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INSIDE:

- 2 — Message from the
Community Affairs Officer
- 3 — Three Delaware
Agencies Craft Program
That Combines Housing
Subsidies and Supportive
Services
- 6 — Federal Reserve
Appoints New Director
of Consumer and
Community Affairs
- 7 — Mapping Our Community
- 8 — How Will Affordable
Rental Housing Be
Preserved?
- 12 — Spotlight on Research:
Housing Options for
Homeless Families
- 14 — Corporation for
Supportive Housing
Integrates Housing and
Supportive Services for
Vulnerable Populations
- 17 — PSE&G Finances Energy
Improvements in over
10,000 Multifamily Units
- 18 — Volunteers Repair
Single-Family Homes in
National Initiatives
- 19 — Pennsylvania Nonprofit
Helps Preserve Rental
Housing

The Burden of High Housing Costs*

By Daniel McCue, Research Manager, Joint Center for Housing Studies of Harvard University

Five years after the official end of the recession, households are still reeling financially. Indeed, while September marked a milestone for the unemployment rate, which dropped below 6 percent for the first time in six years, the median household income at last measure was still languishing at its lowest level in nearly 20 years, after adjusting for inflation. At the same time, rents are rising. Fallout from the housing crisis has slowed the movement into homeownership and driven up the demand for rentals more quickly and sharply than the supply is growing, resulting in tight markets,

higher rents, and millions of low-income renters squeezed by housing costs that take up large portions of their monthly incomes.

As documented in the Joint Center for Housing Studies' (JCHS) "The State of the Nation's Housing 2014" report, housing cost burdens are affecting historically high shares of renter households and showing no sign of abating any time soon, leaving practitioners and policymakers struggling to figure out what can be done to stem the tide.¹

Housing Cost Burdens Affect Millions

Across the nation, millions of households continue to be burdened with high housing costs. At last count in 2012, 40.9 million households regardless of tenure — or one-third of all households in the U.S. — were *housing cost burdened*, which is defined as paying more than the typical standard (30 percent) of income on housing. For many, the distress is even more extreme,

...continued on page 20



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¹ The JCHS of Harvard University's "The State of the Nation's Housing 2014" report is available at <http://ow.ly/CajbG>.

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Message from the Community Affairs Officer

For the past few years, the Federal Reserve Bank of Philadelphia's Community Development Studies and Education (CDS&E) Department has administered a quarterly survey to offer insight into the issues and challenges impacting low- and moderate-income (LMI) communities. The *Community Outlook Survey* (COS) provides us with additional data as to how the economy is working in LMI communities and sheds light on topics in a way that large-scale data sources often cannot, providing more context and, in some cases, details that help us better understand how communities are faring.

In many ways, the survey responses mirror the larger economy — as the unemployment rate has been ticking down, respondents have been increasingly confident about job availability and financial well-being. However, they continue to be much less positive about access to affordable housing. Open-ended comments from the surveys give a deeper understanding of the issues expressed, as respondents have shared their concerns about limited funding for housing development, increasing homeless rates, and substandard units. For the latest COS, go to www.philadelphiafed.org/community-development/community-outlook-survey/.

The lack of affordable housing options is an ongoing and growing concern and one of the key indicators of housing instability. According to the Joint Center for Housing Studies, almost 41 million households are cost burdened — paying more than 30 percent of their income for housing. As the center's *Cascade* article demonstrates, these issues are prevalent across tenure type and are



Theresa Y. Singleton, Ph.D.
Vice President and Community Affairs Officer

intensified by stagnating incomes, particularly among renter households.

The other articles in this issue also illustrate the challenges resulting from the limited supply of affordable housing and look at some of the strategies that have been used to help address this problem. These strategies range from rental housing preservation efforts, including utility programs that finance energy improvements, to initiatives that combine housing subsidies and supportive services. They highlight the collaborative nature of the solutions and the need to find resources in new places.

Housing instability can limit an individual household's ability to be successful and impede economic recovery. CDS&E will continue its focus on the central role that housing plays in the lives of LMI households and the economy. We're currently updating data on rental housing affordability and availability in our Federal Reserve District. We're looking forward to other opportunities to further explore the critical housing issues that are impacting LMI communities.

A handwritten signature in black ink that reads "Theresa Y. Singleton".

Three Delaware Agencies Craft Program That Combines Housing Subsidies and Supportive Services*

By Devon Degyansky, Management Analyst III, Delaware State Housing Authority

In 2010, the Delaware State Housing Authority (DSHA) partnered with two of its sister state agencies to create an innovative new program designed to meet the needs of some of Delaware's most vulnerable citizens. The State Rental Assistance Program (SRAP) couples tenant-based housing subsidies provided by DSHA with supportive services provided by the Department of Health and Social Services (DHSS) and the Department of Services for Children, Youth, and Their Families (DSCYF).¹

The concept behind SRAP was fairly straightforward: DSHA had demonstrated ability to administer successful housing programs, while the DHSS and the DSCYF were better equipped to provide supportive services and case management to their clients. Rather than expecting one agency to provide housing *and* services to individuals who require both to live successfully and independently in the community, each agency would perform the function for which it is best suited. The partnership was memorialized through a memorandum of understanding executed in 2010 by all three cabinet secretaries.

SRAP was designed to serve five key target populations:

1. DHSS clients exiting state-supported and privately run long-term care facilities
2. DHSS clients exiting the Delaware

- Psychiatric Center (DPC)
3. DHSS clients at risk of unnecessary institutionalization
 4. young people aging out of the foster care system
 5. families for whom the lack of affordable housing is a barrier to family reunification

Eligible applicants must be United States citizens and residents of the state of Delaware, and they must be at the 40 percent area median income level or less.

Documented Need

Both Delaware's Ten-Year Plan to End Chronic Homelessness and Reduce Long-Term Homelessness (2007)² and the working group report "Housing Delaware's Extremely Low-Income Households" (2009)³ identified a need of more than 1,000 rental subsidies to adequately house individuals who are chronically homeless or at risk of chronic homelessness and who would require intensive supportive services as a precondition to living independently in the community. At the time SRAP was launched, the DHSS housed more than 450 individuals in five state-run long-term care facilities — a significant portion of whom indicated a preference to live and receive care in community-based settings, according to institutionwide assessments conducted by DHSS staff. The DSCYF consistently reports about

100 young people "aging out" of foster care every year, at which point their need for transitional housing becomes critical. For each of these populations, a lack of affordable, service-enhanced housing is the primary barrier to a successful transition into the community.

Another major driving force behind the implementation of SRAP was the U.S. Department of Justice settlement agreement with the state of Delaware, executed in July 2011. The settlement agreement defined housing targets during a five-year period for individuals with serious and persistent mental illness receiving services from the DHSS Division of Substance Abuse and Mental Health (DSAMH). By the close of state fiscal year 2015, 650 of these individuals must be housed in integrated units in the community. As of the most recent Settlement Court Monitor report, published June 30, 2014, the state of Delaware had met or exceeded 90 percent of its housing goals, due in large part to SRAP.

Program Funding

The Delaware General Assembly initially voted to support SRAP with a \$1.5 million allocation out of the FY2011 Bond and Capital Improvements Act. This funding was expected to create approximately 150 units of tenant-based supportive housing. After a successful pilot year, program funding was increased to \$3 million and made a line item in the

* The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ SRAP has received several national and state awards, including an award for program excellence from the National Council of State Housing Agencies in 2013.

² See www.hpcdelaware.org/documents/Delawares_Ten-Year_Plan.pdf.

³ See www.housingforall.org/ELI%20WG%20Report%20PPT%20121409.pdf.

General Fund budget. In FY2013–2015, supplemental funding has been provided by the DSAMH specifically to serve clients in the settlement agreement target population. The DHSS and DSCYF utilize a blend of state and federal funding sources (Medicaid, Medicare, etc.) to assist program participants during the application and housing selection processes and to support voluntary home- and community-based services for participants once they are housed. Participation in continuing supportive services is not a requirement for continued participation in SRAP.

Program Operations

All program applicants are prescreened for eligibility by case managers affiliated with the DHSS or the DSCYF before they are referred to DSHA. Case managers complete the application online via a secure website and collect supporting documentation (e.g., proof of income) on behalf of the client. Applicant information is forwarded to an authorized official for review. Once this vetting process is complete, the application is submitted to the DSHA SRAP coordinator, who contacts the applicant and case manager to schedule a voucher briefing.

During the voucher briefing, the SRAP coordinator reviews the amount of subsidy to which the applicant is entitled. Under SRAP, the tenant is responsible for contributing 28 percent of his or her gross monthly income (less a standardized utility allowance) toward the contract rent amount, and the program subsidizes the remainder. The average SRAP monthly subsidy amount is \$658. Both the SRAP subsidy and the tenant's contribution are paid directly to the landlord. At the end of the voucher

briefing, the applicant receives his or her SRAP voucher and commences the housing search, with the assistance of his or her case manager.⁴

Most program participants are entitled to continued SRAP assistance through SRAP as long as they remain eligible for supportive services and comply with program expectations.⁵ The exception to this is the DSCYF referrals: Youth exiting foster care can receive the SRAP subsidy through their 22nd birthdays, and family reunification clients can receive 24 months of SRAP assistance. For these clients, SRAP is intended to serve as a bridge subsidy to help them eventually reach self-sufficiency. Throughout their participation in SRAP, participants receive intensive case management from nonprofit social service providers contracted by the DSCYF.

Program Outcomes

To date, the SRAP team has processed more than 1,200 applications. Of those applicants, 483 are currently housed in SRAP-assisted units, and 177 have been issued vouchers and are looking for suitable housing (Table).

Since the program's inception, the average turnover among DSCYF referrals is 35 percent. This number is obviously high because of term limitations imposed by the program. The average turnover rate among the DHSS referrals is 8 percent.

A major focus of the program's success is cost savings or cost avoidance associated with community-based care. It is generally much more expensive to serve individuals in institutional settings than it is to provide them with rental assistance and supportive services in a community-based setting. According to figures provided by the DHSS, the average daily cost to support a client in a long-term care facility (not including the DPC) is \$282.26, for a total annual expense of \$103,024.90. By contrast, the average cost of per diem outpatient care is \$68.81; combine the annualized cost of care with the average annual SRAP subsidy of \$7,896 for a total expense of \$33,011.65, and an average cost savings of \$70,013.25.

