Accelerating Permanent Supportive Housing in Los Angeles

Background
Permanent supportive housing (PSH) has emerged as a cost effective and impactful housing intervention for people experiencing chronic homelessness, which the United States Department of Housing and Urban Development (HUD) defines as an individual with a substance use disorder and/or a mental or physical disability who has been homeless for at least a year. Evidence suggests that PSH, which combines non-time-limited affordable housing and wraparound support services, not only improves health outcomes and housing stability but also reduces costly healthcare service utilization and criminal justice system involvement (Hunter et al., 2017). However, competition for capital funding, rising costs of land and construction, restrictive zoning and building regulations, and limited staff capacity of PSH developers prevent PSH construction from accelerating and scaling at a rate that would meet demand (Nonprofit Finance Fund, 2019; Housing Authority of the County of Los Angeles, 2018, National Academies of Science, Engineering & Medicine, 2018). This literature review will provide an overview of the financing mechanisms that municipalities generally use to build PSH and highlight emerging innovative strategies for developing PSH that reduce construction costs and speed up project timelines.

Key Takeaways:
- Evidence shows that permanent supportive housing (PSH) improves health outcomes and housing stability for people experiencing chronic homelessness, but constructing enough PSH to meet demand through traditional measures is expensive and time-consuming.
- To accelerate PSH project timelines, states and local jurisdictions can enact legislation and ordinances to relax zoning and building regulations for PSH.
- States can also prioritize PSH projects in their federal Low-Income Housing Tax Credit allocations to make it easier to finance construction.
- Medicaid can cover many of the supportive services associated with PSH, especially in states with expanded Medicaid eligibility.
- Innovative financing models, like Pay-for-Success, and construction techniques, such as modular design, are emerging as potential ways to increase access to funding and speed up PSH construction.
Literature Review

Background and Research Motivation
According the 2019 Greater Los Angeles Homeless Count, there are 16,529 people experiencing chronic homelessness in Los Angeles County, which represents 28% of the total homeless population across the county (LAHSA, 2019a). People experiencing chronic homelessness are more likely to interact with emergency departments and inpatient medical or psychiatric care, as well as detoxification services, jails, and prisons than housed people and people experiencing more short-term homelessness (Culhane & Byrne, 2010). This burden on the healthcare and criminal justice systems imposes a significant cost on taxpayers, and research has shown that it is cheaper to provide people experiencing chronic homelessness with permanent supportive housing (PSH) than it is for them to remain unhoused (Culhane et al., 2002). Policymakers, homeless service providers, and researchers have embraced PSH as a potential solution to reducing chronic homelessness, citing cost reductions and positive outcomes for individuals who transition from homelessness into PSH (United States Interagency Council on Homelessness, 2017).

Within the past three years, voters in the Los Angeles region approved two ballot initiatives that provided funding for homelessness services and housing. The City of Los Angeles’ Proposition HHH, approved in 2016, is a $1.2 billion bond, which the city will use over the next decade to develop at least 10,000 units of PSH (Abt Associates, 2018). Los Angeles County’s Measure H, which voters approved in 2017, raised sales tax by 0.25% countywide to fund homeless services and prevention programs including rental subsidies and support services for PSH (Los Angeles County Homeless Initiative, 2019a; Abt Associates, 2018). Even with increased funding and popular support, however, there is still a shortage of PSH units given the amount of people experiencing chronic homelessness across the county.

Traditional Financing Mechanisms
Financing PSH projects generally relies on a combination of multiple funding sources, including from HUD programs and grants that flow from the federal government to state housing agencies and then to local jurisdictions (Substance Abuse and Mental Health Services Administration (SAMHSA), 2010). Other funding sources include state block grants or loan programs, tax- or bond-based funding streams from local initiatives like Measure H and Proposition HHH, and private philanthropic organizations. Funding for PSH projects is generally comprised of three funding categories: 1) capital funding for construction, 2) rental assistance subsidies, and 3) funding for the supportive services that will accompany the housing (SAMHSA, 2010).

