Texas Housing & Health Services Coordination Council

Service-Enriched Housing Case Studies: Development Finance Report

November 2011

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BACKGROUND

The Texas Housing and Health Services Coordination Council (Council) was created during the 81st Texas Legislative Session with the purpose of increasing state efforts to offer service-enriched housing through increased coordination of housing and health services. The Council is composed of eight governor appointees as well as eight state agency representatives, including the Department of Aging and Disability Services, Department of Agriculture, Department of Assistance and Rehabilitative Services, Department of State Health Services, Health and Human Services Commission, Texas Department of Housing and Community Affairs (TDHCA), Texas Department of Rural Affairs, and Texas State Affordable Housing Corporation. The Executive Director of the TDHCA serves as the Council Chair and two TDHCA staff provide advisory support.

The first step undertaken by the Council was to engage in a public outreach process, inviting stakeholders from across the state to attend a series of public forums to provide feedback on the concept of service-enriched housing and the possible future directions of the Council. Using this feedback, along with research on best practices from other states, the Council developed the following definition of service-enriched housing: “integrated, affordable, and accessible housing that provides residents with the opportunity to receive on-site or off-site health-related and other services and supports that foster independence in living and decision-making for individuals with disabilities and persons who are elderly.” This definition helped to frame future actions of the Council, particularly the creation of its first Biennial Plan.

Upon adoption of this definition, the Council next chose to embark on a series of Committee work sessions. The Council’s two committees, the Policy & Barriers Committee and the Cross-Agency Education & Training Committee, each attended biweekly conference calls to discuss and develop concepts and recommendations for meeting statutory directives and increase service-enriched housing. These work sessions resulted in the creation of the Council’s 2010-2011 Biennial Plan, which was submitted to the Governor of Texas and Legislative Budget Board on September 1, 2010.

INTRODUCTION

One of the Council’s on-going statutory responsibilities is to create a financial feasibility model that assists in making a preliminary determination of the financial viability of proposed service-enriched housing projects. In order to accomplish this task, Council staff embarked on a series of interviews of successful service-enriched housing developers throughout Texas, to gain a clear understanding of how these organizations structured the financing on each property. The Council sought to get a wide variety of perspectives, from for-profit developers, non-profit developers, and foundations producing service-enriched housing in urban and rural areas of the state.

From May 19th, 2011 through August 1st, 2011, Council staff conducted eight interviews with nine housing entities, listed in the order in which they were interviewed: Easter Seals Central Texas (Easter Seals), Foundation Communities, Green Doors, DMA Companies (DMA), Samaritan House, New Hope Housing, Inc. (New Hope), Hamilton Valley Management, the Texas Housing Foundation, and the Cesar Chavez Foundation (Chavez Foundation). Simultaneously, staff reviewed TDHCA underwriting reports for successful multifamily deals with a service component. Staff also conducted a literature review on best practices for housing development, service-enriched housing and financing strategies. Using both research and housing provider interviews, Council staff crafted this report, which seeks to provide insight into the essential components of the development financing process for creating service-enriched housing.

THE ORGANIZATIONS

Cesar Chavez Foundation (Chavez Foundation): Established in 1993, the Cesar E. Chavez Foundation is a national non-profit organization providing assistance to disadvantaged communities in seven states. The Foundation built, renovated, and manages 4,300 units of high quality affordable housing. In Texas the Chavez Foundation focuses their development efforts primarily in the Rio Grande Valley.

DMA Companies (DMA): DMA Companies is a national for-profit organization providing development consulting services to developers seeking to build or rehabilitate affordable housing, development of affordable housing in small cities and rural communities, and property management services. Council staff spoke to DMA in depth regarding their senior developments in small communities.

Easter Seals Central Texas (Easter Seals): In 2010, two non-profit organizations with a mission to service the unique needs of persons with disabilities, United Cerebral Palsy of Texas and Easter Seals Central Texas, combined efforts and the expanded Easter Seals Central Texas organization now includes a Community and Housing Services (CHS) Department. CHS assist individuals with disabilities and their families in finding affordable and accessible housing, including the acquisition and rehabilitation of multifamily rental units.

Foundation Communities: Began in the early 1980s as the Austin Community Neighborhood Trust, Foundation Communities is a nonprofit organization developing and managing service-enriched, high-quality affordable housing to low-income individuals in Austin and North Texas.

Green Doors: Founded in 1990, Green Doors is a nonprofit organization whose mission is to prevent and end homelessness and poverty by developing and managing affordable housing and providing access to supportive services for Central Texans.

Hamilton Valley Management: Founded in 1981, Hamilton Valley Management is a for-profit development and management company, specializing in affordable multi-family housing in rural Texas.

New Hope Housing, Inc. (New Hope): Founded in 1993 with the core purpose to create life-stabilizing affordable apartment homes for adults who live singly on limited incomes, New Hope's current goal is to develop and operate approximately 1,000 supportive single room occupancy (SRO) units throughout metropolitan Houston.

Samaritan House: Established in 1991, Samaritan House is a non-profit organization whose mission is to create supportive communities, providing housing and resources for persons living with HIV/AIDS and other special needs.

Texas Housing Foundation: The Texas Housing Foundation is a development and management organization whose mission is to promote adequate, affordable housing, economic opportunity, and a suitable living environment for low-income families. Additionally, the Foundation's Community Resource Centers provide delivery of social and public health services to qualified residents throughout their service area.

THE DEVELOPMENT PROCESS: WHAT TO CONSIDER

When an organization considers developing and administering service-enriched housing, there are numerous factors that influence the decision to move forward. Throughout the eight interviews conducted by Council staff, a number of key issues continually arose with each housing provider concerning the development process that a provider undertakes. Considerations include site selection, ownership structure, layering of funding sources, provision of services and more. For each decision, the developer must weigh the sometimes competing priorities of meeting government rules and regulations, assuring financiers, appeasing local community organizations, and staying true to the mission of serving low income households with supportive service needs. Given such complexity, it is understandable that many housing providers are deterred from producing service-enriched housing.

However, housing and service entities should be encouraged by the nine organizations detailed in this report. Although they vary wildly in the funding sources utilized, type of development undertaken, and populations served, all organizations have successfully served low income special needs populations while maintaining financial solvency. These organizations can serve as potential examples for other housing providers for how to successfully navigate the maze of the service-enriched housing development process.[1]

DEVELOPMENT ACTIVITY

One of the very first decisions that our interviewees made when contemplating service-enriched housing development was whether to pursue the construction of a new property or the acquisition and rehabilitation of an existing one. Interviewees gave advantages and disadvantages of each of these development activities. New Hope, Foundation Communities, Easter Seals, Green Doors, and Samaritan House have all undertaken rehabilitation projects. New Hope prefers new construction over rehabilitation due to the ability of the developer to design and build to suit the precise needs of the tenants. Past experience dictates that New Hope tends not to pursue rehabilitation projects given the possible negative aspects of the property that are unknown at the time of purchase and could be very costly. Foundation Communities realized that they had to be selective with the types of properties they purchased for rehabilitation, preferring to purchase extended-stay hotels over nursing homes due to their differing design features. Whereas nursing homes are typically constructed with shared facilities, extended-stay hotel rooms are already designed as efficiency units with kitchenettes, making the conversion to single room occupancy (SRO) units much easier and less expensive.

In terms of new construction, the high cost associated with constructing a sizable multifamily property typically means that a developer must focus on funding sources that provide large award amounts. These funding sources, such as Housing Tax Credits (HTCs), administered by the Texas Department of Housing and Community Affairs (TDHCA), and the U.S. Department of Housing and Urban Development's (HUD) Section 202 or Section 811 program funding, come with their own

[1] It should be noted that many of the housing providers interviewed develop housing for all low income populations, and not solely for special needs populations. Many of the developments referenced within this report provide housing to both special needs tenants as well as non-special needs tenants and being an individual with a special need is not a requirement for residency.

complications. Easter Seals and Foundation Communities mentioned the high costs associated both with applying for HTCs (application fees, consultant fees, closing costs) and then with maintaining a HTC property (annual compliance costs, auditing costs, etc). Additionally, the level of leasing paperwork associated with HTCs requires a great deal of applicant staff time, as referenced by Samaritan House. Green Doors and Easter Seals also mentioned that the HTC program is highly competitive; therefore an organization runs the risk of investing a large amount of funding into a project's pre-development costs with no guarantee of receiving funding.

