Using the Neighborhood Stabilization Program to Help Create Permanent Supportive Housing

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Background

Over the past year, the foreclosure of residential properties has become a crisis, affecting homeowners and renters in every state across the nation, including low-income households with special needs. In response to this growing problem, the federal government has authorized a new program – the Neighborhood Stabilization Program (NSP) – designed to help address the home foreclosures and property abandonment resulting from the nation’s recent economic crisis. Administered at the federal level by the U.S. Department of Housing and Urban Development (HUD), NSP funds have been made available to every state and territory and over 250 local communities to renovate and rehabilitate these properties and to support a community-wide response to neighborhoods significantly affected by widespread foreclosures.

Although the meltdown of the housing market is thought of primarily as a problem affecting homeowners, the crisis

What is Permanent Supportive Housing?

While there is no single ‘official’ definition of permanent supportive housing, the most commonly accepted meaning is:

• Decent, safe, accessible, and affordable community-based permanent housing intended for people with serious and long-term disabilities;

• Providing consumers with rights of tenancy under landlord/tenant laws; and

• Linked to voluntary and flexible services designed to meet consumer’s needs and preferences.
has also affected the stability of properties that provide rental housing, including rental housing for people with disabilities, homeless people, and people with other special needs. When owners of rental property can no longer pay their mortgages they also typically stop paying for repairs, utilities, or other maintenance. As a result, renters live in increasingly substandard conditions or are being forced to leave or abandon the unit entirely. In many communities foreclosures and their impact on renters has affected multiple properties, creating neighborhoods filled with empty, boarded-up, and deteriorating housing.

NSP funds can help new owners purchase these foreclosed properties and renovate them as quality affordable housing. And, if appropriate rental subsidy and support services can also be identified, NSP can provide an excellent opportunity for the disability community to advocate for permanent supportive housing units to be included within NSP-assisted rental properties.

This issue of Opening Doors provides an overview of HUD’s new Neighborhood Stabilization Program, documents the purpose and history of the program, discusses how the funds are distributed, describes the ways that NSP can be used to create permanent supportive housing, and suggests strategies that can be used by the disability community to work with NSP grantees.

What is NSP?

NSP is a new HUD program recently created by Congress to provide a financial tool to states, localities, and housing developers to respond to the drastic changes in the housing market and the negative impact these changes have had on the housing infrastructure of many communities. NSP resources can fund programs aimed at redeveloping foreclosed and abandoned properties for use as affordable housing and thereby renovate the housing and revitalize neighborhoods.

Funds made available through NSP are considered emergency funds designed to address problems associated with high rates of foreclosures and abandoned properties. Unlike many other federal housing programs, NSP funds
represent a highly targeted, one-time opportunity and must be spent within a specified timeframe.

Congress provided NSP funding through two separate pieces of legislation:

- **NSP1** refers to $3.92 billion in NSP funds that were authorized under the Housing and Economic Recovery Act (HERA) of 2008 and distributed as formula block grants to each state and territory and certain local governments.

- **NSP2** refers to $1.93 billion of additional NSP funds appropriated as part of the American Recovery and Reinvestment Act of 2009 (ARRA). These funds will be used to award grants to states, local governments, and non-profit organizations on a competitive basis.

### NSP1 – Formula Grant Funds

NSP1 funds were distributed to states and selected jurisdictions in early 2009, based on a formula that took into consideration the rate of foreclosures during 2007 and the first half of 2008. A listing of the amounts and contact persons for NSP1 throughout the nation can be found online at [www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/contacts/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/contacts/index.cfm).

In order to secure their NSP funds, each grantee was required by HUD to develop a plan for how the funds would be used within broad federally-defined categories. Known as a Substantial Amendment to their Consolidated Plan, these plans outlined for HUD and the public the specific NSP activities each grantee proposed within five eligible NSP activities:

1. The creation of financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties;
2. Programs aimed at purchasing and rehabilitating foreclosed homes and residential properties;
3. The creation of Land Banks;
4. Funding the demolition of blighted structures; and
5. Funding activities considered redevelopment, which allows NSP funds to be used to redevelop demolished and vacant properties.

In their Substantial Amendment to HUD, grantees could choose to spend their NSP resources in one or more of these eligible categories that were deemed appropriate to respond to local needs. In addition to selecting eligible activities, the Substantial Amendment was required to specify how the grantee intended to select projects to receive NSP funds. Since NSP funds were created to respond to a crisis the intent was that the funds would be spent quickly and used on projects that were ‘ready to go’ or ‘shovel ready.’

