Section 202 Supportive Housing for the Elderly

By Alayna Waldrum, Housing Legislative representative, LeadingAge

Administering agency: HUD's Office of Housing Assistance and Grant Administration within the Office of Multifamily Housing Programs
Year program started: 1959
Number of persons/households served: 400,000 households
Population targeted: People over the age of 62 with very low income (below 50% of area median income)
FY14 funding: $383.5 million plus $72 million to renew existing service coordinator grants
See also: *Services for Residents of Low Income Housing*

The Section 202 Supportive Housing for the Elderly program provides funding to nonprofit organizations that develop and operate housing for seniors with very low incomes. As the U.S. population ages, both the creation of new Section 202 units and the preservation of existing units will be increasingly important.
There are three current issues related to the Section 202 program: a rental assistance only demonstration authorized in the FY14 omnibus bill; a lack of funding for new construction at the same time as there is a growing demand for units,; and, and the preservation of senior housing.

HISTORY AND PURPOSE

The Section 202 program was established under the Housing Act of 1959. Enacted to allow seniors to live with dignity by providing assistance with housing and supportive services, the program has gone through various programmatic iterations during its lifetime. Prior to 1974, Section 202 funds were 3% loans that may or may not have had either Section 8 or rent supplement assistance for all or some of the units. Between 1974 and 1990, Section 202 funds were provided as loans and subsidized by project-based Section 8 contracts. Until the creation of the Section 811 program in 1990, the Section 202 program funded housing for both seniors and people with disabilities. In 1991 the Section 202 program was converted to a capital advance grant with a project rental assistance contract for operational expenses, known as Section 202 PRAC.

According to HUD, senior households with very low incomes are the most likely to pay more than they can afford for their housing. The 2011 HUD study of worst case housing needs found that the number of senior renter households with worst case housing needs is 1.47 million, of the estimated 8.48 million households with worst case housing needs.

PROGRAM SUMMARY

The Section 202 Supportive Housing for the Elderly program provides funds to nonprofit organizations, known as sponsors, that develop and operate senior housing. Many Section 202 project sponsors are faith-based or fraternal organizations.

Section 202 tenants generally must be at least 62 years old and have income less than 50% of the area median income (AMI) qualifying them as very low income. Some facilities have a percentage of units designed to be accessible to non-elderly persons with mobility impairments or may serve other targeted disabilities. The average age of a Section 202 resident is 79, and nearly 39% of residents are over the age of 80. The average annual income of a resident is little more than $10,000. There are more than 400,000 Section 202 units serving very low income seniors.

The Section 202 PRAC has two main components: a capital advance that covers expenses related to housing construction, and operating assistance that supports a building's ongoing operating costs. Both the capital and operating funding streams are allocated to nonprofits on a competitive basis, through a HUD Notice of Funding Availability (NOFA).

Capital funding. The first component of the Section 202 program provides capital advance funds to nonprofits for the construction, rehabilitation, or acquisition of supportive housing for seniors. These funds can now be augmented by Low Income Housing Tax Credit (LIHTC) debt and equity to either build additional units or supplement the capital advance as gap financing in so-called mixed-finance transactions. The Section 202 program is HUD's largest directly funded construction program; however, the capital advances rarely support 100% of the construction costs.

Operating funding. The second program component provides rental assistance in the form of Project Rental Assistance Contracts (PRACs) to subsidize the operating expenses of these developments. Residents pay rent equal to 30% of their adjusted income, and the PRAC makes up the difference between rental income and operating expenses.

In addition to the core components of the Section 202 program, HUD administers three companion programs that have been established by Congress to help meet the needs of seniors aging in place:

1. Assisted living conversion program to help meet the great need for affordable assisted living options for low income seniors or for service-enriched housing.
2. Service coordinators.
3. Senior Preservation Rental Assistance Contract (SPRAC) to assist those pre-1974 properties.

About a third of Section 202 properties have a service coordinator funded as part of the Section 202 appropriation. These HUD grants provide funding for full-time service coordinators who assist Section 202 residents and low income elderly or disabled families living in the vicinity of Section 202 properties. Service coordinators assess residents' needs, identify and link residents to services, and monitor the delivery of services. The older Section 202 properties are eligible for grant funding, while the Section 202/PRAC properties may include the cost of service coordinators in their operating budgets if funds are available.

In the FY14 omnibus appropriations bill Congress authorized a change to the statute to allow for a demonstration of project rental assistance only, with the assumption that the construction funding would come from non-HUD sources. This demonstration and policy have not been fully developed.

