

**Hearing of the Housing and Community Opportunity
Subcommittee of the House Financial Services Committee:**

**Federal Spending Requirements in Housing and Community
Development Programs**

July 9, 2008

**Testimony of Nancy McGraw
Managing Director, Eastern Region
Corporation for Supportive Housing**

Madam Chair Waters, Ranking Member Capito, members of the Subcommittee, good morning.

My name is Nancy McGraw, Managing Director of the Eastern Region for the Corporation for Supportive Housing (CSH). I appreciate the opportunity to testify on CSH's views of and experiences with federal spending requirements in housing and community development programs.

CSH has unique experience as a national organization that, for the last 17 years, has helped communities build permanent supportive housing to prevent and end homelessness, with particular success in serving people struggling with multiple challenges. Since its incorporation in 1991, CSH's staff members have worked extensively with hundreds of government and nonprofit organizations in all 50 states and the District of Columbia. CSH's direct technical and financial assistance has led to the creation of over 19,000 units of supportive housing that are now operational – providing housing to over 26,000 individuals and families, with an additional 15,000 units in the pipeline. In addition, CSH is also a HUD HOME Community Housing Development Organization (CHDO) and Homeless Technical Assistance (TA) provider as well as a Community Development Financial Institution (CDFI).

My testimony today will describe the difficulties homeless assistance grantees typically encounter in spending grant funds and how CSH and the providers we work with address these challenges. I will describe why our industry needs flexibility and technical assistance to put together complex projects to benefit people in very precarious life situations.

Regarding the specific issue of the federal statute that mandates the recapture of funds five years after appropriation, I would suggest that this limit has both positive and negative aspects. CSH agrees that it is “good government” to ensure that appropriated funds are put to use within a reasonable time frame and that five years of availability for obligation is a good expectation that fosters accountability. We would also encourage the Subcommittee to consider that reasonable and legitimate delays are commonplace, and that properly-applied flexibility – such as granting the Secretary the authority to waive the five year rule – would likely benefit all stakeholders.

I want to emphasize that CSH believes that with the proper investment, strategy and tools, homelessness can be ended in America. While the supportive housing industry is still relatively young, extensive data shows that the combination of permanent housing and supportive services is an effective method for helping the hardest-to-serve individuals find safe, affordable and stable places to live. The McKinney-Vento Homeless Assistance Act – the federal government's first coordinated effort to prevent and end homelessness – is only 21 years old. Yet through the tireless work of providers and advocates, as well as a strong commitment from federal, state and local governments and other interested parties we are making significant progress in understanding and addressing homelessness. The bottom line is, we have come a long way in a short period of time.

Nevertheless, piecing together the financing in order to create permanent housing with supportive services for homeless individuals is a very complex process. Providers, developers, policymakers and financiers are all becoming more comfortable with this process, but I would suggest supportive housing production requires more sophistication than that of the typical affordable housing industry and may therefore be more susceptible to delays in spending funds.

Allow me to describe some of the complicating factors in permanent supportive housing production that ultimately can cause delays in spending federal funds.

- Supportive housing production requires partnerships between housing providers, and service providers who need to find scarce resources for case management, employment assistance, mental health care, addiction counseling and other services.
- Because permanent supportive housing requires not only capital funding, but also operating and services funding, the number of sources can easily reach 7 to 10 or even more.
- Financing is often leveraged and layered, yet there are very few places where all the financing can be assembled simultaneously. The result is a need to cobble together funding sources.
- The competitive process for securing funds often results in needing several “rounds” or years to secure all the necessary funding. As an example, Low Income Housing Tax Credits (LIHTC), are usually made available 1 or 2 times a year in a very competitive process. I would also note parenthetically, that we are pleased many Housing Finance Agencies (HFAs) that administer tax credits are including incentives for those who prioritize supportive housing projects to serve the homeless. If federal funds are recaptured, we would be concerned that the important relationship supportive housing proponents have built with HFAs and private developers could be hindered.
- A very important source of project funding comes from capital financiers, yet they are highly reluctant to obligate funds until they know where all the funding will come from. The potential loss, due to recapture, of federal funds only makes capital funders less interested in our projects.
- Local planning and zoning boards are still wrestling with how to treat supportive housing and all services for persons who have been homeless. There are issues that arise regarding saturation of services, perceptions about the risks and safety concerns, additional levels of review, scrutiny and public approvals to which these projects are often subject.
- Acquiring the proper location for permanent supportive housing can be difficult due to NIMBYism. While we are able to effectively argue that supportive housing is a positive development in most communities, siting woes can escalate into lengthy community review and approval processes and even more lengthy legal challenges.

