

The Affordable Housing Study Commission

FINAL REPORT 2005

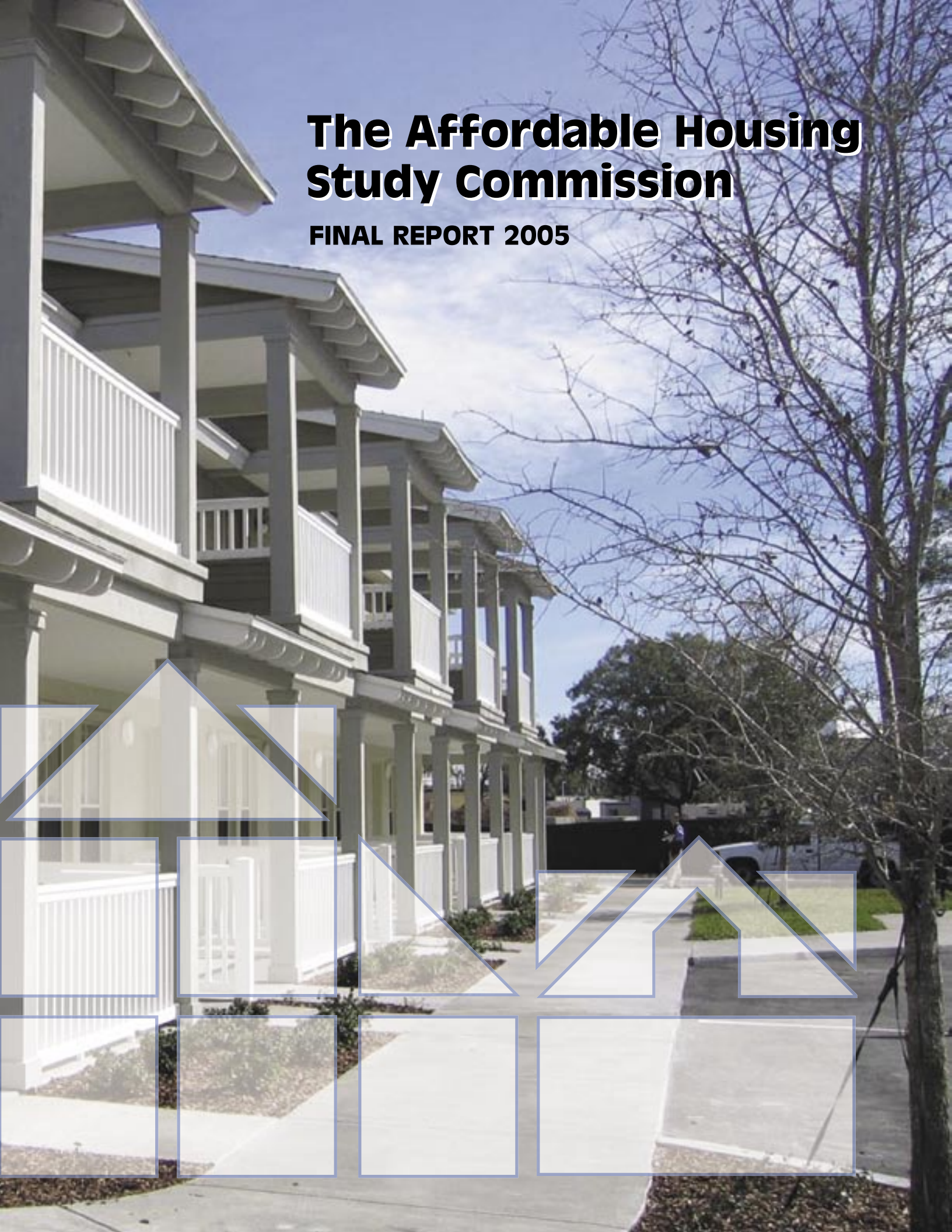


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Railroad Avenue Apartments in Winter Park is dramatically different today. Shown on the cover is the development as it now stands. The rehabilitation was completed in January, 2004, and now provides more than 30 rental units. To left are images of the property before its transformation.



THE AFFORDABLE HOUSING STUDY COMMISSION

Jeb Bush
GOVERNOR

July 15, 2005

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The Honorable Jeb Bush
Governor of Florida
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The Honorable Tom Lee
President, Florida Senate
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The Honorable Allan G. Bense
Speaker, Florida House of Representatives
420 Capitol
Tallahassee, Florida 32399-1300

Dear Governor Bush, President Lee, and Speaker Bense:

On behalf of the Affordable Housing Study Commission, I am pleased to submit our final report for 2004-2005. The report fulfills the requirements of section 420.609, Florida Statutes, and provides a framework for the Commission to recommend a comprehensive policy that may be used by the State to preserve affordable rental housing in the future.

The Commission initially planned to focus attention on the topic of preservation for the full 2004-05 study year. However, by the time the Commission held its first meeting of the year, residents in the State of Florida were dealing with the aftermath of four hurricanes which had devastated thousands of homes. Recognizing the impact of the hurricanes on the state's supply of affordable housing, Lieutenant Governor Toni Jennings requested that the Commission provide recommendations on long-term disaster recovery strategies to address affordable housing. The Commission gave this request full attention and in the following weeks provided recommendations in a series of three letters. When the Governor created the Hurricane Housing Work Group in November for the purpose of making recommendations on the best use of one-time funding to address long-term housing recovery needs, this allowed the Commission to refocus its efforts on the topic of preservation.

As Florida's affordable housing stock ages and as numerous market rate rental units are converted to condominiums, the Commission believes that it is of vital importance to the State of Florida to establish a preservation policy. Preservation was initially considered by the Commission in 2004 as we reviewed strategies to improve the availability of rental housing for Florida's extremely low-income households. The Commission quickly noted the importance of preserving housing that leverages federal subsidies in the form of project-based rental assistance payments and made several recommendations on preservation strategies for these units in our 2004 Report. Yet these recommendations were limited in scope, and the Commission asserts that significantly more review of the preservation topic is needed in order to address the full spectrum of the issue.

The 2005 report summarizes extensive data collected for various affordable housing rental programs and details the barriers that have hindered preservation efforts to date. The Commission will use information in this report to develop a statewide comprehensive preservation policy to be set forth in the 2006 report. We hope that such a policy will be used as the foundation of the State of Florida's strategy for addressing this urgent issue.

Speaking for all members of the Commission, I extend our appreciation for the opportunity to serve the Citizens of Florida.

Sincerely,

Helen Feinberg
Chairperson

Dedicated to Promoting Affordable Housing in Florida Since 1986

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THE AFFORDABLE HOUSING STUDY COMMISSION

2004-2005 Membership

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The Affordable Housing Study Commission would like to thank
the Shimberg Center for Affordable Housing at the University
of Florida and the staff of Florida Housing Finance Corporation
for their assistance.

Special thanks to Ron Joudon and the Florida Chapter of the
American Planning Association for use of Ron's artwork.



Interior views of the Railroad Avenue Apartments before and after the resurrection.

Mission Statement of the Affordable Housing Study Commission

The Affordable Housing Study Commission recommends improvements to public policy to stimulate community development and revitalization and to promote the production, preservation and maintenance of safe, decent and affordable housing for all Floridians.

The Commission's Legislative Charge

Section 420.609, Florida Statutes, charges the Commission to recommend solutions and programs to address the state's acute need for housing for low- and moderate income residents, elders and homeless people. The Commission believes its charge also extends to Floridians with special housing needs, including extremely low income residents, farmworkers and people with disabilities. The Commission's analysis is to include, but is not limited to:

- Educating the public and government officials to understand and appreciate the benefits of affordable housing;
- Use of publicly owned lands and buildings as affordable housing sites;
- Coordination with federal initiatives, including development of an approved housing strategy;
- Streamlining the various state, regional and local regulations, and housing and building codes governing the housing industry;
- Stimulation of public and private cooperative housing efforts;
- Implementation or expansion of the programs authorized under state law;
- Discovery and assessment of funding sources for low-cost housing construction and rehabilitation; and
- Development of such other solutions and programs as the Commission deems appropriate.

In performing its analysis, the Commission is also charged to consider both homeownership and rental housing as viable options for the provision of housing and to give consideration to various types of residential construction including, but not limited to, manufactured housing.

Executive Summary

By the time the Commission had its first meeting of the 2004-05 study year, four hurricanes had come ashore in Florida, devastating thousands of homes. Lieutenant Governor Toni Jennings asked the Commission to make recommendations on long term recovery strategies for affordable housing. We deliberated over two months, sending Governor Bush three letters with the following suggested strategies:

- Seek appointment from HUD of a state HUD representative for liaison and decision making purposes;
- Seek relief from selected HUD program requirements to expedite redevelopment;
- Seek a designation of all disaster areas as “Difficult Development Areas” from Congress to provide additional Low Income Housing Tax Credits for development;
- Seek a waiver of the Low Income Housing Tax Credit “Ten Year Rule” to encourage acquisition and rehabilitation of affordable housing in disaster areas;
- Seek a two-year waiver of the first time homebuyer requirements and an increase in the \$15,000 limit on home improvement loans through the single family bond program;
- Provide additional Sadowski funds to expand state housing resources for storm recovery; and
- Increase the flexibility of the Sadowski funds to target those most in need of housing assistance.

In November 2004, the Governor created the Hurricane Housing Work Group to address recovery issues, allowing the Commission to begin its planned study of the preservation of affordable multifamily housing.

In 2004 the Affordable Housing Study Commission reported that by 2008 tens of thousands of affordable housing units in the United States may be converted to market rate units. The aging and escalating loss of affordable multifamily housing is a trend with serious implications for Florida’s low income population. Federal funding for programs that preserve affordability has decreased over the years, making it more difficult for vulnerable populations to secure housing without over-burdening their income. The Commission recognized that a comprehensive multifamily state preservation policy should be developed and chose to begin development of such a policy in the 2005 study year.

Subsidized multifamily housing is constructed and supported by government programs that finance construction and/or provide project-based rental assistance for operations. Maintaining a property’s availability as safe, decent affordable housing over time involves complicated refinancing structures that weave layers of financing from local, state and federal programs with private sources of funds. Executing these deals is time consuming and challenging. Complicating this situation, current owners of affordable housing must contend with an array of program restrictions and tax related barriers that discourage selling a property or infusing a property with additional cash to maintain or upgrade existing systems.

Florida is experiencing the additional pressure of severely tightening real estate markets in many parts of the state, causing soaring land prices and limited land for new construction. These market conditions have promoted the recent condominium conversion boom throughout the state.

Before the Commission could begin to develop a preservation policy, we had to educate ourselves about the status of Florida’s existing affordable multifamily housing stock. We asked ourselves a series of questions –

- How old is Florida’s affordable multifamily housing stock?
- When will affordability periods end?
- What programs were used to finance the existing stock, and what limitations do those programs place on preserving these units?
- What other barriers to the preservation of affordable housing currently exist?

Florida has over 259,000 affordable multifamily units that have been financed by myriad state and federal programs over the last 70 years. Almost 39,000 of these units are public housing and will remain part of the affordable housing stock as long as they are maintained in decent condition. The other 220,000 of these units were built in exchange for a commitment by the property owners to maintain the affordability of the units at predetermined levels over set periods of time. Affordability periods range from 15 to 50 years depending on the program and year in which the units were built. These affordability periods are beginning to expire, allowing owners to choose to rent these units at market rate.

Of the units with affordability restrictions, the majority must be maintained as affordable for at least another 25 years. However, affordability requirements for approximately 60,000 units will expire over the next 15 years, and many believe these include the units most likely to serve the state’s lowest income residents. Adding to this pressure is the concern that additional rental assistance, provided to some 27,000 of these units to make them even more affordable, will slowly disappear as HUD’s budget is cut.

While over 40 percent of Florida’s affordable housing stock is 1-10 years old (95 percent of these newer units have been financed through Florida Housing Finance Corporation programs), almost one-third of the stock – 83,847 units – is over 20 years old. Public housing and units funded with early HUD programs, such as Section 202, make up the highest proportion of the older stock. Even if these units maintain affordability restrictions and rental assistance into the future, they are aging and in need of rehabilitation.

The Commission discovered a variety of obstacles that complicate the implementation of an affordable housing preservation policy. **Financial barriers** are the greatest obstacle to preservation. Onerous tax implications often come into play upon sale of a property, limited capital is available to maintain affordable properties, and, most importantly, public sector programs are generally not well positioned or sufficiently

funded to encourage preservation. Of particular concern is that the oldest housing stock is also the most likely to be inhabited by extremely low income families. New construction to fully replace this stock would be very costly.

Information barriers also exist. Knowing the status of Florida's assisted and conventionally financed housing stock is fundamental to creating and managing a thoughtful preservation strategy. Understanding the regulatory and real estate market issues of a particular development will go a long way in dictating what preservation strategies are most appropriate to use. The notice requirements in place for owners wishing to opt out of Section 8 or prepay their federal mortgages are very limited and do not improve the chances that new owners will be found to preserve the affordability of the units. Property owners wishing to exit the state's affordable housing system are not required to provide any notice to state or local governments. Moreover, the community impacts of Florida's aging and expiring affordable housing are not widely understood by state and local government officials and community leaders.

Across Florida's affordable housing delivery system, stakeholders generally lack the tools and experience to handle preservation transactions, creating **capacity barriers**. Finally, **governmental barriers**, such as the tax requirements mentioned above, building code requirements and affordable housing program requirements may all impact the ability to carry out a preservation transaction.

Florida has few federal and state programs that are currently well tailored to provide current and aspiring property owners with tools necessary to preserve properties over the long term. The Commission's next steps are to understand the preservation tools that are available and build additional tools that will provide a more comprehensive framework to ensure success. We expect to develop recommendations on financing, information and capacity building tools that will be part of a comprehensive state policy addressing preservation needs for affordable multifamily housing in Florida.

Introduction to the 2005 Report

By the time the Commission had its first meeting of the 2004-05 study year, four hurricanes had come ashore in Florida, devastating thousands of homes. At its September 2004 meeting, Lieutenant Governor Toni Jennings addressed the Commission on behalf of Governor Bush, requesting that the Commission make recommendations on long term disaster recovery strategies for affordable housing. The Commission agreed to postpone its planned topics of study and give the topic of disaster recovery its full attention. Chapter One provides an overview of the Commission's deliberations on this topic, and Appendix I provides the full text of the recommendations made to the Governor.

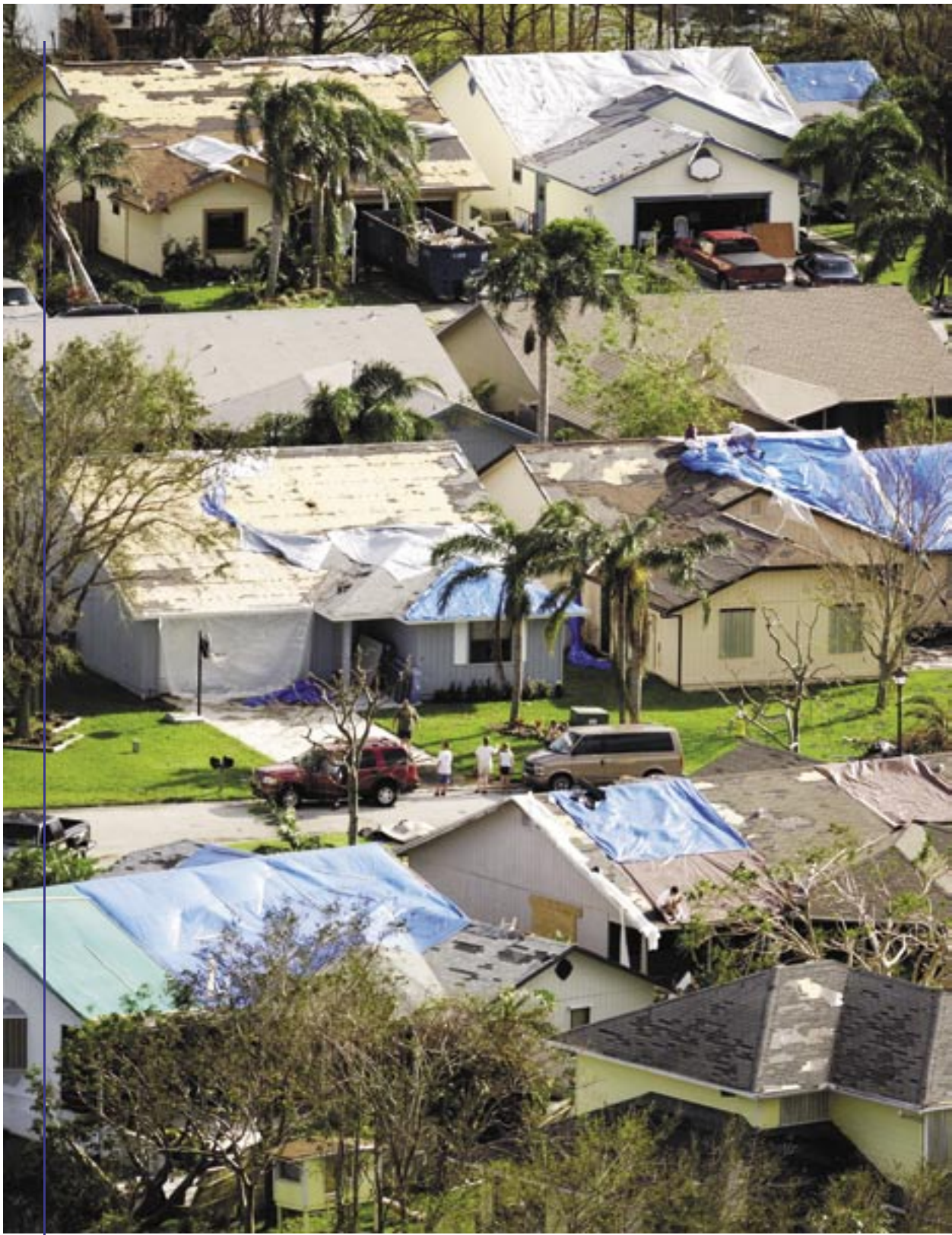
In January 2005, the Commission agreed to refocus on the preservation topic. As the Commission deliberated through the early months of 2005, it became clear that the topic of preservation of affordable multifamily housing is an important and complex issue. We agreed that, until the State of Florida has a preservation policy in place which identifies priorities and tools to address those priorities, the state's approach to preservation will be piecemeal and Florida will lose thousands of affordable rental units.

