Leveraging Low Income Housing Tax Credits to Support Thriving Communities

The COVID-19 pandemic is shedding light on critical gaps in American housing and community-based services for vulnerable families and individuals in communities throughout the country. The Low Income Housing Tax Credit (LIHTC) program can be an instrumental piece of closing this gap when supportive housing is prioritized within the LIHTC allocation. Supportive housing is safe, stable, affordable housing with quality integrated services. It is a proven method for increasing housing stability, and has been shown to decrease high utilization of emergency services and public systems, generating significant public cost savings over time leading to greater benefits not only for individuals, but for the community at-large. The significant cost that goes into emergency and institutional response systems is woefully inadequate, which is further underscored during a public health crisis. At a time when state budgets are depleted and more service cuts are inevitable, prioritizing supportive housing and developing cross-systems opportunities to maximize resources will be critical.

Before COVID CSH estimated there are 1.1 million individuals and families in need of supportive housing nationwide[i]. We expect the pandemic may exacerbate this need as individuals and families are affected by loss of income and increasing housing instability. As state leadership begins to plan for 2021 and continue to manage the effects of the COVID-19 pandemic, the Qualified Allocation Plan (QAP) offers one tool to leverage LIHTC alongside broader state strategies for promoting thriving communities.

Nationwide Trends

In 2019, more than $948 million of LIHTC were distributed to states. Six states had a supportive housing set-aside totaling more than $22.4 million. An additional eight states also had a supportive housing set-aside but did not indicate how much of the total allocation would be dedicated for this purpose.

As has been the trend in years past, in 2019 all states and territories included at least one method for incentivizing housing for vulnerable individuals and families either as part of the QAP[ii] or through an alternative state resource that was leveraged alongside LIHTC.

When comparing year-over-year data, there was an increase from 2018 in the number of states requiring or incentivizing extended low-income periods for developments. Similarly, more states included fair housing requirements that went beyond the Fair Housing Act. There was also an increase in the number of states using set-asides for extremely low-income (ELI) units serving those at or below 30% area median income (AMI); however, fewer states actually required ELI units as part of a threshold.

Table 1: % of states with categorical requirements

Category	Threshold Requirement	Credit Set-Aside	Scoring Incentive
Serve Low Income Populations	100%	39%	84%
Serve Extremely Low Income Populations	4%	11%	72%
Serve Vulnerable Individuals/Families	26%	37%	83%
Other Resources to Expand Supportive Housing Development	9%	19%	65%
Service Enrichments	24%	13%	72%
Extended Low-Income Use	35%		48%
Geographic Designation		41%	57%
Integrated Design	13%		48%
Exceeds Fair Housing Regulations	11%		

Table 1 provides an aggregate breakdown of the percent of states requiring or incentivizing each category through a threshold requirement, dedicated set-aside, or scoring incentives.

Promoting Supportive Housing in QAPs

Housing finance agencies (HFAs) should view QAPs as the starting point for prioritizing supporting housing funding. While all states include at least one method for incentivizing housing for vulnerable individuals and families, the degree to which this prioritizes supportive housing varies greatly from state to state. Consistent with previous years' recommendations, the action items below provide concrete steps HFAs can take to develop a supportive housing pipeline.

1. Clearly Define Supportive Housing and Ensure Quality Standards

While the vast majority of QAPs incentivize housing for vulnerable individuals and/or families, it is important for HFAs to recognize supportive housing is more than just prioritizing a special population. By definition, supportive housing is permanent housing that ensures access to both affordable housing and support services. Services should be flexible, voluntary, and offer a comprehensive array of support. Services that help tenants sustain housing stability and meet life goals are best. HFAs should request a social service plan (SSP) that outlines the intended services, description of source funding, length of funding, and evidence of sustainable funding beyond the current timeline. The service provider listed on the SSP should also provide evidence of experience serving the intended tenant population and an understanding of the community that the housing development will serve. Further evidence of the provider engaging people with lived experience to develop proposed services and programs available to tenants should be further incentivized through additional points on applications.

To ensure supportive housing maintains a level of quality, the definition of supportive housing should also address the dimensions of quality. Quality supportive housing is housing that is – (1) tenant-centered, (2) easily accessible to tenants of all backgrounds, (3) coordinated amongst housing partners with a shared goal, (4) integrated with voluntary services and community connections, and (5) sustainable over time[iii]. HFAs can integrate these dimensions of quality into the QAP process by requiring developers to, at minimum, submit a Commitment to Quality checklist as part of the application[iv]. By making this commitment, the applicant affirms that each project partner named in the application understands and commits to implementing the project in a way that is consistent with the quality standards. HFAs may also require applicants to submit a quality endorsement, which is a third-party review of supporting housing project plans to determine if they meet national quality standards[v].

