

# SPECIAL REPORT

SPRING 2013

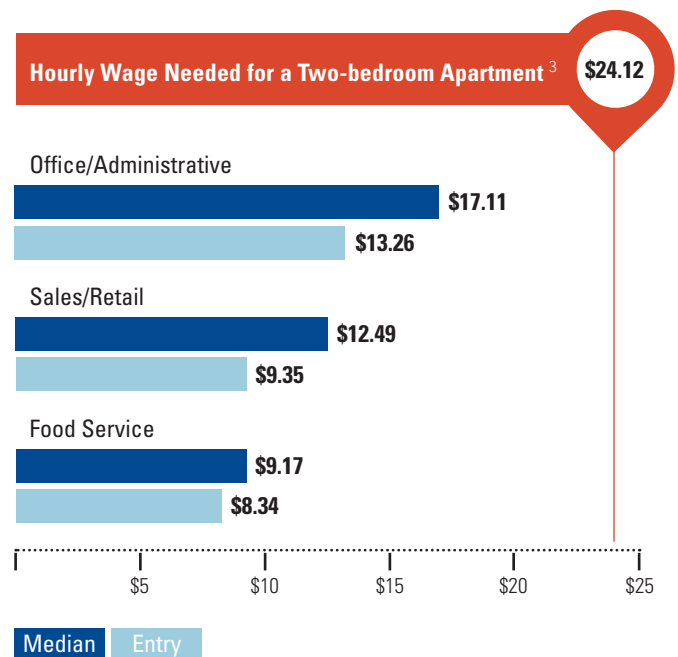
## The Complete Approach to Funding Affordable Housing

With persistent budgetary concerns, our state policymakers must make evidence-based decisions on how to spend public dollars wisely. Unlike our neighboring states, affordable housing in Rhode Island is not yet viewed as a cornerstone of a strong economic infrastructure. And yet research consistently shows how strategic investments in affordable housing can save tax dollars and create vibrant communities that attract businesses.

High housing cost burdens are bad for business. An inadequate supply of affordable housing puts Rhode Island at a distinct competitive disadvantage in attracting and retaining workers. **Employers from across the country report that a shortage of affordable housing negatively affects their ability to sustain and grow their businesses.<sup>1</sup>**

In Rhode Island, the three most frequently employed occupation groups represent key workers in our local economies: general office clerks, retail salespersons, and cooks and wait staff to name a few. Modest median wages coupled with high rental prices mean that these workers earn less than is needed to afford a 2-bedroom apartment in most of Rhode Island.

### Most Frequently Employed Occupation Groups in RI <sup>2</sup> WAGES: EARNED vs. NEEDED

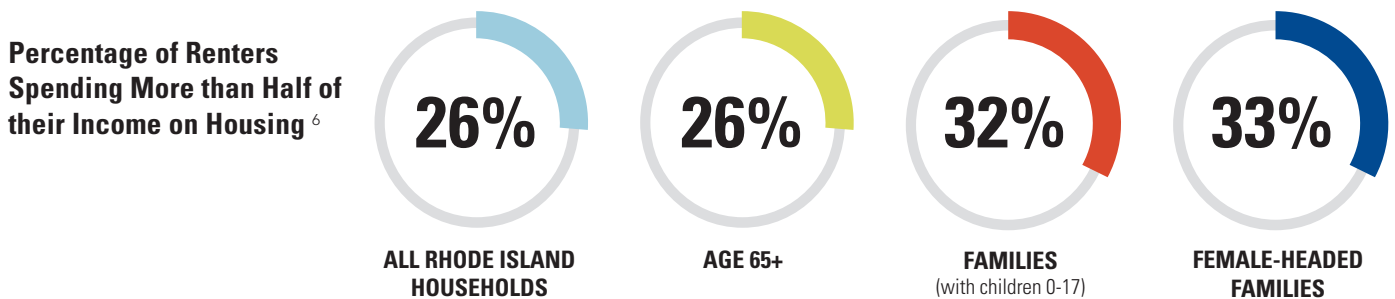


The \$25 million housing bond approved by voters last November will provide the capital needed to build affordable housing, but Rhode Island also needs a consistent investment in the operation of these homes to ensure that some will be affordable to Rhode Island's lowest-income earners. **In this Special Report, we will look at how a state investment in operating costs of affordable housing is good for our economy, will move Rhode Island forward on its plan to end homelessness, and ultimately save taxpayer dollars over the long-term.**

