



What the American Recovery and Reinvestment Act Means for Permanent Supportive Housing Production

On February 17, 2009 the President signed the American Recovery and Reinvestment Act (ARRA). Of the bill's total cost of \$787 billion, approximately \$13.6 billion is for HUD. The bill also includes modifications to the Low Income Housing Tax Credit (LIHTC) program as well as additional funding and program changes to Medicaid. While the broad community of housing advocates, developers and policymakers have interest in a diverse range of programs that were funded or changed by the stimulus bill, this memo is intended to describe the impact on the programs most often utilized to create permanent supportive housing. For more information, please see the [text of ARRA](#). For further discussion on Low Income Housing Tax Credit changes, please see [The American Recovery and Reinvestment Act of 2009: What it Means For Our Clients - and For Us](#), a presentation prepared by the Reznick Group. For a chart regarding how the bill allocates HUD funding, please see [Major Low-Income Housing Provisions of House and Senate Recovery Bills](#), a table prepared by the Center on Budget and Policy Reform.

Aid to Low Income Housing Tax Credit Projects:

- **Equity Gap Filler:** HUD will distribute \$2.25 billion via the HOME program to tax credit allocating agencies to help 'fill the gap' in financing affordable housing projects that received or will receive low-income housing tax credits in fiscal years 2007, 2008, 2009. HUD will apportion funds to states using the HOME formula, except that all funds within the state will flow to the allocating agency. Allocating agencies must commit 75% of funds within one year (February 2010), demonstrate that owners have expended 75% of funds within two years (Feb 2011), and have expended all funds within 3 years (Feb 2012). Funds must be distributed pursuant to qualified allocation plan guidelines. Eligible basis will not be reduced due to receiving funds from this program. These funds will be loans (probably forgivable, low/no interest, etc) so as not to count as income with potential tax implications. Projects must pay Davis-Bacon wages.
- **Tax Credit Exchange Provision:** Tax credit allocating agencies will be allowed to swap up to 100% of credits returned in 2009 and unallocated credits from 2008, plus 40% of the State's 2009 population-based credits and any national pool credits awarded in 2009 for cash from the Treasury Department valued at \$.85 on the dollar. This cash can then be used to finance tax credit or non-tax credit affordable housing projects, so long as the allocating agency "makes a determination that such use will increase the total funds available to the State to building and rehabilitate affordable housing." Before credits can be exchanged for credits, projects must prove good faith efforts to find an investor. These grants do not reduce basis and are not counted as income. Projects receiving these grants are subject to the same rent, income and use restrictions; auditing; and recapture requirements as tax credit projects.

Neighborhood Stabilization Program (NSP): \$2 billion for neighborhood stabilization efforts to be distributed through a competitive process for communities with the highest rates of foreclosures. Eligible applicants include state/local governments, non-profits and for profits with proposals to purchase and rehabilitate foreclosed properties in order to create more affordable housing and reduce neighborhood blight. Greater protection of the rights of renters is also included in this section of the act. A number of states and communities across the country are using their current NSP grants to fund permanent supportive housing projects.

Energy Retrofitting: \$250 million to assist properties that receive project-based assistance under the 202, 811 or project-based Section 8 programs to make energy-efficient upgrades to the property. Eligible owners must have at least a satisfactory management review rating, be in substantial compliance with applicable performance standards and legal requirements, and commit to an additional period of affordability determined by the Secretary, but of not fewer than 15 years.

Community Development Financial Institutions (CDFIs): Congress included an additional \$100 million to fund qualified applicants of CDFI's fiscal year 2009 funding round. The Treasury Department can both increase grant amounts to selected applicants as well as fund additional applicants.

Community Development Block Grants: \$1 billion for community and economic development projects that will be distributed to states and localities and subsequently used pursuant to existing CDBG rules and regulations. Recipients are directed to prioritize those projects that can award contracts based on bids within 120 days from the date the funds are made available. CDBG funds are good sources of gap financing for permanent supportive housing projects.

New Medicaid Resources: \$87 billion in additional federal Medicaid funding for states, in the form of an increase in the federal medical assistance percentage (FMAP). CSH works with many of our partners around the country to use Medicaid as a source of funding for services for supportive housing tenants. We are hopeful states will utilize these additional federal resources to help avoid reductions in services because of state revenue shortfalls. Additional analysis can be found from the [Center on Budget and Policy Priorities](#) and by [FamiliesUSA](#).

Homeless Prevention Fund: Although these funds won't support the creation of permanent supportive housing, this bill included an exciting and transformative allocation of \$1.5 billion for homelessness prevention and rapid re-housing. The funds may be used to provide short-term or medium-term rental assistance; housing relocation and stabilization services including housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, rental assistance for a final month at a location, moving cost assistance, and case management; or other appropriate activities for homelessness prevention and rapid re-housing of persons who have become homeless. Funding will be made available through the McKinney Vento Homeless Assistance Act formula. CSH encourages interested parties to speak the local Continuum of Care to begin early planning for the thoughtful and most effective use of these funds. See [more information from the National Alliance to End Homelessness](#).

Other HUD Programs Funded by ARRA:

- **Public Housing Capital Fund:** \$4 billion for building repair and modernization, including critical safety repairs. \$3 billion of the funds will be distributed to public housing authorities through the existing formula and \$1 billion will be to targeted areas.
- **Project Based Section 8 Renewal Funding:** \$2 billion to fully fund renewal of project-based section 8 contracts.
- **Native American Housing Block Grants:** \$510 million to rehabilitate and improve energy efficiency at some of the over 42,000 housing units maintained by Native American housing programs. Half of the funding will be distributed by formula and half will be competitively awarded to projects that can be started quickly.
- **Lead Paint:** \$100 million for competitive grants to local governments and nonprofit organizations to remove lead-based paint hazards in low-income housing.
- **Rural Community Facilities:** \$200 million for grants and loans to rural areas for critical community facilities, such as for healthcare, education, fire and rescue, day care, community centers, and libraries.

What Wasn't Included and Priorities for 2009: CSH supported the funding included in ARRA for homelessness prevention and low-income housing, and appreciates the hard work of allies in Congress who pushed for these results in the bill. Please read [this open letter](#) to which CSH contributed that comments on the competing demands in fixing the nation's housing policy.

In ARRA, Congress did not provide funding for the National Housing Trust Fund, which would have ensured that housing production supported by the stimulus would have additional operating subsidies and gap financing for projects serving lowest-income Americans. CSH also advocated for 200,000 additional Housing Choice Vouchers, which would have provided immediate housing assistance via a mainstream and widely-used housing assistance program. Policymakers were hesitant to support the voucher funding due to their recurring costs beyond the two-year scope of the legislation.

CSH also believes that it is important to go further to improve the distressed low income housing tax credit market. Creating a credit floor for 4% credits, allowing a 5 year carry-back of losses, and accelerating the allowable use of tax credits investors to recapture their investment more quickly are all provisions that would bolster the tax credit market.

CSH will continue to advocate for fully funding the National Housing Trust Fund, for additional Section 8 vouchers, and for improvements to the LIHTC program and other important programs that are critical to creating and sustaining housing for those in greatest need.