

Policy Points

Good Faith Fund

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A recently released report by the National Low Income Housing Coalition (NLIHC) presents some startling data on rental housing costs in Arkansas and the ability of many low-income families to afford housing.¹ This data makes a strong case for more federal and state investment in affordable housing development. This issue of *Policy Points* presents some of the data from the NLIHC report, *Out of Reach*, and presents several policy alternatives for addressing issues raised by this data.

Rental Housing and Low-Income Families in Arkansas

Rent Affordability. In their recent report, NLIHC defines affordable housing costs as those not exceeding 30% of income. This is a widely accepted standard of housing affordability and is used by the U.S. Department of Housing and Urban Development (HUD) in their housing subsidy programs. Based on this standard, NLIHC has calculated the amount of rent that a family can afford at various income levels. Table 1 presents rent affordability at Arkansas' median income and at 30%, 50%, and 80% of median income. The lowest-income families, those whose incomes are below 30% of the median income, can only afford about \$300 for rent and other housing costs. NLIHC also calculated the percentage of families that actually spend more than 30% of their incomes on rent. *They found that 39% of renters in Arkansas are paying more than they can afford for rent.*

Table 1

Rent Affordability at Various Income Levels				
	Median Income	30% of Median	50% of Median	80% of Median
Income	\$41,700	\$12,501	\$20,850	\$33,360
Affordable Rent	\$1042	\$313	\$521	\$834

Source: "Out of Reach," a report by the National Low Income Housing Coalition, 2001.

Fair Market Rent. Each year, HUD calculates a Fair Market Rent based on a survey of rents in a particular geographic area. The Fair Market Rent includes rent and utilities except for telephone and is the rent that falls at the 40th percentile of all rents in that area. That means that 40% of rents are at or below the Fair Market Rent, and 60% of rents are above it. Fair Market Rents in

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Arkansas for various rental unit sizes are presented in Table 2. The table also shows exactly how much income a family must have, and the hourly wage they would have to make, in order to afford the Fair Market Rents for one, two, and three bedroom rental units. To afford a three-bedroom rental unit, a family would need an income of \$24,704 a year, which equates to an hourly wage of \$11.88. The table also shows how many hours a week a worker earning the minimum wage of \$5.15 per hour would need to work in order to afford the Fair Market Rent. For that same three-bedroom unit, a minimum wage worker would have to work 92 hours per week, the equivalent of more than two full-time jobs.

Table 2

Fair Market Rent				
	Fair Market Rent	Income Needed to Afford FMR	Hourly Wage Needed	Hours Per Week at Minimum Wage Needed to Afford FMR
One Bedroom	\$364	\$14,549	\$6.99	54
Two Bedroom	\$456	\$18,257	\$8.78	68
Three Bedroom	\$618	\$24,704	\$11.88	92

Source: "Out of Reach," a report by the National Low Income Housing Coalition, 2001.

When the incomes needed to afford Fair Market Rents are compared to the actual incomes of Arkansas families (see table 3), it becomes clear that, on average, families whose incomes fall into the bottom two-fifths of the income distribution have difficulty affording Fair Market Rents. The average family in the bottom fifth of the distribution cannot even afford a one bedroom apartment. They would need about \$3400 more in income to afford a one bedroom unit, \$7100 more to afford a two bedroom unit, and \$13,500 more to afford a three bedroom unit. The average family in the next fifth could afford a one or two bedroom apartment, but would be just short of the income needed to afford a three bedroom unit.

Table 3

Average Family Incomes in Arkansas, 1997-1999	
Bottom Fifth	\$11,121
Second Fifth	\$ 24,094
Third Fifth	\$35,466
Fourth Fifth	\$51,591
Top Fifth	\$101,057

Source: Economic Policy Institute analysis of Current Population Survey data, 2001.

