

# **Affordable Housing and Smart Growth: Policy Recommendations for Northern New England**

A Report from the 2007 Fellows of the Carsey Institute  
Policy Leadership Initiative and Other Interested Parties

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## Contents

- I. INTRODUCTION
- II. CORE POLICY RECOMMENDATIONS
- III. BACKGROUND
- IV. DETAILS AND SPECIFICS

### **Part A: Recommendations that apply to several federal agencies:**

*A1. What are the most important new ideas or opportunities for federal housing programs?*

*A2. What is working well in existing housing programs?*

*A3. How can Congress improve existing programs?*

### **Part B: Federal programs administered by the US Department of Housing and Urban Development:**

*B1. What are the most important new ideas or opportunities?*

*B2. What is working well in existing housing programs?*

*B3. How can Congress improve existing programs?*

### **Part C: Federal housing programs administered by USDA – Rural Development**

*C1. What are the most important new ideas or opportunities?*

*C2. What is working well in existing housing programs?*

*C3. How can Congress improve existing programs?*

### **Part D: Federal housing programs administered by the Treasury Department**

*D1. What are the most important new ideas or opportunities?*

*D2. What is working well in existing housing programs?*

*D3. How can Congress improve existing housing programs?*

### **Part E: Conclusion**

***APPENDIX A: Smart Growth Principles and Criteria***

***APPENDIX B: List of Participants***

***APPENDIX C: Origin of this Project***

## I. INTRODUCTION

The primary objective of this report is to develop an agenda of federal housing policy priorities to be considered by the congressional delegation from the three northern New England states in order to insure that federal policy better serves the specific needs and conditions of northern New England. Federal housing and smart growth<sup>1</sup> policies should recognize that:

- ✓ Housing is an essential component of economic stimulus in northern New England;
- ✓ Critical infrastructure components need rebuilding; and
- ✓ Affordable housing programs should be adequately funded and efficiently administered.

## II. CORE POLICY RECOMMENDATIONS

Congressional action for affordable housing and smart growth should focus on the following principal themes:

- ✓ **More Resources** Both affordable housing and smart growth development need more money. Capital resources should be enhanced for HUD, Rural Development, and the new National Affordable Housing Trust Fund. More equity investments are needed for both preservation and new projects, through the sale of low-income housing tax credits. There is an increasing need for project-based rental assistance. In some markets, projects without rental assistance cannot work regardless of the amount of subsidized up-front development capital. Even where project income is sufficient to pay operating expenses, properties often lack sufficient cash flow to adequately fund reserves for future capital needs.
- ✓ **More Flexibility** More program flexibility is needed. Where appropriate, increased decision making should be delegated to the state and local level.
- ✓ **Better Coordination** Related, complementary programs from different federal agencies should be coordinated to minimize cost, maximize efficiency, and strengthen outcomes.
- ✓ **Smart Growth** Smart growth in housing development offers both short-term stimulus and long-term investment in regional infrastructure and should be an integral part of an affordable housing agenda. Smart growth is an especially important strategy for reinvesting in small rural villages, including the provision of affordable housing. Smart growth also offers opportunities to reduce our carbon footprint and global warming and to preserve the traditional character of northern New England—compact village and urban centers separated by rural countryside.
- ✓ **Target the Neediest Households** There is a serious housing affordability problem that can be addressed by various means that include, but are not limited to, increased rental assistance targeted to vulnerable populations, enhancing low-income housing tax credits, and making the Low Income Home Energy Assistance Program (LIHEAP) work better in subsidized housing.
- ✓ **Nonprofit development and ownership of affordable housing.** Nonprofit development and ownership of low and moderate income housing offers great value, including long-

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<sup>1</sup> “Smart growth” describes a pattern of land development that uses land efficiently, reinforces community vitality, and protects natural resources. Smart growth is development that is good for the economy, the community, and the environment. For more about smart growth development principles, see Appendix A or visit [www.smartgrowthvermont.org/learn/smartgrowth/](http://www.smartgrowthvermont.org/learn/smartgrowth/).

- ✓ ***Long-Term Affordability*** All federal housing programs should endeavor to preserve long-term affordability of government-subsidized housing, rather than requiring repeated public investments in the same facilities. One way might be to make it easier for private developers and investors to turn their projects over to a nonprofit owner at the expiration of current subsidy contracts, mortgages, or tax credit obligations. The new owner would have to pledge permanent adherence to affordability criteria under new program rules.
- ✓ ***Redesigned Eligibility Criteria*** Programs with funding formulas like those based on census tract poverty levels don't work in northern New England. Eligibility criteria should be redesigned based on the needs of people instead of census tract boundaries.

### III. BACKGROUND

The purpose of this report and policy analysis is to offer ideas that make federal housing policy more efficient and effective in serving the needs of families and communities in northern New England.

Frequently, federal housing programs do not fit neatly with the geographic and demographic realities of northern New England, making those programs difficult to use in some cases, and making applications from northern New England only marginally competitive nationally.

