



# City of Austin

# MEMO

## Neighborhood Housing and Community Development

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**To:** Mayor and Council

**From:** Betsy Spencer, Director, Neighborhood Housing and Community Development 

**Date:** June 26, 2015

**Subject:** Permanent Supportive Housing Funding Strategy

This memorandum provides a summary of plans, information and previous action taken by the City Council regarding Permanent Supportive Housing (PSH) per Council Resolution 20141002-043. The attachment is a memo from Ed McHorse, Chair of the Leadership Committee on Permanent Supportive Housing Finance, on financing recommendations to reach City Council's 2014 goal to create 400 new PSH units. The attached document was generated through the leadership of ECHO with the collective commitment of the Leadership Committee on PSH Finance and was presented at the June 24, 2015, City Council Housing and Community Development Committee.

Permanent Supportive Housing, commonly referred to as PSH is a model that pairs subsidized rental housing with voluntary intensive case management and other social services to bring housing stability to individuals and families who have experienced chronic homelessness. In 2010, the City Council set a community goal of creating 350 new units of PSH over the next four years. This goal provided the opportunity for the Neighborhood Housing and Community Development Office and the City's Health and Human Services Department to work closely with the Ending Community Homelessness Coalition (ECHO) and numerous other partners.

With the help of numerous local public, private and non-profit agencies, and through the guidance of the Council initiated Leadership Committee on PSH Finance that goal was reached in the fall of 2014. In October 2014, the Council set a new goal of creating another 400 units of PSH over the next four years, 200 of which should be "Housing First" PSH. Housing First is a PSH model that requires placing clients immediately into housing, with the lowest barriers possible (low criminal background requirements, no sobriety requirements, etc.) so that clients can begin to work on challenges that have contributed to their chronic homelessness.

The City continues to work with members of the Leadership Committee on PSH Finance and ECHO. A financial model that was created and updated in 2012 to supplement the PSH Strategy has now been updated to reflect the projected funding needs for the next 400 units.

cc: Marc A Ott, City Manager  
Bert Lumbreras, Assistant City Manager

Attachment

Date: June 25, 2015

To: Mayor Steve Adler, City of Austin  
Patricia Young Brown, President and CEO, Central Health  
Katrina Daniel, R.N., Chairperson, Board of Managers, Central Health  
Judge Sarah Eckhardt, Commissioner's Court, Travis County  
David Evans, CEO, Austin/Travis County Integral Care  
Michael Gerber, President and CEO, Housing Authority of the City of Austin  
Patrick Howard, Executive Director, Housing Authority of Travis County  
Marc Ott, City Manager, City of Austin  
Carl Ritchie, Chair, Board of Commissioners, Housing Authority of the City of Austin  
Andrea Shields, Strategic Housing Finance Corporation, Travis County  
Dr. Matthew Snapp, Chair, Board of Trustees, Austin/Travis County Integral Care  
Paula Wood, LCSW, Coordinator, Healthcare for Homeless Veterans, Central Texas Veterans' Healthcare System, US Department of Veterans' Affairs  
Melvin Wrenn, Chairman, Board of Commissioners, Housing Authority of Travis County

From: Ed McHorse, Chair, Leadership Committee on Permanent Supportive Housing Finance

Regarding: Financing Recommendations for 400 Unit PSH Goal (2015-2018)

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### **Background on Permanent Supportive Housing**

Permanent Supportive Housing (PSH) is Austin's lead strategy to end chronic homelessness – it ensures people have access to lease-based housing and the support services they need to maintain that housing.

Permanent Supportive Housing is working in Austin, and around the country. A recent evaluation by ECHO noted that for people in PSH, the following positive outcomes were achieved:

- Individuals stayed in supportive housing for more than three years
- Most children remained in housing with their families
- 95% maintained or increased their total income while in PSH
- Jail bed days dropped 68% in the two years following PSH entry
- Downtown Austin Community Court cases dropped nearly 80% in the year after PSH entry
- Emergency department, inpatient, clinic and outpatient utilization and costs decreased in the year after entry to PSH

With this success, the community is advancing with a goal of creating 400 new units of PSH by 2018.

### **History**

After only modest creation of PSH in Austin prior to 2000, the community began to focus on the strategy as a viable way to effectively combat chronic homelessness. In 2009, several local entities (City of Austin, ECHO, Austin/Travis County Re-entry Roundtable, ATCIC) came together to sponsor the development of an assessment of both the need for and the potential cost of providing PSH in the community. Based on that initial

analysis, which in 2010 identified a need for nearly 1900 additional PSH units, the community established a mid-term goal of creating 350 units of PSH between 2010 and 2014.

