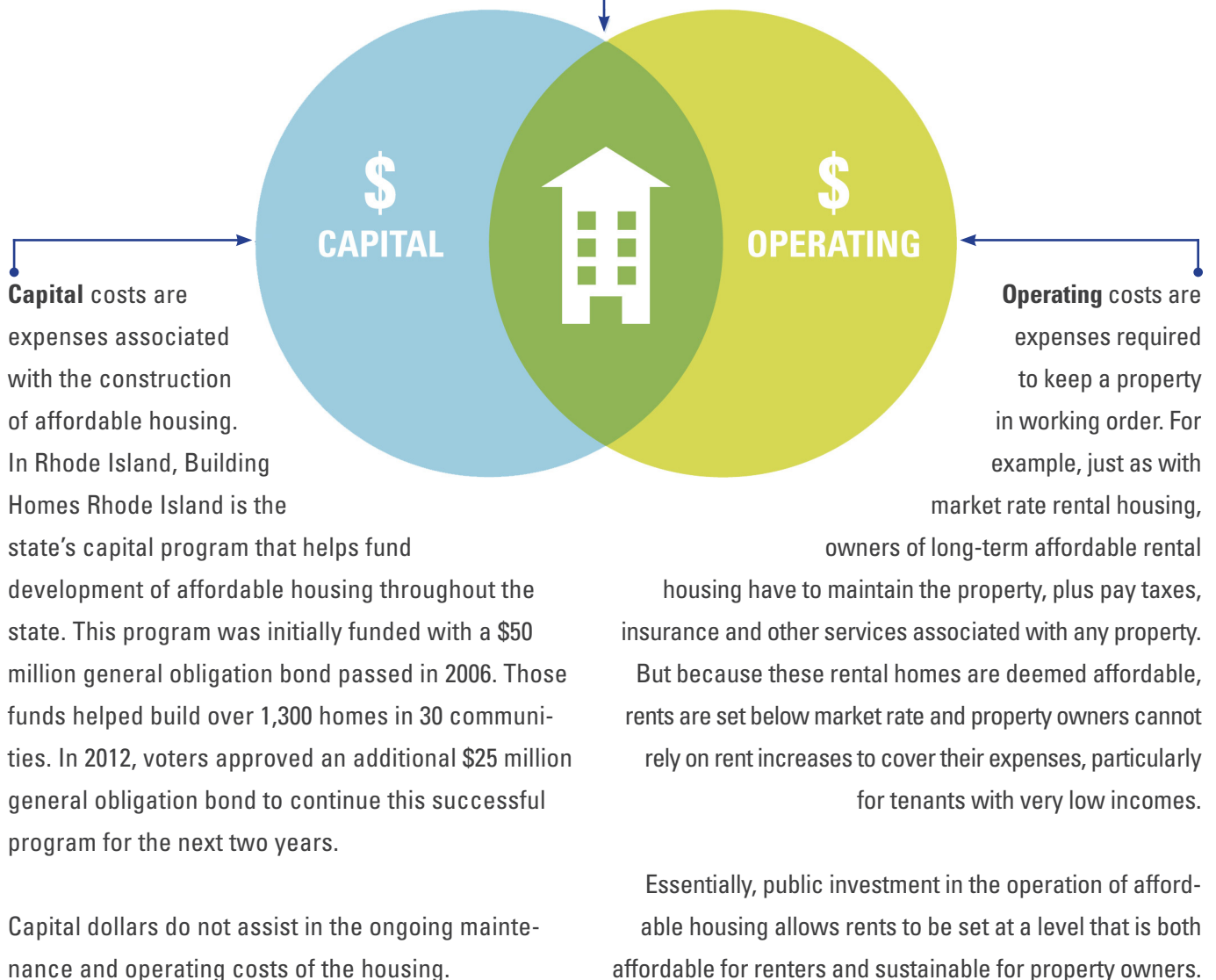


# FUNDING AFFORDABLE RENTAL HOUSING: CAPITAL + OPERATING

Long-term affordable housing is important for a wide range of Rhode Islanders. Low-wage workers, people with disabilities, the formerly homeless, veterans, young working families and the elderly are examples of some of the Rhode Islanders who are living in safe, stable, affordable homes.

