Financing Veterans Permanent Supportive Housing

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Supportive housing has three interrelated funding hurdles

- Rental Subsidies: Very Low Incomes
- Capital Funding-LIHTC, soft debt
- Services Funding

BUILDING
Low Income Housing Tax Credits (LIHTC)

- Largest Federal rental housing development program
- Pays for more than 50% of Total Development Costs
- Developers compete for allocations of Housing Credits, which are awarded by State Agencies
- Developers sell LIHTC to Investors who provide upfront capital to a project and receive LIHTC as long as property operates as pledged
- LIHTC is part of the IRS Tax Code
A TAX CREDIT IS....

- A dollar for dollar deduction against the tax liability of corporation
- Not a federal subsidy
- Has value only to entities that pay taxes
- Investors receive LIHTC 10 years, but must stay in the ownership structure for 15 years.
Ownership Structure – The Limited Partnership

- Sponsor/Developer acts as General Partner (GP)
  - GP oversees development team and construction, obtains funding, applies for LIHTCs, coordinates supportive services, maintains LIHTC compliance

- Syndicator acts as Limited Partner (LP)
  - LP forms a partnership with the GP and provides equity from investors in exchange for a 99.99% interest in the LIHTCs and the operational losses that flow from a given project
Who gets what out of a LIHTC deal?

- **General Partner**
  - Developer fees
  - Management fees
  - Partnership Management fees
  - Percentage of cash flow
  - Future 100% ownership following termination of the 15-year compliance period

- **Limited Partner**
  - Tax Credits
  - Passive losses
  - Percentage of cash flow
  - Return on investment (IRR)
Financing Trends in PSH

*Overall homelessness: 564,708 nationally (2015)*

- **Bad News: Federal Programs --**
  - **HOME** cut 45% FY2010 - FY 2014 (from $1.82B to $1B);
  - **National Housing Trust Fund** – slow to start ($173MM)
  - **HEARTH**: virtually no new rent subsidy funding
  - **PBS8/VASH**: S8 FY2015 2% below FY 2014 ($9.7B)- short funding savings; VASH winding down
  - **Tenant-based Section 8**: homeless vouchers go unused in High Rent markets
Financing Trends in PSH

+ **Good News:**
  + **LIHTC Pricing High**, especially CRA markets
  + **RAD expansion** 60K to 185K units and
    2015 Revision includes McKinney Mod Rehab SRO contracts. Convert year to year contracts to 20 yr PBRA
  + **Local Rent Subsidies emerging**- e.g., LA County Dept of Health Services: funds *Flexible Housing Subsidy Pool* for DHS patients who are homeless.  15-year commitment.  (1200 rental subsidies in 2016; goal of 10,000)
To Continue to Build PSH – Need to be Efficient with Resources & Creative
Business Issues of Blending Rent Subsidies & LIHTC $$ & Hard Debt

- Challenges of Section 8 and VASH
  - 15-year contracts subject to “annual appropriations”

- **Time mismatches** between capital funding requirements, rental assistance and service funding
  - 15-year tax credit partnership life, yet some operating/rent subsidies shorter contracts; annual service funding
Underwriting Challenges in PSH

• “Subsidies Subject to annual appropriations”
  Projects need Transition reserves to cover rent subsidy allocation risk, not just contract term risk.

• Is service provision required by a loan or LIHTC? Under what conditions? Who provides services?

• Investors more focus on QAP and Lender(s) required income, rent, & targeting restrictions, and “what if” scenarios
Various capital funding sources have different rent, income & targeting restrictions.

- Always look at what is most restrictive on allowable income and rent; what if subsidy not renewed?

- Always look at what the target population’s income realistically will be to establish post-Section 8 rents affordable to that population

  - A typical dual diagnosed mentally-ill, chemically dependent, homeless, HIV/AIDS person or a TANF family is not typically going to be at 50% of AMI
How Funders Assist SH Underwriting & Minimize Transition Reserves

- Give relief by waiving deep targeting if rent subsidies are cancelled or not renewed due to no fault of the developer

- Allow Delayed Equity Pay-ins to boost equity raise to fund reserves

- If soft loans amortizing, have documents allow extension of amortization period or suspended payments if subsidies cancelled by HUD for budget reasons
HEARTH Waiver Clause

Provides an Exception to Repayment & Homeless targeting if:

• PB-rental subsidies from any Fed, State, Local program is no longer made available AND

• the project is meeting performance standards AND

• the portion of project that benefited still meets LIHTC income/rent restrictions.
ND Sepulveda II
Building 5- VA Enhanced Use Lease

- 75 furnished studio apartments
- 1 one-bedroom manager’s unit
- Office space for case managers & services staff
- Multi-purpose community space
- Large courtyard
- Will serve homeless, disabled veterans earning below 18,000/yr
Challenges

Services funding: Very few funding sources for basic case management in PSH

- Much funding restricted to units serving chronically homeless only
- Need to Supplement VA Case Mgmt in VASH units

Women Veterans & Fair Housing

- Women veterans groups are pushing for designated units/area for women but this conflicts with fair housing