

The Tortuous Path of Nonprofit Development

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INTRODUCTION

The importance of nonprofit housing organizations (NHOs) in the production of housing and the delivery of housing services to low-income households has been highlighted by several recent books, articles, and public policies. Never before has nonprofit housing in the United States been thought of as a “sector” integral to housing policy and housing services, much less “the centerpiece of the new housing paradigm” (Goetz, 1993, p. 114). The US experience contrasts markedly with that in most other western countries, where NHOs were often the primary delivery mechanism for improved housing in the post-WW2 period for the working class and the poor. Whereas in many countries NHOs became a virtual extension of government, the major elements of housing policy in the US focused on regulating private markets, direct governmental provision of housing, or consumer and supplier subsidies primarily directed to for-profit housing. Although many housing advocates in the US envy the highly institutionalized relationship between government and NHOs that exists elsewhere, recent changes in housing policy in these other countries have focused on reducing government support for NHOs and increasing their reliance on private sources of capital. Nonetheless, the contrast is still marked between the incipient nonprofit housing sector in the US and the large, well established nonprofit housing sectors in Canada and Europe (Drier and Hulchanski, 1993; Boelhouwer and van der Heijden, 1992).

Broader interest in NHOs in the US was not spurred by the development of the nonprofit housing sectors in other countries. Rather, it was the successes of NHOs in the United States in the 1970s and 1980s that generated favorable publicity, increased political clout, and ultimately preferential legislative treatment for the sector. These successes were primarily in three arenas: the production of housing by community development corporations, often in distressed

neighborhoods and “against all odds” as one title suggests; the response to the increased problems of homelessness which was led by church groups, Volunteers of America, and other mainstays of nonprofit community services; and the ability of NHOs to package various subsidies with the Low Income Housing Tax Credit in order to serve lower-income renters.

Much of the attention generated by nonprofit housing in the US can be attributed to the housing production activities of community development corporations (CDCs). Initiated in the 1960s (the Bedford Stuyvesant Corporation attracted the attention of Senator Robert Kennedy, who initiated legislation to support CDCs), many CDCs survived subsequent cutbacks in direct funding by becoming proficient in developing assisted housing. A 1988 survey by the National Congress for Community Economic Development (NCCED, 1989) reported that housing was the most frequent type of development undertaken by CDCs (or community based development organizations--CBDOs--in the NCCED's lexicon). The survey respondents had produced nearly 125,000 housing units (including 23,000 in the previous two years), a notable accomplishment considering the recent reductions in deep subsidies for housing production. Compared to the small levels of public housing production and the significantly reduced level in Section 8 units produced for profit, the CDC production record indicated that nonprofit housing had survived to become a critical element of the national response to low-income housing needs.

Nonprofit organizations were also at the forefront of the national response to the problem of homelessness. Well before Congress recognized the problem, nonprofit organizations recognized the growing need for shelter and services for the homeless in America. From local churches to national networks of such organizations as Volunteers of America, the nonprofit sector first initiated emergency efforts to provide temporary shelter and services, and then pushed Congress to action on legislation to establish federal programs and funding.

NONPROFIT HOUSING PRODUCTION

The growing reputation of nonprofit housing was further enhanced by the Low Income Housing Tax Credit program. The tax credits replaced the Section 8 housing production programs with a shallower subsidy, making it much more difficult to produce housing for low-income populations. The increased difficulty of doing low-income housing development scared most for-profit developers away, leaving much of the field to the efforts of nonprofit developers. Several NHOs gained national recognition for establishing public-private partnerships to promote affordable housing. National intermediaries (e.g. LISC and Enterprise) were established to provide technical assistance and syndication services to attract private equity investment in exchange for tax credits, lending additional business prestige to the nonprofit sector.

The nonprofit housing sector was further enhanced by legislative set asides in such programs as homeless shelters, tax credits, and the new HOME program. The national policy commitment to the sector is reflected in the introduction by Michael Stegman to a recent HUD study of nonprofit housing (Hebert et al., 1993, p. ii):

“Nonprofit housing developers have become increasingly important producers of housing for low-income people, developing an estimated 20-30,000 units per year nationwide. Projects developed by nonprofits are typically high-risk endeavors in difficult settings for hard-to-serve populations, and often CDCs are the only entities willing to undertake them. Many nonprofit developers provide social or community services in conjunction with physical development, further complicating already challenging efforts. Thus, nonprofit organizations fill a unique and important niche in providing housing for poor people and in rebuilding communities, and they deserve our support.”