## HOUSING COST BURDENS FOR RI RENTERS

Persistently high unemployment and stagnant wages mean that many Rhode Island households are unable to afford adequate housing. Renter households in particular are vulnerable to housing cost burdens. **In order to afford the average 2-bedroom rental, a household must earn \$47,040. Yet, the median income for renter households in Rhode Island was \$30,505 in 2011.**<sup>4</sup>

The result is that nearly half of all Rhode Island renters are considered housing cost burdened, meaning they pay over 30 percent of their income on housing costs. What's more, a quarter of all Rhode Island renter households pay over 50 percent of their income on housing costs.<sup>5</sup>

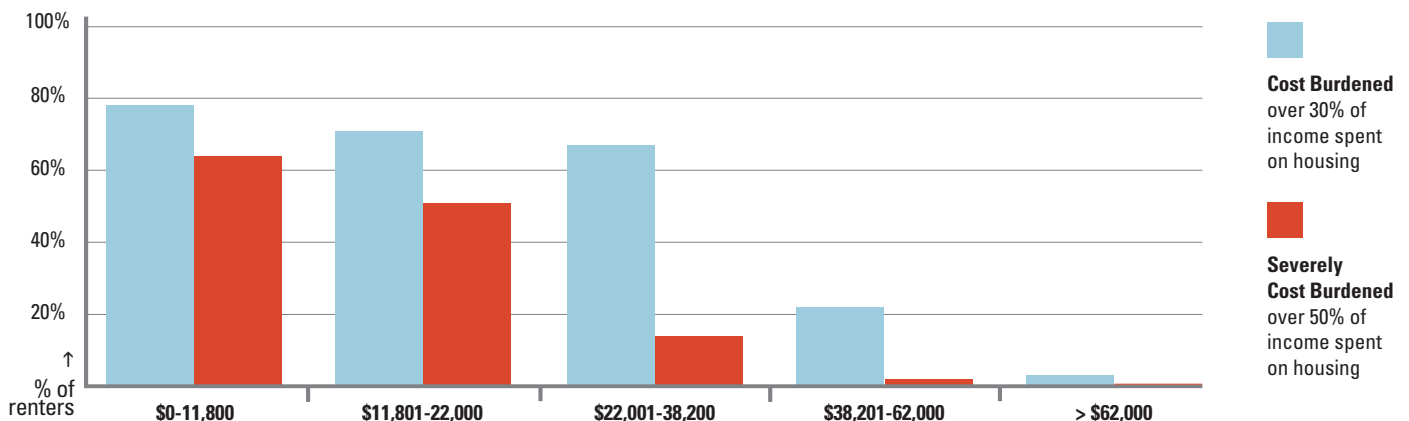


### HOUSING COST BURDENS AMONG LOWEST-WAGE RENTERS

Of the lowest-wage renters, 78 percent are considered housing cost burdened and 64 percent spend more than half their income on housing.<sup>7</sup>

Renters who are cost burdened by housing expenses cannot fully participate in our local economy. National research finds that when low-income families have high rental costs, they spend 74 percent less on health care expenses, 52 percent less on clothing, and 24 percent less on food than families with affordable housing.<sup>8</sup> High housing cost burdens also make it extremely difficult to save money or invest in education as a way to move out of poverty.

