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Guidebook on Developing Permanent Supportive Housing for Homeless Veterans

Prepared for the National Coalition for Homeless Veterans by the Corporation for Supportive Housing

www.csh.org

Corporation for Supportive Housing

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INTRODUCTION

The Veterans Administration estimates that nearly 300,000 veterans are homeless on any given night, and more than half a million experience homelessness over the course of a year. It is also estimated that veterans account for nearly one-third of all homeless men in America, although they comprise only 13 percent of the adult males in the general population. Veterans are twice as likely as other people to be chronically homeless. Nearly half suffer from mental illness, and nearly 70 percent struggle with alcohol and drugs.

Supportive housing works well for people who face the most complex challenges—individuals and families who are not only homeless, but who also have very low incomes and serious, persistent issues that may include substance use, mental illness, and HIV/AIDS.

Without a stable place to live and a support system to help them address their underlying problems, most homeless veterans bounce from one emergency system to the next—from the streets to shelters to public and VA hospitals to psychiatric institutions and detox centers and back to the streets—endlessly. The extremely high cost of this cycle of homelessness, in human and economic terms, can be seen in the lives of many veterans.

The ever-increasing momentum of government, corporate and philanthropic investment in supportive housing has been bolstered by research documenting its effectiveness. To date, these studies indicate:

- Positive Impacts on Health. Decreases of more than 50% in tenants' emergency room visits and hospital inpatient days; decreases in tenants' use of emergency detoxification services by more than 80%; and increases in the use of preventative health care services.
- Positive impacts on employment. Increases of 50% in earned income and 40% in the rate of participant employment when employment services are provided in supportive housing, and a significant decrease in dependence on entitlements – a $1,448 decrease per tenant each year.
- Positive impacts on treatment mental illness. At least a third of those people living in streets and shelters have a severe and persistent mental illness. Supportive housing has proven to be a popular and effective approach for many mentally ill people, as it affords both independence and as-needed support.
- Positive impacts on reducing or ending substance use. Once people with histories of substance abuse achieve sobriety, their living situation is often a factor in their ability to stay clean and sober. A one year follow-up study of 201 graduates of the Eden Programs chemical dependency treatment programs in Minneapolis found that 56.6% of those living independently remained sober; 56.5% of those living in a halfway house remained sober; 57.1% of those living in an unsupported SRO remained sober; while 90% of those living in supportive housing remained sober.

For more data on the positive impacts of supportive housing, please visit www.csh.org.

This guidebook is geared towards community-based homeless service providers new to housing, and will introduce and explore the various supportive housing development options available for homeless veterans. New construction, rehab of existing housing, master leasing of units, and scattered-site supportive housing are all viable options to be discussed and evaluated. Readers will be given the tools needed to initiate the development process, identify available capital, operating and services funding for supportive housing, and assess their organization's capacity to develop and/or operate supportive housing.

"One reason that (veterans are twice as likely as other Americans to be chronically homeless), I think, is that military service is a great place to learn to live in the harsh environment. They're much better prepared than non-veterans. They seemingly have a higher tolerance and a certain degree of pride and toughness that they, more than the rest of us, can endure tough circumstances."

"The truth of the matter is, when veterans come through these programs and they find that accountability and responsibility again, they're happy to do it and happy to be there. That's what they want."

Pete Dougherty, Director of Homeless Programs, Veteran's Administration
From 3/31/05 AP story by Vicki Smith, "Homelessness Plagues Many U.S. Veterans"

WHAT IS SUPPORTIVE HOUSING?

Supportive housing is a successful, cost-effective combination of affordable housing with services that helps people live more stable, productive lives. Supportive housing works well for people who face the most complex challenges—individuals and families who are not only homeless, but who also have very low incomes and serious, persistent issues that may include substance use, mental illness, and HIV/AIDS.

A supportive housing unit is:

- Available to, and intended for a person or family whose head of household is homeless or at risk of homelessness and experiencing mental illness, other chronic health conditions including substance use issues, and/or multiple barriers to employment and housing stability;
- Where the tenant pays no more than 30%-50% of household income towards rent, and ideally no more than 30%;
- Where the tenant has access to a flexible array of comprehensive services, including medical, mental health, substance use management and recovery, vocational and employment training, money management, coordinated support (case management), life skills, household establishment, and tenant advocacy;
- Where use of services or programs is not a condition of ongoing tenancy;
- Where the tenant has a lease or similar form of occupancy agreement and there are not limits on a person's length of tenancy as long as they abide by the conditions of the lease or agreement; and
- Where there is a working partnership that includes ongoing communication between supportive service providers and property owners or managers.

Creating Supportive Housing

A community's ability and willingness to create supportive housing will vary dramatically from location to location and be based on a range of factors including the preferences of the target population, capacity within your own organization, the type of housing stock available, and the norms and history of a local community's real estate market.

Five Elements of Successful Supportive Housing Projects: People, Place, Support Services, Money, Organization

The People: The starting point for successful supportive housing projects for formerly homeless veterans is a clear and thorough analysis of the characteristics and needs of your future tenants. Who will live in the project? What are their particular needs for space, neighborhood amenities and services?

The Place: The project location and building (whether rehabilitation or new construction or accessing existing housing units) must support the needs of formerly homeless veterans. The location should offer proximity to essential shopping (e.g. food and drug stores), human services, transportation, employment opportunities and other key needs.

The building itself should provide an appropriate physical facility for the residents. Unit size and amenities should be suited to the types of households expected to occupy them. Household considerations include size, composition and special needs. If any on-site services are contemplated, the building must also offer non-residential space to adequately house them.

While there are communities that continue to oppose development of supportive housing and affordable housing in general, the success of many projects will depend on a thorough assessment of local attitudes, implementation of a strategy for engaging residents and addressing their legitimate concerns and organizing supporters to ensure that the project will gain the support of elected officials and relevant government agencies.

Support Services: The program of supportive services should match the needs of the formerly homeless veterans who will live in the project. Services may cover a wide range of areas depending on the nature of the tenants' needs including food preparation and service, intensive assistance with activities of the daily living, counseling, case management, employment training and placement, and medical services. It is also critical for the support services component to make cost-effective use of off-site services and referral relationships, especially with veteran specific providers.

Money: The project must be financially viable both in the short and long term. There must be adequate sources of capital financing available to cover all necessary development costs. If development financing involves debt, there must be adequate net operating income to pay debt service in future years. Project operations must be underwritten to ensure that income projections accurately reflect the availability of subsidies and the ability of un-subsidized tenants to pay rents consistent with local market conditions. Similarly, expenses must be projected to include all of the costs associated with operating and maintaining the building over time. Finally, there must be adequate funding for appropriate support services in accordance with the service program.

Organization: The entire project must be supported by the organizational capacity necessary to plan, develop, manage and provide services to the project. The project must have the long-term commitment of the organization's executive staff and Board of Directors. All of the necessary roles must be filled by individuals and entities with appropriate skills and track records in those areas. One organization may play multiple roles or work in collaboration with others having complementary strengths.

Choosing Your Supportive Housing Model: New Construction, Acquisition / Rehabilitation and Non-Development Approaches

Below are some questions you must ask yourself as an organization when choosing your supportive housing model:

- What segment of the homeless veterans population do we plan to house? What building and program design characteristics are the best fit for them?
- How do we prioritize homeless veteran re-integration versus increased opportunities for community building?
- How much financial risk can our organization take?
- What up-front financial resources does our organization possess or have access to?
- What experience does your organization already have in housing and service delivery?
- What staff capacity do you have to work on creating new housing and services?

Traditional Development (New Construction/Rehabilitation)

Each type of housing development brings its own set of challenges. If your organization chooses to develop a project from the ground up or through massive redevelopment of an existing structure, this would be considered a more traditional form of housing development. New construction would consist of developing the project on either a vacant site or one on which the existing structure will be demolished prior to construction. Rehabilitation is where an existing structure is primarily demolished only leaving the existing shell or framing of the existing structure.

Each of these development structures has its own set of advantages and challenges, however all three share several commonalities that differ largely from non-traditional development. Some common characteristics of these types of development include the following:

- Each creates a new permanent asset to the community;
- Each involves acquisition and construction and the full compliment of development activities, which will include locating and applying for capital funding sources.
- Each of these types of development can take 2-3 years (or more) to develop.
- Each involves making a commitment to locate and obtain commitments for on-going funding sources and providers for operating expenses and service costs.

If your organization chooses instead to maintain large portions of the existing structure and infrastructure in its development, this would be known as moderate rehabilitation. This type of development can be more expedient than gut rehab or new construction but it should also be noted that if you choose to do a mod-rehab project selecting your development team wisely is strongly encouraged. Many buildings that are only given modest improvements will need considerable on-going investment. Remember that many federal housing programs have commitments of up to 15-30 years in some cases to preserve the project for low-income populations.

New construction or rehabbing sub-standard housing is the only strategy that actually increases the housing stock and, specifically, increases the stock of housing that is permanently controlled by mission-driven nonprofit organizations and not subject to the same market pressures that tend to push housing costs beyond the reach of those served by supportive housing.

But development isn't for everyone. Creating new supportive housing opportunities through new development or massive redevelopment for homeless veterans with special needs is not the only way to increase their access to housing. Many organizations opt to expand housing opportunities for the people they serve through lower risk strategies. Some alternative strategies include:

- **Turn-Key Development:** a "sponsor" organization contracts with another development entity to construct the building and then turn it over upon completion

- **Master Leasing:** sponsor master leases an entire existing building; sponsor then leases the units to tenants

- **Set-Asides:** sponsor co-owns an affordable housing development in which units are reserved for tenants with special needs or master leases a number of units within an existing property

- **Scattered-Site:**

  Project: sponsor purchases individual houses, condos or coop apartments on the open market

  Rental: tenant or a nonprofit organization directly leases individual units from landlord in the open market

There are a few considerations when looking at the **turn-key development model**:

Pros of Turn-key:
- Little development experience is required

Cons of Turn-key:
- The "sponsor" receives little compensation for their development role
- There is no increase in development expertise in-house

A very clear and tight agreement between the "sponsor" and developer is critical. The roles and involvement of the sponsor, service provider and others must be specifically assigned and agreed to.

The **master lease and scattered-site models** don't require new construction or rehabilitation. These models lease existing units in the marketplace.

Pros of Leasing:
- Much faster; units for your target population can be brought on line quickly
- Much less financial risk to your organization

Cons of Leasing:

- You have much less control over the quality of the operations and maintenance of the building and unit(s)
- Gives you much less control over the term of affordability
- May not provide adequate and appropriate space for on-site services and shared community space
- It may be difficult building effective relationships with the landlord and property manager

In a master-lease scenario, it is advised that the master lease spell out the service provider role in the tenant selection process.

The most common alternative model to development is **scattered-site housing development**.

Pros of Scattered-site:

- Make it easier to acquire already renovated properties
- May result in less community opposition

Cons of Scattered-site:

- Doesn't provide economies of scale in financing, management or service delivery
- More complicated to secure and close financing or leases
- May provide little or no opportunity for on-site support
- Makes it difficult to incorporate on-site employment opportunities for the tenants
- More difficult to engage some tenants since opportunities for informal interaction are limited
- More difficult to organize community building activities and peer support networks

In scattered-site models, it is important for the service team that the same property manager is used for all sites/locations. This scenario allows for increased collaboration between the disciplines of housing and service delivery.

The most common alternative models use **tenant-based** rather than project-based subsidies.

