HOUSING BENEFITS:

New Resources for Managers

Richard C. Ferlauto, Daniel N. Hoffman, and David C. Schwartz

Employer-assisted housing, that is to say housing benefit programs for nonmanagement employees, is gaining the attention of private-sector employers across the nation as they look for ways of attracting and retaining employees, lowering training costs, improving productivity, and improving corporate security and property values.[1] Public-sector managers should be aware of these programs for many of the same reasons.

But public-sector managers should also be aware of how housing benefit programs can be utilized to meet goals that are uniquely important to the public sector. With increasing pressure on municipal budgets to control costs and with the cutback in federal funds for community development activities, local government managers should take a creative look at human resource budgets to find how housing benefits might be useful to enhancing municipal planning objectives.

The Benefits

By using human resource budgets to help employees buy homes, local governments will be able to:

- encourage residency without legal restraints of statutory residency requirements and allow vital service personnel to live within municipal boundaries;
- compensate employees using low-cost, off-budget fiscal tools that would be more valuable to public employees than small salary increases and less expensive than wage increases;
- revitalize deteriorating urban neighborhoods by targeting better homeownership opportunities for municipal workers;
- facilitate the development of local housing partnerships, which are becoming increasingly important deliverers of affordable housing to moderate-income families;
- improve the competitive position of regions with high housing costs by attracting and retaining businesses that might otherwise seek to relocate by offering programs in which the private sector can participate.

The housing benefit programs being offered by corporations vary widely, as standardized benefit packages have not yet emerged in this evolving new benefit area. Most employer-assisted housing programs fall into two categories—demand programs or supply programs. Demand programs lend themselves to enhancing homeownership opportunities. They closely resemble other personnel benefits in that employer involvement in the program is indirect and all eligible employees may access the program at any time. Supply side programs add to the supply of affordable housing, target subsidies to a fewer number of units, and tend to be oriented to lower income employees by financing limited equity housing or rental units.

Demand-oriented employer-assisted housing programs include:

1. *Group mortgage origination programs.* These programs offer various mortgage discounts in return for an employer's "pooling" employees and "steering" those employees to the designated lender.
2. *Closing-cost subsidy programs.* Employers are making loans and grants to employees to defray closing-cost expenses.
3. *Loan guarantee programs.* Lenders are able to reduce or eliminate downpayment requirements by guaranteeing all or a portion of a loan.
4. *Downpayment loan programs.* These programs are being offered in many forms, including deferred loans, forgivable loans (where the rate of forgiveness is pegged to the rate and cost of employee turnover so that the employer actually saves money by offering the program), and loans made by a lender but guaranteed or in some other way secured by an employer.
5. *Group mortgage insurance programs.* Employers can participate in insurance pools

Richard Ferlauto, Daniel Hoffman, and David Schwartz are, respectively, special projects director, research director, and director of the American Affordable Housing Institute, Rutgers, the State University of New Jersey. They are all principals in the firm Housing Benefit Strategies, which helps employers, labor unions, public finance entities, and others develop and implement housing benefit programs.

as investors or by paying premiums on behalf of employees.

6. *Purchasing housing bonds at below-market yields.* By passing the interest rate discount on to employees, employers can save thousands of dollars over the life of a loan while earning a modest return on a personnel benefit for the employer.

Supply-oriented housing activities include:

1. *Housing site subsidies.* By selling, leasing at a discount, or donating land for housing development for employees, a business can substantially reduce costs for employees. Land can be held by the firm, a consortium of firms, or a nonprofit housing entity.
2. *Construction financing.* Major corporations can borrow short-term funds at or near the prime rate. Real estate developers, both for-profit and nonprofit, borrow at much higher rates. Nonprofit builders do not have the track record that allows banks to lend to them with comfort; for-profit developers have increasing problems getting financing because of new rules governing financing from individual lenders. Firms can pass through their borrowing capacity for substantial savings to developers.