For the SRAP participants who were formerly housed at the DPC,

Table: Program Production as of October 3, 2014

Population	Applications Received (to date)	Applications in Process (to date)	Vouchers Issued	Units Leased	Total Active Participants
DDDS/DMMA/DSAAPD	301	10	45	133	188
DSAMH	718	31	126	288	445
DSCYF–Youth	108	0	1	38	39
DSCYF–Families	78	0	5	24	29
Total	1,205	41	177	483	701

DDDS = Division of Developmental Disabilities Services; *DMMA* = Division of Medicaid and Medical Assistance; *DSAAPD* = Division of Services for Aging and Adults with Physical Disabilities; *DSAMH* = Division of Substance Abuse and Mental Health; *DSCYF* = Department of Services for Children, Youth, and Their Families

⁴Health services nonprofits have been largely successful in recruiting and engaging landlords to provide housing for SRAP clients.

⁵Participants can use vouchers even if they don't receive supportive services as long as the DHSS verifies that they are eligible for the services.



The State Rental Assistance Program combines tenant-based housing subsidies and supportive services, thereby enabling targeted populations to live independently in the community. These are some of the locations where program clients are living.

the cost avoidance is even more pronounced. The average inpatient cost of care at the DPC is \$227,227 per year, while the annualized cost of rental assistance and supportive services in community-based settings is \$57,896. The total cost savings realized by serving this population through SRAP is an average of \$169,331 per person.

Rita Landgraf, secretary of the DHSS, said, “SRAP is helping individuals who are leaving long-term care at the state’s institutions and seniors who are being diverted from nursing home care so they can remain in the community. For these individuals, the rental assistance program is critical in helping them to achieve self-sufficiency and, ultimately, reintegration. And, finally, as state agencies, we are being fiscally responsible as we transition more individuals from high-cost institutional care to more affordable and sustainable community-based services and housing.”

Challenges and Lessons Learned

As with any collaborative effort,

SRAP has been impacted by challenges with communication and personnel. One of the major hurdles to overcome has been case manager turnover: The person who submitted an SRAP application is not always the same person assisting with move-in and lease-up two months later. This has, on occasion, made communication with the appropriate point of contact nearly impossible for DSHA staff.

Voucher expirations have presented another challenge. SRAP participants have a total of 120 days — an initial 60-day period and one 60-day extension — to locate a suitable unit and submit a request for tenancy approval. If they are unable to locate housing in that time frame, the voucher expires, and they must reapply for SRAP assistance. Many DHSS referrals struggle with securing housing in the 120-day time frame, and case managers — reluctant to go through the application process again — request the accommodation of further voucher extensions. This, in turn, creates an unmanageable

workload for DSHA staff, who must check in periodically on the status of individual housing searches.⁶

DSHA employees continue to work with their counterparts in the DHSS to develop practical solutions to these challenges. Representatives from both organizations now meet regularly to review status updates and withdraw vouchers that are unlikely to be used in a timely manner. In the event of case manager turnover, designated points of contact at the DHSS division level are able to identify the appropriate personnel to interact with their clients.

Program Expansion

As the program continues to grow and produce successful outcomes, administrators and stakeholders have begun making the case to extend SRAP assistance to additional target populations. In October 2013, DSHA, the DSCYF, and the Department of Education (DOE) entered into a memorandum of understanding to expand SRAP to include homeless families referred

⁶ As of the end of October 2014, DSHA was still allocating vouchers up to its established budget authority and had not yet needed to establish a waiting list for the vouchers.

through the education system (SRAP-DOE). After working with DOE representatives to identify the most appropriate school district in which to implement SRAP-DOE, DSHA entered into a separate agreement with the Christina School District (CSD). During the 2012–2013 school year, the CSD homeless advocate reported serving 840 homeless families — the most of any school district in New Castle County, the largest of Delaware’s three counties.

The SRAP-DOE pilot program was officially launched in September 2014. To date, applications have been received and vouchers have been issued to five applicant households. Providing rental assistance to homeless families in

the education system is expected to generate transportation cost savings for the state. Families temporarily living outside their established geographic areas rely on DOE-funded transportation to continue sending their children to their home schools, rather than uprooting them and sending them to a new school in close geographic proximity to their new housing. Based on analyses from previous fiscal years, providing SRAP assistance to 100 families is expected to result in an average annual transportation cost savings of \$1,500 per family.

SRAP has also established a solid foundation for a statewide supportive housing strategy. In FY2012, DSHA was one of 13 grantee states awarded funding

through HUD’s Section 811 Project Rental Assistance Demonstration program. The \$5.1 million initial five-year allocation is expected to create 150 units of project-based rental assistance for nonelderly persons with very low incomes and disabilities. DSHA is also part of the Individual Assessment Discharge and Planning Team, a collaboration focused on providing housing and other services to help ex-offenders reassimilate after incarceration. New initiatives such as these are made possible through the partnerships and infrastructure established by administering SRAP over the past four years.

For information on SRAP, contact Christina Hardin at 302-739-4263 or Christina@DeStateHousing.com.

Federal Reserve Appoints New Director of Consumer and Community Affairs



Eric S. Belsky, Ph.D.

Eric S. Belsky has been appointed director of the Division of Consumer and Community Affairs at the Board of Governors of the Federal Reserve System.

Belsky most recently served as managing director of the Joint Center for Housing Studies of Harvard University and lecturer in urban planning and design at the Harvard Graduate School of Design.

He previously held positions in the private sector and academia, including director of housing finance research at Fannie Mae and assistant professor at the University of Massachusetts. He has extensive experience conducting research on housing markets, housing finance, and housing policy and served as research director of the Millennial Housing Commission. He has a Ph.D., M.A., and B.A. from Clark University.

He succeeds Sandra F. Braunstein, who retired after 27 years of service at the Federal Reserve Board of Governors, including 10 years as director of the division.

MAPPING OUR COMMUNITY

THIRD FEDERAL RESERVE DISTRICT

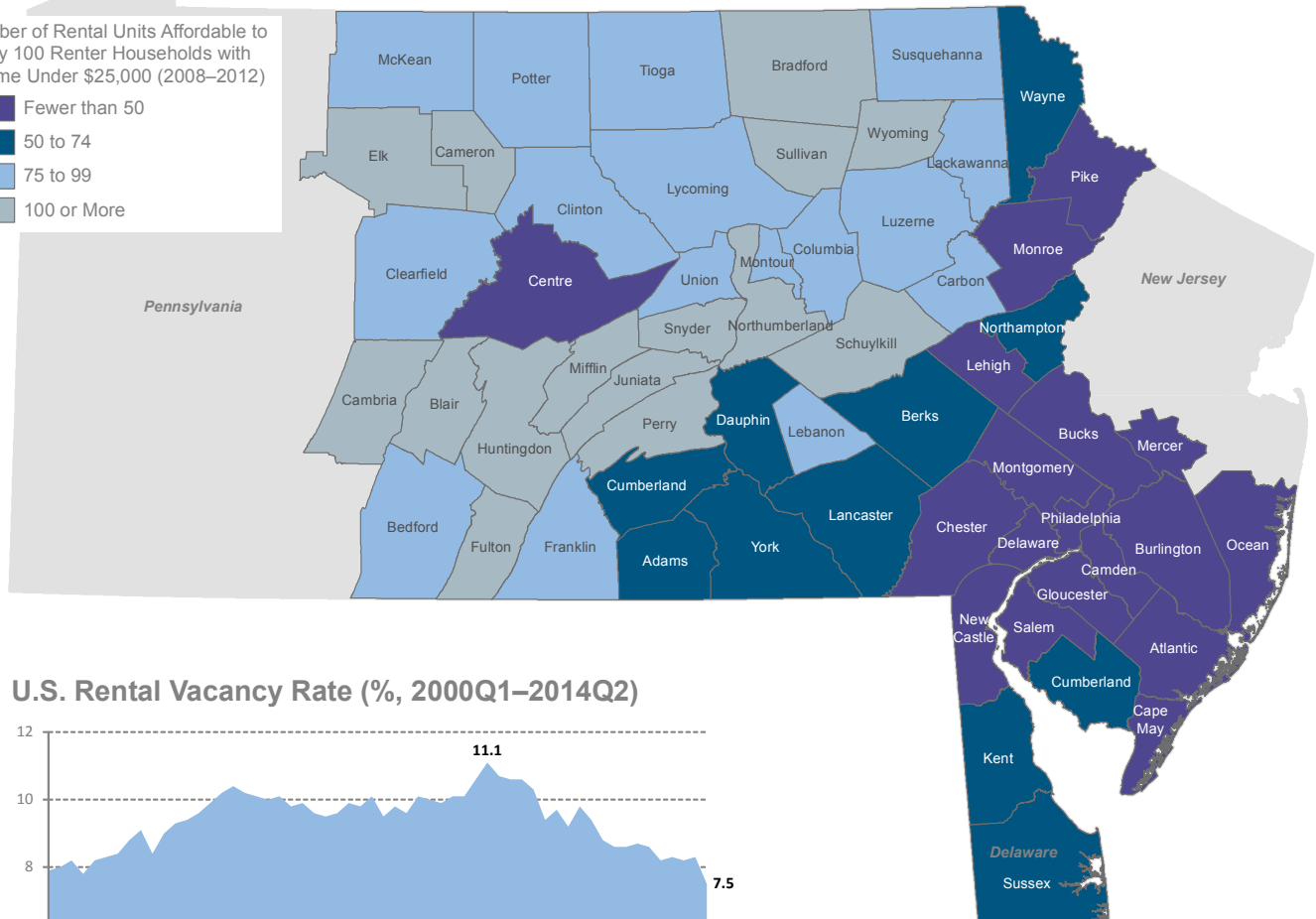
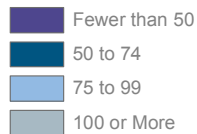
KEITH WARDRIP, COMMUNITY DEVELOPMENT RESEARCH MANAGER

