

MEMORANDUM

To: Select Committee on Children and Other Issues

From: Brackett Smith

Date: 7/22/13

Re: Issue of Affordable Housing in West Virginia

I. Introduction

Adequate affordable housing is a problem faced by communities both large and small throughout the United States. According to the U.S. Department of Housing and Urban Development (“HUD”), “[t]he generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing.”¹ A threshold has been in place since the 1969 Brooke Amendment to the 1968 Housing and Urban Development Act, and it has been set at 30 percent since 1981.² This definition applies to both owner- and renter-occupied housing because it was deemed to be the amount a family could spend and still have enough left over for other nondiscretionary spending, such as food, clothing, transportation and health care.³

In West Virginia, the lack of affordable housing is not as great a problem as it is in other states. However, this does not mean the problem is insignificant. The number of households paying 30 percent or more of income on housing is 25.4 percent of owner-occupied households with a mortgage,⁴ 8.9 percent in owner-occupied households without a mortgage,⁵ and 48 percent of renter-occupied households.⁶ According to the Annie E. Casey Foundation’s Kids Count Program, 26 percent of these households have children, well below the national average of 40 percent.⁷

To address its affordable housing needs, West Virginia currently participates in a number of federal grant programs, and has tasked the West Virginia Housing Development Fund (“HDF”) and the West Virginia Affordable Housing Trust Fund (“AHTF”) with providing funding for affordable housing units. Compared to other states, West Virginia’s lack of affordable housing options is not as apparent. Indeed, West Virginia homeownership leads the nation at a rate just above 73 percent,⁸ including America’s fourth highest rate of ownership in rural areas and small towns at 76.3 percent.⁹ However, two key factors require consideration: housing conditions and transportation costs. Additionally, factors such as raising revenues to fund programs, eligibility for programs, administering agencies, nonprofit/private-sector involvement, and program promotion need to be addressed in any reform.

II. Current Grant Programs & Other Funding Sources

Several federally-sponsored grant programs exist to promote housing affordability. The grant programs addressed below are administered on the federal-level by HUD or USDA.

A. State Administered Community Development Block Grant

The State Administered Community Development Block Grant (“CDBG”), formerly known as the Small Cities Block Grant, is intended for *non-entitlement areas*, which are “cities with populations of less than 50,000 (except cities that are designated principal cities of Metropolitan Statistical Areas), and counties with populations of less than 200,000.”¹⁰ The program aims to “develop viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income.”¹¹ 70 percent of funds must benefit low- to moderate-income people over a one-, two-, or three-year period as determined by the individual states.¹² “Under unique circumstances, States may also use their funds to meet urgent community development needs. A need is considered urgent if it poses a serious and immediate threat to the health or welfare of the community and has arisen in the past 18 months.”¹³

During FY2012, seventeen projects received funding totaling over \$12.5 million in West Virginia.¹⁴ All of this funding went toward water or sewer projects in predominantly rural areas.¹⁵ “The Community Development Division of the West Virginia Development Office manages these funds.”¹⁶ “HUD’s role under the State CDBG program is to ensure State compliance with Federal laws, regulations and policies.”¹⁷

B. HOME Investment Partnership Program

The HOME Investment Partnership Program “provides formula grants to States and localities that communities use-often in partnership with local nonprofit groups-to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.”¹⁸ HUD provides “HOME Investment Trust Funds for each grantee, providing a line of credit that the jurisdiction may draw upon as needed.”¹⁹ “States are automatically eligible for HOME funds and receive either their formula allocation or \$3 million, whichever is greater.”²⁰

A broad range of housing activities are eligible for funds.²¹ These activities include “provid[ing] home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers: build[ing] or rehabilitat[ing] housing for rent or ownership; or for “other reasonable and necessary expenses related to the development of non-luxury housing,” including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and payment of relocation expenses.”²² However, “HOME-assisted rental housing must comply with certain rent limitations ... published each year by HUD.”²³