NSP1 grantees also have strict expenditure timelines that they must follow. Within 18 months of HUD approval, NSP1 grantees must commit all of these resources and all funds must be expended within four years of HUD approval. By helping grantees meet these deadlines the disability community may be able to obtain set asides of permanent supportive housing units targeted to people with disabilities.

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NSP can provide an excellent opportunity for the disability community to advocate for permanent supportive housing units.
Finally, and maybe most important to the disability community, NSP1 guidelines also require each grantee to ensure that at least 25 percent of the funding is used for the purchase and redevelopment of abandoned or foreclosed properties that will benefit individuals or families whose incomes do not exceed 50 percent of the area median income (AMI). This guideline is sometimes referred to as the ‘25/50 targeting requirement,’ and should result in a total of approximately $980 million in NSP1 funds dedicated to housing for people with very low incomes, including people with disabilities. For example, in Pittsburgh, Pennsylvania, which has the lowest allocation of NSP1 funds in the country, at least $500,000 of their $2 million allocation must be used to create housing for households with very low incomes. As discussed later, this NSP income targeting requirement provides a new source of capital funding to help create permanent supportive housing units in local communities.

**NSP2 – Competitive Funds**

NSP2 funding differs from NSP1 in two important ways:

1. All NSP2 funds will be awarded by HUD, based on a national competition;

2. In addition to states and local governments, non-profit organizations are eligible to apply directly to HUD for NSP2 funding.

On May 4th, 2009, HUD issued a competitive Notice of Funding Availability (NOFA) for up to $1.93 billion of NSP2 funds. Interested states, local governments, and non-profit organizations are all eligible to apply for funding. Successful applicants must show that NSP2 funds will be used to return at least 100 foreclosed or abandoned homes back to productive use and that at least $5 million of NSP2 funds are required to accomplish the redevelopment goals. Because of the scale of the minimum grant award and number of homes that must be assisted, it is likely that only states, cities, larger non-profits, or groups of non-profits working together would apply for these funds.

Applications are due to HUD by July 17, 2009, and HUD expects to make awards before the end of calendar year 2009. NSP2 grantees face even tighter spending deadlines and must expend 50 percent of their award within 2 years and 100 percent within 3 years.

The NSP2 eligible uses and program goals are the same as those from NSP1, including the 25/50 targeting requirement. HUD issued a ‘Bridge Notice’ in June of 2009 to help provide consistency between the guidelines of NSP1 and NSP2. This notice can be found online at [www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/NSP1_Bridgenotice.pdf](http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/NSP1_Bridgenotice.pdf).

**Income Targeting**

Given NSP’s eligible activities and timeframes, grantees will most likely try to meet the 25/50 income targeting requirement by developing programs aimed at producing rental housing, as opposed to homeownership opportunities – especially in those locations where there are significant numbers of multi-family properties that are abandoned or have been foreclosed upon. 25/50-multi-family rental housing activities are also the primary mechanism for advocating for using NSP funds to create new units of permanent supportive housing.

In some communities where there is a large supply of single family homes, it may also be possible to create new units of permanent supportive housing. See page 5 for more information about how to use this model of housing to expand housing for extremely low-income people, including people with disabilities.

The creation of PSH using NSP funds is in line with the original purpose and mission of the program. HUD’s Using Neighborhood Stabilization Program (NSP) Funds to Serve Persons with Special Needs fact sheet (available online at [www.hudhre.info/documents/NSP_factsheet.pdf](http://www.hudhre.info/documents/NSP_factsheet.pdf)) states:

> Because most communities’ special needs housing resources are tied up in renewals of existing projects, NSP offers...
Housing advocates for people with disabilities may perceive the availability of large numbers of foreclosed single family homes as an opportunity to create permanent supportive housing. The number of abandoned and foreclosed properties dotting the landscape may be viewed as an opportunity to add to the supply of housing for people who have traditionally had difficulty in locating affordable homes. However, despite the widespread availability of the stock, single family homes, even those homes with extremely low purchase prices, do not easily adapt to the core components of the PSH model and can create financial challenges that are difficult to overcome.

Remaining true to the PSH model means that only one PSH household would reside in a single family property. Historically, single family properties have primarily been used by disability service providers to create congregate group home settings. Developers, whether they are for-profit or non-profit, considering the purchase of homes for use as rental property need to be able to cover the operating costs of the home with rental income from the tenants. The per unit cost of operating a single family home (including taxes, insurance, water and sewer, maintenance, and property management) is generally higher than the per unit cost of a multi-family unit and can easily become cost prohibitive when measured against the attempts to keep the rents affordable, even with a rental subsidy available. Frequently, service providers have relied on the ‘shared housing’ model to cover costs in single family homes.

