

AMERICAN SOCIETY ON AGING
833 Market Street, Suite 511
San Francisco, CA 94103-1824
Address service requested.

Nonprofit Org.
U.S. Postage
PAID
Permit Number
11155
San Francisco, CA

Creating
Elder-Friendly
Communities

'In Focus'
pages 7-10



Photo: Harry Connolly/Enterprise

AGING TODAY

Covering advances in
research, practice and
policy nationwide.
www.agingtoday.org

Vol. XXIX, No. 1

THE BIMONTHLY NEWSPAPER OF THE AMERICAN SOCIETY ON AGING

January-February 2008

Potomac Sources

WHO'S AFRAID OF THE COST- CONTROL WOLF?

By ROBERT A. ROSENBLATT

What worries Americans most when they think about healthcare? They focus on the fear of how much more they will have to pay each year for their insurance coverage.

The Kaiser Family Foundation's poll in December, the most recent in a continuing survey of views on healthcare, discovered that the "biggest healthcare cost-related concern has to do with increases in the amount people pay out of their own pockets for healthcare and insurance (45%, up from 38% in June, the last time the question was asked). This is true for Republicans, Democrats and independents alike."

DEVILISH DETAILS

Notice that the public is not putting high on its wish list the expansion of health insurance to their 47 million fellow Americans who are uninsured, a task that would likely cost \$100 billion a year in new government spending—or health-care savings.

The presidential candidates aren't addressing the devilish details about how to control health-cost inflation. But if any

of them offered successful ways to succeed in wringing waste out of the system, they might slow the rate of inflation. This topic may be the painfully hard-to-achieve sleeper issue in the entire health-care debate.

Can the United States control health-care costs without angering patients, doctors and hospitals, not to mention the people who make new equipment and drugs? Can this country make doctors



Photo: ASA/Bob Levy

and hospitals in high-spending cost areas such as New York, Miami and Los Angeles behave like doctors and hospitals in low-spending cities such as Minneapolis and Sacramento, Calif.?

We know the statistical evidence that makes reforms desirable. Yet only the most daring candidate—and none have been willing to take up the mantle of reform—would be willing even to talk seriously about reform. Doing so might make patients nervous and infuriate doctors and hospital administrators.

Medicare is the biggest single health-care buyer in the United States. The program spent \$401 billion in 2006 out of a

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total national healthcare bill of \$2.1 trillion—and it already has a system of control and regulation that sets fees for hospitals and doctors.

Consider spending patterns at two top-notch academic medical institutions, University of California centers at Los Angeles (UCLA) and San Francisco (UCSF). *The Dartmouth Atlas of*

◆ continued on page 2 ◆

Photo: Retirement Housing Foundation



These Boston elders found affordable living in the landmark R. H. Stearns Department Store, now converted to affordable housing for low-income seniors.

NONPROFITS JOIN TO PRESERVE AFFORDABLE SENIOR HOUSING

By BILL KELLY

"Waste Not, Want Not": That hoary exhortation, my grandfather's favorite, applies to affordable apartments for seniors.

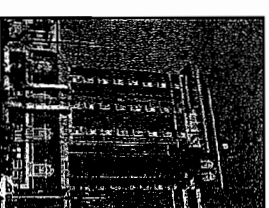
Most discussions about how the United States will provide quality housing for its aging population miss a key point: In recent decades, the U.S. has made an enormous public investment in apartments for older adults with limited incomes, and the challenge now is to keep them affordable. Although these apartments will not alone be adequate to serve the expanding need, the loss of them will dig the aging American society a deeper hole.

UNITS LOST

As of 1998, public funds were subsidizing more than 1.7 million low-income apartments for elders. Of these, at least 800,000 were in more than 10,000 privately owned buildings serving primarily seniors. These properties are owned by nonprofit and for-profit operations and range in size from a few apartments to more than 1,100. Unhappily for public understanding, they were built under

programs of the U.S. Department of Housing and Urban Development (HUD) named for obscure sections of federal laws, such as section 8, section 202, section 236 and section 515.

One common element of these programs is that they provide deep rent subsidies for seniors whose average annual incomes are less than \$10,000. Typically, an older household pays 30% of its income on rent, and the federal government pays the rest up to a market or contract rent.



Battery Park
Senior Apartments
in Asheville, N.C.

