



Deal Structuring for Supportive Housing

Overview of Deal Structuring:

An organization that has established a goal of developing a supportive housing project must engage in a process of defining the concept for the project they wish to create – How big will it be? Who will live there? Where will it be located? What services will tenants need? What partners will help ensure the success of the project?

Having fully defined the project to be developed, the organization and its partners must engage in a careful analysis of capacity, potential sites, projected costs, potential sources of financing, and the local environment, determining whether the project, as conceived, can be realized – is there a feasible plan for the successful development of the supportive housing project? A feasible plan includes the following components:

- The ability and resources necessary to secure and maintain control of an appropriate site for the project;
- The involvement of a committed and experienced development team;
- The support of partners who can help ensure the successful operation of the project and the ability to meet the service needs of the expected tenants;
- The identification of potential funding sources in amounts sufficient to cover the cost to build the project and operate it over time; and
- The development of a winning strategy for advancing the project through any public approval processes necessary.

Once an organization has determined that the project is feasible, it is time to “structure the deal” in order to move the project forward from concept to groundbreaking ceremony to construction and to operations.

“Deal Structuring” involves satisfying the many different interests and requirements of the project’s stakeholders in order to produce a viable supportive housing project. During this phase, various pieces of the predevelopment process must come together: localities must approve the architectural plans; site analyses must be completed and reconfirmed; financial projections must be tested; funders must agree to provide all of the needed funding; and the development team must be ready to move into the construction or rehabilitation phase. Once the deal has been structured, it is ready to move forward to completion.

This is an extremely challenging phase of supportive housing development – a phase when projects can fail and unanticipated sacrifices may be needed. It is also during this phase when opposition to a project might materialize, requiring strategies to capitalize on political and community support for the project and to address the concerns of - and ultimately overcome - any such opposition.

Note: This document is included within the *Development and Finance* section of CSH’s *Toolkit for Developing and Operating Supportive Housing*, which is available at www.csh.org/toolkit2.

Keys to Successful Deal Structuring

To ensure success during this critical phase of the project's development, the development team, and most especially the project manager, must focus on the timely completion of each the following development activities, all of which can be considered "deal structuring". It can be a daunting prospect to juggle all of these responsibilities, all of which are critical to the project's success, and many of which happen at the same time. The key to making sure that the project moves forward effectively is investing the attention to detail that will be critical to the project receiving necessary approvals, being awarded the necessary financing, and then closing that financing in order to be able to complete the project.

1. Designing the project. The team must work very closely with the architect, to ensure that the needs of all involved parties are met in the design of the housing: the tenants, the owner, the property manager, and the service provider. At this point, the architect has most likely worked out the preliminary floor plans for the units and the common areas, but there is still a tremendous amount of design work that needs to be done, and there are significant deadlines that the architect must make to keep the project moving. For example, the architect and his/her associates must complete the construction documents to obtain accurate pricing from the contractor and to submit to the local building department for a permit.
2. Obtaining planning approvals. It is never too early to go to the local City Planning Department to notify them about a proposed project and the planning requirements that will apply. The project must comply with zoning regulations and, in some cases, land use requirements. Once the architect has prepared the initial schematic drawings for the project, it is a good strategy to walk through the drawings with a City Planner to get their feedback before going too far forward in the design of the project. Depending upon how close the design is to the local planning requirements for the site, there may be either minimal or no approval requirements - or there may be very complicated approval requirements that could involve submitting applications, fees, and a public review and approval process. It is wise to ask early and often how long the City staff think the approval process will take to complete.
3. Obtaining political and community approvals. There are typically two discretionary actions that trigger a political and/or community review and approval process: the need for planning approvals and the need for funding approvals. Some jurisdictions have proscribed community review and approval procedures for all projects that are obtaining local funding, and in other cases it may be individualized for each specific project. Generally speaking, however, unless the project can be developed "as-of-right" (i.e., it doesn't require any local discretionary action such as a variance, general plan amendment, design review) and doesn't require any local funding, there will be a need to develop a strategy for managing the political and community acceptance processes for the proposed housing development activities.
4. Applying for funding. Preparing supportive housing development financing applications can be a laborious and complicated task, requiring the attention and involvement of all members of the development team. Preparing a successful application requires diligence and a cautious, organized approach, including the following measures:

- *Assessing Eligibility:* Most funding sources have established criteria that need to be met in order to be eligible for their funding – the development team should determine if the project meets these “threshold” requirements before putting the effort into preparing an application.
 - *Evaluating the Project’s Competitiveness:* Some financing sources establish a point system, against which applications are scored and ranked. Some of these sources approve applications with the highest score and then continue funding the next highest-scoring project, until all of the funding resources have been awarded. Other sources establish a minimum or threshold score, and a project that scores below that minimum is not eligible for funding. In many cases, it is possible for the development team to score the project before going through the process of preparing the entire application. In addition, if an application is not successful, the staff of that funding agency or organization might be willing to discuss how the project scored so that weaker aspects of the application can be strengthened if the same funding is sought a second time.
 - *Reviewing funder requirements:* Some funding applications may be subject to federal, state or local regulations and underwriting requirements. The development team should review all underlying regulations to be sure that the project meets the requirements and that all aspects of the application are in compliance.
 - *Making a list, checking it twice:* Many financing sources will have very strict requirements for what must be included with an application - the development team should review these requirements very carefully and prepare a list of information that is needed, especially noting those items that require substantial lead time, such as: a Board resolution authorizing the application; a Phase One Environmental Assessment; or the compilation of detailed organizational financial information. The list should also clearly identify which member of the team is responsible for each piece of information and deadlines for when each piece will be available.
 - *Asking questions:* Unless there is a specific prohibition on contacting the funder, the project manager should ask as many questions as needed, both before beginning to prepare an application and during the preparation process. The funder’s job is to provide their financial resources to the highest quality projects, therefore it’s in their best interest to be sure they get strong, fundable applications.
5. Verifying the compatibility of potential funding sources. It’s one thing to put together a list of prospective sources of funding, and another thing to ensure that the sources will work together, and will pay for what’s needed at the time it’s needed. Many supportive housing projects must rely on a “layer cake” of funding sources - a single project may in funding provided through a combination of local HOME funds, state funds, tax credits, federal Continuum of Care funding, and private funding grants. It is critical to understand all of the various program parameters and requirements when layering one source with another.
 6. Closing housing finance loans. Each financing source will have different forms for execution and requirements that must be fulfilled before they will close their loan and provide access to the awarded resources. A loan closing entails the signing of all the loan documents and any other certifications and authorizations. The closing is immediately followed by the recording of any

security instruments, such as liens, deeds of trust and mortgages – that will provide security for the loan and document the obligation to comply with all applicable regulatory requirements (i.e., level of affordability of the rental units, the population to be served, etc.). Following closing, the project can begin drawing down the funds, in accordance with the terms of the loan. For many supportive housing projects, multiple loans will all need to be closed concurrently – and the competing demands of each of the financing sources will need to be analyzed and negotiated.

Note: CSH's *Toolkit for Developing and Operating Supportive Housing* includes additional documents that provide additional information regarding the financing of supportive housing. See the tools under *Assembling the Financing* and under *Deal Structuring and Beyond* within the *Development and Finance* section of the Toolkit, available at www.csh.org/toolkit2development.