A holistic housing funding policy is necessary to ensure access to a wide range of housing options for our residents. **Typically, states have a two-pronged approach to funding affordable housing that involves investing in the development and operation of these homes.**



**Capital dollars alone can generally create affordable housing for a family of four earning between \$36,000 and \$60,000. Many other state budgets include funding to support the ongoing maintenance and operating costs of rental housing for those who earn less than that. In Rhode Island, \$750,000 was included in the FY2014 budget to support rental subsidies.**

# A LOOK AT PUBLIC INVESTMENT IN AFFORDABLE RENTAL HOUSING

Whether a rental property is market rate or long-term affordable, both properties have operating expenses.

For example, maintenance and repair costs, property taxes, insurance, management fees, water and sewer, garbage collection, and landscaping/snow removal costs are considered a rental property's operating expenses because they keep the property in service.

## NO PUBLIC INVESTMENT



### MARKET RATE RENTAL HOUSING

#### RECURRING OPERATING EXPENSES:

- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal



**TENANTS:** Matt is a software developer and April is a social worker. Combined their annual household income is \$110,000 a year.

**Robert** owns a triple-decker rental property on the east side of Providence. Each apartment has two bedrooms and he is able to charge a market rate of \$1,200 a month. After the city dropped the homestead exemption and reassessed Robert's property, his tax bill increased by \$200 a month. To help compensate for the increased operating expense, Robert notified Matt and April that their next lease would include a rent increase of \$50, bringing the rent charge to \$1,250.

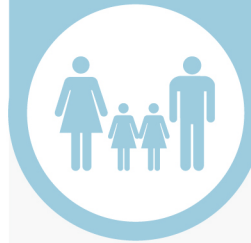
## CAPITAL INVESTMENT



### AFFORDABLE RENTAL WITHOUT OPERATING SUBSIDY

#### RECURRING OPERATING EXPENSES:

- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal



**TENANTS:** Carol is a home health aide and her husband Mark works part-time at a major electronics store. They have two daughters in elementary school and have an annual household income of \$43,000.

**Judy** is a nonprofit developer. One of her organization's properties includes a previously foreclosed triple-decker that was rehabilitated into three 2-bedroom apartments. Because Judy and her staff secured significant capital investment for development costs, including state housing bond dollars, the rent can be set below market value making it affordable to working families earning up to 80 percent of the Area Median Income. If an unexpected major expense occurs, Judy must dip into her organization's reserves or apply for a small grant to cover the cost.

The examples on these pages are based on actual affordable housing developments in Rhode Island. They represent some of the operating costs various property owners might face, and how owners of long-term affordable rental homes have to cope with the costs differently.

#### OPERATING INVESTMENT

#### CAPITAL INVESTMENT



### AFFORDABLE RENTAL WITH OPERATING SUBSIDY

#### RECURRING OPERATING EXPENSES:

- property management
- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal

**TENANT:** Hilda is a widowed homemaker. Her annual income from Social Security is \$14,400.



**Jim** is the executive director of a local community development corporation. One of his properties includes a senior housing development of 20 1-bedroom apartments for older Rhode Islanders on a fixed income. Hilda can only afford to pay \$360 a month in rent, but Jim's monthly operating expenses for the apartment are \$788. To ensure that Jim is able to maintain the property, pay taxes, insurance, and other expenses, his nonprofit receives a \$428 rental subsidy for Hilda's apartment from Section 202 Supportive Housing for the Elderly Program. This federal program provides rental subsidies for very low-income elderly persons.

