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NEW YORK STATE ASSOCIATION FOR AFFORDABLE HOUSING

Tipping the Balance

**How Prevailing Wages Can
Imperil the Development of Affordable Housing
in New York State**

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How Paying Prevailing Wages Can Imperil the Development of Affordable Housing in New York State

Introduction

The need for affordable housing in New York State has never been greater. The supply, limited to begin with, has dropped precipitously. In New York City, more than 200,000 affordable housing units were lost between 2002 and 2005. Downstate, on Long Island and in Westchester and Rockland counties, one in three households cannot afford their housing costs; the same is true along the Hudson River Valley in Putnam and Columbia counties.

Upstate cities, which have had to contend with an exodus of jobs and population, face an equally serious problem. In the Albany area, 44% of all renters cannot afford the average rent for a two-bedroom apartment; in Rochester, the figure is 50%. Rural counties also face rapidly rising home prices and income stagnation: in Schuyler, Clinton, and Jefferson counties, 48% of renters must pay more than 30% of their income for a two-bedroom apartment.

Building affordable housing is already tough enough -- developers must first locate sites and then piece together private equity dollars and mortgage financing with limited government subsidies to make a project work. And the process has only become more challenging because of the:

- Increase in land costs in many areas.
- Increase in the price of construction materials.
- Turmoil in the financial markets, which has made both mortgage financing and equity more expensive and harder to obtain.
- Greater competition for limited government subsidies, which must be made to stretch further in the face of these increased costs.
- Rising cost of fuel and other utilities, which has made buildings more expensive to operate.

Taken together, these factors have created a perfect storm, making affordable housing more difficult than ever to build. Unlike market rate housing, these increased costs or unexpected shortfalls cannot be made up by increases in rents or sale prices, which are regulated according to the subsidy involved.

A Proposed Step for the Worse

Legislation recently introduced in the New York State Legislature intended to reform IDAs would only make the situation much worse. IDA financing is a crucial resource for building affordable housing in New York. Assembly bill number A.8703a would impose

prevailing wages, those typically paid for certain types of public works construction such as bridges and roadways, on affordable housing projects that receive IDA financing.

In the past four years, IDA financing made possible the construction of more than 4,000 units of affordable housing, almost all in upstate New York or downstate suburban counties where affordable housing is especially difficult to develop. In addition, private activity bond financing from IDAs automatically leverages federal 4% low income housing tax credits, a vital financial resource for affordable housing. These tax credits translate into \$30,000 to \$78,000 in affordable housing subsidies per unit from Washington, which New York will not receive if these bonds are not used.

New York State courts have already determined that affordable housing is not a public work and should not be subject to prevailing wages. Last year, the Governor also specifically rejected the idea that the definition of public work -- and, by extension, a prevailing wage requirement -- be extended to affordable housing.

Recent Experience Confirms the Math -- and Its Impact

The arithmetic is simple, the impact devastating. In January 2008, the independent Center for Governmental Research (CGR) reported that the cost of a typical project in Poughkeepsie would balloon from \$10.7 million to \$16.4 million if the contractor was required to pay prevailing wages rather than market wages, a total cost increase of 53%. Each dollar in increased cost would require an additional dollar of precious subsidy. Most projects confronting this dilemma simply would not be built.

As CGR data shows, workers paid market wages are well compensated. For example, a carpenter on an affordable housing job upstate will earn approximately \$45,000 in wages and benefits (based on 1,840 annual hours). If prevailing wages are required, compensation rises to approximately \$71,000, a 58% increase. For an electrician, the compensation package would go from approximately \$58,000 to approximately \$81,000, a 40% increase.

Three recent examples further demonstrate the impact:

Plymouth Manor/Carlson Commons is an award-winning, 144-unit project that has transformed the Kennedy-Olean neighborhood in downtown Rochester. An analysis performed when construction began in 2004 demonstrated that prevailing wages would have increased construction costs by 25%, a total increase of \$4.35 million. That difference would be even larger if the analysis was based on current construction costs. Such an increase would have made the project infeasible.

