A photograph of a diverse family of three. A man with dark skin and curly hair is playing an acoustic guitar and smiling. A young child with curly hair is sitting on his shoulders, also smiling. A woman with dark skin and long hair is standing next to him, smiling and looking down at the guitar. They are in a home setting with a white brick wall and a wooden shelf in the background. The image is partially covered by a large orange diagonal shape on the left side.

# **Considerations for Underwriting Tenant-Based Service Funding for Supportive Housing**



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## Who is this Guide for?

This guide is for any lender or investor that is seeking guidance on underwriting services funding in supportive housing, and particularly service funding sources like Medicaid that are tenant-based vs. project-based.

The goals of this guide are to 1) provide underwriters with background and best practices around Supportive Housing services funding, 2) provide a list of questions and resources to assist lenders and investors in underwriting supportive service funding, and 3) explain how to quantify tenant-based service funding programs like Medicaid.

As the affordable housing crisis deepens, the number of individuals and families who can benefit from tenancy support services will become increasingly high. Without adequate supportive services, developments will not be supportive enough for a subset of tenants who need services to access housing, remain stable, and thrive in their communities. Corporation for Supportive Housing (CSH) has a deep understanding of the unique needs of people experiencing homelessness and others who can benefit from Supportive Housing. As a Community Development Financial Institution (CDFI), we also have an intimate knowledge of the needs of housing developer teams and investors interested in adequately sustaining long-term operations and services for Supportive Housing.

## What is Supportive Housing?

*Affordable housing with tenancy support services*

Supportive Housing is affordable housing paired with tenancy support services that help people access housing, remain stable, and thrive in their communities. Typically, Supportive Housing benefits people who have experienced homelessness, institutionalization, and/or consistent housing instability. Services in Supportive Housing are voluntary, flexible, and responsive so that people can choose the support that will help them stay in housing and meet other goals they have for their lives. Service providers use evidence-based practices including assertive engagement,





motivational interviewing, and Trauma Informed Care to engage tenants and work with them to design and implement service plans that meet their needs. Supportive Housing is a proven approach to improving housing stability, reducing the use of expensive crisis care, and improving outcomes for individuals with complex needs. Supportive Housing is not affordable housing with resident services. It is an evidence-based intervention that employs consumer choice in service delivery and provides specialized tenancy support services with staff-to-client ratios of 1:15.

## What are Supportive Housing Services?

“Services” in Supportive Housing are supports for people with multiple barriers to obtaining and maintaining housing. These supports almost always include assistance with obtaining identification, completing paperwork and other requirements for housing subsidies or housing units, developing and maintaining budgets, understanding the rights and responsibilities of tenancy, and other housing related supports. Supportive Housing services help tenants be good neighbors and live independently. Activities that help people access housing are commonly called “pre-tenancy services,” and services that help tenants ongoing are referred to as “tenancy sustaining services.” Figure 1 below, describes the services in more detail. Supportive Housing may also offer other on-site clinical or supportive services such as health care coordination, behavioral healthcare, childcare, educational employment services, or in home personal care. For Supportive Housing that does not offer these additional services, Supportive Housing staff help tenants connect to community services that do offer this assistance. Supportive Housing services ensure that tenants have access to not only health care, but any services to ensure tenants can thrive in their