- With the exception of several modest-size cities, the northern New England region consists largely of small rural towns, often without public infrastructure, in which very low-income households live in close proximity to households with greater wealth in heterogeneous communities.
- Census tracts tend to be small in population and settlements compact.
- Much of the housing stock is older, and there is a culture that values preservation of older structures, including adaptive reuse to create additional housing in what was perhaps a former mill building or school.
- Mobile homes, including those in mobile home parks, tend to be an important source of affordable homeownership for low-income households.
- Both development and operating costs tend to be high in northern New England, necessitating substantial capital subsidies as well as rental assistance to achieve affordability.
- All three states in Northern New England have a strong nonprofit housing infrastructure that plays a prominent role in the development and management of affordable housing.
- Northern New England also has a significant amount of working forest land, making energy generation from biomass—including wood chips and pellets—affordable and viable for multifamily properties in the region.

Many of the recommendations in this report are a reflection of the demographics and character of the region.

## IV. DETAILS AND SPECIFICS

### Part A: Recommendations that apply to several federal agencies—especially the Department of Housing and Urban Development (HUD), the Department of Agriculture Rural Development Program (RD), and the Department of the Treasury

#### A1. What are the most important new ideas or opportunities for federal housing programs?

1. Congress should develop *new sources of revenue*. The 2008 *National Affordable Housing Trust Fund* has appropriate priorities, and additional revenues should be directed to this fund. Likewise, Congress should adopt Federal *cap-and-trade legislation* that directs the investment of proceeds from pollution credits toward low-income people and energy efficiency.<sup>2</sup>
2. Congress should require HUD, Rural Development, and Treasury to *increase flexibility* in housing programs to recognize differences among states. Small towns and village centers don't fit HUD-designed rules for cities and not all rural markets fit RD's underwriting assumptions. Northern New England states need more discretion to figure out the best ways to achieve affordable housing goals across housing programs. All housing programs should avoid excess regulation, establish broad objectives, and give clear, practical, and real discretion to local and field office administrators (subject to overarching federal guidelines such as nondiscrimination).
3. To encourage smart growth, Congress should *target housing programs to low- and moderate-income households in service-center areas based on need*, not based on census tracts or other location criteria that exclude small towns or mixed-income neighborhoods from eligibility.<sup>3</sup> Targeting by location doesn't work in mixed-income jurisdictions such as a New England town, where one census tract might include the entire town. The mix of low-income, middle-income, and possibly high-income households within the census tract often does not qualify the area under program criteria. This should apply to all Rural Development, Treasury, and HUD programs, including housing, block grants, and economic development.
4. Congress should authorize *demonstration projects* and pilot programs to illustrate smart growth on the ground. HUD, RD, and Treasury should encourage compact projects in proximity to services. They should require developments to adopt not only energy-efficient building practices, but also environmental design best practices for sustainable neighborhoods and communities.
5. Congress should require the *Environmental Protection Agency* and *Department Of Transportation* to encourage infrastructure that promotes higher-density and mixed-income neighborhoods in service centers, and to support states in their redevelopment work. Infrastructure block grants from these and other agencies should support and facilitate affordable housing and community development by coordinating housing, transportation, sewer, water, and stormwater facilities.<sup>4</sup>

<sup>2</sup> Center on Budget and Policy Priorities, *Climate-Change Policies Can Treat Poor Families Fairly and Be Fiscally Responsible*, (Washington, DC: Center on Budget and Policy Priorities, May 12, 2008), available online at <http://www.cbpp.org/cms/index.cfm?fa=view&id=2224>.

<sup>3</sup> In this document we use the term *service center* loosely to describe a city or town where frequently-used services are available by walking or public transportation, such as banking, government, shopping, and health care services.

<sup>4</sup> See also "Infrastructure grants," section A3.3.e.

6. Congress should develop a ***home-centered long-term care system*** for senior citizens that permits and supports coordination of services among housing and long-term care providers, orchestrated by a Resident Service Coordinator. On the housing side, this would include HUD, RD, and tax credit housing projects and their resident managers. On the long-term care side, this would include health care and mental health care providers, Medicaid and Medicare administrators, and other services to promote less costly alternatives to the nursing home.
7. Congress should ***conduct a review*** of all affordable housing programs. The advent of a new Congress and a new administration is an opportunity to evaluate all housing programs and discontinue those that don't work very well.
8. ***Fannie Mae and Freddie Mac*** should increase their commitment to rental housing. In addition, they should be in the forefront of public communication about the importance of rental housing. A one-sided emphasis on homeownership is not healthy for the overall housing market.

***A2. What is working well in existing HUD, RD, and Treasury housing programs?***

1. ***Restructuring older projects***, including RD 515, HUD Section 8, 236, and 202, and tax credit projects, is essential to preserve them, maintain affordability, and convert to nonprofit ownership to relieve retiring developers and achieve permanent affordability. Many older projects are in small and medium-size towns and support smart growth principles. This is not to say that federal assistance for preservation and restructuring cannot be improved.

***A3. How can Congress improve existing HUD, RD, and Treasury housing programs?***

1. Congress should facilitate cost-effective building practices for renovating existing buildings. For example, ***historic preservation standards*** can be expensive and difficult to meet. One way to do this cost-effectively is to balance historic preservation standards with other important values, including lead paint removal, energy efficiency, durability, and long-term sustainability.
2. Congress should also encourage responsible building practices by requiring all federal housing programs to adopt a ***common set of green building standards***. These standards must incorporate biomass heating systems and underground parking whenever possible. These standards must also incorporate locational criteria, such as walking distance to services or public transit.
3. Congress should provide ***funding incentives for smart growth***. For example:
  - a. ***Renovation*** is a smart growth strategy but is sometimes more expensive per unit than new construction. Federal housing programs should provide more money to any publicly funded development project that will renovate old buildings.
  - b. Economic ***incentives to communities*** (such as grants for water, sewer, housing, roads, economic development, and any infrastructure grants such as Community Development Block Grants (CDBG)) should include a smart growth filter to direct funding to communities that have higher density zoning in place, adequate municipal water and sewer facilities, and permit reform that allows for higher density. Infrastructure grants should also incorporate disincentives to discourage sprawl—for example, by withholding new infrastructure development funds until existing infrastructure facilities are at capacity.

