Creating New Integrated Permanent Supportive Housing Opportunities For ELI Households:

A Vision for the Future of the National Housing Trust Fund

Technical Assistance Collaborative, Inc.

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"TAC's core mission focuses at the intersection of affordable housing, health care and human services policy and systems development"

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Foreword

Last December, affordable housing advocates were not the only groups celebrating the long-awaited activation of funding for the National Housing Trust Fund (NHTF). People with significant disabilities, whose income – as a national average – is equal to only 20 percent of area median income, hope to benefit from the NHTF's expansion of rental housing for extremely low-income (ELI) households.

The shortage of affordable rental housing across the country is a major barrier to community integration for people with disabilities. As a result, public resources for services are largely tilted towards costly, crisis oriented, institutionally based systems, such as psychiatric hospitals, prisons, jails, nursing homes and homeless shelters. State human services systems are struggling to comply with the Americans with Disabilities Act and the U.S. Supreme Court's *Olmstead* decision affirming the civil rights of people with disabilities to live in the most integrated setting. Data from numerous sources indicate that the cost of providing affordable housing assistance for people with disabilities pales in comparison with the costs of chronic homelessness, institutionalization and incarceration. In many states, unfortunately, human services budgets have been sacrificed to pay for housing assistance due to scarce housing resources.

The NHTF is a new tool to address the affordable housing crisis facing people with disabilities. Already, some state housing agencies have provided developers with incentives to develop housing for people with disabilities and other ELI households. This publication illustrates programs in Illinois, North Carolina and Pennsylvania, but there are many other innovative states as well. We hope that this report – *Creating New Integrated Permanent Supportive Housing Opportunities For ELI Households: A Vision for the Future of the National Housing Trust Fund* – will inspire state disability systems, disability advocates and other stakeholders to advocate with their state allocating agency to target NHTF resources for this critical need.

Kevin Martone
Executive Director
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Executive Summary

On December 11, 2014, the Federal Housing Finance Agency (FHFA) lifted its six year suspension of Fannie Mae and Freddie Mac's obligation to contribute to the National Housing Trust Fund (NHTF) – a visionary new federal housing program. This decision means that NHTF money – targeted primarily to rental housing for extremely low income (ELI) households – is scheduled to be allocated to state housing agencies in 2016. Early estimates suggest that approximately $250-$500 million will be available for the inaugural year of the NHTF program. Under the NHTF statute, each state and the District of Columbia is to receive a minimum allocation of $3 million.

The long-awaited activation of the NHTF program represents an important new opportunity for states to begin shaping the future of our nation's ELI housing policies, including a robust expansion of integrated permanent supportive housing (PSH) units for the most vulnerable ELI populations. States will begin the NHTF policy-making process this year, based on a new U.S. Department of Housing and Urban Development (HUD) NHTF Interim Rule published on January 30, 2015.

Over the past decade, in response to the enormous and growing demand for PSH, a number of state housing agencies – including Pennsylvania, North Carolina, and Illinois – have successfully pioneered new ELI financing approaches to increase the supply of integrated PSH units. Case studies of the ELI models developed by these three states – highlighted in this report by the Technical Assistance Collaborative (TAC) – describe examples of innovation in ELI housing finance which could be adapted for NHTF capital and operating subsidy funding. This level of innovation is essential for the NHTF to begin closing the enormous gap in ELI and PSH supply in 2016.

The NHTF Interim Rule requires each state to seek and consider public comments on their NHTF Allocation Plan, a policy document specifying how NHTF resources will be utilized (e.g., expanding PSH units, revitalizing public housing, etc.). PSH stakeholders – including state and local health and human services agencies as well as disability and homeless advocates – will want to initiate NHTF policy conversations with state housing agency officials as soon as possible regarding tested ELI-PSH strategies that will expand the overall supply of integrated PSH units in their state.

Introduction

Permanent supportive housing (PSH) is recognized as a cost-effective "best practice" solution to the needs of vulnerable people with disabilities with extremely low incomes (ELI) who are homeless, institutionalized, or at greatest risk of these conditions. The PSH approach integrates ELI housing opportunities with commitments of voluntary community-based supportive services to help people with serious and long-term disabilities to access and maintain permanent housing in the community.

The National Housing Trust Fund (NHTF) is a new federal housing program that will be implemented by state housing agencies for the first time beginning in 2016. The NHTF was authorized by Congress primarily to address the critical shortage of rental housing units affordable to ELI households – defined as households with incomes between 0-30 percent of area median income (AMI).

The ELI housing crisis has grown worse during recent years. Significant budget cuts to traditional HUD rent subsidy programs, escalating private market rents, and substantial growth in the ELI population have all contributed to the extreme shortage of decent and affordable housing for ELI households – including the most vulnerable people with disabilities who need PSH.

The demand for ELI housing units targeted specifically for PSH has increased significantly over the past decade – driven by state efforts to expand integrated PSH opportunities for people with disabilities living in restrictive institutional settings and federal policies to end chronic homelessness. This shortage of HUD rental subsidies at a time of skyrocketing PSH demand prompted some states to create new ELI and PSH approaches that do not rely on traditional HUD subsidy funds. These state rental housing finance models highlight a level of ELI and PSH innovation which can soon be achieved through the NHTF program.

The Pennsylvania, North Carolina, and Illinois case studies in this report highlight successful and potentially scalable ELI financing strategies to fund new integrated PSH units that can also finance "generic" ELI units. All three states recognized the value of using the federal Low Income Housing Tax Credit (LIHTC) program as a cost-effective platform for financing new ELI and PSH units. They were also among the first to create set-asides of integrated PSH units in LIHTC properties – a model subsequently adopted by Congress for the modernization of HUD's Section 811 Supportive Housing for Persons with Disabilities program (Section 811) in 2010.

The "non-traditional" ELI financing strategies developed by Pennsylvania, North Carolina and Illinois – along with Section 811's new Project Rental Assistance (PRA) option – represent cost-effective ELI innovations that can inform the development of future state NHTF ELI and PSH policies. These strategies represent an emerging new approach to ELI housing – one shaped by common policies that include a mixed-income LIHTC platform, low/no debt to reduce subsidy costs, and creative use of capital to finance longer-term ELI affordability.

The availability of NHTF resources in 2016 provides the nation's network of state housing agencies with a new and important opportunity to "think outside the box" of traditional ELI housing models that have characterized ELI housing finance for more than two decades. Traditional models typically rely on existing HUD rental subsidies – primarily Housing Choice Vouchers – which provide affordability for ELI households but do not add to the overall supply of dedicated ELI units. Traditional HUD subsidy programs also require annual appropriations for sustainability and may have higher long-term subsidy costs than some non-traditional ELI models.

Pennsylvania, North Carolina and Illinois are among the states that have pursued the development of non-traditional ELI financing models – primarily to create new integrated PSH units. Their strategies have increased the overall supply of ELI housing units in their respective states through financing models involving more "up-front" capitalization of the ELI subsidy – an approach that also reduces reliance on the annual discretionary appropriations process. These models are cost-effective and may be more systematic and scalable than a typical "project by project" ELI approach.

The PSH financing policies developed by these states illustrate advances in ELI innovation and cost-effectiveness which could be achieved by all 50 states through new NHTF policies. Outcomes such as these will be essential for the NHTF program to "break new ground" in federal ELI housing policy and close the ELI housing gap – goals long sought by the National Low Income Housing Coalition (NLIHC) and their NHTF partners. Because the initial capitalization of the NHTF is smaller than envisioned when it was enacted in 2008, the development of successful and cost-effective ELI financing models is also critical to current and future advocacy efforts to secure more robust sources of funding for the NHTF from Congress.

TAC is extremely proud of its long-standing partnership with NLIHC and the leadership they have provided to bring this new federal ELI housing program to fruition. TAC is also very grateful for the opportunity to have worked collaboratively with state officials in Pennsylvania, North Carolina and Illinois over the past decade to develop and implement their innovative PSH initiatives and ELI housing finance achievements. Other states – including Massachusetts and Louisiana – have also done ground-breaking work on integrated PSH models. In these five states, approximately 6,000 people with the most significant and long term disabilities are now living in integrated community-based ELI-PSH housing units as a result of these efforts.

Through this report, TAC seeks to stimulate a similar level of ELI and PSH innovation across all 50 states and the District of Columbia as they plan for the receipt of NHTF resources in 2016. Innovations in ELI housing finance developed through the NHTF will not only benefit ELI households in need of PSH, but will also maximize the number of ELI units created and demonstrate the effectiveness of this desperately needed federal housing program.

This report was developed to inform and assist ELI and PSH stakeholders in their efforts to influence NHTF decision-makers in 2015 and 2016. TAC also hopes this report will stimulate a robust dialogue, healthy competition, and a spirit of innovation across the nation's network of state housing agencies to: (1) significantly increase the supply of new ELI-PSH units; (2) expand the overall supply of ELI housing by maximizing the use of new NHTF resources; and (3) ensure that NHTF resources are allocated to address the priority housing needs of vulnerable PSH populations.

ELI-PSH Needs and Supply

The single most important community development issue facing our nation today is the critical and growing shortage of decent and safe rental housing affordable to ELI households between 0-30 percent of area median income (AMI). Numerous recently published studies and policy papers provide compelling evidence regarding the urgency of this ELI housing crisis:

- In the *Worst Case Housing Needs: 2015 Report to Congress Executive Summary*, HUD found that 1.1 million very low income non-elderly renter households with disabilities were paying more than 50 percent of their income for housing costs; (HUD, 2015)
- HUD's Worst Case Housing Needs reports have historically failed to consider the housing needs of as many as one million additional non-elderly adults with disabilities who are living in institutional settings or who are homeless. (HUD, 2011). Most of these individuals need PSH;
- A report issued by the National Center on Family Homelessness calculated that almost 2.5 million children – approximately one out of every 30 children – were homeless at some time during 2013 in the United States. Homelessness has many adverse effects on children including lost school days, being forced to move from shelter to shelter, isolation from extended family and other social supports, and higher utilization of the foster care system; (National Center, 2014)
- According to a NILHC report, in 2012, one out of four renter households had incomes at or below 30 percent of AMI – a total of 10.3 million households. People with disabilities are disproportionately represented within this ELI population. In that same year, there were just 3.2 million units affordable and available to ELI households, creating a need for 7.1 million ELI units. (Bolton, M. Bravve, E. & Crowley, S. 2014)

Vulnerable ELI Populations Needing PSH

The crisis in ELI housing is clearly illustrated by the plight of two highly vulnerable populations: people with disabilities forced to live in segregated and institutional facilities and people with disabilities who are homeless. Most people in these two groups need the PSH model of ELI housing.

ELI Needs and Homelessness

For people with significant and long term disabilities, homelessness causes and results from serious health care issues, including mental health disorders, HIV/AIDS, substance abuse, and other chronic condition that can benefit from long-term care services. These conditions become more severe when someone is homeless, and are also more difficult and costly to treat. Chronically homeless people with disabilities – who have been either continuously homeless for more than one year or repeatedly homeless over the past few years – are at much greater risk of physical harm, and even death. Chronic homelessness has declined during recent years as the federal government shifted its emphasis to PSH solutions. Despite this progress, HUD's 2014 Annual Homeless Assessment Report estimated that 84,291 of the 578,424 people who were homeless on a single night were chronically homeless.

Due in large part to communities implementing the recommendations in *Opening Doors: Federal Strategic Plan to Prevent and End Homelessness*, HUD reported a 4 percent decline in homelessness in the United States between 2012 and 2014. However, in most housing markets with high rents, homelessness is still on the rise. Washington D.C., San Francisco, New York, and Massachusetts have all experienced significant growth in one or more homeless subpopulations during recent years. The number of homeless families has increased 30 percent in New York and 80 percent in Massachusetts. Chronic homelessness is an epidemic in a number of large cities with warm climates, including Los Angeles, Honolulu, and Miami. (Harvard, 2014). Particularly in these high cost housing markets, it is unlikely that meaningful progress can be made to end homelessness without a significant infusion of resources to create more ELI housing, including PSH units.