CSH has worked with partner organizations and with HUD to overcome some of the difficulties in putting together projects in a timely manner.

Via our 13 Hub offices across the country, we have helped establish demonstration programs, funding councils, unified Requests for Proposal (RFPs), and invested in capacity building and in evaluation and research to document best practices and impact. In 2006, CSH's work to create and support Connecticut's Supportive Housing Pilots Initiative received the prestigious Innovations in American Government Award from the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government.

As outlined in our latest Taking Health Care Home Report, which I'd ask the Committee to consider including in the record, we have documented the results of our assistance to local governments to create unified and coordinated systems to successfully leverage and layer funding. I'll note pertinent to this hearing that we have identified that approximately half of the supportive housing created has involved funding from the McKinney-Vento Homeless Assistance program.

Since our inception, we have helped over 500 non-profits create permanent supportive housing through technical assistance and training. We have invested in resources like the creation of a robust financing guide, an on-line toolkit on "Developing and Operating Supportive Housing" and a "Small Towns Toolkit" that specifically addresses building community support. In addition, several years ago CSH began conducting state-based "supportive housing development institutes," to offer providers concrete resources and tools to successfully fund and implement their projects.

Based on our experience as a CDFI through which we have made over \$160 million in loans and grants, we offer an example of these challenges. In 2001, we made a pre-development loan to Citizen's Housing Corporation to create a 40 unit supportive housing project in Marin County, Northern CA on the former site of the Fireside Motel. Citizens Housing Corporation at the time was a well-respected, non-profit affordable housing developer which had over 2,000 units occupied or in development. The project had complex financing (the original project plan included 6 sources for pre-development, 6 capital sources including SHP and LIHTC, 1 operating subsidy and 2 service funding sources, including SHP). The project also involved a zone change with planning commission review, and was a historic rehabilitation with new construction, which added time and complexity.

We stuck with the project as it encountered these delays and ended up amending the terms of this loan five times based on our assessment that it continued to be a viable project worthy of the risk. Construction was set to begin this past summer. However, one of the project's investors objected to the inclusion of refunding bonds issued by California's HFA (CalHFA) due to a technical issue which made the bonds risky from a legal standpoint. As a result, Citizens Housing Corporation has submitted new applications for tax-exempt bond financing and 4% federal and state low-income housing tax credits. Just recently we were repaid and the project is in construction. CHC now has 3,000 units in its portfolio and is a leading affordable and supportive housing developer in the Bay area.

We also appreciate the working relationship with HUD, which has included working with the Department as part of our national and local McKinney-Vento technical assistance

contracts, on updating the program desk guides, offering regular trainings on technical submissions, and supporting the establishment of the HUD Homeless Research Exchange (HRE), which is rich with helpful materials and links.

HUD's Special Needs Assistance Program (SNAP) office has also been proactive in identifying grantees that were vulnerable for recapture. CSH has worked with HUD for the past few years and has been successful in resolving the status of more than 711 unobligated McKinney-Vento grants, which resulted in 629 grants being obligated representing \$270,950,901 in funds and 82 grants being de-obligated with a total of \$19,648,192 being recaptured. Our findings from this work reaffirm the challenges laid out earlier in my testimony, from siting to zoning changes, to assembling all of the financing.

I will reiterate my earlier comment that we understand the rationale for placing time limits on expenditure of federal funds. However, at a time when we need more housing and services for people who are homeless we can ill afford the loss of units and opportunities for communities due to recaptures. CSH has worked tirelessly to incorporate supportive housing as a viable and necessary component of communities. This reputation has taken many years to solidify. While there are projects that are appropriate for recapture because they are no longer feasible, we are concerned that some good and viable projects may fall apart due to the recapture limit, and that this could have a ripple effect on the entire industry.

Our primary recommendation to overcome this challenge would be for Congress to consider granting the Secretary specific waiver authority of the 5-year rule that would allow for the extension of projects if the applicant can show a concrete plan for spending down un-disbursed funds.

We would also encourage Congress to consider creating an opportunity to allow communities or agencies to reuse these funds for similar purposes before they are recaptured to the Treasury. An example is the BRAC process, in which federal agencies have a chance to access the property before it is released to the general public. This could be accomplished by allowing the Continuum of Care to identify a different project or the community could choose a different use of the funds to address homelessness.

Again, I deeply appreciate the opportunity to testify today and welcome the Subcommittee's questions.