### RI Renter Cost Burden by Income<sup>9</sup>

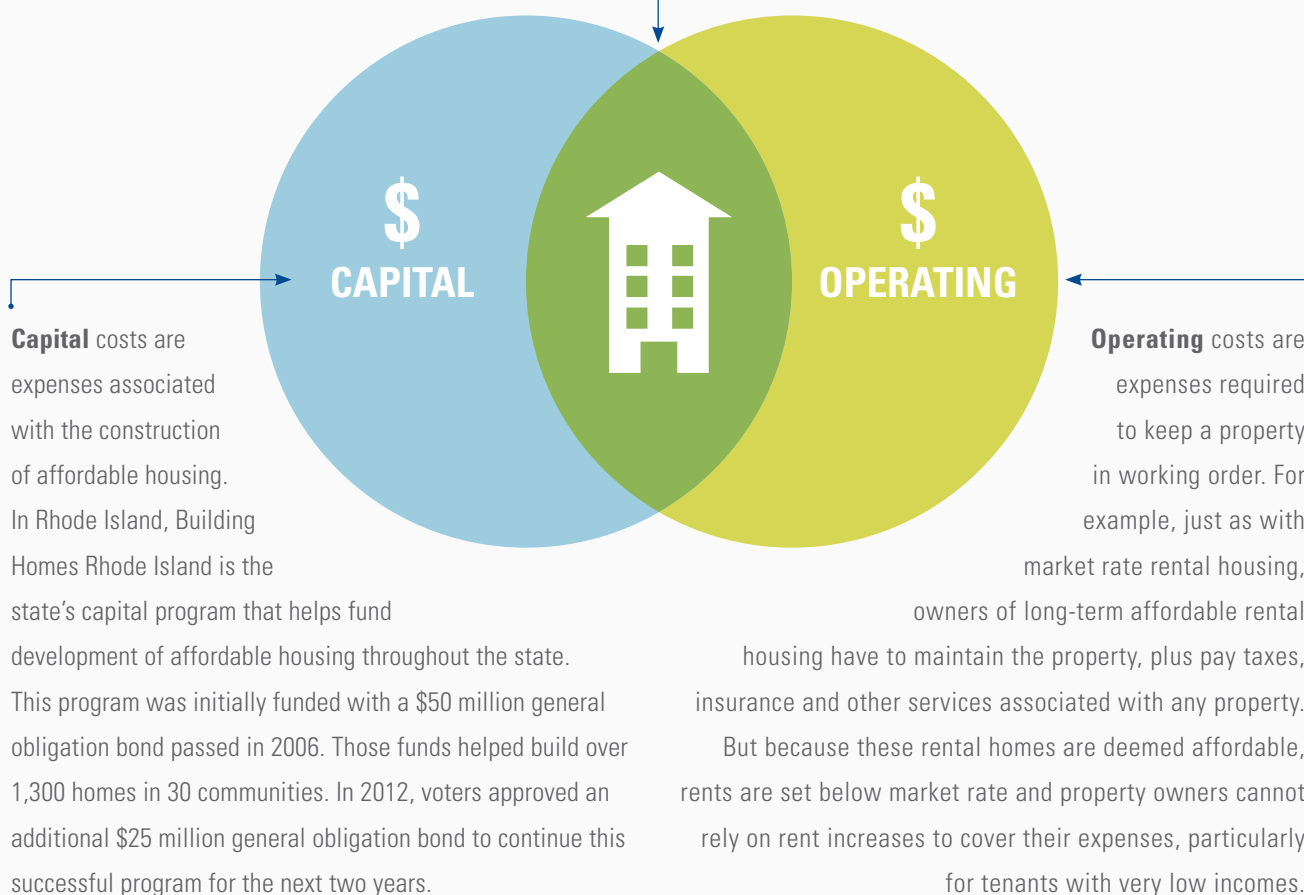


# HOLISTIC HOUSING FUNDING: CAPITAL + OPERATING

Long-term affordable housing is important for a wide range of Rhode Islanders. Low-wage workers, people with disabilities, the formerly homeless, veterans, young working families and the elderly are examples of some of the Rhode Islanders who are living in safe, stable, affordable homes.

A holistic housing funding policy is necessary to ensure access to a wide range of housing options for our residents.

**Typically, states have a two-pronged approach to funding affordable housing that involves investing in the development and operation of these homes.**



Capital dollars do not assist in the ongoing maintenance and operating costs of the housing.

Essentially, public investment in the operation of affordable housing allows rents to be set at a level that is both affordable for renters and sustainable for property owners.

**Capital dollars alone can generally create affordable housing for a family of four earning between \$38,000 and \$60,000. Many other state budgets include funding to support the ongoing maintenance and operating costs of rental housing for those who earn less than that.**

## A LOOK AT PUBLIC INVESTMENT IN AFFORDABLE RENTAL HOUSING

Whether a rental property is market rate or long-term affordable, both properties have operating expenses. For example, maintenance and repair costs, property taxes, insurance, management fees, water and sewer, garbage collection, and landscaping/snow removal costs are considered a rental property's operating expenses because they keep the property in service.

### NO PUBLIC INVESTMENT



#### MARKET RATE RENTAL HOUSING

**RECURRING OPERATING EXPENSES:**

- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal



**TENANTS:** Matt is a software developer and April is a social worker. Combined their annual household income is \$110,000 a year.

**Robert** owns a triple-decker rental property on the east side of Providence. Each apartment has 2 bedrooms and he is able to charge a market rate of \$1,200 a month. After the city dropped the homestead exemption and reassessed Robert's property, his tax bill increased by \$200 a month. To help compensate for the increased operating expense, Robert notified Matt and April that their next lease would include a rent increase of \$50, bringing the rent charge to \$1,250.