ELI Needs and Olmstead

Unfortunately, people with significant and long term disabilities living in segregated institutional settings because they can't afford housing in the community are not included in HUD's narrow homeless definition – but they are just as homeless as people who reside in emergency shelters. People in institutional settings live in highly regimented environments and have little or no control over their daily lives. Decisions that people living in the community take for granted – such as having freedom to come and go, choosing recreational activities, when to have meals and when to sleep, and how personal income is spent – are based on facility rules and/or are frequently made by facility staff.

Estimates of the number of non-elderly people with disabilities who reside in these types of institutional settings – such as nursing homes, state institutions, congregate care facilities, etc. – range as high as 800,000. (HUD, 2011). To be able to move successfully to housing in the community, the vast majority of these individuals need PSH.

Many states are under significant pressure to expand the availability of PSH because of a 1999 U.S. Supreme Court action commonly referred to as *Olmstead* – a landmark disability rights decision which upheld the community integration requirements of the Americans with Disabilities Act (ADA). This lawsuit was filed on behalf of two women living in a state institution in Georgia who desired to live in the community and whose physicians had determined they were ready to be discharged. Since the *Olmstead* decision, many state disability agencies have been struggling to: (1) reduce their reliance on restrictive and segregated settings; and (2) expand access to integrated community-based housing – primarily through the PSH approach.

Various *Olmstead*-related state Settlement Agreements – including in the states of Connecticut, Delaware, Georgia, Illinois, New Hampshire, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia, and Washington State – call for as many as 50,000 or more new integrated PSH opportunities to be created in those states over the next 3-5 years. For example, Illinois has three separate Settlement Agreements covering as many as 20,000 people with disabilities living in Adult Care Facilities, nursing homes, and state-run institutions. Georgia's Settlement Agreement addresses the housing and service needs of an estimated 9,000 people, most who have mental illness and are homeless or at great risk of homelessness. This growing body of *Olmstead* case law has also triggered: (1) affirmative *Olmstead* planning in Minnesota, Mississippi, Arkansas, and other states trying to avoid costly ADA litigation; and (2) new Medicaid rules that require states to ensure that integrated PSH opportunities are available for people with disabilities receiving certain Medicaid waiver services. (HHS, 2014)

The high costs associated with institutionalization and homelessness – borne by federal, state, and local government, and therefore the taxpayer – have also increased the demand for PSH units. Numerous studies have shown that some chronically homeless people can cost state and/or local governments hundreds of thousands of dollars annually. (USICH. 2014). The cost of a Medicaid-funded nursing home bed can range from $50,000 - $80,000 or more, depending on the state, and the annual cost of a bed in a state-run institution can exceed 200,000 per year. In contrast, the average cost of providing PSH for an individual with a disability who was previously homeless or institutionalized is typically a small fraction of the cost of an institutional bed. (Heartland Alliance, 2009)

ELI and PSH

PSH opportunities are – by definition – ELI housing opportunities. This correlation between PSH and ELI housing finance exists because the vast majority of people with disabilities who need PSH are ELI households. Most individuals moving from segregated institutional settings into the community have Supplemental Security Income (SSI) level incomes equal – on average nationally – to only 20 percent of AMI. (TAC, 2015). Homeless people with disabilities without SSI may have no income at all or receive a state-funded stipend much lower than SSI.

As state housing agencies explore strategies to expand the supply of PSH units, they confront the same challenges that have stymied efforts to expand new ELI housing supply across the country during recent years:

- The traditional HUD programs that created our nation's dedicated supply of federally subsidized housing units affordable to ELI households (e.g., the federal Public and Indian Housing programs and HUD Assisted Housing projects with long-term Section 8 contracts etc.) have not added new units to this supply for more than 25 years. Poor design, high concentrations of poverty, a lack of capitalization, and a steady decline in support for full funding for HUD subsidies are all factors that have adversely affected these traditional ELI programs – lessons learned that can inform the development of future ELI policy;

- Escalating and/or unpredictable renewal costs have contributed to the erosion of political support for traditional ELI housing programs, including the Housing Choice Voucher program. Subsidy renewal costs for ELI housing have risen in recent years as market rents continue to rise;

- Because they were funded with existing HUD subsidies, most of the dedicated ELI units created by state housing agencies during recent years – particularly in federal LIHTC properties – did not add to the overall ELI supply. To significantly expand ELI housing supply, bolder strategies are needed;
- Few states use the LIHTC program as a strategic platform to achieve rents below 30 percent of AMI.

The stigma often associated with ELI and PSH is also a barrier to expanding ELI and PSH supply, including units integrated within mixed income properties. Some housing agencies believe that developers – including some mission driven non-profits – will simply refuse to create dedicated ELI and PSH units. However, in the three states profiled in the case studies – and in Louisiana where post-Katrina ELI financing strategies emphasized mixed income models with ELI and PSH units – LIHTC developers did pursue the ELI and PSH incentives included within the state's LIHTC program. In some instances, developers were willing to create more than the minimum number of ELI and PSH units requested or required by the state. In these states, sustained leadership and effective communication from state housing agency officials was critical to overcoming any initial developer resistance and concern.

Closing the ELI Gap

Although advocates have been "sounding the alarm" about the urgency of the ELI housing crisis since the 1990s, the federal government did little to address the gap between ELI needs and supply until the NHTF program was authorized in 2008. Unlike other HUD programs which receive discretionary annual appropriations from Congress, financing for the NHTF is based on "dedicated revenue" – a proven model pioneered by successful state and local housing trust funds. Depending on the state/locality, the "dedicated" source can be a real estate transfer tax, a portion of the interest earned on real estate escrow accounts, a deed recording fee, or other mechanism that produces revenue that can be allocated for affordable housing purposes.

The first federal sources of "dedicated revenue" for the NHTF were to come from a very small assessment on the volume of business of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – also referred to as Government Sponsored Enterprises or GSEs. These GSE contributions were suspended in the fall of 2008 when the foreclosure crisis triggered serious financial problems for the GSEs – a suspension that was finally lifted in December of 2014.

As NHTF planning activity begins in 2015, ELI and PSH advocates have a rare and important opportunity to help reinvigorate federal ELI housing policy and inaugurate a new era of ELI innovation by the states and their NHTF partners. This level of achievement – while ambitious – will be necessary to close the ELI housing gap which affects the most vulnerable PSH populations.

The National Housing Trust Fund

Authorized by the Housing and Economic Recovery Act of 2008 (HERA), the NHTF is a visionary federal ELI housing policy championed by NLIHC and its advocacy partners. The NHTF is a rental housing production and preservation program created by Congress specifically to address the nation's critical and growing shortfall of rental housing units dedicated to ELI households.

The NHTF will be administered by the states, and has the potential to stimulate innovative ELI and PSH policies similar to the integrated PSH initiatives successfully tested in North Carolina, Pennsylvania, and Illinois. These policies must be guided by the new HUD NHTF Interim Rule published on January 30, 2015, which includes significant modifications to the Proposed Rule issued for public comment in 2010. Basic information about the NHTF statute and a summary of key policies established by HUD in the NHTF Interim Rule are highlighted below. More detailed information, including any updates, is available on the NLIHC web site located at http://nlihc.org/issues/nhtf.

NHTF Statute

The most important features of the NHTF include the following:

- It is a permanent program on the mandatory side of the federal budget, with dedicated source(s) of funding not subject to the annual appropriations process;
- HUD will use the NHTF statutory formula to determine the amount of NHTF resources allocated to each state. Under the formula, each state must receive a minimum of $3,000,000.[1] Recent NLIHC estimates of each state's allocation are included in Appendix A;
- It is targeted toward rental housing, with at least 80 percent of the funding directed to the production, preservation, rehabilitation, and operation of rental housing. Up to 10 percent of the funding may be used for homeownership activities and up to 10 percent can be spent on administration;
- It is primarily targeted to ELI rental housing. By law, at least 75 percent of the rental funds must benefit ELI households.

1 HUD's NHTF Interim Rule provides that if there is not sufficient funding to provide at least $3 million to each state and DC, HUD will publish a Notice in the Federal Register with an alternative allocation formula and seek public comme

- The amount of funding available for the first year of NHTF activity will be based on the GSEs calendar year 2015 volume of business. HUD is scheduled to make these funds available to the states in 2016;

- The Governor of each state must officially designate an agency to administer the NHTF – most likely the state housing agency administering the LIHTC program and/or the HOME program – and must notify HUD of this designation. As of January of 2015, approximately 30 states had designated a NHTF administering agency;[2]

- States may allocate NHTF resources directly to "recipients" (i,e., to projects) or indirectly to "sub-grantees" (e.g., municipalities, counties, etc.);

- The NHTF statute authorizes two rental housing activities: (1) capital for rental housing development, rehabilitation and preservation; and (2) operating subsidies;

- NHTF law and HUD's Interim Rule do not establish tenant rents based on 30 percent of income, which is a requirement of HUD's other deeply targeted programs (e.g., Housing Choice Vouchers, federal public housing, Section 811 and Section 202 programs, HUD's Homeless Assistance programs etc.). Instead, HUD's Interim Rule sets the maximum rent that can be charged for a NHTF ELI rental unit at 30 percent of 30 percent of AMI, or 30 percent of the federal poverty level, whichever is higher.

NHTF Interim Rule

The development of the NHTF Interim Rule was led by HUD's Office of Community Planning and Development (CPD), which will be administering the NHTF program. CPD also administers the HOME program, and many of the policies included in the Interim Rule mirror HUD policies for the HOME program. HUD plans to open the Interim Rule for public comment to solicit feedback once NHTF money is available and states gain experience administering the program.

Some key provisions of the Interim Rule that pertain to NHTF financing of rental housing are highlighted below:

- If the amount of money available annually for the NHTF is $1 billion or less, the entire amount must be spent on ELI housing;

- The amount of a state's annual NHTF allocation that can be spent on operating assistance and operating reserves cannot exceed 1/3rd of the allocation. This is an improvement over HUD's Proposed Rule, which limited these critically important ELI financing activities to only 20 percent of the allocation;

2 http://nlihc.org/sites/default/files/NHTF_Powerpoint_020515.pdf

- If the NHTF money used for operating assistance and/or operating reserves comes from non-appropriated funds (which currently refers to the contributions from Fannie Mae and Freddie Mac) then up to 30 years of funding may be committed "up front". If funding for these NHTF activities is provided through appropriated funds, the limit is reduced to 5 years;
- Transitional housing, which was permitted under the Proposed Rule, is not permitted under the Interim Rule;
- Some public housing rental activity is now permitted to receive NHTF money, including Choice Neighborhoods and the Rental Assistance Demonstration program (RAD);
- The minimum affordability term for NHTF created units is 30 years with longer terms permitted.

The improvements included in the Interim Rule are extremely important because – as illustrated by the Pennsylvania, North Carolina, and Illinois case studies – the capitalization of operating reserves and/or long-term funding of operating subsidies are proven strategies to develop new ELI-PSH units that are financially feasible and cost effective.

State NHTF Allocation Plan

State planning activities related to NHTF policy decisions are similar to the requirements of the HOME program. Each year, states must prepare a NHTF Allocation Plan and submit it to HUD for approval prior to the receipt of NHTF resources. The Allocation Plan must specify how the state will utilize NHTF resources during the coming year. These decisions must be based on priority housing needs as identified in the state's Consolidated Plan, a HUD strategic plan requirement of other CPD programs. When preparing the NHTF Allocation Plan, states must notify the public, provide the public with an opportunity to comment on the Plan, consider these comments, and make the final Plan available to the public. The NHTF law also requires compliance with all Consolidated Plan public participation requirements, including one public hearing and a 60 day review/comment period.