The Commission agreed that this issue is so important, it warrants more time to ensure that the final recommendations are thoughtful and comprehensive. Chapter Two of this report serves as an interim report on the issue of preservation of affordable multifamily housing. Appendix II provides four data tables summarizing the status of aging and expiring properties in Florida. Appendix III presents a preservation glossary, and Appendix IV provides a short summary of affordable multifamily programs.

The 2006 report will provide recommendations and information that can be used by the state and local communities to preserve Florida's affordable housing stock.



The newly rehabilitated Railroad Avenue Apartments Building III, Winter Park, Florida.



The 2004 hurricane season caused catastrophic damage to many of Florida's communities. Shown here is some of the damage. Photos courtesy of Carl Seibert, South Florida Sun-Sentinel. (Above) Port Salerno and (right) Punta Gorda.

Chapter One

Hurricane Housing Recovery

By the end of September 2004, four hurricanes and one tropical storm struck Florida, damaging more than 700,000 homes. When Lieutenant Governor Toni Jennings visited the September 2004 Commission meeting to discuss the impacts of the storms on the state's housing, thousands of families were still in shelters and many were still receiving basic supplies from FEMA and the state Division of Emergency Management.

The Lieutenant Governor addressed the Commission on behalf of Governor Bush, requesting that we make recommendations on long term disaster recovery strategies for affordable housing. After her visit, the Commission agreed to postpone its planned study topic in order to focus on disaster recovery. The Commission deliberated over the next two months on this issue, sending Governor Bush three letters with suggestions on steps that could be taken toward affordable housing recovery. These recommendations are summarized below and can be found in their entirety in Appendix I.

October 5, 2004

The Commission's October 5, 2004, letter made two general recommendations regarding measures within the control of the U.S. Department of Housing and Urban Development (HUD)—

- Work with HUD to seek appointment of a state HUD representative with the authority necessary to make decisions and seek waivers in order to coordinate storm recovery efforts, similar to the temporary appointment created after Hurricane Andrew; and
- Work with HUD to seek relief from selected requirements of HUD funded programs, such as the Davis-Bacon requirements and environmental review process, in order to expedite the redevelopment process and maximize the number of units placed in service.

October 25, 2004

On October 25, 2004, the Commission sent a second letter to the Governor with three recommended strategies regarding measures to be addressed at the federal level—

- Work with Congress and HUD to seek designation of all disaster areas as "Difficult Development Areas" to encourage the construction or rehabilitation of affordable housing in these areas using Low Income Housing Tax Credits;
- Work with Congress and the U.S. Treasury to seek a waiver of the "Ten Year Rule" under the Low Income Housing Credit Program for disaster areas to encourage the acquisition and rehabilitation of affordable housing units; and
- Work with Congress and the U.S. Treasury to seek a two year waiver of the first time homebuyer requirement for households with homes damaged by the storms and increase the \$15,000 limit on home improvement loans to \$100,000 during this period.

November 24, 2004

Then on November 24, 2004, the Commission submitted a letter to the Governor with two, final recommendations to be addressed at the state level—

- Work with the State Legislature to provide additional Sadowski Act funds to expand housing resources during storm recovery; and
- Increase the flexibility of these funds to target those most in need of housing assistance.

In November 2004, the Governor signed Executive Order 04-240, creating the Hurricane Housing Work Group.¹ The group's mission was to assess long term housing recovery needs and make recommendations on the best use of one-time funding to address these concerns. Two members of the Commission, Scott Culp and Gus Dominguez, served on the work group, which published its recommendations in February 2004.



Chapter Two

The Preservation of Affordable Multifamily Housing: An Interim Report

OVERVIEW

In 2004 the Affordable Housing Study Commission reported that by 2008 tens of thousands of affordable housing units in the United States may be converted to market rate units.² The aging and escalating loss of affordable multifamily housing is a trend with serious implications for Florida's low income population. Federal funding for programs that preserve affordability has decreased over the years, making it more difficult for vulnerable populations to secure housing without over-burdening their income. According to an analysis by the National Housing Trust, Inc., a national nonprofit organization formed to preserve and improve affordable multifamily homes for low- and moderate income families, the U.S. Department of Housing and Urban Development (HUD) subsidized 300,000 fewer units in 2003 than it did in 1995.³

This is especially important when we understand that HUD programs over time have provided housing for our lowest income residents. Indeed, the nation's oldest affordable housing, including public housing, was funded at levels that have made this stock affordable to extremely low income (ELI) residents – those with incomes from 0 to 30 percent of area median income. High replacement costs and low reserves have caused these units to be poorly maintained over time. While subsidized units serving a range of incomes are aging and in need of rehabilitation, the most critical threat is to these oldest units which have served ELI residents.

The Commission's 2004 study of how Florida can better serve ELI residents underscored the urgency of preserving affordable housing and establishing policies that promote preservation. The Commission is convinced that it is now time to focus exclusively on an issue that we have previously discussed as part of other topics.

In its 2004 report, the Commission made several preliminary recommendations for affordable housing preservation in the areas of notification policies, right of first refusal, and creating incentives for developers to preserve affordable units. The Commission recognized that a comprehensive multifamily state preservation policy should be developed and chose to begin development of such a policy in the 2005 study year.

Examining the full scope of the preservation topic quickly reveals the complexity of the issue. A sustainable approach to preservation encompasses more than addressing the aging and deterioration of existing multifamily housing. It must also provide mechanisms for identifying units in danger of losing their affordability requirements and tools to encourage retention of the housing stock into the future.

Subsidized multifamily housing is acquired or constructed with the support of local, state and federal programs that finance rental development and/or provide project-based rental assistance for operations. Maintaining a property's availability

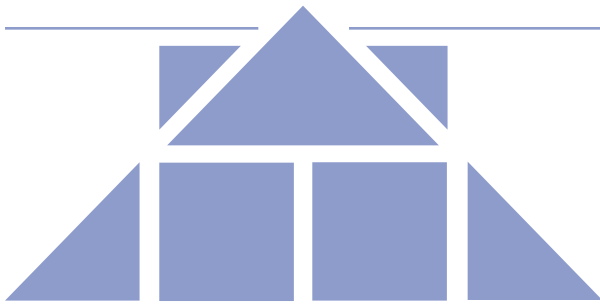
as safe, decent affordable housing over time involves complicated refinancing structures that weave layers of financing from government programs with private sources of funds. Executing these deals is time consuming and challenging. Complicating this situation, current owners of affordable housing must contend with an array of program restrictions and tax related barriers that discourage selling a property or infusing a property with additional cash to maintain or upgrade existing systems.

This situation is occurring throughout the country, and many states are discussing how to provide tools to encourage preservation. Florida is experiencing the additional pressure of severely tightening real estate markets in many parts of the state, causing soaring land prices and limited land for new construction. These market conditions have spurred the recent condominium conversion boom throughout the state. Developers are acquiring and renovating apartment complexes into condos. In South Florida, apartment buildings are being converted into condominiums at a rapid pace: in 2004 alone, 47 percent of all apartment building sales were for conversions in Broward County.



IT'S OUR TWO WEEK NOTICE. SOMEONE BOUGHT THE PLACE AND IS TURNING IT INTO CONDOS."

The number was 43 percent in Palm Beach County and 82 percent in Miami-Dade County.⁴ In 2005, as many as 17,000 apartment units will be converted into condominiums. In 2002, Florida developers filed 45 notices with the state indicating their intent to convert apartment buildings to condos. In 2004, the number of notices rose to 232, and almost as many notices have been filed for the first half of fiscal year 2005.⁵



Why Is Preservation of Affordable Housing Important?

Florida, like the rest of country, faces serious housing challenges. Preservation of existing affordable multifamily housing is at the core of maintaining safe and decent housing for the following reasons:

- **While low and moderate income families struggle to afford their housing, extremely low income families are especially hard hit by rents that can consume over half of their monthly income;**
- **Well maintained residences combat neighborhood blight;**
- **Safe housing with responsive and sensitive resident services helps to keep the surrounding communities vital; and**
- **Preserving existing affordable multifamily units is less expensive and more efficient than new construction.**

While these transactions are, in part, providing affordable homeownership for some, the conversions are eliminating rental housing that was providing lower income residents with housing at reasonable rates.⁶ Combined with subsidized rental housing, these older, conventionally financed units provide low cost rental housing for Floridians. The conversion trend promises to exacerbate the impacts of any lost affordable housing stock.

A recent article in the South Florida Business Journal highlighted the challenges affordable housing developers have faced in recent years making a property's income cover its expenses. Sharply escalating land prices and insurance costs are eating up profits. Rising construction costs, an attitude among consumers that "new is better" and rent restrictions that have flat-lined potential income are also contributing to an atmosphere in which owners are either leaving the affordable housing industry altogether or reducing the number of new units they are constructing.⁷

The Commission's Preliminary Study

Before the Commission could begin to develop a preservation policy, we had to educate ourselves about the status of Florida's existing affordable multifamily housing stock. We asked ourselves a series of questions—

- How old is Florida's affordable multifamily housing stock?
- When will affordability periods end?
- What programs were used to finance the existing stock, and what limitations do those programs place on preserving these units?
- What other barriers to the preservation of affordable housing currently exist?

As we began to answer these questions, the Commission realized the complexity of the issue, and agreed that more time would be needed to develop a coherent and comprehensive preservation policy. This report, then, provides preliminary answers to these questions and sets up the Commission's work in 2006. The rest of this chapter is divided into an overview of the existing housing stock and the programs used to finance and operate this housing, and an outline of the barriers that limit preservation transactions.

A resident of Railroad Avenue Apartments in Winter Park enjoys a moment from his front porch.



ANALYSIS OF EXISTING HOUSING STOCK AND PROGRAMS

Florida has over 259,000 affordable multifamily units that have been financed by myriad state and federal programs over the last 70 years.⁸ Moreover, an additional number of unsubsidized apartments and single family units are available at affordable rents in the private market. These conventionally financed rental units are an important part of Florida's housing continuum, providing affordable options for Florida residents who choose to rent.

The National Housing Trust runs a national data clearinghouse solely for the purpose of keeping track of affordable housing units lost by each state. This information is compiled only for the older HUD programs, specifically Project-Based Section 8, Section 236 and Section 221(d)(3). Florida has a total of 28,887 units funded through these programs.⁹ Of these, the National Housing Trust estimates that 5,749 units have been lost as of March 2005 due to mortgage prepayment or opt-out of the project-based Section 8 program.¹⁰

Appendix II provides two tables summarizing the status of the state's affordable housing stock. Table 1 shows when affordability periods are projected to expire and Table 2 provides estimates of the age of the state's affordable rental stock.

In the section below, brief descriptions of each program provide a flavor of how the programs work and a sense of the special preservation barriers inherent in these programs. For some programs, we include scenarios that provide narrative examples of the issues property owners are confronting as they reach crucial points in their properties' lives. While there are specialized problems that arise with certain programs, many of the issues are the same, regardless of the financing involved. These simple scenarios are provided to assist the reader in understanding the decisions with which an owner is faced.

A number of federal housing programs no longer provide funding for the construction or rehabilitation of new units; however, these programs are still in existence because they provide support to existing units. Preliminary age and expiration data for each program are also provided.

UNITS FINANCED BY U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) PROGRAMS

Section 236 – Mortgage Rate Reduction Program

Active from 1968 through 1975, this program enabled developers to obtain Federal Housing Administration (FHA) mortgage insurance and a mortgage interest rate subsidy. The subsidy took the form of a monthly interest reduction payment, commonly known as an IRP subsidy, paid directly to the lender by HUD, effectively reducing the owner's interest rate to 1 percent.

The property's basic rent is set at the amount needed to cover project expenses and service the mortgage at 1 percent. The difference between the debt service of the mortgage obtained



Phantom Income and Exit Taxes

These interrelated concepts represent one of the most important barriers to the preservation of affordable housing for properties under pre-1986 regulations.

In the preservation context, phantom income is tied to the depreciation – the normal wear and tear over time – of buildings. Owners of multifamily properties take advantage of depreciation by deducting a certain percentage of it from their taxable income each year. This lowers the total income on which the owner must pay taxes and reduces expenses, thereby providing more profit to the owner. For older properties built in the 1960s or 1970s, the time comes when the allowable depreciation reaches zero. From that point on, the owner can no longer deduct the depreciation from taxable income.

However, the property does continue to generate expenses which can be deducted from the owner's taxable income after the buildings' depreciation is zeroed out. The deductible expenses create a negative value in a property, called "phantom income." This phantom income grows with each passing year.

When an owner is ready to sell the property, this phantom income is included in the total sale price of the property for tax purposes. For example, a property with a phantom income of \$1 million is sold for \$3 million. The IRS demands an "exit tax" on the amount of capital gain or profit from the \$3 million sales price, plus the phantom income of \$1 million. Since phantom income does not generate actual money for the owner, the taxes on the increased sale price can exceed an owner's actual financial capacity, or the tax payment makes the sale unprofitable for an owner looking to maintain the units' affordability. It becomes more economically beneficial to retain ownership and convert the units to market rate housing or sell the property for use as market rate housing.

Scenario #1 – A Better Foundation Development Company Considers the Future

In 1972, A Better Foundation Development Co. constructed a 100 unit multifamily development using Section 236 funding. The company obtained a 7 percent loan from a private lender to finance the construction of the apartments. The Section 236 program paid the lender a monthly payment that brought A Better Foundation's monthly debt service down to the equivalent of a 1 percent loan. This mortgage subsidy was written for a 40 year term, with an option for A Better Foundation to prepay after 20 years.

In accordance with the Section 236 program requirements, A Better Foundation agreed to rent all 100 units to low income families at rates that covered the property's monthly operating expenses and generated a small profit. A Better Foundation also entered into a project-based Section 8 contract for all the units to assist any families who could not afford their budget based rent.

By the early 1990s, the market value of the property had risen significantly. The surrounding community was growing, with new jobs and small businesses opening up around the development. The revenue from the budget based rents did not leave much room to accrue reserves to pay for maintenance and upgrades, and with 20 years of wear and tear on the property, A Better Foundation had to face the following considerations:

- Should the company prepay the mortgage and release itself from rent restrictions? It is unlikely there are lower interest loans available. If it did prepay the mortgage and refinance, the strength of the market in the surrounding community suggests the company could find a private lender willing to work with it, and the property could command higher rents if upgrades and redesigns are done to the units.
- Should the company also opt out of renewing the Section 8 contract? Not renewing the Section 8 contract would release all the units from that program's rent restrictions.
- Would a conversion to market rate rents push current residents out of their only housing option? Current residents could receive Enhanced Vouchers if they applied for them.
- The property would be attractive to new owners – located in a growing community, with revenues that at least cover expenses and strong equity. Selling the property would allow the partners in A Better Foundation to transfer ownership. However, selling the property would trigger exit taxes that might eat up a significant portion of any profit generated by the sale.

by the developer and the residents' payment equaling 1 percent of the mortgage payment is paid directly to the lender by FHA. Development owners are required to rent to low and moderate income families and abide by Section 236 program regulations, which include budget based rent calculations and limits on equity distributions for the duration of the mortgage. Most of the properties developed with Section 236 took on 40 year mortgages eligible for prepayment after 20 years.

HUD's database shows 8,025 Section 236 units funded in Florida – 54 properties in all. Project-based rental assistance is also provided to 4,482 of these units, making rents affordable to lower income residents. Some portion of the National Housing Trust loss list consists of Section 236 properties that have prepaid mortgages, but the data are provided in aggregate only, not by program. By 2015, the largest percentage of units, almost 91 percent (7,294 units), will be in position to expire by virtue of their mortgages being satisfied. During this same period leading up to the year 2015, over 4,000 of these units will also see their Section 8 rental assistance contracts come to an end. We know anecdotally that some Section 236 mortgages have been prepaid and refinanced as affordable housing deals, thereby preserving their accessibility to ELI residents, but we do not know how many.¹¹

As with many older subsidized, privately owned properties, Section 236 properties have increased substantially in market value, but they are also a tax liability for their original owners. Due to their age, the properties' tax benefits have expired and they are now generating phantom income. These conditions push owners to prepay the mortgage and convert to market rate housing.