2. Allocate Tax Credits for Supportive Housing

The majority of states use the scoring incentive method to award tax credits for supportive housing development. However, it is hard to determine how meaningful individual points are compared against the total score needed to receive a tax credit award. As such, HFAs must prioritize threshold and set-aside requirements to ensure enough units are dedicated to those who need them most. Fourteen states had a supportive housing set aside. Of those, six QAPs indicated a specific amount of tax credit allocations explicitly for supportive housing. These amounts range between 5% and 30% of the total LIHTC available in the state. It's important to note that, depending on the development costs in the state[vi], set-asides of less than 10% may produce a limited number of units. HFAs should project the number of units expected to be developed from the supportive housing allocation and report annually on how many units were actualized. These steps are needed to ensure progress towards developing a pipeline and closing the state's supportive housing gap.

3. Include Requirements for Extremely Low Income Units

Supportive housing households typically include individuals and families with extremely low incomes at or below 30% of area median income (AMI). Seventy-two percent (72%) of HFAs encourage the development of units for those at or below 30% through scoring incentives, but just over 10% *require* dedicated units for this cohort. While this is a slight increase over 2018, it is important for HFAs to recognize how the lower income limits fit within the ranges of affordability and designate units specifically to meet the needs of low incomes at or below 30% of AMI.

4. Prioritize the Populations Most in Need of Supportive Housing

CSH believes that there are six critical sectors that essentially create pipelines into the homeless system. By targeting these cross-sectors further upstream with designated supportive housing resources we can feasibly alter our emergency and institutional response system so that fewer people end up homeless, more people have choice in where they live have the resources they need to thrive in their communities. These sectors include affordable housing, aging, health care, justice, child welfare, and intellectual and developmental disability (IDD). Nationwide, of the 1.1 million people in need of supportive housing, the three highest sectors are IDD (268,980/25%), justice (243,674/22%), and aging (226,674/21%). These trends are often mirrored in individual states as well. Considering such, HFAs should consider scoring incentives for projects proposing to serve one of these three populations. Additional points should be awarded for developing cross-sector commitments with providers and governmental agencies that serve these sectors already. Commitments should reflect the agreement between the sector experts and the applicants to provide appropriate services and supports for the supportive housing units.

5. Allow Points for Larger Families in the Supportive Housing Set-Aside

Approximately a quarter of families experiencing homelessness have five or more people in the household[vii]. Lack of stable housing is often a precipitating factor for a family's involvement in the child welfare system. Supportive housing offers a safe, stable, and affordable solution for families so they can stay together while improving overall safety and well-being. Children and youth who have a reliable place to call home spend fewer days in foster care, experience a reduction in subsequent abuse and neglect cases, and increase their school attendance[viii]. These families should have access to units that can provide adequate space to house multiple children and also receive support services.

6. Ensure Equitable Access to Housing and Address Disparate Impacts to Fair Housing

It is important for HFAs to acknowledge the long history of racist housing policies that have led to discriminatory rental practices and ongoing neighborhood segregation. To begin to shift this paradigm, HFAs must assess critical aspects of the QAP to understand if they continue to contribute to these practices and address possible disparate impacts to fair housing. To start, while many QAPs incentivize development in certain neighborhoods, it is not always clear if this consistently increases housing options in high opportunity areas. High opportunity areas offer access to quality health care, close proximity to transit, quality education, economic security, low income inequality, and minimal residential segregation[ix]. HFAs should actively analyze neighborhood distribution of LIHTC and ensure those in need of supportive housing have neighborhood choice.

Further, HFAs that address guidelines for tenant selection should ensure that criteria and processes are transparent and there are no unnecessary barriers to minority applicants. Screening criteria that decrease opportunity for individuals who have been homeless, involved in the child welfare system or the justice system, or create barriers based on sources of income will have an adverse discriminatory effect on minorities. Black, Native American, and Latino individuals are often disproportionately represented in these systems[x]. Because race is a federally protected class, screening individuals out (advertently or inadvertently) based on system involvement would present legal challenges to the Fair Housing Act.

HFAs should also incentivize LIHTC applicants to engage supportive housing tenants and people with lived experience. HFAs often require applicants to submit letters of support of the development from community boards or local elected officials. In some instances, this creates barriers to developing in certain neighborhoods and continues to limit access and choice for supportive housing tenants. An alternative approach of including letters of support from people with lived experience would ensure that developments reflect the needs of those who need housing and increase choice to high opportunity neighborhoods.

Strategies to Promote Supportive Housing in Thriving Communities

HFAs must recognize that broader strategies and coordination amongst state agencies must be developed to ensure a comprehensive approach to addressing the affordable housing crisis and the gap in supportive housing nationwide. The recommendations below provide details on ways HFAs can partner with state administrations, legislatures, and agencies to strengthen their overall housing financing approach.

1. Develop a Cross-Divisional Team

HFAs must recognize LIHTC are not enough to sufficiently meet the demand for supportive housing. Additional funding and service resources exist within other state agencies and can be used collectively as part of a comprehensive approach to addressing the supportive housing gap in the state. States should develop a non-partisan, cross-divisional team responsible for identifying solutions, aligning resources throughout the state, and promoting best practices. This can be achieved through executive order and/or legislative action. In some cases, states may have already developed an HFA workgroup to guide the QAP process or a State Interagency Council on Homelessness (SICH) that brings together secretaries and commissioners from key governmental departments, often including the HFA, with stakeholders. States may look to leverage the SICHs as a platform for solving the upstream challenges of housing instability and affordability. Alternatively, in states that have not developed SICHs or where SICHs choose to remain explicitly focused on ending homelessness, states can create a cross-divisional team by bringing together the HFA with core state agencies, such as Housing, Health and Human Services, Child Welfare, Corrections, Economic Development, Education, and Finance. The governor may appoint a chair for the taskforce or members may select a leader or co-leaders. It should be the goal of the taskforce to coordinate available development and services resources across all partner agencies to ensure impact is maximized.

