Approved Feb. 24, 1992
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Representative Diane Gjerstad at
Chairperson

3:40 ~~axx~~/p.m. on Thursday, February 20, 1992 in room 423-S of the Capitol.

All members were present except:

Representatives Baker, Dean, Edlund, Wagnon and Wempe. Excused.

Committee staff present:

Lynne Holt, Legislative Research
Jim Wilson, Legislative Revisor
Betty Manning, Secretary

Conferees appearing before the committee:

Lynne Holt, Legislative Research
Karen Herrman, Rural Rental Housing Assn. of KS, Hays, KS
Betty Jo White, Ph.D., Assoc. Professor of Housing, Kansas State Univ.

Chairperson Gjerstad called the meeting to order at 3:40 p.m.

The Chair recognized Lynne Holt, Legislative Research, who gave a comprehensive overview of **ERO-23,** proposed legislation reorganizing various housing programs into a Divison of Housing within the Department of Commerce. Her overview outlined a policy framework for considering housing issues in the state, explained Kansas housing related programs and financing mechanisms, and described types of funding mechasisms to finance housing programs. She stated the expected receipt of federal HOME funds of over $6.5 million in FY 1992 might encourage the legislature to reexamine the laws governing the KDOC and the KDFA to ensure that the agencies charged with any aspect of financing for housing have latitude to use creative financing mechasisms. There would also be a need for staff with expertise in matters concerning financing and policy related to housing. Consideration might be given to more actively pursue federal funding for expanded program activities. Also, a detailed needs assessment might be considered a prerequisite for the formulation of state housing policiies and for future program expansion. Attachment 1.

Lynne also outlined various organizational structures of housing programs in Nebraska, Missouri, North Carolina, Delaware, Colorado and Vermont. All of the states have implemented housing programs which involve sophisticated leveraging or commingling of funds. These types of finance programs are critical to the need for financial and policy expertise at the state level. Attachment 2.

Chairperson Gjerstad opened the hearings on **ERO 23.** She stated that due to the number of conferees scheduled to appear before the committee, it would be possible to only hear from those from out of town. First conferee called was Karen Herrman, Rural Rental Housing Association of Kansas, Hays, KS. Ms. Herrman felt this legislation should be enacted as it would assist rural communities in Kansas to have a place to turn to for housing needs, and a place knowledgeable of the resources needed to coordinate housing and economic conditions. Attachment 3.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 423-S, Statehouse, at 3:40 ~~a.m.~~/p.m. on Thursday, February 20, 1992.

Next conferee, Betty Jo White, Ph.D., Associate Professor of Housing, College of Human Ecology, Kansas State University. Dr. White stated that economic development, housing, and community development efforts complement one another and share common infrastructure needs, also involving similar financing tools and technical expertise. She stated housing and economic development advocates need to work together in the same agency to assure the state's future quality of life and housing which depends on a strong state-local partnership that this legislation can provide. Attachment 4.

Chairperson Gjerstad said continuation of hearings on **ERO-23** would be held on Monday, February 24, 1992.

The meeting was adjourned at 5:10 p.m.

D: Feb 20, 1992

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Jim McBride	Self	Topeka
Cal Lantis	KDOC	Topeka
Betty Jo White	KSU	Manhattan
Jet Brown	KS car Dealer	KC
Paul Johnson	PACIC	Topeka

MEMORANDUM

Kansas Legislative Research Department

Room 545-N -- Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

February 18, 1992

To: Senate Economic Development Committee

From: Lynne Holt, Principal Analyst

Re: Housing -- Organizational Structures, Programs, and Needs Assessments

BACKGROUND

This memorandum examines the administration of housing programs at the state level in six states: Nebraska, Missouri, North Carolina, Delaware, Colorado, and Vermont. For each state, the following information is included:

1. a brief description of the organizational structures of agencies which administer housing programs;
2. a brief narrative of housing programs; and
3. a short description of the needs assessment undertaken at the state level to identify housing needs.

Asterisks next to programs indicate federally-funded programs or federally-subsidized programs. This memorandum concludes with a section summarizing the state profiles with observations on possible applications for housing programs in Kansas.

Most profiled states offer, at a minimum, certain housing-related programs which are funded or subsidized by the federal government: the Single-Family Mortgage Revenue Bond (MRB) Program; the Section 8 Existing Certificate and Voucher Program; Emergency Shelter Grants Program; Rental Rehabilitation Program (to be superseded by the federal HOME Program); Low Income Housing Tax Credit Program; Small Cities Community Development Block Grant Program; and the Weatherization Program. These programs are summarized below, thus eliminating the need for narratives of those programs by state.

The **Single-Family MRB Program** provides mortgage financing at below-market rates to low- and moderate-income first-time homebuyers. **Section 8 -- Existing Certificates and Vouchers Programs** provide housing subsidies to eligible low-income individuals to rent existing, privately-

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Attach 1
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owned dwelling units from participating landlords. The **Emergency Shelter Grants Program** assists emergency housing shelters which provide beds or services for homeless individuals or families. The **Rental Rehabilitation Program** provides assistance in rehabilitating substandard rental properties occupied by low- and moderate-income families. The **Low Income Housing Tax Credit Program** stimulates, through the provision of federal income tax credits, private investment in the construction and preservation of low-income housing. Funding from the **Small Cities Community Development Block Grant Program** could be used for, among other purposes, the maintenance and improvement of existing housing and the demolition of deteriorated housing. The **Weatherization Program** provides grants of financial assistance to projects designed to weatherize dwelling units, particularly those inhabited by handicapped individuals or those with low incomes.

STATE PROFILES

Nebraska

1. **Organizational Structures**

   a. **Nebraska Investment Finance Authority.** The Nebraska Investment Finance Authority (NIFA) was established in 1983 by the Nebraska Investment Finance Authority Act. The Authority administers several housing programs involving the issuance of MRBs. The Authority's bond issues encompass four discrete areas: housing, health care, business, and agriculture. The Authority is a quasi-public entity composed of nine members. Three members serve in an ex-officio capacity: the Director of Economic Development, the Chairperson of the Nebraska Investment Council, and the Director of Agriculture. Six public members are appointed by the Governor. Each of the following areas must be represented by a board member with expertise in that area: real estate development; industrial mortgage, commercial, agricultural, or housing mortgage credit; banking or investment banking; home building or licensed real estate brokerage; and agricultural production. Of the public members, two must be appointed from each of the three Congressional districts in the state. In compliance with statutory provisions, the NIFA appointed an executive director who is an employee of NIFA but not a member of the board and who serves at the pleasure of the board.

   Nebraska's statutes broadly define the types of housing projects which may be financed by NIFA, although a provision in the law specifically authorizes loans to be made available to people who, due to low income, would not otherwise qualify for loans under normal practices of the lender and the Authority. The NIFA is required to adopt rules and regulations relating to the terms of financing housing projects.

b. **Nebraska Department of Economic Development.** Two housing programs are administered by the Division of Rural and Community Development within the Department. There are 2.5 F.T.E. positions working in some capacity with these programs. Federal HOME funds will be administered by the Department.

c. **Nebraska Energy Office.** This Office administers the state's weatherization programs. Six F.T.E. positions implement the programs.

d. **Department of Social Services.** The Department administers the Emergency Shelter Grants Program, the Community Services Block Grant Program, and the Emergency Community Services Homeless Grant Program.

2. **Programs**

a. **Single-Family MRBs.*** In Nebraska, as in Kansas, the limitation for private activity bonds is $150 million. Almost $100 million was available from the private activity bond allocation (including carry forwards) for single-family housing purposes. In 1991, NIFA loans had an average interest rate of 7.69 percent. In FY 1991, these loans assisted 4,052 low- to moderate-income individuals and families in purchasing their first homes.

b. **Multifamily Revenue Bonds.*** Through the multifamily tax exempt program and multifamily tax credit programs, the NIFA has participated in past years in the development of rental units although no bonds were issued for that purpose in 1991.

c. **Rehabilitation Loans.** NIFA also has provided funding in past years for repairs and energy efficiency improvements to homeowners. Loans with interest rates of as low as 1 percent have been made available through leveraging involving NIFA bond proceeds, funding from local government, and federal Community Development Block Grant moneys. No moneys for such projects were provided by NIFA in FY 1991. However, NIFA is currently working with the City of Lincoln on a rehabilitation loan involving $2 million of NIFA funds.

d. **Low Income Housing Tax Credit Program.*** Tax credits totaling approximately $2.5 million were made available in 1991 to investors in eligible low-income housing projects.

e. **Small Cities Community Development Block Grant Program.*** This program is administered by the Nebraska Department of Economic Development. A portion of Community Development Block Grant moneys (approximately 30-40 percent of total program moneys annually) are committed to housing projects. In past years the total amount for such projects was approximately $3 million.

f. **Community Development Assistance Program.** The Nebraska Department of Economic Development also administers the Community Development Assistance Act Program, for which some funding for home improvement services is available. The Department is authorized to distribute to corporations and insurance companies tax credits of 40 percent of the contributions made by business firms to approved projects of community betterment organizations. No more than $250,000 of tax credits may be authorized in any fiscal year and no more than $25,000 of tax credits may be authorized to a given project. All projects funded under this program must be located in an area of chronic economic distress, as defined statutorily. In FY 1992, two nonprofit housing corporations received $25,000 each in tax credit allocations.

g. **Weatherization Programs.*** The Nebraska Energy Office administers the weatherization programs with an annual budget of approximately $4.5 million in federal and oil overcharge moneys.

h. **Emergency Shelter Grants Program.*** The Department of Social Services administers this program. In FY 1991, $295,000 was awarded to the Department which allocated those funds among six governmental units. These units, in turn, subcontracted with nonprofits.

i. **Section 8 -- Existing Certificate and Voucher Program.*** HUD provides federal funding to the public housing authorities in Nebraska. As in Kansas, this program is not implemented at the state level.

3. **Needs Assessment**

In past years, Nebraska has encouraged housing needs assessments from communities which applied for Small Cities Community Development Block Grants for housing projects. In addition to having access to numerous community studies, the Department of Economic Development also has access to housing studies done by university extension services. Therefore, the Department intends to rely on those local and university linkages in developing a comprehensive housing needs assessment. A steering committee which was created through the process of developing the Comprehensive Housing Affordability Strategy (CHAS) recommended that the Nebraska Affordable Housing Commission be established as a vehicle to represent private-sector housing groups in policy planning. This recommendation is currently under consideration. The staff contact person at the Department noted that the service or outreach component of its housing programs was critically lacking although options are currently under consideration to address this deficiency.