Pros of Tenant-based subsidies:

- Allows greater tenant mobility and highest degree of integration into the community

Cons of Tenant-based subsidies:

- Financial underwriting is more difficult
- Service provider must maintain good relationships with multiple landlords and property managers to ensure tenant access to units when tenants move out and take their subsidy with them

In summary, building new housing or rehabilitating an existing property gives your organization greater control over aspects such as housing unit layout, types of common areas, rent levels and lease terms. In this way, you can incorporate the unique features of supportive housing that are not typical of existing housing developed on the private market.

However, developing housing requires a considerable up-front financial investment, can expose the sponsor to financial risk and, of course, requires much more time and attention on the part of your organization and its governing board.

For organizations new to supportive housing, securing subsidized rental apartments in the open market or securing long-term set asides of units within privately owned buildings may make more sense.

THE DEVELOPMENT PROCESS

Most providers of supportive housing divide the development process into three broad stages: **Predevelopment**, **Construction/Rent-up**, and **Operations**. As you'll see below, development tasks are interdependent, iterative and timing is critical. It is also important to remember that, due to the multiple players involved, coordination across all tasks is key.

Before the Project Opens: Predevelopment "Defining the Dream"	**After the Project Opens: Construction and Rent-up**	**Operations**
Begins with a dream or an opportunity and eventually includes a complete development team in place and all capital and first year services financing secured	Begins with closing on construction financing and final approval of permanent financing **NOTE: This step will only be taken if traditional forms of development are utilized.**	Begins with closing on permanent financing or (if there is no separate permanent financing) with stabilized occupancy
Includes all feasibility and planning activities for selecting type of tenants and determining site, support services, financing and organizational and community issues. Often includes early acquisition of site before construction closing	Includes construction, hiring property management and services staff, and initial rent-up of the building until it achieves a targeted level of cash flow or occupancy	Includes maintenance and operations, ongoing services fundraising, and evaluation of the project's management, services and tenant satisfaction. May include changes in partners or owners over time

Phases of Development

No two developments are the same. Each development must spend time in each of the five phases of development. The Concept Phase is crucial in developing a clear idea of the population you plan to serve, the development team that you will have in place throughout the project and in what type of organizational structure you will provide the housing and services to the target population.

The Feasibility Phase is important for the fact that the parameters of the project will become apparent. Constraints such as zoning and location will present themselves during this phase. During this period is also when your development team will gather cost estimates, market data, and identify potential funding sources for the ongoing development of the project.

The Dealmaking Phase is when the project starts to become more "concrete". Negotiating financial commitments, developing contract documents, and selecting contractors occur. In addition, your organization will need to focus during this phase in drafting both the property management and service delivery plans.

The fourth and fifth stages of the development process are when the "dream" becomes a reality. The Construction Phase is by far the most exciting of the fives stages but it also is the most expensive and most risky. Unless you are doing the construction management for your own project your organization will be less involved on a day-to-day basis during the Construction Phase. Therefore, it is important to maintain close communication with your architect who should be meeting regularly with the construction team as well as those financing the project. The things that should be focused upon during this phase is making sure there are clear contract documents laying out roles and responsibilities of all involved as well as establishing construction protocols.

The final Phase is Operations. This includes lease-up, intake. This phase is last but in most projects the background documents and planning for this phase begin prior to the beginning of construction. It is important that especially if operating subsidies have been secured through government sources (such as Section 8) to ensure that your organization can have the development leased up and begin collecting these subsidies as soon as possible.

There are four key areas of concern for each phase of the predevelopment process. It is critical to answer the following questions for each phase:

- Who will be served? What will services look like?
- Where will project live? What will it look like?
- Who needs to approve the project?
- How much will the project cost?

	Concept Development Phase	**Feasibility Analysis Phase**	**Deal Making Phase**
Who will be served? What will the services look like?	o What segment of the homeless veteran population will be served? o How many veterans to be served? o What are the service needs of the prospective tenants? o What is the desired residential setting? Seek input from prospective consumers, service providers and advocates to evaluate the program/services vision: o Focus groups o Interviews o Discussion meetings	Translate program/services vision into preliminary program plan Select other service providers and property manager Continue developing program/services plan with input from consumers, service providers and advocates	Begin to formalize relationship between service provider(s) and development team lead o Letter of intent o MOU discussions o Contract negotiations Continue to translate program/services plan into management plan: o Property management o Facilities management o Service delivery Review and approve management plan with complete Development Team

Where will the project be sited? What will it look like?	Develop criteria for site selection: o Size? o Rehab vs. New Construction o Location? o Neighborhood / Community Then… evaluate site(s) that meet criteria: o Architecture/Engineering o Acquisition/Relocation o Zoning o Regulatory o Community acceptance and support	Select architect and engineering team Discuss program plan Start architectural program to develop and refine preliminary drawings/schematics Begin site analysis: o Environment o Structural o Relocation Approve schematics	Seek input on issues related to working drawings from all of the development team o Aesthetics o Cost o Durability/Maintenance o Furnishings/Appliances o Security o Licensing/Regulatory/Financing standards Develop working drawings and get approval from complete Development Team Develop construction specifications Acquire site Bid and select general contractor Bid and select environmental abatement contractors
Who needs to approve the project?	Is there an identified Community/Government need?	Contact all relevant government/planning entities with jurisdiction: o Planning department o State historic preservation office o Licensing Identify key community members and select liaison from: o Churches o Businesses o Neighborhood groups Identify and prioritize community concerns Begin review of all relevant codes and regulations Identify strategies to mitigate community concerns	Begin to secure all necessary approvals o Government/Planning o Regulatory/Licensing o Community Obtain building permit

How much will the project cost?	Estimate program/services budget: o On-site staff o Contract services o Operating expenses o Indirect costs Estimate capital budget: o Hard costs o Soft costs Estimate operating budget o Revenue from tenant rents o Rental subsidies available /secured Refine budget estimates Form initial financing / funding program (is it compatible with above criteria?) Seek predevelopment financing	Test assumptions for capital, operating and program/services budgets Seek capital, operating and program/service financing/funding	Develop detailed financial projections: o Development pro forma o Operating pro forma o Program/Services budget Secure construction and permanent financing Continue to secure program/services funding commitments Close construction financing!

During the predevelopment stage, many assumptions are made about the cost of the building construction, who will be served, what sources of funding will be obtained, operating costs once the building is operational, etc. As you progress through the predevelopment phase, many of these assumptions will become facts and a feasible development plan will be realized.

Once the construction stage begins, the ownership structure and development team, design, funding and service plan must all function smoothly together. The members of the development team have now reached The Point of No Return.

Once the project is operational, the details of implementing property management and service delivery continue to fluctuate, based upon practical experience and tenant input.

Many major sources of development funding require that the project have a purchase agreement or at least an "option" to purchase (informal and verbal agreement) a specific site before funding applications can be submitted. This creates a need for significant lead-time and "cash on hand" to secure purchase options or agreements.

SO YOU STILL WANT TO DEVELOP SUPPORTIVE HOUSING

If your organization decides to commit to building new supportive housing or to acquire and rehab an existing building to house homeless veterans, you need to ask yourselves our second BIG QUESTION:

To Partner or Not to Partner…?

Your organization needs to consider the various development roles when determining whether or not to partner. There is no single role for the nonprofit organizations that frequently initiate the projects. Rather, there are several major roles that nonprofit organizations can play in the development of supportive housing.

Key Housing Development Roles

- **Owner:** "the buck stops here"– ultimate long-term control and legal responsibility
- **Developer:** The lead role in bringing the project from idea to occupancy. The skill set and culture are very different from property management and service delivery.
- **Property manager:** Responsible for the day-to-day operations of the real estate– lynchpin of financial and physical viability of the project.
- **Service provider:** The "support" in supportive housing. Leads the delivery of support services to residents.

For more information, please see the **Key Housing Development Roles for Nonprofit Organizations** table on the following page.

Key Housing Development Roles for Nonprofit Organizations (Adapted from Introduction to Supportive Housing Development, CSH, 2003)				
	Owner	**Developer**	**Property Management**	**Service Provider**
Description:	Legally responsible for the property; represents the long-term interests of the project and its residents.	Providing and managing the services necessary to acquire and construct/ rehabilitate the project. Responsible for delivery of a complete, functional project built to specifications and complying with all codes and regulations.	Providing real estate management services for the completed project	Designing and implementing the support services plan
Short-term focus:	• conduct organizational assessment and ID capacity gaps • select developer and team leader • select other potential partners/collaborators • select property manager and service provider • manage relationships with key stakeholders including government and the community. • oversee all legal matters and approve all contractual agreements.	• lead the development team • manage the project; oversee all predevelopment phase tasks and monitor construction. • oversee selection and hiring of all development team members • monitor performance of development team members	• manage rent-up, marketing, outreach, and tenant selection • provide input on projected operating budget; and design considerations including equipment and materials based on costs of maintenance and operations • develop relationship with service provider(s); develop joint operating protocols	• design support services plan • develop projected services budget and assist in securing financing for service delivery • identify other service provider(s) and establish coordination strategy • provide input on project design • engage property manager in development of joint operating protocols, house rules, etc. • participate in tenant screening and rent-up process
Long-term focus:	• oversee implementa-tion of management and service plans • monitor performance of property manager and service provider; mediate disagreements • monitor project finances; oversee compliance • manage long-term facility planning including repairs and replacement, insurance and liability, changing tenant/service mix, etc. • monitor tenant satisfaction; adjudicate grievances	• minimal post-construction tasks; cost certifications, final approvals for certificate of occupancy and any required licenses, assist with contractor's warranty compliance	• manage the real estate operation, including collecting rent, filling vacancies, evicting residents, making repairs, hiring/ firing staff, and preparing necessary reports • monitor resident satisfaction and concerns • assist in addressing tenant grievances	• implement support services plan, service coordination and evaluation • monitor quality of services to all individual tenants • secure ongoing financing for services and report to funders • participate in resident organizing and community building • participate in rent-up process on ongoing basis

All four of these roles are critical to success and all four are **very** different. In some cases a single organization may play all of these roles. More frequently, supportive housing involves partnerships with one or more nonprofit and, in some cases, for-profit organizations. The partners together fulfill all of the necessary roles.

It is also important for all partners to formally examine their potential role(s) in the project they plan to take on, especially the role of owner. While the rewards of ownership are great, supportive housing development, operation and management remain complex, unpredictable and risky endeavors. Even the most sophisticated organizations periodically benchmark their development activities against their mission and reevaluate how they are deploying their resources. The CSH publication, *Family Matters*, Exhibit 4-A, Assessing the Role for Your Organization, can help your organization through this process. You may also want to ask your partners to complete this exercise as well.

Another critical step is to secure organizational support for your project. This process may also prove helpful in determining your organization's role(s) as it highlights the level of short- and long-term risk your board of directors is willing to assume.

Because of the level of risks, responsibilities and expense of developing housing, it is critical to secure your board's support before proceeding. Some of the issues you will want your board to consider are:

- The financial liability of development (e.g., sponsor guarantees, cost overruns);
- The legal liability of developing and operating housing;
- Managing the relationships with the immediate neighborhood or broader public;
- Amount of staff time required, which can be substantial among key staff (executive director); and
- Costs that may not be recovered, such as site search and feasibility costs for a project that does not proceed.

To inform the board fully, you may want to project the predevelopment costs, such as professional fees, and out-of-pocket expenses for which your organization will be responsible. Be sure to fully account for the cost of staff time needed to complete the project. Other costs to consider:

- the development consultant's fee;
- the architect's fee (depending on status of project when abandoned);
- land costs (options, appraisal, title research, holding costs, maybe even purchase price);
- legal fees associated with structuring contracts, etc.; and
- repayment of predevelopment loan interest.

