# Rural Voices

Fall 1999, Vol. 4, No. 4
The Magazine of the Housing Assistance Council

## Rental Housing In Rural Areas

IN THIS ISSUE . . .

MESSAGE TO OUR READERS

# Dear Friends

This issue of *Rural Voices* is dedicated to the importance of rental housing. Homeownership generates excitement among policymakers and funders — and, indeed, it is important that we strive to increase homeownership. Yet not everyone can or wants to own their home, and renters should also have decent, affordable homes.

Unfortunately, decent, affordable housing is not always an option for rural renters. This magazine includes data showing that millions of rural renters pay too much and/or live in substandard or overcrowded homes. The articles in this issue, like the photos on the cover, illustrate some of the many aspects of rental housing in rural areas. Two of the articles present rental housing success stories. A third article describes actions that may be taken to address problems arising from prepayments of HUD-funded rental properties, and the View From Washington department explains why a new rural rental housing program should be proposed.

This *Rural Voices* issue does not cover prepayment and preservation of Section 515 units. Preservation is an important subject and, as noted in the summer issue of the magazine, HAC has joined a wide variety of organizations in a working group on this topic. The working group is still collecting background information and formulating its recommendations; its report will be covered in a later issue of *Rural Voices* when appropriate.

Sincerely,

Richard W. Lincoln
Chairman

Peggy R. Wright
President

Moises Loza
Executive Director

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## Features



*Cover photos from Housing Assistance Council files.*

# HAC Facts

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

## HAC Announces Third Round of SHOP Funding

HAC is now accepting applications for $6 million available from the Self-Help Homeownership Opportunity Program (SHOP). Funds will be awarded on a competitive basis to experienced self-help builders. The loans may be used only for land acquisition and site development associated with self-help housing. Applications are due Nov. 12, 1999 and are available from Lourdes Antezana at HAC, cdd@ruralhome.org or 202-842-8600. Information is also provided on HAC's Web site, http://www.ruralhome.org.

Photo by Joe Belden, HAC

**Local builders will use HAC-administered SHOP funds to help develop affordable homes using "sweat equity" or volunteer labor, such as these developed by Whatcom Self-Help Homes in Ferndale, Wash.**

## HAC Loan to Help Save Farmworker Homes

A loan from HAC's Water/Waste Water Loan Fund will help the Coachella Valley Housing Coalition (CVHC) save 500 to 1,000 housing units for farmworkers. The organization's plan makes the best of an emergency situation in rural Riverside County, Calif. Approximately 200 small trailer parks, occupied mostly by farmworkers who own their mobile homes, are scattered in agricultural areas of the county, and until recently were not required to obtain permits or meet regulatory standards. Because of health and safety problems in the parks, the county government is now requiring owners to meet the same standards as permitted parks.

Since owners who could not afford the tests or subsequent repairs would close their parks, leaving their tenants with no place to move their homes, CVHC is working to help improve the parks. The county arranged for CVHC to test existing septic systems and determine whether systems could be installed in parks that did not have them. Part of the costs will be covered by the county, and a $122,000 loan from HAC will help CVHC set up a loan fund for growers' engineering study costs.

## Rising Lake Destroys Homes

The Ft. Totten tribe has turned to HAC, along with other sources, for help with an unusual housing problem in rural North Dakota. A growing lake is destroying homes and roads that were once as far as eight miles away from the water's edge. Known as Spirit Lake to the tribe and Devils Lake on maps, the lake has insufficient natural outlets, so when a wet weather cycle began in 1993, the water level began rising. It has gone up 25 feet since then, quadrupling the lake's size, according to a recent report on National Public Radio.

The non-Indian community of Devils Lake "mustered its political muscle," says one observer, and received federal aid, raising dike roads to protect the town from the water. The Indian community was not as organized and certainly not as successful. Many tribal members have lost their homes. They were relocated to mobile homes, shipped by the Federal Emergency Management Agency from Arizona and therefore uninsulated, making them unsuitable for the North Dakota climate. HAC staff have met with staff from the Spirit Lake Sioux Tribe Tribal Housing Assistance Program, the state office of USDA's Rural Development agency, and others, to discuss a range of issues, including mitigation of the flooding problem. It is not yet clear what the ultimate solutions may be, but HAC will continue to provide assistance as appropriate.

## Rural Affordability Problems Documented

Thanks to a collaboration with HAC, this year for the first time a national study of housing costs includes data for every nonmetropolitan county (or, in New England, every nonmetro town). The report, produced by the National Low Income Housing Coalition (NLIHC), concludes that there is no place in the country — no

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# On the Frontier in Ferry County

## Housing People with Special Needs

*by Maureen Markham and P. Brian Royer*

There is one electric stoplight in Ferry County, Wash., and it blinks at the intersection where Highway 20 comes out of the mountains to make a 90-degree turn in the town of Republic. The town is so far north that Washingtonians joke that it is practically in Canada. In truth, Republic is closer to Canada than it is to any other population center in the United States. Total county population is 7,000. With a population of 1,000, Republic is the only incorporated city.


Photo courtesy of Royer and Associates.

The Pine Bluff Apartments, which combine units for people with special needs and units for elderly people, represent the work of numerous individuals. Three of them are (left to right) Sandra Barnes, administrative assistant for the local housing authority; Leslie Foster, LISC AmeriCorps worker; and Brian Royer, project developer and manager.

