

Supportive Housing Policy Paper

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Supportive Housing Policy Priorities from the May 15, 2008 Practitioners' Mercy Symposium: Opening Doors to Affordable Housing: The Practitioner's Path to Scale and Sustainability

The Challenge

Permanent supportive housing is a **proven solution to homelessness** that not only **stabilizes lives** of homeless individuals and families, but has been documented to **reduce costs to public systems** including emergency and long term health care. Hence the first goal of the national "Compact to End Homelessness" - to create and sustain at least **150,000 units** of permanent supportive housing for families and individuals experiencing long term homelessness – was set in 2002 with confidence that capable developers, owners, operators and investors were or could be available for the work.

Although there have been dramatic successes in creating supportive housing and reducing homelessness, practitioners and advocates have experienced significant barriers to reaching the 150,000 unit goal. At the end of 2008, the Corporation for Supportive Housing estimates that 60,000 units have been created, 30,000 are in the predevelopment pipeline, and **60,000 additional units are still needed** to meet the target. Development of every purpose-built supportive housing project remains **difficult and expensive** due to the complexity of finding a site and matching adequate resources for capital, property operations and supportive services. The "right-sizing" of such properties to fit smaller communities may push larger developers away from these projects if they are unable to meet overhead costs with small developer fees and upside down operating costs; a small owner may take on these properties at risk. State policies mandating set-asides of homeless/disabled units in LIHTC properties incentivize development but may shift the operating challenges of these mixed properties onto property management companies unfamiliar with meeting the needs of this resident population.

At the same time successful **permanent supportive housing projects are eroding** that have been operating successfully for over a decade: many face a lack of resources for re-financing supportive housing that has reached the end of its tax credit term, and alternatives such as older YMCAs and YWCAs are being lost in many communities with little or nothing available as replacement housing.

Practitioner Perspective

Long term owners and operators of supportive housing remain committed to implementing this known solution to homelessness, but cannot put their organizations at financial risk by doing so. Over twenty years of experience has taught us that for many residents, permanent supportive housing is exactly that – permanent. There is little turnover, because relatively few previously homeless and disabled individuals find themselves able to move easily into mainstream housing. The need for deep rental subsidies, adaptations to mainstream property operating and staffing practices, requirements for easily accessible supportive services, and the perception by investors that supportive housing is “riskier” than other affordable housing types all work against the sustainability of this housing type for our most vulnerable citizens. Just as in affordable senior housing, those in permanent supportive housing “age in place” while the supportive housing properties age around them and require ongoing investment. No owner wishes to put vulnerable tenants at risk of property failure.

Guiding Principles

Sustainability matters – the property must work long-term to meet the needs of the owner, resident and community.

Scale matters – despite the current economic downturn, it is likely that energy and personnel costs will continue to rise more quickly than approved rents for this very low income population, creating operating cost challenges especially for small supportive housing properties in out years.

Permanence matters – residents living successfully in permanent supportive housing should be able to maintain their tenancies even though they are not “homeless” per se at the point the property is recapitalized.

Recommendations

The Mercy Symposium’s “Housing the Homeless” Focus Group identified three major public policy priorities of critical interest to supportive housing developers, owners and operators who share the mission of ending homelessness through provision of permanent supportive housing: **To create new permanent supportive housing** to decrease homelessness the top policy priorities are:

- Reauthorization of the McKinney Vento Homeless Assistance Act with close attention to creating and preserving supportive housing solutions that are sustainable; and flexibility of funding to support homelessness prevention,
- Improve upfront alignment of capital for supportive housing with access to ongoing rental or operating subsidy, and supportive services funding, to incentivize sponsors and investors to be and remain long term owners of supportive housing (possibly similar to AAHSA’s proposal to build services funding into every property for vulnerable individuals).

To sustain and preserve existing units of supportive housing so that formerly homeless people do not become homeless again the top policy priorities are:

- Align policy and resources to sustain long term housing for those living in LIHTC supportive housing at the end of the 15 year term without displacing current vulnerable residents into homelessness so that they will be eligible to be housed – again- as a “priority” population,
- Align policy and resources to sustain long term housing for those in threatened SROs such as many YMCAs without displacing current vulnerable residents into homelessness so that they will be eligible to be housed – again - as a “priority” population.

To maintain a focus on housing the most vulnerable populations the top policy priorities are:

- distinguish between the urgency of access to affordable housing for displaced families (whose children are especially placed at risk by extended residential instability) and individuals who languish within or on the edges of the “homeless system” of shelters, and within institutions (such as jails, residential facilities for single youth or adults), and align resources accordingly,
- incentivize sponsors and investors to house the chronically homeless long-term.

Priority One: To Create New Supportive Housing

Federal Policy Priorities:

Re-authorization of the McKinney Vento Homeless Assistance Act.

The U.S. House of Representatives has passed a bill to reauthorize HUD’s McKinney-Vento Homeless Assistance programs. The bill is a compromise between a version that passed the House Financial Services Committee in July 2008, and one that passed the Senate Banking Committee in September 2007. After the November election, the Senate may take up the same bill that was passed by the House. If the Senate passes the bill, it would likely be signed by the President and enacted into law.