Funding for Construction
Traditionally, federal sources of capital funding for building acquisition, construction, and rehabilitation for PSH have included:

- Community Development Block Grant (CDBG)
- Home Investment Partnerships (HOME)
- Housing Opportunities for Persons with AIDS (HOPWA)
- Supportive Housing Program (SHP)
- Section 811 Supportive Housing for Persons with Disabilities program
- Section 202 Supportive Housing for the Elderly program
- Low-Income Housing Tax Credit (LIHTC) program, discussed further below (SAMHSA,
It is common for PSH projects to combine federal funding with other sources of capital funding in order to make construction financially feasible (SAMSHA, 2010).

**Funding for Rental Subsidies**

Rental assistance is also a crucial part of most PSH models and benefits both the tenants and the developers of PSH units. Because PSH tenants generally have little or no income, their rent payments do not cover the true cost of operating and maintaining their housing. Rental subsidies pay the difference between the amount that tenants pay for rent and the actual monthly cost of the housing incurred by property managers or the affordable housing developers (SAMHSA, 2010). Some rental assistance is tenant-based, which means that the subsidy is attached to the tenant and moves with the tenant from unit to unit. Rental assistance can also be project-based, meaning that it is attached, usually long-term, to a specific unit and only applies to tenants who reside in that unit (SAMHSA, 2010). Federal programs that fund rental assistance include:

- HOME
- HOPWA
- Shelter + Care
- Section 8 Housing Choice Voucher Program (SAMHSA, 2010).

In Los Angeles County, one of the more innovative approaches to providing locally funded rental assistance is the Los Angeles County Department of Health Service’s (DHS) Flexible Housing Subsidy Pool (FHSP) program. Launched in 2014 with funding from DHS and private philanthropic sources, the FHSP helps DHS patients who are experiencing homelessness secure affordable housing with intensive case management and wrap-around services and has housed over 7,000 households since its inception (Brilliant Corners, 2019). The program partners with community-based PSH provider Brilliant Corners, which finds and secures rental units across the county, and then coordinates lease signing, security deposit, rent payment disbursement, move-in, and subsequent case management services (DHS, 2014). The program is innovative because it leverages health services funds to subsidize housing, and offers flexible options for individuals who were ineligible or unable to secure more restrictive federal rental subsidies (Abt Associates, 2017). The program also helps DHS patients secure PSH more quickly, cutting out bureaucratic barriers to obtaining housing (Abt Associates, 2017).

**Funding for Supportive Services**

Several federal agencies provide funding for the supportive services associated with PSH, including HUD, the Department of Veterans Affairs, the Department of Labor, the Department of Education, and the Department of Health and Human Services (Corporation for Supportive Housing (CSH), 2013; SAMHSA, 2010). Funding can also come from the state level, like California’s Mental Health Service Act Housing Program, or the local level, like Los Angeles County’s Measure H (Los Angeles County Homeless Initiative, 2019a; CSH, 2013).

While federal law prohibits federal matching of state Medicaid spending for room and board, Medicaid can fund a variety of housing-related services and activities for individuals enrolled in Medicaid (Paradise & Ross, 2017). Further, since the Affordable Care Act (ACA) allowed states to expand Medicaid coverage to millions of low-income people (including previously uninsured people experiencing homelessness), states have moved towards using Medicaid as their primary funding
source for supportive services including rehabilitation and case management services (SAMHSA, 2010). Additionally, the ACA created a new state plan option for health home services, which explicitly prioritizes care coordination for people with mental illnesses, substance use disorders, and other chronic conditions that are often found among PSH tenants (Nardone et al., 2012). Medicaid can also cover housing transition services that help individuals move from institutions to PSH or other community-based housing, tenancy-sustaining services that help beneficiaries maintain their housing once they have obtained it, and managed care plans for individuals with complex behavioral and physical health needs (Paradise & Ross, 2017). States and localities that are experiencing delays in PSH creation due to lack of funding for supportive services should focus on linking Medicaid to housing development initiatives.

**Low-Income Housing Tax Credit**

The LIHTC program is the largest and most successful federal program subsidizing the construction and preservation of affordable housing across the country (The Urban Institute, 2018). The federal government (the Internal Revenue Service and HUD) allocates income tax credits to state housing financing agencies (HFAs) based on the population of the given state. Then, each HFA develops a qualified allocation plan (QAP) for its respective state dictating how it will distribute the credits to the private affordable housing developers. Each state’s QAP reflects the unique housing needs of the communities within that state. Developers then compete for credits and usually sell the credits to private investors to obtain funding for their projects (Tax Policy Center, 2018).

