An Extraordinary Achievement, An Enormous Challenge:

Implementing the New York/New York III Agreement

A Working Paper of the
Supportive Housing Network of New York
June 2006

Acknowledgements

This working paper on the implementation of the NY/NY III Agreement was developed by the Supportive Housing Network of New York, a statewide organization of over 200 nonprofit supportive housing providers and their partner agencies. Many members of the Network contributed to the ideas, research and writing in this report, including representatives from the Actor's Fund of America, Bailey House, Inc., Broadway Housing Communities, Inc., Center for Urban Community Services, Inc. (CUCS), Common Ground Community, Community Access, Inc., Jericho Project, Palladia, Postgraduate Center for Mental Health, Project Find, Project Renewal, Services for the Underserved (SUS), and West Side Federation for Senior and Supportive Housing (WSFSSH). Special thanks goes to the members of the workgroup that developed and analyzed the eight supportive housing financial models, including William Traylor of the Richman Group, Laura Tavormina of WSFSSH, David Beer of Common Ground Community and Marc Jahr of Citibank. Lastly, special recognition goes to the director of the project, Nicole Branca and the rest of the dedicated staff at the Network.

Table of Contents

An Extraordinary Achievement,
An Enormous Challenge:
Implementing the New York/New York III Agreement

Executive Summary

The New York/New York III Agreement is an extraordinary achievement, the latest triumph in one of the most successful partnerships ever realized between the nonprofit community and state and local government. The agreement commits the City and the State to creating 9,000 new supportive housing units for chronically homeless and at-risk individuals and families over the next 10 years.

It is also an enormous challenge. To implement such a large and ambitious development initiative successfully, all members of the supportive housing community will need to work together closely to achieve its goals.

To that end, the Supportive Housing Network of New York has harnessed the experience and expertise of its members – over 200 supportive housing providers, developers, financiers and residents – to create the initial draft of a NY/NY III implementation plan. This implementation plan is intended to help broaden and unify the discussions now taking place among State and City government administrators, nonprofit providers, and other stakeholders in the agreement.

This draft NY/NY III implementation plan offers recommendations in four issue areas:

I. **Facilitating the Collaboration between Government and Providers;**
II. **Siting Supportive Housing;**
III. **Operating and Funding Supportive Housing; and**
IV. **Financing Supportive Housing Development**

I. Facilitating the Collaboration between Government and Providers
Supportive housing was developed and continues to thrive as the result of an extremely productive collaboration between government and nonprofit providers. The model's well-documented success and cost-effectiveness depends on this ongoing collaboration. The plan offers four specific steps to facilitate this partnership:

1. **Include the Supportive Housing Network of New York and the Corporation of Supportive Housing (CSH) as full members of the NY/NY III Oversight Committee.**

2. **Include the Supportive Housing Network of New York and the Corporation of Supportive Housing as participants on task forces envisioned in the Agreement.**

3. **Establish a third NY/NY III task force that addresses the issue of siting supportive housing.**

4. **Establish a fourth NY/NY III task force that coordinates federal strategy to expand federal resources for supportive housing.**

II. Siting Supportive Housing

In recent years, New York City's vibrant real estate market and a number of other factors have made it much more difficult to site and build supportive housing. The NY/NY III Agreement's focus on chronically homeless people may arouse additional community opposition. The implementation plan offers a four-point, comprehensive strategy to facilitate siting of supportive housing:

1. **Address Community Needs and Concerns:**
    a. **Allow residences to house a healthy mix of tenants with a variety of needs and abilities.** The most effective and easiest to site residences combine supportive housing units designated for NY/NY-eligible referrals with units for people with other backgrounds and disabilities.
    b. **Allow residences to accept tenants from both NY/NY III referral sources and the community.** Supportive housing residences that offer a percentage of their housing units to community residents have the best chance of being sited quickly and successfully. Most community referrals will also require an ongoing rental subsidy to ensure the financial viability of the housing.
    c. **Develop architecturally attractive housing that enhances the neighborhood.**
    d. **Build in amenities for the community into the housing,** such as retail stores, doctor's offices and community meeting space**.**

2. **Develop information and materials to make the case for siting supportive housing:** Information about supportive housing's efficacy can be communicated in an attractive package of materials and in formal presentations. The Network can take the lead in developing a "siting toolkit" for providers that would include:
    a. **New Language:** The language we use to talk about supportive housing can be refined. Public relations experts can assist in honing a coherent message to reach and convince different constituencies of supportive housing's value.
    b. **New Maps:** The Supportive Housing Network can work with City and State agencies to improve and expand maps that identify where supportive housing and other social service facilities are located throughout the city, in order to a) help counter the perceived saturation argument at community board meetings and b) help government and providers plan where to build.
    c. **New Studies:** The Network can initiate and direct research activities that show how supportive housing development has contributed to a rise in property values, a drop in crime and an improvement in the quality of street life.
    d. **New Stories:** Over and over, initial neighborhood opposition to supportive housing turns to unqualified support. Qualitative accounts of this process, along with a speaker's bureau of community advocates, will be useful in siting efforts.

3. **Conduct coordinated siting initiatives for specific projects:** The Supportive Housing Network, its member organizations and government agencies can do more to assist groups to make their case. This includes: improved communication; links to potential political allies; and mentoring from experienced providers.
4. **Launch a public education campaign:** In addition to specific siting initiatives focused on one residence and neighborhood, the Network can lead an aggressive, general public education campaign about supportive housing that will target key decision makers and the general public.

The effectiveness of all of these efforts will be measured by establishing baseline assessments of public perceptions of supportive housing, followed by periodic measurements of the effect of the siting initiative on public opinion.

III. Operating and Funding Supportive Housing

Supportive housing built under the NY/NY III Agreement must contend with the rising costs of operating housing. It must also provide adequate and flexible services to chronically homeless and other challenging populations. To accomplish these goals, the implementation plan recommends that the City and State:

1. **Fund services and operating costs at adequate levels:** There must be adequate funding to pay for the actual costs of operating, maintaining and providing services in supportive housing. A review of current supportive housing budgets and the needs of likely residents found that service and operating funding can be established at three levels:
    a. *Housing Independence rate* (for tenants with one primary barrier to independence) = $16,735/year
    b. *Service Intensive Rate* (for residents with dual and triple diagnoses) = $19,282/year
    c. *Family Rate* (for chronically homeless families) = $21,091/year
2. **Provide equivalent rates amongst subpopulations:** Different subpopulations of supportive housing tenants have a range of service needs. And within subpopulations, there are many levels of self-sufficiency. With three reimbursement rates pegged to people's housing histories and behaviors, providers will be able to spend greater resources on those who need more assistance, and less on those who are more self-sufficient. This would help shift services away from case management according to defined illnesses, to case management that addresses multiple barriers.
3. **Permanently link operating and service dollars to capital funding:** Currently, supportive housing providers must apply for capital programs while hoping that there will be funding available for services the year that the units are ready for occupancy. Providers should not have to take this risk.

IV. Financing Supportive Housing: New Agreement, New Opportunities

The NY/NY III Agreement presents an opportunity to devise new ways to finance development. It requires that we rely on many different housing types and financing models – both the tried and true, as well as new innovative models. The implementation plan proposes eight new financing models that (i) take advantage of currently available resources and (ii) are known to a broad range of affordable housing developers.

Four of the financing structures are for the traditional "stand-alone" supportive housing residence, while four are for the "integrated" housing model. Each of these models may have a place in the implementation of the NY/NY III Agreement. Some may be used infrequently, others may predominate; some may be better suited to certain neighborhoods and communities; others may better address the service needs of certain NY/NY III resident. The models are compared with each other on the bases of costs, subsidy utilization, leverage and various measures of efficiency.

The eight models include:

- ***Model 1: "Stand-alone" Building Financed with 9% LIHTC and Subsidy***
- ***Model 2: The Traditional Stand-Alone Building Financed with 4% LIHTC & Subsidy***
- ***Model 3: The "Stand-alone" Building Financed with 4% LIHTC, Tax-Exempt Permanent First Mortgage and Subsidy***
- ***Model 4: The "Stand-Alone" Building Financed with 9% LIHTC, Conventional First Mortgage and Subsidy***
- ***Model 5: The "Integrated" Building Financed with 4% LIHTC, Tax Exempt Permanent First Mortgage and Subsidy***
- ***Model 6: The "Integrated" Building Financed with 9% LIHTC, Conventional First Mortgage and Subsidy***
- ***Model 7: The "Integrated" Building with 20% of Units at 80% AMI Financed with 4% LIHTC, Tax Exempt Permanent First Mortgage and Subsidy***
- ***Model 8: The "Integrated" Building with 20% of Units at 80% AMI Financed with 9% LIHTC, Conventional First Mortgage and Subsidy***

This section analyzes each of these models, comparing them on the bases of costs, subsidy levels, and leveraging of other resources. In addition, some targeted administrative and regulatory changes are necessary to implement NY/NY III successfully:

1. **Streamline the underwriting process:** One State and one City agency only should be responsible for underwriting the NY/NY III capital subsidies. In cases where a project will incorporate NY/NY III residents within a larger affordable housing development there again should be a single underwriting review.

2. **Preserve community subsidies:** In stand-alone supportive housing residences, ongoing rental subsidies for non-NY/NY III units reserved for community referrals must be preserved. Without rental subsidies, the assignment of 40% of each project's units to local residents who need supportive housing is likely to work in only a few communities (i.e., Manhattan and certain Brooklyn neighborhoods). The majority of markets where NY/NY III developments are likely to be built have very little demand for studios; the incomes of the "non-family" households in these market are well below what is necessary to afford the projected rents, i.e., rents that cover operating costs and debt service. Without these rent subsidies, the financial viability of these buildings will be at risk.

3. **Develop new sources of credit enhancement:** Without long term operating commitments or new sources of third party credit enhancement, lenders and investors may be hesitant to assume the market and credit risks associated with some of these models. We are encouraged that the NYS Office of Mental Health has devised a mechanism for providing the required credit enhancement on certain of its developments. Opportunities to create new mortgage insurance programs through the New York City Rehabilitation Mortgage Insurance Corporation (REMIC) and/or the State of New York Mortgage Agency (SONYMA) should be explored.

Conclusion

We present this implementation plan as the next step in the ongoing, immensely successful partnership between government and the supportive housing community. The purpose of this document is to broaden the discourse, tapping into both the experience and ingenuity of our members, and highlighting the importance of the singular collaboration within the supportive housing community. The challenge of implementing the NY/NY III Agreement represents an extraordinary opportunity. Together we can create a national model for supportive housing. More importantly, by working together we can create a successful program that will eventually house tens of thousands of our most vulnerable residents.

