for zero-bedroom (efficiency), one-bedroom and two-bedroom units up to 105% and the rest up to 109% of the FFY 2009 FMRs. In the next two years HUD increased the FMRs by an average of 3.0% and 2.8%, then decreased the FMRs by an average of 2.1% for FFY2012.

This year HUD made significant changes in the FMR, raising them for larger units (allowing higher subsidies) and lowering them for small units. As shown on the attached table, the 0-bedroom (efficiency apartment) FMR went down 6.3% to \$592, while the FMR for 4-bedroom units went up 15% to \$1529. The 1-bedroom FMR went down slightly (1.2%) and the 2-bedroom FMR went up a little (1.8%). Staff’s recommendation is to leave the payment standards unchanged for 0-bedroom and 1-bedroom units, and to raise FMRs for the larger units by 1-4% (\$9 – \$73), as shown below:

	0BR*	1BR	2BR	3BR	4BR	5BR	6BR
FFY 13 FMR 10/1/2012	\$592	\$736	\$920	\$1,296	\$1,529	\$1,758	\$1,988
PHA 2012 Pymt Stds	\$640	\$754	\$916	\$1,245	\$1,399	\$1,609	\$1,819
<i>Proposed 2013 Pymt Stds</i>	\$640	\$754	\$925	\$1,282	\$1,455	\$1,673	\$1,892
<i>CHANGE %</i>	0.0%	0.0%	1.0%	3.0%	4.0%	4.0%	4.0%
<i>CHANGE \$</i>	\$0	\$0	\$9	\$37	\$56	\$64	\$73
<i>Proposed PHA as % of FFY 2013 FMR</i>	108%	102%	101%	99%	95%	95%	95%

If these recommended increases are approved, they will be implemented gradually as annual re-examinations take place over the next year. Staff will continue to review the reasonableness of any requested rent increases, to prevent voucher subsidies from artificially inflating the market rents. Staff estimates that monthly HAP payments would increase by approximately \$11,300 (\$135,600 annually) after all of the increases are implemented. The PHA’s budget authority for Housing Assistance Payments (HAP) this year is more than adequate to cover this increase, since expenditures to date have been about \$500,000 below revenues.

HUD requires housing authorities to evaluate their payment standards as part of the annual SEMAP certification. Part of that evaluation is to determine the number of families who are “rent-burdened”, meaning that they are paying more than 30% of monthly adjusted income

toward their share of rent. If more than 40% of families in a particular unit size are rent-burdened, HUD can require the housing authority to raise their payment standards. When staff analyzed the rent burdens of current voucher participants this month, 880 families met the definition of rent-burdened, ranging from 22% of households in one-bedroom units up to 45% of families in four-bedroom units. The recommended increase in the payment standards would alleviate rent burdens for approximately 200 families and bring the percentage of rent-burdened families below 30% for all unit sizes.

Another test of the adequacy of payment standards is the “shopping success rate” of voucher holders who are “shopping” for a unit to rent. Since the PHA issued very few vouchers to families on the waiting list for more than a year, there have not been enough recent lease-ups to compare the current success rate of new voucher holders leasing units to previous years.

However, current market trend data from GVA Marquette Advisors and HousingLink show decreasing vacancy rates in the metro area. That trend means that voucher participants are likely to have increasing difficulty finding units to rent. Increasing the payment standards would make more units available and affordable. Current HUD funding is adequate to cover the HAP costs under the recommended payment standards.

FAH/DJM

Attachment: Resolution
Tables of Fair Market Rents and Payment Standards

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL
RESOLUTION NO. 12-10/24-1

ADMISSION & OCCUPANCY POLICIES FOR THE SECTION 8
HOUSING CHOICE VOUCHER PROGRAM;
CHANGE IN PAYMENT STANDARDS

WHEREAS, the Public Housing Agency of the City of St. Paul (PHA) has in effect Section 8 Admission and Occupancy Policies, dated February 23, 2000 as amended; and

WHEREAS, the Policies set forth the Payment Standards which determine the amount of subsidies which can be paid for the Section 8 Housing Choice Vouchers; and

WHEREAS, HUD regulations require that payment standards be set between 90% and 110% of the Fair Market Rents (FMRs); and

WHEREAS, HUD published new Fair Market Rents for the Twin Cities effective October 1, 2012, increasing the FMRs for large bedroom sizes; and

WHEREAS, there has been considered at this meeting the staff's recommendation that the payment standards be increased for two- to six-bedroom units as shown below, with no change in payment standards for zero- and one-bedroom units;

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the Public Housing Agency of the City of Saint Paul that effective January 1, 2013, the Section 8 Housing Choice Voucher Payment Standards will be the following:

	0 Bedroom	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	5 Bedroom	6 Bedroom
Payment Standards	\$640	\$754	\$925	\$1,282	\$1,455	\$1,673	\$1,892