

## MEMORANDUM

TO: Bay Area Regional Steering Committee on Homelessness and Housing  
FROM: HomeBase  
RE: 2005 HUD NOFA Changes: Hold Harmless and Permanent Housing Bonus Reductions  
DATE: July 29, 2005

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### Background

The Regional Steering Committee annually examines the HUD Homeless Assistance Funding awarded to the 11-County Bay Area, as well as significant changes to the Continuum of Care (CoC) competition rules. Further, the RSC has examined the formula used by HUD to determine the Initial Pro Rata Need (IPN) for each jurisdiction eligible to compete in the CoC competition. Also, the RSC has begun to look at the process of “conversion” through the local CoC process of prioritization. Each of these has been covered in previous meeting memoranda, available on the HomeBase website. Today, we will begin to weave many of these issues together as we explore the significant changes to the 2005 NOFA funding rules, options, and incentives. Two changes that had the most impact on local communities in 2005 were the new “hold harmless” option, and the reduced permanent housing bonus amount available to most communities.

### HUD Policy Directions Motivating the Changes in the 2005 NOFA

The changes in the 2005 NOFA have built upon policy directions that HUD has promoted through previous annual CoC competitions. Over the past 5 years, HUD has implemented its policies supporting the use of Continuum of Care funds for new permanent housing through mandates, bonus incentives, and scoring criteria of the annual Continuum of Care NOFA process.

Many of these rules and incentives are motivated by the two national mandates that HUD must reach each year in distributing competitive Continuum of Care funds: to support the creation of permanent housing, and to serve those that are “chronically homeless.”<sup>1</sup> Also, HUD continues to shift its funding focus to “bricks and mortar,” and away from supportive services. Last, HUD has responded to pleas for increased flexibility in determining local funding priorities from some larger and more established Continuua of Care with the new “hold harmless” option.

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<sup>1</sup> HUD defines “*chronically homeless*,” as:

“A chronically homeless person is an unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more OR has had at least four episodes of homelessness in the past three years. Disabling condition is defined as a ‘diagnosable substance use disorder, serious mental illness, developmental disability, or chronic physical illness or disability, including the co-occurrence of two or more of these conditions.’ To be considered chronically homeless, a person must have been sleeping in a place not meant for human habitation, e.g., living on the streets or in an emergency shelter, during that time.”

### *30% National Minimum to Permanent Housing*

Since 2000, HUD has been mandated to annually award 30% of all competitive funding nationally to permanent housing projects (Shelter + Care, SHP Permanent Housing for Disabled, SHP Safe Havens with Permanent Housing Characteristics, and SRO Moderate Rehabilitation). If necessary to reach the 30% national minimum, HUD will fund permanent housing projects that are part of lower ranking communities over non-permanent housing projects that are part of higher-ranking communities.

The new “hold harmless” option, discussed below, allows communities to de-fund renewal projects only to fund new permanent housing projects. Communities without the “hold harmless” amount may still apply for any kind of new project, i.e., permanent housing, transitional housing, safe haven-th, supportive services only, innovative supportive housing, HMIS.

### *10% National Minimum to Individuals Experiencing Chronic Homelessness*

New or renewal projects of any kind (Transitional, Permanent, Supportive Services, etc.) that have at least 70% of their clients who are “chronically homeless” will count towards this target of 10%. HUD is mandated to annually award 10% of all competitive funding nationally to projects that qualify as ones that serve predominantly chronically homeless individuals, as defined by HUD. As with the permanent housing minimum, if necessary, HUD will fund projects serving the “chronically homeless” that are part of lower ranking communities, over projects that do not primarily serve the “chronically homeless,” that are part of higher-ranking communities.

In 2005 HUD limited the Samaritan Initiative bonus permanent housing project to house *exclusively* chronically homeless individuals.

### *HUD’s Shift towards “Bricks and Mortar”...and Away from Supportive Services*

HUD has said that it is shifting its funding focus towards “bricks and mortar,” and away from services. Following the strategy of mainstreaming itself, HUD is working towards having other federal agencies pay for the services provided to homeless people through the small pot of Continuum of Care funding. Because other federal agencies have not yet provided adequate resources to provide accessible and effective services for homeless people, the need for HUD to fund supportive services through the Continuum of Care funding stream remains.

