LEVERAGING FUNDS FOR SECTION 514/516 FARMWORKER HOUSING DEVELOPMENT

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Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services.

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INTRODUCTION

Background

This report provides feedback and examples illustrating the strengths and limitations of moving Section 514/516 farm labor housing allocations to a competitive application process. In addition, the report focuses on the issue of leveraging other funds in conjunction with Section 514/516 awards, and the role that leveraging may play in evaluating applications under a competitive awards process. The report also provides brief summaries of state affordable housing programs designed to address farmworker housing needs. Finally, the report presents case study examples showing how organizations have successfully leveraged other funding sources for use in conjunction with Section 514/516 funding. These case studies provide examples of the challenges associated with leveraging and how groups have addressed these challenges to using multiple funding sources.

Section 514 loans and Section 516 grants are administered by the U.S. Department of Agriculture's Rural Housing Service (RHS). Section 514/516 applications are processed through state Rural Development offices. Section 514 loans and Section 516 grants may be used to buy, build, improve or repair housing for farm laborers, including persons whose income is earned in aquaculture, and those engaged in some preliminary processing of agricultural products, such as sorting and washing apples. Funds can be used to purchase a site or a leasehold interest in a site; construct housing, daycare facilities, or community rooms; pay fees to purchase durable household furnishings; and pay construction loan interest. Approximately 14,400 housing units have been produced from the inception of the programs in 1962 through March 1998.

Loans are made to farmers, associations of farmers, family farm corporations, Indian tribes, nonprofit organizations, public agencies, and associations of farmworkers. Typically, loan applicants are unable to obtain credit elsewhere at terms conducive to providing affordable housing. In some instances, to serve migrant farmworkers, farmers able to get credit elsewhere may obtain loans at a rate of interest based on the cost of federal borrowing. With this exception, loans are for 33 years at 1 percent interest.

Grants are made to farmworker associations, nonprofit organizations, Indian tribes, and public agencies. A grant may cover up to 90 percent of development costs, the balance of which may be covered by a Section 514 loan. For both loans and grants, funds may be used in urban areas for nearby farm labor, an exception to normal RHS service area boundaries which limit activity to rural areas.

The current awards, as of FY1998, are made generally on a first-come, first-served basis. The project sponsor first submits a pre-application, and upon review and approval, submits a full application seeking project funding. Demand for the programs far outpaces the availability of funds. In FY1998, the loan and grant programs have a total appropriation of $25 million. However, a Housing Assistance Council (HAC) survey of farm labor housing sponsors, performed at the request of RHS, estimated a total of $134,568,733 in program requests. Program requests include estimated funding needs for proposals at all stages of the application process, from the time of preliminary planning and inquiry through the stage where applications have been approved and are waiting for funding. This leaves a funding gap of more than $109.5 million. Thus, demand for program resources exceeds the supply of funds by over 538 percent.[1] Tremendous program demand also impacts the timeliness of funding awards. According to project sponsors, an application generally takes between three and four years to receive funds from RHS.

These concerns have prompted RHS to begin developing a competitive awards process. A competitive awards process should improve the timeliness of funding, in that project sponsors will receive funding within the same fiscal year applications are submitted. Additionally, RHS is considering the inclusion of leveraging criteria when evaluating applications. The goal of promoting leveraging is to stretch Section 514/516 funds further by reducing the amount of Section 514/516 awards needed for individual projects that have secured additional funding sources. RHS interest in leveraging other funding sources for use with Section 514/516 also reflects a general affordable housing development trend towards leveraging. In a funding environment where federal funds are more limited, and where construction and financing costs are rising, leveraging multiple funding sources is becoming more necessary to secure adequate financing for affordable housing projects. HAC's survey of demand for Section 514/516 supports this observation concerning the need to seek additional funding sources. HAC's survey asked project sponsors to indicate whether their projects would use funding sources other than Section 514/516. Of the 72 responses to this question, over 44 percent indicated they would leverage other funds.[2]

Methodology

This research report is composed of three sections, each providing information useful to the design of a competitive Section 514/516 application process and evaluating the role that may be played by leveraging criteria in that process.

The first section of the report provides a summary of two group interviews conducted by telephone with farm labor housing sponsors and technical assistance contractors, who aid less experienced organizations in the preparation of Section 514/516 applications. The group interviews included participants from four West Coast organizations, three East Coast organizations, and one organization based in the Midwest. Group interviews were chosen over individual interviews so that participants could affirm each others' observations or discuss points of disagreement amongst themselves.

The group interviews addressed three general questions, and were guided by HAC staff. The first question asked participants to discuss the potential benefits of a competitive application process and the potential benefits of using leveraging criteria when evaluating proposals. The second question asked participants to respond to the potential limitations of a competitive process, and the potential pitfalls of weighting leveraging when reviewing applications. Additionally, participants were asked to explain their preferences for the role that leveraging should play in the application process. The third question asked participants to describe the difficulties they have encountered using Section 514/516 funds in conjunction with other funding sources. Participants were also asked to present suggestions for improving the compatibility of the Section 514/516 program with the requirements of other frequently used funding sources.

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[1]Housing Assistance Council, *Survey of Demand for the RHS Farm Labor Housing Program*, October 1997, 2-3.

[2]HAC, *Survey of Demand*, 4-5.

The second section of this report provides a brief summary of state programs that support farmworker housing rehabilitation and development. Eight states are profiled, with 19 programs described at least in brief. In many states general affordable housing programs have been used to fund farmworker housing projects, such as the HOME block grant program, the Community Development Block Grant program (CDBG), or the Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP). However, this summary of state programs focuses only on funding sources that explicitly target farmworker housing needs. The programs described all target farmworker housing needs either by direct use for farmworker housing development and rehabilitation, a setaside of funds for farmworker housing projects, or some form of ranking or priority when evaluating applications for farmworker housing projects. While this summary is not exhaustive, and other states may have programs that address farmworker housing needs, the programs described illustrate the range of strategies states have adopted to improve farmworker housing conditions.

The final section of this report presents six case studies documenting projects that have leveraged other funding sources for use in conjunction with RHS funding. Case study proposals were submitted by group interview participants. These case studies were selected on the basis of their successful leverage of other funding sources in conjunction with RHS program funds. Diversity of funding sources, and geographical diversity, were also considerations in selecting projects for case study review. The case studies are brief, and describe the funding sources involved in the projects, the challenges to using these funds in conjunction with RHS programs, and how the project sponsors addressed these challenges. The case studies illustrate the use of such diverse funding sources as HOME, AHP, CDBG, state housing trust fund, a farmworker housing grant program, a farmworker housing tax credit program, conventional loans and other sources. While each project illustrates some of the difficulties associated with leveraging multiple funding sources, each case study also highlights measures that may be taken to successfully leverage funding and the benefits that projects may receive from the leveraging process. Two examples of these benefits would be involving new players in affordable housing development and encouraging project sponsors to provide a greater range of tenant services in order to secure a funding award.

SUMMARY OF GROUP INTERVIEWS

Introduction

Two group interviews with nonprofit farm labor housing sponsors and technical assistance contractors were held, with representatives from four organizations present for each group interview. One group interview included representatives from organizations serving California and the Pacific Northwest, while the other group interview included representatives from organizations serving the East Coast and Midwest regions.

California participants in the West Coast interview were John Mealey of the Coachella Valley Housing Coalition and Tom Collishaw of Self-Help Enterprises (SHE). Charlie Harris and Peter Hainley of CASA of Oregon, and Brien Thane of the Office of Rural and Farmworker Housing (ORFH) in Washington completed the West Coast participant group.

The East Coast group included David Layfield of NCALL Research, a multi-state technical assistance provider, Dennis Harris of Telamon Corporation, John Wiltse of Rural Opportunities, Inc. (ROI), and John Bauknecht of United Migrant Opportunity Services (UMOS) in Wisconsin. Telamon and ROI are both multi-state organizations, with Telamon working primarily in a number of Southeastern states and ROI working in New York, New Jersey, Pennsylvania, Ohio, Indiana and Michigan.

These participants were selected based on their farm labor housing development experience and to reflect geographical diversity. Each of these organizations has substantial experience using the Section 514/516 programs. Each also has experience leveraging multiple funding sources for farm labor housing projects.

Generally, there was only limited disagreement within each group concerning the development of a competitive awards process for the Section 514/516 programs and the role leveraging should play in such a competitive process. However, there was substantial disagreement on leveraging issues between the two groups, with West Coast participants generally desiring to give more weight to leveraged projects in the application process and East Coast groups generally reluctant to grant leveraging significant weight in the evaluation of applications.

Each participant was asked to prepare responses to three broad questions in advance of the group interviews. The first question asked participants to share their thoughts on the possible benefits of a competitive application process for Section 514/516 funds, and the benefits of including leveraging as an application criterion. The second question asked participants to outline what potential pitfalls may ensue from a competitive process. Also, in responding to this question, participants were asked to describe some of the complications they felt leveraging may bring to the competitive process, and what role leveraging should play in evaluating applications. Finally, the third question asked participants about the difficulties they have encountered combining RHS funding with other funding sources, and what suggestions they could offer RHS to make leveraging other funding sources easier. Additionally, in responding to this third question, participants were asked for suggestions for how underserved areas or less experienced housing sponsors could compete successfully in an application process that included leveraging criteria.