- c. **Brownfield redevelopment** (reclamation of polluted industrial sites) needs a level playing field with infill development. Developers need much more federal money, perhaps through EPA grants, for brownfield redevelopment in smart growth areas.
  - d. Funding for housing should provide incentives for **reducing energy costs** in existing and new buildings. For example, Department of Energy block grants and changes to the tax code could fund energy efficiency initiatives, sustainable energy sources, and energy switching.
  - e. **Infrastructure grants** should be combined or coordinated so that Department of Transportation, Environmental Protection Administration, and Community Development Block grants for broader infrastructure improvements (such as public transit, roads, and water and sewer systems) all work together with housing funds in a way that supports the development of affordable, smart growth communities. For example, DOT should provide funds for underground parking in affordable housing projects.<sup>5</sup>
4. **Small projects** are often most appropriate for small northern New England towns but are also more costly per unit than large projects to develop or renovate and to manage. They are also less sustainable over the long haul. HUD, RD, and low income housing tax credits (LIHTC) should provide enough funding for small projects to allow more complete rehab, streamlined management systems, and mixed income projects providing deeper rent subsidy for very low-income tenants, balanced by higher income limits so shallower rent subsidies are needed. They should also offer capacity grants to nonprofit property managers to adopt management best practices.
5. **Mixed-income projects** are financially and socially healthier than strictly low-income projects, and are more feasible in small towns and village centers. Congress should expand the RD 504 single-family repair loan and grant programs and the Treasury's 4 percent housing tax credit program<sup>6</sup> so they can accept some households at up to 80 percent of median income. Corresponding requirements should more deeply target some units to very low-income households, not the current limits of 50 percent or 60 percent of median.<sup>7</sup> The RD 504 repair loan program is undersubscribed in most states, apparently because many eligible families cannot afford it. Raising the limit to 80 percent of median would provide repair loan money to households that can better afford it. Currently, RD does not have a viable repair loan program for low-income households who are not already RD borrowers.

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<sup>5</sup> More examples: the federal government could help states identify and preserve expiring Section 8 projects within one mile of transit stops; facilitate location-efficient mortgages to make homes near transit more affordable; subsidize the placement of transit stops near housing projects; and locate car parks on state highways, with public transportation or carpools to the nearest Interstate highway where more public transportation or carpool is available.

<sup>6</sup> The Treasury Department's Low Income Housing Tax Credit program has a maximum income limit of 60 percent of HUD area median income, based on household size. There are two types of Housing Credits: (1) the allocated credit is equal to 9 percent of the eligible basis and (2) the 4 percent credit is available for projects which get at least half of their financing from tax exempt bonds. While the two versions of the Housing Credit differ in the amount of credit available to the investor, there is no difference in the income limits.

<sup>7</sup> "Median income" is the number at which half of the households earn more and half of the households earn less. For example, HUD estimated the median household income of the U.S. in FY 2008 as \$61,500— half of the households in the U.S. earned less than that, and half of the households earned more. In theory then, 50 percent of median income would be \$30,750, and 80 percent would be \$49,200. HUD estimates median income for each geographic area (state, county, etc.) and for household size (one person, two persons, etc.) annually. In FY 2008, median family incomes for the northern New England states were as follows: Maine \$55,400; New Hampshire \$74,700; Vermont \$61,500. Source: [www.huduser.org/datasets](http://www.huduser.org/datasets).

6. Congress should require all federal housing programs to *prioritize preservation* of existing projects. To accomplish this, Congress should dedicate new money to facilitate the transfer of existing projects to nonprofit ownership and permanent affordability.
7. Congress should *break down the policy “silos”* within and among federal agencies that interfere with combining programs administered by different agencies.<sup>8</sup>
8. Congress should *eliminate unfunded mandates* or provide the funding to comply with the mandates. For example:
  - a. Lead paint removal: Congress should provide funds to enable compliance.
  - b. Historic preservation: Congress should provide funds to enable compliance.
  - c. Extra reporting (about buildings, people, various surveys): This may make for better decisions, but it costs more to do it. Congress should provide designated funding for required reports.
  - d. Agencies should streamline regulatory paperwork.
9. Congress should provide more funding for all rental assistance programs.
10. All federal housing programs should improve their support for manufactured homes and parks, including replacement of mobile homes that don’t meet the 1976 HUD quality standards, and for reducing energy costs.