Missouri

1. **Organizational Structures**

   a. **The Missouri Housing Development Commission.** The Commission is a governmental instrumentality established by statute. It administers federal housing programs and other housing programs financed from proceeds of tax-exempt and taxable bonds and from private contributions. No state tax funds are used by the agency. The Commission is the central housing assistance agency in the state.

   The Commission is composed of nine members: the Governor, the State Treasurer, the Attorney General, and six members appointed by the Governor who are knowledgeable in the areas of housing, finance, or construction. The Commission has a staff of 75.0 F.T.E. positions.

   b. **Missouri Economic Development Department.** The Department administers two housing-related programs with 1.5 F.T.E. positions.

2. **Programs**

   The Missouri Housing Development Commission administers the following programs:

   a. **Multifamily Program.*** This program used tax-exempt bond proceeds to finance below-market interest rate construction and permanent loans. Loan recipients were nonprofit and limited dividend corporations which pass on the savings realized by lower-interest loans in the form of affordable rents to low- and moderate-income persons. Funding from local governments and private sources were employed in conjunction with the Commission's moneys. HUD insured loans secured under this program. No bonds were issued for this purpose in 1991, although approximately $6 million from Commission fund balances were made in program loans in that year.

   b. **Single-Family MRB Program.*** In addition to administering the Single-Family MRB Program, the Commission has an Inventory Recycling Program with the Farmers Home Administration, an agreement with the Resolution Trust Corporation, and an agreement with the Federal Housing Administration. The intent of all these agreements is to make homes available to homebuyers with very low incomes. In FY 1991, approximately 3,000 homes had been financed with MRBs. Also in FY 1991, 77 loans were guaranteed under the Inventory Recycling Program, and $1 million from Commission fund balances was set aside to purchase homes under the Resolution Trust Corporation and Federal Housing Administration Programs.

c. **Home Improvement and Weatherization Program.*** Low- and moderate-income families may apply for low-interest loans of $1,000 to up to $15,000. These moneys may be used for home repairs and the installation of energy conservation improvements. In FY 1991, $4 million was allocated to this program.

d. **Neighborhood Loan Program.** This program is offered in cooperation with neighborhood organizations to help provide housing in older established neighborhoods. Interim loans were (but apparently are no longer) provided to neighborhood groups and neighborhood-approved builders for the acquisition and rehabilitation of existing structures and new construction infill. Neighborhood organizations identified the housing needs in their neighborhoods, and solicited resources from the Commission and private lenders. The Commission also provided, and continues to provide, subsidies to private lenders who make qualified neighborhood loans.

e. **Low Income Housing Tax Credits.*** This federal tax credit program reserves over $23 million in tax credits annually. These credits were used to help build 3,000 rental units in 1991.

f. **Missouri Low Income Housing Tax Credit.** Two types of state housing credits -- Affordable Housing Assistance Program credits and Missouri Low Income Housing tax credits -- were recently instituted as a result of legislation enacted in 1991. The intent of these tax credits is to support the construction and rehabilitation of low- and moderate-income housing. Tax credits of $2 million will be allowed for the first year of housing assisted through the Affordable Housing Assistance Program, to increase by $2 million per year over the ensuing four years. (The maximum amount allowable for tax credits will be $10 million.) The Missouri Low Income Housing credit supplements the federal credit and is limited to 20 percent of the federal credit.

g. **Housing Trust Fund Program.** This program is designed to provide affordable housing units to low-income families through use of existing housing supply. Rental assistance is paid directly to the property owner. That assistance is essentially the difference between the tenant's ability to pay and the published fair market rent for the tenant's unit. Trust Fund moneys also are expended to address rural housing problems through cooperative efforts with a Farmers Home Administration program. The Trust Fund is capitalized primarily through Commission fund balances.

h. **Section 8 Certificate and Voucher Program.*** Certificates and vouchers can be used in Jackson, Platte, Clay, and Ray counties.

i. **Section 8 Existing Housing -- Operation Homeless.*** This program, like its counterpart in Kansas, provides rental subsidies to homeless individuals and families in privately-owned dwellings.

j. **Tenant-Based Assistance Program.*** The Commission plans to designate $4 million from HOME moneys for rental subsidies (operates like Section 8 Certificate and Voucher Program; see item h).

k. **Rental Rehabilitation Program.*** This program is administered by Missouri's Economic Development Department. In FY 1991 (the last year of program funding) federal funding of $400,000 was allocated for rental rehabilitation projects. The Missouri Housing Development Commission plans to transfer to the Economic Development Department $600,000 of federal HOME moneys to continue the program in FY 1992.

l. **Small Cities Community Development Block Grant Program.*** Approximately $3.5 million of Community Development Block Grant moneys was expended by the Economic Development Department for housing-related projects in FY 1991.

m. **Weatherization Program.*** This program is administered by the Division of Energy, Department of Natural Resources.

3. Needs Assessment

The Missouri Housing Development Commission initiated a comprehensive housing needs assessment prior to the enactment of the 1990 National Affordable Housing Act and the CHAS requirement. The Commission hired a consultant to compile statistical data. The needs assessment catalogued every subsidized housing project in the state, the waiting lists for each project, and the number of available units. The Commission's intent is to develop a more detailed assessment once the 1990 census data on housing become available.

North Carolina

1. Organizational Structures

a. **The North Carolina Housing Finance Authority (NCHFA).** The NCHFA was established by the General Assembly in 1973, and administers ten housing programs plus a trust fund. The NCHFA is composed of 13 Board members: eight appointed by the General Assembly (four recommended by the Senate; four recommended by the House) and five appointed by the Governor. Qualifications of members are specified in statute. The Board of Directors is authorized to appoint an executive director who, in turn, may hire the NCHFA staff. There are currently 55 F.T.E. positions on staff.

b. **The Division of Community Assistance in the Department of Community and Economic Development.** The Division of Community Assistance administers the Small Cities Community Development

Block Grant program with 17 staff positions. In addition, the Division is responsible for the federal HOME program and it coordinates housing-related homeless assistance services. The Energy Division of the Department of Economic and Community Development administers the federal Weatherization Program with eight staff positions.

2. **Programs**

The North Carolina Housing Finance Authority administers the following programs:

a. **Single-Family MRBs.*** In FY 1991 the NCHFA issued $107,045,000 in bonds to help finance 1,820 home mortgages. Borrowers in FY 1991 had an average income of $25,638, or approximately 75 percent of the state median income.

b. **Mortgage Credit Certificate (MCC) Program.*** Since 1987, the NCHFA converted part of its MRB authority to allow first-time homebuyers to claim part of the mortgage interest they pay as federal tax credit. The MCC Program targets homebuyers with the same income levels as the bond program. In FY 1991, $25 million in MCCs benefitted 415 first-time home- buyers.

c. **Home Ownership Challenge Fund.** This Fund consolidates earnings on a state appropriation, NCHFA revenues, recycled mortgage prepayments, and targeted area bond moneys into financing packages. Local governments, nonprofit organizations, and private developers have access through those funds to low-interest mortgage money, downpayment assistance, monthly housing subsidies, and mortgage tax credits. Local sponsors must invest their own funds and make nonfinancial contributions to reduce the cost of housing. The Challenge Fund has outstanding commitments of approximately $2.4 million for mortgages, $80,000 for down payment assistance, and $375,000 for mortgage tax credits.

d. **Maxwell-Fuller Fund.** The NCHFA created this revolving loan fund in 1989 to support self-help housing programs. To raise the initial $150,000 in funding, the agency solicited investments from 12 corporations and matched them with its own earnings from the House Trust Fund (see item k) A subsequent fund raising effort resulted in an additional $39 million in corporate support, matched dollar-for-dollar by the NCHFA. The Fund awarded 15 loans to housing groups in FY 1991, averaging $5,000 per loan. In addition, loans from this Fund and the House Trust Fund have been used to assist Habitat for Humanity housing projects.

e. **Home-Improvement Loan Program.** This program provides low-interest loans to help home owners repair substandard housing. The program uses bond proceeds, local funds, and agency subsidies to provide loans of up to $15,000 at rates from 3 percent to 8 percent. Local governments and nonprofit organizations, cooperating with lenders, distribute loans to borrowers. In FY 1991, 47 households received funding, averaging $9,540 per household.

f. **Low Income Housing Tax Credit Program.*** In 1991, over $5 million in federal tax credits was awarded to help build 1,700 apartments.

g. **Catalyst Program.** This program enables nonprofit organizations to develop rental housing for low-income tenants. The program provides nonprofits (which typically lack money upfront) with deferred loans for market studies, preliminary architectural plans, financing costs, and similar expenses. The agency finances program loans using fees it earns for operating the Low Income Housing Tax Credit Program and interest on a state appropriation. In FY 1991 the program provided $40,000 in loans to two nonprofits.

h. **Rental Rehabilitation Program.*** Using federal HUD rental rehabilitation moneys, the agency distributed in 1991 $1.23 million in grants and loans to local units of government to rehabilitate 200 units.

i. **Project Management.*** The NCHFA monitors 7,918 rental apartments financed with tax-exempt multifamily revenue bonds. It also monitors 3,445 rental units as the administrator for HUD rental subsidy contracts; rental subsidies for those units totaled $18.66 million in 1991.

j. **Employer-Assisted Housing Program.*** This program assists employers in providing housing benefits to their employees, if these employees are first-time homebuyers with incomes not exceeding $25,000. Under the program, the employee pays half of the down payment for a new home and the employer and the NCHFA pay the other half. Using bond proceeds, the NCHFA provides a 30-year, fixed mortgage at less than the market rate of interest. The NCHFA has committed $1 million to initiate the program. Three companies in a rural county are participating in the program. In FY 1991, the NCHFA closed on its first loan.

k. **Housing Trust Fund.** Capitalized initially by oil overcharge funds and other appropriations by the General Assembly, the Housing Trust Fund provides gap financing from the NCHFA to local governments, nonprofit organizations, and private developers. Through low-interest loans, forgivable loans, and grants provided to these local housing sponsors, the NCHFA subsidizes costs of building or rehabilitating homes and rental units for very low-income households. To assist people with very low incomes, the NCHFA combines Trust Fund loans with other agency resources, such as the Home Ownership Challenge Fund (item c), the federal Low Income Housing Tax Credit Program (item f), and the Catalyst Program (item g). In 1991, the Trust Fund awarded $7.6 million in deferred-payment loans and grants: $5.3 million to help finance 760 new units (single family and rental) and $2.3 million to rehabilitate substandard homes and rental units.

l. **Bonus Program.** This demonstration program assists builders in financing new construction in two counties. The NCHFA has made $1.9 million from proceeds of an old bond issue available for the financing of ten homes.

m. **Small Cities Community Development Block Grant Program.*** This program is administered by the Division of Community Assistance in the Department of Economic and Community Development. As one of the largest Small Cities Community Development Block Grant programs in the country, this program has a staffing complement of 17 positions and an annual budget of approximately $40 million. Of that total, roughly $33 million has been applied in past years to housing-related projects.

n. **Weatherization Program.*** This program is administered by the Energy Division of the Department of Economic and Community Development. In FY 1991, $7,323,691 was expended to weatherize 5,065 housing units.

o. **Section 8 – Existing Housing.*** The regional HUD office in Greensboro provides funding to each public housing authority; no state agency appears to have oversight.