1) Introduction

Implementing New York/New York III
The New York/New York III Supportive Housing Agreement is the latest triumph of one of the most successful partnerships ever realized between the nonprofit community and state and local government. With this agreement, the Mayor and the Governor bring New York City one step closer toward an elusive goal: ending chronic homelessness among people with mental illness, addictions, physical health problems and other barriers to independent living.

Building on the success of two previous agreements, NY/NY III will create 9,000 units of supportive housing for chronically homeless people over the next ten years. When this initiative and other additional development is completed, New York City will have more than 35,000 units of supportive housing for formerly homeless and housing-needy people.

This will be an extraordinary achievement. But it will not be easy to accomplish. The agreement's ambitious development targets and its focus on chronically homeless people present enormous challenges to developers, providers and government administrators.

To meet these challenges, State and City government agencies are already engaged in a remarkable amount of planning activity. At this critical stage, these efforts can be made more effective by fully including the supportive housing community – the organizations and people who will build, finance, operate and live in the agreement's housing.

To encourage this collaboration, the Supportive Housing Network of New York has marshaled the experience and expertise of its members – developers, financiers, providers and residents – to create an initial draft of a NY/NY III implementation plan.

In four main chapters, this draft plan attempts to address how to:

1. **Include members of the supportive housing community as full partners** in the implementation of the agreement. By strengthening the existing collaboration between government and nonprofits, we can together craft innovative responses to both anticipated and unforeseen challenges.
2. **Educate the public on the benefits of supportive housing,** while remaining responsive to community needs and concerns. This will help secure enough appropriate sites for supportive housing development.
3. **Offer adequate and flexible operating and service funding** that allows providers to house a mix of residents with a range of abilities, needs and levels of independence.
4. **Provide sufficient capital funding and innovative financing** to build attractive and cost-effective residences that contribute to their surrounding neighborhoods.

Like the City and State planning that has already occurred, this draft plan is only a beginning. The Supportive Housing Network of New York and its member organizations look forward to uniting this effort with those of the City and the State. Working together, we can develop a comprehensive implementation plan that will make the third NY/NY Agreement both a reality and a success.

2) Guiding Principles

Learning from Past Success
The exceptional growth of supportive housing over the past 25 years is a testament to its effectiveness. The non-institutional nature of the housing and the inherent flexibility of the services have allowed supportive housing providers to house people that others could not serve.

Today, New York City's supportive housing providers house not just individuals with mental illness and histories of homelessness, but people with physical disabilities, HIV/AIDS, addictions and histories of incarceration, as well as elderly persons, youth, victims of domestic violence, and families who need support to live independently. Despite the expansion to new populations, supportive housing's primary model has retained the attributes that have made it successful: most residents have leases, and the service focus is on helping each resident to remain housed and live as independently as possible.

Three essential factors contribute to the success of supportive housing:

- **A Community of Care** – The supportive housing residence offers an inclusive environment in which on-site social service staff is just one source of support. Residents also rely on each other, people in the surrounding neighborhood, as well as linkages to specialized services in the larger community. Flexible service delivery allows staff to concentrate services on the residents who most need assistance, when they need it.
- **Integration** – Rather than concentrate homogeneous disabled populations in an institutional setting, supportive housing offers permanent apartments to a mix of tenants with a variety of capabilities and needs. The model encourages individuals who have been isolated to interact more with each other, with staff and with the community around them. Importantly, the supportive residence itself resembles and reflects the housing stock and community that surrounds it.
- **Cost Efficiencies** – Supportive housing providers are given wide latitude in how they design and utilize their buildings, as well as in how they deliver services. This flexibility makes supportive housing effective, but it also allows certain cost efficiencies. A number of studies have measured this cost-effectiveness, including one that showed that placement into NY/NY housing reduced residents' use of expensive emergency services so much that it paid for all but $1,000 of the annual public cost of housing and providing services to formerly homeless individuals with mental illness.

Guiding Principles for the Next Stage of Supportive Housing Development
Continuing to incorporate these factors will be critical to the NY/NY III Agreement's success. The housing can be further improved by pursuing additional goals:

- **Maintain flexibility for providers –** The greater the funding flexibility, the more providers can meet the needs of their community while effectively and efficiently serving their tenants.
- **De-emphasize the categorization of residents by disabilities and barriers** – While it may be useful to identify chronic users of emergency services, supportive housing works best when it emphasizes residents' capabilities rather than their disabilities and barriers to independent living.

- **Encourage more integration within the housing** – Existing supportive housing residences have helped formerly-marginalized individuals become more active members of their communities. Without abandoning this tried-and-true model, the next generation of supportive housing can help further this process by including some models that integrate people with disabilities into housing for tenants without special needs.
- **Facilitate more integration within the community** – Supportive housing residences must remain focused on their core mission: providing affordable housing and supportive services to people who could not remain housed without them. But supportive housing residences have much to offer the communities that surround them: an emphasis on support and participation, linkages to services, meeting space and a network of housing resources. Making these assets more available to communities (without losing sight of supportive housing's reason for being) can help in the siting process, and further integrate the residences into the life of the city.
- **Make supportive housing more efficient** – The new initiative will house and serve individuals and families who have long histories of chronic homelessness and heavy use of expensive emergency services. Government and providers must work closely together to develop new service interventions and operating procedures to meet the needs of these new residents effectively and efficiently. We will also need to develop innovative ways to fund services and operating costs adequately.

The following document is the initial draft of an implementation plan for the third New York/New York Agreement. All of its strategies and recommendations have been designed in an attempt to meet the needs of all of the agreement's participants: the government agencies funding and managing the initiative; the providers and developers building and operating the housing; the communities in which the housing will be built; and, most of all, the people who will live in, and give life to, the residences we build.

3) Facilitating Collaboration between Government & Providers

A History of Support

New York City and New York State have shared a long history of innovative efforts to care for low-income people with mental illness, addictions and other special needs. In the mid-1950s, even as questions about the quality and public costs of institutional care inaugurated the deinstitutionalization of people living with mental illness, New York's psychiatric centers were still respected as some of the best of their kind. And in the 1960s and 1970s, when individuals with special needs became concentrated in private, single room occupancy (SRO) residence hotels, New York's hospitals, church groups and government agencies were the first in the nation to offer pilot programs of on-site services and support to residents.

In 1980, one nonprofit pioneer, St. Francis of Assisi Church in Manhattan, raised enough funds to purchase an SRO building to create the first supportive housing residence. The St. Francis Residence on East 24th Street brought together Franciscan friars, an HRA caseworker, Bellevue Hospital psychiatry students and resident volunteers to provide supportive services to single adults who needed some assistance to live independently.

In the next few years, other groups built and expanded upon the Franciscans' efforts. The Committee for the Heights-Inwood Homeless established Broadway Housing Communities, Inc., a supportive SRO in Washington Heights that offered tenants leases, along with on-site services provided by the Center for Urban Community Services, or CUCS. The West Side Federation for Senior and Supportive Housing and faith-based groups like Catholic Charities of Brooklyn and Queens bought, rehabilitated and provided services in other SRO residences. The New York City Department of Mental Health began to offer nonprofits modest contracts to provide flexible services to residents with mental illness. As these and other organizations developed and formalized their efforts, the supportive housing model quickly became recognized as the most humane, empowering and cost-effective approach to housing people with special needs.

Today, almost all of the pioneers of supportive housing continue to operate and develop residences as members of the Supportive Housing Network of New York. They are joined by over 200 supportive housing organizations across the state represented by "The Network." Together, these groups manage over 34,000 supportive housing units in over 650 residences statewide (including 23,000 units in New York City), far more than in any other state.

Establishing a Framework for Collaboration

Continuing the effective collaboration between government and supportive housing providers and developers is essential to the successful implementation of NY/NY III. In addition to the partnership between government and providers that occurs with every individual project, the agreement offers the opportunity for more general forums where this collaboration can continue. Collaboration can be strengthened through the following actions:

1. **Include the Supportive Housing Network of New York and the Corporation of Supportive Housing (CSH) as full members of the NY/NY III Oversight Committee** (established in Section J of the agreement). These two groups best represent and convey the experience and expertise of supportive housing providers, developers, residents and financiers. Their insights and expertise will be valuable during implementation.

2. **Include the Supportive Housing Network of New York and the Corporation of Supportive Housing as participants on the various task forces envisioned in the Agreement.** Both organizations have knowledge and expertise on both residents' needs and alternative funding sources; these will be a critical resource for the High-User Task Force referred to in Section K of the agreement. The Network already manages a database that gathers information about residents' use of supportive housing; CSH has a broad range of experience evaluating supportive housing programs. Both organizations can be important resources for the task force charged with developing evaluation protocols (Section L of the agreement).

3. **Establish a third NY/NY III task force that addresses the issue of siting supportive housing.** The Supportive Housing Network of New York can take the lead, but government must be full partners in siting efforts (*see next section for more on siting*).

4. **Establish a fourth NY/NY III task force that coordinates federal strategy to expand federal resources for supportive housing.** The City, State and non-profit community do not have a uniform voice in Washington. It is time to translate Washington's vocal support for supportive housing into adequate funding.

4) Siting Supportive Housing: Yes in my Backyard

The greatest challenge to the successful implementation of the NY/NY III Agreement may be securing suitable locations to build new supportive housing. Until the last decade, underutilized buildings and city-owned vacant lots were relatively abundant and affordable to nonprofit developers. Organized community opposition was infrequent. These market conditions allowed supportive housing providers to create approximately 23,000 units over the past 25 years.

In recent years, however, New York City's vibrant real estate market has made it much more difficult to build supportive housing, for many reasons:

- Acquisition and land costs have risen dramatically;
- Construction costs, already among the highest in the nation, have skyrocketed;
- Potential development sites are scarce and subject to competition from both market-rate and other affordable housing developers; and
- Increasingly well-organized and growing community resistance to the siting of all types of facilities for people with special needs now includes opposition to supportive housing.

In such an environment, siting 9,000 units in 10 years will be a challenge. Many experienced providers say it will be the biggest challenge to implementation. The NY/NY III Agreement's focus on chronically homeless people may arouse additional community opposition, making it even more difficult. Given these circumstances, supportive housing developers must begin collaborating now with State and City government to produce and implement a multi-faceted siting strategy that facilitates development and addresses community concerns.

Understanding Community Opposition
Community residents oppose new supportive housing development for three primary reasons:

1. **NIMBYism (Not In My Back Yard)**: Community residents often oppose supportive housing because they fear that it houses an "undesirable element" of people (typically perceived as being from outside the immediate neighborhood) that will overwhelm community resources, make the streets unsafe, and depress real estate values.