The term "frontier rural" has been used by some to describe extremely isolated rural areas, primarily in the western states and Alaska, that are characterized by low population, poverty, unstable economies, and extreme weather and terrain. These communities are located several hours distant from major cities, medical care facilities, services, and shopping malls. There is little manufacturing. The major sources of income are tourism, ranching, farming, logging, and mineral extraction. In Ferry County, mining has formed the basis of the economy since the turn of the century.


Frontier is also an attitude. The "frontier spirit" is associated with independence, low tolerance of systems, especially government systems, a "boys-will-be-boys" attitude and wide-open spaces. But there is also a spirit of survival, a barn-raising tradition of helping neighbors, and a determination to overcome obstacles to build a community in the wilderness. So when the Joint City of Republic-Ferry County Housing Authority decided to build a new rental housing complex for special needs populations two blocks away from the stoplight, the project became a model of community cooperation and partnership.

Pine Bluff Special Needs and Senior Apartments consists of 19 units constructed on one 1.75-acre site in two phases. The first nine units were designed for people with special needs: people with developmental disabilities, chronically mentally ill people, and those recovering from chemical dependencies. The Housing Authority had prepared a needs assessment that documented the number of such people living in the county in remote, substandard, or unstable housing conditions. It was a challenge to convince funders of the project that these populations could, and should, live together harmoniously. Focus group meetings held with potential tenants showed that there was a high interest in living in the apartments, and in being part of a community that would help support their neighbors.

The Housing Authority made an important strategic decision in planning to build the special needs apartments first. As the new construction began to take shape, the predictable NIMBY reaction raised its head, and the Housing Authority received some pressure to reserve the units for senior citizens. Long time resident Dorothy Butler attended meetings and called Project Manager Brian Royer, expressing the opinions of a concerned group of citizens: we need senior apartments for us within walking distance of Main Street, the drug store, grocery store and church. And we don't want to live next to any special needs people.

Undaunted, the Housing Authority persisted in its plan. As Royer stated, in a project like this, one has to

expect those who be "adamantly and irrevocably opposed." The promise of the future senior units on the site garnered enough support to overcome the opposition. One year after the second phase of Pine Bluff opened, Dorothy moved into the senior apartments. She loves it and the people there. It is adjacent to, but designed separately from, the special needs units. If the senior housing had been built first, however, there might not have been enough momentum to carry the special needs project to completion.

The result is an attractive new project sitting high on a bluff overlooking the rocky, forested hills that surround Republic. The units were built in a "Z" configuration that maximizes privacy and blends well with the special requirements of a difficult site. They are accessible to persons with disabilities, have the option for assisted living, include shared laundry facilities, and have a large community room. There is also office space and a studio apartment for an on-site manager. There are three three-bedroom units, two two-bedroom units, two one-bedroom units, and two efficiency units in the special needs apartment complex. In the senior citizen complex are two two-bedroom units, seven one-bedroom units, and a 231 square foot office space. Each apartment has bedrooms, a bathroom, a living room, and a kitchen. Common parking with street access is adjacent to the buildings. Rents are set to be affordable at income levels varying from 30 percent to 80 percent of the county median income, and range from $100/month for a one-bedroom senior unit to $525 for a three-bedroom special needs unit.

Photo by Brian Royer.

Pine Bluff's design takes into account the features of a difficult site as well as the residents' needs for privacy and accessibility.

This mountainous area has the coldest winters in Washington state and suffers from high utility costs for heating in the winter when temperatures typically dip well below zero. The project was designed to incorporate energy efficient features, including innovative exhaust air heat pump ventilators and hot water heaters with advanced air sealing, which dramatically decrease space heating and hot water costs for the units. An associated advantage was funding from the Public Utility District #1 of Ferry County, which became part of the financing package.

Financing the project was a significant challenge. Median incomes in Ferry County are among the lowest in the state, so affordable rents cannot support much debt service. A combination of loans and grants was used, with considerable in-kind support and volunteer leverage. Brian will never forget the picture of Dan Phillips, a special needs client, riding one of the steam rollers in a rain storm building the new road to the apartments. This was Dan's first job in several years and he went on to be the first resident maintenance person for the project after working on the construction for two seasons.

Highlights of community support for the project include:

- Republic JTPA labor training crews performed 50 percent of the construction.
- High school students from the Vocational Education Department built cabinets for the units and participated in on-site work.
- Ferry County waived development fees and property taxes, and allowed the use of county equipment and work crews to grade the site.
- Ferry County Community Services committed to providing services for the residents of the project.

Components of the financing package include:

- Grants from the Federal Home Loan Bank of Seattle through the United Security Bank of Colville.
- A loan from the Washington Community Reinvestment Association, a nonprofit consortium of private lenders in the state.
- Grants for energy conservation from the Bonneville Power Administration.
- Deferred and low interest loans from the Washington State Housing Trust Fund.

Overall development costs for the project totaled $1,235,000, as shown in the table on page 9.

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# State Helps Fund Rental Housing for Rural Missourians

*by David W. Bryan*

One of the highest priorities of the Missouri Housing Development Commission (MHDC) is to increase housing stock and improve the quality of life in rural Missouri. To meet these obligations, MHDC has worked with partners throughout the state to offer new and innovative means of upgrading the current housing stock and providing new rental and homeownership opportunities in rural locations.

Photo courtesy of the Missouri Housing Development Commission.

**Several state programs are being used by Carlson-Gardner-Woodman developers to convert this former school in Osceola, Mo. to 25 rental units for elderly residents.**

By stating its priorities, MHDC has established a climate of high interest and competition for federal housing tax credits and HOME monies. The Commission has also provided further funding with its own loan funds, a state tax credit, and a Housing Trust Fund that provides "gap" financing for programs operated locally by for-profit and nonprofit organizations.


