CSH Corporation for Supportive Housing

Brief

Beyond Low-Income Housing Tax Credits: Using a multi-strategy approach to advance supportive housing development

April 2024

This brief provides an analysis of how Qualified Allocation Plans (QAPs) prioritize supportive housing development and guidelines that housing finance agencies and state leaders can use to begin closing the supportive housing gap across the country.

About CSH

CSH (Corporation for Supportive Housing) advances affordable and accessible housing aligned with services by advocating for effective policies and funding, equitably investing in communities, and strengthening the supportive housing field. Since our founding in 1991, CSH has been the only national nonprofit intermediary focused solely on increasing the availability of supportive housing. As an intermediary, we do not directly develop or operate housing but center our approach on collaboration with a wide range of people, partners, and sectors.

Introduction

For more than 30 years, supportive housing has helped hundreds of thousands of people leave homelessness and make progress toward stability, health, and wellness. Supportive housing - safe, stable, affordable housing with integrated services - is a proven method for increasing housing stability and has been shown to create cost offsets through decreased utilization of emergency services, jails, and public systems and institutions. Despite the progress made, there are currently 1.1 million households in need of supportive housing nationwide. This includes both individuals and families who are homeless, as well as those needlessly confined to institutional settings because of the lack of affordable housing alternatives that provide services.

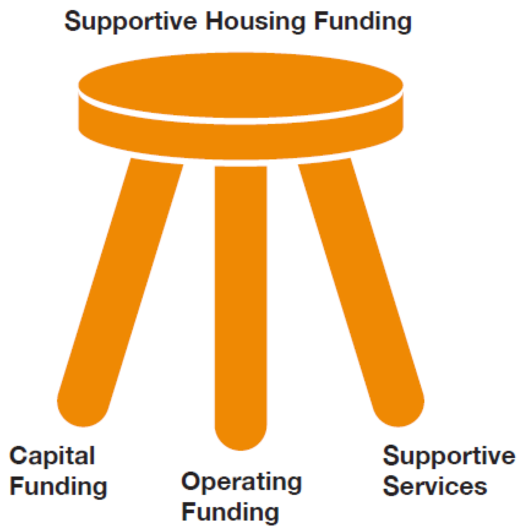
The following brief provides an analysis of how Qualified Allocation Plans (QAPs) - which layout each jurisdiction's plan for distributing Low-income Housing Tax Credits (LIHTC) - prioritize supportive housing development. It also offers guidelines that housing finance agencies and state leaders can use to begin closing the supportive housing gap across the country.

Supportive Housing Financing

Supportive housing pairs affordable housing with support services that help people get housed and stay housed. It is an evidence-based intervention for people who experience chronic homelessness, unnecessary institutionalization, and cycle between institutional settings and the streets.

While supportive housing is an evidence-based solution, outcomes decline when it is implemented without sufficient funding or in ways that are inconsistent with studied models. While LIHTC is a central resource for development, additional resources are needed to round out financing for capital, as well as a strategy for financing and integrating services and operating.

Gathering the financing for a supportive housing project can be pictured as a three-legged stool - with capital, operating, and supportive service funding each comprising a leg. Table 1 provides a breakdown of funding sources across all three areas.



Capital

Capital costs refer to all acquisition, construction, and rehabilitation expenses. While LIHTC is one of the primary federal resources for affordable and supportive development, additional federal and state funding is often paired with LIHTC to cover capital cost.

Operating

Operating refers to rental subsidy costs and expenses associated with operating and/or maintaining a housing development. In supportive housing, tenants pay no more than 30% of their income towards rents. Operating subsidies supplement the difference between the tenant's portion and a reasonable rent charged under market conditions. Federally or state funded vouchers issued through local Public Housing Authorities (PHAs) are often used to finance operating costs. In the absence of vouchers, other funding sources can be used to make a supportive housing project financially feasible.