Rental Housing Affordability*

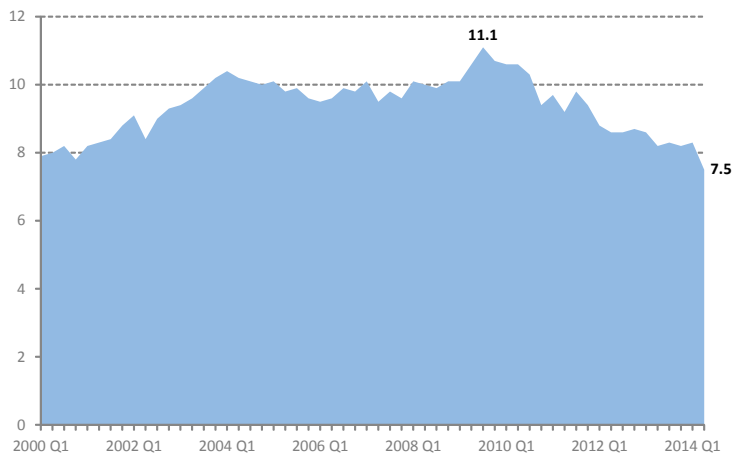
Housing is generally considered affordable if monthly costs do not exceed 30 percent of a household's monthly gross income. For households with the lowest incomes, it can be a challenge to find quality housing that meets this definition of affordability. Using data collected between 2008 and 2012, the map below shows the number of rental units affordable to every 100 renter households with incomes under \$25,000. Monthly rent and utility costs for the units used to calculate this ratio were below \$650.¹

For counties in the Third District, there were roughly 58 affordable units for every 100 renter households in this income range. Deficits were greatest in southeastern Pennsylvania, southern New Jersey, and Delaware, while the ratio exceeded 100 in 15 counties in Pennsylvania.

Number of Rental Units Affordable to Every 100 Renter Households with Income Under \$25,000 (2008–2012)



U.S. Rental Vacancy Rate (% , 2000Q1–2014Q2)



Falling vacancy rates can put upward pressure on rents. As the chart shows, the rental vacancy rate in the U.S. has fallen from over 11 percent to 7.5 percent in the past five years. The national rental vacancy rate has not been this low since the first quarter of 1997.

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¹ Monthly gross rent affordable to a household with an annual income of \$25,000 is actually \$625 (\$25,000 divided by 12 months times 30 percent to arrive at affordable housing costs). However, because of the way that American Community Survey data are reported, this analysis includes units with gross rent below \$650.

Sources: U.S. Census Bureau, 2008–2012 American Community Survey, Tables B25063 and B25118; U.S. Census Bureau, Current Population Survey / Housing Vacancy Survey, Series H-111, Table 1; ESRI, derived from Tele Atlas

How Will Affordable Rental Housing Be Preserved?*

By Keith L. Rolland, Community Development Advisor

Affordable rental housing for low- and moderate-income individuals and families is increasingly scarce. Housing finance agencies, nonprofits, and policymakers agree that existing affordable rental housing must be preserved despite formidable complex obstacles in achieving this goal. This article focuses on challenges in rental housing preservation and discusses the programs and perspectives of the Pennsylvania Housing Finance Agency (PHFA), the New Jersey Housing and Mortgage Finance Agency (HMFA), and the Delaware State Housing Authority (DSHA).

For example, the size and design of apartments in older developments may not be suitable or appealing to single-person households and small families, two groups that are commonly seeking affordable rental housing. Reconfiguring units to make older apartments wheelchair accessible and visitable¹ may be cost prohibitive. Older developments that are being renovated must address tenants' needs that range from community rooms or centers to fitness and computer facilities to supportive services.

- Multifamily property owners

owners to new owners.

- Older developments require rehabilitation, which is often more complicated than new construction in contract administration and oversight and which must consider the needs of renters who may be on-site or temporarily relocated.
- The competition is intensifying for federal low-income housing tax credits (LIHTCs), which are used substantially for housing preservation. In addition to the owners of a growing number of properties that were initially developed using LIHTCs and who are now seeking LIHTCs for refinancing, some public housing authorities have become eligible to compete for LIHTCs under the U.S. Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration (RAD), which launched in 2013. The nation's 1.2 million public housing units were built many decades ago and have capital needs of \$26 billion, which is far above the roughly \$2 billion Congress appropriates annually for capital repairs.² RAD enables public housing authorities (PHAs) and private owners and developers of HUD-assisted properties with expiring subsidies to convert their current assistance to long-term Section 8 contracts, which enables the PHAs and owners to apply for both 9 percent and 4 percent LIHTCs.

Housing finance agencies, nonprofits, and policymakers agree that existing affordable rental housing must be preserved despite formidable complex obstacles in achieving this goal.

The challenges these three states face regarding rental housing preservation include the following:

- A gap often exists between the costs of renovating multifamily properties and the financial resources available in preservation programs for improvements to those properties.
- The varying degrees of physical obsolescence of older developments and changing renter demographics have to be taken into account.

who cannot afford the high operating costs of their properties or generate a sufficient return from them are often encouraged to make energy-efficiency improvements to lower utility costs. The three housing finance agencies (HFAs) regularly work with owners who need refinancing, which is an ideal time to finance energy-efficiency improvements and to help create new financial structures or facilitate property sales from absentee or retiring

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¹ See www.visitability.org/.

² See <http://ow.ly/Eqzxe> and <http://portal.hud.gov/hudportal/HUD?src=/RAD>.

Preservation is one of the priorities in the LIHTC qualified allocation plans (QAPs) for the three HFAs. In the 2014 QAPs, the PHFA reserves at least six preservation properties for LIHTCs, the HMFA provides a set-aside for preservation projects, and DSHA says its first priority is preservation, especially of federally subsidized properties and sites in poor physical condition.

There is national concern about the prospects of converting federally assisted properties to market-rate apartments,³ but the three HFAs don't expect a widespread scale of conversions in the respective states. The HMFA said that about five or six HMFA properties funded with LIHTCs could be attractive for conversion to market-rate apartments if the owners cannot find buyers for the properties. The PHFA said that such conversions might become an issue in one or two gentrifying neighborhoods in Philadelphia and Pittsburgh.

The Delaware QAP sums up the conversion risk this way: "Market conversion risk in Delaware is very site specific. Few sites have rents substantially below fair market rents for their area, and most are protected by multiple subsidy sources and restrictions that interact to prolong the sites' use restrictions. However, some sites in particularly good condition in particularly good markets are at higher risk."

Opportunities for bank involvement in multifamily property preservation reported by the HFAs are loans for construction and permanent financing, purchases of the HFA-issued taxable and nontaxable securities, investments in LIHTC projects, short-term



The historic Lehigh Coal and Navigation Building, located in the central business district in Jim Thorpe, PA, is an example of a rehabilitation and preservation project financed with the assistance of the Pennsylvania Housing Finance Agency. The building provides 27 subsidized rental units for older people.

predevelopment loans to nonprofits, purchases of securities issued for a development approved under HUD's Multifamily Accelerated Processing (MAP) program,⁴ and acquisition and rehabilitation financing for portfolios of aging USDA Rural Development properties.

Pennsylvania

When speaking about multifamily housing preservation, PHFA Director of Development Holly J. Glauser said, "We're almost at a critical stage in directing where resources should be targeted." Brian Shull, manager of preservation programs at the PHFA, added that resources won't be remotely close to what is needed. Most HUD properties are 30 to 40 years old, and the first LIHTC projects are almost 30 years old.

Older, affordable multifamily properties are examined on a case-by-case basis, and the properties' characteristics, needs, and financial viability are taken into consideration when determining the best course of action, according to the PHFA's staff members. The PHFA's multifamily priorities in the next two years will be attention to health and safety issues, opportunities to extend affordability restrictions, and the need for enhancements for current tenants. The PHFA will try to proactively identify properties with acute rehabilitation needs or situations in which an owner transition is required or advisable, Glauser added.

³For more information on this issue, see the National Housing Trust at <http://www.nht.gov/jm/>.

⁴See <http://ow.ly/EpmgG>.



South Hills Retirement Residence, a 106-unit building for residents 55 and over in Pittsburgh, was substantially rehabilitated with financing from the PHFA and other sources.

Shull explained that the HFA encourages owners to use preservation as an opportunity to “enhance their developments, not just renovate apartments.” In 2004, when the PHFA provided funding to preserve the 275-unit Jamestown Village Apartments complex, which was built in the early 1970s in Reading, PA, the owner added a new building containing a community room and kitchen, offices for supportive services, onsite management offices, a fitness center, and a computer lab.

Preservation can also include repairs or modifications to increase site

and unit accessibility for persons with impaired mobility and energy-efficiency measures to reduce utility consumption, thereby lowering the cost of both the project and tenant-paid utilities, Shull added.

Pennsylvania’s inventory of affordable multifamily rental housing is diverse, requiring creative solutions for preservation, the PHFA said. Owners/developers have successfully preserved developments using PHFA’s main multifamily programs, including LIHTCs, MAP, HUD Risk Share, USDA Rural Development Section 538 mortgage insurance, PHFA’s

taxable or tax-exempt bond, and PennHOMES loan programs.

From 2008 to 2014, the PHFA operated a Preservation Through Smart Rehab Program that identified and financed energy-efficient improvements resulting in operating cost savings. The PHFA initially could not find any qualified energy auditors of multifamily buildings in Pennsylvania and obtained a grant from the John D. and Catherine T. MacArthur Foundation to establish a training program that resulted in 22 Building Performance Institute-certified multifamily analysts.

The PHFA used \$18.8 million of the American Recovery and Reinvestment Act (ARRA) Weatherization Assistance Program (WAP) to fund energy-efficiency improvements for 8,307 units in 100 properties from 2009 to 2012.

A comprehensive assessment⁵ of the PHFA’s ARRA-funded Preservation Through Smart Rehab Program, which was released in April 2014:

- observed that the energy performance of multifamily housing is poorly understood and that “there is a remarkable lack of data nationally about energy consumption in multifamily affordable housing.” Accurate tabulation of energy data was the single most challenging aspect of the assessment.
- recommended standardizing building audits, linking data fields on an audit form to a central database, and providing ongoing training of multifamily property auditors.

⁵The report by Carnegie Mellon University’s Center for Building Performance and Diagnostics is available at <http://repository.cmu.edu/architecture/78/>.