FUNDING

In FY13, Congress appropriated $374.6 million for Section 202, providing no new funding for new construction or new project rental assistance. Congress provided approximately $258.6 million for PRAC renewals. In addition, the FY13 appropriation included $91 million for service coordinators and $25 million for assisted living conversion, including funding for service enriched housing grants. Any balances that were available would fund emergency capital repair grants.

For FY14 Congress funded the Section 202 program at $383.5 million, of which $72 million is for renewing existing service coordinator grants. The Administration's FY15 budget request to Congress seeks $440 million, with $70 million to be used for service coordinators.

FORECAST FOR 2014

There are three main issues confronting the Section 202 program: The future of the program given the implementation of the rental assistance only demonstration; the need for funding to provide new service coordination grants; and, preservation of existing Section 202-funded units.

The future of the Section 202 program. The Administration has proposed "reforming" the Section 202 program in the past to make it similar to the Section 811 program under the authority of the Frank Melville Supportive Housing Act of 2010. According to the FY14 appropriations act language, the Section 202 program is to fund projects that have formed supportive services partnerships consistent with the state's health care priorities. The details of the future direction of the program are still being developed. Stakeholders have outlined concerns with the Section 811 approach for senior housing, including the allocation of funds to state housing and Medicaid agencies, the targeting to frail elders, and the lack of capital financing entirely.

A lack of adequate new Section 202 construction funds means that the growing demand for affordable senior housing will not be met. The senior population is expected to double to 70 million by 2030, with the most growth among those over 85. Over the last several years, the funding available for new construction of Section 202 units produced fewer than 4,000 units each year, many fewer than are needed to meet the growing demand. A recent HUD study has recommended that 10,000 Section 202 units be produced each year for the next 10 to 15 years to serve the growing senior population as an important and cost-effective alternative to premature placement in institutional settings, and is necessary where states are engaged in transitioning seniors from costly nursing homes to the community. An AARP study released in January 2006 estimates that there are 10 residents for every one unit that becomes available. In addition, $25 million is needed for the Assisted Living Conversion Program to convert existing 202 housing into either licensed assisted living or service-enriched housing where possible to increase opportunities for frail seniors to remain in housing.

Funding needed to provide new service coordination grants. The FY14 budget included $72 million for the renewal of existing service coordinator grants. This amount is far below what's needed to expand the program and place service coordinators in every senior building that needs one. At least $91 million is needed for the current program to make sure that the commitment to housing as the platform for services can become a reality.

Preservation of existing units. Those currently residing in assisted senior housing are aging in place. Just as the residents age, the buildings themselves are aging and lack the amenities to provide supportive services. Further, the problems of low income seniors facing multi-year housing assistance waiting lists are only exacerbated by the shrinking supply of suitable, affordable housing as some owners sell their properties to new owners who will convert existing units to market-rate housing at the end of the original mortgage term. Finally, the oldest Section 202 mortgages are nearing the end of their mortgage terms and few properties have project-based rental assistance contracts. Some mortgages have been refinanced and some properties have already been sold out of the inventory. HUD has released one round of Senior Preservation Rental Assistance awards to some of these properties, but additional funding is needed to make preservation of Section 202 properties easier to accomplish, including providing authority for new project based assistance for the oldest cohort of Section 202 properties that have no rental assistance. Additional tools are needed to help preserve all cohorts of Section 202 properties and to provide the supportive services that are so necessary for an aging population. Tools that should be enacted or implemented include exit tax relief to remove the disincentives for existing for-profit owners to sell properties to nonprofits and others who would preserve the housing as affordable housing, and new capital and rental assistance programs to encourage the preservation of housing with maturing mortgages as affordable housing in the future.

WHAT TO SAY TO LEGISLATORS

Advocates concerned with senior housing issues should encourage their Members of Congress to take the following actions:

- Support funding for Section 202 capital advances and PRAC, in addition to the new rental assistance demonstration program.
- Support the Section 202 program as a platform for the delivery of supportive services and increase funding for service coordinators to make sure all building have staff to assist seniors aging in place.
- Provide sufficient renewal funding for all expiring PRACs and Section 8 contracts, and support an advance appropriation for PRAC amounts to preserve affordable senior housing and minimize funding disruption.
- Enact specific demonstrations to provide health and other supportive services within affordable senior multifamily housing.

- Enact preservation legislation to address the unique issues of senior housing with mortgages that will soon mature.
- Develop a strategy, legislation, and funding to rehab the early Section 202 PRAC properties that need physical upgrades and modernization.

FOR MORE INFORMATION

LeadingAge, 202 508-9476, www.leadingage.org