Rural Voices

Winter 1997-98, Vol. 3, No. 2
The Magazine of The Housing Assistance Council

HOUSING AND ECONOMIC DEVELOPMENT

Also in this issue...

- Moving from Housing to Economic Development
- Q&A with Nicolas P. Retsinas
- Funding Issues for Section 515 and Rental Assistance

... and more

HAC

MESSAGE TO OUR READERS

Dear Friends:

Housing problems and economic problems go together in rural America. It often seems like a good idea to tackle both at once, but how? To what extent can housing development itself stimulate a local economy? What are the risks and rewards for a housing organization expanding into job creation, employment training, or business activities? This issue of Rural Voices *includes two articles addressing these important questions.*

First, the cover story examines the many positive economic impacts of housing development and suggests a number of economic activities that fit well with housing endeavors. The second article explores factors a housing organization should consider in deciding whether to venture into economic development.

Other timely subjects are included in this issue as well. A range of topics is covered in an interview with Nicolas P. Retsinas, until recently a top official at the Department of Housing and Urban Development and now the director of the Joint Center for Housing Studies at Harvard University. An expanded View from Washington examines the impact of the Clinton Administration's proposed budget on the Rural Housing Service's programs that serve the poorest rural residents by producing low-cost rental housing and assisting tenants with rent payments.

If you have suggestions or comments about Rural Voices, *please do not hesitate to contact us or the magazine's editor at the address or phone number shown on the back cover.*

Richard W. Lincoln
Chairman

Peggy R. Wright
President

Moises Loza
Executive Director

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Cover: Lower Valley Housing developed this rental housing for farmworkers in El Paso County, Texas.
Photo by Surabhi Dabir, Housing Assistance Council.

HAC FACTS

Notes about some of the many recent activities, loans, and publications of the Housing Assistance Council

NATIONAL RURAL HOUSING CONFERENCE TO BE HELD IN DECEMBER

Dana Jones, executive director of Tri-County Community Development Corp., was keynote speaker at the 1996 National Rural Housing Conference.

HAC will sponsor the 1998 National Rural Housing Conference titled "A Place for Everyone" on December 9-12 at the Omni Shoreham Hotel in Washington, D.C. The conference, held every two to three years, attracts more than 700 participants to learn about current issues and network with others from around the country concerned with rural housing.

For more information about the conference, sponsorship and exhibit opportunities, contact the Housing Assistance Council by phone at 202-842-8600 ext. 47 or by e-mail at nrhc98@ruralhome.org, or visit http://www.ruralhome.org. Registration will begin August 1.

HAC EXPANDS WORK IN TEXAS

With generous support from the Meadows Foundation, HAC has started an expanded program to support affordable housing in rural Texas. HAC's new Texas Rural Housing Capacity Fund will be awarding small grants to rural housing nonprofits. HAC also is seeking to make more seed money loans in the state. For a grant application, contact LaShelle Lucas in HAC's national office or visit http://www.ruralhome.org; the deadline is May 1, 1998. For information on loans, contact Lourdes Antezana in HAC's national office or e-mail cdd@ruralhome.org.

HAC loans will help local developers improve housing opportunities for residents of homes like this in Texas. *Photo by Surabhi Dabir, HAC.*

RENTAL UNITS TO BE CREATED ON CHEYENNE RIVER SIOUX RESERVATION

A HAC loan of $14,443 will help Oti Kaga, Inc., to develop 20 rental units in Eagle Butte, S.D., on the Cheyenne River Sioux Reservation, an area of chronic low income and unemployment. The loan will enable Oti Kaga to obtain an option to purchase a building site and cover pre-development "soft costs." The nonprofit has applied for development financing from the Rural Housing Service's Section 515 rural rental housing program and Low Income Housing Tax Credits. Eventual tenants will be low-income students attending a nursing program in Eagle Butte, most of whom have children.

Typical housing on the Cheyenne River Sioux Reservation, where a HAC loan will help develop new rental units. *Photo by Leslie Strauss, HAC.*

REPORT EXPLORES WAYS TO LINK HOUSING AND SERVICES

Meeting the social service needs of low-income tenants or homeowners in rural areas poses special challenges. Few social service providers exist in these areas, and many rural communities lack the capacity to design and attract program resources. A new HAC report describes eight local rural programs through which housing development and social service organizations have successfully connected permanent housing with such social services as job training and placement, welfare and other income maintenance programs, and health care, among others. *Linking Rural Housing and Social Services: Case Studies*, ISBN 1-58064-082-6, is available for $5.

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HOUSING AS ECONOMIC DEVELOPMENT

Construction at the Park Meadows Subdivision in Harlingen, Texas, developed by the Harlingen Community Development Corp. with financing and technical assistance from the Rural Development Finance Corp. *Photo by Corinne Chacon, RDFC.*

by Gordon F. Goodwin

By and large, we rural development practitioners tend to describe ourselves according to the specialty we operate in: housing or economic development. Rural community development corporations (CDCs) – the front-line institutions for creating socioeconomic change – are finding out that housing is economic development. It has very clear job creation and retention impacts – just as enterprise development does. These CDCs are also developing some ingenious ideas about how they can use their housing experience as a base to expand their activity to include enterprise development.

Rural Development and Finance Corporation (RDFC) has helped communities articulate their development agendas and secure technical and financial assistance for over 20 years. A good deal of our housing experience is from Texas's Lower Rio Grande Valley. The CDCs we work with in the Valley all play an important role in enhancing the quality of life in their communities. The following is a bit of what I have observed about the power of the housing industry undertaken by these CDCs and some ways they are thinking about leveraging their power to enhance economic opportunity for their people.