In a multi-family property, operating costs are spread over a number of units and through an economy of scale, are kept to a reasonable level. The larger the number of units, the more reasonable the operating costs on a per unit basis, which in turn translates into more reasonable rent levels. These high costs often create situations where developers look to increase the number of occupants in a home as a way of increasing rents generated by the property. As the number of occupants in a single family home increase, the core components of the PSH model become more difficult to maintain.

The PSH model emphasizes consumer choice and community integration. Most people want to live in their own house or apartment that is fully integrated within the community rather than live in group settings that reinforce the stigma and discrimination that so many people with disabilities often face. As many people have experienced, even the requirement to have a roommate can have a detrimental effect on a person’s quality of life.

Focusing in on truly integrated housing options in the community for people with disabilities is also consistent with the U.S. Supreme Court’s 1999 Olmstead decision that clarified that community integration is a key component of meeting the vision embodied in the American with Disabilities Act.

Of course, there are exceptions to every rule and there are some non-profit groups that have successfully used small single family homes as PSH for 2-3 people with significant and long-term disabilities who need 24-hour personal care and can truly benefit from the shared housing model. Single-family homes can also work as PSH for larger households with one or more adults with disabilities and minor children. However, special planning and financing – including project-based subsidies – will be required to ensure that the home will be financially sustainable and that the housing truly reflects consumer choice and independence.

Scattered-site models where multiple single family homes are purchased at low prices may work for a housing developer but it all comes down to covering the cost of operating the property with the available rental income. Housing advocates for people with disabilities need to be vigilant about making sure the PSH principles don’t get diluted in order to make the numbers work.
an unparalleled opportunity to fund new projects. For NSP grantees, funding special needs housing projects that provide permanent supportive housing will help them meet the 25/50 targeting requirement. There are many possible models that communities could use. For example, an NSP grantee could acquire and rehabilitate a single-family or multi-family home and ‘dispose’ the property to a nonprofit. Alternately, vacant property could be redeveloped into permanent supportive housing units for persons with special needs.

NSP and Permanent Supportive Housing

NSP funds are being made available in the form of capital funding to grantees to encourage the redevelopment of foreclosed or abandoned housing. In order to understand and put into perspective how these NSP resources can result in the creation of permanent supportive housing (PSH), it is important to review the key components that are needed to create and sustain this model of housing.

Three Components of Permanent Supportive Housing

Because PSH integrates housing and services for extremely low-income people with disabilities, it has more funding components than other types of affordable housing. Depending on how the housing is provided, there are either two or three separate funding components in PSH projects:

1. Capital Funding
2. Rental or Operating Subsidies
3. Supportive Services

Capital Funding

Capital funds, such as NSP funds, are used to purchase, renovate, or construct new units of permanent supportive housing. This one time capital funding needed to pay for the development costs of new PSH comes primarily from government funded affordable housing programs. In most affordable housing developments, including those with PSH, there are often multiple sources of funding needed to make affordable housing development financially feasible.

In general, in affordable housing or PSH developments, the government funds are made available in exchange for some form of reduced rent restrictions, thereby ensuring that some or all of the housing units created will be affordable to targeted income groups. The exact type and length of the restrictions are based on the type and amount of capital funding provided. Depending on local circumstances and opportunities, NSP1 and NSP2 could become a valuable source of capital funds to expand permanent supportive housing.

Rental or Operating Subsidy

Because the tenants living in permanent supportive housing have extremely low incomes, their rent payments (based on 30% of income) are not enough to cover the costs of operating the housing (e.g., utilities, insurance, maintenance, repairs, property management, etc.). When developers create PSH, they need to secure a monthly operating or rent subsidy to pay the difference between the rents paid by the PSH tenants (typically $150-$200 per month) and the actual monthly cost of the housing. Similarly, when PSH is provided by leasing units in the private rental market, rental subsidy funds are needed to cover the difference between the market rent for the apartment and what the tenant can afford.

Supportive Services

Supportive services are the ‘support’ in PSH. Without them, the housing is the same as any other subsidized housing. Supportive services can vary depending on who is living in the housing. The specific supportive services offered can vary greatly from project to project, or unit to unit, depending on the needs and interests of the tenants and the funding sources. Most permanent supportive housing providers offer some type of case management and housing support, but many also offer more intensive services, such as mental health services, substance abuse services, vocational or
employment services, etc. These services may be offered on-site or off-site, or may be provided by a mobile service team.

In order to make the PSH model work in NSP-funded developments, all three of the PSH components described above need to be available. While NSP resources can be used for capital funds to cover the acquisition and rehabilitation of a foreclosed or abandoned property, other resources will have to be made available to fund the supportive services and operating/rental subsidy.

