

An aerial photograph of Los Angeles, California, taken during the "golden hour" of sunset. The sky is a mix of light blue and warm orange. In the foreground, there are several multi-story residential buildings with flat roofs. In the middle ground, a dense urban area is visible. In the background, the Los Angeles skyline is prominent, featuring several tall skyscrapers. The overall mood is serene and urban.

# FINANCING HOUSING FOR THE HOMELESS IN LOS ANGELES

CITI COMMUNITY CAPITAL'S TRANSITION INTO  
PERMANENT SUPPORTIVE HOUSING

**Karine Choi, Hilary Hamm, Takanori Hattori,  
Ho Young Lee, Omni Nishar, Jacqueline Woo**

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## **List of Abbreviations**

CCC – Citi Community Capital  
CDBG - Community Development Block Grant  
CDLAC - California Debt Limit Allocation Committee  
CoC - Continuum of Care Program  
CTCAC - California Tax Credit Allocation Committee  
DHS – LA County Department of Health Service  
FHSP – Flexible Housing Subsidy Pool  
HAP – Housing Assistance Program  
HCV - Housing Choice Voucher  
HOME - Home Investment Partnerships  
HOPWA - Housing Opportunities for Persons with AIDS  
LIHTC - Low Income Housing Tax Credit  
NPLH – No Place Like Home  
PHA - Public Housing Authority  
PSH – Permanent Supportive Housing  
PBRA – Project Based Rental Assistance  
PBV – Project Based Vouchers  
TBRA - Tenant Based Rental Assistance

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**CHAPTER 1**  
**EXECUTIVE**  
**SUMMARY**

# I. Executive Summary

## Introduction to the Project

Over the past decade, California has seen a continued economic expansion accompanied by a massive affordable housing gap that has fueled homelessness.<sup>1</sup> Los Angeles (LA) City and County have been particularly affected by this challenge: in 2019, the area contained the second largest number of homeless - almost 60,000 individuals - after New York City, 76% of whom were unsheltered.<sup>2</sup> The visibility of this issue has catapulted homelessness as a major concern among policy makers and residents in LA: last year, 95% of voters polled in LA County called it a “serious” or “very serious” problem.<sup>3</sup>

In recognition of this, both California and LA’s local governments have introduced policies to reduce homelessness and fund affordable housing development. Permanent Supportive Housing (PSH), a strategy prioritized by HUD to house the chronically homeless, is one of the strategies that is being funded both at a state and local level due to its potential to reduce homelessness and increase cost-effectiveness.<sup>4</sup>

Citi Community Capital (CCC), the affordable housing lender of Citigroup, has financed multiple affordable housing projects in LA and is interested in adding more PSH projects to its portfolio. Thus, in early 2020, CCC asked the SIPA Capstone Team to assist in its risk assessment of future PSH deals in Los Angeles.

This project involved desk research and expert interviews to examine the various financial, policy, and operational aspects of investing in PSH projects in LA. Due to the COVID-19 health crisis, the team was unable to conduct in-person site visits as planned; however, we strove to accumulate and synthesize as much information as possible remotely. The document provides the sources, organizations, and interviews used in this research.

This Executive Summary provides a brief introduction to PSH, then highlights key aspects of the report, including: the components of PSH financing; a review of PSH policies; an assessment of financing, developing, and operating risks; risk mitigation strategies; and best practices in assessing a PSH project. Given the current public health environment, we conclude with an analysis of the possible impacts of COVID-19 and next steps.

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<sup>1</sup> Levin, Matt, and Jackie Botts. “California’s Homelessness Crisis - and Possible Solutions - Explained.” CalMatters, December 31, 2019.

<sup>2</sup> Meghan Henry et al., *The 2019 Annual Homeless Assessment Report (AHAR) to Congress, Part I: Point-in-time Estimates of Homelessness*, The U.S. Department of Housing and Urban Development, Office of Community Planning and Development, January 2020.

<sup>3</sup> Benjamin Oreskes et al., “95% of voters say homelessness is L.A.’s biggest problem, Times poll finds. ‘You can’t escape it,’” Los Angeles Times, November 14, 2019.

<sup>4</sup> Dennis P. Culhane, Stephen Metraux, and Trevor Hadley, “Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illness in Supportive Housing.”

## **Permanent Supportive Housing: Principles and Stakeholders**

PSH emerged in the 1980s as a new housing approach that provides voluntary community-based services in contrast to prior models that made housing conditional on service participation.<sup>5</sup> This approach came to be known as Housing First, which emphasizes tenant choice in their success at staying housed and improving their lives.<sup>6</sup> PSH placement has been associated with reductions in the cost of service provision, shelter use, hospitalizations, length of stay per hospitalization, and time incarcerated.<sup>7</sup>

PSH is similar to “regular” affordable housing in that a lease is provided and the tenant household ideally pays no more than 30% of their income towards rent. However, while tenants are provided a lease, there are typically no limits on tenancy length as long as lease terms and conditions are met. Tenants are engaged in a “flexible and comprehensive” array of supportive services, such as case management, mental health services, substance abuse services, and workforce development courses, that are unconditionally offered.<sup>8</sup> While these services are voluntary, the property manager, services coordinator, and case managers proactively engage and connect tenants to these resources.<sup>9</sup>

**Key stakeholders** in a PSH project include the developer, property manager, and services staff. The **developer** is responsible for real estate development from project concept through entitlement, financing and construction: they align project goals with organizations’ missions and strategic plans and ensure legal and financial integrity, including the creation and use of replacement and operating reserves. **Property managers** oversee the day-to-day operation of the property: leasing, collecting rents, filling vacancies, handling maintenance and repair issues, and responding to tenant complaints. Property management entities experienced in working with supportive housing providers can be a significant asset to the development team because they understand the tenant population and costs associated with property upkeep and maintenance. Lastly, **supportive service providers**, which often include case managers, specialize in developing and delivering the right mix of flexible, voluntary services that use best practice approaches to support tenants’ housing stability and improve the health and well-being of the tenants. Service providers should have experience working with the project’s target population and may also coordinate with other organizations to deliver services.<sup>10</sup>

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<sup>5</sup> O'Hara, Maureen. "Presidential Address: Liquidity and Price Discovery." *The Journal of Finance* 58, no. 4 (2003): 1335-354.

<sup>6</sup> National Alliance to End Homelessness, “Housing First.” Accessed March 20, 2020.

<sup>7</sup> Culhane et al, “Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illness in Supportive Housing.”

<sup>8</sup> Corporation for Supportive Housing, “CSH Dimensions of Quality Supportive Housing Second Edition,” 2013.

<sup>9</sup> Corporation for Supportive Housing, “Supportive Housing and Affordable Housing Model.” 2015.

<sup>10</sup> San Diego Housing Commission, “Permanent Supportive Housing Toolkit Preparing a High Quality Application,” 2019.

## **Permanent Supportive Housing Financing**

The three-pillar model of financing PSH includes capital funding for construction, operations, and supportive services. Each receives various federal, state, and local subsidies.

Capital funding for **construction** is a one-step process: construction usually lasts an average of 18-24 months, and no additional funding is required after the building has been constructed. Compared to the other two pillars, construction funding has the least risk due to its duration and similarity to affordable housing construction. Traditionally, federal sources of capital funding for the acquisition, construction, and rehabilitation of PSH buildings have included **Community Development Block Grants, Home Investment Partnerships, Housing Opportunities for Persons with AIDS, and the Continuum of Care Program**.<sup>11</sup> In the City of LA, **Proposition HHH** provides additional loans for supportive housing.<sup>12</sup>

Funding for operations in a PSH project is typically administered through rental assistance subsidies such as **Housing Assistance Payment (HAP)** contracts, also known as **Section 8**, and tenants' own income. Since operations are ongoing and long-term, there is a longer time horizon for problems to arise. However, given prior federal funding patterns and California's recognition of the homelessness problem, it is unlikely that these subsidies will be discontinued in the near future.

Supportive services are an integral, ongoing part of PSH. In some cases, money from housing vouchers can cover some of the supportive services, but, even in that case, additional subsidies are needed to make up the difference and are drawn from various sources with varying eligibility requirements. A number of local funding mechanisms, such as **Measure H** and the **Flexible Housing Subsidy Pool (FHSP)**, are available to fund service providers to "do whatever it takes" to keep tenants housed; however, these amounts are relatively small, time-limited, and dependent on local economic performance.

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<sup>11</sup> Homelessness Policy Research Institute, "Accelerating Permanent Supportive Housing in Los Angeles," 2019.

<sup>12</sup> Office of Los Angeles Mayor Eric Garcetti, "Tracking HHH," October 9, 2019.

## **Key PSH Policies in California and Los Angeles**

**No Place Like Home Program (NPLH):** In November 2018, California voters authorized the sale of up to \$2 billion of revenue bonds and the use of a portion of Proposition 63 taxes for the NPLH program, which provides funding to acquire, design, construct, rehabilitate, or preserve PSH for homeless individuals with serious mental illnesses.<sup>13</sup> Around \$230M of these funds were made available for the Los Angeles Community Development Authority (LACDA) to disburse to recipients in 2020.<sup>14</sup>

**Measure H:** In response to mounting concerns about homelessness, in March 2017, voters in LA County approved a 1/4 cent sales tax to provide an ongoing revenue stream for homeless services in accordance with the LA County Homeless Initiative Plan. Measure H is estimated to bring in an average of \$355 million per year to fund services, rental subsidies, and housing; in FY 19-20, it brought in \$460M.<sup>15</sup> Given the current recessionary climate, this year's amount may be substantially smaller. Measure H, a ballot initiative, is subject to voter renewal in 2027.<sup>16</sup>

**Proposition HHH:** A \$1.2 billion supportive housing loan program that was approved by LA City voters in 2016, the program aims to triple LA's annual production of supportive housing and build approximately 10,000 units.<sup>17</sup> However, this number has decreased based on the increasing cost of construction. The city is exploring faster and cheaper ways to build homeless housing to meet the target.<sup>18</sup>

**Flexible Housing Subsidy Program (FHSP):** Launched in 2017 with funding from LA County DHS and private philanthropic sources, FHSP helps homeless DHS patients secure PSH.<sup>19</sup> The program leverages health services funds to subsidize housing and provide services to tenants to retain housing. It offers flexible options for individuals who are ineligible or unable to secure more restrictive federal rental subsidies and cuts out bureaucratic barriers so that clients can be housed quicker. The 2014 initial investment was \$18 million, with an average of \$8M added each year so far.<sup>20</sup>

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<sup>13</sup> California Department of Housing and Community Development, "No Place Like Home Program," Accessed March 15, 2020.

<sup>14</sup> Los Angeles County Development Authority, "No Place Like Home," Accessed March 10, 2020; "More than \$300 Million in No Place Like Home Money Going to Work." Steinberg Institute, March 21, 2019.

<sup>15</sup> Homeless Initiative, "History.," "LA County Invests \$460M to Fight Homelessness." Los Angeles County Second District Supervisorial website, May 28, 2019.

<sup>16</sup> Homeless Initiative, "History."

<sup>17</sup> Office of Los Angeles Mayor Eric Garcetti, "Tracking HHH."

<sup>18</sup> Smith, Doug. "How Close Is L.A. to Building 10,000 Houses for Homeless People? Here's a Breakdown." Los Angeles Times, April 21, 2019.

<sup>19</sup> Abt Associates, "Flexible Housing Subsidy Pool Brief: Evaluation of the Conrad N. Hilton Foundation Chronic Homelessness Initiative," April 4, 2017.

<sup>20</sup> Abt Associates. "History and Takeaways from Los Angeles County's Flexible Housing Subsidy Pool." Hilton Foundation, 2017. ; author's calculations.

## **Key Risks and Mitigation Strategies**

**General: Funding sustainability is a major issue.** A number of state and local funding mechanisms are either one-time, subject to voter renewal, or dependent upon local economic conditions, posing a high risk to continued PSH funding, especially in this recessionary climate. As a result, we recommend CCC and other PSH actors continue to set aside large operating reserves of around one - two years of annual operating costs; partner with industry groups such as Corporation for Supportive Housing to advocate for more ongoing funding; and explore the potential to leverage philanthropic funding.

**Construction: Pay attention to building durability and design.** PSH buildings are permanent residences, so the built environment contributes greatly to tenants' well-being. Additionally, many tenants are not accustomed to living indoors and may cause damage to the building.<sup>21</sup> Interviewees thus recommended investing in sturdy materials during construction and designing the building in a manner that facilitates community, accessibility, and service provision, with the tenant's recovery and permanence in mind.

**Property Management: Lack of experience will need to be addressed.** According to David Howden, Director - LA of Corporation for Supportive Housing, 20% of property managers in the Proposition HHH pipeline are new. Inexperienced property managers may not be accustomed to using harm reduction or trauma-informed principles when interacting with tenants and could end up exacerbating tenant conflicts. To mitigate this, PSH stakeholders can take advantage of employee training provided by groups like Corporation for Supportive Housing.<sup>22</sup> Additionally, CCC and developers should ensure that inexperienced property managers are paired with more experienced service providers in a project.

**Services & Case Management: Staff turnover and case management burnout is a widely-recognized challenge.** High staff turnover can disrupt tenants' sense of well-being due to the relationship-driven nature of service provision and result in higher staff costs.<sup>23</sup> Interviewees emphasized retention policies such as comprehensive training, opportunities for advancement, mentoring, competitive salaries, and building a sense of community as ways of improving staff retention.<sup>24</sup> Reasonable turnover targets were a year for case managers and two - three years for other supportive service staff.<sup>25</sup>

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<sup>21</sup> Maura Johnson, Director of Housing, Penny Lane, Interview by Jacqueline Woo and Karine Choi, April 7th, 2020.

<sup>22</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>23</sup> Gornstein, Aaron, and China Boak Terrell. "Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing." Joint Center for Housing Studies, Harvard University, July 2016.

<sup>24</sup> Heather Gibbs, Assistant Director, The People Concern, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>25</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

## **Key Best Practices**

**Develop a strong working relationship among PSH actors.** A strong working relationship among property managers, case managers, supportive services, and developers is essential for a smoothly functioning PSH project, as any breakdown in communication can exacerbate a tenant conflict.<sup>26</sup> CCC should ensure that its partners recognize the need for proactive collaboration and that tenant standards for behavior are clearly articulated from the start. This includes ensuring that all parties understand each other's roles and responsibilities clearly, and all parties are trained on harm reduction, trauma-informed methods, and Housing First principles. Case managers, property managers, and service providers should establish regular meetings regarding operations and potential tenant disputes.

**Manage local opposition to avoid delays in construction.** One of the largest impediments to new housing construction is local opposition, particularly as affordable or PSH housing is seen as negatively impacting a neighborhood's "character" and property values.<sup>27</sup> To address this, local developers could manage such opposition proactively through education campaigns that highlight the strengths and benefits of PSH using credible research, local data, and anecdotal information.<sup>28</sup> CCC should review the developer's plans to manage anticipated opposition and ask about previous strategies.

## **The Current Environment and Next Steps**

We anticipate that while the current recession will reduce funding for all types of services, funding for homelessness in California will remain a top priority, and PSH financing will continue to be available. In addition, demand for PSH is likely to remain high as California continues to address the public health risk that the homelessness poses, and a recessionary environment may result in increased homelessness. Thus, well-positioned developers could take advantage of falling land prices and construction costs to initiate PSH projects, and CCC should continue to finance the most promising projects.

While assessing these projects, CCC should pay particular attention to the **selection of property management and service provision partners** as well as the **guidelines all parties have established for working together after lease-up**. CCC should ensure that all parties are trained in harm-reduction, housing first, and trauma-informed techniques, and recommend additional training to less experienced partners. In addition, given the emotional intensity of this work,

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<sup>26</sup> Coalition Home, and Corporation for Supportive Housing. "Best Practices Manual: Integrating Property Management and Services in Supportive Housing," 2009, Lindsay Kerby, Senior Community Investment Officer, CSH Los Angeles, Interview by Jacqueline Woo. February 27th, 2020.

<sup>27</sup> Monkkonen, Paavo, and Will Livesley-O'Neill. "Overcoming Opposition to New Housing." UCLA Lewis Center for Regional Policy Studies, May 8, 2019.

<sup>28</sup> Ross, Jaimie. "Avoiding and Overcoming Neighborhood Opposition to Affordable Rental Housing." National Low Income Housing Coalition, 2018.

partners should have **strong strategies to combat staff burnout and turnover**. CCC should also **approach integrated PSH/affordable housing developments cautiously**, as affordable housing tenants that depend on employment to pay rent could pose a risk in the current environment.

Given the fluid funding and economic environment, CCC should consider **partnering with industry and advocacy organizations to support policies that provide ongoing PSH funding**. As it expands its portfolio into developments that are more dependent on public subsidies, it should continue to **stay apprised of the federal, state, and local policy landscape**, potentially through specialized public policy staff.