Primary Job Creation Impacts from Housing

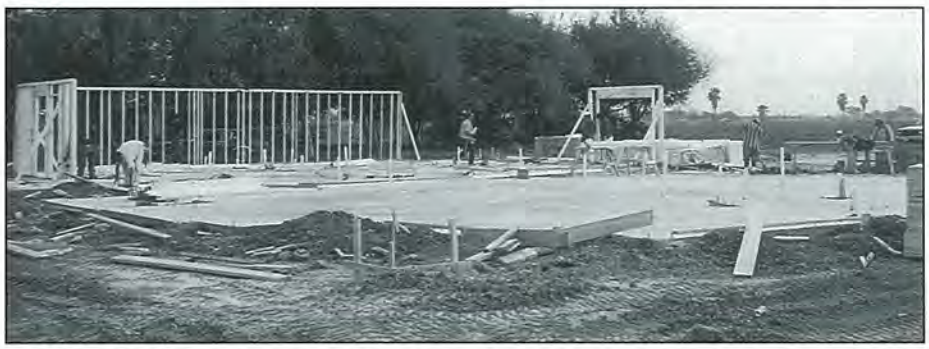
To assess housing's impact as an employment generator, follow the housing dollar as it is spent by the nonprofit houser. The following items are directly related to the building and rehabilitation of housing. Numerous jobs and industries are involved in any one transaction at this level.

- **Employee wages and benefits.** CDCs and nonprofits hire staff to carry out their housing construction strategies. The best of them hire people directly from the communities they serve. The average wages paid in the nonprofit sector are usually above the area median income. In addition, the employing organization pays providers of employee benefits. When applicable, county and local payroll taxes are also paid, supporting local governments, which are usually among the better paying employers in rural areas.
- **Land purchasing.** Securing a site almost always involves purchasing land and paying fees to real estate brokers, legal professionals and title search companies – businesses that pay substantial incomes. Fees are also paid for tax registration to local units of government.
- **Site preparation.** Preparing a site for development sometimes involves hiring architects or engineering firms to develop housing designs. It may also include hiring environmental engineers, Low Income Housing Tax Credit packagers and other specialized professionals. These jobs usually pay well in excess of area median incomes.
- **Local permitting.** Permit fees paid to county, local or state governments support local government workers and are key sources of earned income for public treasuries.
- **Construction financing.** Banks that provide construction loans make income from origination fees, application fees, closing fees, and interest paid on the loans.
- **Materials purchasing.** The lumber, bricks, mortar, paint, tile, drywall, etc. that go into the structures being built or rehabilitated are usually purchased from locally owned materials suppliers who hire local people. In many cases, local sales taxes apply.
- **Labor and contractor payments.** Electricians, carpenters, drywall installers, grading crews, plumbers, septic and well water workers, roofers, and other skilled workers are generally paid wages at or above the median area income. In some cases, they also pay local income taxes. Their purchases of lunches and other sundry goods increase sales for local businesses.
- **Utility service connection payments.** Road paving, electric, sewer or septic, water and cable services all have an income stake in new housing or the upgrading of existing service. Whether they hire their own staffs or use local contractors, utilities represent some of the better paying employers in rural areas.
- **Mortgage financing.** When ownership housing is developed, the final stage for the developer is selling properties

Children in San Elizario, Texas, sit on a plaza where economic development is planned to accompany housing improvements in the surrounding colonias. *Photo by Surabhi Dabir, HAC.*

to individual families. Often purchasers receiving bank financing do not have a prior relationship with a bank. By building housing, nonprofits create customers for banks and mortgage companies. Banks also benefit from financing and application review fees and interest income.

These factors reflect significant employment benefit. But the impact of the housing dollars expended by CDCs does not end here.



RDFC provided funding to help the Harlingen Community Development Corporation develop an 80-unit multifamily development for families with low incomes. *Photo by Corinne Chacon, RDFC.*

Secondary Job Creation Impacts from Housing

A secondary set of economic development impacts occurs after housing has been built, sold and occupied. These involve increased participation of homeowners and renters in the market economy, and family wealth building created through property ownership.

- **Increased household purchasing.** The purchase of a new home often leads to purchasing furnishings and decorating materials, including durable goods like washers and dryers, window coverings, refrigerators, microwaves, and window air conditioners. Increases in household cleaning supplies and other consumables also occur. Whether purchased from a flea market or a major retailer, most of these purchases are made locally and usually include local sales tax.
- **Elevated real property assessments.** New housing, rehabs and rental are all real property items assessed by local taxing jurisdictions (schools, county, municipality, etc.). As the amount of new housing increases, so do the tax base and the income base.

Overall, new and upgraded housing immediately enhances the attractiveness and appeal of a community, thereby increasing its net worth to local tax rolls.

- **Increased family income preservation.** Our government rewards property owners with the option of receiving credit for their housing interest payments and local real estate taxes on their income tax statements – a considerable benefit when you consider that in many markets rental payments are just as expensive as mortgage payments. For low- and moderate-income persons, this usually translates into a significant increase in retained income. That income is used to purchase more durable goods or other services.

Enterprise Development Challenges for Housing Developers

All housers – and especially rural housers – are challenged to think about how to survive as competition increases for dwindling subsidy resources. They also have to start thinking about the earned income capacity of their market as recipient subsidies decline due to welfare reform. Following are a few examples of how rural housers might start thinking with an enterprise development outlook to bridge the resource gap and build employment opportunities in the areas they serve.

- **Rental housing.** Ownership of rental housing can be a direct

San Elizario, Texas, plans to combine housing improvements in the colonias that make up the city with community economic development focused on tourism at an adobe church built in 1883 and an adjacent plaza. *Photo by Surabhi Dabir, HAC.*

Most of the construction on these three-bedroom homes (below) is done by low-income, seasonally employed families trained in Proyecto Azteca's mutual self-help housing program (above). By forming for-profit construction subsidiaries, self-help housing organizations can increase the wage income of the families they serve. *Photo by Corinne Chacon, RDFC.*

and long term employment generator as well as an income source for the CDC. For families, clean, well-managed rental housing is an important and too often absent transitional step from substandard housing.