The CSH Project Evaluation Spreadsheet is an Excel Workbook containing worksheets that streamline the collection and analysis of key project financing data. And also available is the companion piece, *Everything You Ever Wanted to Know About CSH's Project Evaluation Spreadsheet.* These resources, available at www.csh.org, will be helpful for projecting development costs.

Finding Development Expertise

OK. Your Board is "on board" and you've selected the development role(s) that is most appropriate for your organization. The next step will be to identify a developer or project manager to oversee the housing development process (see table above for various tasks related to the Developer role.

Compensation for these services and responsibilities can be structured in a number of ways. There is no one specific fee structure utilized within the development community. If your organization has entered into an agreement with a development partner, all or a portion of a development fee may be negotiated which ranges up to 15% of the total development cost of the project. Compensation for a development consultant is typically based on a negotiated scope of services and ranges in cost from a few thousand for minimal advice to as much as $100,000 or more depending on the scale and the complexity of the project. As one expert states, "developers (and development consultants) come in dozens of shapes and sizes. The relationship and value-added have to be closely scrutinized before negotiating a fee."

Many service providers that sponsor supportive housing consider acting as developers. However, most organizations find that the demands of developing real estate take them away from their mission, not closer to it. If housing development is not already a central part of your mission and the organization does not have staff experienced in development, it is suggested that you contract with an individual or organization for assistance with your development. Depending on how you negotiate your scope of services you may maintain some control over the development process without the burden of developing the expertise in-house.

Working with a Development Consultant

The development consultant is a professional who can guide you through the responsibilities outlined above. He/she may also act as your day-to-day project manager on the development project if you do not have a staff person to fulfill this role. While the scope of the consultant's services can vary, generally the consultant begins by helping conceptualize the development project and continues to oversee the development process until the beginning of construction. In some cases, the development consultant may continue their involvement to assist in completing the necessary documentation and negotiations for permanent financing through lease-up activities.

Working with a Housing Development Organization

You may instead decide to engage a development organization to manage the development process in return for some or all of a developer's fee and/or part or whole ownership of the project. Possibilities include:

- Community development corporations (CDCs);
- Community housing development organizations (CHDOs).
- For-profit real estate developers; and
- Local housing authorities.

Community Development Corporations (CDCs)
CDCs are private, nonprofit development organizations that are engaged in housing development and economic development activities in local communities, often in a single neighborhood. In addition to owning affordable housing, some CDCs also provide development services for outside organizations.

CDCs can make good partners since they can relate to your pursuit of a mission and may enjoy a high level of community support. Moreover, their strengths complement those of social service organizations well; they are often experienced in development and property management but lack supportive service expertise. We recommend this option if a qualified and compatible CDC is active in your target neighborhood.

Community Housing Development Organizations (CHDOs)
In addition to community development corporations, a variety of other nonprofit organizations known as community housing development organizations (CHDOs) develop, own and manage affordable housing for low-income tenants. Your local HUD office or City Planning Department should be able to tell you whether an approved CHDO exists in your area.

For-Profit Real Estate Developers
For-profit developers often are skilled in managing the development process, know the local planning and zoning approval systems, have access to a variety of properties, and are able to attract financial investors. However, a for-profit developer may not be familiar with supportive housing or share your service mission. For-profit developers may lack specific knowledge about subsidized financing programs for special needs projects, like supportive housing. If you chose to work with a for-profit developer, make sure that the developer is committed to the principles of supportive housing and understands your requirements.

Local Housing Authorities
Housing authorities are public corporations affiliated with a city or county government that receive federal funding to perform housing and community development activities. A housing authority is often referred to as an HRA (housing and redevelopment authority) or a PHA (public housing authority). Housing authorities sometimes offer development services in return for a fee or part ownership of a development. They may also be interested in serving in this role if they have underutilized properties that can be converted into supportive housing for families. It's important to note that PHAs often have access to public funding for operating subsidies.

ASSEMBLING THE DEVELOPMENT TEAM

Throughout the process, the developer will add various experts to the team responsible for the development.

These team members include:

- Architect;
- Attorney;
- Accountant;
- General Contractor;
- Property Manager;
- Asset Manager;
- Primary Service Provider; and
- Consumer Representative

The specific roles for the development team members are as follows:

Architect
The project architect should join the team as soon as possible, because the architect will evaluate prospective sites to determine their feasibility for housing development. Other responsibilities include analyzing site zoning, preparing cost estimates, designing the project and overseeing construction (construction management).

Attorney
A real estate attorney must be available to help negotiate the acquisition of the housing site and prepare related documents. Your organization's attorney should also review all contracts with other members of the development team to ensure that they protect your organization and meet the requirements of potential funders or national organizations like the CSH, LISC and The Enterprise Foundation.

You may already work with a lawyer with whom you want to continue to work. However, you may need to seek a different lawyer if your problem is outside your existing lawyer's areas of expertise. For example, it is common for different lawyers to handle corporate operations issues, personnel matters and evictions.

It's also a good idea to obtain referrals from colleagues in your field (or from your existing lawyer, if appropriate under the circumstances).

Accountant
The project accountant can play a number of roles during development, including responding to funders' requests for financial information about the sponsor and reviewing the financial feasibility analysis. Your project's competitiveness for funding may hinge on your ability to demonstrate the accountant's capacity to prepare reports for investors and perform a required certification of costs at the end of the development process. Depending on your sources for funding, it may be important to find an accountant with experience in

the federal Low Income Housing Tax Credit program. The tax credit process will be described in more detail later in the Financing Tools table.

General Contractor

The general contractor is responsible for the actual construction or rehabilitation of the housing. As with the project architect, some housing developers also operate as general contractors, but most hire an outside firm either through a competitive bidding process after the architect completes the plans and specifications for the development or via a negotiated bid. The general contractor is responsible for procuring the necessary insurance coverage and building permits, contracting with subcontractors, managing the construction, and ensuring wage and labor standards are met for construction workers.

Some housing providers work with general contractors on a negotiated bid, which involves a selected contractor as a member of the development team from throughout the concept development phase.

Property Manager (also see "Key Housing Development Roles" table)

The property manager oversees the day-to-day operations of a housing development. The property manager is the owner's and asset manager's (if separate) primary representative with tenants. Property management activities include showing and leasing apartments, rent collection, establishing occupancy policies and other building rules, developing a budget to cover the costs of operating the housing, building maintenance, and interfacing with the support services staff.

Some sponsors manage their housing projects using in-house staff. Other sponsors, who do not have property management experience and do not wish to distract their organization with the obligations of this role, contract for property management services. Sometimes sponsors contract for services if they are concerned with the possibility of conflicts in roles if they are also intending to act as primary service provider. Whether you intend to manage your project or contract for services, you will want to involve property management staff as part of the development team. The property manager can help to prepare the operating budget and can contribute to the physical design in ways such as suggesting materials that are easy to maintain.

Supportive Housing Property Management and Operations Manual (SHPMOM)

Although it has been widely acknowledged that managing supportive housing is different than managing affordable and/or market rate housing, there had not been a clear sense that the tools to guide this work existed. With the assistance and participation of numerous individuals and organizations, CSH created the *Supportive Housing Property Management and Operations Manual*, a "first of its kind" resource, that is available by free download at www.csh.org. Note: As a manual based on the practices and the laws of California, we encourage supportive housing sponsors in other states to confer with legal counsel when using this manual.

Asset Manager
The asset manager acts as a financial manager for the completed development, overseeing property management to ensure that tenant occupancy levels remain high and the project performs well financially. The asset manager also reports information about the development to funders, in compliance with regulations associated with housing funding programs. Often, the property manager assumes the role of asset management in addition to their other duties.

The asset manager's responsibilities begin once the housing is constructed and occupied, although the asset manager should be involved in decisions and knowledgeable about the development from the beginning. Some housing sponsors perform their own asset management, especially if they are also managing the property. Others subcontract the asset management responsibilities to a professional firm specializing in these services:

- budgeting operating expenses for supportive housing for families, especially with regard to your target audience;
- HUD, state and federal reporting requirements;
- the various lenders financing your project, and their requirements;
- Low Income Tax Credit compliance requirements;
- managing property management functions; and
- representing owner interests in short- and long-term financial planning.

Service Provider (also see "Key Housing Development Roles" table)
The primary service provider plans and oversees the services to be offered at the supportive housing development. The presence of the primary service provider on the development team is a key difference between supportive housing development and other types of housing development. The primary service provider can help translate the needs of tenants into the location of the housing, the layout of the housing, the incorporation of community spaces for service delivery, and the size and number of bedrooms in the individual units.

If the primary service provider has identified additional agencies that will be providing services, the development team should also solicit input about the project design from these agencies. The more input from those who will be serving the tenants, the greater the probability the design and construction of the housing will be compatible with the supportive service strategies.

Consumer Representative
Current or formerly homeless constituents, identified as fitting the selected target audience of tenants, can provide valuable information during the concept development and initial feasibility phases of the development. They may have a perspective that can help the development team identify site and building characteristics that can assist families in their transition to the community. They can also offer information about the barriers the site may present for easy access to on- and off-site services. Consumers can be a sounding board against which you can explore new strategies for your project concept. And finally, consumers will be important in your efforts to introduce and promote supportive housing in your community. The more involved consumers are, they better they can articulate the importance of supportive housing to those who might fight it.

DEVELOPMENT CONSIDERATIONS

New Construction vs. Rehabilitation

You may decide to newly construct your housing project or you may decide to rehabilitate an existing property. Your approach will be dictated by the types of properties that are typically available and affordable in your community. Your development consultant, architect and/or realtor will be able to help you discern your options. Also, check with local funding sources; some may restrict the use of funds to rehabilitation. (For example, some federal sources, such as the Shelter Plus Care [S+C] program provide additional operating subsidies if the project involves rehabilitation.)

Rehabilitation projects are often more challenging. The extent of rehabilitation obviously depends on the condition and adaptability of the building(s) available. Moderate rehabilitation may be all that is required if the buildings need limited rehabilitation and are already sufficiently configured to meet the size/number of units you need. However, building condition is difficult to determine prior to construction.

You often cannot determine until after construction has started the full extent of the required rehabilitation. At a minimum, it is especially important to have an architect and/or contractor on the development team who has experience in this particular type of rehabilitation.

Rehabilitation projects often need additional front-end planning which may include a more detailed analysis of the capacity and feasibility of the building's major systems (roofs, windows, furnaces, water heaters, etc.). This planning process and documentation will guide asset and property management decisions in the future.

If the building(s) require extensive adaptation and/or replacement of systems (e.g., heating/ventilating, roof and windows) you will need to prepare for substantial or gut rehabilitation. Acquisition and rehabilitation of existing buildings may be the only options available to you, but they will not necessarily be the least expensive development approach. Also, if the building you are acquiring is occupied, even partially, you will have to deal with tenant relocation. If you choose to acquire a building that will require relocation of existing tenants, it will be important to develop relocation criteria for existing tenants and if possible assist in identifying resources to assist in this process. Here are some additional questions your organization should consider if relocation is required in acquiring the project site.

- Who are the current tenants?
- What options are available to them? (cash payment, rent subsidies, alternate housing, private market, temporary vs. permanent housing, etc.)
- Is there money within the project development budget to assist current tenants in the relocation process?
- Does your organization have an existing housing portfolio that you could relocate tenants to or will current tenants be moving into the private market?