3. Needs Assessment

The state does not have a comprehensive housing needs assessment. However, different state agencies had conducted housing-related needs assessments over the past ten years and these studies were compiled in preparing the state's CHAS for the HOME program. In formulating the state's CHAS, five regional workshops were held involving hundreds of people. There were three focus groups per region which addressed home ownership, rental housing, and factors affecting affordable housing. Although applicants for housing-related Community Development Block Grant moneys do community needs assessments, a staff contact noted that these are generally informal endeavors in North Carolina.

Delaware

1. Organizational Structures

The Delaware State Housing Authority was established as a public corporation within the Delaware Development Office. The Authority is a combination public housing authority for the counties of Kent and Sussex (New Castle County and the City of Wilmington have their own authorities) and state housing agency with bond issuance authority. The staff of 95 positions are either state employees or employees of the public housing authority component (with comparable salaries and benefits). The Authority is governed by a Council on Housing composed of seven members appointed by the Governor. The Council meets monthly to approve loans and grants to be financed from the Housing Development Fund. (See item a below.) The Delaware State Housing Authority is the central site for all housing programs except the federal Weatherization Program (item o below). In addition, the public housing authorities in New Castle County and the City of Wilmington administer their portions of the federal Community Development Block Grant Program, the Emergency Shelter Grants Program, and the Rental Rehabilitation Program. Moreover, these two authorities will share with the Delaware State Housing Authority allocation responsibilities for the federal HOME moneys.

2. Programs

The Delaware State Housing Authority currently administers 14 funded housing programs:

a. **Housing Development Fund.** This is a revolving fund which makes loans and grants to support all types of affordable housing. This fund is capitalized by state appropriations and a dedicated document recording surcharge and interest income. Most of the financing from this fund is used for predevelopment expenses and construction costs, as well as for permanent financing. Priority is given to projects which leverage moneys from other revenue sources. Developers who receive loans from this fund must rent or sell an agreed-upon percentage of their units to low- or moderate-income persons. Rental projects must remain committed to low-income purposes for 15 years or the term of the loan, whichever is longer. Projects eligible for funding include: new construction, the acquisition and rehabilitation of existing housing, and the adaptive reuse of non-residential buildings, in addition to rental, transitional, and for-sale housing. In FY 1991, over $12.4 million was applied to 631 units.

b. **Low Income Housing Tax Credits.*** Federal tax credits totaling almost $1.2 million were awarded to housing sponsors in 1991, to subsidize investments in 421 rental units.

c. **Single-Family MRBs.*** The Authority issued almost $66.6 million in federal tax-exempt bonds in FY 1991. MRB proceeds enabled the financing of 930 housing units in that fiscal year.

d. **Family Assisted Interest Rate (FAIR) Loans.*** This program targets very low-income families who intend to purchase homes. A portion of the MRBs are issued at a rate approximately 2 percent lower than that of the remaining MRBs. Local lenders agree to purchase subordinated bonds in single-family MRB issues in order to lower the rate on FAIR loans. Downpayment requirements vary but may be as low as 0-5 percent of the price of the loan. Almost $8.6 million in FAIR loans was provided for the purchase of 132 houses in FY 1991.

e. **Second Mortgage Assistance Loans.** These loans are frequently provided in conjunction with FAIR loans. The Authority provides up to $5,000 in downpayment and closing cost assistance to qualified first-time homebuyers. A loan under this program is provided at the same interest rate as the first loan and is payable in full, with the accrued interest, when the house is sold, refinanced, the title is transferred, or when the first mortgage is satisfied. In FY 1991, a total of $322,634 was lent for second mortgages on 103 housing units.

f. **Housing Rehabilitation Loan Program.** This program provides loans with interest rates of 3.0 percent to help owners repair heating, electrical, plumbing, roofing, and structural problems, in addition to other safety and health hazards. Loans are made to investors and low- and moderate-income owner-occupants who are credit worthy. In FY 1991, loans were applied to 122 housing units.

g. **Small Cities Community Development Block Grants.*** In FY 1991, over $1.5 million was available for 150 housing-related projects.

h. **Emergency Shelter Grants Program.*** In FY 1991, shelters with capacities of 56 beds were assisted by $37,000.

i. **Rental Rehabilitation Program.*** This federal program is used to complement the Community Development Block Grant Program (item g) and the Housing Rehabilitation Loan Program (item f). In FY 1991, $66,000 in loans was provided for the rehabilitation of eight rental properties.

j. **Public Housing.*** The Delaware State Housing Authority receives funding from HUD to construct public housing and oversees construction, selects tenants, and directly manages the properties. In general, families, handicapped and disabled persons, and elderly persons with incomes of not more than 50-80 percent of the median income are eligible to live in public housing. The Authority's FY 1991 operating budget totaled almost $1.1 million to oversee 302 existing units and 165 units in development.

k. **Public Housing Home Ownership.*** This program, funded from a combination of state and federal funds, rents homes to families for up to three years and then provides them the opportunity to purchase those homes. The Authority purchased 15 single-family homes for that purpose.

l. **Section 8 Certificate and Voucher Program.*** In FY 1991, 511 certificates and 277 vouchers were available to eligible families. The FY 1991 operating subsidy totaled almost $3.6 million.

m. **Section 8 New Construction Program.*** The Authority manages ongoing rental subsidies for 2,700 units in 30 apartment complexes statewide. In FY 1991, operating subsidies totaled over $18.1 million.

n. **State Housing Code.*** In 1985, the Delaware State Housing Code was signed into law. This code establishes minimum property maintenance standards for existing residential structures and premises for the purpose of protecting public safety, health, and welfare. The focus of the code, which is used by six communities, is on rental housing.

o. **Weatherization Program.*** This program is administered by the Office of Community Services in the Department of Health and Social Services. Funded partially by federal and oil overcharge moneys, the FY 1992 budget for the program is approximately $1 million.

3. Needs Assessment

The state began development of a comprehensive housing needs assessment in 1987. A consultant was hired for approximately $50,000 to prepare the assessment which was published in 1989. Large segments of the assessment were incorporated into the state's CHAS. The assessment included an analysis of housing needs at the county level (there are three counties). According to the staff contact person for the assessment, the assessment is not sufficiently detailed for planning purposes. The assessment includes demographic data, employment trends, and waiting lists for public housing authorities. Data on housing needs at the community level are only acquired through application submittals for Community Development Block Grants for housing projects.

Colorado

1. Organizational Structures

a. **The Colorado Housing and Finance Authority.*** The Colorado Housing and Finance Authority (CHFA) was established as a quasi-public entity by the General Assembly in 1973 and began operations in 1974. Although initially intended as a financing entity for housing programs, the CHFA's role has been expanded statutorily to include financing programs for small business assistance, exporter assistance, and for other economic development purposes.

The CHFA is governed by an 11-member Board of Directors: a member of the General Assembly appointed by the Speaker of the House and the President of the Senate; the State Auditor; a member of the Governor's cabinet; and eight other gubernatorial appointees confirmed by the Senate. Of the eight members appointed by the Governor, one must have experience in mortgage banking and another in real estate transactions.

b. **Colorado Division of Housing, Department of Local Affairs.** The Division has a staff of 32 positions and was recently reorganized. Approximately half of the positions (16) were divided into four teams and each team is responsible for providing certain housing program services to a specified part of the state. Each team is staffed by four persons with expertise in each of the following areas: weatherization, building construction, federal grant provisions, and technical assistance.

2. Programs

The Colorado Housing and Finance Authority administers the following programs; funding for these programs is monitored by calendar year:

a. **Single-Family MRBs.*** In 1991, the CHFA issued $119,714,000 in MRBs to provide single-family home loans.

b. **Mortgage Credit Certificates (MCCs).*** In 1991, the CHFA elected to convert almost $45 million of its bond issuing authority to the MCC program.

c. **Rental Acquisition Program.** Several Rental Acquisition Program (RAP) properties were purchased by CHFA with financing from the sellers. In order to raise funds for their rehabilitation and purchase other multifamily dwellings, the CHFA issued over $21.4 million in bonds during 1991 for 1,299 units.

d. **Nonprofit Housing Groups.** The CHFA provided long-term financing on favorable terms to nonprofit groups in 1991 for 166 units. Almost $5.6 million in bond proceeds was available for that purpose. In addition, $190,000 was allocated to special housing needs (18 units) in 1991.

e. **Low Income Housing Tax Credits.*** The CHFA committed approximately $3.1 million to 862 low-income housing units in 1991.

f. **Resolution Trust Corporation.*** The CHFA sold to nonprofit corporations and local public housing authorities multifamily rental properties containing 71 units for a total of $2,856,000. These units are intended to serve low-income households and households with special needs. The CHFA had originally purchased the properties from the RTC. Part of the funding for that purchase came from a grant from the Department of Local Affairs.

g. **Housing Opportunity Fund.** Gap financing is provided through the CHFA to nonprofits and public housing authorities to meet the housing needs of very low-income households. The funding recipients determine the funding terms and needs to be served.

