

## Beyond Capital Financing: Permanent Supportive Housing Funds Fact Sheet

Permanent Supportive Housing is a feature of Washington State's Medicaid Transformation Project, which provides those in need of housing support and services with avenues to independence and, in some cases, a return to a life in the community that may have heretofore seemed impossible to them. Consumers who use these services come from varied backgrounds and live with various health issues that impede their ability to access or maintain more traditional living or working arrangements. Those accessing PSH are persons enrolled in Apple Health who are a minimum of 18 years old and live with mental health, substance use disorder (SUD), restrictions on activities of daily living (ADL), complex physical needs which restrict successful independent living, or a combination of these factors.

PSH providers are needed in a multitude of locales—urban, rural, and elsewhere—and often require financial support to provide shelter and services. Financial tools are available through several avenues and support capital needs, operating costs, and the provision of services depending on the funder and funding opportunity.

This fact sheet differentiates between operating costs and service costs, breaks down possible avenues of funding to support operating costs for PSH, reviews key aspects of managing braided and blended funding sources, and discusses the important impact that diversity, equity, and inclusion have on funding PSH.

### Understanding PSH Operating Costs

Some providers of PSH, whether individuals, agencies, or other entities, may rely mainly on the collection of rent to cover the cost of operating their housing model. Rent for PSH tenants may be subsidized by the government, requiring eligible tenants to pay, usually, about thirty percent of the rental costs from their income. Payments may be handled by the tenant, by a community support program through a Community-Based Organization (CBO), or by a tenant's behavioral health provider rather than directly by the tenant. Some PSH is subsidized by unit rather than by tenant.

Forecasting operating costs ahead of developing a PSH project is vital. Operating costs for PSH include such things as: (1) **Utilities** including needs like water, electricity, sewer; (2) **Maintenance** which might include things like painting, repairing flooring, walls or ceilings, janitorial services, window and door repair, stairs and sidewalks, or other outdoor spaces; (3) **Property management** help with setting the rental prices and then collecting the rent, filling vacant units, screening maintenance requests, building annual budgets for the property that adequately cover costs, and intersecting with the community to maintain positive relationships and stay on top of legislative and regulatory changes that impact the site; (4) **Staffing** depends on the model of PSH offered and includes the property manager but may also include administrative staff, social service staff, a program manager, and facilities maintenance staff depending on the size of the site; (5) **Insurance and legal services** may also be included in operating costs as would **taxes** that may be due on the property dependent on municipal or other requirements and whether the provider of PSH holds

not-for-profit status which may or may not be extended to the property as prescribed by pertinent governing code.

In many ways, the operating costs for PSH are not so different from those landlords outside the PSH model deal with or even private homeowners may face. However, be mindful that [regulatory requirements](#)<sup>1</sup> may impact how the property must be maintained.

Service costs related to PSH fall into the case management bucket and include life skills training, budgeting, treatment assistance, and assistance accessing and maintaining benefits such as food stamps, health care, or other needed entitlements. Additionally, case management services might include crisis management, assistance with vocational or educational services, eviction prevention services, and learning how to work with property managers and the PSH to plan how best to meet treatment and service needs.

Services in tandem with housing are meant to support consumers to live as independently as they can and will vary from tenant to tenant. Medicaid covers PSH service costs for individuals eligible for Apple Health. The following section provides information about potential funding sources owners may access to offset PSH operating costs not covered under Medicaid.

## Potential Funding Sources to Subsidize PSH Operating Costs

### STATE OF WASHINGTON FUNDS

Apple Health and Homes (AHAH) is a multi-agency initiative that pairs healthcare services with housing resources. Washington AHAH's PSH Office focuses specifically on PSH programs. It offers two programs which provide [assistance with operations and maintenance costs](#)<sup>2</sup> these are the Permanent Supportive Housing Operating, Maintenance, and Services Program (PSH-OMS) and the Operations & Maintenance Program (OM).

PSH-OMS, administered by the Department of Commerce, currently supports roughly 160 distinct PSH sites throughout Washington. The purpose of the PSH-OMS is to support multifamily housing projects, which include units specifically reserved for PSH. Appropriated for the first time in 2018, this funding is meant to provide "gap" operating and maintenance funding to address gaps in operating revenue in housing operations providing [PSH](#)<sup>3</sup> units. The Washington State Department of Commerce currently appropriates roughly \$47 million annually to support this program to reimburse PSH project owners for operating and maintenance costs as well as an array of supportive services required by unit residents.