2. **Social Service Saturation**: Community residents seldom proclaim outright opposition to supportive housing. Instead they often argue that their community is "saturated" with facilities for people with special needs, and/or other wholly unrelated, but nonetheless undesirable, public structures (such as waste transfer sites, sewage treatment plants or jails). The distinction between supportive housing and shelters is often ignored. The actual level of facility saturation relative to other neighborhoods is not often a salient factor: the saturation argument is merely a more effective strategy than outright resistance.

3. **Competition for Affordable Housing**: When community residents see a new building being constructed adjacent to the deteriorated tenement in which they have lived for years, they may respond with resentment. Longtime low-income residents want (and deserve) decent, affordable housing. They may argue (convincingly) that upstanding members of the local community merit priority for affordable housing built in the neighborhood.

The Solution: A Comprehensive, Multi-faceted Siting Strategy
To site 9,000 units of urgently-needed new supportive housing – including 6,250 capital congregate units – requires a comprehensive strategy that can address community opposition on a number of tactical fronts. The Supportive Housing Network of New York and its provider members can take a lead role in this effort, but must be actively supported by City and State partner agencies. Some public or private funding will be required to make this effort successful.

To be effective, such a strategy would employ four components:

1. **Address Community Needs and Concerns:** Most community opposition to facilities serving people with special needs stems from understandable concerns. A successful siting strategy will answer these. Supportive housing is well-situated to do this and can, by employing the following strategies:
    a. **Allow residences to house a healthy mix of tenants with a variety of needs and abilities:** Supportive housing's therapeutic mix of tenants with different disabilities and levels of independence is the reason for its success. The most effective residences built under the first two NY/NY Agreements combine supportive housing units designated for NY/NY-eligible referrals with units for people with other backgrounds and disabilities. They have also proved easier to site, because community members do not perceive these residences as imposing one monolithic population on the neighborhood.
    b. **Allow residences to accept tenants from both NY/NY III referral sources and the community.** Almost all communities in New York City have a need for decent, affordable housing. Supportive housing residences that can offer a percentage of their housing units to community residents have the best chance of being sited quickly and successfully. Mixing tenant populations already occurs in most supportive housing:
        i. Supportive housing residences funded by the New York City Department of Housing Preservation and Development (HPD) usually house formerly homeless people with different disabilities and offer 40% of their units to housing-needy individuals from the community.
        ii. Supported housing funded by the New York State Office of Mental Health (OMH) is used to provide scattered-site apartments or groupings of apartments within one building, allowing people with mental illness to better integrate into their communities.
        iii. The Division of Housing and Community Renewal now awards extra points to developers applying for Low Income Housing Tax Credits who integrate supportive housing units into their affordable housing projects.

    Making housing units available to residents of the surrounding community – to both those with special needs and those who merely require below-market rents to afford housing – will greatly facilitate the siting of NY/NY III housing. These units must also be linked to ongoing rental subsidies to ensure that providers can accept and adequately serve community referrals. Without these measures, NY/NY III will encounter widespread community opposition that will delay construction and drive up costs.
    c. Develop architecturally attractive housing that enhances the neighborhood: A supportive housing residence should look like the buildings that surround it. It is

not a mini-institution, but an apartment building like any other on the block. This will not only make it easier to site, it will reinforce the therapeutic principles of supportive housing: fostering independence, safety and community integration. Because of the distrust often aroused by the populations housed, supportive housing residences must do more to reassure their neighbors aesthetically than other types of housing. Investing in good design and a few pleasing architectural details can do much to win approval from skeptical community members

d. **Build in amenities for the community:** A supportive housing residence can be a resource not just for its tenants, but for its neighbors as well. People are more likely to accept supportive housing that offers something that improves their neighborhood. Ground floor retail space can enliven a neighborhood while generating unrestricted revenue to the property. An on-site doctors' office, art gallery or food co-op can fill a community need. Providers can also open up on-site services, such as daycare, job training and social service referrals community members. Meeting space in the building can be made available to local groups.

2. **Develop information and materials to make the case for siting supportive housing:** Nonprofit providers, government administrators and their many community allies know supportive housing works. But we need more hard data and coherent stories to convey this truth to skeptics. This information can be communicated in both an attractive package of materials and in formal presentations. The Network can take the lead in developing a "siting toolkit" for providers that would include:
   a. New Language: Developing a siting toolkit presents us with an opportunity to develop and refine the language we use to talk about supportive housing. Resources permitting, public relations experts and branding strategists from the private sector can assist us in honing our message to reach and convince different constituencies of supportive housing's value.
   b. New Maps: The Supportive Housing Network can work with City and State agencies to improve and expand maps that identify where supportive housing and other social service facilities are located throughout the city. Having this information readily available can a) help counter the *perceived* saturation argument at community board meetings and b) help government and providers plan where to build.
   c. New Studies: Neighborhoods where supportive housing has been sited have experienced a rise in property values, a drop in crime and an improvement in the quality of street life. These facts need to be documented in independent research that can be used to make the case for supportive housing. The Network can initiate and direct these research activities.
   d. New Stories: Over and over, initial neighborhood opposition to supportive housing turns to unqualified support. Qualitative accounts of this process, along with a speaker's bureau of community advocates, will be useful in siting efforts.

3. **Conduct coordinated siting initiatives for specific projects:** When supportive housing providers encounter community opposition when attempting to site specific residences, they often combat that resistance on their own. The Supportive Housing Network, its member organizations and government agencies must do more to assist groups to make their case. This includes better, coordinated communication by government and nonprofits to local leaders about new projects. The Network can give providers the tools necessary to convince and reassure community members, and link providers to potential political allies. The

Network will also facilitate mentoring between providers to link experienced organizations with groups less familiar with dealing with community opposition. Siting battles are repeated over and over in many different communities; the Network can create the institutional support, experience and expertise necessary to win them, in order to speed the pace of development.

4. **Launch a public education campaign:** In addition to specific siting initiatives focused on one residence and neighborhood, the Network, its providers and government agencies must work together to execute an aggressive public education campaign. Using data and information developed under this initiative, this campaign will develop a consistent, positive message to counter the misconceptions about supportive housing and its tenants. It will promote the many positive social and economic contributions of supportive housing in New York City neighborhoods. It will target both key decision makers, as well as the general public. It will include:
    - Meetings and policy briefings with City Council members, borough presidents, political clubs, business groups, professional associations and community boards to educate them on the NY/NY III Agreement, supportive housing and siting.
    - A constant stream of positive stories in local publications and television about existing supportive housing residences: commemorations of building anniversaries, human-interest stories on tenants and other events, as well as articles that revisit projects which were built over the objections of community residents that now enjoy their support.
    - Public service announcements demonstrating both community acceptance of supportive housing, as well as supportive housing's importance to average New Yorkers, like nurses, EMTs, small business owners and others who benefit from a reduction in homelessness.

Outcomes

A comprehensive siting initiative will produce a number of outcomes. First and foremost, it will provide a new, up-to-date siting toolkit that will improve supportive housing providers' ability to navigate the siting process effectively. Developing this toolkit will also provide us with an opportunity to use the expertise of public relations professionals to refine our message and the language that we use in conveying the value of supportive housing.

In addition, the siting initiative will give us an opportunity to better understand how our efforts to site and expand access to supportive housing resonate in the larger community. Resources permitting, the initiative can also measure and describe public perception of supportive housing, within specific constituencies (such as community boards and neighborhood opinion leaders), as well as in the public at large. By quantifying acceptance and resistance to supportive housing at the initiative's outset, and at milestone points during our efforts, we can identify effective actions and further improve our efforts.

Communities act rationally. People who live in neighborhoods, especially long-time residents, have a vested interest that their communities will continue to improve. We need to prove that supportive housing helps change them for the better. To implement NY/NY III successfully, we must commit the time *and* resources to undertake a concerted effort to disseminate this message so widely and intensively that it becomes accepted conventional wisdom.

5) Operating and Funding New York/New York III Housing: Serving the Person, Not the Disability

Decisions made on the structure of the New York/New York III Agreement will shape the future of supportive housing in New York City. The agreement presents an opportunity to restructure funding for supportive housing to better respond to current and anticipated needs. While government must take the lead in this process, the providers and developers most familiar with supportive housing funding needs have much to contribute to the discussion. Their involvement will help ensure that reimbursement rates for services and operations are sufficient to stabilize and keep healthy still-vulnerable tenants, while saving public dollars by reducing the use of expensive emergency services. Government can work with providers and developers to adjust funding rates, allow more flexibility on how those funds are spent and streamline contracting procedures. These changes will allow the supportive housing community to build and operate more efficiently and effectively, while increasing residents' integration and independence.

The Network's providers and developers offer the following three recommendations:

1. ***Fund services and operating costs at adequate levels;***
2. ***Provide equivalent rates amongst subpopulations; and,***
3. ***Permanently link operating and service dollars to capital funding.***

1. Fund services and operating costs at adequate levels.
The New York/New York III Agreement will attempt to house and serve people who have been chronically homeless. While these individuals and families have much in common with the people we now house and serve, many members of this population may have more intensive service needs than current residents. These will require additional funding to provide adequate levels of support and services.

The NY/NY III Agreement will also serve populations few supportive housing providers have housed in the past: youth aging out of foster care, families with heads of households with dual diagnoses, longtime inpatients in state psychiatric centers and others. All the people housed and served under NY/NY III must receive appropriate levels of care. Current efforts to establish the reimbursement rates for this support can be improved by examining a wide range of provider experience. The member agencies of the Supportive Housing Network of New York are ready to help government better determine adequate levels of service and operating funding.

Some of the issues that will need to be addressed include:

- *Non-service costs have risen:*
    - Maintenance and operating costs have risen significantly in the past two years because of the high costs of energy, insurance and major repairs.
    - Rental costs have also risen substantially in neighborhoods where providers have rented scattered-site apartments for supportive housing.
- *Some chronically homeless people will require additional services and staffing:*
    - While there are preliminary indications that many members of the chronically homeless population will require no more support than current residents, some members of some subgroups (such as individuals who have lived on the streets for

extended periods, those with active substance abuse issues and families with a psychiatrically disabled head of household, to name a few) will require additional staffing and services.
    - There are also indications that persons who have been chronically homeless need supportive services for a longer period of time than other formerly homeless people.
- *Current reimbursement rates are not always adequate to serve the current population:*
    - Many providers currently applying for supported housing rent and service subsidies will not move chronically homeless people directly into these units. Rather, they will move current licensed housing residents into apartments paid for with the new supported housing subsidies, then move chronically homeless people into the vacated licensed housing beds (which provide a more intensive level of care), a process known as "backfill."
    - Reimbursement rates appear to assume that providers can supplement contracts with additional funding from the private sector or federal funds. Leveraging additional funds is desirable. But many providers can only operate supportive programs with the aid of additional federal McKinney grants. This uses up a precious and increasingly limited funding resource.
    - Reimbursement rates are not pegged to inflation. This builds into the program a diminishing capacity to serve residents.