Since the FHFA announced it was lifting the suspension on NHTF contributions from the GSEs, there has been an uptick in NHTF-related activity in the states. Some states have initiated internal NHTF policy discussions, while others may have begun preliminary discussions regarding how the process for preparing the Allocation Plan might work, and/or are starting to assess the state's ELI opportunities and barriers. ELI and PSH advocates must be prepared to undertake NHTF policy conversations with state officials regarding tested ELI and PSH strategies, including financing models that can maximize the number of new ELI units created with the 2016 allocation. Advocates in the states, including those working to expand PSH for disabled and homeless populations, must also join NLIHC and its NHTF partners who are working diligently to preserve and expand NHTF resources.

Current and Future Funding for the NHTF

When the NHTF was authorized in 2008, projections on the level of annual funding contributed by the GSEs ranged as high as $1 billion. However, the level of GSE business activity has dropped substantially since 2008 and current estimates for the amount of funding that HUD is scheduled to allocate to the states in 2016 range from $250-$500 million. Appendix A includes state by state NLIHC allocation estimates based on $250 million and $500 million in funding.

While lifting the suspension of the GSE contributions was an extremely important first step towards NHTF implementation, obtaining other permanent sources of NHTF revenue on the mandatory side of the federal budget is also critical. NLIHC and its advocacy partners are continuing their efforts to secure robust annual dedicated funding at least equivalent to the $1 billion projected in 2008, when the NHTF "dedicated revenue" approach received strong bipartisan support from Congress. These funding strategies include:

- **GSE reform:** Despite the fact that they are again profitable, Fannie Mae and Freddie Mac remain under the conservatorship of the FHFA – an arrangement which most policy makers consider untenable over the long term. Bipartisan legislation to reform the GSEs was filed in the last Congress, and would have produced $3 billion or more in annual funding for the NHTF if it had been enacted. Advocacy to ensure that dedicated revenue for the NHTF is an outcome of GSE reform legislation will continue during this session of Congress;

- **Tax reform:** NLIHC, through the United for Homes Campaign, is also working on a long term goal to secure funding for the NHTF through federal tax reform. Under this proposal, a portion of the revenue generated from reforming the mortgage interest deduction would be dedicated to the NHTF, with most of the remaining revenue targeted to pay for a non-refundable tax credit for millions of middle and low income homeowners who do not currently benefit from the mortgage interest deduction.

Up to the minute information on the NHTF, including updates on funding, state NHTF allocations, HUD's Interim Rule, and other program information, can be found at http://nlihc.org/issues/nhtf.

An ELI-PSH Vision for the Future

The NHTF allocations scheduled to be distributed to the states in 2016 constitute the most significant infusion of new state-administered federal rental housing funding primarily targeted to ELI households in more than two decades. During its inaugural year, it is critically important that state officials adopt innovative NHTF policies that:

- Expand overall ELI housing supply;
- Address a broad spectrum of ELI needs, including a focus on the most vulnerable ELI populations who need PSH; and
- Ensure the most successful and cost-effective use of these scarce federal ELI housing resources.

To achieve all three of these NHTF policy objectives, states cannot rely on traditional ELI housing approaches and models of the past. Instead, states can be informed by and leverage the knowledge, experience, and lessons learned in pioneering ELI states such as Pennsylvania, North Carolina, and Illinois. This emerging ELI vision acknowledges that – while developing ELI housing will always cost more than assisting households above 30 percent of AMI – states can advance innovations in ELI housing policy through systematic, sustainable, and cost-effective ELI models utilizing non-traditional capital, subsidy and mixed-income financing.

ELI and LIHTC

The ELI successes achieved by Pennsylvania, North Carolina and Illinois highlight the LIHTC program as a critical component of future NHTF strategies to expand the overall supply of ELI housing, including PSH units. Since 1986, the LIHTC program has been the main driver of affordable rental housing development for households at and below 60 percent of AMI. Over 2.4 million rental housing units have been developed, and approximately 100,000 new LIHTC rental units are added each year.[3]

The LIHTC program has provided a state housing policy platform to accomplish an array of affordable rental housing policy objectives, including the preservation of ELI housing through programs such as Choice Neighborhoods and RAD. Numerous states have also prioritized the LIHTC program to create so-called "special needs housing projects". These properties, including single-site PSH projects, are typically financed using discrete "pools" or "set-asides" of a state's LIHTC allocation, combined with traditional

3 http://www.huduser.org/publications/pdf/what_happens_lihtc_v2.pdf

project-based rent subsidies. However, with some exceptions, states have not used the LIHTC program to systematically expand overall ELI housing supply.

The scheduled allocation of NHTF resources to the states in 2016 offers an important new opportunity to utilize the LIHTC program as a mechanism to significantly expand the nation's ELI housing supply. This effort can begin by leveraging the ELI expertise and experience developed over the past decade in states that have successfully created non-traditional ELI financing models. The availability of new NHTF capital and subsidy funding can help to replicate and refine these models and take them to scale, and also stimulate the ELI finance knowledge transfer to other states. While the opportunities and challenges in each state will vary, the policies and models developed in states with ELI expertise should inform and advance the use of the LIHTC program as an essential platform for closing the ELI housing gap.

ELI, LIHTC, and Section 811 PRA

HUD's newly authorized Section 811 Project Rental Assistance Program (PRA) is another example of the new ELI housing vision that has emerged during recent years in response to the scarcity of ELI resources. PRA was authorized with strong bi-partisan Congressional support in 2010, and was inspired by the ground-breaking ELI-PSH work done in the states of North Carolina, Pennsylvania, and Louisiana using the LIHTC platform.

Before Section 811 was reformed, it was a highly capital intensive program that funded non-profit groups to create "single purpose" PSH projects and rarely leveraged funding from other federal affordable housing programs. The modernized Section 811 PRA approach is a new ELI model that only funds Section 811 PRA operating subsidies and provides them directly to the states. States are encouraged by HUD to develop highly cost-effective policies to combine the PRA subsidies with capital/equity financing from other sources (e.g., LIHTC, HOME funds, etc.) to create PSH units that are integrated within mixed income rental developments. This new ELI-PSH model has quadrupled the number of new PSH units that can be created annually without any increase in Section 811 appropriations.[4]

Section 811 PRA is an example of the type of ELI innovation which could soon be replicated by the states using NHTF resources. Evidence strongly suggests that most states are open to this type of ELI-PSH innovation. During the first two funding competitions for Section 811 PRA, more than 40 separate states submitted PRA applications to HUD.

A total of 29 state housing agencies[5] are now in the process of implementing their PRA programs, including new awards announced by HUD in March of 2015. Much can be learned about expanding ELI supply from these PRA states because, as noted earlier, a PSH unit is simply an ELI unit that comes with an additional commitment of supportive services. As the number of states implementing PRA grows, advocates expect that Section 811's new PRA approach will continue to break new ground in PSH as well as ELI housing policy.

4 During FY 10-11, the Section 811 program financed approximately 850 new units. In FY 2012, the first year of PRA implementation and with the same level of appropriations, more than 3,000 new units were funded.

5 http://811resourcecenter.tacinc.org/

Achieving the Vision

The opportunity to leverage innovations in ELI housing policy is now at hand as state housing officials begin planning for the NHTF Allocation Plan process. The Pennsylvania, North Carolina and Illinois case studies are offered to help inform both state housing officials and advocates alike of the effectiveness of the LIHTC platform to achieve deep levels of ELI affordability for PSH tenants – as well as other ELI households. The case studies also demonstrate that LIHTC developer/owners can become willing partners in the creation of new ELI units – and that leadership from state housing officials is critical to achieving this outcome. These case studies also highlight the specific ELI-LIHTC financing strategies that can be modified or adapted for use with NHTF resources.

It's important to note that the start-up of a new and flexible federal housing program such as the NHTF does present real challenges for state housing officials. Within very short timeframes, they will be required by HUD to: (1) develop new ELI policies and activities consistent with the program's goals; (2) commit/expend the funds on a specified timetable; and (3) ensure that ELI rental housing activities are successful. Advocates should also be aware that once a state's new NHTF policies are finalized, they could control the program's activity beyond just the initial year and be difficult to change.

Developing and financing rental housing properties that include ELI units is more challenging than simply creating LIHTC and/or HOME units with rents at 50-60 percent of AMI. Because the preservation of ELI housing is an eligible NHTF activity, some states may be overly cautious and focus their NHTF investments exclusively on these types of properties. While preserving ELI units is definitely important, during the first year of implementation, advocates must urge states to invest NHTF resources to expand the overall ELI supply – including prioritizing the creation of integrated PSH units.

Key Principles and Recommendations

To make measurable progress towards the goal of closing the enormous gap between the ELI need and ELI housing supply, states must be willing to incorporate innovative ELI financing models within their "tool box" of affordable housing strategies. These models are particularly important to ensure the expansion of PSH units to address *Olmstead*-related housing needs and to continue to make progress on ending homelessness.

The ELI accomplishments illustrated in the Pennsylvania, North Carolina, and Illinois case studies were achieved through policies based on a few key principles that should also guide states decisions for the NHTF:

1. The NHTF program must be targeted to address the full spectrum of ELI need, including vulnerable households with disabilities in need of PSH;

2. The federal LIHTC program should be used as a platform for the NHTF to expand ELI and PSH units. When combined with other sources of capital financing, the LIHTC program can produce much lower rents for a subset of units in a property – as low as 30 percent of AMI in some housing markets. When lower rents are achieved, the cost of adding an additional ELI subsidy – such as the

NHTF operating subsidy – will be much less than the cost of an FMR-based subsidy. Pennsylvania and Illinois both utilize the LIHTC program for this purpose, and illustrate the relatively low cost – and transparency – associated with this ELI approach;

3. NHTF strategies should include a focus on mixed income approaches that create a subset of ELI units in properties that also provide housing for higher income households. The mixed income model can reduce the community resistance often encountered for projects that are either 100 percent ELI and/or 100 percent PSH and may provide opportunities to cross subsidize PSH rents. Equally important for PSH policy, a mixed income approach also maximizes the level of community integration which can be achieved for PSH tenants. All three case studies utilize this mixed income approach to expand the supply of integrated PSH units;

4. Use NHTF resources to develop the most cost-effective, transparent and long-term ELI subsidy approach possible. ELI units definitely cost more to develop, but realistic cost-conscious policies are essential to the future of ELI housing policy;

5. NHTF resources must be used in combination with other existing affordable housing programs, and not used to supplant funding from these programs. For example, NHTF capital should not be used to supplant HOME funds that are being used systematically to lower rents in LIHTC properties. Instead, NHTF resources can be used to augment LIHTC/HOME financed models to achieve deeper levels of ELI affordability.

Using these basic principles – as successfully illustrated by the Pennsylvania, North Carolina and Illinois case studies which follow – states can develop NHTF strategies appropriate to each state's opportunities and challenges, and take full advantage of new NHTF capital and subsidy resources to expand the supply of ELI housing and ELI-PSH opportunities.

Case Studies

For numerous reasons, including the accelerated growth in unmet ELI housing needs over the past decade, many state housing agencies have recently focused more attention on ELI housing finance strategies. However, most of these efforts have produced no 'net gain' in the nation's ELI housing supply.

TAC selected the ELI-PSH achievements in Pennsylvania, North Carolina, and Illinois to highlight in this report's case studies because:

- Each state's strategy added new ELI units to the overall ELI supply without relying on existing HUD subsidy programs;
- All three ELI-PSH financing strategies create integrated PSH units that can help states comply with the community integration mandates within the Americans With Disabilities Act and assist with *Olmstead*-related Settlement Agreements and affirmative *Olmstead* planning;
- All three housing finance models are suitable for the creation of ELI units that are not necessarily PSH;
- Each state's ELI approach is potentially relevant to the development of innovative and cost effective models of ELI housing finance using NHTF capital and/or operating subsidy resources scheduled to be made available to state housing agencies in 2016.

Each case study includes a summary, program purpose and background, core elements of the program design, highlights of the program's flexibility and efficiency, a description of the financial model, and the success/scale achieved in each state.

