

CREATING AFFORDABLE RURAL HOUSING WITH SERVICES: OPTIONS AND STRATEGIES

Elise J. Bolda, Sara T. Salley, Robert G. Keith,
Mark F. Richards, Romaine M. Turyn, Patricia Dempsey

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Executive Summary

In an effort both to save money and meet consumers' preferences, many state governments are moving public long term care dollars away from nursing facilities and into community-based alternatives that provide comprehensive care in an environment that is more home-like than the typical nursing home. Long term care alternatives to nursing facilities tend to be less available for consumers in rural areas, where demographic and economic features – such as lower population density and a smaller proportion of high income consumers – make certain care models more expensive to develop and operate. The same challenges, however, also force the development of new models that suit the realities of rural life.

This study explored the challenges and opportunities for developing and operating housing with services in rural areas of Maine, New Hampshire, Vermont and Massachusetts. The study is based on visits to more than a dozen housing with services sites, and interviews with about twenty-five informants in state government, non-profit organizations and providers. The findings demonstrate that developers and operators of housing with services have adopted new and creative strategies for designing, financing, constructing, marketing, and operating facilities in rural areas, but that greater flexibility in state regulations are needed to allow providers to adapt housing with services models to fit small communities and expand the options available for rural consumers.

MAJOR FINDINGS

Rural Challenges and Advantages: The lower population density and smaller proportion of high-income consumers found in rural areas generally make it difficult to develop housing with services facilities that are large enough to take advantage of economies of scale in construction and service delivery or to use rent-skewing approaches to subsidize low-income tenants with the rents of higher income tenants. Facilities in rural areas tend to be smaller than their urban counterparts – typically serving from five to twenty residents – and must adopt different financing and operating strategies to be successful. At the same time, small facilities also have special advantages to offer consumers: They are often more home-like in appearance and character, and more easily integrated into a residential area or town center. Tenants in small facilities also tend to form close bonds with both staff members and other tenants, reducing social isolation and the risk of health problems or other needs going unnoticed.

Financing Strategies: As mentioned, developers of small rural facilities must use aggressive and creative financing strategies to develop new housing with services, in some cases combining funding from ten or more different sources, such as state, local and federal housing and community development grants and loans, tax credit financing, and state or local preservation or conservation trusts. Developers must plan carefully to maximize the capital infusion these funds provide, by making design, materials, and construction decisions for the long term, investing in quality capital improvements that can help reduce operating expenses

and avoid the need to seek additional funding later for costly repairs and needed improvements. The renovation of an older building may keep development costs down (compared to new construction), help revitalize a community by giving new life to abandoned buildings, and open the door to local historical preservation funds. Given the complexity of these financing arrangements, obtaining housing finance expertise is especially important in rural areas, because many developers of rural facilities are small local organizations inexperienced in housing development. Expertise may be found in state housing finance agencies or private for-profit or non-profit consultants; the latter's services may be paid for through the construction financing package or planning grants.

Funding for Services: The greatest challenge to rural housing with services projects may lie in funding the services, rather than the housing. Funding sources for services tend to be more limited in variety and scope than available housing finance programs. Many states rely heavily on Medicaid waiver programs, with medical and financial eligibility requirements that exclude many consumers with moderate levels of impairment, create oversight and licensing burdens too costly for small facilities, and may unintentionally preclude the development of cost-effective, preventive measures designed to prevent institutionalization. Regular Medicaid programs (as opposed to waiver programs) may have less restrictive medical eligibility requirements, but they also have very low income and asset limits which exclude many low income consumers, and all moderate income consumers. States may heavily subsidize services through SSI supplement or other programs which allow for greater flexibility in eligibility requirements, but these programs do not permit states to benefit from federal matching funds.

Affordability: "Affordability" may mean the model is inexpensive to develop and operate, so the housing and services fees are within the private means of tenants with low or moderate incomes, or it may mean that the model is only "affordable" because states have provided generous housing and service subsidies. For the latter, dependence on the state's continued willingness to provide the subsidies can create uncertainties for developers, even non-profits, whose business plans must provide for an adequate revenue stream to service debt on the building and pay operating expenses, which is especially critical for rural facilities with a small tenant population. The affordability advantage most housing with services options have, however, is that they are less expensive than nursing facilities and so, for consumers who would otherwise be in nursing facilities, these alternatives almost always represent a cost savings for state government. Savings are not assured, however, for consumers who desire to live in an assisted living-style residence or other housing with services facility, but who need less intensive services.