- How many people will be displaced and who are they (families, people with mental health issues, etc.)?
- Will tenants be temporarily relocated or permanently dislocated?
- What will happen to those relocated in the short and long-term? (Will they get Section 8 vouchers? etc.)
- How far will tenants be moved from their current location? What will be the likely impact on their access to services and their sense of community and support?
- How many of the current tenants are eligible for relocation assistance? What are the options for those ineligible for assistance?

Do We Partner or Go It Alone?

Choosing the right partner in any business deal is critical to its ultimate success. Meeting the financial responsibilities of the business depend on both parties working together towards shared and mutually beneficial goals. The development of permanent supportive housing is no different. Your organization may choose to serve as the developer, owner, property manager, and service provider of the project, but in many cases there are organizations within your specific community that have expertise in one or more of these areas and partnering can often times be a better decision for long-term sustainability.

The following table displays some questions to assess an organization's ability to take on multiple roles within the development process. (The information is based on "Assessing the Role for Your Organization," in *Family Matters: A Guide to Developing Family Supportive Housing*, Ellen Hart Shegos, CSH, 2001.)

Owner:

- If your group is not currently incorporated, you may want to think about joint venturing with an organization that shares your mission and interest and is formally organized to own and manage real estate.
- If your group is incorporated and does not own property, and you do not have expertise available on staff to own and manage real estate, you may want to consider joint venturing with an organization that shares your mission and interest and is willing to own and manage the property either with you (co-ownership) or on your behalf.
- If your group currently owns property and that property is in need of rehabilitation, and if it has been difficult for you to maintain the facility due to lack of expertise or funding, you may want to reconsider adding additional real estate responsibilities. Funders may want to see existing real estate stabilized before supporting the addition of new projects. Again, you may want to consider working with another entity to own and manage the project either jointly or on your behalf.
- Finally, if you currently own and manage property that is stabilized, will owning and managing additional property jeopardize the existing property's current stability, require additional staff, or impact the organization's financial health? Again, a joint venture with a compatible partner may be an option to ensure the continued health and stability of your organization.

Developer: • If your organization has not had recent or extensive experience in developing rental housing for the target population, or your current organizational mission limits the dedication of your staffing and other resources to direct service activities, you may wish to consider working through others to develop your housing program. • If your organization does have the capacity to develop housing, you will need to consider the questions associated with ownership to determine if you should consider owning the project after its development.
Primary Service Provider: • If your organization is currently engaged in providing coordinated service strategies with other organizations, has experience in case management or service brokering services, and can absorb the added demands and funding requirements of a supportive housing program, it may make sense to consider the role of the primary service provider. It is important to realize that your organization would be the key resource coordinating the delivery and funding of services provided by other organizations, and evaluating the outcomes of those services to ensure tenants are receiving what they need to achieve and maintain stability.

Funders' Requirements

The requirements of potential funders will need to be considered when finalizing the project concept. These funders may have specific restrictions in such areas as construction type, development cost allowances and allowable uses (e.g., some funding sources will not fund space for a services or a common area). Also, funders have allowable rent and income levels as well as affordability standards. For example, the HOME and SHP financing programs require targeting to specific tenants to receive their funds.

Documenting Your Project Concept

Once you have made these decisions, prepare a brief concept paper that describes the project and the development approach. This document will have several purposes, including:

- Obtaining board of directors' support before proceeding with the development;
- Communicating your organization's plans to the community;
- Providing a platform for proposals to potential funders;
- Providing key information to development team members;
- Ensuring, as the development moves forward, the project addresses the family profile of needs as determined earlier; and
- Providing a set of guiding principles or design requirements to evaluate the project as it "evolves" throughout the process.

DOES THE PROJECT "PENCIL OUT"?

Financial Feasibility Analysis: Development, Operating and Services Financing

Financing in Predevelopment / Acquisition	Financing at Construction / Rehab and Rent-up	Financing during Operations
During the predevelopment stage, nonprofit developers try to obtain grants and forgivable loans to do the project planning and assemble most of the development team. During the earliest phase of a project, your development team is working on short-term contracts, or on the good faith promise of a contract. **Acquisition** financing will also be secured at this stage of the development.	During the construction/rent-up period, larger projects may use private, short-term construction lender funds as well as government housing funds.	And during operations, projects may have any combination of permanent, long-term private loans, government housing funds, annual or multi-year grants for services, and rent subsidies.

Before you commit to purchasing or leasing a site, you will conduct a financial feasibility analysis. This will indicate whether the costs to develop and operate the housing can be funded sufficiently with proposed financing sources, and your proposed purchase price for the site is viable. The financial feasibility analysis also will lay the groundwork for a later step, packaging the capital financing. The feasibility analysis must be prepared carefully, since you and the project's funders must be convinced that the development is financially feasible before you proceed with the development process. Therefore, the feasibility analysis should be conducted by a person with expertise in housing finance or by an experienced housing development consultant.

Elements of the feasibility analysis include the following:

- Design and construction cost estimate;
- Investigation of funding sources;
- Development budget; and
- Operating pro forma.

Design and Construction Cost Estimate
In order to determine the cost to develop the project, the architect will need to provide at least the following information:

- Number of units;
- Size and number of bedrooms of individual units;
- Amount and layout of common areas;
- Overall square footage of building; and

- Site plan which specifies the layout of the building on the site, site circulation, program and recreational spaces, and access.

You also will need a preliminary estimate of construction costs. While the architect may also prepare the estimate, a local general contractor who is experienced in this type of construction will likely provide a more accurate estimate.

Investigation of Funding Sources

To know whether you will be able to support the costs of developing and operating the housing, you will need an idea of the sources of financing for your development, the amounts that you can realistically request from each source, and the terms of the various types of financing. Your development will likely combine grants and loans from a number of sources for different activities. The table below outlines various financing options, in a general sense, for supportive housing. It will also be important to speak with other developers, your local development agency, and your state housing agency to determine the specific sources of funding in your area. It is also important to note that it will be necessary to pursue various stages of financing all at the same time. Identifying and securing financing is not a sequential process.

Financing Tools

(from CSH publication, *Nuts and Bolts of Supportive Housing Development*)

DEBT

I. Fixed Payment Loans (aka "Hard" Loans)		
Below Market Rate Interest, Fully Amortized Loans	Loan payments are required on loan principal and interest, at low simple interest rate (1-3%) with longer repayment terms (30-55 years).	SOURCE: *Government*
Slightly Below Market Interest Rate Loans, Fully Amortized Loans (Bridge Loans)	Loan terms are generally flexible, may allow for interest only payments. Interest rates vary from 5% to 7.5%. Typically are for shorter repayment terms (2-10 yrs)	SOURCE: *Intermediary Lenders, some Bank Consortia*
Market Rate Interest, Fully Amortized Loans	Loan payments are required on principal and interest at market interest rates for longer repayment terms (30 years).	SOURCE: *Banks, Bank Consortia*
II. "Soft" Loans		
Deferred Payment Loan	Principal/Interest accrues and is deferred until a required date in the future, either a fixed date, or at resale. Interest rate is usually low (1-3%).	SOURCE: *Government and Federal Home Loan Bank AHP Loans*
Residual Receipts Loan	Principal/Interest payments are made annually as cash is available, from some % or all of residual receipts (cash flow)	SOURCE: *Government*
Deferred Developer Fees	Sponsor may defer taking a portion of its developer fee, and structure it as a loan to be repaid out of net cash flow	SOURCE: *Project Sponsor*

EQUITY AND GRANTS

Tax Credits	Corporate investment given to the project in exchange for an ownership interest (99%) & delivery of tax benefits	SOURCE: *Tax Credit Investors*
General Partner Contribution	Sponsor contributes capital funds and "may" receive a return from net cash flow over a period of time (in accordance with terms of limited partnership agreement)	SOURCE: *Project Sponsor*
Grants	Funding from sources that do not require payment	SOURCE: *Some Government sources such as CDBG; foundations; charitable contributions; HUD McKinney-Vento –SHP*

Another excellent resource is the *Supportive Housing Financing Sources Guide*, available as an online tool at www.csh.org. The guide was developed to help supportive housing sponsors identify potential financing and funding sources for supportive housing projects and programs. By providing both general information on categories of funding sources (what they are, how they flow, how to access them) and detailed information on more than 40 sources and initiatives with the greatest potential for providing significant project funding, it is the intention of this guide to serve as a resource for organizations seeking to expand the supply of supportive housing.

The types of sources that have been included in this guide are:

- Government Sources. The guide focuses exclusively on government sources of funding administered through statewide programs (e.g. the Low Income Housing Tax Credit Program). It does not include any private funding sources.
- Federal and State Sources. The guide provides information on funding that originates from the Federal government and from state governments in three western states: Arizona, California, and Nevada. It does not include any local funding sources.
- Permanent and Transitional. The guide focuses on sources that fund permanent supportive housing. Some sources that fund transitional housing are also included, while sources that fund only emergency shelter are not.

Here are some examples of veteran's specific financing highlighted in the *Supportive Housing Financing Sources Guide*:

HUD-VASH

This joint Supported Housing Program with the Department of Housing and Urban Development provides permanent housing and ongoing treatment services to the harder-to-serve homeless mentally ill veterans and those suffering from substance abuse disorders. HUD's Section 8 Voucher Program has designated 1,780 vouchers worth $44.5 million for homeless chronically mentally ill veterans. VA staff at 35 sites provide outreach, clinical care and ongoing case management services. Rigorous evaluation of this program indicates that this approach significantly reduces days of homelessness for veterans plagued by serious mental illness and substance abuse disorders.

Supported Housing

Like the HUD-VASH program identified above, staff in VA's Supported Housing Program provides ongoing case management services to homeless veterans. Emphasis is placed on helping veterans find permanent housing and providing clinical support needed to keep veterans in permanent housing. Staff in these programs operate without benefit of the specially dedicated Section 8 housing vouchers available in the HUD-VASH program but are often successful in locating transitional or permanent housing through local means, especially by collaborating with Veterans Service Organizations.

Loan Guarantee Program for Homeless Veterans Multifamily Housing

This new initiative authorizes VA to guarantee up to 15 loans for multifamily transitional housing for homeless veterans. The program allows an aggregate value of $100 million in loans within 5 years for construction, renovation of existing property, and refinancing of existing loans, facility furnishing or working capital. The amount financed is a maximum of 90% of project costs. Legislation allows the Secretary to issue a loan guarantee for large-scale self-sustaining multifamily loans. Eligible transitional projects are those that: 1) Provide supportive services including job counseling; 2) Require veteran to seek and maintain employment; 3) Require veteran to pay reasonable rent; 4) Require sobriety as a condition of occupancy; and, 5) Serves other veterans in need of housing on a space available basis.

Mixing Funding Sources

Another consideration when analyzing various funding sources for your project is whether the sources of funding (especially government funding) can be blended with other financing sources to achieve greater financial equity in the project through "layering" sources. The following link is for a document designed by AIDS Housing of Washington's publication *Combining Affordable Housing Funding Sources* (2004), which details how affordable housing financing sources can be utilized together in the development process. The document itself is quite lengthy but this link will provide the needed information to download the document as a supplemental resource.
http://www.aidshousing.org/usr_doc/Combining_Funding_Sources_2005.pdf

Operating Funding

At the same time that you assemble the financing to develop your supportive housing project, you will need to identify sources of funding for costs to be incurred after the development is complete. These include operating costs—day-to-day costs such as maintenance and property management staff—and the costs of providing supportive services (see below).

