

## Income and Rent in Committed Affordable Housing Apartments

### INCOME

The vast majority of housing programs that have income targets utilize the Area Median Income (AMI), based on Census data and Census Projections, to set the maximum income allowed for a household living in that unit as well as the maximum rent that can be charged for that apartment.

The Area Median Income is based the income level for all Households that is in the middle. 50% of households have an income above and 50% have an income below the Area Median Income.

A Household includes all related and unrelated people who live in the household. Generally speaking, most programs include the income of all household members who are 18 or older. Income can include income from a job, a pension, Social Security etc.

The Area Median Income is based on a Metropolitan Statistical Area and Ann Arbor does not have its own AMI, it includes all households in Washtenaw County.

The federal government uses a formula to determine the income limits for all household sizes and income levels. The federal government does not gather information for each household size and then calculate separate Median Income Levels based on what the income levels are for each household size. The Area Median Income is used as the base for the chart below for a household of 4 at the median income level. Every other number in the chart is a formula.

\$92,900 is the Washtenaw County Median Income and therefore, that is the income limit for a 4 person household at the Median Income. A 4-person household at 50% of the Area Median Income is simply  $\frac{1}{2}$  (50%) of the Median Income for a 4 person Household.

A 3- person household is 90% of the number for a 4 person household by household size for that AMI. I.e. \$46,450 is the income cap for a 4 person household at 50% AMI and therefore 90% of that is \$41,850 for a 3-person household at 50% AMI. A 2-person household is 80% of \$46,450 or \$37,200 at 50% AMI. And a 1- person household is 70% of \$46,450 or \$32,550 at 50% AMI

Area Median Income	1 Person	2 Person	3 Person	4 Person	5 Person
30%					
50%	32,550	37200	41,850	46,450	50,200
60%					
80%					
100%				92,900	

The Median Household Income in Michigan is \$67,300. For comparison

There are 3 income Targets Commonly used by federal housing programs: 30% AMI is Extremely Low-Income, 50% AMI is Very Low-Income, and 80% AMI is Low-Income. 60% AMI is often an income target, but it is technically includes within the 80% AMI limit as Low-Income.

The Income limit is the highest amount of income a household can make to be included in that income category. If the household income is \$1 more than the income cap, then the household is over-income for that particular income cap. Every household under that income cap is qualified for that income category. I.e. A 1 person household making \$19,000/year would qualify for any program with an income cap of 30% AMI, 50% AMI, 60% AMI etc.

The chart below shows the income caps for the most common local, state and federal programs that have income caps.

	1 Person	2 Person	3 Person	4 Person	5 Person
30% Supportive Housing, Special Needs, Homeless Voucher	\$19,500	\$22,300	\$25,100	\$27,850	\$30,100
50% Housing Choice Voucher, DDA Housing Fund	\$32,550	\$37,200	\$41,850	\$46,450	\$50,200
60% City PILOT, AAHF	\$39,050	\$44,600	\$50,150	\$55,750	\$61,300
80% LIHTC, City Zoning, Public Housing, Most HUD funded Co-ops, HOME, CDBG	\$50,350	\$57,550	\$64,750	\$71,900	\$77,700
100%	\$65,050	\$74,300	\$83,600	\$92,900	\$102,200
120%	\$78,050	\$89,150	\$100,300	\$111,500	\$122,650

PILOT = Payment in Lieu of Taxes; LIHTC = Low Income Housing Tax Credits; DDA = Downtown Development Authority; AAHF = Ann Arbor Housing Fund

## **FEDERAL POVERTY LIMIT**

For comparison, the federal poverty level uses a different formula. A program that uses the poverty level to determine eligibility would definitely fall within the 30% AMI levels for Washtenaw County.

1 person = \$12,140, 2 person Household = \$16,460, 4 ppl = \$24,100

## **RENT**

Rent can be set in a variety of ways. Below are 2 examples of how to set rent limits.

In the private marketplace, a household can choose to rent any number of bedrooms that they want. A 1 person household can live in a 1 bedroom, 2 bedroom, 3 bedrooms or more. A 4-person household can choose to live in a 2-bedroom, even if that choice was limited by what they can afford.

