Final Plan
For Efficient and Effective Use of State Resources
In the Financing and Development of Independent and Supportive-living Apartments for Persons with Disabilities

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To
The Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities and Substance Abuse Services

By
The Department of Health and Human Services
The North Carolina Housing Finance Agency

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Table of Contents

I. Executive Summary …… 3

II. Introduction ……. 5

III. Serving Particular Populations ……...…. 8

IV. Primary Recommendations ……. 10

1. Continue DHHS-NCHFA Partnership in the Housing Credit and Key Programs
2. Create a Tenant-Based Rental Assistance Program
3. Continue Smaller-Scale Supportive Housing Developments
4. Expand North Carolina's Oxford House Partnership

V. Secondary Recommendations ……. 17

VI. Providing Access to Services …….. 19

VII. Other Policies and Practices …… 21

VIII. Conclusion ……... 22

I. Executive Summary

This report is the second, and final, in response to Session Law 2007-323, Section 10.49.(h1). It includes DHHS-NCHFA's four Primary Recommendations for the most efficient and effective use of resources to meet the independent supportive housing needs of persons with disabilities, particularly those with mental health, developmental disabilities, and substance use disorders.

The recommendations in this report are supported by thorough research and the experience of the partnership between DHHS and NCHFA over the past several years.

The success of the partnership, due in large part to the funding provided by the General Assembly, can be measured in both the expansion of housing opportunities and the improvements in people's lives. An independent evaluation[1] reported that residents were unanimous in saying that the Targeted Units produced through the Housing Credit and Key Programs provided stable, affordable, good quality housing, with a majority of residents stating that the units were a vast improvement in all respects over their previous living situation. One resident shared that prior to moving to a Targeted Unit the family, including children, lived in an unheated barn with serious mold problems that compromised the family's health. In addition, residents reported that they had more security, peace of mind, and reduced stress because of their stable living situation and knowing they could afford it. Service providers working with tenants were unanimous in saying that access to this housing greatly improved residents' lives.

NCHFA and DHHS make the following recommendations to continue successfully supporting North Carolinians with disabilities.

1. Continue DHHS-NCHFA Partnership in the Housing Credit and Key Programs

2. Create a Tenant Based Rental Assistance Program

3. Continue Smaller-Scale Supportive Housing Developments

4. Expand North Carolina's Oxford House Partnership

In addition to an overview of the human service system's challenge to support persons with disabilities in integrated community housing with current funding mechanisms, the report also includes three secondary recommendations and three other policy and practice issues that would increase access to permanent supportive housing.

The first report, an Interim Report, submitted on March 1, 2008 was a summary of information collected from state-level housing and human service agencies on how other states were working to meet the housing needs of persons with disabilities. Over the past year DHHS and NCHFA have supplemented this research to support these recommendations and concluded:

- Permanent supportive housing is the recognized best practice in meeting the housing needs of the majority of persons with disabilities. Research into housing programs for persons whose sole disability is substance abuse indicate housing models other than permanent supportive housing can be effective in supporting the recovery process.

[1] Cowan, Spencer M. and Zambito, Peter, "*Real Choice Systems Change Grant Program Evaluation Final Report,"* Center for Urban and Regional Studies, University of North Carolina, Chapel Hill, NC, September 2008.

- There are three critical components to developing affordable permanent supportive housing: **Capital** – a source of funding either to purchase or build housing; **Operating Subsidy** – a mechanism to ensure the rent is affordable to extremely low-income tenants; and **Access to Services and Supports** – availability and coordination of the services and supports that persons with disabilities may need to be successful in the community.

- Federal regulation directly prohibits targeting federal housing resources to specific disability populations, with limited exceptions. These regulations do not control state funds unless leveraged in the same project; however, the federal rules were designed to accommodate civil rights law and integration policies, and should be the basis for setting state housing policy for persons with disabilities. Priorities can be based on residential status rather than on diagnosis to provide necessary housing linked with services.

- North Carolina, like other states, is challenged by the Americans with Disabilities Act, the Olmstead decision and current funding mechanisms to reconfigure the way it provides services and supports so that eligible persons can be successful in integrated community housing.

NCHFA and DHHS believe that making independent community housing affordable to persons with disabilities is a good investment. Meeting the housing needs for persons with disabilities will require a range of strategies. Consistent annual funding will sustain the momentum built by the Housing 400 Initiative and allow development and service partners to confidently plan future supportive housing. These recommendations are important steps and build on successful models already used in North Carolina.

II. Introduction

A. Requirement of the Report

This report is the second, and final, in response to Session Law 2007-323, Section 10.49.(h1). It includes recommendations for the most efficient and effective use of resources to meet the housing needs of persons with disabilities, particularly those with mental health, developmental disabilities, and substance use disorders. This session law reads in part:

> *The Department of Health and Human Services and the North Carolina Housing Finance Agency (NCHFA) shall work together to develop a plan for the most efficient and effective use of State resources in the financing and development of additional independent- and supportive-living apartments for individuals with mental health, developmental or substance abuse disabilities. Not later than March 1, 2008, the Department and the NCHFA shall submit jointly an interim report to the Joint Legislative Oversight Committee on Mental Health, Developmental Disabilities, and Substance Abuse Services ("Oversight Committee"). The interim report shall include how housing finance agencies and departments of health and human services in other states have worked together to address the housing needs of those populations and how other states have addressed disability specific housing. Not later than March 1, 2009, the Department and the NCHFA shall submit jointly a final report to the Oversight Committee. The final report shall take into consideration findings in the interim report and shall include strategies for addressing gaps in the housing continuum identified by the DHHS study of the housing needs of persons with mental illness in adult care homes, if the study is completed.*