Tenant rents are a source of income to pay for operating costs, but because supportive housing tenants can afford only modest rents, you will need to obtain additional operating subsidies. In general, supportive housing requires rental subsidies to fund the difference between tenant rents and the cost of operating and maintaining the housing.

Supportive housing programs often rely on the Shelter Plus Care (S+C) and the Supportive Housing Program (SHP). The S+C program generally provides five-year rental subsidies in a variety of formats, including tenant-based, project- based and sponsor-based. These funds must be matched by an equal amount of supportive service funding from other sources. The Supportive Housing Program (SHP) is a key source for permanent supportive housing and the provision of supportive services. Capital funds, which can be used for acquisition, rehab, and new construction, are limited to $200,000 per project ($400,000 in higher cost areas), and must be matched dollar-for-dollar. Funds can also be used for the leasing of homeless facilities. SHP funds are widely used for the provision of services and operating and leasing expenses. Note that when SHP and Shelter Plus Care are both used in the same project, the SHP funds may not be applied towards operating expenses (only services and capital). Although the funding rounds have become quite competitive and are subject to local government priorities, these operating subsidy programs have become the cornerstone of financing strategies, in most states, for homeless individuals with disabilities, such as mental illness.

Capitalizing rental subsidy reserves involves establishing a reserve funded by sources like the investment proceeds from Low Income Housing Tax Credit program, housing trust fund contributions, and other sources, which are not legally restricted from contributing to long-term reserves. These funds are typically "owned" by the project, managed by a legal agreement specifying the funding and disbursement of the reserves, including the required review and approvals by some or all of the project funders.

You may also use a portion of tax credit equity to subsidize operations. In either case, you must secure commitments for operating support before construction begins, since lenders of development financing will likely condition their loans on your securing adequate funds for ongoing housing operations.

The Section 8 Moderate Rehabilitation SRO Program provides rental subsidies for homeless persons in SRO projects that have undergone moderate rehabilitation (at least $3,000 per unit). An SRO unit is a one-room unit intended for occupancy by a single individual. It is distinct from a studio or efficiency unit, in that a studio is a one-room unit that must contain a kitchen and a bathroom. An SRO unit is not required to have either one, although many may have one or the other. Unlike Shelter Plus Care (S+C), the tenant does not have to have a chronic disability, and the subsidies are tied to the project, not the tenant.

Another type of housing assistance program for low-income populations that can serve as an excellent resource in permanent supportive housing projects is the Section 8 program. Established in 1974, the Section 8 Program is the single largest source of rental assistance in the country. The program is designed to bridge the gap between the cost of operating and maintaining housing units and what low-income individuals and families can afford to pay in rent. The Section 8 Program is administered at the local level by Local Housing Authorities (LHAs), also known as Housing Authorities, who receive Section 8 funding through an Annual Contributions Contract from HUD. Subsidies are available as Tenant-based Vouchers or Project-based, and you should be aware that PHAs are increasingly willing to convert tenant-based to project-based assistance (which is easier to underwrite for supportive housing).

Tenant-Based Subsidies: Tenant-based subsidies are "attached" to the tenant – that is, if the tenant moves from the unit, the subsidy leaves the unit and travels with the tenant. Tenant-based Section 8 Existing Vouchers are the most widespread type of tenant-based subsidies. This federal rent subsidy program pays a part of the rent for very low-income (less than 50% of area median income) tenants.

Project-Based Subsidies: Project-based subsidies are "attached" to units in a project. Project-based subsidies can be combined with a government program providing low cost capital in order to allow a building to house very low and extremely low income people. The contract requires HUD to pay the difference between the tenants contribution (30% of their income) and the agreed upon operating budget and, therefore, essentially guarantees the rent and allows extremely low income residents to live there.

In 2001, the HUD/VA Appropriations Bill established new regulations governing the conversion of tenant-based vouchers into project-based Section 8 assistance. These regulations were approved in full in 2005. This new legislation gives Housing Authorities the ability to use up to 20% of their tenant-based vouchers for project-based assistance.

Subsidy Contracts	Funds distributed on a periodic basis, for a pre-determined time, in exchange for serving a particular income group or population to make up the difference between income and expenses	<u>SOURCE:</u> *Typically government sources such as HUD (SHP, S+C, Tenant- or Project-Based Section 8, Section 8 Mod-Rehab)*
Capitalized Reserves	A reserve fund can be capitalized as part of the development budget, to later subsidize rents over a period of time.	<u>SOURCE:</u> *Tax Credits, State and Local Government funders, at their discretion*

Supportive Services Funding

Whenever possible, supportive service funding commitments should be in place before construction begins. This is a nice goal, but often not possible. By this time, you should also have reached formal agreements with any outside service providers who will be linked to your program. You should seek funding both for services you will provide directly and services that will be provided by other community agencies and the funds will cover case management as well as specific services for parents and children. Service funding is typically secured through a complexity of local, county, state and federal/national sources, both public and private. Service providers tap into a variety of community-based service funding systems, generally tied to the characteristics of those they serve, such as federal pass-through funds to state chemical dependency services, mental health services funding, and a variety of sources tied to family services.

Supportive housing services improve residents' health and help facilitate access to appropriate health care and other services, and many of the services delivered in supportive housing are similar to services which Medicaid now reimburses in other settings. Using Medicaid in supportive housing is consistent with the direction of federal policy, which seeks to encourage the use of mainstream programs to finance services in conjunction with HUD investments in permanent housing. More information on using Medicaid to fund services in supportive housing can be found in the *CSH Medicaid White Papers*, available by free download at www.csh.org.

Grants & Contracts	Funding that is distributed on a reimbursement basis for providing services to a particular population. Usually annual agreements with service agencies to provide services.	SOURCE: *Typically government sources such as HUD (SHP, HOPWA), State, County, or Local Departments of Mental Health or Social Services, Department of Labor, Vocational Rehabilitation, Dept. of VA Per Diem Program*
Medicaid Reimbursement	A federal entitlement program, matched by state and local dollars, that funds health care for low-income families and disabled individuals. Many of the health, case management, and supportive services provided to supportive housing tenants appear to qualify for Medicaid reimbursement.	SOURCE: *US Health and Human Services but each state has its own plan on how Medicaid can be used.*

BALANCING THE BUDGETS

Development Budget

It is suggested that you download the *CSH Project Evaluation Spreadsheet* at www.csh.org before reviewing this section. The *Project Evaluation Spreadsheet* is an Excel Workbook containing worksheets that streamline the collection and analysis of key project financing data. And also available is the companion piece, *Everything You Ever Wanted to Know About CSH's Project Evaluation Spreadsheet.*

With the information you have gathered about estimated construction costs, you should now be able to prepare a development budget. The budget should include the purchase price of the site; the *hard costs*, or direct costs of the physical development such as construction and site preparation; and *soft costs*, or indirect development costs such as professional fees, closing costs (costs associated with security title clearance and financing), insurance, the developer's fee, and reserves (operating, lease-up and replacement).

As a next step, assign dollar amounts to each funding source that you plan to approach for financing. While you will not need to have commitments from these sources, you should know enough about their available funding to assign plausible amounts to each. Because the development budget compares these sources of funding to the development costs for which they will be used, it is sometimes known as a *sources and uses budget.* If the uses exceed the sources, then the project is not feasible and must be modified or discontinued.

Funders will have very specific standards for *underwriting*, the process by which they evaluate the feasibility of your development. The underwriting standards may require that you apply specific assumptions in creating your development budget. Be sure to obtain copies of the underwriting standards from all potential funders, as your budget must meet their requirements.

Operating Pro Forma

The *operating pro forma* acts as a cash flow projection, which estimates income (all forms of revenue) and operating expense over the life of the financing term (15-30 years). The pro forma relies on an operating budget which is predicated on many assumptions associated with projections of tenant rent, availability and types of operating subsidies, tenant turnover, vacancy, and operating expenses associated with the type of housing, size of project, and any special occupancy characteristics. It is not uncommon for a supportive housing pro forma to identify "planned deficits" (expenses in excess of projected revenue) which are funded from reserves, which are capitalized at the time of permanent financing. We recommend that you ask the property manager to provide an estimate of the operating budget, since the manager will oversee the day-to-day housing operations.

If acquiring an existing property, it would be beneficial to get real operating costs (i.e. utilities) from the seller.

Architectural Design Process

The steps of the architectural design process begin before the site is chosen and continue until construction or rehabilitation work begins.

The sponsor and project architect will need to create the following:

- Architectural program;
- Scope-of-work;
- Schematic drawings;
- Final design; and
- Construction documents.

Packaging the Capital Financing

Once you have outlined the design and financial aspects of your project, you are ready to approach funders for commitments of financing. Most public agencies, foundations and intermediaries that provide grants and loans for housing development do so on a competitive basis. You must submit an application for funding or proposal that includes information about the project's purpose, design and projected financing. After the funders' underwriters analyze the feasibility of your project, they will decide whether to fund it based on its viability, its accordance with the priorities of the agency or foundation, and the availability of funds.

Sequences of Uses of Financing

The various phases of the development process each require different types of financing. While some funders may provide grants and loans on an ongoing basis, others with competitive processes may provide funding only once or twice per year. Therefore, you must outline the different types and sources of financing needed for your project well before you acquire a site or begin construction, and you must compare the time frames for each source of funding against your project timeline. (Note: It is important to involve your attorney in the review of funding options and their restrictions. Some types of financing can affect each other when used to finance the same project. For example, grants impact on tax credit amounts. Having legal and technical expertise early on can avoid costly miscalculations and assumptions later, when they can't be fixed.)

Securing financing proceeds is involved throughout the development process, usually including the following:

- Working capital/early money;
- Predevelopment funds;
- Acquisition loan;
- Construction loan; and
- Permanent financing.

Working Capital (aka "early money")

These funds are used during the early, speculative stage of development. They may be used to pay for costs such as operating and/or organizational expenses of the project sponsor.

Working capital almost always comes from a grant or in-kind contribution, since most lenders will not support this early phase. CSH provides recoverable grants or forgivable loans for this phase.

Predevelopment Funds

Once it is likely that the development will proceed, you will need predevelopment funds for activities that precede the actual construction or rehabilitation. Examples of these activities include payment to an owner in exchange for an option to buy a site; initial work by an architect, development consultant, or attorney; due diligence activities such as environmental reports; and insurance and carrying costs. A number of housing funders offer predevelopment grants or loans. One common source is a grant or loan from an intermediary organization, a nonprofit organization that provides financial and technical assistance to developers of affordable housing. National intermediaries include CSH, the Local Initatives Support Corporation (LISC), The Enterprise Foundation and community loan funds. Other potential sources of predevelopment funding include public agencies and community foundations. You may also secure a bridge loan, generally from public funding sources, which is a short-term loan that you will repay when you receive a construction loan later in the development process. (Note: Some public agencies that provide permanent financing have predevelopment loan products and make them available for projects that they anticipate funding permanently.)

If predevelopment funds are not available, your organization will need to cover these costs from its own resources; again, traditional mortgagors such as banks will generally not lend funds at this risky stage.

Acquisition Financing

If your agreement with a property owner requires you to purchase a building before construction or permanent financing is available, you will need to secure bridge financing for acquisition. This financing is sometimes combined with financing for predevelopment activities. Sources for these expenses are generally public funding entities and intermediaries. This financing would be repaid when the construction or permanent financing is available.

Construction Financing

You may pay for construction costs from your permanent financing, or you may receive shorter-term financing just for construction. Construction financing often comes from private mortgagors, such as banks. Typically, you would secure construction financing once permanent funders have committed their resources to the project. Whether through construction financing or permanent financing, all financing for construction must be available before you can begin any actual construction or rehabilitation work.

