M-NCPPC

Montgomery County Department of Park and Planning

THE MARYLAND NATIONAL CAPITAL PARK AND PLANNING COMMISSION

9500 Brunett Avenue
Silver Spring, Maryland 20901

MCPB
Item: D
Date: 7/29/04

Memorandum

TO: Montgomery County Planning Board

VIA: Charlie Loehr, Director

FROM: Bill Mooney, Chief, Enterprise Division (301) 495-2501
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SUBJECT: Employer Assisted Housing (EAH) Program Implementation Strategy and Proposed Annual Rent Increase for Park Houses

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Staff Recommendation: Approve implementation strategy and associated Park House Market Rate Rents for FY 05.

Summary of Recommendations:

- In selecting EAH participants, there will be a policy to strive for the best match between fair market rent and the 30% income target.
- Upper income limits for the EAH program are recommended as $70,000 for an individual and $100,000 for a family.
- For shared housing, only the individual limit will be considered.
- EAH will be implemented over a five-year period.
- Market Rate Rents increase 4.5% with a 3.0% catch-up provision for houses with below market rents.

This staff report brings together the implementation strategy for the Employer Assisted Housing Program and the required action on the rent increases for park housing--which is approved each year at this time by the Board. These items are being presented together to ensure that the relationship between the market rate rents and the EAH program are understood and that the budget implications of the interaction of these two policies are clear as well.

I. NEED FOR RENT INCREASE

Each year Park House rents are adjusted to reflect the adjusted fair market rent for each house. In addition, an additional 3% increase is provided for those units that continue to rent below the fair market value based on the five-year market survey last done in 2001.

II. PROPOSED ANNUAL RENT INCREASE

As part of the implementation of the EAH program, the annual park house rent increases must continue to be considered and set. Attached to this report is the proposed Park House Rent Increase Report for FY 05. Each year at this time, staff presents its annual recommendation on park house rent adjustments to the Planning Board for consideration and approval. For 2005, staff recommends a 4.5% increase in park house rents for occupied units, which is the 2004 voluntary rent increase limit established by the Montgomery County Executive's Office. In addition to the across-the-board increase, some of the occupied units will have an additional 3% increase applied as a catch-up provision under a policy approved by the Planning Board in June 2002.

III. RELATIONSHIP OF MARKET RENT INCREASES TO EAH PROGRAM

Market rents will be used as part of the evaluation and selection process for EAH participation. EAH participants will pay either the fair market rent for the house or 30% of their household income--which ever is less.

Therefore, the following additional guideline is recommended to the EAH Program:

- In selecting EAH participants, there will be a policy to strive for the best match between fair market rent and the 30% target.

This best match policy will enable placement of employees in housing that they can best afford and at the same time will serve to minimize the potential negative budget impact on the property management fund. Until the implementation process has been completed for the first year conversions, it is not possible to determine what the actual budget impacts will be. This information will be provided in the budget submission for FY 06.

IV. TRANSITION OF PARK HOUSES TO EAH PROGRAM

GOALS:

Enhance housing opportunity for income-eligible department employees.

Refocus existing park house program into a contemporary employer-assisted housing program

Convert as many of the Park Houses in the system as possible to the EAH program over the next five years.

TIMELINE:

Implementation is recommended over a five-year period with the following actions in the respective years:

First Year:

- Prepare income eligibility guidelines (attached)

- Prepare inventory of all park houses for suitability for rental "as is" to employees, reuse potential, or for special needs or shared housing. This will not include those houses that are slated to be demolished or those with life tenants or special conditions. Special exceptions based upon unique or extenuating circumstances will also be considered.

- Assess all park houses in inventory to determine which households already qualify for EAH. Those qualifying will be offered the EAH program, which includes the services from Fannie Mae to help tenants work toward becoming homeowners.

- Those occupants not qualifying will be allowed to remain as tenants on a monthly basis until the house is scheduled for transition to EAH. At that time the occupant will be given a twelve-month notice that the property will be converted. Fannie Mae will assist the Department and the tenants throughout the transition period. Special exceptions based upon unique or extenuating circumstances will also be considered.

