Section 202: Housing for the Elderly

By Linda Couch, Vice President, Housing and Aging Services Policy, LeadingAge

Administering Agency: HUD's Office of Housing

Year Started: 1959

Number of Persons/Households Served: 400,000 households

Population Targeted: People over the age of 62 with very low incomes (below 50% of area median income). Many pre-1990 Section 202 properties are eligible for occupancy by non-elderly persons with disabilities with very low incomes.

Funding: $1.075 billion in FY23, including:

- Full renewal funding for Section 202 Project Rental Assistance Contracts.
- $110 million for approximately 1,000 new Section 202 homes.
- $120 million for Service Coordinator grant renewals.
- $25 million for intergenerational housing as authorized by the "Living Equitably—Grandparents Aiding Children and Youth (LEGACY) Act" of 2003.
- $6 million to increase Section 202 Project Rental Assistance Contract rents before conversion to the Section 8 platform via HUD's Rental Assistance Demonstration Program.

The Section 202 Housing for the Elderly Program provides funding to nonprofit organizations to develop and operate housing for older adults with very low incomes. In its FY23 HUD appropriations bill, Congress included $110 million in the Section 202 account for the construction and operation of new Section 202 homes. Between FY12 and FY16, Congress did not provide any funding for new Section 202 homes. In the FY18 HUD funding bill, Congress provided new authority for Section 202 communities with Project Rental Assistance Contracts ("202/PRACs") to participate in HUD's Rental Assistance Demonstration to facilitate the preservation of these homes. HUD issued guidelines for this "RAD for PRAC" authority in September 2019 and Congress provided funding to help ensure the success of these RAD for PRAC conversions in the FY22 and FY23 HUD funding bills.

KEY ISSUES:

- Expanding supply to address need. Expanding the supply of Section 202 homes is critical to meet the severe nationwide shortage of affordable senior housing. After no funding for new Section 202 homes for several years, revived congressional funding for new Section 202 homes remains drastically below historic annual funding levels. The waiting lists for Section 202 communities are often two to five or more years long. Nationally, more than 2.35 million very low income older adult renter households have worst case housing needs. Between 2009 and 2019, worst case housing needs increased 69% among older adults, according to HUD's Worst Case Housing Needs: 2023 Report to Congress. Households with worst case housing needs are renters with incomes below 50% of area median income who spend more than half of their incomes on rent. Meanwhile, HUD released 2021 data in August 2023, showing "the number of elderly people with chronic patterns of homelessness increased by an alarming 73%" between 2019 and 2021. Nearly 10,000 more people aged 65 and older experienced sheltered homelessness in just two years.
- Preservation. Preserving the existing supply of Section 202 homes must remain at the forefront of our efforts. Annual appropriations must ensure full funding to meet ever-rising renewal needs of Section 202 rental assistance, which is provided by the Project-Rental Assistance Contract (PRAC) and Section 8 Project-Based Rental Assistance (PBRA) programs. Smart preservation

includes full funding reflecting realistic operating subsidies, including for rising insurance and staff costs, for owners to operate the high-quality housing connected to services and supports to help residents age in community. Preservation also requires adequate funding and processes for RAD for 202/PRAC conversions to be successful.

- Service Coordinators. Only approximately 45% of HUD multifamily senior communities have a Service Coordinator. Research has found Service Coordinators lower hospital use, increase higher value health care use (e.g., primary care), have success reaching high-risk populations, and result fewer nursing home transfers. Every affordable senior housing community should have at least one Service Coordinator. After years of advocacy, Congress funded the first new Service Coordinator grants in 10 years, which HUD will distribute through a national competition to approximately 190 Section 202 communities in 2024.
- Homelessness. Homelessness among older adults is on the steep rise. Congress and HUD must improve the data on homelessness among older adults as well as the resources and efforts to prevent and end all homelessness, including addressing the unique needs of older adults experiencing homelessness. Continuums of Care, Area Agencies on Aging, and housing partners, including Section 202 providers, must work more closely with each other to identify and carry out solutions.
- Accessibility. Housing accessibility barriers are higher for older households, for renter households, for low-income households, and for households of color than for other households. While single-floor living and zero-step entry are common in HUD multifamily housing, retrofitting existing buildings with age-friendly features will ensure aging older adults can continue to live in the community. Between now and 2038, the number of households age 80+ will double. HUD's Older Adult Home Modification Program, administered by the Office of Lead Hazard Control and Healthy Homes, is an important program that deserves broad expansion.
- Internet. Resources to install building-wide internet in Section 202 communities are needed. The broadband funds in the recent Infrastructure Investment and Jobs Act could help bring internet installation, and service, to Section 202 communities but HUD must continue to intentionally pursue all avenues to wire all affordable communities. Loss of the Affordable Connectivity Program, which provides a monthly subsidy for internet services and for which HUD-assisted households are eligible, in 2024 would be devastating to households enrolled in the program.
- Green and Resilient Retrofit Program. HUD's Green and Resilient Retrofit Program, which will provide more than $4 billion in grants and loans for HUD multifamily housing as well as free energy benchmarking, will greatly benefit Section 202 communities. Section 202 stakeholders hope to emphasize energy and water efficiencies throughout the senior housing portfolio to improve climate outcomes and better leverage HUD funding, and to increase equity in climate resilience while improving the federal approach to disaster preparedness and response.
- In 2024, Section 202 stakeholders are closely working with HUD to ensure implementation of the Housing Opportunity Through Modernization Act of 2016's income and asset limits protects the housing stability of current residents.