Since 2002 OM has assisted projects that house consumers unable to generate sufficient income to pay rent. Funds are meant to cover the costs of such things as maintenance and utilities. Eligible organizations are local governments, local housing authorities, nonprofit organizations, federally recognized tribes, and [regional support networks](#)<sup>4</sup>. An example of an eligible reimbursement expense would be the repair of a leaky roof; replacement of that same roof would represent a capital expense, and would, therefore, not be eligible, however, making repairs on the roof would be

considered maintenance. The parameters around each Notice of Funding Availability (NOFA) may differ, though, and it is best to carefully read the announcement and pose questions during the cited *Question & Answer* timeframe. Funding for this program is generated through the *Affordable Housing for All Surcharge*, which is charged at the county level when legal documents are recorded. The way funds are acquired results in variability of availability, and interested parties should check with OM staff ahead of making any application; this is a best practice, in any case, when making an application for funding through the Housing Trust Fund (HTF) as most funding streams are subject to change and connecting with staff ahead of assembling an application makes good sense.

The [Washington State Housing Trust Fund Handbook](#)<sup>5</sup> can help PSH providers understand the criteria for funding. Funding for these programs is offered competitively through the *Housing Trust Fund Multifamily/Rental* funding schedule.

Washington Commerce offers [resources and training](#)<sup>6</sup> as well as annual workshop trainings that help new and current PSH project holders to understand PSH and acquire information on [funding coming down the pipeline](#)<sup>7</sup> to support projects. Commerce also provides [Property Management Resources](#)<sup>8</sup> that may give prospective PSH projects an idea of the types of things that landlords consider as they develop and manage PSH projects.

## CAPITALIZED OPERATING RESERVE

PSH projects may choose, as allowable, to use funds set aside during the capital development phase of the project to later support the costs of operating the housing. This funding allows the PSH owner to fund utilities, management, staff salaries, and maintenance while the project is budding and rent is not fully covering operating costs. PSH owners may choose to manage such funds as a revolving fund that creates a margin that is used and replenished to ensure during tenant-light periods, the continuity of operations is maintained.

## HOUSING CHOICE VOUCHER

The Housing Choice Voucher (HCV) – sometimes still referred to as Section 8—can be project-based as well as tenant-based. Tenant-based vouchers follow the individual voucher holder from unit to unit. In contrast, project-based vouchers (PBV) subsidize the unit itself and are generally acquired through the local Public Housing Authority (PHA) through a competitive process that results in a contract with the PHA to provide the units. These funds intend to help pay for rent and may be used to support operating costs. Owners agree to maintain a specific, agreed-upon number of units for eligible persons. This program is separate from but a subset of the HCV program; as a result, all HCV [regulatory requirements](#)<sup>9</sup> also apply to PBV holders.



### CROSS SUBSIDIZATION

Cross Subsidization is when properties offer both extremely low-income units alongside market-rate units which persons with higher incomes can afford. In this model, the higher rents from some units help cover the costs of renting other units at a lower cost. This model supports equity in a way that is positive for the community and is most feasible in areas that already have a strong market for rentals and homes.

### PROJECT GRANTS

Projects grants are offered through government granting agencies as well as private foundations. An example of a project grant through the federal government would be the [Cooperative Agreements to Benefit Homeless Individuals \(CABHI\)](#)<sup>10</sup> grant through the Substance Abuse and Mental Health Services Administration (SAMHSA). This grant allows nonprofit organizations to apply to provide services in tandem with permanent supportive housing to address the needs of persons living with serious emotional disturbance, serious and persistent mental illness, substance use disorder, or both. While funding must address accessibility to services and treatment for these health conditions, the grant includes outreach and engagement, as well as assistance with identifying sustainable permanent housing. This allowance leaves space for partnerships with PSH projects to support operations, for instance, a portion of the PSH provider's marketing budget or tenant referral costs.

