

Homeless System Response: Long-Term Financing of Permanent Supportive Housing Projects

The recent influx of Emergency Solutions Grants (ESG) program funding in jurisdictions across the country as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act provides communities with funds [to prevent people at risk of homelessness from experiencing homelessness and to rehouse those experiencing homelessness](#). However, to serve individuals and families with higher-acuity needs, many communities are looking to invest in permanent supportive housing (PSH) to accommodate this population long-term. This document serves as a primer on PSH and details both established and innovative strategies and sources for financing PSH.

Permanent Supportive Housing Models

[PSH combines affordable housing with voluntary supportive services](#) that help those exiting homelessness and other institutions obtain and maintain housing as well as improve health and connect with the community. Supportive housing is targeted to individuals and families with high-acuity needs, including people who have experienced chronic homelessness, have co-occurring disorders, or have a history of incarceration; transitional age youth; and families engaged with child welfare. Like [rapid rehousing \(RRH\)](#), PSH should provide services to help households maintain housing; they may be more intensive than those provided in RRH projects, but PSH is not time-limited.

Supportive housing falls into [three main models](#): single-site, scattered-site, and integrated housing. In single-site supportive housing, buildings have a majority of units dedicated to supportive housing tenants. Services are delivered in the supportive housing building, often with offices on the ground floor. In scattered-site supportive housing, units are usually rented from *private* market-rate landlords that are paid with money from a source of rental support funding, such as housing vouchers. Supportive services help the tenant stay housed and can be provided in the household's unit or off-site in the community. A third supportive housing model is the mixed-income/mixed-tenancy model that joins both supportive and affordable housing units in a single property. Services are often delivered in the integrated housing building, as well as sometimes off-site at the service provider's offices.

Centering Those With Lived Expertise in Leadership and the Planning Process

[Lived expertise](#) is an invaluable resource when planning a supportive housing program. In order to be successful, programs benefit from incorporating the full participation of individuals whom the project will serve to inform design, amenities, community connections, service needs, and delivery. [Strategies for incorporating tenant voice](#) include but are not limited to: having people with lived expertise as part of the project planning team, holding focus groups with people from the population you are trying to serve, implementing regular tenant surveys into your project plan, hiring people with lived expertise, and including people with lived expertise on your board. These strategies are crucial to the planning process because they help amplify the voices of those most impacted by housing instability and homelessness.

Leading with Building Racial Equity into Your Supportive Housing Program

Black, and Indigenous, and People of Color (BIPOC) are overrepresented in the populations of the systems that supportive housing serves, such as the [homeless](#), [justice](#), and [child welfare](#) systems. Supportive housing programs must rigorously incorporate a [racial equity approach](#) from the beginning of the planning process to address long-standing barriers to equitable access to housing and services. This includes having racially diverse partners in the planning process to include decision-making on funding, partnering with culturally specific organizations, building racial equity into the hiring process, creating policies leading with a racial equity lens, and tracking program outcomes by race and ethnicity.

Supportive Housing Financing

Depending upon the type of supportive housing being operated, supportive housing financing will require three types of budgets and funding resources: capital, operating, and services funding. Funding is usually provided through a combination of federal, state, and local funding. Financing breaks down by model in the following ways:

- Single-site requires capital, operating, and services funding.
- Integrated requires capital, operating, and services funding

- Scattered-site typically only requires operating and services funding, as it leverages existing housing stock and units.

Sources of Funding for Supportive Housing

Government. Federal, state, and local government agencies allocate funding and establish eligibility for affordable and supportive housing from entitlement and block grants as well as competitive bids or responses to an application or request for proposal (RFP). The type of expenditure (capital, operating, service) will dictate the appropriate agency source and whether the funding takes the form of a grant, a loan, or a forgivable loan.

Private Corporations and Financial Institutions. Private corporations—including financial institutions and health systems—may provide grants or loans for capital investment. Repayment terms vary by PSH project and funding source. Hospitals in particular have provided capital investment as well as services funding for supportive housing.