In order to qualify for the LIHTC, project developers must meet one of the following tenant income requirements:

1. Tenants with an income of 50% or less of area median income (AMI) must occupy at least 20% of the project’s units
2. Tenants with an income of 60% or less of AMI must occupy at least 40% of the units (Tax Policy Center, 2018).

Developers must also ensure that rents in their projects do not exceed 30% of either 50% or 60% of AMI, depending on the share of tax credit rental units in the project (Tax Policy Center, 2018). Developers must meet both the tenant income requirement and the rent maximum requirements for 15 years after the housing becomes available to tenants or they lose the credits (Tax Policy Center, 2018).

Because each HFA develops a QAP that designates which projects will receive tax credits, these agencies have the opportunity to prioritize the construction of PSH in their states by allocating credits towards PSH projects. There are three ways that QAPs can give preference to particular types of projects, including PSH:

1. Thresholds – requirements that projects must meet in order to even be considered for tax credits; for example, requiring that projects include a certain amount of PSH units
2. Set-asides – reserving a percentage of credits for projects that serve particular populations; for example, setting aside a certain percentage of credits specifically for PSH projects that serve people experiencing homelessness
3. Points – awarding points to developers that commit to projects that will serve particular populations; for example, giving extra points to projects that have PSH units (National Low Income Housing Coalition, 2014).
States can accelerate the creation of PSH with their QAPs by including thresholds for minimum amounts of PSH units, setting-aside minimum percentages of tax credits specifically for PSH projects, and awarding developers extra points for committing to PSH projects (CSH, 2019). California’s most recent QAP includes points and set-asides for PSH projects, but does not establish thresholds (CSH, 2017). While awarding points is the most commonly used QAP strategy across states, it is also the least binding strategy in that it only rewards developers for submitting certain types of projects instead of requiring that they build them (CSH, 2019). California should focus instead on creating threshold requirements and increasing set-aside percentages specifically for PSH projects (CSH, 2019).

**Innovative Models**

While traditional financing mechanisms and development processes do produce affordable housing units and PSH units, the current scale of chronic homelessness in Los Angeles County calls for urgent action and innovation to speed up construction. The following models are a promising start:

**Pay-for-Success**

A promising funding model, known as pay-for-success (PFS), could help accelerate PSH development by engaging private investors for initial capital funding and removing risk and fiscal stress for public sector entities. In a PFS model, socially minded private investors provide initial capital funding for a program (in this case PSH construction and service delivery), and if an independent evaluation shows that the program has met previously agreed-upon success metrics, the public sector repays the investors, sometimes with interest (Lantz & Iovan, 2018). If the evaluation determines that the program has been unsuccessful, the public sector does not pay back the investors, which ensures that public dollars do not go towards an ineffective program. The model has potential not only for the construction of new affordable housing but also for funding programs that provide support services.

The PFS model is still relatively new and only a few examples exist for PSH interventions. One such example is a program in Los Angeles County called Just In Reach, which provides PSH solutions to people experiencing homelessness who are currently in custody in Los Angeles County Jail and who, without an intervention, would likely return to homelessness upon release (Hilton Foundation, 2017). The up-front capital ($10 million) for the program came from the Conrad N. Hilton Foundation, a private philanthropic organization, and UnitedHealthCare, a private healthcare company. Once eligible participants enroll in the program, program staff begin providing case management services while the individual is still incarcerated. Upon release, program staff picks up the participant and matches them with interim housing until Los Angeles County Department of Health Services (DHS)-contracted PSH provider Brilliant Corners assigns the individual to appropriate housing given their unique needs. Over four years, the RAND Corporation will conduct an independent evaluation of the program, basing its determination of success on previously agreed-upon benchmarks for housing stability and recidivism rates (Lantz & Iovan, 2018; Hilton Foundation, 2017). If the evaluation deems the program a success, Los Angeles County will repay the investors with public funds including funding that it leveraged from HUD, the United States Department of Justice, and the California Board of State and Community Corrections. In the event that the RAND Corporation deems the program unsuccessful, the Hilton Foundation and UnitedHealthcare will assume the loss of their investment (Hilton Foundation, 2017).
While PFS has tremendous potential, especially for large-scale programs that require sizeable upfront capital investments, the model also poses big challenges (Baldini, 2015). First, an effective PFS program requires substantial coordination among multiple parties throughout the lifetime of the program, which makes for high transaction costs and significant capacity commitments for the organizations involved (Baldini, 2015). Additionally, because the return on investment for PFS projects is inherently low even with a successful program, and because there is a risk to funders that there may be no return at all in the event of a failed program, only socially minded investors are likely to participate, which limits potential funding sources (Baldini, 2015). Moreover, because the return on investment depends on the success of the program, investors are more likely to fund programs that are likely to succeed, which may result in the bypassing of new, untested program ideas. Ample evidence and evaluations have attested to the viability of PSH as a housing intervention however, making it well suited for a PFS model.