#### SUPPORT SERVICES FUNDING

#### OPERATING INVESTMENT

#### CAPITAL INVESTMENT



### PERMANENT SUPPORTIVE HOUSING

#### RECURRING OPERATING EXPENSES:

- case management
- maintenance and repair costs
- property taxes
- insurance
- water and sewer
- landscaping/snow removal

**TENANT:** Ray is a formerly homeless veteran and suffers from PTSD and anxiety. His annual income is \$8,840.



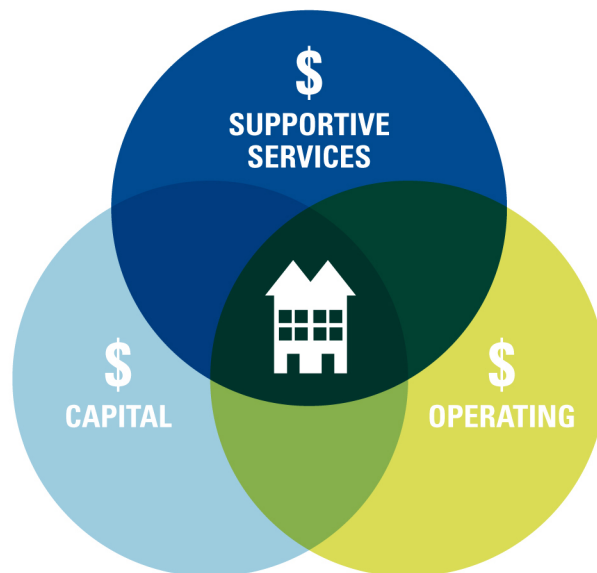
**Mary** is the executive director of a nonprofit that provides rental housing for formerly homeless men. In addition, Mary's organization offers tenants supportive services like transportation, employment training, and coordination of medical and mental health appointments. Ray cannot afford to pay more than \$221 in rent, yet it costs Mary \$820 to operate his apartment. The Neighborhood Opportunities Program helps Mary subsidize the \$599 difference between what Ray can afford and the operating costs of his apartment. To help provide for Ray's case management, Mary's organization receives a federal grant from the Substance Abuse & Mental Health Services Administration and grants from local philanthropic organizations.

# FUNDING OPENING DOORS RI: CAPITAL + OPERATING + SERVICES

Opening Doors Rhode Island, the state's plan to prevent and end homelessness, outlines initiatives that align state, federal, and private resources to increase the amount of stable and affordable homes, improve health through services, and increase economic security.

Permanent supportive housing is a proven method for reducing homelessness and is the signature initiative of Opening Doors. It combines long-term affordable rental housing with services needed to help people live stable, healthier, and more productive lives.

Permanent supportive housing requires public investment to keep rents affordable, funding for support services and in some cases, capital dollars to support development of the homes.



- RI State investment typically leverages Federal & private dollars
- RI State investment typically leverages Federal & RI Housing dollars
- RI State investment typically leverages Federal & Philanthropic

## RI'S OPENING DOORS GOAL

500 additional supportive housing units, or 100 additional units a year for 5 years, 2012-2016

● **STATE CAPITAL COMMITTED \$\$:**  
25% of units created with \$25 million housing bond must be supportive housing units

● **STATE OPERATING COMMITTED \$\$:**  
\$750,000

● **STATE SUPPORT SERVICES COMMITTED \$\$:**  
Funds scattered among various state department budgets

## POLICY CONSIDERATIONS

### CAPITAL

The current shortage of affordable housing in Rhode Island leaves many low-income Rhode Islanders at risk for homelessness. A consistent investment in the development of affordable housing will leverage federal and private funds and contribute to the goals of Opening Doors.

### OPERATING

A sustained state investment in operating support leverages federal resources aimed at closing the housing affordability gap for the lowest income households. Rhode Island should continue to fund its newly established rental voucher program to ensure that rents can be set at a level that is both affordable for low-income renters and sustainable for property owners.

### SERVICES

Various state departments have existing programs that provide services for formally homeless people now living in permanent supportive housing. However, there is no systematic way to determine the extent to which the state is currently funding these supportive services. It is essential for these funds to be identified and to link existing services with affordable homes in order for a cost-effective implementation of Opening Doors.