

Sustainable Rent Structures

Big Water Consulting
NAIHC Legal Symposium



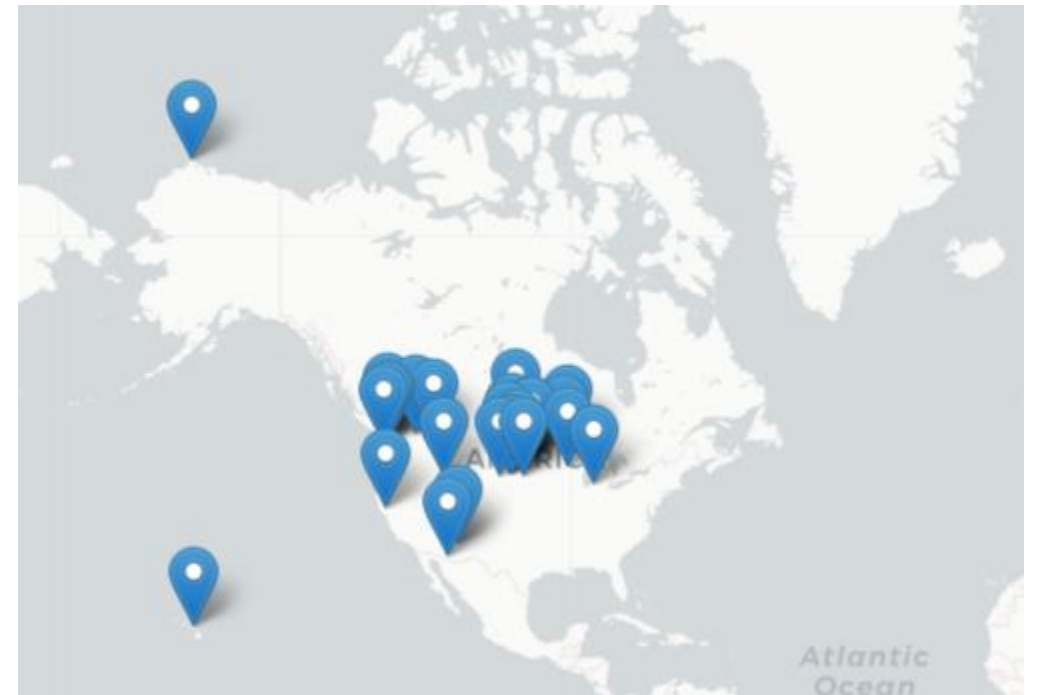
Big Water Consulting

Big Water Consulting, founded in 2011, specializes in helping tribal, governmental and nonprofit clients collect, analyze, manage, share and act on relevant data.

Our goal is to help these organizations, through the development of good data practices, to more effectively monitor and evaluate their work, improve decision making, generate more support and manage more efficiently.

We generally help Tribes and TDHEs with housing needs assessments and have started working to help clients to use their own data to develop more fiscally sustainable rent structures.

Much of the content for this slideshow was developed after conversations with Bob Gauthier, William (Bill) Guevara, Jody Perez, and the Salish and Kootenai Housing Authority (SKHA)



Big Water Consulting



Our Team

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- Research Associate: Rachel Kramer
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- Research Associate: David Dixon



Agenda

- Background on Rent Schedules
- Why Adjust Rent?
 - How does inflation impact TDHE revenues from various sources?
 - What is a regressive rent schedule and how does that hurt revenue?
 - What are your goals for outcomes?
- Implementing a Rent Schedule Adjustment
 - Determining current rental revenue & estimating expense of maintaining/operating housing units
 - Breaking down a rent schedule into manageable pieces and adjusting the parts to match your goals
 - Calculating the projected impacts of rent schedule adjustments and determining if your schedule matches goals
- Roadblocks to Rent Adjustments
 - Group discussion

Background: Rent Schedules

- NAHASDA Rules are flexible:
 - **Maximum** rent of **30% of adjusted income** (25 U.S. Code § 4133)
 - Adjustments exist for:
 - Children, elders, disabled, transportation and medical expenses, earned income of minors
 - Tribes may include additional adjustments (for example, per capita income)
(25 U.S. Code § 4103)
- Otherwise, wide latitude for what rent schedule can look like and they can heavily depend on local factors

Background: Rent Schedules

- Rent Schedules can be flexible, but many fit the following mold:
 - Tenants charged a percentage of Adjusted Gross Income (AGI)
 - Potential utility allowance
 - Often have ceiling rent, by unit size

2019 UNAHA Membership Survey Results

Twenty seven UNAHA Members returned surveys.

<u>Rent Survey</u>	<u>Total</u>	<u>Average</u>	<u>Range</u>
1. Size of waiting list?	3829	142	1 to 533
2. Rent Charged % of		24.8%	30% to 10% (15@30)
3. Provide utility allow	Y 10 N 16	137.10	60.00 to 242.00
4. Ceiling rent?	Y 24 N 2	3 BR 316.13	124 to 995

Source: United Native American Housing Association, 2019 Membership Survey. Courtesy of Bob Gauthier.

