

Operating Budget Issues for Affordable Housing Versus PSH

The Operating Budget outlines the projected revenues, expenses of a project during operations, and ability to support debt. A reasonable operating budget is critical to establishing the feasibility of the project. When revenues are not sufficient to cover operating costs and debt service, long term operating or rent subsidies will be needed to assure project feasibility. This summary outlines, by typical operating budget line items, similarities and differences between more typical affordable housing projects and Permanent Supportive Housing operating budgets. These findings are based on: 1) 2004 survey by the Portland Development Commission of local affordable housing developments, 2) three Portland PSH case studies of operating revenues and expenses in 2006, 3) national data from the Corporation for Supportive Housing, and 4) HDC’s intimate knowledge of finance and underwriting practices in numerous affordable and supportive housing projects in the Portland region.

OPERATING BUDGET ISSUES	AFFORDABLE HOUSING	PERMANENT SUPPORTIVE HOUSING
Revenues	<ul style="list-style-type: none"> ○ PDC’s portfolio had an estimated average net revenue of \$6,200 per unit per year in 2004 (rents + other income – vacancy and other losses). 	<ul style="list-style-type: none"> ○ Three local PSH case studies had average net revenues of \$4,836 per unit per year in 2005, \$1,364 per unit lower than PDC’s estimated portfolio average in 2004.
% MFI to determine rent	<ul style="list-style-type: none"> ○ Affordable housing rents are primarily underwritten with rents at between 31 – 60% MFI ○ Only 11% of the 9,500 units in the PDC portfolio were underwritten with rents at 30% MFI or below ○ Although market conditions sometimes restrict the achievable rent on these units, most can achieve rents higher than 30% MFI ○ Projects at this percent MFI level are generally able to cover operating expenses plus some debt service. ○ At least 63% of PDC’s portfolio’s tenants have incomes below 30%, but generally higher than PSH 	<ul style="list-style-type: none"> ○ PSH units are underwritten at 30% MFI for single individuals and 50% MFI for family units ○ Most (not all) who have experienced chronic homelessness or are in danger of homelessness either have no income or receive some benefits at move-in ○ Most PSH tenants tenant incomes are closer to 10 – 15% MFI ○ Many PSH residents depend on subsidies such as Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI), or Temporary Assistance for Needy Families (TANF) which cannot be relied on to increase regularly over time ○ SSI (\$603/month) is 15% of MFI for a single household in the Portland-Vancouver MSA in 2006 ○ TANF (\$503/month) is 10% MFI for a family of three in 2006

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Vacancy	<ul style="list-style-type: none"> Depends on local market conditions, but typical affordable housing underwriting assumes 5 - 7% vacancy rate 	<ul style="list-style-type: none"> National CSH research indicates PSH vacancy at 10-12% Projects should be underwritten from 7 to 10 percent vacancy rate due to the amount of additional time needed to fill the unit with qualified households
Subsidy	<ul style="list-style-type: none"> Does not typically need ongoing subsidy if properly underwritten with achievable rents, adequate operating expenses and reserves, and the correct debt structure 	<ul style="list-style-type: none"> 30% MFI rents generally cannot cover operating expenses for PSH housing unless blended with higher income units with minimal debt The typical PSH tenant does not have enough income at move-in (from benefits or income) to cover even a rent set at 30% MFI Depending on operating costs and the tenants' MFI level, a PSH unit would need subsidy equal to 50-80% of net rental income
Expenses	<ul style="list-style-type: none"> PDC's portfolio had an average operating cost of \$3,698 per unit in 2004. 	<ul style="list-style-type: none"> Three local PSH case studies had an average operating cost of \$4,300 in 2005, or \$600/unit more than PDC's portfolio average in 2004.
Extra cost areas: Off-site Property Management (Management fee)	<ul style="list-style-type: none"> This fee is intended to cover the cost of off-site property management services, whether provided in-house or by a private firm (compliance, accounting, site manager supervision, overhead...) Offsite fees in the affordable housing Industry average 4-6% of net income Some property management companies establish their fee based on a flat per unit per month rate, typically between \$35 and \$40 "per door" 	<ul style="list-style-type: none"> Because net revenues are lower, property management fees as a percentage may be higher, closer to 6% to 8% of net revenues Some private property management companies are considering increasing the flat fee per unit per month rate to \$40 and \$45 for PSH units Some property managers are seeking higher fees to reflect time spent coordinating with service entities and other added responsibilities, but the market has not settled on this issue
On-site Property Management	<ul style="list-style-type: none"> Includes payroll, taxes and benefits of on-site manager (s) Generally, there is 1 FTE on-site manager per 50 - 100 units 	<ul style="list-style-type: none"> Not significantly different for PSH units unless there is the need for 24 hour onsite supervision (see Security below)
Legal and Accounting	<ul style="list-style-type: none"> Refer to the cost of evictions 	<ul style="list-style-type: none"> CSH estimates about \$80 per unit, or about \$2,000 on a per-project basis
Utilities	<ul style="list-style-type: none"> Includes heat, water, sewer, electricity or gas 	<ul style="list-style-type: none"> No major difference If utilities are in tenants' name and