For each question, points which received agreement among all participants in both groups will be summarized. Points that achieved consensus within one group will also be summarized separately. A number of salient points were made by individual participants in each group that did not necessarily receive follow-up within the group. These observations will be reported, as well as points which elicited a significant amount of disagreement within each group.

Question One: What do you feel may be the benefits of a competitive awards process for Section 514/516 funding, as opposed to the current process? What benefits do you feel may result from including leveraging criteria as part of a competitive process to award Section 514/516 funds?

This question elicited the greatest degree of agreement among all participants in both groups. All participants felt that a competitive process would improve the timeliness of funding. Under the current system for awarding Section 514/516 funds, an applicant may wait for a number of years before a commitment can be made by RHS. This makes it difficult for project sponsors to maintain site control and the commitments of other project funders. A competitive application process would increase the certainty of funding, with a set date for sponsors to know whether or not their applications have been funded.

All participants also agreed that the inclusion of leveraging as a criterion in the application process would likely help to spread scarce program resources further. If more project applications include outside funding sources in an effort to gain leveraging points in the application process, then more units would be produced with the same number of Section 514/516 dollars.

A number of points were made by individual participants that did not elicit follow-up or further discussion within the groups, or that did not produce consensus within the groups. Some participants felt that the allocation of Section 514/516 funds would be more fair, although East Coast participants were generally concerned that the competitive process should be designed in such a way as to promote geographical diversity in the allocation of program funds. Some participants in each group also felt that a competitive process would promote uniformity of application processing, especially if the competition were administered by the RHS national office. A couple of participants in the West Coast group also felt that having to meet objective criteria in a competitive application process would "level the playing field" because all applicants would have to meet the same criteria in a national competition.

One participant also felt that having leveraging criteria in a competitive process would force applicants to look harder at state resources that may be brought into a project. Other participants also noted that while leveraging will spread Section 514/516 funds further, the great demand for the program will still not be met without advocating for a larger program budget.

Question Two: What pitfalls do you think the regulations should avoid in establishing competitive criteria, especially regarding leveraging issues? What do you see that would not be productive about leveraging criteria? In what way could these problems be avoided? What role do you feel leveraging should have in a competitive process? For example, do you feel that leveraging should be a threshold criterion, a scoring criterion, or perhaps used as a tie breaker?

All participants felt strongly that RHS needs to be more flexible when it comes to taking a subordinate position in projects in order for project sponsors to access more outside funding commitments. It was noted that many private lenders will not invest in a deal unless they have first position, especially when their proportion of the project's funding is greater than the RHS contribution. This point was also repeated in discussing the difficulties of using RHS funding in conjunction with other sources. Since it is difficult to attract other funders if they have to take a subordinate position to RHS, particularly private lenders, it may be more difficult to leverage unless RHS develops more flexible guidelines pertaining to subordination issues.

All participants also agreed that organizations in areas with more limited state and local resources will have greater difficulty meeting leveraging criteria in a competitive application process. For example, some states list farmworkers as a special needs group in their Consolidated Plans. Developers in these states will often receive additional or priority points in HOME applications for farm labor housing projects. According to one participant, groups in states that do not recognize farmworkers as a special needs group often have a more difficult time securing HOME awards. Additionally, all participants agreed that leverage needs to be defined clearly, since there were a number of questions about what kinds of contributions should or could count as leverage. For example, would a land donation, in-kind contribution of services or partial waiver of an application packaging fee be credited towards meeting leveraging criteria when an application is scored?

All participants also felt that leveraging points should be balanced by other application criteria, such as area need, location in an underserved area, serving a migrant farmworker population or deep income targeting. However, participants also felt strongly that many of these terms need to be defined. For example, is an underserved area one with few Section 514/516 projects, or one that has been underserved by affordable housing programs generally? Participants generally felt that they could not propose weights for these various criteria in relation to the weight that should be given leveraging until clear definitions of these terms are provided by RHS. Participants in the East Coast group interview also generally favored giving greater weight to projects that served migrants than to those serving seasonal workers.

The role of leveraging in a competitive application process elicited the most significant area of disagreement between the West Coast and East Coast groups. Each group reached consensus on the role leveraging should play as applications are scored, but each group's position was at odds with the other.

The West Coast group reached consensus that leveraging should be both a threshold and a scoring criterion. Initially, each West Coast participant had a different proposal for the role leveraging should play in the application process, although all of the West Coast participants felt it should be a threshold criterion. Upon further discussion, though, the group agreed that there should be a low threshold for leveraging that would not be difficult for applicants to meet, with additional points available in scoring should an applicant leverage a larger percentage of the project costs above that required to meet the threshold.

The East Coast group did not reach the level of consensus expressed in the West Coast group concerning the use of leveraging in evaluating applications. However, a few points concerning leveraging received general support within the East Coast group. East Coast participants felt that an applicant should get credit for leveraging by demonstrating the effort to leverage outside funding, even if the applicant has not been successful in obtaining a commitment at the time the Section 514/516 application is submitted. One participant felt that Section 514/516 applicants should at least demonstrate that they have applied for HOME or the FHLB's AHP funds. The East Coast participants also felt that additional points should be granted to a Section 514/516 applicant that has already obtained a commitment from an outside source, although there were reservations that this would handicap groups in areas with more limited state and local resources. The East Coast group generally agreed that if leveraging is going to play a role in the application process, it would be better if defined broadly to include leveraging credit for in-kind contributions, such as donated land or the partial waiver of an application packaging fee.

East Coast participants all felt that leveraging should not be a threshold criterion, although two participants would accept leveraging as a threshold, especially if in-kind contributions counted as leverage. Instead, the group expressed more agreement that leveraging should be a scoring criterion. All participants in the East Coast group also felt strongly that leveraging should not be used as a tie-breaking criterion. Finally, the East Coast group felt that area need and migrant projects should receive priority within the application process, more than was evident among the West Coast participants.

Participants also contributed opinions on the competitive process and leveraging that were not discussed in detail, or on which agreement could not be reached. Participants in each of the groups noted that the administration of rental assistance makes it more difficult to develop projects serving migrant farmworkers. These participants suggested that the rental assistance program be adjusted to function as an operating subsidy, so that the loss of income during unit vacancy may be offset. All participants in each group agreed with this proposal, although it would require a statutory change in the rental assistance program.

One East Coast participant had reservations about scoring points for deep income targeting when the income levels served by the proposed project are documented based on the tenants' most recent pay stubs. Since farmworker income can fluctuate radically from one month to the next, he suggested that credit for deep income targeting should be based on an annual income determination.

A number of participants voiced concerns that while leveraging may spread Section 514/516 funds further, leveraged funding sources may also raise project costs and have a negative impact on the affordability of units. One suggestion to address this concern was maintain the current RHS guideline concerning leveraged projects. While not a regulation, when RHS evaluates leveraged projects, the financial package should carry no more debt service than would be the equivalent for a 1 percent loan to provide the entire project financing. Maintaining this guideline, or incorporating it into the new competitive evaluation regulations, would help to discourage leveraging sources that would significantly increase project costs.

Finally, one East Coast participant noted that local opposition to farm labor housing projects is often very great, and this makes it difficult to leverage local resources. This is especially true of local resources linked to local governments, such as CDBG or donated land, since local governments are generally sensitive to the ramifications of local resistance to a project.

Question Three: Have you encountered any difficulties using RHS funding in conjunction with other funding sources? Do you have proposals for using leveraging criteria that will allow underserved areas or less experienced providers to compete successfully for the funds? What suggestions do you have for RHS that might make leveraging other funding sources easier?

There was a great deal of consensus between the two groups concerning the major difficulties in using RHS funding in conjunction with other funding sources. Each group placed special emphasis on adjusting the Section 514/516 regulations or statutes in order to make the program compatible with the federal Low Income Housing Tax Credit (LIHTC). It was observed that limited partnerships are not eligible ownership entities in the statutory language for the Section 514 program. All participants urged RHS to seek the necessary statutory changes to make Section 514/516 compatible with this funding source. Additionally, one participant suggested that such a statutory change should designate that tax credits may only be used in a Section 514/516 project if the general partner in the limited partnership is a nonprofit or public entity. Although East Coast participants also supported making the tax credit and Section 514/516 programs compatible, they generally felt it may be difficult to make the necessary statutory changes given the long history of RHS and project sponsors exploring this possibility.

Participants also agreed strongly that the length of wait for an RHS commitment complicated efforts to leverage. Maintaining site control and meeting the schedules of other funders has been difficult for many developers. It was suggested that an annual application and awards process would make it easier to coordinate applications with other funders' application schedules. Participants also felt that having the federal commitment first attracted other funders to projects, whereas they felt that it was much more difficult to attract outside funding without a commitment from RHS. All agreed, however, that rental assistance was a significant incentive for the awards of outside funders.