Reductions in WAP funding caused the PHFA to discontinue the Preservation Through Smart Rehab Program as a separate preservation funding source. The PHFA continues to require the integration of energy-efficiency improvements in all applications submitted for its main multifamily preservation programs, including LIHTCs.

Shull observed that many owners of multifamily properties recognize the potential savings from energy improvements while others continue to view utility expenses as “an uncontrollable cost of operations.” “Benchmarking” utility costs based on an energy audit can provide information about utility costs necessary to make decisions on energy improvements.

Tenant education is also important because energy improvements will be successful only if tenants close doors and windows, control water consumption, and take other energy-conserving steps, Shull said.

New Jersey

The HMFA said that its Conduit Bond Program has been a successful tool for multifamily rehabilitation and preservation as well as new construction. The HMFA developed the program as a new business model following the credit and foreclosure crisis that began in 2008. Like other state HFAs, the HMFA traditionally sold taxable and tax-exempt bonds to private-sector investors in national financial markets to raise capital, but a very low interest rate environment made the agency’s interest rates less attractive in the market.

The Conduit Bond Program enables well-capitalized developers to issue bonds through the HMFA on a pass-through basis at competitive interest rates and to have access to HMFA tax-exempt financing and LIHTCs as needed. The bonds are obligations of the borrowers and generate recurring fee income that the HMFA believes is critical to the agency’s future. According to the HMFA, the Conduit Bond Program has provided a total of \$411 million in HMFA financing since 2011 for new construction or rehabilitation and preservation of 3,750 units in 20 projects.

In addition, the HMFA established a Fund for Restoration of Multifamily Housing (FRMH) in the aftermath of Superstorm Sandy with Community Development Block Grant Disaster Recovery funds. For-profit and nonprofit housing developers obtained zero-interest and low-interest loans in the program to finance the development of affordable housing in nine HUD-designated counties.⁶ According to the HMFA, FRMH funding of \$168.2 million has been closed or committed for the restoration of approximately 2,920 housing units in 36 projects.

The HMFA said it endorses the new federal RAD program and is hopeful the program will be extended.

Delaware

A comprehensive Delaware Housing Needs Assessment report,⁷ released in September 2014, found that affordable rental housing preservation needs in Delaware generally fall into three categories: older sites that need extensive rehabilitation or potentially need demolition and redevelopment and that often have federal rent subsidy

contracts; LIHTC sites more than 15 years old in moderate to good condition in which affordability may be at risk; and aged public housing in need of moderate to complete rehabilitation.

According to the assessment, DSHA has rehabilitated and preserved more than 1,500 units since 2007, and 44 developments totaling 3,317 subsidized rental units in Delaware — equivalent to approximately 30 percent of all subsidized housing stock in the state — are more than 25 years old and have not had substantial rehabilitation.

DSHA maintains an Affordable Rental Housing Preservation Inventory⁸ of privately owned, subsidized, or income-restricted affordable rental housing. Since 2010, preservation has been a priority at DSHA after the agency engaged in an analysis of preservation needs and risks throughout Delaware’s stock of assisted rental housing. In 2008 and 2009, all LIHTC allocations in Delaware were for preservation except for a set-aside for nonprofits and a small set-aside for special populations.

Delaware’s state housing trust fund, the Housing Development Fund (HDF), is an important source of deferred and nondeferred loans for multifamily development and rehabilitation. The HDF is supported by annual allocations, a state document recording surcharge, loan repayments, and interest income. According to DSHA, the state’s budget has included HDF allocations of more than \$40 million, leveraging more than \$160 million in LIHTC equity, private lending, and other forms of capital investment.

⁶The counties are Atlantic, Bergen, Cape May, Essex, Hudson, Middlesex, Monmouth, Ocean, and Union.

⁷See <http://ow.ly/EqzUX>.

⁸See <http://www.destatehousing.com/FormsAndInformation/preservation.php>.

SPOTLIGHT ON RESEARCH



By Marvin M. Smith, Senior Community Development Economic Advisor

Housing Options for Homeless Families*

Homelessness in the U.S. continues to be a pressing issue. It is generally thought to involve only single men and women. However, according to a 2010 report to Congress, about one-third of the homeless are families.¹ While the need for housing for homeless families is a foregone conclusion, the type of housing that best fosters residential stability and self-sufficiency remains at issue. A recent report by the National Center on Family Homelessness sheds light on this topic.² The following is a summary of that report.

Background

The federal government's approach to homelessness has changed over the years. During the previous 10 years, the focus was on the chronic homeless, most of whom are "individuals with physical health, mental health and substance use issues who have been homeless for long periods."³ In 2008, the government's policy changed to include homeless families and children. In 2010, the United States Interagency Council on Homelessness released a report that had as one of its major goals to end child and family homelessness in 10 years. To achieve this goal, accurate data on homeless families

and effective strategies to ensure their residential stability were necessary. Therefore, the Service and Housing Interventions for Families in Transition (SHIFT) Longitudinal Study was undertaken to provide the needed information.

Methodology

The SHIFT study "compared the characteristics and outcomes of families residing in three different types of housing programs." The characteristics of the various housing programs are as follows:⁴

- **Emergency shelters (ES)** primarily provide temporary shelter for homeless families and are intended to be a short-term housing solution (e.g., one night to three months).
- **Transitional housing (TH)** provides housing and support services to facilitate movement to independent living within 24 months.
- **Permanent supportive (PS) housing** provides long-term, community-based housing combined with supportive services for families with intense needs (e.g., mental health or physical disabilities, substance use issues).

Families were recruited from each type of housing program in Buffalo, Rochester, Syracuse, and the Albany area in New York. The family units that were studied consisted of single women (18 years or older) who were pregnant or had a child/children. The family had to be entering an ES, TH, or PS housing program at the time of recruitment. The study began with 294 families and 704 children. After attrition, there were 184 families and 577 children.

Information was gathered via interviews when the family entered a housing program (baseline) and during follow-up interviews at 15 months and 30 months. Mothers were the primary source of information. The interviews were approximately two hours and covered several topics such as housing, employment, income, health, experiences of trauma, mental health, substance use, services received, and the needs and characteristics of their children.

Findings

The demographics of the participants in the study varied slightly among the three types of housing programs. However, the overall profile drawn from the baseline is as follows: The mothers were primarily never mar-

*The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹U.S. Department of Housing and Urban Development Office of Community Planning and Development, *The 2009 Annual Homeless Assessment Report to Congress*, June 2010, available at www.huduser.org/portal/publications/povsoc/ahar_5.html.

²Maureen A. Hayes, Megan Zonneville, and Ellen Bassuk, *Service and Housing Interventions for Families in Transition (SHIFT) Longitudinal Study*, National Center on Family Homelessness, June 2013, available at www.familyhomelessness.org/media/389.pdf.

³J.K. Williams and J.A. Hall, "Stress and Traumatic Stress: How Do Past Events Influence Current Traumatic Stress Among Homeless Mothers Experiencing Homelessness?," *Social Work Research*, 33(4) (2009), pp. 199–207.

⁴See the SHIFT study.

ried, averaged 29 years of age, were predominantly African American, had one to three children, and were mostly unemployed; in addition, many did not have a high school degree or GED and generally relied on public benefits.

At the baseline, the mothers in the study had experienced multiple traumatic events, had multiple childhood traumas, or experienced multiple traumas in adulthood.

The data collected were analyzed using different estimating techniques, from descriptive statistics to various forms of regression analysis. The study deals with the effects of the three types of housing programs on several aspects of the homeless families participating in the study. The areas include residential stability, family separation, status of the children, and trauma histories and mental health. Only the first two are considered here.

Residential Stability

Residential stability/instability was measured by the number of moves the family made between the baseline and the 15-month follow-up and then the 30-month follow-up. However, it is noted in the report that research shows that a strong “predictor of residential stability for homeless and low-income families is vouchers or housing subsidies.” Thus, a conservative definition of residential instability was used in the report whereby families who moved once and had any rental subsidy were not considered residentially unstable. Notwithstanding the conservative definition, instability rates were found to be high during the course of the study for all three housing programs.

Emergency Shelters

Not too surprising, none of the ES families were at their baseline residence at the 15-month follow-up, since the programs have a three-month maximum stay policy. One-quarter of

them had moved multiple times. Although residential stability improved at the 30-month follow-up (with a little more than half of the families stably housed), many of the families still experienced residential instability.

Transitional Housing

Fifty-seven percent of the TH families were not residentially stable at the 15-month follow-up, with about half of them experiencing multiple moves. There was slightly less residential instability (56 percent) at the 30-month follow-up. The experience of the TH families was characterized by significant housing mobility.

Permanent Supportive

Families in the PS program had the highest rate of residential stability at the baseline. At the 15-month follow-up, 71 percent were residentially stable, with 52 percent still in their PS program housing. At the 30-month follow-up, 64 percent were stably housed, while 36 percent were still living in PS. It is noted in the report that “while PS had the highest rates of residential stability among the housing groups, a considerable amount of that stability was attributed to rental subsidies rather than maintaining the housing program residence.”

The authors of the report also used regression analysis to identify the variables that contribute to residential instability. They used the number of moves since follow-up as the dependent variable. They found that unemployment, lower education, poor health, and lower self-esteem were statistically significant in predicting residential instability. At the 30-month follow-up, low self-esteem and a high posttraumatic stress disorder symptom severity score were significant explanatory variables.

Family Separation

At the 15-month follow-up across all three housing programs, “41% reported they had a child live apart from them since the baseline in-



Marvin M. Smith, Ph.D.

terview.” The percentages for the individual programs were “ES = 44%, TH = 39%, and PS = 19%.” Family separation improved somewhat at the 30-month follow-up (except for PS). Over all housing programs, “36% reported a child had lived apart from them since the 15-month follow-up.” The separation percentages for each program were “ES = 36%, TH = 32%, and PS = 50%.”

The authors estimated a regression to identify factors that predict mother-child separations. At the 15-month follow-up, they found the following factors as predictors: residential instability, younger mothers, having more children, and maternal mental health treatment. At 30 months, they found the same aforementioned factors, with the addition of unemployment and attending Alcoholics Anonymous/Narcotics Anonymous meetings. According to the authors, “The identification of these risk factors provides the opportunity to design programs and services to prevent the damaging effects of family separation.”

