David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Director, City Planning Commission
Janese Chapman
Director, Historic Designation Advisory Board

John Alexander
Megha Bamola
LaKisha Barclift, Esq.
Nur Barre
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen

City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION

208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336

George Etheridge
Christopher Gulock, AICP
Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Kim Newby
Analine Powers, Ph.D.
Jennifer Reinhardt, AICP
Rebecca Savage
Sabrina Shockley
Thomas Stephens, Esq.
David Teeter
Theresa Thomas
Kathryn Lynch Underwood, MUP
Ashley A. Wilson

TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: May 6, 2021

RE: **AMI Report**

Council President Pro Tem Mary Sheffield requested the Legislative Police Division (LPD) to prepare a report regarding alternatives to the City of Detroit's reliance on Area Median Income (AMI) to determine housing affordability, including how and whether changes can be made to the calculation of AMI; whether other municipalities have been able to change their local AMI calculation, and whether Detroit has the authority to use its own AMI calculation to determine affordability on non-Federally funded residential projects.

Background

Housing is considered affordable when one's housing costs is less than 30% of a household's income. The notion of only using 30% of one's household income for housing expenses has been unobtainable for many Detroiters, due to the median income of the average Detroit resident being less than the existing federally established Area Median Income (AMI) guidelines used to determine the affordability of housing in the City.

AMI is the median, or middle, household income based on household size for a specific region as defined by US Department of Housing and Urban Development (HUD) pursuant to section 3 of the 42 U.S.C. 1437, the Housing Act of 1937, as amended. AMI is a general term that is used when Median Family Incomes (MFI)[1] for various geographical locations are adjusted for: family size and areas with unusually

[1] HUD estimates Median Family Income (MFI) for each Fair Market Rent area using median income data in the 1-year American Community Survey (ACS) for places with populations over 65,000. The most recent figures available for median incomes can be

high or low family income. AMI is synonymous with MFI when percentages and adjusted family size are not specified.

The adjustments to MFIs to account for household size and income levels are defined as "income limits," which are expressed as a percentage of AMI. Income limits are represented by 3 income level categories established by the US Housing Act of 1937[2]: Low-income (income does not exceed 80% of AMI), Very low-income (income does not exceed 50% of AMI), and Extremely low-income (income does not exceed the greater of 30% of AMI or the federal poverty guidelines[3]).

HUD calculates income limits based on Census data for the median income of metropolitan and non-metropolitan areas. The metropolitan areas are divided into OMB Defined Metro Areas (established by Office of Management and Budget) and HUD Metro Fair Market Rent Areas (HMFA)[4]. The City of Detroit is a part of the "Detroit-Warren-Livonia" HUD Metro FMR Area. The income limits established for the Detroit-Warren-Livonia HMFA is used for five counties: Wayne, Lapeer, Macomb, Oakland and St. Clair.

The income limits are used to determine eligibility for housing assistance programs subject to 42 USC 1437a(b)(2)[5], including Public Housing, Section 8 project-based, Section 8 Housing Choice Voucher, Section 202 housing for the elderly, Section 811 housing for persons with disabilities programs, and any other government subsidized housing programs.

According to the National Low Income Housing Coalition, the nation has a shortage of more than 7 million affordable homes for more than 11 million extremely low-income families. Only, 1 in 4 extremely low-income families who need assistance receive it and 75% of all extremely low-income families pay more than half their income on rent. In Michigan, about 50% of renters paying more than 30% of their incomes on housing, and about 25% of all renters are severely overburdened, paying at least 50% of their income for housing. Comparatively, only about 20% of homeowners are overburdened.

Area Median Income (AMI) & Affordable Housing

As mentioned before Detroit is a part of the Detroit-Warren-Livonia HMFA. All 5 counties included in the HMFA use the same AMI benchmark to determine housing affordability. Currently, a 2-person household median income is $50,240 or less at 80% AMI; $31,400 or less at 50% AMI; and $18,840 or less at 30% AMI.

In contrast, according to 2019 Census data, Livonia's median household income is approximately $80,000 with only 5.5% of its population living in poverty. Median income is almost $50,000 for Warren,

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found in the 2017 ACS, which was calculated using the data collected in the 2010 Decennial Census. Data regarding median household incomes for all counties in the US can be found in the 5-year Small Area Income and Poverty Estimates (SAIPE). 2020 metro income data (including Detroit median household income) will be released in September of 2021 (HUD-sec8-FY20r.pdf (huduser.gov))

[2] The United States Housing Act of 1937 established the basis for affordable housing. Section 8 of that Act created guidelines for the government to provide rental assistance to lower-income families and individuals. Section 3 of the U.S. Housing Act of 1937, as amended.

[3]Federal poverty guidelines are published by the Department of Health and Human Services. The federal poverty line for 2021 is $17, 420. Extremely low-income is capped by the Very Low-Income limits when poverty line is less than the calculated extremely low income amount. FY2016 Briefing Materials (huduser.gov)

[4] The OMB implemented changes to metropolitan areas definitions in 2006 using data collected in the 2000 Decennial Census, which caused dramatic shifts in Fair Market Rent (FMR) and Median Family Income (MFI). Consequently, HUD created subareas that are exceptions to the new definitions when FMR or MFI changes for metropolitan areas were greater than five percent. The subareas are called HUD Metro FMR Areas (HMFA). HUD has maintained the HMFA subareas, although the five percent qualification no longer exists. Fair Market Rent equals gross rent, which includes the cost of shelter and utilities.