2. Conduct a Supportive Housing Needs Assessment

As a first step, the Housing Taskforce should conduct a thorough housing needs assessment, with a specific focus on supportive housing. This should include total number of units needed in each community across the state and details on specific vulnerable populations. The taskforce should leverage the administrative data across state agencies to create a wide reach in their review. To underscore the necessity of linking data across systems, data sharing agreements should be codified in statute or through an agreed upon Memorandum of Understanding (MOU). The findings from the needs assessment should be accompanied with concrete solutions including an implementation strategy and a supportive housing production plan. The production plan must include the number of units needed in each community and details on funding resources that developers can access to meet the production goals.

3. Layer Housing and Services Funding Sources

In response to COVID-19, the CARES Act appropriates significant new resources that, if aligned strategically, can have a substantial impact in supporting systemic change from emergency response and institutional settings to long-term, permanent housing. Coronavirus funds such as Community Development Block Grants (CDBG-CV) can be used for longer-term options such as capital, rental assistance, housing navigation, and tenancy support services. Waivers may also be requested for CDBG appropriations from FY19 and FY20 to align these monies for broader, long-term COVID-19 responses. In addition to the CARES Act funding, it is critical to consider additional sources of funds that can be aligned. The chart below outlines additional resources that may be available that can be used to maximize LIHTCs. Table 2 provides examples of possible available funding sources for consideration. Based on a review of other resources to expand supportive housing development, almost two-third of HFA incentivize braiding of funds such as project-based rental assistance or state housing tax credits. HFAs should extend this model and look to

Table 2: available funding sources

Funding	Capital	Operating	Service
SAMSHA			X
Medicaid			X
Ryan White			X
LIHTC	X		Limited
HOME	X		
CoC	X	X	X
CDBG	X		X
HOPWA		X	X
Hospitals/Philanthropy	X	X	X
CDFI Loans	X		
National Housing Trust Fund	X	X	
Public Housing Authority	X	X	
Social Impact Bonds		X	X
Tax Reserves	X		X
Housing Bonds	X		X
OZ Funds	X		
State LIHTC	X		
Housing Vouchers		X	
State Agencies		X	X

partner with other state agencies such housing, child welfare agency, and/or department of corrections to pair housing vouchers and services dollars with development capital.

4. Develop Key Performance Indicators (KPIs) and Report on Progress

In addition to HFAs reporting on the number of units projected and actualized from the LIHTC supportive housing allocation, similar efforts should be made to report on the progress of the Housing Taskforce. The taskforce must set clear expected outcomes and review data annually to determine progress on both implementation and unit production plans. While the Housing Taskforce is encouraged to develop its own set of KPIs to track outcomes based on the goals set forth and agreed upon by its members, at a minimum it should track the total number of units in the production pipeline and the total number of units created. The governor or legislature may consider mandating an annual report to key offices or committees to ensure outcomes are being met. During annual reporting, the taskforce may consider budgetary requests to support the Housing Taskforce goals and develop capacity through training for service providers, developers, and property managers.

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[i] Supportive Housing Needs Assessment: https://www.csh.org/supportive-housing-101/data/

[ii] In 2018 CSH modified the research methodology used to collect and analyze QAP data. Categories from previous years will not yield viable comparisons.

[iii] The Dimensions of Quality Supportive Housing is a national standard creates by CSH and based on two years of research with communities across the country. Additional information on the Dimensions of Quality Supportive Housing can be accessed at https://www.csh.org/supportive-housing-101/quality/

[iv] CSH is currently piloting this tool in several communities. A downloadable overview of the Commitment to Quality Checklist can be accessed https://d155kunxf1aozz.cloudfront.net/wp-content/uploads/2019/02/Commitment-to-Quality-Checklist.pdf

[v] A downloadable overview of the Quality Endorsement can be accessed https://d155kunxf1aozz.cloudfront.net/wp-content/uploads/2019/02/CSH-Quality-Endorsement-Overview.pdf

[vi] If state-level data is not available, HFAs may use national averages. More information available from: National Council of State Housing Agencies. (2018). *Development Costs and Cost Drivers in the Housing Credit Program*. Retrieved from https://www.ncsha.org/resource/cost-study/

[vii] USICH (2018). *Homelessness in America: Focus on the Families with Children*.

[viii] Metis Associates (2010). *Keeping Families Together: An evaluation of implementation and outcomes of a pilot of supportive housing models for families involved in the child welfare system*.

[ix] FreddieMac (2018). *Affordable Housing in High Opportunity Areas: an Overview of Demographics and Housing Characteristics*

[x] Racial Disparities and Disproportionality Index, https://www.csh.org/supportive-housing-101/data/