Conclusions

The results of this report indicate that it is crucial that mothers like the ones in the study are “provided appropriate services and supports to identify and address trauma, depression, and [substance use disorder] SUD as part of any housing program.” Moreover, “families and children should not be separated unless the health and well-being of the children are at immediate risk.”

Corporation for Supportive Housing Integrates Housing and Supportive Services for Vulnerable Populations*

By Deborah De Santis, President and CEO, Corporation for Supportive Housing

Supportive housing, which was begun by visionary nonprofits in New York City in the early 1980s to serve long-term homeless people, offers vulnerable individuals and families their own affordable homes as well as access to a comprehensive array of flexible services, paving the way for successful tenancy, recovery, and community integration. Supportive housing is also being provided for other populations, such as those with mental illness backgrounds or with developmental disabilities.

Today, approximately 300,000 supportive housing beds nationwide ensure that tenants remain stably housed while living healthier lives.¹ Over the past decade, supportive housing has cut the number of people experiencing long-term homelessness in half.² Supportive housing also helps other individuals such as those who are inappropriately placed in institutional care settings because of a lack of affordable housing and/or inadequate community-based care and those directly affected by the U.S. Supreme Court's 1999 *Olmstead v. L.C.* ruling³ that states that unjustified segregation of persons with disabilities constitutes discrimination under the Americans with Disabilities Act. The court held that public entities must provide community-based services to such persons under certain conditions.

Integrated models of supportive housing with medical and mental health services have improved housing and health outcomes for these populations as well as reduced dependencies on the high-cost emergency care often relied on by many who are stuck in the revolving door of housing instability and repeat health crises.⁴ Clients typically are referred to supportive housing by social workers or apply directly.

Stable Housing = Better Health = Lower Costs

Regardless of who the vulnerable population is — chronically homeless, veterans on the street, or the mentally ill discharged from hospitals — simply sheltering people is often not enough to keep them housed. There is a large cohort of people who need services connected to housing to end their overutilization of very costly public services such as emergency care. By offering them tenancy in supportive housing, vulnerable people with complex problems and needs stay housed, receive services that make them better, and obtain more cost-effective care.⁵

Supportive housing provides a foundation for engaging tenants in managing their own care and also promotes lifestyle changes. In addition, supportive housing improves access

to quality health care by providing physical space for service delivery as well as exposure to experts who link tenants to community-based social, mental health, substance abuse, and medical services. The Corporation for Supportive Housing (CSH) is engaged in federal public policy reform and advocacy efforts on behalf of supportive housing.

Social Innovation Fund

The CSH received a Social Innovation Fund (SIF) grant from the federal Corporation for National and Community Service in 2011 to develop housing solutions for homeless individuals with multiple health conditions who are chronic high-cost users of crisis health services. These individuals have high rates of serious mental illness, significant issues with substance use, as well as higher rates of chronic medical conditions, such as diabetes and hypertension.⁶ Generally, these individuals have poor health outcomes and rising health-care costs, especially costs incurred through Medicaid.

As an SIF grantee, the CSH is leading a federal demonstration based upon a number of studies that validate that linking care management to supportive housing leads to improved health outcomes and lower costs.⁷ In Denver, for example, 50

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¹U.S. Department of Housing and Urban Development, "HUD's 2013 Continuum of Care Homeless Assistance Programs Housing Inventory Count Report," available at <http://ow.ly/DKpdN>.

²See "HUD's 2013 Continuum of Care Homeless Assistance Programs Housing Inventory Count Report" at <http://ow.ly/DKpdN>.

³For more information about the *Olmstead* decision and its impact on supportive housing, see www.ada.gov/olmstead/olmstead_about.htm, www.csh.org/2012/12/supportive-housing-olmstead/, and <http://ow.ly/DKOxi>.

⁴Corporation for Supportive Housing (CSH), "Housing Is the Best Medicine — Supportive Housing and the Social Determinants of Health," 2014, available at <http://ow.ly/DKPkP>.

⁵See CSH's 2014 report.

⁶See BF Henwood, LJ Cabassa, CM Craig, and DK Padgett, "Permanent Supportive Housing: Addressing Homelessness and Health Disparities?" *American Journal of Public Health*, 103, Suppl. 2 (2013), pp. S188–S192; National Association of State Mental Health Directors, Medical Directors Council, Joe Parks, Dale Svendsen, Patricia Singer, and Mary Ellen Foti (eds.), *Morbidity and Mortality in People with Serious Mental Illness*, Technical Report, available at <http://ow.ly/DL2u5>.

⁷See CSH's 2014 report.



Credit: Michael Maltzan Architecture, Inc.

The Corporation for Supportive Housing played a leading role in developing Star Apartments, which transformed an eyesore in downtown Los Angeles into a mixed-use complex with 102 apartments for previously homeless individuals.

percent of the supportive housing residents experienced improved health status, 43 percent had better mental health outcomes, and 15 percent experienced a reduction in substance use.⁸ In addition, a rigorous randomized control trial of a program in Chicago found that supportive housing residents with HIV/AIDS had much higher levels of survival than those who were homeless or unstably housed.⁹

The CSH's national demonstration recognizes that supportive housing is an essential platform for the delivery of services that improve health and lower costs and exam-

ines the intersection of housing and health care and the role that supportive housing can play in addressing Medicaid's highest-need, highest-cost beneficiaries.

The CSH brought together the best of what works in ending homelessness with some of the most innovative answers for improving health and lowering health-care costs. Chronic high-cost users of health services are identified and engaged by providers, and the individuals are moved quickly into affordable housing without preconditions and are offered voluntary services. This approach is strengthened

with the added components of care coordination, patient navigation, and direct linkages to primary and behavioral health care.

Further refinement of the five-year SIF initiative is occurring as a direct response to the expansion of Medicaid coverage under the Affordable Care Act, but the CSH is already seeing promising results.¹⁰

The newly opened Star Apartments transformed an eyesore in downtown Los Angeles, CA, into a mixed-use complex with 102 apartments for formerly homeless individuals benefiting from the CSH's SIF work. Located along the border of Skid Row, this \$40 million project sets a new model for urbanism and increased density by remodeling an existing one-story building and adding new community spaces and residential levels above. The ground floor of the Star complex is occupied by the county Department of Health Services' Housing for Health division headquarters and a county medical clinic. The Housing for Health program aims to house 10,000 of the county's sickest, most vulnerable homeless people in the next 10 years.¹¹

Pay for Success and Social Impact Bonds

The CSH is working with communities across the country to develop Pay for Success (PFS) and/or Social Impact Bond (SIB) contracts to fund additional housing units and/or services. The contracts combine nonprofit expertise, private-sector funding, and rigorous evaluation to transform the way government and society respond to chronic social problems.¹²

⁸See CSH's 2014 report; J. Perlman and J. Parvensky, *Denver Housing First Collaborative Cost Benefit Analysis and Program Outcomes Report*, 2006, available at http://shnny.org/uploads/Supportive_Housing_in_Denver.pdf; L. Sadowski, R. Kee, T. VanderWeele, and D. Buchanan, "Effect of a Housing Case Management Program on Emergency Department Visits and Hospitalizations Among Chronically Ill Homeless Adults," *Journal of the American Medical Association* 301:17 (2009), pp. 1771-1778.

⁹See CSH's 2014 report; J. Perlman and J. Parvensky, 2006; and L. Sadowski, R. Kee, T. VanderWeele, and D. Buchanan, 2009.

¹⁰See www.csh.org/sif and www.csh.org/2014/02/cshs-sarah-gallagher-shares-her-reflections-on-the-sif-initiative-and-progress-to-date/.

¹¹See <http://dhs.lacounty.gov/wps/portal/dhs/housingforhealth>.

¹²See www.whitehouse.gov/omb/factsheet/paying-for-success.



Valley Brook Village for Veterans, which provides permanent housing for 62 previously homeless veterans, is located on the VA NJ Healthcare System campus in Lyons, Somerset County, NJ. The U.S. Department of Veterans Affairs donated a 16-acre tract for construction of the village, while the U.S. Department of Housing and Urban Development provided project-based rental subsidies to ensure that the rents are affordable to low- and moderate-income veterans. Community Hope, a nonprofit, provides the veterans with on-site supportive and employment services.

In SIBs, private and philanthropic funds provide the initial capital necessary to deliver the program, and taxpayers repay the funders only if the program achieves outcomes that create benefits and savings. All outcomes are rigorously evaluated and verified by a third party. Government and the taxpayers are not responsible if projects fail because private and philanthropic investors have assumed the up-front risks.

The CSH is providing expertise and technical assistance in Denver, CO, where SIBs are now being used to build new supportive housing units. The CSH is working with the community to design and implement plans to serve 200 to 300 chronic high-cost users of public services, most of whom are homeless. This initiative will span the next six years and will leverage a wide array of existing public funding supplemented with resources developed through SIB financing.

In October 2014, the CSH was one of eight organizations selected by the

Corporation for National and Community Service to help develop PFS programs.¹³ The CSH was awarded a grant of \$750,000 to provide technical assistance to enable government agencies and nonprofits to pursue PFS pilots.

CDFI

The CSH was certified as a CDFI by the CDFI Fund in 1996. Since that time, the CSH has made more than \$450 million in loans and grants that helped to create over 83,000 supportive housing units in 33 states.

The CDFI manages a Solutions Fund that the CSH started in 2012. Seed money from a Wells Fargo NEXT Award for Opportunity Finance was supplemented with financial support from the Conrad N. Hilton Foundation, the Robert Wood Johnson Foundation, Bank of America, Deutsche Bank, HSBC Bank, and Morgan Stanley. Today, the fund totals about \$45 million.

The Solutions Fund is used in rural or remote geographic areas

where traditional financing for supportive housing is unavailable or more difficult to obtain. The fund is a flexible financing source that has provided predevelopment, construction, and other loans of approximately \$30 million in areas such as Indiana and Ohio for supportive housing for veterans and those with special needs and behavioral challenges. The financing has included predevelopment and construction loans.

