TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

PERMANENT SUPPORTIVE HOUSING SUBCOMMITTEE MEETING

John H. Reagan Building
Room JHR 140
105 W. 15th Street
Austin, Texas

September 3, 2015
8:03 a.m.

MEMBERS:

T. TOLBERT CHISUM, Member
TOM GANN, Member

TIMOTHY K. IRVINE, Executive Director

I N D E X

P R O C E E D I N G S

MR. IRVINE: Good morning. My name is Tim Irvine. I'm with the Texas Department of Housing and Community Affairs.

This is not an official committee meeting; rather, the Board has designated Tom Gann and Tolbert Chisum to have a more in-depth understanding than you can typically gain in just a board meeting of issues surrounding permanent supportive housing so that they can play a key role in our policy decisions as we consider the way that we're going to use our various funding sources.

And this is intended to be an open, engaged discussion. It's not formal so everybody be relaxed and comfortable. We don't need to follow Robert's Rules of Order or anything like that. This group will not be taking any action, they're simply learning and I think developing a good understanding that will serve to help the Board make good solid policy decisions about how we utilize our funding sources.

The funding sources we administer kind of tend to focus so heavily on the competitive tax credits, and I think it's important to remember that we administer a whole lot of funding sources, and two of the key sources that we can employ in the development of affordable rental housing include funds under the HOME program which we receive from HUD and repayments that we receive from TCAP.

TCAP, of course, is the Tax Credit Assistance Program that was created under the American Recovery and Reinvestment Act of 2008. And when we created the TCAP program, there was a lot of interest in using that program in a soft second or even a grant position, but we decided that it was appropriate to structure it as repayable debt, and now we're being the beneficiary of that particular policy decision because TCAP repayments are coming in at a pretty substantial and predictable rate.

HOME is going through a lot of changes itself. When we first were encountering TCAP, HOME was quite a robust program. Over the last three years it's pretty much cut almost in half, from over $40 million down to about $24 million. Dialogue continues at the federal level about possible adjustments to the amount of HOME funding that the state might receive.

The way that the HOME Program itself works has changed a lot. HUD has come out with new guidance changing from its historic first-in/first-out, or FIFO, approach to a more traditional grant management approach. That places real challenges on the Department and those we fund to move the funds along crisply to make sure that we do not lose them.

All of this dialogue is occurring while the

National Trust Fund is in existence but not funded, and if the National Trust Fund were funded, it would obviously provide a significant source of funding for a lot of these activities, including potentially permanent supportive housing.

So I just say all that to sort of set the stage. This is a complex multi-faceted situation. And at this time, if I might, unless the Board members have questions or comments, to turn it over to Tom Gouris to sort of set the stage at a little more technical level and facilitate discussion.

MR. GOURIS: Tom Gouris, deputy executive director. Sorry, that was probably more formal. And Tim said that while this is not formal, you can feel free to cut me off at any time.

So we put together a short agenda of really thoughts that we thought we would want to talk through and share with you, and before we get into those, I just want to give you a little bit of background from my perspective.

The first experience I had with permanent supportive housing was with a not so good experience in that when I first arrived there was a permanent supportive housing -- we didn't call it that at the time but it was a property that was operated by a nonprofit corporation in

San Antonio and it served persons with head trauma. It was a small, small facility and we had, I think, we had put in some trust fund funds at the time and they were in the form of some kind of a loan structure that probably wasn't realistic.

They were done probably because there was a charismatic -- matter of fact, I know it was because there was a charismatic leader of the nonprofit organization but the organization didn't have the substance to carry on when, in fact, I arrived on the scene at the Department and the issue was the leadership there has fallen into ill health, the property is now struggling because they don't have that driving force behind maintaining it -- like I said, it was a very small project -- and what do we do with this was kind of the concern. Well, that got resolved, probably not in the best way possible. It doesn't exist anymore and so it is what it is.

But then comes some folks with new ideas, some nonprofits with some new ideas about how to do this and how to do this for a sustainable period of time. Enter Foundation Communities, Walter Moreau, and then later Joy and New Hope Housing, and others who have come forward with developments that recognize the need for the properties to be able to stand on their own. And when I say stand on their own, I don't mean that they are financial moneymakers because I think they'd all agree that they're not, but stand on their own meaning that they are pay-as-you-go, not saddled with a lot of debt or any debt to be able to just pay as they are operating.

So what we found in that experience is that we really need both a strong development, a development that is financially strong from the perspective of not being saddled with a lot of debt and a development that is sponsored by an organization that has some fairly significant capacity to be sustained and be able to continue to operate. In my mind you need both things, although critically we've discovered that you need the debt free structure in order for any organization, strong or not, to be able to have a fighting chance at making these deals work.

So the first new transaction was a remodel of a nursing home that was recast as supportive housing, and we did that with some HOME funds in a joint effort. We were able to do that at a time when we could use HOME funds in participating jurisdictions, and that opportunity is not any longer available to us in a significant way, and so other ways of funding permanent supportive housing were thought through and worked out, ultimately landing with the Tax Credit Program as a funding source.

It's an unusual funding source because it clearly wasn't originally designed with that in mind, but it's been augmented in a way that makes sense, because what is a tax credit, a tax credit is a source of financing that doesn't have to be repaid. That makes it a perfect match for a use that doesn't want to have debt. So from that perspective they make good sense to work together, from a lot of other perspectives they weren't really structured to be that way. But we've been able to work through that and I think now we've done I think three or four with Foundation Communities and I think four or five maybe with New Hope, and some others as well, and I'm sure they'll come up and speak to those transactions. So we've done a couple, maybe one or two, perhaps, a year at most. So that's sort of by way of background.