HISTORY AND PURPOSE

The Section 202 program was established under the "Housing Act of 1959." Enacted to allow older adults to age in community by funding affordable housing connected to supportive services, the program has gone through various programmatic iterations during its lifetime. Before 1974, Section 202 funds were 3% loans that may or may not have had either Section 8 Project-Based Rental Assistance 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. More than 400,000 Section 202 units have been built since the Housing Act of 1959.

Around 75% of Section 202 residents are dually enrolled in Medicare and Medicaid. In one study, 88% of residents have two or more chronic or potentially disabling conditions, 60% have five or more, and 21% have 10 or more. With Service Coordinators and other staff connecting residents to voluntary health and wellness support, Section 202 residents access community-based services to live independently and age in community.

A 2021 report from the Urban Institute, The Future of Headship and Homeownership, looks at the rise in older adult renter households with low incomes. Over the next 20 years, almost all future net household growth will be among older adult households. There will be a 16.1 million net increase in households formed between 2020 and 2040, and 13.8 million of these households will be headed by someone older than 65, reflecting the nation's aging population. Of the 13.8 million new older adult households, 40% (5.5 million) will be renter households. Of these, the Urban Institute projects, 1.3 million will be new Black older adult renter households. This will double the number of the nation's Black older adult renter households, from 1.3 million in 2020 to 2.6 million in 2040.

PROGRAM SUMMARY

The Section 202 Housing for the Elderly program provides funds to nonprofit organizations, known as owners or sponsors, to develop and operate senior housing.

Section 202 residents generally must be at least 62 years old and have incomes less than 50% of the area median income (AMI) qualifying them as very low-income. Many pre-1990 Section 202 communities have a percentage of units designed to be accessible to non-elderly persons with mobility impairments or may serve other targeted disabilities. In 2023, the average annual household income of a Section 202 household was $16,262.

Today, 16% of Section 202 residents are 85+ and, 50% of Section 202 households are non-white, two characteristics that make Section 202 residents at greater risk of having chronic health conditions.

In the Section 202 program, the Capital Advance covers some expenses related to housing construction and Project Rental Assistance Contract provides the ongoing operating assistance to bridge the gap between what residents can afford to pay for rent (about 30% of their adjusted household incomes) and what it costs to operate high quality housing. Both the capital and operating funding streams are allocated to nonprofits on a competitive basis, through a HUD Notice of Funding Opportunity (NOFO).

CAPITAL FUNDING

The first component of the Section 202 program provides Capital Advance funds to nonprofits for the construction, rehabilitation, or acquisition of affordable housing for older adults with very low incomes. These funds are augmented by the HOME Program, national Housing Trust Fund, FHLB Affordable Housing Program, and/or Low-Income Housing Tax Credit, and/or other sources to either build additional units or supplement the Capital Advance as gap financing in mixed-finance transactions.

After several years of no new NOFOs, Congress has funded, and HUD has awarded three rounds of new Section 202 funding since fiscal year 2011. These awards, announced in 2020 for $51 million, 2022 for $158 million, and 2023 for $160 million, will fund 575, 1685, and 1262 Section 202/PRAC units, respectively. Given the current and growing need for affordable senior housing, Congress must greatly expand its commitment to senior housing.

OPERATING FUNDING

The second component of the post-1990 Section 202 program provides rental assistance in the form of PRACs to subsidize the operating expenses of these developments. The operating subsidy can also pay up to $15 per unit per month for supportive services and for a Service Coordinator, if approved by HUD. Residents pay rent equal to 30% of their adjusted income, and the operating subsidy (PRAC) makes up the difference between this tenant rental income and operating expenses. Prior to 1990, most Section 202s received their operating subsidy from the Section 8 Project-Based Rental Assistance (PBRA) program. Since 1990, Section 202 operating subsidy is in the form of PRACs. In 2023, with support from stakeholders, HUD established a process to shift all Section 202 PRAC properties into contracts with 5-year terms, with annual rent adjustments possible, phased in over three years. Of the country's 6,957 Section 202 communities, 4,074 receive their operating subsidy from PBRA and 2,993 receive their operating subsidy from PRAC.