All of these issues can be addressed with careful policy analysis and planning. A more vigorous dialogue between government and providers can allow us to come up with workable solutions that balance limited resources with effective programs and services. The next recommendation uses current supportive housing models to establish adequate rates for the different populations to be served.

2. Provide equivalent rates amongst subpopulations

New York City's supportive housing providers house and serve people with barriers to independent living that span the missions of many different City and State government agencies. Over the years, these agencies have established different, sometimes widely varying, funding levels for supportive housing services and operations delivered to subpopulations defined by disability. Some funding variation is warranted: different tenants need different levels of services and support; some populations legally require more intensive services. But additional research is needed to support the present disparity in funding levels.[1] Supportive housing providers deliver services according to individualized service plans that reflect the needs of each individual resident. These needs may exceed or fall short of the levels of service funding available to the provider for each category of disability or diagnosis.

Conforming current reimbursement rates to a few standard rates could offer a number of advantages: it will allow providers greater flexibility in how they use service dollars; it will help to reduce the stigma that comes with a funding process that encourages providers to define residents by their disabilities; it may also help providers to site and operate residences that better reflect the needs of the local community.

[1] Currently providers serving formerly homeless individuals with HIV/AIDS receive a reimbursement rate that is almost 50% more than providers serving formerly homeless individuals with mental illness.

If providers were given equivalent base rates, they would have greater flexibility to spend greater resources on those who need more assistance, and less on those who are more self-sufficient. This would shift assessing service needs solely according to diagnoses, basing reimbursement instead on actual service needs and barriers to independence, including illnesses, but also to residents' histories of homelessness, domestic violence, extreme poverty, re-entry services and host of other needs. Providers would also have more freedom to answer the needs of their immediate communities – not just to "ease the siting process" but in an effort to actually improve a specific neighborhood.

Three Reimbursement Rates

A diverse group of the Network's New York City supportive housing providers worked together to develop service and operating program models for NY/NY III. The outcome of the discussions was a recommendation for a new 3-tier reimbursement rate model that transcended disability categories. Instead, the three staffing and budget models attempt to address the needs of three different chronically homeless, NY/NY III-eligible tenants: an individual with a disability who requires some services; an individual with multiple disabilities or barriers to independence who requires more intensive services to stay housed; and a family with a head of household with a disability or other major barrier to independence. Each of the three models takes into account staffing needs, average salaries and benefits, and other-than-personnel services costs.

The three reimbursement rates are based on the costs of operating a congregate, single-site residence, the most common model of supportive housing. For the purposes of determining staffing and budgets, the model assumes 128 units, with 60% of them designated for NY/NY III-eligible tenants. The budgets are broken down into personnel and other than personnel services for the support services for the NY/NY III tenants.

The budgets also provide general figures for real estate costs – all of the expenses associated with operating a residence, from utilities, to maintenance (including staff), taxes, fees, insurance and other costs traditionally associated with maintenance and operations. These are calculated using underwriting assumptions described in detail in Appendix III. Only the real estate costs of the 60% of units reserved for NY/NY III tenants are included in the spreadsheets. The other 40% of the units will also require an equivalent level of rental income or other subsidy for the building to remain financially sound. In this model, these units will almost always require a rent subsidy to meet these costs.

The 2,750 scattered-site supported housing units to be produced by the agreement will not require real estate costs and may have slightly different staffing patterns. All of the staffing patterns reflect provider experiences serving similar populations. However, they are offered here only to provide examples of how funding can be spent. Actual staffing and budget patterns will vary from provider to provider, project to project, and will depend on the nature of the populations served. It is essential to the success of the supportive housing model that providers retain the flexibility to shape staffing and budgets to their residents' needs, and are not held to prescribed staffing requirements.

The three models are:

1. Housing Independence

The Housing Independence rate would be funded at $16,735 per unit/year.[2] This rate would include funding for the standard supportive housing services, i.e. case management, problem solving, financial management, basic maintenance of health, referrals for community services, and self-sufficiency/job readiness and skill building support. This rate reflects a sample staffing pattern and budget as a minimum level of funding necessary to sufficiently operate and support tenants with one primary barrier to independence. Using this definition as a guide, 24% or 2,150 of the New York/New York III tenants would fall at this rate.

Estimated Housing Independence Rate for a 128-unit, Integrated Program*		
Program Personnel Services (PS)		
Director (1)	$	70,000
Service Coordinator (1)	$	55,000
Counselors (5) @ $37,000 each	$	185,000
Psychiatric Support (.2)	$	28,000
Tenant Services (.5)	$	20,000
Admin/Intake (1)	$	40,000
Office Manager (1)	$	35,000
Security (24/7 @ $15/hour)	$	131,040
PS Salaries	$	564,040
Benefits @ 30%	$	169,212
PS Total	$	733,252
Program Other Than Personnel Services (OTPS)		
Administrative Overhead (10% of Total Exp.)	$	87,990
Office & Program Expenses (20% of PS)**	$	146,650
OTPS Total	$	234,641
Real Estate Costs* **		
Maintenance & Operating Costs****	$	437,760
Reserves	$	23,040
Vacancy/Bad Debt (5%)	$	24,253
Expense Cushion (5%)	$	23,040
Real Estate Total	$	508,093
Tenant Contributions	$	(190,771)
Total	**$**	**1,285,214**
Per Unit for NY/NY III Tenants	**$**	**16,735**

**Assuming 60% NY/NY III and 40% community units*

*** Includes basic office supplies, copier/fax/phone maintenance and repair, staff recruitment, trainings, conferences, etc.*

****Based on underwriting assumption of $5,700/unit+reserves, vacancy and expense cushion.*

***** Includes all building costs, including utilities, insurance, taxes and fees, etc. This figure also includes all PS and associated costs for building maintenance staff.*

[2] All three rates, Housing Independence, Service Intense and Family assume 2006 dollars. For budgeting, we would assume a three percent (3%) inflation adjustment each year for both PS and OTPS costs.

Service-Intensive

The Service-Intensive rate is set at $19,282 per unit/year. This rate will address the needs of those persons in the subpopulations served by New York/New York III who require more intensive care than others. It provides funding for medication monitoring, smaller caseloads, psychiatric care, more direct vocational and recreational services, and more ongoing, managed oversight. We recommend this rate for most of the dual and triple-diagnosed tenants and people with long histories of street homelessness will benefit from this rate. According to the categories in the Agreement, we anticipate that this rate would apply to 63% or 5,700 of the tenants.

Estimated Service Intensive Rate for a 128-unit, Integrated Program*

Personnel Services (PS)		
Director (1)	$	70,000
Service Coordinator (1)	$	55,000
Counselors (5) @ $37,000 each	$	185,000
Psychiatric Support (.2)	$	28,000
CASAC/Harm Reduction Specialist (1)	$	47,000
Vocational Worker (1)	$	47,000
Tenant Services (1)	$	40,000
Admin/Intake (1)	$	40,000
Office Manager (1)	$	35,000
Security (24/7 @ $15/hour)	$	131,040
PS Subtotal	$	678,040
Fringe @ 30%	$	203,412
PS Total	$	881,452
Program Other Than Personnel Services (OTPS)		
Administrative Overhead (10% of Total Exp.)	$	105,774
Office & Program Expenses (20% of PS)**	$	176,290
OTPS Total	$	282,065
Real Estate Costs* **		
Maintenance & Operating Costs****	$	437,760
Reserves	$	23,040
Vacancy/Bad Debt	$	24,253
Expense Cushion	$	23,040
Real Estate Total	$	508,093
Tenant Contributions	$	(190,771)
Total	**$**	**1,480,838**
Per Unit for NY/NY III Tenants	**$**	**19,282**

**Assuming 60% NY/NY III and 40% community units*

*** Includes basic office supplies, copier/fax/phone maintenance and repair, staff recruitment, trainings, conferences, etc.*

****Based on underwriting assumption of $5,700/unit+reserves, vacancy and expense cushion.*

***** Includes all building costs, including utilities, insurance, taxes and fees, etc. This figure also includes all PS and associated costs for building maintenance staff.*

Families

The reimbursement rate for families is $21,091 per unit/year. Formerly homeless or at-risk families with disabled heads of household need many of the same services that individuals do, plus additional services to meet the needs of family members who have experienced the trauma of separation and/or homelessness. Additional services include family counseling, day care, 24-hour management, a higher administrative ratio, and services related to re-unification. According to the Agreement, 13% or 1,150 units would be funded at this rate.

Estimated Family Rate for a 128-unit, Integrated Program*		
Personnel Services (PS)		
Director Social Services (1)	$	70,000
Program Director (1)	$	65,000
Counselors (5) @ $37,000 each	$	185,000
Psychiatric Support (.5)	$	70,000
Recreational/Activity Specialist (1)	$	35,000
Child Life Specialist (2)	$	110,000
Service Coordinator (1)	$	55,000
Admin/Intake (1)	$	40,000
Office Manager (1)	$	35,000
Security (24/7 @ $15/hour)	$	131,040
PS Subtotal	$	796,040
Fringe @ 30%	$	238,812
P/T Consultants (Certified Rehabilitation Counselor & Child MH/Family Consultant)	$	80,000
PS Total	$	1,114,852
Program Other Than Personnel Services (OTPS)		
Administrative Overhead (10% of Total Exp.)	$	133,782
Office & Program Expenses (20% of PS)**	$	222,970
OTPS Total	$	356,753
Real Estate Costs* **		
Maintenance & Operating Costs****	$	391,680
Reserves	$	46,080
Vacancy/Bad Debt	$	23,040
Expense Cushion	$	21,888
Real Estate Total	$	482,688
Tenant Contributions	$	(334,541)
Total	**$**	**1,619,752**
Per Unit for NY/NY III Tenants	**$**	**21,091**

**Assuming 60% NY/NY III and 40% community units*

*** Includes basic office supplies, copier/fax/phone maintenance and repair, staff recruitment, trainings, conferences, etc.*

****Based on underwriting assumption of $5,700/unit+reserves, vacancy and expense cushion.*

***** Includes all building costs, including utilities, insurance, taxes and fees, etc. This figure also includes all PS and associated costs for building maintenance staff.*

As the overall goal is to integrate within the community and within the building, these funding models assume a 128-unit program with a variety of formerly homeless or at risk sub-populations, as well as a 60/40 split of supportive housing units to low-income, community units. As an integrated model, *by sub-population*, these three rates would allow providers the flexibility to spend more resources on people who need greater services, and less on those who are more self-sufficient. It allows the services to be matched to the actual person, moving away from estimated service needs by disability category.