[5] Section 1437a, Rental Payments under Chapter 8- Low Income Housing of the United States Code Title 42- The Public Health and Welfare

with 17.5% of its population living in poverty while the City of Detroit's median household income is approximately $30,000, with 35% of its population living in poverty.

Despite the income variances, the median gross rent rate for all three cities are only separated by a little over $100 for each city. Warren's median gross rent ($939) is $115 more than Detroit's rate ($824) and Livonia's rate ($1,077) is $138 more than Warren's median gross rent rate. Both, Livonia and Warren's median gross rent is below 30% of their median household income amounts, while Detroit's median gross rent rate exceeds its median household income amount.

How can changes be made to the AMI calculation?
Local Municipalities cannot make changes to the calculation of AMI as defined by HUD because the methodology is established by the federal government to create a uniform nationwide standard. However, we have found no specific prohibition to creating a Detroit specific area median income level (Detroit AMI). If created, the Detroit AMI would have very limited applicability and many cases could not be used because of the layering of funding sources. The Detroit AMI could only be used for projects whereby Detroit is the only government entity providing subsidy; there are few instances in affordable housing development where this is the case. It is likely to only apply with market-rate developments that are required to provide affordable housing units because of contractual obligation.

Alternatives to changing the AMI Calculation
Local policy makers can establish alternative policies to create more affordable housing at different income levels by:

- Adding financial and planning incentives for developers such as, zoning variances, fee reductions or waivers, density bonuses, and expedite permit process
- Constructing more mixed-income development, with multiple-income level targeting. For example, 25 % of affordable units at 50% AMI and the other 75% of affordable units at 80% AMI.
- Requiring inclusionary units to accept Section 8 Housing Choice Vouchers
- Setting the affordability term as long as legally permitted
- Leasing city-owned land to developers at a discounted price in exchange for a set aside of 20% - 50 % of units at very- and extremely low-income levels
- Changing zoning restrictions to allow different types and sizes of residential units in zones that presently only allow for the development of single-family residential homes
- Incentivizing developers to build modular and manufactured homes that are cheaper than traditional homes
- Increasing investment in funding for Inclusionary Housing policies
- Creating an Affordable Housing Millage
- Establishing rent control laws (currently, legal at the federal level, but illegal in the State of Michigan. The City can advocate for rent control reform on the State level)

Have other municipalities been able to change their local AMI calculation?
Given that AMI calculations are linked to funding provided by HUD for housing, LPD has found no other cities that have city specific area median incomes but rather have employed other creative policy combinations, as listed above, in order to increase the number of affordable housing units available in their city. A few examples are:

- Los Angeles created the Transit-Oriented Communities program, which gave developers options to create mixed-income developments at 80%, 60%, and 30% AMI near busy transit areas. Los Angeles was able to reduce parking requirements for the developers because households qualifying for low income housing are more likely to use public transportation. As of February 2020, half of the affordable units planned through the program were affordable at 30% AMI.

- Minneapolis requires inclusionary units to accept Section 8 Housing Choice Vouchers, which is beneficial for the community and property owners, since owners can receive fair market rent for units rented to voucher holders, and fair market rent (FMR) may be higher than the maximum rent permitted under the inclusionary housing policy.

- Ann Arbor residents overwhelmingly approved an Affordable Housing Millage on the November 2020 ballot that would generate more than $6 million per year for 20 years to subsidize and create 1,500 affordable housing units for household making 60% or less AMI. The millage will also assist in eviction prevention and help homeless people find and retain housing.

- Montgomery County, in Maryland developed the Moderately Priced Dwelling Unit program, which produced over 14,000 affordable units between 1974 and 2014. However, the initial units only had to remain affordable for 5 or 10 years. As a result, 9,600 units have returned to market rate. In 2004, the county increased the term of affordability to 30 years for ownership units and 99 years for rentals. Making sure affordability rates last as long as legally allowed will ensure affordable housing stock continues to grow over time.

- Charlotte, North Carolina, decided to provide a long-term lease on specific city parcels at a minimal amount ($1,000 annually) if the developer agreed to restrict 50 percent of the units to families earning at or below 80 percent of AMI for a 20-year period. The developers could rent the remaining units at market rate. Development of below-market-rate units is more financially feasible when market rate units are included in the project to increase revenue. As a result, these developments can be less reliant on public subsidies.

Can Detroit develop its own AMI calculation to determine affordability on non-Federally funded residential projects?

As mentioned before, the City of Detroit could theoretically create its own affordable rate separate from the established HUD AMI calculations for non-federally funded residential projects, but it would have limited impact for the reasons stated above. However, if the City follows in the footsteps of Ann Arbor and residents of Detroit votes to pass an Affordable Housing Millage, the City would have flexibility to determine how utilize those funds.

Conclusion

Most developers often rely on federal funding to finance affordable housing units to some degree. Therefore, creating a new version of AMI that would only impact non-federally funded residential projects is less effective in reaching the highest number of residents in need of affordable housing, than other policy options listed in this report.

If there are any other questions or concerns, please do not hesitate to call upon LPD.