

**VOLUNTEERS OF AMERICA
TESTIMONY ON ELDERLY HOUSING:
AN ANALYSIS OF
BUREAUCRATIC PROBLEMS IN THE ADMINISTRATION
OF HUD SECTION 202 HOUSING PROGRAM**

**SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE**

June 17, 2003

Mr. Chairman, Members of the Committee, I am Robin Keller, vice president for affordable housing development at Volunteers of America. I have been actively involved with 202 housing for approximately 20 years. On behalf of our organization, I want to express our sincere appreciation for your interest and concern for the Section 202 Elderly Housing program and for inviting us to be here today.

Volunteers of America is one of the nation's largest and most comprehensive charitable, nonprofit, faith-based human service organizations. From rural America to inner-city neighborhoods, Volunteers of America engages its professional staff and volunteers in designing and operating high quality human services that deal with today's most pressing social needs for abused and neglected children, youth at risk, the frail elderly, the disabled, homeless individuals and families, ex-offenders, substance abusers, and many others in need of assistance.

In addition, Volunteers of America is one of the nation's leading nonprofit providers of quality affordable housing for individuals and families in need, people with disabilities, and the elderly in over 220 communities across the United States, and is a growing provider of assisted living, skilled nursing and Alzheimer facilities for seniors with limited resources. We currently have 151 Section 202 and Section 811 facilities in operation and an additional 24 facilities in various stages of development. As a leading provider of housing and services for the elderly, Volunteers of America is an active member of the Leadership Council of Aging Organizations, the American Association of Homes and Services for the Aging, the National Council on the Aging, the Interfaith Coalition for Long Term Care, and the Elderly Housing Coalition.

As a faith-based organization we are committed to:

- High quality services
- A holistic approach to meeting an individual's physical, social, emotional and spiritual needs

- The dignity of each person
- A focus on what is best for individuals, families and communities through an extensive and fully participative communication process involving all parties, and
- A special focus on serving low-income persons

The problems we face as a nonprofit human service organization and as a nation in attempting to provide more and better facilities to house and serve America's seniors, especially the frail elderly, will be severely compounded by the expected rapid growth in the nation's aging population in the coming decades and the lack of adequate public policy and resources to meet that growth.

In a recent study, "The State of the Nation's Housing 2001," the Joint Center for Housing Studies of Harvard University reported that heads of households over the age of 75 "are expected to increase by roughly 1.3 million over the decade." They go on to say, "This growth implies rising demand for housing that allows seniors to age safely in place and for specialized facilities such as assisted living and continuing care communities."

The Harvard report further indicates that, of the nearly 5 million one-person households to be added over the next decade, "almost one-third will be over the age of 65." This growth is not going to take place in the distant future, it is going to be taking place between now and 2010, when the baby boomer generation begins to retire in ever increasing numbers.

Clearly, as a nation we have a problem of extraordinary scale and urgency as the housing and social services programs and funding we have in place today will not keep pace with this situation. Therefore, it is so important that the programs we have in place—like Section 202 Elderly Housing—operate in an efficient and expeditious manner. So, like the members of this Committee, Volunteers of America is concerned about the amount of pipeline time it takes from receiving notification from HUD that Section 202 funds have been awarded to the time of actual construction start. On the average our experience shows that the process now takes two to two-and-a-half years.

In 1996, HUD issued Notice 96-102. The purpose of this notice was to make significant changes in the way the Section 202 development processing was administered. Although one of the specific goals was to decrease the processing time, one of the changes in the notice actually had the effect of increasing processing time and increasing the cost to build the project. This change was the requirement that owners could not apply for additional funding from HUD for the project. Approximately 90 percent of the facilities that we develop require additional money due to insufficient funding allocated at the time of the award. HUD will grant waivers to this requirement but only if the sponsor

demonstrates that they have attempted to obtain the funds from other sources prior to requesting amendment monies.

Typically, the most common source of these additional funds is Community Development Block Grant (CDBG) or HOME funds obtained either from the local municipality, or the state, or both. State and local municipalities receive CDBG and HOME funds from HUD, but each administers the grant application process differently. If sufficient funds are not available from those sources, the sponsor can try to obtain funds from the Federal Home Loan Bank or private foundations. Funding from the latter sources are often quite difficult to obtain, and many private foundation grants are incompatible with Section 202 program requirements.

Another negative impact on the facility, when there is not sufficient funding, is that the sponsor is forced to use the most economical materials that barely meet standards in order to cut costs. This causes additional long-term subsidy expense to HUD because of the need for increased rents to cover high maintenance costs over the life of the mortgage due to the short life span of the product.

After the sponsor has tried these additional sources and still has insufficient funds to build the facility, the sponsor requests a waiver of the HUD Notice 96-102. In most instances, the local HUD office will then request amendment funds from HUD Headquarters. The added processing time increases the cost of the facility due to increases in labor and materials prices during the extended financing search time.

