

SUPPORTIVE HOUSING NETWORK OF NEW YORK

Recommendations for Strengthening the Homeless Housing Assistance Corporation (HHAC)

Transferring HHAC to HCR can streamline supportive housing development, if the program preserves its flexible, collaborative approach, and both HHAC and HCR are given expanded capacity to meet recent increases in the State's supportive housing unit development targets.

Governor Cuomo's recently-released SFY2013-14 Executive Budget proposes to transfer operation and oversight of the New York State Homeless Housing and Assistance Corporation (HHAC) from the NYS Office of Temporary and Disability Assistance (OTDA) to NYS Homes and Community Renewal (HCR). Co-locating HHAC with other housing development programs at HCR could help New York State create a more coordinated and streamlined process for nonprofit developers to build supportive housing. However, certain safeguards must be preserved to protect the model's effectiveness.

Background: HHAC is a public benefit corporation formed in 1990 for the purposes of administering the Homeless Housing and Assistance Program (HHAP), a capital housing development program that has financed the construction of over 14,500 units of permanent and transitional housing for homeless and at-risk individuals and families. In recent years, HHAP has invested approximately \$30 million a year of capital financing in building supportive housing, with occasional supplementary funding, such as \$14.3 million in Medicaid Redesign Team (MRT) funds in SFY2012-13. It is a subsidiary corporation of the NYS Housing Finance Agency (HFA), governed by a Board of Directors chaired by the OTDA Commissioner and staffed by employees of OTDA.

Proposed Changes: The Executive Budget proposes to transfer the HHAC chairmanship to the HCR Commissioner, and expand the membership of the HHAC board to include representatives of OTDA, the NYS Office of Mental Health (OMH), and the NYS Office of Substance Abuse Services (OASAS). Nine out of twelve OTDA employees currently working at HHAP would transfer with the program to HCR.

Rationale: Locating HHAC within HCR could reduce the time and expense of developing supportive housing, by more closely aligning the administration of HHAP funds with HCR capital, bond and tax credit funding streams, with which it is sometimes combined. While HHAP and HCR staff have improved coordination in the last few years, further integration of HHAC into HCR could help speed development, decrease administrative costs, and facilitate the creation of new innovative and integrated models of supportive housing for a broad variety of tenant populations.

Achieving a Successful Implementation: Affordable housing development is an extraordinarily complex process, and building supportive housing for extremely low-income and disabled tenants presents particular challenges. Unless careful attention is paid to the details of the implementation, HHAC's transfer to HCR could easily result in a less efficient development process.

The following recommendations for successfully implementing the HHAC transfer to HCR were developed in consultation with nonprofit, public and private sector stakeholders in supportive housing development in New York State. These recommendations can help the State preserve the effective procurement, development and management protocols that have made supportive housing so successful, while improving coordination and eliminating existing inefficiencies. They include ways to preserve HHAC's flexible, collaborative approach while expanding development capacity.

PROGRAM RECOMMENDATIONS

To maintain and improve HHAC's effectiveness, the Network suggests the following recommendations:

I. PRODUCTION

1. Use HHAC Transfer to Increase Supportive Housing Production
2. Establish Production Baselines and have HHAC Track Development Targets
3. Keep HHAC's Capital Awards "Rolling"

II. POLICY

4. Maintain Program's Focus on Homeless Housing
5. Continue to Finance Nonprofit Developers
6. Continue Funding Stand-Alone Projects
7. Continue Current Regional Distribution Practices

