Comparing Costs and Characteristics of Housing Assistance Programs

Report 09-1

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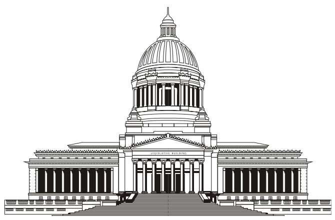

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REPORT SUMMARY

Two Basic Approaches to Housing Assistance: Capital Subsidies and Rent Subsidies (Vouchers)

While numerous organizations provide housing assistance, all rely on two basic approaches to help low-income persons find affordable rental housing: capital subsidies and rental subsidies (vouchers). Capital subsidies allow affordable housing providers to produce new units, rehabilitate older units, and offer reduced rents. Housing vouchers help renters afford market rate rental housing. The federal government is the major funder for both approaches.

In the 2007-09 Biennial Operating Budget (SHB 1128), the Legislature directed JLARC to conduct an evaluation and comparison of the cost efficiency of rental housing voucher programs versus other approaches to provide housing assistance.

Voucher Programs Generally Cost Less Than Capital Subsidies, but There Are Other Factors to Consider

In an analysis that accounts for all costs and all sources of funding, JLARC's evaluation of housing assistance programs found that vouchers generally cost less than capital subsidy programs. While this result might imply that state support for capital programs should be eliminated in favor of less costly vouchers, our research does not support that conclusion for two main reasons.

First, housing professionals point out that both voucher programs and capital programs have unique characteristics and benefits, and both are necessary to address specific needs. They point out that vouchers have the advantage of allowing recipients to select units in neighborhoods of their choosing. However, capital programs have the advantage of increasing the long-term supply of affordable units, providing additional services for special needs populations, and revitalizing distressed communities.

Second, a decision to shift state funding away from capital projects would require legislation changing the source of funding. Currently, the state provides funding primarily using bond proceeds, which may only be used for capital subsidies. Also, shifting state funding away from capital projects could have the unintended consequence of reducing the number of households that could be served given a set amount of available state funds. There is a risk that developments receiving significant state funding might not be economically feasible without the state's share of funding. Whether new vouchers funded solely by the state could provide enough units to replace units potentially lost on the capital side could only be determined by analyzing the specific costs of individual capital project proposals.

Better Analysis of Cost Data Is Needed to Inform Decision Making

JLARC's review of housing assistance programs suggests that better analysis of cost data is needed to inform decisions about the best way to allocate state administered funds for low-income housing. An analytic model that evaluates life-cycle costs, like the model that JLARC developed for this study, could provide a valuable tool for comparing alternatives and making decisions. The financing required for low-income housing is complex, typically relying on low-income housing tax credits, tax-exempt bonds, housing trust funds, local government support, contractor concessions, and developer funds. It is not uncommon to have a half dozen or more sources for a single development.

Life-cycle cost analysis is a method of calculating the total cost of an asset over its useful life. JLARC used this approach to compare the cost of vouchers to capital developments, but it would also be possible to compare the cost of two or more competing development proposals. JLARC's life-cycle cost model calculated present discounted values for rental income, development subsidies, forgiven property taxes, and residual land values. These present discounted values were then converted to monthly equivalents to allow direct comparison to monthly voucher costs.

The two state agencies that provide financing for low-income housing—the Housing Finance Commission and the Housing Division at the Department of Community, Trade and Economic Development—already gather much of the information necessary to do life-cycle cost analysis. However, the information is not being used to the best advantage for decision making. By using life-cycle cost analysis to evaluate applications for funding, the Commission and the Housing Division could provide developers with an incentive to be more cost-effective due to competition for funding. This could result in more units being developed for the same amount of money, or the same number of units being developed for less money. It could also help to identify situations where the cost advantages of vouchers outweigh other advantages offered by capital programs. Life-cycle cost analysis would not preclude selection of higher cost developments, but it could provide assurance that any additional costs for capital developments are justified by the specific advantages offered by the individual developments being considered for funding.

Recommendation

The Housing Division at the Department of Community, Trade and Economic Development (CTED) and the Washington State Housing Finance Commission should include life-cycle cost analysis as a part of their processes for evaluating proposals for state-administered funding.