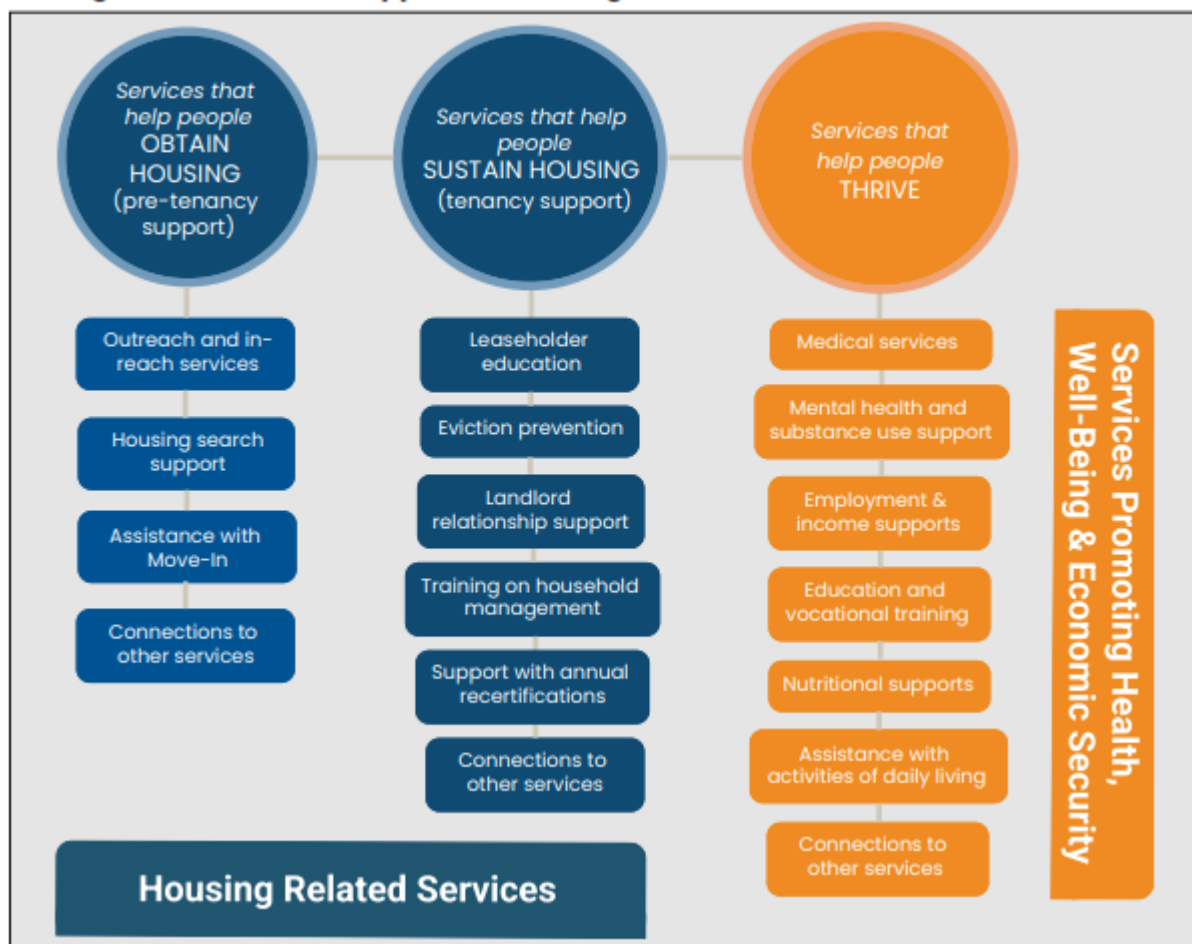
### Are Resident Services the Same as Supportive Housing Services?

Resident services often found in affordable housing developments and paid for out of the operating budget are not Supportive Housing services. These services, while beneficial, are intended to support all tenants in a building, while supportive housing services are tenant-specific and focused on helping people get housed and stay housed.



communities. Services are assertive, engaging tenants in ways that work for them, until their needs are met.

**Figure 1: Services in Supportive Housing**



## How are Supportive Housing Services Funded?

CSH describes Supportive Housing funding as three legs of a stool. Capital, operating, and service funding are critical to successful Supportive Housing development. For many communities, service funding can be the most difficult to raise. Capital funding for Supportive Housing often flows from federal or local sources. Low-Income Housing Tax Credits (LIHTC) are the primary source for capital funding in affordable and Supportive Housing. Operating subsidies and rental assistance are typically funded by project-based resources, like Housing Choice Vouchers, or in some cases specific local funds.