MSHDA uses the Area Median Income chart for each County (above) and uses a formula to determine rents. And like the AMI chart, MSHDA's formula was not based on actual household sizes living in actual units, it was based on a typical household size for each size unit.

<b>Rent based on # of Bedrooms &amp; Income Target</b>	<b>0 Bedroom (efficiency)</b>	<b>1 Bedroom</b>	<b>2 Bedroom</b>	<b>3 Bedroom</b>
30%	\$488	\$523	\$627	\$724
50%	\$813	\$871	\$1,046	\$1,255
60%	\$976	\$1,046	\$1,255	\$1,499
80%	\$1,302	\$1,395	\$1,674	\$1,933
100%	\$1,627	\$1,743	\$2,092	\$2,416

MSHDA uses a 1 person household to determine the rents for a 0 – bedroom apartment. MSHDA calculates 30% of the income for a 1 person household at 30% AMI to determine the maximum rent for a 1 bedroom unit set-aside for a 30% AMI household. MSHDA calculates 30% of the income for a 1 person household at 50% AMI to determine the maximum rent for a 1 bedroom unit set-aside for a 50% AMI household. And so on.

MSHDA calculates 30% of the income for 1.5 person household to determine the rent for a 1-bedroom apartment. A 1.5 person household is simply midway between the income for a 1-person household and a 2-person household. MSHDA uses a 3 person household to calculate the rent for a 2-bedroom apartment and a 4.5 person household to determine the rent for a 3-bedroom apartment.

The rent limit is a rent cap for developers/owners. It is not a determinant of the household size that lives in that apartment. If a 2-person household wants to live in a 0-bedroom apartment set-aside for a 30% AMI household, then the 2-person household can move into the apartment if they meet the 30% AMI income limit for a 2-person household.

It is important to understand that the rent limit stays the same, regardless of the household that moves in, because it is determined based on a formula not based on the actual income of the household that moves in. The formula tries to be as close as possible to the household size and incomes that are likely to move in. Some families in income and rent capped apartments will pay more than 30% of their income on rent and others could pay less than 30% of their income on rent.

***The ONLY WAY to guarantee that a household is paying 30% of their income on rent is if the household has a tenant-based voucher that they are bringing with them to use at that apartment or if the unit has a project-based voucher attached to it. The voucher will pay the difference between the rent and the tenant's portion of the rent. I.e. if the rent is \$800 and 30% of the tenant's income is \$300 then the voucher will pay the remaining \$500 in rent.***

#### FAIR MARKET RENT (FMR)

A second way to set rent limits is to use the Fair Market Rent, which is calculated by the federal government and published annually. The FMR is based on a market survey of a community's 2-bedroom apartments. The FMR is based on the 40<sup>th</sup> percentile (39% of apartments cost less and 59% cost more) of all 2-bedroom apartments for rent in the community. The survey does not include apartments that are less than 2 years old or apartments that have committed rent subsidized units.

Again, a formula is used to determine the rents for all bedroom sizes, based on the 2-bedroom FMR.

Most Voucher programs use the FMR to determine what is called the payment standard, which is the maximum rent subsidy that the voucher will pay for. The reason the payment standard is used instead of a chart like the one above for MSHDA, is because a voucher household will always pay 30% of their income on rent, and the voucher pays the balance of the rent. So the payment standard sets a limit by HUD on how expensive that apartment can be.

HUD requires the payment standard to be somewhere between 90% to 110% of FMR and each housing authority who administers a voucher program can decide what the payment standard is annually.

Ann Arbor Housing Commission's City of Ann Arbor Payment Standard is 110% of the FMR, which is the maximum allowed. The AAHC's payment standard for the rest of the County fluctuates but is generally the FMR. The AAHC adopted this policy to enable households to have the maximum purchasing power to shop for an apartment in Ann Arbor.

Final FY 2018 FMRs By Unit Bedrooms					
Year	<u>Efficiency</u>	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>	<u>Four-Bedroom</u>
FY 2018 FMR	\$875	\$905	\$1,103	\$1,485	\$1,842
<u>FY 2017 FMR</u>	\$797	\$850	\$1,025	\$1,407	\$1,765

The chart below shows the regional rents for a 2-bedroom apartment in Washtenaw County