And if you compare the hourly wage needed to afford various housing units to the wages of actual jobs in Arkansas, you find that many jobs do not pay enough. A recent study by Good Faith Fund and Arkansas Advocates for Children and Families compared the wages needed to support families of various sizes (the Family Income Standard) to the actual wages of jobs in Arkansas.² While these wages are not exactly the same as the wages needed to afford the Fair Market Rents, they do give some sense of the jobs available at those wage rates. For example, as presented in Table 4, the report calculated the percentage of jobs paying enough to support a family of one adult and two children. That wage is \$11.76, about the same amount needed to afford a three-bedroom unit (\$11.88). *Only one-third (34%) of the jobs in the state pay enough for a family to afford a three-bedroom unit.*

Table 4

Arkansas Jobs That Pay the Family Income Standard, 1999		
Family Type	FIS Hourly Wage	Percent of Jobs Paying FIS
1 Adult & 1 Child	\$8.90	57%
2 Adults & 1 Child	\$10.59	42%
1 Adult & 2 Children	\$11.76	34%
2 Adults & 2 Children	\$13.51	26%

Source: "Working Families and the New Economy: Is Arkansas' Economy Creating Enough Jobs to Support the State's Families?" a report by Arkansas Advocates for Children and Families and the Good Faith Fund, 2000.

County Specific Data. A more in-depth look at the data for individual counties shows that there is no place in the state where Fair Market Rents are particularly affordable for lower-income families. As chart 1 shows, even in the counties with the lowest rents, the Fair Market Rent for a 3-bedroom unit is \$503 per month. And as charts 2 and 3 indicate, to afford such a unit, a family would have to have an income of \$20,120, which translates into an hourly wage of \$9.67 per hour or a 75-hour work week at the minimum wage, the equivalent of almost two full-time jobs.

And while the highest Fair Market Rents tend to be clustered in central and northwest Arkansas and in more metropolitan areas like Fort Smith, Jonesboro, and Texarkana, it should be noted that the highest Fair Market Rent is in Crittenden County, most likely because of its proximity to Memphis. However, Crittenden County is in the Delta, and like most Delta counties, the incomes of families living there are low.

Chart 1
Fair Market Rent for a 3-Bedroom Unit

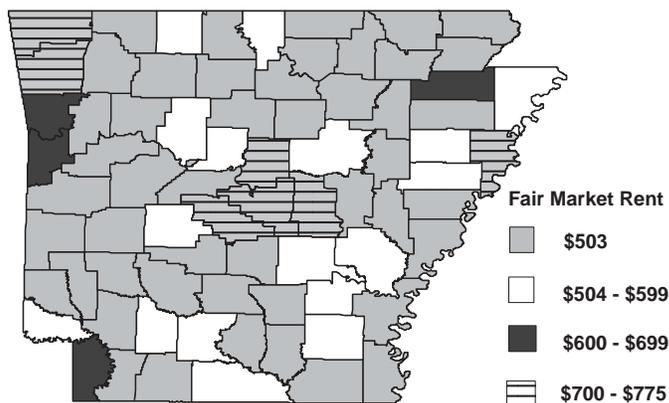


Chart 2
Family Income Needed to Afford a 3-Bedroom Unit at Fair Market Rent

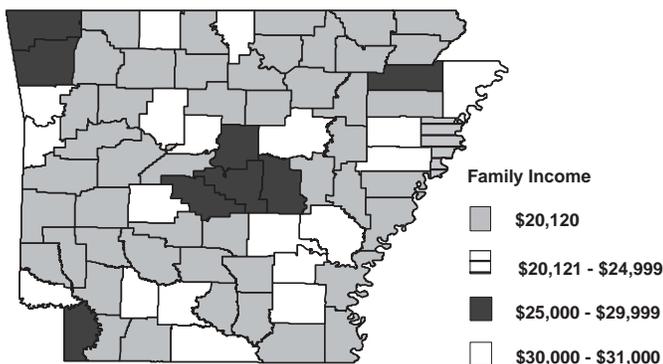
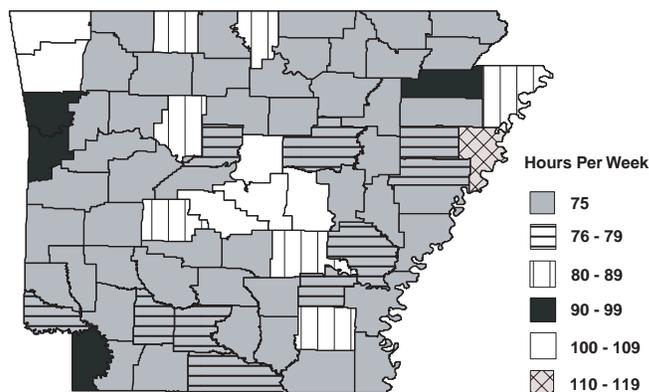


Chart 3
Hours Worked at Minimum Wage Per Week to afford a 3-Bedroom Unit at Fair Market Rent



The NLIHC report also presents data on all metropolitan statistical areas (MSAs) in the country. When hourly wages needed to afford a two-bedroom rental unit for 2000 and 2001 were compared, the Jonesboro MSA had the 8th highest increase of all MSAs in the country. The hourly wage needed to afford a two-bedroom unit increased 20% in the last year from \$7.73 in 2000 to \$9.29 in 2001.

