

**ISSUE: PRODUCTION OF UNITS FOR EXTREMELY-LOW-INCOME HOUSEHOLDS
(WITH INCOMES BELOW 30% OF AREA MEDIAN)**

Issue: The most serious affordable housing problem in America is the mismatch between the number of extremely-low-income (“ELI”) renter households and the number of rental units available to them with acceptable quality and affordable rents. This is a problem in terms of numbers of households -- 5.3 million living in housing that is not affordable. However, it is also a problem in terms of severity at the household level -- despite comprising only 23% of renter households, ELI renters comprise 68% of renter households with severe housing problems. Although existing programs (especially §8 vouchers, §202, and §811) provide useful vehicles for addressing housing needs of the very poor, existing funding levels are sufficient to do little more than maintain the status quo. Thus, it is sensible to address the ELI affordable housing problem directly, through both:

- Additional units with rents affordable to ELI households, and
- A mechanism to match those units with ELI households.

There is also a shortage of affordable rental housing that is close to low-wage jobs.

Why This Is A Problem: The 1999 American Housing Survey¹ indicates 7.7 million ELI renter households and only 4.9 million rental units with rents affordable to those households. Moreover, only 2.4 million of those units are actually occupied by ELI households, indicating 5.3 million ELI renter households who are living in housing that is not affordable. Of the 7.7 million ELI renter households, 5.5 million (72%) have severe housing problems (high cost burden, severe quality problems, or both). These 5.5 million households represent 68% of all households with severe housing problems.

Recommendations: The Task Force makes the following recommendations, for adoption by the Commission:

1. **ELI Production Program.** This program is intended to increase significantly the number of good quality rental units, in low-poverty neighborhoods, available to and occupied by extremely-low-income households (i.e., up to 30% AMI), at affordable rents.
 - 1.1. **Goal: 150,000 Units Per Year.** The Task Force recommends the production of 150,000 units per year. Over 10 years, the added 1.5 million units would make substantial progress toward meeting the housing needs of ELI households but would require incremental funding on a scale seldom seen in affordable housing. Other alternatives include:
 - 1.1.1. **500,000 Units Per Year.** In ten years, this would address a large portion of the ELI housing needs gap (currently 5.3 million but likely to become larger with population growth and with the continuing loss of aging affordable units).
 - 1.1.2. **250,000 Units Per Year.** This is an intermediate rate of production, making more progress than the recommended rate but not likely to substantially eliminate the gap, even in twenty years.

¹ Special tabulations by Cushing Dolbeare.

- 1.2. **Administration.** State HFAs would allocate the subsidy and provide oversight.
- 1.3. **Mechanism.** The program would provide additional capital funding so that, in combination with other subsidies committed to the development, a portion of units would have no debt service costs and would reduce rents accordingly.
 - 1.3.1. **Congressional Funding Approach.**
 - 1.3.1.1. **Source.** The program could be funded from appropriations or from a trust fund with a dedicated revenue source.
 - 1.3.1.2. **Structure.** The funding could be provided by Congress through a block grant or tax credit mechanism.
 - 1.3.2. **Property-Level Financial Structure.** If a block grant approach is selected, there would be flexibility to structure the funding at the property level either as a grant or as a loan.
- 1.4. **Mixed Income.** The program generally would seek to target up to 20% of units in a development for ELI occupancy. The State HFA would, however, have flexibility to determine the appropriate percentage on a property by property basis².
- 1.5. **Rent Level.** The minimum rents consistent with sustainability, assuming zero debt service³.
 - 1.5.1. **Approval.** The developer would propose sustainable ELI rents, which would be approved by the State HFA.
 - 1.5.2. **Rent Adjustments.** The originally approved rents would be adjusted annually based on an inflation index⁴.
 - 1.5.3. **Affordability.** The sustainable ELI rents will not always be at or below 30% of 30% of AMI. The developer and State HFA might decide to pursue subsidies in addition to this program (for example, HOME, CDBG, real estate tax abatements, or foundation grants), to reduce rents below the otherwise sustainable level.
- 1.6. **Occupancy.** The developer and State HFA would select one of the following approaches:
 - 1.6.1. **ELI Only.** The ELI units would be restricted for occupancy by ELI households.
 - 1.6.2. **ELI Preference.** The ELI units would have a preference for ELI households but be available for households at or below a designated income level such as (a) 40% of AMI; or (b) 35% of AMI, for properties with especially affordable rents.
- 1.7. **Neighborhood Standards.** Alternatives include:
 - 1.7.1. **Measurement Standard.** All census tracts except Qualified Census Tracts could be defined as low-poverty. Alternatively, census tracts with a poverty percentage below, say, 20% could be defined as low-poverty.