Easter Seals, DMA, and the Chavez Foundation mentioned the onerous restrictions placed on the usage of HUD's Section 202 and Section 811 funding as well as a long list of HUD regulations that one must comply with (i.e. – use of rental income, replacement reserves budgeting, per unit management fees, etc). For example, interviewees referenced not being able to use Section 202 or Section 811 funding for amenities like washers, dryers, and dishwashers, therefore developers must secure additional funding both to purchase these amenities and to perform on-going maintenance.

As a hybrid between new construction and acquisition of existing property, Easter Seals pursues a development model where they purchase a set number of units within a condominium property that is still in the pre-development stage. Easter Seals approaches the developer prior to construction, purchases the units, and works with the developer to design those units to fit the needs of Easter Seals' tenants. Varying from the other housing providers interviewed, Easter Seals does not own the entire property, just the units acquired.

New Hope utilized Housing Tax Credits to transform the former HouTex Inn into Brays Crossing, a 149 unit SRO property with a distinct public art component. Brays Crossing opened in February 2010, just south of downtown Houston.

OWNERSHIP STRUCTURE & AFFORDABILITY PERIOD

Many interviewees mentioned unique ownership negotiations when crafting service-enriched housing deals. Foundation Communities, New Hope, and Easter Seals all create distinct housing entities for each of their properties and transfer ownership of the property to each individual entity after purchase. However, all properties share the same governing board and contract with their founding entity (Foundation Communities/Easter Seals) for property management services. This ownership structure is undertaken by Easter Seals because HUD requires Section 811 funded properties to be owned by a 501(c)(3) non-profit organization. Additionally, Foundation Communities and Easter Seals both consolidate all related entities for financial auditing purposes, rather than conducting separate audits each property's non-profit entity. The only exception is Foundation Communities' HTC properties, which require separate audits.

Another factor influencing ownership structure is the ways in which developers can forgo property taxes, which can be a major budget item and influence the financial feasibility of a development deal. One method is to pursue funding sources that provide tax exemption, such as the Section 202 and Section 811 programs. A second option is to partner with tax exempt entities, such as Community Housing Development Organizations (CHDOs) or Housing Finance Corporations (HFCs). For example, DMA partnered with tax-exempt Habitat for Humanity on a HTC deal. Additionally, Foundation Communities' Garden Terrace and Skyline Terrace both have CHDO status, as does Samaritan House. Finally, a third option is to ground lease the property to a public or tax exempt entity, which Foundation Communities' utilized for Spring Terrace, with the City of Austin holding a 99 year ground lease on the property, as well as for Arbor Terrace, with the Austin HFC holding the lease.

Finally, as owners of affordable housing properties, interviewees are also aware of the affordability requirements of the various development funding sources. HTCs have a 15 year affordability period, but TDHCA offers scoring incentives to those developers who increase affordability to 40 years. Section 202 and Section 811 funded properties have 40 year affordability periods. The longest affordability given was 99 years. DMA received City of Austin General Obligation (GO) bonds on their Wildflower Terrace property in exchange for a 99 year affordability period. Additionally, Foundation Communities' properties owned by the City of Austin and Austin HFC also have 99 year affordability periods.

Located in North Austin, Spring Terrace offers 140 furnished SRO apartments with on-site services and a secure entrance. Residential services include: adult education classes, an education savings program, money management classes, free tax preparation, financial stability programs, a food pantry, referral to community services, case management, and free off-site counseling services.

Development Timing & Site Control

In order to develop service-enriched housing, interviewees had to exercise a great deal of patience. Applying for state and federal government funding sources is a lengthy process. Assembling multiple funding sources, which is typical for a service-enriched housing project, can take years. Aside from funding, additional timing issues include ability to negotiate and maintain site control, negotiating purchase, receiving building permits and environmental review clearance, and locating service partners. Many of these steps occur simultaneously.

Housing development programs associated with HUD (HOME, Section 8 moderate rehab, Section 202/811, Neighborhood Stabilization Program (NSP)), FHLB, and the HTC program all require an applicant for funding to prove site control for the location they are proposing to develop or rehab. This first step of getting the property under contract requires developers to either have pre-development funding on hand or raise funds fairly quickly. Most interviewees utilized funding from foundations, private fundraising, or NeighborWorks America. Examples from Samaritan House and

Foundation Communities regarding negotiations for this pre-development funding process indicate it can last between two and six months.

Once obtaining site control, interviewees pointed out that from the time that applicants submit initial funding proposals or pre-applications to the time that funding is awarded can take between 8 to 12 months. Given this fact, the Chavez Foundation stated that it is important to have a patient seller. An alternative is that the developer will have to pay above market pricing on the property, according to DMA. Some interviewees cited the time that it takes to move through the application and award process as the biggest obstacle they encountered, due to the expense of maintaining site control without knowing whether or not the development has received funding.

During this 8 to 12 month period, interviewees were simultaneously putting together the additional capital and operating funding. For example, directly after Foundation Communities closed on the sale of their Garden Terrace property in 2001, they managed to submit funding applications to the Federal Home Loan Bank, City of Austin HOME Program, City of Austin CDBG Program, TDHCA HOME Program, and Travis County all at the same time. Additionally, interviewees such as New Hope stated that such elongated timelines mean that they have multiple proposed deals in the pipeline at one time, in different phases of the pre-development and development process. For example, as New Hope was breaking ground on their 4415 Perry property, which received 2010 HTCs, they were simultaneously applying for 2011 HTCs, as well as conducting research on possible property locations for the 2012 HTC cycle.

Property Location & Community Opposition

Suitably locating a service-enriched housing development is a very meticulous process. Developers want their properties to be in close proximity to the amenities required by their tenants, but they also have to be mindful of potential obstacles of a given location, particularly whether or not the surrounding community will accept the placement of affordable housing for persons with special needs.

All of the interviewees touched on the importance of location for their properties, but there was a distinct separation between urban developers and rural developers. First and foremost, many urban developers were quick to mention the importance of proximity to public transportation. Easter Seals pointed out that HUD has recently included proximity to transit as part of the scoring structure for awarding Section 811 funding. Additional location-based features, such as inexpensive land, low crime rate, availability of jobs, low foreclosure rates, and nearness of schools, hospitals, churches, pharmacies and grocery stores all factor into where an urban property is sited. In contrast, rural areas of Texas often do not have the capacity for many amenities or those amenities are separated by large distances. Therefore, as the Cesar Chavez Foundation realized, their largest location-based issues involved infrastructure, such as water and sewer lines, paved roads, and access to an electrical grid. Locations lacking infrastructure faced larger barriers to development, because such infrastructure components are difficult to produce and costly to implement. Additionally, not many funding sources are flexible enough to be used for infrastructure purposes.

