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Service Delivery to Rural and Nonmetro Areas:

A Look at Some HUD Programs and the Constituents They Serve

This facility, developed by Southern Maryland Tri-County Community Action of Hughesville, Maryland, houses a multipurpose room and Head Start Program space. It was partially funded with State Community Development Block Grant Program funds.

Despite the fact that "Urban" is our middle name, HUD is also hard at work in rural and nonmetro areas. While the U.S. Department of Agriculture's Rural Housing Service takes the lead in rural housing and community development work at the federal level, HUD also plays an important complementary role. One of the challenges that HUD faces in serving rural and nonmetro communities is overcoming possible misperceptions of the agency's involvement in these communities. This article will look at some of the programs that HUD uses to carry out this work, as well as some of the clients who benefit from HUD's efforts in rural areas.

HUD carries out its work in rural and nonmetropolitan areas through a number of programs. Some of the more prominent among these include:

Rural Housing and Economic Development Program. As is evident by its name, this program is strictly for use in rural areas. It provides funding for innovative rural projects and capacity building to rural organizations. With its $25 million fiscal year 2003 appropriation, $10 million was used to fund capacity building activities, with the remainder going to a variety of innovative housing and economic development programs.

The **State Community Development Block Grant (State CDBG) Program,** administered by the Office of Community Planning and Development (CPD), made available a total of $1.3 billion in state grants during fiscal year 2003 to units of general local government for community development activities. The State CDBG program makes funds available to municipalities with less than 50,000 residents, except designated central cities of Metropolitan Statistical Areas (MSAs) and counties that are not considered urban counties—generally those with populations of 200,000 or less.

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Rural Housing: Unique Challenges in Availability, Affordability, Sanitation and Financing

According to the 2000 Census, approximately 55.4 million people, or 20 percent of the U.S. population, reside in nonmetropolitan areas. Rural America's population is growing and becoming more diverse than ever before. Like their peers in urban and suburban areas, rural residents are aging, and both single-parent and single-person households are increasingly common. Rural education levels still lag behind those of metropolitan areas, making it difficult for rural residents to acquire the skills needed for employment in the 21st Century economy. And while the nation's rural economy has diversified, economic stagnation remains a problem in many rural communities. Overall, poverty persists as a greater problem in nonmetro places than in the U.S. as a whole, and housing affordability problems, often associated with urban areas, are increasing in rural places as well.

Rural Homeownership and the Rural Rental Market

The homeownership rate in both rural and urban America is at a record high. According to the Census Bureau's Housing Vacancy Survey (the most current source of homeownership data), as of the second quarter of 2003, the percentages of households living in a home they owned were:

- 75.9 percent for nonmetro households;
- 74.6 percent for suburban households; and
- 52.0 percent for central city households.

As the population and economy of rural America have changed, so too have rural homes. For the most part, these changes have been positive, but affordability and credit access problems persist, and some physical inadequacies remain. Nearly 30 percent of nonmetro households — more than 6.2 million households — have at least one major housing problem. Most often, they are cost-burdened.

During the latter part of the 20th Century, affordability replaced poor housing conditions as the greatest problem facing low-income rural households in the U.S. Throughout the country, rural housing costs have increased precipitously and incomes have not kept pace.

The supply of affordable apartments for low-income renters in rural America has been shrinking for several years, and according to the Housing Assistance Council (a nonprofit corporation headquartered in Washington, D.C. that has been helping local organizations build affordable homes in rural America since 1971), the trend shows no signs of slowing. Rural renters make up 35 percent of nonmetro cost-burdened households, while comprising less than one-quarter of all nonmetro households. America's 5.5 million rural rental households experience some of the country's most significant housing problems. Rural rental households have lower incomes than owners, are more likely to have affordability problems, and are twice as likely to live in substandard housing. Approximately 12 percent of nonmetro renters live in either moderately or severely inadequate housing, compared to six percent of nonmetro owners.

