American Association
of Homes and Services
for the Aging

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For the Aging

Senate Special Committee on Aging

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"$5.2 Billion for Low-Income Senior Housing
Not Reaching the Elderly – Why?"

Lee Ann Hubanks, Executive Director, Plano Community Homes

The American Association of Homes and Services for the Aging (AAHSA) is pleased to have this opportunity to testify on the Department of Housing and Urban Development's (HUD) Section 202 Supportive Housing for the Elderly program. We recognize the importance of the Senate Special Committee on Aging's review of the efficacy of HUD's only senior housing production program and look forward to working with you in the future. AAHSA represents more than 5,600 mission-driven, not-for-profit affordable senior housing facilities, nursing homes, continuing care retirement communities, assisted living properties and community service organizations. Every day, our members serve more than one million older persons across the country. AAHSA is committed to advancing the vision of healthy, affordable, ethical long-term care for America. Our mission is to create the future of long-term care.

AAHSA is the largest organization representing nonprofit sponsors of senior housing. Our members own and manage more than 300,000 units of federally assisted and market rate housing – and we represent the largest number of sponsors of HUD Section 202 Supportive Housing for the Elderly projects. Housing is a critical part of the long-term care continuum.

My name is Lee Ann Hubanks and I am the Executive Director of Plano Community Homes, which was formed in 1983 in suburban Dallas. Plano Community Homes' Board of Directors is made up of representatives from eleven churches and four civic organizations. Our Board membership spans eight denominations. We are a faith based, community sponsored organization. Plano Community Homes currently has two buildings built under Section 202/8 and three buildings developed by Section 202 with project rental assistance contracts (PRAC). Our original five buildings comprise a total of 299 units in Plano. We are currently looking to expand beyond Plano but still within Collin County, one of the top five growing counties in the 2000 Census. The City of Plano is about nine miles north of Dallas and has approximately 200,000 residents.

We have worked primarily with HUD's Fort Worth office but have had some dealings with HUD's Dallas office. We are fortunate to say our relationship with the Fort Worth office has been excellent. The staff of the Fort Worth offices are great partners and are always willing to answer questions and work creatively within the guidelines to get the results that everyone, especially the residents, needs. We have built a strong relationship with the Fort Worth Development team. For our three newest buildings, I did the grant applications myself and acted as consultant so that we could use those dollars toward land and start up costs. We were able to bring all three buildings in on time and at or slightly below budget. The main reason this happened was that the HUD staff worked with us at every step to make sure each was done properly and therefore did not have to be redone or fixed later.

The strength of our housing programs testifies to what can be accomplished with a good working relationship with the HUD office. We have full time Service Coordinators and transportation on each housing campus. We have over 300 seniors on our waiting list and have been working with the City of Plano, the Collin County Committee on Aging and the Plano Housing Authority (which has 1500 households on its waiting lists) to reach creative solutions to our community's housing needs.

HUD's Section 202 Program

The Section 202 program funds new construction in both urban and rural areas via construction grants and ongoing rental subsidy to both large and small nonprofit housing sponsors. Since its inception in 1959, the Section 202 program has provided housing for approximately 381,000 senior or disabled households in more than 9100 facilities (2002 Seniors Commission report). Currently, the program constructs about 5700 units a year of service-enriched housing affordable to seniors with very low incomes. More than 80% of residents have access to service coordination either through a HUD service coordinator or staff (37%) or through service coordination available in the community (44%). The average age of a Section 202 resident is 75 years and their average income is $10,014.

HUD's Real Estate Assessment Center surveyed multifamily housing residents in 2001. Of the Section 202 and 811 (housing for persons with disabilities) residents responding to the survey, 94.1% were satisfied with their unit/home, 92.3% were satisfied with their development/building and 91.4% were satisfied with their neighborhood.

The role of nonprofit organizations like Plano Community Homes is critical to the long-term success of the Section 202 program. Long after our 40-year contracts to provide affordable, supportive housing for very low income seniors have ended, Plano Community Homes will still provide such housing to this population. It is our mission and calling to do so. Every Section 202 grantee is a mission-driven nonprofit.

Improvements to the Section 202 Development Process

In general, the Section 202 works as well and as efficiently as any other housing production program (whether HUD-subsidized or not). However, where there are delays in the development process, AAHSA agrees with many of the underlying causes identified by the 2001 Arthur Andersen report. There is no single answer to the complicated maze of affordable housing development. Rather, there are at least several solutions AAHSA recommends be reviewed and implemented to improve the efficiency of the development process:

- Increase the number and training of HUD staff so the development processes can move as efficiently as possible. Whenever there is a slowdown during the initial stages of the development process, it affects the cost and/or availability of the land. If HUD staffing or training levels are insufficient, the property is at risk; this in turn can put the entire project at risk. Minimally, such delays will affect the price we pay for the land. If land needs to be renegotiated because we miss opportunities, we must start back at square one and make our way through zoning issues and possible local opposition to affordable housing.