B. Summary of the Interim Report

On March 1, 2008 NCHFA and DHHS submitted an Interim Report, a summary of information collected from state-level housing and human service agencies describing how other states were working to meet the housing needs of persons with disabilities. In summary, the Interim Report found:

- Permanent supportive housing is the recognized best practice in meeting the housing needs of persons with disabilities. Permanent supportive housing allows persons with disabilities to access and maintain decent, safe, and affordable housing that is integrated into the community and linked to a variety of individualized support services. The occupant has the rights and responsibilities of tenancy, and neither accepting supportive services nor following treatment plans are conditions of tenancy.

- There are three critical components to providing persons with disabilities affordable permanent supportive housing: **Capital** – a source of funding either to purchase or build housing; **Operating Subsidy** – a mechanism to ensure the rent is affordable to extremely low-income tenants; and **Access to Services and Supports** – availability and coordination of services and supports that persons with disabilities may need to be successful in the community.

- Human service systems, and the housing programs that states have developed, have historically been organized to serve particular populations. The nature of the relationship between the states' human service and housing systems and the resulting programming varies widely.

- A majority of the state human service agencies interviewed either are moving toward a more centralized, disability-neutral approach to housing or report that a more centralized approach would be desirable.

- State policy and programming are being informed by the expanding understanding of the civil rights of persons with disabilities and the U.S. Supreme Court Olmstead decision that challenge states to serve people with disabilities in the most integrated setting possible. To accomplish this integration mandate, there is a clear trend to integrate persons with disabilities into their communities by using generic affordable housing resources.

- All states operate under the same federal legal and regulatory restraints (with limited exceptions for particular programs) that prohibit disability-specific targeting of federal housing resources, but understanding and enforcement of these rules vary greatly across jurisdictions.

- Medicaid is the primary source of funding for community-based systems of services and supports for persons with disabilities. States struggle with how to reconfigure the way they provide services and assure linkage with supportive services so that eligible populations can be successfully supported in independent community housing.

C. Subsequent Research

After the completion of the Interim Report, DHHS and NCHFA undertook additional research, including a literature review, interviews with North Carolina stakeholders, and more detailed discussions with other states. Research into other states' programs and practices suggests that North Carolina's centralized housing coordination within the Office of the Secretary at DHHS is exceptional in the organization of human service systems. This has greatly facilitated the success of the partnership between DHHS and NCHFA.

NCHFA and DHHS also met and consulted with the researchers from the Technical Assistance Collaborative (TAC) working under contract with the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMH/DD/SAS) on a study proposed in the December 1, 2005 report, "Study of Issues Related to Persons with Mental Illness in Long-Term Care Facilities." The study was designed to inform the development of an array of residential options to meet the needs of non-elderly persons with mental illness and developmental disabilities currently residing, or at risk of placement, in Adult Care Homes.

In the course of their research, TAC looked across the spectrum of North Carolina's capacity to provide housing for persons with disabilities in Adult and Family Care Homes, in Supervised Living settings licensed under G.S. 122C MH/DD/SAS rules, and through the state's affordable housing resources and programs. Central to their findings was that many non-elderly people with disabilities enter a licensed congregate facility simply because there are no other options available to them that they can afford or readily access. Once they are placed in a congregate setting, the scarcity of affordable independent housing options with access to appropriate services inhibits transitioning to more independent living.

TAC made a number of recommendations to more closely link facility residents to community-based services, including a restructuring and realignment of the substantial capacity in G.S. 122C licensed Supervised Living facilities. These recommendations included cost reporting and changes in regulatory requirements so that the G.S. 122C licensed facilities are best used to meet the needs of target populations. TAC also advised linking the Local Management Entities (LME) with admission and discharge decisions and overseeing person-centered plans so that the G.S. 122C facilities are not dead-end

placements but provide a safe, structured living environment and assist residents in acquiring the skills for maximum independence and facilitating integration into community life.

Realigning G.S. 122C licensed capacity would also provide the opportunity to explore the need to define new time-limited residential services not currently offered. These could include the Transitional Residential Treatment now being piloted by DMH/DD/SAS and crisis-respite housing that would offer temporary housing and a range of support services to individuals experiencing mental health or other crises.

TAC research supports North Carolina's efforts to expand permanent supportive housing. TAC believes that adequate supportive permanent housing options are essential to all efforts to improve facility-based and community-based services. An adequate supply of permanent supportive housing would provide choices for consumers in need of housing before accessing a licensed facility, and/or options for returning to the community.

The recommendations that follow would expand the supply of independent supportive community housing and have been informed by the TAC recommendations, the research conducted over the past two years, and the experience of the DHHS and NCHFA partnership.

III. Serving Particular Populations

NCHFA and DHHS research found many housing programs for persons with disabilities designed to serve particular populations.

Housing by Diagnosis

DHHS and NCHFA looked at strategies being used to serve particular disability populations, specifically persons with mental illness, developmental disabilities, and/or substance abuse disorders. There are many of these, as the supportive housing model has evolved from older models of institutional and congregate care where people were grouped based upon diagnosis and the services offered in a particular setting. Older HUD programs, most notably the HUD 811 Supportive Housing for Persons with Disabilities, have replicated this model over the years.