One of the things that came up this year and kind of of getting into the number one discussion item there was the qualified nonprofit statutory definition. The definition that we've been using for folks to participate in supportive housing activity has been one that's required a nonprofit organization to participate because the lack of debt, the difficulty in concrete financing -- let me see if I can think of how to say this well -- the traditional tax credit deal has a stream of cash flow that is predictable based on the rents that are achieved and expenses in the operation of a project, and there's an expectation there's a cash flow that results from that that is going to pay debt down.

In a supportive housing transaction that cash flow is expensed in the operations of the project or in future operations of the project, there isn't like a profit that comes out of it, there isn't the capacity for debt service. Or to the extent that there is, it just means more operating subsidy has to be put into the transaction, and so you're just taking from this government entity to pay for this government entity or to pay debt service. So it doesn't make a lot of sense. So what we found is that nonprofit organizations kind of are best suited, not exclusively but best suited to do permanent supportive housing.

Getting back to the definition of nonprofit then, we sort of have limited -- not limited but prioritized for permanent supportive housing with nonprofit organizations and in our statute there's a specific type of nonprofit that is prioritized. We sometimes think of it as a state defined nonprofit which has a more limited definition than the federal definition of a nonprofit, and it has limited the ability for out-of-state nonprofits who might be capable of pulling off a supportive housing development from participating because it prioritizes state Texas nonprofits, as it were.

So the first item, and actually the second item as well, we're going into what those definitions are, and I can read them to you but I think I've sort of synthesized what they are for you in that they really rely on the differentiation between state and federal.

MR. IRVINE: Before you move into that, I think it's important to understand that there are really two statutorily created nonprofit set-asides: there's one at the federal level and there's one at the state level. And it's the one at the state level that requires the nonprofit to have some specific Texas characteristics. We're still required to meet both of those set-aside requirements.

MR. GOURIS: The federal one is one that requires us in order to use the tax credits we have to set aside so much for a federal nonprofit set-aside, however, the legislature came in and said in order to be eligible to be considered of the federal nonprofit set-aside, you have to add these other things on. So we could have a nonprofit that isn't prioritized, as we go through the list of looking for deals, it isn't prioritized to be funded out of the nonprofit set-aside for state purposes, that is still considered a federal set-aside nonprofit, so it would be an extra nonprofit, as it were. But because the Tax Credit Program is pretty competitive, those kinds of activities haven't scored as well, and therefore, the preference then becomes one for the state sponsored nonprofit.

I didn't make that very clear. I'm sorry. The primary element of the state rule is that the evidence that a majority of the members of the nonprofit organization board of directors reside in this state if the development is located in a rural area or not more than 90 miles from the community in which the development is located. So if you do a nonprofit transaction that is going to get the benefit of prioritization from the nonprofit set-aside in Texas, you have to identify your board members as being local, basically. If it's rural it's local to the state or if it's an urban deal it's local to that urban area, basically.

And that's a difficulty for some nonprofits who, one, might want to do a deal in Dallas but are located in Austin, for example, or it also might be a difficulty for a nonprofit that's organized outside of the State of Texas to do deals in Texas. They can do deals, they just won't get prioritized as a nonprofit set-aside transaction.

MR. IRVINE: They not only won't get prioritized, they won't count towards meeting that set-aside requirement.

MR. GOURIS: It actually might count. From the federal perspective it would count.

MR. IRVINE: Well, yes, from the federal perspective.

MR. GOURIS: So what we did years ago was said, well, that was a priority of the legislature. So we attached that priority, the state sponsored nonprofit priority to rules when it came to supportive housing, and when we described the nonprofit that had to participate, we described it as a state nonprofit versus the federal nonprofit.

So over the course of the last year or so we've received a bunch of comment about this, and in fact, there's a lot in your board book and there will be some discussion about it later today, but we are recommending a draft that includes a change in that requirement for permanent supportive housing. So if you're going to do a permanent supportive housing development as a nonprofit, you don't have to use the state rule, you can use the federal rule kind of more all-inclusive rule so that other entities can come into the game.

That really covers the first two items on the agenda as far as laying some groundwork for it. I don't know if you want to go on to the next items or if you want to take some public comment, if there is any comment, on that item or on those two items, or if there are any questions about those two.

MR. GANN: I don't have any.

MR. GOURIS: Is there anybody who wants to talk on those?

MS. HOWARD: My name is Ann Howard and I'm the local coalition leader working to end homelessness here in Travis County.

Our number one strategy to end chronic homelessness is permanent supportive housing. It's permanent because it's lease-based. The client enters into a traditional residential lease with the property owner and they can stay housed as long as they abide by that lease. They pay rent if they have money, they need to be a good neighbor. And it's working in Austin. We see a reduction in criminal justice involvement and a reduction in emergency medicine involvement, so it's saving the community money and it's bringing stabilization to lives. So we're believing in it and we want more of it.

We recognize that we have local nonprofits that do a good job at supportive housing. We also, as we look to spend more money, private money and public money, we want the very best experience we can find at housing very difficult cases. And so there are other nonprofits across the country who have more experience than we do here in Texas at housing the hardest to serve, at taking folks with active addiction, at taking folks with some tough criminal history. And this is called Housing First around the country, and before you ask the client to go to Sunday School, have a savings account and be sober, you house them and it gives them a better chance at improving their life.

And so this Housing First permanent supportive housing is probably trickier than what we've done before. We're doing it for the first time, have some public funds seeding an investment, but there are others. When we put out the RFP locally we asked for folks with experience and that requires, in some cases, folks from out of the State of Texas.

