Creating Integrated Permanent Supportive Housing Opportunities for ELI Households: A Vision for the Future

Ann O'Hara

Technical Assistance Collaborative, Inc

April 13, 2015

New TAC Report

- *Creating New Integrated Permanent Supportive Housing Opportunities for ELI Households: A Vision for the Future of the National Housing Trust Fund*.
- Published April 9, 2015
- Available at tacinc.org
- Companion report to NLIHC report: *The Alignment Project: Aligning Federal Low Income Housing Programs with Housing Need*

TAC Project Goal

- What can be learned from state initiatives to create integrated Permanent Supportive Housing (PSH) units that can inform future State ELI financing policy?
- Assess innovative cost-effective ELI approaches:
  - Improve understanding of recent state innovations in capital and subsidy financing
  - Advocate for broad spectrum of ELI need (e.g. 20% of AMI and below)
  - Promote effective mixed income ELI-PSH models
  - Inform future state National Housing Trust Fund (NHTF) strategies.

ELI Innovation: Integrated Permanent Supportive Housing

- PSH: Evidence-based housing approach for people with most significant and long term disabilities
  - Deep subsidies
  - Voluntary long-term services
- <u>PSH is ELI</u>: Most PSH tenants have SSI = 20% AMI (Priced Out in 2014)
- State Housing Agency innovation/partnerships create <u>integrated</u> PSH units using LIHTC platform
- TAC examined 3 State ELI-PSH financing models
  - Illustrate potential for replication with NHTF
  - Increase ELI-PSH “buy in” from states

Environmental Factors/State Goals

- Imperative: Increasing state demand for integrated PSH units (e.g. *Olmstead*, chronic homelessness etc.)
- Barrier: Steep cuts in HUD project-based subsidies
- Outcome: A few pioneering states "pushing the ELI-PSH envelop" below 30% of AMI using innovative capital/subsidy approaches
- Strong partnerships with State HHS/Medicaid agencies to build PSH outreach and referral "infrastructure" (now required for Section 811 PRA program)
- Result: Shift from high debt/high subsidy to more capital intensive model with lower cost subsidy
- Potential compatibility with National Housing Trust Fund program

Evolution of ELI-PSH

- State Housing Finance Agencies (HFAs)
- Systems approach with LIHTC program as platform
- Variety of QAP policies
- Traditional HFA PSH model
  - Relatively high debt/high subsidy cost
  - Project-based subsidies (S+C, VASH, PBV)
  - Tenant-based subsidies (QAP marketing requirements)
  - Both single site PSH and scattered-site
  - High rent subsidy cost (e.g. 110 percent rents) to cover debt service
- No “net” increase in ELI supply

Innovative ELI-PSH – Phase 1

- State ELI-PSH innovation:
  - Goal: Achieve deeper targeting in LIHTC properties (ELI w/o PBV)
  - Strategy: Mixed income integrated model with lower-debt/cross-subsidy approach
  - QAP policies benefitting special needs groups, including increasing supply of integrated accessible units and PSH units
  - LIHTC equity/gap financing to achieve 30% AMI rents
- Outcomes:
  - Strong developer participation
  - Difficulty reaching ELI populations below 30% of AMI
  - Higher vacancy rates
- Phase 1 stimulated state efforts to “get below 30% AMI” through non-traditional financing

State ELI-PSH Phase II

- ELI-PSH Housing Finance Innovations
  - North Carolina: "Shallow" longer-term project-based subsidy
  - Pennsylvania: Enhanced LIHTC developer fee capitalizes Rent Subsidy Fund reserve
  - Maryland and Illinois: "Post-underwriting" capital grant to reduce first mortgage debt
- Potential replication using NHTF
- Final NHTF rules allow 1/3rd of allocation for operating reserves/operating subsidies
- Up to 30 year commitment for non-appropriated NHTF resources (i.e. Fannie and Freddie)

North Carolina Housing Finance Agency

- Integrated PSH program using LIHTC portfolio since 2002 (2,400 units)
- QAP mandatory 10% LIHTC set-aside for PSH ”Targeted Units”
- Tenant rent in Targeted Unit = 30% of tenant gross income
- Voluntary owner participation in project-based Key Subsidy Program for Targeted Units (1,900 Key subsidies)
- Key Program appropriations “managed” over 10 year term
- State-wide payment standard approach (1 BR = $490)
- Historical average subsidy payment of $225 monthly (2006-2013)
- Outcomes:
  - Highly successful “shallow subsidy stream” for ELI units
  - Transparent and highly cost-effective 10 year “up-front” subsidy approach
  - Adds approximately 200 integrated PSH units to state supply per year

Pennsylvania Housing Finance Agency

- Rent Subsidy Fund model targeted primarily for people with disabilities
- Funded through an increase in the developer fee (generally from 15% to 20%)
- Capitalizes 15 year subsidy
- Fills gap between 50% of AMI unit and 20% of AMI through a 15 year Rent Subsidy Fund reserve
- Tenants pay 20% AMI rent (1 BR tenant rent is $297 in Philadelphia, $244 in Pittsburgh, $213 in rural PA)
- Lower subsidy cost vs. FMR ($444 vs. $726 in Philadelphia, $369 vs. $417 in Pittsburgh)
- PHFA approves Rent Subsidy Fund Escrow Agreement between developer and third party (typically a bank)
- 200-300 PSH units created across Pennsylvania

Weinberg Foundation

- Long history of philanthropic support for housing for people with disabilities
- Pioneering shift to integrated ELI-PSH model
- Demonstration approach on very small scale: Maryland and Illinois
- Utilizes capital grant to lower debt on first mortgage (post-underwriting)
- Debt service savings fund integrated PSH units at 15% of AMI
- Capital cost to write down 50% AMI unit = $100K-$125K
- Produces15% of AMI rents for 30 years
- PSH tenants pay 30% of income
- Illinois case study in TAC report, Maryland case study in NLIHC report

Lessons/Recommendations

- State housing agencies are creating ELI units <u>without</u> the NHTF program
- NHTF models should address broad spectrum of ELI need
- Use LIHTC as a “mixed income” NHTF platform to finance integrated ELI and PSH units
- Use NHTF resources to develop more transparent, cost-effective, and longer term ELI subsidy models
- Use cost-based, rather than FMR-based, approaches to achieve much lower NHTF subsidy costs

Contact Us

Find us on Facebook

Technical Assistance Collaborative, Inc. – TAC

Follow Us On twitter

@TACIncBoston

Visit us on the web:
www.tacinc.org