This will create a higher quality of care, as well as a more cost-effective method of providing services. As an integrated model, *by income*, it will ease siting pressures by increasing the local stock of affordable housing, while promoting a truly diverse environment for supportive housing tenants to be a part of. Supportive housing is the long-term housing solution for many of the most vulnerable residents, but for some it is simply a step to greater independence. We should support this by housing them with neighbors who are already working, allowing them to live side-by-side with those living their future.

Integrating by income also works as a low-cost prevention model for the low-income individuals and families that would live in the community units. As history has shown with the existing 60/40 programs, many low-income individuals and families move into a supportive housing residence without an apparent need for services, but they often turn out to be only one crisis away from requiring the same amount of support as their formerly homeless neighbors. City residents have face record-high rents, stagnant wages, a net loss of housing subsidies and out-of-reach health care for the working poor. Having these services available, and already funded, provides a double service by keeping another tier of vulnerable New Yorkers from becoming homeless in the first place.

3. Permanently link operating and service dollars to capital funding

One significant outcome of the NY/NY III Agreement might be establishing a permanent linkage of capital funds with the ongoing operating and services funding necessary to operate buildings after they are constructed. Currently, supportive housing development programs have no formal link to operating and services. Providers apply for development funding for a capital project, then hope that there will be an RFP for service funding issued in the year that the units become ready for occupancy. The uncertainty makes it difficult for providers to plan development and limits the number of projects that are brought to the pipeline.

Due to this disconnect in the funding process, provider organizations are sometimes forced to forgo inclusion of supportive units in affordable housing projects because certain government agencies require demonstration of proof of operating and service subsidies as part of the application for capital funds. This process can be needlessly repetitive, is often unevenly marketed, and can place an enormous administrative burden on providers year after year.

The best way to link the three necessary funding streams – capital, building operations and services, is to institute a Request for Qualification (RFQ) process at both the City and State level. Establishing a common, unified application process across agencies would alleviate the providers' funding risk, ease the administrative burden for both the government and providers, and create a system where projects can be more fairly evaluated based on applicants' ability to develop projects and properly serve residents.

This must be a truly unified process. Given the funding structure of the New York/New York III Agreement we recommend that the RFQ process, for all of the units, be administered by only one State and one City agency. Since the majority of units will be funded through the NYS Office of Mental Health and NYC Department of Health and Mental Hygiene, they seem like the logical entities, but this needs greater consideration and obviously will depend on a number of factors.

Funding commitments for operating and services should be made at the time of the capital awards. It is critical that we eliminate the practice of making supportive housing developers build new units with little assurance of their ability to open when the units are ready, or to operate the buildings properly after occupancy. While we strongly recommend instituting a RFQ process, we also look forward to discussing other innovative possibilities such as bundling funding streams, creating a SuperNOFA, and other ideas.

6) Financing Supportive Housing: New Agreement, New Opportunities

The challenge of financing the NY/NY III Agreement represents an opportunity. It requires the participants – providers of supportive services, government agencies and financiers – to be flexible and efficient. It requires that we rely on many different housing types and financing models. We cannot afford to ignore any opportunity that will enable us to achieve the goal of creating 9,000 units over the next 10 years. The more tools we have in our tool kit, the more likely we will have the right tool for a given development opportunity.

To that end, this implementation plan reviews eight different development models. We have focused on these eight models as the most practical since they (i) take advantage of currently available resources and (ii) are well known to the broad range of affordable housing developers. We attempt to compare the models with each other in terms of over costs, subsidy utilization, leverage and various measures of efficiency. We do so not to eliminate any models from our tool kits but to provide useful data for policy makers and our partners. Our comparative analyses are carried out on "per unit," "per square foot" and "per person housed" bases to provide addition nuance in an attempt to equalize differences among the models.

Four of the financing schemes are for the traditional "stand-alone" supportive housing residence, while four are for the "integrated" housing model. Each of these models has a place in the implementation of the NY/NY III Agreement. Some may be used infrequently, others may predominate. Some may be better suited to certain neighborhoods and communities than others. Some may address the service needs of certain NY/NY III residents better than others. Some may respond to the vision and/or capacities of certain developers better than to others. In order to meet NY/NY III's ambitious development targets, we must have available a wide variety of housing and financing models that are responsive to as many needs and development opportunities as possible.

In addition to different development and financing models, some targeted administrative and regulatory changes will be necessary to implement NY/NY III successfully:

1. **Streamline the underwriting process:** One State and one City agency only should be responsible for underwriting the NY/NY III capital subsidies. In cases where a project will incorporate NY/NY III residents within a larger affordable housing development there again should be a single underwriting review. This will require close collaboration among and within agencies.
2. **Preserve community subsidies:** In "stand-alone" supportive housing residences, ongoing rental subsidies for non-NY/NY III units reserved for community referrals must be preserved. Without rental subsidies, the assignment of 40% of each project's units to local residents who need supportive housing is likely to work in only a few communities (i.e., Manhattan and certain Brooklyn neighborhoods). The majority of markets where NY/NY III developments are likely to be built have very little demand for studios; the incomes of the "non-family" households in these market are well below what is necessary to afford the projected rents, i.e., rents that cover operating costs and debt service. Without community rent subsidies, the financial viability of these buildings will be at risk.
3. **Develop new sources of credit enhancement:** Without long term operating commitments or new sources of third party credit enhancement, lenders and investors may be hesitant to

assume the market and credit risks associated with some of these models. We are encouraged that the NYS Office of Mental Health has devised a mechanism for providing the required credit enhancement on certain of its developments. Opportunities to create new mortgage insurance programs through the New York City Residential Mortgage Insurance Corporation (REMIC) and/or the State of New York Mortgage Agency (SONYMA) should be explored.

A. Housing Models and Financing Structures

This section provides a summary of the eight housing and finance models we have reviewed. For each, we detail the underwriting and credit challenges, as well as possible solutions and mitigants to these challenges. Following our summary review of the proposed models we provide a series of analyses that attempt to evaluate the models based on various measures of efficiency (e.g., public capital subsidy utilization, ability to leverage non-subsidy resources, breakeven and expense ratios, etc.). We conclude with a series of recommendations with regard to the financing models as well as administrative and underwriting requirements necessary to advance these new initiatives.

A summary of sources and uses, broken out in nominal, per unit, per square foot and per person housed bases, for each model is listed in Chart 2, on pages 26 and 27. Detailed financial projections for each model are provided in Appendix III-A at the end of this report. Our underwriting and credit assumptions are detailed in Appendix III-B. Finally, some useful demographic, income and market data for single (i.e., non-family) households are provided in Appendix III-C.

Model 1: "Stand-alone" Building Financed with 9% LIHTC and Subsidy

Description: This straightforward model has been the dominant model for developing supportive housing for persons with social service needs since the early 1990s. In this model, the development receives a capital subsidy equal to 100% of total development costs. The capital subsidy is divided between 9% Low Income Housing Tax Credits (LIHTC) and an interest-free loan from a governmental entity. For the sake of simplicity, we have presumed in our model that there is a 50/50 split among these two subsidy sources, although any proration is possible.

Challenges & Solutions: There are two substantive underwriting and credit challenges related to this model. First, the tenants targeted by NY/NY III will not be able to afford the underwritten or minimum required rents. Second, there is not likely to be a conventional (unsubsidized) market for these units at the underwritten rent or the minimum required rents, except in a few neighborhoods of the city. As a result, at a minimum, NY/NY III tenants will require long-term rental subsidies with an expiry at least co-terminus with the 15-year expiry of the LIHTC compliance period. Many projects may also require rental subsidies after the tax credit compliance period expires, and/or rental subsidies for the 40% of units made available to members of the community.

The underwritten rents of this model follow standard LIHTC guidelines, wherein 100% of the LIHTC eligible units are rented at 30% of 58% of area median income ("AMI"), less the required utility allowance. This calculation results in a monthly rent of $676 per unit. The minimum monthly rent necessary to adequately cover expenses is $557, based on the following: (i) operating expenses are $504 per unit month ($6,047 per unit per annum divided by 12 months), (ii) projected vacancy losses are 5% and, (iii) a minimum 1.05 income-to-expense ratio is maintained ([$504/0.95] x 1.05).

The majority of units (60% of the total) will be leased to NY/NY III eligible residents. These residents will not have incomes that would enable them to afford either the underwritten rent or the minimum required rent. The NY/NY III-eligible residents are not expected to be able to pay more than (i) Safety Net shelter allowance or (ii) $180 per month towards rent based on federal and industry standard rent-to-income ratios.[3] To afford rents in these buildings, NY/NY III residents will require rental subsidies equivalent to $375-500 per month, depending on whether the minimum required rent or the underwritten LIHTC rent is charged.

Forty percent of the units in this model would be leased to residents referred from the local community. However, despite a substantial need for studio units across the city, market rate studio units do not rent well in many of the markets where the new development is expected to occur (i.e., less developed areas of the outer boroughs where land is available, in particular the Bronx). These markets favor larger family apartments. The demographic data make it clear why: there are few single person households with the requisite incomes within the markets where development is likely to occur.

For instance, the most recent Census data (*see Chart 1, below*) indicate that there are 377 non-family households in Bronx Community District 3 ("BXCD3") that earn between $25,000 and $29,999 per annum (approximately 50-60% AMI), i.e., who are LIHTC income eligible and who could afford the LIHTC underwritten rent. There are another 315 non-family households who are income eligible and could afford the minimum required rent (i.e., earn between $20,000 and 24,999 per annum).

Chart 1: Partial Income Data for Non-family Households, Bronx Community District 3

	Total Nonfamily Households	Less than $10,000	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $29,999
Bronx CD 3	6,254	3,320	788	470	315	377
% of total	100.00%	53.09%	12.60%	7.52%	5.04%	6.03%

Source: 2000 Census, File SP3 INC-303

As a result, the community units of one 128-unit project would be required to capture 14% of the target market if the rents were set at the underwritten rent and 7% of the target market if the rents were set at the minimum required rent. Meeting these capture rates would be a substantial challenge, especially given the amount of development which is expected to occur under NY/NY III. The market for this type of housing could quickly become saturated.