Background: Rent Schedule Example

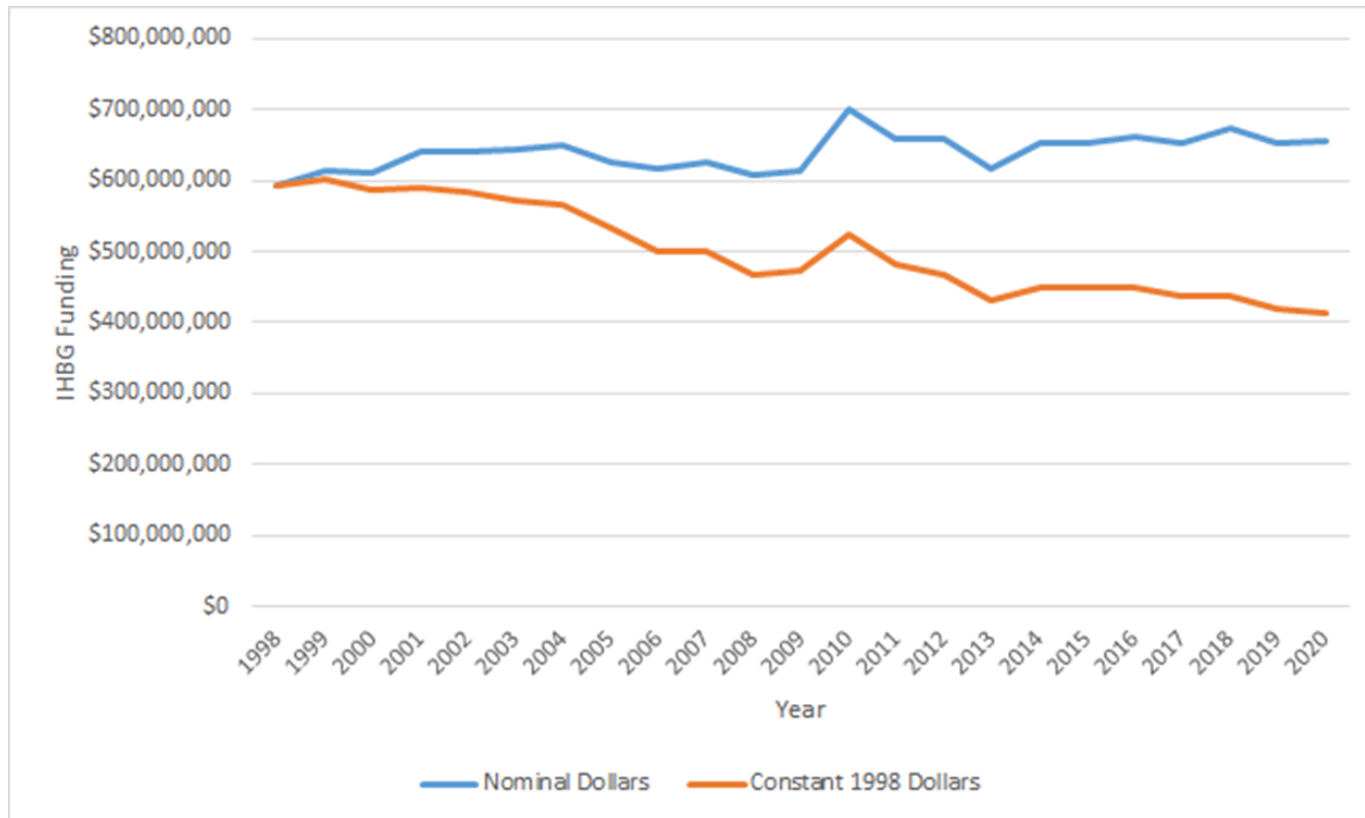
- **Example Housing Authority:**
- A household of 4 in a 3 bedroom that earns \$40,000/year before taxes
 - **Adjusted Gross Income (AGI):** There are 2 children, and they have transportation costs, so they can remove \$480 per child, \$1,300 in transportation costs, and \$2,400 in medical expenses that can be deducted.
 - **Final AGI: \$35,340**
 - The Housing Authority charges 30% of AGI for rent:
 - This is \$883.50 per month
 - **However,** Example Housing Authority currently has a rental ceiling of \$275 for all units
 - The household pays **\$275** for monthly rent

Why Adjust Rent Schedules?

- TDHEs have two large dependable revenue sources (some have more):
 - NAHASDA IHBG Formula Funding
 - Revenue due to tenant rent
- Both of these sources of income can be vulnerable to **inflation**