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## Managing Braided or Blended Funding

Most providers of PSH will not fund their projects through a single funding stream. Combining diverse funding streams is called braiding (many sources) or blending (many funding options from a single source) funding. As a provider of PSH, there are multiple funding streams to organize, including rent from tenants, rental assistance, which covers the remainder not paid by the tenant, grants, loans, and other funding supports. Each funding stream may present a unique set of requirements regarding expenditure and tracking; some funds may be collected monthly, some may be collected post-expenditure from an external source, and some may be front-loaded and drawn down internally.

**Keeping track of the requirements for each funding stream is imperative. The following steps may help ensure the maintenance of compliance with multiple funding streams:**

### **Understand proper use and institute internal controls.**

- As applicants seek funding, ensure there is clarity about the proper uses of each fund and ensure there are internal controls in place that allow the differentiation of streams.
- Ensure senior leadership and finance teams know the desired funding and the unique requirements specific to each option.
- Analyze the flexibility and longevity of each type of funding and whether it aligns with the organization's mission and goals. Look at each funding stream's restrictions and assess if requirements can be met.
- Remember that most federal dollars cannot supplant funding but can supplement it.

### **Understand proper use and institute internal controls.**

- Ensure an accounting system is in place to track individual funding sources and consider if internal staffing and infrastructure are in place to manage funding successfully.
- Make adjustments before applying for funding to increase readiness to manage and revise policies or procedures to properly manage diverse funding options.
- Work with leadership and finance teams to budget for project needs, identify the various sources, and develop a mechanism to track the budget versus actuals.

### **Create organizational accountability.**

- Before acquiring funding, ensure teams know their responsibilities for monitoring and what activities fall to them that impact budget and finance.
- Train staff and provide opportunities for continuous review to ensure new developments are communicated effectively and to avoid adverse impacts on project(s).



### ENDNOTES

- <sup>1</sup> “Chapter 59.18 RCW: RESIDENTIAL LANDLORD-TENANT ACT,” Accessed May 23, 2023. Available at: <https://app.leg.wa.gov/rcw/default.aspx?cite=59.18>.
- <sup>2</sup> Washington State Department of Commerce. “Operations and Maintenance Fund - Washington State Department of Commerce,” March 23, 2023. Accessed May 23, 2023. Available at: <https://www.commerce.wa.gov/building-infrastructure/housing/ahah-psh/operations-and-maintenance-fund/>.
- <sup>3</sup> “RCW 36.70a.030: Definitions,,” Accessed May 23, 2023. Available at: <https://app.leg.wa.gov/rcw/default.aspx?cite=36.70a.030>.
- <sup>4</sup> “Chapter 71.24 RCW: COMMUNITY BEHAVIORAL HEALTH SERVICES ACT,” Accessed May 23, 2023. Available at: <https://app.leg.wa.gov/RCW/default.aspx?cite=71.24>.
- <sup>5</sup> “HTF Handbook Version 3-4-2021.Pdf | Powered by Box,” Accessed May 23, 2023. Available at: <https://deptofcommerce.app.box.com/s/f89ytc0qtime7dl6wpqke5h2zl1jwzlm>.
- <sup>6</sup> Washington State Department of Commerce. “Resources & Trainings - Washington State Department of Commerce,” May 24, 2023. Available at: <https://www.commerce.wa.gov/building-infrastructure/housing/housing-trust-fund/resources-trainings/>.
- <sup>7</sup> Washington State Department of Commerce. “Applying to the Housing Trust Fund - Washington State Department of Commerce,” April 27, 2023. Accessed May 23, 2023. Available at: <https://www.commerce.wa.gov/building-infrastructure/housing/housing-trust-fund/applying-to-the-housing-trust-fund/>.
- <sup>8</sup> Washington State Department of Commerce. “Property Management Resources - Washington State Department of Commerce,” February 8, 2023. Accessed May 23, 2023. Available at: <https://www.commerce.wa.gov/building-infrastructure/housing/housing-trust-fund/property-management-resources/>.
- <sup>9</sup> HUD.gov / U.S. Department of Housing And Urban Development (HUD). “Project Based Vouchers,” Accessed May 23, 2023. Available at: [https://www.hud.gov/program\\_offices/public\\_indian\\_housing/programs/hcv/project](https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/project).
- <sup>10</sup> SAMHSA. “Cooperative Agreements to Benefit Homeless Individuals (CABHI),” Accessed May 23, 2023. Available at: <https://www.samhsa.gov/homelessness-programs-resources/grant-programs-services/cabhi-program>.