Participants also agreed that blending multiple funding sources significantly extended their closing dates. One participant estimated that closing was extended for approximately three to four months for every additional funding source involved in the project. Other participants also noted delays due to leveraging efforts, but provided estimates of between three and four months total delay regardless of the number of funding sources.

The suggestion was repeated that RHS might be more flexible in taking a subordinate position on a loan, especially when outside funding sources account for a significant portion of a project's cost. In addition, participants in both groups believed that RHS should be more sensitive to contingency issues, as other funders had different requirements for contingency funds and replacement reserves. However, while all agreed that RHS requirements were safer for projects, some flexibility concerning these requirements may be required in order to involve more lenders in Section 514/516 projects.

Both groups also noted that there are often differences between the RHS modest housing standard and the standards required by state programs. One participant observed that the minimum standards for square footage in his state's HOME program are greater than the maximum square footage allowed under the RHS modest housing standard. Both groups agreed that RHS needs to make an effort to accommodate building standards if state funding sources are to be leveraged for Section 514/516 projects.

Each of the groups also supported a national competitive process scored by staff at the RHS national office. Most participants agreed, however, that the Rural Development state offices should still play a role in developing the applications, such as doing appraisals, since the state office staff are more familiar with state finance agency programs.

Both groups also support the creation of an advisory board or committee to review the new regulations governing the competitive application process prior to publication as proposed rules in the *Federal Register*. The interview participants felt they could provide valuable feedback for RHS staff involved in drafting the regulations. The advisory board would be composed of farmworker housing development stakeholders, including experienced developers, regional technical assistance contractors and national organizations. The advisory board should also reflect geographical diversity.

The West Coast group discussed what the status of projects "in the pipeline" at RHS will be under a competitive process, an issue not covered by the East Coast group. The West Coast group reached a consensus that FY1998 funds should be used to fund projects with currently approved applications. If the competitive awards process begins in FY1999, any unfunded projects from FY1998 will have to resubmit and compete in FY1999. The West Coast group agreed that these projects should not receive additional points in the competitive process.

The East Coast group reached consensus on a number of issues concerning the challenges of using RHS funding in conjunction with other sources. The East Coast group generally supported the proposal that leverage should be defined broadly to include in-kind contributions, repeating their remarks made in regards the potential pitfalls of leveraging in a competitive process. In-kind contributions counted as leverage would include such things as application credit for donated land or the waiver of part of a technical assistance contractor's application packaging fee. The East Coast group also repeated its support of granting points on an application for attempting to leverage other sources, regardless of whether or not an application has secured a commitment.

Another point strongly supported by East Coast participants was that the competitive process would have to be structured to emphasize geographical diversity in the allocation of Section 514/516 funds. The group felt that additional points should be granted an application for a project proposed for an underserved area. East Coast participants also felt that this would provide balance in the evaluation of applications for projects in areas with limited leveraging resources. However, the East Coast group also noted that there needs to be a clear definition of underserved areas.

Participants in each group also offered opinions concerning the difficulty of using RHS funding in conjunction with other sources that were not discussed in detail, or on which agreement was not reached. One West Coast participant expressed a concern about how the per unit hard cost would impact scoring in the application. His concern was that projects in high cost areas would be handicapped in the application process if the per unit cost of projects was given too much weight in the competitive process. He felt that if per unit cost is considered when evaluating applications, it should be on the basis of RHS funding per unit, rather than total development cost per unit.

Another concern with scoring applications concerned the use of a "readiness to proceed" criterion. Some participants noted that if this criterion is used in evaluating applications, the "bar should not be set too high," especially given that groups will be spending more time trying to leverage other funding sources. Nonetheless, participants in both groups felt that there should be some minimum threshold of readiness a project sponsor must meet. One participant proposed that if readiness is scored in the applications, points should be received as long as an organization has preliminary drawings, site control and a letter of agreement.

Demonstrating community support was another possible scoring criterion that was addressed by some interview participants. Many in the two groups felt that community support would have to be clearly defined. For example, does it mean the support of local government, other local service providers, or something else? While some participants felt that community support should be scored in Section 514/516 applications, most felt that it should not be a scoring criterion because of the prevalence of local opposition to farm labor housing projects.

Another point made by a couple of participants addressed the willingness of state Rural Development offices to adjust to state housing program requirements. A few participants noted that they had been able to secure case-by-case exceptions from Rural Development for different projects, and that these efforts by Rural Development offices had been very helpful. However, the participants also believed that the process for making program exceptions in order to use Section 514/516 funds with state-run programs needs to be codified. This would make it easier to use Section 514/516 funds with state programs, and reduce the additional time and effort that is required to negotiate case-by-case exceptions with Rural Development.

Finally, one East Coast participant suggested that the technical assistance contractors could provide technical support for an advisory board to review the new regulations establishing the competitive application process. Another East Coast participant observed that the stakeholder process had been very productive in the reinvention of the Section 515 program.

Summary: East and West Coast Differences

There are a number of issues on which the East Coast and West Coast groups disagreed, primarily concerning the role that leveraging should play in a competitive application process, program access for less experienced organizations, and ensuring geographical diversity in awarding program funds.

- East Coast participants generally did not favor a large role for leveraging in evaluating applications. They also agreed that leveraging should not be threshold criterion, at least not without qualification allowing credit for in-kind contributions or for demonstrating an effort to leverage other funding. The group agreed that leveraging should be a scoring criterion. Other criteria, such as working in underserved areas or proposing a migrant housing project, should be weighted to balance against limited points for leveraging. The group observed that Western states have programs that target farmworker housing needs, while these programs are less common, and smaller, in Eastern and Midwestern states. The West Coast participants supported having a minimal leveraging threshold, that leveraging also be a scoring criterion, and that additional points be available for leveraging a greater share of project financing.

- Both groups felt that the program should be accessible to less experienced project sponsors, but disagreed concerning how a competitive process would impact less experienced applicants. The East Coast group expressed concern that a competitive process may exclude less experienced farm labor housing sponsors. West Coast participants observed that continuing grants for technical assistance contractors to help package Section 514/516 applications should ensure that there will be strong applications from less experienced groups.

- Both groups agreed that geographical diversity of funding awards is desirable, but disagreed concerning the emphasis that should be placed on this factor. East Coast participants hoped the competitive process would be structured to promote geographical diversity in awarding funds, especially to underserved areas. West Coast participants noted the concern for geographical diversity of awards, but gave it less weight. The West Coast group felt that technical assistance contractors would contribute to the geographical diversity of proposed projects.

Summary: Points of Agreement

Despite the significant disagreement between the two groups concerning the role of leveraging in a competitive application process, the groups agreed on a number of points.

- A competitive application process will improve the timeliness and certainty of funding.

- Encouraging leveraging will spread limited program resources further.

- Leveraging needs to be clearly defined by RHS, with the East Coast group supporting a broad definition that would include points for in-kind contributions and for demonstrating an attempt to leverage other funding.

- Organizations in areas with limited state and local resources will have more difficulty leveraging other funding, and therefore competing for Section 514/516 awards, if other criteria do not balance points for leveraging. Other criteria, such as working in underserved areas and area need, have to be clearly defined by RHS.

- Adjusting the Section 514/516 programs so that the LIHTC can be used in farm labor housing projects will improve access to a significant source of funding.

- RHS needs to be more flexible in taking a subordinate position in deals, and RHS needs to issue guidance to the state Rural Development offices on how to evaluate leveraged projects and respond to the different financial and housing standards held by other funders. Accommodating multiple funding sources significantly extends the development time frame, and in some cases raises project cost.

- The competition should be administered and scored through the RHS national office, while maintaining a supportive and evaluative role for the Rural Development state offices because of their links to state housing finance and housing development agencies.

- RHS should establish an advisory board of farm labor housing stakeholders to review proposed rules for the competitive process prior to publication in the *Federal Register*.[3]

[3] RHS is planning to publish proposed regulations during summer 1998, so that a final rule and competitive application process will be in effect for FY1999 fund use. RHS appreciates the recommendation of forming an advisory board, but given this timetable for rule making, and the opportunity for experienced project sponsors to provide feedback through this report's group interviews, RHS will not be able to act on this suggestion.

STATE PROGRAMS SUPPORTING FARMWORKER HOUSING DEVELOPMENT[4]

Introduction

Only a few states have housing programs providing funding for farmworker housing development and rehabilitation. However, in many states with large farmworker populations, nonprofit housing developers have been able to access general affordable housing financing mechanisms, such as HOME, state housing trust funds or CDBG. The summaries which follow focus only on states that have programs specifically targeting farmworker housing needs. The programs described either directly serve farmworker housing development, use ranking criteria in the application process that give priority to farmworker housing projects, or have specific setasides of program funding for farmworker housing development.

While farmworker housing projects around the country have benefitted from state and federal low-income housing programs, the state programs that are summarized here represent most of the significant state investments explicitly focused on farmworker housing needs. This list of state programs is probably not exhaustive. Some states may have once had farmworker housing programs and discontinued them, while others that formerly had distinct farmworker housing programs may have consolidated their funding with general affordable housing programs. The summaries are therefore meant to show the variety of mechanisms that states are using to support farmworker housing development efforts.