Section 221(d)(3) and 221(d)(4) – Below Market Interest Rate Loans

The 1961 Housing Act launched the Section 221(d)(3) and (d)(4) programs. The subsidy mechanism for these programs is a below market interest rate loan of 3 percent, which allows the owner to pass along its reduced debt service and development costs to residents in the form of lower rents. The loan terms are up to 40 years and there is a prepayment option after 20 years. Fannie Mae participated in the program by purchasing the entire project mortgage from the owner's lender at market rate, absorbing the difference between that rate and 3 percent. Additionally, this program provided access to FHA mortgage insurance. Section 221(d)(3) is targeted to nonprofit owners or cooperatives, which could receive an insured mortgage up to 100 percent of the HUD/FHA estimated replacement cost of the development. Section 221(d)(4), which targets for profit owners, provided a maximum mortgage of 90 percent of the HUD/FHA replacement cost estimate.

Today this program is used without the below market interest rate feature. The program now provides credit enhancement to multifamily mortgage revenue bond developments (discussed later), lowering the interest on the bonds and making these deals more affordable.

By itself, the Section 221(d) program does not provide income or rent restrictions; it is only when it is combined with rental assistance or other program funding that the units become affordable. Of the 23,127 total units in Florida financed through the Section 221(d) programs, 7,471 units (generally the

Scenario #2 — Can Power to the People Development Company Still Meet Its Mission?

In 1967, Power to the People Development Co., a non-profit entity, developed a 100 unit property under the Section 221(d)(3) program which provided a federal mortgage at the below market interest rate of 3 percent. The mortgage was repayable over a 40 year term, with an option to prepay after 20 years. To further support revenue at the property and ensure low income families could live there, Power to the People entered into a project-based Section 8 rental assistance contract covering all the units in the property.

In 1987, Power to the People recognized a need to boost cash flow to support their new focus on economic development projects. The organization began considering prepaying the 221(d)(3) mortgage on its 20 year old property; prepayment would allow conversion of the units to market rate rents, with a potential increase in revenue. Even as the organization recognized that affordable housing plays an important role in the economic health of a community, it also acknowledged a need to carefully examine all its available resources.

Power to the People now faced the following considerations:

- Should the organization maintain the property as affordable housing to support its residents?
 - The property is 20 years old and is likely in need of upgrading and rehabilitation. Is there enough in reserves, to address maintenance and replacement issues?
 - Refinancing might bring additional cash to pay for upgrades but is it possible to find an interest rate low enough to make refinancing viable?
 - If the organization is able to refinance and upgrade the property, would rents have to be raised to meet debt service? What would be the implications of a rent increase for current residents of the property? Power to the People could probably rely on its Section 8 contract to help keep these units affordable.
- Should the organization keep the property, but prepay the Section 221(d)(3) mortgage and convert the units to market rate?
 - The issues of the property's condition and refinancing would be the same as above.
 - Current residents could receive Enhanced Vouchers if they applied for them.
- Should Power to the People sell the property and use the proceeds to support its new economic development initiatives?

older units) also carry some type of rental assistance, making these units affordable to low income tenants.¹² Another 1,954 units, or about 8 percent of the portfolio, are also assisted by Florida Housing Finance Corporation or local housing finance agency programs, making them affordable.

By 2015, mortgages on over 2,000 units will be satisfied, allowing these units to go to market rate rents. By 2025 over 50 percent of the units in the portfolio will expire, making these units unaffordable unless rental assistance is maintained. Units expiring in later years have limited rental assistance attached to them. The data suggest that, while half of the units are relatively young, thousands of units are older and face rehabilitation needs. Owners of Section 221(d) properties face the same tax related challenges as owners of Section 236 properties, namely expired tax benefits and phantom income.

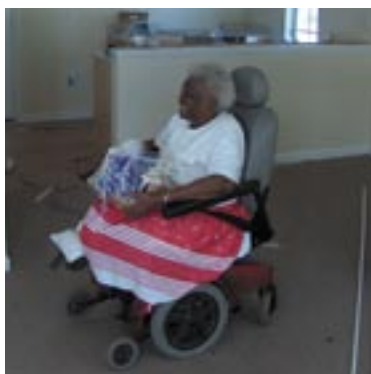
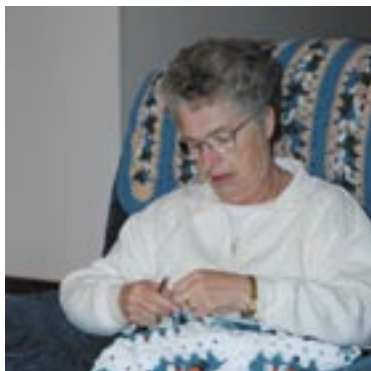
Section 202 – Housing for Elders Section 811– Housing for People with Disabilities

On June 28, 2002, the congressionally chartered Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century issued its report highlighting the housing and health care needs of elders. One of the Commission's key recommendations was to preserve, renovate, retrofit and refinance existing affordable and public housing, particularly Section 202 housing for elders and Section 811 housing for people with disabilities.¹⁵

Section 202 of the National Housing Act has been the federal government's principal vehicle for production of affordable elderly multifamily housing since 1959. This program included housing for people with disabilities until 1990, when the Section 811 program was separated into a free standing program. The programs began as direct federal loans offered at then prevailing interest rates for 40 year terms. Section 8 rental assistance was also provided to some of these units to make them affordable to lower income families.

Since 1990, the programs have been structured as interest-free capital advances that act like grants. The capital advance does not have to be repaid as long as the housing remains available for very low income residents for at least 40 years. Both programs require nonprofit ownership of participating properties. For this report, greatest concern is reserved for properties that were constructed under the old direct loan program, as those are the oldest units in the portfolio and carry higher interest rates than are currently available from private lenders.

Five-year renewable Project Rental Assistance Contracts (PRACs) have also been provided to property owners since 1990, covering the difference between the HUD-approved cost of operating the housing (maintenance, repairs, property insurance, etc.) and the amount residents pay in rent. Residents pay 30 percent of their adjusted income for rent which ensures affordability for very low income households. A key difference between the PRACs issued under the current Section 202/811 program and the Section 8 rental assistance provided to older loans is that residents receiving Section 8 rental assistance were required to be extremely low income, while those who receive assistance through PRACs are not required to have incomes this low.



Section 202 and 811 properties constructed under the old direct loan structure allowed owners to prepay their 40 year mortgages after 20 years and end affordability restrictions. As interest rates have fallen, the option of refinancing looks more appealing to owners of these properties, as does the option to prepay the mortgages and opt out of the rent restrictions under which they have been operating. Properties in both programs now face the challenge of scarce cash needed to support system replacements, redesign and rehabilitation and the provision of enhanced services. Section 202 property owners who are eligible to prepay their mortgages also face some restrictions from HUD.

Elders and people with disabilities are especially vulnerable to increased housing costs. According to Priced Out in 2002,¹⁴ 2002 marked the first time that the average national rent was greater than the amount of income received by each American with disabilities from the federal Supplemental Security Income program. The Task Force warned that unless federal appropriations increase, all Section 811 funding will have to be allocated to rental assistance¹⁵ and PRAC renewals. This would completely eliminate the program's original purpose of producing new housing for people with disabilities. For Fiscal Year 2006, the proposed Section 811 appropriation is reduced from \$238 million to \$120 million, which would be used entirely for renewing existing rent subsidies.

Because the Section 811 program was separated from Section 202 in 1990, the 745 units in the Section 811 portfolio are no more than 15 years old.¹⁶ Most of these properties are very small. Expirations will not begin to occur until after 2030. However, 712 of the units also have rental subsidies attached to them to serve very low income residents with disabilities. In the coming years, the greatest preservation concern with these units will be maintaining the federal rental subsidies

Scenario #3 — Taking Care of Elders — Which Choice Makes Most Sense?

In 1981, Non Profit for Elders (NPE) developed an affordable housing property for elderly residents using a Section 202 federal direct mortgage. The mortgage carried a 40 year term and the then prevailing interest rate of 15 percent. NPE also entered into a project-based Section 8 rental assistance contract to support the development's revenue and to make sure very low and low income elders could afford to live in their units.

Twenty years later, NPE's executive director noticed that interest rates had fallen well below the property's original Section 202 mortgage interest rate. Additionally, the Section 8 rental assistance contract was about to expire. This made prepayment of the mortgage and refinancing the property an attractive option. Although the property had generated some cash flow over the years, it had not been enough to fully fund reserves for maintenance or upgrades to the units.

Having received the Section 202 loan before 1982, NPE's loan documents allowed prepayment and refinancing without HUD's prior approval. Upon prepayment, the property's rent restrictions and requirement that only elderly residents could live there would terminate completely, leaving NPE with the option to convert the units to market rate rents. NPE faced the following considerations:

- If NPE prepaid the mortgage, and converted the units to market rate rents, could the organization continue its mission to serve low income elders? The property was twenty years old, with maintenance and upgrade issues. Refinancing under a lower interest rate would create available cash for maintenance and upgrades.
- Should NPE opt out of renewing its Section 8 contract? Opting out of the Section 8 program would mean current residents could receive Enhanced Vouchers, but only if they applied for them. What responsibility would NPE have to facilitate this process?
- Should NPE sell the property and use the proceeds to support elders in another way? Selling the property would reduce the availability of affordable housing for low income elders; how would NPE transition its elderly residents to new housing?

and re-capitalizing the properties to ensure maintenance and renovations are taking place.

Florida has a total of 24,510 Section 202 units, and almost 75 percent of these units also include rental subsidies. In 2015, the first major expiration of this portfolio will occur, as mortgages are satisfied on over 16 percent (1,515) of the units. From there, approximately 3,000 units will expire every five years. Units with rental assistance do not begin expiring with great frequency until 2025. More important is the age of these properties. While we do not have age data available, we can assume from loan maturity dates that over 4,000 Section 202 units are 20-25 years old, and another 11,000 are 15-20 years old, suggesting that this stock is in need of rehabilitation. Because most elders wish to remain in their homes as they grow older, properties must be upgraded with improved safety and design features as well as supportive services needed by aging residents.

Project-Based Rental Assistance

The older federal programs described above have typically provided grants or favorable loan terms for the acquisition, construction and rehabilitation of properties. In addition, rental assistance has been paired regularly with some or all units in these properties to cover operating costs and ensure that units are affordable to very low income residents. A total of 28,422 units in Florida's affordable housing portfolio have some type of project-based rental assistance.

Since the 1970s project-based rental assistance has been provided through various programs, including the PRAC program described above, which provides rental assistance to newer Section 202 and 811 properties. There are some small, older rental assistance programs which continue to provide assistance, but the main source of rental assistance has been project-based Section 8, summarized below. HUD provides Section 8 rental assistance pursuant to a Housing Assistance Payment contract with a property owner. Under these contracts, HUD pays the rental subsidies to the property owners in an amount equal to the difference between the rent for a particular unit and 30 percent of the family's monthly adjusted income. When Section 8 contracts expire, property owners have the choice to "opt out" of the program and take their units to market rents or renew the contract on a year to year basis, subject to federal appropriations.

Older Assisted Properties. Some properties funded in the 1960s and 1970s with Section 221(d)(3) and 236 mortgage subsidies also receive project-based Section 8 rental assistance under the Loan Management Set-Aside (LMSA) Program. Rents are set by HUD to cover the budgeted costs of operation for the property with a modest return on investment for the owner. These properties receive Section 8 to assist very low income residents who could not afford budget based rents and to rescue failing properties. Early contracts on these properties were short term, usually five year periods, renewable twice for a total of 15 years.¹⁷ Over 8,000 such units continue to receive project-based rental assistance through the LMSA program.

Newer Assisted Properties. In project-based Section 8 properties funded in the late 1970s and 1980s, rental assistance began to be provided alone without a HUD mortgage loan

program. HUD-approved rents for newer assisted properties under the New Construction or Substantial Rehabilitation program are not budget based, as with older assisted properties. Instead, rents are set at a Fair Market Rent (FMR) determined by HUD's review of rents in a specific market. As with other forms of rental assistance, HUD's payment is the difference between the established FMR and a family's rent contribution of no more than 30 percent of their monthly income, including utilities.

The original rental assistance contracts for newer assisted properties took the form of a 20 year commitment (30-40 years if financed with state or local tax exempt bonds). Many of the properties under this contract structure have recently begun to expire. Once the initial 20 year contracts have expired, the renewed contracts generally go to 1-5 year contracts which are dependent on congressional appropriations. For owners of these properties, the only termination option is to simply opt out of their expiring contracts, since there are no government mortgage restrictions involved. If the owner chooses to opt out of Section 8 at this point, there are no rent restrictions or income eligibility requirements. Current residents may apply for Enhanced Vouchers (see below), allowing them to continue living in their unit at increased rents, or move to another property.

There are over 14,000 units in this "newer" Section 8 program. Approximately 2,600 units also have more recent financing from one or more of Florida Housing Finance Corporation's rental programs, suggesting that these 20 or so properties also have seen some rehabilitation.

Enhanced Vouchers

When the first wave of mortgage prepayments occurred in the 1990s, HUD shifted its policy focus from one of preservation to one of protecting residents from displacement or higher rents. Notification requirements were adopted through the Wellstone Notice to inform tenants, HUD and state or local governments prior to mortgage prepayment.

HUD also created tenant-based rental assistance, known as "Enhanced Vouchers," to offer residents affected by mortgage prepayment or opt-outs of rental assistance. These vouchers are provided by public housing authorities at market rents, adjusted annually, and allow tenants to remain in their housing or move. Three possibilities may occur:

- Prepayment of a mortgage when there is Section 8 rental assistance for some or all of the units. Under this scenario, Enhanced Vouchers would be offered to eligible residents;
- Opt-out only, with no prepayment of the mortgage. If the owner chooses to opt out of the expiring LMSA Section 8 contract without prepaying the mortgage, only residents living in the units originally covered by the rental assistance contract could receive Enhanced Vouchers. Units that were not covered by the contract would remain subject to the rent restrictions and income eligibility requirements of the subsidized mortgage program in place. Rents of the units formerly covered by Section 8 would go up, but only to levels set by the mortgage program; and
- Prepayment of a mortgage and opt-out of the

LMSA Section 8 contract. All residents of a property described in this scenario could receive Enhanced Vouchers.

Should the renter stop using an Enhanced Voucher for any reason, the voucher is not recycled to another user – it is terminated. This means that, over time, fewer residents will be served as Section 8 opt-outs and mortgage payments occur and Enhanced Vouchers are used and then discarded by tenants. The National Housing Trust estimates that, by 2003, approximately 300,000 units/vouchers nationally had been permanently lost due to mortgage prepayment or Section 8 opt-outs.¹⁸

UNITS FINANCED BY U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT PROGRAMS

Section 515 – Rural Rental Housing Program

In 1962, Congress created the Section 515 Rural Rental Housing Program. The program is run today by Rural Housing Service (RHS), a division of Rural Development (RD). Section 515 makes subsidized loans to eligible developers at a 1 percent interest rate for 30-year terms to build, acquire, and rehabilitate rural rental housing. About 59 percent of these loans are further subsidized by Section 521 Rental Assistance program, described below, and a limited amount of project-based Section 8 assistance.

An owner's ability to prepay a Section 515 loan depends on when the loan was made. Loans made prior to December 1979 can be prepaid at any time if the owner refuses RHS incentives and RHS determines that the loss of the units will

not have a negative impact on minority housing opportunities in the community. Loans made between December 1979 and December 1989 can be prepaid only after 20 years. Loans made after December 1989 cannot be prepaid at any time.¹⁹ Knowing that Section 515 properties constructed after 1989 cannot prepay their loans focuses preservation concerns on the older stock. Units built prior to 1989 are likely dealing with aging infrastructure and the need for capital for renovations and repair. Owners of these properties are also able to consider prepayment and conversion.

Congress created a loan prepayment regulation process between 1979 and 1992 that introduced restrictions on the right to prepay. It also created prepayment prevention incentives for owners based on the amount of equity in their properties. Unfortunately, RHS has not had sufficient Section 515 or rental assistance funding to meet the demand for incentives. As a result, RHS faces lawsuits brought by owners seeking the right to prepay and/or compensation for not being allowed to prepay.²⁰

In Florida, RHS obligated \$1.08 million for repair and rehabilitation of 155 units, and over \$1.1 million in equity loans connected with 54 units during 2004. That year RHS obligated no funds for new construction under the Section 515 program.²¹ By providing no funds to construct new units, RHS appears to be focusing the Section 515 program on preserving the older stock.