The passage of the Americans with Disabilities Act (ADA) in 1990 and the subsequent Olmstead decision in 1999 are changing the way housing and supportive services for persons with disabilities are provided. Systems across the country are moving away from a program model where housing and services are provided together as a residential service, and moving to services based upon the needs and eligibility of the individual and access to affordable community housing that is not predicated on service compliance.

As discussed at length in the Interim Plan, the 504 Rehabilitation Act regulations and the ADA allow the targeting of federal housing resources to persons with disabilities, but prohibit targeting to any particular disability group to the exclusion of another. The most recent federal Section 8 project-based rental assistance rules articulate the exception to the federal rule of disability neutral targeting of housing resources. These rules, informed by both the letter and the spirit of civil rights law, justify limiting occupancy to a particular group only if all of the following conditions apply: particular services will be offered at the development; tenants have disabilities that severely limit their ability to obtain and maintain housing; supportive services offered at the housing site are necessary for the tenant to maintain housing; necessary services cannot be provided in a non-segregated setting; participation in services is voluntary; and units are made available to otherwise qualified tenants. NCHFA and DHHS have offered and provided this exception in the small-scale rental properties funded through the 400 Initiative.

NCHFA and DHHS have taken a disability neutral approach to the development of integrated permanent supportive housing to support recognized best practices and to assure that to the greatest extent possible state funds can be used to leverage and extend federal funding. These regulations do not control state funds unless leveraged in the same project. However, the federal rules were designed to accommodate civil rights law and integration policies and should be the basis for setting state housing policy for persons with disabilities.

Housing by Residential Status

DHHS and NCHFA also looked at programs serving persons with disabilities based upon criteria other than diagnosis. These programs served persons leaving institutions, psychiatric hospitals, nursing homes, treatment facilities, prisons, persons living in congregate settings who do not need that level of care, young adults with disabilities who had spent time in foster care/child residential services, veterans with disabilities, and homeless persons with disabilities. With the exception of some persons, including those with hearing impairments or developmental disabilities who may prefer apartment clusters to facilitate peer support and communication, people with different disabilities do not need different housing models; rather, they need access to a different array of services at differing levels of support.

NCHFA and DHHS believe that permanent supportive housing is a good investment. Cost benefit research shows that homelessness and the lack of residential stability for persons with disabilities cost the State in many ways: in dependence upon expensive emergency interventions; in both health care and mental health systems; in child and adult protective services; and in local jails and courtrooms. Homelessness and lack of residential stability contribute to high recidivism rates in state prisons and to North Carolina's dependence upon institutional and facility-based care. A growing body of literature[2] documents that providing permanent supportive housing for high-risk consumers not only improves lives and the ability of the individuals to manage their disability, but can result in significant long-term savings across multiple state systems. Providing priorities based upon residential status, rather than diagnosis, is both a legal and rational method for directing limited resources.

Persons with Substance Use Disorders

Successful recovery from substance addiction returns an individual to a level of functioning that includes gainful employment and therefore the ability to access and maintain market housing. Research into housing programs for persons whose sole disability is substance abuse indicates housing models other than permanent supportive housing can be effective in supporting the recovery process. While there is a shortage of affordable housing for low-wage earners, housing programs to support the recovery process are generally seen as a time-limited, transitional intervention.

Recovery housing options include peer operated and peer supported housing models like Oxford House, single-purpose developments that promotes a clean and sober living environment, and low-demand harm-reduction housing models that "meet people where they are" and allow for relapse and gradual acceptance of services over time using motivational interventions. Time-limited tenant-based rental assistance can provide stable living situations while persons in the recovery process rebuild life skills and return to work. North Carolina currently has some, but not all, of these options. The recommendations included in this report provide the flexibility to expand those that are found most appropriate to meet identified needs.

[2] Corporation of Supportive Housing website collects resources documenting the efficacy of permanent supportive housing: http://www.csh.org/index.cfm?fuseaction=Page.viewPage&pageId=4405&nodeID=81.

IV. Primary Recommendations

1. Continue DHHS-NCHFA partnership in the Housing Credit and Key Programs

Since 2002, NCHFA and DHHS have partnered in the development of integrated permanent supportive housing in the Housing Credit Program. The Targeting Program has been recognized with two national awards from the National Council of State Housing Agencies and from the National Alliance for the Mentally Ill. It has also been replicated by housing finance agencies in four states and served as the model for legislation (H.R. 5772, the Frank Melville Supportive Housing Investment Act of 2008) that was passed by the U.S. House of Representatives to modify a portion of the federal 811 program that develops housing for persons with disabilities.

The program uses an existing development program, the federal Low Income Housing Tax Credits, and the Key Program (Key), North Carolina's state-funded production-based operating subsidy, to create homes affordable to persons with disabilities with incomes as low as Supplemental Security Income (SSI). All Housing Credit properties in North Carolina funded in the last five years must make ten percent of the units available to persons with disabilities. These "Targeted Units" are then available to qualified adults with disabilities through a partnership with a local human service agency, the "Lead Agency", as outlined in a Targeting Plan. The Lead Agency works with local disability service agencies, the Housing Support Committee (HSC) in the area, and DHHS Regional staff to develop a collective process for referring and making support services available to qualified tenants. The Lead Agency facilitates access for eligible tenants regardless of who provides supportive services while protecting confidential information about diagnosis and/or treatment needs. As a result, units are open to persons with a full range of disabilities who are receiving services from a full range of providers.