Supportive service funding sources vary widely across the country, and involves fundraising from philanthropic sources, piecing together contracts or capitalized reserves from state and local governments, applying for grants from local homeless system Continuums of Care, and in recent years – seeking Medicaid reimbursement. The lack of a dedicated funding source for tenancy support services and

acknowledgement from the healthcare industry that tenancy supports are indeed healthcare services led CSH to identify Medicaid as an emerging key source of ongoing supportive service funding.

This guide will provide an overview of how to assess a supportive service plan and service funding, with an emphasis on how to evaluate a project that is proposing Medicaid or other tenant-based service funding sources.

## How Does Medicaid Fund Supportive Housing Services?

The federal Centers for Medicaid and Medicare Services (CMS) considers tenancy support services to be an “optional state plan service” under its Home and Community Based Services (HCBS) program<sup>1</sup>. This means that states can optionally cover tenancy supports as part of their Medicaid public health insurance programs. These services are also often referred to in Medicaid as Housing Related Services (HRS), which refers to a specific set of services that are focused on housing stability. Please see Figure 1 above. States have to request permission from CMS to cover these services. The HCBS authorities states use to add these services, once approved by CMS, are 1915(c) waivers and 1915(i) state plan amendments. States have also been able to include HRS<sup>2</sup> services in 1115 research and demonstration Waivers.

No matter which federal authority a state uses to reimburse service providers, each state chooses whether to offer HRS, who to offer the services to, and how to offer these vital services. Thirty states and Washington DC have been approved to cover HRS via their state Medicaid program<sup>3</sup>. Only states that have operating programs as outlined in the brief will offer Medicaid as a source of Supportive Housing service funding. We define “operating” to mean that the state has submitted their application to CMS for review, CMS has approved the submitted application, and the state has gone through a “pre-implementation” planning period to plan how the state will operationalize the new program. The process from initial planning to operating programs can take up to four years, so it is critical to be aware of where your state is in this process.

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<sup>1</sup> [Home- and Community-Based Services | CMS](#)

<sup>2</sup> [Health Related Social Needs | Medicaid](#)

<sup>3</sup> [Policy Brief: Summary of State Actions on Medicaid & Housing Services - Corporation for Supportive Housing](#)

While Medicaid has been identified as a key source of ongoing supportive service funding nationally, there are some tensions that underwriters will need to consider when evaluating a Supportive Housing development that is planning to use Medicaid for service funding. Most importantly, Medicaid cannot be the sole source of funding in a service budget. Medicaid can only pay for services for people who are Medicaid eligible and actively enrolled in the program. Service providers will still need additional sources of funds to deliver services when Medicaid enrollment lapses or for the small subset of tenants who are not eligible.

### **Tenant-Based Service Funding Considerations:**

- **Tenant-based funding:** Medicaid reimburses certified service providers who deliver services to individuals who meet specific (state-determined) eligibility criteria including clinical criteria, functional limitations, and those who may have social risk factors for poor health. Social risk factors can include homelessness and housing instability. Medicaid follows the person and does not fund their apartment.
- **Timing of payments:** Agencies who provide services cannot be reimbursed by Medicaid until a person is enrolled in their state's Medicaid program and until a service plan is created to meet that individual's short term and long-term needs. Medicaid primarily reimburses providers for the delivery of services. There is limited support in Medicaid for the pre-process of engaging with individuals and enrolling them.
- **Reimbursement rate setting and payment mechanism:** Medicaid reimbursement rates to providers are set by actuarial studies that vary state by state. States use historical data based on costs and budgets to develop rates. States are struggling to do this with new HRS programs because there is limited data in the health sector available on these programs. States will commonly use contractors to help develop rates. CSH has contributed to this effort by

### **Services Budget Tool**

CSH developed the Supportive Housing [Services Budget Tool](#) to assist providers and others with quantifying the full cost of supportive services and how to determine potential Medicaid revenue projections based on a state's program. The tool is based in research and practices guidelines on staffing models and ratios required for a quality program. It includes a way to estimate any budget shortfalls that may arise that agencies must plan to fill. Please see the accompanying Service Budget Tool Case Study: Examining Tenant Based Service Funding to better understand how this Tool can assist underwriting services. CSH's Service Budget Tool can be provided to a service provider agency to complete and submit back to a funder/underwriter for assessment.

supporting states to use current Supportive Housing providers data and our [Supportive Housing Services Budget Tool](#). States publish their rates in a “Fee Schedule” that outlines payment mechanisms and rates. Some states outsource the management of certain Medicaid programs to insurance companies called Managed Care Organizations (MCO). MCOs might or might not publish the rates they pay for these services. Underwriters should reference the relevant state “Fee Schedule” to confirm budget estimates. An explanation of the different types of payment mechanisms is below.