## **Part B: Federal programs administered by the US Department of Housing and Urban Development**

### ***B1. What are the most important new ideas or opportunities for HUD programs?***

1. Congress should *focus on remaking HUD*:
  - a. Provide a new mandate and support the new Secretary’s mission and agenda of reform.
  - b. Insist that a new HUD Secretary relies on program goals and community needs to drive programs; simplifies programs; and allows competently staffed regional, field, and state offices significant discretion.
  - c. Reorganize HUD into the Department of Housing and Community Development. Combine small and boutique programs, and reduce several layers of administrators. Ensure consideration of the needs of rural households to make programs more germane to northern New England. Explore whether or not there are tasks or programs that could be removed from HUD and placed elsewhere, such as fair housing or the Federal Housing Authority (FHA). Explore ways to restructure FHA,

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<sup>8</sup> Here are some examples:

- (a) Any given project might need to integrate a federal housing program with Department of Agriculture Food Stamps and Health and Human Services programs such as Medicaid.
- (b) Rent formulas for HUD housing programs do not allow a fuel surcharge to tenants, in addition to their rent. Therefore, tenants are not eligible for the Low Income Home Energy Assistance Program (LIHEAP) energy subsidy program administered by HHS. The result is that the project owner must absorb unexpected fuel cost increases. HUD should allow fuel surcharges, paid by the tenant and reimbursed by LIHEAP, so the project owner has a chance to break even.
- (c) The volume of solar energy work is still relatively low. Per-unit cost limits of federal housing programs don’t allow investments in solar energy technology to help make it cost-effective. Grants and incentives to affordable housing would increase the volume of solar equipment and installations, thereby increasing the pace of solar technology development and reducing the price. The grants would be a wise investment for the future and would help low-income people now. Issues arise with the National Park Service when solar panels are to be installed on historic buildings.

- including the possibility of making it an independent authority with flexibility within clear limits.
2. The 2008 *National Housing Trust Fund* has appropriate priorities and should be a principle mechanism for distributing federal housing resources going forward. However, the Trust Fund must be capitalized quickly, not a year or two down the road as the enabling legislation anticipates. Legislation should accelerate funding for the National Housing Trust Fund and should find new sources of money immediately. HUD will make grants from the Trust Fund to states, which can then make grants to for-profit and nonprofit organizations and agencies. An adequately capitalized National Housing Trust Fund is important to increasing the capacity of state housing production programs. The Trust Fund must also have project-based rental assistance attached. Congress should ensure that HUD makes the grants to states as flexible as possible, following the original model of the HOME block grant program and the Treasury's housing tax credit program.
  3. The National Housing Trust Fund has a singular focus on extremely low-income households. This could work against several other goals of housing and smart growth, including mixed-income development and financial sustainability. Therefore, NHTF funding should be paired with a major increase in Section 8 project-based rental assistance, because operating costs exceed rents paid by extremely low-income households.
  4. HUD should create a *preservation demonstration* program for the resale of subsidized housing projects to restricted ownership (such as nonprofit buyers that promise permanent affordability). Some funds for preservation of rental housing should be allocated to alleviate the current mortgage crisis: families whose home loans are foreclosed will need a place to rent. Placing a limit on the amount of home mortgage interest that can be deducted by upper-bracket income taxpayers could generate additional revenue to fund such a preservation program.
  5. *HOME block grants* to states should require a smart growth preference for projects in service centers and historic villages. Likewise, the *202 and 811 programs* should give preference for smart growth projects as well.
  6. The *Section 8 Voucher Reform Act* (SEVRA) proposed several excellent improvements as it passed the House in the previous session of Congress. The ideas and concepts should be re-evaluated and made a legislative priority for the current Congress.

### ***B2. What is working well in existing HUD housing programs?***

1. The *Section 8 Housing Choice voucher program* works well and should continue to be expanded. Congress should put a high priority on appropriating more money for vouchers and should ensure that public housing authorities (PHAs) receive their funds promptly. Vouchers enable PHAs to serve a much-lower income population.
2. *CDBG and HOME programs*, although severely undercapitalized, are very effective and should be expanded. The HOME program is more flexible, targets funds for housing exclusively, and can make grants more quickly; Congress should invest more money in this program.

### ***B3. How can Congress improve existing HUD housing programs?***

1. The credibility and effectiveness of *HUD as an institution* has diminished over the last eight years and needs to be restored. Congress should focus on what they expect from HUD and determine why HUD is dysfunctional. Congress should order reform of HUD

- leadership and staffing and allow more local office discretion. Congress should consider transferring programs that can be performed by other agencies or the states. HUD should be required to include a clear statement of applicable rules in each Request for Proposals.
2. The **HOME grant program** is underfunded, and HUD's administration of the program can be cumbersome for the state agencies and communities that implement it. Congress should require that HUD be flexible to allow state and municipal agencies to define their needs and operate with minimum interference or micromanagement from Washington.
  3. Congress should make many improvements to HUD's **support for manufactured homes**. For example:
    - a. Allow HOME funds do be used as sub-debt in the financing of mobile home park conversion to resident cooperatives. This would help keep share prices affordable, and would allow the cooperative to market to future potential low-income cooperative members.
    - b. Amend the Uniform Relocation Act regarding one-for-one replacement of existing housing units that are lost due to a development project, so that the Act explicitly applies to the loss of manufactured housing.
    - c. Increase FHA lending in resident-owned communities.
    - d. Modify the regulations governing manufactured homes purchased with FHA Title I loans and Title II insured mortgages as follows:
      - i. Allow purchase of homes taxed as personal property according to the 2008 Housing and Economic Recovery Act.
      - ii. Allow purchase of homes that have been relocated if they are compliant with installation guidelines and inspected for defects.
      - iii. Require long-term land tenure security.
      - iv. Restrict unjust evictions, require written leases, promote the opportunity of residents to purchase their community, and encourage community owners to sell to community residents.
      - v. Include homeowner cooperatives in the requirement that, when a home is located on leasehold, the lease must allow for homeowners to purchase the leased property.
      - vi. Require lease terms that exceed the mortgage term.
      - vii. Permit leasehold interests that involve or lead to land ownership.
    - e. Require HUD to review its Section 207 Mortgage Insurance for Manufactured Home Parks to cover the conversion of existing parks to collective resident ownership. This would stabilize and preserve this housing against loss, and stimulate rehabilitation for low-income homeowners.
  4. Congress should streamline the **CDBG grant** program.
    - a. Currently the program requires too many unnecessary warnings and notifications by municipalities and state agencies. This slows the process and makes it more expensive.
    - b. The CDBG program should have a small-state minimum.
  5. Congress should provide more money for the **Section 8 program**, which is severely underfunded; it needs more money for rent subsidy, including tenant-based vouchers, and to ensure that the program provides for realistic utility allowances. HUD should use commercial databases to determine more accurate market-based fair market rents (FMRs) for all affordable housing programs. FMRs should be reset at 50th percentile rents. Realistic rents for vouchers would increase the number of apartments that accept vouchers, reducing waiting time and waiting lists. Realistic project rents would also encourage more private development of subsidized housing without using public finance,