Philanthropy. Philanthropy from foundations, community associations, and private corporations provides a wide range of grants for services, capital, and operating expenses. Philanthropy can also provide valuable “seed” funding to launch a new development or program idea.

Sources of Capital, Operations, and Services Funding

Each of the three categories of PSH funding is supported through various resources. The following section breaks down funding sources in each of the different PSH funding categories.

Capital Funds

Capital funds are required to acquire, build, or rehabilitate units that will be dedicated to supportive housing. In addition to “bricks and mortar,” capital costs can cover building and land acquisition, architectural fees, financing fees, and project management costs. It is most common in the single-site and integrated supportive housing models, although there are also examples of scattered-site programs that utilize capital funds to acquire and rehabilitate new housing units. Below are sources of funding traditionally used by communities to cover capital costs.

Funding Source	Things to Know
Low-Income Housing Tax Credit (LIHTC)	The LIHTC is a federal tax credit allocated to states to incentivize investment in affordable housing from private investors. LIHTC properties often have units set aside for supportive housing and extremely low-income households. The LIHTC is the largest program for creating new affordable housing units.
National Housing Trust Fund	The National Housing Trust Fund provides funds for the creation, preservation, and operation of affordable housing for low- and extremely low-income households. While the National Housing Trust Fund is a federal program, funds are allocated to the states to support local affordable housing priorities.
Home Investments Partnerships Program (HOME)/Community Development Block Grant (CDBG)	Many states and local communities allocate a portion of their federal entitlement grants to provide flexible loans or grants for the capital costs to develop affordable and supportive housing. Supplemental allocations of CDBG funding under the CARES Act can be invested to create PSH units.
Pay for Success/Social Impact Bond	With pay for success or social impact bonds, private funders invest in a project that is then rigorously evaluated to assess targeted outcomes. If the project is a success, the government pays back the investor. There are several examples of this program being used to create more supportive housing.
Section 811 Supportive Housing for Persons with Disabilities	Through this program, HUD provides capital funds and rental assistance to create and operate supportive housing units. In recent years the Section 811 program is primarily allocated for rental assistance.
Federal Home Loan	The Affordable Housing Program (AHP) Competitive Application Program through the Federal Home Loan Bank allows organizations to apply for

Funding Source	Things to Know
Bank	financing for the construction, rehabilitation, or purchase of low-income rental housing, including supportive housing. Awards from the Federal Home Loan Bank are made in partnership with local financial institutions.
Hospital and Health System Investment	Ongoing program studies document that housing is healthcare. Based on research demonstrating that providing housing improves health outcomes , some hospitals and other health system partners (including managed care) have begun investing in supportive housing providing both capital and service funding . The New Jersey Housing and Mortgage Finance Agency is partnering with local hospitals to invest in supportive housing capital development. In Orlando, Florida , the hospital system partnered with the local government, health center, and housing providers to place the most vulnerable in stable housing with services.
New Market Tax Credit (NMTC)	The New Market Tax Credit incentivizes investment for capital development in low-income communities. NMTC is a competitive federal tax credit program with priority awards to projects that can demonstrate a positive impact on the communities being invested in. NMTC investments can be used to provide capital for new mixed-use developments that include supportive housing.

Operating Funds

Rental income is the primary source of funding to cover operating costs incurred such as property management, staffing, utilities, maintenance, insurance, and taxes. In supportive housing, tenant income is generally insufficient to pay rents to cover operating expenses without rent subsidies to fully cover these costs. In addition to rental assistance, some properties are able to establish reserves to cover operating deficits at the property. Many sources of operating subsidies require tenants to pay some portion of what income they do have toward their rent, usually set at 30 percent.