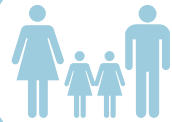
### CAPITAL INVESTMENT



#### AFFORDABLE RENTAL WITHOUT OPERATING SUBSIDY

**RECURRING OPERATING EXPENSES:**

- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal



**TENANTS:** Carol is a home health aide and her husband Mark works part-time at a major electronics store. They have two daughters in elementary school and have an annual household income of \$43,000.

**Judy** is a nonprofit developer. One of her organization's properties includes a previously foreclosed triple-decker that was rehabilitated into three 2-bedroom apartments. Because Judy and her staff secured significant capital investment for development costs, including state housing bond dollars, the rent can be set below market value making it affordable to working families earning 60 percent of the Area Median Income (\$43,260 for a family of four). If an unexpected major expense occurs, Judy must dip into her organization's reserves or apply for a small grant to cover the cost.

The examples on these pages represent some of the operating costs various property owners might face, and how owners of long-term affordable rental homes have to cope with the costs differently.

#### OPERATING INVESTMENT

#### CAPITAL INVESTMENT



### AFFORDABLE RENTAL WITH OPERATING SUBSIDY

#### RECURRING OPERATING EXPENSES:

- property management
- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal

**TENANT:** Hilda is a widowed homemaker. Her annual income from Social Security is \$14,400.



**Jim** is the executive director of a local community development corporation. One of his properties includes a senior housing development of 20 1-bedroom apartments for older Rhode Islanders on a fixed income. Hilda can only afford to pay \$360 a month in rent, but Jim's monthly operating expenses for the apartment are \$788. To ensure that Jim is able to maintain the property, pay taxes, insurance, and other expenses, his nonprofit receives a \$428 rental subsidy for Hilda's apartment from Section 202 Supportive Housing for the Elderly Program. This federal program provides rental subsidies for very low-income elderly persons.

#### SUPPORT SERVICES FUNDING

#### OPERATING INVESTMENT

#### CAPITAL INVESTMENT



### PERMANENT SUPPORTIVE HOUSING

#### RECURRING OPERATING EXPENSES:

- case management
- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal

**TENANT:** Ray is a formerly homeless veteran and suffers from PTSD and anxiety. His annual income is \$8,840.



**Mary** is the executive director of a nonprofit that provides rental housing for formerly homeless men. In addition, Mary's organization offers tenants supportive services like transportation, employment training, and coordination of medical and mental health appointments. Ray cannot afford to pay more than \$221 in rent, yet it costs Mary \$820 to operate his apartment. The Neighborhood Opportunities Program helps Mary subsidize the \$599 difference between what Ray can afford and the operating costs of his apartment. To help provide for Ray's case management, Mary's organization receives a federal grant from the Substance Abuse & Mental Health Services Administration and grants from local philanthropic organizations.

## PROGRAMS THAT FUND OPERATING COSTS IN RHODE ISLAND

Now that we have a clear understanding of the need to fund operating expenses, here are some current programs that help to fund operating costs and keep rent affordable for low- and moderate-income renters. In Rhode Island, the bulk of this funding comes from federal sources. Recent cuts to federal programs have resulted in no new affordable rental housing being supported in Rhode Island. Waitlists for federally subsidized apartments are usually years long or closed entirely.

### FEDERAL

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**Section 8 Housing Choice Voucher** – *Allows an individual or family to choose an apartment and use a voucher to obtain rental assistance. The household agrees to pay the difference between the rent amount and the voucher amount.*

**Section 8 Subsidized Apartments** – *Allows an individual or family to move into an apartment where they have to pay no more than 30 percent of their income on rent. These apartments can be privately owned. Current funding supports only existing Section 8 subsidized apartments.*

**Section 811- Supportive Housing for Persons with Disabilities** – *Subsidizes rental housing with supportive services for very-low income adults, those within 50 percent of median income, and where at least one adult household member has a disability. No new developments in Rhode Island have been supported through this program since 2011.*

**Section 202 Supportive Housing for the Elderly** – *Subsidizes rental housing to make supportive housing for very-low income elderly persons affordable. No new developments in Rhode Island have been supported through this program since 2011.*

**Housing Opportunities for Persons with AIDS (HOPWA)** – *This federal program provides rental assistance, emergency shelter, and supportive services assistance to persons living with HIV/AIDS.*

**McKinney Homeless Programs** – *Provides operating support and rental assistance grants to serve homeless individuals. Annually, Rhode Island typically receives funding for one or two new supportive housing programs.*