Inflation & Reduced Purchasing Power

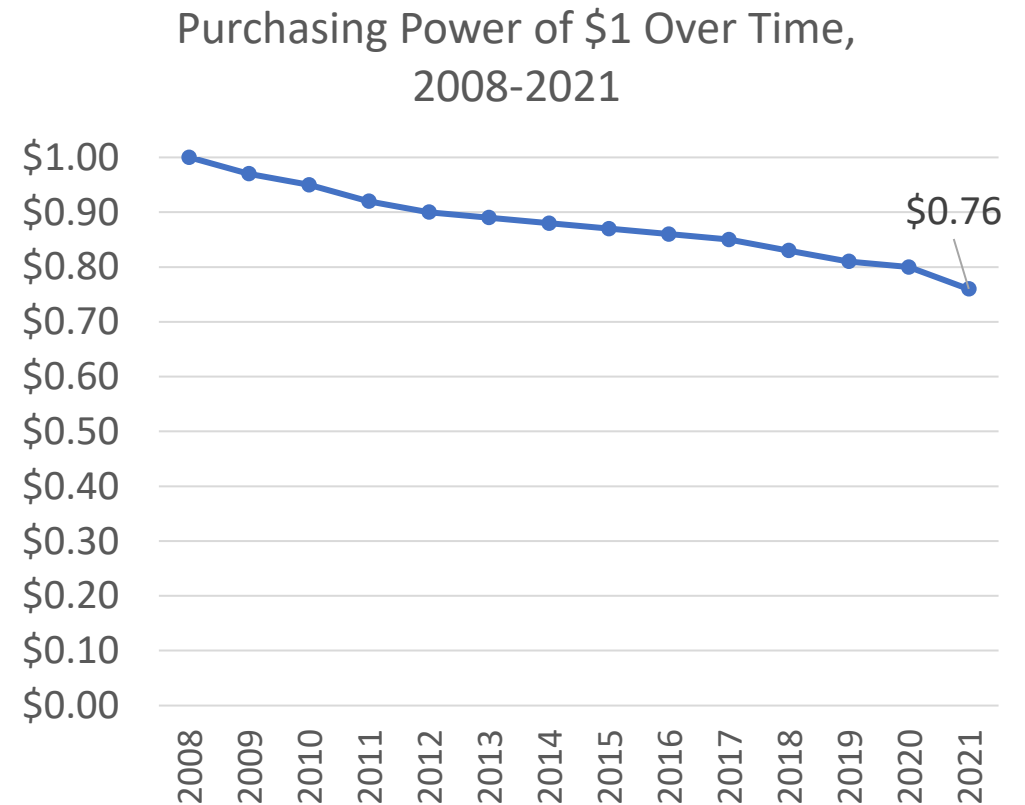


- Reduced purchasing power of IHBG Formula Allocation due to relatively flat funding and inflation
- Inflation leads to a **reduction in purchasing power.**
- This means less money for:
 - Operation & Maintenance of existing units
 - Development of new housing units

Source: Assessment of the Housing Needs of American Indians, Alaska Natives and Native Hawaiians in Washington State, Big Water Consulting, 2021

Inflation & Reduced Purchasing Power

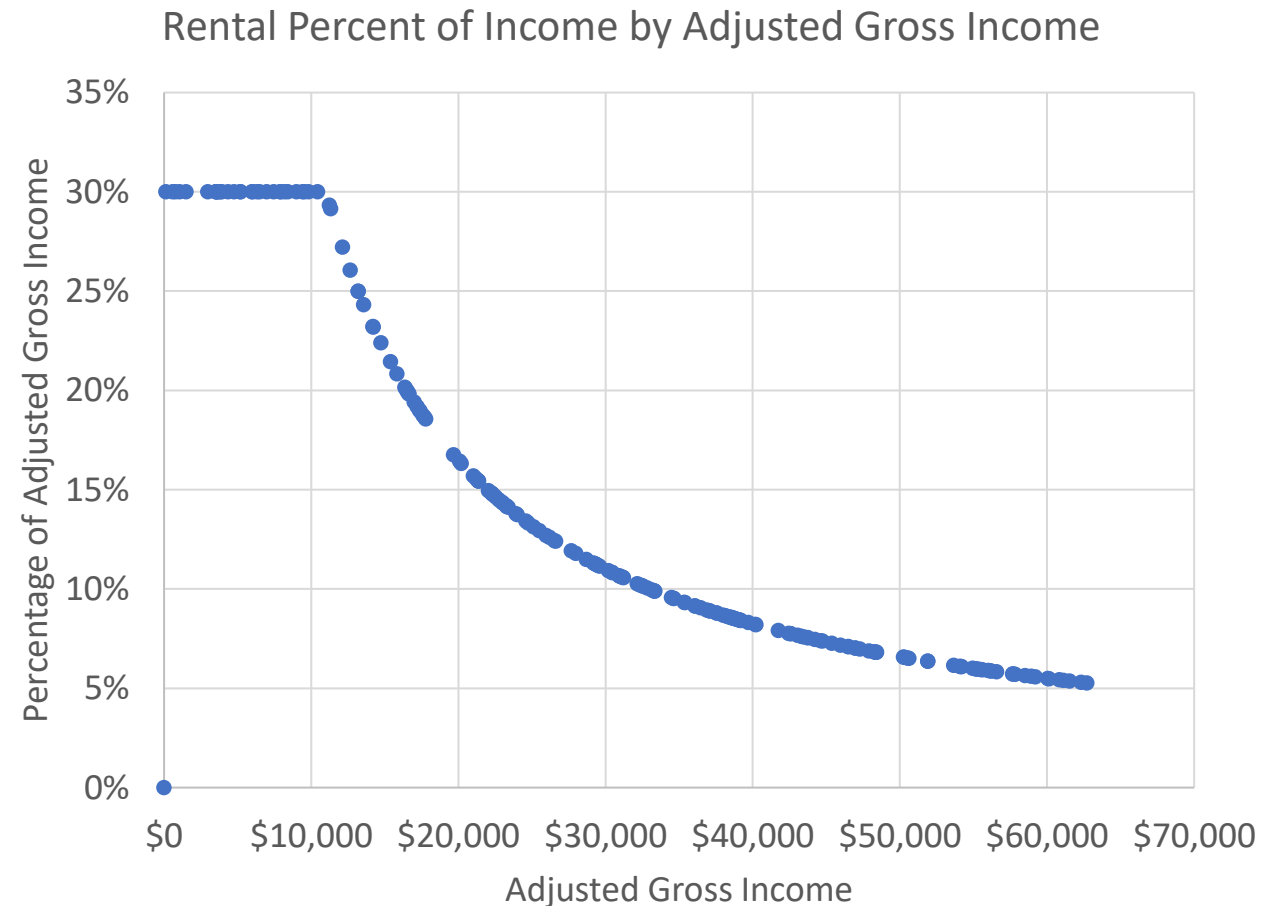
- Similarly, many TDHEs have not changed rent ceilings recently:
 - For example, if a TDHE didn't change rent ceiling since 2008, revenue from households paying the ceiling would **decrease by almost 25%**!
 - For these TDHEs **both** rental revenues and IHBG funding are eroding