While progress has been made in improving the quality of housing in rural America, problems still persist. According to 2003 American Housing Survey (AHS) indicators, 1.4 million — or 6.7 percent — of nonmetro units are either moderately or severely substandard. Minorities in rural areas are among the poorest and worst housed groups in the entire nation, with disproportionately high levels of inadequate housing conditions. Hispanic rural householders are twice as likely to live in substandard housing than all other rural households combined. Rural African Americans have particularly high substandard housing rates, as nearly one in five nonmetro African-American households lives in substandard housing.

Rural Sanitation

Most people living in the United States take access to water and modern sanitation for granted. For 99.3 percent of all U.S. households today, even in the most remote parts of the country, clean potable water and indoor plumbing are readily available. However, the 2000 U.S. Census reveals that .69 percent of the population lacks access to water and/or sanitation. The number may appear statistically insignificant, but it represents more than 670,000 households, or 1.95 million people.

These individuals live in every state. On average, the population is older, more likely to be non-white, and more likely to be living in a rural setting. More than a third of them have household incomes below the official federal poverty level.

Alaska has the largest number of households without plumbing at 6.32 percent, while Nebraska has the fewest, at 0.36 percent. Nearly half the households without adequate infrastructure are concentrated in nine states — California, New York, Texas, Florida, Pennsylvania, Illinois, Arizona, Virginia, and Ohio.

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Creative Vision Earns Funds for Rural Mississippi

It's a scene that few would look forward to coming home to: housing that's virtually uninhabitable, with insufficient plumbing, poor insulation, and substandard heating and cooling systems; homes that are at best dilapidated, and at worst, seemingly uninhabitable. The conditions described are not often seen in popular culture or on TV, but they can be found right here in the U.S.—at the end of dirt roads and along the rural routes of the Mississippi Delta.

Jackson Field Office's most recent housing summit was held the first week in August.

Individuals and two faith-based partnerships were honored as HUD Heroes for their commitment to service at the Mississippi Housing Summit.

Mississippi is home to 82 counties, of which 60 percent are defined as rural and where over 18 percent of the population lives below the poverty level. If nearly one in five seems high, it is: that's almost 1½ times the national average.

HUD's Office of Community Development and Planning (CPD) created the Rural Housing and Economic Development (RHED) Program in 1999 with the mission of aiding rural and financially troubled communities like those in the Mississippi Delta region. RHED assists in 1) building capacity at the state and local level for rural housing and economic development through staffing, purchasing software and other tools, developing strategies, and seeking technical assistance; and 2) supporting innovative housing and economic development activities in rural areas through preparation of building plans, land and building acquisitions, demolition, and construction. Twenty-five million dollars in funds are awarded competitively on an annual basis to rural nonprofits, community development corporations (CDCs), state housing finance agencies, economic development agencies, and federally recognized Indian tribes.

So why, after five years of the RHED Program's existence, are there only four Mississippi grantees? The number one roadblock appears to be their capacity to complete the necessary applications. Many of these rural nonprofits and CDCs are so small and have such a low tax base that they can't afford to employ enough highly qualified and skilled staff to fill out applications. Hiring consultants would be even more costly.

This is where HUD's Jackson Field Office steps up to the plate. Patricia Hoban-Moore, Field Office Director of the Jackson Field Office explains, "We [at HUD] face many challenges in Mississippi, especially in rural areas. The task of creating housing or economic development cannot be accomplished without thinking about infrastructure, affordability, and sustainability." The field office coordinates semi-annual grant writing seminars where nonprofit and CDC employees learn to cultivate their grant seeking and writing capabilities. They also pool resources to provide technical assistance in teaching attendees how to locate funding that is consistent with their organization's mission, write letters, tell stories, understand who their partners are, and build partner relationships.

An example of the field office's success is the Shelby Housing Authority (SHA). Senior-level staff at SHA applied the knowledge gained from a field office seminar to obtain RHED grantee status. In turn, SHA used the capacity-building grant funds to spin off a public

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Mr. Steve B. Nesmith, Assistant Secretary for the Office of Congressional and Intergovernmental Relations, was a guest speaker at the summit.