### FEDERAL (continued)

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**HUD – Veterans Affairs Supportive Housing** *This program pairs Housing Choice Vouchers from HUD with supportive services provided by the US Department of Veterans Affairs.*

**Public Housing** – *This federal program allows an individual or family to move into an apartment where they have to pay no more than 30 percent of their income on rent. The apartments are operated by a local Public Housing Authority.*

### STATE OF RHODE ISLAND

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*Currently, there are no state programs to help fund the operating costs associated with long-term affordable rental housing. There was once a state budget appropriation for the Neighborhood Opportunities Program, but in 2011 the financial cost of that program was transferred to Rhode Island Housing, a public corporation that does not receive state funding.*

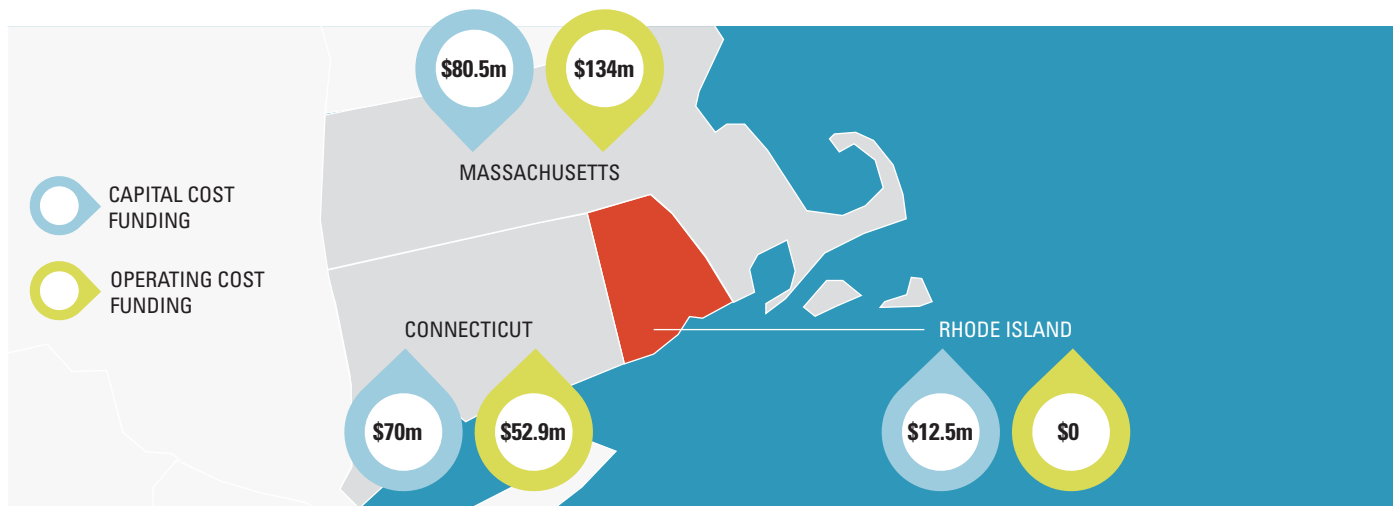
### RHODE ISLAND HOUSING

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**Neighborhood Opportunities Program** – *This competitive, grant-based program provides rental housing operating subsidies for very-low income populations through its Family Housing Program and Permanent Supportive Housing Program. Currently, NOP is only able to fund preservation of existing NOP funded developments that have run out of operating funds.*

**RoadHome** – *Provides rental subsidies and supportive services assistance for homeless Rhode Island families and individuals.*

**State Rental Assistance Program** – *Households contribute the greater of 30% of their income or a small minimum rent and Rhode Island Housing contributes the balance of the cost to rent the apartment. This program is being phased out and no new applicants are being accepted.*



## CAPITAL & OPERATING INVESTMENTS BY STATE

When affordable housing is recognized as one cornerstone of a strong economy, investment in the operation of affordable housing is a common appropriation for states. When looking specifically at our New England neighbors, Massachusetts' FY2013 state budget appropriated \$134 million for operating dollars in addition to \$80.5 million in capital construction awards.<sup>10</sup> This funding is in line with the state's *Choosing to Compete in the 21st Century* plan. **In order to encourage college graduates to stay in Massachusetts, policymakers acknowledged their need to address the long-standing challenge of housing affordability for the state's middle class.** The plan points to actionable items that include increasing the production of more affordable rental housing in regions of high demand. In addition, in

July 2012, Massachusetts announced efforts to expand their competitive workforce by reducing rental costs in MA compared to other states competing for talent.

