

# **HUD Section 811 Program Supportive Housing for the Disabled**

## **Questions and Answers**

This position paper seeks to explore conceptions and misconceptions about one of the U.S. Department of HUD's longest running and most successful affordable housing program, assisting persons who are disabled. Facing elimination within the 2011 President's Budget, the goal is to inform and educate the reader about both the strengths and weaknesses of the program in an effort to not only continue, but improve upon it.

### **Program Overview**

The Section 811 program allows persons with disabilities to live as independently as possible in the community by increasing the supply of rental housing with the availability of supportive services. The program also provides project rental assistance, which covers the difference between the HUD-approved operating costs of the project and the tenants' contribution toward rent. During the period 2004-2009, 557 new projects were developed creating 6,031 new units. On average, each project consists of 10 units.

### **Frequently Asked Questions**

In order to better understand the HUD Section 811 program, along with other issues relating to housing for very-low income persons who are disabled, the following discussion presents and responds to these often-asked questions.

1. There is dramatic need for affordable housing for very low income persons who are disabled. (True/False)?

True: According to a recent report, it is estimated that between 1.3 and 1.4 million childless non-elderly adults with disabilities had worst case housing needs, while between 840,000 and 960,000 households with children and a non-elderly adult with a disability had worst case housing needs.<sup>1</sup> In these findings, "worst case housing needs" are defined as very low-income renter households (those households with incomes at or below 50% of area median income) that do not receive rental assistance and either I) pay more than half their income toward rent,

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<sup>1</sup>

Kathryn P. Nelson "The Hidden Housing Crisis: Worst Case Housing Needs Among Adults with Disabilities, Consortium for Citizens with Disabilities Housing Task Force, March, 2008, available at [\[http://www.tacinc.org/Docs/HH/HiddenHousingCrisis.pdf\]](http://www.tacinc.org/Docs/HH/HiddenHousingCrisis.pdf).

or ii) live in severely substandard housing. Substandard housing is measured using the American Housing Survey definition of housing with severe physical problems.

2. Demand for housing at HUD 811 projects is great (True/False)?

True: Although nationwide data is not available, historically HUD Section 811 projects enjoy very high occupancy rates and unfortunately are confronted with long waiting lists, and in many instances, are no longer accepting applicants to these wait lists.

3. There have been a decline in the number of HUD Section 811 units being constructed and/or renovated (True/False).

True: This is primarily due to program funding levels that are static and/or declining and which have not kept pace with inflation.

Table. Section 811 Activity, FY2004 to FY2008 <sup>2</sup>					
Fiscal Year	Funding Allocated (dollars in thousands)			Projects/Units Closed	
	Section 811 Capital Grants and PRAC <sup>a</sup>	Section 811 Vouchers <sup>b</sup>	Total for Section 811 <sup>c</sup>	Projects	Units
2004	173,721	74,904	249,092	150	1,708
2005	149,455	88,179	238,080	148	1,609
2006	152,603	78,269	231,268	151	1,652
2007	158,697	77,517	236,610	108	1,062
2008	161,655	74,745	237,000	100	1,100

Source: department of Housing and Urban Development Budget Justifications FY2004 through FY2008

a. PRAC refers to “project-based rental assistance contracts.” Amounts for PRAC include renewals of existing contracts as well as rental assistance for new units.

b. Amounts for Section 811 vouchers include funds to renew existing vouchers.

c. The total may be slightly greater than the sum of funds allocated for capital grants, PRAC, and vouchers due to funds appropriated for the working capital fund that are included in the total.