The HDF is responsible for the administration of the HOME Program. It distributes the funds through three programs: HOMEownership Opportunities, HOMErent, and Community Housing Development Organizations. HOMEownership Opportunities promotes homeownership opportunities for very-low income²⁴ or low-income people through federal- and state-run direct homebuyer assistance programs. HOMErent serves to promote the “acquisition and rehabilitation of existing rental housing units to provide transitional or permanent housing; the rehabilitation of existing rental housing units that provide transitional or permanent housing; and the construction of rental housing to provide transitional or permanent housing that meets the needs of very low- and low-income persons and households.”²⁵ The CHDO Program “promote[s] the development of affordable homeownership and rental housing projects”²⁶ through a “private nonprofit, community-based, service organization that has, or intends to obtain, staff with the capacity to develop affordable housing for the community it serves.”²⁷ “At least 15 percent of a HOME participating jurisdiction's (PJ's) annual allocation must be set aside for affordable housing activities to be undertaken by CHDOs.”²⁸

C. Emergency Solutions Grant Program

The Emergency Solutions Grant (“ESG”) Program “assist[s] individuals and families [with] quickly regain[ing] stability in permanent housing after experiencing a housing crisis or homelessness.”²⁹ The Program allows “state governments, large cities, urban counties, and U.S. territories, [to] receive ESG grants and make these funds available to eligible subrecipients, which can be either local government agencies or private nonprofit organizations.”³⁰ Funds are available for five program components: “street outreach, emergency shelter, homelessness prevention, rapid re-housing assistance, and data collection through the Homeless Management Information System or HMIS.”³¹ In West Virginia, over \$1.5 million in ESG Program money is distributed to the state and managed by the state Office of Economic Opportunity.³² This “funding is used to prevent low and extremely low income families and individuals from becoming homeless.”³³

D. The HDF and AHTF

The HDF is funded through various sources (chiefly through the sale of bonds, application fees, and payment for administering HUD programs). The HDF was “established to increase the supply of residential housing for persons and families of low- and moderate-income, and to provide construction and permanent mortgage financing to public and private sponsors of such housing.”³⁴

The AHTF is “supported by a \$20 real estate transfer fee, which includes manufactured housing sold. The annual funding level depends upon the level of real estate activity.”³⁵ The AHTF acknowledges that its mission is “somewhat similar to . . . the West Virginia Housing Development Fund, [but] the Trust Fund was further mandated by the Legislature to encourage

stronger partnerships and collaboration with entities to contribute capital to community-based organizations that would, in turn, assist low- and moderate-income individuals in the State acquire affordable housing.³⁶ “Since its inception in 2001, the [AHTF] has provided total resources of \$2,230,664 to 45 organizations, which resulted in 250 units of housing, as well as \$225,000 in funding for housing counseling programs.”³⁷

III. Major Considerations for Reforming Affordable Housing Statute

As noted above, substandard housing and transportation costs are central to West Virginia’s housing affordability issue. Where conditions are substandard, repairs may not be happening because individuals and families lack the funds to pay for needed repairs. As a Housing Assistance Council report on rural housing notes,

A common sight along many rural Central Appalachian roadways is a forested hillside with the occasional small home or aging manufactured home. Their isolated locations, combined with the limited economic resources available to their owners, too often mean that these modest dwellings are in substandard condition.³⁸

The issue of transportation costs merits consideration because it poses as great a burden, if not a greater one, than housing does to many people across the state.³⁹ For example, though housing costs only 16.84 percent of household income in the Charleston Metropolitan Area,⁴⁰ housing + transportation costs 50.15 percent of household income.⁴¹ Rural counties have similar numbers. A good rural example is Clay County, where housing costs only 10.13 percent of household income, but housing + transportation costs 49.05 percent.⁴² Compare this to the average American household, which spends 32 percent of income on housing and 19 percent on transportation, for a 51 percent combined rate.⁴³ Reducing the burden faced by low-income families in paying for transportation can be a boon to the families and the community, as it provides families with more disposable income that they are likely to invest in the local economy.