For the developer CDC, rental housing is an income-producing asset. In fact, the rental and depreciation income from several single-family rental houses can create a healthy income stream that helps reduce overall dependence on grant funds. The Low Income Housing Tax Credit can also provide a source of income to nonprofits developing rental housing, who can receive both developer's fees and management fees. Some states are setting aside portions of their LIHTC allocation for nonprofit applicants who choose to develop smaller projects (for example, 35 units and under in Texas).

On the employment generation side, rental operations require janitorial, maintenance and property management staff. This provides an opportunity to integrate these functions vertically. Surely, we all know people in the communities we serve who can be trained for these jobs. Our challenge is to create subsidiary operations that can perform these services on our properties well enough to offer them to other property owners, thereby increasing our capacity to earn market rate income.

- **Essential services.** Increasingly, the demand for childcare, eldercare and in-home health care services is creating opportunities for nonprofits to hire local people to offer these services on site. A CDC can identify underemployed and unemployed persons from its community who can be trained to offer these services, furnish the space for these activities within their rental and congregate housing, and form subsidiaries to manage the business. Smart CDCs are already doing this to increase their share of earned income from their housing activities. How many families in your area are looking for dependable childcare options? Might a major employer in your area be willing to contract with a childcare provider who can offer services at a volume that addresses its employees' needs?
- **Construction and development services.** If you have a good track record for developing housing, why not take that skill into the private market? Nonprofits understand local markets, manage tight budgets and perform to meet deadlines. Taking on for-profit housing development deals can be risky, but it can also be very rewarding. You must be prepared to learn more about the competition in your region and start thinking with your board and corporate counsel about setting up a suitable subsidiary structure in which to undertake these activities.

In addition to developer's fees and income from an ownership stake in the project, you may be able to negotiate on-the-job training of local people with many of the subcontractors you currently use (talk to your local Job Training Partnership Act branch about accessing On the Job Training Program funds).

Azteca Economic Development and Preservation Corp. built rental units in Laredo, Texas, to provide housing options for South Texas families, many of whom could benefit from expanded economic opportunities as well. *Photo by Surabhi Dabir, HAC.*

Self-help housing program operators are well positioned to launch carpentry and roofing enterprises. They train participating families who have helped build their own and others' homes, and they know which workers can consistently produce at a level suitable for the commercial marketplace. They also know how meaningful additional income is to families with seasonally and underemployed heads of household, even for just three months out of the year.

- **Commercial services.** If people in your community are traveling 10 or more miles to obtain the most basic services, the opportunity for small business development exists. Grocery stores, gas stations, pay phone centers, laundry facilities, banquet halls and health clinics are frequently located a considerable driving distance away from rural communities. Find out who in your community has business experience and work with them to identify the resources needed to launch an enterprise.

Existing businesses also need assistance identifying the resources they need to grow. You can become an important ally by helping them link with lending programs from the Small Business Administration (SBA) and other public sector entities. SBA's microenterprise lending program is a great source of loan capital for making small targeted loans to businesses. Nonbank lenders and Certified Development Financial Institutions can also play an important role in helping existing businesses identify the capital and information resources they need.

Work with your local unit of government to develop creative ways of providing a safe place for businesses to start and grow. Unoccupied commercial space can be adapted to suit the needs of startup businesses. Technical assistance and administrative services (e.g., bookkeeping, reception and inventory ordering/storage, marketing and advertising) can be offered on site as part of a cafeteria plan of small business support services, and can also enhance a CDC's operating income.

Ken Christy shows Tom Manning-Beavin the tool lending library he operates as part of a self-help center in Starr County, Texas. Colonias residents can borrow tools to build or improve their homes, learning valuable construction skills in the process. *Photo by Surabhi Dabir, HAC.*

None of the challenges proposed here is easy to implement. Each requires committing considerable resources of time and effort, and that generally means pulling staff and other resources from other areas. Regard this as an investment in the future of your organization and the community it serves. Include community stakeholders – those institutions, organizations and groups of residents who will be impacted by a strategy you are thinking of adopting – in a free and open discussion about how the strategy might work. You may be surprised by their willingness to pledge resources to help.

Also, feel free to contact Rural Development and Finance Corporation. RDFC helps rural communities think about and pursue these types of strategies, and would love to learn more about what you are doing and how we can work together to help you increase economic opportunity in your area. ◆

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FIRST STEPS:

Moving from Housing to Community Economic Development

by Carol Wayman

Reasons abound for a rural community-based development organization to play an expanded role in economic development, including a high number of young people wanting jobs; a lack of jobs that provide the income to own or rent a market priced home and maintain a family; cuts or elimination of income benefits; gaps in the community's retail market that encourage leakage of capital to other areas; a lack of needed services or local jobs; concern about the use of natural resources for long-term viability; a need to provide income for post-incarceration citizens; or a mismatch between skills needed by local employers and those possessed by potential employees.

The need for economic solutions to poverty is well known. A recent report from the Roberts Foundation (415-561-6533), *New Social Entrepreneurs: The Success, Challenge, and Lessons of Non-Profit Enterprise Creation*, asserts that "we cannot escape from the fact that you do not service people out of poverty. At its core, the ability to exit poverty is a question of employment, asset accumulation, and wealth creation."

Yet, community development corporations (CDCs) are often reluctant to add economic

Photo above: OCS grantee at work: Manufacturing crew at Asian Neighborhood Design's business, Specialty Mill Products, operate the edgebander to produce furniture and cabinets in their West Oakland, California site. *Photo courtesy Kenneth Lee.*

development to their list of activities. They understand that economic development activities are more difficult than housing development and lack reliable financing streams. Traditionally, housing funds were more consistent and easier to access.