Workforce Housing in Resort Areas

What if restaurant patrons sat at tables waiting for waiters who never arrived? Or if tourists opened doors to hotel rooms that hadn't been cleaned? What if shoppers waited in line to buy beach floats or ski passes and no one was there to take their money? While these scenarios might seem a bit of a stretch, in some resort communities, the possibility is becoming quite real. It's a scenario that business owners, local governments, and workers across the country are facing as high housing prices force workers to live vast distances from their jobs.

As the economy surges, so does demand for service employees—even as housing prices rise well beyond their reach. Without a decent place to live close by, the idea of commuting 60 miles or more to wait tables or change sheets rapidly loses its luster... and the labor shortage intensifies. As prices continue to rise, even moderate-income families and individuals facing this scenario are often forced to live in other areas. And as the distance between their homes and workplaces grows, their quality of life diminishes into ever lengthening commutes, high fuel prices, and traffic snarls.

In Virginia Beach, college students from Russia and Eastern Europe are flipping burgers in restaurants along Atlantic Avenue, folding T-shirts in Oceanfront souvenir shops, and making beds in resort hotels. They have come to perfect their English and immerse themselves in American life, but they may have gotten more than they bargained for. Finding quality, affordable housing within biking or walking distance of work is virtually impossible.

Indeed, the slogan for Deep Creek Lake, a resort area in Western Maryland, is "Live where you play." However, many employees in the area can't afford to live where they work. Unemployment in Garrett County, Maryland, the home of Deep Creek Lake, has been halved to about 6 percent since 1997 as the building boom created jobs in the construction trades and in the growing number of restaurants, shops, arcades, and tourist services in the area. But wages have not kept pace with the cost of housing, making it hard for even nurses and schoolteachers to live near the lake.

Among the first places to really feel the brunt of the workforce housing problem were Colorado's mountain resort communities. With its breathtaking views, world-renowned ski resorts, and safe, well-equipped schools, Aspen, Colorado is a dream place to live and work for many teachers. But those who decide to follow their hearts to Aspen are finding that paradise comes with a high-altitude price tag. Even the most basic apartments are out of the price range of the typical teacher.

These are just a few examples of the shortage of workforce housing that's being felt in every region of the country. But whereas those in the service industry felt the initial pinch, those in entry- and mid-level professional jobs are starting to feel it as well. Given the realities of the marketplace, housing experts don't expect the problem to go away any time soon.

Some Promising Solutions

In response, some business owners are spending a portion of their profits to buy, build, and lease employee housing. One restauranteur paid $602,500 to purchase a hotel in Cape Cod, largely to accommodate seasonal workers at his three upscale restaurants. This is on top of the four other homes he leases to workers.

On a much different scale, many mountain communities are requiring that large employers, such as ski resorts, provide housing for a percentage of their employees. Keystone and Copper Mountain resorts are required to provide housing for 40 percent of their employees. In Aspen, it's 50 percent. Others have linked new commercial development with housing, saying that new businesses must create housing based on the number of employees they will need. Some cities require that a large portion of new residential development be affordable to employees. They enforce this through deed restrictions or zoning requirements.

Recently, five mountain counties established the Colorado Mountain Housing Coalition loan fund. This fund will be used for downpayment assistance, development, and land acquisition targeted to affordable housing. Steamboat Springs is trying to implement a program that links a housing requirement to new commercial development.

Part of the challenge is a lack of education and awareness. For many employers, even though they think it might be a good idea, they are unsure of how real estate finance works and aren't sure what they can do for their employees. But some companies and business organizations have applied a bit of creative problem solving, together with a recognition of the vital role their employees play in their success. Developmental Pathways Inc., a Colorado-based nonprofit organization that provides services for the developmentally disabled, has had a hard time hiring and retaining employees. As a result, the company now offers up to $5,000 to its employees for

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Colonias Set-Aside. For fiscal year 2003, approximately $14 million from the State CDBG funding for Texas, New Mexico, Arizona and California was set aside for use in these unincorporated border towns along the U.S.-Mexico border.