Payment Mechanism	15-Minute Increments (Fee-for-Service)	Per Diem	Per Member, Per Month
	Providers are paid for every 15 minutes of time with an approved service recipient and engaging in activities that fit the state service definition.	Providers are paid a daily rate for meeting state or MCO set criteria for time and activities with an approved service recipient.  Commonly, states or MCOs limit the number of days in a given time period that can be billed to Medicaid.	Providers are paid a monthly rate for meeting state or MCO set benchmarks for time and activities with an approved service recipient.

Of the three payment methods listed above, per member, per month (PMPM) payments provide the most flexibility for Supportive Housing services. Under a PMPM payment structure, providers receive a pre-negotiated rate (based on an average monthly cost to provide care for a Medicaid enrollee). While negotiating an initial PMPM rate can be challenging, this payment structure creates greater revenue predictability for Supportive Housing service providers and leverages flexibility to change service options as needed by the tenant throughout the month.

## Underwriting Tenant-Based Supportive Housing Services

Underwriters can think about the assessment of service providers and service funding like how they would assess a developer and development budget. Assessment of a service provider should focus on the provider’s experience with the population they will



be serving, how the organization is funded, their staffing plan for providing services, and how they will receive or qualify for the funding they need to provide services. On the funding side, a service budget should include both sources and uses of funding. Providers often combine multiple sources to support the biggest cost in a service budget—staff. Evaluation of the service budget should involve testing assumptions around the amounts and term of funding identified, the provider’s ability to access that funding, the sufficiency of the staffing plan and ratio of tenancy supports specialists to tenants for the service model proposed, and the proposed salaries of service staff.

### General Service Underwriting Questions:

- Organizational Capacity and Experience:
  - What is the provider’s experience providing supportive services in a project-based setting?
  - What experience does the provider have with this priority population or mix of populations?
  - As an entire organization, how is the provider funded? Evaluate the organizational strength to stay operational and competitive for service funding and their ability to attract and retain service staff.
  - What is the provider’s experience with large contracts? Do they have the financial and administrative infrastructure needed to manage complex funding agreements?
  - What is the organization’s ability to retain staff? Are staff wages considered living wages in the community? Reference the [living wage](#) calculator for the locality.

### Call to Action!

**Challenge:** Developers and sponsors struggle to acquire and align the timing of funding commitments for service and operating funding for supportive housing. This increases predevelopment time and can lead to the loss of commitments during construction due to changing funding environments.

**Solution:** Capital, operating, and service funders partner to align funding, funding rounds, and commitments for supportive housing.

### Best Practices:

- Capital, operating, and service funders can coordinate the review of applications.
- NOFA and RFP timelines for funding can be aligned to minimize the time between awards.
- Priority populations and geographic priorities can be aligned at the system level.

### Outcome:

Shifting the responsibility of aligning funding from the individual developer/sponsor to the system, will decrease development time, be more cost effective, and provide greater sustainability during operations.

- Use the CSH Service Budget Tool for information on funding levels required for best practices on service staff caseloads based on different service models.
- Project Specific Service Funding:
  - Evaluate the sources of service funding identified:
    - How does the provider qualify for it?
    - What is the term of the funding?
    - Are there restrictions on the population that can be served? Does it match the intended population to be served at the building?
    - What is the provider's plan for funding services for the next 15-30 years at this development?
    - Does the budget cover tenancy support services (as defined by the CSH Services Budget tool) at a minimum with referrals to other services as needed by the tenants?