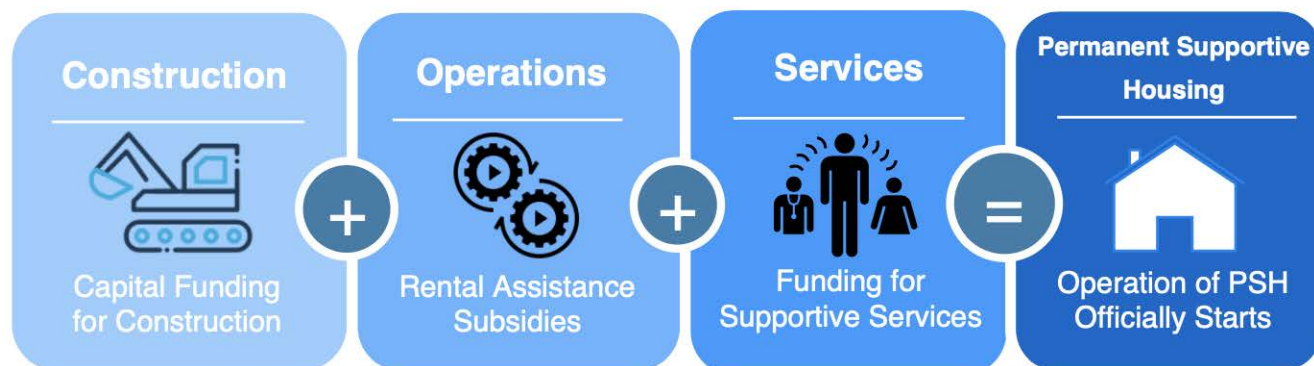
PSH will continue to be a best practice for addressing homelessness issues both in California and throughout the US. As CCC continues to build its portfolio of developments, a deeper understanding of the principles underlying PSH; the manner in which key stakeholders work together; and the continually evolving financial environment will ensure success both for PSH tenants and for CCC.



**The three-pillar model of financing PSH includes capital funding for construction, operations and supportive services. Each of the pillars relies on various sources of federal, state, and local subsidies. The following section explains these financial flows in more detail.**

## II. Flow of Funds

### Three Pillar-Model of PSH Financing



### Construction

Capital funding for construction is a one-step process: construction usually lasts an average of 18-24 months, and no additional funding is required after the building has been constructed. Compared to the other two pillars, construction funding has the least risk because construction starts only after subsidies are secured and locked in.<sup>29</sup> The table below summarizes the main sources of capital funding for construction.

#### **Capital Funding for Construction**

1. Community Development Block Grant (CDBG)
2. Home Investment Partnerships (HOME)
3. Housing Opportunities for Persons with AIDS (HOPWA)
4. Continuum of Care Program (CoC)
5. Section 811 Supportive Housing for Persons with Disabilities Program
6. Section 202 Supportive Housing for the Elderly Program
7. Low Income Housing Tax Credit (LIHTC)

<sup>29</sup> Urban Institute, "Features: The Cost of Affordable Housing: Does It Pencil out?" Accessed March 25, 2020.

Low Income Housing Tax Credits (LIHTC) play a large role in promoting affordable housing by providing developers with tax credits in exchange for the development or preservation of affordable housing.<sup>30</sup> As demand for LIHTC has increased in recent years, it is not uncommon for 75% to 80% of the total project development cost to be financed through the equity raised from 9% tax credits. Other sources of funding typically include conventional mortgage financing (“hard debt”) and financing from government sources (“soft debt”). On average, tax credits finance about 55% of the qualified costs of a project, with 24% of financing coming from hard debt and 21% of financing coming from soft debt.<sup>31</sup>

Each state receives a 9% LIHTC allocation of \$2.75 per person (until 2021, after which it may go back to \$2.35), with a minimum small population state allocation of \$3,166,875. California allocated \$111.5 million in 2019 for annual tax credits, effectively awarding \$1.1 billion worth of contracts (since both the 9% and 4% credits are amortised over 10 years).<sup>32</sup> 4% tax credits derive from a project’s use of tax-exempt bond authority allocated by the California Debt Limit Allocation Committee (CDLAC) and are limited by the amount of bond cap available to California. In 2019, CTCAC (California Tax Credit Allocation Committee) awarded \$241.9 million in annual federal 4% tax credits, which again equates to \$2.4 billion in total credits over ten years.<sup>33</sup>

A private developer can apply for additional federal LIHTCs if the land qualifies under DDAs (Difficult Development Areas) as defined by HUD. Multiple ZIP codes within Los Angeles, Long Beach and Glendale have been included in that definition in the 2020 census.

California also has its own LIHTC credit program, but it is only for those developers who have previously received or are receiving a federal tax credit. In 2019, California authorized \$13.4 million in state LIHTCs. These are one-time credits over four years, so there is no tenfold multiplier. Because state credits are in limited supply, CTCAC awards them competitively. 85% of state credits are integrated into 9% tax credit projects and awarded through the same competition. 15% of the state credits are reserved for 4% tax credit projects, and applicants compete for these state credits in a separate competition.

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<sup>30</sup> National Housing Law Project. “Low-Income Housing Tax Credits.” Accessed March 15, 2020.

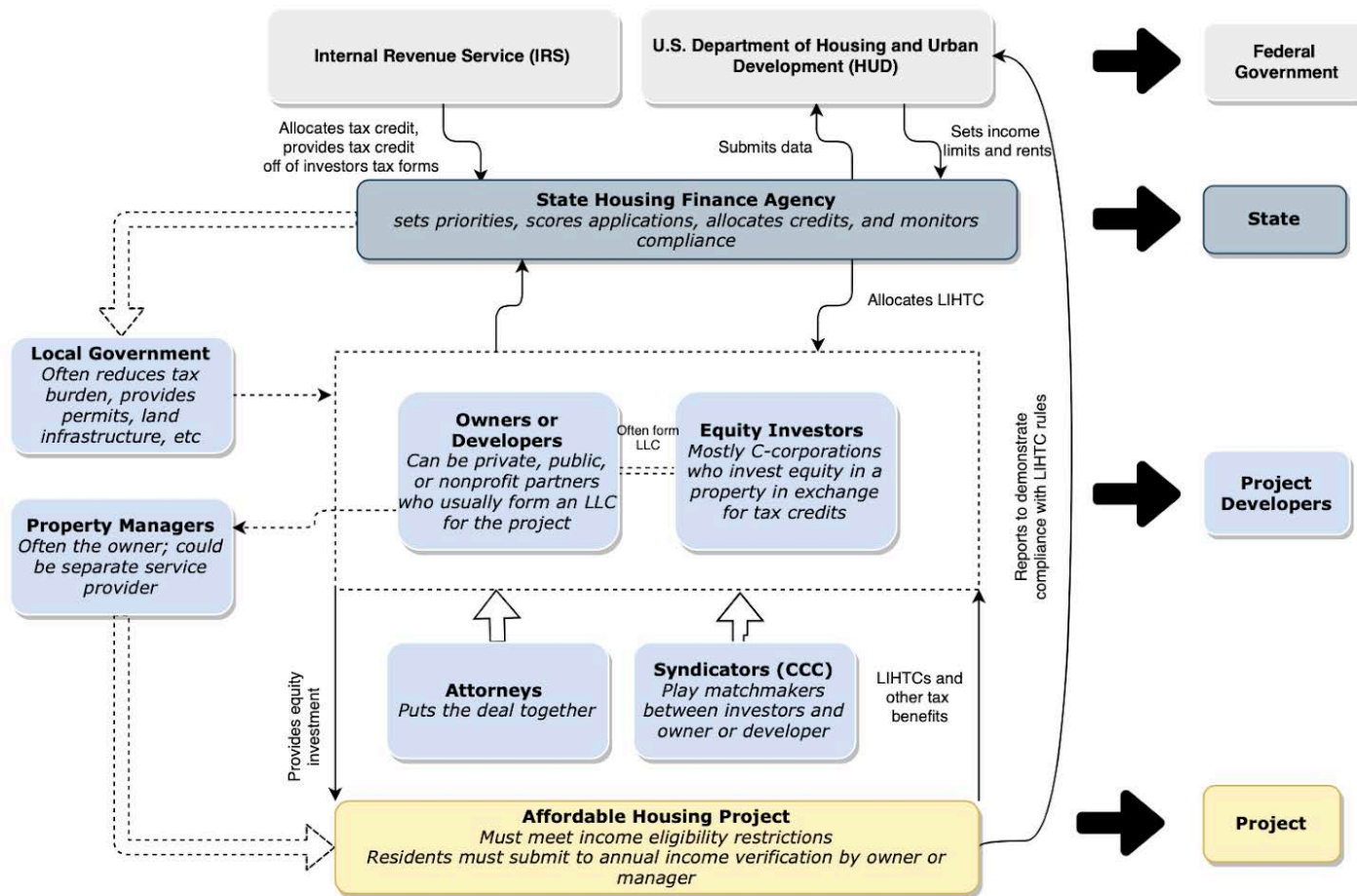
<sup>31</sup> Scally, Corianne Payton, Amanda Gold, and Nicole DuBois. “The Low-Income Housing Tax Credit.” Urban Institute, 2018.

<sup>32</sup> Consider a new affordable housing apartment complex with a total cost of \$1 million. Since the project involves new construction, it will qualify for the 9% credit and generate a stream of tax credits equal to \$90,000 (9% × \$1 million) per year for 10 years, or \$900,000 in total. Under the appropriate interest rate (as of February 2020, it is 7.45%) the present value of the \$900,000 stream of tax credits should be approximately equal to \$700,000, resulting in a 70% subsidy.

<sup>33</sup> California Tax Credit Allocation Committee.

## General Model of LIHTCs

The figure below details the general model of LIHTC funding. The four layers of a LIHTC deal include funds passed down from the federal government, to the state, onto project developers and finally to the project. The solid lines indicate common components to LIHTC projects, whereas the dotted lines are meant to show partnerships that change depending on how the deal is structured.



## **Operations**

The second pillar of the flow of funds is operations. Rental assistance subsidies are used to pay for building operations and mortgages. The table below summarizes the main sources of rental assistance subsidies. Since operations are ongoing over the entire course of the building's lifetime, problems can arise; permanent loans last 20 years, while subsidies may have a shorter lifespan.

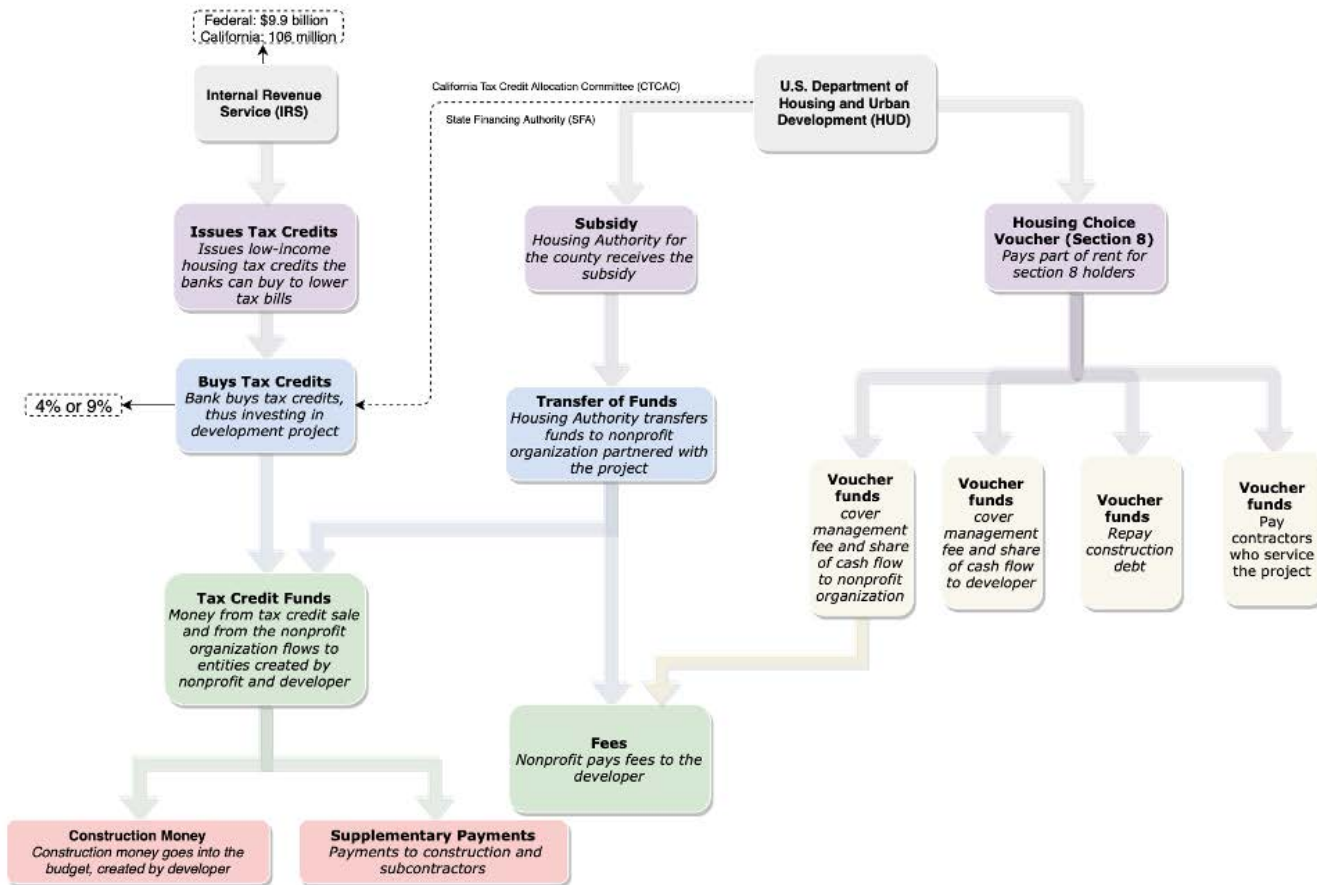
*For further information, please refer to the section on 'Property Management' risks in the 'Risks and Mitigation Strategies' table.*

### **Rental Assistance Subsidies**

1. Home Investment Partnerships (HOME)
2. Housing Opportunities for Persons with AIDS (HOPWA)
3. Shelter + Care
4. Section 8 Housing Choice Voucher Program

## PSH Funding Structure

The figure below details the funding structure for developing PSH. The most common PSH project consists of a LIHTC deal with rental subsidies provided by HUD. These are received through a HAP contract and Section 8 subsidies. Each of the colors denotes the steps of a funding structure and how a LIHTC deal simultaneously flows to fund rental subsidies. The federal government (grey) transfers funds to the state (purple). Concurrently, the housing authority transfers funds to nonprofit organizations and banks buy tax credits for the project (blue). Ultimately, the funds flow down to pay for developer fees, construction money and the project continues to receive voucher funds.



The Section 8 program allows for private landlords to rent at a fair market rate to qualifying low-income tenants. “Section 8 vouchers” represents an umbrella term encompassing a number of different projects operated by multiple federal departments (see figure below).<sup>34</sup>

| <b>Types of Section 8 Vouchers</b> |  |                              |  |
|------------------------------------|--|------------------------------|--|
|                                    | Housing Choice Voucher (HCV) / Tenant Based Rental Assistance (TBRA) | Project-Based Vouchers (PBV) | Project-Based Rental Assistance (PBRA) |
| Subsidy Type                       | Tenant based   | Project-based                | Project-based                          |
| Operated by                        | Public Housing Authority (PHA)                                       | PHA                          | PHA or Owner                           |
| HAP Payments                       | PHA → Owner  | PHA → Owner                  | HUD → Owner/PHA                        |
| Federal Department                 | Office of Public and Indian Housing (PIH)                            | PIH                          | Office of Multifamily Housing          |
| Contract                           | Not contract based   | 15 year                      | 20 Year HAP contract                   |

### **Supportive Services**

The third pillar of the flow of funds for PSH is supportive services. These are an integral, ongoing part of a PSH project and an additive feature of PSH compared to “regular” affordable housing. The table below details the major sources of funding for supportive services. In some cases, money from housing vouchers can cover some of the supportive services, but, even in that case, additional subsidies are needed to make up the difference and are drawn from various sources. The reliance on multiple subsidies poses a major risk to the PSH model.

*For further information, please refer to the sections on ‘Case Management’ and ‘Service Provision’ risks in ‘Risks and Potential Mitigation Strategies’ table.*

<sup>34</sup> U.S. Department of Housing and Urban Development (HUD). “Housing Choice Vouchers Fact Sheet.” Accessed March 25, 2020.