The other common element in these programs is that at some point the owner—for-profit or nonprofit—has a legal right to pay off the mortgage or decide not to renew a subsidy contract and then reuse the property for some other purpose, such as converting them to market-rate properties for sale. In its 2002 report titled *A Quiet Crisis in Amer-*

◆ continued on page 5 ◆

INSIDE

A Call for Aging-Friendly Medicare
page 3

A Pastor's Mom Inspires Caregiving
Book, page 11

Boomers and Print Media, page 13

Older Learners and Blogs
page 14

NONPROFITS AIM TO PREVENT LOSS OF AFFORDABLE SENIOR HOMES

• continued from page 1 •

ica, the federal Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st century noted that the United States had lost 20,000 subsidized senior apartments to the market through 2001, and another 324,000 were at risk of being lost. Several measures can avoid that disastrous result.

WINDOW OF OPPORTUNITY

An initiative called Window of Opportunity to preserve affordable housing, including senior housing, is underway with \$150 million grant from the John D. and Catherine T. MacArthur Foundation. (See www.cfed.org/windowofopportunity/default.php.) Members of the organization I head, Stewards of Affordable Housing for the Future (SAHF), are key participants in this effort. AARP, SAHF and MacArthur convened a group of national leaders on Sept. 18, 2007, to discuss preservation of senior housing. MacArthur then brought together nearly 200 preservation leaders on Nov. 7 and 8. The resulting movement soon will be launching a campaign to educate policymakers and the public about the need for and advantages of preservation.

Previously, in September 2005, SAHF and Enterprise Community Partners convened a one-day retreat among leaders in the field to develop a common agenda for reform of the section 202 program, the flagship program for older people. The Affordable Housing Finance Cabinet of the American Association of Homes and Services for the Aging (AAHSA) subsequently adopted and added to this agenda.

When the HUD failed to act on most of the recommendations, AAHSA staff drafted legislation aimed at reforming

AFFORDABLE HOUSING STEWARDS

Stewards of Affordable Housing for the Future (SAHF) is a citizen-sector organization formed in 2003 to strengthen nonprofit owners, preserve affordable rental housing and make rental housing energy efficient. SAHF members are large nonprofit groups: Mercy Housing, National Affordable Housing Trust, National Church Residences, NHT/Enterprise Preservation Corporation, Preservation of Affordable Housing, Retirement Housing Foundation and Volunteers of America. Together, they own and operate approximately 70,000 affordable apartments in all parts of the United States, about two-thirds of which serve low-income seniors. Visit the SAHF website at www.sahfnet.org. ♦

the section 202 program, so that nonprofits can rehabilitate and modernize properties constructed as long ago as 1959.

The resulting bill, HR 2930, was introduced in 2007 by U.S. Rep. Barney Frank, who chairs the House Financial Services Committee. After hearings, the bill passed the House of Representatives on Dec. 5. Housing advocates expected a companion bill to be introduced in the Senate in early 2008, and that hearings will be held in the spring. To address a series of other issues affecting both sen-



Photo: Retirement Housing Foundation

Residents of The Stearns apartments in Boston participate in many activities.

ior and family housing, Frank announced he will also soon introduce a comprehensive affordable housing preservation bill with broad applicability to senior and family housing.

STATE, LOCAL ACTION

Action at the state and local levels is equally crucial. The National Housing Trust reported in the summer of 2007 that 46 state housing finance agencies now provide some priority for preserving affordable housing when they allocate low-income housing tax credits. Because of this, says the report, the apartments preserved annually more than tripled from 20,000 in 2000 to 63,000 in 2006. No separate data are available on senior apartments, but the experience of SAHF members confirms that many of them serve primarily older people. More policy advocacy can help to enable owners and buyers committed to long-term preservation to have access to federal, state and local funding.

Furthermore, owners committed to preservation must enhance their capacity to acquire, renovate and operate this housing. This goal will require nonprofit preservation-buyers to step up to greater scale and responsibility. Meanwhile, property sellers and public officials must come to understand that the prevailing image of housing nonprofits as inherently local and small is outmoded.

Large-scale nonprofit successes preserving the affordability of senior housing have included the acquisition by Retirement Housing Foundation of a portfolio in the Boston area. Another example is the purchase by National Church Residences (NRC) from a for-profit ownership group of six senior housing properties in the Detroit area and a related company that manages 19 properties. To forestall further deterioration of properties for elders run by fading nonprofits in Atlanta, Asheville, N.C., Cleveland and Sandusky, Ohio, NCR raised equity from low-income housing tax credit investors to carry out extensive rehabilitation.