The Leadership Committee on PSH Finance was created via City Council resolution in March 10, 2011, and the group was tasked with reviewing the newly-adopted PSH Strategy and recommending a comprehensive public-private financing strategy for providing capital, operating, and service funding for the units. The committee was convened in April of 2011, and has included representation from the City of Austin, Travis County, Central Health, Veterans' Affairs, Austin Travis County Integral Care, Travis County Housing Authority, the Housing Authority of the City of Austin, Downtown Austin Alliance, Seton Healthcare Family, Religious Coalition for the Homeless, and Ending Community Homelessness Coalition (ECHO). The committee is chaired by Ed McHorse, a local attorney at Graves Dougherty Hearon & Moody, who also serves on the ECHO Board of Directors. The committee presented its initial recommendations in April of 2012, and the community achieved its initial goal of creating 350 PSH units by the end of 2014.

Having successfully created the first phase of PSH production, ECHO and its partners have established a 400-unit goal for the period encompassing 2015-2018. In support of that goal, the Leadership Committee on PSH Finance has developed a recommended funding model, which establishes both the feasibility of the goal and possible means of achieving it. It should be noted that the financing model presented herein does not constitute formal commitment on the part of any indicated funding partners, but is instead intended to be a working guide for securing and structuring financing. Actual funding structure will inevitably differ at least modestly from the model as presented.

The financing model rests on a number of assumptions:

- PSH is a resource-intensive intervention targeted at individuals and households with high need and intensive utilization of community crisis services. Other effective interventions are suited for households able to stabilize with shorter or less intensive supports – the scope of this model is for PSH only.
- Of the 400 units, 300 will be created via new construction or rehabilitation, with the remaining 100 units secured by leasing pre-existing rental units.
- As resolved by Austin City Council in 2014, at least half of the total PSH units produced will be Housing First units<sup>1</sup>

Total projected capital costs of the PSH initiative are \$45,500,000 in one-time expenditures for construction and/or rehabilitation of 300 units. In addition, the initiative will require, at full occupancy of 400 units, \$4,600,000 in annual service dollars, as well as annual rental subsidies valued at approximately \$3,500,000 in current dollars, based on HUD Fair Market Rent for the Austin/San Marcos Metropolitan Statistical Area.

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<sup>1</sup> See the community-wide definition of Housing First, established by ECHO, at <http://austinecho.org/the-solution/housing-interventions/housing-first-community-wide-definition/>

## Recommended PSH Capital Financing Strategy

The committee affirms the need for diverse financing sources for the acquisition and construction costs of 300 new PSH units, utilizing a variety of local funds while leveraging other state, federal, and private resources to achieve total development costs of \$45,500,000.

Sources of Capital Financing for PSH Units		
Source of Funds	Average Annual Amount	Total Funding Amount
City of Austin: General Obligation Bonds	\$3,000,000	\$15,000,000
Low Income Housing Tax Credits <sup>2</sup>	\$2,275,000	\$11,375,000
Texas Department of State Health Services: Healthy Community Collaborative <sup>3</sup>	\$1,000,000	\$5,000,000
City of Austin Neighborhood Housing & Community Development: HOME/CDBG/HTF	\$600,000	\$3,000,000
Philanthropic	\$600,000	\$3,000,000
City of Austin Health and Human Services: Texas Homeless Housing Services Program <sup>4</sup>	\$500,000	\$2,500,000
Federal Home Loan Bank: Affordable Housing Program	\$400,000	\$2,000,000
Developer Equity <sup>5</sup>	\$300,000	\$1,500,000
Travis County <sup>6</sup>	\$200,000	\$1,000,000
In-Kind Land Donations <sup>7</sup>	\$125,000	\$625,000
National Housing Trust Fund <sup>8</sup>	TBD	\$500,000
<b>TOTAL CAPITAL FINANCING:</b>		<b>\$45,500,000</b>

<sup>2</sup> The total Low Income Housing Tax Credit amount represents equity from both the 9% and 4% tax credit programs.

<sup>3</sup> The Healthy Community Collaborative funds include \$2M already awarded to ATCIC for the Oak Springs project, as well as anticipated funding. Note these funds must be accompanied by a 1:1 private match.

<sup>4</sup> The Homeless Housing and Services Program has historically been used for services or one-time investments in homeless system improvements. Because of irregular and short funding cycles, the Committee is recommending that the funds be utilized for capital investments.

<sup>5</sup> Developer equity can derive from direct cash contribution to a project or deferred developer fees.

<sup>6</sup> General revenue or Community Development Block Grant Funds. To date, Travis County has only utilized CDBG funds in unincorporated areas of the County.

<sup>7</sup> A variety of local jurisdictions have indicated that they will review property portfolios to identify possible PSH sites.

<sup>8</sup> The National Housing Trust Fund should be funded for the first time in 2016; however, amounts are uncertain and no NOFA has yet been released. As such, the model conservatively projects only \$500,000 over 5 years.