And so what I know is that I think this is limiting our chance at having some of the very best experienced folks at Housing First PSH by requiring this state background or emphasis. So I wouldn't want to penalize folks for doing what they do but I'd like to open the playing field and level it by not requiring for PSH you to be a state entity. Thank you.

MS. FINE: Hi. I'm Tracey Fine with National Church Residences, and thank you for the opportunity to speak today.

For those of you that don't know us, National Church Residences provides housing for vulnerable individuals with a focus on elderly and chronically homeless. Nationally we own and manage approximately 20,000 senior housing units in over 300 communities, with 1,500 units in 28 communities in Texas. Additionally, we have nine PSH communities with 765 units in Ohio and in Georgia, all of those which operate under what Ann mentioned as Housing First. We have an ongoing interest to be supportive housing providers in Texas and build on our national model.

I want to thank TDHCA for making the proposed change in the draft QAP to allow national nonprofits to be able to achieve points for supportive housing. And I just wanted to take the time to kind of build on what Ann said and why we also think that it's so important to open up the playing field, both to let local nonprofits here in Austin go to Dallas and for letting national nonprofits come into Texas.

One of those reasons is that communities that do not have qualified nonprofits meeting the nonprofit set-aside with the capacity or experience of supportive housing are being discriminated from receiving funding for this type of very important project. Also, in order for communities throughout the state to meet local housing goals specific to eradicating homelessness and housing other vulnerable populations, it would require local, regional and national partnerships. And lastly, it's in the best interest of local jurisdictions to be able to select the appropriate development partner with the capacity and experience with supportive housing regardless of the location of their board members.

We're really excited about the potential change and about the opportunity to try to bring a really impactful project to Texas.

MS. HORAK BROWN: Good morning. I'm Joy Horak Brown and I'm the president and CEO of New Hope Housing in Houston, Texas. We've led the way for supportive housing in the State of Texas with a couple of properties that were not funded in any way by the TDHCA, and that's how I met Walter Moreau is when he came to Houston to see what we were up to, and he then led the way and led me to this Department. So I come from a place when I called the Department and they said your name is what and you want to do what, to here being at this meeting. So it has been quite a journey. Tom Gouris and I were speaking a few moments ago about the mutual learning that has taken place. It has been hard and it has been fun.

Let me say that I support this change in the rules of the nonprofit set-aside. I consider Tracey to be a personal friend and I consider her to be a competent professional. Let me also say that there are nonprofits in the State of Texas who are experienced in permanent supportive housing. I would represent, for sure, one of those nonprofits. We have 500 units of supportive housing and very soon we will have 800. We have almost a thousand units of supportive housing.

If I can just define those two items. Supportive housing would be housing in a supportive environment which would have robust services, would not necessarily be Housing First, and would not necessarily have rental supports. Permanent supportive housing, by its definition -- there's a long definition -- the easiest way to think about that is the people that you see on the street, and those individuals need very robust services and they need rental supports, they are the chronic homeless. So we work with that population and we work with it in a very robust way.

Because this is a free form conversation, I'm going to make a suggestion that may have absolutely no merit. And I will apologize in advance to Tracey because I never like to surprise a colleague with a last-minute idea, but I'm going to do that. I'm wondering if we should have a requirement that there is at least a board member from the State of Texas if there is a national nonprofit that wants to do work in Texas, someone who is familiar with the landscape in Texas, who isn't in Ohio or New York or California or wherever. It's just a last-minute idea and it may be worth no more than the time it has taken me to say it, but I wanted to bring it forward.

And thank you very much, Tim, and thank Mr. Gann, Mr Chisum, Tom Gouris for having this meeting today.

MR. IRVINE: Could I just interject a comment so that, Tom, if anybody else wants to clarify my understanding. It's not that we are changing the criteria under state law or federal law to meet the set-asides, it's that we are changing the criteria to be a player with a permanent supportive housing deal.

MR. GOURIS: Get the benefits of the scoring criteria and what have you of a permanent supportive housing deal. That's right.

MR. IRVINE: And in that regard, to the extent that we are not constrained by law, my bias is let's minimize the requirements that we place on things because we want to receive as many robust entrants to the deals as possible.

MR. GOURIS: Right. And I would just note that if we were to consider or recommend at some point that one board member -- it's a good idea, but if we were to consider it, then we would end up with three different nonprofit kind of constructs: one that met the state legislative requirement, one that met the federal requirement, and then one that met our TDHCA for supportive housing requirement. So just something to keep in mind.

Tracey, did you have something?

MS. FINE: I would not be supportive of requiring one member of a board to be in Texas. Every community is really different in how they're addressing chronic homelessness. I know it would be impossible for one board member to understand the lay of the land in each of those communities. Something that we do look to do when we leave our home state of Ohio is we look to partner with local nonprofits to help provide the required services to keep this population safe and housed and provide the services that the population needs.

So perhaps the recommendation should be to have some kind of MOU to deliver services with a local organization. That might be more impactful for delivering services and serving the communities that we want to serve.

MR. GOURIS: And in addition to that, I think that the local need for the supportive housing, to make a supportive housing deal work, it has to be hitting on all cylinders, and one of those is definitely the local support for the transaction, that there's a need for the transaction, that there's already some ability to integrate in the local community. Whether it's organically because you already exist in that community or whether you're coming into that community, you've got to be able to connect to the resources that exist and be able to interact with them.

There's a web, a pretty sophisticated web of resources in each community that is unique to those communities about how to get help for folks who are going to be living in these developments. And so I think there's room for us to detail that out or to create additional expectations in that regard because that makes a lot of sense.