Pennsylvania Housing Finance Agency Rent Subsidy Fund

Summary

TAC is highlighting this case study from the Pennsylvania Housing Finance Agency (PHFA) to focus attention on the success and effectiveness of Pennsylvania's Rent Subsidy Fund, an "internal rent subsidy reserve" approach to finance new rental housing units affordable to many extremely low income (ELI) households at or below 30 percent of Area Median Income (AMI). Pennsylvania's "fixed rent" model sets Rent Subsidy Fund unit rents at 20 percent of AMI (i.e., the "fixed rent" is equal to 30 percent of the income of a 20 percent of AMI household).[1] A substantial number of these new ELI units have been dedicated to create integrated permanent supportive housing (PSH). This ELI model is potentially replicable in other states and is an ELI-financing approach which could be adapted by other state housing agencies planning for the implementation of the federal National Housing Trust Fund (NHTF) program.

Offered as part of its federal Low Income Housing Tax Credit (LIHTC) program, PHFA created the Rent Subsidy Fund approach to finance a 15 year ELI subsidy for small set-asides of units within LIHTC properties located across Pennsylvania. All Rent Subsidy Fund units have 20 percent of AMI rents over the 30 years of the tax credit compliance period. Rent Subsidy Fund financing for the project's ELI units is provided by an additional developer's fee allowed by PHFA specifically for this purpose – i.e., a project reserve fund.

In most rural areas of Pennsylvania, which generally have lower AMI levels, an individual receiving Supplemental Security Income (SSI) living in a 20 percent AMI unit would pay approximately 30 percent of his/her income for rent. In some urban and suburban communities however, a 20 percent AMI rent exceeds 30 percent of SSI. In Allegheny County, for example, an individual receiving SSI would pay an estimated 34 percent of their income for rent in a 20 percent AMI unit, which is an acceptable tenant rent in the Housing Choice Voucher program. However, in the highest cost areas of Pennsylvania, such as Philadelphia, this model is more challenging because tenant rent is equivalent to 41 percent of SSI.[2]

By infusing additional operating resources into the project, Pennsylvania's Rent Subsidy Fund approach provides a flexible and efficient model for state housing agencies, in partnership with developer/owners, to create sustainable ELI housing – including PSH units targeted to the SSI population. Overall, this Pennsylvania ELI financing approach has proven to be very successful, creating 200-300 ELI units

1 Under Pennsylvania's 20 percent of AMI "fixed rent", the rental cost would actually be less than 30 percent of income for households above 20 percent of AMI, and greater than 30 percent of income for households below 20 percent of AMI.

2 Based upon 2014 PHFA County Based Rent Schedule and 2014 SSI amount for a single person household in Pennsylvania.

in approximately 60 properties during the past 10 years.[3] In higher cost housing markets such as Philadelphia, a small amount of new NHTF capital or operating subsidy funding could be utilized to achieve a deeper level of affordability.

Program Purpose and Background

PHFA established the Rent Subsidy Fund program in 2005 as a strategy to finance 20 percent AMI rents for accessible units for persons with physical and/or sensory disabilities integrated within multi-family rental properties. Prior to 2005, PHFA had included incentives within its LIHTC program to support the creation of additional accessible units beyond the 5 percent/2 percent requirements of federal law. Rents for these accessible units were initially set at the 50 percent of AMI level. However, PHFA and stakeholders soon recognized that many LIHTC owners were having difficulty leasing these units, primarily because many of the applicant households who needed the accessibility features had ELI-level incomes at or below 30 percent of AMI.

PHFA's Rent Subsidy Fund was created to address this issue – specifically to reduce rents for accessible units in LIHTC properties to ELI levels.[4] Subsequently, PHFA required all multi-family rental projects financed through the LIHTC Program to meet certain ELI requirements. Currently, for LIHTC projects in urban areas, PHFA requires that 10 percent of the units have rents set at 20 percent AMI. Suburban and rural area projects must have 5 percent of the units at 20 percent AMI rents. All 20 percent AMI units have 30 year terms and 50 percent must be accessible units.

During recent years, many of these 20 percent AMI units have also been designated as PSH units through PHFA's partnership with the Pennsylvania Department of Human Services (DHS), formerly the Department of Public Welfare. Pennsylvania's PSH program design relies on developers establishing formal referral relationships with a County-based Local Lead Agency (LLA) during the LIHTC application process. LLAs are community based organizations approved by DHS to provide timely referrals of PSH-eligible households to owners/property managers with PSH units. LLAs also coordinate the delivery of supportive services to assist PSH households to maintain successful tenancies and address other needs. PHFA estimates that approximately 70-80 percent of projects in recent LIHTC funding competitions included an initial agreement with an LLA to coordinate referral and the provision of supportive services for their PSH 20 percent AMI units.

3 PHFA established the program in 2005 with the initial year of project occupancy in 2007.

4 In addition to creating 20 percent AMI units, PHFA has also used the Rent Subsidy Fund to create 40 percent AMI units and to support certain supportive service initiatives.

Core Elements of Program Design

PHFA offers the Rent Subsidy Fund as voluntary program within its LIHTC Qualified Allocation Plan (QAP). The QAP is a federally mandated planning document required by the LIHTC program which includes the priorities and procedures that a state housing agency must follow when competitively awarding its annual LIHTC allocation to eligible projects.

Allowed Uses of Rent Subsidy Program Funds

Under the Rent Subsidy Fund program, PHFA allows a developer to request up to an additional 5 percent developer fee over the allowed maximum base developer fee to fund the cost associated with creating the 20 percent AMI units. Recognizing the importance of creating sustainable ELI units from a state housing policy perspective, PHFA offers the option of additional tax credits to generate the equity needed to fund the Rent Subsidy Fund for 15 years. It is important to note that Chapter 42 of the Internal Revenue Code, which governs the LIHTC program, allows for the inclusion of an additional developer fee for the purposes of generating equity to fund a rental subsidy escrow or reserve. Because of subsidy layering rules which "cap" the developer's fee at 15 percent of project replacement costs, LIHTC projects that require a layering review may be more restricted in the amount of resources that can be raised to fund the Rent Subsidy Fund reserve.

PHFA requires the developer to commit to the project the entire amount of the equity raised from the additional developer's fee during the initial 15 years of the tax credit compliance period. PHFA also requires that the developer/owner select a third party organization – typically a bank – to manage the project's Rent Subsidy Fund. In lieu of requesting these funds, developers may instead obtain Public Housing Agency (PHA) commitments of Project Based Vouchers or use some other type of project-based subsidy to achieve the ELI targeting. Due to the lack of available HUD subsidies, most developers request the Rent Subsidy Fund.

PHFA requires the 20 percent AMI rent level to be maintained for 30 years, even though the Rent Subsidy Fund is initially capitalized in the development budget for only the first 15 years. PHFA also permits the infusion of additional resources into the Rent Subsidy Fund at any time during the 30 year compliance period. While no project has reached Year 15, PHFA continues to encourage owners to creatively manage all Rent Subsidy Fund resources and/or seek other rental subsidy commitments to ensure that the 30 year term of affordability can be achieved.

PHFA notes that some tenants who qualify for Rent Subsidy Fund units do not use the entire amount of the subsidy estimated in any given year. Owners are also encouraged to market the units to prospective tenants with some form of tenant-based assistance and to obtain Project Based Voucher commitments from PHAs. PHFA program guidelines require that any remaining reserve balances at the earlier of the sale of the property or the end of the compliance period be used to pay outstanding debt or for capital improvements.

Cost Effectiveness

In an effort to minimize the cost of Rental Subsidy Fund units and correspondingly reduce the amount of additional tax credits required to fund the reserve, PHFA calculates the rent subsidy to cover only the difference between the 20 percent AMI rent and the 50 percent AMI rent, which differs from County to County. This approach is cost-effective and results in average monthly subsidy costs below federal FMR-based subsidy costs in Pennsylvania's urban areas. The cost in rural areas is approximately equal to federal FMR-based subsidy costs. Table 1 below illustrates the range of rent subsidy costs for the Rent Subsidy Fund program compared to the costs of a federal FMR-based rent subsidy in various Counties in Pennsylvania.[5]

Table 1

County	BR Type	PHFA Rent Subsidy Fund Calculation	Estimated Federal FMR-Based Subsidy[6]
Philadelphia (Urban)	1 BR	$739 (50% AMI rent) - $295 (20% AMI rent) = **$444 rent subsidy/month**	$942 (100% of FMR) - $216 (30% of gross SSI income) = **$726 rent subsidy/month**
Allegheny County	1 BR	$615 (50% AMI rent) - $246 (20% AMI rent) = **$369 rent subsidy/month**	$633 (100% of FMR) - $216 (30% of gross SSI Income) = **$417 rent subsidy/month**
Clarion (rural)	1 BR	$534 (50% AMI rent) - $213 (20% AMI rent) = **$321 rent subsidy/month**	$537 (100% of FMR) - $216 (30% of SSI gross income) = **$321 rent subsidy/month**

PHFA's Approval and Underwriting Process

As part of the application for LIHTC funding, PHFA requires developers to provide the following information regarding their request to establish a Rent Subsidy Fund reserve: (1) a narrative demonstrating the sources of funding and how they will be used to reduce rents in accordance with PHFA requirements; (2) a letter from the anticipated escrow agent committing to be the administrator of the Rent Subsidy Fund; and (3) a draft Escrow Agreement outlining the proposed terms of the disbursement approach. In addition, PHFA's LIHTC budget worksheet includes specific sections that define the rent subsidy amount, the amount of increased developer fee, and the equity generated by the additional developer fee.

5 LIHTC income and rent level by County document published by PHFA on 1/15/2104. http://www.phfa.org/forms/multifamily_application_guidelines/application/dv_2015_05c_mtxr041.pdf

6 Conservative assumptions are 100% of FY 14 FMRs and 30% of the gross SSI income for Pennsylvania (i.e. tenant share).

During post award underwriting and processing, PHFA staff conduct an in-depth "due diligence" review of the project's proposed Rent Subsidy Fund, and make necessary adjustments at closing and cost certification. As part of this underwriting process, PHFA staff review the size of the reserve to ensure it is sufficient to support the financial operation of the property for the 15 year period. PHFA also reserves the right to determine the specific approach utilized to fund and manage these reserves based upon specific tax issues and the ownership structure.

PHFA's Restrictive Covenants incorporate all relevant requirements of the Rent Subsidy Fund, the compliance period, and 30 year term of affordability. PHFA also requires that the partnership or operating agreement specify that the approved developer fee must be paid to the developer from available funds. This provision assures that the funds will be made available to capitalize the internal rent subsidy reserve. The developer/owner records these Covenants at the County Recorder of Deeds.

Establishment of a Third Party Escrow Agreement/Fund Administration

While PHFA requires that the developer/owner select a third party organization to manage the Rent Subsidy Fund reserve, it does not approve the specific entity. However, PHFA reviews and approves the content of the Escrow Agreement between the developer/owner and the third party which establishes policies and procedures for the Rent Subsidy Fund. In this review, PHFA notes any deficiencies and may require revisions as necessary. PHFA requires an executed copy of the Escrow Agreement to be part of the LIHTC cost certification process. In some instances, the tax credit investor is a party to the Escrow Agreement, either as the escrow agent or as the party which approves disbursements.

At the time of payout of the developer fee, the developer/owner transfers the Rent Subsidy Fund to the third party to establish the account in accordance with the provisions of the Escrow Agreement. Based on the procedures established within the Escrow Agreement, the LIHTC development owner/property manager will request disbursements of the Rent Subsidy. PHFA provides latitude for the owner/property management staff working with the third party entity to develop flexible draw down procedures which allow for the efficient operation of the property.

Highlights of Program Flexibility/Efficiency

PHFA has developed a reliable, efficient Rent Subsidy Fund program model that has effectively supported the creation of ELI rental units, including PSH units affordable to many people with disabilities with SSI-level incomes in many Pennsylvania counties. The model's success and widespread adoption by developer/owners is due, at least in part, to PHFA's flexibility in permitting owners to propose how the escrow agreement and the mechanics of the fund will operate to ensure efficiency with the property management operations of the housing. In addition, PHFA also relies on the expertise of private sector third parties to professionally manage the Rent Subsidy Fund in conjunction with the property owner. Unlike most project-based rental assistance approaches, except for the upfront staff costs associated with the underwriting and processing, PHFA does not incur additional administrative costs. PHFA also relies on the requirement that all LIHTC-financed properties with greater than twenty rental units must submit annual audited financial statements to disclose any issues with the management and operation of the rent subsidy reserve.