As noted in the table above, the funds generated by the City of Austin's General Obligation Bond are a primary projected capital funding source, with \$1,500,000 in new bond proceeds dedicated to the current PSH goal. Other city-administered capital funding sources include Home Investment Partnerships Program (HOME), Community Development Block Grant (CDBG), Housing Trust Fund dollars, and the Homeless Housing and Services Program (HHSP). Note that several of these funding sources come from federal or state dollars passing through the City of Austin. Total city-administered capital funds are projected at approximately \$20,500,000 over the five years of the initiative.

State-administered funding includes equity deriving from the Low Income Tax Credit program (via the Texas Department of Housing and Community Affairs) and the state-funded Healthy Community Collaborative, which the Department of State Health Services has awarded to Austin/Travis County Integral Care. In total, state-awarded capital funds are modeled at \$16,375,000.

The remaining \$8,625,000 is expected to come from a variety of public jurisdictions, as well as private sources including the Federal Home Loan Bank Affordable Housing program, the philanthropic community, and developer equity investments.

### Recommended PSH Rental Subsidy Strategy

Rental subsidies are a critical component of the PSH Strategy, since formerly homeless individuals will typically have extremely low incomes and be unable to pay market rents. Most subsidies will come in the form of rental assistance payments which provide the landlord with a fair market rent as determined by the U.S. Department of Housing and Urban Development. The tenant will pay 30% of their income toward rent, with the subsidy source providing the balance.

The two primary sources of rental subsidy will be provided or administered by local public housing authorities: Housing Choice Vouchers (formerly known as "Section 8" vouchers) and Veterans Affairs Supportive Housing (VASH) vouchers specifically targeted to homeless veterans.

Sources of Rental Subsidies					
Sources	Total Vouchers	Leased Units		Developed Units	
		0/1 BR	2/3 BR	0/1 BR	2/3 BR
Unit Size		0/1 BR	2/3 BR	0/1 BR	2/3 BR
Public Housing Authorities: Housing Choice Vouchers	300	75	0	205	20
Veterans' Affairs: VASH	100	25	0	75	0
<b>TOTALS:</b>	<b>400</b>	<b>200</b>	<b>0</b>	<b>180</b>	<b>20</b>

The majority of Housing Choice Vouchers are expected to be provided via the two local housing authorities: Housing Authority of the City of Austin (HACA) and Housing Authority of Travis County (HATC). HACA is implementing a preference that is expected to produce 100 vouchers per year for homeless individuals; not all of these vouchers will be targeted to PSH residents, and are subject to available funding. The Housing Authority

of Travis County has previously provided vouchers for the target population. Note that the model recommends that a majority of vouchers are deployed as project-based vouchers (subsidies that are attached to specific units rather than portable to any willing landlord). The project-based rental strategy has been applied only on a very small scale in Austin/Travis County to-date, and would need to be expanded under the proposed model.

The number of VASH vouchers predicted is fairly conservative, as the VASH program has been one of the more reliable sources of subsidy over the past several years. Of the 100 vouchers projected in the model, 44 have already been awarded by the U.S. Department of Veterans' Affairs.

In previous years, new rental subsidies dedicated to permanent supportive housing have been available via the annual HUD Continuum of Care (CoC) process; however, this process has become increasingly competitive. In the last funding round, only twenty-five new projects were awarded nationwide. While the local Continuum of Care entity, (ECHO) will continue to pursue this funding source, the committee acknowledges the uncertainty of new rental subsidies by excluding CoC funding from the model.

Local sponsors may also be able to secure subsidies via other programs such as the HUD Section 811 program, or via existing projects that have Housing Assistance Payment contracts in place. In addition, it should be noted that this model's scope includes only permanent rental subsidy need to sustain tenants over the long-term. The community is actively pursuing and implementing 'bridge' subsidy strategies that allow providers to house individuals more quickly with temporary funds until a permanent voucher can be secured.

### **Recommended PSH Services Funding Strategy**

The provision of sustained support for the supportive services component of the PSH initiative will require meaningful new commitments from local partners. The average costs of service delivery are expected to be higher for those tenants in the housing first cohort. For purposes of the model, the annual cost of social services ranges from \$10,500 to \$16,000, with an average of \$11,500 annually.

The service financing strategy proposed in this model constitutes a marked shift from previous efforts, strategically aligning more flexible local and state funding to maximize, leverage and supplement federal service dollars provided by the Medicaid and Veterans' Affairs VASH programs. Moving indigent clients quickly onto the Medicaid or VA caseloads, where feasible, is a key component of the strategy.

Veteran tenants housed via VASH vouchers are supported by VA caseworkers. However, case management ratios are typically 1:25, which may be insufficient to effectively sustain chronically homeless in housing. The model suggests identifying methods of supplementing this service delivery mechanism to provide the robust case management that will likely be needed by veteran tenants. This will be particularly critical if the community is to reach its established goal of ending veteran homelessness by the end of 2015, consistent with the federal *Opening Doors* plan to end homelessness.