Permanent Financing

The permanent financing for your project will likely consist of a series of long-term loans from different public and private sources and with different interest rates. These loans allow you to repay the costs of developing the housing over a number of years, as rent and other income becomes available. Permanent financing must be committed before you can start construction, but it is often not disbursed until construction is complete and the project has secured a certificate of occupancy from the local jurisdiction (city/county). Some forms of private financing (typically foundations) may agree to release their permanent financing at the time of construction. In some cases, permanent lenders or funders will require that all units be rented to tenants before they will release funds.

The Underwriting Process

The Underwriting Process typically starts prior to loan application submittals. Underwriting criteria for many public funders is known well in advance of application submission, and many public funders address these criteria during the application process, before the funding application is submitted. Once the applications are submitted, the underwriting criteria analysis begins.

Invariably, the lenders will raise questions and concerns, and you likely will make changes to your development budget and pro forma to address them. For example, they may feel that you have not budgeted enough money for the operating costs, or that the project should retain larger reserves of funds for ongoing costs. The underwriters may be concerned that you are projecting higher annual rent increases than supportive housing tenants will be able to pay. You may have left out important development costs from your budget, and the underwriters will point these out. In general, the lenders will be fairly conservative in reviewing your budgets, since they need to be certain that the project will operate successfully and thus generate sufficient funds to repay the loans.

If your project will be using the Low Income Housing Tax Credit Program, you will go through a separate underwriting process conducted by the investors. These investors also will be very conservative in their evaluation of your budgets, because they risk losing part of their return if the project fails within the first 15 years of operation. They will examine your assumptions for projecting income and expenses closely, and their standards may exceed those of the lenders. Again, since the tax credit process is highly technical, it is important to seek professional assistance from a development consultant or other expert in the field.

Risks to Sponsors Posed by Financing

Accepting loans and investments for your project exposes your organization to a number of risks. It is essential that you retain an experienced real estate attorney to explain these risks to you and your board of directors.

Loans can generally be divided into two types, each carrying different levels of risk. Recourse loans allow the lender to foreclose on the project real estate, your organization's assets, or both if your organization defaults on its loan by violating any of the mortgage terms. Nonrecourse loans do not allow this direct seizure of property. Recourse loans may place the project and even the organization's financial or capital assets at risk. Therefore, you must consider the implications of accepting such a loan closely. Lenders may also require that the sponsor set aside funds to guarantee the loan. This would prevent your organization from using the funds until the guarantee expires. Accepting Low Income Housing Tax Credits also exposes your organization to risk. Tax credit investors will require that the sponsor make guarantees against losses to the investors if the project does not proceed as planned: if construction is delayed, the sponsor does not comply with income restrictions when renting to tenants, rents initially do not meet operating costs, and so forth. Sometimes these guarantees are limited to the amount of the sponsor's developer's fee, but in other cases the liability is unlimited.

SUMMARY AND WRAP UP

The process of developing permanent supportive housing is time consuming and cumbersome, yet it can be done successfully if an organization researches the resources available to them and follows a basic outline of steps laid out in this document. Each phase has its own set of challenges but each is integral to the overall sustainability and success of a project.

The Pre-Construction Phase

The following is a summary of all the tasks and decisions that should be completed before construction:

- Architectural design process, with construction documents completed and approved by funders and the local buildings department;
- Finalization of financing and equity commitments;
- Site acquisition, including closing;
- Closing on construction funding and tax credit investments; and
- Establishment of a community advisory committee, which can help maintain community support as your project enters the more visible construction phase.

Construction Phase

During the construction phase, the sponsor's major responsibility will be to monitor the progress of construction or rehabilitation work. Generally, the project architect will act as the owner's representative. The architect will participate in monthly requisition meetings with the contractor and lenders' representatives, where the contractor will request payment for work performed to date. The architect should approve all requisitions from the contractor before they are paid. The architect also will represent and advise you when either you or the contractor makes changes in construction plans because of unanticipated conditions. There should always be a healthy tension between the architect and contractor during construction. It is the architect's job to insist on compliance with the plans, even though the contractor may want to build the project differently or substitute different materials.

In addition to the architect, you may wish to have a member of your organization's staff monitor construction progress and participate in requisition meetings, particularly if you can identify a staff person with construction or architectural experience. Moreover, on particularly complicated projects, you may want to consider engaging a clerk-of-the-works. This professional acts as your construction representative, gives you additional oversight and control, and can help mediate the inevitable disputes between the architect and contractor. Consult with other nonprofit developers or local public agencies to see whether they can recommend a good clerk-of-the-works.

At the completion of construction, the project will receive a certificate of occupancy from the local jurisdiction charged with building inspections (and maybe additional public offices if there are licenses and/or certifications involved). The certificate of occupancy will allow tenants to begin moving into the new units. If you are under pressure to fill units quickly, you may be able to receive a temporary certificate even if minor construction items are still pending.

Tenant Selection and Lease-Up

As the project is in the later stages of construction (approximately three months prior to construction completion), the sponsor and property management should begin to screen and select tenants actively. This will allow units to be leased quickly when construction is complete. This is of particular concern if the project involves tax credits, which require that units be leased within a specific time frame (generally 90 to 120 days depending on the size of the project). Moreover, if you will be receiving tenant rent subsidies, leasing units immediately allows you to begin receiving subsidies in the early months of operation. In order to ensure that there are individuals ready to move into available units upon their completion, there are several things your organization can do to prepare itself to be ready. Linking your organizations to those service providers that conduct outreach in the community to homeless populations is a good start. Identifying populations on the street that are homeless and veterans could be an ideal way to ensure a flow of potential tenants for your development. In addition, having your own organization conduct outreach to social service providers, local hospitals and clinics and other programs that provide government aid such as TANF or food stamps could be additional ways to ensure that your organization locates eligible applicants to fill the units of your building. Once your units are leased, a waiting list should be developed to provide applicants with an accurate idea of when they will be eligible to access a vacant unit

A detailed discussion of tenant selection and lease-up can be found in Chapter Three of the Supportive Housing Property Management and Operations Manual, available by free download at www.csh.org.

Asset Management

During the development feasibility stage, the development team needs to consider the ongoing activities associated with asset management. Asset management involves activities associated with preserving the real estate value of the property, and managing the compliance obligations associated with the housing's financing.

Earlier we discussed the variety of options for providing property management services. Asset management functions present the same possibilities. The housing sponsor can contract out the functions, or assume them in-house. (Obviously, if the project is being leased, there would be no asset management obligations.) In essence, the asset manager provides an oversight role to the property management functions. It may be important to separate these functions among different firms, or ensure that the property management firm has capacity in both areas, and has segregated the functions sufficiently to assure proper oversight.

Housing sponsors, whether they are managing the property or contracting for property management services, may be tempted to address the asset management functions in-house. If you make this decision you should be sure you understand the functions and the potential costs of staff and expert time involved to fully respond to the expectations of your funders/lenders. Some housing providers have taken on this function only to be surprised by its demands and the costs they have assumed. It is for this reason we recommend that you include an asset management fee in the operating pro forma. While it will be difficult to argue for more costs in the operating budget, it is an expense that will aid in establishing financial stability for your project in the long term. You may need to find additional resources to help fund the cost of asset management functions. Often, projects in occupancy do not perform as precisely envisioned in the operating pro forma. Utility, insurance and staffing costs increase. Unforeseen events increase costs, such as an increase in crime necessitating 24-hour security. As the housing sponsor you should try to anticipate these "surprises" and develop strategies to mitigate their impact on your project's financial stability.

All Five Phases are extremely important and they all require a great deal of forethought and focus. While the development of supportive housing is not always easy, it can be done and done well. Below is a case study of one particular project developed for Veterans that we feel is an excellent example of how this guidebook can be put to practical use.

In conclusion, there are several recommendations that have been listed below for all developers embarking on the development process of a permanent supportive housing development. We recommend:

- you spend time in the development design phase, interviewing other housing providers and their property management staff—find out what surprises they encountered, how they are coping, and what they would recommend to you early on to avoid unnecessary difficulty;

- when researching costs that you ask your vendors to project annual increases and inflation for 2-3 years and ask for trend information about past costs;

- once you have completed your operating pro forma that you share it with other housing providers of similar projects and get their review comments;

- talk to lenders and funders and find out what are the most common cost overruns; and

- in a separate document, identify the areas of cost control and staffing functioning you are most concerned about. Develop ideas for changing your management response, or plan for the possibility of needing to fund for additional operating resources.

APPENDIX A: CASE STUDY

Veterans Academy at the Presidio
1029 & 1030 Girard Road
The Presidio
San Francisco, CA

I. Organization Background and Description

Founded in 1974, Swords to Plowshares is a community-based not-for-profit organization that provides counseling and case management, employment and training, housing, and legal assistance to veterans in the San Francisco Bay Area. Originally, the organization was started to serve the vocational and legal needs of veterans that had returned from war and were left with few employment options and difficulties accessing public benefits.

War causes wounds and suffering that last beyond the battlefield. The Mission of Swords to Plowshares is to heal the wounds, to restore dignity, hope and self-sufficiency to all veterans in need, and to significantly reduce homelessness and poverty among veterans.

Guiding Principles of the Project Sponsor

1. The inspiration for our name is taken from Isaiah 2:4. They shall beat their swords into plowshares, and their spears into pruning hooks.
2. The conditions of military service, both in wartime and peacetime, disrupt the lives of those who serve.
3. Society has a covenant to help our nation's veterans; they have sacrificed their personal interests and well-being to serve our country.
4. We should separate the soldier from the war. Veterans must never again be treated as "second- class" citizens as they were after the Vietnam War.
5. Veterans should not be barred from equal access to the justice system. Expert legal help is vital to veterans' ability to secure the benefits they have earned.
6. Our services should be directed to veterans with the greatest needs.
7. All veterans should have access to health care, housing, employment opportunities, legal assistance, and other means of support.
8. Our direct services should inform our advocacy for public policies that address the unmet needs of veterans.
9. With support and respect, homeless and disadvantaged veterans can turn their lives around and live again with dignity and hope.

Menu of Housing and Services
The foundation for their direct assistance to veterans is a peer support and care model that is comprehensive and based on harm reduction. They foster a strong veterans' peer community through a veterans-helping-veterans approach, mentorship and the broad

support of all our nation's veterans. Swords to Plowshares' unique in-house continuum of care for veterans serves as a model for organizations across the country addressing the needs of disadvantaged populations.

Housing for those who are homeless

- Emergency housing
- Transitional (3 months to 2 years) supportive housing
- Permanent supportive housing

Health and social services

- Crisis intervention and counseling for:
  - Post traumatic stress disorder
  - Other mental health problems
  - Addiction and recovery
  - Access to medical care

Benefits advocacy

- Legal counsel and representation before
  - Department of Veterans Affairs
  - Veterans' appeals boards and courts
- Assistance obtaining Social Security and other benefits

Employment and training

- Assistance obtaining
  - Vocational and technical education
  - On the job training
- Job Placement

Advocacy and Public Education

- Policy advocacy and leadership to ensure veterans receive their fair share of support
  - Increase the public's awareness of the magnitude of the unmet needs of veterans

II. Project Description

Origin of Project

Swords to Plowshares began providing employment and legal assistance served the veterans community in San Francisco beginning in 1974, they began identifying a growing population of homeless veterans not being served by other programs in the mid 1980s. Therefore, in 1992, Swords to Plowshares opened its first transitional housing facility, which consisted of two group homes with a total of 13 beds funded through local city funding as well as a grant through the Department of Housing and Urban Development. In 1998, the organization began work on its first permanent housing project on the former Presidio Army Base in two adjacent buildings that had been the Letterman Hospital Complex. This area has also subsequently been designated as a national park. The development, which was completed in

2000, serves 100 homeless veterans with a combination of permanent housing and wrap-around social services.