Description of the Financial Model

Below is an overview of the process the developer/owner and PHFA undertake in establishing the size of the Rent Subsidy Fund reserve using a recent LIHTC project example from Pennsylvania. The project has three 20 percent AMI units, including two 1 BR units and one 2 BR unit.

Step 1: Sizing of the Additional Developer Fee

The developer will propose an additional developer fee of up to an additional 5 percent, exclusive of acquisition costs. The first step of the underwriting process establishes the ceiling for the Rent Subsidy Fund reserve.

LIHTC Project Example

24 unit multi-family rental property
Two 1-BR and one 2-BR ELI units set at 20% AMI rents (total of 3 ELI units)
Maximum Tax Credit Limit: $4,544,352

Calculation of Developer's Fee (20% of Maximum Tax Credit Limit for projects Less than 25 units):	$908,870 (A)
Additional Fee for Rent Subsidy (5% of Maximum Tax Credit Limit):	$227,218 (B)
Maximum Total Developer Fee Allowed:	$1,136,088 (A+B)

The Rent Subsidy Fund ceiling is set at $227,218.

Step 2: Establishing the Size of the Rental Subsidy Fund Amount

The per unit per month rent subsidy is sized by taking the difference between the 50 percent AMI rent and the 20 percent AMI rent established by PHFA for the county where the project is located.

LIHTC Project Example

Two 1 BRs

50% AMI 1 BR unit:	$427 (A)
20% AMI 1 BR unit:	$200 (B)
Total Rent Subsidy Cost/Per Month/Per Unit:	$227 (A-B=C)
Total Rent Subsidy Monthly Cost for two 1 BR units:	$454 (C x 2)

One 2 BR	
50% AMI 1 BR unit:	$545 (A)
20% AMI 1 BR unit:	$240 (B)
	________
Total Rent Subsidy Cost/Per Month/Per Unit:	$305 (A-B=C)
Total Rent Subsidy Monthly Costs for one 2 BR unit:	$305 (C x 1)

Total Rent Subsidy Monthly Costs for 3 ELI units (two 1 BRs and one 2 BR) = $454 + $305 = $759

Step 3: Establishing the Size of the Rent Subsidy Fund Reserve

The developer sizes the total amount of the Rent Subsidy Fund reserve through the following calculation:

Monthly cost for the targeted ELI units (x) the number of months (15 years)

LIHTC Project Example

$759 (3 ELI PSH units) x 180 months
Size of the Rent Subsidy Reserve Needed (un-trended):[7] $136,620

Step 4: Finalize the Size of the Rent Subsidy Fund Reserve

The last step in the underwriting process is to finalize the size of the approved Rent Subsidy Fund reserve. This step is completed by testing that the amount needed for the Rent Subsidy Fund reserve determined in Step 3 does not exceed the allowed ceiling established in Step 1.

LIHTC Project Example

Established Ceiling for Rental Subsidy Reserve (Step 1): $227,218

Determined Need for the Rent Subsidy Reserve (Step 3): $136,620

NOTE: The Final Rent Subsidy Fund reserve approved by PHFA for this particular project was $178,588, which is slightly higher than the amount calculated in Step 4. The total developer's fee approved by PHFA was $1,087,458 ($908,870 + $178,588).

7 PHFA does allow the Rent Subsidy Reserve to be trended at the current Agency underwriting requirement of 2% provided the owner demonstrate that the funds will be invested at a current market interest rate.

Success/Scale Achieved

PHFA has developed and refined a successful, reliable Rent Subsidy Fund reserve model to support deep affordability at 20% AMI rents – a rent level which is feasible for many households receiving SSI in Pennsylvania. Over the past 10 years, PHFA's Rent Subsidy Fund reserve approach has financed between 200-300 new ELI rental units in approximately 60 properties, many of which have been designated as PSH units in partnership with DHS. The success of the Rent Subsidy Fund program is also illustrated by the fact that the majority of LIHTC-financed development applications request the Rent Subsidy Fund reserve option. PHFA's Rent Subsidy Fund financing model is a promising ELI approach that could be adapted for NHTF capital and/or operating subsidy resources scheduled to be allocated to state housing agencies in 2016. In high cost areas such as Philadelphia, a very small amount of NHTF operating subsidy or NHTF capital could be used to reduce rents to 30 percent of SSI.

Pennsylvania Project Profile

Project Name: Kittanning Cottages

Location: Kittanning, PA

Developer: TREK Development

Total Development Costs: $6,252,621

Project Description

Kittanning Cottages[1] is a new construction multi-family rental project with a mix of townhouses, detached 1-2 story buildings and one community building. There are total of 24 affordable rental units comprised of 2 one-bedroom units, 11 two-bedroom units, and 11 three-bedroom units.

Table 1: Units and Affordability Mix

Rent Type	Unit Size	Unit Count	Rent Per Unit	Rent Subsidy	Total Rent
20% AMI	1-BR	2	$200	$227	$854
50%-60% AMI	2-BR	10	$427		$4,270
20% AMI	2-BR	1	$240	$305	$545
50%-60% AMI	3-BR	11	$545		$5,995
	Unit Total	**24**		**Monthly Total**	**$11,664**
				Annual Total	**$139,968**

Income Profile

Units at 20%, 50%, and 60% AMI rent targets. Three units targeted for households at 20% AMI rents.

1 Kittanning Cottages' occupancy is limited to households 55 years old +. However, the financing model utilizing the Rental Subsidy Fund reserve effectively creates ELI rental housing regardless of age restriction.

Financing Strategies

The project was financed with $4.297 million of equity raised through PHFA's LIHTC program. In addition, PHFA provided a $1.3 million, 0% interest, 30 year deferred loan from PennHOMES, and the Department of Community and Economic Development provided a $500,000, 0% interest, 30 year deferred loan.

Table 2: Capital Funding

SOURCE	AMOUNT
Low Income Housing Tax Credit Equity	$4,297,368
PHFA PennHOMES	$1,318,633
PA Dept. of Community and Economic Development	$500,00
Required Reinvestment Equity from Increased Developer's Fee – Rental Subsidy Reserve	$136,620
TOTAL	**$6,252,621**

Integrated Housing Features

The project offers a range of affordability from 20% AMI to 60% AMI for households ages 55+. The development is located in a downtown residential area. Local transportation is available at the site. Access to services and community amenities is within walking distance of the project.

Table 3: First Year Operating Proforma Budget*

Gross Potential Rent	$139,968
Other Income	$0
Potential Gross Income	**$139,968**
Vacancy & Collection Loss-5%	$6,998
Net Rental Income	**$132,970**
Service Income	$1,320
Effective Gross Income	**$134,290**
General & Administrative	$8,800
Management Fee	$10,743
Payroll & Payroll Tax	$26,000
Repairs & Maintenance	$10,880
Utilities	$39,320
Taxes & Insurance	$22,184
Replacement Reserve	$7,800
Supportive Services	$2,500
Total Expenses	**$128,227**
Net Operating Income (NOI)	**$6,062**

* Long-term Operating Proforma Budget is available at: http://www.tacinc.org/knowledge-resources/publications/reports/creating-new-integrated-permanent-supportive-housing-opportunities-for-eli-households-a-vision-for-the-future-of-the-national-housing-trust-fund/

North Carolina Housing Finance Agency Targeting/ Key Programs

Summary

This case study of the State of North Carolina's Targeting/Key programs highlights the feasibility and effectiveness of using a sustainable low-cost project-based rental subsidy to finance new integrated extremely low income (ELI) permanent supportive housing (PSH) units. North Carolina's model ensures affordability for PSH households across the full ELI spectrum from 0-30 percent of area median income (AMI), and could be replicated in other states, particularly those using state appropriations to fund new integrated PSH opportunities required by *Olmstead*-related Settlement Agreements. This ELI-PSH approach, which utilizes the federal Low Income Housing Tax Credit (LIHTC) program as a platform, inspired the successful modernization of HUD's Section 811 Supportive Housing for Persons with Disabilities program (Section 811) in 2010 and could also inform the development of new ELI policies by state housing agencies preparing for the implementation of the National Housing Trust Fund (NHTF) in 2016.

Over the past 12 years, the North Carolina Housing Finance Agency (NCHFA) and the North Carolina Department of Health and Human Services (DHHS) have collaborated to develop and manage their successful state-wide ELI-PSH initiative. Through a two-pronged programmatic approach, North Carolina's Targeting Program first creates small set-asides of PSH units in every new LIHTC property financed through NCHFA. Developers are then offered project-based rental assistance for these Targeted PSH units through North Carolina's Key Program –a sustainable, low cost and efficient ELI state subsidy that sets tenant rent at 30 percent of household income. Voluntary supportive services are made available to PSH/Targeting tenants, based on individualized needs, through DHHS's system of community-based service providers.

North Carolina's ELI approach has produced sustainable PSH units affordable to ELI households with disabilities systematically and at significant scale. Through 2014, the NCHFA-DHHS collaboration has developed and financed more than 2,400 Targeted PSH Units, including approximately 1,900 funded by the Key Program. On average, approximately 200 new PSH units are added to this portfolio each year. To provide longer-term sustainability, annual Key Program appropriations and commitments are managed strategically with a goal of maintaining 10 years of subsidy funding for the current and projected Key Program portfolio. The program's state-wide payment standard approach has also been highly cost effective, with per unit per month Key subsidy costs averaging less that HUD's Housing Choice Voucher program over the past 10 years.

Program Purpose and Background

In 2002, State of North Carolina housing and human services officials began collaborating on the design and implementation of joint policies to create integrated PSH units that met the housing preferences and service needs of people with disabilities receiving supports and services financed through the state. Most people within this group were ELI households because most were recipients of federal Supplemental Security Income (SSI). Historically, in North Carolina, as a state-wide average, SSI has been equal to 18 percent of AMI.

The initial program model created by NCHFA and DHHS – the Targeting Program – utilized NCHFA's LIHTC program as a platform to secure a small number of units within each new LIHTC property that were set-aside as Targeted PSH units for households that were either homeless or had disabilities. Through NCHFA's LIHTC Qualified Allocation Plan (QAP), affordable housing developers applying for LIHTC received extra points in LIHTC competitive funding rounds for agreeing to set-aside at least 10 percent of the units in the proposed project as Targeted PSH units. Most developers responded positively to this policy incentive, and in 2004, NCHFA made the Targeting Program PSH set-aside a mandatory requirement for all LIHTC-financed properties.

The issue of housing affordability for these Targeted PSH units was critically important to North Carolina state officials, who understood that the typical rent for a LIHTC unit was much too high for most households with disabilities receiving services and supports through DHHS. Initially, to help achieve ELI affordability, North Carolina pursued several strategies, including: (1) encouraging developers to obtain commitments of HUD Project Based Vouchers or other federal subsidy; (2) marketing Targeted PSH units to applicants with tenant-based Housing Choice Vouchers; and (3) using state housing tax credits to reduce PSH rents.

As other states have learned, there are complexities and supply limitations associated with ELI strategies that rely on federal Project-Based Vouchers to ensure ELI affordability. In North Carolina, this challenge prompted state officials to develop the innovative Key Program – a state-funded project-based rent subsidy directly linked to the PSH units in the Targeting Program. NCHFA and DHHS initially funded the Key Program by combining a portion of NCHFA's HOME match funds with resources from North Carolina's Mental Health Trust Fund. After two years of successful implementation, NCHFA and DHHS developed a successful appropriations proposal for the State Legislature and the new Key Program began receiving recurring funding in the DHHS budget in 2007. However, unlike traditional project-based subsidy models with annual appropriations, NCHFA – which administers the funding on behalf of DHHS – manages Key appropriations as a long term subsidy stream with the goal of achieving sustainability for 10 years.