The two agencies work collaboratively in the design and execution of the program. NCHFA operates the Housing Credit program that builds and maintains the affordable units, monitors the developments for compliance with program rules and set-aside requirements, and administers the Key Program. DHHS works in the local communities facilitating participation of human service providers through 35 Housing Support Committees and acts as a liaison between the Lead Agency, referral agencies, and property management in managing and tracking the referrals and tenancies of qualified persons.

Capital: All units are built, managed, and monitored through an existing efficient production program; thus, there is no incremental capital cost. The current average cost per unit in North Carolina's Housing Credit program is $110,000.

Operating Assistance: The Key Program is the state-funded production-based operating subsidy that covers the gap between what extremely-low-income residents can afford to pay and a statewide payment standard set to provide what the property needs to operate the unit. Key is designed as a bridge subsidy with the goal to transition tenants to permanent, portable federal assistance (e.g., Section 8) as soon as it becomes available. Over the life of the program, Key costs an average of $220 per unit per month, making Targeting and Key a highly efficient leveraging of resources.

Access to Services: Tenants access services that they need to be successful in their community through their referral agency. Referral agencies are service providers who participate in local HSCs designed to provide local coordination of services available to tenants at a particular property. HSCs provide a forum for human service providers who ordinarily may not cross paths to interact. They learn about each other's programs and other housing opportunities for their consumers, and collaborate on meeting tenant needs. According to an independent evaluation prepared by the Center for Urban and Regional Studies at UNC-Chapel Hill, the Targeting Program succeeds in providing access to much-needed affordable housing that

improves consumers' lives, and the HSCs are a valuable forum for the coordination of supportive services and training about housing issues, particularly about Fair Housing and Reasonable Accommodations.

Cost Estimates: Historically, the Housing Credit Program has created approximately 2,500 units per year, resulting in 250 Targeted Units a year, or a total of 1,611 since 2002. The ability to continue this program is only limited by access to recurring appropriations for the Key Program and staff capacity at the two agencies. As additional funded units come on line, the existing staff capacities will be inadequate, necessitating funds for administration. Based upon current values, projected costs for the continued expansion of the DHHS-NCHFA partnership in the Housing Credit and Key Program are:

Key Program recurring funding for each year of production:
$220 per unit multiplied by 250 units multiplied by 12 months = $660,000

Key Program recurring administration for each year of production:
up to 7.5% of Key Program funding = $49,500

2. Create a Tenant-Based Rental Assistance Program

Many states supplement the shrinking supply of federal assistance with a state-funded tenant-based rental assistance (TBRA) program, often administered by the human service system. Like the federal Section 8 Voucher program, tenant-based assistance allows consumers to rent units in the market where tenants pay a share of their income toward rent and the assistance makes up the difference in the cost of the unit. TBRA provides a flexible source of assistance to meet immediate needs. Many persons with disabilities, particularly with mental health and substance use issues, have tumultuous histories resulting in bad credit, criminal records, and poor tenancy histories so they are unable to pass standard landlord screening. When TBRA is administered locally, and program staff develops relationships with landlords, these landlords, knowing the tenant will have support for successful tenancy, will often implement less stringent screening practices.

A TBRA program in North Carolina would complement the Housing Credit Program and Key Program by providing needed assistance to persons not yet able to meet standard landlord screenings or who are ineligible for Key (i.e., without a source of income based on disability). Like Key, a TBRA program would be designed to provide a bridge subsidy until the tenant is able to access permanent federal assistance (e.g., Section 8), thereby freeing up the TBRA subsidy to assist others.

A TBRA program could target high-priority, high-cost consumers based upon their residential status. This could include persons who are homeless or at risk of being homeless, those being discharged from institutions (i.e., hospitals, psychiatric facilities, treatment programs, prison, etc.), or those who may be inappropriately housed in licensed residential facilities. A TBRA program could also be designed to provide transitional (time-limited) assistance to high-priority persons in recovery from substance abuse (e.g., mothers with children). Local Management Entities (LME) and Public Housing Authorities (PHA) have experience working together using TBRA subsidies through the administration of over 1,000 McKinney-Vento Shelter Plus Care Vouchers. This federal program provides rental assistance linked with supportive services to previously homeless persons with disabilities.

Capital: TBRA accesses existing housing; thus, no capital is required for construction.

Operating Assistance: The rental assistance would cover the gap between what extremely-low-income residents can afford to pay and the rental cost of a modest, private unit, limited to the Fair Market Rent in a given area.[3]

Access to Services: It is critical to the success of a TBRA program designed to serve high-risk consumers that recipients of the rent assistance be closely linked with the most intensive services and supports available in the community. Care coordination through the LMEs will ensure that residents receive what they need to maintain their housing.