The following programs are administered by the Colorado Division of Housing, Department of Local Affairs:

a. **Housing Development Grant Program.** Since 1972, the program has provided direct financial assistance in the form of short-term loans, long-term loans, and grants to public and private nonprofit corporations. This funding is used to acquire, rehabilitate, or develop low-income housing. Funding comes from general fund appropriations but must be matched by nonstate funds. In FY 1991, eight grants were made totaling approximately $600,000. Seven grants were applied to the funding of 388 units. An eighth grant financed the painting of 524 homes. Appropriations for FY 1992 total $600,000.

b. **Revolving Loan Fund.** Since 1984, low-interest loans have been provided to private and public nonprofits for predevelopment or pre-occupancy expenses from this fund, which was originally capitalized with $1 million. The intended beneficiaries are low- and moderate-income households. Federal funding is used in approximately one-fourth of the projects. In FY 1991, six loans were made for a total of $1,170,018.

c. **Coordinating Council on Housing and the Homeless.** This Council was established by Executive Order of the Governor. The Council has 23 members: nine state agency representatives; one member from the CHFA; and 13 members representing nonstate housing service providers, the private sector, philanthropists, and municipalities. The Council's operations are funded by contributions from state agencies and some external funding. The Council convenes monthly and is staffed by one state-funded full-time position in the Governor's Office. According to the Council's staff, the Council is divided into seven work groups and is very active; participation from representatives outside state agencies, particularly from housing advocacy groups, has made a significant difference in Council output.

d. **Rental Rehabilitation.*** Although federal funding for this program was terminated in FY 1991, approximately $80,000 was carried forward to FY 1992.

e. **Emergency Shelter Grants Program.*** FY 1992 appropriations are $358,000 for program funding.

f. **Section 8 Certificate and Voucher Program.*** In FY 1991, between $3-$4 million financed approximately 900 certificates statewide.

g. **Small Cities Community Development Block Grant Program.*** Fifty percent or over $4 million of total program funding was applied in FY 1991 to housing projects. The percentage allotted for housing was reduced in FY 1992 to 30 percent of total funding (over $2 million) because the proceeds from the severance (impact) tax, which had funded community infrastructure projects in past years, had decreased significantly. This reduction resulted in a partial funding shift of Community Development Block Grant funds from housing to infrastructure support.

h. **Permanent Housing for the Handicapped Homeless.*** Funding from the McKinney Act enabled the Department to finance three projects for $500,000 in FY 1991.

i. **Weatherization.*** This program designates approximately $8 million for weatherization programs staffed by 11 positions.

3. Needs Assessment

There was no comprehensive housing needs assessment prior to the state's CHAS. Periodically, housing needs assessments were conducted in resort communities where housing shortages were critical. In developing the CHAS, the Division of Housing divided the 63 counties into 14 planning districts and conducted one meeting in each district (25-30 people representing banking, housing providers, real estate, etc., per meeting). At these meetings, work sessions on the CHAS focused on special population needs, barriers to affordable housing, and local resources, among other issues. A 3-7 page report resulted from each meeting. This report was written by Division staff; people at the meetings received meeting notes. The reports from the 14 planning districts constitute the basis for much of the state's CHAS.

Vermont

1. Organizational Structures

a. **Vermont Housing and Conservation Board.** This Board was established by the Vermont General Assembly in 1987. The Board is composed of nine members: the Commissioner of Agriculture; the Secretary of Development and Community Affairs; the Secretary of Natural Resources; and the Executive Director of the Vermont Housing Finance Agency, or their designees; and five public members appointed by the Governor. At least one member must be a low-income Vermonter and one must be a farmer. Two concerns were instrumental in the creation of the Board: (1) housing affordability and (2) the impending disappearance of agriculturally significant land

and natural areas. The Board's enabling legislation mandates the dual goal of ". . . creating affordable housing for Vermonters, and conserving and protecting Vermont's agricultural land, historical properties, important natural areas, and recreational lands." The Board administers the statutorily-established Housing and Conservation Trust Fund. (See a -- Programs.) The Board is staffed by nine positions, including an Executive Director.

b. **Vermont Housing Finance Agency.** This agency is a statutorily-created quasi-public entity, composed of seven commissioners: the Commissioner of Banking, Insurance, and Securities; the State Treasurer; the Secretary of Development and Community Affairs; and four commissioners who are appointed by the Governor and have expertise in housing, finance and financial planning, or other related areas. The agency is statutorily authorized to issue MRBs and MCCs. There are 40 positions on staff.

c. **Vermont State Housing Authority.** Established by the Legislature, this quasi-public entity of 42 positions administers several federal programs, including Section 8 programs. Seven commissioners appointed by the Governor oversee the Authority's operations. To expand its services in providing affordable housing for low-income families and gain access to state funding, the Authority created the Housing Foundation, Inc., a statewide nonprofit entity now in its fifth year of operation. Since its inception, the Foundation has preserved a total of 152 units. The Foundation is staffed under contract by the Authority staff.

d. **Department of Housing and Community Affairs.** Four positions are assigned to housing programs in this state agency which administers the Small Cities Community Development Block Grant Program, the Emergency Shelter Grant Program, and the McKinney Permanent Housing for the Handicapped Homeless Program. The Department contracts with the Vermont Housing Finance Agency to implement the Low Income Housing Tax Credit Program.

e. **Housing Vermont.** This independent nonprofit organization was created by the Vermont Housing Finance Agency four years ago to address a need resulting from changes to the 1986 tax laws. The agency gave Housing Vermont $2 million in seed funds for its initial operations and expenses. Housing Vermont both raises equity and is responsible for all the development work associated with housing projects. To raise equity, it "sells" tax benefits (tax credits and write-offs and depreciation on projects) to qualified investors. After 15 years, nonprofit organizations which administer the housing projects will own them. All the projects developed by Housing Vermont are rental with a mixture of low-income and market-rate units. The total portfolio value of the rental units is currently $66 million, of which $25 million is equity. Housing Vermont has a staffing complement of seven positions and a Board of nine members, including one gubernatorial appointee.

2. **Programs**

a. **The Vermont Housing and Conservation Trust Fund.** This Fund, which is administered by the Vermont Housing and Conservation Board, was created in 1987. The General Assembly initially appropriated $3 million to the Fund in FY 1988. In FY 1989, the General Assembly appropriated an additional $20 million along with an annual commitment of a portion of property transfer taxes. Property tax proceeds available to the Fund have been declining but the Fund was subsequently recapitalized in FY 1991 with $7.25 million in general obligation bond proceeds and in FY 1992 with $5 million from that revenue source. Roughly 55 percent of expenditures from the Fund is applied to housing. Awards are made to municipalities, nonprofit organizations, housing cooperatives, and qualifying state agencies. Emphasis has been placed in recent years on funding affordable housing through nonprofits and municipalities in high unemployment and low per capita income regions of the state. In FY 1991 the Housing and Conservation Board committed $10.1 million to 94 projects throughout the state. Moneys from the Fund for housing projects are generally leveraged with bond proceeds from the Vermont Housing Finance Agency, Community Development Block Grants, tax credits, and other revenue sources. In addition to grants and loans for housing acquisition and rehabilitation projects, funding is provided for the following purposes:

i. **Feasibility Funds.** This program supports appraisals, engineering and environmental studies, options, energy assessments, and marketing analyses to bring housing projects to the developmental stage.

ii. **Single-Family Assistance.** Up to $2,000 is provided for downpayment assistance, closing costs, or interest write-downs for home ownership on limited equity homes. This program is coordinated with the Single-Family MRB Program administered by the Vermont Housing Finance Agency.

iii. **Project Specific Capacity.** Funding is provided for predevelopment work required prior to the actual purchase and renovation of very complex projects.

iv. **Habitat/Vocational Education.** Funding is provided to projects that develop working relationships between the housing nonprofits and Habitat for Humanity chapters and vocational education programs throughout the state.

The intent is to lower construction costs in affordable housing projects by encouraging this coordination.

v. **Organizational Capacity Grants.** Capacity grants are awarded annually to nonprofits for some of the staffing costs associated with affordable housing and conservation projects.

b. **Vermont Community Loan Fund.** This Fund is administered by a private, nonprofit organization with a staffing complement of 2.6 F.T.E. positions. Capitalized by private moneys, this fund provides short-term housing loans to municipalities and nonprofits at below-market rates, typically for gap financing for housing projects that will be perpetually affordable. Households with incomes of less than 80 percent of the median are targeted end-users of this program. Since its inception in June, 1988, the Fund has supported 35 projects and assisted construction of 300 single-family and rental units for a total of $1.3 million in loans. Although no state appropriations have been made to the Fund, investments in the Fund have been encouraged by the availability of state tax credits for that purpose.

c. **Enable.** This is a low-interest revolving loan fund administered by the Vermont State Housing Authority. Loans from this Fund may be used to rehabilitate units that are occupied by handicapped or elderly persons who earn at or below 50 percent of median income. In 1991, a total of $17,668 was loaned for projects such as modifying an entrance door to a private home to make it wheelchair accessible.

d. **Farmers Home 515 Program.*** Administered by the Vermont State Housing Authority, this program provides subsidies on some or all units to reduce rents to no more than 30 percent of a tenant's adjusted income. By assuming an existing mortgage and borrowing additional equity, the Vermont State Housing Authority can purchase or rehabilitate housing projects which would otherwise be converted to market rent. This program also provides loans to nonprofits to assist them with building development in rural areas.

e. **Section 8 Programs.*** The Vermont State Housing Authority operates several Section 8 programs. In FY 1991, a total of $18,767,982 was provided in subsidies for: the Existing Certificate and Voucher Program (2,087 units in 120 communities); the Project-Based Certificate Program; the New Construction Program (1,589 properties created in 1991); and the Moderate Rehabilitation Program which subsidizes 158 limited-income families.

f. **Small Cities Community Development Block Grant Program.*** This program is administered by the Department of Housing and Community Affairs. Historically, 50 percent or approximately $2.5 million has been applied to housing-related projects.

g. **Low Income Housing Tax Credit Program.*** This program is implemented by the Vermont Housing Finance Agency under contract with the Department of Housing and Community Affairs. In 1991, federal tax credits totaled $708,000.

h. **Emergency Shelter Grants Program.*** Administered by the Department of Housing and Community Affairs, this program provided shelter assistance totaling $141,000 in FY 1991.

i. **Mortgages for Vermonters (Single-Family MRB Program).*** MRBs are issued by the Vermont Housing Finance Agency for loans to families with incomes of up to $39,500 at a current interest rate of 8.15 percent. A feature of this and other mortgage assistance programs offered through the agency or elsewhere in the state is the availability of Energy Efficient Properties services. An independent organization -- Energy Rated Homes of Vermont -- trains bank appraisers to conduct energy evaluations and make recommendations to homebuyers on improving energy efficiencies. A homebuyer who purchases a home with a high energy efficiency rate will qualify for a larger mortgage than would be provided if the home were given a low rating.

j. **HOUSE.*** A portion of the MRB proceeds are provided by the Vermont Housing Finance Agency to local nonprofits for construction of perpetually affordable housing. The intended beneficiaries have family incomes of 60-80 percent of state median. Interest rates on HOUSE loans escalate over a period of years beginning with 6.2 percent for the first year of the loan and reaching a maximum of 7.7 percent.

k. **Mortgage Credit Certificates.*** A portion of the Vermont Finance Housing Agency's MRB allocation is converted to MCCs.

l. **Weatherization.*** This program is contracted out by the State Office of Economic Opportunity.