Interestingly, Stegman was the first to publicly criticize the complexity and cost of the low-income housing development system that has gained praise for the nonprofit sector (Stegman, 1990). Although not critical of nonprofit developers, Stegman lambasted the tax credit program and “creative financing” as inefficient and costly. The system was troubled with “high transaction costs, inappropriate targeting of benefits, and insufficient monitoring.” The 1993 report authored by Hebert, et al. reported on the costs, type of financing, subsidy layering, and development time required for 15 projects. These projects typically had seven to eight layers of financing, often required the participation of national intermediaries, and on average took 41

months to complete. The pre-development phase accounted for three-fourths of the time required for completing these developments; construction averaged just 12 months. The LIHTC was the primary source of equity funds, with other funds (primarily debt financing) coming from an array of sources for each project: letters of credit or loans from financial institutions, loans from the city (usually with CDBG or other federal funds), state housing finance agency loans, waived fees, donated land, forgiven real estate taxes, and donations of the nonprofit developer's fees and overhead. Similar findings were reported by Slepín (1994) based on a survey of 20 multi-family housing projects developed by NHOs.

Hebert, et al., present the most extensive analysis of the costs of nonprofit development completed to date. They concluded that these costs were "generally comparable" to industry averages. However, they did not include pre-development costs except to the extent these were reflected in the developer's fees charged to the project. This is likely to seriously understate actual pre-development costs. First, it is highly likely that nonprofit developers do not keep records of all pre-development costs, particularly staff time. Secondly, even if they know these costs, they are unlikely to pass them on to the development in full if they exceed typical rates for developers' fees. Additionally, the development fees charged to the project are frequently waived or loaned to the project at zero interest as subordinate or unsecured debt. Consequently, the cost comparison presented by Hebert, et al., primarily reflects construction costs, which would not be expected to vary widely from industry standards.

The claim of comparable costs notwithstanding, Hebert, et al., found that "multiple financing resulted in numerous delays in the 15 projects, especially in connection with public sources of funding" and recommended increased cost control and fewer funding sources. They also concluded that "the nonprofits' frequent inability to recoup the administrative expenses associated with the housing development projects, or to realize significant developer's fees as a mechanism to build up capital, may result in low salaries and limited job opportunities/stability."

Discussions of the costs of nonprofit development are further complicated by the costs of tax credits. Stegman, in his 1990 article, estimated that the federal tax credit program for low

income housing was approximately twice the cost of direct governmental borrowing. Referencing a HUD sponsored study of the cost of the housing tax credits conducted by ICF (1991), Hebert et al. reported that “the ratio of discounted present value of subsidies for tax credit projects was 2.4 times the average discounted present value of the equivalent Section 8 Existing Housing subsidies for the same households.” Not only does the tax credit program cost substantially more than direct rent subsidies, the discounted present value of the tax credits (net of syndication costs, which easily take 20 percent of gross investor proceeds) is worth less than half their cost to the federal government.

The complexity of nonprofit development within the current funding system is frequently bemoaned by nonprofit organizations (Slepin characterized NHO development as “deals from hell”), but has received very little systematic study. It is important to document this complexity and the numerous delays and cost increases that it causes. Although the nonprofit housing sector receives well deserved praise for making this system work, its national representatives and intermediaries appear reluctant to criticize this system either because they are part of it or out of fear that criticism, however justified, will lead to funding cuts and elimination of programs rather than reform.

A single case study is open to the criticism that it is unrepresentative of other developments and does not present an accurate reflection of the norm. In many ways each nonprofit housing development is unique. But the complexity of the funding system and the tortuous path presented here are undeniably common to many nonprofit housing developments. By studying the details of this one case, we can learn a lot about the problems faced in nonprofit development. As the saying goes, “the devil’s in the details.”

The Hotel Warwick--Background

The Hotel Warwick was originally built in 1883 to serve as the largest transient residential facility in Newport News. As with other older hotels in central cities, many much more splendid than the Warwick, the passage of time was accompanied by progressing

deterioration of its market and its physical structure. After a fire destroyed the original structure in 1961, attempts to reopen the Warwick as a hotel were plagued by the advance of urban decline and the exodus of business activity from downtown Newport News. The hotel was rebuilt in the 1960s, but ran into severe operating deficits and closed in the early 1980s. In 1983, one century after the hotel's first christening, a for-profit partnership called Centre Development, Inc. was formed to renovate the hotel. The restoration was to form the cornerstone of the city's Newport Centre downtown redevelopment plan.