TABLE 1: FUNDING SOURCES AND USES

Funding	Capital	Operating	Service
SAMSHA			X
Medicaid			X
Ryan White			X
LIHTC	X		Limited
HOME	X		
CoC	X	X	X
CDBG	X		X
HOPWA		X	X
Hospitals/Philanthropy	X	X	X
CDFI Loans	X		
National Housing Trust Fund	X	X	
Public Housing Authority	X	X	
Social Impact Bonds		X	X
Tax Reserves	X		X
Housing Bonds	X		X
State LIHTC	X		
Federal Vouchers		X	
State/Local Vouchers		X	
State Agency		X	X

Supportive Services

The services that are part of supportive housing programs commonly work to address housing, health, and other tenant needs. In addition to financing heath care needs, many states use Medicaid waivers or have adapted their state plan to include financing for housing-related services such as assistance with finding an apartment, understanding leases, budgeting, relationship navigation with landlords, and short-term housing.

QAP Analysis

LIHTC is an important capital resource for the development of supportive housing. Supportive housing development also requires funding for support services and operations to ensure high quality, integrated services. Funding also ensures that units remain affordable - often at or below 30% of the area median income (AMI). While the Federal LIHTC program has not changed significantly over time, states have more flexibility to advance supportive housing programs by leveraging their Qualified Allocation Plans (QAP) alongside additional financing that would promote the development of supportive housing and streamline the process for obtaining the needed funding.

Each year, state leaders can prioritize the development of supportive housing as part of their QAP. While the Internal Revenue Service (IRS) specifies the distribution of LIHTC to some extent, state leaders have the authority to establish other QAP selection criteria that support the development of a supportive housing pipeline.

As part of an analysis of how QAPs drive supportive housing pipelines, CSH reviewed eight metrics across the three methods used to mandate or incentivize development. These three methods include:

- **Thresholds** – a development requirement to receive LIHTC,
- **Set-asides** – a portion of the LIHTC allocation reserved for a specific purpose, and
- **Scoring incentives** – points received for proposing certain attributes in a LIHTC development.

Table 2 provides an aggregate breakdown of the percent of jurisdictions using each method for the selected metrics.

In 2022, more than $911 million of LIHTC were distributed to 56 jurisdictions[1]. Only nine jurisdictions had supportive housing set-asides, including Indiana, Iowa, Kansas, Michigan, New Jersey, New Mexico, Ohio, Utah, and Wisconsin. Twenty-nine states also had state-funded tax credit programs, which added more than $917 million to the market, with Connecticut and Utah including a supportive housing set-aside as part of their state program.

Following recent trends, all jurisdictions in 2022 included at least one method for incentivizing housing for vulnerable individuals and families, either as part of the QAP or through alternative state resources that were braided with LIHTC.

TABLE 2: % OF JURISDICTIONS WITH CATEGORICAL REQUIREMENTS

Category	Threshold Requirement	Credit Set-Aside	Scoring Incentive
Serve Extremely Low-Income	14%	11%	64%
Serve Vulnerable Individuals/Families	43%	20%	95%
Braided Resources	5%	23%	54%
Service Enrichments	20%	4%	63%
Extended Compliance	34%		41%
Geographic Designation		43%	89%
Integrated Design	39%		29%
Exceeds Fair Housing Regulations	5%		

[1] This includes all states, territories, the District of Columbia, and two cities including Chicago and New York.

Promoting Supportive Housing Development through QAPs

While many QAPs prioritize housing for vulnerable populations and/or extremely low-income individuals (ELI)[2], it is important to understand that not everyone who is a member of a given population or would benefit from an ELI unit may need supportive housing. Supportive housing is designed to serve those unable to stay housed without a range of supportive services. Individuals or families living in supportive housing may have a long history of homelessness or stays in institutions. They often face one or more persistent obstacles to maintaining housing, such as serious mental illness, substance use disorders, or chronic medical problems. Though services help tenants maintain stability, being housed is an essential first step in addressing conditions that often have gone untreated for many years. The combination of housing and supportive services creates a synergy that allows tenants to take steps toward recovery and independence.