However, government and foundation funding priorities are changing. Economic development initiatives such as Individual Development Accounts (IDAs), workforce development, job readiness, and employment networking are taking a more important role. The Small Business Administration qualifies CDCs as "8(a) contractors," a classification that makes it easier for them to win government contracts and bids. At the federal level, the Department of Housing and Urban Development and the Federal Home Loan Banks are looking to create a secondary mortgage market for commercial loans and Congress is considering changes to the Job Training Partnership Act. The drastic cuts to operating funds have encouraged some CDCs to consider economic development as a way to provide dividends to underwrite operating costs.

The Chronicle of Philanthropy reports that "foundations and charities are starting new programs to spur job creation to help welfare recipients find – and keep – paying jobs." For example, the Helen Bader Foundation in Milwaukee has replaced its grant program for social services with one that focuses on economic development. Also, according to *The Chronicle*, New York's Heron Foundation is focusing on asset-based development activities and the Annie E. Casey Foundation is funding an eight-year, six-city jobs initiative.

The Chronicle of Philanthropy reports that "foundations and charities are starting new programs to spur job creation to help welfare recipients find – and keep – paying jobs."

Being new to community economic development (CED) is not an insurmountable problem. According to Bennett Harrison of the New School for Social Research, "CDCs with housing expertise have more credibility to expand into CED." For a CDC that wants to add an economic development component, how would it determine the appropriate activity and role? To determine your organization's role in economic development involves an extensive inventory. Joe Kriesberg of the Massachusetts Association of CDCs suggests a CDC consider the following criteria in selecting a CED strategy:

- staffing;
- management;
- demand on existing or potential resources (financial, relationships, management systems);
- financial constraints/outcomes;
- employment impact;
- political impact;
- scale; and
- time needed to develop.

Kriesberg asserts that CDCs most successful in making the transition have an excellent reputation in the community with well used and maintained community and political connections. They have a track record of results, a staff with a diverse and flexible range of technical skills, and close involvement with both the target population and the larger community. They are well linked with access to the needed skills and experience through a diverse board, committees, volunteers, and relationships. They also have a dedicated staff person to research, develop, and implement the project.

Rodney Fernandez, Executive Director of Cabrillo Economic Development Corporation in California, cautions, "It might seem wise to hire a consultant rather than train and support a staff position; however, this is a mistake. If a consultant develops a program, they take their accumulated wisdom and contacts with them." Arden Shank, Executive Director of a 25-year-old community-based housing organization, La Casa of Goshen, Ind. spent three years planning La Casa's microenterprise and IDA initiatives in stolen chunks of time before finally having a funding proposal ready.

Economic development requires CDCs to undertake more collaboration and build relation-

ships outside their neighborhoods. Kriesberg explains, "If you are going to develop a shopping center in the center of your neighborhood you need to make sure the neighborhood right next door is not developing a shopping center at the same time or the competition will cause both to fail. Communication with a broader array of partners is key."

Because of the challenges posed by economic development, it pays to be aware that business development is difficult and not appropriate for every organization. According to Shank, "make sure you know how you are paying for it." Jim King, Executive Director of Avondale Redevelopment Corporation in Cincinnati, Ohio, concurs: "Adding economic development to heavy staff management responsibilities could be fatal."

For an organization considering adding economic development activities, it pays to plan a project carefully and learn from the experiences of groups that have already made the transition. ◆

Carol Wayman is Director of Policy at the National Congress for Community Economic Development (NCCED), which is the trade association for community-based development organizations. This article is reprinted and slightly adapted from NCCED's quarterly publication,* Resources. *For more information on developing a CDC's first community economic development program, or on any of the people mentioned in this article, contact Wayman at 202-234-5009 or Cwayman@ncced.org.

Housing Development's Effects on a Rural Community's Economy

- **The Rural Housing Service estimates that each single-family home financed by the Section 502 program generates 1.75 jobs and $50,201 in wages.**
- **In the Mississippi Delta region, the construction of 20 homes worth over $50,000 each generates $1 million in tax revenue, as estimated by local officials.**
- **In one year, 100 new single-family housing units support 253 local jobs with total wages and salaries of over $7 million, while 100 new multifamily units support 121 local jobs with wages and salaries of $3.5 million, according to the National Association of Home Builders, calculated for the average metropolitan area and based on homes with an average construction value of $145,372.**

Q&A WITH NICOLAS P. RETSINAS

Nicolas P. Retsinas was Assistant Secretary of Housing/Federal Housing Commissioner at the Department of Housing and Urban Development (HUD) from May 1993 through February 1998. In March he became Director of the Joint Center for Housing Studies at Harvard University.

During your time in Washington you held a number of overlapping positions. What ties all those things together?

Yes, even at HUD I had two titles. As Assistant Secretary for Housing I was involved in overseeing housing policy and programs. I was also Federal Housing Commissioner, the chief executive officer of the Federal Housing Administration insurance funds. In addition, at the request of Secretary Cisneros and Secretary Cuomo, I was involved in oversight of the affordable housing regulations of Fannie Mae and Freddie Mac, and represented the Department on the Federal Housing Finance Board. All of those areas are related to housing finance.

Also, about two years ago I was asked by the President to take on a different responsibility, as a banking regulator. For over a year I was director of the Office of Thrift Supervision and also served on the Federal Deposit Insurance Corporation board. If you're going to figure out how to address credit gaps, you have to know how credit is now distributed and how it flows. So the financial services arena was a nice complement to my housing finance interests.

Given the kinds of changes that are happening in the bank and thrift industries, do you see access to housing credit in rural areas as likely to improve, to get worse, or just to change to a different format?