3. Needs Assessment

A housing needs assessment study was conducted on labor market areas by a consultant in 1987. Although the assessment itself was not particularly useful for the development of the CHAS, the recommendations in the study have proven useful. According to a staff contact person, there is no comprehensive housing needs assessment for the state. In the CHAS, housing needs were assessed by county and there was considerable criticism of the methodology used in that assessment.

CONCLUSION

This profile of six states is only a microcosm of the variety of organizational structures which administer housing programs and the types of housing programs offered at the state level. Of the states profiled, Missouri and Delaware had the most consolidated system for providing housing assistance, followed by North Carolina. Vermont's program delivery system was most fragmented. Colorado essentially divided its housing programs between its housing finance authority and its Department of Local Affairs. Nebraska's service delivery system involved four entities; the state finance authority issued MRBs and three state agencies administered federal and state housing programs. In contrast to Kansas, all six states issued MRBs through their respective state finance authorities for loans to low- and moderate-income first-time homebuyers.

Whereas consolidation of housing programs appears to assist end-users and housing service providers in such states as Missouri and Delaware, active coordination among providers might reap similar results. Although Vermont has a fragmented system, staff contact persons from every agency and organization involved in state housing programs appeared to have a working familiarity with housing services provided by others and, to some extent, housing agencies and organizations coordinated efforts with others. The lack of coordination or a central clearinghouse can prove frustrating -- a point to which this writer can attest after having received several incorrect referrals to the appropriate housing agency in North Carolina charged with administering a certain federal housing program.

The most aggressive and innovative housing efforts were found in Vermont, Delaware, and North Carolina, probably because housing affordability for moderate-income households has been such a dominant issue in the eastern part of the country for so many years. Vermont has been particularly aggressive in enhancing linkages between environmental preservation, energy efficiency, and housing construction and rehabilitation and in creating nonprofit "spin-offs" to address gaps in the housing service delivery system. North Carolina has demonstrated considerable initiative in creating programs that require active participation from the private sector and nonprofit organizations. Of the states profiled in this report, Nebraska appears to be the least aggressive in its approach to housing needs. Again, the correlation with program development and housing affordability for moderate-income families might provide part of the explanation. Housing affordability for that income group has not been historically as severe a problem in the heartland as on the East Coast.

Most states do not have detailed comprehensive housing needs assessments at the state level. Several individuals involved in such endeavors admitted the desirability of such assessments for planning purposes but recognized the difficulties associated with developing them, particularly for rural areas. Perhaps the most enterprising and consumer-driven approach stems from Colorado where the staff was divided into teams and capitalized heavily on input from planning district work shops to develop the state's CHAS.

Finally, all the profiled states have implemented housing programs which involve sophisticated leveraging or commingling of funds. Examples include: North Carolina's Home Ownership Challenge Fund, Maxwell-Fuller Fund, and Housing Trust Fund; Nebraska's Rehabilitation Loan Program; Missouri's Housing Trust Fund; Delaware's Housing Development Fund; Colorado's Housing Development Grant Program; and Vermont's Housing and Conservation Trust Fund. The MRB programs in Vermont and Delaware are examples of sophisticated bond issues for mortgage assistance. These types of finance programs underscore the need for financial and policy expertise at the state level.

MEMORANDUM

Kansas Legislative Research Department

Room 545-N – Statehouse
Topeka, Kansas 66612-1586
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January 29, 1992

To: Senate Committee on Economic Development

From: Lynne Holt, Principal Analyst

Re: Background Information on Housing Issues

This memorandum: (1) provides a policy framework for considering housing issues in Kansas; (2) briefly explains Kansas housing-related programs and financing mechanisms; and (3) briefly describes other types of funding mechanisms to finance housing programs. A companion memorandum, to be issued shortly, profiles state housing efforts in five states.

Policy Issues

The 1990 census counted 1,044,112 housing units in Kansas, an increase of 9 percent in the 1980s. This increase was less than the United States increase of 16 percent.[1] The rate of households in the United States for heads of household under age 25 dropped in the 1980s from 21.3 percent to 15.3 percent. For that same time period, that rate dropped for households aged 25-29 from 43.3 percent to 35.9 percent and for households aged 30-34 from 61.1 percent to 51.5 percent. In the United States, from 1974 to 1989, the home ownership rate for households with annual incomes of less than $20,000 (1989 dollars) fell from 50.3 percent to 47.2 percent. For the same time period, the home ownership rate among upper-income households with annual income of more than $50,000 increased from 85.8 percent to 88.1 percent.[2] The outlook for the single-family housing market in the 1990s is reported to be encouraging. However, accelerated income growth at the upper end of housing distribution will do little to reduce the number of renter households with limited purchasing power.[3] If Kansas demographics reflect national trends, it is safe to assume that the state's housing efforts might be directed, at least in some part, to assisting prospective first-time home buyers.

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[1] "1990 Housing Highlights Kansas." The Census of Population and Housing.

[2] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1991*, pages 9 and 11.

[3] *Ibid.*, page 23.

Eco-Devo
Attach 2
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Prior to developing housing programs, whether intended for first-time home buyers or other populations (low-income renters, persons with disabilities, the elderly, deinstitutionalized persons, employees with low paying jobs, and persons with other special needs), one should identify the state's housing needs by responding to such questions as the following: To what extent does the profile of the Kansas housing market (rental and ownership) deviate from that of the housing market nationwide? To what extent are the profiles similar? How many people are unable to purchase their first homes? What programs, tax credits etc., currently exist to help them and to what extent are these programs meeting demand? How many people in Kansas have inadequate or unaffordable rental housing (or both) and where in the state are these people located? To what extent are these people assisted by existing programs? Is there sufficient and affordable rental housing to accommodate demand? In what areas of the state is there a paucity of such housing? Are there areas of the state which have an overcapacity of public housing? Can this housing be occupied to meet the needs of populations for which it might not have been originally intended? In other words, where are the gaps and mismatches between supply and demand in housing distribution in the state? Finally, is technical assistance sufficiently available to community organizations engaged in housing development and rehabilitation throughout the state? Consistent with "third wave" economic development ideas, programs are most effective when they address real needs, and identification of those needs is dependent on reliable and timely data.

Much of the data needed for formulating state policy decisions on housing should be available due to a requirement in the 1990 National Affordable Housing Act that an annual state plan (Comprehensive Housing Affordability Strategy or CHAS) be submitted as a precondition for future federal housing assistance.[4] The CHAS must include data on the current needs (and five-year projections) for housing assistance for very low-, low-, and moderate-income households. The needs assessment also must address families requiring supportive services in connection with housing, including: disabled families; families participating in an organized program to achieve economic independence and self-sufficiency; and persons with AIDS. Furthermore, the CHAS must address market and inventory conditions.

Policymakers might consider the following questions in making decisions on how to proceed with state housing policies:

1. Which housing needs are not being met by existing programs? Does the state's housing strategy (once it is finalized) provide a comprehensive analysis of those needs? If not, what remains to be addressed?

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[4]Staff was informed that future plans of the proposed Division of Housing will include formulation of an in-depth needs assessment. The CHAS should be viewed as the necessary step in that endeavor.

2. **Will the state's housing strategy include a mechanism for identifying social service needs other than housing assistance and a method of coordinating housing services with other social services?[5]**

3. **How should existing programs and future programs be administered to most efficiently address housing needs? What staffing capabilities and organizational structures are required to ensure adequate implementation of housing programs?**

4. **What financing mechanisms should be considered to fund future housing initiatives?**

5. **Do existing statutes afford the agency or agencies charged with implementation of housing programs the necessary flexibility to use innovative financing mechanisms and leverage nonstate funds?**

Agencies Administering Housing Programs

Every state, except Kansas and Arizona, has some type of housing finance agency. Housing finance agencies generally share the following characteristics:

1. they have been created by their legislative bodies as quasi-public, largely independent organizations (although a few are divisions of state agencies);

2. they are governed by boards appointed by the governor or chief executive of the state;

3. they are operated by an executive director and a staff; and

4. board members include bankers.

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[5] See William G. Grigsby, "Housing Finance and Subsidies in the United States," *Urban Studies*, Vol. 27, No. 6, 1990, 831-845. The policy questions raised in this article are: what is the most appropriate form of assistance and what is the desirability of creating assistance programs which provide households with options for determining the form of assistance most crucial to them? The article notes that of approximately 40 million households in the United States with low or very low incomes, less than two million are reported to live in seriously substandard housing and most do not live in substandard housing at all. Their problem is low income, coupled with one or more non-housing programs. Low income does not always equate to substandard housing. However, as noted in *A Place to Call Home: The Low Income Housing Crisis Continued*, poor households were more than twice as likely as nonpoor households to live in deficient units.

Congress created the original impetus for housing finance agencies by authorizing states to issue tax-exempt mortgage revenue bonds (MRBs).[6]

In addition to housing finance agencies, one or more executive agencies (usually including the equivalent of the Department of Commerce) administer housing programs. In a few states, all housing programs are located in one agency; the Missouri Housing Development Commission and the Michigan State Housing Development Authority are such examples. "Getting a handle" on the types of agencies which administer housing programs is very difficult because of the fragmentation in delivery of housing assistance services throughout the country. There is considerable variation among states with respect to administering agencies, number of housing programs, and number of staff assigned such responsibilities. For example, 16 agencies in Connecticut offer 64 housing programs and have 375 FTE positions. In contrast, the Arizona Department of Commerce currently has five staff assigned to housing programs and will administer three housing programs once the HOME program begins. The most consolidated information on organizational characteristics of administering agencies comes from the National Council of State Housing Agencies (NCSHA) which represents housing finance agencies. NCSHA surveys its members annually on their organizational characteristics -- departments within the agency, number of staff, and programs and responsibilities.

Kansas Housing Programs and Funding Mechanisms

In Kansas, the Department of Commerce currently administers four housing assistance programs, one tax credit program, and one rental rehabilitation program, and oversees mortgage revenue bond allocations. A portion of funding from the Small Cities Community Development Block Grant (CDBG) Program also has been historically applied to housing projects. The Governor's executive reorganization order on housing (E.R.O. No. 23) would shift the responsibilities for the Kansas Weatherization Program, the Community Services Block Grant Program, and the Emergency Homeless Grant Program from the Department of Social and Rehabilitation Services (SRS) to the Kansas Department of Commerce. The agency would be renamed the Kansas Department of Commerce and Housing and would establish a Division of Housing and the position of Under-secretary for Housing to administer the division. Under an interagency memorandum of understanding, program staff from SRS will be "on loan" to the Department of Commerce prior to the effective date of the executive reorganization order. All housing programs administered by the state are federal programs. There are currently no state-funded housing programs in operation.