<sup>2</sup> CRS Report for Congress, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, November 3, 2008, Libby Perl, Analyst in Housing Policy, Domestic Social Policy Division

4. Construction costs associated with HUD Section 811 projects are higher than other type of housing (True/False).

False: The NAHB Research Center and Columbia Enterprises, Inc. examined construction costs for HUD Section 811 and 202 projects and found that actual average costs were generally below R.S. Means estimated per square foot costs. R.S. Means estimated that the per square foot cost of a normalized public housing project built to HUD stands was \$96.90 in 2003 dollars, as opposed to an actual average of \$87.46. The closes equivalent R.S. Means value for Section 811 is the \$114.00 per square foot estimate for “assisted living housing,” which compares with the actual program average of \$101.43. All other things being equal, these cost relationships imply that the average 202/811 project is of relatively modest construction.<sup>3</sup>

5. The leveraging of HUD Section 811 funds with other funding, such as with the tax credit program, has been successful (True/False).

False: While a good concept, the blending of the two programs has proved time-consuming and problematic, resulting in very few successful projects. Prior to an endorsement to move Section 811 funding to tax credits projects, one should understand the deficiencies and problems currently facing tax credit projects, which include; 1) Because rents at tax credit projects are often not significantly below market rate and in some instances actually over market rate, vacancy rates at tax credit projects are increasing; 2) In order for tax credit applications to be competitive, the set-aside units for low, very low, and extremely low income residents have increased, however the ability for the project to subsidize these rentals is diminished as the projects are unable to generate sufficient income; 3) Due to the weakened financial positions of tax credit projects, defaults have been increasing; 4) Because of the financing structure and absence of project-based rental subsidies, tax credit projects have difficulty in providing units to very low and extremely low income residents; and 5) As the universe of potential buyers for tax credits has decreased (Fannie Mae and Freddie Mac were at one time the largest buyer), the equity generated from the sale of these credits is approximately 50 to 60 percent of what was earned just a few years ago. Although continued efforts should be made to integrate these two programs, a red flag should be raised to dispel the idea that this is a panacea to produce more units for the very-low and extremely low-income elderly.

6. Projects in which Section 811 funding is supplemented with other funding are financially

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<sup>3</sup> “Construction Cost Indices, HUD Section 202 and 811 Supportive Housing Programs,” Prepared for the U.S. Department of Housing and Urban Development Office of Policy Development and Research Office of Housing, Prepared by NAHB Research Center and Columbia Enterprises, Inc. (April, 2005).

more efficient and ultimately yield more units assisting the disabled (True/False).

False: Although each project must be evaluated individually, it is helpful to review a recently completed project assisting the disabled utilizing a myriad of financing services. On February 24, 2005, Housing Resources Group (HRG), a not-for-profit housing developer, closed the final financing phase of Genesee Housing, a mixed-finance project in Seattle, Washington. The transaction, which is the first of its kind in the nation, brought together a host of partners and financing sources. The Genesee is a mixed-use building with fifty (50) apartments of which twenty-two (22) units are set-aside for persons with physical and developmental disabilities, including, but not limited to, people living with HIV/AIDS. The remaining twenty-eight (28) units provide affordable housing to low-income working class residents whose household incomes are at or below 50 percent of area median income. The financing of the project consisted of the following sources:

<u>Source</u>	<u>Amount</u>
Tax Credits @ 4%	\$ 4,600,000
Section 811 Capital Advance	\$ 2,085,500
HOPWA Funding	\$ 600,000
Washington State Loan	\$ 900,000
AIDS Housing of Washington	\$ 290,450
Total	\$ 8,475,950
Total Units Produced (1)	\$ 50
Price Per/Unit (all units)	\$ 169,510
Price per/Special Need Unit	\$ 135,270

This intense effort, which took five years, produced units at a cost which was actually greater than if the non-profit applied for HUD Section 811 funding solely.

HUD Section 811 funding (if available) for 50 units, of a similar unit mix, would have been \$5,608,470. This is over \$2.8 million less than the actual project cost. Even if Section 811 amendment funds were required to construct this many units, it is unlikely that it would reach the \$8.47 million total project cost.

7. The blending of HUD Section 811 funding with other funding services will simplify the development process and decrease the length of time to commence construction (True/False).