Source: https://www.bls.gov/data/inflation_calculator.htm

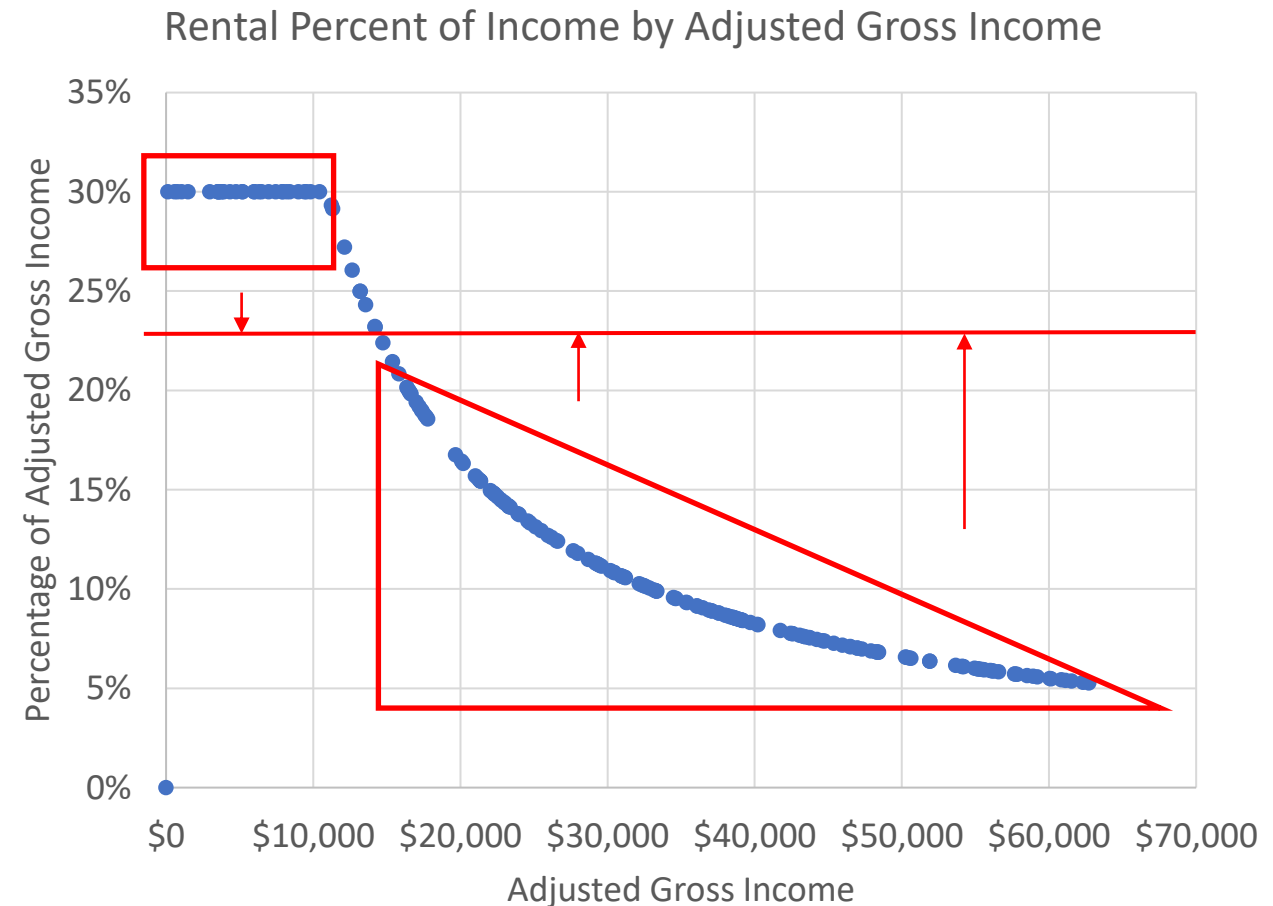
Rent Ceilings Make for Regressive Rent Structures

- In addition to being susceptible to erosion due to inflation:
- Low rent ceilings make for a **regressive** rent structure
 - Renters who earn **the lowest income pay the highest %** of their income towards rent and those that earn the highest income pay the lowest % of their income towards rent
 - Example at right: \$275 rent ceiling
- Can discourage homeownership