During the 1999 funding cycle, MHDC funded 42 multifamily rental properties from the 117 submissions by private developers and Community Housing Development Organizations (CHDOs). This funding included the traditional federal programs administered by MHDC — HOME loans and federal housing tax credits — and MHDC fund balance loans, a 100 percent state housing tax credit, and funds from the Missouri Housing Trust Fund.

Missouri became one of the first states in the nation to offer a state Low Income Housing Tax Credit in 1994. In 1997, it was the first state to offer a state housing tax credit equal to 100 percent of the federal tax credit. The credit operates by the same requirements as the federal program and ensures that an additional $67 million in housing tax credits can be awarded for 10-year periods to provide equity for developers.

"Competition breeds results," said Bob Holden, Missouri State Treasurer and an MHDC Commissioner, at the recent Midwest Conference on Affordable Housing in Chicago. "The bottom line is that the economic development imperative for affordable housing, coupled with creative use of tax credit programs, has fielded more players and improved developments."

"Competition for housing tax credits allows us to seek such quality of life improvements as on-site childcare, playgrounds, community centers, and other amenities as part of the allocation process," said Erica Dobreff, MHDC's deputy director/production. "This competition also allows the Commission to secure private participation through a variety of federal and state tax credit programs that enable and encourage partnerships among government, for-profit, and not-for-profit sectors in affordable housing."

MHDC partnerships include a commitment to CHDOs with continuing efforts to assist these organizations in partnering with private developers and to work with them to provide affordable housing in their rural communities. MHDC has developed valuable relationships with organizations like the Green Hills Community Action Agency, located in Trenton, which has allowed Green Hills to develop new and rehabilitated units in its nine-county area.

"MHDC assistance has been invaluable in our ability to make additional affordable rental housing available in our area," said Don Warren, Green Hills executive direc-

tor. "We would not have progressed as far as we have without the close working relationship with the Commission staff." Green Hills is currently rehabbing four single-family houses in Trenton and Chillicothe and building a 16-unit apartment complex in Jamesport with MHDC's funding assistance for building and operating expenses combined with equity from federal and state tax credits.

The state has created other special tools specifically to attract private participation in affordable housing. Missouri currently has 34 tax credit programs targeted at a variety of purposes.

Springfield, Mo. developer Carlson-Gardner-Woodman uses the Certified Historic Rehabilitation Tax Credit to help convert eligible structures into affordable housing. The developer is working with a local nonprofit organization to convert an old school building in the small town of Osceola into a 25-unit apartment building for the elderly. The development also received a $198,000 MHDC loan and $1,413,450 in both federal and state housing credits.

Photo courtesy of the Missouri Housing Development Commission.

**Carlson-Gardner-Woodman developers are rehabilitating a former school in Osceola, Mo. to house elderly residents, using funding from the Missouri Housing Development Commission, federal and state Low Income Housing Tax Credits, and state historical preservation credits.**

"The combination of tax credits allows us to leverage the financing to develop an increased number of affordable units throughout the state," said Dobreff. "We are always looking for ways to stretch the funding further."

As an incentive for Missouri corporations to participate in affordable housing production, the state also offers an income tax credit for firms that donate cash, professional services, or real or personal property to a not-for-profit development organization that will use it to build or rehabilitate affordable housing. The units must be affordable to families whose incomes are below 50 percent of the area median. Missouri's Affordable Housing Assistance Program returns to the taxpayer 55 cents on the dollar of the value of the contribution. Annual tax credits of $11 million are generating $20 million each year in private donations, with demand for these credits far exceeding the supply every year.

Another innovation is the use of the Missouri Housing Trust Fund for rent subsidies on tax credit developments. Since its inception in 1996, the trust fund has provided more than $14.7 million in assistance for the lowest-income Missourians. The trust fund will provide more than $5 million in fiscal 2000, generated by a $3 recording fee on all real estate documents in the state.

This money is also reserved to assist very low-income families — those people with incomes below 50 percent of the median. Half the trust fund dollars are reserved for those with income levels below 25 percent of the median.

Typical trust fund uses include emergency home repairs, short-term assistance to pay utility bills, and rehabilitation of emergency shelters and transitional housing. Yet, if developers are willing to set aside units for renters with very low incomes, MHDC will set up an escrow account to ensure there are sufficient resources to subsidize the rents for 15 years.

MHDC partnerships with USDA Rural Development staff in Missouri allow both organizations to leverage their funding. In the past, MHDC has allocated rental assistance funds to Rural Development properties. The state currently provides tax credits to Rural Development properties selected in a national competition and visits the proposed development sites prior to Rural Development submitting them for funding.

"We share their commitment to rural housing so it is a natural partnership," said Dobreff of the Rural Development and MHDC initiatives.

Future initiatives include using HOME money with Rural Development funds in a second mortgage position. This allows both agencies to fund developments without the use of tax credits and the income restrictions that come with the tax credit program. This would especially aid those communities with new economic development initiatives in place.

"Often the median incomes that must be used in the housing tax credit program are so low in some rural Missouri communities that they exclude two-income

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# HUD and Congress Remember HUD's "Forgotten Housing Stock"

*by Michael Bodaken and Sandra Murphy*

Over the past three years, our nation has suffered a terrible affordable housing loss. The strong economy has driven up real estate prices in many places, making it extraordinarily attractive to convert below-market, HUD-assisted or insured apartments to market-rate rents. Not surprisingly, owners of this housing are exercising their rights to "opt out" of their Section 8 contracts and/or "prepay" their HUD-insured mortgages. Dramatically higher rents result. Tenants are threatened with the loss of their homes and the nation with the loss of irreplaceable housing resources. Neither outcome is acceptable.