### **Tenant-Based Service Underwriting Questions:**

- Does the building's tenant selection plan match the state defined eligibility criteria? A Medicaid payer such as a state or an MCO can only commit to coverage of services for people who meet any state defined eligibility criteria and "Medically Necessary Criteria" or MNC<sup>4</sup>.
- Is the service provider already a Medicaid biller of other services? Is the service provider already enrolled in the state Medicaid plan? Does the service provider already have Managed Care contract in the relevant geography? If not, becoming a Medicaid biller requires significant time, start-up costs and infrastructure to bill for services. Underwriters should consider if the organization is already a Medicaid enrolled provider or if the organization is suited to take on the initial investments to bill Medicaid and whether Medicaid rates will adequately cover administrative costs. If not, what other funding sources (e.g., local grant dollars, tax funding, state budget appropriations) can a service provider tap into and when? Many states are now offering grants to build provider capacity. Does the timing of these funds match with when they plan to be actively providing services in a project?
- What is the state's approved "Fee Schedule" for Medicaid billing, and does it match what the sponsor is proposing? The "Fee Schedule" outlines the payment mechanisms and rates. States can choose a specific payment mechanism or allow their Managed Care Organizations (MCO) to make that choice. Underwriters should reference the relevant state "Fee Schedule" to confirm budget estimates.

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<sup>4</sup> [Medically necessary - Glossary | HealthCare.gov](#)

- What is the service provider's experience with Medicaid? Do they have the contracts, billing systems and other infrastructure needed to successfully execute their plan around Medicaid revenue?
- Is the development's staffing plan for services aligned with Medicaid staffing, training and education requirements? Only staff who meet these qualifications can bill for services. Underwriters can find this information in your state Medicaid program manual.
- Have additional service funding sources been identified to cover the gaps in enrollment lapses or benefit changes? Medicaid can only pay for services for persons who are Medicaid eligible and actively enrolled in the program. Service providers will still need additional funding sources to deliver services when Medicaid enrollment lapses, if the list of covered Medicaid benefits changes, or for people who are not eligible. CSH estimates that Medicaid can cover up to 75% of a service budget. Underwriters should discuss a sensitivity analysis and talk with other local services funders when reviewing a service budget to ensure that there is funding that could be supplemented in the event that not all tenants will be eligible for Medicaid.
- Does the tenant selection plan align with the state's HRS eligibility criteria? If these documents don't align well this means that the service provider will only be covering a limited portion of the services budget with Medicaid reimbursement for HRS. The provider should show other sources to cover the gap in funding services for the full building.

## Recommended Benchmarks

1. **Service staffing ratio** – Ratio of case managers to tenants should be no greater than 1:15. See the CSH Services Budget Tool for more details.
2. **Term of service funding:** Underwriters should verify that the development team has a plan to seek services fund sources that are flexible and sustainable enough to meet tenant needs for the lifetime of the project. Service funding commitments often do not align with affordability restrictions placed on developments through capital funding. Characteristics of service funding sources that are likely to last through the affordability restrictions include service sources that are well established where funding has been appropriated year after year, tax levies that do not sunset, Medicaid, and sources funded by government agencies or philanthropy that have a well-established relationship with the provider.
3. **Amount of service funding:** CSH estimates Medicaid can cover up to 75% of a service budget. Funding for the other 25% will need to come from other sources. It's important to understand that these estimates can change over a development's life cycle. Programs new to Medicaid, generally take 12-18 months to fully implement. Other sources of funding might need to be identified to cover the start up.



## ABOUT CSH

The Corporation for Supportive Housing (CSH) is both a national Community Development Financial Institution (CDFI) and a consulting, training and technical assistance provider. CSH is uniquely situated to understand the benefits and challenges when developing Supportive Housing. Supportive Housing is an evidenced based model that combines affordable housing with onsite assertive supportive services to support those with multiple barriers to live successfully in the community. As a CDFI, with a mission to increase Supportive Housing capacity, CSH has seen firsthand the barriers for developers, who can access capital and operating funds, but are challenged to find sustainable and sufficient services funding.

[csh.org](https://www.csh.org)





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