Conclusion

The proven solutions of supportive housing are evolving to serve new populations in additional settings. In the future, the CSH anticipates that populations such as elders in need, young people aging out of foster care, and troubled families will need supportive housing. In working with new populations, the CSH will look to partners in philanthropy and financial institutions to create innovative financing mechanisms and fill funding gaps to develop housing and services for some of the most vulnerable people in our society.

¹³ See <http://ow.ly/EaC4m>.

PSE&G Finances Energy Improvements in over 10,000 Multifamily Units*

By Keith L. Rolland, Community Development Advisor

Utilities can play a role in the preservation of affordable multifamily housing by financing comprehensive energy conservation measures (ECMs) that reduce the operating costs of such housing. A Public Service Electric and Gas (PSE&G) Company program in New Jersey targets ECMs to the multifamily sector. PSE&G's Residential Multifamily Housing Program provides a multistep funding payment process during project construction to eliminate the building owner's need to secure a loan to fund the capital investment in energy-efficiency upgrades prior to the start of construction.

The New Jersey Board of Public Utilities (NJBPUB) approved PSE&G's investment of \$39 million in the program, which is financing ECMs in more than 280 buildings with over 10,000 units. Many of the buildings are financed by the New Jersey Housing and Mortgage Finance Agency (HMFA) and have older low-income renters.

PSE&G targeted the multifamily sector because of its relatively high energy usage, aging mechanical equipment, a lack of capital for infrastructure improvements, and the need to preserve the affordability of the housing provided. Multifamily owners often have thin operating margins and limited ability to raise rents and are unaware of how to procure or manage the construction of ECMs.

PSE&G evaluates a total package of ECMs for overall cost effectiveness. Typical ECMs are lighting, HVAC systems, ventilation improvements, insulation, air sealing, appliances such as refrigerators, and water-saving devices and controls.

Program Implementation and Features

The program's five main steps are as follows:

1. A consulting engineering firm under contract to PSE&G conducts a detailed audit¹ to determine how a multifamily building is using energy and whether there are opportunities for cost-effective ECMs.
2. The engineering firm performs an analysis of the project and measures payback ability and cost effectiveness. The firm considers ECMs that have a simple payback of 15 years or less.
3. The engineering firm performs the engineering and design and helps the owner prepare a scope of the work for contractor bids.
4. Construction can begin after the final bids are agreed upon. PSE&G provides the owner with progress payments so that construction costs are covered upfront. PSE&G provides 30 percent at the start of the project, interim payments based on completion of the work, and the final 20 percent after the project is completed. The consulting engineer provides construction admin-

istration, inspection, and commissioning of equipment services during the project to ensure that the project meets the design intent.

5. When the project is complete, the owners repay their share over a five- or 10-year period on their electric or gas bill at zero percent interest. PSE&G's permanent incentive to the project is finalized based on all final costs, and the owner usually ends up paying 30 percent of the project's total cost over the five- or 10-year period. The buy-down model provides a seven-year buydown of the total project to no less than two years.

Following are features of the program:

- PSE&G provides upfront financing for construction, technical assistance, and the audit.
- Owners can pay back the cost of ECMs on their regular bill, without interest, typically in 10 years for HMFA projects and five years for other projects.
- ECMs are financed regardless of how a multifamily building is metered, a fact that makes it simpler to address all ECM opportunities.
- A permanent incentive is applied to the project.

Rachael P. Fredericks, manager of the program, observed, "Many other multifamily programs look at 'split offerings' between residents and owners, whereas PSE&G's program enables the owner of a multifamily building to invest in all cost-effective energy-efficiency opportunities, including those that benefit the residents in their dwellings."

Lessons Learned

Fredericks explained that it is critical to have a comprehensive audit and an accurate site energy analysis with baseline energy data. Education and dialogue with owners and property management firms must be ongoing. There must be full access to the property site during the audit and construction. She added, "The final inspection of newly installed equipment, as well as training on-site staff and commissioning equipment, ensure persistence of energy savings over time." It is important that the operations team at the project site is well prepared to operate and maintain sophisticated new equipment, she said.

A third round of program funding is pending NJBPUB approval. PSE&G created the program by adapting its existing energy-efficiency program targeted to hospitals and to local and state governments.

For information, contact Rachael P. Fredericks at 973-430-7442 or rachael.fredericks@pseg.com.

*The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ Audits are performed according to standards of the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE).

Volunteers Repair Single-Family Homes in National Initiatives*

By Keith L. Rolland, Community Development Advisor

Two national programs in which volunteers help owners of single-family homes make necessary repairs and thereby preserve the viability of their residences are Habitat for Humanity's A Brush with Kindness and Rebuilding Together. Both programs have affiliates in Pennsylvania, New Jersey, and Delaware.

Habitat for Humanity's A Brush with Kindness

About 37 percent of Habitat's 1,457 U.S. affiliates offer A Brush with Kindness, an exterior home preservation program that provides painting, landscaping, and minor repair services to eligible homeowners. The program is for owner-occupants, most of whom make 60 percent of the area median income or less (80 percent in higher cost areas). It is not necessary for the home to have been bought from Habitat.



An AmeriCorp member works at A Brush with Kindness site during Habitat for Humanity's annual Build-a-Thon.

Most of the repair work is done by unskilled volunteers, although tasks requiring skilled labor are performed by trained Habitat affiliate staff members or by professional tradespeople who serve as volunteers or do the work for a fee.

If the homeowner cannot afford to pay for the repairs at completion, a no-interest loan is made to the homeowner to cover the cost of the project. Payments are used to help serve others. Owners also agree to contribute some sweat equity to the project or to complete other volunteer work with the affiliate.

Sue Henderson, vice president for U.S. and Canada with Habitat for Humanity International, said that the home repairs benefit the larger community and help connect Habitat affiliate staff to more residents. The program has become an integral part of Habitat's move toward community redevelopment, rather than scattered-site projects, she said. From 2008 to 2013, Habitat's A Brush with Kindness program served 9,182 families.

One of the challenging aspects of the program is setting an affordable price and payment method, Henderson explained. Habitat's consistent philosophy has been "a hand up, not a handout," but many homeowners are older, are on a fixed income, and have limited ability to pay. Habitat wants the owners to be in a financially sound situation following the repairs, Henderson explained.

Affiliates are developing internal policies regarding repayment, which might include payment on a sliding scale according to income or a fixed fee for certain repairs, even if it's a small amount. According to



Credit: Bennett Raglin/AP Images for Rebuilding Together

Volunteers work on a home at Rebuilding Together's 19th annual Super Bowl-sanctioned charity event, Kickoff to Rebuild, supported by Lowe's, on Friday, January 31, 2014, in Moonachie, NJ.

a 2012 survey of Habitat affiliates, 67 percent had repairs of \$1,000 or less, 26 percent had repairs of \$1,000 to \$3,000, and the rest had larger repairs. The extensiveness of repairs varies by affiliate.

Rebuilding Together

Rebuilding Together makes critical repairs to the homes of low-income homeowners. The organization, started in Midland, TX, in 1973 as

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Christmas in April, has grown to 166 affiliates in 41 states and Washington, D.C. Volunteers complete projects with the assistance of skilled tradespeople who either volunteer their services or are paid for their work. Some repairs involve disaster recovery or fire prevention. Other typical undertakings are home modifications for older adults and people with disabilities; remediation of indoor environmental health issues such as lead paint, radon, and conditions believed to trigger asthma; and repairs needed by multigenerational families and veterans. In 2013, 92,000 volunteers completed 9,485 unduplicated projects.

Affiliates vary in the extent of rehabilitation they undertake, the way in which repairs are financed, and the degree to which they work with city and county agencies. Some affiliates raise funds from government agencies, individuals, corporations, universities, and foundations and work with regional partners such as utilities, weatherization providers, other volunteer organizations, and members of skilled trades.

Rebuilding Together's New Jersey affiliates have been dedicated primarily to the long-term recovery of communities devastated by Hurricane Sandy. They have repaired more than 300 homes and community centers in the affected communities.

Rebuilding Together staff members said that the main challenges that they face are program funding and capacity.

For information, contact Susan Henderson at 404-420-6796 or shenderson@habitat.org; www.habitat.org/getinv/brush_with_kindness.aspx; and Linley Beckbridge at 202-518-3106 or lbeckbridge@rebuildingtogether.org; <http://rebuildingtogether.org>.

Pennsylvania Nonprofit Helps Preserve Rental Housing*

By Keith L. Rolland, Community Development Advisor

The Housing Development Corporation (HDC) MidAtlantic, a 43-year-old nonprofit developer and property manager in Lancaster, PA, has a substantial focus on rental housing preservation. It led the rehabilitation, refinancing, and preservation of 376 units on seven properties located in Lancaster, Berks, and Dauphin counties. The HDC MidAtlantic had originally used low-income housing tax credits (LIHTCs) to develop the properties, which had passed the initial 15-year compliance period and were at risk of losing their affordability.

Highlights of the financing package, finalized in 2012, were Fulton Bank's purchase of tax-exempt housing revenue notes and loan of \$19.5 million and the sale of 4 percent LIHTCs to Enterprise Community Partners. The seven-property portfolio has affordability covenants that will continue for an additional 30 years. It took the HDC MidAtlantic and a team of attorneys, auditors, and other specialists three years to bring the 376-unit transaction to fruition, explained Michael R. Carper, president and CEO of HDC MidAtlantic.

Carper said that "a more efficient financial mechanism" is urgently needed for many developments that have finished their LIHTC initial 15-year compliance period and that require new financing and rehabilitation. Four to six projects could be aggregated for an award of LIHTCs. Carper said, "It is difficult to aggregate affordable housing properties. They're all different in construction, proximity to services, and population served." He added, "If a nonprofit such as HDC is aggregating

properties from another owner, there is a serious risk of legal redress from HUD or other parties if the owner didn't fully meet affordable housing compliance regulations, for example in qualifying residents."

The HDC MidAtlantic has also been the developer in the rehabilitation of an 11-story 150-unit apartment building in Lancaster that was constructed in 1979 for elderly and disabled residents. The rehabilitation work consisted of repairs to the building's brick façade; new windows; upgrades to the fire safety and elevator systems; replacement of kitchens, appliances, and most air-conditioning units; and renovations of bathrooms, 20 units for handicap accessibility, and the management offices and common areas. A challenge was structuring the refinancing to meet numerous and sometimes conflicting FHA/HUD requirements from three different loan programs, according to Carper.