### An Alarming Loss of Affordable Housing

The National Housing Trust is tracking both prepayment and opt-out data. The data demonstrate that through the end of 1998:

- Prepayments and opt-outs have occurred on over 925 properties involving nearly 98,000 previously affordable apartments.
- Prepayments and opt-outs are truly national in scope, having occurred in 48 states and the District of Columbia.
- The average rent hike when an owner prepays a HUD mortgage is over 45 percent. When this occurs, either the government pays more for a voucher or the tenant is forced to pick up the increased rent.
- Prepayments and opt-outs have occurred in many prime housing markets, which unfortunately led to the loss of affordable housing from neighborhoods with better schools and services. By definition, poor families and elderly people, typically earning less than $15,000 annually, reside in this housing.

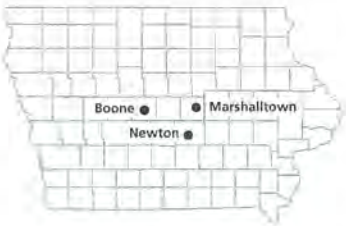
### The Impact on Residents

The dry statistics mask the toll taken on residents of this housing when owners opt out or prepay. Many of us mistakenly believe the loss of affordable housing due to market forces is confined to our nation's cities and urban areas. This is simply not true. Notably, much of the hardship is being felt in rural communities throughout the United States. Anecdotes from Iowa, collected by the Iowa Coalition for Housing and the Homeless, portray the story in vivid human terms.

In Boone, Iowa, the owner of Prairie Village, a 56-unit complex serving elderly and disabled persons, opted out of its Section 8 contract, resulting in a rent hike of over $100 per month. Two residents were forced to move to nursing homes because they could not afford the new rents. One 70-year-old resident moved in with her 90-year-old mother.

Residents averaging 80 years of age faced a very similar situation in Marshalltown, Iowa. Many had lived in the building for over 10 years. Forty-seven of the residents were elderly, single women. All of the tenants were on limited, fixed incomes.

In Newton, another small town in Iowa, the owner of a property serving the elderly and disabled opted out of a Section 8 contract. One tenant, Larry Rooda, is in his mid-40s and is confined to a wheelchair due to a progressive neurological disease. He has lived in this apartment for 20 years. Larry has been looking for another home since March and has been unable to find anything accessible in the community that he can afford, even with a voucher. Larry can use his savings to help him afford the rent increase for a few months, but his father has said that unless they can locate other housing, he will have no choice but to find a nursing home for Larry.




Another woman from the Newton property, who asked not to be identified, did find other housing in the area, but struggled with the expenses of moving. In order to pay the required security deposit on her new apartment, she skipped her car payment for the month and hoped the bank would not take any action against her.

Other tenants planned to sell their cars to afford the new rent, either to end car payments or get some extra income, but public transportation is almost non-existent in Newton as the city has only one public bus.

In the end, most tenants stay because there is no

alternative housing in the community, much less anything affordable. They just "make do," probably by spending less on groceries or needed medications.

This is the human side to the HUD insurance prepayment and Section 8 opt-out housing story.

### The Threat of Future Loss

What lies ahead? Will our nation continue to lose its best investment in affordable housing as owners prepay their HUD mortgages or decide not to renew their Section 8 contracts?

In order to help analyze what is potentially at risk of loss, the National Housing Trust created a database documenting the threat of future loss of housing assisted or insured by HUD. The Trust tabulated, by state, every "below market" Section 8 assisted property listed by HUD that expires between now and 2004. The figures are troubling. According to the Trust data, more than 500,000 apartments are potentially at risk of loss of affordability; that is, their current HUD rents are below market. A similar study conducted by HUD estimated that as many as 600,000 HUD-assisted or insured apartments are "below market." There is no dispute that literally hundreds of thousands of affordable Section 8 apartments are at risk of conversion to market rate rents during the next five years.

### HUD and Congress Begin to Act

The obvious question is how we can correctly manage the incentives to encourage owners to "stay with HUD"? Recently, prompted by stories of elderly persons in Iowa and New Hampshire experiencing rent hikes in excess of 50 percent, Congress and HUD have taken some initial steps to stem the bleeding.

First, HUD has announced a policy to offer higher Section 8 contract rents to owners whose expiring project-based Section 8 contracts carry below-market rents, and who might otherwise exit the housing assistance program. The Trust endorses the basic guidelines: (1) that well-maintained properties that can command rents higher than a certain threshold (150 percent of the local Fair Market Rent, or FMR) will receive HUD-paid rent hikes up to a certain rent ceiling; (2) that the 150 percent FMR rent ceiling may be waived if an owner can demonstrate that street rents for the property are higher than the ceiling and if the property meets certain other specified targeting criteria (such as tight housing markets or occupancy by elderly or disabled people); and (3) that, in return for such renewals, the owners will agree to maintain the affordability for a specific term, at least five years.

HUD's policy addresses only Section 8 contracts expiring before September 30, 1999. Reps. James Leach (R-Iowa), Rick Lazio (R-N.Y.) and James Walsh (R-N.Y.) have introduced legislation (H.R. 202) that would make permanent HUD's ability to raise Section 8 contract rents. H.R. 202 has recently been amended to include the matching grant legislation outlined below. Senators Christopher Bond (R-Mo.), James Jeffords (R-Vt.) and John Kerry (D-Mass.) have produced parallel bills to preserve below-market housing and avoid the tragedies witnessed in Iowa, New Hampshire and elsewhere. Hearings have been held and it is possible that this measure will emerge in the appropriations bill that is expected to be on the President's desk in October. The Trust supports targeting rent increases for properties in tight rental markets or where a nonprofit purchaser agrees to keep the property affordable over the long haul.

