



2009

THE AFFORDABLE HOUSING STUDY COMMISSION

Final Report 2009



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THE AFFORDABLE HOUSING STUDY COMMISSION

Charlie Crist
GOVERNOR

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Lloyd J. Boggio
Thomas Smith
Lelia Allen
Manny Pumariega
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Paul E. Curtis
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Darlene Pifalo
Ellen M. Ramsey
George D. Romagnoli
Kristin Larsen

STAFF

Odetta MacLeish-White

April 3, 2009

The Honorable Charlie Crist
Governor of Florida
The Capitol, Suite PL05
Tallahassee, Florida 32399-0001

The Honorable Jeff Atwater
President, Florida Senate
312 Senate Office Building
404 South Monroe Street
Tallahassee, FL 32399-1100

The Honorable Larry Cretul
Speaker, Florida House of Representatives
420 The Capitol
402 South Monroe Street
Tallahassee, FL 32399-1300

Dear Governor Crist, President Atwater, and Speaker Cretul:

On behalf of the Affordable Housing Study Commission, I am pleased to submit our final report for 2008-2009. The report fulfills the requirements of Section 420.609, Florida Statutes, and provides the Commission's findings and recommendations on strategies for increasing the capacity of Florida's nonprofits to address affordable housing issues.

Florida will always need a robust nonprofit affordable housing sector. These community-based organizations are more likely to serve our most vulnerable populations, including extremely low-income households and households in need of supportive services. Developing adequate housing for at risk populations is often more difficult and less profitable, making profit driven developers less likely to undertake these projects.

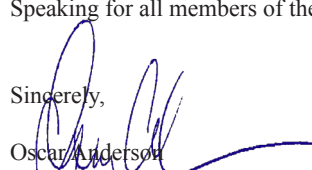
The Affordable Housing Study Commission has a long history of providing in-depth research and policy recommendations that have resulted in real impacts on the affordable housing choices available to the citizens of Florida. For example, the State Apartment Incentive Loan program (SAIL), which was recommended by the Study Commission, is responsible for almost 60,000 units of affordable rental housing since its inception.

The value of the Study Commission lies in its diverse membership, which covers a broad spectrum of affordable housing stakeholders, and its inclusive process. The Study Commission received over 40 hours of testimony on the topic of nonprofit capacity from practitioners, state agencies, academic experts and the public to inform its discussions and recommendations.

As the Study Commission began its work this year, the state's economic outlook darkened. The Commission worked efficiently to study and propose recommendations that look first to policy changes within current state funding. When the state's budget has recovered and new funding can be allocated, Florida must be prepared to implement a more comprehensive strategy for building the capacity of nonprofit affordable housing developers. Florida already has one of the best mechanisms for supporting the state's affordable housing delivery system in the State and Local Government Housing Trust Funds. The continuation of these Housing Trust Fund monies is vital to the consistent, dependable funding needed to help in the creation of decent housing for our state's most vulnerable populations.

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

Sincerely,


Oscar Anderson
Chairperson

THE AFFORDABLE HOUSING STUDY COMMISSION 2008-2009 MEMBERSHIP

Oscar Anderson, Chairperson

Lloyd J. Boggio, Representing residential community developers

Thomas Smith, Representing residential home builders

Lelia Allen, Representing the Florida League of Cities

Manny Pumariega, Representing regional planning councils

Shannon Nazworth, Representing management and operation of rental housing development

Paul E. Curtis, Representing apartment development

Annetta Jenkins, Representing very low- and low-income persons

Santos G. De La Rosa, Representing very low- and low-income persons

Jeff Bagwell, Representing a community-based organization with experience in housing development

Dorothy E. Ellington, Representing a local housing authority

Maria P. Barcus, Representing the housing interests of homeless people

Gregg Truxton, Resident of the State

Sharon D. Jenkins-Owen, Representing statewide growth management organizations

Charles Milsted, Representing elder housing interests

Ann R. Kashmer, Representing the home mortgage lending profession

Melissa Gilreath, Representing elder housing interests

Darlene Pifalo, Representing the real estate sales profession

Ellen M. Ramsey, Representing nonprofit affordable housing developers with a population of less than 50,000

George D. Romagnoli, Representing the Florida Association of Counties

Kristin Larsen, Representing statewide growth management organizations

STAFF

Odetta MacLeish-White, Director

Jenifer Stern, Final Report Design

The Affordable Housing Study Commission would like to thank Terry Chelikowsky, Florida Alliance of Community Development Corporations; Joy Beaton, Florida Community Loan Fund; Joni Foster, Jacksonville Local Initiatives Support Corporation; and Jenna Emmons, Ability Housing of Northeast Florida, for their contributions to this report.

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 other 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.

Achievements of the Affordable Housing Study Commission

The Affordable Housing Study Commission, a 21-member commission created by the Florida Legislature in 1986, devotes a year of study to topics that impact affordable housing. Through this year of study, the Commission offers funding and public policy recommendations to the Governor, Legislature and other stakeholders. These recommendations are intended to promote the production, preservation and maintenance of safe, decent affordable housing for all Floridians. The Study Commission's recommendations are strengthened by the variety of perspectives provided by its membership. Members of the Commission represent the interest of low-income persons, elders, the homeless, local government, Realtors, developers, the mortgage industry and statewide growth management organizations, to name just a few.

In its 23-year history, the Study Commission has turned its attention to a range of topics including:

- A comprehensive preservation strategy for multifamily affordable housing;
- Housing for Florida's extremely low-income households;
- A critical review of the State Housing Initiatives Partnership program;
- The role of manufactured housing in Florida's affordable housing delivery system; and
- A comprehensive affordable housing strategy for the State.



Florida's affordable housing delivery system needs both for-profit and nonprofit developers to ensure that the widest spectrum of households receive safe and affordable housing. Nonprofit affordable housing developers play a vital role because they are more likely to develop projects that serve the most vulnerable populations, including extremely low-income households and households in need of supportive services. Developing housing for these populations is often more difficult and less profitable, making for-profit developers less likely to take on such projects.

Nonprofit affordable housing developers in Florida have expertise in single-family development and homeownership counseling, typically through partnerships with local governments. The State Housing Initiatives Partnership (SHIP) program requires that 65% of each local allocation be spent on homeownership activities. This created a predictable, consistent source of funding for nonprofits to use. As a result, these nonprofits have been able to create a consistent pipeline of affordable housing projects, develop reliable budgets, and hire and train necessary staff. Nonprofits have been less successful navigating affordable rental housing, due in part to the highly competitive nature of the Universal Application Cycle and the difficulty in obtaining the capital needed to fund land carrying costs and pay for predevelopment expenses.

The term "nonprofit affordable housing developer" encompasses a wide range of organizations. Some are large, national entities while others are small organizations focused on a specific neighborhood or community. Nonprofit affordable housing developers can be Community Development Corporations (CDCs), Community Housing Development Organizations (CHDOs), churches or other nonprofit entities. Nonprofit affordable housing developers can have housing as the focus of their mission or as the means of fulfilling another mission.

Nonprofit affordable housing providers are typically concerned with more than just housing; they also serve a social concern that is at the heart of their mission and work. Some nonprofit developers seek the revitalization of underserved communities. For these organizations, the overall health and strength of the

communities in which their housing is placed is a vital consideration. These nonprofit developers confront the challenge of developing strategies for the equitable revitalization of the neighborhoods they serve.

In a 2008 publication for the National Housing Institute, Alan Mallach captures the central role a vital housing market plays in a community:

"A neighborhood's vitality is the sum of how attractive it is as a place for people to live, including the desirability of its housing stock, its safety, the quality of its schools and natural environment, as well as the degree to which its residents are committed to it, and engaged with the neighborhood and one another."¹

Nonprofits are typically the stakeholders that can bring together the residents' vision and needs, strategic planning approaches, access to grants and land, as well as relationships with city or local officials. However, the ability of any stakeholder to frame a useful solution to neighborhood revitalization hinges on the ability to achieve equitable, balanced revitalization. These organizations have to:

- Understand neighborhood change;
- Frame and implement strategies to build or rebuild real estate markets;
- Promote equitable revitalization; and
- Manage changing conditions by changing strategies.²

Other nonprofit affordable housing developers target specific populations in need of affordable housing. Examples include organizations that develop housing for elders, persons with disabilities or the homeless. These organizations are concerned not only with the housing they produce, but also with the impact that housing is having on the quality of life of the residents. Providing housing for these populations requires nonprofit developers to operate on a broader spectrum of services. They frequently collaborate with other community nonprofits and organizations to provide holistic services and support for their residents.

Still other nonprofit developers tackle both challenges, providing housing for special needs populations in conjunction with neighborhood and revitalization efforts.

To develop its findings and recommendations, the Study Commission considered the following questions:

- *Who are Florida's nonprofit affordable housing developers? Where are they? Who do they serve?*
- *How have nonprofits succeeded in Florida's affordable housing delivery system? Where do they still face challenges and need further development?*
- *What programs currently exist at the federal, state and local levels to support nonprofit capacity?*
- *Who are the partners working with and funding nonprofit affordable housing developers and what role do they play in increasing nonprofit capacity?*

An early challenge facing the Commission was defining “capacity”—a concept that captures both general organizational strength and the more specific skills required to develop affordable housing. The Commission found most useful the definition of capacity outlined by Norman Glickman and Lisa Servon in their 1998 article for the Fannie Mae Foundation's Housing Policy Debate. The authors divide their definition of capacity into five major categories:

- **Resource**—The ability of an organization to acquire and maintain funding adequate to achieve its mission.
- **Organizational**—A range of internal functions necessary for a nonprofit to succeed, including human resources, management, experience and leadership.
- **Programmatic**—How all of a nonprofit's assets work together to make a program successful, and the ability to provide new programs or services that match the changing needs of the communities.
- **Network**—The interaction between a nonprofit and other institutions in its community, which builds relationships and leads to greater access to financial and other resources.
- **Political**—The ability to effectively advocate for the population being served, including mobilizing support around key issues, engaging stakeholders in discussion and influencing policy.

Dividing capacity into these categories does not imply that each area exists independently of the others. In fact, a change in one can trigger a change or shift in one or more of the others.

In 2007, the Florida Alliance of Community Development Corporations (FLACDC) released a study of its members, estimating there are 250 CDCs in Florida. The report used the term CDC in its broadest sense by including nonprofit affordable housing developers, CHDOs and Community Development Financial Institutions. This study represents the most recent effort to quantify the size, number and production of nonprofit developers in Florida. Key findings from this survey include:

- 54% of the CDCs responding to the survey serve very low-income households;

- 79% of the CDCs responding to the survey serve low-income households;
- 43 of the CDCs produced more than 3,600 units of housing in 2005, of which 83% were multifamily; and
- 70% of the responding CDCs identified the provision of operating funds as their primary concern.

All affordable housing developers must confront the “double bottom line”—blending social concerns with the financial realities of property and asset management, defining appropriate roles for owners and managers and responding to residents' need for services. In addition to encountering difficult development and management challenges, nonprofit affordable housing developers generally face complex staffing issues. Salaries are typically low, hours are long and the obstacles to completing tasks can be significant. It is not uncommon for staff members at all levels to experience “burnout”—the exhaustion after several years of hard work that can result in a resignation.

There are capacity-building resources at the federal, state and local levels. However, they are a piecemeal approach to capacity-building and do not go far enough to provide the consistent, predictable funding that Florida's nonprofit developers need to establish and build their capacity to execute affordable rental housing development. In developing its recommendations, the Commission tried to offer ideas that can be implemented immediately, while others look ahead to a time when the state is not faced with the existing budget constraints.

Recommendations to Florida Housing Finance Corporation

Florida Housing plays a pivotal role in increasing affordable housing development capacity. The Universal Application Cycle, through which the state's rental funding programs are administered, provides the state subsidy needed to make a development deal work. The Commission found that Florida Housing can fill some gaps in the state's capacity-building resources by taking an aggressive approach to nonprofit set-asides, supporting best practices in nonprofit/for-profit joint ventures, and providing a recoverable matching grant for project feasibility expenses.

▶ *Florida Housing Finance Corporation should encourage nonprofit affordable housing developers' participation in its Universal Application Cycle for rental programs by continuing to proactively raise the nonprofit set-aside in the competitive 9% Low Income Housing Tax Credit (LIHTC) program and establishing a nonprofit set-aside in its other rental programs.*

▶ *Florida Housing Finance Corporation should amend Chapter 67-48.002, Florida Administrative Code, to include a written definition of “material participation” for nonprofit and for-profit joint ventures.*

▶ *Florida Housing Finance Corporation should establish a clearinghouse of nonprofit and for-profit developers and related entities to facilitate successful joint ventures.*

▶ *Florida Housing Finance Corporation should create a \$25,000 recoverable matching grant within the Predevelopment*

Loan Program (PLP) to fund project feasibility expenses. The nonprofit recipient would provide a \$5,000 match for a total of \$30,000.

Recommendation to Non-Governmental Stakeholders

In the current context of Florida's dire budget deficits, the Commission recognized the importance of identifying a new source of funding for capacity-building activities. Interest on real estate trust bearing accounts is an untapped source of revenue. While the Commission did not have time to quantify the possible earnings of this approach, amounts as small as \$50,000 can anchor a nonprofit developer's annual budget.

▶ *The Florida Association of Realtors and other non-governmental stakeholders interested in supporting affordable housing should establish a 501(c)(3) foundation funded by the interest collected on short-term client accounts. The foundation will use its funds to support nonprofit capacity-building and affordable housing activities around the state.*

Recommendations to Local Governments

Local governments are important partners for nonprofit affordable housing developers and can provide support across the affordable housing financing spectrum. Nonprofit affordable housing developers need predevelopment funding, ongoing operational grants, donations of land, and low-interest construction and permanent financing. Local governments should be looking for funding strategies that complement their local nonprofit developers' efforts as well as help these organizations network and learn from one another.