I think the format will indeed change over time. How credit is delivered has already changed and will change even more. I think one of the special difficulties of rural areas is what has made our capital markets most efficient – standardization, cookie-cutter approaches. Those approaches become more difficult within rural areas, which often need a responsiveness to special market conditions. In the short term there will be significant challenges. The potential, however, is that technology will reduce some of the barriers that now exist. Over time, if we figure out how to use it, it will help offset the economies of scale that exist in large organizations. How we do that, and at what speed, is a fair question.

Are those policy decisions made by the government, or by the industry?

One of the things I learned in my tenure at the national government level is not to underestimate the immense power of the market. At the same time I sincerely believe that housing finance in the United States works because there is a nexus between the private sector and the public sector, and indeed governmental policies can help channel how credit is restricted, how credit is allocated. We have already seen, for example, the potency of laws such as the

Community Reinvestment Act, and now we need to go beyond that.

Regulation of government sponsored enterprises (GSEs) seems relevant there also.

I'm very proud that we put into place the first set of regulations setting affordable housing goals for two very, very powerful institutions, Fannie Mae and Freddie Mac. Both institutions were responsive to those goals, but the goals represent a floor for their activities related to affordable housing, particularly in rural areas. They're not a ceiling. How we further encourage and work with those organizations to address those needs is another significant issue. At some point, it's important to reflect on whether the basic standards Congress set for the GSEs are the appropriate ones, and whether we need more precision. The balance is, how do we do that without being intrusive, in a way that will be directive and not prescriptive?

At HUD you coordinated the President's National Homeownership Initiative, in which HAC is a National Partner, and which aims to increase homeownership rates by the year 2000. How do rural residents fit in who already own homes but need housing assistance, or renters who cannot or prefer not to buy a home?

I am a strong advocate of the import of increasing homeownership. I think as a strategy it is a potent one, because it is about increasing people's assets, particularly people who have often been left behind. Ownership is not the be-all and end-all, but it is significant. Even with the current high homeownership rate, which is even higher in rural areas than other places, I believe there are hundreds of thousands of families who could be homeowners who are not homeowners today.

Notwithstanding that, a homeownership strategy is just part of an overall housing policy. It's not the same as a housing policy, and sometimes there is confusion between the two. The Joint Center has a major study underway, initiated before I got here, looking at the future of housing conditions and the housing repair industry. Most people live in old homes, which will need maintenance work over time. So that's an important agenda item.

There is now a proposal to raise FHA loan limits, which is being publicized as a way to expand homeownership for low- and moderate-income families. How does it help low-income families?

Often the rhetoric about the increase in FHA loan limits focuses on the high end, the cost of housing on the coasts. One of my last HUD speeches was at a statewide affordable housing conference in Missouri. The most significant and loudest supporters of the increases in Missouri were homebuilders because in most of the state the FHA loan limit is $86,000. They point out, quite appropriately, that you can't build a new house for $86,000. So they literally can't create new homeownership opportunities. An increase in the loan limit there isn't going to lead to $200,000 homes in Jefferson City, Missouri. It will lead to a $95,000 new home. I think that cost is feasible for moderate-income families.

HUD is creating a new Community Builders program to place outreach workers in the HUD field offices. What's intended to be different about what they do than what HUD employees already in the field offices do?

It's not a new program – it's a new type of HUD employee. The theory is relatively straightforward. In the field offices much of HUD employees' work is processing, which is very important. Community Builders says that the Department has another agenda, an agenda of being a problem solver, looking beyond individual HUD programs, going across program lines and outside the Department to think how the government can be responsive to addressing community problems. If we were in industry, it would be the difference between an account executive and a processor. Many HUD employees already do that, but they don't have that as their job, and now the Department will institutionalize it. Some of the Community Builders will be existing HUD employees, and some will be outside employees who will be there for two or four years.

Will the Community Builders' training at the Joint Center include anything on differences between rural and urban development issues?

It's not settled yet whether the Joint Center will do the training. But no matter where the training is, it absolutely ought to include that topic. How can you be responsive to different types of communities unless you understand both the similarities and the differences?

Welfare reform is an area of great concern for housing organizations right now. What is HUD's perspective on what its impact might be and what HUD can do about it?

I think the impact will be significant, and there is

still a lot of work to be done to fully understand it. On the other hand, I think housing programs, in particular multifamily assisted housing and public housing, provide potential platforms of opportunity for residents. One of the initiatives during the last couple of years I was at HUD was the creation of learning centers – we called them Neighborhood Networks – within housing developments, which create environments and places where both children and adults could learn, where they could work with community colleges or job training efforts. For those service providers, it's a way to provide services efficiently. For individuals, ideally it provides them with a stepping stone to some new opportunities. So that's a program that has potential for the welfare reform agenda.

Can you name a single most rewarding accomplishment from your time at HUD?

Like everything else, it's the people. I know that sounds schmaltzy, but it happens to be true. I'm proud to have been the Federal Housing Commissioner when the homeownership rate reached an all-time high. That's nice. But the most rewarding accomplishment was really twofold. First, I did a fair amount of traveling and to see firsthand what's happening around the country was energizing. At the same time, notwithstanding the stereotypes, it was also rewarding to see firsthand the dedication of federal government employees, who are often inappropriately criticized. It's a huge and diverse country, and the opportunity to in some small way validate and add value to what's going on around the country was especially rewarding.

What does the Joint Center for Housing Studies do?

The institution is more than 20 years old. The "joint" currently refers to two schools at Harvard University, the John F. Kennedy School of Government and the Graduate School of Design. The Joint Center is a policy center. It does research on housing issues, both domestically and internationally, and suggests policy options. It works in communities, and it works in different industries. It has a wide variety of domains.

It does research on its own that it believes is important, and also does sponsored research that is consistent with its agenda. As you can imagine, many people ask the university or the Joint Center to do things. Part of our responsibility is to figure out which one of those assignments we can add value to, can make a difference on, and which will be consistent with our overall interest, which is understanding housing and what needs exist in housing.