Cost estimates: Estimating the cost of a TBRA program must include the possibility that recipients could be (a) persons who have not yet accessed disability benefits, or (b) persons in recovery who may be ineligible for SSI and consequently may have no income or savings. Therefore, estimates, excluding any contribution from the recipient, are based on a statewide Fair Market Rent and one-time deposits for rent and utilities. As participant income increases and tenants are able to pay part of the rent, excess budget capacity can be used to serve additional consumers. In addition to state-level program design and oversight, local administration is critical and labor intensive. Local administrative functions include developing a landlord base, executing assistance agreements with landlords, processing tenant

[3] Fair Market Rents are set annually by HUD based upon the 40th percentile of gross rents for typical, non-substandard rental units occupied by recent movers and estimated utility costs in a particular local housing market.

applications, calculating rental share, inspecting units, processing payments, etc. The costs of providing a minimum of 200 units of tenant-based rental assistance are:

TBRA annual recurring funding for 200 units:
$667 per unit multiplied by 200 units multiplied by 12 months = $1,600,800

TBRA annual recurring assistance with deposits for 200 units:
$750 per unit multiplied by 200 units = $150,000

TBRA annual recurring administration costs:
up to 10% of TBRA funding = $160,080

3. Continue Smaller-Scale Supportive Housing Developments

Since 1994, NCHFA has operated the Supportive Housing Development Program (SHDP) that funds emergency, transitional, and permanent housing with access to supportive services for very-low-income households with special needs, including adults with disabilities. The North Carolina Housing Trust Fund has been the primary funding source for zero-interest SHDP loans; NCHFA also utilizes federal HOME funds for supportive housing. SHDP funding often leverages other federal funds, providing gap financing for federal HUD Section 811 grants and providing required matching funds for developments that have been awarded grants through HUD's McKinney-Vento Supportive Housing Program to assist the homeless.

Since 2006, legislative appropriations for the 400 Initiative have greatly expanded the capacity of the SHDP Program to develop permanent independent supportive housing for extremely-low-income adults with disabilities by providing Key Program operating assistance. NCHFA and DHHS modified the existing program, creating the Supportive Housing Development 400 Program (SHDP400) for the development of permanent independent supportive housing in small-scale rental properties, four to 12 units, for persons with disabilities. The program incorporates Key Program operating subsidies and offers construction financing. Only permanent supportive housing units with standard leases are eligible for funding.

Properties must provide a high degree of physical accessibility and energy efficiency in their design and must assist households with incomes less than 30% of the area's median income. NCHFA monitors the developments so that they are used as proposed for at least 30 years if newly constructed or at least 20 years if the property is an acquisition/rehabilitation development.

The SHDP program fills an unmet need in the housing array. Rental properties with a small number of units are the preference of some consumers, are appropriate in smaller towns, and can blend into residential neighborhoods, thereby facilitating community integration.

Capital: The current portfolio of the Supportive Housing Development Program shows that the cost of small-scale independent rental developments varies widely, from an approximate low of $100,000 per unit to a high of $200,000 per unit, depending on local land cost, impact fees and construction market. In addition, SHDP small-scale developments have no economies of scale for fixed costs because these are spread over 12 or fewer units. The portion of the development cost that falls to state funds also varies. For example, in HOME participating jurisdictions and in Community Development Block Grant (CDBG) entitlement communities (cities over 50,000 in population), many other funding sources are available. In small communities with few or no local funding sources, state funds can be up to 100% of the development costs.

In an effort to reduce some of the fixed costs of these small properties, NCHFA and DHHS are pursuing the development of standard architectural plans for duplex and quadraplex buildings. The agencies are also exploring the potential for using a portion of SHDP funding to secure a percentage of the units for persons with disabilities in developments being built with resources other than Housing Credits. A stable source of recurring capital funding would support long-term planning and program development.

Operating Assistance: As previously discussed, the Key Program is the state-funded production-based operating subsidy that covers the gap between what extremely-low-income residents can afford to pay and a statewide payment standard set to provide what the property needs to operate the unit. Key is designed as a bridge subsidy with the goal to transition tenants to permanent, portable federal assistance (e.g., Section 8) as soon as it becomes available. Small supportive housing properties need a higher operating payment standard because they are not mixed income and lack higher-income tenants to help defray

operating costs, including property management. The SHDP400 properties funded in 2007 are just being occupied and it is estimated that Key cost will be $250 per unit per month.

Access to Services: In most small supportive housing properties there are no site-specific supportive services available, though some properties sponsored by organizations that assist particular disability populations may have some additional site-based supportive services provided by the sponsor. Tenants in SHDP properties developed in partnership with DHHS access the housing and the services that they may need through their referral agency. Referral agencies are service providers who participate in local Housing Support Committees (HSC), which are coordinated by DHHS regional staff. The role of HSC is to provide local coordination of services available to tenants at a particular property.

Cost Estimates: The continuation of 0% interest construction and permanent financing for up to 100% of the cost of such projects (only needed when no local funds are available) is necessary if small-scale development is to continue. In addition, Key Program operating subsidies are essential to make these units affordable to extremely-low-income persons with disabilities. Using current values and assuming no local leverage, the projected costs for the continued expansion of the DHHS-NCHFA partnership in the Supportive Housing Development Program are:

Capital funding for each year of production:
50 units multiplied by $150,000 (average per unit) = $7,500,000

Key Program recurring funding for each year of production:
50 units multiplied by $250 a month multiplied by 12 months = $150,000

Key Program recurring administration for each year of production:
up to 7.5% of Key Program funding = $11,250

4. Expand North Carolina's Oxford House Partnership

For individuals in recovery from substance abuse committed to abstinence, studies have shown that alcohol- and drug-free housing can support their sobriety following treatment. Oxford House™ is a recognized national best practice model for effectively promoting long-term abstinence by providing peer-operated recovery homes and a level of care not found in other settings. Oxford Houses lease existing housing stock where residents collectively pay the rent and expenses. Residency is not time limited. Each group recovery home operates under a charter from Oxford House, Inc., the 501(c)(3) nonprofit umbrella organization that oversees home development and continuing operations.