The bill would make numerous changes to HUD’s homeless assistance programs:

- provides proportionately more resources for homeless families including homelessness prevention and rapid re-housing through new Emergency Solutions Grants (received on a formula basis by jurisdictions based on homeless counts),
- continued emphasis through consolidated Continuum of Care programs on creating permanent supportive housing for people experiencing chronic homelessness - families for the first time could be considered chronically homeless,

- option for rural communities to apply under separate guidelines that address worst case housing conditions,
- addresses long term rental and operating subsidies:
 - project sponsors may request 15 year agreements for project based assistance that would be subject to annual appropriations,
 - funding for renewals of permanent housing rental assistance, leasing and operating costs would come from the funding account for the Section 8 program. Permanent housing renewals would be funded non-competitively for one year at a time,
 - Service coordination is defined as an operating cost.

Action needed: support for re-authorization; influence Continuum of Care program regulations to ensure positive alignment with development and operating requirements for permanent supportive housing sponsors; influence on Emergency Solutions program regulations to encourage affordable housing operators to fully participate in efforts to prevent homelessness by stabilizing tenant households at risk of eviction.

Implementation of the 2008 Housing and Economic Recovery Act (HERA)

Highlights for sponsors of permanent supportive housing include:

- National Affordable Housing Trust Fund has a focus on Extremely Low Income households,
- HERA aligns Section 8 and Shelter Plus Care rental subsidy contracts with the 15 year term of LIHTC (as noted above, McKinney Vento reauthorization removes distinctions across subsidies and shifts renewals of homeless subsidies into Section 8 account),
- HERA lifts prohibition to refinance Sec 8 Mod Rehabs with LIHTC,
- HERA removes the “taint” on basis of McKinney grants used with LIHTC (nb: IRS opinion is needed on whether this is only effective as of date of legislation),
- *Action needed: protect the National Affordable Housing Trust Fund; closely follow appropriations process for Section 8 to ensure homeless subsidy renewals are adequately funded.*

New federal resources for Homeless Veterans

In 2008 HUD issued 10,000 VASH Section 8s for homeless veterans and expects to issue an additional 10,000 vouchers in 2009; the option exists for project-basing some of these subsidies.

Action needed: Seek opportunities for more resources to meet the needs of returning veterans, of whom up to 600,000 are anticipated to suffer from either PTSD or traumatic brain injury, increasing their risk of unstable housing and homelessness.

Changes to the HUD 811 Program

Action needed: track progress of proposed changes to the HUD 811 program, similar to those proposed for homeless programs, which will shift subsidy renewal funding to the Section 8 account, potentially freeing up more resources to create more permanent housing for persons with disabilities.

State Policy Priorities:

The Corporation for Supportive Housing has been instrumental in encouraging states to incentivize the creation of supportive housing through set-asides in Qualified Allocation Plans for the Low Income Housing Tax Credit. Housing Credit Policies in 2007 that Promote Supportive Housing: A State-by-State Analysis, written by James Tassos for the CSH and Enterprise Community Partners, analyzes each of the 50 states' 2007 Housing Credit Qualified Allocation Plans (QAPs) and identifies a variety of innovative Housing Credit policy approaches to supportive housing including:

- **Credit Set-Asides**, under which states pledge to allocate a certain portion of available Housing Credits during the year to supportive housing developments,
- **Scoring Incentives**, under which states encourage supportive housing development through the award of points in the competitive scoring process,
- **Threshold Requirements**, under which states pledge to support only developments that meet minimum requirements to be considered supportive housing projects.

Subsequent to that report, CSH and Enterprise commissioned a detailed examination of 16 states' QAPs for 2008 and other state guidelines, issued as Summary of Select 2008 Low Income Housing Tax Credit QAP Policies Encouraging Supportive Housing.

A per-project tax credit cap is a factor in some state's QAPs. Such a cap can prohibit supportive housing developments that will operate at a scale large enough to achieve economic efficiencies and be sustainable over 15 years following construction; or may require the additional cost and inefficiency of applying in two stages for what is actually a single project. A **waiver of the per-project cap** is needed for supportive housing projects of significance in these locations.

State level systems reform in a number of states has created greater awareness of the benefits of supportive housing to the consumers of publicly-funded systems for mental health, developmental disabilities, corrections, and child welfare, and to ensure permanent supportive housing alternatives to inappropriate institutional care or discharge to homelessness. For example, California's Mental Health Services Act has incentivized creation of a significant amount of permanent supportive housing.

State policy impact on project level

Loss of demand from investors in the tax credit market is placing much affordable housing development on hold. Investors are more selective in the deals they are funding, and with this choice, demonstrating preferences for easy-to-understand deals with the least risk.

Requirements for supportive housing deals which are inherently complicated include:

- Demand for long-term rental and operating subsidies,
- No hard debt due to limited cash flow,
- Low interest rates on soft debt, preferably expecting no cash flow payments at all,

- Substantial reserves are being required to cover normal operating shortfalls but also to cover shortfalls in case service subsidies or rental subsidies are terminated.