The **HOME Investment Partnerships (HOME) Program,** administered by CPD, provides assistance to state and local governments in their efforts to address the housing needs of low-income and very low-income persons. Forty percent of the HOME funds allocated by formula (i.e., after set-asides) go to states for their use in program administration (approximately $739.9 million for fiscal year 2003 and a similar amount for 2004). Significant flexibility allows much of the money to be spent in rural areas.

The **Self Help Homeownership Opportunity Program (SHOP),** funded by CPD, provides grants to national or regional nonprofit organizations that have experience providing self-help housing. Grant funds are used for land acquisition and infrastructure, which together may not exceed an average of $15,000 per unit. Homebuyers contribute a significant amount of sweat equity toward the construction of their dwellings.

For fiscal year 2004, $26 million was awarded for local distribution among six organizations. All but one of the groups award some or all of their funding to rural and nonmetro areas.

Housing Opportunities for Persons With AIDS (HOPWA), administered by CPD, provides housing funds for low-income persons with HIV/AIDS and their families. Ninety percent of program funds are allocated by formula to metro areas and states, and the remaining 10 percent is awarded by competition. For fiscal year 2003, approximately $47.75 million went to grantees serving rural and nonmetro areas.

Special Needs Assistance Programs provided through CPD offer several programs that support housing and services for homeless persons. Three of these programs are: the **Supportive Housing Program,** which funds supportive housing development and housing services; the **Shelter Plus Care Program,** which provides rental assistance for homeless persons with disabilities; and the **Single Room Occupancy** Program, which provides support for the rehabilitation of units and rental assistance. For fiscal year 2003, nearly $107 million was awarded for projects serving rural areas across these three programs.

The **Youthbuild Program,** administered by CPD, provides grants to nonprofits for the construction and rehabilitation of affordable housing for low-income persons through the provision of educational and hands-on construction skills development for disadvantaged young adults. For 2003, grantees serving rural and nonmetro areas were awarded approximately $9.3 million in Youthbuild program funds.

The **Native American Housing Block Grant (NAHBG),** administered by the Office of Native American Programs (ONAP) in the Office of Public and Indian Housing (PIH), is HUD's main program specifically targeted to tribal communities, most of which are located in rural or nonmetro areas. For fiscal year 2004, ONAP disbursed approximately $650 million to tribes and tribal housing agencies for housing development or management, housing services, crime prevention and safety, and other related activities.

A second block grant program that supports housing and community development in tribal areas is the **Indian Community Development Block Grant Program (ICDBG).** Approximately $72 million was allocated for this program in 2004.

The **One-to-Four Family Home Mortgage Insurance Program** is one of several single family housing programs administered by the Office of the Federal Housing Commissioner (FHA). In this program alone, 224,079 units were insured in fiscal year 2003 for a total of approximately $23.5 billion in coverage.

Through the Office of Consumer and Regulatory Affairs, HUD issues and enforces standards for manufactured housing design, construction, and performance. Manufactured housing is becoming a more attractive option in rural and nonmetro areas because it is often more affordable.

And finally, the **Office of University Partnerships** here in HUD's Office of Policy Development and Research administers the Community Outreach Partnership Centers, the Tribal College and University Program, the Hispanic Serving Institutions Assisting Communities, the Alaskan Native/Native Hawaiian Institutions Assisting Communities, and the Historically Black Colleges and Universities Program. All of these efforts support those in rural and nonmetro areas. In cooperation with the Housing Assistance Council, PD&R also carries out a rather extensive research program focusing on rural and nonmetro housing and community development issues.