The federal government probably cannot provide all the subsidies needed for these apartments. Recognizing that state and local governments have a role to play, a bipartisan measure has been introduced to encourage state and local governments to become involved in saving and recapitalizing HUD-assisted and insured housing. H.R. 425 (the Housing Preservation Matching Grant Act of 1999), co-sponsored by Reps. Bruce Vento (D-Minn.) and Jim Ramstad (R-Minn.), authorizes federal matching grants for state funds contributed to improve federally assisted low-income housing. Funds may be used for loans, grants, acquisitions, operating costs or capital expenditures. So far, 50 members of Congress have co-signed the measure.

### Conclusion

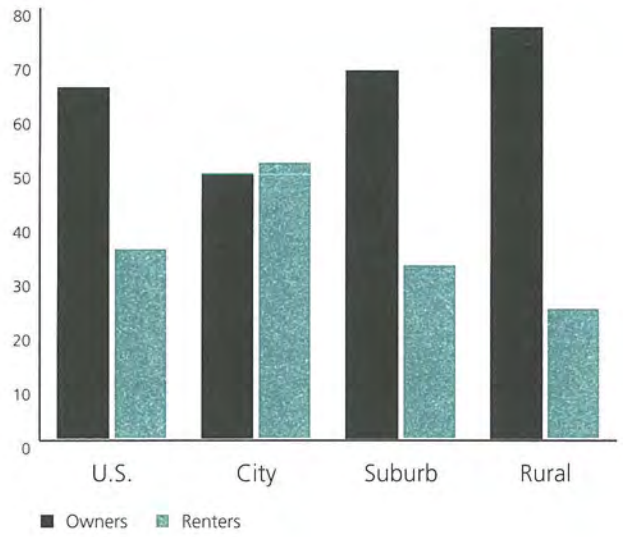
During the next five years, over half a million affordable Section 8-assisted apartments will come up for renewal, roughly 100,000 units each year. Now is the time for federal, state and local governments to craft solutions that protect both the tenants and the housing. Smart, swift action will yield the right outcomes — keeping tenants secure and housing affordable.

Stay tuned.

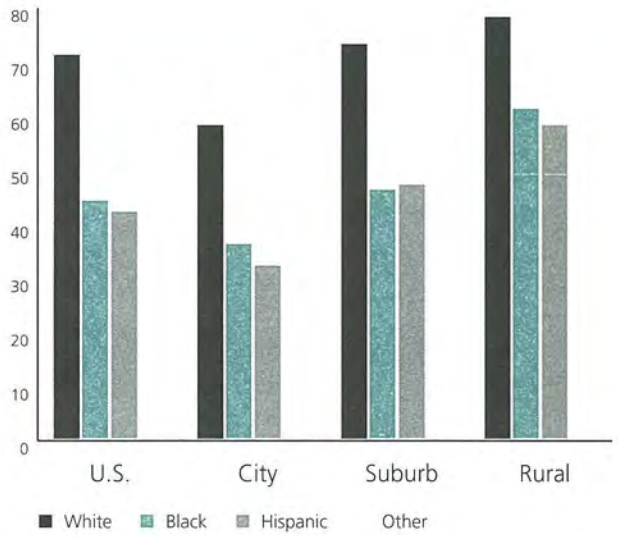
*Michael Bodaken is President of the National Housing Trust. Sandra Murphy is Policy Director at the Iowa Coalition for Housing and the Homeless.* *A different version of this article appeared originally in* Shelterforce, *May/June 1999.*

# Some Facts
## About Rural Rental Housing

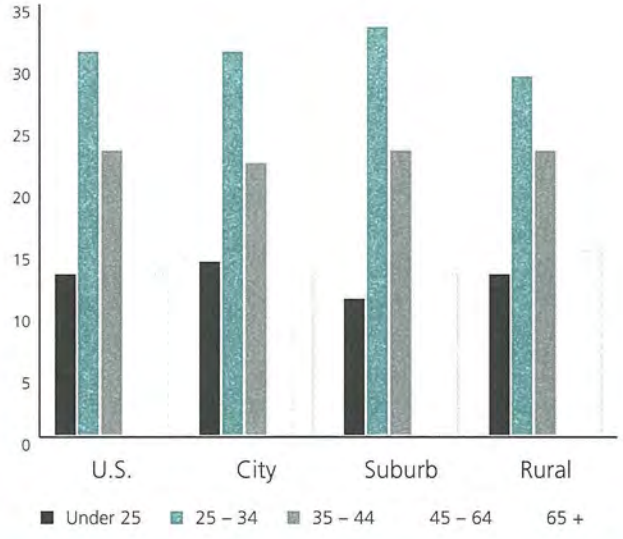
### Homeowners and Renters (Percent)