² Mixed income housing research generally indicates that properties housing more than 20% non-working families are especially likely to be problematic, but also highlights exceptions to the rule. If the ELI units are coupled with a preference for working ELI families, the number of ELI units could be increased beyond 20% without creating the likelihood of mixed income problems. Moreover, the §202 and §811 programs have demonstrated the viability of 100% ELI properties for other resident profiles. Accordingly, HFA flexibility seems appropriate.

³ i.e., the rents needed to cover vacancy losses, operating expenses, replacement reserves, and a reasonable operating margin.

⁴ The history of subsidized rental housing programs demonstrates that annual inflation adjustment is superior to approaches based on project-specific operating costs. In theory, the inflation factor should be related to operating costs, but this has proven difficult in practice.

- 1.7.2. **Geography.** The standard for inner-city areas could differ from the standard for rural areas.
 - 1.7.3. **Flexibility.** HFAs could be given full flexibility, limited flexibility, or no flexibility to approve developments in other than low-poverty census tracts.
2. **Funding Level.** The Task Force recommends an annual funding level of \$7.5 billion:
- 2.1. **Combination With Other Subsidies.** It is assumed that units funded under this program will have additional subsidies as follows:
 - 2.1.1. **Some With 9% LIHTCs (New Construction or Substantial Rehabilitation).** Assume TDC at \$80,000 per unit. Assume that LIHTC funding is sufficient to support 50% of a property’s total development costs (TDC).
 - 2.1.2. **Some With Tax Exempt Bonds and 4% LIHTCs (Acquisition and Preservation).** Assume TDC at \$50,000 per unit. Assume that tax-exempt financing plus 4% LIHTCs are sufficient to support 50% of TDC.
 - 2.1.3. **Some With Shallow Subsidies.** This program would work quite well for properties financed with HOME funds or other shallow subsidies.
 - 2.1.4. **Some Existing Housing.** Owners of existing housing can be expected to be responsive to this program, which would eliminate their mortgage debt for some units and essentially assure full occupancy for those units.
 - 2.1.5. **Some New Construction / Sub Rehab But Without Other Subsidies.** Assume TDC at \$65,000 per unit (mix of new construction and acquisition). This program would provide 100% of TDC.
 - 2.2. **Calculation of Funding Needed.**

Funding Estimate for ELI Subsidy Program					
Number of Units			Other	ELI	ELI Subsidy
Annually	Type of Unit	TDC	Subsidies	Subsidy	Per Unit
15,000	9% LIHTC	\$80,000	50%	50%	\$40,000
15,000	4% LIHTC	\$50,000	50%	50%	\$25,000
7,500	Shallow subsidy	\$80,000	25%	75%	\$60,000
42,500	Existing housing	\$35,000	0%	100%	\$35,000
70,000	No other subsidy	\$65,000	0%	100%	\$65,000
150,000		\$57,250	Total	87%	\$49,750
150,000		units per year		\$7.5 billion	

ELI Production Program: Questions and Answers

Q: What level of below-market rent is anticipated?

A: Because debt service will be eliminated, the below-market rents will be the lowest rents achievable without operating subsidy (§8 or equivalent). For example, if operating expenses were \$250 per unit per month (a typical amount nationally), the below-market rent would be roughly \$325 in order to provide a \$50 reserve deposit (consistent with sustainability) and a \$25 allowance for vacancy and operating margin.

Q: Will that rent be affordable to ELI households?

A: Because the below-market rents do not vary with resident incomes, affordability will vary from household to household. It will be much more affordable than the rents they are now paying (the median housing cost burden for ELI households is above 70% of income). Moreover, the housing quality will be much better.

Q: Will the below-market rent be at or below 30% of 30% of AMI?

A: That will vary from property to property. Using the example above, a \$325 rent plus \$75 resident paid utilities represents \$400 monthly housing cost – a 30% cost burden at a \$16,000 annual income, roughly equal to the 30% AMI for a four person household living in an average metropolitan area. This suggests that a 30% cost burden is not likely to be achievable except for households toward the top of the ELI income range.

Q: Why doesn't the proposal include an income support, such as §8, to assure a 30% housing cost ratio?

A: States and localities will have the flexibility to combine this program with income support programs if they choose. The below-market units will be eligible for vouchers.

Q: Does this mean that the Commission does not endorse 30% of income as the appropriate affordability standard?

A: No. 30% of income continues to be the best simple formula for affordability and should continue to be followed in other contexts (such as the voucher program). For ELI households, however, affordability at a 30% standard generally is not achievable without income support such as §8 (or tenant based rental assistance under the HOME program). This program, by contrast, is a production program whose objective is to increase the supply of good quality units at the lowest rents consistent with sustainability. The Commission encourages the Congress to provide incremental vouchers as this ELI production program moves forward.