Centre Development purchased the hotel for \$600,000. At the time, the partners planned to spend \$1.75 million for acquisition and renovation in order to bring the hotel up to modern standards. Peninsula Ports Authority (PPA), a state and city-sponsored economic development agency, agreed to lend the Hotel Warwick partners \$1.75 million in tax-exempt industrial revenue bonds backed by a promissory note made payable to the PPA from Centre Development. This promissory note was subsequently assigned to the three banks (Crestar, Sovran, and First American) which had purchased the bonds.

To meet a common requirement of most commercial banks who finance large-scale development projects, the partners had to provide personal equity, in this case \$500,000, as evidence of their good faith and commitment to the proposed venture. Additional financing of \$500,000 for the hotel renovation was obtained from the Newport News Redevelopment and Housing Authority (NNRHA) based on an Urban Development Action Grant in 1984.

Between 1983 and 1985 renovation costs for the Hotel Warwick sky rocketed from \$1.75 million to over \$2.3 million, well beyond what the partners at Centre Development had anticipated. Start-up occupancy rates were lower than expected, while operating and maintenance costs were higher. Concurrently, the City of Newport News was experiencing problems with its overall redevelopment strategy. Businesses continued to vacate downtown and crimes rates were on the rise. With mounting operating losses, the Hotel Warwick closed again in 1988.

In real estate development, one person's failure is often another's opportunity. The Hotel Warwick had been physically renovated and, despite its failure as a hotel, was still an important piece of real estate, anchoring the downtown's waterfront access. But reuse of the property faced serious obstacles. Centre Development, the participating banks, and the NNRHA wanted to minimize their respective losses without doing unnecessary damage to each other.

The SRO Proposal

In many ways, the Hotel Warwick was the ideal property for conversion to a Single Room Only hotel by an enterprising non-profit housing organization (NPHO) and shortly after it closed, VMH, Inc., entered the picture. VMH was well suited to take on a hotel conversion. VMH (originally Virginia Mountain Housing) had become one of the state's larger and more successful NHOs. VMH already owned or operated 14 multi-family properties throughout the state and its Director of Housing Management was located in Virginia Beach-Newport News metropolitan area. The corporation had expertise in applying tax credits to development projects, including state Neighborhood Development Tax Credits as well as federal Low Income Housing Tax Credits. It had earned a solid reputation with the prominent housing organizations which might be involved in this project: HUD, the Virginia Department of Housing and Community Development, the Virginia Housing Development Authority, and the Federal Home Loan Bank of Atlanta.

The Executive Director was actively involved in the state's housing policy network, serving on the Virginia Housing Study Commission, the Virginia Housing Low Income Housing Coalition, the Non-Profit Advisory Committee of the Virginia Housing Development Authority, and committees or boards of several other state and regional housing organizations. In addition to the Executive Director and Director of Housing Management, the corporation's management staff included a Director of Operations and a Director of Finance and Administration. The corporation's legal counsel was experienced with HUD programs and housing tax credits.

By mid-1989, VMH approached Centre Development with a proposition to purchase the old hotel and convert it to SRO use. The plan included the conversion of the vacant structure into 88 single-room units for permanent housing for adults of both sexes, with rent subsidized by HUD Section 8 project-based certificates (Moderate Rehabilitation SRO Program). The plan incorporated the use of state tax credits in lieu of cash for the lenders and tax-deductible gifts from Centre Development for the equity needed in the purchase of the building and Section 8 Mod-Rehab SRO certificates to subsidize post-conversion rents. Additional financing to cover necessary conversion costs would be leveraged through federal tax credits.

The proposal was the first glimmer of hope the Warwick partners had seen since its closing in 1988. Centre Development was enthusiastic with the offer, but the three lenders were cautious and needed to be convinced that tax credits and tax deductions had the same value as cash.

The Toruous Path to Purchasing the Property

During the first half of 1991, a possible development agreement emerged. Modification agreements, indemnity contracts, and deeds of assumption were drafted by the parties' attorneys. In the deal, VMH agreed to pay the \$1.75 million obligation of Centre Development to the three banks holding the Peninsula Ports Authority bonds, as well as the \$500,000 rehabilitation note held by the NNRHA, the balance of which had increased to \$612,000 due to unpaid interest. VMH would transfer state tax credits in three or four annual installments to the banks for the \$1.75 million used to retire the debt. VMH convinced NNRRA to defer payment on its loan until the year 2007.