The Legislative Division of Post Audit issued a report in August, 1991, titled *Examining Issues Relating to Selected Housing Programs at the Department of Commerce*. This report responded to two questions: Has the Department of Commerce carried out its responsibilities for administering the state's housing assistance program over the years? Did the Department of Commerce follow its established procedures in allocating tax credits under the Low Income Housing Tax Credit Program? In responding to those questions, the auditors reviewed the federal housing assistance programs administered by the Office of Housing in the Kansas Department of Commerce. These include

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[6] *Leveraging Bank Resources for Low- and Moderate-Income Housing: A Summary of a Conference Sponsored by the Office of the Comptroller of the Currency*, Office of the Comptroller of the Currency, Washington, D.C., May, 1991, page 5.

Section 8 New Construction, Section 8 Existing Housing -- "Operation Homeless" (subcontracted with Johnson County Housing Authority), the Emergency Shelter Grant Program, and Permanent Housing for the Homeless Handicapped. (See Attachment I for brief explanations of each program.)

In addition to these four programs, the Office of Housing in the Kansas Department of Commerce administers two other federal housing-related programs: the Low Income Housing Tax Credit Program and the Rental Rehabilitation Program. The Low Income Housing Tax Credit Program is a fee-funded program which awards tax credits to developers who submit qualified plans for new construction, purchase, or the rehabilitation of low-income housing units. The state's credit allocation is approximately $3.1 million annually. The Rental Rehabilitation Program is designed to rehabilitate rental property for use by lower-income families by making grants to localities which, in turn, use the money for specific projects. (Funding for the program terminated in 1991; funds for the HOME Program, discussed below, may be used for rental rehabilitation.) Finally, a small portion (on average 5.8 percent) of the grants of the Small Cities Community Development Block Grant (CDBG) Program has been awarded to housing projects.[7] This program, which is administered in the Community Development Division of the Department of Commerce, also awards grants for public facilities, economic development projects, and planning activities.

A report by the Legislative Division of Post Audit, titled *Supplement to the Audit of Selected Housing Programs at the Department of Commerce* (November, 1991) examined the three programs addressed above (from which the information contained herein was extrapolated). The report recommended that the Legislature consider directing the Kansas Department of Commerce to institute a set-aside from the Small Cities CDGB program for housing projects, if the Legislature would like additional resources to be directed toward low-income housing in communities eligible for the Small Cities CDBG Program.

Complementing federal funding and tax credits for housing assistance efforts in Kansas are mortgage revenue bonds (MRBs).[8] Federal law allows state and local governments to issue tax-exempt bonds to provide mortgages at below-market interest rates. Lower interest rates result in lower monthly mortgage payments for qualified first-time home buyers. Restrictions govern eligibility of home buyers, as well as the types of homes that can be purchased. MRBs are classified as a type of private activity bond. Other types of private activity bonds include industrial revenue bonds and qualified student loan bonds. The cap on private activity bonds has been $150 million in Kansas. For the past several years, $100 million of that amount was reserved for MRBs. According to the Department's Deputy Director, the Kansas Department of Commerce initially intends to reserve $115 million for MRBs in 1992. However, if a portion of that authority remains unused after a specified period of time, it would be applied to other qualified bond issuances. In Kansas, localities issue

[7]According to a report by the Legislative Division of Post Audit (November 1991), the portion of Small Cities CDBG funds allotted to housing projects nationwide in FY 1989 was 26 percent of total program expenditures.

[8]The information below on mortgage revenue bonds and mortgage credit certificates was taken from a report issued by the Legislative Division of Post Audit titled *Examining Mortgage Assistance Programs at the Department of Commerce* (December, 1991).

MRBs. Except for Arizona where housing bonds are issued through the Department of Commerce, all the other 48 states issue MRBs through their respective state housing finance authorities.[9]

Another federally-authorized program, designed to assist first-time home buyers, is the Mortgage Credit Certificate Program. Under this program, qualified home buyers receive a credit against their annual federal income tax liability. Unlike the Mortgage Revenue Bond Program, this program does not directly lower mortgage interest rates or lower monthly payments. Instead, home buyers receive the once-a-year benefit of a tax credit. To issue mortgage credit certificates (MCCs), a governmental unit must trade its mortgage revenue bond authority for the authority to issue mortgage credit certificates -- a trade made at a rate of $4 in mortgage revenue bond authority for $1 in mortgage credit certificate authority. In Kansas, Geary and Riley counties have elected to convert their authority to issue MRBs to that of issuing MCCs. These counties contracted with a private investment banking firm to administer the program. Many, but not all, state housing authorities administer the Mortgage Credit Certificate Program.

A report issued by the Legislative Division of Post Audit titled *Examining Mortgage Assistance Programs at the Department of Commerce* (December, 1991) reviewed the activities of the Mortgage Revenue Bond Program and the Mortgage Credit Certificate Program in Kansas and recommended that the state administer and operate both programs.

In essence, Kansas housing assistance programs and tax incentive programs for first-time home buyers have resulted entirely from federal initiatives. However, certain recent developments might provide the impetus to consider state initiatives in the future.

Recent Developments and Options for Financing

As a precondition for receiving federal funds for programs under the auspices of the National Affordable Housing Act of 1990, states and participating localities must develop plans (referred to as CHAS), on an annual basis, for use of those funds. The Kansas Department of Commerce submitted a draft of its first plan or CHAS for review by HUD.

The 1990 legislation has several purposes:

1. to facilitate savings for down payments for home purchase;

2. to retain, where feasible, affordable federally assisted housing for low income families;

3. to extend public and private partnerships to produce and operate housing affordable for low and moderate income families;

4. to expand and improve federal rental assistance for very low-income families; and

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[9]It might be noted that the Kansas Development Finance Authority is statutorily prohibited from issuing MRBs unless these bonds are intended for low-income families or the elderly.

5. to increase the supply of supportive housing and services to allow persons with special needs to live with dignity and independence.

To implement those purposes, the legislation established several new programs, including the Home Ownership and Opportunity for People Everywhere (HOPE) Program, the Housing Assistance and Rental Assistance Program, and the HOME Investment Partnerships Program. The latter program, considered the 1990 Act's cornerstone, authorizes $1.5 billion for grant allocations in FFY 1992. Of total allocations (after subtracting a portion for Indian tribes and technical assistance), 60 percent of funding will be allocated to cities and counties and 40 percent to states. The State of Kansas is to receive over $6.5 million of a total allocation of almost $10 million to Kansas and localities. No state match is required in FFY 1992 but the HOME program guidelines specify match ratios by project for future fiscal years. Eligible and noneligible sources of matching funds are likewise specified. HOME funds may be used for a variety of activities, including: tenant-based rental assistance; assistance to first-time home buyers and existing homeowners; property acquisition; new construction; reconstruction; moderate or substantial rehabilitation; relocation expenses; and others. At least 15 percent of HOME funds must be used in projects sponsored by "community housing development organizations" (CHDOs), or neighborhood-based nonprofits. HOME funds may not be used for administrative costs.

The difference between the HOME program and previous federal housing programs is the flexibility given to states and local governments in developing housing programs. A recently issued report on housing made the following observation about federal housing programs prior to the HOME program:

> The drawbacks of this system were rigidity in program design, an overwhelming emphasis on program efforts tailored to satisfy producers -- as opposed to consumers or the communities -- and difficulty in meeting local needs. Now [with the HOME program] the emphasis on centralization is being replaced with opportunities for state and local actors to shape their own programs.[10]

Trust Funds

In anticipation of matching requirements for the HOME Program, the Kansas Department of Commerce requested legislation from the 1991 Legislature to establish a state housing trust fund. H.B. 2517, enacted by the 1991 Legislature, establishes the State Housing Trust Fund, to which public and private grants, donations, gifts, and fees may be credited. As provided by statute, expenditures from that fund may be used for such purposes as: repair, rehabilitation, and improvement of existing residential housing; accessibility modifications; rental subsidies; and the provision of housing services and assistance to persons with low and moderate income and disabled persons.

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[10]Edward B. Lazare *et al. A Place to Call Home: The Low Income Housing Crisis Continues*, Center on Budget and Policy Priorities, Washington, D.C., 1991, page 49.

Many states have established housing trust funds, which are generally administered by state agencies instead of housing finance authorities, although some joint oversight occurs.[11] A housing trust fund is defined as "a permanent pot of money with an ongoing source of revenue that is dedicated to meeting the housing needs of low and moderate-income people."[12] (A chart depicting the operations of a trust fund is found in Attachment II.) Expenditures from housing trust funds can be used for a wide range of purposes: debt or equity financing for development, acquisition of vacant land and the purchase of abandoned buildings for rehabilitation, home ownership assistance of various types, rental assistance, funding for preservation and maintenance of housing, housing services to assist the handicapped and prevent displacement, and technical, administrative, capacity building, and planning assistance.

In addition, many innovative revenue sources have been used to finance state housing trust funds.[13] Examples include: unclaimed property funds (Arizona); tax revenues from off-shore drilling (California); surcharge fees from documents filed and recorded with the Recorder of Deeds (Delaware); real estate transfer taxes (Illinois, Maine, Nevada, New Jersey, Tennessee, and Vermont); excess income from bond surplus or reserve funds (Kentucky, Texas); interest on real estate escrow accounts (Maryland, Minnesota, and Washington); "alternative" socially responsible investments, primarily from religious organizations (Michigan); interest on application deposits for tax exempt revenue bonds (Minnesota); interest from tenant security deposits (Oregon); unnamed unclaimed funds (Ohio); stripper well settlement funds (North Carolina); lottery earnings (Oregon); and General Obligation tax-exempt bond proceeds. Several states have in past years appropriated moneys from the State General Fund to complement expenditures from other revenue sources. For example, Indiana initially capitalized its housing trust fund with a biennial appropriation of $500,000.

State Subsidies

State subsidies for housing programs totaled $1,391,000,000 in FY 1992, with the states of New York, Massachusetts, California, Connecticut, and New Jersey contributing approximately $1.1 billion of that total. However, states with populations closer to that of Kansas provided some state funding for housing programs: Iowa ($4 million); Rhode Island ($1.5 million); Colorado ($600,000); and Oklahoma ($400,000). State fiscal circumstances have affected funding for state programs. Expenditures for emergency programs for the homeless decreased $41 million or 7 percent in FY 1992, and expenditures for "affordable housing" also decreased $246 million or 22 percent from the previous fiscal year.[14]

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[11]Dayna Ashley, *Constructing Local Solutions: Affordable Housing*, National Conference of State Legislatures, April, 1991, page 5.

[12]Definition from Mary E. Brooks, *A Citizen's Guide to Creating a Housing Trust Fund*, Center for Community Change, 1989, page 5.