False: By expanding the number of financing sources, it exponentially adds to the complexity of each project. Each funding source presents the project with specific scheduling and regulatory requirements which often are in conflict with each other. In the case of the Genesee project, it took the team five years to close on the five sources of loans/grants. In addition, any funding or regulatory changes in one source will have a domino effect on the other sources as well as the entire project – thus creating the potential for further delays.

8. The Section 811 program encourages the segregation of the disabled (True/False).

False: Previous Section 811 projects in the past have been larger (up to 50 units) and their design did emphasize segregation. These issues have been addressed by decreasing the size of units within a project and encouraging the use of innovation design approaches to encourage integration within the community. Since 2004, the average size project funded has been under eleven (11) units and the designs have included duplex, tri-plex and scattered site condominium units. The projects built today are typically located in residential neighborhoods and are designed to match the housing style type within the neighborhood. It should be noted that, in the case of the Genesee Tax Credit project, units set aside for the disabled represented 22 percent of the development, which were both greater in number/percentage than if smaller scattered site Section 811 projects were employed. So, the perception that Section 811 projects encourage the “warehousing” not necessarily accurate.

9. The proposed suspension of the HUD Section 811 program is connected with two pending pieces of legislation (HR1675 and S1481)(True/False).

False: The Administration seeks to terminate the Section 811 program in FY2011, whereas the two pieces of legislation seek to modify and improve the program. First, it is critical to reestablish funding for the Section 811 program at a level of \$187 million. This will enable the production of over 1,400 new units, a level that was accomplished in FY2003. As for the two pieces of legislation, many of the proposed changes would greatly improve the existing program, however the following changes would actually prove disruptive and should be removed from future efforts to rewrite and improve the program.

A. Limits Percent of Disabled and Assures Leverage – The proposed legislation would take capital funding and require that it be combined with other funding, such as the tax credit program. This assumes that other programs exist and that they can be blended. Although this may be practical in some states, in

many states this will not work due to absence of a funding source to help persons who are disabled with housing.. It is suggested that the Capital Advance portion of the program that allows for the new construction and/or renovation remain unchanged.

B. Shift Processing to State Agencies – The legislation recommends shifting of the processing to state finance agencies for both the Capital Advance and Demonstration programs. In the case of the Demonstration Program, it makes sense in that the Section 811 funding will be combined with other state funding. However, the processing for the Capital Advance program should remain with HUD. The state agencies have not proven to be more efficient/productive in terms of processing and the projected volume would not warrant the type of staffing and training that already exists at HUD field offices. It should be noted that this option to utilize outside agencies to process both HUD 811 and 202 projects was made available in the 2008 funding cycle and to date no agencies have expressed any interest.

10. HUD has not improved the delays in processing Section 811 projects from that previously witnessed several years ago (True/False).

False: Although there is not specific data on the Section 811 program, HUD field offices indicate that the backlog of 118 projects, in its companion program for the elderly (Section 202), has essentially been eliminated. HUD provided training in the processing of Section 202 applications to field staff, and initiated the study on development cost limits. HUD also conducted a data cleanup of its Development Application Processing (DAP) system, to help support more effective monitoring. The average number of days from time of funding award to time of initial closing clearly has fallen in the past few years. HUD's goal for Fiscal Year 2009 is to bring 90 projects containing a total of 3,600 units to initial closing.<sup>4</sup> This same effort and changes in processing has and will continue to apply to the Section 811 program.

## Summary

While governmental programs, such as HUD's Section 811 program, should be continually evaluated and refined so as to best serve the intended population and properly utilize taxpayer funding, suspending this program to insure this effort is misguided. The program has a proven track record of serving very poor residents who are disabled – a population that would have fallen through the cracks. Congress should consider some of the elements of the Frank Melville Supportive Housing Investment Act of 2009, currently under discussion, but not at the expense

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<sup>4</sup> "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

of continuing to allocate capital funding and project-based certificates to allow for the construction and/or renovation of units specifically designed and restricted for these residents who are disabled.