South End Revitalization is a 52-unit affordable family project under construction in Albany's South End with total hard costs of \$7 million. A prevailing wage requirement would result in a 32% increase in construction costs. An additional \$43,000 per unit of subsidy would be required to keep these units affordable.

Jefferson Terrace, Stuhr Gardens, and Davies South Terrace are three preservation projects currently being redeveloped with IDA financing in Westchester and Dutchess counties at a construction cost of about \$70 per square foot. The same projects with prevailing wages would have cost approximately \$91 per square foot, an increase of 30%.

The Consequences

The equation is unyielding. **A mandatory escalation of wages will result in the inevitable reduction of affordable housing development.**

To make matters worse, the value of tax credit dollars (the money received from the sale of federal low income housing tax credits, a major source of subsidy) declined by 15% in the past year. Some developers with approved projects are already experiencing funding shortfalls. In response, the State Division of Housing and Community Renewal is offering some additional subsidies to eligible developers who meet rigorous criteria.

This hardly seems the environment in which to mandate wages that will impede the production of one of life's most crucial necessities. Those who claim that the dilemma can be solved by adding more subsidies to the affordable housing pool fail to acknowledge the reality of the city's and state's current fiscal situation. History has shown that such infusions of subsidy are temporary while the wage increases are rarely rolled back. For 18 of the past 20 years, the dollar amount of state funding for affordable housing has remained virtually the same. Adjusted for inflation, this means that the value of the state's investment in this crucial resource has declined significantly over time. A major infusion of funding is included in the current budget, but that will only begin to compensate for all the years of under-funding, not pay for mandated labor cost increases.

Builders of Affordable Housing Build Communities

Affordable housing developers have helped to turn the tide in communities throughout New York State. They are consistently the first ones in, willing to take the risk and lead the way for others to follow.

Contractors who build affordable housing projects are often locally based small businesses, many of which are minority-owned. Their dollars circulate within their communities and have a greater positive influence on the local economy. If a prevailing wage requirement were to be passed, it would be virtually impossible for these smaller contractors to compete with larger firms and the overall impact on these communities would be diminished.

Affordable housing projects also offer many entry-level construction jobs to men and women who work in these communities. Training programs, such as those run by NYSAFAH, give local residents -- many of whom would otherwise be shut out of the job market -- opportunities to pursue careers in the construction trades.

Job Safety

Affordable housing job sites are subject to the same building, fire and labor safety codes as any other project, and are subject to rigorous oversight. Various agencies perform unscheduled inspections at affordable housing construction sites, monitoring performance standards, site conditions, adherence to fair labor practices and the use of documented laborers. Even a first offense can lead to severe repercussions including permanent ineligibility for future subsidies and a full reimbursement of any subsidy given out for the project -- a devastating loss for any developer.

Affordable housing developers and contractors build quality homes, allowing low and middle-income families and others in need to remain in their communities. For example, the 281-unit Ellicott Town Center project in Buffalo, built in 1994, continues to provide high quality affordable homes to its residents today. In North Greenbush, Van Rensselaer Senior Housing has provided 50 units of much-needed senior citizens units since 1993. Eastwood Homes, a 134-unit project in Syracuse, will celebrate its tenth anniversary next year. These are only a few examples of the tens of thousands of affordable housing units that have been built with various forms of state subsidy over the past two decades, which continue to provide superior quality at affordable rents for seniors and families in need of assistance.

Conclusion

If a prevailing wage mandate were imposed on affordable housing developments that rely on IDA financing, projects on the drawing board would never be built and more working families, the elderly, the homeless, the disabled, and others in need of support would continue to be denied decent housing. **NYSFAFH estimates that a prevailing wage requirement for IDA financing will result in the loss to New York State of 1,000 affordable housing units and \$54 million in federal housing subsidy annually.** Our common goal should be to spur affordable housing, not to trigger costs that affordable housing developments cannot sustain. While certainly unintended, the results would be clear: enriching a few at the cost of denying many others, hardly a goal of New York State.