On the other hand, there is a significant number of single adults who would benefit from subsidized studio apartments in these communities. The vast majority of non-family households within the expected development areas earn substantially less than that necessary to pay either the LIHTC

[3] The NY/NY III residents are presumed to derive their entire income from Supplemental Security Income for the disabled (SSI), which is currently $603 per month, or other comparable income supplements available to disabled persons. Industry and federal standards assume that a household should contribute no more than 30% of its gross income towards housing costs. Therefore, NY/NY III residents should be expected to contribute no more than $180 per month towards rent (i.e., 30% of $603.

underwritten rent or the minimum required rent. Data for BXCD3 indicates that more than 53% of non-family households earn $10,000 or less, which indicates that these persons could not afford rents in excess of $250 per month.[4]

However, in some neighborhoods where development may occur (in particular, Manhattan and certain Brooklyn neighborhoods), rental subsidies for the community units may not be necessary. Furthermore, if the required rental subsidies at the LIHTC rent are available for the NY/NY III units, then these rents could cross-subsidize at least part of the rents on the community units. These might then rent for as low as $375 per unit per month, substantially eliminating the market risk for these units.

In conclusion, most "community units" will require rental subsidies in order to remain consistently rented at the either the LIHTC underwritten rent or the minimum required rent. Without these rental subsidies one would expect substantial vacancy losses over time, which would result in the failure of the projects to meet basic operating costs.

Model 2: The Traditional "Stand-alone" Building Financed with 4% LIHTC and Subsidy

Description: This financing model has not been commonly used; in fact we can recall just one instance of its use for the development of housing for persons with supportive service needs. In this model, short-term, tax-exempt private activity bonds are issued for at least 51% of total project costs, in order to leverage as-of-right 4% low income housing tax credits. Upon the completion of construction, the entire amount of the bonds is retired.[5] A combination of City and/or State subsidy and 4% LIHTC equity are used to retire the bonds. This model is being used to finance The Schermerhorn supportive housing residence now being constructed by Common Ground Community.

Challenges & Solutions: The substantive underwriting and credit challenges related to this model are the same as for Model 1. As a result, all residents will require rental subsidies up to $375 to $500 per month for at least the duration of the 15-year LIHTC compliance

Model 3: The "Stand-alone" Building Financed with 4% LIHTC, Tax-Exempt Permanent First Mortgage and Subsidy

Description: This financing model is an adaptation of the successful NYC LAMP financing scheme, which has not been applied to the development of "supportive" housing. Like Model 2, tax-exempt bonds are issued during construction for 51% of project costs, which leverages the 4% LIHTC. However, the bonds are not fully retired at construction completion. The amount of the

---

[4] BXCD3 is used for illustrative purposes; it is judged to be substantively equivalent to other community districts where development is likely to occur. All data is drawn from New York City Department of City Planning's website (www.nyc.gov/planning) and is based on the U.S. Census Bureau's 2000 Census data. A summary of these data is provided in Appendix III.

[5] The IRS rules governing tax exempt bonds require that the proceeds of the bonds minimally fund 50% of total project costs during construction. As a result, the tax bonds generate 4% LIHTC on 100% of the project costs. Currently, tax exempt bonds are surplus and therefore do not represent a scarce financial resource. Therefore, using tax exempt bonds leverages resources that would not otherwise be available to develop housing with supportive services.

bonds that can be underwritten based on the development's Net Operating Income (NOI) remains as a permanent first mortgage. Costs not covered by the 4% LIHTC and the permanent first mortgage are funded with a subsidy loan or loans.

Challenges & Solutions: The underwriting and credit challenges are the same as for the prior two models but they are exacerbated by the presence of the first mortgage. The first mortgage has been sized on the higher LIHTC underwritten rents requiring rental subsidies of $500 per unit per month, in order to achieve the leverage in the sources and uses. The first mortgage lender and LIHTC investor[6] will require an analysis demonstrating that these rents are achievable and/or the required rental subsidies will be available for the term of the first mortgage, which is 30 years. In the absence of such assurances, the first mortgage lender would require third-party credit enhancement to mitigate default risk related to the uncertainty of the rental subsidies and/or market.

The State or the City might provide such credit enhancement. Either could simply agree to pay off the first mortgage loan by providing a subsidy loan if the State or the City fails to provide the rental subsidies. Or, REMIC and SONYMA, which are in the business of providing mortgage insurance, could create mortgage insurance programs for these types of properties. Finally, the City or the State can guarantee payment of the debt service, a strategy that has been effectively employed by the State when the Dormitory Authority of the State of New York (DASNY) has issued bonds on behalf of projects developed with assistance from the State Office of Mental Health.[7]

Model 4: The "Stand-alone" Building Financed with 9% LIHTC, Conventional First Mortgage and Subsidy

Description: This financing model is a hybrid of Model 1: a conventional first mortgage is sized on available NOI, and the amount of the 9% LIHTC and capital subsidy is reduced proportionate to the amount of the first mortgage. It has not been commonly used except in a few instances where a long term operating contract has been provided insuring repayment of the first mortgage.

Challenges & Solutions: The underwriting and credit challenges are the same as for the prior model, as are the potential solutions and mitigants. The first mortgage lender will need to be able to underwrite either the rental subsidies or the market. Rental subsidies of $500 per unit per month would be required to achieve the leverage indicated in the sources and uses. In the absence of such subsidies, third-party credit enhancement will be necessary. It is likely that the City and State will need to devise such enhancement for these developments, as discussed in section above related to Model 3.

Model 5: The "Integrated" Building Financed with 4% LIHTC, Tax Exempt Permanent First Mortgage and Subsidy

Description: This financing model is nearly identical to the financing structures of two New York City HPD programs, the Low-Income Affordable Marketplace Program (LAMP) and the Mixed

---

[6] A LIHTC investor will be more concerned about properties such as these that will have a first mortgage. The LIHTC investor can lose its investment if it is no longer in title to a property, which would occur if the first mortgage lender forecloses.

[7] NYS provides the bondholders with the legal ability to intercept NYS revenues (i.e., Medicaid receipts) to pay debt service if NYS fails to provide the debt service payments through operating subsidy contracts.

Income Rental Program (MIRP). In this case, however, instead of reserving 30% of the units for homeless families, 40% of the units are reserved for those with supportive service needs. The building in this model would also include a larger proportion of studio units than in a standard LAMP/MIRP development, where generally no more than 10-15% of the units might be studio units. It should be noted that the per unit costs are higher in this model than in the four previous models reviewed because average unit sizes are larger and costs are averaged across studio, 1- and 2-bedroom apartments.

Like Model 4, tax exempt bonds are issued during construction for 51% of project costs, which leverages the 4% LIHTC, and the bonds are not fully retired at construction completion. The amount of the bonds that can be underwritten based on the development's NOI remains as a permanent first mortgage. Costs not covered by the 4% LIHTC and the permanent first mortgage are funded with a subsidy loan or loans.

Challenges & Solutions: In this model, the City or the State would subsidize the NY/NY III targeted units (the 40% of units that are studios) with NY/NY III allocated capital funds. They would fund the balance of the units with resources available for the development of generic affordable housing. Rental subsidies of $500 per unit/month are required only for the NY/NY III studio units. This model would require multiple agencies/departments/divisions to work closely together using seamless underwriting criteria and processes.

Financial institutions have credit enhanced the bonds on many NYC LAMP/MIRP projects to date; they are comfortable with the underwriting issues and credit risks associated with these projects, including the requirement that 30% of the units be reserved for homeless families and individuals. Having a significantly larger proportion of studio apartments may increase credit risk, as we have discussed above. This risk is partially offset by the fact that these units are specifically targeted to NY/NY III residents and not intended to be available for rental to the general public, as would be the 1- and 2-bedroom units. The relatively small studio apartment market in most neighborhoods will not become saturated with this new development as might be expected to be the case with the "stand-alone" developments.

Model 6: The "Integrated" Building Financed with 9% LIHTC, Conventional First Mortgage and Subsidy

Description: A conventional first mortgage is sized on available NOI; the 9% LIHTC and the capital subsidy cover the difference between total project cost and the amount of the conventional first mortgage. This financing model has been used successfully on a number of developments to date, most notably a joint venture of Community Access and Dunn Development used at Franklin Avenue Apartments in the Bronx and Dekalb Avenue Apartments in Brooklyn,

Challenges & Solutions: As with the preceding Model 5, in this model the City or the State would subsidize the NY/NY III targeted units (i.e., the 40% of apartments that are studios) with NY/NY III allocated funds and would fund the balance of the units with resources available for the development of generic affordable housing. This model would require multiple agencies/departments/ divisions to work closely together with seamless underwriting criteria and processes. The underwriting and credit challenges are the same as those discussed in Model 5.

Model 7: The "Integrated" Building with 20% of Units at 80% AMI Financed with 4% LIHTC, Tax Exempt Permanent First Mortgage and Subsidy

Description: The financing structure is similar to Model 5 discussed above; however, 20% of the total units (one-third of the non-NY/NY III units) would be set aside for individuals and families earning no more than 80% AMI (i.e., moderate income) and the rent on these units would be set to be affordable at 75% AMI. The rent for a 1-bedroom is $995 and $1,194 for a 2-bedroom. As in similar models discussed above, tax-exempt bonds are issued during construction for 51% of project costs, which leverages the 4% LIHTC, and the bonds are not fully retired at construction completion. The amount of the bonds that can be underwritten based on the development's NOI remains as a permanent first mortgage. Costs not covered by the 4% LIHTC and the permanent first mortgage are funded with a subsidy loan or loans.

Challenges & Solutions: The 20% moderate-income units do not leverage the 4% LIHTC. Therefore this model requires greater capital subsidy. The clear benefit of this model is that greater income diversity is achieved within the project. This is both a goal in and of itself, as well as a fact that might make the project more attractive in certain markets and for certain neighborhoods. The principal credit and underwriting concern is whether the projected rents are in excess of market or street rents in the market where a development is to be constructed. The moderate-income rents may need to be adjusted downwards to street rents. In such instance the subsidy loan amount most likely would need to be adjusted upward. Clearly, this is a model that may be useful in markets where street rents equate to 80% AMI rents.

Model 8: The "Integrated" Building with 20% of Units at 80% AMI Financed with 9% LIHTC, Conventional First Mortgage and Subsidy

Description: Like Model 7, 20% of the total units (one-third of the non-NY/NY III units) would be set aside for individuals and families earning no more than 80% AMI (i.e., moderate income) and the rent on these units is set to be affordable at 75% AMI. A conventional first mortgage is sized on available NOI; the 9% LIHTC and the capital subsidy cover the difference between total project cost and the amount of the conventional first mortgage.

Challenges & Solutions: This model has similar benefits and raises similar concerns as Model 7 discussed above. However, this model requires less subsidy than its direct counterpart, Model 6. This model leverages more debt, thereby reducing the overall subsidy requirement.