III. PROCESS

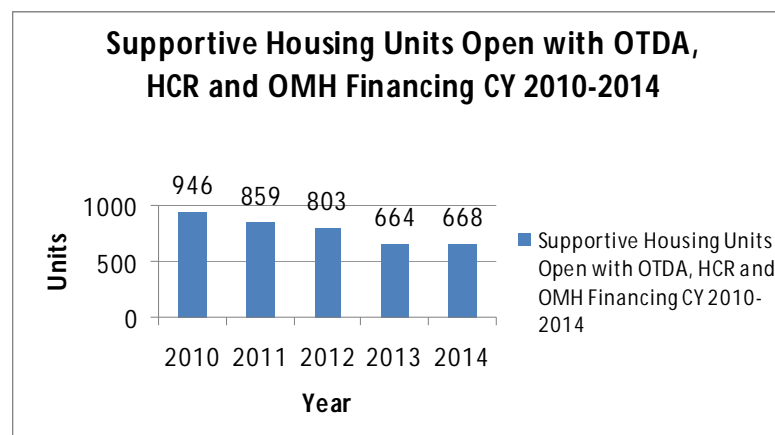
8. Coordinate Service & Operating Awards with Capital Development
9. Coordinate Supportive Housing Capital Development Across Agencies
10. Maintain HHAP Underwriting Criteria
11. Preserve Existing HHAP Portfolio
12. Maintain Homeless Housing Architectural & Engineering Services
13. Maintain Adequate Staffing Levels

I. PRODUCTION

1. **Use the HHAC Transfer to Increase Supportive Housing Production** - Supportive housing has been proven to decrease vulnerable New Yorkers' use of expensive emergency interventions, including institutionalization and inpatient care funded by Medicaid. The cost savings achieved by supportive housing in these areas often exceeds the costs of building, operating and providing services in the housing. Accordingly, the State has invested new NYS Department of Health (DOH) Medicaid Redesign Team (MRT) funding and other affordable housing capital funds in both HCR and HHAC to accelerate and expand supportive housing production. Part of the impetus for the transfer of HHAC to HCR is to allow the State to spend these new resources more efficiently to produce a greater number of units.

This new attention on production goals is critical, as the number of new supportive housing units financed each year by all State agencies has been decreasing steadily (*see Table 1*).

Table 1.



The decrease in unit production is the result of flat funding for capital programs and rising development costs. Aside from last year's \$14.3 million MRT supplement, HHAP has been funded at \$30 million for the past fifteen years, even as demand and development capacity have grown. In 2012, OTDA received requests totaling \$75 million from 25 nonprofit agencies. Even with the additional MRT funding, only thirteen agencies received HHAP awards. For larger projects, these awards now cover only a fraction of total development costs, requiring developers to secure multiple other funding sources and adding months to the overall development timeline. With so little HHAP, which is structured as capital grants, nonprofit developers must use financing that adds hard debt payments to operating budgets, leaving buildings and nonprofits less financially secure.

The lack of growth in capital budgets has delayed production of the NY/NY III Supportive Housing Agreement, the City-State initiative to create 9,000 units in 10 years. At the 8-year mark, flat-funding has restricted HHAC to completing only 30% of its 1,000-unit commitment, whereas fully-funded OMH is on track to finish its 1,125-unit commitment on time. Redirecting more funds from the MRT and the Governor's new "House NY" initiative to fund HHAP at \$60 million annually would help increase housing for high-cost Medicaid recipients and get NY/NY III back on track.

2. **Establish Production Baselines and have HHAC Track Development Targets.** To ensure that capital development of supportive housing increases, HHAC should establish exactly how many units have been produced annually by all State agencies in the past few years, and then track and set goals to exceed these baselines. Only with a clear accounting of how much each agency builds today can we set new, more ambitious targets.

Table 2 below shows supportive housing development by HHAC and HCR over the past three years. This includes: 1) permanent supportive housing units funded by HHAP (on its own, or often in concert with OMH or NYC Department of Housing Preservation and Development (HPD)); 2) emergency and transitional units financed by HHAP; 3) permanent supportive housing units financed with a combination of HHAP and HCR funds; and 4) permanent supportive housing units financed by HCR (without HHAP, though sometimes with OMH, HPD or other agencies). Together, the two agencies financed an average of 534 distinct units a year over the past three years.

Table 2.