Also, what tends to happen, at least with the early transactions that we looked at, is an underwriting consideration of how do these deals work. Again, we recognize that typically there's insufficient amount of rent collection from the tenants to cover the cost of the operation of the project, assuming there's no debt on the project. And therefore, when we did our early transactions with both New Hope and Foundation Communities, we required a level of commitment of the board which created a commitment for them to fund raise to be able to support, in an ongoing way, these transactions, and that was an early element of how we looked at these transactions.

We've just added to that to say there are other ways to show that capacity to have funds, but I remember at one point I think we had some members of Walter's board kind of concerned about what they were signing and the board was concerned about that long-term nature of the transaction that they were getting into. And that was a good thing. We wanted them to recognize this was a long-term situation and that they would be having to ensure the fund raising capacity necessary to keep the property operating.

As things matured, there are operating subsidy programs that sometimes can be tied into and connected. Typically the transactions that we're talking about have many, many layers and levels of funding from different places that they put together, and that's part of that web that I was talking about earlier.

Any questions about then the definitions and the direction that we are headed with regard to what's a nonprofit and what kind of nonprofits can participate with regard to the set-aside versus supportive housing?

(No response.)

MR. GOURIS: So I already started a little bit on to the underwriting of what makes these deals different. And I'm going to read for you what we have as the definition of supportive housing because I think it's in one way pretty comprehensive, in one way scratches the surface of what supportive housing is.

Supportive housing is residential developments intended for occupancy by individuals or households in need of specialized and specific non-medical services in order to maintain independent living.

So those are pretty key things: it's not a nursing home that someone needs constant medical care; it is a place for people to live where the households that live there have a need for ongoing non-medical support services, job placements and a whole host of things. I'll let them describe what all sorts of services they provide, but in order to maintain independent living, they have those needs and those are the needs that are being serviced in that facility.

It goes on to say: Supportive housing developments generally include established funding sources outside of the project cash flow that require certain populations be served and/or certain services provided. The developments are expected to be debt free or have no permanent foreclosable or non cash flow debt.

So those are some of those elements that we were talking about earlier that in order for it to be truly supportive housing, it needs to have those elements that say they're serving the lowest of lowest, there's not enough rent income coming from the tenants to support ongoing operations.

Supportive housing developments financed with tax-exempt bonds with project-based rental assistance for a majority of the units may be treated as supportive housing under all subchapters except Subchapter D.

There's a reason for that and that is a bond transaction in its purest form, with a private security cap, in order to access the tax credits needs to have a debt structure in order to be eligible for the tax credits. In fact, initially the debt that's required to exist is 50 percent of what's called good costs, and so there has to be a debt structure. In recent years there have been ways to work through that and around that to make that debt not be permanent.

When and if the bond program becomes popular again in a way that there's a high demand for it, there will be less capacity, I think, to be able to see that debt be limited and not be a permanent source of funding for a project, and so that's what that language sort of talks about that. It's a past issue and potentially a future issue that we're talking about.

So then it talks a little bit about the

services generally offered, including case management, and address special attributes of such populations as transitional housing for the homeless and at risk of homelessness, persons who have experienced domestic violence, or single parents or guardians with minor children. That's an area we probably will have to evolve into because I think there is certainly a need for supportive housing for two-parent families with children, so that may be something we want to think about expanding down the road.

There are also specialized rules in the underwriting section about supportive housing, and they go along the lines of identifying the types of subsidies or the structure of subsidies for the ongoing nature of the property, and they also talk about infeasible characteristics that would characterize -- if a regular traditional tax credit deal came forward and said, hey, our tenants aren't going to be able to support the debt that's on the property, we would say, oh, thanks for telling us, your property is infeasible. And we'd be done, right, that would be the end of the story on a traditional tax credit development.

But we've already established that these transactions are different and they have to have that ongoing subsidies. A lot of those ongoing subsidies don't show themselves to be available for 30 years, they show themselves to be available for five years or maybe sometimes less than that or they come in and out of the program. So we look to other feasibility tests like a capture rate to ensure that we don't produce too many units of supportive housing in an area. We've established a capture rate that if it exceeds 30 percent of the need there that we would say that there's already enough supportive housing in that area. Unfortunately, I think I can say pretty categorically that we haven't seen that in any location at this point.

We also have a characterization that for it to be considered supportive housing, at least 50 percent of the units are identified as being those that are in need of that supportive housing feature. So at this point we're not allowing a mixed use transaction with 10 percent supportive housing and then get to be characterized as supportive housing. You can certainly do that, it's just that the whole transaction wouldn't be characterized as a supportive housing transaction. It would have to be at least 50 percent targeting that supportive housing population.

I don't know if there are any questions about where we are today with the underwriting. We've spent a lot of time over the years trying to ensure that we'd have a tool that's reasonable, that has evaluated this to be truly supportive housing and to be truly a viable transaction. So I don't know if there's any comments or questions.

MR. STEWART: Brent Stewart, Real Estate Analysis.

I'd just like to add that these deals are really tough to finance. In this state we have a tendency to take tools that we have -- because we have very few tools -- we have a tendency to take tools that we have and make them do things that they were never intended to do, and true supportive housing is really one of those things.

True supportive housing is where the property itself is a fixed asset of an operating company. A nonprofit is operating it, it's providing services, it needs places to put these people while they're providing these services, and it operates differently than a multifamily project that has rents and expenses and debt and equity and is more of a conventional type of a tax credit deal. They're tough to finance, they're layered, as Tom said, a lot of times they're layered with federal funds that kind of mess with the tax credit aspect of the transaction. Tom talked about vouchers.