The HDC MidAtlantic is also initiating major energy-efficiency upgrades at other properties and is seeking to refinance and/or renovate existing USDA Rural Development communities. The HDC MidAtlantic would acquire and manage the properties or provide project management services during renovations.

The HDC MidAtlantic also manages more than 3,300 residential units throughout central Pennsylvania and Delaware.

For information, contact Michael R. Carper at 717-291-1911 or mcarper@hdcweb.com; <http://hdcweb.com>.

*The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

The Burden of High Housing Costs ...continued from page 1

as the number of severely burdened households that spent more than half of their incomes on housing was 19.8 million.

For low-income households, cost burdens are very much the norm. Among households earning \$15,000 per year or less (approximately the equivalent of full-time work at the minimum wage), more than four out of every five households (82 percent) are cost burdened, while more than two-thirds (69 percent) spend more than half their incomes on housing. But while burdens are sky-high for households with the lowest incomes, they have increasingly been creeping up the income scale, with the sharpest increases during the past decade occurring among moderate- and middle-income groups.

Housing cost burdens are not distributed evenly across the population. Following persistent income gaps by race and/or ethnicity and educational

attainment, minorities and those with less education are also disproportionately represented among the burdened. Severe burden rates among Asian, Hispanic, and black households are each well over 20 percent, which is much higher than the 14 percent rate for non-Hispanic whites. Similarly, those with only a high school degree are nearly twice as likely to suffer severe burdens as those with a bachelor’s degree or higher (19 percent versus 10 percent, respectively).

Renters Hit Especially Hard by Burdens

The largest group of cost-burdened households is renters, who are overrepresented among the burdened. While making up just about one-third of all households overall, renters comprise half of all households with cost burdens (20.6 million) and well over half of those with severe burdens (11.3 million). Indeed, high shares of renters face burdens. As of 2012, half of all renters were cost burdened,

while more than one in four were severely burdened. Renter cost burdens extend across the country in urban and rural areas as well as in high-rent areas and those in which rents are relatively low but incomes are lower.² Within the Philadelphia Fed region, burden rates for renters are comparable with those of the U.S. as a whole (Table). However, in the Philadelphia metropolitan area, as with many large metro areas, the share of severely burdened renters is somewhat higher than the nationwide average, at 30.5 percent.

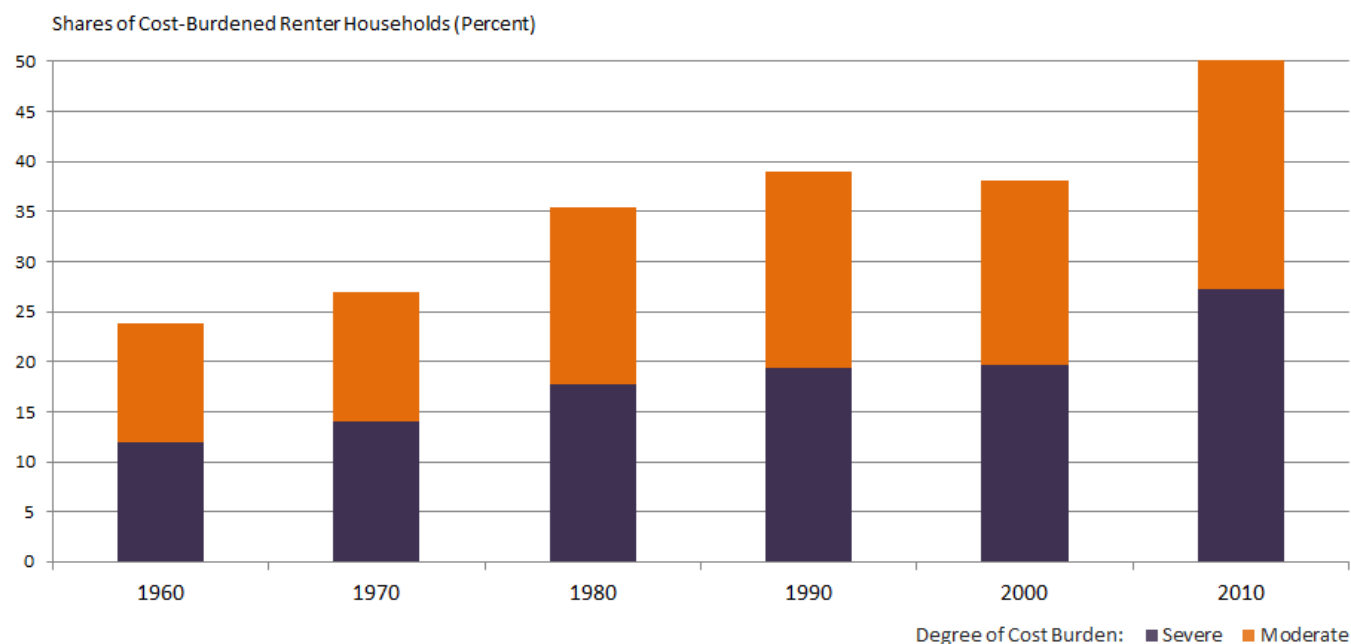
Nationwide, the growth in severe cost burdens among renters has been dramatic (Figure 1). Back in 1960, only about one in 10 renters spent more than half of his or her income on housing. By 2000, the rate was approximately one in five. But the increase continued with an unprecedented period of sharp growth in the new millennium that drove the number of burdened renter households to record highs by last count in 2012.

Table: Large Shares of Renters Across the Region Are Housing Cost Burdened

State or Metropolitan Area	Share of Renters Paying over 30 Percent of Income on Housing (Percent)	Share of Renters Paying over 50 Percent of Income on Housing (Percent)	Number of Renters with Cost Burdens	Number of Renters with Severe Cost Burdens	Median Renter Household Income in 2012	Median Rent in 2012
Delaware	45.9	24.7	45,650	24,592	\$36,000	\$969
New Jersey	52.3	29.2	582,808	325,252	\$38,500	\$1,140
Pennsylvania	47.1	26.6	721,405	407,027	\$28,600	\$790
Philadelphia	51.4	30.5	369,554	219,434	\$32,000	\$960
Allentown	50.7	27.4	48,155	26,009	\$33,000	\$910
Harrisburg–Carlisle	44.9	22.2	30,553	15,097	\$32,300	\$810
Lancaster	49.1	26.0	29,278	15,497	\$32,500	\$860
Scranton–Wilkes-Barre	43.9	22.6	34,861	17,968	\$23,600	\$665
U.S. Total	49.4	27.0	20,631,870	11,260,682	\$31,500	\$880

Notes: Renters with moderate cost burdens (severe cost burdens) pay more than 30 percent (more than 50 percent) of their income on housing costs. Sources: JCHS tabulations of data from the U.S. Census Bureau and the 2012 American Community Survey

Figure 1: After Sharp Growth in the 2000s, Housing Cost Burdens Now Affect Half of All Renters



Note: Moderate (severe) burdens are defined as housing costs of 30–50 percent (more than 50 percent) of household income.
Sources: JCHS tabulations of data from the U.S. Census Bureau, the decennial census, and the American Community Surveys

Behind this most recent period of growth in burdens is an extreme disconnect between rents and income growth (Figure 2). Indeed, until 2001, rents and incomes generally tracked each other — gaining during periods of economic growth and falling during recessions and contractions. But after 2001, as real median renter incomes stagnated and then dropped throughout the Great Recession, rents continued to rise. By 2012, after adjusting for inflation, the typical renter income was 13 percent lower than it was in 2001, while the real median rent was 4 percent higher.

Lack of Affordable Supply

The recent divergence between incomes and rents at the median shown in Figure 2 highlights that there is a vast gulf between typical

market rents and rents that would be affordable to the typical low-income renter. For example, a household earning \$15,000 per year would need to rent a unit for just \$375 per month to avoid being cost burdened. But less than one-sixth of the 10 million renters in that income range pay that amount of rent. Indeed, it is very difficult for the private market to provide decent housing at such low prices without some sort of subsidy.

But rent subsidy programs reach only a small and shrinking fraction of those in need. According to U.S. Department of Housing and Urban Development (HUD) estimates in 2011, approximately 4.6 million households received rental assistance — less than a quarter of the 19.3 million very low-income households that were eligible.

And this fraction is getting smaller as growth in rental assistance availability is failing to keep pace with that of eligible low-income households. Indeed, from 2007 to 2011, the number of households eligible for rent assistance grew by 3.4 million, while the number of households receiving rent assistance grew by just 225,000.

Already struggling to keep pace with demand, assistance programs face a significant challenge in simply preserving the existing stock of subsidized units, let alone expanding. According to the National Housing Preservation database,³ affordability restrictions or contracts on more than 2 million assisted rental units (out of a total subsidized stock of 4.8 million) will expire in the next 10 years (Figure 3).

²See www.jchs.harvard.edu/research/interactive-maps for cost-burden maps and additional local data.

³See www.preservationdatabase.org/.

While owners of many of these units will choose to renew their contracts so that their units will remain affordable, this will require renewed subsidies and most likely additional funding for maintenance and rehabilitation commonly needed by units at the end of their affordability compliance period.

However, given the option of converting the units to market-rate rentals, owners in desirable markets with strong rental demand are most likely to opt out. Increased use of short-term contracts⁴ in response to both new and ongoing pressures to reduce spending may further discourage owners from continuing to participate in these programs if they lose the surety of the constant income stream that federal subsidies provide.