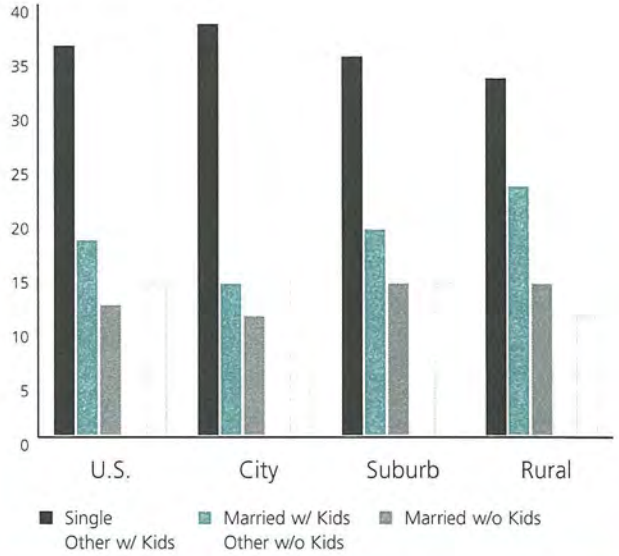

### Homeownership Rates by Race/Ethnicity



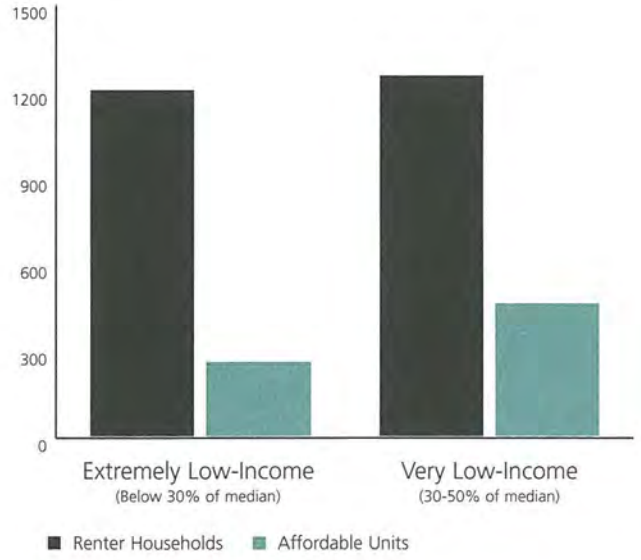

### Renters' Age by Location (Percent)



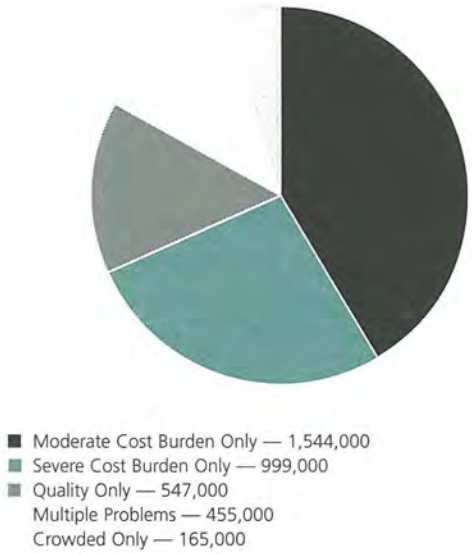

### Renters' Household Type by Location (Percent)



**Supply and Demand, Affordable Private Market Rural Rental Units (Thousands)**




**Housing Problems of Rural Renters (Number of Households)**




**Source for all charts: 1995 American Housing Survey data, analyzed by the Housing Assistance Council. Rural areas are defined as open country and places outside Census-defined urbanized areas (densely settled areas where total population is 50,000 or more).**

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**Combined Costs for Pine Bluff Special Needs and Senior Citizens Apartments**

| USE OF FUNDING | AMOUNT | COST PER UNIT |
|---|---|---|
| Acquisition | $80,000 | $4,211 |
| Construction | $978,000 | $51,474 |
| Contingency | $55,000 | $2,895 |
| Developer's Fees | $15,000 | $789 |
| Soft Costs | $107,000 | $5,632 |
| **TOTAL** | **$1,235,000** | **$65,000** |

The Pine Bluff Special Needs and Senior Apartments were a dream that began to take shape with planning and technical assistance in 1993. Financing for Phase I was secured in February 1994, and construction began with a local work force. The official ribbon-cutting celebrated the opening of the units in June 1995.

Three months later the first senior citizens occupied their apartments, and all the units were completed and occupied by October 1995.

The project is an example of how a small but determined group of people operating in a frontier rural environment can assemble resources to bring substance to a dream. Persistence, creativity, and cooperation combined to build something that will continue to be an important asset to the community for many years to come. The apartments up on the bluff at the entrance to town send a message to county residents and visitors alike: working together we can accomplish great things.

*Maureen Markham is the Manager of the Housing Resource Team of the Washington state Department of Community, Trade and Economic Development. P. Brian Royer is President of Royer and Associates.*

HAC

# Setting the Stage for Development of a New Rural Rental Housing Program

*by Robert A. Rapoza and Ruth Jaure*

This November, rural housing advocates will convene in Washington, D.C. to discuss developing a new program for production of rural multifamily housing. Why a new program, and why now?

Notwithstanding the mainstream media's silence, there is a significant housing crisis in rural America. This crisis has been ignored by others as well. Successive administrations and, more recently, Congress have taken steps to reduce the federal investment in rural housing, particularly rental housing. While cuts in rural housing programs occurred in the conservative Reagan and Bush administrations, Congress always cushioned their proposals. Reductions, however, have accelerated under the "New Democrat" Clinton administration. As a result, rural housing lending is at its lowest level in more than 25 years and the need for affordable rural rental housing is rising.

## The Numbers

Twenty-eight percent of rural American households — 10.4 million of them — have housing problems, according to the Housing Assistance Council's analysis of 1995 American Housing Survey data. For rural renters, the rate of housing problems is much higher, fully 41 percent. Detailed data are presented elsewhere in this issue of *Rural Voices.* A few basic facts bear repeating here, however.

