Domus background- intro
Overall Observations

- The voters approved Prop 41 authorizing $600M of which 50% would serve extremely low income veterans of which 60% would be permanent supportive housing. Overall 30% would be targeted to permanent supportive housing and 70% non-supportive.
- The 1st and 2nd round NOFAs were specifically designed to target projects that included permanent supportive housing units (chronically homeless/homeless with a disability) or transitional units vs. other general affordable veteran units.
- In the 1st round the state received 32 applications requesting $125M. The Program awarded $63M to 17 projects yielding a total of 566 units for Veterans. Of which 66% of these units were designated to be permanent Supportive housing, which was more than double the statue goal of 30%. $12M of the original $75M NOFA was not allocated.
- We know there is great need to serve the chronically homeless veteran and we understand the desire to produce as many supportive housing units as possible with the Prop 41 funding however we must be mindful that we have an fiduciary obligation to create a financially feasible projects that can maintain long term financial sustainability and still meet the voter approved Prop 41 statue production goals.
- Most PSH projects serving chronically homeless populations do not have enough rental income to support a conventional mortgage and thus require large rental/operating subsidies to pay for the social services and operating expenses.
- Project based vouchers (Section 8/VASH are diminishing and difficult to obtain for any project), additionally MHSA typically does not fully fund the long term operating subsidies. The VHHP capitalized operating reserves is only available for the first 17-20 years but the under this program the project will be governed by a 55 year regulatory requirement that will mandate deep levels of affordability and high social service requirements. Therefore all of the PSH projects will need to be restructured if and when they lose their operating subsidies or they will be in default of their regulatory obligations.
- The VHHP program requires that 45% of VHHP Assisted units must be reserved for 30% AMI tenants. This threshold limits the # of VHHP units a developer can include in a project due to 45% requirement ELI rents and coupled with high services costs. This threshold also makes it difficult to design a unit mix that could allow for cross subsidizing of units. In other words allowing higher income units to help subsidize deeply affordable units. Therefore creating a unit mix that could be sustainable in the long run without a strong reliance on rental subsidies. These concept could be modelled after HCD's Supportive Housing MHP program.
- What is also challenging is that VHHP Program requires very expensive supportive services which must meet the industry range between $5,000 to $10,000 per unit annually in services costs

- Yet the Program only allows between $750 to $4,000 per unit annually of supportive service coordination and case management costs to paid as a project operating expense.
- For Example: Our 30 unit Vet project has 22 VHHP Assisted Units (w/11 supportive units) has a services budget of $84K (services cost is approx. 32% of the total operating budget).
- The long term RISK of this program falls on the Developer/Sponsor for developing/maintaining/regulating project for 55 years even though the operating subsidy contract is subject to a contract of 20 year or less.
- Yet, in the VHHP program the Developer/Sponsor Experience is downplayed. The program awards 10 pts. for developer/Sponsor experience VS. 18 points for Lead Service Provider Experience (The weight of the lead service provide experience is almost double that of the developer/sponsor and the Lead service provider is most likely contracted for social services and does not have long term financial risk)
- Having completed 4 applications from our perspective, the Application process is still very complicated, especially in how one documents the Lead Service Provider experience and the Supportive Services Plan. Very little guidance on how to prepare these sections was provided at each of the 2 workshops my office attended.
- Leverage of Rental/Operating Subsidies is also weighted heavily in the application at 20 pts. Projects that utilized VHHP Operating Reserve Offset Tranche funds received 0 points and will always be disadvantaged under this point system.
- As stated earlier it is very difficult to obtain project based Section 8, VASH or other types of rental assistance. As illustrated in the 1st NOFA only 32% of the units funded had any rental assistance at all.
- I appreciated reading in the staff report that the agency unit has stated production goals: to fund 4,800 units of which 2,880-3,300 are permanent supportive housing, this is roughly 69% aimed at creating permanent supportive units. However the goal of 69% is more than double the goal stated under the voter approved Prop 41.
- I encourage more consideration be given to the BIG PICTURE and targeting projects with long term financial feasibility that can also leverage other affordable housing funding sources like tax credits, cap and trade and private capital.

Recommendations

- Consider allowing more program flexibility to encourage the production of both supportive housing for homeless veterans and general veteran affordable housing with a focus on creating long-term financially sustainable models that are not overly reliant on short term rental subsidies.
- Consider establishing competitive set-asides goals (i.e. SH/TH/Other) with defined funding amounts under each NOFA. So each type of project will compete against other similar types.
- Consider issuing an over the counter VHHP program NOFA for non-competitive 4% projects to create general affordable veteran housing and encourage the use 4% tax credits and bonds vs. the highly competitive 9% tax credits
- Consider lowering 45% ELI threshold to add more flexibility in structure the financing
- Revisit the requirement that sponsors must budget the “industry standard” supportive services costs of $5,000 to $10,000 per unit. Allow for more flexibility and creative social service partnerships for service delivery and allow for changes in the service delivery model if over time the service needs of the population stabilizes or declines. For our underwriting models, rents increase as 2% and expenses increase at 3%. Also consider allowing greater flexibility to fund 100% services costs as a project operating expense
- Need to understand that not all localities are equal and as service and resource rich like Los Angeles. Projects in smaller localities should not be penalized for wanting to serve veterans but can’t compete well because they don’t have as much services or funding resources.
- Think about rewarding projects by the number of new non-VHHP affordable units created as a way to encourage the creation of much needed affordable housing statewide which leverages other funds
- Allow adequate public review and stakeholder comment on proposed final drafts of Guidelines Updates and NOFAs before they are formally adopted
- Aim to create a less complicated and more streamlined Supportive and Resident Services Plan section
- Revisit minimum points thresholds (SH/TH/Other) taking into account NOFA 2 applications
- Provide feedback to unsuccessful applicants to help improve future applications
- Akin to AHSC Program, encourage 4% projects by increasing per unit loan limits for VHHP Projects without 9% Tax Credits and bonus points
- Revisit Leverage of Rental/ Operating Subsidy Section for projects with mixed populations that can cross subsidize and/or need VHHP Offset Operating Tranche funds
- It would be extremely valuable if CalVet could provide further written guidance on their priorities regarding Lead Service Provider and Supportive Services Plans