Rent Ceilings Make for Regressive Rent Structures

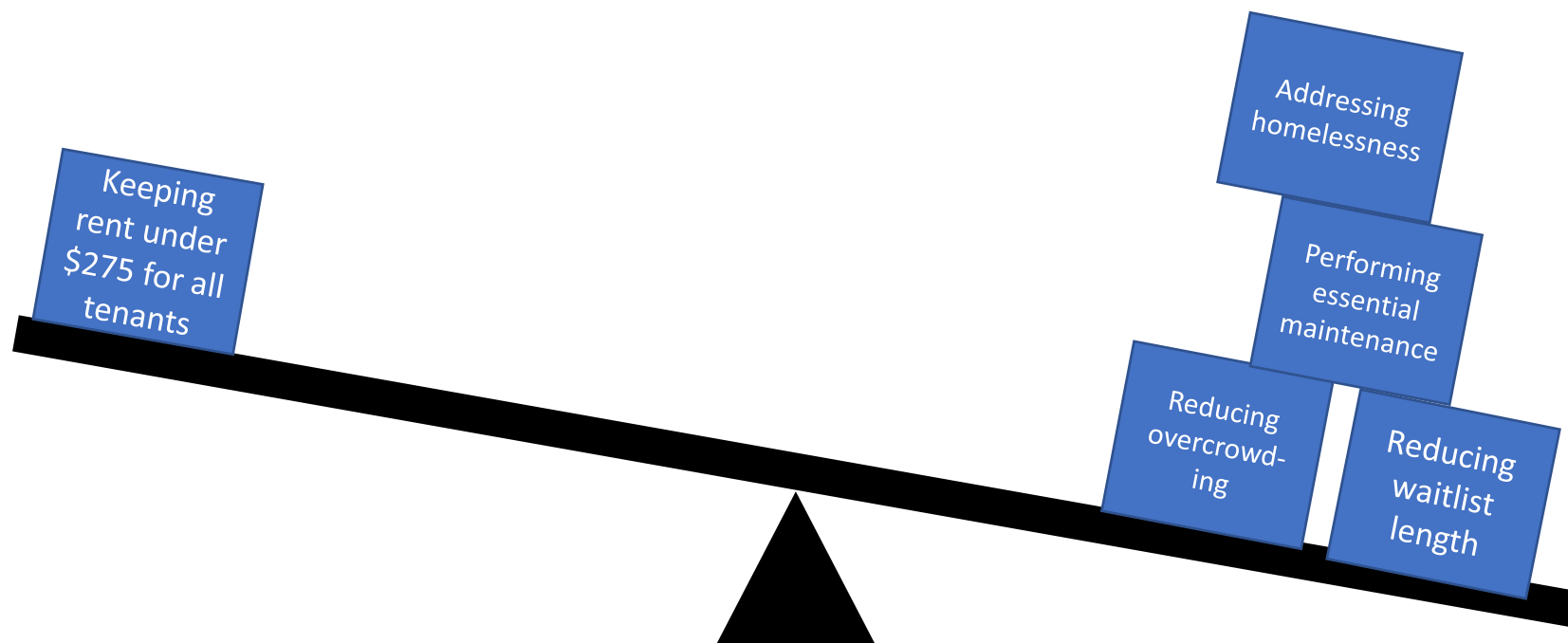
- A regressive rent structure:
 - May seem unfair to lowest income people—those with the lowest income pay the highest percentage of their income
 - Limits revenue
- Potential ways to remedy:
 - Substantially increasing rent ceilings (e.g., to Fair Market Rent)
 - Eliminating rent ceilings
- Example:
 - With this graph showing a **\$275 rent ceiling** and 200 units, current annual revenue is about **\$603,000**
 - Removing rent ceilings, and adjusting rent to **22% of AGI** would increase annual revenue to **\$1.2 million**; (1-2 developed units/year)



Setting Goals

- Tribes or TDHEs should set goals for what they hope to accomplish if considering rent schedule adjustments. Some goals could include:
 - Setting up a more **predictable and sustainable revenue source** relative to inflation (one that will rise with inflation)
 - Implementing a **less regressive** rent structure
 - Collecting **increased revenue** to cover a greater portion of operation and maintenance, so that a greater portion of IHBG and other funding can go towards developing new units and reducing waitlist length
 - **Encourage homeownership** and wealth-building among upper-income tenants by charging them rents closer to what a mortgage would cost
 - **Balancing local resources with needs**
 - Balancing needs of current tenants with needs of people on the waitlist

Setting Goals: Balancing Needs



A silver key and a green paper cutout of a house are placed on a corkboard background. The key is positioned vertically on the left side, and the green house cutout is on the right side. The text "Implementing a Rent Schedule Adjustment" is overlaid in white on the corkboard.