In short, prioritizing specific populations or ELI units is not the same as prioritizing supportive housing. It is important for leaders at Housing Finance Agencies (HFAs) who develop QAPs each year to use the following guidelines to prioritize quality supportive housing:

1. **Conduct a Supportive Housing Needs Assessment**

   As a first step, state housing leaders should conduct a thorough needs assessment to better understand who needs affordable housing vs specifically supportive housing. As many individuals in need of supportive housing may not be represented in homeless datasets, the assessment should draw from multiple data sources. These data sources include, but are not limited to, homeless and point-in-time counts, institutions across the state such as jails and prisons, child welfare systems, nursing homes, and health and behavioral health care facilities. The findings from the needs assessment should be accompanied with concrete solutions, including an implementation strategy, a supportive housing production plan, and details on funding resources that developers can access to meet the production goals.

2. **Allocate Tax Credits for Supportive Housing**

   While most states use scoring incentives to award tax credits for supportive housing development, it is hard to determine how meaningful individual points are compared against the total score needed to receive a tax credit award. As such, HFAs must prioritize threshold and set-aside requirements to ensure consistent supportive housing pipeline development. It is important to note that, depending on the development costs in the state[3], set asides or supportive housing requirements of 10% or less may produce a

[2] Extremely low-income, also referred to as ELI, is defined as incomes at or below 30% of the area median income (AMI).
[3] If state-level data development costs are not available, HFAs may use national averages. More information available from: https://www.ncsha.org/resource/cost-study/

limited number of units. HFAs should consider 25-30% supportive housing requirements to ensure progress towards closing the state's supportive housing gap.

3. Use Quality Standards to Guide the Development and Operations of Supportive Housing

Quality supportive housing is housing that is – (1) tenant-centered, (2) easily accessible to tenants of all backgrounds, (3) coordinated amongst housing partners with a shared goal, (4) integrated with voluntary services and community connections, and (5) sustainable over time[4]. HFAs can promote these standards by requiring developers to, at minimum, conduct a Quality Readiness Checklist[5]. The CSH Quality Readiness Checklist is a free online tool for projects in the pre-development or planning phase to ensure that quality standards are embedded into all aspects of planning and project design. Once a checklist is completed, applicants will receive a Results Report that summarizes how the proposal aligns with the Support Housing Quality Standards. These results can be submitted as part of the LIHTC application.

4. Understand the Difference Between Residence Services and Supportive Services

As much as supportive housing relies on safe, quality, and affordable housing, tenants must also have access to voluntary, flexible, and responsive support services. While just under a quarter of QAPs require service enrichments and several more incentivize them, there is a distinction between residential services and supportive services. Residence Service Coordinators help connect tenants with basic service needs, whereas positions like social workers, psychiatric nurses, substance use specialists, and/or peer specialists, amongst others, may be needed depending on the population served and the care-models offered. CSH has developed a Supportive Services Budgeting Tool that HFAs can provide as a resource to applicants as they build their project financing. All supportive housing applicants should be required to provide a social service plan (SSP) that outlines the intended services, description of source funding, length of funding, and evidence of sustainable funding beyond the current timeline. The service provider listed on the SSP should also provide evidence of experience serving the intended tenant population and an understanding of the community that the housing development will serve. Further evidence of the provider engaging people with lived experience to develop proposed services and programs available to tenants should be further incentivized through additional points on applications.

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[4] The Quality Supportive Housing Standards is a national standard created by CSH and based on multiple years of research with communities across the country.
[5] Additional resources including a Guidebook and Toolkit are also available from CSH at https://www.csh.org/supportive-housing-101/quality/.

5. **Prioritize the Populations Most in Need of Supportive Housing**

Of the 1.1 million people in need of supportive housing, there are three sectors – intellectual and developmental disabilities (268,980/25%), justice (243,674/22%), and aging (226,674/21%) – that represent the greatest needs for supportive housing nationally. These trends are often mirrored in individual states as well. With this in mind, HFAs should offer scoring incentives for projects proposing to serve one of these three populations. Additional points should be awarded for developing cross-sector commitments with providers and governmental agencies that serve these sectors already. Commitments should reflect the agreement between the sector experts and the applicants to provide appropriate services and support for the supportive housing units.

