

Homeless System Response: Identifying Sources of Operating Funds to Support Affordable and Permanent Supportive Housing Projects

COVID-19 has highlighted on-going deep racial and social disparities in homelessness, health care, and housing systems, including access to affordable housing. In response to these inequities, communities across the country are working to rapidly scale up rehousing strategies and expand the stock of affordable housing units. These projects need funding to pay on-going operating expenses to keep rents affordable to extremely low- and no-income households. This document will help communities locate potential sources of operating subsidies to bring supportive and deeply affordable housing projects online. It is important to note that this process is done with shared leadership by people with lived experience and expertise in homelessness (see Engaging Individuals with Lived Expertise).

Operating Expenses

Operating expenses are the costs of the day-to-day operations of a housing project.

Examples of Operating Expenses

- Utilities.
- Maintenance and repairs.
- Marketing and leasing.
- Taxes and insurance.
- Management fees.
- Office supplies and expenses.
- Staff and contractor costs such as:
 - Maintenance
 - Security
 - Accounting and payroll

How are Operating Expenses Paid for?

Generally, in rental housing, rental income is the primary source of funding to cover operating expenses. To ensure the financial stability of program participants, it is essential that individuals are not required to pay more than 30% of their income, which might lead to a gap in the ability to cover operating costs. But in housing for those with extremely low incomes, tenant rent payments are insufficient to cover operating expenses.

What Are Operating Subsidies?

Operating subsidies are payments made to owners of affordable housing projects that make the housing more affordable by covering all or a portion of the ongoing costs of operating the project.

Ways to Fund Operating Expenses

There are different types of funding for operating expenses. Community planners and developers should be aware of the range of sources of operating assistance available to the projects they are developing. In some cases, multiple sources of operating subsidies are needed to make the project affordable to the intended participants. Some types of operating subsidies and examples are outlined below.

Type of Operating Subsidy	Examples
<p>Rental Assistance</p> <p>One form of operating subsidy is tied to the tenant of the unit as rental assistance, if there is not an eligible tenant in the unit then usually there are no rental assistance payments. Rental assistance can be divided into three types</p> <ul style="list-style-type: none"> • Project-Based Assistance Rental assistance is project-based and is tied to the unit and provided to cover a portion of the unit's rental cost when the unit is occupied by an eligible tenant. The rental assistance stays with the unit and is available for the next tenant in the unit if they are eligible. • Tenant-Based Assistance Rental assistance is tied to a household/family who has their choice of housing units. • Sponsor-Based Assistance Rental assistance where program participants reside in housing owned or leased by a sponsor organization (usually a non-profit entity) which then subleases the unit to the participant. 	<ul style="list-style-type: none"> • Housing Choice Vouchers, including project-based vouchers, which were formerly known as Section 8 vouchers, can be project-based or tenant-based. • PHA Special Population Vouchers are targeted to specific groups of people experiencing homelessness. Additional restrictions on the length and type of assistance may apply. <ul style="list-style-type: none"> ○ HUD-VASH for veterans ○ Family Unification Program (FUP) for families involved in the child welfare system ○ Project Based Vouchers designed with preferences for household experiencing homelessness ○ "Move up/Moving On" vouchers set aside by PHAs for families transitioning out of PSH/Rapid Rehousing or Transitional Housing that no longer need intensive services but would be housing unstable without rental subsidy ○ Emergency Housing Vouchers funded by the American Rescue Plan targeted to households experiencing homelessness • CoC Program Funding: Project-based or sponsor-based rental assistance funded through the CoC program • HOPWA program: Rental assistance for individuals with HIV/AIDS. Operating costs for housing are included as an allowable activity. • State Housing Vouchers: Some states have state-funded vouchers for supportive housing units. These are often funded by state appropriations or bonds. • HOME-ARP Tenant Based Rental Assistance (TBRA) Assists eligible households to pay the entire or partial rent. Can be used in a unit developed with HOME-ARP funding or in other housing of the tenant's choice.
<p>Other Types of Operating Subsidy Targeted to People Experiencing Homelessness</p>	<ul style="list-style-type: none"> • CoC Operating Costs: As described in 24 CFR 578.55, These costs are available to recipients or subrecipients who own or operate the housing and are available to pay for direct costs related to operating the housing (e.g., maintenance or repairs).