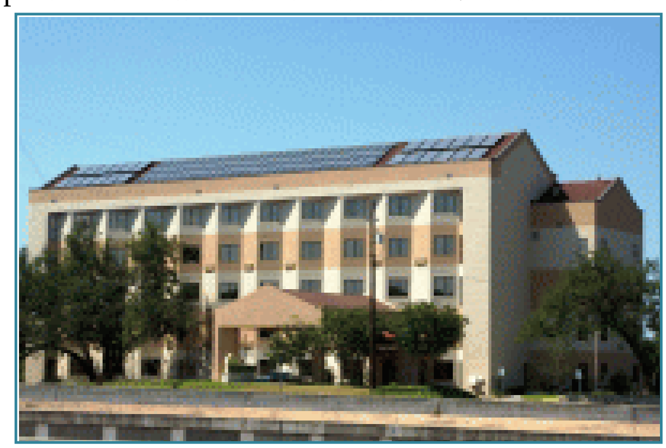
Beyond a proximity to needed amenities, interviewees also had to tackle the issue of possibly locating in an area with community opposition. Many developers had potential deals fall through due to the consequences of a Not In My Back Yard (NIMBY) mentality, with Foundation Communities and Green Doors citing supportive housing for special needs populations as receiving particularly strong opposition. For example, in 2009 Samaritan House located a site in the western portion of Fort Worth and lined up multiple funding sources from HUD and the City to tear down a vacated motel and construct a service-enriched property. However, community organizers opposing the projects took their concerns to several media outlets and soon Samaritan House was forced to abandon the project, withdraw their application for 2010 HTCs, and return their HUD funding. Similarly, in 2008 Green Doors applied for HTCs on a property in the Austin area and also put in a zoning change request to the City. Although they resolved the zoning issue, the surrounding community submitted letters of opposition to TDHCA, which effectively killed the deal.

However, interviewees have found many ways of overcoming community opposition. Both Foundation Communities and New Hope discussed how extensive community outreach efforts early in the process aided in their ability to persuade neighborhoods to support service-enriched housing development. Foundation Communities discussed working with local neighborhood associations to garner City support for zoning changes. New Hope discussed approaching community members as soon as they have site control of the property, long before applying for project funding. For one New Hope development, it took eighteen months to gain neighborhood support, which was ultimately achieved through the creation of an architectural advisory committee comprised of local residents, allowing them input in the development process.

Additionally, it should be noted that interviewees who have developed properties exclusively for seniors, such as DMA, or developed properties in rural locations, such as the Texas Housing Foundation and the Caesar Chavez Foundation, have not encountered community opposition to those properties.

PARTNERING WITH PRIVATE LENDERS AND TAX CREDIT SYNDICATORS

Interviewees touched on the complexities of choosing to take on debt from private lending institutions for a service-enriched housing development for low income households. Green Doors and New Hope state that operating a debt-free property allows for lower operating expenses and assists in maintaining low rents, which allows the developer to serve those at lower income levels. Additionally, New Hope mentioned that if they were required to make monthly payments on a loan every month, they would not have enough funding remaining to pay for expenses associated with maintenance and repair. However, Green Doors and Samaritan House have in fact pursued private loans in order to fill the gap between funding raised and total development costs. Foundation Communities also has received an interim bank loan on Skyline Terrace, which they paid off upon receipt of HOME and HTC funding. On the other hand, the Caesar Chavez



Located in South Central Austin, Skyline Terrace offers furnished efficiency apartments with on-site services and a secure entrance.

Foundation finds it important to take on debt, in order to send a message to financiers and the development community that the organization is willing to maintain an on-going investment in the property.

Another circumstance in which these developers interact with private lenders is through the HTC program. Interviewees pursuing HTC have to prove the viability of their properties, showing lenders that they will receive a return on their investment, and gaining the trust of syndicators and lenders can take time. Both the Texas Housing Foundation and Green Doors cited needing a long track record of success as a housing developer, in order to make syndicators and investors comfortable with housing individuals with special needs and comfortable with the provision of supportive services. Texas Housing Foundation stated that this is particularly true for rural areas. Investors tend to pursue large properties (over 50 units) in urban areas, seeing those as safer investments, so developers must work harder to prove the viability of smaller developments in small communities. This was less of a concern for the Caesar Chavez Foundation, which is a national organization with a large endowment, but they also conceded that investors are less comfortable with smaller developments, due to tighter underwriting standards.

However, Foundation Communities stated that syndicators tend to view the financial soundness of the developer as a guarantee that the developer has the means to keep the property afloat, which helps to build their trust. Green Doors also mentioned that developers can gain an investor's trust by proving that they have already lined up rental subsidies and service providers for lower income tenants. Interviewees also stated that once a housing provider establishes a relationship with a syndicator and that syndicator understands the type of housing being developed, they have proven helpful in lining up investors.

PARTNERING WITH SERVICE PROVIDERS

The majority of housing providers interviewed stated that the services provided to their residents, whether on-site or off-site, were in a large part provided by outside service entities. Given that many housing funding sources do not allow service provision as part of the operating budget, it is difficult to maintain services without partnerships. These partnerships vary depending on the particular needs of the tenants, and generally each housing provider partners with multiple service providers. For example, given that Samaritan House works with persons living with HIV/AIDS and persons with mental illness and/or chemical dependency, they partner with the HIV Planning Council, AIDS Outreach Center, Tarrant County Homeless Coalition, Homeward Bound, and Mental Health Mental Retardation Tarrant County (MHMRTC).

Facilitating partnerships with service providers was cited by multiple interviewees as a challenging and gradual process, which many times does not come together until the very end of the development timeline, after construction is underway or even completed. Particularly when entering into a Memorandum of Understanding (MOU) with service partners, New Hope cited the importance of cultivating personal relationships with service partners, given the need for the relationship to endure throughout the life of the property, as well as an interest in meeting specific standards of care. New Hope noted that partnership cultivation can be a time consuming process, as many discussions must be had surrounding staffing, on-site space and other logistics.

Certain funding providers, such as HUD, SAMHSA, and FHLB require housing developers to provide letters of support from partner service organizations, and HUD now requires an even more formal proof of partnership, such as MOUs. For example, Easter Seals enters into MOUs with Austin/Travis County Integral Care (ATCIC) and Austin Resource Center for Independent Living (ARCIL) for their Section 811 grant applications. Other funding sources, such as the US Department of Veterans Affairs, will not enter into MOUs for service programs, such as the HUD-VASH Program. Easter Seals finds it more difficult to prove service provision to HUD when service utilization by tenants is completely voluntary. Green Doors also cited the difficulty in proving service partnerships when applying for housing funding, as service partners are also applying for service funding and unsure if they will be awarded. New Hope echoed this sentiment, stating that many times the funding schedules for housing and services do not overlap, so scenarios arise where a service grant is submitted that reserves a certain number of housing units, but construction is complete before the grant is awarded, thus costing the developer money to hold open these reserved units.

Many interviewees discussed the features of providing on-site services versus off-site referrals. For rural locations, service providers are too far away for tenants to travel to and most service organizations cannot afford to open locations in rural areas. Therefore, rural developers such as the Texas Housing Foundation and the Caesar Chavez Foundation both provide service entities with on-site office space. Texas Housing Foundation has actually used income from developing HTCs properties to create Community Resource Centers (CRCs) in Burnet, Llano, and Williamson County, signing MOUs with service organizations to provide free office space in exchange for the provision of services to tenants of their developments as well as the public at large. Urban developers have also provided on-site space to service entities and New Hope stated that the ideal is to secure one's service partnership in advance of development, so to build office space into the design of the property.

Another consideration when securing service partners is the tenants which one intends to serve. DMA mentioned that for senior developments, local senior centers and adult day care centers are great partners, as most home health or personal attendant services provided to this population are covered by the Older Americans Act and provided through entities such as the state's Area Agencies on Aging. Other interviewees, like Foundation Communities and Green Doors mentioned securing funding sources that provide funding for both rental assistance and services, such as HUD's Supportive Housing Program and HUD-Veterans Affairs Supportive Housing (VASH) Program, in order to meet the needs of very low and extremely low income households. Several interviewees, such as New Hope and Green Doors, mentioned that many times those tenants who require supportive services arrive at the development with an already established connection to an outside service provider.