Staffing and Tenancy of Project

Swords to Plowshares provide almost all of the services to its clients through its own staff. The only services that are provided through other individuals are some of the extracurricular community activities such as art, which are conducted by volunteers with a particular expertise in the community. The organization has 5.7 full-time employees, which includes 3 case managers. The case management ratio at the Academy of the Presidio is 1 to 33 participants. In addition to the services provided by Swords to Plowshares staff, the Academy development is located in close proximity to the VA where clients can receive an array of services including all medical care treatment. Despite a desire to provide as much of the housing and services by in-house staff, Swords to Plowshares has a private property management company that assumes all property management duties.

The reasoning for contracting out all of the case management largely began by stipulation of the City of San Francisco. In 1997, when Swords to Plowshares was discussing the project with the City, it was stipulated as part of their grant agreement that a private company be brought on initially to provide property management services. This would provide Swords to Plowshares the opportunity to learn more about property management of permanent housing from an experienced provider and also concentrate on providing the highest level of social services to its clients. Over the years, Swords to Plowshares has had the opportunity to assume the property management functions originally sub-contracted out; however, they have chosen not to do so based on the fact that they like the separation of roles.

For initial rent-up the marketing was conducted through mailing and posting to San Francisco agencies serving homeless veterans, shelters, and presentations to staff at VA Hospitals and clinics in San Francisco and Menlo Park. Applications were received and a lottery conducted. PA three-tiered preference set was established as follows: 1) San Francisco homeless veterans exiting residential treatment or transitional housing programs, 2) San Francisco homeless veterans, 3) all other homeless veterans. Eligibility criteria was verified and screening interviews were conducted until the project was filled. A waiting list was created with the remainder on the initial lottery. This list depleted quickly and a second lottery was ultimately held to re-establish the waiting list. Currently, sixty (60%) percent of the Academy's tenants are over the age of 51. Forty-one percent (41%) of the tenants are Black/African-American, fifty-percent (50%) are white and twelve percent (12%) are Latino. In addition, over eighty-five percent (85%) of the Academy's tenants have an average monthly income of less than $1000.

Today, the eligibility for clients to become residents of the Academy is based on availability and a preference for those applicants that meet the criteria mentioned previously. Referrals for the program come from a variety of providers in the community as well as Swords to Plowshares' own transitional housing program. Although the original lease and program design were not designed with tenant input, the tenants have an on-site resident council that has been quite active since the initial opening of the development. The management also conducts annual tenant surveys to garner additional feedback. Although they did not have initial client involvement in program design, Swords to Plowshares staff utilized lessons learned from running their transitional housing programs into the program design for the Academy at the Presidio. It is on major city bus lines with shopping located less than 1.5 miles from the site.

Project Site Description

The project site consists of two adjacent buildings located on the former Presidio Army base which has now been converted into a national park. The project consists of one-hundred (100) SRO units. Swords to Plowshares had to have the site rezoned prior to construction and this was the most challenging part of the entire development process. The site was provided to Swords to Plowshares with an initial 10-year lease with an option to extend the lease for an additional 10-year period.

There was no relocation necessary for the redevelopment of the site as the 2 buildings being rehabbed had previously been a hospital complex and was vacant prior to construction. Each of the two buildings are approximately 20,000 sq. ft. and 3 stories tall. The original architect was James Fagler, with Asian Neighborhood Design. He managed to incorporate a great deal of open space with a courtyard incorporated between the two buildings as well as the fact that the site remained located on land that had been converted into a national park.

During the design process Mr Fagler added a computer lab and redesigned 5 of the original units to be ADA compliant as well as adding ADA compliant amenities throughout the development. There is a separate bathroom that is shared between every 2 units. All units are furnished with a wardrobe, bed, microwave, refrigerator and a chair.

Common space within the development include a dining hall that provides two hot meals per day for all residents, resident kitchen facility, a 15-station computer lab, and a community lounge/library. The owners built space for services to be provided on-site as well as having additional office space so that the property manager could also house their staff onsite. Classes are offered on site in beginning to intermediate computers, as are educational and vocational assessment and case management services.

Volunteers and other community resources also provide art therapy groups, meditation groups, and physical fitness classes. Residents can utilize group membership cards to the local YMCA for additional physical fitness opportunities and classes.

Community-building activities are also the responsibility of Services staff. These include support for a tenant's council that is active and which meets weekly, movie nights on a donated large screen television, holiday parties & events, and group participation in cultural events in the larger community.

In speaking with representatives from Swords to Plowshares, there were no major challenges noted in the development process of the Academy site. The City and other local stakeholders came together and worked as a team to move the project forward from concept to lease up. However, the one point that representatives did state was that given the fact that the site had been converted to a national park, there were considerable challenges from a process standpoint in getting the site rezoned to accommodate the needs of its tenants.

Project Budgets (Capital, Operating, and Services)

Capital Funding Sources/Uses

Sources	Amount
San Francisco Redevelopment Agency (Predevelopment)	$75,000
Acquisition	NA
Construction:	
• Prop A Bond funding (administered through the SF Mayors Office of Housing grant	$461,100
• Prop A Bond funding permanent loan (amortized for 10 years at 6%)*	$1,710,195
• Swords to Plowshares fundraising	$50,000
TOTAL Construction Costs:	**$2,221,295**

Note: *Any "Tenant Lease Equity" derived from operations following the satisfaction of the 10 year loan is to be applied to the Permanent Loan. Any balance remaining on the Permanent Loan after 20 years is to be forgiven by City & County.*

Capital Cost Breakdown by Unit

Type of Funding	Cost Per Year	Cost Per Month
Rehab cost per unit	$21,713/unit	NA
Service cost per unit	$4,706/yr	$392/mo
• excluding meals	• $2,969/ yr	• $247/mo.
Operating cost per unit	$9,645/yr	$804/mo.

Operating and Service Budgets

Operating Budget	Services Budget
Operating Costs: Administrative Expenses: $ 226,314 Utility Expense $ 93,600 Operating and Maint. $ 242,240 Taxes & Insurance $ 120,347 ***Sub Total basic Operating $ 682,481*** Debt Service $ 61,128 Master Lease $ 174,000 Required Reserve deposits $ 22,938 Sponsors Overhead $ 24,000 **Total Operating Costs $ 964,547** **NOTE:** 100% of the units are subsidized through the project-based Section 8 program.	Staff and Supplies $296,871 (5.7 FTE) Meals Program $173,750 **Total Services Cost $470, 621** **NOTE:** 80% of services funding is obtained from HUD McKinney-Vento Supportive Housing "Permanent Housing for the Disabled" funds administered by the SF Department of Human Services. The remaining 20% of services costs are paid from Swords to Plowshares unrestricted funds.

III. Big Picture and Lessons Learned

Swords to Plowshares has been providing permanent supportive housing to homeless veterans in the San Francisco area since July 1, 2000. During the past 5 ½ years the organization has learned a great deal about what it takes to provide effective and cost-efficient supportive housing to its target population. Overall, the organization feels that it had an optimal development experience with little trouble securing funding for capital, operating or services. They feel that the local government entities they worked with provided a great deal of guidance in helping all of the pieces fall into place. However, there were some challenges in the area of zoning the development.

The challenge of zoning was due to the land's designation as a national park. This challenge has translated into issues for the organization in its overall legal expenses over the years. If the organization needs to evict a tenant they must go to federal court to do so. This is timely and expensive. In fact, a representative from Swords to Plowshares stated that they have had to triple their legal budget from what was originally estimated. The location might have been one of the only variables of the project that they would have reconsidered; however, the feasibility of the project and availability of the project site more than make up for this inconvenience.

There have been no major technical assistance providers involved in the project after initial lease up. Prior to its opening, Swords to Plowshares spent considerable time working with the Corporation for Supportive Housing both on specifics related to the Academy project as well as their transitional housing facility.

Swords to Plowshares has several outcomes they utilize to gauge their progress and success. They include:

- 80% of all participants will remain in housing for one year or move to other permanent housing where they pay their own rent;
- 70% of participants will remain in housing for two or more years or move to other permanent housing where they pay their own rent;
- 70% of participants will obtain increased marketable skills or income within two years;
- 60% of all participants will be involved in training or education within one year;
- 70% of all participants will remain in recovery for a minimum of three years;
- 80% of the participants that participate in the education and training services will increase their skills in at least one area; and
- 60% of the participants that increase their skills in education and/or training will secure part-time, full-time or volunteer work.

The annual tenant survey completed by Swords to Plowshares on-site staff as well as their ongoing case management of tenants assists in determining the effectiveness of its programs and whether it is meeting its benchmarks. Additional information on Swords to Plowshares and the Academy at the Presidio can be obtained at www.swords-to-plowshares.org.

IV. Pictures of the Academy at the Presidio

APPENDIX B: GLOSSARY OF AFFORDABLE HOUSING FINANCING AND DEVELOPMENT TERMS

Accessible housing: Dwellings that meet the needs of the physically disabled; interpretations of how those needs can be met vary somewhat across localities, but generally require barrier-free, adaptable design in both common areas and individual units.

Acquisition financing: Funds obtained for the purpose of purchasing vacant land or properties.

Adjusted gross income: Income after standard deductions set by federal guidelines.

Affordable housing: A general term applied to public- and private-sector efforts to help low- and moderate-income people purchase or lease housing. As defined by the United States Department of Housing and Urban Development, any housing accommodation for which a tenant household pays 30% or less of its income.

Amortization: A gradual paying off of a debt by periodic installments.

Appraisal: Official report required by lenders and regulators, giving an opinion of value based on pertinent data and prepared by a qualified appraiser.

Area Median Income (AMI): A figure calculated by HUD based on census data, for specific size households in a specific area. The median income divides the income distribution into two equal groups, one having incomes above the median, and other having incomes below the median.

At risk of homelessness: A person or family that is coming out of a treatment program, institution, transitional living program, half-way house or jail and has no place to go; is living in a situation where the person/family is at great risk of losing their housing; is in need of supportive services to maintain their tenancy or is living in an inappropriate housing situation (i.e. Substandard housing, overcrowding, etc.).

Bond financing: A municipal bond is an interest-bearing debt obligation issued by a state or local municipality, which may support general government needs or fund a public works project. A municipal bond can also be issued by legal entities such as a housing authority.

Building code: Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

Cash flow: The income remaining after all operating expenses and debt service have been paid.

Cashflow bridge loan: Cashflow bridge loans are used to assist sponsors in meeting an emergency need by bridging a time-delayed regular payment or start-up of a contract. Proceeds may fund any costs, including working capital, for which the borrower will receive a future payment under a contract or grant (e.g. against a tax credit syndication developer fee for project or executed government contract or philanthropic grant).

Census tract: A small statistical subdivision of a county. Census tract data identifies population and housing statistics about a specific part of an urban area. A single community may be composed of many census tracts. Census tract information is used to make allocations and other decisions regarding housing and community development.

CDBG (Community Development Block Grants): Community Development Block Grants are provided to communities from the U.S. Dept. of Housing and Urban Development (HUD) for a range of eligible activities, setting their own priorities as long as they meet basic program requirements. Larger cities and counties receive formula funding; small communities compete for funding which is administered by states.