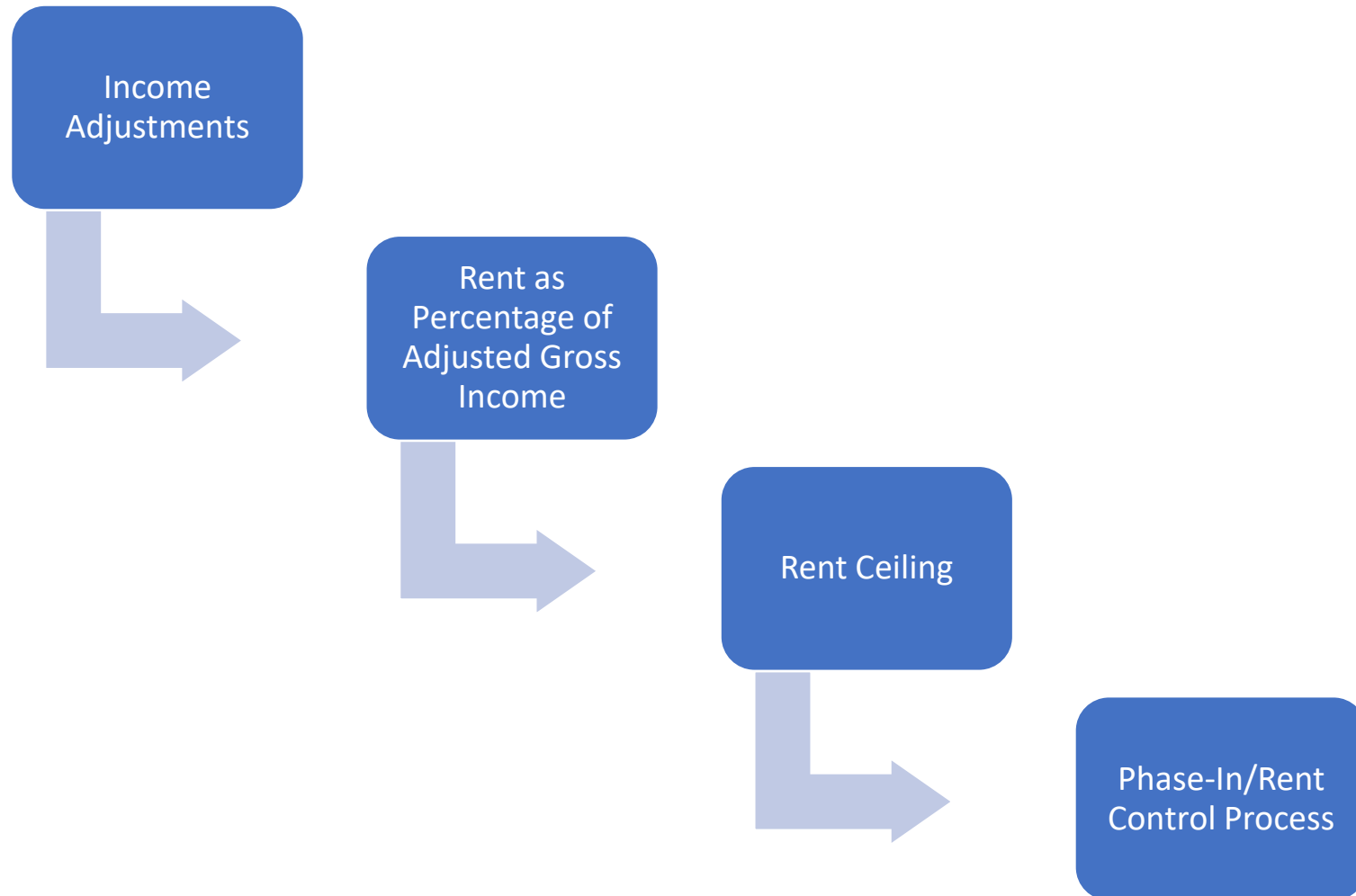
Implementing a Rent Schedule Adjustment

Current Revenues and Expenses

- First, Determine **Revenues and Expenses**
 - Exporting ledgers to Excel is helpful
- Example of how to determine expenses at right, but this can vary

Unit Size	3 Bedroom
Insurance	\$300.00
Maintenance	\$2,000.00
Utilities (Water, Sewer, Garbage)	\$700.00
Taxes or PILOT Fees	\$100.00
Security	\$100.00
Vehicles	\$200.00
Heavy Equipment	\$60.00
Payroll and Professional Expenses	\$4,000.00
Note and Interest Expenses	\$400.00
Annual Cost Per Unit, 2019	\$7,460.00
Monthly Cost Per Unit	\$621.67
Vacancy Rate (5%)	\$31.08
Monthly Cost Per Unit, Given Vacancy Rate	\$652.75

Rent Schedule Parts



Income Adjustments

- Maintained at Current Rates (Set in 1996)
- Local Adjustments
- Adjusted for Inflation

Rent as Percentage of Adjusted Gross Income

- 30% AGI (Maximum)
- 22% AGI (To account for utilities)
- Alternatively, Utility Allowance

Rent Ceiling

- Cost Recovery
- Current Ceiling, with Inflation Adjustment
- 80% FMR
- 100% FMR

Phase-In/Rent Control Process

- 7% + Inflation every year
- \$50/year

Income Adjustments – What Could AGI Include?

Decisions:

- TDHE may **not** charge more than **30% of adjusted income**
- Adjustments **must** exist at specified levels for:
 - Children, elders, disabled, transportation and medical expenses, earned income of minors
- TDHEs **may include additional adjustments** (for example, per capita income)
- TDHEs may also consider increasing existing adjustments to account for inflation

Income Adjustments – What Could AGI Include?