Since 1990, the North Carolina Division of Mental Health, Developmental Disabilities and Substance Abuse Service has supported the development of Oxford Houses through a revolving loan program that currently utilizes $250,000 of recurring state appropriations and Federal Substance Abuse Prevention and Treatment Block Grant funds. These funds provide up to $4,000 per home in start-up costs that are repaid over three years. As of December 31, 2008, Oxford House of North Carolina had a total of 129 Oxford Houses in 31 cities with 728 beds for men and 235 beds for women. Oxford House of North Carolina also has a successful Criminal Justice Initiative for persons recovering from substance abuse who are leaving incarceration. The initial goal of this initiative, to serve 20 re-entering individuals, was exceeded by 210%, resulting in 42 men and women accessing clean, safe, and affordable drug-free housing.

The demand for Oxford Houses far exceeds the supply. From August 2007 through April 2008, Oxford House received an average of 193 applications per month but had only an average of 126 beds available. Oxford Houses offers a cost-effective means of providing a disciplined, supportive, open-ended, alcohol- and drug-free living environment for individuals in recovery. More Oxford Houses are needed throughout the state, particularly in some eastern and coastal counties not currently served. In addition, there is a need to extend services for high-risk populations, particularly women with children and persons leaving prison.

Capital: Oxford House leases existing housing; thus, no capital is needed for construction.

Operating Assistance: Oxford House residents pay rent that covers all housing costs; thus, no operating assistance is necessary.

Access to Services: Oxford Houses are peer-operated with residents receiving support they need from peers facing the same issues. The program also includes mentoring and assistance in obtaining necessary community services to support recovery.

Cost estimates: Using present values, three additional Oxford House staff along with $100,000 in additional revolving loan funds would allow Oxford House of North Carolina to add 12 new houses per year. This new funding would result in available housing for approximately 96 additional people in recovery.

Annual recurring funding to support three Oxford House Outreach Workers:
3 positions multiplied by $75,000 (salary, benefits, travel, etc.) = $225,000

One-time addition to Revolving Loan Funds: $100,000

V. Secondary Recommendations

In addition to the four recommendations previously discussed, NCHFA and DHHS believe the implementation of these recommended actions would increase access to permanent supportive housing.

1. Provide funding for security and utility deposits

Renting an apartment in the community requires the ability to pay substantial up-front fees. Most housing providers require an application fee, a month's rent for the security deposit, and the first month's rent. It is also necessary to establish utility services, and depending on the tenant's history with the utility company deposits for utilities can bring the cost of establishing tenancy to several hundred dollars. This barrier exists even when a person has obtained a Section 8 voucher. If the deposits cannot be made, the person cannot enter into a lease and therefore cannot use one of the most valuable resources at his or her disposal.

It is difficult for low-income persons, particularly those with incomes as low as SSI, to accumulate the savings necessary to cover the expenses required for renting an apartment, even if the monthly rent will be affordable. This is particularly true if the person is living in a licensed facility and only has access to the personal needs allowance, a maximum of $66 per month. There are very limited resources available to provide assistance with these costs, and therefore many people with disabilities are unable to overcome this initial financial barrier to accessing independent community housing.

DHHS and NCHFA previously partnered in administering a $45,000 federal grant to pay security and utility deposits. After individuals demonstrated that local resources had been explored and maximized, these funds assisted 132 low-income persons make the transition from institutions and licensed facilities to independent community housing.

Funding for security and utility deposits is an effective low-cost way to remove obstacles to affordable housing for persons with disabilities. An investment of $300,000, providing a maximum one-time grant of $750 per household and requiring local resources be accessed before assistance is provided, would help a minimum of 375 households overcome this financial barrier and fund the administration of the program.

2. Make changes to State Fair Housing Law

The value of a rental assistance voucher is that it can be used to help pay rent in market-rate housing. Though vouchers are scarce, once obtained, in many communities they are currently hard to use and many are returned because voucher holders cannot find landlords willing to accept them. In response to this systemic issue, the 2007-2008 General Assembly considered legislation (SB 334) that would amend the State Fair Housing Law to include source of income as a protected class for persons with disabilities and the elderly. This change would make it illegal for housing providers to refuse to rent to otherwise qualified persons with a rental assistance voucher. This statutory change would enhance access to housing for persons with disabilities.

3. Expand Training to Service Providers

The work of the LME's Housing Specialists, DHHS Regional Housing Support Coordinators, and the Homeless Mental Health Housing Initiative staff has shown that most community-based service providers are not adequately aware of best practices for providing housing supports. Housing supports are non-clinical services but are critical in assisting persons with disabilities to access and maintain community housing. The evaluation of the Targeting Program completed by the Center for Urban and Regional

Studies at UNC-Chapel Hill found that service providers identified the training on housing resources as one of the most valuable benefits of participating in the local Housing Support Committees.

Training is needed on housing resources, eligibility criteria, landlord relations, tenancy support, Fair Housing/landlord-tenant law, and incorporating housing into person-centered plans. This curriculum would enhance the service providers' ability to help consumers obtain housing and maintain residential stability. Particularly for persons with mental illnesses, residential stability decreases the risk of crisis, which can result in hospitalization or other costly institutional care.