In the 2005 competition HUD will award a CoC up to 12 out of 60 points for its relative level of “housing activity,” which is the ratio of the amount of funding requested for housing-related operations or leasing, rental assistance, rehabilitation, acquisition, new construction to the amount of funding requested for supportive services. In 2004 HUD awarded up to 10 of 60 points for “housing activity.”

### *Increased Local Flexibility for CoC’s through Hold Harmless Provision*

Each local community is responsible for reviewing and ranking all proposed projects to be included in the consolidated application. Communities may or may not submit a new permanent

housing project, and they may set a number of different kinds of local preferences that guide the priorities given to the project applications, including a commonly adopted local preference for renewal projects over new projects. Larger communities that have been at their “renewal bump” for years have expressed frustration with the lack of flexibility given by HUD.

This year HUD introduced the “hold harmless” option for CoC’s at their renewal bump, allowing CoC’s to de-fund part or all of one or more renewal projects in order to fund new permanent supportive housing project(s).

2005 NOFA Changes Affecting Amount Available

The Continuum of Care funding process is a hybrid of a competition and an allocation. Communities are allocated a potential amount for which they are eligible to compete, and may be awarded more, if successful. The parts of this calculation for 2005 are described below.

$$\begin{array}{r}
 \text{Initial Pro Rata Need} \\
 + \\
 \text{Potential Adjustment to Initial Pro Rata Need (Hold Harmless)} \\
 + \\
 \text{Possible Samaritan Initiative} \\
 = \\
 \text{Total Amount Likely Available} \\
 + \\
 \text{S+C Renewals}
 \end{array}$$

*Initial Pro Rata Need (IPN)*

HUD calculates a “relative need index” for each CDBG-entitled city and county and each non-CDBG-entitled county in the country. HUD uses the same indices of need in computing each community’s index that is used in determining the formula amounts under the CDBG and ESG programs. Each city’s and county’s need index is then applied against the total amount of funding available nationally in each year’s Continuum of Care competition to determine the initial pro rata need amount for each geographic area.

*Potential Adjustment to Initial Pro Rata Need (Hold Harmless)*

When the total one-year renewal need amount of all eligible SHP renewals submitted in the competition exceeds the preliminary pro rata need amount for that Continuum of Care, an amount equal to the difference will be added to the Continuum of Care’s initial pro rata need amount, resulting in the hold harmless amount. For the first time in 2005, a community could opt to de-fund part or all of one or more renewal projects in order to fund new permanent supportive housing project(s). Continuua of Care without the hold harmless amount may prioritize IPN funds on any type of new project.

*Possible Samaritan Initiative (formerly Permanent Housing Bonus)*

In 2005, in order to promote permanent housing for the homeless, if a Continuum of Care’s number one priority project qualified as an eligible, new permanent housing project that would

serve *exclusively chronically homeless individuals*. No more than 20% of the Samaritan Bonus Initiative amount could be used for case management, and the remainder could be used for housing-eligible activities (rental assistance, acquisition, new construction, rehabilitation, leasing, operating costs, and for SHP projects only, administration). The Samaritan Initiative amount was 15% of the Initial Pro Rata Need or \$6 million, whichever was less.

*Total Amount Likely Available*

The sum of the above components equals the total amount that is likely available for which a community can compete. Requests exceeding this amount are very unlikely to be funded. The Shelter Plus Care Renewals are funded without competition, but are placed at the bottom of the priority list for submission to HUD.

What Happened to the Permanent Housing Bonuses?

Not all CoC’s received a drop in their permanent housing bonus amount. Some communities were eligible to compete for 300% what they were in 2004. Los Angeles was eligible for a Samaritan Initiative bonus amount of \$6,000,000, up from \$2,000,000 in 2004. So was New York City. Chicago is competing for a bonus of just over \$4.1 million. A few other major Continuua of Care across the nation may be in the same position as well. The sharpest drops were focused on smallest Continuua of Care that dropped from a minimum of an amount equal to their IPN in 2004 to only 15% of their IPN in 2005, a drop of about 85%.

*Focus on California: Funding Changes from 2004 to 2005*

Overall, the allocation for the Homeless Assistance Funding was less in 2005 than it was in 2004. Therefore, every geographic jurisdiction that is eligible to compete for IPN received a slightly lower IPN in 2005 than in 2004. Across California, Continuums of Care were eligible to apply for just over \$7 million less in IPN.