SERVICE COORDINATORS

The third key component of Section 202 communities is a Service Coordinator. Almost half of Section 202 properties have a Service Coordinator funded as part of their Section 202 annual operating budgets ("budget-based Service Coordinators") or through HUD grants ("grant-funded Service Coordinators"). Service Coordinators assess residents' needs, identify and link residents to services, and monitor the delivery of services. In 2023, HUD issued guidelines to clarify how Section 202/PRAC communities can receive up to $15 per unit per month for supportive services. Section 202 PRACs that convert to the Section 8 platform under the Rental Assistance Demonstration are eligible for up to $27 per unit per month for an approved supportive services plan.

FUNDING

In FY23, Congress appropriated $1.075 billion million for the Section 202 program, providing $110 million for new construction. This amount also funds the renewal of grant-funded Service Coordinators, $6 million to support RAD for 202/PRAC conversions, and provided $25 million for intergenerational housing program.

FORECAST FOR 2024

Absent significant expansion of affordable housing, housing cost burdens and homelessness among older adults will continue to increase. In addition to affordable homes, many older adults need accessible homes, without which many older adults are "stuck in place" rather than "aging in place."

In 2024, there should be a greater emphasis on using affordable housing as a platform to offer voluntary health and wellness services and supports for older adult residents. Potential cost savings from investments to address social determinants of health, including housing, would result in the Section 202 program's ability to help older adults with very low incomes avoid or delay much more costly nursing home care.

NEW SECTION 202 UNITS

Advocates are asking Congress for at least $600 million in new Section 202 Capital Advance and operating funds, and urging Congress authorize HUD to provide PBRA or PRAC as the operating subsidy for new Section 202 awards. In addition, in 2024, advocates will seek expanded ongoing budget adjustment opportunities for Section 202/PRAC properties.

RAD FOR PRAC

In 2024, advocates will seek expanded support for RAD for PRAC conversions. To help preserve 202/PRACs, Congress expanded HUD's Rental Assistance Demonstration to include for Section 202 communities with Project Rental Assistance Contracts (dubbed "RAD for PRAC") in 2018; HUD officially issued implementing guidance in September 2019 and the first RAD for PRAC deal closed in August 2020. Within HUD's 202/PRAC portfolio, there are 125,000 apartment homes. Section 202/PRAC owners continue to assess their capital needs and whether RAD for PRAC makes sense for them as a preservation tool.

Getting the right rent levels upon conversion, ensuring service coordination is robust, and retaining nonprofit ownership over the long haul are critical components of RAD for PRAC. To help ensure that RAD rents are high enough upon conversion, Congress provided $6 million in FY23 for PRAC rents prior to conversion. In FY24, HUD says the need will be $10 million.

WHAT TO SAY TO LEGISLATORS

Advocates concerned with HUD's flagship senior housing program, the Section 202 Housing for the Elderly Program, should encourage their members of Congress to take the following actions:

EXPAND ACCESS TO AFFORDABLE SENIOR HOUSING.

- Provide $600 million for new capital advances and operating assistance, including service coordination, for approximately 6,200 new Section 202 Supportive Housing for the Elderly homes nationwide, including in rural areas.
- Allow capital advances for new Section 202 properties to be paired with project-based Section 8 operating subsidy.
- Provide $50 million for about 5,000 new Older Adult Special Purpose Vouchers, at least 50% of which could be project-based.
- Provide full funding for Section 8 Project-Based Rental Assistance (PBRA) and Project Rental Assistance Contract (PRAC) renewals, including funding that reflects increased costs for insurance, staffing, utilities, service coordination, and internet connectivity.
- Expand ongoing budget adjustment options for Section 202/PRAC properties, including by implementing market-driven adjustments options such as Operating Cost Adjustment Factors (OCAFs).

ENSURE RAD FOR PRAC SUCCESS.

- Allow converted RAD for PRACs to access a Rent Comparability Study (RCS) every five years, in addition to annual OCAFs, and adjust initial rent-setting to improve financial viability of the converted property.
- Provide $10 million for RAD for PRAC conversion subsidy to ensure the successful and long-term preservation of 202/PRAC homes.

CONNECT HUD-ASSISTED RESIDENTS TO THE SERVICES AND SUPPORTS THEY NEED TO AGE IN THE COMMUNITY.

- Provide $125 million for the renewal of existing service coordinator grants.
- Provide $100 million for 400 new, three-year service coordinator grants and expand eligibility to 202/PRAC communities.
- Provide a $31 million increase for new, budget-based service coordinators.
- Extend funding for the FCC's Affordable Connectivity Program and expand this program to allow for whole-building eligibility and enrollment for HUD-assisted communities.
- Expand resources to install building-wide internet in HUD-assisted communities.

FOR MORE INFORMATION

Linda Couch, Vice President, Housing and Aging Services Policy, LeadingAge, lcouch@leadingage.org, www.leadingage.org.