Policy Solutions

There are several policy solutions that are being considered either in Congress or in states around the country that could address the problems outlined above.

Federal Housing Trust Fund Legislation. Two bills have been introduced in this Congress that would establish a national housing trust fund - HR 2349 and S 1248. Such a fund would serve as a source of revenue for the production of new housing and the preservation or rehabilitation of existing housing that is affordable for

low-income families. The goal of both bills is 1.5 million units over the next 10 years. Units developed with these funds would have to remain affordable for 40 years. While the two bills differ somewhat, both would provide funding for rental housing development and homeownership. The bills use ongoing, permanent, dedicated sources of revenue including surpluses from FHA, Ginnie Mae, and the Mutual Mortgage Insurance Fund. To access the funds, states would have to put up a match of one dollar for every four federal dollars they draw down. Acceptable match sources include: 50% of funds allocable to tax credits, 50% of revenue from mortgage revenue bonds, and 50% of proceeds from the sale of tax-exempt bonds. Both bills make funds available to the states through a formula based on housing needs. The Senate bill would also make funds available for national competitive grants to non-profit intermediaries.

State and Local Housing Trust Funds. There are at least 150 housing trust funds in the United States, in both states and localities. Thirty-six states have created such funds, and the remainder are in cities and counties. The purposes of these funds are very similar to the federal trust fund that would be created with the above legislation. More than \$500 million is spent for affordable housing through these trust funds every year. On average, for every \$1 committed to a housing project by a housing trust fund, another \$5-\$10 is leveraged in other public and private sources. States and local areas have used a variety of sources to fund housing trust funds. These include taxes and fees from property transactions (e.g., real estate transfer taxes, interest from pooled escrow accounts); development fees and taxes; municipal taxes (e.g., sales taxes, restaurant and hotel/motel taxes, and property taxes); government activities (e.g., proceeds from land sales, repayments of government loans); bond programs; and other sources such as lotteries.³ At this time, Arkansas does not have a housing trust fund, but the Arkansas Development Finance Authority (ADFA) is exploring funding options for launching one in the near future.

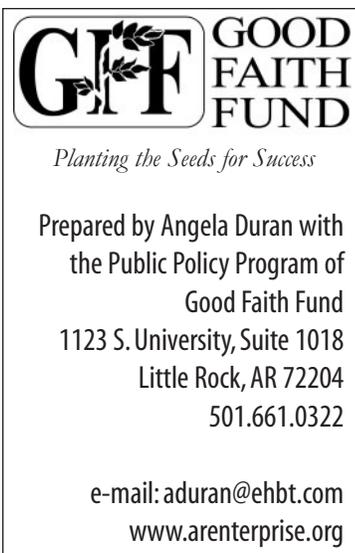
Housing Tax Credit Legislation. Existing law in Arkansas provides a tax credit for the development of affordable housing. The law provides a state tax credit worth 20% of the federal tax credit. State credits are capped at \$250,000 per year. A bill introduced during the 2001 legislative session, SB 347 by Senator Bill Gwatney, would have raised the tax credit to 100% of the federal credit and increased the cap to \$1 million a year. The bill passed the Senate but got stuck in the House Revenue and Tax Committee.

Conclusion. The need for affordable housing in Arkansas is great. Many families are working hard and playing by the rules, but their wages are not enough to afford decent housing. As has been described above, there are several policy options that could lead to the development of more affordable housing in Arkansas. Policymakers must acknowledge the importance of housing to the well-being of the state's families and begin to take steps to address this need.

¹ "Out of Reach," a report by the National Low Income Housing Coalition, 2001.

² "Working Families and the New Economy: Is Arkansas' Economy Creating Enough Jobs to Support the State's Families?" a report by Arkansas Advocates for Children and Families and the Good Faith Fund, 2000.

³ "A Workbook for Creating a Housing Trust Fund," a report by the Center for Community Change, July 1999.





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