Through the Targeting/Key programs, the State of North Carolina successfully pioneered the nation's first integrated and sustainable project-based ELI-PSH model which ensured that PSH tenants would live in rental properties where the majority of tenants would likely be households without disabilities. This ELI-PSH initiative served as a model for the State of Louisiana's successful 3,000 unit PSH program created after Hurricanes Katrina and Rita in 2005, inspired similar PSH policies in the State of Illinois, and led to federal legislation – The Frank Melville Supportive Housing Investment Act of 2010 – which successfully modernized and reinvigorated HUD's Section 811 program.

Core Elements of the Targeting/Key Program Design

NCHFA administers the Targeting/Key Programs on behalf of DHHS through its Policy and Rental Assets Offices. In order to minimize administrative/program management costs and to sustain the support of LIHTC owners and their property managers, NCHFA has strived to achieve both efficiency and simplicity in the design and administration of the Targeting/Key Programs.

Targeting/Key Program Design

Since 2004, NCHFA's QAP has included a "threshold" requirement that 10 percent of the units in properties receiving an allocation of LIHTC must be set-aside as Targeted PSH units. The Key Program is a state-funded project-based subsidy created to make Targeted Units affordable to eligible PSH households as determined by DHHS.

While Key Program participation is voluntary, owners that chose not to participate in the Key Program and do not secure an alternative form of rental assistance for their Targeted Units (e.g. Project-Based Vouchers, etc.) cannot charge Targeted Unit tenants more than they would have paid under the Key Program. Because most PSH households referred for Targeted Units are ELI households receiving SSI, virtually all owners who do not have access to other subsidy funding agree to accept Key Program payments.

The Key Program pays the difference between a single state-wide Key Program payment standard for Targeted Units and 30 percent of the household's gross income. Key Program assistance was originally designed as a bridge subsidy, and applicants and Key Program tenants are still encouraged to pursue access to Housing Choice Vouchers or document their status on waiting lists if they have already applied. However, because of cuts to HUD's budget during recent years, including those caused by sequestration, the availability of Housing Choice Vouchers has been substantially reduced. For many tenants of Targeted Units, the Key Program functions as a permanent subsidy because they have been unable to access closed Housing Choice Voucher waiting lists.

Each LIHTC development in the Targeting Program has a Targeting Plan, an agreement made by three partners which outlines how the program operates. The partners include the housing developer/owner, the property management company, as well as a designated Local Lead Agency – a human service agency that supports DHHS's outreach and referral process for PSH units. All developer/owners of Targeted Units are required by NCHFA and DHHS to enter into this partnership.

DHHS plays a critical role in the administration of the Targeting/Key Programs including management of the tenant referral process. In general, all persons referred to Targeted Units in LIHTC developments, including persons referred with Key Program assistance, must be referred through DHHS's managed referral process. DHHS also employs Regional Housing Coordinators to establish relationships and provide Targeting/Key program education and training to property owners, management agents, and on-site property management staff.

Key Appropriations and Funds Management

Since 2007, the Key Program has received annual appropriations which, during recent years, have averaged $6 million per year. However, NCHFA manages these funds strategically with a goal to maintain 10 years of funding for the current/projected Key Program portfolio. This innovative and flexible funds management approach has contributed to the program's fiscal stability and permits state officials to plan and respond successfully to any unexpected budgetary or legislative developments. This longer-term funding model also provides a level of assurance regarding sustainability of the subsidy to property owners, NCHFA/DHHS policy makers, and tenants.

NCHFA also manages Key Program funding through a flexible program-based structure, rather than a project-based, or unit-based approach. On an annual basis during January/February, NCHFA conducts an in-depth financial analysis of the Key Program including a review of actual costs from the past year, and various short and long-term projections of overall program commitments and costs. Key Program financial tracking tools provide NCHFA with the capability to conduct long-term fiscal forecasting, including a program database that tracks expenditures over time, and compares the program budget to actual expenses. These tools help NCHFA staff manage Key operating assistance on a state-wide per-unit/per month basis, assess fiscal trends, and respond successfully to emerging issues and needs. This information is also used to inform the annual budget request to the State Legislature.

Key Program Payment Standards

Unlike the Housing Choice Voucher program, Key Program payment standards for Targeted Units are state-wide and not locally based, although they vary by bedroom size. Until 2014, owners received a $5 annual increase in the payment standard. Recently NCHFA and DHHS adopted new Key payment standards, which are approximately equivalent to 50 percent of AMI rents in North Carolina's three lowest income counties. With some exceptions, Key Program payment standards – and therefore monthly rental subsidy costs – are generally lower than PHA payment standards for the Housing Choice Voucher program.

Table 1 illustrates the cost-effectiveness of NCHFA's state-wide 2014 one-bedroom Key Program Payment Standard when compared to one-bedroom Housing Choice Voucher Payment Standards set at 100 percent of the HUD Fair Market Rent for three North Carolina jurisdictions. This analysis assumes a one-bedroom unit occupied by a single individual receiving monthly federal SSI payments of $721.

Table 1

City/County	BR Type	Key Program Rent Subsidy	Estimated Federal FMR-Based Subsidy
Raleigh/Wake County	1 BR	$490 (2014 Key payment standard) - $216 (30% of gross SSI income) = **$274 rent subsidy/month**	$722 (100% of FMR) - $216 (30% of gross SSI income) = **$506 rent subsidy/month**
Charlotte/ Mecklenburg County	1 BR	$490 (2014 Key payment standard) - $216 (30% of gross SSI income) = **$274 rent subsidy/month**	$686 (100% of FMR) - $216 (30% of gross SSI income) = **$470 rent subsidy/month**
Richmond County (Rural)	1BR	$490 (2014 Key payment standard) - $216 (30% of gross SSI income) = **$274 rent subsidy/month**	$537 (100% of FMR) - $216 (30% of gross SSI income) = **$323 rent subsidy/month**

Key Program Eligibility, Referral Requirements and Owner Responsibilities

In order to be eligible to reside in a Targeted Unit funded through the Key Program, the applicant must be receiving permanent disability income (e.g. SSI, SSDI, full Veteran's Administration benefits, etc.). All PSH households entering the program must also have a minimum gross income of $300 per month. Initially, Key Program eligibility was limited to ELI households at or below 30 percent of AMI. Recently, in order to accommodate PSH eligible households with higher incomes, the income eligibility limit was raised to 50 percent of AMI. All applicants referred for Targeted Unit/Key Program assistance must be referred by DHHS's managed referral system and must provide the owner/property manager with a DHHS Targeting Program Letter of Referral.

To facilitate overall program compliance and encourage LIHTC owner participation, NCHFA and DHHS streamlined Key Program owner responsibilities wherever possible. Owners are responsible for documenting program eligibility, obtaining the DHHS referral letter, calculating the tenant rent and Key subsidy, and collecting the tenant rent share on a monthly basis. Owners and property management agents have no role or responsibility in the provision of services or case management.

Owners must sign an Owner Agreement to Participate (OAP) prior to billing NCHFA for Key Program assistance. The term of the OAP is the earlier of (1) ten years; or (2) voluntary termination of the OAP by the owner; or (3) exhaustion of funds for the Key Program. Owners that voluntarily terminate Key assistance are still required to provide the Targeted Unit to a DHHS-referred PSH household at a rent equal to 30 percent of the household's gross income.

NCHFA disburses Key subsidy payments to property owners/ management agents based on periodic requisitions submitted by the management agent through the Rental Compliance Reporting System (RCRS). NCHFA tracks Key Program expenditures and tenant rent/occupancy status through the RCRS, and a household must appear in the RCRS – with their supporting documentation uploaded into the system and reviewed and approved by Agency processing staff – for NCHFA to make a payment on their behalf.

Highlights of Program Flexibility/Efficiency

By structuring and managing Key Program appropriations across the entire portfolio, rather than property by property, NCHFA has the occupancy trends and cost data needed to provide more accurate long-term projections of sustainable long-term subsidy costs. NCHFA and DHHS also have the ability to control the flow of referrals of eligible PSH households to Targeted Units, to increase the number of Targeted Units in areas with the highest demand, and offset these increases by reducing the supply of Targeted Units (through turnover) in areas with under-utilization.

These efficiencies help control program expenditures, including any potential future reduction in budget authority. For example, if, at some future time, there was a shortage of Key Program funding, NCHFA could theoretically permit owners to lease Targeted units to non-PSH households (again, upon turnover) that would otherwise meet LIHTC eligibility for the property.

To streamline and simplify program requirements for LIHTC property managers who may not be familiar with HUD eligibility and rent calculation rules, NCHFA based several Targeting/Key Program policies on the LIHTC program rather than HUD program rules. For example, income eligibility for the Key Program is determined by LIHTC rules, and tenant rents are based on gross income, rather than HUD adjusted gross income rules. The Targeted unit set-aside is also considered a soft set-aside. If there are no referrals when a unit becomes available, the property owner can rent the unit to an otherwise qualified applicant, and the next available unit is offered to a PSH applicant. This policy assures the owner that participation in the program will not negatively impact the project's occupancy and overall financial condition.

After soliciting ideas and feedback from a wide range of Key Program stakeholders, NCHFA and DHHS recently instituted a number of important program enhancements in an effort to increase program access and utilization by eligible households. These modifications including risk mitigation policies to help make units more available to those applicants with housing barriers such as poor credit or criminal backgrounds. NCHFA and DHHS also agreed to: allow property owners the opportunity to increase the number of Targeting Units up to 20 percent of the total units in a property; pay tenant security deposits using the Key Program at the payment standard; make vacancy payments after the first 30 days of vacancy when requested by DHHS to hold the unit; allow reimbursement to the property owner for unpaid damages up to 75 percent of the claim total (minus the security deposit and any insurance proceeds) not to exceed $2,500; and allow reimbursement of the unpaid tenant portion of rent after move-out (minus the security deposit) not to exceed 3 months.

Success/Scale Achieved and Relevance to Future ELI-PSH Policy

North Carolina has successfully managed the cost-effective Targeting/Key Programs for many years, and their policies represent an efficient model for creating and sustaining integrated ELI-PSH units over time. As of October 2014, there were 382 properties in 75 North Carolina counties with a total of 2,472 Targeted Units, and 1,878 were receiving Key Program assistance. Based on ten years of data, the average Key Program subsidy amount was $225 per month. Cost data is not yet available on the recently increased Key Program payment standards but the average subsidy cost is likely to remain lower than traditional rent subsidy program costs.

These are significant accomplishments derived from systematic and scalable policies that routinely produce an average of 200 new PSH units every year. Equally important, these units are created without any capital funding that is specific to the PSH component and with virtually no community opposition. These new PSH units become available for initial occupancy within the two year timeframe required for the LIHTC program – more quickly than the typical development timetable for PSH projects.

North Carolina's Targeting/Key Program is a model that could be replicated by states willing to support new PSH opportunities, particularly in states that are appropriating funds for new rental subsidies as a requirement of *Olmstead*-related Settlement Agreements. To date, most state Settlement Agreements have focused on tenant-based rather than project-based subsidies. NCHFA's low cost longer term subsidy model is also an ELI approach that could potentially be adapted for the long-term operating subsidies now permitted under HUD's NHTF Interim Rule published in January of 2015.

North Carolina Project Profile

Project Name:	Bordeaux Apartments
Location:	Gastonia, NC
Developer:	Urquhart Development, LLC
Total Development Costs:	$4,285,788

Project Description

Bordeaux Apartments is a new construction project comprised of 32 garden style apartments. The complex consists of 5 buildings with four 8 unit residential buildings and one combination office, laundry, community space and maintenance building. There are 24 two bedroom units and 8 three bedroom units.