▶ *Local governments should facilitate nonprofit networking and training opportunities to enhance peer-to-peer mentoring and provide educational forums on affordable housing issues.*

▶ *Local governments are urged to use their various funding programs to support nonprofit affordable housing developers across the spectrum of affordable housing development financing.*

Recommendations to Florida's Legislature

While there are a variety of federal programs and some state and local capacity-building resources available for increasing the organizational capacity of nonprofit developers, there is no comprehensive strategy for maximizing the use and coordination of these resources. The state needs a single comprehensive program that addresses the financial and technical assistance needs of nonprofit affordable housing developers. Such a program would be performance based, provide capital for financing for predevelopment and development expenses, core operating support and maximize the Affordable Housing Catalyst Program's technical assistance offerings.

Finally, nonprofit developers require access to consistent sources of funding from state and local governments in order to support their unique role in serving Florida's most vulnerable populations and their capacity to increase the availability of affordable housing in general. This makes lifting the cap on the Sadowski funds and restoring the all of the trust funds to their original purpose of supporting the development of affordable

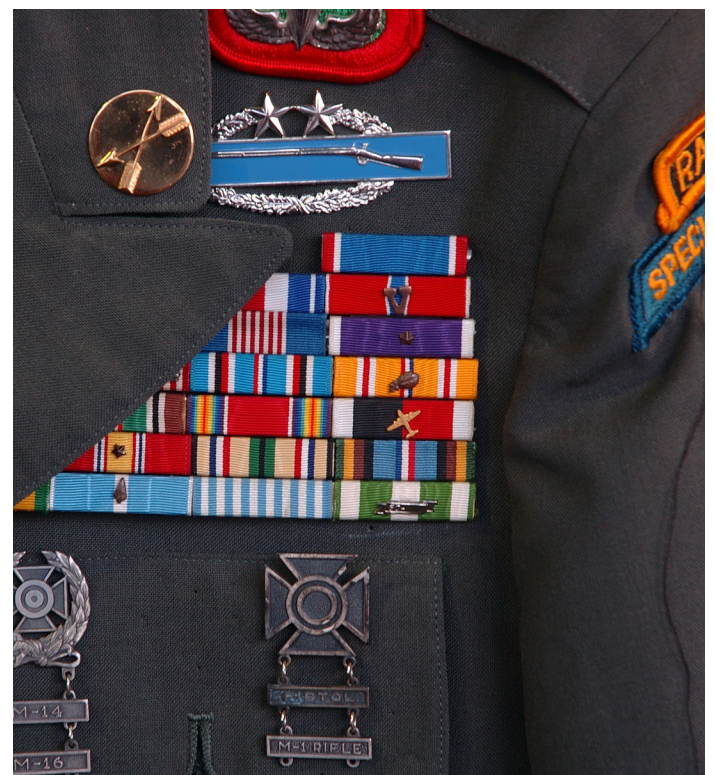
housing all the more critical. In this final report, the Commission has offered an idea for a new source of revenue to support capacity-building and affordable housing, but it is evident that Florida already has the best mechanism in the form of the housing trust funds. The state should maximize this vital resource.

▶ *The Florida Legislature should work with Florida Housing Finance Corporation to create a comprehensive, performance-based support program for nonprofit affordable housing developers that will increase their capacity to address affordable housing issues.*

▶ *The Florida Legislature should remove the cap on the State and Local Government Housing Trust Funds, and fully appropriate all dollars for affordable housing.*

Nonprofit developers thrive when there is ongoing, predictable financial support for predevelopment expenses, core operating costs, and professional training and technical assistance. While there are federal, state and local resources to provide funding for various stages of development, the state does not have a comprehensive strategy for maximizing the use and coordination of these resources. Nonprofit developers of every size should be adopting more entrepreneurial approaches to create portfolios that generate income. At the same time, state and local governments should be prepared to infuse operating dollars into those nonprofits that agree to serve populations that governments have identified as needing housing and services.

Florida is facing a serious budget deficit and painful decisions are being made in the allocation of scarce resources. However, thoughtful planning today can position the state to protect vulnerable populations now and support nonprofit developers in their mission to provide high-quality affordable housing. ●



INTRODUCTION



For its 2008-2009 study year, the Commission examined increasing the effectiveness of nonprofit affordable housing developers to address the affordable housing needs of the state and its residents. The Commission arrived at this topic following input from affordable housing stakeholders and lengthy internal discussion.

Florida Housing Finance Corporation's (Florida Housing) executive director joined the Commission's first meeting of this study year to explain Florida Housing's perspective on the state's critical housing issues. Florida Housing has been committed to making the state's nonprofit affordable housing developers more competitive in its rental programs, and requested recommendations on strategies to help nonprofits access funds through the Universal Application Cycle. The Commission realized that its spectrum of representation and expertise could contribute thoughtful recommendations for strategies that build on the existing successes of the state's nonprofit organizations.

Nonprofit affordable housing developers play a vital role because they are more likely to undertake projects that serve the most vulnerable populations. These include extremely low-income (ELI) households earning less than 30% of area median income (AMI) and households in need of supportive services. Developing housing for these populations is often more difficult and less profitable, making for-profit developers less likely to take on such projects. Florida needs affordable housing developers dedicated to serving these vulnerable households:

- There were 247,657 ELI renters paying 50% or more of their income each month for their housing.³
- There were 33,088 homeless single adults, unaccompanied youth and married adults in Florida⁴, and 6,466 homeless families with children.⁵
- There were 181,145 special needs households in the state. More than 71% of these households paid 75% or more of their income for housing and have incomes less than 20% of AMI.⁶

Nonprofit affordable housing developers in Florida have built their expertise in single-family development and

homeownership counseling, typically through partnerships with local governments. The SHIP program requires that a minimum of 65% of each local allocation be spent on homeownership activities. This has created a predictable, consistent source of funding for nonprofits to use. As a result, nonprofits have been able to create a consistent pipeline of affordable housing projects, develop reliable budgets, and hire and train necessary staff.

Nonprofits have been less successful navigating affordable rental housing, due in part to the highly competitive nature of the Universal Application Cycle and the difficulty in obtaining the capital needed to fund land carrying costs and pay for predevelopment expenses. The Commission recognized early in its deliberations that Florida's affordable housing delivery system needs both for-profit and nonprofit developers to ensure that the widest spectrum of households receive safe and affordable housing.

What is a Nonprofit Affordable Housing Developer?

For this report, the Commission has defined a nonprofit affordable housing developer as an organization for which affordable housing is both a primary and ongoing business model.

In discussing long-term capacity-building strategies, the Commission determined that the state's finite resources should be directed to those organizations that are striving to develop a larger portfolio of properties, rather than one or two small projects.

Key characteristics of a nonprofit affordable housing developer include:

- Nonprofit tax designation;
- A mission that includes provision of affordable housing;
- Focus on serving persons who have special needs or are low-income, although they can also be engaged in generic affordable rental for low-income families.

Community Housing Development Organizations (CHDOs) and Community Development Corporations (CDCs) are specific designations that carry with them specific advantages. Please see the Glossary in Appendix IV for definitions of these types of organizations.

Methodology for Studying Capacity Building

The Commission faced a number of challenges in studying this topic. Florida's nonprofit affordable housing developers come in a range of sizes, operate in diverse settings around the state, and focus on a number of different populations. Some nonprofit organizations claim the development of affordable housing as their primary mission; these nonprofits are looking to create a portfolio of projects. Other nonprofits see affordable housing development as a strategy to achieve another primary mission. These organizations are more likely to develop only one or two projects. In order to provide a comprehensive analysis and balanced recommendations, the Commission had to work through this diversity to identify goals and needs common to all nonprofits.

To develop its findings and recommendations, the Commission considered the following questions:

- *Who are Florida's nonprofit affordable housing developers? Where are they? Who do they serve?*
- *How have nonprofits succeeded in Florida's affordable housing delivery system? Where do they still face challenges and need further development?*
- *What programs currently exist at the federal, state and local levels to support nonprofit capacity?*
- *Who are the partners working with and funding nonprofit affordable housing developers and what role do they play in increasing nonprofit capacity?*

The Commission's educational process included testimony from a variety of panels and surveys of key stakeholders. During the course of its meetings, the Commission received testimony from:

- Nonprofit affordable housing developers;
- Representatives from the U.S. Department of Housing and Urban Development (HUD);
- Funding intermediaries and community development financial institutions;
- Local governments;
- For-profit joint venture partners;
- Private lenders;
- Representatives from Florida Housing Finance Corporation;
- Representatives from the Florida Housing Coalition; and
- Representatives from the Florida Alliance of Community Development Corporations.

At each meeting, the Commission took public comment from nonprofit representatives and interested stakeholders. Two separate workgroups were formed: one reviewed Florida Housing's Predevelopment Loan Program and the Catalyst technical assistance and training program; the other examined the opportunities and pitfalls of successful nonprofit/for-profit joint ventures. The Commission also looked for examples of nonprofit capacity-building programs in other states. Representatives from Minnesota, Virginia and Massachusetts

testified before the Commission about their programs and why they have been an effective investment. In addition, surveys were collected from nonprofits and local government representatives attending the Study Commission's annual stakeholders meeting, and from SHIP administrators.

The Challenge of Defining Capacity

The Commission faced an early challenge in defining capacity—a concept which captures both general organizational strength and the more specific skills required to develop affordable housing. Nonprofit affordable housing developers must serve a “double bottom line”—blending social concerns with the financial realities of property management, asset management, defining appropriate roles for owners and managers, and responding to residents' need for services.⁷ The unprecedented upheaval in Florida's housing industry and the multi-billion-dollar deficit facing the State added to the complexity of the Commission's task.

The Commission found the definition of capacity outlined by Norman Glickman and Lisa Servon in their 1998 article for the Fannie Mae Foundation's Housing Policy Debate very useful. The authors divide their definition of capacity into five major categories:

- Resource;
- Organizational;
- Network;
- Programmatic; and
- Political.

Dividing capacity into these categories does not imply that each area exists independently of the others. In fact, a change in one can trigger a change or shift in one or more of the others.⁸



Resource Capacity

Resource capacity is the ability of an organization to acquire and maintain funding adequate to achieve its mission. This funding may be acquired through government funds, grants, loans, specific fundraising events, programmatic income or community donations. Having sufficient resource capacity is often a major challenge for smaller nonprofits that operate on limited budgets. Building affordable housing is expensive at every stage of development, and nonprofits often do not have access to the necessary start-up capital.

As important as raising funds is managing them. Having a solid financial management system is imperative to successfully developing affordable housing. The financial condition of a nonprofit also affects its ability to hire the professional financial staff needed to navigate loans, grants and contracts. Studies have shown that nonprofit affordable housing developers and other nonprofits offer lower salaries and benefits than comparable positions in government or for-profit entities, due in large part to lower operating funding. Lower salaries and benefits result in difficulty recruiting and retaining skilled employees.⁹

Organizational Capacity

Organizational capacity covers a range of internal functions necessary for a nonprofit to succeed, including human resources, management, experience and leadership. Staff and board training opportunities play a vital part in building organizational capacity. A good nonprofit board should be aligned with the mission of the agency, contribute expertise toward development goals, support fundraising efforts and be representative of the community being served. In the context of affordable housing, organizational capacity also means a staff experienced in housing development. If a nonprofit does not have this experienced staff, then it must find the means to hire consultants.

In rental development, a nonprofit should also be able to engage in both property and asset management. It takes a high level of organizational capacity to manage the completed property, which includes tasks like interacting with residents, keeping track of contracts for maintenance and groundskeeping, and monitoring compliance for various funding sources. Having the organizational capacity for asset management—the long term administration of a property in a manner that achieves the owner’s long term goals¹⁰—is equally critical.

Programmatic Capacity

Programmatic capacity measures the actual services a nonprofit provides. For some nonprofit housing developers, this encompasses building and managing housing as well as providing supportive services. Programmatic capacity can overlap with organizational capacity—both focus on the nonprofit’s ability to manage its units post-construction. However, programmatic capacity measures how all of a nonprofit’s assets work together to make a program successful. This capacity also refers to the ability of nonprofits to provide new programs or services that match the changing needs of the communities they represent.¹¹

Asset Management and Property Management: A Strong Nonprofit Engages in Both

Asset Management

Involves making sure that all aspects of postconstruction ownership—including financial management, fiscal and project reporting, maintaining operating and capital reserve funds, having and following a capital maintenance and improvement plan, and property management—are integrated, and that the staff responsible for these functions are performing in an effective, coordinated manner.

Property Management

Property management activities focus on the daily activities of managing a property, including tenant selection, rule enforcement, management of maintenance, security, community-building, budget and finance, personnel, and management information systems.

Effective asset management is more likely when clear goals for property management have been articulated, along with strategies to regularly measure outcomes and provide clear feedback

Network Capacity

Network capacity measures the interaction between a nonprofit and other institutions in its community. Good networking builds relationships and leads to greater access to resources, financial and otherwise. In addition, similar groups can share their expertise with one another, through formal or informal coalition building, which further builds capacity.

Political Capacity

Political capacity is the ability to effectively advocate for the population being served. This involves mobilizing support around key issues, engaging stakeholders in discussion, and influencing policy. Nonprofits must be able to develop positive relationships with local and state elected officials, governmental representatives, and advocacy organizations to advance their missions.

These five aspects of capacity informed the Commission’s findings, analysis and recommendations regarding nonprofit affordable housing developers, including the opportunities they offer and the challenges they face in addressing Florida’s housing needs.