Chart 2: Comparative Cost Summary

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
COST ON NOMINAL BASIS								
Sources								
First Mortgage	$0	$0	$2,420,000	$2,111,201	$4,612,046	$4,779,045	$5,640,701	$5,676,411
HTF/HHAP/HFWF/LAMP/MIRP/SHLP	$7,665,585	$10,260,994	$7,840,994	$6,776,074	$13,425,725	$11,314,708	$14,560,636	$10,936,621
Tax Credit Equity	$7,665,585	$6,280,117	$6,280,117	$6,776,074	$10,990,884	$11,314,708	$8,827,318	$10,936,621
Deferred Development Fee	$617,235	$672,232	$672,232	$632,334	$1,180,439	$1,106,794	$1,180,439	$1,113,212
Total	$15,948,405	$17,213,343	$17,213,343	$16,295,683	$30,209,094	$28,515,255	$30,209,094	$28,662,865
Uses								
Acquisition	$1,370,000	$1,370,000	$1,370,000	$1,370,000	$2,829,000	$2,829,000	$2,829,000	$2,829,000
Construction Costs (incl. contingency)	$11,262,400	$11,262,400	$11,262,400	$11,262,400	$20,000,500	$20,000,500	$20,000,500	$20,000,500
Soft Costs	$1,464,300	$2,564,246	$2,564,246	$1,766,281	$3,838,278	$2,365,373	$3,838,278	$2,493,731
Development Fee	$1,851,705	$2,016,697	$2,016,697	$1,897,002	$3,541,317	$3,320,381	$3,541,317	$3,339,635
Total	$15,948,405	$17,213,343	$17,213,343	$16,295,683	$30,209,094	$28,515,255	$30,209,094	$28,662,865
COST ON PER UNIT BASIS								
Sources per Unit								
First Mortgage	$0	$0	$18,906	$16,494	$36,032	$37,336	$44,068	$44,347
HTF/HHAP/HFWF/LAMP/MIRP/SHLP	$59,887	$80,164	$61,258	$52,938	$104,888	$88,396	$113,755	$85,442
Tax Credit Equity	$59,887	$49,063	$49,063	$52,938	$85,866	$88,396	$68,963	$85,442
Deferred Development Fee	$4,822	$5,252	$5,252	$4,940	$9,222	$8,647	$9,222	$8,697
Total	$124,597	$134,479	$134,479	$127,310	$236,009	$222,775	$236,009	$223,929
Uses per Unit								
Acquisition	$10,703	$10,703	$10,703	$10,703	$22,102	$22,102	$22,102	$22,102
Construction Costs (incl. contingency)	$87,988	$87,988	$87,988	$87,988	$156,254	$156,254	$156,254	$156,254
Soft Costs	$11,440	$20,033	$20,033	$13,799	$29,987	$18,479	$29,987	$19,482
Development Fee	$14,466	$15,755	$15,755	$14,820	$27,667	$25,940	$27,667	$26,091
Total	$124,597	$134,479	$134,479	$127,310	$236,009	$222,775	$236,009	$223,929

Chart 2: Comparative Cost Summary (continued)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
COST ON PER SQUARE FOOT BASIS								
Sources per Square Foot								
First Mortgage	$0.00	$0.00	$43.84	$38.25	$40.46	$41.92	$49.48	$49.79
HTF/HHAP/HFWF/LAMP/MIRP/SHLP	$138.87	$185.89	$142.05	$122.75	$117.77	$99.25	$127.72	$95.94
Tax Credit Equity	$138.87	$113.77	$113.77	$122.75	$96.41	$99.25	$77.43	$95.94
Deferred Development Fee	$11.18	$12.18	$12.18	$11.46	$10.35	$9.71	$10.35	$9.77
Total	$288.92	$311.84	$311.84	$295.21	$264.99	$250.13	$264.99	$251.43
Uses per Square Foot								
Acquisition	$24.82	$24.82	$24.82	$24.82	$24.82	$24.82	$24.82	$24.82
Construction Costs (incl. contingency)	$204.03	$204.03	$204.03	$204.03	$175.44	$175.44	$175.44	$175.44
Soft Costs	$26.53	$46.45	$46.45	$32.00	$33.67	$20.75	$33.67	$21.87
Development Fee	$33.55	$36.53	$36.53	$34.37	$31.06	$29.13	$31.06	$29.30
Total	$288.92	$311.84	$311.84	$295.21	$264.99	$250.13	$264.99	$251.43
COST ON PER PERSON HOUSED BASIS								
Sources per Person Housed								
First Mortgage	$0	$0	$18,906	$16,494	$19,097	$19,789	$23,357	$23,505
HTF/HHAP/HFWF/LAMP/MIRP/SHLP	$59,887	$80,164	$61,258	$52,938	$55,593	$46,852	$60,292	$45,286
Tax Credit Equity	$59,887	$49,063	$49,063	$52,938	$45,511	$46,852	$36,552	$45,286
Deferred Development Fee	$4,822	$5,252	$5,252	$4,940	$4,888	$4,583	$4,888	$4,610
Total	$124,597	$134,479	$134,479	$127,310	$125,089	$118,076	$125,089	$118,687
Uses per Person Housed								
Acquisition	$10,703	$10,703	$10,703	$10,703	$11,714	$11,714	$11,714	$11,714
Construction Costs (incl. contingency)	$87,988	$87,988	$87,988	$87,988	$82,818	$82,818	$82,818	$82,818
Soft Costs	$11,440	$20,033	$20,033	$13,799	$15,893	$9,795	$15,893	$10,326
Development Fee	$14,466	$15,755	$15,755	$14,820	$14,664	$13,749	$14,664	$13,829
Total	$124,597	$134,479	$134,479	$127,310	$125,089	$118,076	$125,089	$118,687

B. Comparative Analyses of the Housing Models

This section reviews the "efficiency" of each of the models by comparing:

- costs and capital structure;
- the amount of subsidy required (inclusive of leverage derived); and
- operating requirements and performance measures.

We will provide these comparative analyses, where applicable, on "nominal" and "per unit" bases as well as on "per square foot" and "per person housed" bases. In aggregate, these analyses can provide a clearer picture of the benefits and challenges of each housing model. Our purpose here is not to steer public policy discussion in one particular direction or another but to inform such discussion and to provide sufficient data and analysis to policy makers on which they base choices and decisions. *These analyses refer to numbers found in Chart 2 on pages 26 and 27 preceding this section.*

Comparative Analysis I: Cost and Capital Structure

On nominal and per unit bases, Model 1 (the "stand-alone" building financed with the 9% LIHTC and subsidy loans) would appear to be the most efficient; Models 5 and 7 (the "integrated" buildings financed with 4% LIHTC, tax exempt debt and subsidy loans) would appear to be the least efficient. For Model 1, total project costs are nearly $16 million (approximately $125,000/unit); for Models 5 and 7 total project costs are in excess of $30 million (approximately $236,000/unit), nearly double the Model 1 amount.

Principally, these disparities are accounted for by building sizes and unit configuration. Though they have the same number of apartments, at 114,000 gross square feet the "integrated" building is more than double the size of the "stand-alone" building (55,200 gross square feet); the average unit size in the "integrated" building (617 net square feet) is twice that of a unit in the "stand-alone" building (300 net square feet). Nominal and per unit costs, therefore, are not the most reasonable comparative benchmarks, though they are commonly used by City and State agencies.

On per square foot and per person housed[8] bases (see Chart 2), the "integrated" building costs are below that of any the "stand-alone" building models. For instance, the total project costs per square foot in Model 6 (the "integrated" building financed with 9% LIHTC, conventional debt and subsidy loans) are $250.61. This compares favorably to the lowest per square foot cost of $288.92 for a "stand-alone" building (Model 1, the "stand-alone" building financed with 9% LIHTC and subsidy loans). This equates to a 15% savings. The results on a per person housed basis are less dramatic: $118,299 in Model 6 to $124,597 in Model 1, a differential of 5%.[9]

---

[8] The calculation is based on Federal formulas for calculating household sizes for purposes of determining rental rates in the LIHTC program (i.e., 1 person per studio; 1.5 persons per 1-bedroom apartment; and, 3 persons per 2-bedroom apartment).

[9] We note that the calculation of persons housed per non-studio units is based on minimum federal occupancy standards. Therefore, the actual benefits may be understated.

In addition, a more accurate, level evaluation compares "stand-alone" buildings with "integrated" buildings financed under the same regime:

- Model 3 (the "stand-alone" building financed with 4% LIHTC, tax-exempt debt and subsidy loans) compared with Model 5 (the "integrated" building financed with the same sources): Model 3 costs $311.84 and $134,496 per square foot and per person housed, respectively. Model 5 costs $264.99 and $125,089 per square foot and per person housed, respectively. The differential between the two models, therefore, is 24% on a per square foot basis and 13% on a person housed basis.
- Similar results arise from the comparison of Model 4 (the "stand-alone" building financed with 9% LIHTC, conventional debt and subsidy loans) and Model 6 (the "integrated" building financed with the same).

If we compare the various financing schemes among "stand-alone" developments we find that on a total project cost basis Model 1 (using 9% LIHTC and subsidy loans) is the least expensive at $288.92 per square foot and $124,597 per unit. In Model 2, where the 4% LIHTC is generated from tax-exempt bonds outstanding during construction, total project costs (i.e., $134,479) are nearly $10,000 per unit, or 8%, higher than Model 1. The higher costs result from the application of leverage, i.e., the costs associated with issuing the bonds and paying interest carry during construction.

As we shall see later in this analysis, the value of the leverage might outweigh the higher additional capital costs. It is also important to note that the State and City incur issuance and interest costs for the subsidy loans they provide. These are comparable to those incurred at the project level, but do not appear in the project budget. These costs should be factored into the overall subsidy calculation.

The comparative cost analysis indicates that "integrated" models may be more economical for developing housing for persons with supportive service needs than the traditional "stand-alone" model. Comparisons on a purely nominal or per unit basis are deceptive given that the building sizes and apartment configurations vary significantly between the "stand-alone" models and the "integrated" models. In comparing total project costs on per square foot and per person housed bases, the "integrated" models are 15% to 33% more cost efficient than the "stand-alone" models.

Comparative Analysis II: Subsidy and Leverage

As detailed in Chart 3A on page 31, Model 5 (the "integrated" building financed with the 4% LIHTC, tax exempt debt and subsidy loans) requires the least amount of subsidy on a per square foot basis and a per person housed basis. Model 5 requires $114.47 per square foot of subsidy, or 62% less subsidy than Model 1 (the "stand-alone" building financed with 9% LIHTC and subsidy loans), which requires the highest amount of subsidy at $302.24 per square foot. Others of the "stand-alone" financing models require dramatically less subsidy per unit because they leverage, as we will see below, debt and/or equity. For instance, Model 2 ("stand-alone" building financed with the 4% LIHTC and subsidy loans) requires $185.89 per square foot of subsidy, or 38% less than Model 1 and only 38% more than Model 5.