And so the rules, like Tom pointed to, allow for some exceptions on how you underwrite the deals but each one of these things is different and you will have nonprofits that have significant other resources, you will have some nonprofits that don't. And so from a supporting the operations of this property standpoint, it's all over the board and they're difficult to underwrite. And they're very specialized, it's hard to place a one-size-fits-all underwriting on a true deal.

I think the other aspect of these rules is how do you define a supportive housing deal and keep those funds available specifically for supportive housing versus possibly a tax credit deal that's trying to look like a supportive housing deal.

And I think that's kind of some of the discussion that needs to be had. Thanks.

MS. DULA: Tamea Dula with Coats Rose.

I'd note that the proposed definition for supportive housing contemplates that it might, under some circumstances, be funded with tax-exempt bonds, and that's if they're going to be paid off in three years. The way you would pay it off, presumably, would be through grants or tax credit equity.

Unfortunately, the boost provision in the current draft QAP excludes the supportive housing that might be financed with tax-exempt bonds, and so I think that there needs to be some coordination here and that provision needs to be made clear that if you have bonds and 4 percent tax credits that permanent supportive housing could be financed in that manner and get a boost.

Thank you.

MR. IRVINE: Tom, do you have any thoughts on the boost issue?

MR. GOURIS: I was going to look at that.

MR. HAYES: Hello. My name is Tommy Hayes, and I'm here as an example of what is right with Foundation Communities properties.

I live back over here at Capitol Studios. Really when I found out about, I didn't know a place like that existed; it literally saved my life. I'd had a stroke, hit the wall and was fixing to fall through every crack that exists in the world and found out about this, got on the waiting list, got in. I'm very happy. I would like to say that I think that I'm back to being a functional human being, I'm no drain on anybody or any system, and I've got back some self respect about my life, which for a while there was pretty touch and go. I didn't like that.

If this hadn't have been afforded me, I honestly don't know what to say. I pay my bills, and I do my shopping and all the things that I wasn't doing. So I think you've produced an normal functioning person here, and I don't really know how to put enough value on that because I would have not had the opportunity without this program. And really I just wanted to thank you for it, because I won't drop the ball on this, I won't be the bad statistic, I'm going to be a good one, if that's okay. And so just thank you.

And you know, let me just say this one thing. We ought to give Walter a medal. I'm not even sure what he does because he does so much. But he's been sort of an inspiration to me. I'm like: Don't let Walter down, man, you've got to do this right.

But thank you so much. Thanks for your time; I won't take up any more of it.

MR. CHISUM: Thank you.

MR. GANN: Thank you.

MR. IRVINE: Thank you back.

MR. MOREAU: I'm Walter Moreau, the director of Foundation Communities. I do this work because of Tommy and other residents.

I wanted to comment some on the underwriting and the financing that we need to build more supportive housing. I should also comment I got up this morning, I got my coffee, I checked my email -- I shouldn't have done that -- and I had four requests from single folks that were looking for supportive housing just this morning.

Two were folks that were working but they're renting hotel rooms, somebody else that's couch surfing. And the fourth request was from a mom whose daughter -- she was very forthcoming, she said, My daughter has schizophrenia, she's been arrested a few times but they're all minor incidents, she's staying in a group home, sharing a room with two other women, it's a deplorable situation, they take her food stamps and her Social Security.

All four requests I had were to get on our waiting list which is closed right now. We have 600 supportive housing apartments, each one keeps a list that's capped at about 40, so we have about 200 folks on our wait list right now. It only opens every so often because we just don't want to have a thousand or more people on a list that lasts for years and years.

I brought with me a chart; I had given this to staff before. It shows the five communities that we have open right and the financing stack that we've got on each one. Tom mentioned Garden Terrace. Fifteen years ago it was our first community, it was an old nursing home, it's been a great home for 103 residents. At that time the state could use some HOME funds as part of the capital stack.

Without getting into the weeds, basically all those soft gap funding tools that TDHCA has had in the past, for various reasons, are no longer available. We can only rely on tax credits, and so when we built Capitol Studios we had to do a lot of fund raising and we ended up with still a sizable gap. We've got a gap on our Bluebonnet Studios project of at least a million five, and that's assuming the St. David's Healthcare Foundation comes through and our Meadows Foundation grant comes through. We're on hold with the Garden Terrace expansion to add 20 more apartments, and that gap is about a million dollars. We've raised over a million from the city and a Home Loan Bank grant.

Our request of the Department is can you amend the rules for the TCAP program in particular so that we could apply again. We're not looking for a lot of money, we're looking for just the small million or million and a half dollars that can be used in the capital stack to continue to build more supportive housing for Tommy and other residents. I hope that you can figure that out.

We've met with staff. There are issues to work through about lien position and what portion of funds recycles and match funding for HOME, but I think we can figure those out, and we're just hopeful that there will be some additional finance tool back in the toolbox at TDHCA to build more supportive housing. Thank you.

MR. CHISUM: Thank you.

MR. GANN: Thank you for your good work too.

MS. HORAK BROWN: Good morning once again. Joy Horak Brown, president and CEO of New Hope Housing in Houston, Texas.

First of all, it's wonderful to be in a room where there's so much agreement. I so agree with what Tamea had to say. I am working now on two 4 percent bond transactions -- I do not have an active application in front of the Department, by the way -- and to do supportive housing with 4 percent is even trickier than to do it with 9 percent because the gap is so much wider. And obviously I'm doing that because I've been asked to site something, for varying reasons that are very compelling, in the city of Houston in places that don't score for 9 percent. And we can talk about that a little bit later on, but suffice it to say that the boost for bond transactions for supportive housing would be of importance to the people we serve to an extent it's difficult for me to describe to you.