There are a total of 15,938 Section 515 units in Florida, and twelve properties (590 units) have already satisfied their Section 515 mortgage, allowing affordability restrictions to



Crescent Club Apartments in Orange County before (left) and after (above) its rehabilitation. Work was completed in 2001, providing 215 units.

expire. Another 20 percent will expire by 2010 and the greatest percentage of this housing stock – 54 percent – will be lost between 2010 and 2020. By then, a total of 12,468 units (323 properties) will no longer be under affordability restrictions, although about one-half of these units will remain affordable if they do not lose their rental assistance. As these expiration numbers increase, there is the ever present issue of aging and the need to capitalize properties so they can meet maintenance needs.

Section 514/516 – Farm Labor Housing Loans and Grants

Section 514 loans and Section 516 grants are provided to buy, build, improve and repair housing for farmworkers. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees for the purchase of household furnishings; and to pay construction loan interest. Loans are for 33 years at 1 percent interest. Grants may cover up to 90 percent of development cost with the balance of development costs met with a Section 514 loan.²²

Section 514/516 funds are divided between off-farm housing and on-farm housing. The off-farm program provides loans and grants to organizations that assist farmworkers at off-farm locations with no requirements that workers be employed on a particular farm. The on-farm program makes loans to eligible farmers (or a group of farmers) to provide housing, usually for their own laborers. Approximately 46 percent of Section 514/516 program units receive Section 521 rental assistance.

Under the Section 514 loan program during 2004, RHS obligated \$4.5 million in new construction of 83 units and over \$2.9 million for repair and rehabilitation of 648 units in Florida. Under the Section 516 grant program that year, RHS obligated \$1.5 million in new construction of 83 units and over \$2.8 million for repair and rehabilitation of 180 units.²³ The allocation of funds in both of these programs suggests that the programs are focusing on maintaining older, existing units.

Under Section 514, loans can be prepaid after 20 years but, similar to the Section 515 program, Section 514 loans made after 1989 are not allowed to be prepaid. Ownership entities eligible to participate in the Section 514/516 programs include nonprofits, farmers and farmers' associations, and these types of entities generally want to maintain a property's affordability and are unlikely to prepay their loans. For them, preservation becomes an issue of aging and the condition of the units. Since they are also unlikely to transfer ownership, phantom income and exit taxes are not a major concern, but small properties are difficult to refinance and cannot bear significantly raised rents. Of the 3,934 units of Section 514/516 housing in Florida, mortgages have already been satisfied on two of the largest properties that have 1,355 units between them. Another 1,310 units will be in this position by 2015. While age-specific data on Florida's RD portfolio were unavailable, it is possible to make assumptions based on mortgage terms. Of the 19,872 total units in the portfolio, 41 percent are estimated to be between 21 and 30 years old. Another 44 percent are estimated to be between 11 and 20 years old, suggesting that the stock in this portfolio is aging and in need of rehabilitation.

Section 521 – Rural Rental Assistance Program

Section 521 Rural Rental Assistance is a project-based assistance program used in conjunction with the Section 515 and Section 514/516 programs. Property owners sign 4-5 year contracts with RHS, which subsidize the rental unit for occupancy by low income residents. Subsidies under this program are equal to the difference between 30 percent of the resident's monthly income and the resident's actual rental expenses.

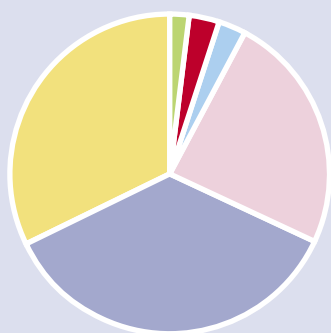
Over 56 percent of all RD units in Florida, or 11,171 units, also receive Section 521 assistance. The funding challenge facing Section 521 is the increase in operating costs combined with caps on rental assistance appropriations. The same amount of funding is being spread over higher rents, reducing the total number of units that can receive this rent subsidy. Renewing expiring contracts is RHS' priority use of Section 521 at this time.²⁴

PUBLIC HOUSING

The Housing Acts of 1937 and 1949 laid the foundation for the public housing program in the United States. Throughout the country, local and regional public housing authorities (PHAs) were created to construct and operate public housing units. Some of the oldest affordable housing in the country, public housing today provides housing mainly for extremely low income residents.

As of early 2005, there were 38,827 public housing units in Florida.²⁵ The majority of these units, 69 percent, are

Age of PUBLIC HOUSING in Florida Total Number of Units: 38,827



32%	Over 40 Years Old	12,302
36%	31 to 40 Years Old	14,515
24%	21 to 30 Years Old	9,336
3%	11 to 20 Years Old	996
3%	Up to 10 Years Old	1,033
2%	Unknown Age	595

Source: Compiled by the Shimberg Center for Affordable Housing using HUD data, 2005

over 30 years old, and only 5 percent are under 20 years old. HUD reports that approximately 1,700 existing public housing units have been or will be rehabilitated with HOPE VI funds.²⁶ Since its inception, the financing of public housing has been a complex process. The federal government was originally committed to paying acquisition, construction, and capital costs, while PHAs were expected to pay operating costs from their residents' rental payments. Federal operating subsidies were formally established in 1970 to make up the difference between PHA rental income and operating expenses.²⁷

From a preservation perspective, the threat to public housing is the ongoing deterioration of an aging stock. The capital needs of public housing have been chronically under-funded for much of the program's history, and the mechanisms to address maintenance and rehabilitation can be unwieldy. Early in the program's history, too little funding was provided to address maintenance problems as they developed in order to keep them in check. Although sufficient funds are now provided to address current maintenance needs, there is still not enough to correct long term maintenance needs, which continue to worsen.

The effort to fund capital replacement needs for public housing started with the 1968 Modernization Program. These funds were awarded on a competitive basis and targeted a specific system each year: roof repair one year, heating system upgrades the next, and so on. Today, the Public Housing Capital Fund provides grant funding for capital needs, defined as repairs, major replacements, upgrading and other non-routine maintenance work that must be done to keep units clean, safe and in good condition. For the past five years, federal appropriations for this fund have stood at \$2.9 billion per year. In 2004, HUD granted a total of \$67.9 million for this purpose to 82 PHAs in Florida.²⁸ Operating subsidies are also available to PHAs under the Performance Funding System.

In 2003, the University of Florida's Shimberg Center for Affordable Housing conducted a survey of Florida PHAs. In the survey, PHA executive directors reported that inadequate operating and capital funds make it difficult for them to hire sufficient staff or contract with vendors to keep the properties in good repair and prepare units for new residents in a timely fashion. Moreover, the physical condition of their properties is crucial to their ability to rent the units and generate revenue.²⁹

UNITS FINANCED THROUGH FLORIDA HOUSING FINANCE CORPORATION PROGRAMS

Since 1982, Florida Housing Finance Corporation (Florida Housing) has provided financing for affordable multifamily housing through a variety of state and federal programs. Over time, federal programs administered by Florida Housing have generally received increased funding, while congressional appropriations for programs administered by HUD and RHS have decreased.

Overall, Florida Housing's 166,131 unit portfolio is newer than the HUD and RD portfolios.³⁰ Fully 155,769 of these units are set aside for lower income residents. The majority of the units are 1 to 10 years old, which means that loss of affordability is not yet a pressing concern for these units. The more immediate concern is the aging and physical condition of

properties in the portfolio. Nearly 50,000 of Florida Housing's units are 11 to 20 years old, and another 3,100 units, funded through the Multifamily Mortgage Revenue Bond program, are in the 21 to 30 year old range.

Florida Housing's programs were initially designed to serve higher income targets than those of HUD and RHS – typically at 60 percent of area median income. In recent years, Florida Housing has encouraged set-aside units targeted to lower incomes, including units for tenants with extremely low incomes. Moreover, properties funded before 1991 had more minimal affordability periods, while more recently funded properties generally have extended affordability periods, generally 30 to 50 years.

We note that units financed by Florida Housing programs often have funding from more than one program. Therefore, we have summarized the status of each program's portfolio below with the recognition that there is much overlap between these portfolios. However, we wanted to disaggregate the information to see whether any expiration or age trends among programs were discernable.

Low Income Housing Tax Credits

The Low Income Housing Tax Credit program provides a dollar-for-dollar reduction in federal tax liability over ten years in exchange for the acquisition, substantial rehabilitation or new construction of affordable rental housing. Once Housing Credits are allocated to developers, they are sold to obtain equity to be used in the development of a property. Special consideration is given to properties that target demographic groups such as elders, homeless people and farmworkers, as well as properties in targeted geographic areas such as the Florida Keys, rural areas and urban infill areas.

While some programs impose only income eligibility restrictions, the Housing Credit program imposes both income eligibility and rent restrictions tied to income. This characteristic makes units funded with Housing Credits especially valuable.³¹ The Housing Credit program includes a competitive program, through which 9% and some 4% Housing Credits are allocated, and a non-competitive program, through which 4% Housing Credits are awarded with private activity bond allocation.

9% Housing Credits – Florida Housing's portfolio of 9% Housing Credits contains a total of 61,353 units. None of these units are over 20 years old, and approximately 57 percent are 1 to 10 years old. However, almost 43 percent of these units are between 11 and 20 years old, which raises issues of aging and maintenance. Only about 1 percent of the units in this portfolio have already lost their affordability restrictions, and approximately 6 percent of the units will expire by 2015. The greatest loss of units in this program starts occurring after 2040, when 68 percent of the units are slated to lose their affordability restrictions.

Since they were first offered in 1988, 9% Housing Credits on their own have been a strong funding mechanism for the development of affordable multifamily housing. This is evidenced by the fact that 43,436 units are 9% Housing Credit-only deals, meaning Housing Credits were the only source of financing from Florida Housing. These units represent almost 71 percent of the entire 9% portfolio. Florida Housing also has

Scenario #4 – To Convert or Not to Convert. . .

In 1988, Affordable Apartments Development Co. constructed 100 units of multifamily housing financed with competitive 9% Low Income Housing Tax Credits, awarded by Florida Housing Finance Corporation. The company entered into a limited partnership with an investor, who put up the equity to finance construction and lease-up of the development in exchange for the tax credit benefit awarded to Affordable Apartments. Under the Low Income Housing Tax Credit program at that time, Affordable Apartments was required to rent a certain percentage of the units to low income families for a minimum of 15 years.

In 2003, the 15th year, Affordable Apartments had to consider whether or not to convert its units to market rate use. The tax credit benefit – paid in level annual payments over the past 10 years – was exhausted back in 1998. Now in 2003, the Housing Credit program compliance period had ended, meaning credit recapture as a result of not meeting the program affordability requirements was no longer a concern.

Affordable Apartments had to consider the following issues:

- What was the investor's interest in maintaining the partnership, now that the benefit of the tax credit had expired?
- What was the condition of the local real estate market, and what about the physical condition of the property? Were there enough reserves or cash flow available to address maintenance and/or replacement issues?
- What was the current cash flow of the property? Could it support refinancing and new debt to make upgrades to the property in order to make the units more attractive at market rate rents?
- If Affordable Apartments sold the property, what would be the impact of exit taxes on the profitability of the sale?
- Should Affordable Apartments choose to convert to market rate housing? The company would have no obligation to notify Florida Housing of its intent to convert or sell the units.³²
- Should Affordable Apartments keep the units affordable by applying for more Housing Credits through Florida Housing's competitive process?

regularly paired 9% Housing Credits with SAIL funding: there are 14,163 units in the portfolio which have been funded by both programs. This represents around 23 percent of the total 9% Housing Credit portfolio. A small number of the SAIL and Housing Credit units, totaling 149, have already lost their affordability, but the affordability periods on the bulk of the SAIL/9% Housing Credit units – just over 93 percent – will not expire until after 2040.

A barrier to the use of 9% Housing Credits as a tool for preserving affordability is the "10 Year Rule." Under this rule, a new owner of a development will not be eligible for 4% Housing Credits on the acquisition cost of the property if there was a change of ownership in the previous 10 years. Although a developer could still win 9% credits on the actual rehabilitation expenditures, without the 4% credits for acquisition, rehabilitation transactions become more difficult, if not impossible, to finance.

4% Housing Credits – 4% Housing Credits are generally available to anyone who qualifies for multifamily private activity bonds, secured either through Florida Housing or a local housing finance authority. Along with Bonds, these Housing Credits are often paired with SAIL funding to finance gaps in development costs.

Florida Housing's portfolio of 4% Housing Credits contains a total of 50,797 units. Properties with 4% Housing Credits are relatively new – nearly all of them are 1 to 10 years old. About 20 percent of the overall program portfolio is comprised of deals funded only by 4% Housing Credits – meaning housing credits were the only source of financing from Florida Housing. It is likely these units represent transactions funded with tax exempt Bonds from local housing authorities.

Affordability restrictions for 388 units in the 4% portfolio have already expired, but a significant amount of the portfolio does not expire until 2030, when approximately 16 percent of the units lose their restrictions. By 2040 and after, expiration will escalate with 19,000 to 21,000 units slated to expire every ten years.

State Apartment Incentive Loans

The State Apartment Incentive Loan (SAIL) program, established in 1992, provides low-interest loans on a competitive basis to developers of affordable rental housing. Funded through Florida's State Housing Trust Fund, SAIL loans provide gap financing that allows developers to obtain the full financing needed to construct affordable multifamily units. Special consideration is given to properties that target demographic groups such as elders, homeless people and farmworkers.

SAIL funds are a highly sought funding mechanism. Over time, the intense competition for this resource has produced longer affordability periods – developers are often willing to extend the standard 15 year SAIL affordability period up to 50 years in exchange for this funding.

There are a total of 47,095 units in the SAIL portfolio. The majority of these units are relatively new – approximately 85 percent are between 1 and 10 years old. There are no units over 20 years of age; however, the issues of aging and maintenance are a primary concern for the 14 percent

Scenario #5 – Should Happy Dwellings SAIL into the Sunset?

In 1995, Happy Dwellings Development Co. used SAIL funding to construct 75 units of multifamily housing for families. The company received 25 percent of the total development costs from the SAIL program, structured as a 3 percent interest loan, with interest payments made from the property's cash flow for 15 years and a balloon payment of the principal after the 15th year. Although the term of the SAIL loan was for 15 years, the affordability period for the development was set at 50 years.

With no other public sector funding programs involved in financing the construction of this property, the only affordability restrictions on the property were the income limits required under the SAIL program. Happy Dwellings established rents based on what the market could absorb and still achieve the income set-asides agreed to in its SAIL application.

In 2010, Happy Dwellings will have to consider the following issues:

- Will the company be able to identify a source of funds, refinancing or cash, to pay the required balloon payment at the end of the 15 year loan term?
- Should the company re-negotiate with Florida Housing to extend the term of its SAIL loan? Extending the term of the SAIL loan would initiate a new 50 year affordability period.
- The property will have reached the age when maintenance of major systems and upgrading the units are of greater concern. Will there be sufficient cash flow available for any necessary maintenance and upgrades? Can Happy Dwellings charge a higher rent to generate more cash flow? Given its commitment to maintain affordability for 50 years, how much more rent can low income residents pay?
- If Happy Dwellings sells the property, what will be the impact of exit taxes on the profitability of the sale?

that are between 11 and 20 years old. No SAIL funded units have lost their affordability restrictions at this time. Only small percentages of SAIL units will lose their affordability restrictions over the coming decades. It is not until after 2040 that the bulk of the units – almost 93 percent – will lose their affordability restrictions.

There are 16,337 units in the program portfolio that have been funded only with SAIL – meaning SAIL funds are the only source of financing from Florida Housing. These units represent 35 percent of the total portfolio. Around 1995, SAIL began to be paired with Bonds, and approximately 15 percent of the SAIL portfolio is made up of transactions funded through a combination of the SAIL and Bond programs.³³ Approximately 29 percent of the SAIL portfolio is comprised of SAIL and 9% Housing Credit funded units, and the remaining 21 percent are SAIL and 4% Housing Credit properties (once again, these are Local Bond transactions).³⁴

Multifamily Mortgage Revenue Bonds

Florida Housing's Multifamily Mortgage Revenue Bond program uses both taxable and tax-exempt Bonds to provide below market rate loans to nonprofit and for profit developers who set aside a certain percentage of their units for low income families. Proceeds from the sale of these Bonds are used to construct or acquire and rehabilitate multifamily rental properties. The Bond program imposes income eligibility restrictions on its units. The funding source for this program is bond cap allocation through the U.S. Treasury.

Collecting and analyzing aging and expiration data for Bond transactions is a challenging task. Bonds are routinely paid off and refunded, a process that resets any maturity dates and affordability requirements that previously existed.³⁵ Further complicating the process of tracking and analyzing bond data is the fact that some owners have chosen to maintain affordability requirements after their Bonds have matured in anticipation of a refunding.

Florida Housing has a total of 40,476 units in its Bond portfolio, including some of the oldest units funded by Florida Housing. Approximately 8 percent of the Bond units are between 21 and 30 years old, and another 30 percent are between 11 and 20 years old. The remaining 62 percent are 1 to 10 years old.³⁶ The process of restructuring and refunding Bond deals is a relatively inexpensive method of extending affordability periods for those units, often for 30 or even 50 years.