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Though the percentage of households that have no running water or proper sanitation is very small, for these Americans, it's not a statistic, but a day-to-day reality. The availability of water and sanitation has a direct and measurable affect on public health. Studies show that where water and sanitation are lacking or substandard, diseases such as hepatitis, tuberculosis, typhoid fever, gastrointestinal illnesses, and parasitic infections are often rampant. Not surprisingly, child mortality is much higher in these areas as well.

In the last half of the 20th Century, the United States made tremendous progress toward ensuring that all Americans have access to safe, clean water and adequate sanitation. The percentage of homes without adequate facilities shrank from 27 percent in 1950 to less than one percent by 2000. However, the situation is likely to grow more pressing as a number of small water and wastewater systems approach the end of their designed lifecycle—especially those which may not have been adequately maintained. In addition, many of the households that report having complete indoor plumbing today are using wells that are endangered or are drawing from other water sources that are under extreme duress.

Funding and Financing

Beyond the macro-level issues raised by aging infrastructures in rural areas, at the individual and family level, limited access to credit and affordable mortgage sources is another factor affecting rural Americans' housing investment opportunities. There is little quantitative information on the adequacy of the housing-related credit currently available in rural areas. The data that does exist points to a severe shortage of housing credit in rural America, and indicates that subprime lenders are increasingly active in these areas. There are fewer private mortgage-lending institutions in rural areas, and they have less money to lend because they tend to invest more of their funds in federal securities in comparison to their metropolitan counterparts. They are also generally more conservative, tending to participate less in insurance and guarantee programs and in the secondary market than their urban counterparts.

In some rural areas, seller financing is provided through contracts for deed rather than mortgages. This type of financing does not provide a public record of the purchase. It allows the seller/lender to retain title to the property until the debt is fully paid, and to repossess the lot (and whatever the purchaser has built on it) immediately if even a single payment is missed. Contracts for deed are commonly used in the colonias along the U.S.-Mexico border.

Another factor is the remarkably high rate of mobile homes in nonmetro areas. Most purchasers of mobile homes do not receive mortgages that allow them to build equity in the homes; instead, they obtain basically the same type of consumer loan one would use when purchasing a car, and so receive none of the tax advantages of purchasing real estate.

Since the mid-1930s, the federal government has supported the production of low- and moderate-income housing and improved the living conditions of millions of low-income rural Americans. Most new rural apartments, for example, are financed under The United States Department of Agriculture's (USDA's) Section 538 guaranteed loan program. The Section 515 program, run by the USDA's Rural Housing Service, finances housing for the very lowest-income rural Americans. However, landlords who pay off their federal mortgages may be able to eliminate rent restrictions, then raise the rents and displace low-income tenants.

Although homeownership rates are growing most rapidly for low-income and minority populations, they are still well below those of other households. In both rural and urban America, low-income and minority households are those most dependent on rental housing. However, a number of federal programs are actively promoting the homeownership option, with some programs specifically targeted to low-income and minority households.

The USDA and HUD are the primary federal agencies providing housing assistance programs for low-income rural renters and owners. In addition, the Department of Veterans Affairs has a major mortgage guarantee program available to nearly all veterans. Federal housing programs differ substantially in the geographic distribution of their expenditures, with per capita levels generally lower in nonmetro than metro areas. Data from the 2003 American Housing Survey show that 12.04 percent of metro homeowners, and 5.87 percent of their nonmetro counterparts owned homes financed with mortgages either guaranteed or made directly by the federal government.

As infrastructures in rural areas continue to age and populations in these regions continue to diversify and grow, additional research will be required to help guide sound federal policy decisions that support and promote the availability and affordability of safe, decent housing in America's rural communities.