### **Funding for Supportive Services**

1. HUD
2. Department of Veterans Affairs
3. Department of Labor
4. Department of Education
5. Department of Health and Human Services
6. State Level: California's Mental Health Service Act Housing Program
7. Local Level: Los Angeles County's Measure H
8. Local Level: Los Angeles County's Flexible Housing Subsidy Program

### **The Flexible Housing Subsidy Pool (FHSP)**

The Flexible Housing Subsidy Pool (FHSP) is a public-private partnership specific to Los Angeles.<sup>35</sup> Launched in 2017 with funding from LA County DHS and private philanthropic sources, FHSP helps DHS patients who are experiencing homelessness to secure PSH.<sup>36</sup> The program leverages health services funds to subsidize housing and maintain housing stability for tenants once they have moved in, as illustrated on the next page.<sup>37</sup> The FHSP (purple) funds are eligible to tenants under state department programs (turquoise). The administration section (pink) shows the relationship between LA County DHS, ICMS providers, Brilliant Corners (BC), and private landlords. DHS is the fiscal and administrative agency of FHSP. DHS contracts ICMS providers and nonprofit (Brilliant Corners) and manages these relationships. Brilliant Corners is the overall housing coordinator and is the bridge between property owners and program participants. Their role is to screen and seek out potential private landlords viable for FHSP funding. Secondly, they coordinate administrative, move-in or rental subsidy payments with ICMS providers, tenants and landlords.<sup>38</sup>

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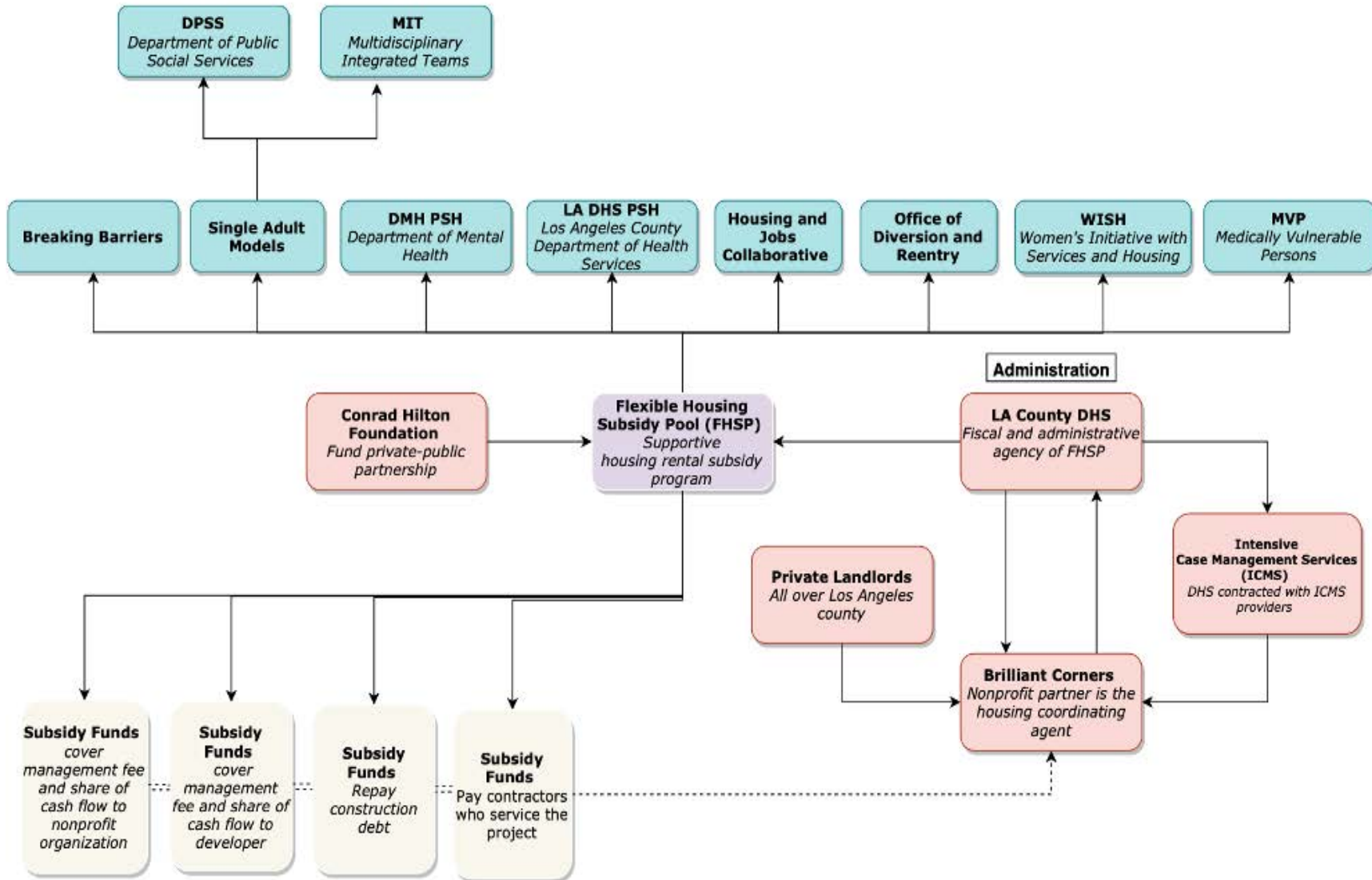
<sup>35</sup> Client services eligible under FHSP are Department of Mental Health (DMH); Department of Health Services (DHS); Department of Public Health, Division of HIV and STD Programs (DHSP); Probation Department; LA Car; Single Adult Model (SAM); Office of Diversion and Reentry (ODR); Women's Initiatives with Services and Housing (WISH); The Housing and Jobs Collaborative; Medically Vulnerable Probationers (MVP).

<sup>36</sup> Homelessness Policy Research Institute, "Accelerating Permanent Supportive Housing in Los Angeles."

<sup>37</sup> Abt Associates, "Flexible Housing Subsidy Pool Brief: Evaluation of the Conrad N. Hilton Foundation Chronic Homelessness Initiative."

<sup>38</sup> Abt Associates, "Flexible Housing Subsidy Pool Brief: Evaluation of the Conrad N. Hilton Foundation Chronic Homelessness Initiative."

## Flow of Funds for the Flexible Housing Subsidy Pool (FHSP)





**Regulations, funding streams, and assistance programs related to PSH are constantly changing on the local, state, and federal level. This section includes the public policies most relevant to CCC’s portfolio of PSH projects in Los Angeles and California. The end of the table includes a list of several ground-breaking policies in other states and localities that are accelerating the growth of PSH as a solution to homelessness across the country.**

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### III. Federal, State and Local Level Public Policies

| Jurisdiction | Name                                     | Description   | Funding Level         |
|--------------|--|---|-----------------------|
| Federal      | Community Development Block Grant (CDBG) | <ul style="list-style-type: none"> <li>• HUD provides annual grants to over 1,200 jurisdictions (states, cities, and counties) to assist in various livelihood improvements for low-income individuals, including housing.</li> <li>• Includes single and multi-family rehabilitation, rental housing acquisition or homeownership assistance, and activities that support new housing construction.</li> </ul>   | \$3.4 billion, FFY20  |
| Federal      | Low-Income Housing Tax Credit (LIHTC)    | <ul style="list-style-type: none"> <li>• The most important resource for creating affordable housing in the United States today.</li> <li>• Gives state and local agencies the budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.</li> <li>• Developers are provided a dollar-for-dollar reduction in their federal tax liability for providing financing to develop affordable rental housing. Investors' equity contribution subsidizes low-income housing development, therefore allowing units to rent at low rates. In return, investors receive tax credits paid in annual allotments, generally over 10 years.</li> </ul> | ~\$9.9 billion, FFY20 |
| Federal      | Low-Income Housing Tax Credit (LIHTC)    | <ul style="list-style-type: none"> <li>• The 30 percent subsidy, or 4 percent tax credit, covers new construction that uses additional subsidies or the acquisition cost of existing buildings. The 70 percent subsidy, or 9 percent tax credit, supports new construction without any additional federal subsidies.</li> </ul>   |                       |

| <b>Jurisdiction</b> | <b>Name</b>  | <b>Description</b>   | <b>Funding Level</b>   |
|---------------------|--|--|--|
| Federal             | Home Investment Partnerships (HOME)                                  | <ul style="list-style-type: none"> <li>• HUD's largest federal block grant program to exclusively create affordable housing for low-income people.</li> <li>• It assists states, cities, counties, developers, including Native American Entities, and nonprofit Community Housing Development Organizations (CHDOs) to create and retain affordable housing.</li> </ul>                           | \$1.35 billion, FFY20  |
| Federal             | Housing Opportunities for Persons with AIDS (HOPWA)                  | <ul style="list-style-type: none"> <li>• The only federal program dedicated to the housing needs of people with HIV/AIDS.</li> <li>• HUD makes grants to local communities, states, and nonprofit organizations for projects that benefit low-income persons living with HIV/AIDS and their families.</li> </ul>   | \$330 million, FFY20. This is \$45 million less than FFY19                           |
| Federal             | Continuum of Care Program (CoC)                                      | <ul style="list-style-type: none"> <li>• CoC consists of the former Supportive Housing Program, the Shelter Plus Care Program, and the Section 8 Moderate Rehabilitation/Single Room Occupancy Program.</li> <li>• The five programs consist of permanent housing, transitional housing, supportive services only, homeless management information system, and homelessness prevention.</li> </ul> | \$2.2 billion, FFY20   |
| Federal             | Section 811 Supportive Housing for Persons with Disabilities program | <ul style="list-style-type: none"> <li>• HUD provides funding to develop and subsidize rental units with supportive services for low-income adults with disabilities.</li> </ul>   | \$202 million, FFY20 to fund existing Section 811 units but no funding for new units |

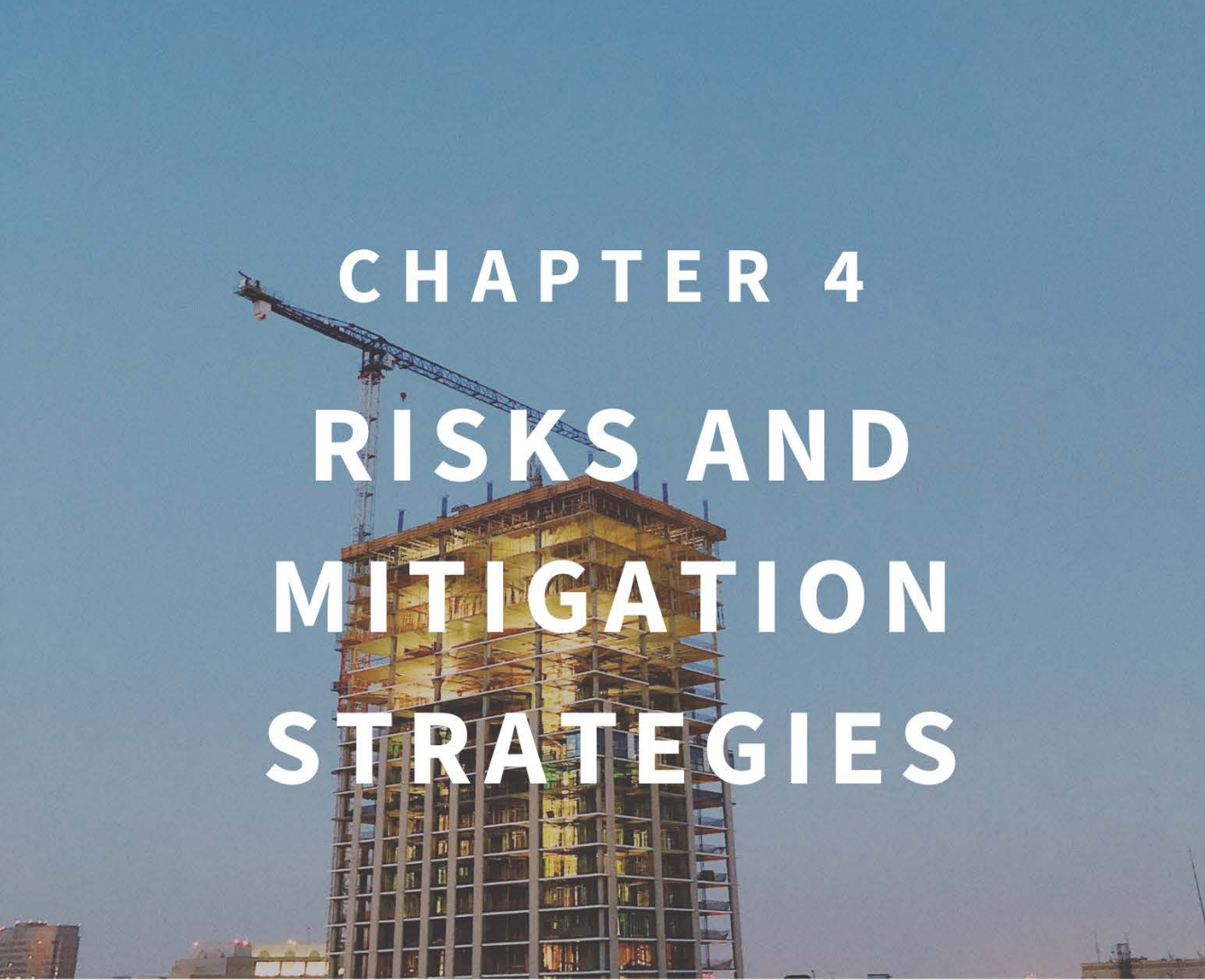
| Jurisdiction         | Name   | Description  | Funding Level  |
|----------------------|--|--|--|
| Federal              | Section 202 Supportive Housing for the Elderly program | <ul style="list-style-type: none"> <li>• HUD provides capital advances to finance the construction, rehabilitation, or acquisition of properties that will serve as supportive housing for very low-income elderly persons, and provides rent subsidies for the projects to help make them affordable.</li> </ul>  | \$644 million, FFY20. This is \$34 million less than FFY19 |
| Federal & California | Medicaid   | <ul style="list-style-type: none"> <li>• Homelessness is a strong predictor of poor health. Providing Medicaid coverage and payment for health and housing-related services otherwise financed with housing dollars can augment housing programs' capacity to address housing needs.</li> <li>• Medicaid can specifically cover three types of housing related activities and services, including individual housing transition services, individual housing and tenancy sustaining services, and state-level housing services.</li> </ul> | \$103.5 billion, SFY20-21                                  |
|                      | Medi-Cal   | <ul style="list-style-type: none"> <li>• California's Medicaid program serving low-income individuals.</li> <li>• Jointly funded by the state and federal government.</li> <li>• About one-third of California's population is enrolled in this health coverage.</li> <li>• In FY 18-19, Medi-Cal accounted for 17% of the state's general fund spending.</li> </ul>   |  |

| Jurisdiction | Name   | Description  | Funding Level  |
|--------------|--|--|--|
| California   | No Place Like Home Program                     | <ul style="list-style-type: none"> <li>The California Department of Housing and Community Development provides funding to address affordability issues associated with creating housing units that are specifically set aside for persons with serious mental illness who are homeless. The funds may be used to acquire, design, construct, rehabilitate, or preserve PSH for homeless individuals.</li> <li>The bonds are repaid by funding from the Mental Health Services Act (MHSA).</li> </ul>   | up to \$2 billion in bond revenues through competitive and non-competitive allocations |
| California   | California's Mental Health Service Act         | <ul style="list-style-type: none"> <li>State funding designed and implemented at a local level for mental health services, some of which may including housing and housing-related services.</li> <li>Funded through a 1% income tax on personal income in excess of \$1 million.</li> </ul>   | \$2.4 billion SFY19-20   |
| California   | California Access to Housing and Services Fund | <ul style="list-style-type: none"> <li>Part of the Governor's proposed 2020-2021 budget, administered by the Department of Social Services with the goal of reducing street-based homelessness and increasing the number of stable housing units.</li> <li>Provides short and long-term rental subsidies, making small and medium-sized contributions to encourage development of new units in exchange for a rental credit, and stabilize board and care facilities by funding capital projects and/or operating subsidies.</li> <li>Placed on hold for the time being due to COVID-19 events.</li> </ul> | Proposed \$750 million SFY20-21  |

| Jurisdiction           | Name                                   | Description   | Funding Level                   |
|------------------------|--|---|---------------------------------|
| California             | COVID-19<br>Emergency<br>Package No. 1 | <ul style="list-style-type: none"> <li>In mid-March, the governor and legislature allocated a \$1.1 billion package that provides flexibility to the governor to respond to COVID. They have already drawn \$150 million of this to give to homelessness specifically -- making \$100 million available to local governments and \$50 million for acquiring property. Although California entered this year with the fiscal strength of a \$20 billion reserve, the nature of this crisis has devastated revenues and is already requiring unprecedented levels of federal aid and appropriations.</li> </ul> | \$1.1 billion                   |
| California             | Project<br>Roomkey                     | <ul style="list-style-type: none"> <li>Governor Newsom has rented 7,000 hotel rooms to house the homeless during the COVID-19 crisis, with hopes of adding up to 8,000 more.</li> <li>FEMA provides up to 75% reimbursement to the state for the hotel rentals.</li> </ul>  | Based on hotel<br>rental prices |
| Los Angeles<br>County  | Measure H                              | <ul style="list-style-type: none"> <li>In March 2017, voters approved a 1/4 cent sales tax to provide an ongoing revenue stream for homeless services.</li> <li>It is estimated to bring in an average of \$355 million per year to fund services, rental subsidies, and housing.</li> </ul>  | \$460 million,<br>CFY19-20      |
| City of Los<br>Angeles | Proposition<br>HHH                     | <ul style="list-style-type: none"> <li>Affordable housing bond program that aims to triple LA's annual production of supportive housing and build approximately 10,000 units, however, the increasing cost of construction has reduced the possible number of units.</li> </ul>   | \$1.2 billion over<br>10 years  |