In the existing Bond portfolio, almost 31 percent of the units have already lost their affordability restrictions and another 7 percent will lose their affordability restrictions by 2010. The next wave of expirations begins in 2030 when the affordability periods on 7,000 to 9,000 units expire every ten years.

Prior to 1994, Bond transactions were generally carried out without supplemental financing from federal or state programs.³⁷ During that time, just over 11,000 units were funded by the Bond program alone – meaning Bonds were the only source of financing from Florida Housing. Between 1995 and 2004, a total of 13,285 units were financed by Bonds layered with SAIL and 4% Housing Credits. For the period when Florida Housing was providing SAIL for Local Bond transactions only (i.e., Florida Housing Bonds were not paired with SAIL

Scenario #6 – Paradise Properties Considers its Options

In 1990, Paradise Properties Development Co. constructed 200 units of affordable multifamily housing financed with Florida Housing issued tax-exempt Bonds. In addition, developments receiving tax-exempt Bonds are automatically awarded 4% Housing Credits, as long as the developer agrees to meet certain minimum requirements. Paradise Properties entered into a partnership with an investor, who provided equity in exchange for the tax credit benefit.

To meet the income limits set by the Bond program, Paradise Properties agreed to rent all of the units in the development to families earning a maximum of 60 percent of the community's area median income. The Housing Credit requirements set rent limits for each unit.

The Bonds carried a 30 year affordability period. The Housing Credits also carried an affordability period of 30 years, but under the program Paradise Properties would be allowed to convert its units to market rate after 15 years, providing the company met certain stipulations. In 2005, the 15th year, the Housing Credits' compliance period has ended.

Paradise Properties now has to consider the following issues:

- What is the investor's interest in maintaining the partnership, now that the benefit of the tax credit has expired?
- What is the condition of the surrounding market and could the property flourish at market rate rents? Are there enough reserves or cash flow available to address maintenance and/or replacement issues?
- If Paradise Properties chooses to convert the units to market rate rents, the company would have to notify Florida Housing, which then has one year to market the property and find a purchaser at the qualified contract price. Current residents at the property would have a 3 year transition period during which they could stay in the units at restricted rents.
- Should the company sell the property directly to a purchaser who will maintain the units as affordable?
 - A new purchaser could seek Bonds for acquisition and rehabilitation of the property and would be eligible to apply for a new allocation of 4% Housing Credits.
 - However, if Paradise Properties chooses to sell the property, exit taxes may significantly reduce the profit from the sale.
- Should Paradise Properties apply for a new allocation of Housing Credits for rehabilitation purposes? If awarded new Housing Credits, rent and income restrictions would be re-established.

during this time), Florida Housing used its own bond allocation and 4% Housing Credits to fund a healthy 16,118 units.

HOME Rental Program

The federal HOME Rental program was enacted in 1990 and provides non-amortizing, low or no interest loans to developers who acquire, rehabilitate or construct housing for low income families. As designed by Florida Housing, the program generally targets smaller developments in rural areas. Like the Low Income Housing Tax Credit program, HOME imposes both income eligibility requirements and rent restrictions on units. However, the HOME portfolio is relatively small, with only 6,704 units funded to date.

The HOME portfolio is relatively young – no units are more than 20 years old. More than half of the units, 58 percent, are between 1 and 10 years old. The remaining 42 percent are between 11 and 20 years old. To date, no HOME units have lost their affordability restrictions. The affordability periods on 13 percent of the units expire in 2010, and small numbers of units will lose affordability between 2010 and 2040. The bulk of expirations will occur after 2040 when close to 77 percent of these units will lose their affordability restrictions.

UNITS FINANCED THROUGH LOCAL HOUSING FINANCE AUTHORITIES

There are 17 local and regional housing finance authorities established throughout Florida that also receive private activity bond allocation to be used for affordable housing. The Commission is still researching age and expiration information on the Local Bond portfolio. We expect to provide this information in the Commission's 2006 report.

HOUSING AVAILABLE IN THE PRIVATE MARKET

The focus of this report has been on housing financed through state and federal programs. However, almost 27 million units of rental housing throughout the nation are conventionally financed and receive no government subsidy of any kind. Yet many of these units provide an important source of affordable, albeit unsubsidized, rental housing. A particular cause for concern regarding the stock of unsubsidized housing is its age and physical condition. The American Housing Survey reported that, nationally, 2.1 million units of conventionally financed rental housing have moderate or severe structural deficiencies. Of these 2.1 million units, over half were built prior to 1950.³⁸ As mentioned earlier in this report, the conversion of affordable housing units to privately owned condominiums is further depleting the affordable multifamily housing stock.

The Commission found very limited data readily available on the number of unsubsidized rental apartments in Florida. There are a total of 19,624 apartment properties of five or more units in Florida with a total of 1.06 million units.³⁹ Subtracting the affordable stock that is discussed in this report leaves a total of approximately 800,000 market rate rental apartments. This data source does not tell us how many of these units serve lower income residents; this would require a detailed analysis of Florida Census data to make this determination. However, the national perspective is illustrative for purposes of this report.

Across the nation, 17 million units of privately owned, unsubsidized rental housing are owned by an individual or a married couple. According to a 1996 Property Owners and Managers Survey conducted by HUD, 7.9 million rental units were controlled by absentee landlords owning fewer than 10 rental units. Many owners of these small properties are ill-equipped to manage and maintain the units. Almost a third of non-resident owners of nine or fewer rental units reported annual incomes of \$30,000 or less, suggesting that they do not have the personal capital to pay for rehabilitation or repairs. Less than 50 percent of all property owners reported making a profit with their properties, and 61 percent of nonresident owners of small properties said they would not purchase their properties again, given the choice. For non-resident landlords, it can make economic sense to abandon structurally unsound units if they cannot demand the rents necessary to cover expenses.⁴⁰

The financial barriers to preserving privately owned, unsubsidized multifamily housing are largely connected to the small size of most of the properties:

- The administrative complexity of underwriting and processing loans is not reduced with small properties. The same amount of work for the same cost for a smaller loan makes these deals less attractive to banks;
- Small properties are more likely to have a poor financial profile with negative or sluggish cash flow;
- Older properties with absentee landlords and low income residents are less likely to produce revenue that would support restructured debt; and
- Underwriting of smaller properties tends to be largely based on the credit history and financial capacity of the owner.⁴¹



Located in Winter Park, Winter Park Oaks originally contained 97 units (above right). In 2001, 33 new units were built and the property's amenities upgraded and refreshed (above).

SUMMARY OF FINDINGS

As shown in Appendix II, Florida has more than 259,000 affordable multifamily units that have been financed by myriad state and federal programs over the last 70 years. Almost 39,000 of these units are public housing and will remain part of the affordable housing stock as long as they are maintained in decent condition. The other 220,000 of these units were built in exchange for a commitment by the property owners to maintain the affordability of the units at predetermined levels over set periods of time.

Affordability periods range from 15 to 50 years depending on the program and year in which the units were built. These affordability periods are beginning to expire, allowing the housing units to be rented at market rate. Of the units with affordability restrictions, the majority must be maintained as affordable for at least another 25 years. However, affordability requirements for approximately 60,000 units will expire over the next 15 years, and many believe these units are among the most likely to be serving the state's lowest income residents. Adding to this pressure is the concern that additional rental assistance provided to some 27,000 of these units to make them even more affordable will slowly disappear as HUD's budget is cut.

While over 40 percent of Florida's affordable housing stock is 1-10 years old (95 percent of these newer units were financed through Florida Housing Finance Corporation programs), almost one-third of the stock – 83,847 units – is over 20 years old. Public housing and units funded with early HUD programs, such as Section 202, make up the highest proportion of the older stock. Even if these units maintain affordability restrictions and rental assistance into the future, they are aging and in need of rehabilitation.

A variety of federal and state financing programs still exist to support multifamily affordable housing. However, some programs are only available to maintain existing housing – no refinancing or funding for new housing is available. Section 236 and project-based Section 8 are examples of this. Section 221(d) has changed to the extent that its only function today is to support the use of mortgage revenue bonds in a transaction. While Sections 202 and 811 continue to provide some new housing each year, funding is so limited that only about 100 new units are funded annually by each program in Florida. The rural housing programs are similarly impacted, as greater portions of program funding are being used for preservation each year.

Florida Housing Finance Corporation currently administers the lion's share of new financing for multifamily units through its SAIL, Housing Credit, HOME and Bond programs. However, these programs historically have been less capable of serving the housing needs of Florida's lowest income renters. Yet these programs are the most likely source of preservation funding, so the Commission will be considering how to maintain older federal subsidies on units while utilizing available programs to preserve housing for these low income households.

BARRIERS TO PRESERVATION

The Commission found that Florida's affordable housing stock is aging, and expiring affordability periods are causing some properties to be lost. Implementing a policy that preserves affordable units has taken on greater urgency, but we discovered a variety of obstacles that complicate the implementation of such a policy, divided as follows:

- Financial barriers;
- Information barriers;
- Lack of capacity across the affordable housing delivery system to carry out complex preservation transactions; and
- Governmental and regulatory barriers.

FINANCIAL BARRIERS

Many in the affordable housing industry believe that the single largest barrier to maintaining the affordability of pre-1986 regulated developments is the recapture tax that must be paid by the seller upon sale of his or her property.⁴² Combined with phantom income (from negative capital accounts that build up over time), this exit tax often exceeds what the seller receives in cash proceeds, disincentivizing owners from transferring their older properties.

Unsustainably low rents can result in a lack of capital for minor rehabilitation and also suggest that a property may have large capital needs. Flat lined or decreased federal funding for Section 8 subsidies and other rental assistance programs means that owners who do manage to restructure the debt on their properties may be forced to pass on higher rents to residents. There are also properties that receive no rental assistance; in the Section 515 program, for example, more than 100,000 units nationally do not have rental assistance subsidies, making them extremely difficult to recapitalize without rent-burdening their residents.

Most importantly, there are simply not enough financing incentives to promote the amount of preservation needed. While the Commission knows that some preservation transactions already take place using currently available private and public sector financing tools, programs are generally not well positioned to encourage preservation. For instance, Florida Statutes do not allow the SAIL Program to be used for rehabilitation unless the value of the rehabilitation exceeds 40 percent of the value of the dwelling. This limitation means that SAIL is unavailable for more minor repairs that might be part of an acquisition and minor rehab preservation transaction.

Restrictions on the profit margin allowed by federal and state programs are a further deterrent to private and nonprofit developers who are best positioned to tackle acquisition/rehabilitation deals. For example, the Section 515 program allows developer fees only when a deal includes Housing Credits and caps return on investment at 8 percent of original equity. Multifamily programs administered by Florida Housing also cap allowable developer fee.

Florida Housing Finance Corporation has made changes to its programs over the last few years that make rehabilitation

proposals more financially feasible and competitive in the funding process. However, funding applications for new construction still outweigh those for rehabilitation by almost 18:1.⁴³ In 2005 alone, Florida Housing received 125 development applications across its four competitive rental programs – HOME, SAIL, Housing Credits and Bonds – and only 7 of these proposed to do acquisition/rehabilitation transactions.

There are a number of reasons for this focus on new construction, not the least of which is Florida’s continued population growth which propels the need for additional housing, as well as an historical focus on new construction throughout Florida’s affordable housing delivery system. Compared to new construction, acquisition/rehabilitation deals can be more complex transactions, especially when restructuring requires HUD approvals or review. On the other hand, preservation transactions are generally less expensive. The MacArthur Foundation, which has taken a special interest in the preservation of affordable housing, has analyzed preservation transactions and finds that it costs 50 to 75 percent less to preserve an affordable unit than to build a new one.⁴⁴

To address the added financial complexities of these transactions, a range of financial tools must be in place to support preservation transactions, including financing for predevelopment. As the Commission develops recommendations on a set of tools over the next year, we expect that currently available programs will require changes to be more useful for these transactions. To facilitate acquisition of a threatened property, access to some financing tools, such as affordable bridge loans, may be required on an as needed



Newly renovated signs and gates are some of the initial efforts taken to restore the Santa Barbara Apartments. Located in unincorporated Orange County, the development is in its final stages of restoration. It currently provides 180 rental units.



basis rather than through an annual competition. We will also discuss whether funding for these programs should be shifted in some way to provide greater support for preservation transactions. Moreover, we believe that new soft debt and equity products may be needed to provide the level of financing needed, especially considering older HUD or RD properties that currently serve extremely low income residents. The Commission understands that, realistically, funding for new tools will only come from state and/or private sources.

Of particular concern to the Commission is the fact that the oldest affordable stock across the nation and in Florida is also the most likely stock to be inhabited by extremely low income families. New construction to fully replace this stock to serve the state's lowest income Floridians would be very costly, and the programs now operating at the highest production levels are not currently set up to replace even a large portion of these units. Preserving this stock, which must be done in order to keep housing for these households stabilized at current levels, should be less expensive than building new units, but supporting the operation of these units will continue to be expensive over the long term.

INFORMATION BARRIERS

Understanding the status of Florida's assisted and conventionally financed housing stock is fundamental to creating and managing a thoughtful preservation strategy. This report provides a mile-high view of the age of the stock as well as when affordability periods will expire. This information must be refined to understand specific threats of housing loss at the local level. The Local Initiatives Support Corporation, a national nonprofit that provides technical assistance and financing to community development corporations, contends that understanding the regulatory and market issues of a particular development will go a long way in dictating what preservation strategies are most appropriate.⁴⁵

From a regulatory standpoint, knowing existing contractual and regulatory obligations, such as the mortgage status, affordability agreement, and whether and what type of rental assistance contract is in place is critical. However, the variety of program requirements and changes within programs makes it exceptionally challenging to collect, compare and analyze expiration dates and to predict with accuracy when units will be lost from the affordable housing stock. There are no widely available standardized risk analysis tools to assist states and local governments in identifying and examining properties that may be facing expiration and/or opt-out situations so that preservation strategies can be built around the specific needs of each property.

The notice requirements in place for owners wishing to opt out of Section 8 or prepay their federal mortgages do not always provide sufficient guidance to ensure that new owners can be found and ownership transferred to preserve the affordability of the units. Notification is not required at all of property owners wishing to exit the state's affordable housing system.

Understanding how a property is positioned in the local real estate market is also important – location, market value, and current land uses provide key information on how the current owner is likely to respond to preservation strategies. While

data on the age, mortgage status and affordability period of the assisted stock can be collected and placed into a database (indeed, this is currently being done through the Florida Housing Data Clearinghouse) market factors and owner needs constantly change and cannot be tracked.

Finally, the community impacts of aging and expiring affordable housing units are not widely understood by state and local government officials and community leaders. Florida has made strides in acknowledging the need for affordable housing, but most leaders have not been educated about the aging stock in their communities and the impact of losing this housing.

CAPACITY TO CARRY OUT PRESERVATION TRANSACTIONS

Across Florida's affordable housing delivery system, stakeholders generally lack the tools and experience to handle preservation transactions. Understanding the status of the housing inventory will be a helpful first step. Some believe that it would be useful to develop a risk analysis tool to assist in decisions about preserving properties. Through its preservation initiative, the MacArthur Foundation has recently funded several projects that examine the risk of loss in local and state situations.

In the national preservation discussion, many believe that nonprofit developers and public housing authorities may be more likely to carry out preservation transactions, especially those that save extremely low income units. The enhanced capacity of nonprofits and PHAs to execute preservation deals could greatly decrease the rate of loss. These entities tend to target their housing activities to meet the needs of lower income families, and they seek to create housing with permanent affordability, often in neighborhoods that are facing multiple challenges to rehabilitation and enhancement.⁴⁶

However, most nonprofit developers are rather small and have neither the capital nor the expertise to expedite these transactions, and many public housing authorities do not have development experience. These entities face a lack of capacity in key areas:

- The output of many nonprofits remains fairly small;
- The pressure to restrain salaries may make it difficult for them to retain skilled development staff; and
- Attention to a variety of community issues may reduce the time spent by an already small number of staff on the complicated task of developing and financing preservation deals.

The return on investment will often be smaller, and serving extremely low income tenants will remain risky, especially in those properties that continue to rely on federal rental assistance that is dependent on annual congressional funding.

While nonprofits may be most likely to be interested in preserving smaller, lower income properties, some state housing finance agencies find that the proper incentives will promote the involvement of more sophisticated for profit developers. The agencies agreed that, rather than focusing on the legal status of the new owner, the more important consideration is long term affordability and appropriate

rehabilitation to ensure that the housing is viable over the long term.⁴⁷

Finally, Debra Schwartz of the MacArthur Foundation informed the Commission that the complexity of preservation transactions, especially in the areas of underwriting and project management, has been the single most unanticipated issue for state housing finance agencies surveyed about state preservation efforts.⁴⁸

GOVERNMENTAL BARRIERS

Already discussed above, exit tax requirements are probably the biggest barrier to redevelopment and housing preservation. The IRS 10 Year Rule on Housing Credits, as discussed earlier in the report, is a barrier to the transfer of ownership that could maintain a property's affordability.

Today's code and design requirements, at both the state and local levels, can be problematic for preservation deals, especially in substantial rehabilitation. Codes requiring increases in square footage can result in the creation of fewer units, larger than the ones they are replacing. Local codes requiring more parking spaces per unit eat into the land available for additional units. While some updated code features are necessary, especially those related to wind safety and other environmental factors, the additional cost of other design requirements makes preservation transactions even more expensive.