There is much work to be completed by the local HUD office after nonprofits submit funding applications, including eight technical reviews of the applications and the calculation of project rental assistance and capital advances. This is staff-intensive work and must be completed before any subsequent portions of the timeline can be accomplished. Downsizing, staff turnover and lack of training can put strains on these initial reviews.

The Arthur Andersen report notes that there are 51 HUD offices handling Section 202 applications. It would be worthwhile to learn more about where pipeline delays stack up geographically. Of course, such clustering could be a function of other issues beyond HUD staffing (inadequate total development costs, state or local requirements, land issues, inexperienced nonprofits, etc.).

- Provide technical assistance funds for site control and predevelopment costs. Today, we are working desperately to secure land to build more 60 more Section 202 units. The current market rate for land in Plano is four to six dollars a square foot. Under our cost constraints, the Section 202 program cannot afford land valued at greater than $2.50 per square foot. Grants providing for up-front land purchase or land options would be a great help.

- Set adequate total development cost limits. These were increased substantially years ago but have remained static the last two years. Given the strength of the real estate market, HUD needs to pay better attention to real-world development costs. Inadequate development costs inevitably lead to the time-consuming necessity to secure other resources. Leveraging of other resources is a worthy option for reasons discussed below, but should not be an unexpected obligation. HUD's total development costs limits should be routinely reviewed and appropriately amended.

- Implement the optional ability to leverage mixed financing sources like low income housing tax credits and private activity bonds and use them in conjunction with Section 202 funds to build projects that are both larger and house a mixed-income population.

- HUD should publish sample seed-money costs as part of the annual Notice of Funds Availability (NOFA). The NOFA could then act as real-world guidance to nonprofits, especially those new to the Section 202 development program, on what resources are needed by successful applicants before any funds from HUD will be available. For example, AAHSA members report a wide range of up-front costs (from $50,000 to $100,000). The range is often attributable to local zoning and permit fees, land purchase options, environmental reviews, the Minimum Capital Investment required in the NOFA and traffic impact studies. Depending on the locale, there may be numerous other up-front costs associated with a Section 202 development.

- Offer extra points on the Section 202 application for nonprofits experienced in local housing development or those that partner with experienced nonprofits.

Predevelopment Grants

PCH and AAHSA commend Congress for authorizing $25 million in FY03 for technical assistance predevelopment grants. Technical assistance funds, which were also available prior to fiscal year 1992, could assist nonprofits with some of the myriad costs outlined above that nonprofits incur before the properties reach initial closing (when the nonprofit can take its first draw on HUD reimbursement). AAHSA does not support separate grants for the construction and ongoing rental subsidy of Section 202 properties, however.

It is our experience at Plano Community Homes that securing land is by far the most difficult piece of the Section 202 process for the small sponsor. We anticipate that the yet-to-be-released technical assistance predevelopment funds will help small nonprofits like ours secure land for affordable senior housing development. We have no foundation behind us and therefore no existing capital to buy land outright and hold it until we are funded. Plano Community Homes must ask the owner of the land to sell on a contingency based on the hope that we are funded, and then wait at least 18 additional months to bring the sale to closing. We must usually do this while simultaneously offering a price at or below fair market value for the land. As one can imagine, owners tend to be reluctant to agree and the cost of land is at a premium since owners must wait many months before we can go to closing.

Both AAHSA and PCH support recommendations made today by National Church Residences relating to the importance of preserving the existing housing stock, including speeding up the review and approval of refinancing applications, enacting exit tax relief for current owners, establishing a right of first refusal for Section 202s to purchase at-risk, federally-subsidized elderly housing, authorizing and funding grants to eligible nonprofits to acquire at-risk properties and releasing modernization grants to repair older properties.

Conclusion

Thank you for providing AAHSA and Plano Community Housing the opportunity to testify on the Section 202 program. We are thankful for the leadership the Senate Special Committee on Aging has provided in affordable elderly housing. We are pleased to be able to contribute to the committee's deliberation on these critical issues. We urge your support for the recommendations outlined in our testimony and we hope that our comments will assist you in helping steward federally-subsidized housing that is responsive to the critical role of housing within the long term care continuum of low income elderly people. The future of the program will be guided not just by its funding levels but also by consistent administration of the program by HUD field offices, reasonable interpretations of statutes and rules, and by giving nonprofits the tools they need to best serve low income seniors. If you desire additional information, please contact Linda Couch, Acting Director of Housing Policy, AAHSA, at 202/508-9476 or lcouch@aahsa.org.