Responding to investor and sponsor concerns, in July 2008 the California Tax Credit Allocation Committee issued guidance that **if despite best efforts to maintain deep rental subsidies for such projects, these subsidies are terminated, the sponsor may raise resident income targets** and the resulting rent stream to maintain project feasibility.

With the recent economic downturn negatively affecting state revenues and overall investor confidence, advocacy is essential to maintain long-term state-funded programs and services for the most vulnerable populations, including those needing supportive housing.

Local level

Cities suffering in the economic crisis are sorely stretched to maintain basic city services in the face of declining tax and fee revenues, much less expand services to meet the needs of newly homeless and newly unemployed households. The **Neighborhood Stabilization Program** may offer an opportunity to site supportive housing (including in formerly-resistant neighborhoods if the new use is seen as preferable to a vacancy or board-up), or bank land for further development, but this re-purposing will require exceptionally fast action within the NSP's eighteen-month window.

Land use incentives are another opportunity: the San Diego Redevelopment Authority allows a density bonus for affordable housing developers who meet a threshold of 10% of affordable units as supportive housing. CSH is monitoring land use incentives and will advocate for and publicize best practices in this area.

Priority Two: Sustain and Preserve Existing Supportive Housing and Maintain Resident Stability

Federal policy priorities

Reauthorization of McKinney Vento Homeless Assistance Programs (as above) removes some barriers to refinancing and sustaining supportive housing as it ages:

- Allows supportive housing properties originally rehabilitated with Section 8 Mod Rehab funds to use LIHTC financing to refinance,
- Shifts subsidy renewal funding to the Section 8 account and allows for a HAP contract for up to 15 years, consistent with LIHTC,
- Includes services coordination as an operating cost transferable upon renewal to the Section 8 account as above.

Action needed: What remains unaddressed is the definition of homelessness such that those who were homeless under the current HUD definition when they entered supportive housing may continue to live in these properties when the building is refinanced or ownership is transferred; permitting flexible use of funds to prevent homelessness by maintaining tenancy for this population may be a solution.

State level

Supportive housing in some states is reaching the end of its tax credit term. Some sponsors are finding little receptivity to renewing agreements that made this housing type feasible in the first place; others find the definition of homelessness and homeless priorities exclude individuals the programs are designed to serve and currently are serving.

Action needed: Attend to the need for LIHTC re-financing of supportive housing; address definitions of homelessness to prevent the displacement of vulnerable residents upon refinancing; support state set-asides and other scoring incentives in QAPs that complement rather than compete with refinancing needs for supportive housing.

State and Local Quality Assurance

The ability to site new supportive housing may – and should - depend upon local confidence in the quality of ongoing property operations. Investors must be confident in sponsor's ability to provide safe, quality housing, efficient operations and effective supportive services for the life of the investment. Similarly, clear supportive housing operating standards are essential as mainstream affordable housing developers using LIHTC set-asides become accountable for a new product and population.

Action: Practitioner collaboration with CSH which has developed a framework for quality improvement efforts called Dimensions of Quality, and is using them both with local and state government to help them understand and monitor the quality of their investments in supportive housing, and with supportive housing providers to help them improve the quality of their property management and, ultimately, of their asset management.

Priority Three: Focus on housing the most vulnerable populations

Federal policy priorities:

McKinney Vento Re-Authorization continues to focus on housing the chronically homeless and expands the definition so that chronically homeless families may be included as a priority population. As the proportion of Emergency Solutions funding increases, a rural communities' set-aside of funds is created, and focus in the legislation expands to serve more households at risk of homelessness, careful monitoring is needed to ensure that the chronically homeless remain a national priority.

Monitor implementation of mental health parity legislation

Requirements for health insurance companies to provide mental health treatment in parity with treatment for other chronic diseases should have a positive impact on stabilizing people with psychiatric disorders before reaching a crisis, and avoiding the costs of institutionalization

State and local levels:

Target the most vulnerable and disabled living on the streets and in shelters

A targeted, strategic outreach process that links the medically frail to immediate supportive housing opportunities needs to replace random "first come, first served" approaches. Common Ground piloted this effort in its own properties in New York City, successfully amending wait list procedures and tenant selection plans to facilitate this process. Common Ground built on the research of Dr. James O'Connell of Healthcare for the Homeless in Boston, who collected data on health conditions that put homeless adults at a high mortality risk. Through the Vulnerability Index, Common Ground has helped nearly a dozen communities identify and prioritize the homeless population for housing according to the fragility of their health. For example, typically 40 to 50% of the street homeless population will have at least one health condition that puts them at a high mortality risk. Common Ground administers the Vulnerability Index in a form of a survey, which captures a homeless individual's health and social status. The survey identifies the most vulnerable through a ranking system which take into account health conditions, risk factors and the duration of homelessness. This ranking allows those with the most severe health risks to be identified and prioritized for housing and other support.

From the early successes of its Street to Home program in New York City, Common Ground has consistently observed that putting names and faces – and now medical conditions – to formerly anonymous street homeless individuals inspires action. The commitment of housing resources and the expedited housing placement of the medically-fragile, have been the direct, concrete results of the use of the Vulnerability Index.

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