Table 1: Units and Affordability Mix

Rent Type	Unit Size	Unit Count	Rent Per Unit	Key Assistance	Total Rent
Rental Assisted	2-BR	4	$209*	$106	$1,260
30%	2-BR	2	$315	$0	$630
60%	2-BR	18	$636	$0	$11,448
30%	3-BR	2	$357	$0	$714
60%	3-BR	6	$713	$0	$4,278
	Unit Total	**32**		**Monthly Total**	**$18,330**
				Annual Total	**$219,960**

Income Profile

Units at 30% & 60% of AMI. PSH Targeted Units affordable for ELI households with rents equal to 30% of tenant income.

Financing Strategies

This project comprises a standard LIHTC financing structure. Specifically, the rental project was financed with $3.48 million of equity through the LIHTC program and a 30 year deferred payment loan of $475,435 raised through the State's Tax Credit Program. Finally, the developer deferred a portion of the fee totaling $322,603. The Key Program provides an operating subsidy to make the four Targeting Units affordable to extremely low-income disabled households.

Table 2: Capital Funding

SOURCE	AMOUNT
Low Income Housing Tax Credit Equity	$3,487,435
State Tax Credit Loan	$475,435
Deferred Developer's Fee	$322,603
TOTAL	**$4,285,788**

Integrated Housing Features

Through the Targeting Program, four units are set-aside for persons with disabilities or homeless populations. An additional four units are accessible units. Mental health and other human services are located in close proximity to the site.

Table 3: First Year Operating Proforma Budget*

Gross Potential Rent	$219,960
Other Income-Laundry/late fees	$3,000
Potential Gross Income	**$222,960**
Vacancy & Collection Loss-7%	-$15,607
Effective Gross Income	**$207,353**
General & Administrative	$38,750
Management Fee	$20,500
Operating & Maintenance	$29,250
Utilities	$6,300
Taxes & Insurance	$35,850
Compliance Fees	
Security	
Service Supplies	$150
Total Expenses	**$130,800**
Replacement Reserve	$8,000
Net Operating Income (NOI)	**$68,553**

* Long-term Operating Proforma Budget is available at: http://www.tacinc.org/knowledge-resources/publications/reports/creating-new-integrated-permanent-supportive-housing-opportunities-for-eli-households-a-vision-for-the-future-of-the-national-housing-trust-fund/

Illinois Housing Development Authority/Weinberg Foundation Model

Summary

The Maryland-based Harry and Jeanette Weinberg Foundation (Weinberg Foundation) has a long history of supporting organizations and programs that respect and promote the independence and integration of people with disabilities in community life. Recently, the Weinberg Foundation established a partnership with the Illinois Housing Development Authority (IHDA) to test an innovative philanthropic approach to funding integrated permanent supportive housing (PSH) units through IHDA's federal Low Income Housing Tax Credit (LIHTC) program. Modeled from a previous Weinberg Foundation initiative with the Maryland Department of Housing and Community Development,[1] IHDA's PSH model creates units affordable to certain extremely low income (ELI) households with disabilities – specifically those with incomes between 15-30 percent of area median income (AMI). Rents for these PSH units are deeply affordable at 30 percent of tenant income. To maximize the degree of community integration achieved, only a few ELI units dedicated to PSH can be included in any one LIHTC property.

IHDA utilized Weinberg Foundation capital grant funds as an inducement for a LIHTC developer to establish deeply affordable rents for integrated PSH units underwritten at the 15 percent of AMI level over a 30 year term. The Weinberg Foundation resources are committed to the project by IHDA at the closing of the project's permanent financing – specifically to allow the project to reduce permanent debt and apply the debt service "savings" to fund the 15 percent AMI PSH units. Weinberg Foundation program guidelines also prohibit their funds from supplanting other capital financing that would have otherwise been provided by the state's housing agency. Although this model has only been tested on a very small scale, its creative utilization of philanthropic capital could be replicated by other philanthropic organizations interested in supporting the creation of highly integrated ELI-PSH units. This model may also be replicable using capital resources from the National Housing Trust Fund (NHTF) program scheduled to be allocated to state housing agencies in 2016.

Program Purpose and Background

The Weinberg Foundation is one of the largest private charitable foundations in the United States and supports innovations designed to enable people with disabilities to live a life of their own choosing in the community. After a long history of providing capital grants to disability-only housing complexes – including

1 Information on the Weinberg Foundation's initiative with the Maryland Department of Housing and Community Development can be found in a NLIHC report, The Alignment Project, which can be found at http://nlihc.org/library/research/alignment

many funded by HUD's Section 811 Supportive Housing for Persons with Disabilities Capital Advance/ PRAC program – the Weinberg Foundation had an interest in developing a new capital approach to PSH that could feasibly be synchronized with state housing agency financing models, achieve affordability for SSI-level income tenants, and be integrated within affordable multi-family rental properties.

During recent years, the State of Illinois has faced an enormous challenge to create the thousands of PSH units required by three separate class-action *Olmstead* Settlement Agreements including: Colbert vs. Quinn which covers a class of 25,000 people with mental illness living in nursing homes; Williams vs. Quinn with a class of 5,000 people with mental illness in state facilities; and Ligas vs. Hamos targeting a class of 9,000 people with developmental disabilities in state licensed facilities or on waiting lists for community-based services. Prior to this litigation, IHDA had pioneered several initiatives to create deeper levels of housing affordability through its LIHTC portfolio, including the creation of a small percentage of ELI units (i.e., 5-10 percent) targeted specifically for PSH tenants.

Through a variety of capital financing mechanisms, IHDA was able to underwrite rents for these PSH units at the 30 percent of AMI level, and – by fostering close partnerships with local Public Housing Agencies (PHAs) – had also obtained significant commitments of Project-Based Vouchers as well as state rental assistance. These additional rent subsidy resources ensured that people with SSI-level incomes equal to 18 percent of AMI could lease these PSH units at rents equal to 30 percent of tenant income.

However, as the supply of traditional HUD rental subsidies became more limited, IHDA officials were intent on identifying more creative ELI financing strategies, and learned about an innovative non-profit LIHTC property in Maryland with two ELI apartments set-aside for people with disabilities. Deep levels of ELI affordability for the two units had been achieved through a capital grant from the Weinberg Foundation. IHDA's national reputation as an effective financer of integrated ELI housing targeted for PSH also attracted the attention of Weinberg Foundation officials, who were interested in replicating their successful Maryland ELI-PSH approach and promoting it as a national model. To advance their mutual goals, in January of 2013, the Weinberg Foundation announced a $1 million capital grant targeted to the creation of integrated ELI-PSH units in Illinois that would be financed through IHDA's rental housing development programs.

Core Elements of Program Design

IHDA and the Weinberg Foundation developed and executed a Memorandum Of Understanding (MOU) which outlined their respective roles and responsibilities, the terms and conditions under which Weinberg resources could be utilized, as well as the review, underwriting and approval process. To launch this effort, IHDA offered capital financing for multi-family rental housing as a voluntary program made available to developers within its LIHTC Qualified Allocation Plan (QAP) in 2013. Under its QAP policy, IHDA offered an incentive of one point for developers willing to incorporate ELI-PSH units supported by Weinberg Foundation resources within their project application. Below is a discussion of key elements of the program design.

Allowed Use of Program Funds

IHDA either grants or provides a zero percent interest, deferred loan (if necessary for LIHTC purposes) utilizing Weinberg Foundation resources to multi-family rental projects in order to incorporate ELI-PSH units within the development. The Weinberg Foundation resources are focused to reduce the amount of mortgage debt required by the project, with the savings used to support the PSH units. IHDA requires the developer to use the Weinberg Foundation funds for eligible development costs in accordance with IHDA multi-family development policies. In exchange for the Weinberg Foundation commitment of funds, the developer agrees to establish a specified number of ELI- PSH units to be restricted for the target population over a 30 year term. The target population for the ELI-PSH units is non-elderly persons with disabilities between 15-30 percent of AMI in need of PSH – primarily SSI recipients. Tenant rents for these PSH units are set at 30 percent of the household's monthly income.

IHDA's Approval, Underwriting Commitment Process

IHDA administers the Weinberg Foundation funds in close collaboration with Weinberg Foundation staff. A developer applies for Weinberg Foundation funds through IHDA's existing multi-family rental application process. IHDA then reviews and nominates a project that is determined to be appropriate for Weinberg Foundation funding. IHDA also engages the developer to assess their interest and review the program's requirements. If the developer agrees to accept Weinberg Foundation funding, IHDA then forwards relevant project information to Weinberg staff for a due diligence review. IHDA also provides Weinberg staff with information on the results of IHDA's underwriting and the anticipated IHDA funding awards.

Weinberg staff conduct their own review of the project within 30 days and determine the size of the Weinberg Foundation commitment necessary to reduce the primary mortgage. This reduction creates debt service savings that are directly applied to the PSH units to achieve the affordable rents. It is important to note that the MOU explicitly states that the purpose of the funds is to support the creation of ELI PSH units over a 30 year term, and not to reduce the State's funding commitment. To achieve this outcome, IHDA has established controls to ensure Weinberg Foundation funds are committed according to these principles. As part of this review, IHDA and Weinberg staff conduct an analysis based upon the underwriting/financial process described below to determine the number of ELI-PSH units that a specified amount of Weinberg Foundation funding will support. The Weinberg Foundation reserves the right to determine the size of the Weinberg Foundation commitment and notifies both the developer and IHDA of this decision.

Once this process is complete, the Weinberg Foundation provides a one-time capital grant for each approved project to IHDA. At closing of the permanent financing, IHDA requires the developer to enter into a deferred payment loan agreement and mortgage to secure the Weinberg funds. IHDA also requires the developer to enter into a regulatory agreement that restricts occupancy to eligible PSH tenants and the ELI rent requirements over the 30 year term. IHDA disburses Weinberg Foundation funds to the developer in accordance with the final approved budget and draw schedule.

Tenant Selection and Targeting

Illinois' established Statewide Housing Referral Network – led by the Statewide Housing Coordinator – is responsible for identifying eligible PSH tenants and referring them to available Weinberg Foundation PSH units. The Statewide Housing Coordinator is responsible for determining eligibility in terms of disability status and connection with appropriate individualized supportive services. Within its tenant selection procedures and prioritization, the Statewide Housing Coordinator ensures that priority is given to disabled households affected by the State's three *Olmstead*-related lawsuits, as well as households with disabilities who are participating in Illinois' Money Follows the Person (MFP) Program. This intentional, systematic approach to tenant selection ensures that Weinberg Foundation financed ELI-PSH units are leased to eligible PSH tenants in accordance with the State's *Olmstead* related requirements.

Program Flexibility/Efficiency/Limitations

IHDA and the Weinberg Foundation have developed a program design that supports the roles and responsibilities of each party. IHDA has integrated this program into the current staff underwriting and compliance monitoring activities of its multi-family rental staff. As a result, IHDA does not incur significant additional administrative expenses associated with the underwriting and processing of the Weinberg Foundations resources.

With focused outreach to engage developers, IHDA has been able to identify several multi-family rental projects that could potentially utilize Weinberg Foundation resources effectively to create ELI-PSH units. IHDA has found that multi-family rental projects sponsored by mission-driven developers and/or have a significant amount of mortgage debt align well with Weinberg Foundation requirements.

Description of the Financial Model

Below is an overview of the underwriting process the Weinberg Foundation and IHDA undertake, using a specific LIHTC project example in Illinois and a proposed $500,000 Weinberg commitment. The underwriting process follows the terms and conditions agreed to between IHDA and the Weinberg Foundation including: affordability set at 15 percent of AMI and a 30 year term. The annual inflation factor for both 60 percent and 15 percent AMI rents is set at 2.5 percent.

Step 1: Determine the first mortgage savings amount over the 30 year term

The first mortgage savings is determined by calculating the difference in the annual debt service after the reduction to be covered by the proposed Weinberg Foundation commitment of $500,000. The reduction in the first mortgage can be adjusted accordingly based upon the proposed size of the Weinberg Foundation commitment.