| Jurisdiction       | Name                             | Description  | Funding Level   |
|--------------------|----------------------------------|--|---|
| Los Angeles County | Flexible Housing Subsidy Program | <ul style="list-style-type: none"> <li>• Launched in 2017 with funding from LA County DHS and private philanthropic sources, FHSP helps DHS patients who are also experiencing homelessness secure PSH.</li> <li>• The program leverages health services funds to subsidize housing and provide services to tenants to retain housing. It offers flexible options for individuals who were ineligible or unable to secure more restrictive federal rental subsidies and cuts out bureaucratic barriers towards securing PSH so that clients can be housed quicker.</li> </ul>                              | Initial investment in 2014 of \$18 million. Around \$8M has been added each year. |
| Seattle            | Regional Homeless Authority      | <ul style="list-style-type: none"> <li>• Seattle and King County created the regional homeless authority in 2019 to improve a fractured system of governance aimed at ending homelessness. King County will dedicate about \$57 million in program funding and space.</li> <li>• The City of Seattle will invest about \$75 million, which includes about \$2 million in stand up funding. These totals include federal funding coordinated by the Continuum of Care.</li> <li>• Actual funding will be subject to appropriations through the normal budget process of the respective councils.</li> </ul> | \$132 million   |
| Washington         | HB 1406                          | <ul style="list-style-type: none"> <li>• This creates a funding tool for cities and counties to accelerate affordable and supportive housing through local retention of a portion of the state’s sales and use taxes.</li> <li>• This provides additional operating subsidy through state taxes.</li> </ul>  |   |

| <b>Jurisdiction</b> | <b>Name</b>                     | <b>Description</b>   | <b>Funding Level</b> |
|---------------------|---------------------------------|--|----------------------|
| Washington          | HB 1406                         | <ul style="list-style-type: none"> <li>• Cities can enact 0.0146% local sales and use tax credited against the state sales tax for housing investments, available in increments of 0.0073%, depending on the imposition of other local taxes and whether the county also implements one. The tax credit is in place for up to 20 years and can be used for acquiring, rehabilitating, or constructing affordable housing;</li> </ul>   |                      |
| Washington          | ESSB 5383                       | <ul style="list-style-type: none"> <li>• Authorization of tiny-house communities throughout the state.</li> </ul>  |                      |
| Washington          | HB 1923                         | <ul style="list-style-type: none"> <li>• Incentives to increase density in cities.</li> <li>• Cities can obtain planning grants from the state if they commit to taking specified planning actions or developing Housing Action Plans consistent with the legislation.</li> </ul>  |                      |
| New York            | New York/New York III Agreement | <ul style="list-style-type: none"> <li>• Established a clear, 10-year goal for PSH units in 9 target populations, including youth with serious and persistent mental illnesses (SPMI), families, and youth aging out of foster care. The very public nature of the agreement created a type of "peer pressure" that drove all involved agencies to maintain their commitments.</li> <li>• Improved coordination of financing between multiple agencies through innovations such as providing conditional award letters for service and operating funds so that providers would be able to reassure capital investors of other sources of funding.</li> </ul> | \$975 million        |



# CHAPTER 4

# RISKS AND MITIGATION STRATEGIES

**The following table is a list of risks for CCC to consider. It ranks the risks from top to bottom, with those at the top having the highest probability of occurring, and those at the bottom having the lowest probability of occurring. Within this probability ranking, they are further categorized by function (overall risk, case management, construction, service provision, property management). We include mitigation strategies that CCC or any of the related parties could implement to mitigate the risks.**

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## IV. Risks and Mitigation Strategies

### High Probability of Occurring: General Risks

| Risk  | Consequences                                  | Mitigation Strategy   | Additional Notes  |
|---|---|---|---|
| One-off ballot initiatives for funding do not get renewed | Existing subsidies not renewed                | <ul style="list-style-type: none"> <li>• Developers maintain higher operating reserves – to cover up to two years of expenses<sup>39</sup></li> <li>• CCC and developers can advocate for more ongoing funding at the state and county level</li> <li>• Service providers to find more sources of funding through philanthropy and/or approach state and federal agencies such as the VA or Medicaid</li> </ul> | CSH and a coalition of groups were in the process of advocating for more ongoing funding, and LA City's Housing Agency is attempting to obtain a dedicated source of funding for PSH. <sup>40</sup> |
| Funding cuts from COVID-19 recession                      | Reduction in current subsidy funding          | <ul style="list-style-type: none"> <li>• Developers &amp; Service Providers can obtain other sources of funding/reduce costs for future projects.</li> <li>• Pressure lawmakers to increase spending on PSH because of the public health benefits.</li> </ul>   | Speculation is that funding for homelessness is likely to increase. Taxes are likely to be used to keep renters in their homes, instead of funding new construction or services.                    |
| New PSH policies may not pass                             | Anticipated projects may face untimely delays | <ul style="list-style-type: none"> <li>• Developers &amp; CCC can advocate for increased funding by arguing that homelessness is a public health risk.</li> </ul>   |   |

<sup>39</sup> Jodi Rothery, Director of Development, Chelsea Investment Corporation, Interview by Omni Nishar, Hilary Hamm and Takanori Hattori. April 3rd, 2020; Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

<sup>40</sup> Lindsay Kerby, Senior Community Investment Officer, CSH Los Angeles, Interview by Jacqueline Woo. February 27th, 2020.

## High Probability of Occurring: Construction Risks

| <b>Risk</b>  | <b>Consequences</b>  | <b>Mitigation Strategy</b>  | <b>Additional Notes</b>   |
|--|--|---|---|
| Low-bid contract wins for PSH  | Construction quality standards may not be met.   | <ul style="list-style-type: none"> <li>Developers should have a reliable General Contractor whom they have been working with consistently.</li> </ul>   | Both LINC and Chelsea have long term partnerships with contractors; so, this risk is low for CCC, unless they start working with a new developer.   |
| ‘NIMBYism’ leading to local public opposition                                      | A likely cause of construction delays is local opposition, which can lead to terminated projects in the case of persistent opposition. PSH residents might also feel excluded from the community if the project is unwanted. <sup>41</sup> | <ul style="list-style-type: none"> <li>Developers can form a task force, composed of local political and community leaders, to deal with local neighborhood concerns.</li> </ul>  | Risk is especially high if the proposed site is in a safe neighborhood with good schools, so it’s an important balancing act to look for the regions that could mitigate the opposition risk but at the same time satisfy construction criteria.              |
| Increased costs to meet building durability standards for special needs population | Saving on initial design and construction costs can lead to higher maintenance expenses for property managers.   | <ul style="list-style-type: none"> <li>PSH buildings should be designed to last (at least 55 years to meet regulatory requirements) in California. Invest in high quality construction and accessibility norms to serve difficult population targets.</li> </ul>                    | Some examples include tiling the bathrooms, using resilient flooring and countertops (to avoid scratches and cigarette burns), as some people from this population may have been living outside a lot most of the time, been institutionalized, or in prison. |
| Increasing material costs  | Material prices (especially glass, steel, and concrete) have been rising.  | <ul style="list-style-type: none"> <li>Developers can hedge commodity price risk by purchasing low. Historically, commodity prices are low during economic downturns and developers can consider using the current recession as a chance to lower the construction cost.</li> </ul> |   |

<sup>41</sup> “Why Affordable Housing Doesn’t Get Built.” HuffPost, February 25, 2016.

## High Probability of Occurring: Case Management Risks

| Risk   | Consequences  | Mitigation Strategy  | Additional Notes   |
|--|---|--|--|
| Ineffective tenant conflict resolution due to the lack of clear segregation of duties between property and case managers | Mounting grievances and operations conflicts. This could potentially impact other tenants in the building as well.  | <ul style="list-style-type: none"> <li>Case managers, service providers, and property managers should have clearly delineated responsibilities, jointly developed house rules, regular meetings, proactive pattern of communication, and cross-training to facilitate understanding of each other's roles.</li> </ul>                | Case manager and services staff certification are recommended. <sup>42</sup> Corporation for Supportive Housing provides training and support across all functions of PSH. |
| High Staff Turnover  | Higher operations costs. The skills required to manage cases differs from project to project, making it harder to replace staff, leading to insufficient numbers of case managers and loss of progress with tenants when a case manager leaves. | <ul style="list-style-type: none"> <li>Service providers should provide training, promotional opportunities, competitive salary, and community bonding opportunities.<sup>43</sup> They also need to conduct staff surveys and exit interviews, job promotions, and train leadership on how to manage staff.<sup>44</sup></li> </ul> | A turnover rate of 1 year is a good target/baseline, however, service providers should aim for case managers to stay for 2-3 years <sup>45</sup>                           |

<sup>42</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>43</sup> Lindsay Kerby, Senior Community Investment Officer, CSH Los Angeles, Interview by Jacqueline Woo. February 27th, 2020.

<sup>44</sup> Heather Gibbs, Assistant Director, The People Concern, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>45</sup> Ibid.

## Medium Probability of Occurring: Construction Risks

| <b>Risk</b>   | <b>Consequences</b>  | <b>Mitigation Strategy</b>   | <b>Additional Notes</b>  |
|---|--|--|--|
| Natural disasters like earthquakes, or pandemics                          | Additional construction costs and delay in receiving operating income  | <ul style="list-style-type: none"> <li>Developers need to have insurance for such instances</li> </ul>   |  |
| Environmental and other regulations                                       | Environmental and structural requirements such as accessibility leads to additional construction costs   | <ul style="list-style-type: none"> <li>PSH proposals need to include adequate justifications for additional costs</li> </ul>   | Legislators are trying to pass CA AB1907, to allow low-income housing projects and shelters to bypass the California Environmental Quality Act (CEQA). <sup>46</sup>   |
| Increasing costs of labor and raw materials                               | LA & California require a high minimum wage for soft loans, leading to higher construction costs   | <ul style="list-style-type: none"> <li>Developers and CCC can include an inflation rate for labor cost in the budget</li> </ul>  | Cost of construction is high in LA - \$500,000 to \$800,000 per unit, due to labor and land costs. LINC has been able to justify funding for high quality construction. <sup>47</sup>  |
| Land acquisition is expensive due to scarcity of plots in prime locations | Tenants don't usually have cars, so the PSH building should be in proximity to things such as subways and supermarkets, making it imperative for developers to buy plots in prime locations. | <ul style="list-style-type: none"> <li>Developers can work with service providers who own land in prime locations. Recessionary situations like the one right now could reduce the construction and land cost, presenting an opportunity for the developers.<sup>48</sup></li> </ul> | CCC can be careful in contracting with a service provider that owns the land as it could lead to complications especially if a HAP contract is terminated due to violations by the service provider. TBRA helps eliminate this risk to a certain extent but we would still foresee some risks in case of tenants who rely on PBRA. |

<sup>46</sup> “This Bill Would Let New Homeless Shelters and Affordable Housing Bypass Environmental Law.” Los Angeles Times, January 9, 2020.

<sup>47</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>48</sup> “Coronavirus Will Make California's Affordable Housing Problems Worse, Experts Say.” Los Angeles Times, March 23, 2020.

## Medium Probability of Occurring: Property Management Risks

| <b>Risk</b>   | <b>Consequences</b>  | <b>Mitigation Strategy</b>  | <b>Additional Notes</b>  |
|---|--|---|--|
| Varying experience levels experience in PSH property managers | Inexperienced property managers could create operational side effects since they may not have experience with harm reduction principles.               | <ul style="list-style-type: none"> <li>Groups like CSH work with inexperienced property managers to have adequate training and support.<sup>49</sup></li> <li>Developers can pair inexperienced property managers with more experienced service providers/case managers to promote shared learning</li> </ul>             | 20% of managers in the Prop HHH pipeline are new which could lead to this risk being exacerbated |
| Delayed or no rent collection                                 | The tenant may not be able to pay the rent due to job loss, and the developer may have to cover a huge portion of the 30% rent provided by the tenant. | <ul style="list-style-type: none"> <li>Developers can use operating reserves during the adjustment process for Section 8 funds; if they can report the income loss, they could get an adjustment on their rent, which could take 30 - 60 days<sup>50</sup></li> </ul>   |  |
| Tenant eviction   | High tenant turnovers lead to a loss in operating income and huge reputational risk for CCC.   | <ul style="list-style-type: none"> <li>The Property manager should arrange for fortnightly meetings and training all staff in housing first, harm reduction, and trauma-informed methods.<sup>51</sup></li> </ul>   |  |
| Tenant allocation   | The building environment could suffer from poorly behaved tenants. Staff resources need to be spent on few tenants with behavioral issues.             | <ul style="list-style-type: none"> <li>Establish rules relating to payment of rent and other fees, maintaining the unit and property, tenant behavior, and substance abuse. Explain all house rules to tenants during a preoccupancy conference and annually during their income recertification.<sup>52</sup></li> </ul> | Having a 24-hour front desk service also helps in solving tenant discrepancies. <sup>53</sup>    |

<sup>49</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>50</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>51</sup> Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

<sup>52</sup> Steve Coe, Former CEO, Community Access, Interview by Hilary Hamm and Karine Choi. March 2nd, 2020.

<sup>53</sup> Corporation for Supportive Housing. "Supportive Housing Property Management Operations Manual."

## Medium Probability of Occurring: Case Management Risks

| Risk  | Consequences  | Mitigation Strategy  | Additional Notes  |
|---|---|--|---|
| Case managers do not resolve conflicts with tenants               | Due to a lack of funding for trainings, case managers don't have access to up-to-date methods to resolve challenges with clients. | <ul style="list-style-type: none"> <li>Service providers should include budgets for training as part of grant funding. Potential trainings include conflict resolution, motivational interviewing, acute mental illness, chronic substance abuse, and administering Narcan.<sup>54</sup></li> </ul>  |   |
| Low case manager to client ratios due to lack of adequate funding | Case managers don't have enough time/resources to attend to clients, leading to inefficient case management.                      | <ul style="list-style-type: none"> <li>We recommend a ratio of direct supportive service staff (case managers + svc staff) to tenants to range from 1:10 and 1:25.<sup>55</sup> Case managers can also rely on property managers to help fill in the gaps and build rapport.<sup>56</sup></li> </ul> | Service providers can leverage Measure H funding, which allows for flexibility in budgeting for service provision. Placing mailboxes near the property manager's office can also help the build relationships with tenants in an informal manner. <sup>57</sup> |
| Physical safety or health of staff                                | Staff can get injured or develop contagious infections while working with clients   | <ul style="list-style-type: none"> <li>Staff should be trained on safety and harm reduction. Emergency protocols should be established between the property manager and service providers.<sup>58</sup></li> </ul>   |   |

<sup>54</sup> Gornstein, Aaron, and China Boak Terrell. "Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing." Joint Center for Housing Studies, Harvard University, July 2016.

<sup>55</sup> Corporation for Supportive Housing. "Supportive Housing Property Management Operations Manual," 2003.

<sup>56</sup> Heather Gibbs, Assistant Director, The People Concern, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>57</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>58</sup> Heather Gibbs, Assistant Director, The People Concern, Interview by SIPA Capstone Team. March 23rd, 2020.

### Medium Probability of Occurring: Service Provision Risks

| Risk   | Consequences  | Mitigation Strategy  | Additional Notes   |
|--|---|--|--|
| Inexperienced service providers cannot meet the needs of high-acuity tenants | As PSH volumes rise, existing service providers may get overloaded, leading to the need for new, inexperienced service providers.   | <ul style="list-style-type: none"> <li>• Developers can pair up service providers with experienced case management staff or other service providers.<sup>59</sup></li> <li>• Service providers can ensure their staff embraces principles of social justice and rights, and provide staff with regular training around these principles.<sup>60</sup></li> </ul> |  |
| Service refusal from tenants   | Behavioral risks increase from tenants who refuse case management service. This could also lead to a funding reduction, as it might be dependent on the number of tenants accepting case management | <ul style="list-style-type: none"> <li>• Train staff members to effectively engage tenants. 95% of tenants accept services. It is incumbent on staff to engage with tenants.<sup>61</sup></li> </ul>   |  |
| No funding available for clients with special needs                          | Client needs in PSH are constantly changing based on age and other factors.   | <ul style="list-style-type: none"> <li>• Service providers can raise alternative private funding through philanthropic sources to meet costs arising from changing client needs.<sup>62</sup></li> </ul>   | Usually about 10-20% of the clients in PSH have special needs that need to be addressed. <sup>63</sup> |

<sup>59</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>60</sup> Steve Coe, Former CEO, Community Access, Interview by Hilary Hamm and Karine Choi. March 2nd, 2020.

<sup>61</sup> Ibid.

<sup>62</sup> Stephan Russo, Former Executive Director, Goddard Riverside Housing, Interview by Omni Nishar & Ho-Young Lee. March 10th, 2020.

<sup>63</sup> Ibid.



