Enterprise's Submission on Barriers to Supportive and Senior Housing Development

Sigal, Abby to: Mark L. Kissinger

Mark,

Here is Enterprise's submission identifying the financing and underwriting barriers to creating more supportive and senior housing throughout the State. We look forward to developing solutions and figuring out ways to build and preserve more units so that we really can bend the Medicaid cost curve while at the same time helping people live better lives.

Thank you for the opportunity to participate.

All the best,

Abby

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MEMO

Date: November 4, 2011
To: New York State Medicaid Redesign Team – Affordable Housing Work Group
From: Abby Jo Sigal, Vice President, Enterprise Community Partners
Re: Barriers to the Creation of Supportive and Senior Housing

This memo is in response to the request from the Work Group Staff to compile a list of current barriers to the creation of supportive housing in New York State.

One of Enterprise's areas of core competency is in underwriting and assembling financing packages for housing development. Through this work we have developed in-depth knowledge of where the barriers to financing supportive housing lie, and believe this is an area where we can add particular value to the conversation. The information in this memo stems from conversations with our own internal underwriting departments as well as senior staff at the large financial institutions that finance supportive housing development.

A number of other recommendations outside finance and underwriting also resulted from our research in this area; these recommendations overlap with several of those developed by SHNNY. We have chosen not to duplicate those recommendations here, but we agree with the barriers identified by SHNNY and look forward to discussing potential solutions with the Work Group.

Additionally, Enterprise has invested $1.7 billion in over 30,000 units nationally of affordable senior housing with services, developed by community-based organizations as well as dedicated senior housing providers. This model is not supportive housing per se, but functions in analogous ways and shows promise to bring down expenses for high cost senior users of Medicaid. Barriers that groups face in developing senior housing with services are also included below. We must ensure that this model is also part of the conversation.

Barriers to the Creation of Supportive Housing:

- **Unfunded mandates and appropriations risk lead to investor concern, higher reserves, and fewer projects.** Most current funding sources for supportive housing in NYS mandate that developers continue to house high-needs populations even if critical rental, operating and/or service funding, which is "subject to appropriations," is lost. This is a problem for three reasons:
    - It makes investors and credit committees nervous, increasing the challenge of finding investment dollars;
    - In order to compensate for these risks, underwriters must include large reserves in project budgets to cover deficiencies if subsidies are lost;

- These large reserves lead to more costly development budgets and less funding for the next project.

The best resolution for this problem is for agencies to include "regulatory relief" clauses in their funding provisions. This simple solution costs nothing, reduces the price of projects, increases investor confidence, and does not impact the ability of projects to serve high needs residents as long as critical project funding streams remain in place.[1]

- **Investor confidence is still lacking and/or at risk in some areas of supportive housing development.** Although banks and other investors now understand supportive housing deals much better than ever before, and there are numerous successful developments to point to as examples, some gaps still remain:
  - Credit committees do not always understand the premise of supportive housing – especially mixed-populations (PSH with regular low-income)
  - Concern over "death by a thousand cuts" – as opposed to losing funding in its entirety, investors are also concerned about small cuts year after year creating long term problems in the financial viability of projects, especially in the current budget environment
  - Lack of understanding on the part of investors about the precise service needs of the residents, and what service cuts will put their investment at risk

  Investor confidence can be generated through a combination of education, which is ongoing in the field, and providing subsidies with strong long-term contracts. In addition, it is worth noting here that investors and underwriters report that if any supportive housing developments are allowed to fail due to budget cuts, it will do irreparable damage to investor confidence and the ability to secure private sector investment in the future.

- **Program requirements and guidelines are mismatched.** Supportive housing developments are generally funded through a combination of many sources, which have different program guidelines pertaining to population served, income restrictions, rent subsidy levels, etc. These guidelines are often in conflict with each other; for example:
  - NY/NY III rent subsidies do not generate LIHTC **rents-levels**.
  - **Length** of many rent/operating and subsidy contracts do not match the LIHTC compliance term
  - Different programs have different **definitions** of homelessness, chronic homelessness, mental illness, etc.

  These issues can be addressed by reviewing the program requirements of the various funding agencies and revising them to ensure compatibility between their guidelines.

[1] One criticism of regulatory relief is that it will give projects a loophole to cease serving high-needs populations. This is easily mitigated through proper structuring of the project legal documents, which other geographies have succeeded in doing. It is important to note that even if a project does <u>not</u> have regulatory relief, severe funding cuts will still result in a distressed project, likely mortgage default, and a housing loss for special needs tenants.