Let me say that almost 17 percent of the people in the city of Houston, the fourth largest city in the country, live at 30 percent of median and below, almost 17 percent -- that's a lot of people. And of those individuals, the ones that we work with in our single room occupancy housing, to have a 30 percent income, which is

$13,000 a year in Harris County, is unusual in our buildings. By and large, the almost one thousand people that we house have incomes less than that, less than $13-, and a number of them have incomes that are zero. So you can see why I feel compelled to help more individuals.

It's also interesting and disconcerting to note that in the city of Houston fully 50 percent of our citizens are severely rent burdened. That means they spend 50 percent or more of their income in rent. We have a problem.

And these TCAP could be a significant assistance. We're not asking for all of them, we need some help, please. And the idea of the boost would be incredible to get that in the QAP. Thank you so very much.

MR. GANN: I have a question of you, and I don't know if you haven't gotten into it really yet. Underwriting, which of these funds, what funds -- and maybe some of these people don't realize it, but if these projects come back we're obligated to repay the federal government -- are any of these funds involved in any of that?

MR. GOURIS: Well, potentially. That's the conversation that we're going to talk about is where should we be funding these transactions and how should we be funding them.

MR. GANN: Go ahead.

MR. GOURIS: In the model that we've been using of late, it's been the tax credit program and there's not a liability from the perspective of the Department has to pay anybody back. There's the loss of the use of the tax credits should a tax credit development fail. That has historically been a very limited loss because there's an investor in there that's going to try to bolster a transaction in order to get the use of the tax credits until it doesn't become viable for them to do so. So it hasn't historically been a big problem for us when we us the Tax Credit Program. It's why even though it wasn't created for that, it marries up well from that perspective.

If we were to use HOME funds, there are a couple of constraints with regard to HOME funds but they would be the ones that if a project fails we would retain some liability to have to repay those funds. There are other constraints on HOME funds with regard to our spending patterns. The majority of the demand for supportive housing developments has come from urban areas. Urban areas typically are participating jurisdictions and receive their own HOME funds. We're limited by state law to spend at least 95 percent of our HOME funds in non-participating jurisdictions. And the theoretical exception is for persons with special needs which has some other complications to think through if we're going to use that portion of the HOME funds for that activity. But then that's where we'd have that liability in urban areas.

I wanted to make another point and that was with regard to the boost. Sorry I didn't respond immediately but I wasn't sure where she was going with it.

The issue is there used to be something called the QCTDA boost, and that's 130 percent additional eligible basis for developments that are developed in particular designated census tracts. QCTs are designated by HUD, I believe, and they are designated as places where because the property rate is higher, it's more difficult to develop there. There actually, unfortunately, also tend to be a concentrated -- have had the effect of concentrating tax credit development and other development, affordable housing development in those census tracts which, ironically, is we want to support developments and improve the lives of people in those census tracts, but also we're putting more affordable housing in those census tracts, so it's kind of a double-edged problem that we've been dealing with on a national basis.

The boost, though, was changed under HERA or

ARRA, HERA I believe it was, and it was under one of the stimulus programs to allow for under the 9 percent program, the 9 percent only the competitive cycle for states to determine where that boost can be allocated, and so one of the things we did was say, okay, automatically if you're in a rural area if you're doing a supportive housing deal, you get the boost regardless of what census tract you're located in. And everyone said, Great, that's awesome, where there's need, can't you do that for the bond program too, the 4 percent credit. Unfortunately, the legislation that was passed that allowed us to do that for the 9 percent didn't extend itself to the 4 percent, so we just don't have the ability to extend the boost to supportive housing deals just because it's supportive housing.

The question was the way the language in our rule reads there was some concern that it excluded supportive housing deal even if they're in a qualified census tract to be eligible for the boost, and that wasn't the intent of the rule, and we may need to look at the language to clean that up. But any transaction that's in a qualified census tract is still eligible for the boost under the 4 percent credit structure, so there's no taking away of the boost for supportive housing, there's just our lack of ability to apply the boost just because you're supportive housing.

Does that make sense? I just wanted to clear that up, and we'll talk some more about funding sources in a second. I think there's one other person that wanted to speak.

MR. TAYLOR: Craig Taylor with Communities for Veterans.

I just want to real quickly reinforce a couple of things that were said. I've been in front of you before talking about our Kerrville project, a rural project where we too have a project that's going to be completed in the next few months, permanent supportive housing for veterans of particular need, and we have a significant funding gap. So the ability to be able to come back to this body and look at that would be tremendously helpful to us in this phase because ideally we're also going to come back and do a second phase of supportive housing as well, so we would be back again with another application. First thing.

Second thing, we're in eight different states. We responded to an initiative by the VA to end homelessness among veterans, and we've put in applications responding to SOFAS and were selected in eight different states. I know I hate it when somebody comes to me and says this is the way we do it over here and you should do the same thing, but I'm going to err on that side a little bit by saying in Ohio, Chillicothe, Ohio, Ohio has a state housing trust fund so a million dollars of our capital stack comes from that state housing trust fund.

In Georgia they have a state housing tax credit as well as the federal credit, so some of our gap is filled with that state housing credit. In Illinois we're in a participating jurisdiction so we've got $2-1/2 million worth of HOME funds from Cook County, but they also have a donation tax credit; because our land was provided free by the VA, they allow us to take a tax credit for that charitable contribution. In the state of Washington, Vancouver, they also have a state housing trust fund and we have HOME funds from Clarke County and the city of Vancouver, but again, participating jurisdictions.