Conclusion

Chapter One of this report provides an overview of nonprofit affordable housing developers in the state, outlines some data on Florida’s community development corporations and summarizes the challenges facing nonprofit affordable housing developers in Florida today. Chapter Two describes programs to support nonprofit capacity at the federal, state and local levels. Finally, Chapter Three contains the Commission’s findings and recommendations to increase the effectiveness of nonprofit affordable housing developers. ●



The term “nonprofit affordable housing developer” encompasses a wide range of organizations. Some are large, national entities while others are small organizations focused on a specific neighborhood or community. The provision of housing is the primary mission of some organizations; for others housing is one part of a larger strategy of community revitalization. These organizations use different designations, and while not all are technically incorporated as Community Development Corporations (CDCs), that term has, over time, become synonymous with the industry as a whole.

Nonprofit affordable housing developers are typically concerned with more than just housing; they also serve a social concern that is at the heart of their mission and work. Some nonprofit developers seek the revitalization of underserved communities. For these organizations, the overall health and strength of the communities in which their housing is placed is a vital consideration. These nonprofit developers confront the challenge of developing strategies for the equitable revitalization of the neighborhoods they serve.

Large regional and national models for nonprofit affordable housing development look to serve specific populations rather than being tied to a location. Some large nonprofits adopt an even more wide ranging approach, which is not tied to either a specific location or population, allowing them to craft housing and services in a variety of communities. Successful regional and national nonprofit affordable housing developers exhibit a number of common features:

- While their top priority is constructing and preserving affordable housing heavily targeted to very low- and low-income people, they undertake diverse activities and often significantly revise that mix in response to changing markets and other circumstances;
- Their markets are regional, at least citywide and more often metro-wide or wider, and these organizations are often advocacy leaders in affordable housing in their locations;
- These organizations are large in staff and budget compared to the broader nonprofit developer community, but they are not complex in structure;

- They are serious about increasing financial self-sufficiency, and look strategically for income opportunities, but stay within the context of sustaining their missions; and
- While their beginnings often include strong involvement from civic leaders, private lenders and local governments—which have given them a good start in obtaining needed resources over time—strong entrepreneurial leadership has built on these relationships.¹²

Entrepreneurial spirit and the aggressive pursuit of business opportunities are additional key qualities for large nonprofit affordable housing developers. They look to potentially profitable lines of business, including developer fees, property management fees, asset management fees, property cash flow, fees for administering government programs, and construction contracting and management to generate income, to cover core operating costs and build working capital.

Even as they strive for full economic self-sufficiency, large nonprofit affordable housing developers clearly act as nonprofits in several important ways. First, they pursue and accept grants from government and philanthropic sources. Secondly, they deliberately conduct activities which they know will not provide a profit and for which they expect to have to fundraise. They also take on difficult projects that involve more risk and lower returns than would an organization that is maximizing profits.

Notwithstanding this commitment to mission over profit, large nonprofit developers still must make thoughtful decisions about which programs to subsidize from the organization’s earnings and fundraising, and which should be self-sustaining. It is important to understand and plan for the financial reality of each business line, and determine how to support important programs that express the organization’s mission, even if they do not always break even financially.¹³

Some nonprofit affordable housing developers focus on serving a specific neighborhood or community. Other nonprofit affordable housing developers target specific populations in need of affordable housing. Examples include organizations that develop housing for elders, persons with disabilities or the

homeless. These organizations are concerned not only with the housing they produce, but also with the impact that housing is having on the quality of life of the residents. Providing housing for these populations requires nonprofit developers to operate on a broader spectrum of services. They frequently collaborate with other community nonprofits and organizations to provide holistic services and support for their residents.

Still other nonprofit developers tackle both challenges, providing housing for special needs populations in conjunction with neighborhood and revitalization efforts. As organizations typically concerned with both affordable housing and the overall health and strength of the communities in which the housing is located, nonprofit affordable housing developers also confront the challenge of developing strategies for the equitable revitalization of the neighborhoods they serve. In a 2008 publication for the National Housing Institute, Alan Mallach captures the central role a vital housing market plays in a community:

“A neighborhood’s vitality is the sum of how attractive it is as a place for people to live, including the desirability of its housing stock, its safety, the quality of its schools and natural environment, as well as the degree to which its residents are committed to it, and engaged with the neighborhood and one another.”¹⁴

Nonprofit affordable housing developers are typically the stakeholders that can bring together the residents’ vision and needs, strategic planning approaches, access to grants and land, and relationships with city or local officials. However, the ability of any stakeholder to frame a useful solution to neighborhood revitalization hinges on the ability to achieve equitable, balanced revitalization. These organizations have to:

- Understand neighborhood change;
- Frame and implement strategies to build or rebuild real estate markets;
- Promote equitable revitalization; and
- Manage changing conditions by changing strategies.¹⁵

When the Commission began looking for data on nonprofit affordable housing developers in Florida, it became clear that the challenge was not a lack of sources of information. Florida Housing’s Predevelopment Loan Program has data on the nonprofits that have used its funding. The Florida Housing Coalition has information on the number of nonprofits that attended trainings through the Catalyst Program. The Affordable Housing Data Clearinghouse has information on nonprofit owners in its Assisted Housing Inventory (AHI). Creating a comprehensive picture of Florida’s nonprofit affordable housing developers requires compiling and refining data from all of these sources.

In 2007, the Florida Alliance of Community Development Corporations (FLACDC) released a study of its members estimating there are 250 CDCs in Florida. The report used the term CDC in its broadest sense by including Community Based Organizations (CBOs), Community Housing Development Organizations (CHDOs) and Community Development Financial Institutions (CDFIs). This study represents the most

recent effort to quantify the size, number and production history of nonprofit developers in Florida. Key findings from this survey include:

- 54% of the CDCs responding to the survey serve very low- income households;
- 79% of the CDCs responding to the survey serve low-income households;
- 43 of the CDCs produced more than 3,600 units of housing as of 2005, of which 83% were multifamily; and
- 70% of the responding CDCs identified the provision of operating funds as their primary concern.

What is “Equitable Revitalization”?

Revitalization should be a balanced process that benefits neighborhood residents at all income levels, owners or renters, young or old, designed to lead to economic integration as a long-term reality rather than a transitional state.

Source: Alan Mallach, 2008

The Commission took the opportunity of its annual stakeholders’ breakfast to survey the nonprofit and local government representatives in attendance. A total of 60 surveys were collected; 32 of these were completed by nonprofits. Of the 32 nonprofit responses received, 15 reported they are also CHDOs.

The vast majority of the nonprofits responded that they have produced some housing units. Only two nonprofits reported producing no units; however, one of these was in the process of developing its first property consisting of 60 units.¹⁶ Thirteen of the nonprofits reported producing 50 or fewer units. One nonprofit did not provide the number of units it has produced, but did report it had units in its portfolio. Two nonprofits reported producing less than 10 units. Three nonprofits report portfolios of 500 or more units.

Number of Units Produced	
Ranges	Number of Nonprofits
Data not provided	1
0–50	13
51–100	4
101–150	4
151–200	0
201–250	1
251–500	6
500 plus	3
TOTAL	32

The Commission also examined whether any nonprofits had used Florida Housing’s funding programs. Twelve nonprofits reported that they have not used any of Florida Housing’s

funding programs. Those that gave a reason for not applying stated the process was cumbersome and confusing. Nineteen nonprofits reported using Florida Housing’s funding programs and most reported it was a positive experience. Two surveys, however, reported that the lottery system was making it hard for nonprofits to take advantage of Florida Housing’s rental funding programs. One nonprofit did not answer this question. An overarching request from respondents was a sustained and predictable source of money for core operations, predevelopment expenses, and continuing technical assistance and training.

Challenges Facing Florida’s Nonprofit Affordable Housing Developers

All affordable housing developers must confront the “double bottom line”—blending social concerns with the financial realities of management, asset management decisions, defining appropriate roles for owners and managers, and responding to residents’ need for services. Nonprofit and for-profit affordable housing developers bring different organizational strengths to Florida’s affordable housing delivery system. For-profits are typically described as having the following strengths:

- Experienced development staff or the ability to hire experienced development staff;
- Access to front-end capital and private financing to execute acquisition, predevelopment and development tasks;
- Expertise in, or the financial capacity to hire expertise in market assessment, architects, general contractors, etc.; and
- Expertise in, or the financial capacity to hire expertise in, development oversight.

Nonprofit affordable housing developers are typically described as having the following strengths:

- Close ties to the community and community leaders;
- Access to free or low-cost land;
- Focus on resident services and the surrounding community; and
- Access to grants or low-interest financing.

Nonprofits face some additional constraints in meeting this double bottom line. There are expectations that nonprofits

should earn a minimal income or risk betraying their social service mission. This argument shortchanges nonprofits of the capital they need to hire and retain experienced staff, pay for operating costs, as well as launch and complete complex real estate developments. It also prevents them from making necessary investments in their existing properties, which may compromise their ability to manage their portfolio over the long term. Other constraints on nonprofit affordable housing developers include:

- Difficulty accessing financing to support the full range of development activities, from project feasibility studies to predevelopment expenses and, eventually, permanent financing;
- Difficulty accessing stable core operating support, which is essential for expanding staff and organizational capacity;
- A focus on the hard-to-serve populations who require intensive services;
- Neighborhood conditions—nonprofits typically operate in neighborhoods fighting poverty, unemployment and degraded infrastructure; and
- High staff turnover due to lower salaries and lack of benefits.

In addition to development and management challenges, nonprofit affordable housing developers must deal with staffing challenges. Faced with limited capital, nonprofit salaries are typically low, working hours are long and the obstacles to completing development tasks can be significant. It is not uncommon for staff members at all levels to experience “burnout”—professional exhaustion that can result in resignations.

This presents serious problems for organizations as they struggle to develop a competent, stable work force. High turnover also threatens the institutional knowledge and expertise of nonprofit affordable housing developers. This is a concern because the best way to create proficiency in the complicated and lengthy development process is hands-on experience. Nonprofit affordable housing organizations must generate access to sources of both public and private funding to appropriately compensate and retain the professional talent that is willing to work for them.

Hands-on experience may be the best way to learn development skills; however both new and seasoned nonprofit affordable housing professionals need other opportunities to improve their skills and knowledge base. These opportunities can empower staff with limited knowledge of the development process by providing certification courses or a full-time degree program. In Florida, nonprofit affordable housing developers have access to the Catalyst Technical Assistance and Training Program (described more fully in Chapter Two) the University of South Florida (USF) Certificate Program in Community Real Estate Development and the University of Florida (UF) Real Estate Program’s one-year degree.

The Catalyst program offers both scheduled workshops and on-site technical assistance. While Catalyst primarily trains local governments and nonprofits on SHIP, the curriculum includes

Strengths of Nonprofit vs. For Profit Developers	
Nonprofits <ul style="list-style-type: none"> • Community Support • Access to affordable land/buildings • Access to financing subsidies • Expertise in providing resident services 	For Profits <ul style="list-style-type: none"> • Access to staff capacity • Front-end capital • Financial and financing capacity • Access to affordable land/buildings • Expertise in development oversight • Property management capacity
<i>Source: Rachel G. Bratt, 2007</i>	

trainings on affordable housing development, including predevelopment, financial analysis and management issues. The USF Collaborative offers the Certificate Program in Community Real Estate Development as a continuing education option focused on affordable housing. This program consists of three four-day modules covering real estate analysis and development, project financing analysis, and management. Participants work on actual developments to provide practical application of classroom learning.¹⁷ The UF Real Estate Program is a one-year full-time graduate degree program in real estate. Students are required to take 21 hours of core real estate courses; the program can be further tailored by electives in construction, finance, planning and housing policy.¹⁸

An example of public-private partnership for the continuing education of nonprofit affordable housing developers was The Urban Developers Program (UDP), which operated from 1994 to 2003. The program was jointly sponsored by the Chicago Rehab Networks, a consortium of nonprofits in the Chicago area dedicated to affordable housing advocacy, and the College of Urban Planning and Public Affairs at the University of Illinois at

Chicago (UIC). Funded with HUD CHDO Technical Assistance dollars, the program was a one-year certificate program designed to build the capacity of community-based development practitioners. Six courses covering a comprehensive curriculum were offered, taught by a diverse team of instructors who brought both theoretical and practical expertise. Graduates of UDP could apply their certification hours to a master's degree at UIC.

Conclusion

Nonprofit housing developers are driven by their missions to provide safe, decent, and affordable housing to low-income households, households with special needs and underserved communities. Florida's nonprofit affordable housing developers are creating housing and providing supportive services to these populations, but they require proactive, tailored capacity-building to enhance their impact. Nonprofit affordable housing developers lack core operating support, financing to support the full range of development activities, and opportunities to upgrade their skills and knowledge base. ●





Introduction

Before developing its recommendations for nonprofit capacity-building, the Commission examined existing sources of federal, state and local capacity-building funding. It is important to understand how these programs provide resources to nonprofit affordable housing developers. It is equally important to understand the needs that are not met by these programs, and the gaps that remain. This chapter reviews some of the key sources of programmatic, operating and technical assistance support available to Florida's nonprofit developers.

Nonprofit affordable housing developers require different types of capital to fund predevelopment, development and construction, and operating expenses. Capital for core operating expenses is the most sought after and most scarce type of capital for most nonprofit developers. It funds routine expenses during periods of low cash flow or more strategic investments in an organization's capacity to grow. Nonprofits need capital to perform, but lending institutions are sometimes reluctant to provide capital to a nonprofit that they perceive as risky. This perception has shaped the emergence of investment approaches that stress accountability and performance as a condition of capital infusion.