6. **Incentivize Units for Larger Families in Supportive Housing Set-Aside**

Approximately a quarter of families experiencing homelessness have five or more people in the household. Lack of stable housing is often a precipitating factor for a family's involvement in the child welfare system. Supportive housing offers a safe, stable, and affordable solution for families so they can stay together while improving overall safety and well-being. Children and youth who have a reliable place to call home spend fewer days in foster care, experience a reduction in subsequent abuse and neglect cases, and increase their school attendance. These families should have access to units that can provide adequate space to house multiple children and receive support services.

7. **Engage Supportive Housing Tenants and People with Lived Experience**

HFAs should also incentivize LIHTC applicants to engage supportive housing tenants and people with lived experience. HFAs often require applicants to submit letters of support of the development from community boards or local elected officials. In some instances, this creates barriers to developing in certain neighborhoods and continues to limit access and choice for supportive housing tenants. An alternative approach of including letters of support from people with lived experience would ensure that developments reflect the needs of those who need housing and increase choice to high opportunity neighborhoods.

8. **Ensure Equitable Access to Housing and Address Disparate Impacts to Fair Housing**

It is important for HFAs to acknowledge the long history of racist housing policies that have led to discriminatory rental practices and ongoing neighborhood segregation. To begin to shift this paradigm, HFAs must assess critical aspects of the QAP to understand if they continue to contribute to these practices and address possible disparate impacts to fair housing. For example, many QAPs incentivize development in certain neighborhoods, and this could inadvertently keep neighborhoods segregated. HFAs should actively analyze neighborhood distribution of LIHTC and ensure those in need of supportive housing have neighborhood choice.

Further, HFAs should ensure that tenant selection criteria and processes in LIHTC buildings are transparent and there are no unnecessary barriers to minority applicants. Screening criteria that decrease opportunity for individuals who have been homeless, involved in the child welfare system or the justice system, or create barriers based on sources of income and/or rental history will have an adverse discriminatory effect on minorities. Black, Indigenous, and people of color (BIPOC) are often disproportionately represented in these systems. Because race is a federally protected class, screening individuals out (advertently or inadvertently) based on system involvement would present legal challenges to the Fair Housing Act.

Race Equity Analysis

While there is overrepresentation of BIPOC individuals within the homeless system and institutional settings (e.g. prisons, nursing homes, foster care), there is a significant underrepresentation of BIPOC developers in the affordable and supportive housing industries. Access to capital remains the most significant barrier for BIPOC developers. Women and people of color manage less than 1.3% of the $70 trillion global financial markets comprising mutual funds, hedge funds, real estate, and private equity. Not surprisingly, just 1% of the real estate industry in the United States includes Black-led and Hispanic-led development companies. This racial homogeneity in asset management lends itself to biases in lending and financing decisions, forcing limitations on BIPOC developers.

As part of CSH's Redesigning Access by Centering Equity (RACE) Initiative, which is a multi-million dollar initiative to drive resources to more BIPOC housing developers, consulting firm Ideas and Action conducted an analysis of eight QAPs and surveyed BIPOC developers via online survey and focus groups with a goal of identifying barriers to accessing capital through the LIHTC program.

Jurisdictions selected for QAP review included California, Illinois, Indiana, New York City, Georgia, Michigan, DC, and Virginia. The selection was based on markets where CSH is currently lending and/or providing RACE Initiative resources. Surveyed jurisdictions included California, Illinois, Indiana, and New York City with 14 different developers represented across all regions.

Several key findings and recommendations emerged from the analysis. While many focused on the barriers within QAPs, surveyed BIPOC developers identified several other barriers outside of QAPs. These barriers include processes surrounding working with lenders, tax credit investors, local stakeholders, regulators. They also identified barriers to accessing supplemental funding that is needed to round out LIHTC funding.