Alternatively, some service organizations get more intricately involved with housing developers, renting a number of units for their clients and conducting daily or weekly case management. For example, Green Doors has master lease agreements with Front Steps, ATCIC, and the Texas Department of Criminal Justice for units within their properties. New Hope also master leases units in their 1414 Congress development to a social service agency. Additionally, some service entities decide to venture into housing development themselves, while partnering with another organization for property management. DMA provided development consulting to both Family Eldercare and

ATCIC, which utilized Section 202 and Section 811 funding, respectively, to develop affordable housing properties.

Finally, interviewees discussed the staffing required to provide services to their tenants. Some interviewees mentioned only hiring community/property managers to provide resident services, while others, such as New Hope, Samaritan House, and Foundation Communities, provide case management staff and/or information and referral staff. All three mentioned that the operating funding for such staff does not come from their HTC program funding, as it is not an allowable use.

New Hope went through an intense renovation of 1414 Congress to preserve this historic landmark in the heart of downtown Houston and its 57 SRO units. Reopened in September 2010, 1414 Congress houses the chronically homeless and those in need of respite care.

Funding Sources and Uses Table

Funding Source	Development Assistance (Acquisition, Construction, Rehabilitation)	Rental Assistance	Services
HUD: Community Development Block Grants (CDBG)	X		X
HUD: HOME Investment Partnership Program (HOME)	X	X	
HUD: Neighborhood Stabilization Program (NSP)	X		
HUD: Section 811	X	X	
HUD: Section 202	X	X	
HUD: Section 8 Housing Choice Vouchers		X	
HUD: Section 8 Moderate Rehabilitation SRO Program	X	X	
HUD: Housing Opportunities for Persons with AIDS (HOPWA)	X	X	X
HUD Competitive HOPWA: Special Programs of National Significance (SPNS)	X	X	X
IRS: Low Income Housing Tax Credits (HTC)	X		
Federal Home Loan Bank: Affordable Housing Program (AHP)	X		
HUD Veterans Affairs Supportive Housing (VASH) Vouchers		X	
McKinney/Vento Homeless Assistance Continuum of Care: Supportive Housing Program (SHP)	X	X	X
HRSA Ryan White Program		X	X
USDA Rural Housing Programs: Section 515 Program	X		
TDHCA: Housing Trust Fund (HTF)	X	X	X
TSAHC: Texas Foundations Fund	X		X
Local charities, foundations	X	X	X
Medicaid 1915(c) Waivers			X

DEVELOPMENT FUNDING – PRIMARY FINANCING SOURCE

Primary funding sources are capital financing utilized in the construction of a housing development. Primary funding sources are crucial to the development of service-enriched housing, as these sources tend to be the basis around which a deal is structured. Without these sources, developments would not move forward. Each funding source mentioned below was cited by at least one interviewee as the critical capital financing. However, each source is different, with its own funding, eligibility and compliance requirements. The potential advantages and disadvantages of such requirements are also detailed within this section.

HUD: NEIGHBORHOOD STABILIZATION PROGRAM (NSP)

Neighborhood Stabilization Program (NSP) funds may be used to purchase, demolish, redevelop, rehabilitate, or land bank foreclosed, blighted, or vacant properties in order to stabilize communities. Foundation Communities recently utilized NSP funds awarded to TDHCA to acquire a vacant extended stay hotel in Austin, which meets both NSP property requirements, and Foundation Communities want to utilize efficiency units for the production of supportive housing. As mentioned earlier, Austin HFC purchased the land and operates as the owner and landlord. FC Austin One Housing Corporation, the nonprofit affiliate of Foundation Communities, holds a 99 year ground lease on the property and began reconstruction efforts utilizing a $7.26 million deferred forgivable NSP loan from TDHCA. An additional $3.45 million were needed to complete the rehabilitation project. Foundation Communities serves as the property manager and service provider for what is now known as Arbor Terrace. Foundation Communities was able to secure the NSP funding in the form of a deferred forgivable loan, to serve individuals at 0 to 30% AMI, with a waiver from the TDHCA Governing Board.

Similarly, the Chavez Foundation worked with the City of Houston's NSP program to acquire and redevelop the Zollie Scales apartments, a foreclosed property in Houston. The Chavez Foundation utilized $8.8 million in NSP funds for reconstruction along with $1.3 million in conventional financing. With a deferred developer's fee, the total project cost is $10.5 million and provides 158 units for families and elderly persons. The NSP loan is structured so that when the debt coverage ratio is above 1.2, the program income will be returned to the City of Houston. The Chavez Foundation stated that flexible lending terms and the large upfront capital made NSP funds an ideal primary funding source and encouraged the organization to develop within the City of Houston.

NSP funding has similar regulations to the Community Development Block Grant (CDBG) program, but with additional restrictions and affordability period requirements similar to the HOME program. One advantage is that NSP can be used to fund increased property amenities, such as washers/dryers in units. Another advantage with NSP funding, given that properties certify income upon occupancy and re-occupancy, is that even if a household's income increases, the family is allowed to remain in the unit and pay the same amount of rent. One key consideration and possible drawback when using NSP funds is property selection and location requirements. Funds can only be used in an eligible census tract, as defined by HUD, and eligibility criteria differ between NSP funding rounds. Non-profit developers must locate foreclosed, blighted, or vacant properties for redevelopment. If using NSP funds to acquire foreclosed or abandoned properties, and buying from the entity that foreclosed, lenders must certify that they have followed tenant protections.

HUD: SECTION 811 SUPPORTIVE HOUSING FOR PERSONS WITH DISABILITIES

HUD Section 811 program funds can be used for the development (construction, rehabilitation, or acquisition of housing) and operation of supportive housing for very low income persons with physical disabilities, developmental disabilities, chronic mental illness or any combination of the three.

DMA worked as a consultant with non-profit organizations on Section 811 deals. Easter Seals routinely uses Section 811 funds for non-traditional deals, such as the purchase of units within condominium developments. When an Section 811 Notice of Funding Availability (NOFA) is released, Easter Seals begins researching new condominium developments and meets with developers to see if they are willing to modify plans to create accessible units. Unit design, location, and accessibility considerations are kept in mind when assembling deals. After applying for funds, Easter Seals enters a purchase option for the units, which serves as proof of site control. The deal is written contingent upon receipt of Section 811 funding. The developers must be willing to hold units until funds are granted, which can be a lengthy process. The purchase of multiple units entices developers to hold them, as they can show this commitment to their investors.

Section 811 funds also have restrictions on what funds can be used for; both DMA and Easter Seals reported seeking additional outside funding to cover amenities such as balconies and in unit laundry facilities. Additionally, as each Section 811 property requires the creation of its own non-profit entity, Easter Seals cited this as a cumbersome process to undertake for each deal.

The Section 811 program encourages independent living for persons with disabilities. Program requirements are flexible in that services are not required to be provided by the developer, but rather established through partnerships with services providers. Easter Seals meets this requirement in several ways; the population served is eligible for local services, Easter Seals has MOUs with local providers and formal agreements with the local center for independent living. The flexibility of Section 811 requirements allows Easter Seals to make sure services are available, though some residents may not pursue them. An additional advantage of the Section 811 program is that funding is also provided for on-going project rental assistance, which is discussed further in a later section. Finally, similar to NSP, Section 811 funding is advantageous in that residents are able to stay in units if their income increases.

HUD: SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY PROGRAM

HUD Section 202 provides funding to nonprofits for the development and operation of supportive housing for very low income persons age 62 years and older. Project rental assistance contract funds are also available to provide supportive services. DMA cited work as a consultant with non-profit organizations on Section 202 deals as well as a developer of Section 202 properties. The Chavez Foundation has also used Section 202 funds to construct senior housing. Similar to the Section 811 program, Section 202 provides additional funding for rent subsidies. Another similarity with Section 811 is that Section 202 is grant funding; therefore no repayment or debt service is required and no general partner is needed.