- if private developers and lenders were more confident that rents would be reasonable over the long haul. Allowing rent increases for Section 8 projects to take on more debt for capital improvements would increase fuel efficiency and encourage fuel switching.
6. Congress should simplify HUD's **811 and 202 programs** for small projects and should allow an adequate developer's fee so nonprofit developers can recapture their costs of developing these projects. The 202 and 811 programs don't work very well in northern New England because the projects are generally so small, there is no economy of scale. They are also under-funded, time-consuming, paperwork-intensive, and don't allow an adequate developer's fee for the project, even from other, non-HUD sources of project financing.
  7. Congress should provide more money for **public housing**, which is also underfunded for annual operating subsidies and needs an infusion of capital improvement and preservation funding. Public housing authorities have a backlog of approximately \$18 billion to \$20 billion in unmet capital needs, increasing about \$2 billion each year.
  8. Congress should amend the **NeighborWorks** program to establish a set-aside for rural development and management.
  9. Congress should restructure the **Neighborhood Stabilization Program** to make it useful in preventing foreclosure in northern New England and other small states. Congress should expand its narrow criteria and allow rural states without large numbers of foreclosures concentrated in specific geographic areas to spend funds on a statewide basis, rather than limit awards to very small census tracts. The program should be more flexible, and should assist homeowners and landlords to renegotiate mortgage loans to avoid foreclosure. It should also be used to preserve small housing projects by catching up on deferred capital improvements and reducing operating expenses.
  10. HUD's **Healthy Homes** pilot program should become a permanent program, either through HUD or EPA. This program is a low-cost intervention that reduces housing-related health hazards including injuries, asthma, and allergies.
  11. HUD should revise the scoring system in the **HOPE VI program**—it has never worked in northern New England. There have been few northern New England applications, and none have been funded to date.
  12. The biggest impediment to state housing finance agencies providing **FHA home ownership loans** is FHA's loan servicing requirements. Congress should require FHA to modify its requirements to qualify as "master loan servicer."

### **Part C: Federal housing programs administered by the U.S. Department of Agriculture—Rural Development**

#### ***C1. What are the most important new ideas or opportunities for RD housing programs?***

1. RD should rethink their locational priorities. In particular, they should incorporate **smart growth** criteria for both multifamily and single-family home loans.

#### ***C2. What is working well in existing RD housing programs?***

1. The **504 single-family repair program** works well for energy efficiency improvements. Eligibility should be increased to 80 percent of median income.
2. In general, RD's **regulations** are more predictable than HUD's, but they should be modernized and made more flexible, especially to facilitate combining RD programs with programs of other agencies.