1. **There is a lack of transparency in the LIHTC application process.**

This lack of transparency creates additional costs for developers, particularly emerging BIPOC developers. Without an understanding of how they are being scored or performing throughout the application process, BIPOC developers have limited ability to understand their overall competitiveness in the application process. Frequent changes to scoring criteria also create a compounded effect and increases costs to BIPOC developers, who often end up applying multiple times before they receive a LIHTC award.

Recommendations

- Provide data on application approval statistics and transparency on past selections.
- Provide technical assistance and upfront, pre-application feedback to small and/or emerging developers.

2. **QAP scoring preferences for high opportunity areas negatively impacts BIPOC developer serving low-income communities.**

Historically underinvested communities often need amenities and commercial project components that are not covered by LIHTC funding. As a result, BIPOC developers that serve these communities do not receive the “high opportunity areas” points in the LIHTC application. This creates challenges for BIPOC developers looking to invest in lower-income areas and mixed-use projects that would bring more resources to the community.

Recommendations

- Incentivize development for historically underinvested communities with a special set-aside and/or additional scoring opportunities.
- Coordinate adequate community development funding programs alongside LIHTC awards to support creating more high opportunity areas.
- Integrate community benefit agreements into scoring preferences, outlining the developer’s support to the neighborhood; specifically identifying community investment, job creation, affordable units, environmental improvements, infrastructure upgrades, mitigation of negative effects (from development).

3. **Minority Business Enterprise (MBE) scoring preferences and programs are not effectively meeting their goals.**

Only 20% of those surveyed indicated having MBE certifications. They reported that most certification programs focus on contractors and resident services providers, but do not always have an MBE program for developers. When there are MBE programs available, they reported a lack of criteria to participate, such as diversity standards, employee counts, or a track record of development. Additionally, resources were going to possible shell companies and/or developers who may not actually be diverse.

Recommendations

- Add or increase the MBE developer preference points in QAPs.
- Create criteria for MBE applicants that includes a breakdown of race across their employees and/or a record of projects and contracting that reflect prioritizing equity.

4. **QAP experience points limit the opportunities for small and/or emerging BIPOC developers.**

QAP experience points that require a certain number of years of experience or number of units developed create barriers to emerging BIPOC developers or BIPOC firms that tend to be smaller in size.

Recommendations

- Create set-asides specifically for BIPOC and Emerging Developers
- Include MBE/BIPOC preferences in tie-break criteria so that those with less experience/who have faced barriers to accessing LIHTC can still be competitive.
- Create partnership programs that pair BIPOC and/or emerging developers with larger firms and include these partnerships towards experience point. With specific consideration to review development agreements, specifically for equity; one which outlines project ownership, ownership interest, roles and responsibilities of parties, decision-making process, termination considerations, and choice of law.

5. **Financial capacity requirements and limited access to non-LIHTC financing limits entry into the LIHTC program.**

Pre-development funds and gap financing are critical resources needed to round out a development project. Tax credits and soft financing are paid after the project closes and lenders often do not want to fund projects until after site contracts and tax credits have been awarded. Increased material costs, delays in local approvement processes, and zoning regulations can all create the need for additional funding to fill the gaps in expenses.

Recommendations

- Engage tax credit investors and syndicators, CDFIs, CRA lenders, and other mission-driven capital providers to create racial equity programs for providing pre-development and gap financing to BIPOC developers.
- Create technical assistance programs for BIPOC developers to support engagement with investors.
- Create partnership programs that pair BIPOC and/or emerging developers with larger firms that can offer balance sheet capital that can finance pre-development and gap funding.
- Create 'forgivable' grant programs for BIPOC developers.
- Create funding opportunities for smaller projects that do not require access to LIHTC.

Additional Strategies to Advance Supportive Housing

Supportive housing is an evidence-based solution, but outcomes decline when it is implemented without sufficient funding or in ways that are inconsistent with studied models. While LIHTC is a central resource for development, additional resources are needed to round out financing, and a strategy for financing and integrating services is necessary.