The Samaritan Housing Initiative in 2005 was set at 15% of a Continuum of Care’s IPN, or \$6 million, whichever is less. HUD has said that the rationale for changing the bonus formula into a flat proportion of the IPN was to move towards more fairness in the distribution of the bonus funds. The previous bonus formula included three tiers that capped the largest CoC’s at \$2 million, the large CoC’s at \$1.5 million, the mid sized CoC’s at \$750,000, and the small CoC’s at an amount equal to 100% of its IPN.

**2005 FORMULA CREATED NEW LOWS AND NEW HIGHS**

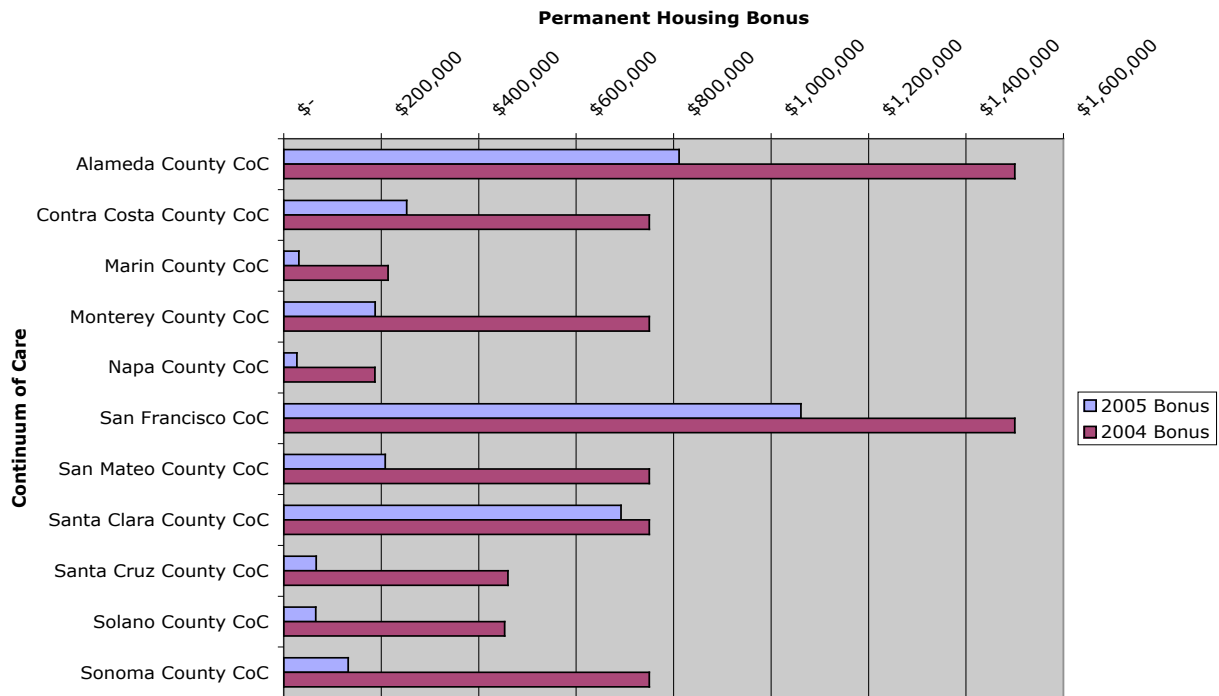
California CoC’s	2005 Samaritan Housing Initiative	2004 Permanent Housing Bonus
Largest	\$6,000,000 (Los Angeles CoC)	\$2,000,000 (Los Angeles CoC)
Smallest	\$27,086 (Napa CoC)	\$186,878 (Napa CoC)

The permanent housing bonus has not only been redistributed towards larger CoC’s, and away from smaller CoC’s, but the total amount of funding that HUD has earmarked for the bonus in California CoC’s has decreased. The new permanent housing bonus formula has resulted in a *overall decrease in bonus funding of 39%* across the state’s CoC’s between the 2004 permanent housing bonus and the 2005 Samaritan Housing Initiative.