California

California's support of farmworker housing development has probably been the most extensive among all the states. California has not only provided financing mechanisms to farmworker housing developers, but the state also maintains its own migrant centers that house migrant farmworkers during peak season and provide a range of resident services.

California has a grant program that targets farmworker housing development. The Farmworker Housing Grant Program was enacted in 1977. It requires a 50 percent match from the nonprofit, cooperative housing corporation or public agency sponsor. Funding priority is given to projects that are designed for ownership by agricultural employees, serve households in the greatest need, and are intended for permanent rather than seasonal use. In the past, projects accessing this funding source often generated matching funds through the Rural Housing Service Section 514/516 Farm Labor Housing programs or Section 502 Direct Homeownership loans. Additionally, matching funds for projects receiving Farmworker Housing grants have used CDBG and assistance through other affordable housing programs available from the California Housing Finance Agency (CHFA). Over the last several years, the Farmworker Housing Grant Program did not receive an appropriation from the state legislature. In FY1997, however, the legislature appropriated $4 million for the program, with $1 million of this appropriation set aside to fund two demonstration programs.

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[4]This summary of state farmworker housing programs updates material presented in three Housing Assistance Council reports. The reports are *Who Will House Farmworkers?: An Examination of State Programs*, June 1986; *Housing Resources for Older and Retired Farmworkers: Public and Private Options*, January 1990; and *Who Will House Farmworkers?: An Update on State and Federal Programs*, January 1992.

CHFA also administers a Rural Predevelopment Loan Fund, which provides low-interest loans to sponsors of rural and farmworker housing. The loan fund will cover land options and site acquisition, legal, architectural, and engineering fees, and other costs associated with moving a project to the approval stage for long-term financing. Reimbursements are revolved into the fund for future use by other borrowers.

California also operates 26 migrant service centers. These centers provide housing and services such as childcare, healthcare and job referrals for a period of approximately three months during the state's peak growing season.

Finally, the California legislature also enacted a Farmworker Housing Tax Credit program in FY1997. However, the program has not yet been used, since the program's regulations have not yet been written. It is very likely that the program regulations will be written so that the tax credits may be used in conjunction with Section 514/516 funding, as is the case with Oregon's Farmworker Housing Tax Credit for Lenders program.

Florida

While Florida does not have a direct funding program similar to California's Farmworker Housing Grant Program, the state has provided significant setasides for farmworker housing development in two of its affordable housing programs.

The State Apartment Incentive Loan Program (SAIL) was created in 1988 with an initial appropriation of $14.4 million. The program provides both first and second mortgages for the construction or substantial rehabilitation of rental housing for very low-income tenants. Ten percent of SAIL funds are set aside annually for farmworker housing projects, with the remaining funds split equally between family and elderly housing. First mortgages are available to nonprofit and public entities, but SAIL funds also are available to eligible sponsors who use tax-exempt or taxable bond financing for the first mortgage, if at least 20 percent of the units in the project are provided to very low-income households. The interest rate on this second mortgage for farmworker housing projects is 1 percent, and interest may be deferred if an annual analysis of cash flow indicates an insufficiency in repayment ability.

Florida also has a Predevelopment Loan Program (PLP), which provides funds for administrative expenses, market and feasibility studies, consulting fees, initial operating expenses and development activities. In FY1998, the program received an appropriation of $4 million from the state legislature, 50 percent of which is set aside for farmworker housing projects. The funds can be used for preliminary development activities necessary to secure the financing necessary to construct or rehabilitate owner-occupied single-family or rental housing affordable to very low-income, low-income and farmworker households. Each project sponsor is eligible for a loan of up to $500,000. Sponsors may receive $25,000 as a non-interest bearing advance for market and feasibility analyses, legal fees, boundary surveys, administrative expenses and other related pre-acquisition phase activities. Loans in excess of the initial $25,000 will have an annual interest rate of 3 percent. The loans may be used for site acquisition expenses such as soil tests, appraisals and land.

Maryland

In 1982, Maryland enacted the Migratory Worker Housing Facilities Program. This program provides low-interest loans for the rehabilitation of farm labor camps. There is a $75,000 cap on loans to improve any one camp, and a $200,000 limit to each applicant. Loans are made for up to ten years, and there are some resale restrictions to assure that the camps remain available for occupancy by farmworkers.

Michigan

Michigan provides two types of farmworker housing grants through its Migrant Labor Housing Construction Grant Program. Enacted in 1970, this program provides grant funds for housing improvements to farm labor camps, or for new construction. The program provides grants up to $5,000, and requires a 50 percent match from the owner. It is primarily used for improvements such as installing a new shower building, replacing heating equipment, or installing new screens. The funds may also be used to purchase a mobile home. The program was unfunded between 1975 and 1985, at which point it began to receive appropriations again.

The second type of grant available through the program consists of a $2,000 grant per living unit for self-contained units that meet USDA/Rural Development standards. In order to be self-contained, a unit must have its own kitchen, toilet, and shower facilities. The maximum grant available is for the construction or rehabilitation of up to five units, or a total of $10,000.

New York

New York has a number of funding sources that may finance farmworker housing development. The most recently developed is the Farm Labor Housing Demonstration Program, begun in FY1997. The program has $2 million in funding, from which loans are made for on-farm housing development. The funds are disbursed by the state to farm credit institutions, which administer the program locally. Loans are made at two points below Treasury rates. Farm credit institutions pay a small fee in order to participate.

New York's Rural Preservation Program (RPP) was established in 1980. The state Division of Housing and Community Renewal contracts with nonprofit and community-based housing corporations, which are designated as Rural Preservation Corporations (RPC), to perform housing and community renewal activities. As of May 1997, there were 72 RPCs involved in the program. Once the organizations meet their contractual obligations, their grants are renewed as long as funds are available. Program funds must be matched by other funds equal to at least one third of the RPP grant. These matching funds must be used to defray the cost of the activities set forth in the contract, and may be either cash contributions or services. The grants are administrative funds which allow RPCs to perform a number of housing and community renewal activities. A majority of the RPCs are using the funds for planning and development of capital projects. Funds can also be used to administer "soft services," which include housing management, loan and grant application assistance, and homeownership financial counseling. The funds must be used to serve client populations with income under 90 percent of area median income. Eligible areas are rural areas that have significant unmet housing needs and are characterized by substandard housing stock or lack of affordable housing opportunities. Since state fiscal year 1985-1986, initial grants are subject to a limitation of $100,000 per year until a total of $300,000 is reached. Subsequent grants are limited to $65,000 per year until the program cap of $1.3 million is reached.

New York also administers a Rural Rental Assistance Program (RRAP), which provides rental subsidies over a period of between five and 15 years. Projects qualifying for the RRAP must be financed with mortgages from the RHS Section 515 program. Eligible sponsors apply to the state for RRAP assistance, then submit an application to the RHS Section 515 program. A subsidy contract for RRAP is prepared after verifying that construction is completed. Subsidies under the RRAP are equal to the difference between 30 percent of the tenant's monthly income and the tenant's monthly housing expenses. As of FY1997, the subsidy cost per unit for new projects is $2,300 per year.

While the RPP and RRAP programs do not specifically target farmworker housing needs through setasides or ranking criteria in the application process, they have been used to develop affordable farmworker housing projects and represent a significant source of leveraged funds in New York's rural areas.

Finally, New York also has a homelessness assistance program which may be accessed for farmworker housing development. New York includes farmworkers as an eligible group within this homelessness assistance program. The Homeless Housing Assistance Program (HHAP) provides grants for housing development. However, the program provides no rental assistance or operating subsidies, and project sponsors are obliged to provide services for homeless individuals and households in conjunction with the housing developed. This has made it difficult for farmworker housing sponsors to use this program in projects that will remain affordable to farmworkers.

Ohio

Ohio has a program that provides grants for infrastructure development, new construction and upgrades of migrant housing. The Agricultural Labor Camp Improvement Program (ALCIP) provides matching grants to the owners and operators of migrant housing. Applicants receive funds on a scheduled basis, with 10 percent of the grant award available in the predevelopment stage, 70 percent during construction or rehabilitation, and 20 percent at the conclusion of construction. All funds must be returned to the state if the migrant camp is not officially licensed by the state. In FY1997, the program had $250,000 in funding. A small amount of the annual appropriation is used by the state for administrative costs, with the rest disbursed as grants.

Oregon

Oregon has a variety of programs to support farmworker housing development. The state has a Farmworker Tax Credit for Lenders, which provides a tax credit equal to 30 percent of the interest collected on a farmworker housing project loan each year for up to 10 years. In addition, Oregon has an Affordable Housing Tax Credit program that will enable a bank to reduce its interest rate by up to 4 percent, for a period of 20 years, provided that the savings are passed along to the tenants in the form of lower rents. While this second tax credit program supports affordable housing development generally, it has been used in the state to develop farmworker housing in conjunction with the Farmworker Tax Credit and other state-sponsored financing programs.

