

To: Surabhi Dabir, Senior Policy Advisor, Community Facilities Program, Rural Housing Service, USDA

From: Erin Barnes, President and CEO, Main Street America

Date: December 8, 2023

Re: Comments on Community Facilities Program [Docket No. RHS-23-CF-0023]

Main Street America (MSA) appreciates the opportunity to participate in the stakeholder input process on changes to the Department of Agriculture's Rural Community Facilities Program via the public listening session and following written comment period. MSA supports the expanded eligibility proposed for both recreation facilities and for housing projects as outlined in the public notice. Increasing the utility of the program to meet these essential community needs will create economic opportunity, benefit community health, and improve quality of life for Main Street communities and all rural residents.

Housing is in immediate and high demand in rural communities and impacts the vitality of Main Street districts.

Main Street America (MSA) leads a collaborative movement with partners and grassroots leaders that advances shared prosperity, creates resilient economies, and improves quality of life through place-based economic development in downtowns and neighborhood commercial districts across the country. Our network of commercial district redevelopment entities includes 46 Coordinating Programs at the state, county, or metro city level, with 1,287 neighborhood and downtown affiliates committed to a place-based economic development methodology. Most of these organizations are in communities with fewer than 50,000 residents.

A primary concern for the Main Street network in recent years is the demand for housing within and around Main Street districts. Aligned with the nationwide housing crisis, we have surveyed leaders of MSA districts and find that:

- 87% indicate they are concerned with the state of housing in the Main Street districts.
- 75% feel that there is not enough housing to accommodate those who want to live in the district.

Additionally, housing is a concern for small business owners within MSA districts: 45% of Main Street small business owners cite a lack of housing availability as a concern for staffing.

For these reasons, MSA broadly supports the use of Community Facilities funds to add much needed housing in rural areas, but we also urge USDA to consider the value and challenges of investment in mixed-use buildings.

Maximizing underutilized downtown spaces can increase housing stock while improving community vitality and sustainability, but financing challenges for mixed-use buildings limit opportunities for redevelopment.

The underutilized or vacant upper floors of Main Street buildings, as well as vacant parcels, are prime space through which rural communities can address housing demand:

- 93% of Main Street districts have vacant upper floors
- 95% of Main Street districts have fully vacant buildings.

Overall, 70% of Main Street America local leaders reported that a lack of built-out space holds back economic development in their downtowns or district.

Redevelopment of these spaces as housing can have significant economic and social value and help avoid a significant release of carbon from new construction. According to the Carbon Leadership Forum, a project of the University of Washington, rehabilitating existing buildings saves 50-75% of the carbon that would be expended from a new construction project. Furthermore, adding upper-floor residential units typically does not require new infrastructure such as streets, water, and sewers, and it does not require expansion of the electric grid. Infrastructure is energy and carbon-intensive to develop – and thus making better use of existing infrastructure also helps to meet the United States’ carbon reduction targets. Additionally, downtown residents create economic impact for the community, as they are more likely to patronize small businesses located in the community.

Redevelopment of Main Street buildings to support upper floor housing faces significant financing challenges. Via a survey conducted in 2023, developers working in Main Street districts report that capital-related challenges are key to preventing redevelopment. These challenges include:

- Pre-development Funds: 80% of respondents report that securing pre-development funding is a difficulty in development, particularly for smaller scale, more locally serving development projects.
- Acquisition Capital: Our survey also found that sources of acquisition capital are also likely to be scarce among women or developers of color; typical sources include personal funds, friends and family, CDFIs, and high net-worth investors.
- Construction Capital: 80% of developer respondents say securing construction financing was “difficult,” “very difficult,” or “extremely difficult.”

Because of these financing challenges, many of the redevelopment projects in Main Street districts do not “pencil out” at traditional rates of return and therefore remain underutilized.

To best utilize upper floors as housing space, USDA Rural Community Facilities grants and loans should allow for a mix of residential and commercial uses.

To address the housing needs of rural downtowns, regulations for Community Facilities housing uses should be crafted to recognize the function of rural downtown building stock. Anecdotally, between 50% to 80% of properties in a traditional downtown area are not single-story commercial and could support mixed uses. These properties were built to serve multiple uses as both ground floor retail and upper floor office, residential, manufacturing, or other purposes. Today, communities are innovating in existing downtown spaces to meet urgent needs and emerging trends, including business incubators, flexible workspaces, and small-scale manufacturing – with an emphasis on housing.

Main Street communities looking to federal financing resources may find that some programs have regulatory barriers for application on these buildings. Regulations may limit use to either commercial or residential but do not allow mixed uses. When local leaders and developers are working towards solutions, they find that a building’s residential and commercial space cannot be separated down to the building systems, shared areas, and envelope, preventing use of these financing options. To meet housing demand, tools and resources must be flexible to meet community needs and focus on existing assets.

MSA also supports the use of Community Facilities loans and grants for recreational uses.

The development of parks, trails, and other public spaces in and around Main Street environments is essential to the health and well-being of downtown residents and communities at large. Recreational infrastructure and other civic infrastructure amenities create higher quality of life, which has a mutually beneficial relationship to the development of downtown rural housing. We encourage broad uses of Community Facilities loans and grants for recreational purposes, so long as those facilities are available to the public with little or no fee for participation. These comments are aligned with comments submitted by the Percent for Place coalition, of which MSA is a participant.

We appreciate the opportunity to participate to offer comments on the Community Facilities program. Any questions regarding these comments can be directed to Kelly Humrichouser, Director of Government Relations, at khumrichouser@mainstreet.org