Type of Operating Subsidy	Examples
<p>Operating Reserves not tied to Tenants Other types of rental subsidies may be tied to the building rather than the tenant or unit.</p> <ul style="list-style-type: none"> • Capitalized Operating Reserves: A capitalized operating reserve is an upfront investment in a project which is held in a reserve account for later use to pay for anticipated operating shortfalls. The amount of subsidy must be sized and capitalized over an appropriate period. <p>Operating Deficit Reserve: An operating deficit reserve is often created for projects to guard against insufficient income. The reserve is used when a project’s income cannot cover its operating expenses, either because rents are lower, or expenses are higher, than expected.</p> <p>Operating Deficit Reserve: An operating deficit reserve is often created for projects to guard against insufficient income. The reserve is used when a project’s income cannot cover its operating expenses, either because rents are lower, or expenses are higher, than expected.</p>	<ul style="list-style-type: none"> • HOME-ARP: HOME-ARP funds can be used to provide ongoing operating cost assistance or capitalize a project operating cost assistance reserve to address operating deficits of the HOME-ARP units restricted for qualifying households during the compliance period. • Low-Income Housing Tax Credit (LIHTC) program: Tax credit equity generated through the LIHTC program can be used to capitalize operating reserves for affordable or PSH housing projects. A fifteen-year period would be anticipated as this represents the initial compliance period for LIHTC projects.

The operating subsidy programs identified below are not specifically targeted to housing for those experiencing homelessness but can support deeply affordable and supportive housing that people experiencing homelessness can be referred to or can fund permanent housing or permanent supportive housing integrated into the community’s housing crisis response system.

State and Local Housing Trust Funds

Housing trust funds are established by elected government bodies—at the city, county, or state level—when a source or sources of public revenue are dedicated, by ordinance or law, to a distinct fund with the express purpose of providing affordable housing and increasing opportunities for families and individuals to access decent affordable homes.

National Housing Trust Fund

The [National Housing Trust Fund \(HTF\)](#) is a dedicated fund that provides grants to states to build, preserve, and rehabilitate housing for people with the lowest incomes. The HTF resources can fund a capitalized operating reserve.

Section 811 Supportive Housing for Persons with Disabilities

The section 811 program is authorized to operate in two ways: (1) providing interest-free capital advances and operating subsidies to nonprofit developers of affordable housing for persons with disabilities; and (2) providing project rental assistance to state housing agencies. The assistance to the state housing agencies can be applied to new or existing multifamily housing complexes funded through different sources, such as Federal Low-Income Housing Tax Credits, Federal HOME funds, and other state, Federal, and local programs.

Mainstream Vouchers

Mainstream vouchers assist non-elderly persons with disabilities. This can include any member of a household over the age of 18 but under the age of 62 who has a physical, mental, emotional impairment of long duration, or a development disability. Aside from serving a special population, Mainstream vouchers are administered using the same rules as other housing choice vouchers.

Section 8bb Preservation Tool

This is a HUD preservation tool in which the budget authority for any Project Based Rental Assistance contract that is being terminated, voluntarily or involuntarily, can be transferred to a new Owner or Development. Owners interested in receiving this budget authority are encouraged to submit a letter of interest to HUD and be placed on a centralized wait list.

Rental Assistance Demonstration (RAD) program:

RAD provides an opportunity for Owners/Developers to partner with Public Housing Authorities to convert public housing to a more sustainable subsidy/operating platform. RAD provides opportunities for Owners/PHAs to move subsidies to other neighborhoods and/or to add back units/subsidies that had been lost over the years. There is also an opportunity to establish a homeless preference.

USDA Multi-Family Housing Rental Assistance

This program provides payments to owners of USDA-financed Rural Rental Housing or Farm Labor Housing projects on behalf of low-income tenants unable to pay their full rent. Payments are made on behalf of the tenants and become part of the property's income, which pays operational expenses.

Philanthropy and Faith Based Assistance

In some communities, philanthropies or faith-based organizations have supported operating subsidies to leverage a substantial investment in affordable or supportive housing.

Community Examples: State and Local Sources of Operating Funds

The following are examples of how states and localities have established additional funding streams to support the development of deeply affordable housing:

Washington D.C.

The [Local Rent Supplement Program](#) provides project-based rental assistance to cover the gap between rent payments affordable to extremely low-income families (with incomes at or below 30 percent of the area median) and HUD's fair market rent. Assistance is available for initial terms of up to 15 years through a long-term subsidy contract, in exchange for a commitment to continue serving income-qualified households.

Chicago

The [Chicago Low-Income Housing Trust Fund Operating Reserve Fund](#) makes operating funds available to support the development of affordable housing for those making >30% AMI.

California

- Statewide, the [No Place Like Home](#) Capital Operating Subsidy Reserve (COSR) supports the development of supportive housing for persons with serious mental illness who are chronically homeless, homeless, or at risk of being chronically homeless by allocating funding to an up-front reserve.
- In San Francisco, a [Local Operating Subsidy Program](#) was established to cover the gap between a project's operating revenue and the actual operating expenses for housing that serves people experiencing homelessness.

Pennsylvania

The [Pennsylvania Housing Finance Agency \(PHFA\)](#) subsidizes operating expenses at LIHTC properties that include set-asides of units for ELI households earning less than 30 percent of AMI. PHFA helps support these projects by allowing for a 5 percent increase in the developer fee. This increased developer fee generates a higher tax credit award, and the developer agrees that the corresponding increase in equity funds is used to capitalize an operating reserve for ELI units.