Mortgage Debt	Amount	Term (Yrs)	Amortization (Yrs)	Rate	Annual Debt Service
1st Mortgage	$4,605,000 (A)	30	35	4.94%	$279,109 (C)
1st Mortgage after Weinberg reduction	$4,105,000 (B)	30	35	4.94%	$248,804 (D)

Debt Service Savings (Annual Basis) (E): $30,305 (C-D=E)

Debt Service Savings/30 Years (F): $909,150 (Ex30=F)

Step 2: Determine the total operating income loss from the reduction in AMI rent level over the 30 Year term on a per unit basis

The total operating income loss revenue on a per unit basis was determined by taking the difference between 60% of AMI rent and a 15% of AMI rent on average.[2] The annual lost revenue was added over the 30 year term in order to calculate the total lost revenue amount. Below is an adaptation of an underwriting tool[3] used to determine the lost operating revenue or income over the 30 year term/per unit:

	Year 1	Year 2	Year 3	Year 28	Year 29	Year 30	Total
2013 HUD 60% AMI Rent for 0 BR[4] (A)	$582	$596.55	$611.46	$1,133.62	$1,161.96	$1,191.01	
2013 HUD 15% AMI Rent for 0 BR (B)	$207	$212.18	$217.48	$403.19	$413.27	$423.61	
Monthly Difference (C) (A-B=C)	$375	$384.38	$393.98	$730.43	$748.69	$767.40	
Annual Difference (D) (C x 12 = D)	$4,500	$4,612.50	$4,727.81	$8,765.10	$8,984.23	$9,208.83	$197,562

Total operating income loss per unit over 30 years: $197,562

2 For underwriting purposes, the 15% AMI rent level was set as a "proxy" for the average tenant rent contribution of a disabled tenant receiving either SSI or SSDI benefits.

3 The tool was adapted in order to fit the sizing of the page for the purposes of describing the financial model. The actual spreadsheet maintains 30 separate columns to factor the loss in revenue from Year 1 to Year 30 of project operation.

4 HUD established 60% and 15% AMI rents for the Chicago-Naperville-Joliet Metropolitan Statistical Area (2013).

Step 3: Determine the number of ELI PSH units supported by the proposed Weinberg Foundation commitment

The number of ELI PSH units that can be supported by the proposed Weinberg Foundation commitment of $500,000 is calculated by dividing the total mortgage saving amount over the 30 year term of $909,150 (Step 1) by the total lost revenue over the same term of $197,562 (Step 2).

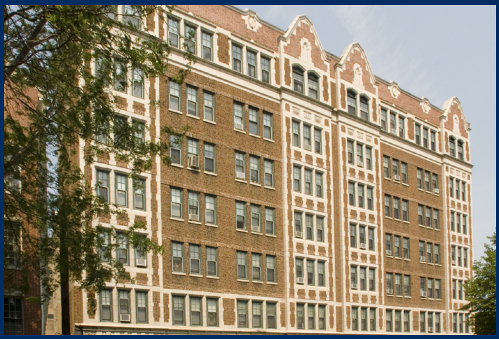
$$\frac{\$909{,}150 \text{ (total debt service savings)}}{\$197{,}562 \text{ (total operating income loss)}} = 4.6 \text{ units} = 4 \text{ ELI PSH units}$$

IHDA and Weinberg Foundation staff approved a commitment of $500,000 to support 4 ELI PSH units, which included a modest cushion minimum to cover any unforeseen costs.

Success/Scale Achieved

The Weinberg Foundation's partnership with IHDA was created specifically to demonstrate the feasibility and cost effectiveness of providing a relatively small amount of additional capital funding as a mechanism to create integrated and deeply affordable ELI- PSH units within IHDA-financed multi-family rental properties. IHDA has completed their first Weinberg Foundation financed project and is currently working on a second project. The first property utilized $500,000 in Weinberg funding to support four studio ELI-PSH units over a term of 30 years. This commitment translates to a $125,000 per unit cost over 30 years, or approximately $347 per unit/per month. Although modest in scale, this successful demonstration can inform the development of similar cost-effective ELI rental housing finance models, including the future utilization of National Housing Trust Fund resources to create ELI units within mixed income multi-family developments. IHDA's Weinberg model could potentially attract investments by other philanthropic organizations with an interest in ELI housing and/or integrated PSH grant-making activities.

Illinois Project Profile



Project Name: Sheridan Park

Location: Chicago, IL

Developer: Related Apartments Preservation

Total Development Costs: $8,336,983

Project Description

Sheridan Park Apartments is a rehabilitation and recapitalization of an existing affordable housing project in the Uptown neighborhood of Chicago. The project consists of 102 affordable rental units with a mix of studio, 1 BR and 2 BR apartments.

Table 1: Units and Affordability Mix

Rent Type	Unit Size	Unit Count	Rent Per Unit	Total Rent
15%	0-BR	4	$207	$828
50%	0-BR	16	$582	$9,312
50%	0-BR	12	$587	$7,044
60%	0-BR	24	$602	$14,448
60%	1-BR	12	$819	$9,828
60%	1-BR	12	$779	$9,348
60%	2-BR	8	$1,006	$8,048
60%	2-BR	14	$946	$13,244
	Unit Total	**102**	**Monthly Total**	**$72,100**
			Annual Total	**$865,200**

Income Profile

Units at 15%, 50%, and 60% AMI rents. Four 0 BR (studio) units targeted for disabled households budgeted at 15% AMI rents.

Financing Strategies

This rehabilitation and capitalization rental project was financed with a combination of equity from LIHTC totaling $3,051,408 and permanent financing totaling $4,105,000 from IHDA's Multi-Family Bond Initiative (4.94% with a term of 30 years and amortization of 35 years). In addition, IHDA provided a deferred loan of $500,000 from the IL Affordable Housing Program (i.e., Trust Fund). Finally, IHDA, through a grant from the Weinberg Foundation, provided a deferred payment, 0% loan of $500,000 in exchange for ensuring the deep affordability of 4 studio apartments over a 30 year term.

Table 2: Capital Funding

SOURCE	AMOUNT
Low Income Housing Tax Credit Equity	$3,051,408
Permanent Financing (IHDA Multi-Family Bond Initiative)	$4,105,000
IHDA – IL Affordable Housing Program (Trust Fund)	$500,000
Weinberg Foundation	$500,000
Deferred Developer Fee	$180,575
TOTAL	**$8,336,983**

Integrated Housing Features

Through resources from the Weinberg Foundation, the owner set aside four studio apartments as permanent supportive housing (PSH) for persons with disabilities over a 30 year term. Illinois' Statewide Housing coordinator is responsible for identifying and referring eligible PSH tenants and assuring that appropriate voluntary supportive services are made available for all PSH tenants.

Table 3: First Year Operating Proforma Budget*

Gross Potential Rent	$865,200
Other Residential Income	$4,500
Commerical Income	$19,092
Potential Gross Income	**$888,792**
Vacancy & Collection Loss-5% (Residential)	$42,285
Vacancy & Collection Loss-25% (Commercial)	$4,773
Net Rental Income	**$841,734**
Other Income	$14,760
Effective Gross Income	**$856,494**
General & Administrative	$56,181
Other Operating	$75,386
Payroll & Payroll Tax	$105,396
Utilities	$109,977
Taxes & Insurance	$107,079
Replacement Reserve	$25,500
Total Expenses	**$479,519**
Net Operating Income (NOI)	**$376,975**
Debt Service	**$248,804**
Cash Flow	**$128,171**

* Long-term Operating Proforma Budget is available at: http://www.tacinc.org/knowledge-resources/publications/reports/creating-new-integrated-permanent-supportive-housing-opportunities-for-eli-households-a-vision-for-the-future-of-the-national-housing-trust-fund/

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Appendix A

NHTF State Allocations

NHTF: The National Housing Trust Fund

Estimated State Allocations for every $250 million

Invested in the National Housing Trust Fund

January 2015

Alabama	$3,000,000	Nevada	$3,000,000
Alaska	$3,000,000	New Hampshire	$3,000,000
Arizona	$3,680,000	New Jersey	$6,520,000
Arkansas	$3,000,000	New Mexico	$3,000,000
California	$29,950,000	New York	$19,300,000
Colorado	$3,560,000	North Carolina	$4,740,000
Connecticut	$3,200,000	North Dakota	$3,000,000
Delaware	$3,000,000	Ohio	$6,840,000
District of Columbia	$3,000,000	Oklahoma	$3,000,000
Florida	$9,800,000	Oregon	$3,450,000
Georgia	$5,040,000	Pennsylvania	$7,230,000
Hawaii	$3,000,000	Rhode Island	$3,000,000
Idaho	$3,000,000	South Carolina	$3,000,000
Illinois	$8,870,000	South Dakota	$3,000,000
Indiana	$3,820,000	Tennessee	$3,480,000
Iowa	$3,000,000	Texas	$10,470,000
Kansas	$3,000,000	Utah	$3,000,000
Kentucky	$3,000,000	Vermont	$3,000,000
Louisiana	$3,000,000	Virginia	$4,320,000
Maine	$3,000,000	Washington	$4,800,000
Maryland	$3,370,000	West Virginia	$3,000,000
Massachusetts	$5,600,000	Wisconsin	$3,970,000
Michigan	$5,890,000	Wyoming	$3,000,000
Minnesota	$3,620,000	Puerto Rico	$3,000,000
Mississippi	$3,000,000	American Samoa	$16,000
Missouri	$3,770,000	Guam	$128,000
Montana	$3,000,000	Northern Marianas	$71,000
Nebraska	$3,000,000	Virgin Islands	$138,000

The Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to begin setting aside funds for the National Housing Trust Fund (NHTF) beginning January 1, 2015 and to transfer funds 60 days after the end of 2015 and each year thereafter. NLIHC estimates that somewhere between $250 million and $500 million will become available early next year to be distributed to states as a result. The estimates of the per state amounts were calculated by NLIHC, based on HUD's Proposed Rule for the Housing Trust Fund Allocation Formula and the 2007-2011 Comprehensive Housing Affordability Strategy (CHAS) data. These estimates account for adjustments made to certain state allocations to ensure that each state receive at least $3 million as required by law. Learn more at www.nhtf.org. Numbers do not add up to $250 million due to rounding.

The National Housing Trust Fund
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NATIONAL LOW INCOME HOUSING COALITION

NHTF: The National Housing Trust Fund

Estimated State Allocations for every $500 million

Invested in the National Housing Trust Fund

January 2015

Alabama	$5,160,000	Nevada	$4,450,000
Alaska	$3,000,000	New Hampshire	$3,000,000
Arizona	$7,670,000	New Jersey	$15,720,000
Arkansas	$3,240,000	New Mexico	$3,000,000
California	$82,070,000	New York	$51,900,000
Colorado	$7,320,000	North Carolina	$10,660,000
Connecticut	$6,300,000	North Dakota	$3,000,000
Delaware	$3,000,000	Ohio	$16,620,000
District of Columbia	$3,000,000	Oklahoma	$3,820,000
Florida	$25,000,000	Oregon	$7,010,000
Georgia	$11,510,000	Pennsylvania	$17,730,000
Hawaii	$3,000,000	Rhode Island	$3,000,000
Idaho	$3,000,000	South Carolina	$4,910,000
Illinois	$22,370,000	South Dakota	$3,000,000
Indiana	$8,070,000	Tennessee	$7,100,000
Iowa	$3,390,000	Texas	$26,900,000
Kansas	$3,260,000	Utah	$3,000,000
Kentucky	$5,430,000	Vermont	$3,000,000
Louisiana	$5,560,000	Virginia	$9,470,000
Maine	$3,000,000	Washington	$10,840,000
Maryland	$6,780,000	West Virginia	$3,000,000
Massachusetts	$13,120,000	Wisconsin	$8,470,000
Michigan	$13,940,000	Wyoming	$3,000,000
Minnesota	$7,490,000	Puerto Rico	$3,890,000
Mississippi	$3,180,000	American Samoa	$32,000
Missouri	$7,930,000	Guam	$256,000
Montana	$3,000,000	Northern Marianas	$141,000
Nebraska	$3,000,000	Virgin Islands	$276,000

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NATIONAL LOW INCOME HOUSING COALITION

TAC

TECHNICAL ASSISTANCE COLLABORATIVE