Unit Breakdown of HHAP and HCR Supportive Housing Production					
	HHAP Supportive Housing	HHAP Emergency or Transitional	HCR/HHAP Supportive Housing	HCR Supportive Housing	Total Units
Units 2010- 2012	621	113	532	336	1602
Annual Average	207	38	177	112	534

Another way to measure supportive housing production is to track how much of the various funding streams at HCR go toward financing supportive housing. In the past three years, HCR has devoted to supportive housing approximately 15% each of its Housing Trust Fund dollars, federal HOME funds and 9% Low Income Housing Tax Credit allocations. Tracking these commitments will help HCR maintain its production levels after the merger.

3. **Keep HHAC's Capital Awards "Rolling"** – At present, HHAC makes capital awards in a "rolling" Request For Proposals (RFP) process, similar to the NYC HPD Supportive Housing Loan Program and NYS OMH's Housing Division. This "first come, first served" process gives greater flexibility to the awarding agency and encourages collaboration with the nonprofit applicant. As a result, projects can be better aligned with the State's interests, as to tenant population mix, project size, configuration of program space, construction costs, program model and performance measures. It is particularly well-suited to supportive housing development, which requires multiple funding sources to build, operate and serve the tenant population. HHAC's consultative, collaborative and flexible approach is key to its success and must be preserved.

II. POLICY

4. **Maintain HHAP's Focus on Homeless Housing** - HHAP finances housing that falls outside the purview of most other State affordable housing development programs. This includes a wide range of housing types not eligible for the State's permanent housing production programs, including emergency shelters and transitional housing models. HHAC is the only capital resource for this critical housing. HHAP also builds for various homeless and special needs populations who often have difficulty gaining access to other affordable housing financed by the State, including, but not limited to, victims of domestic violence, youth who are homeless or aging out of foster care, veterans, ex-offenders, and people living with HIV/AIDS (by law, \$5 million of HHAP funds are reserved annually for this last population). Even as special needs housing units are increasingly integrated into mainstream affordable housing projects, HHAC authorizing legislation should continue to direct HHAC to finance the units reserved for homeless and at-risk populations.
5. **Continue to Finance Nonprofit Developers** - Much of supportive housing's success can be attributed to the mission-driven nonprofit organizations that provide its distinctive flexible, person-centered care. To protect the long-term viability of the State's investment, and to maintain the success and integrity of the model, HHAC capital funding awards must continue to be restricted to nonprofit organizations. This will not prevent nonprofits with limited development expertise from forming joint ventures with other, more experienced private sector or nonprofit developers, particularly when HHAC funds are combined with other funding sources. But in regulating such partnerships, HHAC and HCR must ensure that the nonprofit has a meaningful role in the design of the building, program space and units. State mortgage and regulatory agreements should require that the nonprofit in a joint venture hold at least a 50% ownership share of the managing general partnership. Ownership of the building should revert to the nonprofit on favorable terms at the end of the tax compliance period. In larger buildings less than half supportive housing, the nonprofit should hold a legally binding master lease that preserves the long-term affordability and eligibility restrictions of the supportive housing units.
6. **Continue Funding Stand-Alone Projects** - HHAC should continue to allow funding of small supportive housing projects, transitional housing and domestic violence shelters that do not use tax credits, bonds and other large amounts of additional funding. Over the past three years, approximately 53% of projects approved by HHAC have been "stand-alone" projects, in which the only major funding source is HHAP funding (*see Table 3, below*). The remaining 47% of the units have been funded with a mix of resources including HHAP, Housing Trust Fund, MRT subsidy, bonds and tax credits, either from HCR or NYC HPD. It is important that HHAC continue funding this mix of project types and is not restricted to financing only stand-alone projects, or to working only with some of the other government agencies with which it collaborates today.

The transfer should provide an opportunity for HHAP stand-alone projects to gain access to HCR project-based rental assistance.