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nonprofit organization, and an extension of the public housing office was constructed to house the nonprofit. This 1,455 sq. ft. extension was built and equipped with capacity-building funds through the RHED grant program. For those nonprofits still unable to obtain funding through RHED, the Jackson Field Office encourages the use of other HUD program funds, such as Section 8, Community Development Block Grants (CDBG), HOME Grants, and Continuum of Care funding. "Because of HUD's strong commitment to development, we have learned that cooperation, partnerships, and project layering are sometimes the only way success can be achieved. Our development partners not only reach out to other governmental entities, but to the nonprofit, faith-based, and corporate communities," observes Hoban-Moore. In one case, a housing authority used its grant money to partner with a local nonprofit that wanted to build new mixed income complexes, but could not support the required water services. The housing authority extended a loan to the city government to pay for the sewer lines. This creative and synergistic partnership succeeded in bringing affordable housing to a very needy community.

To expand the reach of financial and economic development agencies, the field office holds housing summits to help those at the state level be more creative, and to think beyond just partnering money. Savvy investors and developers are welcome, and will often receive incentives for entering into partnerships with economic development agencies in rural communities.

From the simple task of bringing organizations together to share experiences, to imparting a more thorough understanding of how to cultivate complex, unique partnerships, the Jackson Field Office is empowering rural organizations to overcome the challenges of an aging housing stock in a state that continues to struggle with significant economic disparity. For more information regarding the Jackson Field Office, please contact Patricia Hoban-Moore, Field Office Director at (601) 965-4757.

Workforce Housing in Resort Areas *cont. from page 4*

the downpayment on a house. To qualify, employees need to have been with the company for six months and earn no more than 100 percent of the area's median income. If they stay with the company for three years, the loan is completely forgiven. Developmental Pathways also offers as much as $750 to renters for a security deposit. At the three month mark, employees qualify for this assistance, which is forgiven after one year of employment.

School officials in Aspen, where prices for single-family houses often start at $1 million, are working with a local bank to help finance the construction of duplexes. Under a plan that is still being hashed out, teachers would be able buy the units for about $130,000 to $180,000. The district has also bought several apartments to rent to new teachers and administrators. Another idea under consideration is to build low-rent apartment buildings for teachers on school property. The companies would receive a federal tax credit for their investment. And once a building has paid for itself through rental income, the owner-company could donate the building to the district and receive another tax break.

Back on the East Coast, at the Econo Lodge in Virginia Beach, three exchange students work as housekeepers during the day and sleep for free in a hotel room that has been converted, dormitory style, with bunk beds and a hotplate. And at Deep Creek Lake, Maryland Governor Robert Ehrlich recently helped break ground for a residential development that will create new affordable rental housing for workers at the Lake.

Anyone familiar with the inner workings of resort communities knows that affordable housing can be a real problem for service industry workers, and even middle income professionals. But rather than simply throw up their hands and take a 'that's someone else's problem' approach, some businesses and communities are taking the time—and making the necessary investments—to make a difference.

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In the Next Issue of research works …

- A review of the recent PD&R publication, *Multifamily Building Conformance with the Fair Housing Accessibility Guidelines*, presents a discussion and quantitative assessment of the extent of conformance with the *Guidelines*. This article will also introduce some new preliminary research on housing accessibility currently being conducted by HUD.
- In 2001, HUD's Office of AIDS Housing released a National Evaluation of the Housing Opportunities for Persons With AIDS (HOPWA) program. This article will review the highlights from this study and present an update on current federal programs and funding for housing persons with HIV/AIDS.
- The Office of Native American Programs, in HUD's office of Public and Indian Housing, administers several housing and economic development programs for Native American families and Tribes. This article will look at how tribes are using programs such as Indian Community Development Block Grant (ICDBG) and Section 184 to provide housing to their tribal members and to improve the infrastructure of their communities.
- Often characterized as the "Appalachia of the West," California's San Joaquin Valley has experienced three decades of chronic double-digit unemployment and correspondingly high poverty rates. During the past year, HUD has led an Interagency Task Force formed under an Executive Order and tasked with turning this region around. We'll look at how the Task Force is using Geographic Information Systems to support coordinated planning on a regional basis, and to facilitate data sharing, communication, and visualization throughout the policy development process.

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