Drawbacks to using 202 funding include restrictions on eligible uses, as the funds cannot be used for property infrastructure and certain amenities are disallowed (e.g. dishwashers). These are important restrictions, as the Chavez Foundation reported having to walk away from deals because of the lack of infrastructure (roads, sewers, water, and electricity). DMA also noted that HUD can be slow in processing Section 202 projects, which creates a hardship on developers to maintain site control.

DMA operated as a consultant on Lyons Gardens, a 52 unit development in Austin serving households below 30% AMI. The Section 202 program provided $3 million towards the total development cost of $5.6 million. The remaining funds were raised through City of Austin HOME funding, Federal Home Loan Bank (FHLB), fundraising, and foundations.

HUD: Section 8 Moderate Rehabilitation Single Room Occupancy (SRO) Program

HUD Section 8 moderate rehabilitation funds can be used by PHAs and private non-profits for rehabilitation, operating costs, and rental assistance payments to serve very low-income, single, homeless individuals. Tenants pay no more than 30% of their income towards rent. Samaritan House utilized Section 8 moderate rehab funds for rehabilitation of a donated nursing home facility. The rehabilitation was completed with additional funds from a capital campaign to create a 60 unit SRO development serving persons with HIV/AIDS. The Section 8 moderate rehab program also provides a rental subsidy for 52 of the 60 units.

The Section 8 moderate rehabilitation program is advantageous for organizations such as Samaritan House because it targets SRO buildings and provides rental assistance for 10 years. This type of subsidy helps make projects sustainable and allows the organizations to serve residents of higher need.

Internal Revenue Service: Low Income Housing Tax Credits

The Housing Tax Credit (HTC) Program receives authority from the U.S. Treasury Department to provide an indirect federal subsidy in the form of tax credits to non-profit organizations and for-profit developers to finance the development of affordable rental housing for low-income households. Nationwide, HTCs are one of the largest funding mechanisms for the construction of affordable rental housing.

HTCs provide an upfront tax credit which is sold to investors, providing a project subsidy to reduce or eliminate debt service on the property and therefore reduce rents. In Texas, HTCs are extremely competitive and sought by non-profit and for-profit developers alike. Developers must be able to sell their HTCs and line up investors. The non-profit organizations interviewed relied on their strong reputations and history of success to assure investors. This can be a challenge for newer organizations. HTCs also require a limited partnership ownership structure, with a general partner (developer) and a limited partner (investors). The general partner and limited partner have differing long-term goals. The limited partner wants to safeguard their investment and seeks the maximum tax off-set, whereas the general partner will be interested in the property’s long-term operations. Working with a limited partner was identified as a constraint to utilizing funds from HTCs.

Foundation Communities and New Hope Housing use HTCs in their development model to construct debt-free single-room occupancy buildings. New Hope Housing uses the HTC program as their primary financing mechanism and stated that credits are essential to the construction of their properties. HTCs are typically combined with other state or local government funding, including HOME funds and general revenue sources.

Between the competition and upfront costs associated with applying for housing tax credits, Easter Seals cited the program as too expensive and risky for their small organization as costs to apply for HTCs can be in the tens of thousands of dollars. While the expense of applying for HTCs can be justified when undertaking higher cost projects, Foundation Communities noted that they could not justify using HTCs for their smaller rehabilitation projects (Garden Terrace and Spring Terrace). HTC compliance for Foundation Communities adds $30,000-50,000 per year in operating expenses. Therefore, HTCs are useful in projects where the need for subsidy is greater, such as new construction. The HTC model allows New Hope to build new construction properties, designed specifically to meet the needs of their residents. When pursuing funding sources the Chavez Foundation also prefers HTCs for their flexibility usage in providing increased amenities and infrastructure.

US Department of Agriculture: Rural Housing Programs - Section 515 Program

The Section 515 Guaranteed Rental Housing Program provides loans with interest rates as low as one percent to developers of affordable rural rental housing. The program serves very low-, low-, and moderate-income families, the elderly, and persons with disabilities. Funds can be used to buy and improve land and to provide necessary facilities.

Hamilton Valley Management works primarily in rural Texas utilizing the Section 515 program. The program was noted as a primary contributor to affordable housing in rural Texas. One limitation to the Section 515 funding is that the USDA budget model has little to no room for services. The Chavez Foundation has also utilized Section 515 Program funding to create housing in rural Texas. Resident services are then provided by their sister agency, LUPE (La Union del Pueblo Entero). While limited in funding amount and eligible uses the Section 515 program serves as a valuable lending tool for the construction of affordable housing in rural communities.

Development Funding – Secondary or Gap Financing

Secondary funding sources are generally more flexible in their uses and regulations. After securing primary funding for a deal, developers then begin to assemble secondary funding sources. Some secondary funding may be small in amount and truly 'gap financing.' Others are more significant in amount but classified as secondary because the funds are more flexible in allowable uses and sometimes can take secondary lien position to the primary funding source.

Local sources

Local funding sources are frequently layered with other primary funding sources to complete a deal. These sources include Housing Finance Corporations (HFC), Community Development Block Grants (CDBG), HOME Investment Partnerships Program (HOME), Tax Increment Financing (TIF) Districts, and General Obligation (GO) bonds. With HOME, metropolitan areas known as participatory jurisdictions receive funding directly from HUD and local governments have great flexibility in designing their local HOME programs. Funds may be awarded to Community Housing Development Organizations (CHDOs) for construction of single and multifamily housing, home repair, rental or home purchase purposes. Targeted beneficiaries are low, very low, and extremely low-income households. The CDBG program funds are awarded to entitlement cities and counties to ensure decent affordable housing. Funding must benefit low and moderate-income households and activities may include the acquisition of real property, construction of public facilities and improvements, provision of public services, economic development activities, homeownership assistance and structural rehabilitation.

Local funding sources can be more flexible and better suited for layering into complex housing deals. Easter Seals has historically utilized City of Austin GO bonds, CDBG funds, and HOME funds to provide additional amenities in their Section 811 project units, amenities that could not have been paid for with Section 811 funding. Similarly, Foundation Communities has layered a combination of local HOME and CDBG funding into their Skyline Terrace and Arbor Terrace properties. Another advantage of local funding is that they all tend to have the same rules and reporting requirements, which are much less restrictive than federal sources. Thus interviewees cite them as an easy source to obtain when completing a deal and Easter Seals found them to be less onerous to apply for and comply with.

Housing Finance Corporations (HFCs) can also provide acquisition funds. Foundation Communities worked with the Austin HFC to acquire their Arbor Terrace property. As stated earlier, the HFC owns the land, with a 99 year ground lease for the FC non-profit affiliate, eliminating the property's tax burden. Foundation Communities also utilized $2 million of local city funds in the deal. This financial structure was possible because the city agreed to subordinate their loans to the larger TDHCA NSP forgivable loan.

The Chavez Foundation found favorable loan terms with local NSP funds. By working with the City of Houston the Foundation was able to address the city's concerns regarding a foreclosed property and get loan terms to begin payment once the property's debt-coverage-ratio exceeds 1.2. Samaritan House found non-traditional assistance through the affordable housing set-aside established by their local Tax Increment Financing (TIF) district, administered through the City of Fort Worth. The organization utilized funds available for infrastructure improvements which would have otherwise been paid for in development costs. It should be noted that TIF funds are designated for infrastructure improvements and cannot be used for building development.

Finally, general revenue provided by local governments is frequently more flexible than other funding sources. Green Doors and Foundation Communities have both utilized City of Austin general revenue and GO Bonds for the Pecan Springs, Skyline Terrace, and Arbor Terrace developments respectively. Similarly, New Hope routinely layers local City of Houston funds into their development deals.

Federal Home Loan Bank (FHLB): Affordable Housing Program (AHP)

The Federal Home Loan Bank (FHLB) provides direct grants and subsidized loans to assist FHLB members to partner with local housing organizations to fund affordable housing. Grants are often used to fill a gap in available financing, funds may also be used to construct or rehabilitate rental housing, provide homebuyer down payment or closing cost assistance, and cover the cost of homebuyer pre- or post-purchase counseling.