In the last several years, Florida Housing Finance Corporation has made changes to some requirements and incentives on design and amenity requirements for rehab deals to ensure that these deals are more competitive. However, the Universal Application should be evaluated once again in concert with any program recommendations made by the Commission to support preservation efforts. And while the Commission's recommendations have limited impacts on changes to federal programs, we acknowledge that there are barriers likely in federal rules (e.g., removal of asbestos) that also impede redevelopment.

NEXT STEPS

The Commission has spent the last several months educating itself on the status of Florida's affordable multifamily housing stock and the programs that govern this stock. While we understand that expiring affordability requirements, mortgage prepayments and program opt-outs are important considerations, the Commission believes that the critical thread that runs through this issue is the aging of the housing stock. Florida has few federal and state programs that are currently well tailored to provide current and aspiring property owners with the tools necessary to preserve properties over the long term.

The Commission's next steps are to understand the preservation tools that are available and build additional tools that will provide a more comprehensive framework to ensure success. In 2004 when the National Housing Trust convened a roundtable of 13 state housing financing agencies that have implemented preservation programs, they discussed the factors that were critical to integrating preservation strategies into their ongoing programs. Among these factors are:

- Commitment to preservation from every level of the organization;
- Incorporation of preservation targeting or set-asides into programs;
- Cooperation and communication among all affected parties;
- Flexibility to adapt programs to specific preservation needs; and
- Careful due diligence in underwriting preservation and rehabilitation deals.⁴⁹

The Commission expects to develop recommendations on financing, information and capacity building tools with the following objectives:

- To build capacity across the affordable housing delivery system to handle preservation transactions; and
- To provide an array of financing strategies to preserve older and/or expiring properties, including unassisted properties with modest rents.

In the 2005-2006 study year, the Commission will be examining the preservation programs of other states and the current incentives that exist to promote preservation. The Commission's 2006 report will present a comprehensive state policy addressing preservation needs for affordable multifamily housing in Florida.



ENDNOTES

- ¹ For more information about the work of the Hurricane Housing Work Group and a copy of its report and recommendations, see: www.myflorida.com/myflorida/governorsoffice/Hurricane/.
- ² Affordable Housing Study Commission, *Final Report 2004*, p. 21, www.floridahousing.org/AHSC/AnnualReports/2004AnnualReport.
- ³ National Housing Trust, *Changes to Project-Based Multifamily Units in HUD's Inventory Between 1995 and 2003: Number of Affordable Project-Based Units Declines by 300,000*, April 2004, www.nhtinc.org/documents/PB_Inventory.pdf.
- ⁴ Friedman, Robyn A., "Developers Profit from Condo Conversions, but at a High Price to South Florida's Apartment Dwellers," *South Florida Sun-Sentinel*, 20 March 2005.
- ⁵ *Ibid.*
- ⁶ This "new" homeownership housing will serve primarily those with incomes above 80 percent of area median income, or in some cases, those at lower incomes who must receive additional subsidies to assist them in the purchase.
- ⁷ Staley, Susan, "Affordable housing's economics turn poor," *South Florida Business Journal Broward Edition*, 25 April 2005.
- ⁸ This does not count the approximately 80,000 Section 8 tenant-based vouchers that are used generally in private market housing to provide rental assistance, nor does it count additional units funded solely with local resources.
- ⁹ Based on HUD data compiled by the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation, 2005.
- ¹⁰ National Housing Trust, www.nhtinc.org/prepayment/State_Loss_Report.pdf, pp. 16-18.
- ¹¹ Dominguez, Agustin. From a discussion at the 20 June 2005 Affordable Housing Study Commission meeting. Properties that make their way into Florida Housing's portfolio from the HUD or Rural Housing Services portfolios maintain their affordability restrictions and should not be counted as lost units. However, Florida Housing currently does not track the previous history of a property initially constructed with HUD/RHS programs, so there is no way to analyze the number of properties that have transitioned from one set of programs to another.
- ¹² Based on HUD data compiled by the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation, 2005.
- ¹³ www.seniorscommission.gov/pages/final_report/recomendations.html.
- ¹⁴ A report prepared by the Technical Assistance Collaborative, Inc., and the Consortium for Citizens with Disabilities Housing Task Force. For more information see www.tacinc.org.
- ¹⁵ Since 1997, the Section 811 program has funded the Section 8 Mainstream Housing Opportunities for Persons with Disabilities program. Initially made available only to public housing authorities, HUD waiver authority has permitted nonprofit disability organizations to apply for these vouchers since 1999. Renewal of these vouchers, which have five year terms, is funded out of the Section 811 program appropriation.
- ¹⁶ Data for both Section 811 and Section 202 are from HUD data compiled by the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation, 2005.
- ¹⁷ Achtenberg, Emily P., *Stemming the Tide: A Handbook on Preserving Multifamily Subsidized Housing*, eds. Neil Carlson and Vincent F. O'Donnell, Knowledge Sharing Initiative of Local Initiatives Support Corporation, September 2002, p. 4.
- ¹⁸ National Housing Trust, *Changes to Project-Based Multifamily Units in HUD's Inventory Between 1995 and 2003*, April 2004. Report available at www.nhtinc.org in Public Policy section.
- ¹⁹ Strauss, Leslie, *Preservation of Affordable Rural Housing: A Practitioner's Guide to the Section 515 Program*, Local Initiatives Support Corporation, p.10.
- ²⁰ Rapoza, Robert A., and Cornelia Tietke, "Preserving Rural America's Affordable Rental Housing: Current Issues," *Rural Voices* Winter 2004-05, Housing Assistance Council.
- ²¹ Housing Assistance Council Florida Data Sheet at www.ruralhome.org.
- ²² Housing Assistance Council's website at www.ruralhome.org.
- ²³ Housing Assistance Council Florida Data Sheet at www.ruralhome.org.
- ²⁴ Housing Assistance Council's website at www.ruralhome.org.
- ²⁵ U.S. Department of Housing and Urban Development, Jacksonville and Miami Offices, 2005. In Florida Housing Finance Corporation's 2003 analysis of Florida's affordable rental supply compared to need, 2002 data from HUD showed over 41,000 public housing units, suggesting that more than 2,000 units have been demolished over the last three years. Anecdotal evidence supports this.
- ²⁶ The HOPE VI program was created in 1993 to redevelop deteriorating public housing and more generally promote community redevelopment, but the program is not currently funded.
- ²⁷ Orlebeke, Charles J., *The Evolution of Low-Income Housing Policy, 1949 to 1999*, University of Illinois at Chicago.
- ²⁸ <http://www.hud.gov/offices/pih/programs/ph/capfund/grants/fl.cfm> for listing of each housing authority's 2004 allocation.
- ²⁹ Lockwood Williamson, Anne, et. al., *Public Housing Authorities in Florida: An Analysis of Selected Issues*, Technical Note Series 04-01, Shimberg Center for Affordable Housing, February 2004, p. vi.
- ³⁰ Data for this section were compiled by Florida Housing Finance Corporation, based on properties in Florida Housing's Housing Project Portfolio database, March 2005.
- ³¹ On their own, income limits generally restrain the amount of rent a property owner can feasibly demand. However, if market conditions are such that rental housing is limited in an area, an income eligible family may be willing to pay higher rents to live in decent housing, but be cost burdened in the process. Income restrictions combined with rent restrictions better protect low income residents from paying excessive rent.
- ³² After 1990, the Housing Credit program required that competitive 9% Housing Credit transactions carry 30 year affordability periods, but it also allowed developers the option to convert to market rate rents at the end of the 15 year Housing Credit compliance period. If the developer chooses to convert, Florida Housing must be given one year to find a purchaser who will maintain the units as affordable housing and who will pay the qualified contract price for the property. The qualified contract price is calculated by a federal statutory formula and combines the fair market value for the market rate portion of a property with a value for the low income set aside portion of a property.
- ³³ Many of these properties also have 4% Housing Credits in their financing structure.
- ³⁴ The majority of these units fall in the date range when Florida Housing mandated that SAIL funds be layered with local tax exempt Bonds.
- ³⁵ For bond transactions funded prior to 1986, we used the "qualified project period" as the affordability expiration date for units. For bond transactions funded after 1986, the maturity date of the bond was used as the affordability expiration date. Because we could not find bond term information for a small number of transactions funded between 1998 and 2003, we assigned a term of 30 years to calculate the affordability periods.
- ³⁶ Refunding dates were sometimes used to determine age, unintentionally creating "new" units out of existing units.
- ³⁷ When Congress lowered income targeting in 1986 to its current level (a minimum of 20 percent of units set aside to serve households at 50 percent of AMI or lower, or 40 percent of units set aside to serve households at 60 percent AMI, adjusted for family size), Bond transactions became practically impossible to do because the rents generated under the lower income restrictions were too low to make the deals financially feasible. Congress gave states the authority to use Housing Credits to make Bond transactions more feasible; however, the market for Housing Credits did not mature until the early 1990s. It was these credits, along with the state SAIL program, that provided the extra subsidy which set the state's Bond program in motion.
- ³⁸ Joint Center for Housing Studies, *The State of the Nation's Housing 2002*, Harvard University.
- ³⁹ Shimberg Center for Affordable Housing, compiled from the Florida Department of Business and Professional Regulation's Lodging Licenses files, 14 March 2005.
- ⁴⁰ Joint Center for Housing Studies.
- ⁴¹ Schnare, Ann B., *The Impact of Changes in Multifamily Housing Finance on Older Urban Areas*, Discussion paper prepared for The Brookings Institution, Center on Urban and Metropolitan Policy and The Harvard Joint Center for Housing Studies, June 2001.
- ⁴² Bodaken, Michael, "The correct path lies just ahead," *Affordable Housing Finance*, July 2003.
- ⁴³ Florida Housing Finance Corporation, April 2005.
- ⁴⁴ *Window of Opportunity: Preserving Affordable Rental Housing*, The John D. And Catherine T. MacArthur Foundation, n.p., no date, www.macfound.org/programs/pri/affordable_housing.htm.
- ⁴⁵ Achtenberg, p. 32.
- ⁴⁶ Mayer, Neil, "Preserving the Low Income Housing Stock: What Nonprofit Organizations Can Do Today and Tomorrow," *Housing Policy Debate* Vol. 2, Issue 2, Fannie Mae, pp. 502-504.
- ⁴⁷ National Housing Trust, *State Housing Finance Agencies: Developing Programs to Preserve Affordable Housing*, September 2004, p. 8.
- ⁴⁸ Schwartz, Debra, The John D. and Catherine T. MacArthur Foundation, Presentation to the Commission on 25 February 2005.
- ⁴⁹ National Housing Trust, *State Housing Finance Agencies: Developing Programs to Preserve Affordable Housing*, September 2004, p. 2., www.nhtinc.org

Appendix I



THE AFFORDABLE HOUSING STUDY COMMISSION

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Rhanda R. Mckown

October 5, 2004

The Honorable Jeb Bush
Executive Office of the Governor
400 S. Monroe Street
The Capitol
Tallahassee, Florida 32399-0001

RE: Affordable Housing Study Commission – Selected Recommendations for Storm Relief and Recovery

Dear Governor:

At its meeting last week, Lieutenant Governor Jennings joined the Affordable Housing Study Commission (the “Commission”) to request recommendations relating to long term hurricane recovery and affordable housing. The Commission welcomes the opportunity to incorporate recommendations relating to hurricane recovery efforts for affordable housing into its 2005 report. This report will be issued as soon as the Commission is able to thoroughly research the subject matter and develop consensus on recommendations. In the interim, we may periodically provide you with certain recommendations for which there is a sense of urgency. In general, these interim recommendations will relate to requests for waivers from federal programs or special streamlining initiatives that will enable the State to expedite the recovery process.

The following recommendations represent ways in which the Department of Housing and Urban Development may assist affordable housing providers in Florida to efficiently repair, rehabilitate or develop affordable housing stock:

- 1) State/Local HUD Representative:** Following Hurricane Andrew, affordable housing providers accessing HUD funds quickly noted that it was a difficult task to seek clarification and/or waiver of program requirements. Therefore, a new temporary position of “Assistant Secretary of HUD” was created to serve as local leadership. At the time, Otis Pitts, Jr., was appointed to this temporary position and served as a local coordinator and facilitator of rebuilding efforts involving HUD funding. It is our understanding that this position reported directly to the Secretary of HUD. The post created an opportunity for information to be centralized and served as a resource for those involved in rebuilding to have a means of effectively communicating impediments to recovery. The Commission recommends the creation of a similar locally-staffed position at HUD with the authority necessary to make decisions and seek waivers in order to coordinate storm recovery efforts in the State of Florida.

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2) Relief From Selected Requirements Applicable to Programs Funded by HUD: As a result of the recent storms, the State of Florida may receive significant sums of HUD subsidy, such as HOME and CDBG funds. These resources are truly valuable, and it will be important for the State to leverage the funds to the maximum extent possible as well as turn the dollars into available units as quickly as possible. Certain HUD requirements are well intended but either add significant cost to development and rehabilitation or lengthen the development or rehabilitation process. The State has a grandiose task ahead in terms of the number of units that need repair, renovation or development. Therefore, the Commission recommends that the State seek waivers from the following HUD requirements in order to expedite this process and maximize the number of affordable units that may be placed in service:

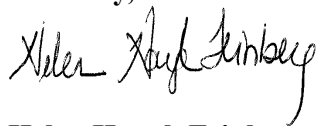
- **Davis-Bacon Wage Requirements:** The Office of Labor Relations administers and enforces Federal prevailing wage requirements mandated by the Davis-Bacon Related Acts in HUD assisted housing and community development programs. This requirement not only tends to add cost to construction and renovation, but it also lengthens the construction period due to the numerous man hours required to administer paper work to demonstrate compliance under the program. Elimination of this requirement would not only streamline the development process, but would also allow the State to fund more units of affordable housing. The Commission understands that this requirement was removed for funds provided for recovery following Hurricane Andrew.
- **Environmental Review:** One compliance aspect of using HUD funds to rehabilitate and develop affordable housing is an environmental review. The Office of Environment and Energy administers these functions. The Study Commission is concerned that the volume of reviews required to fund numerous renovation and development projects simultaneously within the State could cause lengthy delays in the construction process. The Commission notes that the Florida Housing Finance Corporation, as a lender, and traditional first mortgage lenders already require environmental reports to be prepared in order to protect against environmental issues. Therefore, in order to ensure that construction projects proceed as quickly as possible, the Commission recommends that the State request a waiver of the environmental review process required by HUD.
- **Uniform Relocation Assistance:** The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (“Uniform Act” or “URA”), is an act passed by Congress to establish minimum standards to provide financial assistance to persons displaced in connection with the acquisition, rehabilitation or demolition of properties receiving federal funds (such as HOME or CDBG). Although well intended, the program adds significant cost to the rehabilitation of an existing property. In situations where this requirement does not apply, developers frequently are able to adequately assist existing tenants with less cost. The requirement often renders the HOME program as economically infeasible for use in connection with rehab projects. Consequently, the Commission recommends that the State request a waiver of this requirement for funds used to assist in the storm recovery effort. It is our understanding that this requirement was waived for programs provided to rebuild following Hurricane Andrew.

- **Lead Based Paint:** On September 15, 1999, HUD published a new regulation known as “Requirements for Notification, Evaluation and Reduction of Lead-Based Paint Hazards in Federally Owned Residential Property and Housing Receiving Federal Assistance.” The regulation is designed to reduce the hazard of lead-based paint and applies to housing built before 1978, the year lead-based paint was banned nationwide for consumer use. Certain types of housing are already exempt from this rule, including housing built after 1/1/1978, housing for the elderly or people with disabilities, efficiency apartments, dormitories and housing whereby the rehabilitation will not disturb a painted surface. The Commission recommends waiver or modification of this requirement in order to expedite and control the cost of rehabilitation of existing housing with federal funds.

The Commission recognizes that there is a public purpose associated with the waiver regulations outlined above. However, the Commission sees a higher level of public purpose in funding more units more quickly than is present in the above-referenced requirements. There is a tremendous amount of work to be done in rebuilding and State and Federal resources will be stretched thin in this effort. Consequently, it will be important to streamline construction and rebuilding efforts as much as possible.

The Commission is pleased to have the opportunity to provide these recommendations. If you have any questions, please do not hesitate to contact me. I expect that we will be providing additional recommendations in the coming months.

Sincerely,



Helen Hough Feinberg
Affordable Housing Study Commission Chair

cc: The Honorable Toni Jennings, Lieutenant Governor
The Honorable James E. “Jim” King, Jr., President of the Senate
The Honorable Johnnie Byrd, Speaker of the House
Thaddeus Cohen, Secretary, Department of Community Affairs
Orlando Cabrera, Executive Director, Florida Housing Finance Corporation



THE AFFORDABLE HOUSING STUDY COMMISSION

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October 25, 2004

The Honorable Jeb Bush
Executive Office of the Governor
400 S. Monroe Street
The Capitol
Tallahassee, Florida 32399-0001

RE: Affordable Housing Study Commission – Selected Recommendations for Storm Relief and Recovery

Dear Governor,

Pursuant to a request made by Lieutenant Governor Jennings on October 1, 2004, the Affordable Housing Study Commission is pleased to provide certain additional recommendations to assist the State of Florida in its hurricane recovery efforts.