- As park houses become vacant, evaluate the conversion of each house using one of two processes. (1) If the house has potential for modification that would improve the EAH possibilities, an RFP will be issued to solicit concepts for rehabilitation, remodeling, or other changes: or (2) If the house does not warrant further evaluation it will be advertised for occupancy as soon as practical.

- Develop employee notification/outreach program

- Advertise all currently vacant houses for use in the program
    - Develop program for shared housing and perform "good neighbor" maintenance at Willard Avenue property.

- Identify private and public funding sources/prepare and submit grant proposals

- Work with HOC to develop an REOI to solicit interest in the WSSC buildings on RT 29, the Kovachik House, Clarksburg and the Sam Poole Building, Clarksburg, and houses currently slated for demolition

- The remaining houses that are not currently occupied by EAH qualified employees and that are not ready for RFP or new EAH occupants will be triaged and scheduled for conversion over the second through fifth year of EAH

Years Two through Five:

- Each subsequent year, a percentage of the park houses will be converted through the steps detailed above.

- Criteria will be established for new caretaker housing within the park system that would add to the EAH inventory. Sites will then be identified and evaluated.

VI. INCOME GUIDELINES

In order to determine appropriate guidelines for the EAH program, commonly used financial mortgage guidelines were studied. These guidelines are related to the County's median household income, which is $79,115 (2003 Census Update).[1] and typically stipulate that a family at the median household income can purchase a house with a mortgage as reflected in the following mortgage calculator chart:

How much do I qualify for?

	Conservative Estimate			Aggressive Estimate		
Debt Ratio	28 / 36	28 / 36	33 / 38	35 / 41	42 / 42	45 / 45
Down Payment	5 %	10 %	20 %	5 %	10 %	20 %
Max Property Value	$ 232,300	$ 250,938	$ 348,025	$ 292,003	$ 379,938	$ 477,610
Down Payment Amount	$ 11,615	$ 25,094	$ 69,605	$ 14,600	$ 37,994	$ 95,522
Mortgage Amount	$ 220,685	$ 225,844	$ 278,420	$ 277,403	$ 341,944	$ 382,088
Mortgage Payment	$ 1,395	$ 1,427	$ 1,760	$ 1,753	$ 2,161	$ 2,415
Property Tax (1)	$ 207	$ 224	$ 310	$ 260	$ 339	$ 426
Property Insurance (1)	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50
PMI (2)	$ 147	$ 98	$ 0	$ 185	$ 148	$ 0
Association/Misc Fees	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total Housing Payment	$ 1,799	$ 1,799	$ 2,120	$ 2,249	$ 2,698	$ 2,891

(1) Property Tax and Property Insurance are monthly amounts.
(2) Private Mortgage Insurance

Housing choices in Montgomery County will be very restricted if an employee remains in the conservative range and has a limited down payment. After consideration of the ranges of income within our employee base, and considering factors such as the value of "eye on the parks" and employees living close to their work, staff recommends that income limits be set which enable a wide variety of employees to qualify for EAH.

[1] Although the *Area Median Household Income* is frequently used for government housing programs, the most recent Median Household Income for Montgomery County was chosen as the most appropriate for this program.

Therefore, the following specific guidelines are proposed. These guidelines reflect the Department's purpose to provide Employer Assisted Housing.

- Upper income limits for the EAH program are recommended as $70,000 for an individual and $100,000 for a family.
- For shared housing, only the individual limit will be considered.

SUMMARY RECOMMENDATION: Approval of proposed schedule of rents which includes:

- a 4.5% increase in the rental rates for occupied units that are at or below the adjusted fair market value rent for each unit.
- an additional 3% increase for those units that continue to be rented below fair market value.

Executive Summary

This proposed schedule of rents reflects the current Commission policy of establishing rental rates at fair market value. Staff presents its annual recommendation on park house rent adjustments to the Planning Board for your consideration and approval. For 2005, staff recommends a **4.5% increase** in park house rents for occupied units. 4.5 % is the 2004 voluntary rent increase limit established by the Montgomery County Executive's Office (MCEO).