Year	Youth, Students, and Persons with Disabilities	Elderly and Disabled Family Member	Travel Expenses
1996 Base Adjustments	\$480.00	\$400.00	\$1,300.00
2021 With Inflation	\$811.03	\$675.86	\$2,196.55
Difference (2021 vs. 1996 - 40.82% increase)	\$331.03	\$275.86	\$896.55

Potential decisions:

- Add per capita payments to AGI
- Add inflation to adjustments

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Rent as Percentage of Adjusted Gross Income (AGI)

- Maximum 30% of AGI
 - This upper limit may leave some households cost-burdened (or paying more than 30% of their income towards rent and utilities.)
- Example alternatives:
 - 22% AGI – Would likely allow households to pay for rent and utilities without burden (assuming LIHEAP paying a significant portion of utilities as well). You can calculate what this number would be for your local area given incomes and utility costs.
 - 30% AGI with utility allowance – May require significant overhead to track payments; some TDHEs have had issues with issuing allowances then having issues with utilities getting shut off and resulting damages.

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Rent Ceiling Approaches

- A pure **cost-recovery ceiling** would limit TDHE's ability to charge beyond what it costs to operate & maintain a unit
- A ceiling that accounts for the **inflation** that has occurred since the last rent increase could be reasonable if the original ceiling was developed in sound ways
- Using HUD **Fair Market Rents** to determine rent ceilings would ensure no household is paying more than Fair Market Value for their home

Rent Ceilings Example

Unit Size	Current Rent Ceiling	Potential Rent Ceiling Option One, Cost Recovery Ceiling	Potential Rent Ceiling Option Two, Current Ceilings, Inflation Adjusted from 2008 to 2021	Potential Rent Ceiling Option Three, 80% Fair Market Rent, Clark County Nevada, 2022	Potential Rent Ceiling Option Four, Fair Market Rent, Clark County Nevada, 2022
3 Bedroom	\$275.00	\$652.75	\$387.26	\$1,381.00	\$1,727.00

- Rent ceilings exist to make sure low-income households aren't paying too much for housing and may allow higher low-income families (60% AMI+) to save for a down-payment and homeownership costs
 - Setting ceilings too low may discourage homeownership

Rent Ceilings

- Completely eliminating rent ceilings is a possibility too
- For long term sustainability, it is **essential that any rent ceilings are adjusted annually for inflation**
- Fair market rents, available from HUD's website, are adjusted annually for local conditions, and reflect inflation/market conditions

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Phase-In/Rent Control Process

- Purpose: avoiding cost-shock to tenants so rents don't increase by 1.5x-2.4x in one year
 - Note: Rent would stay below 30% AGI even without phase-in
- Option 1: Modeling off existing rent control measures that were deemed fair
 - Oregon's Legislature agreed to 7% + inflation as rent control
 - I.e., with 6.2% inflation, this would be 13.2% or \$36.30
- Option 2: Using local insight into what is a reasonable increase: e.g., \$50/year in rent
 - I.e., somebody paying \$275 would pay, at most, \$325 the next year
 - This number (for example \$50) should also be adjusted for inflation

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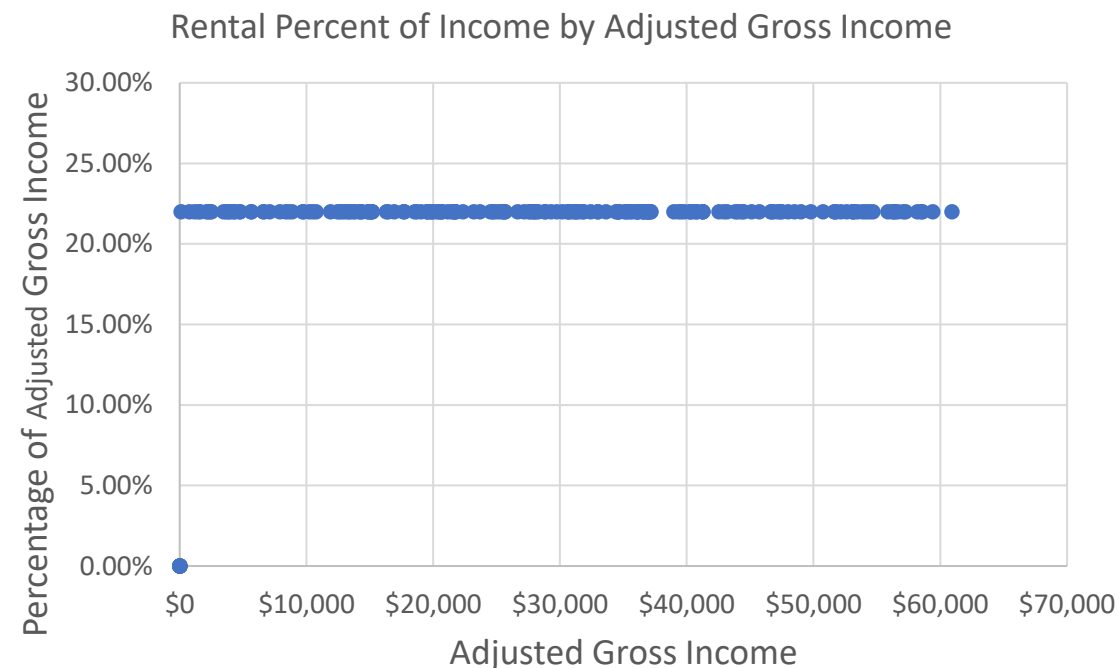
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Resulting Flat Rent Schedule