**This section examines best practices in PSH as they relate to operations, construction, and financing. It highlights a selection of best practices and due diligence measures that CCC can perform when choosing and working with PSH partners.**



## V. Best Practices

### PSH Construction

**Managing Local Opposition to Avoid Delays in Construction:** One of the largest impediments to new housing construction is local opposition, particularly as affordable or PSH is seen to negatively impact the “neighborhood character” and property values.<sup>64</sup> Community opposition has proven to be a considerable barrier to the efficient siting of public housings.<sup>65</sup> To address this, local developers could create education campaigns and advocacy tools to highlight the benefits of PSH.<sup>66</sup> In this section, we discuss practical steps to dealing with local opposition.

| Checkpoints  |   |
|--|---|
| Create a Community Acceptance Strategies Team              | Gathering a group of experienced community and housing advocates, affordable housing developers, and local government supporters is a first step to community acceptance. In doing so, developers can work with the community to devise a program to respond to the need.   |
| Analyze Local Opposition                                   | Generally, opponents are concerned about who will be living in the housing, tenants' behavior (e.g., crime and loitering), negative effects on their property values, the appearance and density of the proposed structure, and issues like traffic and parking. <sup>67</sup> The community acceptance strategies team should limit its scope and start working on solving the issues.   |
| Focus More on Facilitating Support than Placating Concerns | Developers should gain active community support as opposed to simply dealing with upset neighbors. They can do this through education and advocacy campaigns that include credible research. CCC can review the developer's plans to deal with anticipated opposition, ask about past experiences, and apply a winning strategy.<br><br><i>NYU's Furman Center found that PSH in New York does not have a negative impact on nearby property values. The authors found that, five years after a development opens, nearby property values tend to have risen more than in similar areas with no such facility. The Urban Institute also found that, on average, crime rates in Denver were not higher near supportive housing compared to similar areas with no such development.</i> <sup>68</sup> |

<sup>64</sup> Monkkonen, et al., “Overcoming Opposition to New Housing.”

<sup>65</sup> Scally, Corianne Payton, and Rosie Payton Tighe. “Democracy in Action?: NIMBY as Impediment to Equitable Affordable Housing Siting.” *Housing Studies*, 2015.

<sup>66</sup> Ross, “Avoiding and Overcoming Neighborhood Opposition to Affordable Rental Housing.”

<sup>67</sup> Iglesias, Tim. “Managing Local Opposition to Affordable Housing: A New Approach to NIMBY.” *Journal of Affordable Housing & Community Development Law*, 2002.

<sup>68</sup> Jesse Coburn, “After the Shouting, Do Shelters and Supportive Housing Harm Neighborhoods?, *CITYLIMITS*”, 2015.

**Building Specifications:** High quality construction and building design is essential for adequate service provision and property management. Types of supportive services and service delivery vary depending on the building design. There are no one-size-fits-all answers to the costs, design, and size of the building as they vary by location, tenant type, and budget. Nevertheless, there are certain recommended specifications.

| <b>Checkpoints</b>  |  |
|---------------------|--|
| Building Management | Design should include an ethos that helps residents feel like they are in a home, e.g., by placing supportive services away from the lobby.  |
|                     | The 24-hour front desk and security are expensive. It would be good to find a way to reduce those fixed costs. For example, if the case managers are residing in the building, the front desk may not need to be 24-hours.   |
| Housing Units       | Steve Coe, former CEO of Community Access, recommends 380-400 sq. ft. for singles, 750-800 sq. ft. for families.   |
|                     | The average cost of each unit also depends on other factors. Per unit costs are similar to those of affordable housing and range from \$500,000 - \$800,000, according to Linc Housing’s Maria Elena Marquez-Brooks.   |
| Location            | Finding a location near health centers could reduce the need for on-site health visits.  |
|                     | Find a location in geographic proximity to transportation, groceries, and major cities. <sup>69</sup> This gives tenants the opportunity to get a job and generate income. However, locations that satisfy these conditions may be expensive and outweigh any benefits gained. Developers could strike a balance by limiting the scope of proximity to only PSH-essential facilities.<br><br><i>The County of San Diego Housing and Community Development Services (HCDS) states that for services provided off- site, public or private transportation options must be available to the tenants in order to provide them reasonable access to these services that does not require walking more than 1/2 mile (0.8 km).</i> <sup>70</sup> |
| Contractor          | Find a reliable general contractor to work across multiple projects and avoid quality issues that may stem from low-bid projects. <sup>71</sup>  |

<sup>69</sup> Brenda Rosen, President and CEO, Breaking Ground, Interview by Hilary Hamm and Karine Choi. February 19th, 2020.

<sup>70</sup> County of San Diego Housing and Community Development Services. “Notice of Funding Availability (NOFA) For Affordable Housing Construction, Acquisition and Rehabilitation.”

<sup>71</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

**PSH Operations**

**Choosing the Right Service Provider:** The successful operation of PSH is highly dependent on the right partners. The service provider plays a key role since it leads the delivery of supportive services to residents. However, it may be difficult to find skilled providers because the supportive service concept is relatively new and it involves various functions compared to traditional affordable housing.<sup>72</sup> Identifying and contracting with a skilled service provider could preempt future issues in the project.

Since CCC possesses extensive experience in construction and property management, it may need to focus more of its due diligence on selecting the right service provider. To avoid the risk of service provision failure, CCC should work in tandem with the developer before the final selection is made. The following is a list of checkpoint questions to ask potential service providers.

| Checkpoints               |  |
|---------------------------|--|
| Implementation Capacity   | <p>Does the service provider have the staff capacity to provide quality services that are tailored to the needs of the tenants and size of the population?</p> <p>Are there necessary services they cannot provide?</p> <p>Would they need to hire new staff or train current staff differently to accomplish this? How long would this take and do they have a track record of successfully retraining staff?</p> <p><i>Linc Housing aims for staff to stay two - three years to offset the costs of training.</i><sup>73</sup></p>   |
| Monitoring and Evaluation | <p>How does the organization define success with regard to their services?</p> <p>Can they quantify and describe the outcomes of their services?</p> <p><i>RAND Corporation suggests goals for service providers such as a housing retention rate of 86% in an 18-month period, or a decrease in the average cost per occupied housing unit for all services by 60% in a three-year period.</i><sup>74</sup> <i>Urban Edge, a service provider in Massachusetts, uses metrics such as a 30% benefit enrollment rate, number of evictions prevented per month, and number of residents entering the leadership engagement and development track per month.</i><sup>75</sup></p> |

<sup>72</sup> Gornstein et al., “Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing.”  
<sup>73</sup> Joseph Cabral, Resident Services Resource Manager, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.  
<sup>74</sup> Hunter, Sarah B, Melody Harvey, Brian Briscoombe, and Matthew Cefalu. “Evaluation of Housing for Health Permanent Supportive Housing Program.” RAND Corporation, 2017.  
<sup>75</sup> Gornstein et al., “Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing.”

|                                       |   |
|---------------------------------------|---|
| Reputation & Relevant Work Experience | <p>Is it an established organization? If yes, does it have a reputation for excellence, and does it maintain good relationships with other service providers?</p> <p><i>The County of San Diego Housing and Community Development Services (HCDS) states service providers must have a minimum of 3 years' experience providing supportive services, serving persons in PSH, helping persons address barriers to housing stability, or providing other supportive services related to housing.</i><sup>76</sup></p> |
|                                       | <p>Does the service provider have experience in providing the service at a site other than one that is controlled by the service provider?</p>  |
|                                       | <p>What is the organization's experience with staff turnover?</p> <p><i>As a reference, in Linc Housing, most staff started as volunteers and remain for up to 5-6 years.</i><sup>77</sup></p>  |
| Financial Health                      | <p>What is the organization's current financial health?</p> <p>Are the organization's expenses fully covered?</p>   |
| Philosophy                            | <p>What is the organization's philosophy as it relates to the treatment of people experiencing homelessness?</p> <p><i>CCC could assess the organization's philosophy by asking if they view people experiencing homelessness as "risky" or "in need of support?"</i><sup>78</sup></p>  |

<sup>76</sup> County of San Diego Housing and Community Development Services. "Notice of Funding Availability (NOFA) For Affordable Housing Construction, Acquisition and Rehabilitation," 2018.

<sup>77</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

<sup>78</sup> Steve Coe, Former CEO, Community Access, Interview by Hilary Hamm and Karine Choi. March 2nd, 2020.

**Selecting a Qualified Property Manager:** Many organizations that engage in supportive housing do not possess in-house expertise in property management activities.<sup>79</sup> The following are some suggested questions for reviewing relevant qualifications and selecting a property management company for a planned or existing supportive housing project.

| <b>Checkpoints</b>     |  |
|------------------------|--|
| Prior Experience       | <p>What is the property manager’s experience working with supportive services teams?</p> <p><i>The County of San Diego Housing and Community Development Services (HCDS) requires property managers to possess either a minimum of 3 years’ experience serving persons who are homeless, chronically homeless, or at-risk of chronic homelessness or a minimum of 5 years’ experience managing affordable housing properties.<sup>80</sup></i></p> |
|                        | <p>What is the property manager’s experience working with tenant councils and leadership groups?</p>   |
|                        | <p>Does the property manager understand and have experience complying with the project’s funders’ regulatory requirements associated with tenant leasing and occupancy?</p>  |
| Philosophy             | <p>What is the management agent’s philosophy of property management with regards to:</p> <ul style="list-style-type: none"> <li>• Asset management issues</li> <li>• Tenant relations and tenant involvement</li> <li>• Community relations</li> </ul>   |
| Local Office           | <p>Does the property manager have a local office near the project?</p>   |
| Staff Turnover         | <p>What is the staff turnover history within the property management organization?</p>   |
| Quality of Recent Work | <p>Do recent audits and financial statements for properties they manage indicate management competence? Examine vacancy rates of past properties. <i>Ideally, a three - five percent tenant vacancy rate is good. Interviewees noted that tenants either pass away, join their family, or are evicted.<sup>81</sup></i></p>  |

<sup>79</sup> Diaz, Marc. “ Assessing Property Management for Affordable Housing.” Joint Center for Housing Studies of Harvard University, 2004.

<sup>80</sup> County of San Diego Housing and Community Development Services. “Notice of Funding Availability (NOFA) For Affordable Housing Construction, Acquisition and Rehabilitation.”

<sup>81</sup> Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

**Working Relationship Among PSH Actors:** A strong working relationship among property managers, case managers, supportive services, and developers is essential for a smoothly functioning PSH project.<sup>82</sup> The property manager’s role, which is to ensure ongoing physical upkeep of the building and harmony between tenants, can often be in tension with the case manager and service providers’ roles, which exist to ensure the well-being of tenants. A breakdown in communication between property management and service providers can have consequences on the overall impact of PSH.<sup>83</sup> CCC should ensure that its partners recognize the need for proactive collaboration. CCC can incorporate each partner’s roles and functions described below to facilitate such collaborations.

| Checkpoints  |   |
|--|---|
| Case Manager,<br>Property<br>Manager, Service<br>Providers | Ensure case managers, property managers, and service providers have established regular meetings in their contracts regarding potential tenant disputes/behavioral issues.<br><br><i>Hollywood Community Housing holds a meeting every other week with case managers, property managers, and service providers.</i> |
|  | Pair inexperienced parties with more experienced ones. If the property management team is less experienced, ensure that the case management and service provision team has experience working in a PSH setting.   |
|  | Ensure that all parties understand each other’s roles and responsibilities clearly.   |
|  | When selecting these groups, evaluate them by metrics such as eviction rate within the past 12 months, number of evictions prevented, and/or absence of lease violations. The presence of these metrics should indicate a Housing First and Harm Reduction approach within the organization.                        |
|  | All parties should be trained and understand harm reduction, trauma-informed methods, as well as Housing First principles.  |
| Property Manager   | Send written notification to the tenant should rent payment delay or default occur. Keep track of records such as delayed payments.   |
|  | Clearly inform tenants about the eviction policy when signing a contract. The contract terms should be clear and legally binding.   |

<sup>82</sup> Coalition Home, and Corporation for Supportive Housing. “Best Practices Manual: Integrating Property Management and Services in Supportive Housing.”

<sup>83</sup> Lindsay Kerby, Senior Community Investment Officer, CSH Los Angeles, Interview by Jacqueline Woo. February 27th, 2020.

**Types and Features of Supportive Services:** Financing construction within a PSH property is more predictable than expecting specific outcomes from service provision. In general, property managers, LIHTC providers, and financial institutions pre-calculate and manage potential construction risks. While successful service providers do plan ahead to target the needs of their tenant population, it is often difficult to predict what exactly each tenant needs or how subsidy flows may change in the future.<sup>84</sup> Tenants may require different types of supportive services as they age since PSH allows tenants to reside in the building for long periods of time. LA County’s use of the Coordinated Entry System (CES) could also result in open units being filled with tenants whose backgrounds and needs are not yet completely understood.<sup>85</sup> Moreover, the per-unit subsidy has remained flat whereas the costs of operating PSH have risen due to inflation.<sup>86</sup> In such cases, a slight change in the economy could pose a serious threat to running supportive services. For all of these reasons, it is important to have experienced service providers who can properly identify and manage the needs of the individual tenants and bring on more specialized providers if needed.

According to Stephan Russo, former executive director of Goddard Riverside Community in New York, PSH problems are normally found in service provision.<sup>87</sup> Below are some best practices in service provision that CCC can use when working with service providers.

| <b>Checkpoints</b>  |  |
|---|--|
| Direct Supportive Service Staff (case managers + staff): Resident Ratio | General ratio for acute needs ranges between 1:10 and 1:25 <sup>88</sup>   |
|   | LA County requires a ratio of 1:20 for more acute needs and ratio of 1:40 for less acute needs. <sup>89</sup>  |
| Critical Core Minimum Services  | Life Skills Coordinator: Teach self-care and how to live on one’s own, including the importance of hygiene.  |
|   | Every special needs project should have a Case Manager for Mental Health, a Clinician, or a Physician. Special funding sources can be raised for such services’ staff. <sup>90</sup> |

<sup>84</sup> Gornstein et al., “Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing.”

<sup>85</sup> The Coordinated Entry System (CES) provides PSH projects with tenants to fill their units.

<sup>86</sup> Frederick Shack, CEO, Urban Pathways, Interview by Omni Nishar and Ho-Young Lee, February 17th, 2020.

<sup>87</sup> Stephan Russo, Former Executive Director, Goddard Riverside Housing, Interview by Omni Nishar & Ho-Young Lee. March 10th, 2020.

<sup>88</sup> Corporation for Supportive Housing. “Supportive Housing Property Management Operations Manual,” 2003.

<sup>89</sup> County of Los Angeles, “Permanent Supportive Housing and Services: A New Model,” 2016.

<sup>90</sup> Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

**Leveraging Resources:** Some organizations can provide supportive services at a lower price through partnerships with other organizations, while other providers do not fully utilize available resources. CCC should ask service providers questions regarding Medicaid funding, tenant profile, Measure H, and the Flexible Housing Subsidy Pool to gain a better sense of service providers’ financial capacity to utilize all the available federal, state, and county level subsidies.

**Medicaid Funding:** Medicaid can be used in PSH to provide personal care services in homes, behavioral health care services, intensive case management, and housing-specific supportive services, such as assistance in searching for housing and working with landlords.<sup>91</sup>

**Increasing Costs with Changing Tenant Profiles:** Since PSH provides permanent residency to tenants, the types of supportive services needed to meet their demand are likely to change as people age. CCC should work with service providers on a plan to meet these changing needs.

**Measure H and the Flexible Housing Subsidy Program (FHSP):** Measure H and the FHSP provide flexible funding for service providers and case managers to do “whatever it takes” to provide stability for individuals experiencing homelessness. Measure H funding is channelled through the County’s Homelessness Initiative’s Strategy D7: “Provide Services and Rental Subsidies for PSH,” while DHS contracts with several community-based organizations to provide intensive case management services to FHSP clients.<sup>92</sup> Providers that utilize these funding sources are more easily able to adapt to changing future conditions.

| Checkpoints   |  |
|---|--|
| Work with Service Providers on How to Leverage Medicaid Funding | <p>What kinds of supportive services will the project deliver and are they Medicaid billable?</p> <p>Is the PSH building nearby a local healthcare center?</p> <p>What is the ideal tenant profile that maximizes the use of Medicaid eligibility?</p> |
| Aging Profile of Tenants  | <p>Is elderly service incorporated into the PSH design?</p> <p>How will the service provider fund changes in services?</p>   |
| Leveraging Measure H and Flexible Housing Subsidy Pool          | <p>Does the provider utilize Measure H and/or FHSP funds?</p> <p>What proportion of funding is derived from them?</p>  |

<sup>91</sup> Center for Medicaid and CHIP Services. “Coverage of Housing-Related Activities and Services for Individuals with Disabilities.”

<sup>92</sup> Abt Associates, “Flexible Housing Subsidy Pool Brief: Evaluation of the Conrad N. Hilton Foundation Chronic Homelessness Initiative.”