In the same budget year, the state of Connecticut supported \$52.9 million in operating costs in addition to \$70 million in capital construction awards.<sup>11</sup> **Connecticut is making a significant move away from emergency shelters to more permanent supportive housing.** This is long-term affordable rental housing that includes wrap-around services for the chronically homeless. National research shows that the cost of providing permanent homes with integrated support services is equal to or less than the cost of assisting a person who remains homeless.

### THE COST OF NOT HOUSING THE HOMELESS<sup>12</sup>

In Rhode Island, an analysis by Providence College professor Eric Hirsch linked homeless individuals in emergency shelters to the state's Medicaid expenditures. The analysis revealed that of the nearly 6,000 homeless persons who entered shelters in a 28 month period, 39 percent had costs associated with Medicaid. The total Medicaid cost for all homeless persons during this timeframe was \$58 million or approximately \$10,800 per person per year, with 67 chronically homeless individuals incurring close to \$60,000 each in annual Medicaid costs. The state budget could see significant cost savings by housing these chronically homeless individuals.

## CONCLUSION

Research consistently shows how strategic investments in affordable housing can save tax dollars and create vibrant communities that attract businesses and keep quality workers in our state. Currently, Rhode Island only funds the capital dollars needed to build affordable housing, but the state has no investment to support the operating expenses often associated with these developments to keep rents affordable. While rental subsidies are a common budget appropriation in other states, this line item was not in the Governor's FY2014 budget plan.

This fractional investment policy in affordable housing is a missed opportunity. With ever growing budgetary concerns, our state policymakers must make evidence-based decisions on how to spend public dollars wisely. Research has consistently proven that it is more cost effective to permanently house homeless persons with

supportive services than to keep them cycling through emergency shelters. By appropriating state budget dollars for operating expenses, Rhode Island will be able to better implement *Opening Doors*, the state's plan to end homelessness.

Policymakers must also consider high housing cost burdens when developing policies to promote economic growth. Rhode Islanders who spend more than half their incomes on housing cannot fully participate in their local economies. Quite simply, affordable housing is an essential part of our state's economic infrastructure and necessary for economic growth. The holistic approach to funding affordable housing must include an investment in both capital and operating expenses to keep rents affordable for low- and moderate-income Rhode Islanders.



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For more information about  
foreclosures in Rhode Island,  
please visit our website:  
[www.HousingWorksRI.org](http://www.HousingWorksRI.org)

<sup>1</sup> Wardrip, K., Williams, L. & Hague, S. (2011). The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A review of the Literature. Center for Housing Policy.

<sup>2</sup> Statewide Occupations Wages by Major Occupational Group, May 2012. Rhode Island Department of Labor and Training. <http://www.dlt.ri.gov/lmi/oes/majorocc.htm>

<sup>3</sup> HousingWorks RI analysis of Rhode Island Housing Annual Rent Survey 2012 and US Census Bureau American Community Survey. [http://www.rhodeislandhousing.org/filelibrary/2012\\_YE\\_RentSurvey.pdf](http://www.rhodeislandhousing.org/filelibrary/2012_YE_RentSurvey.pdf)

<sup>4</sup> HousingWorks RI analysis of US Census Bureau American Community Survey Public Use Microdata Sample (PUMS), 2011 1-year survey.

<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> Ibid

<sup>8</sup> Joint Center for Housing Studies. (2011). *America's Rental Housing: Meeting Challenges, Building on Opportunities*. Harvard University.

<sup>9</sup> HousingWorks RI analysis of US Census Bureau American Community Survey Public Use Microdata Sample (PUMS), 2011 1-year survey. Income groups: Equal distribution based on level of income of RI renters into 5 groups with 20% of renters in each group.

<sup>10</sup> Massachusetts Budget and Policy Center. (2012). *Budget Monitor: The FY2013 Budget, Infrastructure, Housing & Economic Development*; Governor Deval Patrick's Five Year Capital Investment Plan. *Massachusetts Department of Housing & Community Development Fiscal Year 2013 Resource Summary*.

<sup>11</sup> HousingWorks RI Analysis of Connecticut Governor's Midterm Budget Adjustments, FY2013.

<sup>12</sup> Hirsch, E. and Brophy, M. (In publication). The Business Case for a Medicaid financed Supportive Housing Services Benefit in Rhode Island. Corporation for Supportive Housing.