Reducing transportation costs by locating people near services is more than just a money-saver, though. For example, it can reduce the distance children must travel to school each day and even reduce rates of obesity and diabetes through ensuring that people have better food accessibility.⁴⁴ The food accessibility problem is linked to West Virginia’s high number of “food deserts,” which are “defined [by the U.S. Department of Agriculture (“USDA”)] as communities with a poverty rate of 20 percent or higher or a median family income at or below 80 percent of the area’s median family income or a community with one-third of its population more than a mile (or 10 miles in a rural area) from a supermarket or grocery store.”⁴⁵ Thirty-nine of the state’s fifty-five counties had over 5 percent of their residents living in Census tracts defined as food deserts,⁴⁶ and even Kanawha had tracts that were considered deserts.⁴⁷

“While housing affordability is not an overwhelming problem for most in the region, financing is a barrier for many.”⁴⁸ Due largely to the prevailing problem of poor individual credit histories in the region, loans can be harder to obtain.⁴⁹ High interest rate loans in central Appalachia are double the national average at 10 percent of loans, and poor credit history is the most common reason families in the region do not qualify for the USDA Section 502 direct loan program, which provides low-interest mortgages to low-income families in rural areas.⁵⁰ This has the effect of tying families to land in substandard housing.

Other issues exist too. First among these additional issues is the question of raising revenue. An increased emphasis on providing affordable housing will require additional revenue. Though this may include alternate or more efficient use of federal grant funds, it will also need an additional revenue source. Options for raising such revenue include tax increases by the state and/or local governments, bond sales, private donations, or some combination of these options.

Next, decisions will need to be made about what entity or entities will administer the new or expanded programs. Currently, the USDA, HUD, the HDF, the AHTF, the West Virginia Development Office, the Office of Economic Opportunity, and local governments all have some role in administering the state’s affordable housing programs. To maximize efficiency, new revenue should be controlled by one source.

Another aspect to be considered in any change of the current law is who will be eligible for affordable housing. Most importantly, will people be eligible to receive loans to make repairs to substandard housing, which is a significant problem throughout the state? Will eligibility remain available only to very-low- and low-income people? Will funding be made available for both owner-occupied and rental units, or just the former? Each of these questions are probably best addressed through legislation rather than determinations made by the administrating body.

Lastly, the private sector’s role in affordable housing policy will need to be determined. The key issues that need to be addressed are (1) whether private donations will be accepted to help with funding affordable housing programs; (2) how contracts for developers and builders of affordable housing will be determined; and (3) whether it will fall on the state, quasi-public bodies, or nonprofit organizations to educate state residents about eligibility for affordable housing.

IV. Conclusion

West Virginia has an affordable housing problem that needs to be addressed, but any attempt to address it will be inadequate if it does not also address the problems posed by substandard housing and exorbitantly high transportation costs. Setting better standards for locating affordable housing can result in better spending of federal grant money (i.e. spending it on projects not extending water and sewer service) and lower transportation costs by locating

people nearer their everyday needs. Key to any effort to generate money will be finding a better funding source for financing affordable housing projects and ensuring that the availability of financing is known to eligible people throughout the state.

¹ “Affordable Housing,” U.S. Department of Housing and Urban Development, <http://www.hud.gov/offices/cpd/affordablehousing/>.

² Mary Schwartz and Ellen Wilson, “Who Can Afford to Live in a Home? A look at data from the 2006 American Community Survey,” U.S. Census Bureau, <http://www.census.gov/housing/census/publications/who-can-afford.pdf> at 1-2.

³ *Id.* at 2.

⁴ “West Virginia,” American FactFinder, U.S. Census Bureau, http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_11_5Y_R_DP04 (*but see* Population Reference Bureau report, <http://www.prb.org/DataFinder/Topic/Rankings.aspx?ind=150>, noting 26.5 percent of mortgaged owners were paying 30 percent or more of household income on housing according to the 2011 American Community Survey).

⁵ *Id.*

⁶ *Id.*

⁷ “Children In Households that Spend More and 30 Percent of Their Income on Housing,” Annie E. Casey Foundation, <http://datacenter.kidscount.org/data/acrossstates/Rankings.aspx?ind=7244>.

⁸ “States with highest (and lowest) homeownership,” nbcnews.com, http://www.nbcnews.com/id/44822131/ns/business-real_estate/t/states-highest-lowest-homeownership/#.UcBe6PnVCSo.

⁹ “Homeownership in Rural America,” Housing Assistance Council, http://www.ruralhome.org/storage/research_notes/rmn-homeownership.pdf at 5.