[13]The following list is taken from Mary E. Brooks, "A Summary of Revenue Sources Committed to Existing Housing Trust Funds," from the Center for Community Change, November, 1991, pages 12-17.

[14]"State Housing Programs," *State Policy Reports*, Vol. 10, Issue 1, 13. Included in totals for state funding are general obligation bond proceeds but not self-liquidating mortgage loans financed with tax exempt bonds.

Leveraging and Cooperative Financing Efforts

State legislatures throughout the country have discovered that leveraging of program funds is instrumental to successful housing programs, as is networking of financial institutions and housing development and assistance agencies. Such an example is found in a program implemented in Allegheny County, Pennsylvania. That program began with a 300-unit development of existing town homes in disrepair. A nonprofit organization approached the redevelopment authority, and with the help of Mellon Bank, purchased the homes. Mellon Bank provided $1.5 million for the purchase money, working capital, and rehabilitation costs. Five savings and loans provided loan commitments for families to purchase the homes. In addition, the transaction involved grant moneys, CDBG moneys, and Section 312 moneys (revolving loan funds). It also involved participation of banks, savings and loans, HUD, a private company, a state agency, and a county agency.[15]

Creative financing could involve participation of such organizations as Freddie Mac or Fannie Mae. An example noted in the publication *Leveraging Bank Resources for Low- and Moderate-Income Housing* is that Fannie Mae cannot provide rehabilitation loans with mortgages. Fannie Mae requires either a traditional construction loan or a repurchase provision. However, if a nonprofit or public agency guarantees the renovation, lenders might be more comfortable with Fannie Mae's repurchase provision. Fannie Mae can structure these loans with as little as a 5 percent down payment.[16]

Another example of creative financing is Ohio's Development Loan Program administered by the Ohio Housing Finance Agency within the Ohio Department of Development. The Development Loan Program provides low-interest loans to nonprofit corporations, limited profit corporations, and public corporations for predevelopment, construction, and interim financing. The ultimate beneficiaries of these loans are low- and moderate-income households.

Two major types of program loans are compensating balance loans and interim development loans. Compensating balance construction loans are link deposits; the Ohio Housing Finance Agency makes a noninterest bearing rate deposit with a federally insured lending institution. This deposit serves as collateral for the loan it makes to the borrower. In exchange for receiving the Agency's deposit, the lending institution provides a loan to the corporation for the construction project at below market interest rates. However, the biggest use of loan moneys is for interim development. Essentially, these loans bridge the gap between a corporation's use of federal Low Income Housing Tax Credits, which may extend over a ten-year period, and the demand by the lender for repayment of a construction loan. (The time periods for receiving credits and repaying the loan do not usually coincide.) The loan can cover no more than 50 percent of the actual development. State law allocates 25 percent of state-held unclaimed funds to capitalize a revolving loan fund for this program and another program which is currently making no loans.

Approximately $16 million was available in 1991 to fund program loans. Eighty loans (both types) were approved and 50 were closed in the past five years (35 in the past two years). This

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[15]Michael Nail, Director, Housing and Community Development, National Association of Housing and Redevelopment Officials in *Leveraging Bank Resources for Low- and Moderate-Income Housing*, page 8.

[16]See discussion summary, Op Cit., page 21.

financing enabled the construction of 1,000 new and rehabilitated units. The program director claimed that the loan programs have been very successful and that other states have expressed interest in emulating them.[17]

Yet another innovative use of financing for housing is Tennessee's HOUSE Program which completed its fourth round of funding in 1991. The Tennessee Housing Development Authority administers this program, which in 1991 funded $7.25 million for projects from mortgage recording fees and real estate transfer taxes. There are two program components: entitlement projects and demonstration projects. Eligible applicants for entitlement grants are local governments and for demonstration grants, local governments and nonprofit housing organizations. Entitlement grants require a one-to-one local match (tax, CDBG, property). Demonstration projects require leveraging of private or other public funds (or both). An example of a demonstration project is the use of HOUSE moneys which, when complemented by weatherization moneys, would rehabilitate a house beyond minimum weatherization standards under the federal program. An example of an entitlement program is the use of HOUSE funds, combined with federal CDBG moneys, to rehabilitate rental housing in targeted CDBG areas. During the 1991 funding round, 62 projects were funded (25 entitlement grants and 37 demonstration grants). The intended beneficiaries are very low-income and low-income families. This funding approach appears to be consistent with "third wave" thinking in that local governments and nonprofit organizations develop the project to be funded, are required to leverage or provide other funding sources and, in some cases, "piggy-back" off of existing housing programs.[18]

Examples of creative bond issuances are also found in other states. The Delaware State Housing Authority, a quasi-public entity, offers two programs -- the Fair Assisted Interest Rate (FAIR) Loan Program and the Second Mortgage Assistance Loan Program -- to assist first-time home buyers with annual incomes of not more than $26,000.[19]

The FAIR Program operates as follows. The Housing Authority issues approximately $40 million in MRBs. Although the interest rate cannot exceed the federally allowed limit, a combination of two rates could be used to equal the allowable rate (for example, $36 million at a slightly higher rate than allowed and $4 million at 2 percentage points below market rate). This is considered a "cross-subsidization" bond issue. The issue at the lower rate (FAIR loans) allows very low-income families to borrow money. Five banks participate in the program. As there is some risk involved in uneven repayment of the higher interest rate loans, local banks agree to purchase from the Authority 30-year zero coupon bonds that cover the risk (usually $700,000 to $800,000 on the $40 million issue). The participating banks share the risk (the Authority incurs none). In exchange for bearing the risk, participating banks are able to claim Community Reinvestment Act credits.

The Authority issues MRBs for this program twice a year and provides an average of 65 loans an issue at approximately $60,000 per loan. (Lending institutions actually make the loans

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[17]Conversation with Mark Marino, Ohio Housing Finance Agency, January 23, 1992.

[18]Ellen Bowyer Thompson and John Sidor, *State Housing Initiatives: the 1990 Compendium*, Council of State Community Affairs Agencies, 1990, pages 28-29. Information contained therein was updated by the Tennessee Housing Development Authority staff.

[19]Conversation with Paula Sims, Delaware State Housing Authority, January 27, 1992.

but the Authority buys back the loans.) To date, there have been five bond issues under this program, which started in 1989.

A companion program, to provide second mortgage assistance to families with less than $26,000 annual incomes, also began in 1989. If a family is eligible for FAIR loans at below-market interest rates, the program allows the family to receive a second mortgage for up to $5,000 at the same interest rate as that on the first mortgage loan (or FAIR loan, if that is the first mortgage loan), to cover down payments and closing costs. Repayment of the second mortgage is deferred until after the first mortgage has been repaid, which might be as long as 30 years. As with the FAIR Loan Program, this program is tied to the issue of MRBs. The first mortgage must be insured by FHA. With respect to these second mortgage loans, the Authority gives lender institutions the money and the loan is between the Authority and the borrower.

Conclusion

The expected receipt by the state of federal HOME funds of over $6.5 million in FFY 1992 might encourage the Legislature to reexamine the laws governing the Kansas Department of Commerce and the Kansas Development Finance Authority to ensure that the agencies charged with any aspect of financing for housing have latitude to use creative financing mechanisms. Accompanying the use of such mechanisms is the need for staff with an adequate understanding of and expertise in matters concerning financing and policy related to housing. In addition, consideration might be given to more aggressive pursuit of federal funding for expanded program activities under Section 8 -- existing housing and the Stewart B. McKinney Homeless Assistance Act. Finally, a detailed needs assessment might be considered a prerequisite for the formulation of state housing policies and for future program expansion.

92-0087/LH

ATTACHMENT I

Housing Assistance Programs Currently Administered by the Department of Commerce

Section 8 New Construction

Date Offered: 1981

The Program: This is a federal loan guarantee program for construction of new low-income housing. The Department of Economic Development agreed to serve as a public housing authority for seven projects with a total of 291 units that were approved for federal loans, but were located in areas that did not have a housing authority. Each project is operated by a management company.

The Department's Responsibility: The State's role is to provide limited oversight of the management company, monitor annual recertification of individuals living in the housing, pay out monthly rent subsidies from federal funds (the tenant pays 30 percent of his or her adjusted income), and prepare annual budgets and quarterly requests to the federal government for each project. The Department inspects approximately 10 percent of the units annually to verify occupancy and income levels of the tenants and the condition of the units. The State is required to administer this program until 2002.

Section 8 Existing Housing - "Operation Homeless"

Date Offered: 1986

The Program: The regional office of the federal Department of Housing and Urban Development and the State Department of Economic Development initiated a pilot program to serve families who did not have a permanent address, had been in an emergency shelter, or had inadequate resources to acquire safe and decent housing. Under the program, which is offered only in Johnson, Leavenworth, and Wyandotte Counties, eligible homeless individuals or families receive a certificate that entitles them to a 70 percent rent subsidy for private rental units.

The Department's Responsibility: Originally, the State was responsible for annual recertification of individuals participating in the program (this included verifying income levels and family compositions), and inspected all rental units initially and thereafter on an annual basis. In 1989, the State subcontracted with the Johnson County Housing Authority to operate all aspects of the program. (As a result, federal funds bypass the State and are sent directly to the Johnson County Housing Authority.) However, the State remains contractually responsible for assuring continued operation of the program if the Housing Authority chooses not to continue with the program.

Emergency Shelter Grant Program

Date Offered: 1987

The Program: Funded by the Stewart B. McKinney Homeless Assistance Act, this program provides grants to shelters for the homeless and the battered. In all but one year, the State priorities have emphasized non-consumable goods. Grants have been awarded for rehabilitation and expansion of shelters, purchase of major appliances such as refrigerators and freezers, furniture, and the like. In one year the State also awarded grants for consumable items, which included such things as payment of utility expenses. Grant amounts have averaged about $10,000 per shelter.

The Department's Responsibility: State staff establish funding priorities, solicit and rank applications, and award grants based on the priorities.