The other parts of our capital stack are fairly well established. It's been mentioned here the Federal Home Loan Bank, so we apply for AHPs through the Federal Home Loan Bank. Because of the nature of permanent supportive housing, you're pretty well assured that you're going to get that funding. In a way, unfortunately, the Federal Home Loan Bank of Dallas limits the funding to $500,000, whereas other jurisdictions, specifically San Francisco and Chicago and so forth, you can get a much larger AHP in those jurisdictions which helps to cover that gap, and so we've used that in every one of our developments as well. The VA ponies up money so that's part of our capital stack, and the Home Depot Foundation has been just super to work with and they've provided funding.

But to bring this back to Kerrville, in rural Texas we've got tax credits, we've got the Federal Home Loan Bank at $500,000, and we've got the Home Depot Foundation in our project at $200,000, and that's it and it doesn't close the gap, and so there is no other relevant source of funding for us to utilize in trying to create a no debt deal than funds that may be available here through the state. So we would also encourage you to look at using HOME funds and/or TCAP or Housing Trust Fund money if you're able to, to help with permanent supportive housing deals, whether it's ours or any of the other excellent projects out there.

Thank you very much.

MR. GOURIS: So the next area on the agenda, unless there are questions, we talk about the different sources that we could use for permanent supportive housing, we've talked about a couple already. HOME is a very good candidate for us from the perspective of it's a federal source, it's a grant, at least right now it's been a continuing ongoing annual amount, it allows us to do deferred forgivable kind of structures or grant structures. It does carry with it some liability, depending on how much per unit we provide, but that liability goes to the development and to us, so there's some spreading of that. And then there's some limitations to it and that is what I mentioned earlier, the areas of the state that primarily could access the HOME funds are going to be non-participating jurisdictions which are going to be rural areas, and the demand seems to be coming from urban areas for this type of activity.

But otherwise, it has some really good features to be used from how do we allocate these resources. It's a fairly complex resource, HOME is, it's got a lot of additional structure to it that puts a lot more burden on a transaction to meet regulatory requirements, but these developments typically have a lot of regulation on them already and so from the big, big picture perspective, some of these things they're already going to be doing and so it's not as burdensome as a regulatory activity as it would be putting on a conventional tax credit transaction, for example, where they might not have as much regulatory fortitude as a developer and therefore might not like to see the HOME funds be put on their transaction. So there's some advantages to using HOME funds and some disadvantages.

The TCAP is where a lot of folks -- and why this conversation has actually come to the fore today is because we had offered a NOFA earlier this year with both TCAP and HOME money and trying to merge those or synthesize those in a way that allowed us to decide which deals should get the HOME money, which deals should get the TCAP money, and not to create this sort of unrealistic demand for TCAP funds because TCAP funds -- and we're calling them TCAP funds, they're actually TCAP repayments, they're repayments of funds that we spent a couple of years ago in the stimulus and required the repayment of -- so those are less restricted funds, they don't have the same kind of regulatory burdens that the HOME funds might have, so everybody is going to want to access to those.

So if we were to just make those available, it's a small amount, it's $5- to $6 million a year, there would be all of demand for that and no one would pay attention to or look at the HOME funds or other funding sources that have more regulatory burden. So by synthesizing a NOFA with both types of funds we can get the benefit of both worlds by getting folks to participate in our activities and then allow us to decide which one is best suited for which types of funds. That's sort of the thought process that we went through for the last NOFA.

It's a little frustrating for folks because what the development community, what nonprofits, what everyone wants, again, are the TCAP funds because they're less burdensome, but then that puts us in the spot of not being able to get our HOME funds out or not being able to make effective use of the whole pie.

So the other thing that Tim just sort of mentioned with this is that when the TCAP funds came to us initially, there was a large amount of interest in making the deferred forgivable also, making the easiest funds to use, let's make them as easy to use as possible and not have them repayable, and again, if we had done that, we wouldn't be having this conversation today because we would have no repayments to be talking about to be able to re-utilize.

And so there's a sensitivity toward keeping that source of funding ongoing because it gives us some flexibility and it gives the development community some flexibility, it gives us the ability to have an actual trust fund sort of structure where money is returning and being recycled and reused.

One thought on that was if there's a way to peel off or determine how much of the profit, if you will, or the interest or the increase in the TCAP fund from the overall picture, if we could determine how much of that is occurring and slice off just a piece of that increase in the overall fund and use that for supportive housing or for other activities that would require sort of a non repayment, then in the long term big picture we'd still have the body of the TCAP fund continuing on and the extra being able to be utilized or being able to allow that fund to grow over time so that instead of $6 million in a couple of years maybe we'll have $7 million to allocate in a year.

MR. IRVINE: Basically treating it like an endowment.

MR. GOURIS: Right, exactly.

So that's a source of funds that we need to explore and talk through how to make that available. In the first round of funding, we structured it in such a way not purposefully to make it impossible but I think it effectively was impossible because we required that all the TCAP and the HOME funds to be underwritten and recommended with repayment capacity, and we've already discussed how supportive housing deals don't have that capacity, can't afford that capacity, so that creates an automatic difficulty in applying for those types of funds or being awarded those types of funds.

I think we were successful in getting deals to be able to be structured in a way that they could be repaid and could be repaid under a 3 percent, 30-year amortization for that NOFA, but we'll have to be more creative in the next NOFA to be able to peel off a portion of funding -- or consider peeling off a portion of funding for supportive housing or other similar activities that can't afford to have that repayment, and that's where we need to get input and get dialogue and understand, that's kind of the meat of the conversation that we're having today, and possibly if we have another one in the future.