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		he/she does not or cannot pay, you may need to consider a policy of intervening and covering those costs
Maintenance and Repair	<ul style="list-style-type: none"> ○ Maintenance staff costs typically include maintenance supervision, in-house and contracted maintenance work, turnovers, elevator maintenance, landscaping, janitorial and cleaners, and are generally charged directly to the operating budget ○ Operating expenses for maintenance costs varies widely in affordable housing, but typical ranges in Portland are \$700 – 1200 per unit per year ○ Costs depend on many factors, including: age of project, level of rehabilitation on acq/ rehab projects, design and materials, size of units, landscaping, elevators, presence of children 	<ul style="list-style-type: none"> ○ The number of maintenance staff is a function of the project's scale and maintenance demands (e.g., housing for persons with AIDS requires a higher maintenance standard to protect tenants with weakened immune systems) ○ CSH's standard calls for a full-time maintenance supervisor, one janitor for every 40 units after the initial 40 units, up to 120 units; then one janitor for every additional 80 units ○ CSH's standards also add one handyperson for the first 100 units and an additional one for every 70 units thereafter ○ The overall goal of this maintenance standard is to maintain a ratio of 1:35 of janitor/handyperson to units ○ Particular populations (e.g. CMI or developmentally disabled) may need additional housekeeping services under service needs ○ De-compensation by some tenant populations may add to maintenance and repair costs, to be covered by Risk Mitigation Pool in Portland
Replacement Reserve	<ul style="list-style-type: none"> ○ \$275-\$375 per unit placed in interesting bearing account, depending on variables such as age of property, type of construction, rehab level on acq/ rehab projects 	<ul style="list-style-type: none"> ○ No difference, as long as Risk Mitigation Pool is in place
Marketing and Leasing	<ul style="list-style-type: none"> ○ Costs for newspaper ads, radio ads and flyers 	<ul style="list-style-type: none"> ○ No significant difference in costs ○ Marketing to social service agencies for direct referrals
Security	<ul style="list-style-type: none"> ○ Few affordable housing projects need additional security 	<ul style="list-style-type: none"> ○ Level of on-site security (and need for 24 hour desk coverage) is a function of project size and other factors such as location and population ○ Projects with greater than 100 units may need 24-hour desk coverage while those with fewer units typically

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		<ul style="list-style-type: none"> ○ rely on less expensive arrangements ○ Some national PSH case studies have evening and weekend coverage, and a front desk clerk typically handles security ○ Full security coverage -- 24-hour, 7 day -- requires approximately 5 full-time shifts ○ Evening and weekend coverage -- about 4 full-time shifts -- may be sufficient for smaller projects or those with a strong staff presence during business hours ○ Local case studies relied on site staff to provide coverage during the day and an 'eyes and ears' person (tenant paid to carry a pager) during the off hours ○ Around the clock coverage was estimated at \$130,000 - \$140,000
Resident Services	<ul style="list-style-type: none"> ○ Varies greatly, particularly between singles and families - not all affordable housing populations require resident services ○ Not uncommon to have one service coordinator per 80-100 units ○ Typical affordable housing projects cannot yet support the full cost of resident services, and often support only \$150 to \$300 per unit per year from the project operating budget 	<ul style="list-style-type: none"> ○ Resident Services need to be delineated from: a) case management, and b) clinical services ○ Funding for case management and clinical services cannot be supported from rental revenues ○ Specific additional resident services may be needed for PSH, and roles and responsibilities for providing these services (e.g. move-in assistance) need to be outlined between the owner, property management entity and case manager and/or clinical service provider ○ See the Task Grid for PSH to help identify service needs and calculate FTE needed ○ CSH suggests that, depending on the intensity of service needs, staffing for services will range from between 10 to 25 residents per 1 FTE
Asset Management Fees	<ul style="list-style-type: none"> ○ For staffing costs for overseeing property management, compliance, coordinating audits and reporting, long term portfolio planning ○ Whether this is an allowed operating expense or funded from excess cash flow is negotiable with funders 	<ul style="list-style-type: none"> ○ No difference in costs to date, although PSH units have more regulatory requirements to track ○ Additional staffing burden may include coordination with case managers and clinical staff (e.g. Memorandums of Understanding), reporting, and Risk Mitigation Pool applications

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Taxes	<ul style="list-style-type: none"> ○ The project may or may not be exempt from property taxes through one or more tax exemption programs (non-profit ownership, transit oriented, other) 	<ul style="list-style-type: none"> ○ No difference
Insurance	<ul style="list-style-type: none"> ○ The cost of premium payments for a comprehensive fire and liability insurance policy must be included ○ Property insurance is one of the most volatile costs ○ Short of a quote or estimate, assume about \$200 to \$400 per unit per year 	<ul style="list-style-type: none"> ○ No difference
<i>Debt Service</i>	<ul style="list-style-type: none"> ○ Debt Service Coverage Ratio should be sufficient to assure at least 1.10 at the end of the loan period ○ Analyzing the amount of debt a project can support by calculating the projected net cashflow as a percent of revenues, and as a percent of operating expenses helps determine the “cushion” the net cashflow provides to the project for variances from budget 	<ul style="list-style-type: none"> ○ Should be debt-free ○ On mixed income projects, reducing the debt requirements from typical affordable housing will allow the reduced debt service amount (achieved from the higher rents from the 40 – 60% MFI units) to cross subsidize operating costs for the PSH units within the project. ○ Debt coverage on projects with very little revenue is not an effective underwriting tool