Nonprofit affordable housing development has received active federal support since the late 1950s. In 1959, the Section 202 program was created to develop subsidized housing for the elderly and persons with disabilities. An array of nonprofits—religious, fraternal, civic and trade—were invited to participate in this program. Throughout the 1960s, three additional federal housing initiatives included nonprofits, the most significant being the 1966 Special Impact Amendment to the Economic Opportunity Act. Eight years later, Title VII of the Community Services Acts provided further funding for nonprofits. Between 1966 and 1981, more than \$500 million in federal funds were allocated to 63 nonprofits through these two programs.¹⁹

Under the Nixon administration, a moratorium was imposed on new federal housing subsidy programs. While some federal programs ended, state and local government initiatives began, and the stage was set for the rise of national intermediaries

targeting capacity-building in the nonprofit sector. In 1974, the Community Development Block Grant program, which also fosters nonprofit developers, was created.²⁰ Two other key federal programs that sustained nonprofit developers were the Neighborhood Self-Help Development program, which provided \$15 million in two rounds of funding in 1979 and 1980, and the Nehemiah Housing Opportunity Grants Program, which provided more than \$60 million to 54 nonprofit affordable housing developers during the course of three rounds of funding.

The Low Income Housing Tax Credit (LIHTC), created by the Tax Reform Act of 1986, became a powerful tool for attracting private developers to affordable housing. Currently, the LIHTC program represents key federal support for nonprofit participation in developing affordable housing. State housing finance authorities must set aside 10% of their LIHTC allocation for nonprofit developers; Florida Housing has a 15% nonprofit set-aside in its 2009 Universal Application Cycle. However, set-aside allocations do not always equal production; full utilization, particularly of the LIHTC, has proven a challenge for many nonprofits in Florida.²¹

Federal Capacity Building Programs

HOME Invest Partnerships Program

The HOME Invest Partnerships Program (HOME), which provides formula grants to states and localities, funds a wide range of affordable housing activities. These activities are often accomplished in partnership with local nonprofit affordable housing developers and include:

- Construction;
- Acquisition and/or rehabilitation; and
- Direct rental assistance.

HUD requires these states and localities, known as participating jurisdictions, to set aside 15% of their HOME allocation for certified Community Home Development Organizations (CHDOs). In addition to this CHDO allocation, participating jurisdictions may allocate up to 5% of their HOME dollars for CHDO operating expenses. However, funding for operating

expenses cannot exceed \$50,000 or 50% of the CHDO's total annual operating expenses for that year, whichever is greater.²² Eligible operating expenses include:

- Salaries, wages, benefits and other employee compensation;
- Employee education, training and travel;
- Rent and utilities;
- Communication costs;
- Taxes and insurance; and
- Equipment, materials and supplies.

HOME also provides up to \$150,000 in capacity-building assistance to new participating jurisdictions²³ that cannot identify a sufficient number of capable CHDOs. Capacity-building activities include:

- Contracting with an intermediary organization or other entity to provide technical assistance to CHDOs;
- Providing funds directly to the CHDO to obtain training and/or technical assistance; and/or
- Paying the costs of CHDO operating expenses, including staffing.

While HOME provides opportunities for capacity-building support, it is limited to CHDOs, making all other nonprofit affordable housing developers ineligible to receive the funding. However, in Fiscal Year 2008, 40 participating jurisdictions received no HOME allocation, and the average allocation for another 36 participating jurisdictions is just under \$1.5 million.²⁴

HUD Capacity Building for Community Development Program

The Capacity Building for Community Development program (Section 4) was created by Section 4 of the HUD Demonstration Act of 1993. This federal program makes grants to a small number of specific recipients to develop the capacity of nonprofit community development corporations. The Section 4 eligible grantees are: Living Cities/The National Community Development Initiative (NCDI); Enterprise Community Partners, Inc.; Local Initiatives Support Corporation (LISC); and Habitat for Humanity International. For Fiscal Year 2008, NCDI did not receive any funding from this program.²⁵

There are three categories of support eligible under this program:

- Training, education, support, and advice to enhance the technical and administrative capabilities of CDCs and CHDOs;
- Loans, grants, development assistance, predevelopment assistance, or other financial assistance to CDCs and CHDOs to carry out community development and affordable housing activities that benefit low-income families and persons; and
- Other activities that may be undertaken as part of, or as a result of, capacity-building efforts that support the implementation of other HUD programs, especially the

Community Development Block Grant (CDBG) program, HOME, homeless programs, and the Housing Opportunities for Persons with AIDS (HOPWA) program.

While the eligible activities for the Section 4 capacity grants are critical to improving nonprofit capacity, this program's reach is limited by two key features. First, funding is restricted to the four statutorily designated recipients. This means, nonprofits must secure funding from one of these organizations to benefit from Section 4 funding. Secondly, the amounts of Section 4 funding reaching Florida are relatively small.

Since the first LISC office opened in Florida in 1994, Section 4 funds totaling \$6,890,700 have been allocated to LISC's Florida locations.²⁶ The Enterprise Foundation has sent only \$241,641 to various Florida nonprofits since 1997.²⁷ Finally, select Habitat For Humanity Florida affiliates received \$1,073,405 in Section 4 funding between 1998 and 2006.²⁸

Opportunities in the Federal Neighborhood Stabilization Program and Stimulus Package

On July 30, 2008, Title III of the Housing and Economic Recovery Act, 2008 (HERA) appropriated \$3.92 billion in federal emergency assistance to states, counties, and cities to allow them to redevelop abandoned and foreclosed homes. Recipients of this funding, also known as the Neighborhood Stabilization Program (NSP), can purchase foreclosed properties from financial institutions, rehab them, and then sell or rent them to low- and moderate-income families to stabilize neighborhoods. Other eligible uses for NSP funds include:

- Establishing land banks for foreclosed homes;
- Demolishing blighted structures; and
- Redeveloping demolished or vacant properties.

Nonprofit affordable housing developers, or partnerships between nonprofit and for-profit organizations, can partner with NSP recipients in development projects and earn up to 10% in developer fees, while gaining direct development experience.

The new federal stimulus package, passed by Congress in February 2009, allocates \$2 billion to HUD for the Community Development Fund. Nonprofit affordable housing developers or consortia of nonprofit developers, in partnership with for-profit developers, can apply directly to the Community Development Fund for this funding. The program provides a 10% administrative fee in addition to a developer fee for nonprofit participants, both of which improve revenue. Another important provision of the new federal stimulus package is \$200 million, that the Secretary of HUD can allocate specifically for the provision of capacity-building to organizations receiving funding.

State Capacity Building Programs Community Development Corporation Support and Assistance Program

In 1980, the Florida Legislature created the Community Development Corporation Support and Assistance Program

(CDCSAP) at the Department of Community Affairs (DCA). The program was designed to assist CDCs in undertaking community development projects, primarily economic development and affordable housing. The annual budget for the program was divided between administrative grants, project development loans and technical assistance.

Through CDCSAP, administrative grants of approximately \$50,000 were awarded to 12 to 16 CDCs each year. These grants could be used for staff salaries, office space rental and other overhead expenses. Project development loans of \$250,000 were provided at 0% interest and could be used for new construction and/or substantial rehabilitation projects. According to DCA, CDCs were successful in financially leveraging their administrative grants for community redevelopment. Under the technical assistance component of CDCSAP, nonprofits received funds to hire management advice, attend training seminars, and also received referrals to sources of information and other services.

The Affordable Housing Study Commission examined CDCSAP in 1994 and found that the program should be revised, and its rules and procedures streamlined. The Commission found that the program had cumbersome application and administrative procedures, failed to reward high-performing nonprofit affordable housing developers and failed to sanction unproductive organizations. Despite the shortcomings of CDCSAP, the Commission recognized the critical importance of a comprehensive state capacity-building program, and proposed the Innovative Neighborhood Vitality and Economic Strategies (INVEST) program as a replacement. INVEST proposed a defined period for operating grant support, technical assistance for affordable housing development, and organizational procedures and performance-based funding for individual projects. INVEST was never enacted by the Florida Legislature.

The legislative Office of Program Policy Analysis and Government Accountability (OPPAGA)²⁹ carried out a performance review of CDCSAP in 1998. In its report, OPPAGA asserted that CDCSAP was under used and expressed concerns that recipients of CDCSAP dollars did not make a compelling case for how they used the funds to improve their communities. However, the report also noted that nonprofits had successfully leveraged the program's funding and that many of these organizations would have to reduce their community development activity or cease operations without CDCSAP's resources. Despite the Commission's INVEST proposal, CDCSAP sunset in 1998.

Predevelopment Loan Program

The state of Florida currently provides predevelopment loan funds to nonprofit organizations, local governments and public housing authorities through Florida Housing's Predevelopment Loan Program (PLP). PLP is a revolving loan pool of approximately \$24 million, with funding provided on a first-come, first-served basis throughout the year. Entities may apply for up to \$750,000 to finance a variety of predevelopment activities, including site acquisition, to develop properties with at least 60% of units set-aside for households with incomes at or

below 60 % AMI. PLP also provides loans to finance capital needs assessments that assist an applicant in determining whether to move forward with a project.

PLP loans carry a non-amortizing 1%–3% interest rate, with principal and interest payments deferred until maturity. The loan is due upon the closing of construction or permanent financing, or three years after the PLP loan closes, whichever occurs first. Florida Housing typically secures these loans with a lien on the property to be developed, usually vacant land, taking limited front-end risk. A variety of organizations use the PLP program. Experienced nonprofits with limited capital borrow these inexpensive funds to prepare for the state's Universal Application Cycle, and non-housing organizations that are trying housing development for the first time seek this funding. The Florida Housing Coalition (Coalition) works with all applicants to complete a comprehensive development plan before PLP funds are awarded.



Technical assistance is provided to PLP applicants at no cost to them through Florida Housing's contract with the Coalition. This is a separate contract from the Affordable Housing Catalyst program. While this technical assistance can be extremely helpful to applicants, it is focused entirely on the specific development and, typically, does not address organizational capacity. Moreover, Florida Housing has never provided forgivable loans through this program. If a project does not move forward and the loan cannot be repaid, the entire loan goes into default and Florida Housing forecloses on the loan. Further, the borrower may not participate in any Florida Housing programs until the default is resolved.

Affordable Housing Catalyst Program

The Affordable Housing Catalyst Program (Catalyst) was created by the Florida Legislature to provide free, specialized technical support to local governments and nonprofits to implement HOME, SHIP, and other affordable housing programs. In 2004, the Legislature moved responsibility for operating Catalyst from DCA to Florida Housing Finance Corporation (Section 420.531, Florida Statutes). Florida Housing uses a competitive bidding process to award the Catalyst administrative contract, currently awarded to the Coalition.

As the administrative entity, the Coalition provides workshops, on-site visits and clinics, as well as phone and web-based technical assistance. Through Catalyst, the Coalition offers a course of specialized workshops each year, and as state priorities shift, the Coalition revises course curricula to address the new priorities. The Catalyst program also provides on-site visits, which allows tailored assistance to meet the needs of local government or nonprofit development staff.³⁰

A large portion of the Catalyst contract focuses on SHIP eligible activities and best practices, and nonprofit affordable housing developers that partner with local governments on SHIP projects have taken advantage of this training. However, Catalyst also provides Core and Advanced certification programs to improve the skills of affordable housing professionals. The core curriculum is designed for housing professionals with less than five years of Florida-based affordable housing experience. The following workshops are core curriculum requirements:

- Planning for your Community's Affordable Housing Needs;
- Development Process;
- Understanding the Income Qualification Process;
- Enhancing Your Housing Strategies; and
- Homebuyer Education.

The Advanced Curriculum is designed for those who have earned a core curriculum certificate or have a minimum of five years of experience in affordable housing in Florida. Advanced workshops provide experienced affordable housing professionals with in-depth consideration of issues in rental housing development, homeownership, predevelopment, and housing policy. The Advanced Curriculum course requirements are:

- SHIP Program Administration;
- Pre-Development Process;
- Planning, Financing and Developing Affordable Rental Housing;
- Planning, Financing and Developing Affordable Housing For Ownership; and
- Quantitative Analysis of the SHIP Program.³¹

Nonprofit affordable housing developers who take these workshops can gain valuable information about affordable housing programs and development processes, in addition to best practices about SHIP.

MacArthur Foundation Initiative

Florida Housing, in partnership with the Coalition and the Shimberg Center for Affordable Housing at the University of Florida (Shimberg), has received \$1 million in grants from the John D. and Catherine T. MacArthur Foundation through its Window of Opportunity initiative. The goal of the initiative is to transform the state delivery system into one that appropriately balances funding priorities between new construction and the preservation of the existing affordable rental stock. The key objective of this particular initiative is to create nonprofit capacity to carry out preservation transactions.

Florida Housing will develop a Request for Qualifications (RFQ) to gather a pool of nonprofit developers that have some emerging capacity to develop and manage affordable rental housing, and are committed to incorporating the preservation of affordable housing into their missions. Nonprofit developers chosen through the RFQ will receive a capacity evaluation of competencies based on the skills required for successful preservation, to be performed by the Coalition. The Coalition will develop individualized technical assistance plans for each and use these to provide intensive technical assistance to build organizational capacity. Through this technical support each organization will develop a preservation business line.

In addition to organizational capacity-building, the Coalition will provide assistance with specific projects. This assistance will focus on every aspect of the development process, including site selection, physical needs and environmental assessments, local government approvals, market analysis, construction, and permanent financing. The pre-acquisition phase of preservation is critical to project outcome, and technical assistance is essential to guide due diligence, financing and organizational tasks.