Another program administered by the state is the Oregon Rural Rehabilitation Loan Fund. It was created to provide resources for farmworker and rural affordable housing development. This program provides 1 percent loans for nonprofit sponsors and 3 percent loans to for-profit developers, with a maximum term of 10 years. The maximum loan is the lesser of $100,000 or 35 percent of the project cost, there is a 2 percent loan fee, and repayment terms are flexible. The loan can be disbursed during predevelopment. The program can be used for construction, permanent financing, or both. Since the program's inception in 1993, it has added more than 175 units of farmworker housing through loans to seven projects.

Finally, Oregon administers a grant program which provides financial assistance to projects housing very low-income families or individuals. The HELP program receives its funding through the U.S. Department of Housing and Urban Development under the McKinney Homeless Assistance Act. Historically, the state has set aside funds for projects that serve special needs populations, including farmworkers, homeless people, and victims of domestic violence.

Washington

The Washington State Housing Trust Fund is currently funded by a $50 million biennial appropriation from the Washington legislature. The Trust Fund supports affordable housing efforts generally, but it does not have a setaside or priority for farmworker housing projects. In 1996, the legislature appropriated $2 million for the Trust Fund to administer specifically for farmworker housing development.

Since 1996, the Trust Fund has used this money to support four projects with 117 units, housing 744 individuals. For every Trust Fund dollar, four dollars in other funding sources were leveraged, with the Trust Fund investing an average of $17,000 per unit.

The Trust Fund awards are very flexible in their eligible uses, and are an attractive funding source because they can also be used for predevelopment activities. In February 1998, the state legislature will be considering another farmworker housing appropriation for the Trust Fund of $2 million.

CASE STUDIES

Self-Help Enterprises:
Bear Creek Housing Community, Planada, California

In 1980, Self-Help Enterprises (SHE) acquired the Bear Creek site, an existing farm labor camp in need of rehabilitation. Bear Creek has 37 units. Thirteen are 900 square foot, two-bedroom units. There are also 24 three-bedroom units at 1,020 square feet. Nearly all of the tenants are very low-income, and the project serves seasonal farmworkers, most of whom are families.

SHE used a variety of funding sources in conjunction with a Section 514 loan to acquire and rehabilitate the property. In 1992, SHE acquired more financing through the USDA Section 514 program to connect the project to the area's Community Service District for sewage disposal, and in 1995 received a loan for further rehabilitation work from California's HOME program.

Bear Creek Funding Sources

Funding Source	Amount
Acquisition and Initial Rehabilitation, 1980	
DOL Economic Stimulus Program	$126,000
CA Farmworker Housing Grant	$442,000
USDA Section 514 Loan	$496,300
Connection to Community Service District, 1992	
USDA Section 514 Loan	$363,100
Rehabilitation, 1995	
CA HOME Program	$452,500

The project was originally proposed as a co-operative, but USDA insisted on SHE ownership and management in order to receive the initial Section 514 loan for acquisition and rehabilitation in 1980. The project also received a $126,000 grant from the Department of Labor's Economic stimulus program, as the project would make a substantial contribution to meeting the housing needs of farmworkers in the area. Additionally, SHE obtained a California Farmworker Housing Grant. The Farmworker Grant program requires a 50 percent match of funds, which was covered by the Section 514 loan for acquisition and rehabilitation.

The second Section 514 loan was obtained in 1992, to connect the project to the Community Service District for sewage disposal. It also is a 1 percent loan with a term of 33 years. SHE had been depleting its replacement reserve in order to address ongoing maintenance problems. By 1995, many of the structures at the site required further rehabilitation, as well as lead paint abatement. SHE sought financing for this work through California's HOME program. The HOME loan's payment and interest are deferred until the USDA loans have been paid in full.

SHE staff feel that the USDA staff were very flexible in working with the state's other funding sources in the project. Since the HOME loan is deferred, it allowed rehabilitation of the units without substantially increasing costs, and therefore did not raise the base rent on the Bear Creek units. Additionally, this limited the amount of additional rental assistance that might have been required if SHE had to make payments on the HOME loan in conjunction with the Section 514 loan payments. Finally, because the rehabilitation work in 1995 involved lead paint abatement, some tenants had to be displaced during the work. SHE staff note that California USDA staff were very helpful as SHE sought alternative living arrangements for these tenants during the course of the work.

SHE staff noted that the primary difficulty with leveraging funding for Bear Creek involved accessing the HOME funds in 1995. It took SHE more than nine months to get the closing documents on the HOME loan finalized and signed. SHE staff attribute this to the fact that at the time the HOME application was made, the program was still very new and state program staff had limited experience administering the program. However, they note that state HOME program staff have much greater experience now that the program has been in place for a number of years, and other projects accessing HOME do not encounter the same degree of complication in reaching a closing.

SHE staff also attribute the very favorable terms of the HOME loan to the fact that the HOME program was very new when the Bear Creek application was initially made in 1994. SHE staff feel strongly that it would be quite difficult to get such favorable terms through the HOME program now that the state has more experience with the program and has established firmer guidelines for how the state would like the funds used. Despite having few difficulties combining funding sources on the project so far, there have been difficulties in seeking leveraging for a proposed expansion of the project.

SHE is proposing to develop 69 additional units of farm labor housing at the site over the next five years. SHE had to secure a conditional use permit from the county, since the property has an agricultural zoning designation. SHE has also submitted a Section 514/516 application to RHS for this proposal. SHE is seeking other funding sources that reduce the amount needed through Section 514/516, but has encountered a number of obstacles in this regard.

SHE at first explored the use of Low-Income Housing Tax Credits, but cannot leverage these funds because of ownership entity restrictions for Section 514/516. In order to use the tax credits, there has to be a limited partnership entity created to own the project and syndicate the credits. However, a limited partnership is not an eligible ownership entity for Section 514 loans.

SHE staff feel that if the Section 514/516 program can be made compatible with the LIHTC program, then this would offer them access to a substantial source of leveraged funding.

Another difficulty involves zoning issues. The county zoning ordinance will not allow a split of 20 acre parcels in an agricultural zone, so that the project expansion may be funded and developed as a separate project. To address this complication, SHE staff have requested that USDA take its security for the project expansion on the existing project. However, USDA staff have expressed doubt that this can be done. SHE staff are continuing their efforts to resolve these issues, and continue to seek funding from a variety of sources for the project expansion.

CASA Of Oregon:
Reedville Project, Reedville, Oregon

CASA of Oregon's farm labor housing project at Reedville will have 49 units. Of these, there will be 20 two-bedroom units, 20 three-bedroom units, eight four-bedroom units and one manager's unit. The project will serve exclusively farmworkers, primarily seasonal, and most will be very low-income households. All of the units have rental assistance.

This project has leveraged a wide array of funding sources in conjunction with Section 514/516 funds. The state has committed funds through three programs, in addition to funding received through Oregon's HOME program and the CDBG program. This project thus includes federal funding, state funding, and local funding through a conventional loan for construction, Although Section 514/516 funding remains the largest source of project financing.

Reedville Funding Sources

Funding Source	Amount
Acquisition	
CDBG	approximately $200,000
Construction and Permanent Financing	
State Housing Trust Fund	$100,000
HELP Program	$75,000
CASA (Revolving Loan Funds)	$135,000
USDA Section 514 Loan	$1,200,000
USDA Section 516 Grant	$1,300,000
Conventional Loan	$535,655
Farmworker Housing Tax Credit	$133,665
HOME Loan	$303,457
Gap Financing	
HOME Loan II (Tentative)	$53,415

Oregon's Farmworker Housing Tax Credit for Lenders provides a tax credit equal to 30 percent of the interest collected on a farmworker housing project loan each year for up to 10 years. The HELP program provides funding for projects serving the needs of the state's homeless population. Historically, the state has set aside funds for projects that serve special needs populations, which includes farmworkers.

The conventional loan was made at a reduced interest rate by U.S. Bank, now First South Dakota Bank.

This was possible by using the Oregon Affordable Housing Tax Credit, which allowed the bank to reduce its interest rate by 4 percent to a rate of about 5.1 percent, although this rate is not yet fixed. Washington County also contributed CDBG funds, which were used for site acquisition. The project is also financed by a loan from Oregon's HOME program. In addition, CASA also made a loan to the project from a revolving loan fund.

CASA staff are currently seeking a second HOME loan for gap financing. CASA staff are exploring other alternatives, especially grants, for gap financing should these funds not be committed.

There were a number of challenges to leveraging so many funding sources and using them in a 514/516 project. One issue that arose involved the conventional bank loan for construction. CASA had to negotiate a parity agreement between USDA and U.S. Bank/First South Dakota to resolve issues concerning which entity would take a subordinate position. In fact, CASA staff observed that working out subordination issues between all of the funders has significantly increased the amount of time and work involved in securing project financing.

CASA staff stated that the more complicated network of funding sources for the Reedville project has stretched out the project time line by between two and three years, since each new funder has different requirements and restrictions which must be resolved with those of the other funders.