Better coordination also reduces the development time and perceived risks of a project, both of which are critical to investors.

- **Timing of service contracts does not align well with underwriting timeline.** Service contracts are generally only issued a few months before a project opens, and thus are unavailable at the time of underwriting. This can lead to challenges for underwriters trying to understand the service piece of the financing. It also poses a concern for investors. Having contracts or letters of intent earlier in the development process would help secure development capital.

- **Subsidies for Capital, Operations/Rent, and Services are needed.** Due to the low income levels of most supportive housing residents, government support for the physical development, operations (or rent) and services are all needed. Ongoing and increased supportive housing development cannot happen without all three of these sources. Although multiple agencies at the local, state and federal level currently fund supportive housing, new funding sources will be needed to significantly increase production.

- **Affordable housing developed using 4% LIHTC and tax exempt bonds competes for volume cap with other bond projects, in particular 80/20 rental buildings, leaving less available for supportive housing.** Sufficient priority for supportive housing developments must be preserved at the state level so that bond cap is available for these projects.

- **Many of the sources for supportive housing funding are also used for the development of affordable housing for non-special-needs, low-income households**. Unless we expand or fund new sources, increasing the share of funding to supportive housing will decrease the availability of much needed affordable housing for other populations. Therefore, as supportive housing generates savings to the system, it is critical that a portion of these savings be reinvested into new development so that supportive housing supports itself, and does not cannibalize the already too-small pool of funds available for other critical affordable housing programs.

Independent Senior Housing Barriers:

A large and rapidly expanding population of low-income older adults faces the daunting challenge of finding affordable, safe housing that can accommodate their changing needs as they grow older. As they age, an increasing proportion of these older adults experience multiple chronic illnesses and deteriorating physical and cognitive functioning that impede their ability to live independently in the community. Individual resident needs translate into higher costs to Medicare and Medicaid.

Research shows that providing service-enriched affordable housing helps seniors age independently, in safety and dignity, in their homes and communities while reducing costs to

the healthcare system and is a cost-effective alternative to placing people into institutions. Housing as a hub for services offers an ideal platform for efficiently and effectively delivering home care, other health services and social and environmental supports.

Many of the barriers and potential solutions found in supportive housing cross over to independent senior housing, particularly issues related to subsidies and investor confidence. Below is a list of additional barriers and potential solutions that we encountered over the past several months in conversation with our senior housing partners, including LeadingAge New York, LeadingAge, and SAHF:

- **There is a lack of safe, accessible affordable housing for seniors** As a solution, the field must develop and preserve quality independent affordable housing for seniors. This housing can then serve as a platform for services that enables seniors to remain independent for as long as possible in their homes and communities. Resources are constantly changing and evolving. The HUD Section 202 budget has decreased gradually over past few years, from $825 m in FY10 to under $400 m in FY11. The proposed FY12 Section 202 allocations range from $757 m by the President to $600 m by the House to $370 m by the Senate. In the latest proposal, the Senate zeroed out capital for new construction. In addition, demand for Low Income Housing Tax Credits far exceeds their supply.

- **Challenges exist in accessing funding for services and service coordinators.** Current funding models do not include sufficient or at times any funding at all for services. New sources for funding services linked to senior housing are needed. There are good lessons from the supportive housing industry. One possible example is the NY/NY III Supportive Housing program which could be used as a model for developing more housing with services for seniors.

- **Some seniors are being over-served.** There are vast differences in the service needs between various senior age cohorts. Low-income seniors often end up in higher levels of care because they are unable to access housing with appropriate levels of service. To address this issue, the field must preserve and present choice in services. Regulatory barriers must be streamlined with an eye to achieving successful outcomes and efficiencies. A range of program models should be available for seniors at a full spectrum of age, care and service need levels.

- **Concern over licensure requirements can be a barrier to financing.** Some investors, particularly in LIHTC are comfortable with independent living with services models, but are wary of the intensive regulations surrounding assisted living facilities. Thus it is critical to provide a model of housing with services that provides appropriate care for residents without necessitating burdensome licensing requirements that discourage investors. In the case where higher levels of services are needed which require licensing, making the service provider the licensee, rather than the facility, will be better for providers, residents and investors.

Thank you for your consideration of these issues and solutions. We look forward to continuing the conversation around Medicaid reform and how supportive and independent senior housing can be part of the solution.