Local Government Capacity Building Activities

Nonprofit affordable housing developers have been able to develop capacity in single-family development and homeownership counseling due, in large part, to the SHIP program. SHIP has provided a steady source of funding to local governments that can then partner with their local nonprofits to accomplish SHIP goals. These goals can include affordable

housing development and rehabilitation projects. Local governments that pay an appropriate developer fee to nonprofit developers are providing capacity-building by creating a reliable earned revenue stream for these organizations. With unrestricted revenue earned from these activities, nonprofit developers can launch new projects or provide services for their residents.

At its January 2009 meeting, the Commission received testimony from local government representatives of Duval County, Sarasota County and the City of Tampa. These panelists described the forms of support they provide their nonprofit partners:

- All three local governments provide developer fees for nonprofits ranging from 9.5% to 14%;
- Donating parcels of land;
- Grants for administrative costs; and
- Helping nonprofits subsidize losses on rehab deals.

By supporting their local nonprofit affordable housing developers, these local governments are enhancing their ability to address the full spectrum of need in their communities.

National Intermediaries and State Community Development Financial Institutions

National intermediaries and state Community Development Financial Institutions (CDFIs) have come to play an increasingly significant role in supporting nonprofit affordable housing developers. These organizations are not just conduits for funds

between investors and nonprofits. They have their own double bottom line to serve. Often they are seen as “socially responsible” or “specialized bankers” by both private and corporate investors who place deposits and grants with them for management and leveraging. They seek to achieve a high social impact while disbursing capital according to proven lending business models, and monitor borrowers for project performance and completion, compliance and loan repayment.

In addition, national intermediaries and state CDFIs act as advocates for nonprofit affordable housing developers by helping investors and other stakeholders gain greater experience and confidence in the credit-worthiness of nonprofit affordable housing developments.³² By providing targeted technical assistance, funding support and training in areas such as personnel, finances, asset management and other operational issues, these organizations have also helped nonprofit affordable housing developers become more efficient and accountable organizations.³³

Major National Intermediaries

The Local Initiatives Support Corporation (LISC) was created in 1980 and provides technical assistance and financial support to local programs operating in more than three dozen cities. LISC’s mission focuses on collaboration with local community development groups to identify priorities and challenges, and deliver the most appropriate support to meet local needs. An important part of LISC’s process is carefully selecting communities in which to invest. LISC has invested more than \$9 billion from private investors, lenders, and donors which has been leveraged with public and private sector funds. Since its inception, the organization has provided assistance nationally to



thousands of CDCs, which have built or rehabilitated just under 245,000 affordable homes and created more than 36 million square feet of commercial, community and educational space.³⁴

NeighborWorks America's institutional origins can be dated to 1975, when the Federal Home Loan Bank created an office dedicated to neighborhood reinvestment. Three years later, Congress enacted the Neighborhood Reinvestment Corporation Act, which transformed the office into a free-standing federally-funded agency with a mission "to revitalize older urban neighborhoods by mobilizing public, private, and community resources at the neighborhood level." NeighborWorks America provides financial support, technical assistance, and training for affordable housing and community-based revitalization efforts nationwide. These efforts are driven by local NeighborWorks network organizations that receive access to grants, programmatic support and training scholarships.

The NeighborWorks Capital Corporation, another arm of NeighborWorks America, is an independent nonprofit organization providing critical risk capital to NeighborWorks network organizations to help them develop affordable rental housing, affordable homeownership and commercial projects. Since 1994, NeighborWorks Capital and its predecessors have originated more than \$31 million in financing, and leveraged nearly \$600 million in permanent financing to create or preserve 5,300 units of single- and multi-family housing and 228,000 square feet of commercial space.³⁵

Enterprise Community Partners (Enterprise) was created in 1982 with the assistance of real estate developer James Rouse. In 2007, Enterprise invested \$1.04 billion to help preserve or produce more than 25,000 homes, including \$636 million in LIHTC equity to help build more than 6,250 affordable homes, \$177 million to build more than 2,100 supportive homes for people with special needs and \$17.8 million in grants distributed to community development organizations. Enterprise also seeks partnerships with local partners to identify specific needs and create strategies for revitalizing distressed communities. Enterprise can support the achievement of these goals through training and technical assistance to its local partners, a range of lending products—including syndicating tax credits, raising capital from private sources, and short-term lending for predevelopment expenses and operating capital—and advocacy at the local and national level for affordable housing and community revitalization issues.³⁶

The National Housing Trust (NHT) serves as a consultant and development partner to mostly large nonprofit organizations, as well as to HUD, state and local housing agencies, and to low-income residents that are working to preserve and improve affordable multifamily housing. Since 1996, NHT has been involved in the acquisition and rehabilitation of more than 12,000 apartments that have required a combined commitment of more than \$750 million. The National Housing Trust Community Development Fund, an affiliate of the National Housing Trust, provides predevelopment and bridge financing to preserve and improve affordable multifamily housing properties. In partnership with Enterprise Community Partners, a separate affiliated entity, NHT/Enterprise Preservation, acts as an owner/developer, purchasing and renovating existing, affordable

housing. To date, NHT/Enterprise has preserved and operates more than 3,000 affordable apartments, the vast majority of which are affordable to very low-income households.³⁷

State Community Development Financial Institutions

The term Community Development Financial Institution (CDFI) emerged in the early 1990s with the passage of the Riegle Community Development and Financial Institutions Act of 1994. This law directed the Treasury Department to establish the CDFI Fund, which provides capital infusions to CDFIs that meet its criteria for advancing community development. Nationally, more than \$300 million has been awarded to date.³⁸

CDFIs themselves take many forms, including community development loan funds, credit unions, community development banks, venture capital funds, micro-enterprise loan funds, or even commercial banks or their subsidiaries. They offer both debt and equity, including mortgages for affordable housing, community facilities financing, commercial loans and investments for business development, and finance for housing rehabilitation, construction or acquisition. CDFIs typically aggregate resources from foundations, conventional banking institutions that are seeking to comply with Community Reinvestment Act compliance criteria, communities of faith, socially conscious individuals and other public sources.

CDFIs involved in affordable housing typically use their resources to provide loan capital to locally based nonprofit affordable housing developers for projects and programs that strengthen and revitalize low-income communities. These CDFIs enable nonprofit and for-profit borrowers to gain access to capital, and may provide some support for core operating expenses, predevelopment financing, technical assistance and capacity-building training needs of nonprofit developers.³⁹

While there are several CDFIs in Florida, the Florida Community Loan Fund (FCLF) has focused its business model on lending exclusively to nonprofit affordable housing developers and nonprofit/for-profit partnerships, starting with its first loan in 1995. With \$40 million in total assets, FCLF has made loans ranging in size from \$50,000 to \$1.5 million to more than 100 Florida nonprofit developers. FCLF's borrowers have used more than \$41 million to leverage an additional \$190 million in other private and public funds for the production of affordable housing and community facilities projects, with more than 65% of this activity occurring in the past five years. These nonprofit developers are located in every region of the state and have built more than 2,500 units of affordable housing across the state, as well as almost 250,000 square feet of community facility space.

In addition to this financial support, the FCLF provides technical assistance both directly and through contracts with the Florida Housing Coalition. This technical assistance is provided at various stages throughout FCLF's lending process: at the point of initial application, underwriting, closing, and as needed in cases of loan workout or refinancing. FCLF and the Florida Housing Coalition also assist prospective borrowers in restructuring debt, obtaining supplemental financing and new grant funding.

FCLF technical assistance focuses on one or more of three general categories:

- Organizational Development: staff training in housing development, fiscal management, reporting assistance and board training.
- Program Development: establishing and staffing new housing initiatives, assisting established small business lenders, property management and training, budget and pro-forma financial statement development.
- Resource Development: assistance with procuring government funding, and staff training in securing and retaining funding sources.

Conclusion

While there are a variety of federal, state and local capacity-building resources for increasing the organizational capacity of nonprofit developers, there are still significant gaps in the spectrum of financing tools that nonprofit affordable housing developers need.



Operating capital—the most important and sought after resource for nonprofit developers—is available at the federal level through the HOME program. However, this funding is only for CHDOs, and recent HOME allocations have not been enough to fully serve all of these organizations. Florida’s past efforts to provide operating dollars through the CDCSAP program did manage to funnel administrative grants to nonprofit developers for a number of years, but the program could not survive a lack of persuasive outcomes that compelled policy makers to acknowledge that the state’s dollars were being efficiently used. It has been more than 10 years since CDCSAP sunset, and the demand for performance based outcomes has only increased.

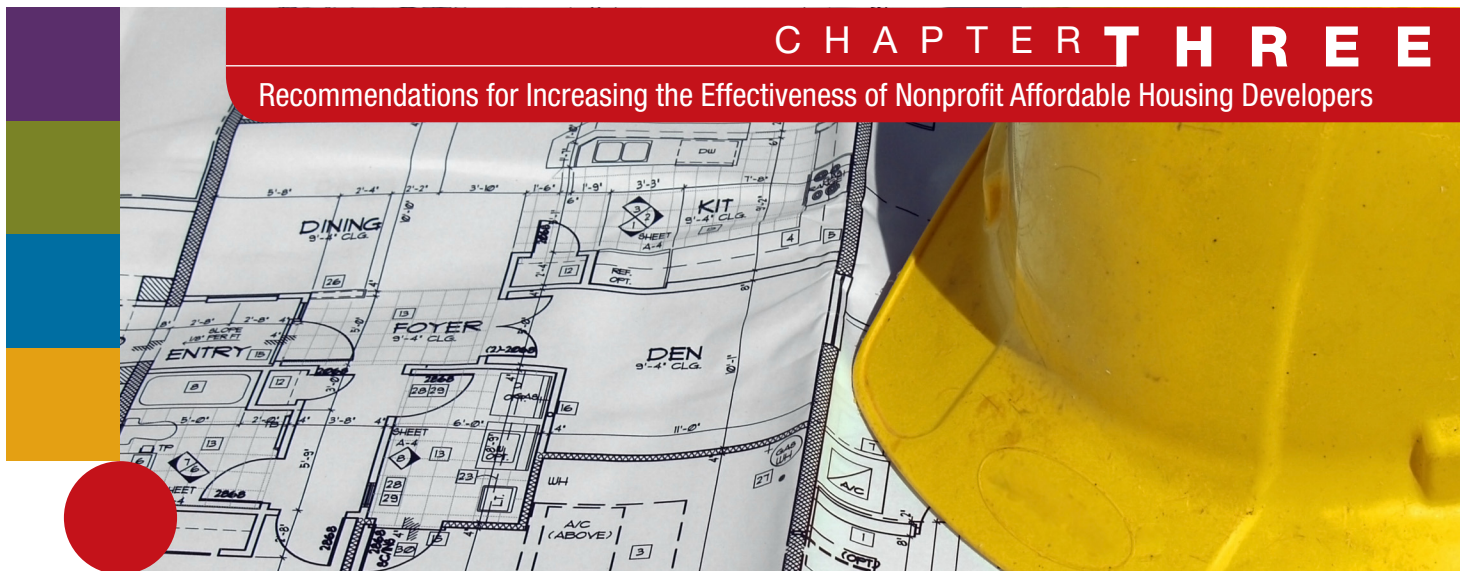
The Section 4 Capacity Building program, which allows a range of technical assistance and programmatic uses with its dollars, is restricted to four statutorily designated recipients, some of which have a limited presence in the state. Moreover, the amount of Section 4 funding reaching Florida remains very small.

At the state level, the Catalyst program has proven to be quite successful in providing technical assistance and training, particularly around the SHIP program and as nonprofits have become more active in the PLP program. However, the technical assistance available through PLP is focused on development-specific issues and tasks, not on building organizational capacity. And, while the PLP program is a significant financial resource, it does not provide forgivable project feasibility funding, which is critical to helping a nonprofit decide whether to proceed with a development.

The MacArthur Initiative is a promising step in identifying nonprofit affordable housing developers that are ready to take advantage of a tailored organizational capacity-building plan. However, the Initiative is focused on preservation of affordable housing and a key component—operational support grants—is not included.

Finally, at the local level, not all local governments are eager to partner with their local nonprofit developers; and those that do partner with them may not provide enough in developer fees to generate the unrestricted revenue nonprofit affordable housing developers need for core operating expenses.

Florida still needs a comprehensive statewide strategy that transcends a piecemeal approach. This strategy should provide nonprofit affordable housing developers with the range of capital types they will need to operate their organizations and produce affordable housing. This includes funding for core operating expenses, funding to research feasible development projects, to undertake development and construction activities, and provide the supportive services that enrich the lives of their residents. Technical assistance and training should continue to play an important role in a state capacity-building program. With the availability of this kind of financial support, nonprofit affordable housing developers must be ready to meet performance standards, which may include smaller amounts of operating funding the nonprofit grows more efficient and is able to generate more revenue. ●



Introduction

Having heard from a diverse range of stakeholders, including active nonprofit affordable housing developers, Florida Housing Finance Corporation, intermediaries, private lenders and for-profit joint venture partners, the Study Commission arrived at the following key findings:

- 1) Nonprofit developers play a vital role in Florida's affordable housing delivery system. They typically house the hardest to serve households and underserved communities, providing them with services that improve their lives.
- 2) Florida's nonprofits have expertise and capacity in single-family development and homeownership counseling, due in large part to the consistent funding provided by the SHIP program. However, they struggle to develop affordable multifamily rental housing.
- 3) Consistent, predictable funding for daily operations is critical to support nonprofits. Amounts as small as \$50,000 a year can anchor an organization's budget. However, this type of funding is the most difficult to obtain.
- 4) The Universal Application Cycle is oversubscribed and highly competitive. Nonprofits frequently submit one application at a time and must compete with large developers submitting multiple applications. Further, if funding is not awarded in the first year, nonprofits have limited capital to absorb carrying costs and predevelopment expenses as they wait to reapply in future cycles.
- 5) Perhaps as important as operating dollars is access to predevelopment money to carry out the early tasks of the development process.
- 6) Even with intensive technical assistance and training, there is no substitute for direct experience in developing a rental project. Joint ventures between less experienced nonprofits and experienced developers can be a mutually beneficial approach to capacity-building when roles are clearly defined and the nonprofit is involved at a meaningful level in all phases of development.
- 7) Developing affordable rental housing is a complicated, expensive and lengthy process. Nonprofit affordable housing developers need financial resources of their own, and must have access to counsel and expertise.