Funding Source	Things to Know
Federal Rental Assistance Vouchers	Rental assistance vouchers, funded through HUD and managed by CoCs, provide the majority of operations funding for supportive housing developments. Housing vouchers, generally administered by local housing authorities, provide rental subsidies to property owners for units occupied by income-eligible tenants. There are general Housing Choice Vouchers, and also voucher programs that apply to specific populations targeted in supportive housing, including HUD-VASH for veterans, Family Unification Program (FUP) for families involved in the child welfare system, Mainstream vouchers for vulnerable populations including people experiencing chronic homelessness and disabling conditions, and HOPWA for individuals with HIV/AIDS.
State Housing Vouchers	Some states, including New York (Empire State Supportive Housing Initiative [ESSHI]) and California have state-funded vouchers for supportive housing units. These are often funded by local state appropriations or bonds.
Flexible Housing Pools (FHPs)	FHPs are funded by contributions from private funders as well as state and local governments. The pools provide flexible funding to be used for rental subsidies, landlord mitigation risk funding, and some services. Examples of FHP can be found in both Chicago and Los Angeles .

Funding Source	Things to Know
Capitalized Operating Reserves	A capitalized operating reserve is an upfront investment into a development during the construction’s financial closing, which is held in a reserve account for later use to pay for operating shortfalls. Capitalized operating reserves are generally deployed when other rent subsidies are not available. Both the State of California and the City of Chicago operate capitalized operating reserve programs for PSH.

Services Funding

Service costs include both direct services like mental health counseling and case management, as well as costs associated with tenancy supports and life and jobs skills training.

Funding Source	Things to Know
Medicaid	Medicaid can be a sustainable source of service funding for supportive housing programs. Funding for Medicaid is shared through both federal and state resources and is mostly dedicated to primary, behavioral, and mental health services. While Medicaid will cover services for more tenants in states that chose to expand Medicaid, non-expansion states can also consider billing supportive housing services to Medicaid. Some states have created a Medicaid supportive housing services benefit through State Plan Amendments and Waivers. There are several administrative models for supportive housing agencies to consider to bill Medicaid for services.
CoC Programs	CoCs provide funding for some services in PSH for individuals moving out of homelessness, though most PSH programs are leveraged with other service’s resources.
Department of Health and Human Services (HHS)	Many sub-departments within the HHS including the Substance Abuse and Mental Health Services Administration (SAMHSA) fund the Cooperative Agreement to Benefit Homeless Individuals (CABHI) providing funding for mental health and substance use; Health Resources and Service Administration (HRSA) funds community health centers to serve vulnerable populations including those facing homelessness; and the Administration for Children and Families (ACF) administers grants for supportive housing services. These grants are administered at the state, local, and project levels.
Department of Justice (DoJ)	The Bureau of Justice Assistance , which is part of the DoJ, has issued several Notices of Funding Availability (NOFA) related to the Second Chance Act that have included opportunities for funding supportive housing for individuals exiting the criminal justice system. View an example of one of these NOFAs .
State and Local Services Programs	Many states and large cities have programs that provide funding for supportive housing services. These are funded through special tax initiatives, ballot measures, and other ways.

Special Considerations for Supportive Housing Financing

Braided Funding

Successfully funding services in supportive housing can be a challenge as there is not a single “go-to” source for services funding. Most supportive housing programs rely on [services funding from multiple sources to create sustainable supportive housing programs](#). This is frequently referred to as “braided” or “blended” funding. It is important when working in a braided funding model to track the operating procedures and other requirements that the various funders set.

Coordination

Supportive housing requires multiple partners—including developers, service providers, and property managers—to work together to create and operate programs. This makes [coordination between funders](#) essential to a supportive housing project’s success. Supportive housing partners benefit from working together as early in the process as possible; defining shared goals; and creating action plans, coordination procedures, and accountability through data collection all documented in a Memorandum of Understanding.

Engaging Stakeholders

When building supportive housing in a community, it is important to combat potential community opposition by [engaging community stakeholders during the development process](#). The Not In My Backyard (NIMBY) sentiment is a common reaction to supportive and affordable housing. Successful supportive and affordable housing projects communicate with the surrounding neighborhood through both informal conversations and open forums. The team developing the supportive housing project must be prepared to combat common misperceptions about supportive and affordable housing, including that it can bring down property values and increase crime. People with lived expertise can also be important and effective advocates for building supportive housing in a community.