Annual training costs for both face-to-face and Web-based training would be approximately $105,000 a year for a minimum of 12 regional trainings, reaching about 900 providers. This cost includes curriculum development, professional trainers, space rental, travel costs, supplies and interpreters.

VI. Providing Access to Services

As discussed at length in the Interim Plan, North Carolina, like other states, is challenged by the Americans with Disabilities Act, the Olmstead decision and current funding mechanisms to reconfigure the way it provides services and supports so that eligible populations can be supported in integrated community housing. The challenge is to make services consistently available and assure their quality in supporting desired outcomes through coordination and oversight.

Availability

Medicaid has become the primary source of funding for serving the health needs of low-income persons with disabilities. Medicaid services are provided based upon individual eligibility and the "medical necessity" of the service to the individual. Not all persons in need of supportive housing are Medicaid eligible. Persons receiving Supplemental Security Income (SSI) are automatically eligible for Medicaid, but persons with substance use disorders are only SSI- or Medicaid-eligible if they have an additional qualifying disability and meet income limitations, currently $867 a month for a single-person household. Therefore, persons whose sole disability is a substance use disorder are not Medicaid-eligible and are only eligible for state-funded services.

NC provides Medicaid eligibility to persons with incomes higher than $867 who are qualified to receive State and County Special Assistance only if they reside in a licensed facility. This means people with disabilities living independently in the community who are not poor enough to qualify for Medicaid assistance may have to enter a licensed facility to get the medical care they need.

In addition to Medicaid-funded medical and clinical services, many people, particularly those with serious mental illness, developmental disabilities and substance use disorders, need access to rehabilitation and habilitation services to achieve and maintain independence in the community. For those who qualify, Medicaid is available for rehabilitative services for the "restoration of functional level", but not habilitation services "to help people to acquire new functional abilities."[4] For example, a person with a serious mental illness could receive a Medicaid service to assist them in regaining independent living skills, but Medicaid would not be available to a person with a developmental disability to learn the skills that would enable them to live more independently. These definitions are important distinctions in the Medicaid program and result in many persons with significant disabilities being ineligible for Medicaid funded services to support community living.

NC's state Medicaid plan includes the ability to provide a range of rehabilitative services for qualified persons with serious mental illness and/or substance use disorders. Outside the Community Alternative Waiver programs that serve persons eligible for nursing homes or Intermediate Care Facilities for the Mentally Retarded (ICF-MR) levels of care, Medicaid does not provide non-clinical services to support persons with physical disabilities in their homes or the habilitative services to support persons with developmental disabilities in the community.

Persons with mental illness and/or substance use disorders who are chronically homeless or regularly incarcerated are persons who are often reluctant to engage any available services. Aside from the very limited federal Project for Assistance in Transitioning from Homelessness (PATH) program and a small state-funded three-site pilot program, there are no funding mechanisms to assist persons who need a long-term engagement strategy to begin accessing services. The pilot program, the Homeless Mental Health Housing Initiative, is funded by the Division of MH/DD/SAS. The PATH program and the Homeless

[4] Congressional Research Service, Report to Congress, Medicaid Rehabilitation Services, June 20, 2008, page 7.

Mental Housing Initiative models are nationally identified best practices on engaging persons who have circumstances and disabilities that present challenges to accessing community-based services.

State funding supports non-Medicaid-eligible individuals and services, including residential services in congregate settings. However, there are few state-funded services that provide rehabilitative and habilitative services to support independent community living, and there is insufficient capacity to serve all of those who would benefit.

Coordination and Oversight

When services are individualized and provided by multiple sources, successful integration of persons with disabilities requires coordination and oversight so that services accomplish the desired outcome of assisting the person to maintain residential stability in the least restrictive setting appropriate to the person's needs. Generic service coordination in multi-family rental properties, available to all residents who may need access to some kind of assistance, is recognized as an effective tool in linking persons with services they may need to maintain independence, but outside very limited federal grant programs for elderly housing developments, there are currently no payment mechanisms available to support this service.

At Lennox Chase in Wake County, a 32-unit permanent supportive housing development for formerly homeless individuals where many residents have mental health and/or substance use disorders, Wake County funds an on-site service coordinator. While this can be a very successful model,[5] the ability to provide this level of support is only feasible in our larger cities using local resources. In a 12-unit development recently funded in Winston-Salem under the Housing 400 initiative, local dollars are providing service coordination for the tenants in addition to a peer support specialist who will live on site. If provided the proper training, peer specialists could be of assistance in helping support successful tenancies throughout the community.

As Local Management Entities assume the role of Local Lead Agency, there is an opportunity for the LME to assure that tenants being served by the provider network are getting the services they need to be successful in the housing developed through the NCHFA and DHHS partnership. LME care coordination activities for high-risk individuals offer a strong potential for coordinating services to maintain residential stability in the least restrictive setting appropriate to the person's needs, but capacity must be built at the LMEs to effectively fulfill this function.

Housing Supports

In addition to the challenges of piecing together Medicaid and state-funded services to meet the needs of individuals, service providers are not generally equipped with the practical knowledge and skills required to assist consumers in navigating the affordable housing system to access and maintain community housing. In addition to the training previously discussed, a flexible generic "housing support" service designed to provide outreach and knowledgeable assistance in accessing and maintaining housing would help fill the gaps of eligibility and provide many more persons the opportunity to live successfully in the community.