Tim mentioned the National Housing Trust Fund as a possible source in the future. There are rules in place, there's the structure theoretically in place, but there's no money in place, and so right now that's not really a viable source in the short term for funding these kind of developments.

We talked about 9 percent housing tax credits expanding and continuing to be a source, 4 percent tax credits where possible. Right now they are a source of a small amount; typically they'll take down the bonds just to get to the credits and the bonds are extinguished or eliminated within three years and so the bond part isn't the source of funds but the credit that's associated with it is.

And then the other area for future consideration, but we don't have the ability to use it today, would be the state trust fund which today is actually at or below the level of funding that we're actually collecting from the TCAP repayment program, real close to that level, and the amount of HOME funds that we've also been able to generate as a return to the HOME program.

So just to kind of give you the broad picture, we get about $6 million a year for the trust fund, we get about $6 million a year out of TCAP repayments, and we get around $6 million a year, maybe $7-, out of HOME repayments. So we've created two pools of repayments that kind of give us the ability to reallocate in the future, and then we've got this other Housing Trust Fund pool that we get from the state government that gives us an opportunity, but those are directed at specific uses that aren't available for us today to consider for supportive housing.

Questions about those sources of funding or thoughts about sources of funding at this point?

(No response.)

MR. GOURIS: So the question is where does this leave us, and I think it leaves us in a place that directionally we want to hear what thoughts everyone has, but where we're headed until we get diverted, I think, to those areas, our initial thoughts were we would work on a

NOFA in the coming month or months that would include a special set-aside, if you will, for supportive housing. Whether it be specifically HOME or TCAP funded is sort of yet to be determined, but it would probably equate to some amount that is a fairly small subset, certainly less than half of the TCAP funds that are available, if we wanted to maintain the idea of keeping that body of TCAP funding source equal to or growing. So it would probably be in the order of $1- or $2 million set aside for supportive housing and/or other structural needs that need a deferred forgivable kind of fund.

That's sort of where I'm at with it anyways. Like I said, I'm looking for other input to see if we need to go another direction or what other things we need to look at that you'd like us to look at in order to come to those conclusions.

MR. IRVINE: And we're actually, as people can tell, beginning to have people filtering in for the Board meeting which starts in a few minutes so we're going to need to wrap this up. My guess is we're probably going to need to have an additional session. You've got one speaker here that wants to talk to this issue, but if I could just summarize it from my perspective.

We're dealing with a structure where we have these three sources that have been identified, they each have their unique attributes and constraints. I think that from a practical perspective, our Housing Trust Fund is fully programmed and off and running in other areas, so we're really talking about HOME and TCAP, and of course, tax credits, but tax credits aren't funding, they're a resource. So in terms of providing gap financing, lending financing, grant financing, whatever, we've got to deal with the attributes of those programs, we've also got to deal with the uncertainty of the future and that is projected declining financing streams coming in under our federal programs and the fact that the TCAP is at the moment a finite resource.

So we have to use these resources in a manner that optimizes and maximizes and enhances all of our programs. Certainly this is one that is important in that discussion.

MS. HOWARD: Thank you. Again, my name is Ann Howard. I'm the executive director of the local Coalition to End Homelessness here in Travis County.

I wanted to thank you for your service. Texas has a lot of great stuff happening but we also have a large population living in poverty. I was born and raised in Houston and to hear the numbers of Houstonites living at such extreme poverty levels is sad.

I'm still a little bit confused. You have PSH on the paper a lot, permanent supportive housing, and we've talked a lot today about supportive housing. To me they're very different. Permanent supportive housing, which you heard I can't remember from who, is targeted to end chronic homelessness -- it was Joy from Houston -- and as you deal with your deliberations today and in the future and you talk about limited dollars, please recognize the difference. Some people can be served by both, obviously we need both, but we are working across the State of Texas to end homelessness and we do that with permanent supportive housing for the folks who, but for our help, our finances, our services, will not maintain housing and we know that we need to house the chronically homeless.

So please wrestle with that difference and consider that when you're deciding how to use the limited funds. Thank you.

MR. GOURIS: That's a whole 'nother hour of conversation I think that we could have on those differences and there would be folks speaking on those issues.

So I guess any input from you all as far as directionally where we might want to go next. Would we want to have another subcommittee meeting?

MR. IRVINE: I really think that the vehicle for input and direction actually has come through the Board. I think that these folks are really here mainly on an information gathering basis, trying to get not just staff's input but the larger community's input to help understand that.

MR. GOURIS: Right. I'm just wondering if another meeting is what we're looking for.

MR. IRVINE: I definitely think we need another meeting.

MR. GOURIS: Would we want to do that in an intervening period between now and the next Board meeting, or would we want to do it as part of the next Board meeting?

MR. IRVINE: Do you like doing it with the Board meeting?

MR. GANN: Yes, that's fine with me.

MR. CHISUM: Yes.

MR. IRVINE: These guys both come halfway across the state, so maybe in connection with the October meeting.

MR. GOURIS: Okay. We'll set something up. If there are specific things that you want us to address and discuss, bring specific topics to you with regard to that.

MR. GANN: I'm sure I'll have more questions when we meet again.

MR. CHISUM: Likewise.

MR. IRVINE: And likewise to the community out there, if you've got specific issues that you'd like to see treated, you know, like Ann just described, share those with us.

MR. GANN: Thank you.

MR. CHISUM: Thank you.

(Whereupon, at 9:17 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: Permanent Supportive Housing Subcommittee

LOCATION: Austin, Texas

DATE: September 3, 2015

I do hereby certify that the foregoing pages, numbers 1 through 51, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

09/04/2015

(Transcriber) (Date)

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