3. In general, RD *state offices* are good to work with.

### ***C3. How can Congress improve existing RD housing programs?***

1. Congress should provide ***existing Section 515 multifamily projects*** with a significant infusion of capital for preservation; this would also advance a smart growth agenda. Congress should increase funding to allow substantial repairs or rehabilitation of existing projects. Currently, Section 515 project owners can only get loans through the Multifamily Preservation and Revitalization (MPR) demonstration program, not only for substantial rehabilitation but even for repairs and modernization. This program is badly needed, and Congress should make it permanent. As this is done, several program improvements should be made:
  - a. The MPR program currently issues a notice of fund availability only once a year; funding should be available several times a year.
  - b. The application process, underwriting review, and loan approvals are all performed at the national RD office. MPR has become a top-down program with decision making and review by a loan committee in Washington, and state RD offices have no control over decision making. This program should be delegated to state RD offices.
2. Congress should provide sufficient funds for the ***Section 521 Rental Assistance program*** to provide essential services for tenants in Section 514, 515, and 516-financed Rural Rental Multifamily Housing projects. Demand far exceeds the supply of Rental Assistance. Money now available goes primarily to fund expired contracts and not enough is left for commitments to new 515 developments. Project operating expenses are going up significantly with regard to energy, property taxes, property insurance, and other costs. As rents go up to take care of expenses and replacement and revitalization reserves, etc., more Rental Assistance funds are needed to take care of existing projects. There is no money for rental assistance to new project developments, which will not be feasible to build and own without some form of project-based operating subsidy. The only places where new projects will be feasible are areas of higher rents.
3. In the absence of sufficient Rental Assistance funds, Congress should direct RD administrators to allow ***service coordinators*** as an eligible expense for residents of RD senior housing projects when the expense can be shown to reduce other operating cost line items. HUD does allow it.
4. ***RD 538***, the Guaranteed Rural Rental Housing Program, needs a critical analysis to identify and eliminate roadblocks that RD puts up. This program allows developers of affordable housing to get a guarantee from RD for the loan used to finance acquisition of the project. The guaranteed loan itself may be provided by a private lender or a state agency such as a housing finance agency.
5. Congress should strike a ***better balance*** among all the RD loan programs, especially between direct loans and loan guarantees. Because a loan guarantee requires a shallower subsidy than a direct loan, more funds have been allocated to the guarantee program and less to direct loan programs, making direct loans more difficult to obtain.
6. Congress should incorporate ***more flexibility*** in RD loan programs. For example:
  - a. The Single Family Housing Direct 502 Loan program should be available for a new borrower to acquire an existing mobile home that meets 1976 HUD quality standards but does not already have an RD loan or loan guarantee.
  - b. Funds for the 502 Direct Loan program are currently allocated to a 60/40 split with 60 percent to low-income (up to 80 percent of median income) and 40 percent to very low-income (up to 50 percent of median income) households. The program is

- oversubscribed for low-income applicants, but appropriations cannot be moved from one category to the other. This formula should be removed to allow more flexibility in meeting the need.
- c. The regional Rural Development offices should be given more flexibility to manage troubled 502 Direct loans that are in default, including permitting loan modifications, acceptance of a deed in lieu of foreclosure, partial mortgage write-offs, and other measures to minimize losses and re-establish responsible ownership. Also, in cases in which there are nonprofit sponsors of secondary financing, there should be a strong emphasis on finding ways to maintain their security interest and participation in affordable homes. The current system for default management is inflexible and gives the regional office little latitude in working with homeowners and community partners.
  - d. The 504 Single Family Housing Direct Repair Loan program is limited to very low-income households (up to 50 percent of median). This program is undersubscribed in most states. Eligibility should be increased to 80 percent of median income to assist more families, particularly for energy efficiency and fuel switching.
  - e. The RD Business and Industry Guaranteed Loans program and the RD Rural Energy for America Program Guaranteed Loans program should define multifamily housing as a “business” and therefore eligible for energy loans.

**Part D: Federal programs administered by the Treasury Department (including low-income housing and historic preservation tax credits)**

***D1. What are the most important new ideas or opportunities for Treasury housing programs?***

1. In scoring for competitive Low-Income Housing Tax Credit (LIHTC) projects, extra points should be given for *smart growth proposals*.
2. Recent Treasury support for institutions with troubled assets has not improved the market for either Low-Income Housing Tax Credits or state HFA bonds, which have both dropped to very low levels. This has increased the pressure on other public sources of project financing (such as state funds, HOME, and CDBG grants). Congress should amend the LIHTC program to expand the capital market. For example, Congress could allow taxpayers to carry back the housing credit for up to 5 years (including the offset of AMT liability), allow credits to be accelerated (for example, take the credit over five years, rather than ten), fix the 30 percent present value housing credit at 4 percent, and create a refundable option for the credit so investors can invest in credits without concern about future profitability in these uncertain times. If economic troubles continue they could also renew the provisions in the American Recovery and Reinvestment Act that provide gap financing and allow allocating agencies to turn back up to 40 percent of their credits to Treasury for cash. Responses to the HFA bond difficulties include permanently raising the cap on state bonding authority and giving Fannie Mae, Freddie Mac, and the Federal Home Loan Banks more incentives to invest in state agency housing bonds and low-income housing tax credits.<sup>9</sup> Congress should also continue to look for other

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<sup>9</sup> For example, see National Council of State Housing Agencies, *Put Housing to Work for People and the Economy: Unleash the Power of State Housing Finance Agencies*, 2009, available online at [http://www.dca.state.ga.us/housing/HousingDevelopment/programs/documents/NCSHAEconomicRecoveryPriorities\\_000.pdf](http://www.dca.state.ga.us/housing/HousingDevelopment/programs/documents/NCSHAEconomicRecoveryPriorities_000.pdf).

innovative ways of adapting the low-income housing tax credit program to current conditions in the financial markets.

3. Incentives (such as tax credits) should be offered to encourage employers to subsidize ***housing near work***.
4. The ***Community Restoration and Revitalization Act*** was introduced in 2007 as H.R. 1043 and S. 584 to make the existing historic preservation tax credit more useful for affordable housing. One part of this bill was enacted in the Housing and Economic Recovery Act of 2008. The new Congress should consider the remaining package of amendments included in H.R. 1043/S. 584.