Table 3.
HHAP Stand Alone vs. Multiple Resources 2010-2012

	Total HHAP Projects	Mixed with tax credits	% mixed	% HHAP stand alone
Downstate suburbs	6	1	17%	83%
Upstate	15	3	20%	80%
NYC	13	12	92%	8%
TOTAL	34	16	47%	53%

7. **Continue Current Regional Distribution Practices** - HHAC should continue to fund housing projects distributed throughout New York State. Over the past three years, 49% of HHAP units have been built in NYC and 51% built in the rest of the state (see *Table 4*). Regardless of which agency administers HHAC, it is critical that it maintain a fair regional distribution to meet statewide need. To do so, the Network suggests HHAC continue the distribution policy outlined in the HHAP Request for Proposal:

“No single geographic region shall receive more than 60% of the funds available in any given fiscal year unless HHAC determines that it is in the best interest of the State to do so. For the purposes of this provision, geographic regions are delineated by HHAC as follows:

- New York – Bronx, Kings, New York, Queens and Richmond Counties
- Suburbs – Westchester, Nassau and Suffolk Counties
- Rest of State – All other counties not listed above.”

Table 4.
HHAP Regional Distribution 2010-2012

	Total Units	Total Beds	HHAP Units	HHAP Beds	Funding	%
SUB*	93	259	93	259	\$18,038,182	18%
ROS	431	504	390	430	\$34,362,303	33%
NYC	1038	1725	712	1011	\$50,371,505	49%
TOTAL	1562	2488	1195	1700	\$102,771,990	

*Westchester, Nassau and Suffolk Counties

III. PROCESS

8. **Coordinate Service & Operating Awards and Capital Development** – Supportive housing needs ongoing service and operating funding to house and serve its extremely low-income and disabled tenants. Projects cannot be underwritten and financed until a clear source for these funds is identified. Presently, service, operating and capital awards for supportive housing are

coordinated at OTDA HHAC and OMH, because OTDA and OMH control all three funding streams.

If HCR is to assume oversight of HHAC, HCR must ensure that capital awards are coordinated with the agencies that provide operating and services contracts, including OTDA, OMH, OASAS, DOH and the NYS Office for People with Developmental Disabilities (OPWDD). These agencies can use a Request For Qualifications (RFQ) or Request For Proposals (RFP) process to make conditional awards of service and operating contracts. Nonprofit providers can then use these to apply for capital through HHAC and/or HCR.

In this way, the agencies that oversee supportive service and operating awards continue to have approval of referral sources and service plans, and oversee service contracts connected to the residences once they're built. Linkages between State "O" agencies and local service districts will also be maintained, to link program residents with local services, and serve as the primary referral sources for the housing. HCR is also better positioned to provide project-based Section 8 Rental Assistance vouchers on a priority basis. Finally, the OTDA NYS Supportive Housing Program (NYSSHP) provides critical operations funding to most supportive housing in the state. It must be better coordinated with HHAC and HCR capital production so residences have the resources they need to operate safely when they open.

9. **Coordinate Supportive Housing Capital Development Across Agencies** – HHAC can streamline capital development by using the HHAC board structure to facilitate a collaborative decision making process involving multiple state agencies. As stated above, in the new structure, State agencies would make available contracts with operating and service subsidies through an RFP process coordinated with HHAC's capital awards procedure. After receiving a conditional service and operating award and a capital award through HHAC, the nonprofit can commence development, or advance the project to HCR or HPD for additional funding, such as tax credits, Housing Trust Fund dollars, tax-exempt bonds and other financing tools. In this way, nonprofit developers would have critical capital subsidy, service and operating awards "in pocket" when applying to the HCR Unified Funding Round for additional capital resources. As in the current practice, the State service agencies would continue to advocate for the needs of their service population to the HHAC board, and the HHAC board would be responsible for setting priorities within the various special needs populations. This consultative process will best leverage private and public resources, protect fidelity to the model, and streamline the development process.
10. **Maintain HHAP Underwriting Criteria** - HHAC should retain its own underwriting criteria, structured to reflect the characteristics of the supportive housing model and the special needs tenants it serves. While many aspects of the HHAC and HCR programs can be standardized and coordinated, the HHAC underwriting criteria should continue to be separate from other HCR production programs, so that it can continue to target very low income special needs populations (30% or less AMI) effectively. Whereas most HCR underwriting is confined to projecting and comparing future building income and operating costs, supportive housing projects require underwriting to account for additional rent subsidies, funding for on-site services, more regulatory oversight and active asset management. Without HHAC's more comprehensive planning and oversight, it will be more difficult to preserve the long-term financial and structural viability of the housing, or to ensure that vulnerable tenants receive the support they need to become stabilized and address chronic health conditions.
11. **Preserve Existing HHAP Portfolio** - HHAC is a more active asset manager of the properties it has financed than most other State and local housing agencies. Without asset management services,