## **PSH Financing**

**Overall Risk Mitigation for Financing:** Since public subsidies like Section 8 vouchers support PSH tenants’ income, a project is at risk if these get cut. Tenants may also not be able to pay their rent contribution at times.<sup>93</sup> The developer should have some strategies to mitigate these risks.

| <b>Checkpoints</b> |   |
|--------------------|---|
| Reserve            | Check that the developer prepares enough reserves to cover all the risks: <ul style="list-style-type: none"> <li>• Operating reserve to cover the risk that the subsidies on operating costs are cut or not renewed; service provision costs should be also covered here</li> <li>• Transition reserve to cover the risk that rental subsidies are cut or renewed</li> <li>• Replacement reserve to cover the risks that the needs for repairment of major parts of the property will emerge in the future</li> </ul> |
|                    | The size of the reserves varies across developers, but most operating reserves have one equal to one or two year of annual operating costs. PSH reserves tend to be larger than affordable housing, which only have a three month reserve. <sup>94</sup>  |
| Subsidy Type       | Federal subsidy is relatively safe because it covers a wide population. <sup>95</sup> Elected officials are unlikely to consider federal subsidy cuts.  |

**Construction Financing:** This section focuses on PSH-specific construction financing practices.

| <b>Checkpoints</b>                        |  |
|---|--|
| Expect Increase in Costs                  | The cost of construction may increase due to the labor cost or the price of raw materials. Ensure this risk is accounted for by including a minimum inflation rate for labor costs in the construction budget.   |
| Mix of PSH and Regular Affordable Housing | In a non-recessionary environment, building integrated housing that mixes low income and PSH units (typically 60:40 - PSH:Affordable) results in more diversified income flows and improved tenant outcomes. <sup>96</sup> However, this may need to be reconsidered since the current recession disproportionately affects affordable housing tenants’ ability to pay rent. |

<sup>93</sup> The required client contribution is 30% of income.

<sup>94</sup> Jodi Rothery, Director of Development, Chelsea Investment Corporation, Interview by Omni Nishar, Hilary Hamm and Takanori Hattori. April 3rd, 2020.

<sup>95</sup> Anonymous, Housing Finance Consultant in Los Angeles, Interview by Jacqueline Woo, Karine Choi, Takanori Hattori. February 20th, 2020.

<sup>96</sup> Stephan Russo, Former Executive Director, Goddard Riverside Housing, Interview by Omni Nishar & Ho-Young Lee. March 10th, 2020.

|  |   |
|--|---|
| Do Not Take Construction Costs Shortcuts | Taking shortcuts to make the initial building expense cheaper goes against the long-term durability of the project. Invest in a quality selection of materials and design, and include costs upfront so that they can be paid off over time. Focus on putting the needs of the tenants at the project's core. |
| Effective Design                         | The building can be designed in a way to facilitate more human interaction. For example, mail boxes are placed in the front so people have to walk by and greet each other. <sup>97</sup>   |

**Identifying Untapped Financing Sources:** Often, government funds may be insufficient to cover the costs of populations with special needs. Given the complexity of PSH construction and its operation, it is important to have a flexible financial plan outside of government subsidy. Below, we identified alternative financial sources that CCC and its partners can tap into.

| Checkpoints   |  |
|---|--|
| Philanthropic Funding   | The service provider should be well-versed with fundraising through philanthropic sources. Interviewees recommended that 15-20% of the operations could be covered through philanthropic funding. <sup>98</sup>        |
| In-Kind Donations   | Securing in-kind donations can also reduce expenses. For example, asking vendors for discounts or donating materials can reduce costs.   |
| Community Involvement   | In addition to the overall positive community benefits, community involvement can lead to more in-kind donations, volunteer assistance, or charitable donations.   |
| Volunteer Assistance <sup>99</sup>                                  | Identify additional assistance through community volunteer organizations. This can create an opportunity for the community to build relationships with the PSH clients and expand the labor force.                     |
| Create In-House Employment Opportunities for Tenants <sup>100</sup> | Providing in-house employment opportunities for tenants helps their income, outside job prospects, and transition into another role. Staff who have lived experiences can serve as meaningful role models for tenants. |

<sup>97</sup> David Howden, Director, CSH Los Angeles, Interview by Jacqueline Woo and Karine Choi. March 24th, 2020.

<sup>98</sup> Stephan Russo, Former Executive Director, Goddard Riverside Housing, Interview by Omni Nishar & Ho-Young Lee. March 10th, 2020.

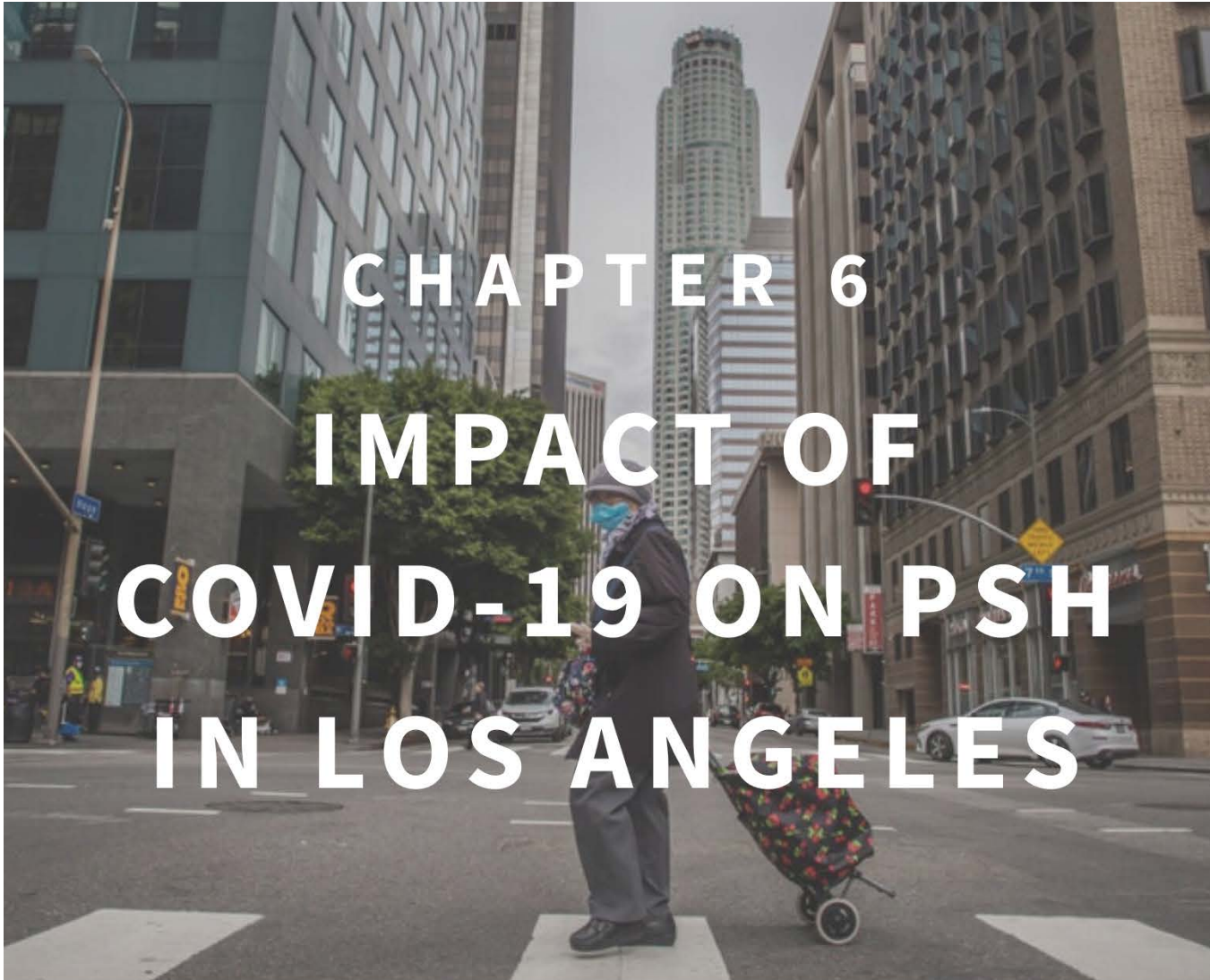
<sup>99</sup> Corporation for Supportive Housing. "Recommendations for Designing High-Quality Permanent Supportive Housing," 2009.

<sup>100</sup> Hannigan, Tony, and Suzanne Wagner. "Developing the 'Support' in Supportive Housing." Center for Urban Community Services, 2003.

**Occupancy Rate vs Rent price for Affordable Housing Units:** In the event of an economic downturn, the occupancy rate of the building tends to decline. In 2020 and 2021, the economy is expected to go into recession due to COVID-19. CCC’s affordable housing units in Florida also experienced low occupancy rates (75%) after the financial crisis in 2008. Calculating the numbers for both occupancy rate and the rent price that maximizes rent collection is especially important during hard times like today. Here, we provide a matrix that assists such calculation. Since we are suggesting CCC introduce a mixed tenant profile in the PSH operation, this calculator considers the tenants who are only partially subsidized (tenants who are fully subsidized are less affected by recession).

| Monthly Rent Collection for 100 Units |         |           |          |          |          |
|---------------------------------------|---------|-----------|----------|----------|----------|
| Occupancy rate                        |         |           |          |          |          |
|                                       |         | 100%      | 90%      | 80%      | 70%      |
| Rent price                            | \$1,000 | \$100,000 | \$90,000 | \$80,000 | \$70,000 |
|                                       | \$800   | \$80,000  | \$72,000 | \$64,000 | \$56,000 |
|                                       | \$600   | \$60,000  | \$54,000 | \$48,000 | \$42,000 |
|                                       | \$400   | \$40,000  | \$36,000 | \$32,000 | \$28,000 |

As the chart shows, a 10% increase in occupancy is less profitable than lowering the rent. For example, when the rent is \$1,000 and the occupancy rate at that price is as low as 80% during the recession, the total rent collection will be \$80,000 in a 100-unit building. However, raising the occupancy rate by 20%, which entails a huge amount of business-related expenses and uncertainties, has the same effect as lowering the rent price by \$200. Considering that discounting rent price requires only minimal effort from the property manager, this strategy is financially more viable.



**While much uncertainty remains, this section provides guidance to CCC by assessing the potential impacts of the pandemic on homelessness, government funding, and PSH construction.**

## VI. Impact of COVID-19 on PSH in Los Angeles

**The number of people experiencing homelessness in LA is likely to increase.** The impact of COVID-19 could be similar to that of a natural disaster like the San Francisco earthquake of 1989. In 1989, San Francisco was plagued by a housing shortage that left many without homes. The earthquake killed about 3,000 people and added 200,000 people to the existing homeless population.<sup>101</sup> Similarly, the impact of COVID-19 could be an increase in the number of individuals who are homeless in Los Angeles and elsewhere. Even with the federal stimulus package, job loss will make people unable to pay rent, which would exacerbate homelessness. As of May 9, Mayor Garcetti said the unemployment rate in LA has risen to 24% – nearly 10% more than the country’s 14.7% unemployment rate.<sup>102</sup>

### **Impact on Government Funding**

**Funding cuts at the federal level are unlikely to happen in the short-term.** As a result of the shutdown, the U.S. economy will face a deep recession in the coming months. Hence, besides the pandemic’s public health implications, we need to take a close look at its impact on the national and California state economy. The recessions will impact the state’s capacity to collect revenue, which subsequently affects funding for PSH. However, on March 27, 2020, the \$2 trillion Coronavirus Aid, Relief and Economic Security Act (CARES ACT) was passed and signed into law nationally. The CARES Act allocated \$12.4 billion in funding for housing and homelessness. The table below shows details of the legislative funding package passed on March 27th, 2020.

| <b>Phase 3 COVID-19 Legislative Funding Package<sup>103</sup></b> |                |
|---|----------------|
| Tenant Based Rental Assistance                                    | \$1.25 billion |
| Project Based Rental Assistance                                   | \$1 billion    |
| Section 202 Housing for the Elderly                               | \$50 million   |
| Section 811 Housing for Persons with Disabilities                 | \$15 million   |
| Public Housing Operating Costs                                    | \$685 million  |
| Community Development Block Grants                                | \$5 billion    |
| Homeless Assistance Grants  | \$4 billion    |

<sup>101</sup> Little, Becky. “Why It Took Two Earthquakes for San Francisco to Finally Build Smarter.” History.com, September 21, 2017.

<sup>102</sup> Reyes-Velarde, Alejandra. “L.A. Unemployment Hits Stunning 24%: ‘These Are Our Neighbors and They’re Hurting,’ Garcetti Says.” Los Angeles Times, May 9, 2020.

<sup>103</sup> National Apartment Association, “Congress Passes Third COVID-19 Federal Relief Package,” April 8, 2020.

We compared the federal government's budget allocation after major economic downturns to assess the future impact on Section 8 vouchers. After 9/11, the federal budget for Section 8 increased the following years. The enacted HUD budget in 2002 for renewing Section 8 contracts increased from \$12,943 to \$15,085.<sup>104</sup> Similarly, there was a budget increase in 2009 and 2010 increase after the 2008 mortgage crisis.

Although the crisis has undermined the government's budget capacity, the enacted budget for renewing Section 8 is unlikely to decrease in subsequent years due to various political pressures. Given today's political response and emphasis on housing affordability, COVID-19 is expected to have little impact on CCC's units that are under the Section 8 vouchers.

**State funding for PSH is also likely to remain intact.** According to Lourdes Morales, of the California Legislative Analyst's Office, "although COVID-19 will negatively impact the state revenue stream, California State has an unprecedented level of reserves to fight for it."<sup>105</sup> The state of California has roughly \$20 billion in reserves that will help cushion against these dynamics.<sup>106</sup> However, these are dwindling fast.<sup>107</sup> Despite this, the state is prioritizing spending for homeless-related issues. The legislature and governor took emergency budget action in mid-March before the legislature went on recess, authorizing a \$1.1 billion package that provided flexibility to the governor to respond to COVID-19. The first action the Governor took with this money was to allocate \$150 million toward homelessness specifically, making \$100 million available for localities to use, and the remaining \$50 million for the state to acquire property to house homeless individuals.<sup>108</sup> As such, homelessness remains a budget focus and even more funding could be allocated to the homeless-related issues because of the pandemic's direct impact on public health.

### **Impact on Construction**

**PSH construction is likely to be negatively impacted, but CCC could be at a strategic advantage.** The construction pipeline for PSH is at risk as the demand for LIHTC will soften. Oftentimes, financial institutions purchase LIHTC to offset corporate profits. The economic impact of COVID-19 would put significant pressure on the banking and financial system.<sup>109</sup>

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<sup>104</sup> Department of Housing and Urban Development, "FY 2002 Budget for the U.S. Department of Housing and Urban Development," Archives, 2002.

<sup>105</sup> Lourdes Morales, Principal Analyst, Legislative Analyst's Office California, Interview by Jacqueline Woo, Hilary Hamm and Ho Young Lee. April 6th, 2020.

<sup>106</sup> California State Legislative Analyst's Office, "The 2020-21 Budget: Overview of the Governor's Budget," January 13, 2020.

<sup>107</sup> "Coronavirus Crisis Could Trigger Huge California Deficits, Lawmakers Are Told." Los Angeles Times, April 17, 2020.

<sup>108</sup> California State Office of Governor, "Governor Newsom Takes Emergency Actions & Authorizes \$150 Million in Funding to Protect Homeless Californians from COVID-19," March 18, 2020.

<sup>109</sup> Craven, Matt et al., "COVID-19: Implications for Business." McKinsey & Company, April 12, 2020.

However, CCC could turn this crisis into opportunity. Given a potential drop in housing prices, CCC could finance developers who are willing to secure land and properties in Los Angeles at a reasonable price for future use. This approach would strengthen CCC’s reputation within the community.

Economic risk of such action is minimized for the following three reasons. First, the value of the property that CCC owns would increase as the economy recovers. Considering CCC’s long-term commitment to tackling homelessness problems in the U.S., this might be the right time to invest for future use of land. Second, commodity prices continue to fall amidst COVID-19, leading to lower construction costs.<sup>110</sup> Third, vacancy rates would be minimal after the pandemic since there will be more demand than supply for PSH units. In fact, as illustrated below, Los Angeles and California as a whole experienced a 9% decrease in new LIHTC constructions from 2016 to 2019. In addition, the pandemic is likely to increase the number of individuals who are homeless in Los Angeles and elsewhere.

| <b>LIHTC Production and Preservation in California<sup>111</sup></b> |                              |        |        |          |
|--|------------------------------|--------|--------|----------|
|  | Type                         | 2016   | 2019   | % Change |
| California (State wide)  | New construction             | 8,539  | 7,813  | -9%      |
|  | Acquisition & Rehabilitation | 15,032 | 12,686 | -16%     |
|  | Total                        | 23,571 | 20,499 | -13%     |
| Los Angeles County   | New construction             | 1,868  | 1,699  | -9%      |
|  | Acquisition & Rehabilitation | 3,292  | 3,195  | -3%      |
|  | Total                        | 5,160  | 4,894  | -5%      |

### **Impact on CCC’s Portfolio of Affordable and PSH projects**

**As individuals begin to lose income, the tenant profile of CCC’s projects becomes more critical.** Of CCC’s affordable housing units, 25% of the tenants are fairly insulated from income loss because of their reliance on Section 8 contracts.<sup>112</sup> Both federal and state-assisted housing units are less likely to be affected because of the immediate policy reaction towards COVID-19. Housing provisions in the third stimulus package include resources for HUD-assisted housing to pay for COVID-19 related costs. The bill provides \$1 billion for PBRA (Project-Based Rental Assistance) to respond to the coronavirus, including additional funds to “maintain normal operations and take other necessary action.”<sup>113</sup> Additionally, \$1.25 billion has been set aside for TBRA (Tenant-Based Rental Assistance).