## ***D2. What is working well in existing Treasury housing programs?***

1. The LIHTC, as the principal vehicle for federal financing of affordable housing, is widely used and has generated large amounts of equity for many worthwhile projects. The Housing and Economic Recovery Act recently made several welcome changes to this key program, including providing greater flexibility to state allocating agencies and increasing the program's effectiveness. However, the LIHTC program adds transaction and operating costs that are difficult for small projects to absorb. Consequently, we encourage further improvements to the program in the course of implementing the Congressional review recommended in Item A1.7, above.
2. The ***small-state minimum allocation*** of LIHTC works well, and the two-year increase made by the HERA should be made permanent.
3. The ***Historic Rehab tax credit*** is relevant and largely successful in northern New England, especially for encouraging smart growth housing redevelopment. It has also triggered state-level programs supporting smart growth.
4. The ***Solar tax credit and energy tax credit*** are both effective; Congress should expand and renew both of them.
5. ***New Markets Tax Credit*** (NMTC) can be an effective economic development program for commercial buildings in mixed commercial and residential projects in New Market zones, including some small towns. However, the program is difficult to access and very competitive. Since rural areas have low population density, it is difficult to qualify for the program, as we will explain in more detail below.
6. The ***Community Development Financial Institutions*** (CDFI) program works well and has been expanded.

## ***D3. How can Congress improve existing Treasury housing programs?***

1. Congress should ***reconcile conflicts*** between the LIHTC and Historic Rehab tax credit programs to achieve better coordination. For example:
  - a. In certain difficult-to-develop areas and distressed areas where incomes are especially low and the cost of development is high, LIHTC owners are provided a ***130 percent "basis boost"*** to help keep rents affordable. In those same distressed areas, Congress should authorize a parallel 130 percent "basis boost" multiplier for the historic rehab tax credit when used for affordable housing rehab (such as a rehab using the LIHTC). It would give a big stimulus to smart growth, historic preservation, and anti-gentrification. (Maine has recently been designated as a statewide "130 percent basis boost area" because distressed properties are often in mixed-income neighborhoods that did not qualify for the basis boost.)

- b. Currently, when the LIHTC is combined with the Historic Rehab tax credit, 100 percent of the *value of the historic tax credit is subtracted* from the LIHTC basis, thus diminishing the value of the housing credit. Congress should eliminate this reduction in basis. That would increase LIHTC basis, increase the tax credits available to be sold to investors, increase the private equity capital that can be raised, and reduce the amount of public financing required.
2. The so-called *4 percent housing tax credit* is actually a floating rate; it should be a true 4 percent credit. All of the 2008 legislative improvements to the 9 percent credit should also be applied to the 4 percent credit. In addition, tenant income limits for 4 percent projects should be raised to 80 percent of median income
3. Some LIHTC requirements make the program infeasible for individual owners who want to build or renovate a small project. Ways must be found to substantially reduce the cost of utilizing this subsidy source. In addition, the minimum affordability period should be lengthened to provide long-term or even perpetually affordable housing.
4. The LIHTC program provides a substantial amount of capital, but tax credit projects are seldom affordable for households below 40 to 50 percent of median income. Congress should provide more rental assistance targeted to *households below 50 percent of median income*. This income level is very difficult to reach with the tax credit subsidy, even in combination with other sources.
5. Congress should make major federal funding sources more workable for manufactured housing parks, which are a hybrid between rental housing and homeownership and therefore don't fit neatly into either category.
6. The *exit tax* on Section 8 owners and tax credit limited partners should be waived if owners transfer their project to a new owner that agrees to long-term affordability.
7. The *New Markets Tax Credit* (NMTC) program definitions are too restrictive; very few areas in northern New England are eligible. The definition of an eligible community is based on whether it is distressed (by federal definition) and by the percentage of low-income persons. As we have a lot of mixed communities, many towns in Vermont are not eligible for NMTC projects, even if the project itself provides economic development for a low-income neighborhood or residents. The current eligibility definition is based on census tracts, which in rural areas, as we have said, can cover a large area which in total may not meet the low income definition. In addition:
  - a. There is no window for a state housing finance agency or economic development agency to participate in the NMTC program. Only a Community Development Financial Institution (CDFI) with previous lending experience is eligible. Congress should make already-established state agencies, such as housing finance agencies and economic development agencies, eligible.
  - b. NMTC should be easier to combine with Historic Rehab tax credits.
  - c. High NMTC transaction costs require a minimum volume of \$2 million and should be reduced. The program is not effective for affordable homeownership.
  - d. NMTC guidelines should encourage synergies among cultural, business, and transportation facilities and the rental/homeownership continuum.
  - e. The NMTC census tract border lines in mill towns should not exclude old mill space suitable for mixed-use rehab. Federal programs should not use arbitrary census tract eligibility criteria where so many census tracts are as heterogeneous as they are in northern New England.
  - f. The NMTC program should make a base allocation of credits to each state, in addition to the national competitive program. In the most recent competition, three winning applicants claimed to serve Vermont, although none of them is based in

Vermont. No Vermont applicants were approved.

8. The *Federal Home Loan Bank* has new authority to lend to *Community Development Financial Institutions*. Congress should exercise its oversight to ensure that FHLB lending procedures are accessible to CDFIs, similar to its relationship to state housing finance agencies.
9. Section 216 of the *Internal Revenue Code* should permit tenant stockholders in land-only cooperatives (resident-owned communities such as co-op mobile home parks) to take homeowner tax deductions for their share of the mortgage interest and property taxes for their cooperative.

## **Part E: Conclusion**

The Carsey Institute's 2007 PLI Fellows, the Vermont Housing & Conservation Board and its staff, and other participants in this project offer these policy recommendations in a constructive and optimistic spirit. Vulnerable families and communities across northern New England struggle to stay afloat and make ends meet, especially amidst a deep recession. Rising energy costs and global climate change, brought on in part by flawed settlement patterns and inefficient design, only exacerbate the challenges facing vulnerable populations. With improved federal housing and smart growth policies, we think we can alleviate some of those challenges.