The attached schedule of rents for 2005 reflects the recommended 4.5% increase in rental rates for most units along with a commensurate increase in the adjusted fair market rental values ("market value") established by Legum & Norman ("L&N"), the Commission' s rental management company for residential units. This is consistent with our practice of performing full market surveys every five years and adjusting the market rental values in the intervening years using the MCEO voluntary guideline. The last market survey was performed by L&N in 2001.

A selected number of occupied units that have rental rates below the adjusted fair market value will experience an additional 3% increase as a catch-up provision approved by the Planning Board in June 2002. To ensure that the catch-up provision is serving to close the gap between current rental rates and market values at an actual 3%/year, the 3% increase is a factor of the newly adjusted market values for 2005 not the current 2004 rental rate.

Background

Park house rent increases are implemented on an annual basis near the beginning of each fiscal year. In recent years, the amount of the increase has been established by applying the voluntary annual rental increase limit ("guideline") established by the Montgomery County Executive's Office ("MCEO").

Formal market surveys are conducted on five-year cycles to assess the current fair market rental value ("market value") for each unit. These surveys take into consideration rental rates for comparable units, market trends, as well as the features and relative condition of each unit. Legum & Norman conducted the most recent market survey in 2001.

Based on the results of the market surveys, a new market value is established for each unit. In most cases, the new market values are higher than those previously observed as well as the actual rental rates being paid by the tenants. In some cases where there have been major improvements or repairs performed to the unit since the last market survey, the difference between current rental rates and new market value can be substantial.

Between cycles, the market value for each unit is adjusted on an annual basis in accordance with the MCEO guideline. For 2005, the MCEO has recommended a maximum increase of 4.5%. Accordingly, the market values for 2004 will be increased by 4.5% for 2005.

The MCEO guideline is also applied each year in establishing the proposed increases in the actual rents ("rental rate") being paid by the tenants. The effect of such a practice is that, absent some form of catch-up provision, any rental rates that are below market value as a result of the last market survey will remain so indefinitely, until such time as the unit is vacated and brought up to market rate.

In June 2002, staff recommended, and the Planning Board approved, a catch-up provision whereby any unit that was being rented below market value could be assessed up to an additional 3% annual increase until such time as the rental rate caught up to market value, including any allowable discounts for employees. Therefore, the recommended FY05 increases for selected units will be in excess of 4.5%.

For the above affected units, the actual percentage increase in addition to the base 4.5% increase will be more than 3% of the current rental rate. To ensure that the catch-up provision is serving to close the gap between current rental rate and market value at an actual 3%/year, the 3% increase is a factor of the newly adjusted fair market value for 2005, not the current 2004 rental rate.
Even with the 3% catch-up provision, rental rates for five non-employee and six employee-occupied units will not reach the full, adjusted market value (minus 7% payroll deduction discount for employees) prior to the next market survey in 2006.

Employee and Non-Employee Discounts

As explained above, a number of the rental rates for 2005 will continue to lag behind the adjusted market value for the units due primarily to the disparities that arise as a result of the market surveys conducted every five years.

Per Practice 6-50 all non-employee occupied units are to be rented at full market value. Employee occupied units are allowed an across-the-board discount of 7% off market value due to the savings the Commission realizes by collecting the rents through payroll deduction. Other discounts have been allowed for park related duties associated with living in the unit, and other factors including nuisance factors for units in busy park areas or tenant provided maintenance of the unit over and above what is normally required in the lease.

Rent discounts for employees totaling more than 20% are considered a taxable fringe benefit and are prohibited under Practice 6-50. In June 2002 when the annual rent increase recommendation was brought to the Board, there were two employee occupied units with rent discounts in excess of 20%. Board action at that time corrected the situation by increasing the rental rates for the two units to a level 20% below market value. With the 3% catch-up provision, those two units will be at 14% below market value for 2005.
Staff has determined that no current employee tenants are eligible for rent discounts in excess of 7% and, and therefore will continue to apply the 3% catch-up provision to the above two units as well as any others that have rent discounts in excess of 7%.