Since all of the units will have USDA Section 521 rental assistance upon project completion, leveraging will not affect the project's affordability from a tenant perspective. However, from the developer's perspective, leveraging has somewhat increased project costs. CASA staff estimated that leveraging the conventional loan will increase the project's debt service by $35,000 per year, while the HOME loan will increase debt service by $23,000 per year. Nonetheless, the total debt service still remains below what it would be were the project funded entirely by a 1 percent Section 514 loan.

When so many funding sources are involved in a project, the challenges described in coordinating the requirements and schedules of different funders may substantially increase costs. In the case of the Reedville project, CASA staff were able to limit the cost impact of leveraging by accessing funding sources that are primarily grants or subsidized loans, and working closely with the funders to address their differing requirements. Despite the complications of securing such a variety of funds, leveraging so many funding sources has allowed a large project that will serve many farmworker households to go forward towards construction.

Delmarva Rural Ministries and NCALL Research, Inc.
William Hughes Apartments, Eastville, Virginia

William Hughes Apartments is a 34-unit farm labor housing project sponsored by Delmarva Rural Ministries (DRM), with technical assistance provided by NCALL Research, Inc. The project will serve exclusively farmworkers, and is located in Eastville, Virginia. Some of the units are for year-round rental, while some are reserved for seasonal rental. The year-round units include four one-bedroom units of 670 square feet, eight two-bedroom units of 854 square feet, and four three-bedroom units of 1,038 square feet. There are six seasonal two-bedroom units of 675 square feet, 10 three-bedroom units of 800 square feet, and two four-bedroom seasonal units of 925 square feet. The seasonal units are furnished.

The project currently has three other funding sources in addition to USDA Section 514/516 funds. The Housing Assistance Council provided one loan for an option on the site, followed by another loan to acquire the site. The Virginia Water Project contributed grant funds for onsite water and sewer development, as there are few communities in this area of the Delmarva Peninsula with public water and sewer systems. Finally, the project received an AHP grant of $153,000 through the FHLB. The grant was made in the form of a 20 year forgivable loan, provided through Shore Bank, an FHLB member. However, Section 514/516 funds account for the largest share of project financing despite leveraging other funding sources. While this project did not leverage a large amount of outside funding, site control issues and the need to provide extensive resident services to secure the AHP funding make an interesting case study.

Eastville Funding Sources

Funding Source	Amount
Acquisition and Predevelopment	
Housing Assistance Council	$110,000
Virginia Water Project	$20,400
Construction and Permanent Financing	
Section 514 Loan	$1,190,750
Section 516 Grant	$1,084,709
Federal Home Loan Bank, AHP	$153,000

Eastville is in a very rural area, where few communities have public water and sewer systems. The Virginia Water Project (VWP) funds were secured for onsite water and sewer development. The award from VWP provided grants of $600 per unit to offset the water and sewer development costs.

NCALL and DRM received the AHP funds only after three application rounds. They received an AHP commitment in 1997 only after receiving a letter from USDA stating the project was likely to be funded that year. The AHP funds are a 20-year forgivable loan, as long as the project serves low-income farmworkers for that period. A portion of the AHP funds would have to be refunded to FHLB if the affordability status of the project changes during that time.

In order to maximize points in the AHP application process, NCALL and DRM committed to provide onsite services for tenants. A variety of services will be provided in order to meet the terms of the AHP funding. NCALL will provide homeownership counseling workshops. The local Board of Education has agreed to sponsor summer tutoring for youths at the project. The Cooperative Extension Service will provide budget counseling, and pesticide awareness training onsite. Finally, a local community college has committed to providing English as a Second Language classes at the project.

The primary difficulty in leveraging funds was the length of time required to receive a commitment of 514/516 funds from USDA. Site control was difficult to maintain in the time between submitting a Section 514/516 application and USDA commitment of funds. This delay necessitated the HAC loan for site acquisition. When discussing this case study with HAC staff, NCALL staff suggested that USDA create a farm labor housing site acquisition program, similar to the USDA Section 523/524 program for self-help housing site acquisition.

One of the other leveraging challenges faced by NCALL and DRM was that Shore Bank required first position on the mortgage, even though the bank's contribution is relatively small. DRM and NCALL were able to negotiate with Rural Development, which agreed to take a subordinate position on the mortgage.

The AHP funds have forced DRM and NCALL to be more creative in establishing resident services than has been the case in past DRM and NCALL farm labor housing projects. However, NCALL staff noted that this has led to a project with an improved quality of life for tenants.

One final observation of NCALL staff is that leveraging had a major impact on staff time in preparing applications and securing the resident services necessary to compete successfully for the AHP funds.

United Migrant Opportunity Services
Aurora Center, Berlin, Wisconsin

United Migrant Opportunity Services (UMOS) operates the Aurora Center during the seven-month agricultural season to provide seasonal housing for migrant farmworkers. At the beginning of the season the project functions partially as an emergency shelter for those who have not yet found a job or are short of cash during their first pay period. As the season progresses, some tenants find employment and begin paying rent, while some leave to look for work elsewhere. The project serves families with annual incomes of $5,000-$6,000. Individual farmworkers may be served if there are not enough families to fill the project.

The Aurora Center has 32 units, ranging from 900 to 925 square feet. There are eight one-bedroom and 24 two-bedroom units. Its facilities include a Head Start center and a community center with recreation space, laundry room, and supportive services. Residents may obtain emergency assistance for food, car repairs, health care, and rent. Counseling and subsidies are available to those who want employment training counseling or need alternative housing. Maintenance and administration costs are shared with another UMOS project located nearby. Many of the support services are funded through UMOS's general budget for statewide services to farmworkers.

Aurora Center Funding Sources

Funding Source	Amount*
Funds for Aurora Center Alone	
UMOS Fundraising Events	~$5,000
USDA Section 516 Grant	$765,000
USDA Section 514 Loan	$85,000
HHS, Migrant Head Start (grant)	$350,000
Wisc. Dept. of Admin., Housing Div. (grant)	$50,000/year
Funds Shared with Other UMOS Projects	
HHS, Community Services Block Grant	~$30,000/year
HUD, Emergency Shelter Grant	~$50,000/year
DOL, Jobs Training Partnership Act	~$1,200,000/year

* Some of the project funding amounts are approximate due to records not being available at the time of this report's preparation. The amounts listed for funds shared with other UMOS projects are approximate because the funding varies by year.

UMOS paid for site control with funds raised by putting on "festivals." This was possible because they were able to find suitable land with a 3 year option to purchase, at a cost of approximately $5,000. With site control secured, UMOS applied for Section 514/516 funding in the Fall of 1993. The housing was completed in the early Spring of 1995 with $850,000 from Section 514/516, 90 percent of which was a

Section 516 grant. Once the housing was occupied, it was easy to demonstrate the need for supportive services and leverage the additional funding to pay for them. Although this might not fit a strict definition of leveraging, the 514/516 funds were important in creating successful applications for the other funds, which then were used to enhance the project.

This link was particularly important in obtaining a $350,000 Migrant Head Start grant, since the program requires that applicants have land available. The money was used for the construction and operating costs of a Head Start building and program. It was also important in obtaining annual Emergency Shelter Grants of approximately $50,000 from HUD. Most of this money is spent on maintenance, rental assistance, and other operating costs at the Aurora Center. Another grant, awarded by the Wisconsin Department of Administration's Division of Housing, has been a flexible source of funds for administration. UMOS has won $50,000 for the Aurora Center from this program's annual competition four years in a row.

On an annual basis, UMOS obtains funding for statewide services to migrant farmworkers, which are shared among all of UMOS's programs, including the Aurora Center. These funds include a $30,000 grant from the Wisconsin Department of Health and Social Services from its Community Services Block Grant allocation and a $1,200,000 grant from the federal Department of Labor's Job Training Partnership Act.

UMOS has not had any problems combining funding sources in the Aurora Center project. The non-USDA funds have permitted the Aurora Center to serve people of lower income levels than otherwise would be possible. USDA rental assistance is supplemented by additional rental assistance for families who are unable to pay any rent at all. UMOS provides the additional rental assistance from its operating funds. As the season progresses, the need for both kinds of rental assistance decreases.

A number of factors made possible UMOS' success with leveraging funds for the Aurora Center. The fact that they obtained grants prevented the leveraging from increasing the total cost of the project. The flexibility of the grants also meant that they could design their own program without worrying about restrictions on the use of funds. Both of these circumstances were made possible by the fact that Wisconsin's state government is very supportive of farmworker programs and that UMOS is a large and experienced organization.

Coachella Valley Housing Coalition
Desert Gardens, Indio, California

Desert Gardens is scheduled to be completed in September 1998. The project grew out of a 1991 conversation between Coachella Valley staff and USDA staff, in which it was agreed that there was a need in the area for housing meeting the needs of farmworker families while continuing to provide units for aging farmworkers. As the children of older farmworkers moved out of farm labor housing units and parents remained, units with larger numbers of bedrooms would be underutilized. Thus, Desert Gardens provides smaller units for aging farmworkers, while also providing larger units to serve the needs of families. Desert Gardens has 88 units divided between two sections, one for seniors and one for families. It will be open year-round and will serve families with annual incomes of approximately $12,000 to $15,000. It will not serve individual farmworkers unless there are no families waiting for the vacant units.