Aging in Place: The goal of "aging in place" is generally shared by consumers as well as developers, operators, and regulators of housing with services, and this goal is particularly important for residents of rural areas who may face moving to a distant city if long term care options in their local area are limited. But the goal is in competition with maintaining affordability, because it depends upon a facility's ability to provide an array of services adequate to meet residents' needs, which may increase as they age. Twenty-four hour staffing is one of the services which seems especially important to allowing residents to age in place, and may be especially expensive to provide in smaller rural facilities. Although trained overnight staff may be required in some types of facilities by state regulations, in others live-in managers may provide an adequate level of security and peace of mind, and the cost is often limited to the manager's room and board.

Local Involvement and Support: Successful housing with services facilities in small rural communities have found that community support for and involvement with the project is crucial.

Local residents and organizations can provide much-needed financial contributions and volunteer services, and can help market a new facility through word of mouth. In some cases, developers have affiliated themselves with other local healthcare providers who have an established position in the community. Even with community support, developers and operators have found that achieving full occupancy and financial stability usually took longer in rural areas than they expected. This may be a result of having to draw upon a relatively small population of consumers, or with potential tenants' unfamiliarity with housing with services options in general.

Location and Transportation: The location of a housing with services facility is important because it impacts how the facility and its residents interact with the community. In contrast to nursing homes and larger institutional facilities that are typically located far from a city center, in rural areas it is usually an advantage to locate a housing with services facility in or near the town center. This can facilitate residents' involvement with members of the larger community, and vice versa, and make it possible for tenants to walk to restaurants, the bank or a pharmacy, or to entertainment and activity centers. Where these amenities are not within a short walking distance, facilities need to provide or make arrangements for some kind of transportation services. For larger facilities, this might be in the form of a vehicle owned by the facility or, more commonly, through public transportation programs.

Successful Development Strategies: Some of the successful strategies adopted by providers in rural areas include the use of subcontractors for providing services, sharing management and services staff with other facilities, operating as an area meals site or an adult day program, and employing live-in managers who receive room and board as part or all of their compensation. Developers and operators who participated in the study also shared the following advice:

- Be creative in putting a package of funding sources together, but recognize that all funding comes with strings attached. Weigh the benefits of each funding source against the burdens it may impose on either construction or operations.
- Maximize the initial infusion of capital to invest in systems that will minimize future operating costs. Invest capital for the long term because future repairs may have to be paid for from operating funds. Special funds (gifts or grants) may be available for major repairs or renovations.
- Get help from the experts, especially on financial issues.
- Be involved in the community and create support through interaction. Locating a facility in or near the town center may provide many benefits to the facility and its tenants.
- Be prepared for a difficult start-up period. It may take several months or close to a year to reach full occupancy.
- Screen tenants to make sure they are physically able to cope with the living environment and are socially suited to group living. Also, make sure that the tenants and their families have realistic expectations about the level of services the facility does and does not offer.
- Consider what number of tenants will be required for "critical mass," for purposes of covering operating costs as well as ensuring tenants' social compatibility.

STATE POLICIES AND PROGRAMS

Policy Goals vs. Regulatory Reality: All of the states we studied are in one stage or another of reforming their long term care financing and delivery systems to respond to recent trends in long term care philosophies and to control spending. However, these states' housing and services regulations sometimes thwart efforts to meet these goals in rural communities. Building and service regulations and licensing requirements often make current care models too expensive to build and operate on a scale small enough for rural communities to support.

Inconsistencies between licensing regulations, fire codes and other regulations may also inhibit development. In addition, programs and policies that address the needs of the nursing home eligible population may have the unintended consequence of discouraging development of housing with services that could ultimately help avoid or delay nursing home placement. One way for state government to avoid some of these problems is to ensure that its housing development agency and its human services agency carefully coordinate their priorities and planning for older and disabled populations.

The Need for Targeted Rural Policies: Although we discovered a variety of creative and innovative ways that rural challenges are being addressed by facility developers and operators, many program requirements, eligibility criteria, and licensing regulations continue to hinder the development of a wider array of affordable options that can be implemented in rural areas. State policies and programs consistently fail to address directly the special challenges rural communities face in meeting the need for affordable housing with services and, with few exceptions, policy makers appear to assume that one size fits all when it comes to long term care. Since few states have undertaken specific efforts to develop rural housing with services, continued analysis of policies and programs that will influence the development of these types of facilities in rural areas is needed.