The tax credits used for the acquisition came from the Virginia Neighborhood Assistance Act Tax Credit program, which provides state tax credits of 50 cents per dollar contributed to nonprofit corporations benefiting neighborhoods. The donation is limited to a maximum of \$350,000 per donor corporation per year. Coupled with the federal and state tax deductions allowed for gifts to charitable organizations (which applied to the half not covered by the state

tax credit), the banks could cover the cost of approximately 70 percent of their contribution. The balance was essentially contributed by Centre Development, the cost of which was only partially offset by the federal and state tax deductions for a contribution to a 501(c)(3) organization.

The use of the state tax credits was limited by the annual maximum contribution allowed, by the donors' annual tax liability, and by the annual allocation of tax credits to VMH. (Although a five-year roll over of unused credits is allowed, the banks were not interested in that option since it involved some risk that the full amount could not be used.) The combination of factors influencing the use of the tax credits required retirement of the bonds over three tax years. A closing would be held with each installment, transferring contributions, tax credits, and property rights in stages. VMH would gain title to the hotel and assume the obligation to retire the bond debt with the first closing. To reduce VMH's exposure to potential losses, Centre Development agreed to purchase the building from VMH and reassume the debt obligation in the event the debt could not be retired through future installments of tax credits, deductions, and contributions.

As the plan to transfer the property and debt obligation to VMH progressed toward a settlement, the project ran into its first major set-back. Right before the first scheduled closing in June, 1991, one of the participating banks, First American, was purchased by another bank (First Union). Complications surrounding First Union's ability to make use of the tax credits and changes in corporate leadership resulted in its decision to withdraw from the agreed settlement. The "deal" appeared to be dead.

Resuscitating dead deals requires a deal-maker with either deep pockets (a rarity among nonprofit housing corporations) or a strong network of business associates. VMH turned to Signet Bank, which was known to be both profitable and civic-minded. Signet agreed to step in and purchase the bonds held by First American. Even though there was nothing to gain from the deal financially, VMH managed to convince Signet that it would have limited risk exposure and should salvage the deal as part of its community reinvestment responsibilities.

The deal was back on track and the closing was rescheduled for December, 1991. An initial payment was made to retire bonds from the combination of tax credits, deductions, and the contribution of uncovered losses by Centre Development. VMH assumed title to the property along with the obligation to repay the remaining bond debt and the deferred NNRHA loan. Implementing a complex purchase agreement based entirely on state tax credits and federal and state tax deductions for charitable contributions, plus uncovered donations from the previous owner, was a heady success. Two years had elapsed since VMH started working on the project. June's near-disaster had been averted and the property transfer was completed. VMH now owned a vacant hotel but still needed to obtain funding for the conversion of the hotel to an SRO for the homeless.

The Tortuous Path to Redeveloping the Property

In years past, property development under the Section 8 assisted housing program was relatively easy to finance. The Section 8 commitment in essence guaranteed a rent-roll sufficient to retire the property debt and cover maintenance costs and other non-debt operating costs (as well as provide a profit). The federal commitment to underwriting the rents was made for 15 to 25 years, ample time to cover permanent financing. The Section 8 program was substantially overhauled in 1986 and its housing production program was replaced with the Low Income Housing Tax Credit, which provides much shallower subsidies and requires much higher rents and incomes of tenants.

The development of housing for tenants who were formerly homeless cannot rely significantly on rental income from those tenants. Debt service (usually the amortized cost of property acquisition and development) and other operating costs for anything other than a fleebag, skid-row hotel would require substantially higher rents than could be afforded by the homeless. In light of this and in recognition of the substantial loss of SRO hotels to urban renewal and other downtown redevelopment projects, Congress enacted the Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings for Homeless Individuals. The

program provides a renewable 10-year commitment of rental assistance. Although construction and permanent financing must be obtained outside the program, the rental subsidies are supposed to cover debt service sufficient to retire the cost of moderate rehabilitation during the initial 10-year commitment. Maximum rents are set at 75 percent of the Fair Market Rent for an efficiency apartment. The rental subsidy is not designed to pay for support services.