¹⁰ http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/stateadmin.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ “Governor Tomblin Presents Small Cities Block Grants for Fiscal year 2012 Projects,” Office of Governor Earl Ray Tomblin, <http://www.governor.wv.gov/media/pressreleases/2012/Pages/GovernorTomblinPresentsSmallCitiesBlockGrantsforFiscalYear2012Projects.aspx>.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Supra* note 23.

¹⁸ “Home Investment Partnerships Program,” U.S. Department of Housing and Urban Development, <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/>.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ Defined as “Households whose incomes do not exceed 50 percent of the median area income for the area, as determined by HUD, with adjustments for smaller and larger families. . . .” See “Glossary of HUD Terms,” U.S. Department of Housing and Urban Development, http://www.huduser.org/portal/glossary/glossary_v.html.

²⁵ “HOME Investment Partnership Program: HOMErent Program FY 2011/12,” West Virginia Housing Development Fund, <http://www.wvhdf.com/sites/default/files/2012%20HOMErent%20Request%20For%20Proposals%20B.pdf>.

²⁶ Joe W. Hatfield, “Memorandum,” West Virginia Housing Development Fund, <http://www.wvhdf.com/sites/default/files/Preliminary%20RFP%20Transmittal%202011-01.pdf>.

²⁷ “Community Housing Development Organizations,” U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/documents/huddoc?id=19790_CHDO.pdf.

²⁸ *Id.*

²⁹ “Emergency Solutions Grans (ESG) Program, U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/homeless/programs/esg.

³⁰ *Id.*

³¹ *Id.*

³² “Emergency Solutions Grant Program,” West Virginia Office of Economic Opportunity, <http://www.oeo.wv.gov/homelesshousingservices/esg/Pages/default.aspx>.

³³ *Id.*

³⁴ “About WVHDF,” West Virginia Housing Development Fund, <http://www.wvhdf.com/about-wvhdf>.

³⁵ “About Us,” West Virginia Affordable Housing Trust Fund, <http://www.wvaht.org/about.php>.

³⁶ *Id.*

³⁷ *Id.*

³⁸ “Central Appalachia,” Housing Assistance Council, http://www.ruralhome.org/storage/documents/ts2010/ts-report/ts10_central_appalachia.pdf at 71.

³⁹ The Center for Neighborhood Technology calculates transportation costs by using AAA’s estimate of maintenance and tire costs and the Energy Information Administration’s regional gas costs. See <http://www.htaindex.org/downloads/HTMethods.2011.pdf> at 7.

⁴⁰ As it was composed prior to 2013, when it included Putnam and Lincoln Counties.

⁴¹ The Center for Neighborhood Technology’s Housing + Transportation Index:

<http://htaindex.cnt.org/map/?view=2&search=1&map1=648,1044,-81.575641632082,38.345908807988,9,1,cbsa,648&map2=648,1043,-81.575641632082,38.345908807988,9,1,cbsa,648>.

⁴² The Center for Neighborhood Technology’s Housing + Transportation Index:

<http://htaindex.cnt.org/map/?view=2&search=1&map1=648,1044,-81.050647735595,38.466059514257,10,1,cbsa,2832&map2=648,1043,-81.050647735595,38.466059514257,10,1,cbsa,2832>.

⁴³ “Transportation and Housing Costs,” U.S. Department of Transportation Federal Highway Administration, http://www.fhwa.dot.gov/livability/fact_sheets/transandhousing.cfm.

⁴⁴ Dante Chinni and Paul Freedman, “The Socio-Economic Significance of Food Deserts,” PBS Newshour, <http://www.pbs.org/newshour/rundown/2011/06/the-socio-economic-significance-of-food-deserts.html>.

⁴⁵ Taylor Kuykendoll, “USDA: Parts of W.Va. Qualify as Food Deserts,” The Register-Herald, <http://www.register-herald.com/local/x967742746/USDA-Parts-of-W-Va-qualify-as-food-deserts>.

⁴⁶ *Supra* note 44.

⁴⁷ *Supra* note 45.

⁴⁸ *Supra* note 38 at 72.

⁴⁹ *Id.*

⁵⁰ *Id.*