Residency Requirements and Emergency Personnel

Local government managers will find that employer-assisted housing programs may be a cost-effective way of meeting personnel management goals. Many municipalities, for example, would like employees to reside within municipal boundaries, but they are located in states where onerous residency loans are not permitted. The need for residency has been acutely felt in times of emergency when police, fire, or other emergency workers are unable to get to where they are needed from outlying suburbs. Housing benefit programs can be offered to employees as an incentive to move within municipal boundaries if the municipality restricts the benefit to areas within its limits. Wilton, Connecticut, located in Fairfield County, one of the regions in the country with the highest housing costs offers a zoning density bonus to developers who donate land to the municipality to be used for affordable housing for municipal employees.

Off-Budget Human Resource

Public employers are beginning to conceive of housing benefits as an off-budget way of providing a valuable employee benefit. In an era of soaring local property taxes and a public cry for no new taxes, local governments and states can use revenue bonds and pension fund investments as capital to fund housing benefit programs (revenue sources that are not reliant on local tax bases). From the employee's perspective, a housing benefit may be more valuable than a 3 percent or 4 percent salary increase, yet the consequence to the taxpayer may be less than a small pay raise. At no cost to the municipal budget, the city of Hartford, Connecticut, uses a pool of employee pension funds to provide low-cost financing to acquire and develop land for non-profit housing projects.[2] Financing is further reduced by using community development block grant (CDBG) funds to pay the pension pool the difference between its fiduciarily required rate of return and the low-cost interest necessary to make projects feasible. While the program does not specially target the resultant housing to municipal employees, it could make sense to cast similar programs as employee benefits.

A Cost-Effective Revitalization Tool

Since 1980, CDBG funds have declined by more than 30 percent (adjusted for inflation) and the U.S. Department of Housing and Urban Development's budget has been slashed from $36 billion to $15.3 billion for fiscal year 1990.[3] In response to shrinking support from the federal government, some local governments have established housing partnerships, linkage fees for affordable housing, zoning density bonuses to stimulate housing activity, and urban enterprise zones, but few of them have sufficient tools or local dollars to spur significant, ongoing investment in low-income communities. Employer-assisted housing can provide new methods, partnerships, and money for revitalizing communities.

Just as benefits can be targeted to certain municipalities to support residency goals, benefits can be targeted to certain neighborhoods within those municipalities for revitalization purposes. Cities or counties, for example, could designate certain neighborhoods where mortgage guarantees or downpayment loans might be made and, in so doing, harness the dollars in municipal personnel budgets to assist in neighborhood stabilization or revitalization.[4] In this way the personnel budget could be used to help meet community development goals while providing homeownership opportunities to employees who might otherwise not become homeowners.

A mortgage guarantee program offered by the University of Pennsylvania for the past 20 years has successfully revitalized the West Philadelphia neighborhood where the university is located. The program has enabled moderate-income employees to buy homes, individuals who otherwise could not afford to because of high downpayment requirements, and it has provided an incentive for higher income employees to locate in an urban neighborhood rather than in a suburban area.

Even modest rates of usage of a housing benefit program would quickly result in many communities' spending more resources via personnel budgets than locally funded community development budgets on revitalization. By regulating the neighborhoods chosen, the local government can control program costs (e.g., prohibiting high-cost neighborhoods from participating or selecting neighborhoods that might not be desirable for certain income groups).

Moving public employees into homeownership through group mortgage insurance programs and mortgage guarantees will stabilize real estate values in areas where local businesses have a substantial investment. Just as important for local employers, a stable neighborhood helps ensure that workers would be willing to work in an area that is not plagued by crime, drugs, and blight. For local government employees who otherwise might not move to marginal neighborhoods, the knowledge that within a few blocks radius are other employees will be a source of security. It also means that the local government will not just be physically revitalizing a neighborhood but will actually bring families in who will introduce a stabilizing influence and sense of community. In terms of municipal budgets, employer-assisted housing benefits for public employees recycle local tax dollars that spur reinvestment, stabilization, and expansion of the local property tax base. In sum, municipal housing benefits hold the promise of becoming a key component of a neighborhood revitalization strategy while providing a new cost-effective, off-budget benefit for municipal employees.