Do you have specific focuses or topics in mind for the Joint Center's work?

Traditionally the Joint Center has focused on building and building technologies, which is absolutely essential. At the same time, as you can tell from my background, I have a special interest in housing finance. One of the things I want to look at is the nexus between building, building technology, and finance, how can we make the whole system more responsive and more efficient.

The thing that many people are most familiar with about the Joint Center is the annual* State of the Nation's Housing *report. HAC is one of the sponsoring organizations for that report. Will it continue?

Yes. In some ways that has been the Joint Center's signature piece over the last several years. I think it's made a real contribution. I'm going to look at everything here, of course, but I've been very pleased with that report and I look forward to being part of it, going forward. This year's report is in process now, planned for release in June.

You've mentioned a couple of research projects that are ongoing now. Are there others we should be aware of?

There are a couple others. One of the issues is what's generically called seniors housing. As our population ages, the issues of housing, services, and health care all get intermingled. The so-called continuum of care among different kinds of housing options for seniors is an increasing part of the housing agenda. And I think the other research agenda is what I'd call the community development agenda. I do not believe you can study housing without studying and understanding communities.

Are there ways that people can make suggestions for things the Joint Center might look at?

They can contact us, and to some extent we can consider ideas. I'm already getting requests. One of the ways we look at a suggestion is how it relates to what we're already doing. We're a relatively small center, so we have to be selective about where we can add value. ◆

Section 515 Cuts and a Looming Rental Assistance Crisis: Fewer Options for the Poorest of the Rural Poor

by Christopher Holden and Art Collings

The Administration's FY1999 budget proposal for the Rural Housing Service (RHS) would increase overall funding to $5.95 billion – up from $5.62 billion this year. But the proposal also limits the effectiveness of two essential programs for rural rental housing. Together, these RHS programs have long been the primary means to provide decent homes for the poorest rural residents. Yet the FY1999 budget proposes a large cut in the funding for the Section 515 program, which funds the production of rental housing. To compound the problem, the budget proposal for Section 521, which provides rental assistance directly to tenants, fails to address the problem of escalating rental assistance needs in upcoming years. As a result, the budget endangers these programs' ability to continue meeting the rental needs of America's ill-housed rural poor.

Section 515 Rural Rental Housing

Proposed FY1999 funding for Section 515 is $100 million, a reduction of over 33 percent in funding from the FY1998 appropriation, and a reduction of approximately 35 percent in units produced. The proposed funding level for FY1999 is an 81.5 percent reduction from that in 1994, when Section 515 produced over 11,500 units. At its peak in 1979, the program developed 38,650 units in poor rural communities. Despite this past level of production, more affordable rental units are desperately needed.

Maintenance costs for the portfolio of existing Section 515 units consume a sizable portion of the Section 515 budget. Necessary portfolio maintenance currently requires approximately $50 million per year. However, at least $100 million is required for funding to cover the development of at least one new Section 515 project in each state in FY1999. This produces a conflict of program needs that cannot be addressed with a $100 million appropriation.

Section 515 has provided decent, affordable rental housing for over 456,000 families whose average annual income is approximately $7,300. More than half the units are occupied by elderly and disabled residents. In many rural areas the alternative housing choices for elderly, low-income residents are a nursing home or relocation to an unfamiliar urban area. Elderly residents can maintain an

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independent lifestyle living in Section 515 complexes with basic support services in their communities. The ability of rural elderly residents to remain independent limits the potential burden for taxpayers when compared to costly nursing home care. RHS has estimated that the cost of skilled care facilities exceeds the cost of congregate housing units (which the Section 515 program provides) by $2,000 to $3,000 per month.

Because the program provides subsidized loans of 1 percent for rental housing development, critics point to the high program cost of Section 515. However, all of the subsidy benefits the tenants, and so the program cost is directly related to the low incomes of the households served. Section 515 provides housing affordable to very low-income rural residents who otherwise are likely to face serious housing problems. Nationally, 2.6 million rural families still live in substandard housing, and more than 3 million rural renter households are cost-burdened (paying more than 30 percent of monthly income for housing costs). Even in RHS rental housing, over 86,000 tenant families still pay more than 30 percent of their income for shelter. The subsidy afforded by the Section 515 program allows project sponsors to serve low-income rural families, but it is the Section 521 rental assistance used in RHS rental projects that makes these units affordable to rural households with the lowest incomes.

Section 521 Rental Assistance

The FY1999 budget makes a general request of $583.4 million for Section 521 rental assistance (RA). The bulk of the RA funds will be needed to renew assistance to an estimated 37,516 units. However, despite a 7.8 percent increase of $40 million over the FY1998 appropriation of $541.4 million, the budgeted amount does not include provisions for "servicing" needs. This means that RA will not be available to support cost-burdened RHS tenants whose units are not currently assisted.

Section 521 faces a problem similar to that currently being addressed with the U.S. Department of Housing and Urban Development's Section 8 rental assistance vouchers and certificates. The cost of renewing rental assistance contracts will begin to escalate in coming years, to the point where the budget needed to provide RA for a dwindling number of new construction units and renewals will be larger than the current total budget for RHS housing programs. This will strain RHS's ability to continue renewing existing RA contracts, and will make it almost impossible to provide for servicing. It will also make it difficult to continue allocating assistance for newly constructed rental units in numbers remotely commensurate with need.

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For FY1999, RHS estimates that $21.3 million in RA will be required for new construction units. Renewals will require $551.9 million, while RA earmarked for use with nonprofit or public buyouts of prepaying loans will require $5.9 million. This will leave a balance of only $4.3 million for servicing, and only on units being repaired or rehabilitated.