The availability of NSP can provide an opportunity to leverage the other needed resources to create PSH. Identifying affordable rental units within an NSP-funded redevelopment project provides a starting point to undertake the task of compiling the other crucial pieces of the PSH model. Units set-aside as affordable for households at or below 50 percent of AMI are easier to make affordable to the PSH population than housing that has no affordability restrictions. Even with the housing created through the 25/50 income targeting component of the NSP, some form of operating or rental subsidy will be required to cover operating costs while still creating affordability to the PSH population that traditionally has incomes between 15 and 20 percent of AMI.

Combining the units created in NSP-funded projects with some form of operating or rental subsidy, along with access to flexible supportive services for those being served in the units, will help make the inclusion of PSH units a successful component of a jurisdiction’s use of their NSP resources.

Next Steps

Activities involving the redevelopment of foreclosed properties can be extremely challenging and require an extensive knowledge of the housing development process. NSP funds are targeted to properties that have been foreclosed or abandoned or have been designated as blighted properties. Organizations that have never developed housing are strongly advised to partner with experienced housing developers rather than begin their experience with these more difficult ‘troubled’ properties. Partnerships between non-profit and for-profit housing developers and non-profit service providers can provide a successful strategy to create viable housing units that meet the goals of each partner.

The first step towards making NSP work as a production vehicle for PSH requires that the disability community learn how NSP funds will be spent in their community. To obtain this information advocates should:

- Find out what agencies received NSP1 funding in your state or community. A listing of NSP grantees (including contact information) can be found online at [www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/contacts/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/contacts/index.cfm).

Balancing the Three-Legged Stool

The PSH model is often compared to a three-legged stool. As described on the left, the ideal PSH unit has key three components, that when combined, provide a strong, steady base for a successful, long-term PSH tenancy. If each of the components represents the supports needed to keep the model steady, the elimination of any one of the supports can undermine the balance of the model and contribute to the de-stabilization of PSH.

Removal of long-term income and use restrictions on a unit could put it out of the reach of PSH consumers even if rental subsidies are available. Units with long-term restrictions that are out of reach of PSH consumers without subsidies may make it impossible for consumers to make their monthly rent payments. If supportive services aren’t available, consumers may not be able to sustain their obligations as tenants.

The individual components alone won’t provide a stable base. It’s only in combination that the stool remains steady.
• Contact these agencies and request a copy of their Substantial Amendment submitted to HUD. Review the Substantial Amendments to learn more about plans for use of NSP1. Reviewing these documents will provide a better understanding of how these funds are being targeted locally and what opportunities there may be to secure a commitment to create new PSH units.

• Locate information about NSP2 applications being submitted to HUD. Since the NSP2 application process is competitive and will involve applications by states, local governments, non-profit organizations, and consortiums of non-profits, locating this information will require some detective work. Use the contacts listed on the HUD website above as a starting point to find out what local agencies might be applying for NSP2. Each applicant for NSP2 funds was required to issue a Public Notice for Comment within ten days of submitting the application to HUD.

• Once you have identified information about how NSP funds are being made available in your area, focus in on those activities involving multi-family rental properties that are targeting households at or below 50 percent of AMI. Meet with the NSP grantee or organizations that are undertaking the redevelopment of the rental properties to see if there are opportunities to secure a set aside of the units for people with disabilities and to identify what additional resources will be needed to fund this set aside.

• Engage local officials administering NSP activities in discussions about including PSH production in these NSP activities. Provide data to these officials regarding the housing needs of people with disabilities and the cost-effectiveness and efficacy of the PSH model.

• Advocate for NSP grantees to adopt a high priority in their project selection process for projects that include PSH units.

• Encourage partnerships between local Continuum of Care homeless planning groups and developers seeking NSP funds through discussions convened by NSP1 grantees.

• Work with NSP grantees to match up rental subsidy resources for NSP units set aside as PSH by engaging local Public Housing Agencies (PHA) and McKinney-Vento Shelter Plus Care grantees in development process.

• Look at opportunities to use NSP funds as a matching resource for HUD’s McKinney-Vento Supportive Housing Program (SHP) projects.

• Use the availability of NSP resources as an opportunity to discuss the use of project-based Housing Choice Vouchers for people with disabilities who are high priority or could currently receive Medicaid-financed supportive services in the community.

• Stay in touch with your local NSP grantees as they work to distribute the NSP funds within the HUD timeframes. As the HUD deadline approaches for committing the available resources, grantees may be willing to increase the amount of NSP assistance available per property that may make it easier for the funds to result in the creation of PSH units.

Look out for TAC’s new website in the coming months:
www.tacinc.org

Join TAC’s email list for Opening Doors and TAC’s e-newsletter TACConnections:
www.tacinc.org/Forms/emaillist.htm