Permanent Housing for the Homeless Handicapped

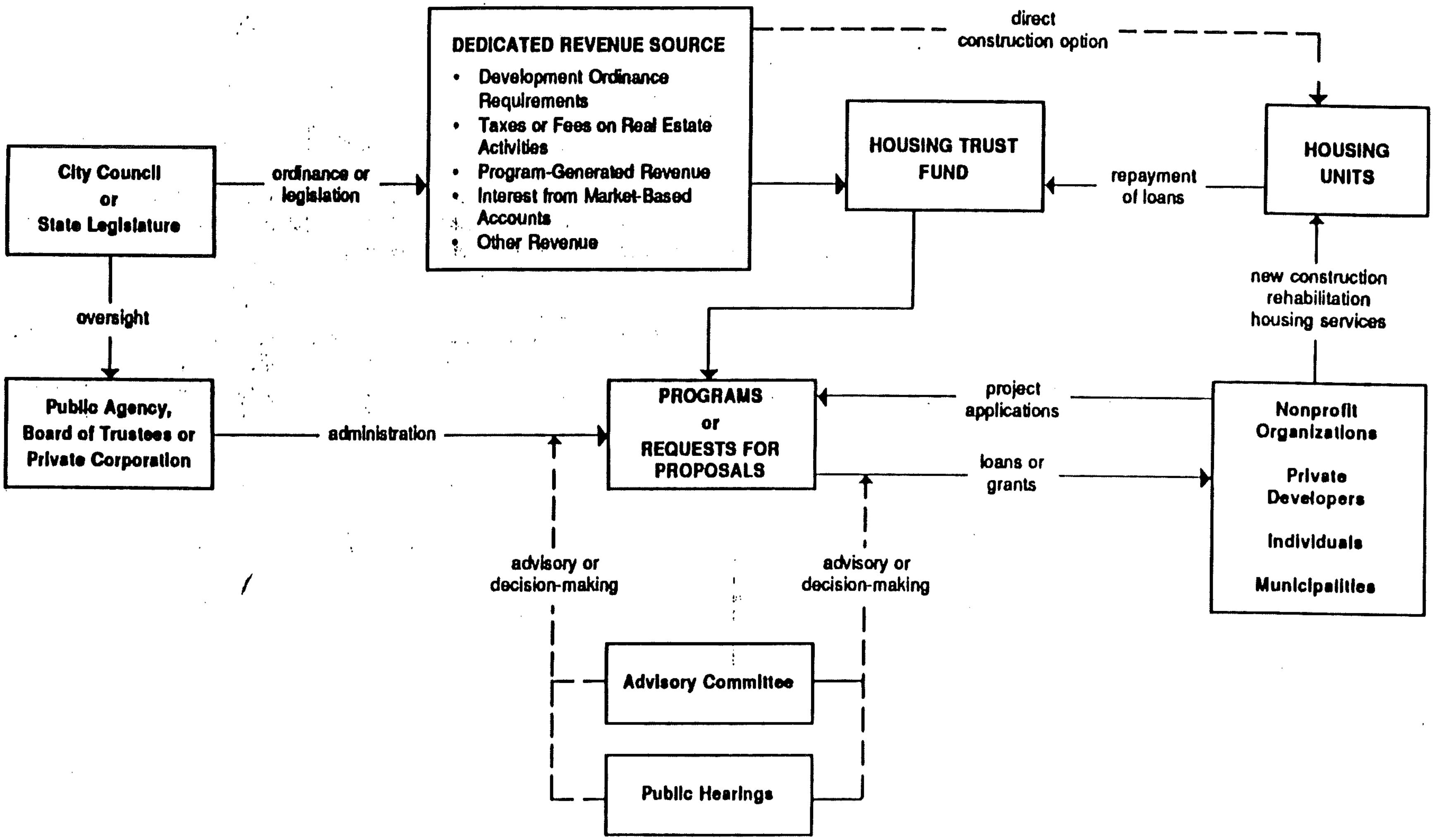
Date Offered: 1990

The Program: Also funded by the McKinney Act, this program was designed to assist developmentally disabled and chronically mentally ill people. Projects can receive loans for acquiring or rehabilitating group housing facilities, and can receive a grant for operating costs and supportive services for the first two years of operation. The housing facilities must be operated for the homeless handicapped for a minimum of 10 years, at which time the loan must be repaid unless the facility continues to operate. Loan repayment is reduced by 10 percent for each year the facility is operated beyond the initial 10-year period.

The Department's Responsibility: Under this program, the State applies to the federal government on behalf of specific projects. The loans are guaranteed by the State. The State's ongoing responsibility involves submitting reports to the Department of Housing and Urban Development on expenditures during the two-year grant period and may involve some monitoring activities in the future. No federal guidance has been provided on what this monitoring might entail.

ATTACHMENT II

HOW A HOUSING TRUST FUND WORKS



To The House Economic Development Committee

Re: Governor's Housing Proposal

Comments of Karen Herrman, Hays, Kansas
Legislative Chairman
Rural Rental Housing Association of Kansas

My comments will be brief, to spare your valuable time, and to allow other important thoughts to be heard.

My perspective is rural. I work in communities as small as 200 and as large as 30,000, but my work is west of Salina and we are rural. I have also been asked to convey the concerns of the Rural Rental Housing Association of Kansas, whose membership represents the management of 4000 rental units in the Farmers Home Administration housing programs. FmHA rental units cannot be built in larger cities. Although we are familiar with the a myriad of urban housing issues which need to be resolved, I would like to talk about the rural concerns.

We in the rural areas look to the state for leadership in economic development. Those of us who manage real estate investments are concerned with local economies. If federal programs are available for housing programs, that too becomes an economic issue -- even for a rural community. Many times the urban areas have the ability to coordinate commerce and housing needs through both private and governmental resources. Rural communities often discover housing problems as an afterthought. Perhaps they have attracted an industry and everything was in place except adequate housing. Perhaps they have lost an industry, their housing has devalued and they have lost their tax base. Suddenly housing has effected everything for people who once thought a housing problem only applied to the homeless. The community of Larned just found out a new prison would bring them full employment, but there is not enough housing. If people must drive somewhere else to live, then they may very well buy their groceries elsewhere, go to the dentist, buy their automobiles, etc., etc. Housing is a "commerce" issue of great enormity.

A grocer in one small western Kansas town talked to me one day about the impact of an affordable housing program in his town. He had just hired an employee for a 20-hour per week job. Most of the young people were moving to larger towns because they needed more income. The grocer was worried because he could not do all of the work himself and there were no young, energetic people to work part-time. A young mother and her school-aged son moved into a subsidized apartment. The mother went to work for the grocer. Because she had affordable housing, she could work part-time without moving to the city. Her parents and other family members lived in that town and helped with babysitting, shared meals, worshipped together and went to the little boy's ball games. The mother avoided a welfare lifestyle and the family support system was nurturing. The grocer kept his store open with a balanced operation. The grade school even had another student in the school system. All of this was possible because there was an affordable housing program in a rural community.

It is time that the rural communities in our state had a place to turn with housing concerns -- a place knowledgeable of the resources needed to coordinate housing and economic conditions.

I see a new direction in the office of housing. The next need is to focus on the reorganization plan to bring all of our resources together.

Eco-Devo
Attach 3
02-20-92

TESTIMONY IN SUPPORT OF EXECUTIVE REORGANIZATION ORDER NO. 23
Kansas House Economic Development Committee
February 20, 1992

Betty Jo White, Ph. D., Associate Professor of Housing
College of Human Ecology, Kansas State University

The U. S. has a history of separating the administration of housing, community development, and commerce programs, especially in terms of subsidized housing, much of which has been <u>de</u>commodified. **Housing <u>is</u> a commodity** whose production and distribution collectively represent **one of the nation's largest (bell-wether) industries and a major economic indicator**.

During the Reagan Era, we entered a "New Age" in U. S. housing policy of **<u>de</u>-emphasizing federal assistance and <u>de</u>centralizing the responsibility for housing solutions to the states**. Moreover, the 1986 Tax Reform Act placed a large damper on rental housing investment. The current realities are state and local, public-private partnerships to produce affordable housing with little or no federal funding and minimal tax shelters. Thus, **local governments seeking housing need access to the people with money**.

Traditionally, economists have viewed housing as a subordinate requirement--calling for a large input and yielding little output. I'm reminded of the two schools of economists described by Abrams (1964). The **"devil take housing" theory** asserts that housing is a durable form of investment requiring a substantial outlay to create it but paying off little per year--and therefore deserves a low spending priority. The more important thing is to help people obtain the facilities to increase production, and allow them to solve the problem of housing in their own way.

The **"modified devil take housing" theory**, which applies in Kansas, states that there may be a case for some, but not much, housing. If housing is built, it must be confined to the "musts," i.e., where plants are built in **remote locations or where an excessive journey to work produces labor problems--an economic development fact of life across rural Kansas**. Also, both theories assume a sharp distinction between "economic" and "social" change and between "production" and "consumption" standards. My point is that **economic and social change are integral parts of <u>one</u> process--the process of development.**

Economic development, housing, and community development efforts complement one another and share common infrastructure needs--neither housing nor economic development can happen without water and sewer lines, streets, utilities, and money. They **also involve similar financing tools and technical expertise** (e.g., bond financing and property taxes). In fact, employer-assisted housing and other new mechanisms for providing housing without federal aid combine key elements of all three: commerce, economic development, and housing.

Economic development and housing are inextricably tied in Kansas. In declining counties, a large percentage of the population commutes to work outside their community of residence. Many small towns have become sources of "cheap" housing and serve as bedrooms for viable communities nearby. Other communities seek to attract retirees as a form of "free" economic development, promoting their housing as a major part of the quality of life. Also, a **relationship between housing affordability problems and minimum wage jobs seems evident** in Kansas. Is a local economy really "booming" (e.g., 4.3% unemployment rate) if its rental vacancy rate is barely above 5%? (White, 1991)

Eco-Devo
Attach 4
02-20-92

Kansas housing **<u>is</u>** **"economic development" in that commerce will be hampered unless workers are sheltered.** Right after jobs, people look for nearby places to live. For example, the City of Osborne and its surrounding area is facing "a severe housing shortage. With four existing industries currently working on expansions, approximately 130 new jobs will be available by early next year. The immediate need is for single-family housing (in the $40,000 -$60,000 range) and rental properties. Yet private builders do not target that market and none of the existing federal or state low income housing programs fit the City's need" (NeuPoth, 1991).

As part of the local economic base, **new-housing construction stimulates job growth directly and indirectly--its multiplier effect adding to local purchasing power.** Further, that housing may shelter cottage industries such as home-based entrepreneurs (e.g., home maintenance/repair service providers for rural and small town older people). Finally, housing production and occupancy also maintain the demand for building materials (e.g., Kansas gypsum and limestone), household furnishings, and equipment.

Now, more than ever, **housing and economic development advocates need to work together in the same agency**--cooperating, not competing to meet the needs of <u>all</u> Kansans. Support for state housing efforts should <u>not</u> be provided at the expense of economic development activities. Despite budgetary concerns, however, I do **urge that adequate funds be allocated to enable the state to do a** **<u>good</u>** **job in housing activities.** Our state's future quality of life <u>and</u> housing depend on the strong state-local partnership that this reorganization can foster.

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