NEW BUSINESS APPROACH

Ambitious undertakings such as these require a new level of business infrastructure to analyze opportunities, raise capital, manage risk and operate efficiently. To that end, groups of nonprofits have formed capital-raising entities, captive insurance companies and buying consortia.

To develop other tools for high-capac-

ity nonprofits, SAHF is collaborating with the Strength Matters Initiative of NeighborWorks America and the Housing Partnership Network, with grant support from the MacArthur Foundation. Working groups are applying performance benchmarks and setting consistent standards for financial reporting.

One complication is that because lenders require it, each affordable housing property is owned by a separate legal entity, and loans and equity investments are for that property alone. These entities are controlled by a central nonprofit corporation called "the enterprise," where the real business plans and decisions are made. To free strong nonprofits from their dependence exclusively on funds raised for single properties, other teams are exploring new sources of debt and equity at the enterprise level.

A final Strength Matters working group is gathering recommendations for

federal, state and local policymakers.

Nonprofit owners cannot be forceful preservation players if regulators do not recognize their need to be sustainable and growing enterprises. Remarkably, regulations still discourage nonprofits from developing a capital base by barring them from the distributions of cash flow and sale proceeds. Even though for-profit developers may legally buy second homes and yachts, nonprofits may not use financial surpluses to build or buy affordable housing.

RESEARCH AND CREDIBILITY

The affordable housing field also must undertake the research that will provide better guidance and more credibility. Anecdotal evidence shows that frail elders can lead fuller lives at lower cost in supportive subsidized apartments than in nursing homes, but there is a lack of comprehensive, evidence-based data on which to make this case.

We at SAHF believe that existing senior housing is closer to public transportation, shopping and medical services, thus providing a higher quality of life for residents, and is inherently greener than newly constructed housing. But documentation is needed to support this belief. New data will make our case more persuasive.

Overall, though, in the face of rising needs, SAHF and its allies are confident that it is in the interest of the United States and its low-income elders to preserve the investment in affordable rental housing. Providing a stitch in time will be easier, cheaper, faster and greener than letting this valuable resource go—only to have to replace it later. ♦

Bill Kelly is president of Stewards of Affordable Housing for the Future and a 2007 Fellow of Purpose Prize program created by Civic Ventures to recognize social entrepreneurs age 60 or older.

EFFORT SAVES BOSTON APARTMENTS

When in the late 1990s the owners of State Street Development decided to sell a 21-property, 3,000-apartment portfolio of affordable housing around Boston, the properties could have been converted to condominiums or repositioned as high-rent housing. One property was an adaptive reuse of the landmark R. H. Stearns department store overlooking Boston Common; another was the former headquarters of the *Boston Herald Traveler* newspaper. Most served low-income seniors.

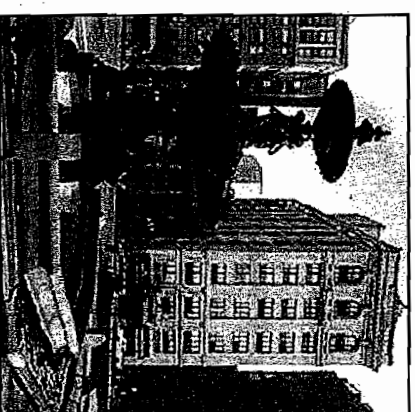
LONG-TERM PRESERVATION

Land costs and a real estate boom had made new construction of affordable apartments uneconomical. Also, most of these apartments received federal section 8 rental assistance, enabling low-income elders to pay only 30% of their incomes in rent.

Retirement Housing Foundation (RHF), a nonprofit with nearly 150 properties nationwide, had the mission and the national scale to be a long-term preservation owner. RHF's partner, Scholch Associates, had the development skills to rehabilitate the properties and manage them. The parties agreed to a purchase formula designed to remain fair through the years it would take to arrange financing and to address environmental and regulatory issues.

MassHousing, the Massachusetts

housing finance agency, made tax-exempt bond cap and low-income housing tax credits available to RHF over several years. With these tools, National Affordable Housing Trust, a nonprofit financial intermediary, raised the capital that enabled RHF to acquire and rehabilitate five State Street properties. RHF bought



The Stearns on Boston Common

another five solely with debt financing from 501(c)(3) nonprofit bonds and loans. The total cost for these first 10 properties was \$217 million.

For the community, these newly renovated properties will grace their neighborhoods and be available to serve the next generation of seniors. ♦

—Bill Kelly

Photo: Retirement Housing Foundation