Chavez Foundation, Foundation Communities, Green Doors, and the Texas Housing Foundation all routinely utilized FHLB grants to complete deals. The funds are useful as gap financing because they are grants and flexible enough to cover amenities or infrastructure. However, DMA noted two drawbacks of FHLB funding for their purposes. The first is a high level of competition for AHP funds and the second is FHLB's priority to award non-profit developers or developers serving homeless individuals.

HUD Homeless Assistance Continuum of Care: SHP (Supportive Housing Program)

SHP funds can be used for the development or operation of transitional housing, permanent supportive housing, safe havens, and services to reduce the incidence of homelessness. Samaritan House utilizes $200,000 annually for supportive services only to the Villages at Samaritan House.

Additionally, there are Supportive Housing Program bonus grants available from HUD. Samaritan House was awarded a bonus SHP grant of $250,000 and is working to acquire property for a permanent supportive housing development. These funds will be used for housing and supports to chronically homeless pregnant women in Fort Worth. SHP funds help organizations provide vital services and encourages independent living.

The Villages at Samaritan House is located in Fort Worth's medical district on the Near Southside. Open since 2006, more than 85% of tenants are either infected or affected by HIV/AIDS. Support services include social & medical case management, food service, substance abuse and mental health counseling, transportation and programs to facilitate literacy and re-employment.

HUD: HOME Investment Partnership Program (HOME)

The HOME Investment Partnerships

(HOME) Program receives funding from HUD and provides loans and grants for affordable housing development. As stated earlier, HOME program funds are administered by TDHCA as well as local participating jurisdictions. By state law 95% of TDHCA's HOME funds must be distributed to small communities, typically in rural location, that are outside participating jurisdictions. The remaining 5% must serve persons with disabilities and can be utilized statewide.

HOME funds are frequently combined with HTCs. Used in combination, HOME funds can further reduce mortgage payments, creating lower rents, and increasing affordability. For developers wishing to serve households below 60% AMI, HOME funds are a financing mechanism to reach very-low income households. The use of HOME can also provide additional amenities, larger units, or common spaces. Foundation Communities utilized TDHCA's HOME CHDO-set aside funds for units serving persons with disabilities in their Garden Terrace, Spring Terrace, and Skyline Terrace developments. DMA also reported using HOME funding, from TDHCA and well as local providers, because the program provided good interest rates.

Located in South Austin, Garden Terrace offers furnished efficiency apartments with on-site services and a secure entrance. Residential services include: adult education classes, an education savings program, money management classes, free tax preparation, financial stability programs, a food pantry, referral to community services, case management, home health assistance, and free off-site counseling services.

TDHCA: Housing Trust Fund (HTF)

The Texas Housing Trust Fund (HTF) provides loans, grants, or other comparable forms of assistance to finance, acquire, rehabilitate, and develop decent, safe, and sanitary affordable housing. HTF dollars come from state general revenue and can be used to meet a variety of housing needs. Historically, the HTF has used these funds to meet state needs. Easter Seals used HTF monies for capacity building to begin developing affordable housing. With the help of a consultant Easter Seals was successful in Section 811 applications. TDHCA's HTF has also provided an Affordable Housing Match Program which allows developers to access funds when their primary development funding source requires a match. The HTF helped the Chavez Foundation access primary funding by providing match funds. As general revenue, HTF dollars have less restrictions that federal sources, and thus are more flexible in their usage, many times directed to meet the state's greatest unmet needs.

Additionally, it should be noted that local governments also create housing trust funds with general revenue sources. DMA pursues local housing trust funds for additional assistance when developing service-enriched housing.

TSAHC: Texas Foundations Fund

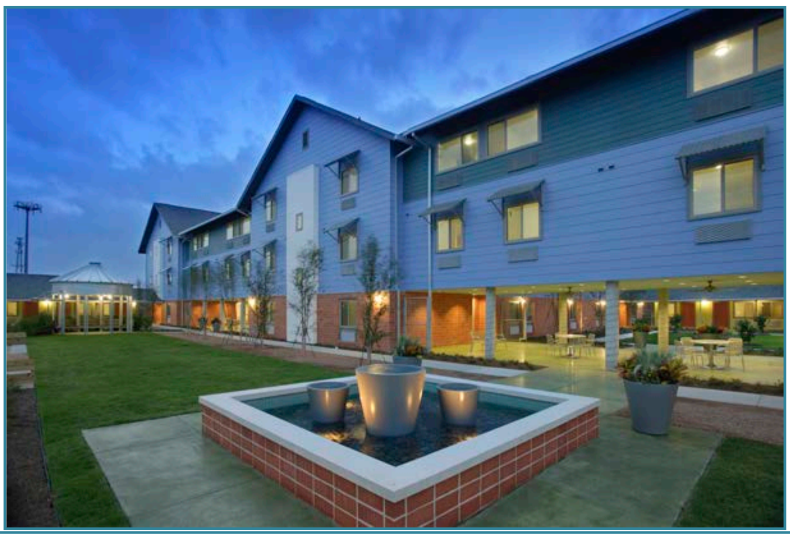
The objective of the Texas Foundations Fund is to provide grants to nonprofit organizations and rural governmental entities for (i) the construction, rehabilitation, and/or critical repair of single family homes for Texas residents of very low or extremely low income, with a particular emphasis on serving very Texans that may have a disability or live in a rural area, and (ii) the provision of additional supportive housing services for very low or extremely low income residents of multifamily rental units.

One of the goals of the Texas Foundations Fund is to award those organizations providing supportive housing with supportive services. Only those organizations providing supportive housing and supportive housing services are eligible under the Texas Foundations Fund. TSAHC focuses on creating permanent supportive housing opportunities for adults, youth/young adults, and families with children who: have household income at or below 50% of AMI; and have chronic health conditions that are at least episodically disabling, such as mental illness, HIV/AIDS, and/or substance use issues, and/or face other substantial barriers to housing stability; and are not able to obtain or retain appropriate stable housing without easy, facilitated access to services focused on providing necessary supports to the tenant household. These target populations include people who may be homeless (for any length of time) or are at risk of homelessness, and includes those who may be leaving other systems of care without a place to live, such as (1) young people aging out of foster care, (2) people with mental illness or other disabilities leaving jail or prison, and (3) some members of the elderly population.

TSAHC has completed four award cycles of the Texas Foundations Fund and nineteen applicants have been awarded $50,000 each to carry out eligible activities under the Fund, totaling $950,000 in overall awards. Easter Seals, Foundation Communities, Green Doors, and New Hope have all received awards from the Fund. Easter Seals received funds for owner-occupied home accessibility modifications, while Foundation Communities and New Hope Housing received $100,000 each for supportive housing services through the Fund.

Charities and Foundations

As service-enriched housing development deals can layer as many as 10 to 15 funding sources for a successful deal, non-government sources such as private foundations can play an important role in providing gap funding. For example, New Hope was established in 1993 through the Christ Church Cathedral- Episcopal capital campaign, when the decision was made that for every dollar raised towards the Cathedral, a dollar was matched for community reinvestment. New Hope's emphasis on fundraising continues and the organization feels strongly that a fundraising focus has contributed to their success. Impressively, twenty-seven percent of New Hope's funding comes from foundations. An advantage of foundation funding is that these funds typically do not have usage restrictions or compliance requirements. Additionally, New Hope mentioned that fundraising has contributed to their success in creating the first LEED certified affordable housing development in Texas (2424 Sachowitz).



2424 Sakowitz is situated between the Fifth Ward and the Denver Harbor Addition in Houston. Opened in October 2010, this 166 unit SRO property is Houston's first 'green' multifamily housing development.

Foundation Communities also reaches out to local and national charities and foundations and have been successful at receiving grants from organizations like the Enterprise Foundation and NeighborWorks America.