The most common problem is cost burden, defined as paying more than 30 percent of income for housing. Just over 2.5 million rural renters are cost burdened, with 1 million of them paying more than half their incomes for their rent and utilities. Substandard physical quality is a problem for 547,000 rural renters, while 165,000 are overcrowded. (In many rural areas, overcrowded conditions are a form of homelessness, as families will crowd into shared homes since there are no or few shelters.) Nearly half a million rural renter households suffer from multiple housing problems.

## The Section 515 Program

While these statistics confirm the acute housing needs in rural America, they also emphasize the importance of the federal government's role in helping to meet these needs — a role that the government has, until recently, recognized as significant. From its inception in 1963 until 1994, the primary source of federal funding for affordable multifamily housing in rural America was the Section 515 Rural Rental Housing program. The program is administered by the U.S. Department of Agriculture's Rural Housing Service (RHS), successor to the former Farmers Home Administration (FmHA).

For more than 30 years, Section 515 has helped produce over 519,000 units in more than 26,000 projects at a lifetime cost of $14 billion. Under Section 515, RHS makes direct loans to nonprofit and for-profit developers and cooperatives to build rural rental housing. The program loans nonprofit developers up to 100 percent of project costs and for-profits up to 95 percent.

Section 515 is structured to serve the lowest income rural households. The average adjusted income of a Section 515 household is $7,600, and recent research has found that 88 percent of those living in Section 515 housing have *very* low incomes. While the tenant rent is the greater of 30 percent of adjusted income or the rent needed to amortize the loan at 1 percent interest, Section 515 tenants generally have such low incomes that supplemental rental assistance (RA) is required.

Families who live in Section 515 housing are among the most needy and the most underserved. In 1998, 43 percent of the portfolio was occupied by

elderly people; disabled or handicapped people occupied an additional 12 percent; minorities lived in 24 percent of the units. Many small rural towns are better places to live as a result of Section 515 financing. It has filled a gap for decent, affordable housing in many small rural communities — communities where the market might only support assisted rental housing like Section 515.

Over the years, legislation and regulations inadvertently led to some weaknesses in the program. In the 103rd Congress, a congressional investigation found several deficiencies in the Section 515 program. These recent criticisms, along with commitments from the administration and Congress to balance the budget, have led to large cuts in Section 515 appropriations. The most recent drastic cut was in FY95 when funding fell from more than $540 million to $220 million, a 60 percent reduction. In FY99, Section 515 received about $115 million, about one-ninth of 1983's appropriation of about $950 million. The administration's request for FY00 is even less at $100 million. (See Figure 1.) Budget Authority (the cost of the program to the government) has fallen from $295 million in FY94 to $50 million in FY99.

The reductions in Section 515 appropriations mean that today rural rental housing faces two major funding needs — the need for new construction to eliminate the acute shortage of decent, affordable housing for low-income people, and the need to preserve the existing $14 billion federal investment in rural rental housing stock.

### The Section 521 Rural Rental Assistance Program

In 1974, Congress authorized the Section 521 Rental Assistance (RA) program. Section 521 subsidizes tenant rents in units developed with funding from Section 515 or USDA's Section 514/516 farm labor housing programs.

The average adjusted income for tenants receiving RA is $7,300. Eighty-eight percent of the households using rental assistance are very low income and 98 percent are low income. Almost 25 percent of RA tenants are minorities, 12 percent are either handicapped or disabled, 40 percent are elderly, and 75 percent are single women or female-headed households. RA represents about $180 of support to a family each month for shelter expenses.

In FY98, USDA provided contracts for 39,044 RA units, 34,385 of them renewals of existing contracts. The cost for these contracts is about $541 million. RHS estimates that by 2006 the annual appropriation for RA will be more than $937 million. This will provide assistance to 53,222 units, 95 percent of which will be contract renewals. (See Figure 2.) By 2006, sustaining the RA program's current contract renewal obligations will require almost 60 percent more funding annually than was appropriated in FY98. In other words, if RHS appropriations remain constant until 2006, there will not be enough funding to support just the contract renewals.

### The Future

After years of fighting to preserve, reform and promote Section 515, the National Rural Housing Coalition (NRHC) is charting a new course. Committed to a federal policy that provides rental housing to rural low-income households, NRHC recognizes that Section 515's shrinking appropriations will never be adequate. The