Community Development Corporation (CDC): Nonprofit groups accountable to local residents that engage in a wide range of physical, economic and human development activities. CDCs rebuild their communities through housing, commercial, job development and other activities. A CDC's mission is normally focused on serving the local needs of low- or moderate-income households.

Closing costs: Expenses involved in transferring real estate from a seller to a buyer, including lawyer's fees, charges for surveys, title searches, title insurance, and fees for recording deeds, mortgages and other documents.

Collateral: Stocks, bonds, evidence of deposit, and other marketable properties which a borrower pledges as security until a loan is repaid. In mortgage lending, the collateral is the specific real property being financed.

Commitment: A statement in writing representing a lender's legal commitment to a borrower that it will loan a certain amount of money at a particular interest rate and term, contingent upon specific conditions being met by the borrower.

Commitment fee: Lender's charge for agreeing to hold credit available for a specific period of time and to reimburse the lender for administrative costs of underwriting the loan. The fee is usually payable when the borrower accepts the commitment, evidenced by signing the commitment letter.

Community Housing Development Organization (CHDO): A non profit housing development organization which can be eligible for a portion of a Participating Jurisdiction's HOME Funds allocation and for technical assistance, site control and seed money loans. A CHDO may also be eligible for organizational support. A community development organization must meet HUD-established criteria and be certified by the Participating Jurisdiction within its area of service in order to be eligible for development set asides and organizational support.

Community Reinvestment Act (CRA): Passed in 1977 (federal legislation), it states that commercial banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of the local communities which they serve. It requires regulatory agencies to evaluate these institutions' record of meeting the credit needs of their designated communities, consistent with the safe and sound operation of the institution.

Construction loan: A loan, usually short term, which is made to finance the actual construction or renovation of a property. The funds are distributed as needed in accordance with a disbursement agreement, and the money is repaid on completion of the project, usually from the proceeds of a permanent mortgage.

Contract of sale (purchase agreement): Document which states the conditions under which a property will be transferred and the rights and obligations of the buyer and the seller during the contract period.

Debt Service Coverage (DSC): The ratio of estimated net operating income to debt service. This ratio is established by lenders to provide a cushion between the amount remaining after payment of operating costs and the amount of the annual mortgage payment.

Davis-Bacon act: An act passed in 1931, and subsequently amended, requiring that all laborers and mechanics employed in certain programs of federal financial assistance involving construction activities be paid wage rates no less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor.

Drawdown: The withdrawal of funds from an account established for a specific purpose (e.g., drawing funds against a letter of credit, a federal grant, or an escrow account).

Environmental assessment: Official report required by lenders to determine whether a proposed development site may have been contaminated by hazardous wastes.

Environmental survey: Assessment of the project site to identify physical characteristics, such as soil conditions, presence of wetlands.

Equity: The amount of an owner's free and clear interest in real property which represents the difference between the property's market value and the amount of debt and other encumbrances.

Errors and omissions insurance: Insurance carried by architects or engineers to protect them from claims based on malpractice due to faulty designs. Also called professional liability insurance.

Escrow: Money, securities or other properties or instruments held by a third party until the conditions of a contract are met.

Fair housing laws: Federal, state, or local laws prohibiting discrimination in the sale, rental, or financing of housing, for any reasons.

Fair Market Rent (FMR): Fair Market Rent is an amount determined by the U.S. Dept. of Housing and Urban Development (HUD) to be the cost of modest, non-luxury rental units in a specific market area. Generally, an "affordable" rent is considered to be below the Fair Market Rent.

Forgivable loan: A loan with no repayment obligation if program requirements are met for a specified period of time. Usually provided by a public or other nonprofit entity.

General contractor: The main contractor for a project who may hire smaller or more specialized contractors for portions of a development.

Guaranty: A guaranty is a promise by another organization to repay a loan on behalf of the borrower in the event that the borrower defaults on its obligation. A parent organization or an affiliate of the borrower typically provides guarantees. A guaranty is typically required if the borrower has few or no assets (e.g. newly created affiliate established to hold the real estate for tax credit & other purposes).

Intercreditor agreement: An intercreditor agreement details terms and conditions of agreement between lenders as to order and amount of disbursements and repayments. It may be required when a lender records a mortgage and there are 2 or more other mortgage lenders involved. Given the multiple parties involved, these can be difficult and time consuming to negotiate.

Hard costs: The direct costs to construct a building, also known as "bricks and mortar" costs, as distinguished from legal, financing, architectural and other fees required for the project.

Housing and Redevelopment Authority (HRA): A branch of city or county government that coordinates housing programs and administers redevelopment activities.

Housing and Urban Development (HUD): The U.S. Department of Housing and Urban Development, created in 1965 to administer programs of the federal government which provide assistance for housing for the development of the nation's communities. HUD administers housing and home finance programs, the Public Housing Administration and FHA.

Loan closing: Legal session during which final loan documents are executed and the loan is funded.

Loan term: The amount of time over which a borrower is expected to repay the loan.

Loan-to-value ratio (LTV): The ratio of money a lender is willing to lend relative to the appraised value of the property.

Long-term homelessness: Includes all people who have been homeless for long periods of time, as evidenced by repeated (three or more times) or extended (a year or more) stays in the streets, emergency shelters, or other temporary settings, sometimes cycling between homelessness and hospitals, jails, or prisons. This definition intentionally includes a larger group of people than the federal government's definition, such as families and youth. The federal government (and as a result, many states, cities, and service providers) frequently uses the term "chronically homeless," defined as "an unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more, or has had at least four episodes of homelessness in the past three years" (Notice of Funding Availability for the Collaborative Initiative to Help End Chronic Homelessness/Federal Register, Vol. 68, No. 17/Monday, January 27, 2003, 4019). This definition excludes homeless families and partnered homeless people as well as those who do not have a documented disability. CSH asserts that anyone who has been homeless for the long-term may be well served by the services and housing offered by permanent supportive housing providers.

Low Income Housing Tax Credit (LIHTC): A congressionally created tax credit (Internal Revenue Code Section 42) available to investors in low income housing designed to encourage investment that helps finance construction and rehabilitation of housing for low income renters.

Master leasing: A legal contract in which a third party (other than the actual tenant) enters into a lease agreement with the property owner and is responsible for tenant selection and collection of rental payments from sub-lessees (see sublease).

Mortgage: Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

Net operating income (NOI): The amount of income left after total operating expenses, but not the mortgage payments, have been paid.

NOFA: Notice Of Funding Availability; see SuperNOFA.

No-interest loan: A loan for which the lender does not charge interest, but which must be repaid.

Operating and maintenance expenses: The ordinary expenses of operating and maintaining an income property, such as taxes, insurance, repairs, utilities, etc.

Operating reserve: Funds set aside to be used to offset possible losses due to unexpectedly low rent collections or unanticipated operating and maintenance costs. A reserve may be required by a lender in the form of an escrow to pay upcoming taxes and insurance costs.

Option: The right to purchase or lease a property upon specified terms within a specified period of time.

Owner's representative: An individual or firm designated to act on behalf of the owner on construction projects.

Pre-development financing: Funding to cover project – such as architectural, engineering, legal, and environmental services – that are incurred before funds to pay the project costs are available. Funds may come from the owner's resources or from an intermediary funding organization, and are typically reimbursed by a designated construction or permanent loan.

Permanent housing: In the world of supportive housing, the term "permanent" typically refers to affordable rental housing in which the tenants have the legal right to remain in the unit as long as they wish, as defined by the terms of a renewable lease agreement. Tenants enjoy all of the rights and responsibilities of typical rental housing, so long as they abide by the (reasonable) conditions of their lease.

Pro forma income and expenses: Statement showing the expected development or annual income and expenses of a project.

Public housing agency/authority (PHA): Any state or local government entity or its agency which is authorized to engage in or assist the development or operation of low-income housing. Public Housing projects are owned by PHAs, but supported through funding from the federal government (HUD). (aka LHA's Local Housing Authorities)

Reasonable accommodation: The legal requirement that housing features, procedures, and other adjustments are considered and/or made to meet the needs of a person with a disability.

Recourse loan: A recourse loan permits the lender to seek recourse beyond the pledged collateral. Loans are typically structured as "recourse" obligations of the borrower. This means that in the event that the loan is not repaid in accordance with its terms, then the lender can seek a legal judgment against the borrower, permitting the lender to receive repayment of the loan from the assets of the borrower. The value of the borrower's assets may be determined by an evaluation of the financial statements of the borrower.

Replacement reserves: Funds set aside on an annual basis to be used to pay for anticipated replacement of systems and equipment.

Revolving loan: Proceeds may be used for various purchases; funds may be repaid and drawn again. Revolving loans are used to facilitate project development by funding multiple purchases, which have multiple repayment dates and/or sources.

Scattered-site: Housing units that are not located at one single location.

Section 8 housing: This type of affordable housing is based on the use of subsidies, the amount of which is geared to the tenant's ability to pay. The subsidy makes up the difference between what the low-income household can afford, and the contract rent established by HUD for an adequate housing unit. Subsidies are either attached to specific units in a property (project-based), or are portable and move with the tenants that receive them (tenant-based). The Section 8 program was passed by Congress in 1974 as part of a major restructuring of the HUD low-income housing programs.

Site control: Evidence that a developer has, or will have control of a site by the time financing is committed. Evidence can be an option agreement, a purchase agreement/contract, or evidence of ownership (grant deed).

Single site: Housing units that are located within one building or area, typically located on just one site.

Soft costs: Expenses other than "bricks and mortar" costs incurred in developing a real estate project. They include legal, architectural, financing and other fees.

Sources and uses: A schedule submitted as part of a financing application that identifies the different sources of funding for the construction of a project and a detailed identification of the uses of the funds in the development process.

Sublease: A secondary lease agreement in which the tenant signs a lease with someone other than the owner or owner's agent. Tenants who sign sublease agreements maintain state and local tenancy rights and responsibilities.

Subordinated loan: A loan that is repayable only after other debts with a higher claim have been satisfied.

SuperNOFA - Super Notice of Funding Availability: Each year, the U.S. Department of Housing and Urban Development (HUD) issues a super Notice of Funding Availability (NOFA) for the Department's Housing, Community Development, and Empowerment programs. This SuperNOFA announces the availability of HUD program funds covering 32 grant programs, including the Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy programs; the Housing Opportunities for Homeless Persons with AIDS (HOPWA); Section 202 Supportive Housing for the Elderly; and Section 811 Supportive Housing for Persons with Disabilities.

Supportive Housing: The term "supportive" in supportive housing refers to housing with voluntary, flexible services designed primarily to help tenants maintain housing. These voluntary services are those that are available to but not demanded of tenants, such as service coordination/case management, physical and mental health, substance use management and recovery support, job training, literacy and education, youth and children's programs, and money management.

Survey: A legal record of the exact boundaries and location of a property

Take-out loan: The take-out loan is a permanent mortgage loan which replaces the construction loan; also called permanent end loans.

Tax credits: Tax benefits, granted for engaging in particular activities, that are subtracted on a dollar for dollar basis, from taxes owed. Also see Low Income Housing Tax Credits

Title insurance: Insurance which protects an owner or other party of interest against defects in title created by improper parties signing an instrument of conveyance, fraud, etc.

Underwriting process: Process of analyzing the creditworthiness of a loan application and determining the terms and conditions of a loan.

Vacancy allowance: The estimated amount of income that will be lost during one year from rental units that remain empty for a period of time.