The model also proposes maximizing the utilization of Medicaid to fund service delivery. This strategy implies a number of necessary system improvements. First, the community must seek to aggressively increase the number of tenants enrolled in Medicaid. Currently, fewer than 20% of new tenants are enrolled in Medicaid; however, given the definition of chronically homeless as a household including a disabled individual, a majority of non-veteran tenants should be eligible for enrollment. Second, traditional service providers may wish to consider becoming certified to bill Medicaid. Historically, under state statute only Austin/Travis County Integral Care has been eligible to bill for the Medicaid Rehabilitation Option or Targeted Case Management, which provide for more robust community supports. The recent statewide shift to a managed care system, as well as

the directive to integrate primary and behavioral health care, create opportunities for more traditional homeless service providers to establish a billing relationship with Medicaid. Third, the amount of Medicaid funding per client will need to be maximized via effective exploitation of current billing options, negotiation with managed care organizations for reimbursable supplementary services not currently covered by Medicaid, and/or advocacy at the state to enhance the State Medicaid Plan via waivers and/or amendments.

Available state and local funds should be utilized to deliver services to tenants until they can be enrolled in Medicaid, to provide funding for the gap in services where providers are proactively billing Medicaid for all reimbursable costs, and to provide continued service supports for a presumably modest number of tenants who will not qualify for either Medicaid or Veteran's Affairs VASH services.

As this service delivery system develops, it will be critical to coordinate with and leverage local patient navigation and benefit programs such as the Community Care Collaborative (CCC) and the Medical Access Program (MAP).

<b>Annual Services Sources at Full Occupancy</b>			
<b>Funding Source</b>	<b>Estimated # Tenants Served</b>	<b>Annual Amount Per Unit</b>	<b>Total Annual Financing Amount</b>
<b>Veterans Affairs Supportive Housing<sup>9</sup></b>	100	\$4,000	<b>\$400,000</b>
<b>Local Jurisdiction Funds: Supplement VASH Services</b>	100	\$7,500	<b>\$750,000</b>
<b>State Medicaid Plan MCO Billing Projection</b>	240	\$5,000	<b>\$1,200,000</b>
<b>Local Jurisdiction Funds: Supplement for Medicaid Billed</b>	240	\$5,000	<b>\$1,200,000</b>
<b>Healthy Community Collaborative<sup>10</sup></b>	60	\$2,500	<b>\$150,000</b>
<b>City of Austin Downtown Density Bonus<sup>11</sup></b>	60	\$10,000	<b>\$600,000</b>
<b>Community Care Collaborative: In-Kind or Leverage TBD<sup>12</sup></b>	60	\$2,500	<b>\$150,000</b>
<b>Philanthropy/Other</b>	60	\$2,500	<b>\$150,000</b>
<b>TOTAL SOURCES</b>			<b>\$4,600,000</b>

The table above represents a model for viable service funding in the first year of full occupancy. Note that the financing structure in intervening years will vary not only in total funding needed (as not all tenants will be housed and receiving services until year five), but also in distribution of funds. Namely, the earlier years of the

<sup>9</sup> Amounts included for the VASH program are an estimated value of services provided directly by VA caseworkers.

<sup>10</sup> The Healthy Community Collaborative is projected to exist through 2019. Note also that HCC funds must be matched by private sources.

<sup>11</sup> The Leadership Committee on PSH Finance is currently exploring whether funds generated by the City of Austin Downtown Density Bonus (which are earmarked for PSH) can be used for services. Should use of the Downtown Density Bonus be restricted to capital uses, the Committee will explore using alternate sources that are now designated for capital.

<sup>12</sup> Specific patient navigation and service delivery strategies of the Community Care Collaborative are under development. The Committee will seek to identify methods for coordinating with the CCC to capture value for PSH tenants.

initiative will likely depend more heavily on state and local financing, as the community becomes more effective at achieving Medicaid enrollment and maximizing reimbursement rates. Moving rapidly to this financing structure is particularly critical given that the Healthy Community Collaborative funding stream is projected to end after 2019.

### **Progress to Date and Next Steps**

While the primary task of the Leadership Committee was to devise an overall financing strategy, the group has also monitored the number of PSH units in pipeline or placed in service over time. At the time of this memo, the committee estimates that approximately 156 units are in the pipeline towards the 400 unit goal, meaning that they have received committed funding of one or more funding sources.

The Leadership Committee on PSH Finance will continue its work at least through 2019, monitoring the pipeline of units and working to solidify viable sources of capital, operating, and service funding. In the coming weeks, I will be contacting each of the funding entities included here for the purposes of providing a complete briefing on the financing model summarized here. In the meantime, I remain available to answer any questions or provide further information as needed.