Assuming level funding for RHS rental housing programs, RHS estimates that an inflation-adjusted $729.4 million will be required in the year 2000, with renewals counting for $668.7 million of this amount. In 2002, projected rental assistance costs will reach $736.3 million. By the year 2005, projected RA cost will be $940.9 million, an increase of more than 60 percent from the FY1999 budget proposal. By comparison, the budget authority for all the RHS rural housing programs in FY1998 is $848.7 million. It should also be noted that these RA calculations are based on an assumption that funding for the Section 515 and 514/516 production programs will continue for several years at the levels proposed for FY1998, so that fewer new construction units are projected each year due to increasing development costs.

The RA estimates emphasize

the growing cost of contract renewals, and leave little room for expanding the supply of assisted rental units. While these estimates project large future increases in program cost, they also assume a continuing decline in the number of newly constructed units that will receive rental assistance. Also, these estimates do not include funding for servicing, and do not account for other potential cost increases, such as the impact of welfare reform. In the Section 521 program, tenants pay 30 percent of their monthly income for housing costs, with the federal government paying the remainder of the rent. If a family's income drops, the rental assistance obligation will have to rise if the household is to retain its housing. Many legal immigrants living in RHS housing and relying on public assistance will lose their welfare benefits. Other tenants will face benefit reductions under state-designed welfare plans, or lose their benefits when welfare time limits take effect. Section 521 appropriations will have to increase or fewer households will be served.

Outlook and Recommendations

The cuts in the Section 515 program and the looming problem of escalating Section 521 renewal costs will worsen the housing options available to the poorest rural residents. Rental assistance enables the Sections 515 rural rental and 514/516 farm labor housing programs to serve those with the lowest incomes. These programs represent a shelter safety net in our nation's rural communities.

An appropriation of $150 million is required for Section 515 to meet portfolio maintenance needs and still provide enough funding for at least one project in each state.

Greater funding for Section 521 rental assistance is also needed, especially in the new welfare reform environment. While RA costs will rise just to fund contract renewals, servicing for RHS tenants not currently assisted will become more important as welfare reform reduces many household incomes and the need for additional assisted rental units increases.

Additionally, RHS staff need to begin work now generating proposals to address the projected escalation in rental assistance obligations, while seeking ways to provide RA funds for servicing. Delaying action on this issue will only increase the cost and difficulty of maintaining current levels of service past the year 2000, and make it more difficult to aid cost-burdened RHS tenants without rental assistance. HAC supports exploring ways to reduce the cost of the program, but reform should not adversely impact tenants or veer away from serving very low-income households.

HAC encourages readers to begin thinking about ways to address the problems of reduced appropriations for Section 515 and escalating Section 521 needs in coming years. HAC welcomes any thoughts or suggestions you would like to share concerning these critical issues. Please send your thoughts to either of the authors. ◆

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HAC BUDGET ANALYSIS CONCLUDES HOUSING FUNDS INSUFFICIENT FOR THE POOREST RURAL RESIDENTS

Most rural housing assistance programs will maintain their funding under the administration's budget for fiscal year 1999, but the poorest rural residents will receive limited attention, according to an analysis published by the Housing Assistance Council (HAC). Funding for farmworker housing and some other programs would increase, but resources would be cut for rural rental housing (see accompanying article) and for elderly and disabled residents.

Generally, HAC reports, the administration's budget continues recent years' trends in rural housing policy. It would maintain funding for the Rural Housing Service (RHS) Section 523 program of assistance for self-help housing. As in the last few years, the Section 502 guarantee program, under which RHS guarantees loans made by banks, would receive far more funding than the Section 502 direct loan program, under which RHS makes loans itself.

HAC also examined Department of Housing and Urban Development (HUD) programs. The HUD budget proposes to increase assistance to homeless persons and fair housing efforts, while reducing housing funds for elderly and disabled persons.

Treading Water: An Analysis of the Administration's Proposed Fiscal Year 1999 Rural Housing Budget, ***ISBN 1-58064-081-8, is available for $4.00 from HAC. For ordering information, see page 16.***

HAC FACTS

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HAC HELPS FLORIDA GROUP WORK WITH COMMUNITY

Technical assistance from HAC's Southeast Regional Office has helped Florida Low Income Housing Associates (FLIHA) work with a community on the Florida Gulf Coast where the nonprofit is developing self-help housing units. Contacted by FLIHA when local residents resisted self-help development in their area, HAC first worked with a regional fair housing organization to inform the developer about options, including legal action. Then HAC helped arrange a meeting with local homeowners to clear the air by providing education, discussion and questions. Attendees also watched a video produced by the Rural Housing Service about self-help housing, demonstrating the positive aspects of families helping to build their own homes. Production in this community has now begun.

HAC LOANS TO HELP PRODUCE HOMES IN TEXAS

Recent HAC loans to two nonprofit developers in Texas demonstrate two of the many possible ways of providing homeownership opportunities for low-income rural families. HAC has committed $100,000 in Self-Help Homeownership Opportunity Program funds to Proyecto Azteca to assist residents of the Nuevo Monte Cristo colonia in obtaining clear title to their land. The loan will enable participating families with annual incomes of about $10,000 to buy out their "contracts for deed," purchase arrangements under which the sellers hold title until the contracts are paid in full. Then the families will contribute almost all of the labor involved in building new homes, and will borrow approximately $22,000 each to purchase their homes. Proyecto Azteca provides families with 20-year, no-interest mortgages from federal HOME funds and other sources.

A different construction and purchase process will be used by Pineywoods HOME Team in Lufkin, Texas. Pineywoods will use a $25,000 loan from HAC to purchase property on which 26 single-family homes will be built for families with incomes from $18,000 to $29,000 per year. Pineywoods will assist them in obtaining mortgages from local banks and will provide state-funded subsidies to help them afford their homes. Additional aid is anticipated from federal Community Development Block Grant funds, which may be used to provide infrastructure such as water and sewer lines for the site.