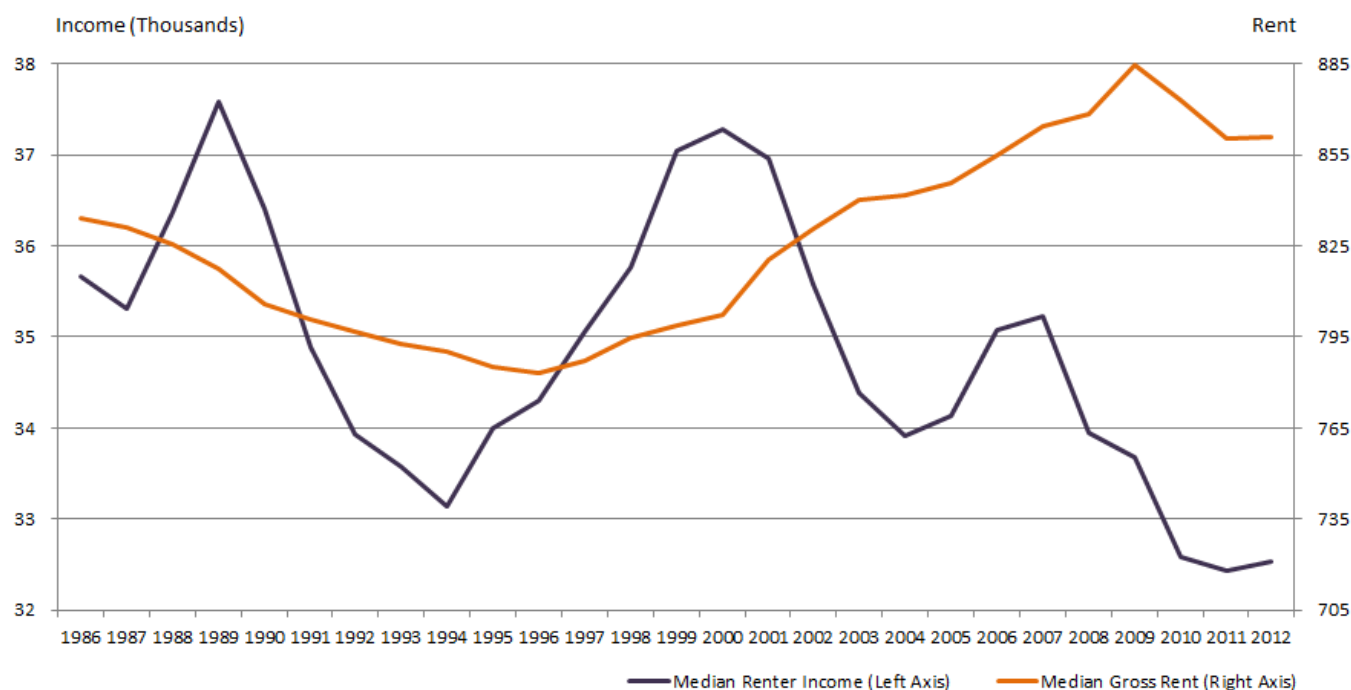
Still, most low-income renters are forced to pick from a low and dwindling supply of affordable and available rental units on the market. The shortage of units available to these households is extreme. According to a recent Urban Institute analysis, 11.5 million extremely low-income households (earning up to 30 percent of the area median) were competing for a total of 3.3 million rental units that were affordable and available to them in 2012.⁵ This equates to just 29 units for every 100 of these lowest-income households. And the rate is poised to get even lower, as low-rent units are disappearing each year. While some losses are due to conversions to higher-end units, high shares of low-rent units are lost to demolition.

According to a JCHS analysis using inflation-adjusted rents, 7.2 percent of units renting for \$800 or less in 2001 were permanently removed from the stock by 2011, while the loss rate for the lowest-rent units (renting for \$400 or less) is 12.8 percent.⁶ Given that the typical rent for a new rental unit was more than \$1,000 per month, these losses are not being replaced by new construction.

The Way Forward

Turning around this decades-long trend will take an all-out effort on many fronts to preserve and enhance the supply of affordable housing. But much is already being done by a range of citizen groups, nonprofits, for-profits, lenders, builders, and governments. Efforts to preserve the dwindling supply of affordable

Figure 2: A Decade of Declining Incomes and Rising Rents Has Eroded Rental Affordability



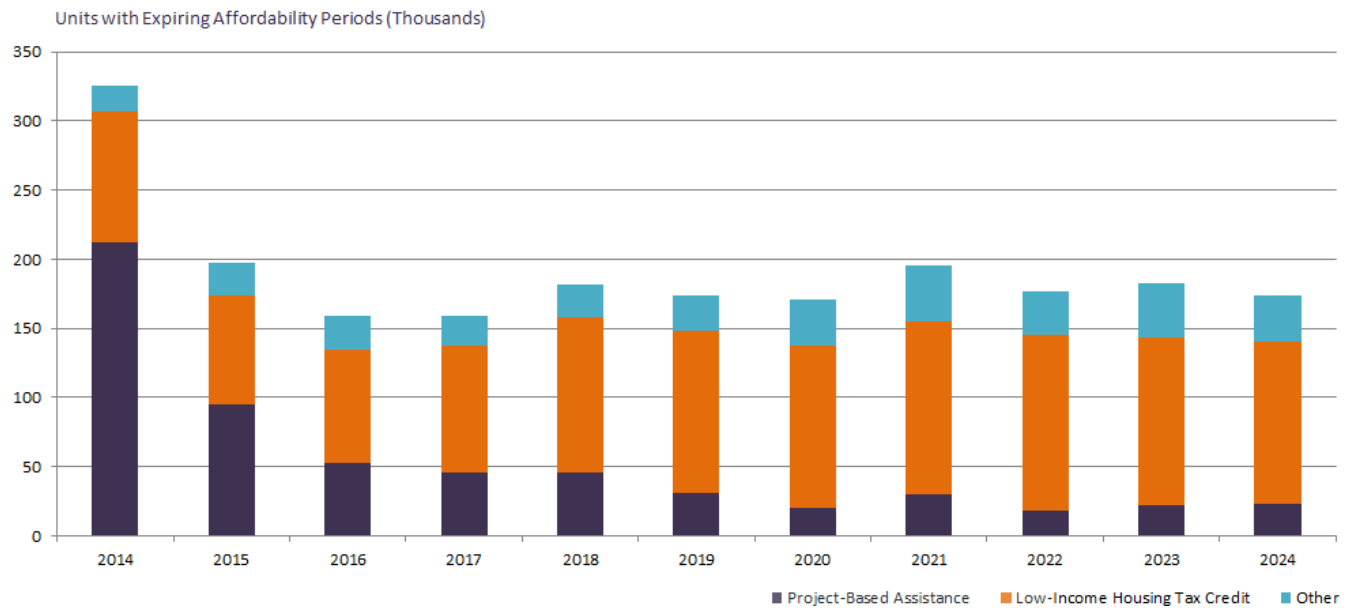
Note: All values are in constant 2012 dollars. Source: JCHS, *America's Rental Housing: Evolving Markets and Needs*, 2013

⁴Because of budget shortfalls, HUD has also been "short-funding," or providing less than 12 months of funding, to thousands of project-based Section 8 contracts, adding additional stability concerns. See nlihc.org/sites/default/files/2014AG-139.pdf for more on short-funding.

⁵See www.urban.org/housingaffordability/.

⁶See www.jchs.harvard.edu/americas-rental-housing for more on rental stock losses.

Figure 3: More Than Two Million Assisted Rentals Are at Risk of Loss from the Affordable Stock



Notes: Other units include those with HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, USDA Section 538 Guaranteed Rural Rental Housing Program, and State Housing Finance Agency–Funded Section 236. Data include properties with active subsidies as of May 16, 2014.

Source: JCHS tabulations of data from the National Housing Preservation Database (www.preservationdatabase.org)

rentals range from HUD’s nationwide Choice Neighborhoods program⁷ to the neighborhood partnership in West Philadelphia between Habitat for Humanity Philadelphia’s The Other Carpenter home repair program and the Viola Street Residents Association.⁸

Local efforts to encourage the development of affordable housing through zoning are also growing in number. New York City’s ambitious plan to preserve and construct 200,000 affordable units, for instance, relies on incentive zoning systems that give developers greater accommodation by incorporating affordable housing. Other cities such

as Portland, OR, have changed zoning to allow more lower-cost housing options, such as smaller accessory units and cohousing, that are not currently allowed in many areas.⁹ Programs also have extended beyond housing alone to attempt to address extremely low incomes of renters. HUD’s Jobs-Plus demonstration¹⁰ and Family Self-Sufficiency¹¹ programs are both encouraging pilot programs that have shown that linking supportive services and housing assistance can provide a springboard to economic self-sufficiency by addressing not only the need for affordable housing but also the underlying causes of poverty.

These efforts and others will need to be encouraged, emulated, and increased in scale to stem losses and increase the supply of affordable rental units in a meaningful way. With so many renters being so highly burdened by housing costs, there is room for innovation, but it is also important that we recognize and build upon programs that work as we seek to find better solutions to this pressing problem.

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⁷ See <http://ow.ly/BVInV> and Rolf Pendall and Leah Hendey, “A Brief Look at the Early Implementation of Choice Neighborhoods,” Urban Institute (prepared for The Annie E. Casey Foundation), 2013, available at <http://ow.ly/BVIYE>.

⁸ See <http://habitatphiladelphia.wordpress.com/> and <http://ow.ly/BVqid>.

⁹ See <http://www.huduser.org/portal/publications/adu.pdf> for more on the accessory dwelling unit ordinance in Portland, OR.

¹⁰ More details about the Jobs-Plus program are available at www.huduser.org/portal/about/jobs_plus.html, and MDRC’s analysis of the program is available at <http://ow.ly/BVh9Y>.

¹¹ More information about HUD’s Family Self-Sufficiency program is available at <http://ow.ly/BVjib>, and an evaluation of the program is available at <http://ow.ly/BVk2O>.

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P O L I C Y S U M M I T

Look Who's Coming to Pittsburgh

After 12 years in Cleveland, the 2015 Policy Summit on Housing, Human Capital, and Inequality is coming to Pittsburgh. You won't want to miss it. This now biennial forum brings together researchers and practitioners interested in economic policy and development in low- and moderate-income communities. The Policy Summit attracts an audience of several hundred academics, bankers, elected officials, funders, policymakers, and practitioners from across the eastern United States. The theme for our 2015 event is equitable economic growth and opportunity; the event will feature sessions on affordable housing, innovative approaches to community economic development, and more. Registration opens in January, with agenda specifics to follow. For questions, contact Matt Klesta at matthew.klesta@clev.frb.org.

**What:**

2015 Policy Summit on Housing, Human Capital, and Inequality

When:

June 18–19, 2015

Where:

Omni William Penn Hotel
Pittsburgh, PA