<b>CoC Name</b>	<b>2005 Bonus</b>	<b>2004 Bonus</b>	<b>Change</b>
Bakersfield/Kern County CoC	\$429,724	\$750,000	-43%
Chico/Paradise/Butte County CoC	\$52,420	\$362,118	-86%
Daly/San Mateo County CoC	\$208,238	\$750,000	-72%
Davis/Woodland/Yolo County CoC	\$45,595	\$314,060	-85%
Fresno/Madera County CoC	\$662,131	\$750,000	-12%
Glendale CoC	\$165,555	\$750,000	-78%
Humboldt County CoC	\$53,698	\$372,401	-86%
Imperial County CoC	\$49,893	\$344,347	-86%
Long Beach CoC	\$438,080	\$750,000	-42%
Los Angeles City and County CoC	\$6,000,000	\$2,000,000	200%
Marin County CoC	\$31,046	\$214,206	-86%
Mendocino County CoC	\$28,011	\$194,119	-86%
Merced City and County CoC	\$74,304	\$511,951	-85%
Napa City and County CoC	\$27,086	\$186,878	-86%
Oakland/Alameda County CoC	\$811,239	\$1,500,000	-46%
Oxnard CoC	\$137,835	\$978,424	-86%
Pasadena CoC	\$111,402	\$750,000	-85%
Redding/Shasta County CoC	\$35,105	\$241,585	-85%
Richmond/Contra Costa County CoC	\$252,123	\$750,000	-66%
Riverside City and County CoC	\$761,721	\$1,500,000	-49%
Roseville/Pacer County CoC	\$38,706	\$264,346	-85%
Sacramento City and County CoC	\$643,315	\$750,000	-14%
Salinas/Monterey County CoC	\$187,334	\$750,000	-75%
San Bernadino City and County CoC	\$896,540	\$1,500,000	-40%
San Buena Ventura/Ventura County CoC	\$152,860	\$750,000	-80%
San Diego CoC	\$759,982	\$1,500,000	-49%
San Diego County CoC	\$575,841	\$750,000	-23%
San Francisco CoC	\$1,061,407	\$1,500,000	-29%
San Jose/Santa Clara City and County CoC	\$692,119	\$750,000	-8%
San Luis Obispo County CoC	\$104,956	\$747,580	-86%
Santa Ana/Anaheim/Orange County CoC	\$1,182,612	\$1,500,000	-21%
Santa Maria/Santa Barbara County CoC	\$97,485	\$673,218	-86%
Santa Rosa/Petaluma/Sonoma County CoC	\$132,018	\$750,000	-82%
Stockton/San Joaquin County CoC	\$387,470	\$750,000	-48%
Turlock/Modesto/Stanislaus County CoC	\$257,695	\$750,000	-66%
Vallejo/Solano County CoC	\$65,785	\$453,496	-85%
Visalia, Kings, Tulare Counties CoC	\$168,087	\$750,000	-78%
Watsonville/Santa Cruz City and County CoC	\$66,415	\$460,085	-86%
<b>All California CoCs TOTAL</b>	<b>\$17,845,831</b>	<b>\$29,318,814</b>	<b>-39%</b>

Collectively, Bay Area CoC's lost over half of its permanent housing bonus between 2004 and 2005. The difference is almost \$4 million, an amount equal to the increase that Los Angeles received this year.

## Bay Area Loses Permanent Housing Funds



### *Impact of Reduced Permanent Housing Bonus Amount on Use of Hold Harmless Option*

With dramatically less bonus funding available for new permanent supportive housing projects, communities interested in utilizing Continuum of Care funding to develop new permanent housing may opt to do so at the expense of funding renewal projects. In 2005 many communities did not utilize the hold harmless option because there was not sufficient time to have an adequate community process. However, if the funding for the Samaritan Initiative remains low, and the emphasis on creating permanent supportive housing high, more communities may utilize the hold harmless in future competitions.

#### Questions to Consider:

How did your community utilize the reduced permanent housing bonus?

How did your community facilitate the decision process around if and how to utilize the hold harmless option?

How did other changes to the 2005 NOFA benefit or hinder your local CoC?

There is a new call to end the 30% minimum required to be spent on permanent housing: what do you think?

Other ideas?

*HomeBase will continue to develop this analysis and monitor developments on behalf of the RSC. For further information, please contact Jessica Flintoft, Projects Director, at 415-788-7961, ext. 314, or via e-mail at [jessica@homebaseccc.org](mailto:jessica@homebaseccc.org)*