At its January 2009 meeting, the Commission received testimony from state nonprofit capacity programs in Minnesota, Virginia and Massachusetts. Each representative was asked what benefits arose from their state's investment in nonprofit affordable housing developers. Their answers capture why investing in nonprofit capacity is an essential strategy. All three representatives noted that the nonprofits receiving their help increased the production or preservation of affordable housing units. Moreover, these nonprofits became key partners of each state in responding to the foreclosure crisis and achieving other state housing goals, such as addressing increases in homelessness.

From the beginning of its deliberations, the Commission was aware of the tightening state budget, which only worsened as the months progressed. At its January 2009 meeting, the Commission learned that Florida Housing is required to recapture \$190 million in new construction funding from a number of its programs to help close the gap in the state's FY 2008-2009 budget. Moreover, the state is forecasting an even greater deficit in FY 2009-2010. This context of severely reduced state funding informed the Commission's recommendations, which strive to respond to the current fiscal crisis while also proposing long-term recommendations necessary for the state to effectively and efficiently address its evolving affordable housing needs.

I. Recommendations to Florida Housing Finance Corporation

Recommendation #1: *Florida Housing Finance Corporation should encourage nonprofit affordable housing developers' participation in its Universal Application Cycle for rental programs by continuing to proactively raise the nonprofit set-aside in the competitive 9% Low Income Housing Tax Credit (LIHTC) program and establishing a nonprofit set-aside in its other rental programs.*

► The Universal Application Cycle (UAC) is a vital funding source for affordable rental housing development. Through the UAC, developers can apply for funding from state-administered programs, including the competitive 9% LIHTC and HOME.

Nonprofit affordable housing developers that are awarded funds through the UAC receive subsidy required to make projects financially viable. Moreover, competing in this process enables nonprofit developers to gain hands-on experience in affordable housing development. Putting together competitive applications provides experience in budgeting, securing local government and community support, and executing predevelopment activities. If a nonprofit is awarded funding, they develop capacity in securing permanent funding, overseeing construction and lease up processes, and managing the property over long-term affordability periods. As stated by a participant in the Commission’s stakeholders meeting, “The best capacity-building is to do projects.”

The competitive 9% LIHTC and HOME have federal set-asides for nonprofit applicants. Fifteen percent of the HOME program is earmarked for Community Housing Development Organizations, while State Housing Credit allocating agencies are required to set-aside 10% of their LIHTC allocation for applications submitted by nonprofit owners. For some time, Florida Housing has exceeded this requirement by setting aside 12% of its 9% LIHTC allocation to fund nonprofit owned or joint venture projects. The 2009 Qualified Allocation Plan raises this set-aside to 15%. The Commission applauds Florida Housing for taking this step. Increasing the set-aside sends a clear message that nonprofit participation is important enough for the state to allocate a larger portion of its most oversubscribed resource. This increase is likely to mean a greater number of nonprofit affordable housing developers will participate successfully in the UAC and may also encourage more joint ventures between nonprofit and for-profit partners.

Florida Housing made it clear to the Commission that increasing the participation of qualified nonprofits in the UAC is an important goal for the state. The Commission debated at length



about the most effective way to promote more successful nonprofit participation. Raising the 9% LIHTC nonprofit set-aside remains a key strategy for accomplishing this goal and the Commission urges Florida Housing to continue to proactively raise this set-aside as the capacity of the state’s nonprofit affordable housing developers evolves. Further, the Commission urges Florida Housing to create nonprofit set-asides in its other rental programs, to create the dedicated and predictable sources of funding that are vital to increasing capacity.

The Commission believes this set-aside strategy is complementary to the MacArthur Initiative’s goals. The MacArthur Initiative will deliver targeted, intensive technical assistance to a select pool of nonprofits with a specific goal of increasing their capacity to execute preservation deals. The Commission hopes that the lessons learned in helping these nonprofits will be shared with other nonprofit developers in the state, creating stronger owners and asset managers. As the community of able nonprofit developers evolves, it is anticipated that they will be better positioned to apply for, compete and use the funds dedicated to them in the set-asides. Thoughtful increases to the nonprofit set-asides, combined with ongoing assessments of the effectiveness of changes—such as the Priority 1 and 2 tier system included in the upcoming 2009 UAC—will help to create an application process that encourages nonprofit participation.

Recommendation #2: *Florida Housing Finance Corporation should amend Chapter 67-48.002, Florida Administrative Code, to include a written definition of “material participation” for nonprofit and for-profit joint ventures.*

► The Commission received extensive testimony on the advantages and challenges of joint ventures between nonprofit affordable housing developers and experienced partners. These partnerships can be mutually beneficial arrangements. Less experienced nonprofit developers gain much needed experience in the development process without burdening their limited financial resources. For-profit developers gain the benefit of the nonprofit affordable housing developer’s intimate knowledge of the community, its access to grants and free or low-cost land, and its close partnerships with residents and local elected officials.

Joint venture partnerships defy easy definition. While some for-profit developers are purely profit motivated, others prioritize traditionally nonprofit goals, such as community revitalization or serving extremely low-income households. While some nonprofit affordable housing developers have the scale, capacity and attitude of socially-motivated for-profit developers, others do not have the capacity to effectively develop affordable rental housing. For-profit developer portfolios typically include multiple, ongoing development projects and multiple revenue streams, which help to spread risk across the entire portfolio. Less experienced nonprofit affordable housing developers typically have much smaller portfolios; therefore, a single development has the potential to significantly impact the entire organization.

In joint ventures, for-profit developers largely believe they incur greater risks than their nonprofit partners because they are responsible for providing guarantees to investors and often supply all or most of the predevelopment financing. For-profit developers consider these financial contributions and risks to be the most critical factors driving partnership decisions and negotiated terms. In contrast, nonprofit developers may not bring direct capital to the table, but they often bring contributions, including access to free or low-cost land, which can make or break development deals.

When a nonprofit affordable housing developer does not know how to value the resources it brings to a joint venture, the partnership can result in an uneven split of developer fee and failure to include the nonprofit in key partnership decisions. In such instances, the nonprofit's tax-exempt status is exploited, and its capacity to independently develop and manage housing is not enhanced. It was situations like these that most concerned the Commission in its consideration of joint ventures.

This year, Florida Housing is limiting the number of applications that a developer can submit in the UAC to three, except in cases where a for-profit applicant partners with a nonprofit developer. In such cases, three additional applications can be submitted provided certain criteria are met. The development must be owned by a nonprofit and the nonprofit owner must receive at least 30% of the project's developer fee. The draft 2009 UAC Rule, found in Chapter 67-48 of the Florida Administrative Code, defines a development as being owned by a nonprofit when an organization with a 501(c)(3) or (c)(4) designation owns at least 51% of the ownership interest in the development's general partnership. The required developer fee split is new to the 2009 UAC and will be a critical source of unrestricted revenue for the nonprofit partners.

The Commission commends Florida Housing for adding these critical features to the UAC and hopes that, taken together, they will result in more nonprofit participation in the UAC. The Commission also expects that there will be an increase in the number of nonprofit/for-profit joint ventures as for-profit developers look to increase the number of applications they can submit to the UAC.

Florida Housing's current definition of a joint venture does not ensure that capacity development will occur between the joint venture partners. Lack of clarity about the roles each partner will play can lead to situations in which the nonprofit affordable housing developer merely "lends" its tax-exempt status to the application, while the for-profit partner executes all of the decisions. As a capacity-building strategy, a joint venture should provide both revenue and the opportunity for the nonprofit partner to learn the development process. Each joint venture is slightly different, and the roles and responsibilities of each party will change in each partnership. However, less experienced nonprofit developers must be material participants in the development process in order to understand the financing structures and management responsibilities of the properties they will eventually own and for which they will eventually be responsible.

Currently, there is no definition of material participation in the UAC Rule to ensure that joint ventures between a nonprofit affordable housing developer and a for-profit result in true capacity-building. Florida Housing should develop such a definition to clarify the best practices that characterize a successful joint venture. The Georgia Department of Community Affairs Office of Affordable Housing has developed a Consultant/Partnership Training Agreement Manual to support its goal of increasing nonprofit affordable housing developers' capacity to independently initiate, own, develop and oversee the management of future projects.

Concepts Florida Housing can take from this manual for ensuring material participation in a joint venture are:

- Including timetables, milestones and projected training hours per week in a training plan for the inexperienced partner.
- Including the inexperienced applicant in all communication between Florida Housing and the joint venture partners throughout the project development process must.
- Monitoring completion of the training plan to ensure that the inexperienced nonprofit developer is receiving the services agreed to in the partnership agreement.
- Prohibiting participation in future funding of experienced and/or inexperienced partners if the services agreed to in the Consultant/Partnership Agreement are not delivered.

Another approach to fostering nonprofit developer capacity is that of the Federal Home Loan Bank of Atlanta. Its Affordable Housing Program (AHP) awards points on a sliding scale to applications in which the nonprofit partner exercises control over the following project activities:

- Marketing/outreach;
- Property acquisition;
- Pre-development;
- Property management;
- Construction/rehabilitation;
- Qualifying borrowers for home mortgages; and
- Providing or arranging permanent mortgage financing.

The Commission recognized that either of these approaches would require monitoring and an investment of staff hours. However, enforcing training goals and ensuring revenue is appropriately allocated to nonprofit affordable housing developers supports the state's interest in growing the capacity of these organizations to independently develop and manage affordable rental properties.

Recommendation #3: *Florida Housing Finance Corporation should establish a clearinghouse of nonprofit and for-profit developers and related entities to facilitate successful joint ventures.*

► Before any joint venture can be negotiated there is the challenge of identifying appropriate partners. At this time, there is no venue for a nonprofit or for-profit to research potential partners. The Commission recommends Florida Housing

develop an RFP process to identify an administrative entity to create and maintain an online clearinghouse. Possible entities include:

- The University of Florida;
- Florida Housing Coalition; or
- Florida Alliance of Community Development Corporations.

A small seed grant from the State of Florida would be used to leverage private funds from foundations and financial institutions to establish and operate the clearinghouse. Identification of participants would require collaboration among the various affordable housing stakeholders in the state. Appendix II of this report provides a detailed list of these organizations.

The clearinghouse would include information on the following types of entities:

- Nonprofit Affordable Housing Developers;
- For Profit Affordable Housing Developers;
- Local Government Housing Departments;
- Public Housing Authorities;
- Affordable Housing Consultants;
- Affordable Housing Attorneys;
- Financial Consultants; and
- Lenders and Intermediaries operating in Florida.

Participation in the clearinghouse would be voluntary and inclusion in the clearinghouse would not constitute an endorsement of any participant. However, the Commission urges Florida Housing to confirm that any participant is in good standing with its funding programs.

Users of the clearinghouse would be expected and encouraged to perform their own due diligence of any potential partner. Nonprofit developers seeking to joint venture must be proactive in learning as much as possible about these partnerships. The clearinghouse website would include educational materials describing how to evaluate a joint venture partner, potential pitfalls in the negotiating process and what each party should be prepared to bring to the partnership to ensure its success.

Recommendation #4: *Florida Housing Finance Corporation should create a \$25,000 recoverable matching grant within the Predevelopment Loan Program (PLP) to fund project feasibility assessment expenses. The nonprofit recipient would provide a \$5,000 match for a total of \$30,000.*

▶ As noted in Chapter Two, the PLP does not provide forgivable funding for project feasibility expenses, which assist an applicant in determining whether to proceed with a project. The Commission believes this is an especially crucial gap in the financing spectrum for affordable rental housing development.

Under the best circumstances, developing affordable rental housing can take 18 to 24 months to complete. The process of securing land, applying for funding, securing construction and

permanent financing, and developing management and compliance procedures requires the dedication of an enormous amount of financial and staff resources. Nonprofit affordable housing developers should be armed with market analysis and project feasibility data necessary to make the crucial decision to proceed or not with a development. However, funding for project feasibility assessment expenses is particularly hard to come by. If a development is not pursued, thinly capitalized nonprofit developers find themselves without the unrestricted revenue to replace the money expended.

To address this need, the Commission recommends Florida Housing create a recoverable matching grant program, within PLP, of \$25,000. The nonprofit affordable housing developer would provide a match of \$5,000 for a total of \$30,000 in feasibility funding. This program should be funded through a reallocation of the existing PLP dollars. Awards should be made using a preliminary underwriting process that looks at items including:

- Borrower description, including organizational history, and board and staff information;
- Type of organization;
- Project description, including a description of the neighborhood and site;
- Use of proceeds;
- Total projected development costs;
- Sources of repayment; and
- Development team.

Because developing affordable rental housing requires a minimal level of financial capacity, the Commission strongly believes that the nonprofit affordable housing developer should be able to contribute a required \$5,000 match.

II. Recommendation to Non-Governmental Stakeholders

Recommendation: *The Florida Association of Realtors and other non-governmental stakeholders interested in supporting affordable housing should establish a 501(c)(3) foundation funded by the interest collected on short-term client accounts. The foundation will use its funds to support nonprofit capacity-building and affordable housing activities around the state.*

▶ The Commission determined it was imperative to offer recommendations for creating a new source of revenue for nonprofit developer capacity-building and affordable housing needs. The Sadowski Coalition's success in bringing together key, non-governmental stakeholders to advocate for affordable housing is proof that lasting coalitions can be built when common ground is identified. The Commission did not identify all the associations or organizations that might participate in this recommendation, but did look to the Florida Association of Realtors as a natural choice for taking the lead.