<sup>110</sup> Higgins, Jessie. “Coronavirus Pandemic Crashes Commodity Prices.” United Press International, April 3, 2020.

<sup>111</sup> California Housing Partnership, “California Affordable Housing Needs Report,” March 2020.

<sup>112</sup> Kevin Kleen, Director, Asset Management at Citi Community Capital, Meeting with SIPA Capstone Team. April 1st, 2020.

<sup>113</sup> LeadingAge. “Affordable Housing Funds, Eviction Moratorium in 3rd Stimulus Package,” March 26, 2020.

Unfortunately, the remaining 75% of the tenants are less insulated as many would have to pay the entire rent, and around 60% of them are low income wage workers.<sup>114</sup> This segment of tenants are hit disproportionately with job losses, which poses a threat to collecting rents. Although the mixed-profile of tenants provides value to PSH operations and goals, the subsidized units are better insulated from external economic shocks and act as a buffer for stable rent-collection. PSH operators should consider optimizing the tenant profile mix.

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<sup>114</sup> Kevin Kleen, Director, Asset Management at Citi Community Capital, Meeting with SIPA Capstone Team. April 1st, 2020.



**Despite uncertainties in the current environment, PSH is still an attractive investment for CCC. We anticipate that federal and state funding for homelessness and PSH will continue, particularly as the public health risks of homelessness have become more evident due to COVID-19. As CCC continues to invest in PSH, we recommend it consider the following actions.**



## VII. Recommendations

- ❑ **Partner with industry and advocacy organizations to push for more ongoing funding.** The erratic and intermittent state and local funding levels will continue to be an issue, and CCC can work with groups such as Corporation for Supportive Housing (CSH) or LISC to advocate for more ongoing support.
- ❑ **Stay apprised of the changing public policy landscape.** The considerable uncertainty regarding PSH, due to COVID-19 and the recession, should encourage CCC to dedicate public policy staff to closely monitor funding issues.
- ❑ **Ensure regular communication guidelines are established among key PSH actors prior to lease-up.** Property managers, service providers, and case managers should all recognize the importance of regular meetings and case conferencing at least once every two weeks. This cadence should be established from the start.
- ❑ **Connect less experienced partners to training and knowledge sharing.** As PSH expands, CCC should ensure potential partners understand key principles such as Housing First, harm reduction, and trauma-informed care, as these are crucial to reducing operational risk. CCC should ensure potential partners understand these concepts and connect them to training. CSH provides regular training sessions on various topics at affordable rates.
- ❑ **Ensure service and case management organizations have strong staff retention strategies.** Staff turnover can be particularly traumatic for PSH tenants given the relationship-focused nature of service provision and case management, translating to further operational risks. CCC should ensure that service and case management organizations have a successful track record of staff retention and thoughtful strategies.
- ❑ **Balance the advantages of integrated housing with current risks.** Integrated housing tends to have fewer risks and operational costs than PSH in standard economic conditions; however, in the current recessionary environment, the risk of rent default from LIHTC residents in integrated housing increases. We thus urge more caution on CCC's part when considering financing integrated housing in the current environment.

PSH will continue to be a best practice for addressing homelessness issues both in California and throughout the US. As CCC expands its portfolio of developments, a deeper understanding of the principles underlying PSH; the manner in which key stakeholders work together; and the continually evolving financial environment will ensure success for both PSH tenants and CCC.

## Appendix A. Frequently Asked Questions

### Property Management

#### **How are tenants chosen?**

In Los Angeles, most tenants are screened and sorted through the Coordinated Entry System (CES). Once delegated, property managers at each site screen tenants using additional criteria, such as background checks on criminal history or credit checks. Based on Housing First principles, the screenings look at each applicant holistically and try to understand their needs for housing.<sup>115</sup>

The CES ensures proactive and coordinated outreach to homeless individuals. Clients are engaged through street outreach, walk-ins, drop-in centers, other services, prisons or hospital systems, and virtually/over the phone.<sup>116</sup>

Outreach workers and volunteers administer the CES survey, which comprises the VI-SPDAT (Vulnerability Index - Service Prioritization Decision Assistance Tool) and Housing Preferences survey. The VI-SPDAT survey assesses the acuity of the client, and the Housing Preferences survey takes into account their preferences for housing and eligibility for certain housing.<sup>117</sup>

Information is gathered and entered into the Homeless Management Information System (HMIS) system, which matches the client with vacancies. The highest acuity clients are prioritized, and client eligibility is assessed prior to recommendation of a housing unit. For example, certain units that are funded by the HOPWA (Housing Opportunities for Persons With AIDS) federal program or MHSA (Mental Health Services Act) state program can only be occupied by specific target populations.<sup>118</sup>

#### **If the tenants lose their source of income, how is the rent portion adjusted?**

Property managers and developers maintain operating reserves to be used while resolving this issue and processing Section 8 subsidies to restore the gap in lost income. In some cases, property managers have to adjust their rent portion and potentially lower it as some properties, including PSH, charge tenants a nominal fee of \$15-50.<sup>119</sup>

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<sup>115</sup> Jorge Coronel, Regional Property Manager, The John Stewart Company, Interview by SIPA Capstone Team. March 23rd 2020.

<sup>116</sup> Abt Associates. "A Coordinated Entry System for Los Angeles: Lessons from Early Implementation," 2015.

<sup>117</sup> Ibid.

<sup>118</sup> Ibid.

<sup>119</sup> Jodi Rothery, Director of Development, Chelsea Investment Corporation, Interview by Omni Nishar, Hilary Hamm and Takanori Hattori. April 3rd, 2020.

## **Tenant Populations**

**Are there tenants with histories or who lack specific skills/core competencies who are not a good fit for a PHS project? If so, how are potential tenants screened?**

Experts estimate that a large majority of the homeless population (80-90%) can be housed in PSH buildings. However, the remaining percentage of people may not be able to be housed in PSH because they require a higher level of care than can be administered, such as intensive psychotherapy. These people may be too violent or mentally ill to live independently in a PSH building, and their behavior may put other people in the building at risk.<sup>120</sup>

**How often do units turn over? What are the reasons? What is the distribution curve of tenant tenure in a fully stabilized project?**

Service providers suggests that turnovers usually occur when a tenant wants to reunite with family or other personal reasons. Even with such instances, the turnover rate is usually never more than 10%.<sup>121</sup> Most service providers put in a lot of effort to keep tenants housed and off the street. The aim for service providers is to ensure residents stay in some form of housing permanently.

## **Programs/Tenant Services/Staffing**

**Are there generally accepted staff/tenant ratios?**

The ratio of direct supportive service staff (case managers + service staff) to tenants typically ranges between 1:10 and 1:25,<sup>122</sup> but there is a lot of variance depending on the population needs and level of tenant acuity. LA County requires a minimum ratio of 1:20 for more acute needs and a minimum ratio of 1:40 for less acute needs.<sup>123</sup>

*For further information please refer to the section on ‘Types and Features of Supportive Services’ in ‘Best Practices – A checklist for the developers, property managers, case managers, service providers.’*

**What are the costs associated with providing the minimum core services and staff?  
Are there generally accepted cost/tenant ratios?**

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<sup>120</sup> Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

<sup>121</sup> Stephan Russo, Former Executive Director, Goddard Riverside Housing, Interview by Omni Nishar & Ho-Young Lee. March 10th, 2020.

<sup>122</sup> Malen Rodriguez, Director of Asset Management, Hollywood Community Housing, Interview by Jacqueline Woo and Takanori Hattori. March 2nd, 2020.

<sup>123</sup> County of Los Angeles, “Permanent Supportive Housing and Services: A New Model.”

The overall costs depend on a multitude of factors, two of the most important ones being whether the employees are part-time or full-time and the turnover rate. Some service providers have had to spend up to \$20,000 for staff training. Ideally, a turnover period of two to three years would be minimally required to recover the cost of time and training.<sup>124</sup>

### **Project Design**

**What works best – a mix of market rate and/or affordable units with a PSH component, or 100% PSH housing? If a mix, intermingle units or dedicate floors/wings to PSH units?**

All of the service providers we spoke with advocated for integrated buildings – affordable units and PSH units. Integrated buildings are calmer and have a better long-term impact on the individuals experiencing homelessness. A concentration of people experiencing mental health issues in one building enables more negative behavior such as substance abuse. In a non-recessionary environment, building integrated housing that mixes low income and PSH units, typically in the ratio of 40:60 PSH:Affordable, results in more diversified income flows and improved tenant outcomes, as affordable housing residents pay 30% rent enabling an income source for the developer. However, this strategy may have to be reconsidered or delayed in a recession.

**What common areas are the minimum essential to PSH projects? Ideally, what additional facilities should be included? Are there guidelines for the ratio between common area and tenants and/or units (e.g., in an SRO tenants/bathroom)?**

The amount and type of common areas depend on the building design and the locality. At a minimum, buildings should be designed in a way to have a common space or a community hall for residents to interact with each other. Having exercise spaces or gyms is recommended but not always possible. Those without these amenities should look to leverage existing nearby facilities such as public parks or other non-profit gyms such as YMCAs.

It is recommended that there is a dedicated space available for counselling provided by the social service workers and case managers in the building. Usually these spaces should be located away from the main entrance to ensure privacy as well as to give the look of normalcy to the building entrance and common spaces.

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<sup>124</sup> Maria Elena Marquez-Brookes, AVP Resident Services, Linc Housing, Interview by SIPA Capstone Team. March 23rd, 2020.

*The Department of Housing Preservation and Development in New York recommends a ratio of no more than 25% for common areas to residential spaces.*<sup>125</sup>

**Are there project features which have worked out particularly well? Are there features which have created problems?**

Ideally, each unit in the building should be designed for independent living and include a kitchenette, space for a twin bed, a table for two, and a TV stand.<sup>126</sup> Building design at the beginning itself needs to consider the needs of special populations such as wheel-chair accessibility. Buildings also need to be designed for longer term and sturdy usage. For example, tiling the bathrooms, using resilient flooring and countertops (to avoid scratches and cigarette burns), as some people from this population may have been living outside a lot most of the time, been in a mental health institute, or in prison. This leads to high upfront construction costs, but it saves money over time by designing buildings to last for the 55 years of regulatory agreements.

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<sup>125</sup> New York City Department of Housing Preservation and Development. “HPD Design Guidelines for Supportive Housing,” 2015.

<sup>126</sup> Ibid.

## **Appendix B. Organizations of Interest**

This section includes a list of PSH-related organizations and individuals that we have interviewed. It also includes several groups we were unable to interview, but recommend reaching out to for more information.

### **Industry and Financing Groups (LA)**

#### **Corporation for Supportive Housing**

CSH provides funding and advocacy for solutions that use housing as a platform for services to improve the lives of the most vulnerable people, maximize public resources and build healthy communities. Locations include New York City and Los Angeles.

Contact:

David Howden, Director - Los Angeles

Interviewed on 3/17/2020 by KC, HH, JW

Lindsay Kerby, Senior Community Investment Office

Interviewed on 2/27/2020 by JW

#### **LISC**

LISC partners with communities and other organizations to forge resilient and inclusive communities of opportunity across America. They do this by strengthening and developing alliances, capacity building, investing in businesses, housing and other community infrastructure, and driving local, regional, and national policy and system changes.

Contact:

Debbie Burkhart, National VP of Supportive Housing

Interviewed on 2/25/2020 by KC

#### **California Housing Partnership**

CHP is a “do-and-think-tank” that combines technical assistance with advocacy leadership at the state and national level to increase the supply of affordable homes in California. CHP advises nonprofit developers in building and preserving sustainable affordable rental housing and provides expertise to elected officials regarding affordable housing. Located in major cities in California, including Los Angeles.

Contact:

Sherin Bennett, Senior Housing Finance Consultant

Interviewed on 2/20/2020 by KC, TH, JW

## **United Way of Greater Los Angeles**

UWGLA is instrumental in advocating for homelessness solutions in LA County. It created the Coordinated Entry System in 2011 and supported the passing of the Proposition HHH and Measure H ballot initiatives. In 2018, it launched Everyone In, a community engagement initiative supported by a coalition of philanthropic, business, labor, and community organizations that advocates for homelessness solutions and tracks and measures progress toward ending homelessness.

## **Developers, Case Managers, and Service Providers (LA)**

### **St Joseph's Center (Service Provision + Case Management)**

St Joseph's Center provides CES, PSH, and rapid re-housing services in LA County. Their PSH services include assisting the homeless with securing and maintaining voucher-based apartments as well as providing case management and other services that promote stability and self-sufficiency. They provide services both to scattered-site and project-based developments.

Contact:

Leslie Giron, ICMS Program Manager

Interviewed on 4/1/2020 by JW

### **Penny Lane (Service Provision + Housing Development)**

Penny Lane is a large supportive services provider focusing on child welfare, mental health, and social services. They provide services related to employment, foster family and adoption, substance disorder, and transitional-age youth. They recently began their own affordable housing development organization, Abbey Road, in 2009.

Contact:

Maura Johnson, Director of Housing

Interviewed on 4/7/2020 by KC, JW

### **Hollywood Community Housing (Housing Development + Service Provision)**

Hollywood Community Housing manages a number of affordable housing properties in the LA area, some of which are PSH. They aim to create affordable housing that achieves design excellence and environmental sustainability while respecting the history, culture, and architecture of the communities they serve. HCHC also provides supportive services such as care coordination, linkage to resources, crisis intervention, a food pantry, and life skills classes. CCC is the permanent lender on a recently closed senior PSH deal with them.

Contact:

Malen Rodriguez, Director of Asset Management

Interviewed on 3/2/2020 by TH, JW

**PATH Ventures (Housing Development + Service Provision)**

PATH Ventures creates and operates PSH throughout California. Since 2010, PV, in collaboration with partners, has completed eleven affordable housing communities totaling over 650 units. PATH Ventures provides services at eleven supportive and affordable housing developments, serving homeless individuals and families including Veterans, seniors, and those with special needs. Their services include intensive case management, links to health care, mental health counseling, substance abuse counseling, life skills workshops, employment assistance, and resources for education and training.

Contact:

John Lopez, SPA 4 Families Prevention and Access & Engagement Program Manager

**Step Up (Service Provision + Housing Development)**

Step Up owns and operates 264 units of community-based PSH across 10 developments in Los Angeles County. All of Step Up PSH developments include on-site residential managers, life-skills coordinators, and connection to Step Up or other mental health service providers for support services. Step Up also provides workforce development, transitional-age youth programs, peer-support services, and serves veterans through its Veterans Affairs Supportive Housing (VASH) program.

Contact:

Aaron Criswell, Vice President of Housing Services

**Skid Row Housing Trust (Housing Development + Property Management + Service Provision)**

Skid Row Housing Trust develops, manages, and operates 25 PSH buildings throughout downtown LA and LA County using a Housing First and Harm Reduction model that encourages resident choice and well-being. In addition to its three core business areas of housing development, property management, and health and social services provision, it works with an extensive list of service partners, community partners and architects to support their buildings and their corresponding neighborhoods.

**East LA Community Corporation (Housing Development)**

ELACC's mission is to advocate for economic and social justice in Boyle Heights and Unincorporated East Los Angeles by building affordable housing, grassroots leadership, and access to economic development opportunities for low and moderate-income families. It has leveraged over \$250M in housing and other community development resources over the past 22 years.

## **Public Agencies**

### **California Legislative Analyst's Office (Sacramento)**

The Legislative Analyst's Office (LAO) has provided fiscal and policy advice to the Legislature for 75 years. It is known for its fiscal and programmatic expertise and nonpartisan analyses of the state budget. The office serves as the "eyes and ears" for the Legislature to ensure that the executive branch is implementing legislative policy in a cost efficient and effective manner. The office is overseen by the Joint Legislative Budget Committee (JLBC), a 16-member bipartisan committee.

Contact:

Lourdes Morales, Senior Policy Analyst, California Legislative Analyst's Office  
Interviewed on 4/6/2020 by HH, HL, JW

### **New York City Housing and Preservation Department**

The New York City Department of Housing Preservation and Development (HPD) promotes the quality and affordability of the city's housing and the strength and diversity of its many neighborhoods. HPD develops affordable housing, enforcing the housing maintenance code, and engages neighborhoods in planning and preservation.

Contact:

Hallie Martin, Director of Operations for Special Needs Housing  
Interviewed on 3/3/2020 by KC, HH, JW  
Jess Nelson, Performance Management and Analytics  
Interviewed on 2/19/2020 by KC

## **CCC PSH Projects**

### **Nightingale**

CCC-financed PSH project in Compton, Los Angeles. It comprises 29 one bedroom units dedicated to special needs formerly homeless individuals who are frequent users of the LA County department of health services. Developed by Linc Housing, property managed by John Stewart Company, case management and life skills services provided by The People Concern, with additional services including health and wellness programs and adult education classes provided by Linc Cares. Brilliant Corners acts as the operator for the FHSP administered by DHS and disburses the full rent amount to Linc.