PRIVATE LENDING

Finally, private lending is a resource for developers that are unable to secure grants or loans for the entire development cost. Samaritan House turned to $900,000 in private lending to rehabilitate a donated nursing home into an SRO development. Green Doors financed their Pecan Springs development with a variety of sources including private lending. While private lending is sometimes a last option, the Chavez Foundation discussed the increased responsibility and property management required by debt service. The Foundation felt that a moderate amount of debt can encourage responsible property management and control of operating expenses.

SERVICES/RENTAL ASSISTANCE RECEIVED TO THE DEVELOPER

Another component of the case study interviews, central to financing service-enriched housing development, is locating sources of supportive service funding and rental assistance funding. In addition to partnering with outside service providers, securing service funding as a developer can ensure that tenants with special needs will remain stably housed in a community based setting, rather than relocating to an institution. Securing rental assistance is critical for developers to be able to serve extremely low income tenants. The following section of the report details the supportive service sources and rental sources utilized by the housing providers interviewed, as well as those sources which can provide both service and rental assistance combined.

SERVICE FUNDING SOURCES

SAMHSA:

Each year the Substance Abuse and Mental Health Services Administration (SAMHSA) provides discretionary funding grant opportunities for projects assisting persons with mental illness and/or substance abuse disorders. In 2009, SAMHSA's Center for Mental Health Services (CMHS) provided $400,000 to Foundation Communities to implement the Health Options for Moving toward Empowerment (HOME) Project. Foundation Communities is utilizing project funding to assist 30 to 40 individuals annually and 160 unduplicated chronically homeless adults over the 5-year project period. These individuals reside in Foundation Communities properties and receive mental health and substance abuse treatment services, such as psychiatric care, nurse visits, and the ability to check into a 90-day inpatient recovery program while maintaining their housing unit.

RENTAL FUNDING SOURCES

HUD - SECTION 811 & SECTION 202 PROGRAMS:

Easter Seals, DMA, and the Cesar Chavez Foundation have all utilized either Section 811 or Section 202 program funding. A unique component of Section 811 and Section 202 is that developers are provided project based rental assistance funds to cover the difference between the HUD-approved operating cost for the project and the tenants' contribution towards rent - usually 30 percent of adjusted income. Rental assistance funding is a necessity for the financial feasibility of these developers' projects, as HUD's income eligibility standards for Section 811 and Section 202 is restricted to households earning no greater than 50% of AMI. Easter Seals stated that they exclusively serve persons at or below 30% of AMI, but a benefit of the Section 811 program is that it allows tenants to remain in their unit even if their income increases; the tenant's portion of the rent simply increases. Easters Seals also mentioned that the households they serve typically have a static income, as SSI or SSDI payments is the only income they obtain, making Section 811's rental assistance component essential for these households to retain community based living arrangements.

HUD - Project Based Section 8 Funding:

DMA and the Texas Housing Foundation both cited the use of project based Section 8 funding awarded to their property by the local public housing authority (PHA). Through this Section 8 program funding, the rents of a set number of housing units are subsidized by HUD through a housing assistance payments (HAP) contract between the owner and the PHA. Like the Section 811 and Section 202 programs, HUD provides Section 8 rental subsidies to the project owners in an amount equal to the difference between the HUD approved rent and the HUD required rental contribution from eligible tenant families, which is typically 30% of the tenants' family monthly adjusted income.

HUD - Section 8 Moderate Rehabilitation (Mod Rehab) Single Room Occupancy (SRO) Program:

Foundation Communities and Samaritan House have both received Section 8 Mod Rehab funding. For these SRO developments, HUD enters into annual contributions contracts (ACCs) with local PHAs in connection with the moderate rehabilitation of residential properties. These PHAs make Section 8 rental assistance payments to participating landlords on behalf of homeless tenants who rent the rehabilitated units and again, the rental assistance payments generally cover the difference between a portion of the tenant's adjusted income and the unit's rent. Samaritan House received these funds in 1993 to provide rental assistance to 52 housing units serving homeless persons living with HIV/AIDS. Foundation Communities received the same funding source in 2001 for their Garden Terrace property, to provide to 50 housing units serving homeless persons.

HUD - Competitive HOPWA: Special Programs of National Significance:

Ten percent of available HOPWA funds are awarded as grants during a competitive selection of projects proposed by State, city, and local governments or by nonprofit organizations. Funding is available for two types of projects, one of them being Special Projects of National Significance (SPNS), which are innovative projects that target assistance to underserved populations, including racial and ethnic minorities, women, and persons in rural areas.

In 1998, Samaritan House received its first SPNS grant award, through the Tarrant County Community Development Division, which was used to create The Genesis Project. The Genesis Project places the tenants of their SRO property into individual apartment units scattered throughout the City of Fort Worth. These low income individuals with HIV/AIDS sign a lease with the property manager and then Samaritan House pays a portion of their rent every month. As HUD has placed a priority on the renewal of expiring competitive HOPWA grants, Samaritan House has continued to receive SPNS renewals through the present time.

Combined Rent & Services Funding Sources

Project Based HUD Veterans Affairs Supportive Housing (VASH) Program

The HUD-VASH program combines Section 8 Voucher rental assistance for homeless veterans with case management and clinical services provided by the Department of Veterans' Affairs (VA). The VA provides these services for participating veterans through local VA medical centers and community-based outreach clinics. The local administrators of the HUD-VASH program are PHAs and they are allowed to project-base up to 50% of their HUD-VASH voucher allocation, meaning that the rental subsidy is connected to the housing development rather than the tenant.

Foundation Communities has received project based HUD-VASH program vouchers for twenty housing units and Green Doors has submitted an application for project based HUD-VASH vouchers for their Treaty Oaks property.

HUD Continuum of Care: Supportive Housing Program (SHP)

The Continuum of Care (CoC) is a set of three competitively-awarded programs created to address the problems of homelessness in a comprehensive manner. One of those, the Supportive Housing Program (SHP), is designed to help develop housing, provide both rental subsidies, and offer supportive services for people moving from homelessness to independent living. Key service assistance includes: food, clothing, transportation, outpatient medical/dental or other healthcare, and case management. Foundation Communities, Green Doors, Samaritan House, and New Hope all mentioned their utilization of SHP funding, but in differing ways. Samaritan House received SHP funding solely to provide supportive services to homeless individuals with HIV/AIDS living in their rental property. In contrast through a formal agreement with Caritas of Austin, Foundation Communities received SHP funding in the form of rental subsidies for 20 units in each of their Spring Terrace and Skyline Terrace properties. Residents of those units pay no more than 30% of their monthly income towards rent.

HUD: Formula HOPWA

HOPWA distributes 90 percent of its program funds using a statutory formula that relies on AIDS statistics: three quarters of HOPWA formula funding is awarded to qualified States and Metropolitan areas with the highest number of AIDS cases and one quarter is awarded to metropolitan areas that have a higher-than-average per capita incidence of AIDS. The City of Fort Worth is one of these metropolitan areas and awards funding to Samaritan House for project-based rental assistance as well as supportive services.

Health Resources and Services Administration: Ryan White Program

The Ryan White Program works with cities, states, and local community-based organization to provide HIV-related services. The Ryan White legislation created five different programs, called Parts, to meet needs for different communities and populations affected by HIV/AIDS. Part C provides comprehensive primary health care in an outpatient setting for people living with HIV disease, including funding for early intervention services, core medical services, support services, and administrative costs, which can include rent, utilities, and facility support costs. Samaritan House has utilized Ryan White Program funding solely to provide supportive services to their tenants affected by HIV/AIDS.