We hope that the entire northern New England congressional delegation will support these suggestions whenever an opportunity arises. We stand ready to assist with additional policy analysis and advice whenever it would be helpful.

## **APPENDIX A**

### **Smart Growth Principles and Criteria**

The Vermont Housing & Conservation Board and the Vermont Smart Growth Collaborative have worked with several housing development organizations to create a voluntary housing endorsement program. The program uses the following criteria to evaluate and endorse new housing and mixed-use development projects based on smart growth principles:

- ✓ Maintains the historic development pattern of compact village and urban centers separated by rural countryside
- ✓ Develops compact, mixed-use centers at a scale appropriate for the community and the region
- ✓ Enables choice in modes of transportation
- ✓ Protects important environmental, natural, and historic features, including natural areas, water and air quality, scenic resources, and historic sites and districts
- ✓ Serves to strengthen agricultural and forest industries and minimizes conflicts of development with these industries
- ✓ Balances growth and the availability of economic and efficient public utilities and services
- ✓ Supports a diversity of viable businesses in downtowns and villages, including locally-owned businesses
- ✓ Provides for housing that meets the needs of a diversity of social and income groups in each community

## **APPENDIX B**

### **List of Participants**

The Carsey Institute and Vermont Housing & Conservation Board would like to thank the following individuals for their personal contributions to the recommendations in this report. All of these individuals do not necessarily endorse all of the report's recommendations.

John Anton, Northern New England Housing Investment Fund, Maine and New Hampshire  
Ted Brady, Office of Sen. Patrick Leahy, Vermont  
Sarah Carpenter, Vermont Housing Finance Agency, Vermont  
Dean Christon, New Hampshire Housing Finance Authority, New Hampshire  
Andrea Colnes, Carsey Institute at University of New Hampshire, New Hampshire  
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Erin Cooperrider, Community Housing of Maine, Maine  
Maggie Drummond, GrowSmart Maine, Maine  
Howard Dupee, Coastal Enterprises Inc., Maine  
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William Floyd, Genesis Community Loan Fund, Maine  
Maggie Fogerty, American Friends Service Committee, New Hampshire  
Michael LaFontaine, New Hampshire Community Loan Fund, New Hampshire  
Kevin Loso, Rutland Housing Authority, Vermont  
Noelle MacKay, Smart Growth Vermont, Vermont  
Erhard Mahnke, Vermont Affordable Housing Coalition, Vermont  
Rita Markley, Committee on Temporary Shelter, Vermont  
Robert McDonald, USDA Rural Development, Vermont  
Polly Nichol, Vermont Housing & Conservation Board, Vermont  
Nancy Owens, Housing Vermont, Vermont  
Greg Payne, Avesta Housing; Maine Affordable Housing Coalition, Maine  
Brian Pine, City of Burlington, Vermont  
Christopher St. John, Maine Center for Economic Policy, Maine  
Kenn Sassorossi, Housing Vermont, Vermont  
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Richard Williams, Vermont State Housing Authority, Vermont  
Nicole Witherbee, Maine Center for Economic Policy, Maine  
Amy Wright, Cathedral Square, Vermont

## **APPENDIX C**

### **Origins of this Project**

The Carsey Institute at the University of New Hampshire and the Vermont Housing & Conservation Board are the primary organizations supporting this report. The Carsey Institute conducts research and analysis into the challenges facing vulnerable families and communities in New Hampshire, New England, and across the nation. The Vermont Housing & Conservation Board works to create affordable housing and conserve agricultural and recreational lands, natural areas, and historic properties, as charged by the Vermont State Legislature in 10 V.S.A. 15 in 1987.

The impetus for developing these federal housing policy recommendations stems from the 2007 participants in the Carsey Institute's Policy Leadership Initiative (PLI), a project intended to strengthen the collective capacity of northern New England to advance policies that help families, children, and communities. Primary support for PLI has been made available from Jane's Trust, with additional support from the Maine Community Foundation, the New Hampshire Charitable Foundation, Endowment for Health (NH), and the Vermont Community Foundation.

The second year of the Policy Leadership Initiative, 2007, was focused on the intersection of affordable housing and smart growth issues. In this context, twenty-four fellows and other participants from across the region sought to explore federal policy opportunities and commissioned the development of this set of federal policy priorities to better serve needs in the northern New England region. It is our hope that these policy ideas will be taken up by the regional congressional delegation and used to develop and advance a policy agenda for the region serving the intersection of housing and smart growth issues in the new Congress and Obama administration.

A list of the participating 2007 Carsey Policy Fellows and other project collaborators is attached to this report in Appendix B. Gus Seelig and Polly Nichol of the Vermont Housing & Conservation Board and Andrea Colnes of the Carsey Institute compiled a list of affordable housing and smart growth practitioners and advocates in Maine, New Hampshire, and Vermont to consult for this report (the Carsey fellows were included on this list). Senator Leahy's staff convened a meeting in Vermont, at which many participants offered policy recommendations. Don Dickson, a consultant, interviewed the New Hampshire and Maine practitioners for their recommendations and wrote the first draft of this report with assistance from Gus, Polly, and Andi. Many of the participants offered further suggestions in response to the draft.