A Section 8 commitment was received in September, 1992, but the Housing Assistance Payments Contract wasn't executed until December of the next year. The HAP required occupancy by the end of 1994. The annual contributions contract was for \$352,700 year, equivalent to \$345 monthly rent per unit or 75 percent of the Fair Market Rent for an efficiency apartment (effectively a similar size unit to the SRO units). VMH, however, expected that SRO units for the formerly homeless would be significantly more expensive to operate and maintain than a standard efficiency unit for "regular" tenants and feared that rental income would be insufficient to support adequate maintenance and replacement reserves. Consequently, the building renovation was designed to provide a facility with as little maintenance and replacement as possible. Prevented from covering what were considered reasonably anticipated costs out of the annual rent subsidies, VMH decided to shift these costs to the construction budget.

Although the conversion of a recently renovated hotel to SRO use would seem to be relatively straightforward, such was not the case. Building codes for residential use are predicated on standard building types: single-family homes and apartment buildings. A transient hotel does not meet many of these requirements. Additionally, an SRO hotel for the homeless needs a security system that will guard against entry from fire exits without interfering with the protections of the fire code.

Delays in acquiring the vacant building indirectly contributed to escalating costs. Plumbing lines burst and the boiler was damaged during a winter freeze. In addition to fixing the plumbing and replacing the heating system, the conversion included new flooring (replacing carpet with linoleum), a new roof, new wiring, replastered walls, and a \$100,000 security system. Throughout VMH's five year process to acquire and redevelop the property, conversion costs

(net of acquisition, operating reserve, developer's fee, and LIHTC syndication fee) climbed from the initial estimate of . Fixing or replacing damaged systems, rising material costs, changes in code requirements, and modifications in the scope of work to accommodate a tight operating budget played major roles in this increase.

Cost escalations of this magnitude reflect the numerous delays and complications that push a seemingly straightforward project into a five year saga. It also reflects the peculiarities of the programs used to pay for such housing. Almost as important as the escalation in construction costs is the escalation in so-called "soft" costs--particularly the fees and reserves associated with obtaining money to support the project beyond the level sustained by the Annual Contributions Contract (Section 8 rent subsidies). The need to seek out additional funds was costly, both in time, administrative overhead, and fees.

The effort to obtain additional funding reads like a virtual history of contemporary housing programs, some of which did not even exist when VMH first started the acquisition process. The HOME Program was tapped for a Congregate Housing loan of \$350,000 through the Virginia Department of Housing and Community Development and a \$163,350 loan from NNRHA. The HOME funds in turn required the creation of a Community Housing Development Organization to be the eventually owner of the property. VMH also applied for and received a \$300,000 loan through the Affordable Housing Program of the Federal Home Loan Bank of Atlanta. This required negotiations with yet a fourth bank, which had to apply for the funds on behalf of VMH.

Yet another application was made for a Low Income Housing Tax Credit allocation and a Historic Tax Credit allocation after Congress liberalized these programs' subsidy layering restrictions, which previously prohibited the combined use of subsidy programs with tax credits or made it impractical to do so. A net investment of \$1.9 million was made in March, 1994 by the "limited partners" in exchange for housing tax credits of \$217,756, taken annually over 10 years, and a historic tax credit of \$487,744 taken in the first year. The tax credits required an \$80,178 syndication fee, plus substantial legal and administrative overhead. Additionally, the

tax credit program reinforced the pressure to “front-end” costs by rewarding more tax credits for a larger eligible basis, which is created by doing more construction.

The federal tax credits also required a commitment to maintain occupancy by tenants meeting the program’s low income criteria for 15 years. Extreme penalties are assessed limited partners receiving tax credits for properties that violate the program’s occupancy standards. Consequently, these investors demanded that sufficient up-front operating reserves be established to carry the project for years 11 to 15 in case the 10-year Section 8 rental subsidy was not renewed. Since there was no anticipated excess cash flow to repay VMH’s equity and loans to the project, any distribution of reserves to the investors would further enhance their rate of return and would diminish VMH’s recovery of principal.

In April, 1993, VMH retired the original bond debt with a final exchange of state tax credits for contributions from the three banks and virtually owned the hotel “free and clear” (except for the deferred NNRHA loan). A year later the three additional loans through the HOME Program and FHLB Affordable Housing Program were closed, along with the LIHTC limited partnership agreement. To enhance the financial attractiveness of the project, particularly to the limited partners, VMH committed \$627,072 to the project from deferred payment of its developer’s fee and its contractor’s overhead and profit, along with two zero-interest loans from its own resources. This liability on the part of the nonprofit developer was virtually mandated by the operating reserve required by the LIHTC investors to protect their tax credits in case the Section 8 subsidy is not renewed. This commitment by the nonprofit developer of a substantial reserve fund required additional negotiations over the distribution of these funds after year 15 or upon sale of the property.