Desert Gardens Funding Sources

Funding Source	Amount
Predevelopment Financing	
RCAC Loan	$335,000
Riverside County Dept. of Community Action Grant	$10,000
City of Indio Density Bonus	In-kind, approximate value $100,000
Permanent Financing	
USDA Section 514 Loan	$5,312,237
Shortfall Financing	
Calif. Dept. of Housing, Family Home Demonstration Program Loan	$720,000
Riverside County Economic Development Agency, County CDBG Loan	$500,000
Additional Funds for Operating Costs	
California Department of Education Grant	$250,000/year
Support Services (Various Community Organizations)	In-kind, value to be determined once project in operation

The senior section has 12 efficiency apartments of 487 square feet and 24 one-bedroom units of 559 square feet. The senior section also has a social building, a laundry room, a covered patio, and garden allotments for raising food. The family section has 20 two-bedroom apartments of 775 square feet, three of which are handicapped-accessible, 24 three-bedroom units of 1,020 square feet, and eight four-bedroom townhouses of 1,150 square feet. The family section also has a recreation area, a day care center, two tot lots and a laundry room. Residents will have access to a wide range of supportive services both on-site and in the community.

Coachella Valley obtained most of Desert Gardens' predevelopment financing from the Rural Community Assistance Corporation (RCAC) in the form of a $335,000 loan at 7 percent interest. This was used to purchase land, in addition to other predevelopment costs. Additional predevelopment funding, a $10,000 grant, came from the Riverside County Department of Community Action. As required by California affordable housing law, the City of Indio granted Coachella Valley a density bonus worth approximately $100,000.

In 1992 Coachella Valley submitted an application for the Section 514/516 program, but this funding was not obtained for Desert Gardens until 1995. They were awarded a Section 514 loan of $5,312,237, but in the meantime, project costs had increased from this initial estimate. Although USDA promised to cover the shortfall out of the following year's funds, Coachella Valley sought other financing and obtained two deferred loans with balloon payments due after the Section 514 loan is paid. The Riverside County Economic Development Agency used county CDBG money to make a $500,000 loan at 1 percent interest, due in 2029. This commitment was made in 1995, contingent on Coachella Valley leveraging funds needed to cover the rest of the shortfall. In 1996 the California Department of Housing's Family Home Demonstration Program, a one-time funding competition, made the project a $720,000 loan at 3 percent interest, due in 55 years.

Finally, additional operating funds were obtained from the California Department of Education, an annual $250 thousand grant for operating the Desert Gardens childcare center. This money is guaranteed to all recipients of the Family Home Demonstration Program. Campesinos Unidos has obtained the contract to provide the childcare. Other community groups have offered to provide services from their own budgets for the residents of Desert Gardens. Some of these are Community Gardens of the Coachella Valley, which will design and administer the garden allotments; Riverside County Office on Aging, Senior Ombudsman Service, and Retired Senior Volunteer Program, which will provide social services and volunteer opportunities for the elderly; Family Services of Coachella Valley and John F. Kennedy Memorial Hospital, which will furnish medical services and health education; FISH, which will administer a food bank; and Riverside County PIC and Riverside County JTPA, which will provide employment services.

There were two significant conflicts that resulted from the different requirements of various funders. The City of Indio required architectural standards that exceeded USDA standards for both modest housing and costs. These included tile roofs with overhangs, a fence with an electronic gate, and porches. This conflict was solved by Rural Development accepting the city's standards.

The other conflict involved the requirement of the state's Family Home Demonstration Program that the project must only house families. This conflicts with the Section 514/516 program regulations, but a compromise was reached under which Desert Gardens will give priority to farmworker families.

Working out these issues delayed the project over a year, and construction began in 1997. The additional requirements increased the overall project cost. In addition, using CDBG meant that construction costs increased, because Coachella Valley was obliged to pay Davis-Bacon wages. However, leveraging had no impact on affordability, because all the funding consisted of grants and deferred loans, resulting in no extra spending on debt servicing. In fact, leveraging has improved the quality of the project, in terms of both physical appearance and on-site services. If the Section 514/516 funds had not taken so long to become available, leveraging might not have been limited to such subsidized sources.

Rural Opportunities, Inc.
Orchard Grove Apartments, Alliance, Ohio

Under its Technical Assistance (TA) contract with USDA, Rural Opportunities, Inc. (ROI) formed a nonprofit called Alliance Development, Inc. and packaged the financing for Orchard Grove Apartments on its behalf. The project is the first use of the Section 514/516 program in Ohio.

Orchard Grove Funding Sources

Funding Source	Amount
Predevelopment Financing	
USDA TA Contract	unknown*
Surveyor and Engineer	reduced fees
Architect	deferred fees
Interim Financing	
Common Wealth, Inc. Revolving Loan Fund	$34,500
Stark County Regional Planning Office, County CDBG	$40,000
Permanent Financing	
USDA, Section 516 grant	$452,800
USDA, Section 514 loan	$702,650
Ohio Department of Development, Non-Profit Funding System, 403 Special Needs Housing Grant	$68,650
Federal Home Loan Bank of Cincinnati, Affordable Housing Program	$69,300
Additional Funding	
Muskingum Valley Presbytery Self-Development of People Grant	$11,200
Muskingum Valley Presbytery	$547

* This amount is unknown due to the unavailability of records at the time this report was prepared.

The project has 24 units, with 12 one-bedroom units of 682 square feet, six two-bedroom apartments of 871 square feet, and six three-bedroom units of 1,082 square feet. It also has a community room with kitchen and bathrooms, a laundry room, a tot lot, and a picnic area. Tenants all have very low or low incomes, and priority is given to farmworkers. Units are rented to others only if no farmworkers express interest.

There were significant delays in processing the Section 514/516 application for Orchard Grove because the state Rural Development office had no previous experience with the program. This delay caused the project's costs to increase, which necessitated the leveraging of additional funds.

ROI's TA funds provided for the predevelopment costs, including a one-year option costing between $500 and $1,000[5] to purchase land. In addition, ROI found a surveyor and an engineer who were willing to reduce their fees, and an architect willing to work with payment due at project completion. While the Section 514/516 application was being processed, the landowner went bankrupt and needed to sell the land immediately. Common Wealth, Inc., a nonprofit connected with the Catholic Diocese's Campaign for Human Development, provided a low-interest, deferred payment, interim loan of $34,500 from its revolving loan fund so that Alliance Development could purchase the land.

Eventually USDA approved funding for Orchard Grove, a $452,800 Section 516 grant and a $702,650 Section 514 loan. By this time, project costs had increased, so additional funds were sought from the Ohio Department of Development Non-Profit Funding System's 403 Special Needs Housing Grant Funds. The project also received AHP funds from a local FHLB member bank, United Bank and Trust Co. of Alliance and Canton. While waiting for this funding, another interim loan was obtained to pay off the initial one whose deferral of payments had now been extended for a total period of two years, during the processing of the Section 514/516 application. This second interim loan was from the Stark County Regional Planning Office's County CDBG funds. It was a six-month, no-interest, deferred payment loan of $40,000.

After construction was completed, additional funds were secured: a Muskingum Valley Presbytery Self-Development of People Grant of $11,200 paid for an on-site adult education program's classroom equipment and staff salaries, and a different grant from Muskingum Valley Prebytery provided $547 for seed funding of a tenant association.

ROI found no real conflicts in using leveraged funding sources with the USDA funds for Orchard Grove. Although the different programs had different targeting language, all funders agreed to accept each other's definitions as equivalent, as they all required service to low- and very-low income people.

Delays in the project and the associated cost increases were due to the lack of experience with developing farmworker housing at the Ohio USDA office and at the Alliance ROI office. Although in this case leveraging was necessary to get the project completed at all, in the future it could be used to reduce costs, as all the organizations concerned have improved their capacity for farmworker housing development. The only difficulty noted would be getting funds to cover predevelopment costs, including the staff time necessary to develop applications for leveraged funds.

[5]The exact amount required to obtain the option was not available at the time this report was prepared.

REPORT SUMMARY AND OBSERVATIONS

Each component of this report provides insights concerning the potential pitfalls and benefits of leveraging funding for farmworker housing development. Points of agreement and disagreement from the group interviews provide a range of suggestions for structuring Section 514/516 awards into a competitive process that accounts for leveraging in allocating funds. The summary of state-sponsored farmworker housing programs indicates creative ways in which farmworker housing development may be supported. Finally, the case studies illustrate some of the difficulties in leveraging outside funding sources, and some of the measures that have allowed successful blending of these funding sources with USDA Section 514/516 loans and grants.

Group Interviews

The group interviews provide a number of points and proposals on which all participants expressed agreement. All participants felt that moving to a competitive application process will improve the timeliness and certainty of funding. All participants also felt that including leveraging criteria in the review of applications will help spread scarce program resources further. Participants also noted that organizations in areas with more limited state and local resources will have more difficulty leveraging non-USDA funds, which may make it more difficult for these organizations to compete for Section 514/516 awards.