Contact:

Kerry Brown, Resident Services Coordinator, Linc Housing  
Joseph Cabral, Resident Services Resource Manager, Linc Housing  
Maria Elena Marquez-Brookes, Assistant Vice President of Resident Services, Linc Housing

Monica Mejia, Director of Housing Development, Linc Housing  
Denise Petrulis, Community Innovations Manager, Linc Housing  
Jorge Coronel, Regional Property Manager, John Stewart Company  
Donald Gibson, Property Manager, John Stewart Company  
Henrietta Rice, Senior Regional Manager, John Stewart Company  
Peria Fuentes, Case Manager, The People Concern  
Heather Gibbs, Assistant Director, The People Concern  
Jannett Navarro, Program Manager, The People Concern  
Devyn Matheny, Housing Coordinator, Brilliant Corners  
Kammira Rubo, Housing Coordinator, Brilliant Corners  
Interviewed on 3/23/2020 by KC, HH, TH, HL, ON, JW

### **Chelsea Investment Corporation**

Developer of 14th and Commercial (San Diego) and Weingart (Skid Row) projects.

Contact:

Jodi Rothery, Director of Development, Chelsea Investments  
Interviewed on 4/3/2020 by HH, ON

### **Developers, Case Managers, and Service Providers (NYC)**

#### **Community Access (Housing Development + Supportive Services)**

Community Access pioneered an integrated supportive housing model in the mid-1970s that blended affordable units for families and units for formerly homeless people recovering from mental illness. The agency now operates nearly 2,000 units in 24 developments. Community Access also provides services such as education and job training, Medicaid care coordination, and mental health and recovery. It advocates for improved crisis services and led the Communities for Crisis Intervention Teams, an advocacy campaign that has led to Crisis Intervention Team training for 12,000 NYPD officers and the formation in 2018 of the Mayor's Task Force on Crisis Prevention and Response.

Contact:

Steve Coe, Former CEO  
Interviewed 3/2/2020 by KC, HH

#### **Breaking Ground (Housing Development + Supportive Services)**

Breaking Ground uses innovative financing and historic restoration to revitalize buildings and neighborhoods. They operate more than 3,800 units of transitional, affordable and PSH, with nearly 1,000 more in development. They additionally provide wraparound services such as benefits assistance, primary medical care, mental health care, substance

use referrals, skills-building, self-sufficiency programs, and connection to employment services.

Contact:

Brenda Rosen, President & CEO

Interviewed 2/19/2020 by KC, HH

**Goddard Riverside Community Center (Supportive Services + Housing)**

Goddard Riverside Community Center developed Capitol Hall, one of the first supportive housing residences in New York City, in the 1970s, in conjunction with the Settlement Housing Fund and the West 87th Street Block Association. GRCC currently operates 4 PSH buildings in Manhattan that maintain tenant privacy and independence while providing daily meals, case management, recreational activities, and 24-hour/7-day front desk services. GRCC also provides early childhood, youth, senior, and mental health services in multiple locations in NYC.

Contact:

Stephan Russo, Former Executive Director

Interviewed on 3/10/2020 by ON, HL

**Urban Pathways (Supportive Services + Housing)**

Urban Pathways ensures that homeless and at-risk New Yorkers have the housing, services and support they need to be self-sufficient. They provide homeless outreach services, drop-in centers, safe havens, medical services, employment programs, and temporary and permanent housing. Their housing services are both single-site and scattered-site, with supportive services that promote self-sufficiency, wellness, and recovery.

Contact:

Frederick Shack, CEO

Interviewed on 2/24/2020 by ON, HL

**Other Interviewees**

**Mike Stegman, Senior Fellow, Milken Institute**

Michael Stegman is a senior fellow at the Milken Institute Center for Financial Markets, where he focuses on housing finance reform and affordable housing. He has written extensively on housing and urban policy, community development, access to credit, and asset development policies. As a senior policy advisor during the Obama administration, Dr. Stegman's policy responsibilities ranged from housing finance reform to access to credit to other housing-related issues. Dr. Stegman also served as a fellow at the Bipartisan Policy Center, and as director of policy and housing for the program on human and community development at the John D. and Catherine T. MacArthur Foundation for six

years. From 1993 to 1997, Dr. Stegman served as assistant secretary for policy development and research at the U.S. Department of Housing and Urban Development.

Interviewed on 2/26/2020 by JW

**Richard Koss, Chief Research Officer, Recursion Co.**

Richard Koss is Chief Research Officer at Recursion Co, a leading big data mortgage FinTech company based in New York. Prior to joining Recursion, Koss worked as the head of capital markets research at Fannie Mae. He has over 20 years of experience as a fixed income portfolio manager for Wall Street firms, and recently served as IMF Visiting Scholar and Director of the Global Housing Watch.

Interviewed on 1/28/2020 by KC; follow-up by ON

## Appendix C. Annotated Bibliography

This section includes all of the sources featured in our report. Sources with an asterisk (\*) are of particular importance and contain a brief summary.

### General Readings on Homelessness and PSH

Corinth, Kevin. “The Impact of Permanent Supportive Housing on Homeless Populations.” *Journal of Housing Economics* 35 (2017): 69–84. <https://doi.org/10.1016/j.jhe.2017.01.006>.

Corporation for Supportive Housing. “FAQs about Supportive Housing Research: Is Supportive Housing Cost Effective?” New York City, NY, n.d.

Culhane, Dennis P, Stephen Metraux, and Trevor Hadley. “Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illness in Supportive Housing.” *Housing Policy Debate* 13, no. 1 (2002). [https://shnny.org/uploads/The\\_Culhane\\_Report.pdf](https://shnny.org/uploads/The_Culhane_Report.pdf).

Harris, Taylor, Harmony Rhoades, Lei Duan, and Suzanne L. Wenzel. “Mental Health Change in the Transition to Permanent Supportive Housing: The Role of Housing and Social Networks.” *Journal of Community Psychology* 47, no. 8 (2019): 1834–49. <https://doi.org/10.1002/jcop.22230>.

\* Hunter, Sarah, Melody Harvey, Brian Briscoombe, and Matthew Cefalu. “Evaluation of Housing for Health Permanent Supportive Housing Program.” Santa Monica, CA, 2017. <https://doi.org/10.7249/rr1694>.  
Housing for Health (HFH), a division within the Los Angeles County Department of Health Services (DHS), was established to provide supportive housing to DHS patients with complex medical and behavioral health issues who were experiencing homelessness. RAND conducted a formative evaluation on the program and concluded that implementing the HFH program reduced LA County service use and resulted in net cost savings of 20%.

Irving, Doug. “Supportive Housing Reduces Homelessness—and Lowers Health Care Costs by Millions.” Rand Review, 2018. <https://www.rand.org/blog/rand-review/2018/06/supportive-housing-reduces-homelessness-and-lowers.html>.

- \* National Academies of Sciences Engineering and Medicine; Health and Medicine Division; Board on Population Health and Public Health Practice; Policy and Global Affairs; Science and Technology for Sustainability Program; Committee on an Evaluation of Permanent Supportive Housing Programs for Homeless Individuals. “Permanent Supportive Housing: Evaluating the Evidence for Improving Health Outcomes Among People Experiencing Chronic Homelessness.” Washington, DC, 2018.

<https://www.ncbi.nlm.nih.gov/books/NBK519585/>.

This book provides an expert analysis of the operational, policy, and fiscal challenges associated with PSH. Chapter 7 is most helpful in detailing the policies and program barriers in developing supportive housing. Importantly, it details a hypothetical illustration of how to develop PSH. It lists the process by which land is acquired, zoning is approved, capital is secured, partners are found, and subsidies are sourced. It also analyzes the funding streams, challenges of providing services to residents in PSH, and how Medicaid can be leveraged to help scale PSH.

- New York City Department of Health and Mental Hygiene. “New York/New York III Supportive Housing Evaluation: Interim Utilization and Cost Analysis.” New York City, NY, 2013.

<http://www.nyc.gov/html/doh/downloads/pdf/mental/housing-interim-report.pdf%5Chttp://www.nyc.gov/html/doh/html/pr2013/pr048-13.shtml>.

- \* O’Hara, Ann. “Permanent Supportive Housing: A Proven Solution to Homelessness.” *Opening Doors*. Boston, MA, January 2003.

O’Hara provides a comprehensive summary of the state of homelessness in the early 2000s as well as federal homelessness policies, such as a \$35M HUD/HHS/VA collaboration. In addition, she provides a succinct and valuable primer of the history of PSH, evidence for its cost-effectiveness, and the three components of PSH: capital funding, subsidies, and supportive services. Lastly, she provides recommendations for how to expand the supply of PSH, including expanding the use of Section 8 vouchers and targeting “mainstream” funding for supportive services.

Owusu-Ansah, Yaw. “Close to Home: Does Proximity to a Homeless Shelter Affect Residential Property Values in Manhattan?” *Fiscal Brief*. New York City, NY, 2019. <https://ibo.nyc.ny.us/iboreports/close-to-home-does-proximity-to-a-homeless-shelter-affect-residential-property-values-in-manhattan-2019.html>.

Palmer, Geraldine L. “Examining the Effects of Scattered Site Supportive Housing on the Social and Economic Integration of Men Who Are Formerly Homeless and Primarily Black/African American.” *Journal of Black Studies* 47, no. 8 (2016): 846–68. <https://doi.org/10.1177/0021934716653351>.

Parsell, Cameron, Maree Petersen, and Ornella Moutou. “Single-Site Supportive Housing: Tenant Perspectives.” *Housing Studies* 30, no. 8 (2015): 1189–1209. <https://doi.org/10.1080/02673037.2015.1009874>.

United States Interagency Council on Homelessness. “Opening Doors: Federal Strategic Plan to Prevent and End Homelessness.” In *Ending Chronic Homelessness*, edited by Mya Perkins, 1st ed. Washington, DC: Nova Science Publishers, Inc, 2016.

### **Federal Policies and Funding**

Scally, Corianne Payton, Amanda Gold, and Nicole DuBois. “The Low-Income Housing Tax Credit.” *Urban Institute Research Report*. Washington, DC, 2018. <https://doi.org/10.1163/ej.9789004201446.i-346.40>.

Wachino, Vikki. “CMCS Informational Bulletin.” Washington, DC, 2016. <https://www.medicaid.gov/sites/default/files/federal-policy-guidance/downloads/CIB-06-26-2015.pdf>.

### **Los Angeles and California State PSH Policies and Funding**

\* Abt Associates. “Flexible Housing Subsidy Pool Brief Evaluation of the Conrad N Hilton Foundation Chronic Homelessness Initiative.” Los Angeles, CA, 2017. <https://brilliantcorners.org/wp-content/uploads/2019/09/Hilton-FHSP-Case-Study.pdf>.

This report provided us with a clearer picture of the history of the FHSP and how its four implementation partners--DHS, Brilliant Corners, intensive case management services (ICMS) providers, and private market landlords--work together to help homeless clients find and retain housing. Housing coordinators work in tandem with case managers after the client is housed to provide wraparound, “whatever-it-takes” services. Philanthropic dollars contributed from the Conrad N Hilton Foundation were leveraged to supplement public funds.

California Department of Housing and Community Development. “No Place Like Home Program: Program Details,” 2020. <https://www.hcd.ca.gov/grants-funding/active-funding/nplh.shtml>.

California Department of Social Services. “Supplemental Security Income/State Supplementary Payment (SSI/SSP),” 2020. <https://www.cdss.ca.gov/inforesources/ssi-ssp>.

Conrad N Hilton Foundation. “Indicators of Community Progress Toward the Goal.” Scaling Up the Resources: Service Commitments, 2019. <http://assets.hiltonfoundation.org/homelessnessreport/service-commitments-indicators-of-community-progress-toward-the-goal.html>.

\* Homelessness Policy Research Institute. “Accelerating Permanent Supportive Housing in Los Angeles.” Los Angeles, CA, 2019. <https://socialinnovation.usc.edu/wp-content/uploads/2020/02/Accelerating-PSH-Lit-Review-V9.pdf>.

This article builds the case that PSH is a cost-effective method for reducing homelessness. It proposes state and local legislation to increase the speed and efficiency of building PSH. It provides information on funding subsidies for construction and operations and additionally explains some innovative financing and construction techniques for speeding up the development of PSH. Finally, it suggests that LIHTC and Medicaid are two of the most helpful federal policies in expanding PSH.

\* ——. “Flexible Housing Subsidy Programs.” Los Angeles, CA, 2018.

Los Angeles has developed a robust inventory of PSH in the absence of a dedicated local funding source through housing credits and leveraging additional public and private investment at state and local levels. Well-operated properties have healthy reserve balances in the early years, though threats remain during the ensuing extended affordability period. Sustaining PSH depends on the foundation of maintaining project-based rental subsidy commitments that are able to escalate in tandem with increasing operation expenses and a continuum of supportive services to promote residential stability. Preserving properties over the full 55-year use period will be a challenge. In a time of flat to shrinking subsidy resources, public stakeholders will need to find a balance between supporting a growing, aging PSH inventory and the need to continue to build new PSH developments.

Kendall, Marisa, and Robert Salonga. “California Secures Nearly 7,000 Hotel Rooms for Homeless during Coronavirus Pandemic.” *The Mercury News*. April 3, 2020. <https://www.mercurynews.com/2020/04/03/state-secures-nearly-7000-hotel-rooms-to-house-homeless-during-coronavirus-pandemic/>.

\* Levin, Matt, and Jackie Botts. “California’s Homelessness Crisis — and Possible Solutions — Explained.” *CalMatters*. January 8, 2020. <https://calmatters.org/explainers/californias-homelessness-crisis-explained/>. This explainer provides an easy-to-read, informative summary of homelessness in California, with longitudinal data, demographic data, and a succinct explanation of the causes of homelessness. The article explains the challenges around emergency shelters and PSH, and provides a brief overview of federal, state, and local actions to address homelessness. It concludes with case studies from Houston and Atlanta, and proposes other solutions such as tiny homes and 3D-printed homes.

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While Governor Gavin Newsome’s 2020-21 budget is currently being reworked due to COVID-19, this report is still useful in understanding potential future funding mechanisms for PSH. This included a California Access to Housing and Services Fund that contracts with regional administrators to finance the development of affordable housing and provides rental subsidies to people facing homelessness. Newsome also proposed reforms to Medi-Cal to encourage contracted managed care plans to provide additional non-health care services, such as intensive care management and temporary housing services.

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## **Case Studies**

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## **PSH Best Practices**

- \* Coalition Homes Inc, and Corporation for Supportive Housing. “Best Practices Manual Integrating Property Management And Services in Supportive Housing.” Bethesda, MD, 2009. [https://d155kunxflaozz.cloudfront.net/wp-content/uploads/2011/12/Tool\\_PropertyMgmtManual.pdf](https://d155kunxflaozz.cloudfront.net/wp-content/uploads/2011/12/Tool_PropertyMgmtManual.pdf).

This manual provides PSH stakeholders with an introduction to effective integration of property management and supportive services, including the three key principles of property management supporting mission-driven housing; establishment of clear roles and responsibilities; and the recognition of built-in tension between roles. The manual provides a clear summary of the roles and responsibilities of property managers and service providers and guidance on selecting partners; tenant screening and selection; leases and house rules; and lease enforcement and eviction prevention. It concludes with two case studies that articulate additional lessons learned.

Corporation for Supportive Housing. “Dimensions of Quality: Supportive Housing.” New York City, NY, 2013. [https://d155kunxflaozz.cloudfront.net/wp-content/uploads/2013/07/CSH\\_Dimensions\\_of\\_Quality\\_Supportive\\_Housing\\_guidebook.pdf](https://d155kunxflaozz.cloudfront.net/wp-content/uploads/2013/07/CSH_Dimensions_of_Quality_Supportive_Housing_guidebook.pdf).

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This document provides basic design guidelines for designers and developers of PSH. It emphasizes that the designer or developer of a PSH should have an integrative plan that incorporates the views of the stakeholders, and gives detailed information on how to design common spaces that encourage interaction within PSH buildings, how to achieve diverse objectives through well-chosen design features and materials, and how to design safe and secure living environments.

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\* Gornstein, Aaron, and China Boak Terrell. “Building on Success: Strengthening Provider Capability to Provide Permanent Supportive Housing.” Cambridge, MA, 2016. [http://www.jchs.harvard.edu/sites/default/files/boak\\_gornstein\\_building\\_on\\_success\\_final.pdf](http://www.jchs.harvard.edu/sites/default/files/boak_gornstein_building_on_success_final.pdf).

This paper looks at the key components of service delivery that positively impact formerly homeless residents in Massachusetts. It also includes lessons learned regarding the structure and funding of PSH programs. Key findings include the need for case managers to have practical training and peer knowledge sharing; the importance of flexible funding; and that lack of reliable and predictable funding for supportive services can inhibit scalability and innovation.

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