properties would fall into disrepair and ultimately not be able to be used for their intended purpose or the populations for which they were built. Especially with the recent hurricanes and storms, HHAP has played a very active role in getting its projects immediately back on line, so that flood victims could be sheltered in place, instead of having to go to disaster-related housing. Given the needs of these very vulnerable populations, this is in everyone's benefit.

HHAC's asset management is based on a partnership approach that goes beyond basic monitoring of physical conditions to include support services program, operations and management and providing of technical assistance in support of the organization and project. In the past three fiscal years, HHAC has directed \$2.5 million in contract amendments and \$3.6 million in Technical Assistance, which includes property management of projects in default and emergency repairs in the wake of Hurricane Irene and Tropical Storm Lee. HHAC should continue to retain responsibility for, and the capacity to oversee, asset management of in-service HHAP projects, including emergency repairs and preservation reinvestment. The merger may provide opportunities for efficiencies in the future, as long as the more intensive asset management needs of the HHAC stock is taken into account. HHAC staff could be expanded to monitor vacancies and referrals to special needs units in all of HCR's affordable housing stock.

12. **Ensure Adequate Architectural, Engineering and Construction Management Services** – HHAC currently uses the Dormitory of the State of New York (DASNY) for architectural and engineering services during project development and construction phases. In comparison, HCR uses internal agency staff for oversight, monitoring and construction management. It is critical that HHAC maintain the ability to draw down services from DASNY for projects that are solely funded by HHAC, and projects that are transitional housing or shelters. DASNY has the knowledge and experience in working with nonprofits and is an invaluable resource that protects the project and guides the nonprofit provider that does not have development experience. However, If NYC HPD is the lead, then HPD should provide the services normally offered by DASNY. This arrangement will allow HCR to expand its capacity to keep up with the agencies added development activities.
13. **Maintain Adequate Staffing Levels** - HHAC currently employs 12 OTDA employees, but only nine positions are proposed to go to HCR. This staffing reduction is likely to have a negative impact on HHAC's ability to quickly expand vulnerable people's access to housing, as the agency was already operating above capacity: to expand supportive housing opportunities for high-cost Medicaid recipients, this year the State's Medicaid Redesign Team (MRT) increased HHAC's budget by 50%. The Governor's new housing plan, House NY, will further expand the number of projects in each of the next four years. To be able to advance its greatly expanded mission, current staffing of HHAC should be maintained, so that HHAC can commit capital to projects quickly, oversee construction, and maintain properties in the portfolio. With the State continuing to increase investment in supportive housing in the coming years, it is critical that the staffing level be adequate to administer the growing program.

In order to both improve supportive housing development and protect the model's effectiveness, there is an opportunity to position HHAC as one of the leading entities of supportive housing development in New York State. To maintain the integrity of the supportive housing model and increase overall production of supportive housing to meet the state's goals of decreasing costs and improving the quality of life for some of the neediest New Yorkers, the above listed safeguards should be implemented as the proposed consolidation occurs.