In March, 1994, with permanent financing in place, VMH was ready to obtain a construction loan. Construction loans typically require firm commitments for permanent (“take-out”) financing to be in place. Since the equity raised by the housing tax credits would not be firmly committed until the establishment of the limited partnership, the construction loan became virtually contingent on the partnership closing, which didn’t occur until well after construction

was initiated. Delaying construction until a construction loan could be closed would have threatened the Section 8 commitment, which needed two extensions in any case. Initiating construction without a construction loan would expose even larger, for-profit firms to serious risk of financial failure due to cash flow problems. A nonprofit corporation starting without a construction loan is an invitation for disaster. Nonetheless, VMH faced another possible unraveling of years of work. Consequently, construction was initiated in September, 1994 through juggling a line of credit with First Union, drawdowns from the HOME grants from the State and from the City of Newport News, the Federal Home Loan Bank Affordable Housing Program loan, and VMH's internal resources. With construction underway, VMH was liable for payment of subcontractors working on the conversion. These payments presented an ongoing strain on the corporation's cash flow and required periodic attention from the director and administrative staff to avoid financial failure. But by the time the construction loan could be closed, it was superfluous. With just a few weeks to go to the opening of the Warwick SRO in September, 1995, VMH had managed to finance construction through the time-consuming juggling of other commitments.

The various applications for funding the Hotel Warwick SRO required a great deal of staff time, with some programs demanding more attention than others. The coordination of the tax credit exchange with the three banks was the hardest element of the project, according to VMH's executive director. This wasn't due to the complexity of the state tax credit program, but to the time consuming and difficult process of convincing the participating banks that the combination of tax credits and tax deductions along with gifts to VMH from Centre Development would be adequate to retire the bonds held by the banks. On a scale of one to ten (with ten being the most difficult), VMH ranked the building acquisition a ten. Two other funding processes were nearly as difficult: the federal tax credit (LIHTC) application (a process administered by the state) and the application for HOME Congregate Housing funds were both rated as "nines" in difficulty. The State's HOME process was complicated by the Virginia Housing and Development Authority's appraisal process, which took nearly 9 months to

complete. (Not surprisingly, appraisals which rely on “comparables” would not be completed readily for an SRO hotel.) The applications for the Section 8 commitment and the Federal Home Loan Bank loan were substantially less difficult (ranked as “fives”), and the Community Housing Development Organization (CHDO) application required the least amount of staff energy (ranked as a two). The CHDO application, however, did not involve any financial commitment.

CONCLUSION

The nonprofit housing sector in the US has been praised for mastering the complexity of tax credits, complicated financing, and subsidy layering. National and state intermediaries have been established to help make the low-income housing system work. But the system itself is a Rube Goldberg contraption that only an insider could defend and only a masochist could enjoy. The current system is overly complex and expensive. Significant costs are hidden. Transaction costs are outrageously high. Delay and inefficiency are commonplace.

The system itself is a significant barrier to the development of the nonprofit housing sector. Only a few organizations can acquire the skills required (skills which should have little to do with producing low-income housing). The level of complexity makes it difficult to repeat the process in any given neighborhood, or in less populated areas, a county or city. Successful NHOs are likely to find it necessary to look for workable deals across a larger geographic scale than a neighborhood and are thus pushed into community-wide, regional, or state roles. For others, one experience with the system is enough to last a lifetime.

The complexity and waste involved are likely to contribute to burnout and turn-over in the personnel attracted to nonprofit development. These dedicated individuals deserve a system that can reward success and can promote the long term development of the nonprofit housing sector.

The first step is to simplify and combine federal housing programs. Federal tax credits are too costly and inefficient to be the system's primary building block. A single, direct subsidy program (grant or loan) could readily replace the multiple programs now required and could do so with less cost. With a workable program, subsidy layering rules could be established that would bar combination of federal subsidies, although leveraging of state and local subsidies might be encouraged (if they are not simply disguised federal subsidies).

At the moment, the nonprofit housing sector is praised for making this system work. This might not last. Having a pivotal role in an inefficient and wasteful system can lead to being branded as inefficient and wasteful, rather than being praised. There is a real danger that honest

criticism will lead Congress to repeal rather than reform current housing production programs.
That danger must be judged against the dangers of continuing to support the current system.

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