Innovation Challenges and Requests for Proposals
Housing construction costs in the Los Angeles area are among the highest in the state of California and have been steadily increasing in recent years (Housing Authority of the County of Los Angeles (HACoLA), 2018). Construction costs account for approximately 70% of total development costs for affordable housing projects (HCD, 2014), suggesting that reducing these costs would make affordable housing cheaper to develop. Additionally, developers are building affordable housing in the same way as they have been for decades, with few advances in construction methods or technology that could reduce costs and project timelines (HACoLA, 2018). Considering these factors, both local government and non-profit entities have released requests for proposals (RFPs) for innovative, scalable PSH concepts. The City of Los Angeles’ Proposition HHH Housing Challenge is in the process of awarding up to $120 million for the construction of 1,000 new PSH units. As of October 2019, the Home For Good Funders Collaborative, an initiative of United Way of Greater Los Angeles, has finalized awards for its Accelerating Permanent Supportive Housing Pilot Program, which will facilitate the construction of 500 units of PSH through projects that are less expensive and faster than conventional housing development. An additional competition, the Los Angeles County Homeless Initiative’s Housing Innovation Challenge, awarded $4.5 million worth of Measure H funds to five developers with new ideas for relatively cheap and scalable PSH solutions. The winning concepts from the county competition shared a number of commonalities with each other:

- **Modular construction and pre-fabricated design** — three of the five winning ideas plan to utilize modular construction techniques, which involve housing units that are partially or fully fabricated offsite and then delivered to and assembled at the building site. FlyawayHomes’ proposal includes the use of modular construction for 2-bedroom, 1-bathroom shared living units that it can develop for $125,000 per person in under a year, which is substantially cheaper and faster than the Proposition HHH projects currently underway (LACHI, 2019). Another winner, LifeArk, plans to construct modular units with durable and versatile composite-polymer panels, which can be quickly assembled in a variety of configurations with simple tools (LACHI, 2019). A third winning proposal, from the Community Corporation of Santa Monica, laid out plans to assemble modular units that can be stacked up to five stories high on small parcels of land (LACHI, 2019).
• **Partnerships with service providers** — all five of the winning proposals involve partnerships with existing homeless service providers who will be contracted to provide the supportive services that are fundamental to PSH. Both FlyawayHomes and Community Corporation of Santa Monica will contract The People Concern, a large homeless services and housing provider in Los Angeles with a high retention rate for its residents (LACHI, 2019). LifeArk plans to contract a different service provider, the Illumination Foundation, which is active across several counties in Southern California (LACHI, 2019). The South LA Bungalow Court project, another competition winner, will work with two different service providers – Los Angeles County Department of Health Services and non-profit housing agency Brilliant Corners (LACHI, 2019). The fifth winning proposal, United Dwelling, will contract with job placement organization Chrysalis for employment services. Chrysalis will also provide construction workers with lived experience of homelessness for the project (LACHI, 2019). These partnerships between innovative affordable housing developers and established service provider organizations illustrate how collaborative efforts between multiple organizations with unique areas of expertise can make for new forms of PSH creation.

• **Energy efficiency** — several of the contest winners built in energy and water efficiency measures to help reduce operating costs for their projects. Both LifeArk and Community Corporation of Santa Monica’s modular units have off-grid water, power, and sewer capability, allowing them to function without paying for municipally provided utilities (LACHI, 2019). The South LA Bungalow Court project will partner with GRID Alternatives, a non-profit that makes solar energy technology accessible to low-income communities, to install a photovoltaic solar power system that will provide cheap and renewable electricity to its future tenants (LACHI, 2019). South LA Bungalow Court will also feature drought-tolerant landscaping, which will reduce operating costs for the developers of the site (LACHI, 2019).