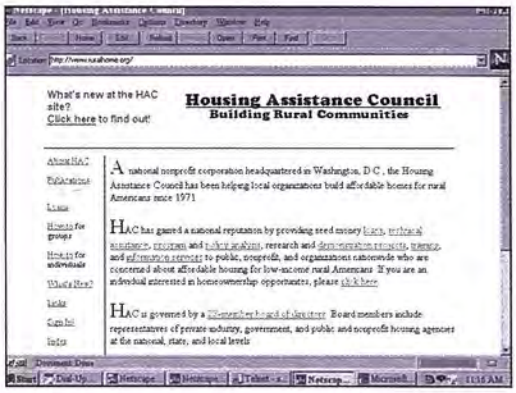
GEORGIA RENTAL UNITS CLOSER TO REALITY

A local nonprofit hopes to construct the first assisted rental housing development for families in Ludowici, Ga., with aid from HAC's Southeast Regional Office. HAC staff helped Sams Memorial Community Economic Development, Inc. (SMCED), a qualified Community Housing Development Organization (CHDO) under the federal HOME program, to apply to the Georgia Department of Community Affairs for predevelopment funds available only to CHDOs. SMCED received $45,000 to cover the costs of a site option, architectural and engineering fees, environmental testing, and other preliminary items. HAC also identified knowledgeable professionals for the development team. In the spring, the next step will be applying for federal HOME and Low Income Housing Tax Credit funding to create 40 units of affordable rental housing.

OTHER PUBLICATIONS AND ORDERING INFORMATION

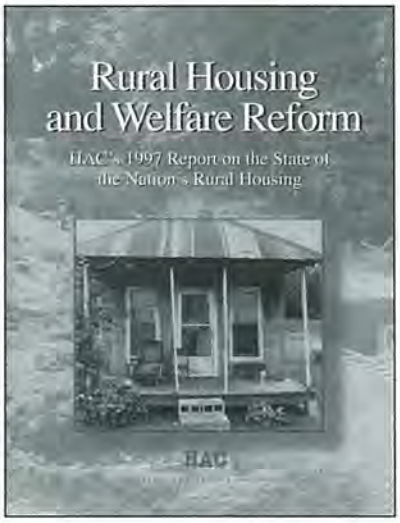
HAC publishes more than 80 technical manuals and research reports on rural housing topics. Contact Luz Rosas at HAC's national office for a free publications list or a free subscription to the *HAC News*, where new publications are always announced along with other rural housing news.

To order HAC publications, send a check to HAC's national office or call Luz Rosas at 202-842-8600 to order with a credit card. Or visit HAC's web site at http://www.ruralhome.org for a publications list, an order form, copies of the *HAC News*, or copies of brief information sheets on over 50 different topics. Prices include postage and handling.



Rural Housing and Welfare Reform: An Excerpt from HAC's 1997 Report on the State of the Nation's Rural Housing

To understand welfare reform's possible results in rural areas, the Housing Assistance Council studied those most likely to be impacted: families with children who received Aid to Families with Dependent Children (AFDC) and/or food stamps before the Welfare Reform Act took effect. One-third of the 5.9 million households in the U.S. receiving AFDC or SSI in 1995 lived in rural areas. Two thirds of these rural households lived in nonmetropolitan rural areas, where they are less likely than those in metropolitan areas to have access to jobs, public transportation, job training, and child care.



Low incomes are a major problem for rural families with children, including those who receive welfare. Some 2.3 million rural families with children have incomes below the poverty level, while another 3.3 million are near-poor (with incomes below 200 percent of poverty). About two thirds of rural welfare households are poor, and another quarter are near-poor.

Like urban and suburban welfare recipients, most rural welfare recipients have young children. On the other hand, rural welfare householders are more likely to be married than those in cities, older, less likely to be women, and more likely to have at least two adults in the household. One third of rural welfare householders with employment earnings have less than a high school education, while almost half of those with no earned income have no diploma. Although overall rural homeownership rates are higher than in other parts of the country, with three quarters of all rural households owning their homes, only one third of rural welfare households are homeowners. About one fourth of rural welfare households live in mobile homes, compared to 4 percent in suburbs and less than 1 percent in cities.

More than half of these rural welfare households have major housing problems. Forty percent are cost burdened, 6 percent live in homes with physical deficiencies, 5 percent are overcrowded, and 13 percent have multiple problems. Many live "doubled-up" as well: although overall only 4 percent of rural housing units are occupied by more than one family, fully 16 percent of rural welfare households' homes are shared by two or more families.

A striking characteristic of the 1.1 million rural welfare households is that almost half of them received more than half of their total household income from earnings. This is significantly higher than in cities. Another 18 percent of rural welfare households had some but less than half of their income from earnings. Thus a total of 64 percent in rural areas had some earnings, compared to 62 percent in suburbs and only 46 percent in cities.

Rural Housing and Welfare Reform: HAC's 1997 Report on the State of the Nation's Rural Housing has been a best seller since its release in December. The report uses data from the 1995 American Housing Survey to examine the housing and economic conditions of all rural residents as well as rural welfare recipients. Copies are still available for $6 each. For ordering information, see page 16.

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The Housing Assistance Council (HAC) is a national nonprofit corporation founded in 1971 and dedicated to increasing the availability of decent housing for low-income people in rural areas.

HAC strives to accomplish its goals through providing seed money loans, technical assistance, training, research and information to local producers of affordable rural housing. HAC maintains a revolving loan fund providing vital seed money at below-market interest rates to rural housing developers. Developers can use these funds for site acquisition, development, rehabilitation or new construction of rural, low- and very low-income housing. HAC has a highly qualified staff of housing specialists who provide valuable technical assistance and training, and research and information associates who provide program and policy analysis and evaluation plus research and information services to public, nonprofit, and private organizations. HAC's subsidiary, Rural Housing Services (RHS), syndicates rural housing developed with the Low Income Housing Tax Credit.