CONTINUED ON PAGE 12

**Figure 1 • History of Section 515 Funding (Millions of $)**

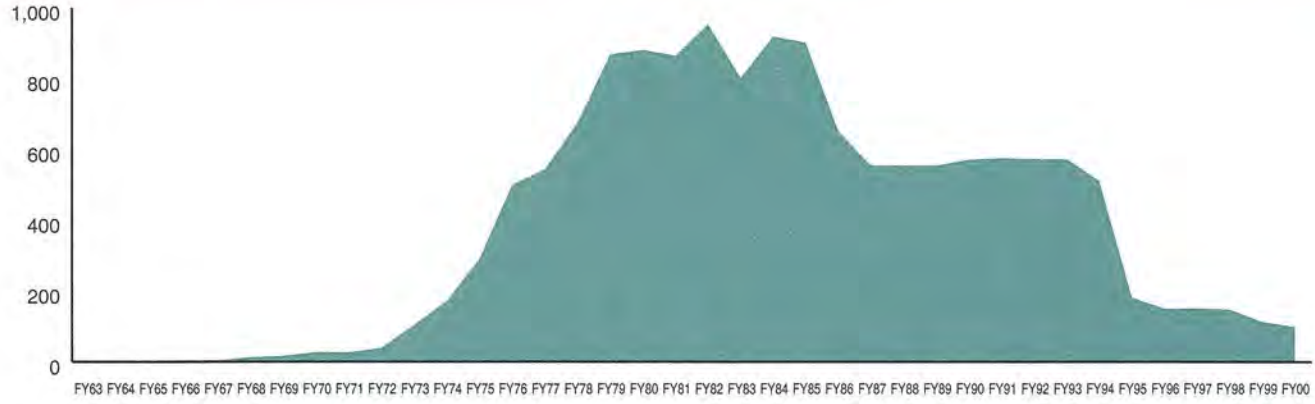

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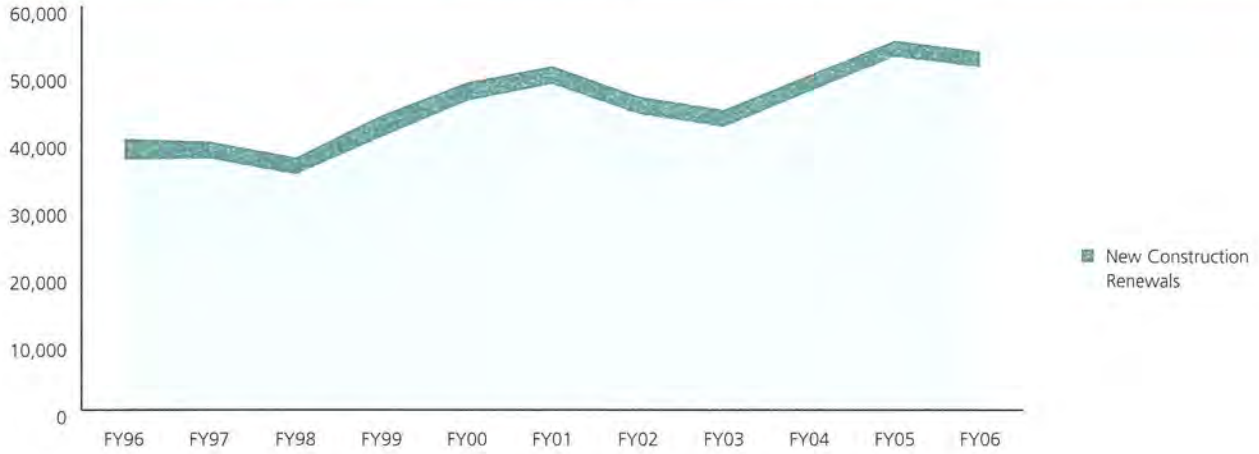
**Figure 2 • Renewal Projections (Units)**




pressing need for additional resources to preserve and maintain Section 515's existing stock and the gradual "eating away" of RHS's overall appropriation by Rental Assistance renewals make it impossible to get additional appropriations for Section 515's new construction program. It is clear that a new rental housing production program is needed for rural America.

With this in mind, NRHC and its sister organization, the National Rural Housing Foundation, are sponsoring a policy symposium to develop a new rural multifamily program. Scheduled for November 8-9 in Washington, D.C., the symposium will feature an interactive roundtable of practitioners who have used various financing models to build rental housing. Roundtable discussions on housing annuities, capital grants, Section 202/811, self-help/farmworker housing, state agency housing bonds, the Low Income Housing Tax Credit, and the Affordable Housing Program will set the stage for symposium participants to develop a new rural rental housing program. A concept paper outlining the resulting program will become the backdrop for a proposed new rural rental housing policy. NRHF has received funding from the BankAmerica Foundation for the symposium. Additional information is available at http://www.rapoza.org or from the Coalition at nrhc@rapoza.org or 202-393-5229.

*Robert A. Rapoza is the Executive Secretary of the National Rural Housing Coalition. Ruth Jaure is a Policy Associate.*

HAC

## HAC Facts

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state, no metropolitan area, and no nonmetro area — where 30 percent of a minimum wage income is enough to pay HUD's fair market rent for a two-bedroom apartment. *Out of Reach: The Gap Between Housing Costs and Income of Poor People in the United States* is available free from http://www.nlihc.org or for $25 (NLIHC members) or $35 (non-members) from NLIHC, 1012 14th St., N.W., Suite 610, Washington, DC 20005, 202-662-1530. The Coalition can also be contacted at info@nlihc.org.

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families in these newly developed areas," explained Richard Grose, MHDC Executive Director. "This defeats the purpose of the new housing and restricts economic development within these areas. This alternative funding would allow us to eliminate some of the income limit problems."

MHDC and Rural Development are also putting the finishing touches on a special Rural Development Preservation Initiative that would attract developers through the use of tax credits and financing to upgrade the older Farmers Home Administration properties with amenities such as central air conditioning and carpet. These improvements would allow them to remain a viable part of the state's rural housing stock.

"In Missouri, our strategy is to continue to search for creative and innovative ways to use our tax credit programs, along with other funding sources, to reach out to more potential affordable housing developers," said Holden. "It is through these measures we will build and preserve the affordable housing we need for our economic future."

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Rural Voices



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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 loans, technical assistance, training, research and information to local producers of affordable rural housing. HAC maintains a revolving fund providing vital loans 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, Inc. (RHS), syndicates rural housing developed with the Low Income Housing Tax Credit.

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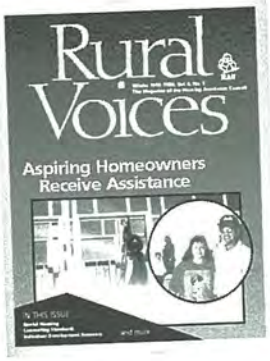


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