While the strategies below are outside of the scope of the LIHTC program, state leaders have the opportunity to build and scale the infrastructure that is required to address the supportive housing gap across the country.

1. **Streamline multiple funding sources**

In most jurisdictions, the onus is on the applicant to stack multiple resources to fund a supportive housing development. As referenced in Table 2 above, there are several federal, state, and local funding sources that can be braided together to fund all aspects of supportive housing. If jurisdictions can combine resources through a single Request for Proposals (RFP), these available resources can be optimized and the processes streamlined.

The District of Columbia's Consolidated Request for Proposals for Affordable Housing Projects is a good example of a jurisdiction that pulls together multiple supportive housing resources through a single process. While D.C.'s QAP provides an overview of the local priorities and evaluation criteria, the consolidated RFP is the process by which developers apply for the credits. In addition to LIHTC, it also pulls in resources from the housing trust fund, behavioral health grants, HOME Investment Partnership Program, Community Development Block Grants, National Housing Trust Fund, Housing Opportunities for People with Aids, the local rent subsidy, and supportive services funds.

2. Focus on services and build out services funding streams

A barrier to developing more supportive housing is a lack of available funding for services. To address this funding gap, states are increasingly using Medicaid waivers or have adapted their state plan to finance housing-related services. These services can include assistance with finding an apartment, understanding leases, budgeting, relationship navigation with landlords, and, in some instances, locating short term housing options. State leaders and advocates looking to increase funding for supportive housing services can look to best practices and models from other states as a first step to developing their own Medicaid waiver.

Until the state's Medicaid can be updated for non-Medicaid eligible service needs, states are creating a funding bridge by directly funding services through state appropriations. As part of the FY23 budget, the State of Michigan appropriated $6 million for a Supportive Services Funding Pilot. The funding is dedicated to housing-related services, housing stabilization and tenancy sustaining services, and care coordination. In addition to the boost in services, the funding will add capacity by bringing on more caseworkers and staff to reduce caseload sizes and enhance the services they provide. More detailed outcomes will be available in 2024, but preliminary results show that the funding has helped providers dedicate more time to the tenants with high needs and hire new therapists. Anticipated outcomes include tenants staying housed longer, increased tenant income and employment, and improvements to tenant physical and mental health, among other outcomes.

Nevada created a similar services program in 2023 through an unprecedented appropriation of $32 million through Assembly Bill 310. The money establishes a Supportive Housing Development Fund and includes $30 million for a supportive housing services package to assist people with obtaining housing and staying stably housed, $1.5 million to build long-term capacity for housing developers and service providers, and $700,000 to evaluate and measure the results. The Fund will support a two-year statewide pilot targeting people experiencing or at risk of homelessness by connecting them with quality, affordable housing, and supportive services. The pilot will evaluate participants' health and behavior outcomes, and the public costs spent on housing and services. It will compare these public costs against the costs associated with allowing people to cycle through institutional and crisis systems. Evaluation results are expected to show cost offsets, similar to those demonstrated in studies such as the Social Impact Bond initiative in Colorado.

3. **Create better alignment between the health and housing systems**

Washington was the first state in the country to create Medicaid benefits for supportive housing and supported employment services, called Foundational Community Supports (FCS). Thousands of households were already receiving these services, but with the passage of the Apple Health and Homes (AHAH) Act (House Bill 1866) in 2022, the state created the infrastructure to directly align these services with housing. The AHAH initiative is a muti-agency approach that aligns capital and operating directly with supportive services. The bill further appropriated $60 million in capital for the construction or acquisition of new housing. The eligibility requirements for the units are the same as the eligibility requirements of the Medicaid program, thus reducing complicated eligibility criteria and processes. The operating costs for these units are also covered through project- or tenant-based vouchers.

Conclusion

While LIHTC is a central resource for supportive housing development, it does not exist in a vacuum. State leaders can begin to close the supportive housing gap by understanding how these credits are distributed based on each jurisdiction's QAPs and employing other strategies to advance supportive housing development.