In developing the recommendations provided herein, the Commission has considered actions that can be taken by the Treasury and Congress to promote the production of affordable housing units in the State. We believe that several of these recommendations will dramatically improve the utility of the Housing Credit and tax exempt bond program as a resource to develop and rehabilitate affordable rental units. The State presently has the capacity to issue tax exempt bonds to finance affordable rental housing. However, economic conditions such as increases in construction costs, land costs and operating costs have adversely affected the ability of affordable housing providers to access this program without the availability of additional subsidy. We believe that our proposed changes will significantly expand the pool of eligible new construction and rehabilitation developments that may be financed in the State. Furthermore, we have identified a financing mechanism to assist homeowners affected by storms to repair their home or acquire a new home. In evaluating various options, the Commission has focused on strategies that would provide significant benefit with little or no cost to the federal government.

Consideration #1:

Designate disaster areas as Difficult Development Areas: Each year, HUD designates certain Metropolitan Statistical Areas (“MSAs”) as Difficult Development Areas (“DDAs”) for the Low Income Housing Tax Credit (“Housing Credit”) program pursuant to Section 42 of the Internal Revenue Code. An affordable housing development built in a DDA may claim housing credits on a greater percentage of the construction costs than if that development were not in a DDA.

In effect, the amount of Housing Credit equity received in connection with an affordable housing development in a DDA is approximately 30 percent greater than the Housing Credit equity received in other areas. As a practical matter, this additional subsidy opens up a wider range of financing tools to develop or rehabilitate affordable housing in DDAs. One of those tools is private activity bond authority, which is accompanied by “4%” Housing Credits when used to build or rehabilitate affordable rental housing. Recent dramatic increases in the costs of land and construction have put Florida at risk of losing access to these federal funds because the financing sources are insufficient to fund the costs of development. The additional subsidy in the form of Housing Credits received in DDAs helps to close this financing gap. The Commission believes that designating hurricane-hit areas as DDAs is an efficient means of facilitating the production of new deed restricted affordable housing units because funding mechanisms are already in place for the private activity bond program.

HUD is the agency responsible for determining whether a County or MSA qualifies as a Difficult Development Area. This determination is made by comparing the income of very low income households in an area to the prevailing rents in that area. The harder it is for very low income households to find suitable rental units, the more likely that the area will be designated a DDA. Unfortunately, we believe that HUD performed its analysis before the hurricanes hit Florida this year. Floridians who lost their jobs as a result of the storms will not be reflected in the HUD analysis, so median household incomes are likely overstated in the disaster areas. Also, fair market rents in hurricane-hit areas undoubtedly increased as the available supply of homes was drastically reduced by the hurricanes.

Although HUD has the authority to designate areas as DDAs, Congress has limited these designations to encompass no more than 20 percent of the nation’s metro population. This means that under current rules, if HUD were to reassess Florida’s hard hit areas and designate them as DDAs, other deserving areas in the country would lose their DDA status because of the 20 percent cap. The Commission believes that in the event of a disaster (such as the four storms affecting the State of Florida), it would be extremely valuable for Congress to grant the Secretary of HUD the authority to temporarily designate affected areas as DDAs in order to facilitate recovery. Because affordable housing providers may already develop Housing Credit properties in existing DDAs to the extent funding is available, and this proposal only seeks to expand the number of DDAs on a temporary basis, the Commission believes that this change would not have a material revenue impact on the Treasury. It is important to note that this proposal does not attempt to increase the existing cap on 9% Housing Credits and the Private Activity Bond allocation which will further limit any impact on revenues. Yet, this change would have a significant positive impact on the State of Florida in terms of facilitating the development, repair or replacement of affordable housing units.

***Recommendation #1:** The Commission recommends that the State work with HUD and the appropriate committees in Congress to grant special consideration of the hurricane impacted areas in our State as DDAs. It is the Commission’s understanding that the Florida Housing Finance Corporation has recommended that affected areas in the State be granted DDA status and we are in agreement with Florida Housing that this change would provide a means to efficiently develop or rehabilitate affordable housing units.*

Consideration #2:

Improve the Economic Viability of Rehabilitation Financings under the Housing Credit Program: Federal housing credits are among the most valuable sources of subsidy presently available to fund the construction or rehabilitation of affordable housing. In many areas of the State, significant public purpose could be achieved by rehabilitating existing housing stock that may be in disrepair. However, the “10 Year Rule” serves as a serious impediment to the usage of housing credits for the purpose of rehabilitating multifamily units and deed

restricting them as affordable. Except in limited circumstances, this rule prohibits properties that have had more than one owner in the last 10 years from being eligible to receive housing credits on the acquisition cost of a development. The only subsidy that is generated on properties that are not “10 Year Rule eligible” is the housing credit equity relating to rehabilitation costs, and this funding source is rarely sufficient to encourage the redevelopment of these properties.

Section 42 of the Internal Revenue Code (the “Code”) allows the Treasury to grant waivers from the “10 Year Rule” in certain situations. One such situation is when doing so would allow the Federal Government to: a) avoid an insurance claim under FHA or RD, or b) avoid the loss of affordable housing stock. The Commission sees significant potential value in granting relief from the “10 year rule” for areas that have been severely affected by the storms. While the Treasury appears to have the authority to grant waivers in certain circumstances, the Code does not appear to allow waivers to be granted for any purpose other than those specifically identified. Therefore, a waiver of the “10 Year Rule” for selected geographic areas would require Congressional action.

Because Florida’s dynamic real estate market has been very attractive for institutional investors in multifamily properties in the recent past, there are relatively few developments on the market that are “10 Year Rule eligible.” The Commission asserts that a waiver of this rule would be appropriate in that it would encourage the renovation and repair of housing stock at a time when many units throughout Florida have been damaged. It is our belief that this change would be considered “revenue neutral” because no additional funding is being requested. The State would simply be asking to have the choice of using its existing funding sources for a larger pool of qualifying properties.

***Recommendation #2:** The Affordable Housing Study Commission recommends that the State request legislation permitting a waiver of the “10 Year Rule” under the Housing Credit program for federally declared disaster areas within Florida in order to encourage the acquisition and rehabilitation of affordable housing units.*

Consideration #3:

Relief from First Time Homebuyer Requirement for Single Family Mortgage Revenue Bonds: State and local agencies in Florida offer first time homebuyers below-market mortgage financing as well as down payment assistance through the issuance of single family mortgage revenue bonds. The program has income and purchase price limits and restricts participation to individuals and families that have not owned a home within the past three years (an exception to this restriction exists for loans made in federally designated targeted areas and Qualified Rehabilitation Loans and Home Improvement Loans which have very specific requirements). The public purpose associated with this program is to assist individuals and families in the achievement of home ownership. Yet, with thousands of victims in Florida that have damaged or destroyed homes, there is a present need in the State to help those affected to repair their home or buy a new home. The Commission feels that significant public purpose would be served by providing an exemption from the first time homebuyer requirement for those whose homes have been damaged or destroyed by the storms. We believe that the currently available mortgage revenue bond capacity will adequately meet the demand of both first time homebuyers and hurricane victims. Section 143(k)(11) provided relief from the first time homebuyer requirement (as well as certain purchase price and income limits) for residences located in an area determined by the President to warrant assistance from the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. However, that section only applies to bonds issued in 1997 and 1998.

The Honorable Jeb Bush
October 25, 2004
Page 4 of 4

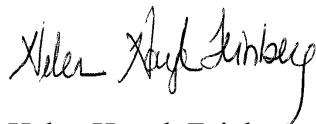
The single family program also presently allows existing homeowners to access Home Improvement Loans in amounts up to \$15,000 to rehabilitate an existing residence. This limit was established many years ago and the program has a low level of utility for this purpose. The Commission believes that the program would be more useful if the limit were raised to an amount that is reflective of increases in construction prices.

It is the understanding of the Commission that the first time homebuyer requirement has previously been waived following a disaster. Furthermore, we are of the opinion that the proposed changes would be viewed as "revenue neutral" since there is no request for an increase in the volume cap for private activity bond authority. With these changes we would simply be expanding the pool of eligible borrowers under the program.

***Recommendation #3:** The Commission recommends that the State request legislative relief for a period of two years from: a) the first time home buyer requirement for individuals and families whose homes have been damaged by the storms, and b) the \$15,000 limit on Home Improvement Loans. For example, legislative relief from the first time home buyer requirement could be achieved by amending section 143(k)(11) to apply to bonds issued in 2005 and 2006. The Commission suggests that the dollar limit on Home Improvement Loans be increased to \$100,000.*

The Commission appreciates the opportunity to present its recommendations for federal legislative changes that could significantly increase affordable housing opportunities for those affected by the recent storms. If you have any questions regarding these recommendations, please do not hesitate to contact me.

Sincerely,



Helen Hough Feinberg
Affordable Housing Study Commission Chair

cc: The Honorable Toni Jennings, Lieutenant Governor
The Honorable James E. "Jim" King, Jr., President of the Senate
The Honorable Johnnie Byrd, Speaker of the House
Thaddeus Cohen, Secretary, Department of Community Affairs
Orlando Cabrera, Executive Director, Florida Housing Finance Corporation



THE AFFORDABLE HOUSING STUDY COMMISSION

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November 24, 2004

The Honorable Jeb Bush
Executive Office of the Governor
400 S. Monroe Street
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Tallahassee, Florida 32399-0001

RE: Affordable Housing Study Commission – Selected Recommendations for Storm Relief and Recovery

Dear Governor,

The Commission is honored to once again submit coordinated recommendations to you in an effort to assist Floridians who have been displaced from their homes or who have had their homes destroyed due to storm damage. The previous letters have been sent sequentially in order to maintain the focus on a specific program or topic. To date, the Commission recommendations have focused on federal programs. The first letter directed recommendations towards programs under the authority of the U.S. Department of HUD; the second, towards programs under the U.S. Treasury and those affected by Congress. This letter will bring the focus to efforts that can be made by the Florida State Legislature.

Given the breadth of damage to single family and multifamily dwellings in the State of Florida and the overwhelming need for affordable housing, the Affordable Housing Study Commission would like to highlight the important role that increased funding through the William E. Sadowski Act (the “Act”) could play in recovery efforts. This resource is ideal to help the citizens of Florida for the following reasons:

- Programs funded with Sadowski Act monies provide the existing infrastructure to deliver dollars simultaneously at the state and local levels to fund both homeownership and rental housing.
- The SHIP Program, which is funded by 70 percent of annual Sadowski Act appropriations, allows local governments to assess the specific needs in their area and address them accordingly. The Act requires at least 65% of SHIP funds to be dedicated to homeownership and local governments have designed down payment assistance, foreclosure prevention and emergency repair programs, among others, to assist residents in their jurisdictions.

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- SAIL funds are an important ingredient in the financing of affordable rental developments that rely on mortgage revenue bonds. These bond developments are automatically eligible to receive non-competitive 4% housing credits. As was mentioned in a previous letter, dated October 25, 2004, cost increases have threatened the economic viability of private activity bonds unless additional subsidy is made available. Every \$1 of additional State Apartment Incentive Loan Program funds could leverage on average approximately \$2 in federal subsidy.

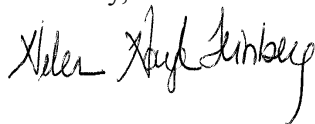
The Commission believes that it is not only important to provide additional Sadowski Act funding to facilitate the repair, renovation and creation of affordable housing units, but it is important to implement our earlier recommendations regarding state and federal initiatives in tandem to increase their efficiency. Furthermore, the Commission noted that for any state dollars dedicated to hurricane recovery, it will be important to make this funding as flexible as possible. For example, there are significant restrictions placed on SHIP funds that may not allow local governments to target the dollars where they are most needed.

Recommendation: *The Commission recommends that the Florida Legislature: 1) Provide additional Sadowski Act funds to expand housing resources during storm recovery, and 2) Take steps to increase flexibility of these funds to target those most in need of housing assistance based on state and local initiatives and priorities.*

With the recent formation of the Hurricane Housing Work Group, the Commission believes it advisable to support rather than duplicate the efforts of this new body. Therefore, this letter will be our final submission of interim recommendations for storm recovery. We believe the creation of this group to identify strategies to encourage the rebuilding and production of affordable housing evidences an important commitment to the citizens of Florida. The Commission will provide assistance in any way it can to the Work Group as it deliberates over the next few months.

On behalf of The Commission, I am pleased to submit this recommendation to you. If you have any questions please do not hesitate to contact me.

Sincerely,



Helen Hough Feinberg
Affordable Housing Study Commission Chair

cc: The Honorable Toni Jennings, Lieutenant Governor
The Honorable Tom Lee, President of the Senate
The Honorable Allan Bense, Speaker of the House
Thaddeus Cohen, Secretary, Department of Community Affairs
Orlando Cabrera, Executive Director, Florida Housing Finance Corporation

Appendix II

TABLE 1. When Are AFFORDABILITY PERIODS in Florida's Housing Stock Projected to Expire?

PROGRAM	Total # Units	Mortgage Already Satisfied ¹	Next 5 Years	Next 10 Years	Next 15 Years	Next 25 Years	Next 35 Years	36+ Years
FEDERALLY ADMINISTERED PROGRAMS		By 2005	By 2010	By 2015	By 2020	By 2030	By 2040	After 2040
HUD Programs	52,328	151	1,142	12,553	4,185	13,078	7,953	994
Section 202	24,510	0	205	3,997	3,518	10,310	5,703	777
Section 236	8,025	151	136	7,294	188	0	256	0
Section 811	745	0	0	0	0	0	528	217
Section 221(d)(3) & (4) ²	7,471	0	801	1,262	479	2,768	1,466	0
Section 8 (project-based) ONLY ³	11,577	(This rental assistance is generally provided now via 1-5 year contracts to properties)						
Rental Assistance (all other HUD types) ⁴	16,845							
Rural Development	19,872	1,945	4,131	3,738	5,540	3,814	704	0
Section 514/516	3,934	1,355	865	445	221	816	232	0
Section 515	15,938	590	3,266	3,293	5,319	2,998	472	0
Section 521 (project-based rental assistance)	11,171	(This rental assistance is provided via 4-5 year contracts to properties)						
STATE ADMINISTERED PROGRAMS	Total # Units	Affordability Period Expired	By 2010	By 2015	By 2020	By 2030	By 2040	After 2040
Florida Housing Finance Corporation⁵	155,769	13,567	7,257	755	582	24,878	24,796	83,934
LOCALLY ADMINISTERED BONDS⁶	(To be provided in the 2006 report)							
Minus Duplication (Units supported by more than one program) ⁷	-7,614	0	-288	-116	-1,398	-2,810	-604	-15
TOTAL UNITS EXPIRING OVER TIME⁸	220,355	15,663	12,242	16,930	8,909	38,960	32,849	84,913

Source: Compiled by the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation, 2005

TABLE 1. NOTES

¹ "Mortgage already satisfied" means that the mortgage period is complete and the loan has been paid off. These units generally remain part of the affordable housing stock due to the continuing presence of some type of project-based rental assistance.

² Mortgage insurance and credit enhancement programs are generally not included here because they simply provide additional support to units financed by the programs listed in this table. The notable exception is the Section 221(d) program in its earlier years, which then provided below market interest rate loans, but now functions solely as a credit enhancement program for bond developments. Note that the unit total for this program includes 695 units with unknown expiration dates. Another 1,954 units also financed through Florida Housing programs are not included in this section, but are included in the Florida Housing unit count later in the table.

³ In most cases, project-based rental assistance is provided IN ADDITION to some type of mortgage assistance. However, the 11,577 units in this section receive project-based Section 8 alone without any subsidized mortgage or other program assistance. Therefore, their affordability is solely dependent on their Section 8 contracts being renewed, and no attempt is made to show their expiration periods here, for reasons stated in Note #4.

⁴ Includes all other HUD project-based rental assistance that is provided in addition to some other type of mortgage or program assistance, including Sections 202, 236, 811, 221(d), 515, Florida Housing, etc. As such, this total adds no additional units to the overall HUD Program unit count, but it does provide perspective on the number of units that are likely serving residents with extremely low incomes. Because most of these contract periods now run five years or less and are typically renewed, no attempt is made to show expiration information over time.

⁵ Units financed through all Florida Housing Finance Corporation's mainstream rental programs are simply summarized here, because so many of these units are funded by more than one program. Table 3. provides a break out of units by program.

⁶ Many units financed with Local Bonds are already counted in the Florida Housing portfolio because the properties also were financed by 4% Housing Credits and/or SAIL. However, Local Bond properties funded back in the 1980s are unlikely to be included in the Florida Housing portfolio.