The amount of the 9% LIHTC is included in the total subsidy since, like City and State capital subsidy dollars, it is a scarce allocable resource which, if not used to finance housing for persons with supportive service needs, would be available to create other affordable housing. On the other

hand, the 4% LIHTC is considered a leveraged resource since it is generated through tax-exempt bond financing, a readily available public resource that is not fully used by the State. For these reasons, the 4% LIHTC is not considered part of the total subsidy. For convenience, the City and State capital subsidy and the 9% LIHTC are broken out in Chart 3A below.

We noted earlier that City and State capital subsidies can be reduced through the application of leverage. Leverage, in our usage here, is the amount of funding available from sources other than public subsidy sources. For the reasons stated above, the 9% LIHTC is considered a public subsidy while the 4% LIHTC is considered a leveraged resource. Developments which require the least amount of public subsidy generate the greatest amount of leverage. As detailed in Chart 3B below, Model 5 (the "integrated" building financed with the 4% LIHTC, tax exempt debt and subsidy loans) generates the largest amount of leverage per subsidy dollar invested. Similarly, Model 2 ("stand-alone" building financed with the 4% LIHTC and subsidy loans) and Model 3 ("stand-alone" building financed with the 4% LIHTC, tax exempt debt and subsidy loans) also have good leverage profiles. These three models utilize the 4% LIHTC/tax exempt bond scheme to generate funding resources (i.e., equity from the 4% LIHTC) that would not otherwise be available to these developments.

The use of tax exempt financing to generate the 4% LIHTC is a viable strategy to reduce the subsidy requirements for the development of housing for persons with supportive service needs. We saw in our cost analysis that Model 1 (the "stand-alone" building financed with 9% LIHTC and subsidy loans) cost approximately 7% less than Model 2 ("stand-alone" building financed with the 4% LIHTC and subsidy loans). But as noted earlier the higher cost differential is misleading because the issuance and interest cost incurred by the State and City for the subsidy loans is not factored into project budgets. Nonetheless, Model 1 requires $50,000 per unit more in subsidy (63% more) than Model 2, because the latter accesses and leverages the 4% LIHTC. Model 5 (the "integrated" building financed with the 4% LIHTC, tax exempt debt and subsidy loans) is also a particularly attractive financing option because of its high capacity for leverage.

Per unit costs and per unit subsidy requirements are not necessarily the best method for evaluating efficiency. For instance, Model 5 (the "integrated" building financed with the 4% LIHTC, tax-exempt debt and subsidy loans) has the highest per unit costs and requires the highest per unit City or State capital subsidy. However, Model 5 is one of the most efficient models in terms of actual subsidy utilization on a per foot basis and the provision of the greatest leverage.

Comparative Analysis III: Operating Costs

From an operating perspective, Model 1 (the "stand-alone" building financed with 9% LIHTC and subsidy loans) and Model 2 ("stand-alone" building financed with the 4% LIHTC and subsidy loans) are marginally more stable than the other models, primarily because they do not carry debt. For instance, in Chart 4 below, breakeven expenses per unit are $7,746 per unit per annum whereas underwritten expenses are $6,047; therefore, expenses can rise substantially (approximately 28%) above underwritten expenses and the project would still break even. This compares to only an 8% cushion in our Model 5 (the "integrated" building financed with the 4% LIHTC, tax exempt debt and subsidy loans) and Model 6 (the "integrated" building financed with 9% LIHTC, conventional debt and subsidy loans).

However, Models 5 and 6 appear to achieve substantial operating efficiencies over the "stand-alone" models. The operating expense ratios for Models 5 and 6 are substantially below those for the

"stand-alone" development models: operating costs are nearly half of net income as opposed to in excess of three quarters of net income as in the other models. In addition, we note that the minimum required rent per square foot is at least 50 to 85% higher in the "stand-alone" developments than for the "integrated" models.

Chart 3A: Comparative Subsidy Analysis

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Total Subsidy								
Per Unit	$130,343	$80,164	$61,258	$115,218	$104,888	$192,392	$113,755	$185,963
Per Square Foot	$302.24	$185.89	$142.05	$267.17	$117.77	$216.02	$127.72	$208.80
Per Person Housed	$130,343	$80,164	$61,258	$115,218	$55,593	$101,972	$60,292	$98,564
Capital Subsidy Only								
Per Unit	$59,887	$80,164	$61,258	$52,938	$104,888	$88,396	$113,755	$85,442
Per Square Foot	$138.87	$185.89	$142.05	$122.75	$117.77	$99.25	$127.72	$95.94
Per Person Housed	$59,887	$80,164	$61,258	$52,938	$55,593	$46,852	$60,292	$45,286
9% LIHTC Subsidy Only								
Per Unit	$70,456	$0	$0	$62,280	$0	$103,995	$0	$100,520
Per Square Foot	$163.38	$0.00	$0.00	$144.42	$0.00	$116.77	$0.00	$112.87
Per Person Housed	$70,456	$0	$0	$62,280	$0	$55,120	$0	$53,278

Chart 3B: Comparative Leverage Analysis

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Per Unit	$0	$49,063	$67,970	$16,494	$121,898	$37,336	$113,031	$44,347
Per Square Foot	$0.00	$113.77	$157.61	$38.25	$136.87	$41.92	$126.91	$49.79
Per Person Housed	$0	$49,063	$67,970	$16,494	$64,608	$19,789	$59,909	$23,505
Ratio $ Leverage/SF to Subsidy $/SF	0%	61%	111%	14%	116%	19%	99%	24%

Chart 4: Comparative Operating Analysis

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Income to Expense Ratio	1.06	1.29	1.05	1.05	1.06	1.06	1.06	1.06
Operating Expense Ratio	94.06%	77.46%	77.46%	77.46%	58.38%	58.38%	54.14%	54.14%
Breakeven Ratio	94.06%	77.46%	95.49%	95.49%	94.57%	94.57%	94.02%	94.02%
Breakeven Occupancy	89.43%	73.63%	90.77%	90.78%	89.89%	89.89%	89.37%	89.37%
Breakeven Expenses/Unit	$6,379	$7,746	$6,349	$6,349	$5,574	$5,574	$5,663	$5,663
DCR on Hard First Mortgage	n/a	n/a	1.25	1.25	1.37	1.15	1.33	1.15
Minimum Required Rent/Unit/Month	$557	$557	$687	$687	$767	$767	$822	$822
Minimum Required Rent/SF/Month	$1.86	$1.86	$2.29	$2.29	$1.24	$1.24	$1.33	$1.33

C. Financing Recommendations

Of the eight models we review herein, we recommend that serious, immediate consideration be given to five of them in addition to our tried and true model, the 9% LIHTC combined with government subsidy loans. These new models are:

I. Model 2, which utilizes construction period-only tax-exempt bonds during in order to leverage the 4% LIHTC;
II. Model 5, which places units for persons with supportive service needs among family units rented to non-NY/NY III residents and which utilizes tax exempt bonds for construction and permanent financing to leverage the 4% LIHTC;
III. Model 6, which mixes supportive service units and family units together in one building and finances the development with a mix of 9% LIHTC and conventional and subsidized debt;
IV. Models 7 and 8, which provide greater income diversity by setting aside 20% of the total units for individuals and families earning up to 80% AMI.

Models 5 through 8 enable us to create housing hat is more deeply integrated, providing new therapeutic options for some of our residents. In addition, Models 5 through 8 may lessen the burden of siting developments because they come with a built-in benefit for neighborhoods: affordable housing for community residents.

We encourage the City and the State to devise credit enhancement programs that would permit Models 2 and 3 to be workable. Mortgage insurance programs at REMIC and SONYMA specifically tailored to these two models might be a prudent course of action. It would seem that these two agencies could best understand the City and the State's intent with regard to the rental and operating subsidies to be provided.

Implementation of these models will require the administrative and regulatory revisions described at the beginning of this chapter:

- **Underwriting:** One agency each at the State and City levels should be responsible for underwriting NY/NY III capital subsidies; where the development will incorporate NY/NY III residents within a larger affordable housing development, there again should be a single underwriting review. This will require close collaboration among and within agencies.
- **Preserve Rental Subsidies:** Rental subsidies for non-NY/NY III units in "stand-alone,"100% mini-studio developments should be preserved. Without rental subsidies, the assignment of 40% of the units to "community units" is likely workable in only a few communities (Manhattan and certain Brooklyn neighborhoods). However, the majority of markets where NY/NY III developments are likely to be built have very little demand for studios; the incomes of the "non-family" households in these market are well below what is necessary to afford the projected rents, i.e., rents that cover operating costs and debt service.
- **Expand Credit Enhancement: F**inally, without long-term operating commitments or new sources of third party credit enhancement, lenders and investors may be hesitant to assume the market and credit risks associated with some of these models. We are encouraged that the State Office of Mental Health has devised a mechanism for providing the required credit enhancement on certain of its developments. We believe there may be opportunities to create new mortgage insurance programs through NYC REMIC and/or SONYMA; these opportunities should be explored. We look forward to working with the State and the City to address these issues and devise appropriate mitigants and solutions.

7) Conclusion

The Network is proud to be the voice of the supportive housing community in New York. This community still benefits from the active participation of the model's pioneers – the providers, funders, advocates and government administrators who have been doing this work for over 25 years. Building on this strong foundation, it has now grown to include nearly one hundred developers, funders, service providers and, thanks to the third New York/New York Agreement, new agencies at both the city and state level. Together we are learning new ways to research, identify and implement cost-effective programs and policies that will reduce, and perhaps one day, end chronic-homelessness in the City.

The New York/New York III Agreement can become the crowning achievement of this multi-disciplinary movement. This first draft of an implementation plan is our attempt to continue to work with government on all aspects of this groundbreaking initiative. It is our hope that this document will broaden the discourse and tap into both the experience and ingenuity of our members.

Part of this effort will involve working together with government to site supportive housing residences more efficiently. We will also need to identify and secure new funding sources for building, operating and providing services in supportive housing. We will also have to ensure that this extraordinary initiative survives a change in political leadership at the state level this year and in the city in 2009.

New York/New York III is the future of supportive housing. If we use this as an opportunity to better educate the public, develop innovative new funding structures and operating models, and stabilize existing supportive housing resources, it will take us one step closer to ending chronic homelessness in the New York City.