Catalyst for Private-Sector Programs

In addition to offering housing benefit programs because they make good sense for public-sector employers and employees, municipalities are discovering that such activities put them in the position to say to the private sector, "We are offering a housing benefit, and you in the private sector should too. We can help you." The result can be new opportunities for public/private partnerships.

Because housing benefits are new to most employers (only 10 percent have heard of such a thing, but 21 percent say they should be considering housing benefits),[5] municipal benefit programs can serve as examples of how to structure such ventures. Municipalities offering mortgage revenue bond products or group mortgage insurance programs can go to employers and show them a specific way in which the employer can participate in employer-assisted housing. By offering private employers the opportunity to "buy into" a municipal product, local government will help employers overcome the problem of lack of readily accessible benefit products to buy, which retards employer efforts to initiate housing benefit programs. Municipalities can also structure these programs in ways that will encourage (require) the employees to locate in the community providing the benefit rather than buying in neighboring communities.

Providing products for employers to purchase is useful for all employers, but it is particularly important for small business. As many employer-assisted housing efforts are oriented toward programs that can provide a lender or mortgage insurer with substantial volume, small businesses find themselves closed out from some types of housing benefit programs. A participating municipality can pool small businesses so that together the sum of their employees yields sufficient volume to leverage shelter industry price concessions. For small businesses that are concerned that the rising cost of health insurance (and that their inability to bear those costs will make them undesirable employers), a housing benefit may be a valuable compensating benefit. For municipalities concerned with retaining small business, an employer-assisted housing program in which small businesses participate can be viewed not just as an affordable housing program, or a local revitalization program, but rather as an essential ingredient in a business retention strategy.

Local governments with strong or emerging nonprofit housing developers will find that promoting partnerships between nonprofits and local employers for the creation of affordable units is much more efficient than the current system of limited state grants and business philanthropy. For low-income renters who now live in urban neighborhoods, broadly organized partnerships, catalyzed by public leadership, can use employer-assisted supply programs to subsidize housing to affordable levels even for these very modestly paid workers. Some employers have expressed interest in participating in land trust programs, for example, by donating surplus corporate land in return for some priority being given to employees. Using this approach, public employers could join a nonprofit housing association, participating as partners in financing and managing affordable units for municipal workers, while inviting private businesses to do the same.

Similarly, banks could efficiently market discounted loan money in fulfillment of local community reinvestment agreements through employer-assisted housing partnership programs. The Board of Supervisors of San Mateo County, California, recently approved a deferred downpayment loan for county employees that leverages below-market mortgage money available through the Federal Home Loan Bank as a result of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) legislation that "bailed out" the thrift industry.[6]

A Competitive Edge

Employer-assisted housing strategies can help municipalities gain a competitive advantage in high-housing-cost areas. Economists and business leaders are increasingly blaming the lack of affordable housing for the slowdown in major regional economies across the United States. In New England, the Mid-Atlantic States, the Southeast, California, and portions of the Pacific Northwest, high housing costs have been shown to be causing or contributing to labor shortages. Housing costs contribute to labor shortages by encouraging outmigration from high-cost areas and discouraging migration to these areas; diminished productivity due to lateness and absenteeism caused by long commutes as workers seek housing affordability far from developed worksites; and unacceptable recruitment, retention, and wage rate distortions.[7]

Such employers as hospitals, nursing homes, colleges, recreational industries, hotels, and restaurants, which cannot run away from the high cost of housing, are raising rates and/or cutting back on services due to housing-related labor shortages. When a company leaves, forgoes expansion and/or cuts back on services, or raises rates for those services because of housing costs, the community and the regional economy suffer from the loss of jobs, loss or increased cost of services, diminished business opportunities, and an erosion in potential tax revenues.

It doesn't have to be this way! Public and private employers can implement housing benefit programs to solve these problems. Public employers who recognize the ways in which housing benefit programs can provide low-cost benefits to public employees, revitalize neighborhoods, and build new, real partnerships with private employers will be giving their communities a competitive advantage and building better communities. For all of these reasons, employer-assisted housing may well become *the* municipal benefit of the 1990s. **PM**

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