⁷ The duplication total includes 2,383 units that receive project-based Section 8 rental assistance AND programmatic assistance from Florida Housing Finance Corporation. Thus while they are part of the total duplication count, they are not categorized by expiration date in cells to the right of the total. It is likely that these units are in older properties that have been refinanced through Florida Housing programs, maintaining the project-based Section 8 rental assistance on the units.

⁸ To obtain the totals at the bottom of the table, the numbers in BOLD are summarized, then duplication from program overlap is accounted for by subtracting units funded by more than one program to get the final totals. The overall total number of units is different from the final sum of the subtotals in each expiration period, because a number of units in the total column are not included in the year columns to the right, as outlined in the notes above. The grand total in this table is less than Table 2., because this table does not include public housing, which is owned by government entities and is part of the affordable housing stock until it is demolished. Tenant-based Housing Choice Vouchers (Section 8), which are generally used in the private market, are not included in either table.

TABLE 2. Summary of the Estimated Age of Florida's Affordable Housing Stock, as of 2005^{1,2}						
PROGRAM	Total # Units	1-10 Yrs Old³	11-20 Yrs Old	21-30 Yrs Old	31-40 Yrs Old	Over 40 Yrs Old
HUD Programs	44,857	3,080	7,195	22,799	11,783	0
Public Housing ⁴	38,827	1,033	996	9,336	14,515	12,302
Rural Development Programs	19,872	1,162	8,697	8,068	1,231	714
Florida Housing Finance Corporation Programs ⁵	155,769	110,191	42,479	3,099	0	0
Local Bonds ⁶	To be provided in 2006 report					
TOTAL	259,325	115,466	59,367	43,302	27,529	13,016

Source: Compiled by the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation, 2005

TABLE 2. NOTES

¹ Unit age had to be estimated for HUD and Rural Development units based on the date of mortgage satisfaction. The HUD program category includes 11,577 units of project-based Section 8 rent assistance with no other subsidy/program attached. Without mortgage term information, age of these units was estimated to be 21-30 years based on the program's run in the late 1970s-early 1980s. Over 2,800 of these Section 8 units appear to have been rehabilitated using Florida Housing programs, maintaining the Section 8 rent assistance into the future.

² While this table estimates the overall age of Florida's affordable housing stock, the table does not provide any sense of how many units in each age category have been rehabilitated since they were originally constructed.

³ The "1-10 Yrs Old" column includes units funded through 2004, but not yet constructed.

⁴ The Public Housing unit total includes 595 units of unknown age. HUD estimates that 1,668 public housing units have been or are in the process of being rehabilitated with HOPE VI funds.

⁵ Age information in the Florida Housing Finance Corporation portfolio is based on when a property was awarded funding, so if a property has received funding in more recent years for rehabilitation or refinancing of Bonds, the data will show the more recent funding rather than the original date of construction. As a result, the portfolio as a whole looks younger than it is. It is reasonable to assume that there are properties older than 30 years, and more properties are in the 21-30 year category than is shown by the data. However, the FHFC portfolio is still relatively young when compared to the federal portfolios.

⁶ Many units financed with Local Bonds are already counted in the Florida Housing portfolio because the properties also were financed by 4% Housing Credits and/or SAIL. However, Local Bond properties funded back in the 1980s are unlikely to be included in the Florida Housing portfolio.

TABLE 3. When Are AFFORDABILITY PERIODS in FHFC's Housing Portfolio Projected to Expire?

STATE ADMINISTERED PROGRAMS	Total # Units	Affordability Period Expired	By 2010	By 2015	By 2020	By 2030	By 2040	After 2040
Florida Housing Finance Corporation¹	155,769	13,567	7,257	755	582	24,878	24,796	83,934
9% HOUSING CREDITS	61,353	687	3,359	270	0	15,008	78	41,951
4% HOUSING CREDITS	50,797	388	334	320	568	8,310	21,657	19,220
SAIL	47,095	0	1,242	305	17	2,079	128	43,324
HOME	6,704	0	883	142	82	442	0	5,155
MMRB	40,476	12,492	2,865	88	363	8,256	9,324	7,088

Source: Compiled by Florida Housing Finance Corporation, 2005

TABLE 3. NOTE

¹ The total unit count of 155,769 represents the total number of units in Florida Housing Finance Corporation's portfolio that are set aside to be affordable. The total portfolio, including unrestricted, market rate units, equals 166,131 units. The sum of the totals in each program category is overall greater than the totals in the Florida Housing category at the top of the table, because programs are often layered together to finance affordable developments.

TABLE 4. Summary of the Estimated Age of Florida Housing Finance Corporation's Affordable Housing Portfolio, as of 2005

PROGRAM	Total # Units	1-10 Yrs Old ¹	11-20 Yrs Old	21-30 Yrs Old	31-40 Yrs Old	Over 40 Yrs Old
9 % Housing Credits	61,353	34,874	26,479	0	0	0
4% Housing Credits	50,797	50,106	691	0	0	0
SAIL	47,095	40,188	6,907	0	0	0
HOME	6,704	3,919	2,785	0	0	0
MMRB	40,476	25,039	12,338	3,099	0	0
SUMMARY OF ENTIRE FHFC PORTFOLIO AGE (UNDUPLICATED)	155,769	110,191	42,479	3,099	0	0

Source: Compiled by Florida Housing Finance Corporation, 2005

TABLE 4. NOTE

¹ This age information is based on when the property was awarded funding, so if a property came in for rehabilitation or Bond refinancing, the data will show the more recent funding rather than the original date of construction. As a result, it is reasonable to assume that there are properties older than 30 years, and more properties are in the 21-30 year category than are shown by the data. However, the Florida Housing portfolio is still relatively young when compared to the federal portfolios.

Appendix III

Preservation Glossary

Affordable Housing. Defined in terms of the income of the people living in a unit. Generally, the household should not pay more than 30 percent of its gross monthly income, including utilities, for the unit. The housing must be safe and decent to be considered as affordable housing.

Affordability Period. The time period for which rent or income eligibility restrictions apply to housing that has received financing or rental assistance subsidies.

Area Median Income (AMI). The income level at which half of an area's households are below and half are above. Income eligibility requirements for affordable housing are generally expressed as certain percentages of the AMI. The U.S. Department of Housing and Urban Development sets this figure for areas throughout the country.

Below Market Interest Rate (BMIR). An interest rate provided at a lower level than the going rate for the same type of conventional financing. The original Section 221(d) program provided BMIR financing, and many current affordable housing programs also provide below market interest rates.

Bridge Loan. A short-term loan, usually three to six months, enabling a buyer to purchase a property, rehabilitate and upgrade the units and increase net operating income from the property. This type of loan "bridges" the need to act immediately with the later award of permanent financing. Also called "gap" financing.

Capital Account. The owner's original cash investment in the property, plus cumulative profits and tax losses over the life of the investment. Subsidized properties that have provided generous depreciation and interest deductions with limited or negligible cash flow will have a negative capital account after twenty years. Taxes will be owed on the negative capital account even if no cash proceeds are realized from the sale.

Capital Gain. Cash proceeds realized upon sale of the property, if any, minus the owner's capital account (see Capital Account). Capital gain is subject to federal and state tax when the property is sold.

Depreciation. The decrease in the value of equipment or property from wear and tear and the passage of time.

Enhanced Vouchers. Special tenant-based Section 8 rental assistance provided to eligible residents when owners prepay their subsidized mortgages or opt out of project-based Section 8 contracts. Rents are set at market comparable levels, instead of the regular voucher payment standard, as long as the tenant chooses to use the voucher.

Equity. Equity is an exchange of money for a share of business ownership. This form of financing allows funds to be obtained without incurring debt. Equity may also be obtained from a developer's own capital.

Exit Tax. Tax paid on the owner's capital gain, including any phantom income generated over the life of the property, when a property is sold.

Existing Use Restrictions (EUR). Low- and moderate income affordability requirements associated with subsidized mortgages under Section 221(d)(3) BMIR and Section 236, which terminate when the mortgage is prepaid.

Extremely Low Income (ELI). Income at 0-30 percent of area median income.

Florida Housing Finance Corporation (FHFC). Also referred to as "Florida Housing," serves as the state housing finance agency which administers affordable housing funding programs for the State of Florida.

HUD. U.S. Department of Housing and Urban Development.

Interest Reduction Payment (IRP). In a Section 236 development, the Interest Reduction Payment or interest subsidy provided by HUD on a monthly basis, which makes up the difference between the mortgage debt service actually paid and the debt service that would have been paid at an interest rate of 1 percent.

Loan Management Set-Aside (LMSA). A form of project-based Section 8 rental assistance used primarily for Section 221(d)(3)/BMIR and Section 236 housing. These short term, renewable contracts were added some time after the housing was first constructed. Only used now for existing units.

Phantom Income. When the allowable depreciation on a property reaches zero and the owner can no longer deduct the depreciation from taxable income, expenses which can be deducted from the owner's taxable income after the buildings' depreciation is zeroed out create a negative value in the property, called "phantom income."

Project-Based Section 8. A program providing rental assistance on behalf of some or all of the units in a development occupied by eligible tenants for a specified contract term. Tenants pay 30 percent of adjusted income for gross rent including utilities. The subsidy is attached to the unit and stays with the housing after the tenant leaves.

Project Rental Assistance Contract (PRAC). The five year renewable rental assistance contract provided to owners of Section 202 housing since 1990.

Public Housing Authority (PHA). These local and regional government entities generally operate public housing and administer tenant-based rental assistance. There are 119 PHAs in Florida.

RHS. Rural Housing Service is an agency of the U.S. Department of Agriculture Rural Development.

Tenant-Based Section 8. Rental assistance provided on behalf of eligible tenants, currently known as Housing Choice Vouchers. The subsidy is attached to the tenant and moves with the tenant.

Wellstone Notice. Notice required to be given by owners of prepayment-eligible developments, prior to prepaying the subsidized mortgage or terminating mortgage insurance. Must be given to tenants, HUD, and state/local government, at least 150 days, but no more than 270 days, prior to prepayment.

Appendix IV

Summary of Federal, State, and Local Affordable Multifamily Housing Programs*

FEDERALLY ADMINISTERED PROGRAMS

U.S. Department of Housing and Urban Development (HUD)

- Section 236 – Provides a subsidy to reduce mortgage interest payments to provide rental housing for 0 to 80 percent area median income (AMI) households. 2002 Funding: \$10.8 million to support existing units; 2003 information unavailable.
- Section 221(d)(3) and (4) – Originally provided a below market interest rate loan of 3 percent with FHA mortgage insurance. The (d)(3) component targets nonprofits, while the (d)(4) targets for profits. Today the program provides new properties with credit enhancement to lower the overall cost of borrowing capital for the construction and rehab of multifamily rental housing by guaranteeing the payment of mortgages that secure multifamily mortgage revenue bonds.
- Section 202 – Offers interest-free capital advances to nonprofit sponsors to finance development of supportive elder rental housing; generally serves 0 to 50 percent AMI households. 2002 Funding: \$5.2 million; 2003 information unavailable.
- Section 811 – Provides interest-free capital advances to nonprofit organizations for the development of rental housing for very low income adults with disabilities; generally serves 0 to 30 percent AMI disabled households. 2002 Funding: \$1.2 million; 2003 information unavailable.
- Project Rental Assistance Contract (PRAC) – Provides funds to cover the difference between operating costs for newer Section 202 and 811 properties and the tenants' contribution towards rent; takes place of older project-based Section 8. 2002 Funding: \$16.2 million; 2003 information unavailable.
- Project-Based Section 8 – Provides rental subsidies directly to property owners for particular units for a contractually determined period of time; used in concert with Section 202, 221(d), 236 and 811 programs, supports existing units only. 2002 Funding: \$541.9 million; 2003 information unavailable.
- Public Housing – HUD initially funded full construction and operation of new public housing units, but currently funds only operating, maintenance and improvements costs of existing units; units are owned and managed by Public Housing Authorities; primarily serves 0-30 percent AMI households today. 2002 Funding: \$141 million to support existing units; 2003 information unavailable.
- HOPE VI – Provides revitalization and/or demolition grants to aid in rehab or elimination of severely distressed public housing; promotes mixed income communities. 2003 Funding: \$14.5 million. Not currently funded.
- Section 8 Housing Choice Vouchers – Provides rental assistance for families to lease units in the private market; the tenant pays 30 percent of his/her income and the voucher pays the landlord the difference up to a "Fair Market Rent" established by HUD; most tenants are in the 0-30 percent AMI range. 2003 Funding: \$531.6 million mainly to support existing vouchers.

- Federal Housing Administration (FHA) Mortgage Insurance – FHA provides multifamily mortgage insurance through a number of programs, including its centerpiece program, Section 203 (b).

U.S. Department of Agriculture - Rural Development (RD)

- Section 515 – Competitive loans awarded to developers to provide affordable multifamily rental housing for families, elders and people with disabilities; typically serves 0 to 30 percent AMI households. 2003 Funding: \$9.1 million.
- Section 514/516 – Provides loans and grants to buy, build, improve or repair housing for farmworkers, and may also be used to construct day care facilities or community rooms, purchase household furnishings and pay construction loan interest; generally serves 0 to 30 percent AMI households. 2003 Funding: \$12 million.
- Section 521 – Provides rental assistance to ensure that qualified elderly, disabled, and low income residents of multifamily housing complexes financed by RD pay no more than 30 percent of their income for rent; designed to serve 0 to 50 percent AMI households. 2003 Funding: \$38.4 million.

STATE ADMINISTERED PROGRAMS

Florida Housing Finance Corporation

- Low Income Housing Tax Credit Program (9% and 4%) – Provides a dollar-for-dollar tax credit over 10 years against federal tax liability in exchange for the acquisition and substantial rehabilitation or new construction of affordable rental housing units; federal requirements are less restrictive, but Florida's program is competitive enough that virtually all units serve no more than 60 percent of AMI, with some units set aside at lower AMIs. 2003 Funding: combined total of \$50.8 million in 9% and 4% tax credits.
- State Apartment Incentive Loan (SAIL) – Provides low-interest loans on a competitive basis to affordable housing developers to bridge the gap between the development's primary financing and the total cost of the development; special targeting to homeless people, farmworkers and elders; while the state statute is less restrictive, Florida's program is competitive enough that most units serve no more than 60 percent of AMI, with a minimum of 20-40 percent of units set aside for those at 50 percent of AMI and lower. 2003 Funding: \$44.3 million from the State Housing Trust Fund.
- Multifamily Mortgage Revenue Bonds – Both taxable and tax-exempt bonds are issued to provide below market rate loans for rental housing; federal requirements are less restrictive, but Florida's program is competitive enough that most units serve no more than 60 percent of AMI. 2003 Funding: \$313.1 million.
- HOME Rental – Provides competitive, non-amortized, zero or low interest loans to developers for acquisition and/or new construction or rehabilitation of rental housing; targets small developments in rural areas; targets 20 percent of units at 50 percent of AMI, with balance no higher than 60 percent of AMI. 2003 Funding: \$11.7 million.
- Elderly Home Community Loan Program – Uses a portion of SAIL Program funds to make small loans for life safety repairs to multifamily properties serving low income elders.

2003 Funding: \$1 million from the State Housing Trust Fund.

- Affordable Housing Guarantee Program – A credit enhancement program that lowers the overall cost of borrowing capital for the construction and rehab of multifamily rental housing by guaranteeing the payment of mortgages that secure multifamily mortgage revenue bonds; partners with the HUD Section 542 Risk Sharing program in some cases, allowing each program to assume 50 percent of the risk of the mortgage. 2003 Funding: \$5.4 million provided through the State Housing Trust Fund for debt service coverage.
- Predevelopment Loan Program – Assists nonprofits and others with planning and financing predevelopment costs for homeownership or rental housing through loans and technical assistance; generally serves households up to 80 percent of AMI. 2003 Funding: \$2.3 million from the State Housing Trust Fund.

LOCALLY ADMINISTERED PROGRAMS

- State Housing Initiatives Partnership (SHIP) – Provides funds on a per capita basis from the Local Government Housing Trust Fund for implementation of local affordable housing programs to all 67 counties and 48 cities; generally used for homeownership but can be used for rental housing; serves up to 120 percent AMI households. 2003 Funding: Local governments were allocated \$162.5 million.
- Local Multifamily Mortgage Revenue Bonds – Bonds are issued by local governments to finance low interest rate mortgage loans to first-time homebuyers and to developers of affordable rental housing; serves up to 115 percent AMI households. 2002 Funding: \$270 million for rental housing; 2003 information unavailable.
- Local HOME Investment Partnerships Program – Provides formula grants to entitlement communities to fund a wide range of activities that build, buy and/or rehabilitate affordable housing for rent or homeownership; serves up to 80 percent AMI households. 2003 Funding: \$60.8 million.
- Local Community Development Block Grant (CDBG) Program – Provides eligible cities and counties with annual formula grants for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities and/or improving community facilities and services; housing funds are primarily used to benefit home buyers and current home owners, but may be used for rental housing; serves up to 120 percent AMI households. 2003 Funding: \$157.9 million (only a portion of funds are used for affordable housing).

* Dollar amounts are for funding in Florida.



THE AFFORDABLE HOUSING STUDY COMMISSION
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