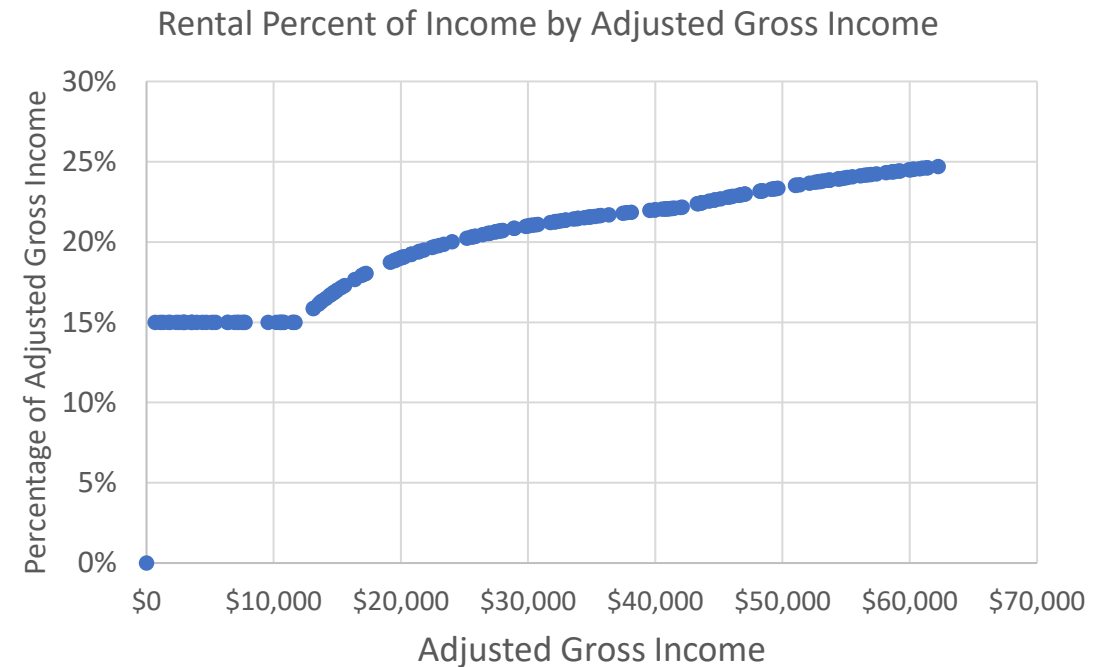
After potential phase-in:

- Due to high rent ceiling everyone pays 22%
 - Except people making \$0 who pay \$0
 - (80% FMR is \$1,381)
- Would raise **\$1.23 million/year**
 - Increase of \$627,000 or 1-2 units/year depending on TDC
 - This is for a 200-unit Example Housing Authority
 - Example household with two adults and two children now has an AGI of \$32,582 and pays \$597/month in rent (22% of AGI)



Alternative Rent Structure: Progressive Rent

- Given your department's capacity and goals, you can also consider a **progressive rent structure**
 - Consider using income taxes as a model. For example:
 - 15% of every dollar earned up to AGI of \$12,000 goes towards rent
 - \$150 + 25% of every dollar earned at an AGI of \$12,000 to \$42,000 goes towards monthly rent
 - \$775 + 30% of every dollar beyond \$42,000 goes towards rent
 - Raises **\$1.21MM** (graph at right)
- This may require staff capacity and time to calculate
 - You may consider additional adjustments for household size
 - Rates should depend on local income/costs factors which may require a larger needs assessment study





Calculating & Reporting Impacts

Calculating Impacts

- Using data collected, and renter income, calculate projected impacts of your rent schedule
- Determine whether it meets your goals
 - If not, review and start over



Proposing Changes to Your Board

- Ground the discussion in **balancing the needs of those currently in housing with those on the waiting list**
- Use **data** to help make points:
 - Report estimated dollar figure impacts and discuss the impacts of increased revenue (e.g., numbers of potential new housing units over next five-years)
 - Does your proposed change better address the issue of inflation?
 - Does your proposed change reduce regressive rent (lowest incomes paying highest % of income)?
- Will a phase-in process reduce potential burden to families?
- Will rents decrease for some while increasing for others?
- Can you bring in your entity's mission or recent Council resolutions?

Final Discussion: Anticipated Roadblocks



Discussion: Roadblocks and Problem-Solving

- The process of adjusting rent is not straightforward:
 - What is your current rent structure and are you considering altering it?
 - What are some roadblocks you have experienced in the past, or what roadblocks do you anticipate to making rent adjustments?
 - How can we, as a group, help problem-solve to address some of these anticipated roadblocks?

Thank You

Thank you to Bob Gauthier, Bill Guevara, Jody Perez, and SKHA for sharing your valuable insight.

Time for questions

Contact us:

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