TDHCA: Homeless Housing & Services Program

During the 81st Texas Legislative Session, $20 million was appropriated to TDHCA to fund the Homeless Housing and Services Program (HHSP) in the eight largest cities in Texas for the purposes of assisting regional urban areas in providing services to homeless individuals and families, including supportive services and rental assistance. The eight cities receiving HHSP funding include: Arlington, Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Houston and San Antonio. New

Hope partnered with the Houston organization receiving HHSP funding, SEARCH Homeless Services, to provide on-site case management to New Hope residents. Similarly, Foundation Communities partnered with the Austin organization receiving HHSP funding, Austin Resource Center for the Homeless (ARCH), also for case management services.

Services/Rental Assistance Funding Provided to the Tenant

Although it was not central to the discussion, interviewees did mention sources of service funding and/or rental assistance funding that tenants would bring with them when moving into a service-enriched housing development. While these funding sources cannot be figured into the financial formulas of the housing providers, as they are tenant-based rather than project-based assistance programs, they are useful sources for extremely low income tenants to utilize to remain living in community based residential housing.

Rental Funding Sources

If a housing developer does not obtain funding for project-based rental assistance, interviewees noted that it is extremely difficult to serve households at or below 30% Area Median Income (AMI) unless they can obtain rental assistance of their own. Many times, the only monthly income for senior residents or residents with disabilities is Supplemental Security Insurance (SSI) or Social Security Disability Insurance (SSDI), leaving them far below 30% AMI. Therefore, individuals seek tenant-based rental assistance. The most common source of tenant-based rental assistance is the Section 8 Housing Choice Voucher Program, which are obtained through the state's network of local public housing authorities (PHAs). Every interviewee stated that they accept Section 8 Voucher recipients and that Section 8 assistance is the most commonly utilized funding source; however most of the state's PHAs have waiting lists that are several years long.

Two sources of tenant-based rental assistance administered through TDHCA are the HOME Partnership Program's TBRA Program and the Housing Trust Fund's (HTF) Veterans Rental Assistance (VRA) Program. These programs are not permanent rental assistance as HOME TBRA is provided for a period not exceeding 24 months and HTF VRA cannot exceed 36 months. Easter Seals and Green Doors are local TDHCA TBRA providers specifically serving persons with disabilities and Green Doors is also a local provider of HTF VRA. Thus, these organizations can provide tenants with rental assistance to be used either at units developed by the organization, or elsewhere. The City of Austin also receives HOME funding and administers a TBRA Program. Foundation Communities cited receiving tenants who utilize Austin TBRA assistance through a partnership with the Passages Collaboration.

Combined Rent and Services Funding Sources

There are additional sources of assistance that households can obtain separate from their housing provider which offers both a rental subsidy component and a supportive service funding component. The two specifically cited by interviewees are the HUD-VASH Program and Housing Opportunities for Persons with AIDS (HOPWA) Program. As stated previously, HUD-VASH Program combines Section 8 Voucher rental assistance for homeless veterans with case management and clinical services provided by the Department of Veterans' Affairs (VA). VA provides these services for participating veterans through local VA medical centers and community-based outreach clinics. Similarly HOPWA funding may be used for a wide range of housing and social services costs including rental assistance, short-term payments to prevent homelessness, health care and mental health services, chemical dependency treatment, nutritional services, case management, assistance with daily living, and other supportive services. Samaritan House stated that many of their residents have received HOPWA funding through Tarrant County Community Development for tenant-based rental assistance.

Conclusion & Next Steps

Moving forward, it is the Council's goal to disseminate the information gleaned from these interviews to the public. To this end, Council staff are currently working on crafting an online, interactive tool, which can lead viewers through the development financing process.

It should be noted that this report is meant to be utilized by individuals or organizations with existing experience in affordable housing development. The Council acknowledges that service-enriched housing development is a more complex undertaking than typical housing development, with an intricate financing and development process. Therefore organizations interested in the creation of service-enriched housing in their community are encouraged to either seek the assistance of an experienced development consultant or partner with an existing service-enriched housing provider.

Appendix: Service Enriched Housing Projects - Financial Breakdown

Easter Seals Central Texas – The Ivy

Description: 8 condominium units within 7 building complex

Funding Sources:

HUD Section 811 Program	$739,900.00
City of Austin Rental Housing Development Assistance/GO Bonds	$491,040.00
ESCT Capital Advance *	$ 3,700.00
Total Sources	**$1,234,640.00**

* - HUD requires a minimum capital investment by the applicant equal to 0.5% of the Section 811 capital advance amount

Funding Uses:

Acquisition of 8 units	$1,108,740.00
Title and Recording Fee	$ 4,050.55
Attorney's Fees	$ 14,000.00
Consultant's Fees	$ 20,000.00
Insurance	$ 9,424.53
Taxes	$ 2,893.04
Surveying	$ 3,200.00
Homeowners Association Dues	$ 3,318.75
ESCT Austin Housing III, Inc. Development Costs*	$ 69,013.13
Total Uses	**$1,234,640.00**

*Includes development activities such as: environmental review, down payment costs, inspections, and administrative and start-up operating costs

FOUNDATION COMMUNITIES – GARDEN TERRACE

Description: 103 SRO units built in three phases

Funding Sources:

Austin Housing Finance Corporation	$2,275,750.00
TDHCA – HOME Program	$1,000,000.00
FHLB Affordable Housing Program - Atlanta (Phase I)	$500,000.00
FHLB Affordable Housing Program - San Francisco (Phase II)	$300,000.00
NeighborWorks America	$464,000.00
Charitable Foundations	$347,000.00
Deferred Developer Fee	$200,000.00
Individual Fundraising	$130,433.00
Miscellaneous Income	$117,299.00
Travis County	$50,000.00
Corporate Grants	$20,000.00
Total Sources	**$5,404,482.00**

Funding Uses:

Acquisition	$1,067,152.00
Hard Costs of Construction	$3,696,283.00
Soft Costs/Professional Fees	$389,047.00
Developer Fee	$200,000.00
Reserve	$52,000.00
Total Uses	**$5,404,482.00**

FOUNDATION COMMUNITIES – SKYLINE TERRACE

Description: 100 SRO units

Funding Sources:

Low Income Housing Tax Credit Equity	$3,969,392.00
Austin Housing Finance Corporation	$3,516,850.00
TDHCA – HOME Program	$1,450,000.00
FHLB Affordable Housing Program - San Francisco	$750,000.00
NeighborWorks America	$213,648.00
Charitable Foundations	$418,096.00
Enterprise Community Partners - Green Communities	$65,000.00
Enterprise Community Partners - Capacity Building	$10,000.00
Misc Income	$32,000.00
Total Sources	**$10,424,986.00**

Funding Uses:

Acquisition	$4,422,192.00
Hard Costs of Construction	$4,018,104.00
Soft Costs/Professional Fees	$666,690.00
Developer Fee	$898,000.00
Reserves	$420,000.00
Total Uses	**$10,424,986.00**

Samaritan House - The Villages at Samaritan House

Description: 60 SRO units and 66-one, two & three bedroom apartments within 4 building campus. Note: Funding information below includes the creation of 74 new housing units, as well as the rehabilitation of an existing 52 unit building, for a total development of 126 housing units.

Funding Sources:

Low Income Housing Tax Credit Equity	$ 7,068,379.00
Permanent Financing Loan	$ 3,415,000.00
FHLB Affordable Housing Program	$ 800,100.00
Capital Campaign (Fundraising)	$ 452,760.00
Total	**$11,736,239.00**

Funding Uses:

Acquisition	$ 1,913,440.00
Site Work	$ 1,080,500.00
Construction Costs	$ 5,805,935.00
Architect & Engineering Costs	$ 324,510.00
Indirect Construction Costs	$ 553,204.00
Existing Facility Rehabilitation* (52 SRO + 8 new units)	$ 350,000.00
Developer Fee	$ 866,000.00
Furniture & Fixtures	$ 442,650.00
Reserves	$ 400,000.00
Total	**$11,736,239.00**

* Rehabilitation includes roof replacement and other building improvements