The Commission has identified a source of new funding, using the interest earned on trust-bearing accounts. This recommendation is based on the Colorado Association of

Realtors Housing Opportunity Foundation (CARHOF). CARHOF is a 501(c)(3) foundation created in 1990. When a homebuyer gives earnest money to purchase a house, a realtor deposits it into an interest bearing account and the few dollars of interest that accrue on each earnest money deposit are pooled together.

This funding mechanism generates \$300,000 to \$500,000 annually, which is then disbursed—minus a 15% administrative fee for the foundation—to support homeless shelters, down payment assistance programs and other housing-related services. In 1998, Colorado’s title insurance industry attempted to pass legislation that would set up a similar system. Interest earned on their fiduciary accounts would be directed into a statewide foundation with 50% of the money disbursed to local governments and 50% in grants administered by the foundation.

A similar program exists in Florida. Interest On Lawyers Trust Accounts (IOLTA) funds more than three-fourths of the Florida Bar Foundation’s annual budget. IOLTA was established in 1980, and there are IOLTA programs in 50 states, the District of Columbia, and the U.S. Virgin Islands. Attorneys who handle nominal or short-term client funds that cannot earn income for the client place these funds in a single, pooled, interest-bearing trust account. Banks, in turn, forward the interest earned on these accounts to the state IOLTA program, which uses the money to fund a variety of charitable causes.

The Commission recommends that the Florida Association of Realtors, and/or another interested non-governmental stakeholders, take the lead in developing a similar program by establishing a 501(c)(3) foundation to be funded by the interest generated from short-term accounts. The foundation would retain a small administrative fee, and the remaining funds would be used to support nonprofit capacity-building activities.

III. Recommendations to Local Governments

Recommendation #1: *Local governments should facilitate nonprofit networking and training opportunities to enhance peer-to-peer mentoring, and provide educational forums on affordable housing issues.*

► The Commission collected 60 surveys at the 2008 stakeholders’ breakfast. Twenty-eight of these were from local government representatives. Twenty-one of these responses indicated that the local government partners with nonprofits to execute a range of housing strategies including:

- Down payment assistance;
- Rental rehabilitation;
- Development of single family units;
- Rental housing for special needs households; and
- Assistance with utility payments or security deposits.

In the stakeholder survey, the greatest number of local governments reported having five or fewer active nonprofits in their community.

Number of Nonprofits Reported Serving in Community	
Number of Nonprofits	Number of communities
Data not provided	3
0–5	18
6–10	6
11–15	0
16–20	1
TOTAL	28

The local government responses also indicated a clear knowledge regarding the types of programs and resources nonprofits need to build and sustain their capacity, including:

- Funding for operational costs;
- Funding for land acquisition;
- Intense technical assistance to learn the development process and strengthen financial management and fundraising skills;
- Board development; and
- Meaningful partnerships with for-profits to learn the development process.

Local governments should look for creative ways to bring nonprofit affordable housing developers together for peer-to-peer networking and/or training, and to provide educational forums on affordable housing issues. An example of this is the Nonprofit Housing Roundtable of Central Florida, which serves Orange, Seminole, Volusia, Osceola and Lake counties.

Started in 1994, with support from the Enterprise Foundation and the City of Orlando, the Roundtable has grown to a membership of 50 nonprofit affordable housing developers and 300 supporters representing banking, insurance and other businesses. The Roundtable funds its activities through annual membership dues and sponsorships provided by its supporters.

The Roundtable’s organizational goals include educating the community on the role of nonprofits as an important partner in the housing delivery process, promoting and supporting emerging nonprofit housing organizations, pursuing partnership opportunities with for-profit developers and builders, and encouraging governments to provide grants and loans for technical assistance and housing production.

The Roundtable meets approximately six times per year for programs focused on timely issues. Recent speakers have addressed foreclosure trends and prevention, and updates on the federal Neighborhood Stabilization Program. For its members, the Roundtable’s greatest impact has been the informal peer-to-peer networking and mentoring that is fostered at the meetings. New and experienced nonprofit developers benefit from the opportunity to share experiences and advice.

The Roundtable has also served as a source of expertise on and advocacy for affordable housing issues; it has contracted with

the City of Orlando to conduct a study of housing issues for persons with disabilities and is providing input on the housing element of the East Central Florida Regional Planning Council's 25 year strategic plan.⁴⁰

Nonprofit Housing Roundtable of Central Florida: Fostering Networks and Advocacy

- Established in 1994
- Membership of 50 nonprofit affordable housing developers and 300 supporters
- Meets six times per year to discuss relevant topics
- Annual budget of approximately \$5,000 funded by membership dues and sponsorships.
- Organizational goals:
 - Educate the community on the nonprofit sector as an important partner in the housing delivery process;
 - Pool skills and resources of nonprofit housing producers and housing support agencies;
 - Pursue various partnership opportunities with for-profit developers and builders;
 - Pursue activities that increase availability of low-cost funds to nonprofits; and
 - Pursue activities that encourage governments to provide grants and loans for technical assistance and housing production.

Recommendation #2: *Local governments are urged to use their various funding programs to support nonprofit affordable housing developers across the spectrum of affordable housing development financing needs.*

▶ Local governments are vital partners to nonprofit affordable housing developers in both single-family and rental housing projects. Partnership opportunities include, but are not limited to, donating city-owned parcels of land, providing technical assistance, providing matching funding for grants and direct funding for the various stages of development. Nonprofit developers especially need funding for predevelopment expenses, developer fees from construction projects and ongoing revenue to pay for core operating expenses.

The Commission is not suggesting that local governments provide financing to nonprofit developers for every stage of the development process. However, the strategic use of local government funding sources to complement the financing secured by nonprofit developers can play a critical role in maintaining the financial stability on which capacity is built. Moreover, if a local government does not provide financial support to its local nonprofit developers, the most vulnerable and needy populations may go undeserved.

The Commission heard from three local governments that routinely partner with their local nonprofits to carry out development activities under SHIP. These departments provide developer fees ranging from 9.5% to 14% of total development cost, which can be used by the nonprofit for its core operating

expenses. However, not every local government provides a developer fee.

Since every county and 52 cities in the state receive SHIP funding, the Commission examined how this funding could be maximized. Moreover, the Commission sought ideas that would not cut into the local governments' 10% administrative fee. Under the current SHIP statute and rule, a local government is allowed to pay its housing partners for expenses related to SHIP-eligible activities as outlined in the Local Housing Assistance Plan (LHAP). This can include administrative expenses incurred by the nonprofit developer while carrying out SHIP-related construction, counseling or rehabilitation services.

For example, when preparing the budget for SHIP-eligible rental activities, the nonprofit developer can apportion the percentage of items such as executive director's salary or the organization's rent as long as they are directly tied to the SHIP activity. This approach does require a more detailed accounting procedure, but may provide revenue for core operating expenses in counties or cities that do not provide a developer fee.

Local governments and nonprofit developers that are unfamiliar with this use of SHIP funding can request free training from the Catalyst program.

IV. Recommendations to Florida's Legislature

Recommendation #1: *The Florida Legislature should work with Florida Housing Finance Corporation to create a comprehensive, performance-based support program for nonprofit affordable housing developers that will increase their capacity to address affordable housing issues.*

▶ In the context of developing a state strategy for community revitalization, the Affordable Housing Study Commission discussed nonprofit capacity-building in its 1994 final report. In that report, the Study Commission found that most nonprofit affordable housing developers lacked sufficient funding, training and technical assistance. Fifteen years later, there is still a need for a comprehensive, performance-based program to equip nonprofit affordable housing developers with the skills required at every stage of affordable housing development and management.

The 1994 Study Commission identified three categories of assistance as essential to a successful capacity-building program:

- Organizational development for newly formed and emerging nonprofit affordable housing developers;
- Administrative grants and technical assistance for nonprofit affordable housing developers; and
- Technical assistance in the expansion of mature nonprofit affordable housing developers, including one-on-one assistance in financing and structuring new housing development programs.

The 1994 Study Commission proposed the Innovative Neighborhood Vitality and Economic Strategies (INVEST) program to address this need. INVEST established performance

based contracts for administrative grants, for up to three years, to new and emerging nonprofit affordable housing developers, and required the participants to meet a set of standard performance objectives to qualify for these administrative grants after the first year of funding. Nonprofit affordable housing developers in existence for more than five years were required to compete for annual grants to support individual projects. The INVEST program offered some important concepts for a capacity-building program, including:

- A defined period of funding for the administrative grant support;
- Technical assistance that teaches both skills for affordable housing development and for strengthening the organization's internal procedures; and
- Performance-based funding for individual projects, with awards based on a review of the nonprofit's capacity and the merits of the project.

INVEST was never enacted by the Florida Legislature.

Nonprofit Capacity Building Programs in Other States

Minnesota: Started its program in 1989 with \$200,000 of state money. Uses LISC to leverage current appropriation of approximately \$165,000 into \$3.5 million for operating support grants, which are awarded every two years. LISC intermediaries develop their own criteria for disbursing the funds, and are required to report annually to the Minnesota Housing Finance Authority on how the funds were awarded and the outcomes achieved.

Virginia: The Office of Community Capacity Building (OCCB) awards \$20,000–\$30,000 in operational support grants and \$20,000–\$30,000 worth of technical assistance to eight nonprofits. The funding is for two years. The nonprofits receiving these funds must meet performance benchmarks that are incorporated in a work plan.

Massachusetts: The Massachusetts Housing Partnership (MHP) has funded two rounds of operating grants to nonprofits. Funds are awarded to nonprofits with some level of capacity and a plan to increase the supply of new affordable housing in their community. Recipients received \$60,000–\$120,000 over three years

The current Commission researched state nonprofit capacity-building programs in Minnesota, Virginia and Massachusetts, and found they echoed the concepts that the INVEST highlighted. The common elements among these programs are a consistent source of financial support and a focus on establishing benchmarks for continued funding. In some cases, consistent funding comes from a state agency, while in others private sources have been added through leveraging activities. It's also important to note that these states have supported nonprofits for well over a decade. The longevity of these programs shows that these states have made a commitment to the nonprofit community and they believe this has paid off in the form of stronger nonprofit housing development sectors.

The MacArthur Initiative provides an excellent template for structuring a capacity-building program in Florida. Through an RFQ, a group of nonprofits will be chosen to receive intensive technical assistance to build organizational and development capacity. However, the Initiative does not go far enough. A successful state capacity-building program must include some operational support funding. This funding allows nonprofit affordable housing developers to pursue development projects with a consistent, predictable source of operating dollars. Amounts as small as \$50,000 per year can anchor an organization's budget, and allow staff to focus their time and effort on securing other funding, identifying community needs, acquiring properties, constructing and rehabilitating projects, and learning the intricacies of property and asset management.

Recommendation #2: *The Florida Legislature should remove the cap on the State and Local Government Housing Trust Funds and fully appropriate all dollars for affordable housing.*

▶ The Commission recognizes that the Florida Legislature is facing hard decisions as they strive to meet their constitutional duty to balance the state's budget. Building the capacity of Florida's nonprofit affordable housing developers hinges on the presence of consistent, predictable funding sources and the Housing Trust Funds provide SHIP and State Apartment Incentive Loan (SAIL) dollars to local governments and Florida Housing, respectively. This funding can be channeled to nonprofit developers through local partnerships and Florida Housing's rental programs. The Commission urges the Legislature to lift the cap on the State and Local Government Housing Trust Funds and fully fund these critical resources for affordable housing in the state.

The SHIP program is one of Florida's flagship housing programs and a national model for the use of Housing Trust Fund dollars. In its 2007 final report, the Study Commission reported that the state had appropriated more than \$1.7 billion to the SHIP program since 1992, allowing local governments to assist more than 145,000 households.

Fully funding the trust funds also supports a critical economic engine for the State of Florida. The state's investment leverages private sources, such as equity infusions and bank loans, and a number of federal programs including mortgage revenue bonds, Low Income Housing Tax Credits, and the HOME program. According to the Florida Housing Coalition, every \$1 million of state funding spent on housing generates \$6.05 million of federal and private sector funding. Moreover, every \$1 million of state funding used by the housing industry generates \$10.36 million of economic activity, including more than \$4.05 million in earnings and income.⁴¹ Finally, every \$1 million of state funding creates 106 jobs and generates almost \$100,000 in sales tax revenue for the state, directly attributable to the purchase of construction materials.⁴²

In this report, the Commission has offered an idea for a new source of revenue to support capacity-building and affordable housing, but it is evident that Florida already has the best mechanism in the form of the Housing Trust Funds. The state should maximize the use of this vital resource.

Conclusion

Florida's affordable housing delivery system needs both for-profit and nonprofit developers to ensure that the widest spectrum of households receive safe and affordable housing. Nonprofit affordable housing developers play a vital role because they are more likely to develop projects that serve the most vulnerable populations, including extremely low-income households and households in need of supportive services. Developing housing for these populations is often more difficult and less profitable, making for-profit developers less likely to take on such projects.

Nonprofit developers thrive when there is ongoing, predictable financial support for predevelopment expenses, core operating costs, and professional training and technical assistance. While

there are federal, state and local resources to provide funding for various stages of development, the state does not have a comprehensive strategy for maximizing the use and coordination of these resources. Nonprofit developers of every size should be adopting more entrepreneurial approaches to create portfolios that generate income. At the same time, state and local governments should be prepared to infuse operating dollars into those nonprofits that agree to serve populations that governments have identified as needing housing and services.