Additionally, the sponsor often is forced to purchase the site out of their own resources, due to the fact that the seller will not continue to extend their option on the property. When a site must be purchased, the sponsor incurs costs such as insurance, property taxes, and interest on the funds used to purchase the site. Unfortunately, these costs are not reimbursable to the sponsor from HUD funds and can amount to several thousands of dollars. Therefore, for nonprofit sponsors, this understandably is a huge incentive to close on the loan as quickly as possible.

Some individuals might think that committed and competent nonprofit providers, like Volunteers of America, have access to sufficient resources to meet the growing national need for elderly housing on their own. Unfortunately, that is not the case, especially with respect to development on a large-scale at a time when funds for housing and social services are shrinking.

Furthermore, elderly housing sponsors always have had difficulty competing for funds in the private money market because traditional sources of private capital have tended to see elderly housing loans as more labor intensive and less profitable because they have unique physical characteristics, unusual exposure to changes in government policy, and complex requirements for sponsor success. All of these barriers to capital availability are intensified in the case of affordable housing development for the frail elderly, as well as the fact that the Section 202 program does not permit repayment of secondary financing until after the 40-year term of the HUD grant, which creates a barrier to obtaining supplementary funding, if it should be needed.

As an example of what I've said, the typical timing for a project in the pipeline is:

Funding Notification	11-01-03
Appraisal Completed	12-15-03
Soils Testing Completed	01-15-04
Plans and Specifications Complete	06-01-04
City Approval	09-01-04
Contractor Prices Job	09-15-04
Cost Analysis	10-01-04
Value Engineering (if any)	11-01-04
Apply for gap funding	05-01-05 (Add 6 months)
Firm Commitment Presented	05-15-05 (Next step averages 11.8 months)
HUD Firm Commitment Issued	04-01-06 (instead of the expected 2 months)
Closing/Construction Start	06-15-06

Total Time: 2 years 7 months

We at Volunteers of America encourage this Committee to consider the following issues and suggested courses of action that will greatly assist in reducing the processing time:

Recommendation # 1

Provide adequate grant funding to build the project at the time of the award.

Method: Ensure that the high cost factors used in calculating the award are realistic. The local HUD office generally has access to the actual costs of recently completed facilities to use as a guideline. These costs could be used, factoring in a percentage for increases during the next 18 months using historical data (e.g., a 50 unit project costs \$60 per square foot in 2000, \$65 in 2001, so therefore it is reasonable to assume that the cost could be \$70 in 2002). Currently, in our experience, only the North Carolina and

Minnesota HUD local offices have sufficient funds at the time of the grant to build a project. Perhaps these offices could be consulted on their methods of determining the high cost factor for their areas.

Outcome: Processing time would decrease by 6 to 12 months.

Recommendation # 2

Eliminate the requirement to seek funding from sources outside of HUD for the shortfall in funds.

Method: Allow local HUD offices to grant waivers to Notice 96-102, which would allow sponsors to receive amendment funds without first applying to outside agencies. Most outside agencies have scheduled dates for accepting applications, generally only one or two times per year. The increase in labor and materials pricing, the cost of the application preparation, and the two to three month wait for processing and award at the local city and state level would be eliminated.

Outcome: The processing time would be decreased by an additional three to six months.

Recommendation # 3

Provide for additional HUD staff and/or additional training for HUD local office staff.

Method: HUD Headquarters offered training on Notice 96-102 for the first time in August 2002, six years after the Notice was issued. Approximately one person from each office was then trained. While there has been some improvement in the uniform interpretation of the regulations, many offices are in need of additional training. After all, the systems in place already provide assurances to HUD that the facility is designed and priced within acceptable guidelines: they permit the sponsor to utilize a HUD-approved appraiser, HUD requires that the architect carry errors and admission coverage and certify that the project is built within HUD guidelines and standards, and that an independent cost analysis is performed to ensure that costs are within established HUD guidelines.

Outcome: With adequate staff and training, the HUD in-house grant processing time could decrease from 11.8 months—the current average of our portfolio—to 2 months, the amount of time the HUD Notice 96-102 recommends, thereby clearing up most perceived pipeline issues.

Summary

Mr. Chairman, Volunteers of America believes the HUD Section 202 program is one of the finest affordable housing programs that Congress has created. The program is fair, is managed well once developed, and reaches those elderly aged 62 and over (whose income is at 50% of area median income or less) in an effective way. We are encouraged that you are interested in finding ways to improve it even more.

We appreciate the opportunity to bring you our ideas and perspectives and want to assure you and all members of the Committee that Volunteers of America is strongly committed to helping resolve these issues before the growing demand for elderly housing and supportive services spirals out of control. We are confident that sound solutions can be found and implemented in a way that is fiscally responsible and fair to all parties.

We appreciate your commitment to this cause and we look forward to working with you throughout this process. Please contact Ron Field, our vice president for public policy, or me for further information. Thank you.

Submitted by:

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