[5] See "*The Cost Effectiveness of Supportive Housing: A Service Cost Analysis of Lennox Chase Residents,*" Jordan Institute for Families, December 2007, documenting a 29.5% decline in costs, across multiple systems, when formerly homeless persons are provided permanent supportive housing.

VII. Other Policies and Practices

1. Remove Regulatory Barriers

Many North Carolina communities have enacted regulations that create barriers including exclusionary zoning practices that can significantly limit the development of affordable housing. U.S. Department of Housing and Urban Development has made reduction of regulatory barriers a part of the scoring process for some applications for funding, including the McKinney-Vento homeless assistance funds. Efforts to reduce regulatory barriers can include, but are not limited to: 1) establishing zoning or planning legislation that requires localities to have a comprehensive housing plan; 2) having a housing committee of the General Assembly or a state agency responsible for monitoring local government policies and procedures that discourage affordable housing; 3) providing technical assistance to local jurisdictions on how to reduce regulatory barriers; 4) offering consistent training and interpretation of building codes; and 5) passing enabling legislation for local impact fees. Implementing these types of policies would facilitate development of additional affordable housing as well as improve scores on federal funding applications.

2. Preserve Existing Affordable Housing

Besides implementing programs that create additional new affordable housing units, it is important to establish policies and programs that support the preservation of existing affordable housing units. As project-based Section 8 complexes and other subsidized apartment buildings' compliance periods expire, capital for rehabilitation and rental assistance are necessary to maintain these units as affordable housing. NCHFA currently provides Housing Credits for rehabilitation of affordable housing developments. Funding provided under the 400 Initiative allowed NCHFA to expand the existing Preservation Loan Program (PLP) while creating additional Targeted Units. PLP provides loans for the rehabilitation and preservation of existing affordable housing developments that are not able to utilize other funding sources. Additional funding would further these activities and preserve much-needed affordable housing stock.

3. "Ready to Rent" Program

As previously discussed, many persons with disabilities have difficulty meeting standard landlord screening criteria. The "Ready to Rent" Program is a promising practice being implemented in two NC communities to address this barrier. "Ready to Rent" is a nationally recognized comprehensive rental-education curriculum designed to provide housing-readiness training to low-income people who have had past difficulties being successful tenants. Class topics include how to be a successful renter, restoring credit, home maintenance and money management. Participants who complete the 12-hour series receive a certificate of completion and are referred to landlords who partner with the "Ready to Rent" program and use graduation from the program as an indicator that the tenant is ready to be a successful tenant.

The program has been successfully implemented throughout the country and is currently being used in Greensboro and Wake County. Wake County Human Services has partnered with the "Ready to Rent" program since 2001 and has nine certified instructors including one Spanish-speaking instructor. Greensboro has six non-profit agencies that provide "Ready to Rent" trainings. Expanding the "Ready to Rent" Program to other North Carolina communities would provide additional low-income persons, including those with disabilities, the opportunity to establish positive tenant histories.

VIII. Conclusion

Since 2002, NCHFA and DHHS have partnered in the development of integrated permanent supportive housing in the Housing Credit Program, which has been recognized with two national awards. The North Carolina General Assembly's support for the 400 Initiative has allowed the partnership to continue to create Targeted Units in the Housing Credit Program and expand the Key Program into NCHFA's existing Supportive Housing Development Program and the Preservation Loan Program. As a result, additional independent permanent supportive housing has been created for persons with disabilities living on SSI incomes.

While much has been accomplished, there are 119,131 non-elderly persons with disabilities in North Carolina living on SSI and much remains to be done. The unmet housing needs of persons with disabilities have been well documented,[6] and it is income, and not disability, that is most often the barrier to accessing community housing. Using the HUD guidelines that a low-income person should pay no more than 30% of their income for housing costs, an individual on SSI income, currently $674 a month for a single person, can afford to pay $202 toward their housing costs. Without additional subsidy, this is simply insufficient to cover the costs of operating housing units. The Key Program, North Carolina's production based operating subsidy, has been integral to the success of the DHHS-NCHFA partnership and the resulting expansion of housing opportunities. Sustained and dependable funding for the Key Program is critical to meeting this need.

Meeting the housing needs for persons with disabilities will require a range of strategies. The recommendations contained in this report are not all that needs to be done, but they are important steps and build on successful models already used in North Carolina and elsewhere in the country. Continuing the DHHS-NCHFA partnership in the Housing Credit, Supportive Housing Development, and Key Programs allows continued production of new permanent and independent supportive units. Creating a tenant based rental assistance program and expanding the successful North Carolina partnership with Oxford House™ will allow the State to address additional critical unmet needs.

NCHFA and DHHS appreciate the support of the General Assembly and believe that making independent community housing affordable to persons with disabilities is a good investment. Consistent funding and effort can build on the progress that has been achieved. Without it, North Carolina remains dependent on far more costly institutional and congregate settings and persons with disabilities, caught in a cycle of instability and crisis, remain disproportionately represented among the homeless and dependent upon expensive emergency services.

Permanent supportive housing -- decent, safe, and affordable housing that is integrated into the community and linked with a variety of individualized support services -- is an efficient and cost-effective tool to meet the housing needs of persons with disabilities.

[6] "*Housing Needs of Persons With Disabilities: Supplemental Findings to the Affordable Housing Needs 2005 Report,"* U.S. Department of Housing and Urban Development, February, 2008.