Participants also agreed on a number of points concerning the difficulties of using the Section 514/516 program in conjunction with other funding sources. All participants support Section 514/516 program adjustments that would allow LIHTC investment in farm labor housing projects. Participants also agreed that RHS needs to be more flexible in taking a subordinate position to other funders, and on accepting the different reserve and contingency terms required by other funders. USDA staff observed that while the RHS national office supports flexible financing guidelines, there are sometimes issues concerning implementation of program regulations at state Rural Development offices that lead to conflicting interpretations of how program guidelines may be adjusted to meet the requirements of different funders.

The two groups also observed that the delay in receiving commitments from RHS under the current allocation system has made it difficult to maintain site control and maintain commitments from other funders. They also noted that using multiple funding sources to finance projects substantially increases the time required to secure project financing and package Section 514/516 applications.

Both groups support RHS national office administration of a competitive application process, although both groups also felt that the Rural Development state offices should still play a role in the process by continuing to perform appraisals and acting as links to state financing programs. Finally, all participants support the creation of an advisory board to review the draft regulations governing the new competitive awards process prior to publication as proposed rules in the *Federal Register*. They proposed that the advisory board consist of project sponsors, technical assistance contractors, and national nonprofit organizations that support farmworker housing development. The composition of the proposed advisory board should also reflect geographic diversity.

The East Coast and West Coast groups held different positions concerning the role that leveraging should play in a competitive application process for Section 514/516 awards. The East Coast participants were reluctant to have leveraging as a threshold criterion in the application process. The East Coast group also felt that leverage should be defined broadly to include credit for the attempt to secure other funding sources and credit for in-kind contributions such as donated land. This broad definition of leverage is especially important if leveraging funds will be a required threshold for consideration of an application.

The West Coast group, on the other hand, felt strongly that leveraging should be a threshold criterion in the application process, as well as a scoring criterion. The West Coast group reached consensus that applications should demonstrate a least a minimal percentage of leveraged funds in order to be considered for a Section 514/516 allocation. In addition, leveraging funds beyond the established minimum threshold should earn additional points when the application is scored.

Another point of difference between the two groups is their position on achieving geographical diversity in the allocation of program funds, and weighting other scoring criteria to allow groups in areas with limited leveraging resources to compete successfully for Section 514/516 awards. The East Coast group felt strongly that the competitive process should be structured in such a way that there is geographical diversity in Section 514/516 awards. The West Coast group did not grant as much weight to achieving geographical diversity, with a couple participants noting that the service of technical assistance contractors should promote submission of competitive applications from different regions.

The East Coast group felt that criteria such as serving underserved areas, area need and serving migrant farmworkers should offset the points available for leveraging so that groups in areas with more limited state and local resources to leverage can compete for Section 514/516 funds on equal footing with groups located in states with more substantial resources to support farmworker housing development. In various contexts throughout the discussion, both groups noted the contributions that technical assistance contractors can make in packaging competitive applications from less experienced groups or underserved areas.

State Programs

The summary of state programs illustrates the variety of approaches states have taken to support farmworker housing development. Among the various state programs described, low-interest loans, grants and tax credits are available for farmworker housing construction and rehabilitation projects. Three states, California, Oregon, and Florida, have multiple programs directly targeting farmworker housing projects by program design and through setasides.

A number of challenges remain if these state funding sources are to be used in conjunction with Section 514/516 funds. One of the chief issues is differing income eligibility requirements. Many state programs accessed for farmworker housing projects have much lower income eligibility requirements than do the Section 514/516 programs. Section 514/516 units with rental assistance must serve very low-income or low-income farmworkers (incomes less than 80 percent and 50 percent of area median income, respectively), while units without rental assistance may serve farmworkers with moderate incomes ($5,500 above the low-income limit).   Few project sponsors have had difficulty with this conflict, since the majority of farmworkers have incomes low enough to meet the more stringent income eligibility criteria required by many state funding sources.

Finally, the variety of state programs highlights a point of agreement between the East Coast and West Coast group interviews. Both groups suggested that RHS needs to issue detailed guidance or provide training to Rural Development state offices on evaluating leveraged projects. Since there are a variety of state programs with different income requirements and loan and grant terms, Rural Development state staff need more instruction concerning the areas in which RHS may be more flexible in response to the needs of other funders. The case studies illustrate how helpful many state Rural Development staff have been in bringing forward leveraged projects and adjusting RHS requirements, but the case studies also illustrate how staff expertise in state program or Rural Development offices can expedite a complicated process.

Case Studies

The case studies provide examples of a wide range of funding sources that have been used in conjunction with Section 514/516 funds. In addition to HOME, CDBG and AHP, these projects have accessed farmworker housing grant funds, farmworker housing tax credits, funding for tenant services, private grant sources, and conventional loans. The experiences of the project sponsors indicate strategies that may promote the leveraging of additional financial resources for farmworker housing developments. Leveraging additional resources has also made possible the completion of innovative farmworker housing projects, many of which include community centers and tenant services that would not have been provided if the projects were financed solely through Section 514/516. However, Section 514/516 funds are the largest financial source for most of the projects described, even though each of the projects has a number of outside funding sources.

Despite the successful leveraging evidenced in these case studies, project sponsors described a number of common challenges when using outside funding sources in their farmworker housing projects. One of the most significant obstacles to leveraging evident in the case studies is the delay in receiving a commitment of RHS funds. The great demand for Section 514/5216 allocations has resulted in a wait of between three and four years to receive a funds from RHS. Each of the case study projects has had to address this difficulty to one degree or another. Most typically, projects have had difficulty maintaining site control. Since many funding sources must be used within the year in which they are awarded, groups have also encountered difficulty in maintaining the commitments of other funders until the Section 514/516 funding is received.

The case studies also reinforce the statements of group interview participants that the addition of multiple funding sources adds considerably to the time required to secure project financing and package Section 514/516 applications.

The case studies also highlight some of the measures that are frequently required in order to use other funding sources in conjunction with the Section 514/516 program. The case study projects illustrate that successful leveraging requires flexibility among all the funders involved, including RHS. This is especially true regarding subordination and contingency requirement issues. The case studies clearly show that when state Rural Development offices work closely with project sponsors to work out flexible financing arrangements, it is possible to leverage a variety of funds to support farm labor housing projects.

Finally, the case studies show that access to grant funds or subsidized loans with very favorable terms is necessary in order to keep project costs low. If conventional loans are used in a project, they must be carefully balanced by other subsidized financial sources in order to contain project costs and maintain affordability in cases where units do not receive RHS rental assistance.

Concluding Observations

The group interviews, summary of state farmworker housing programs, and case studies presented in this report point to a need for the Section 514/516 program to move to a competitive application process. The report also highlights some of the benefits and limitations of encouraging leveraging through a competitive awards process. The central concern about leveraging expressed by group interview participants, especially in the East Coast group, is that leveraging criteria will need to be carefully crafted to ensure program allocations are geographically diverse and that groups in areas with limited sources of state and local funds to leverage will still be able to compete effectively for Section 514/516 awards.

If RHS is careful in drafting the regulations needed to govern a competitive application process, sponsors should have less difficulty accessing other funding sources, and Section 514/516 resources should be able to support the production of more farmworker housing units than is possible under the current allocation system.

APPENDIX: COMPARISON OF STATE FARMWORKER HOUSING PROGRAMS

State	Program	Program Type				Eligible Activities				Prioritizing Mechanisms			On-Farm Use	Match Required
		Loan	Grant	Tax Credit	RA	New Construct	Rehab	Perm. Financing	Predevelop.	FLH Program	Setaside	Ranking Criteria		
CA	FW Tax Credit			X		X	X	X	X	X			X	
	Rural Predevelop.	X							X			X		
	FW Hsg. Grant		X			X	X	X		X				X
	Migrant Svce. Progam					X	X			X				
FL	SAIL	X						X			X			
	PLP	X							X		X			
MD	MWHFP	X					X			X			X	
MI	MLHCGP		X				X			X			X	
	MLHCGP2		X			X	X			X			X	
NY	FLHDP	X				X				X			X	
	RPP		X						X			X		
	RRAP				X							X		
	HHAP		X			X						X		
OH	ALCIP		X			X	X		X	X			X	
OR	FW Hsg. Tax Credit			X						X				
	Aff. Hsg Tax Credit			X								X		
	RRLF	X				X		X				X		
	HELP		X									X		
WA	State Hsg Trust Fund	X	X			X	X	X	X	X				

Demand for the U.S. Department of Agriculture's Section 514/516 farm labor housing programs far exceeds their annual budgets. Projects with approved applications may wait on a first-come, first-served basis for a number of years before receiving their funding. Increasingly, Section 514/516 project sponsors are also having to leverage other financing sources. This report presents a summary of two group interviews with farmworker housing developers concerning the strengths and limitations of moving to a competitive application process, and the role that leveraging other funding sources should play in evaluating Section 514/516 applications. The report also describes state-sponsored programs that provide financing for farmworker housing development, and presents six case studies illustrating how farmworker housing sponsors have creatively leveraged different funding sources for Section 514/516 projects.

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