**Zoning and Review Processes**

Zoning laws and building codes that require lengthy approval and review processes can significantly slow down the construction timelines for affordable housing and PSH projects. The State of California and local jurisdictions can amend these laws to make exceptions for certain types of projects like PSH construction.

**Local ordinances**

In April 2018, Los Angeles City Council approved two city ordinances to help accelerate the production of PSH and other transitional housing for people experiencing homelessness. The first, the Interim Motel Conversion Ordinance, removed building code and zoning barriers that had previously prevented the refurbishing of run-down motels and hotels for use as PSH or other interim housing for people experiencing homelessness (City of Los Angeles, 2018a). The second, called the Permanent Supportive Housing Ordinance, exempted PSH projects from zoning and building restrictions like parking requirements and allowed for construction of multifamily developments on land currently zoned for public facilities (City of Los Angeles, 2018b).
State ordinances
State legislators have also passed bills that seek to streamline the creation of affordable housing, including PSH. Signed into law in 2018, California Senate Bill 35 established a streamlined permitting and zoning approval process for affordable housing production for local jurisdictions that are failing to meet state mandated affordable housing quotas (California Department of Housing and Community Development (HCD), 2018a). Local jurisdictions that do not meet the state quotas have the option to increase affordable housing production on their own or be subject to increased development by the State of California. California Assembly Bill 2162, also known as the Supportive Housing Streamlining Act, exempted PSH projects from the California Environmental Quality Act (CEQA) review process and from conditional use permit requirements (San Francisco Planning Department, 2019). California Senate Bill 2 from 2008 paved the way for these bills by amending California’s Housing Accountability Act (HAA) and the state’s housing element law to require that local jurisdictions treat PSH and transitional housing the same as other residential uses and include them as protected uses under the HAA (Public Counsel, 2017). The State of California and local jurisdictions should continue to identify elements of zoning and building codes that impede the creation of more PSH and pass similar laws to remove or bypass such barriers.

Accessory Dwelling Unit Conversions
Another strategy for quickly providing housing options for people experiencing homelessness is converting existing garages, basement suites, and backhouses into living spaces. These types of conversions, collectively known as accessory dwelling units (ADUs), are cheaper and require a less rigorous permitting process than larger multi-family buildings. In recent years, the State of California and Los Angeles County have passed and amended legislation and ordinances that remove zoning and permitting barriers to encourage the development of ADUs (Los Angeles County Department of Regional Planning, 2019; HCD, 2018b;). While ADU conversions can help address the statewide shortage of affordable housing in general, there are a few ADU project proposals in the Los Angeles region that will specifically target people experiencing homelessness. ADU conversions do not necessarily entail the supportive services that would make them PSH units, but creative partnerships between affordable housing developers and homeless services and healthcare providers could result in ADUs that meet the definition of PSH. Furthermore, financing ADUs remains a challenge for homeowners. To address this, the California Housing Finance Agency (CalFHA) created a pilot program in which it provided $2.5 million to a non-profit community development organization to act as the construction lender for an ADU conversion program in Clovis, CA (CalHFA, 2019). If the program proves successful, the CalHFA could partner with Los Angeles County to implement something similar in order to help homeowners finance their ADU conversions.

One such proposal is United Dwelling, one of the five winners of the LACHI Housing Innovation Competition. The project’s plan is to lease two-car detached garages from single-family homeowners and convert them into affordable studio homes for one or two people experiencing homelessness (LACHI, 2019). United Dwelling’s plan is innovative because it takes the onus off homeowners to carry out the ADU conversion themselves, which can be a daunting task for an individual or a family. Instead, United Dwelling leases the garages for periods of 15 years or more and uses its construction and architectural partners for the renovations.
In 2018, Bloomberg Philanthropies announced the City of Los Angeles as one of the winners of their Mayors Challenge, which awards $1 million grants to cities seeking funding for innovative solutions to problems they are facing. Los Angeles’ winning proposal was for an ADU program pilot, which will grant homeowners up to $30,000 in tax incentives to carry out ADU conversions on their property and then match those homeowners with people experiencing homelessness (Bloomberg Philanthropies, 2018). The program will also pair each tenant with case management services and rental subsidies through LAHSA (Bloomberg Philanthropies, 2018).

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Works Cited