Florida is facing a serious budget deficit and painful decisions are being made in the allocation of scarce resources. However, thoughtful planning today can position the state to protect vulnerable populations now and support nonprofit developers in their mission to provide high-quality affordable housing. ●



END NOTES

¹ Mallach, Alan. *Managing Neighborhood Change: A Framework for Sustainable and Equitable Revitalization*, p. 2. National Housing Institute. May 2008.

² *Ibid.*

³ 2006 estimates from the American Community Survey, Florida Housing Data Clearinghouse at http://flhousingdata.shimberg.ufl.edu/a/eli_state?report=eli_state_2&go=1&action=results&nid=1.

⁴ Shimberg Center's 2007 Rental Market Study.

⁵ *Ibid.*

⁶ Shimberg Center, 2004.

⁷ Bratt, Rachel G. *Confronting the Management Challenge: Affordable Housing Development in the Nonprofit Sector*, p.30. 1995

⁸ Glickman, Norman J. and Servon, Lisa J. 1998. *More than Bricks and Sticks: Five Components of Community Development Corporation Capacity*. Housing Policy Debate, Vol. 9, Issue 3. Glickman and Servon also discuss the concepts of "resilience" and "responsiveness". These are additional facets of general organizational capacity. Responsiveness indicates an organization's ability to change focus and direction when a change in the environment calls for it. On the other hand, resiliency refers to an organization's ability to weather inevitable setbacks and challenges and continue pursuing its mission.

⁹ This is especially true for CDCs, according to research by Bratt. CDC employees often move to public agencies or consulting firms for more lucrative positions and a less stressful working environment. See: Bratt, R. and Rohe, W. (2007) *Challenges and dilemmas facing community development corporations in the United States*. Oxford University Press and Community Development Journal 42(1).

¹⁰ *A Guide to Comprehensive Asset and Property Management*, Local Initiatives Support Corporation, 2nd edition

¹¹ Glickman and Servon, p. 518.

¹² *Housing Partnerships: The Work of Large-Scale Regional Nonprofits in Affordable Housing*. The Urban Institute, March 2007, p. 27.

¹³ *Ibid.* pp.54-57.

¹⁴ Mallach, Alan. May 2008. *Managing Neighborhood Change: A Framework for Sustainable and Equitable Revitalization*, p. 2. National Housing Institute.

¹⁵ *Ibid.*

¹⁶ This nonprofit reports its greatest challenge is a lack of experience in layering all the necessary funding sources. This nonprofit also reported that it is not sophisticated enough to recognize what it brings to the joint venture partnership it is in with a for-profit developer. Technical assistance and funds for predevelopment expenses are the requested resources. The other nonprofit that reported no units does not display a similar lack of confidence—they are interested in partnering with nonprofits or for-profits and report that networking, utilizing business skills and "being willing to do whatever it takes" account for their success.

¹⁷ Certificate in Community Real Estate Development at USF 2008 Annual Report found at www.usfcollab.usf.edu.

¹⁸ <http://www.cba.ufl.edu/fire/programs/msre/curriculum.asp>.

¹⁹ Bratt, Rachel G., *Should We Foster the Nonprofit Housing Sector as Developers and Owners of Subsidized Rental Housing?* Joint Center for Housing Studies, Harvard University. 2007.

²⁰ *Ibid.*

²¹ O'Regan, Katherine M. and Quigley, John M. 2000. *Federal Policy and the Rise of Nonprofit Housing Providers*. Journal of Housing Research, Vol.11, Issue 2.

²² <http://www.hud.gov/offices/cpd/affordablehousing/training/web/chdo/assistance/opexpenses>.

²³ A new participating jurisdiction has received its designation from HUD within the last 24 months.

²⁴ Fiscal Year 2008 HOME allocations for Florida found at <http://www.hud.gov/offices/cpd/about/budget/budget08/states/fl.xls>. The average allocation does not include \$19,936,229 allocated to the State of Florida.

²⁵ <http://www.hud.gov/offices/cpd/about/capacitybuilding.cfm> accessed February 2009.

²⁶ Email from Joni Foster, LISC Jacksonville, dated March 2, 2009.

²⁷ Email from Dvora Lovinger, Senior Director, Government Affairs, Enterprise Community Partners, Inc. Dated March 13, 2009.

²⁸ Phone conversation of March 13, 2009 with Tom Thompson, Habitat For Humanity International Capacity Building Department.

²⁹ The Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) is a research unit of the Florida Legislature, created to help improve the performance and accountability of state government by conducting studies on the performance of state agencies and programs to identify ways to improve services and cut costs. <http://www.whoseflorida.com/legislature/oppaga.htm>.

³⁰ While this assistance provides valuable support to nonprofits and local governments, limited funding means that each entity does not receive comprehensive, ongoing support over time to develop capacity.

³¹ www.flhousing.org.

³² *Ibid.*

³³ Nye, Nancy and Glickman, Norman J., *Working Together: Building Capacity for Community Development*. Rutgers University Center for Urban Policy Research. September 1998.

³⁴ <http://www.lisc.org/section/aboutus>. Accessed April 3, 2009.

³⁵ <http://www.nw.org/network/pubs/annualReports/default.asp>. NeighborWorks America 2007 Annual Report.

³⁶ www.enterprisecommunity.org.

³⁷ Bratt, Rachel G. 2007. *Should We Foster the Nonprofit Housing Sector as Developers and Owners of Subsidized Rental Housing?* Joint Center for Housing Studies, Harvard University.

³⁸ Ryan, William P., *Nonprofit Capital: A Review of Problems and Strategies*. Prepared for The Rockefeller Foundation and the Fannie Mae Foundation, 2001, pp. 26-27.

³⁹ Liou, Thomas Y. and Stroh, Robert C., *Community Development Intermediary Systems in the United States: Origins, Evolution, and Functions*. Fannie Mae Foundation Housing Policy Debate, Vol.9, Issue 3, 1998.

⁴⁰ March 19, 2009 telephone interview with John Hazelroth, Administrator for the Nonprofit Housing Roundtable of Central Florida.

⁴¹ *Economic Benefits of Sadowski Act: State and Local Housing Trust Fund Monies (State Funds)* white paper, Mark Hendrickson, March 19, 2007. www.flhousing.org.

⁴² *Ibid.*

A P P E N D I C E S

I: November 10, 2008 Letter to Florida Housing Finance Corporation

II: A Proposal for a Joint Ventures Clearinghouse

**III: Georgia Department of Community Affairs
Material Participation Contract**

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APPENDIX I

November 10, 2008 Letter to Florida Housing Finance Corporation



THE AFFORDABLE HOUSING STUDY COMMISSION

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George D. Romagnoli
Kristin Larsen

STAFF

Odetta MacLeish-White

November 10, 2008

Steve Auger
Executive Director
Florida Housing Finance Corporation
227 N. Bronough Street, Suite 5000
Tallahassee, Florida 32301

Dear Mr. Auger,

At its July 2, 2008 meeting, the Affordable Housing Study Commission decided that its 2008-2009 main study topic would be increasing the capacity and effectiveness of Florida's nonprofit organizations to address affordable housing issues. Since then, the Commission has held three meetings, including a Stakeholders Breakfast at the Florida Housing Coalition statewide conference. Over the course of these meetings, we have received testimony from a wide range of stakeholders, including national intermediaries, for-profit and nonprofit affordable housing developers, representatives from community development lenders, the Florida Housing Coalition and HUD. We have also received public comment from representatives of the state's community development organizations and other nonprofits at each meeting.

Given all of this input, the Study Commission has examined a number of characteristics relating to nonprofit capacity generally, and to their specific ability to develop affordable housing:

- Nonprofit developers are more likely to get involved in projects that serve the most vulnerable populations;
- Nonprofits are typically more willing to take on more difficult, less profitable transactions and maintain perpetual affordability at these properties;
- Nonprofits are focused on addressing a community's unique set of circumstances and needs, of which affordable housing is but a part, albeit an important one.

Despite the critical role nonprofits play in serving Florida's neediest households, the state still has a limited number of experienced nonprofits capable of doing more than one or two very small transactions at a time. The Universal Application Cycle (UAC) is a vital funding source for affordable housing development and competing in this process can increase the capacity of nonprofits by giving them experience in putting together strong applications. Moreover, nonprofits that are awarded funds receive much needed state subsidy to make their deals viable.

The Study Commission was grateful for your testimony at our October meeting, during which you educated us about the UAC process and timeline. We thank you for clarifying some of the key challenges Florida Housing faces from state budget and market and constraints, sharing some of the trends in for-profit and nonprofit applications and funding in recent years.

The Study Commission has debated at length about the most effective way to promote more successful nonprofit participation in the competitive 9% tax credit program. The October 23, 2008 draft of UAC Instructions proposes the requirement that developers identify no more than three applications in the competitive 9% tax credit program as Priority I applications. All eligible Priority I applications will be considered for funding first, and if dollars remain after funding these applications, Priority II applications will be considered for funding. We will be interested to see what effects, if any, this step will have on the number of qualified applications submitted and funded by nonprofits for the 2009 UAC. We look forward to having you, or a Florida Housing representative, join us at a future meeting once data from this funding cycle are available.

However, the Study Commission believes that the most effective way to increase greater nonprofit participation in your 9% tax credit program is to raise the nonprofit set aside. Florida Housing has made it clear that increasing the participation of qualified nonprofits in the 9% program is an important goal for the state, as evidenced by your testimonies to the Study Commission and by Florida Housing's application to the MacArthur Foundation for multi-year funding to build the capacity of selected nonprofits.

Dedicated to Promoting Affordable Housing in Florida Since 1986

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Currently, Florida Housing exceeds federal requirements by using 12% of its 9% tax credit allocation to fund nonprofit applications; the federal requirement is 10 percent. We urge you to raise the set aside to 15% for the 2009 UAC. While the proposal to create Priority I and II applications may in fact prove to be an effective step in creating more equity in the funding process, the Commission questions whether this change will limit the number of joint ventures for-profit developers are willing to take on with nonprofit developers. Therefore, we believe the nonprofit set aside should be increased to balance this change. Increasing the set aside will send a clear message that nonprofit participation is important.

We believe that a higher set aside will encourage more nonprofits to participate in the UAC and may promote more joint venture partnerships between nonprofits and for-profits. Such partnerships can build nonprofit capacity when the deals are appropriately structured and both parties are active participants. Finally, getting more nonprofits to participate in the UAC can result in a more diverse portfolio of affordable housing serving extremely low income households and households with special needs.

The Study Commission understands that changes to the UAC should be undertaken thoughtfully and we look forward to continuing our educational process and offering helpful suggestions for future funding cycles. On behalf of the entire Study Commission, I thank you for this opportunity to participate in the rule making process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Oscar Anderson", with a long horizontal flourish extending to the right.

Oscar Anderson Chairperson

APPENDIX II

A Proposal for a Joint Ventures Clearinghouse

PROPOSAL FOR A JOINT VENTURES CLEARINGHOUSE

Purpose: Bring together affordable housing providers from the for-profit and nonprofit sectors to encourage more joint ventures that will help build the capacity of nonprofit affordable housing providers.

Product: An online Clearinghouse maintained and updated once a month by the administrative entity.

Administrative Entity: Options for administrative entities include:

- The University of Florida;
- The Florida Housing Coalition;
- Florida Alliance of Community Development Corporations; and
- Florida Housing Finance Corporation.

Funding: The Study Commission discussed a small seed grant from the State of Florida that would be leveraged with private funds from foundations and financial institutions to establish and operate the Clearinghouse.

Participants: Entities and individuals included in the Clearinghouse would include, but not be limited to:

- Nonprofit Affordable Housing Developers;
- For-Profit Affordable Housing Developers;
- Local Government Housing Departments;
- Public Housing Authorities;
- Affordable Housing Consultants; and
- Affordable Housing Attorneys.

Participants would complete a profile that provided the following information:

Organization

- Organization or Individual name
- Contact information, including website
- Nonprofit or For-Profit status
- Number of years in affordable housing development business
- Number of units developed
- Types of units developed
- Population(s) served, i.e., single-family, multifamily, special needs, elder persons, persons with disabilities, etc.

Previous Experience

- Size of average project completed
- Previous experience working with Nonprofit and For-Profit Affordable Housing Developers
- Location of projects
- Types of local, state and federal funds used, i.e., LIHTC, HOME, CDBG, SAIL, SHIP, Bonds, etc.

The Clearinghouse database could be sorted by any of these categories to allow users to tailor their searches. The website could also contain an interactive map of Florida showing where Clearinghouse participants work in the state.

Marketing Outreach: Identifying organizations and consultants to participate in this Clearinghouse would require collaboration among a number of organizations including, but not limited to:

- Florida Housing Finance Corporation;
- Florida Housing Coalition;
- Florida Community Loan Fund;
- Florida Alliance of Community Development Corporations;
- Florida League of Cities;
- Florida Association of Counties;
- Florida Supportive Housing Coalition;
- Florida Redevelopment Association; and
- Florida Association of Housing and Redevelopment Officials.

Participation in the Clearinghouse would be completely voluntary and inclusion would not constitute an endorsement by either the administrating entity or the organizations that helped to develop the database. Florida Housing will confirm that a potential participant which has received funding from any of its programs is in good standing. The Clearinghouse is merely a database of information to facilitate joint ventures between nonprofit affordable housing developers and for-profits.

Because users of the Clearinghouse would be required to perform their own due diligence, the website can also be an educational tool by posting articles on joint venture best practices, information on affordable housing programs and links to affordable housing resources.

A P P E N D I X I I I

Georgia Department of Community Affairs Material Participation Contract

CONSULTANT/PARTNERSHIP TRAINING AGREEMENT MANUAL

The Georgia Department of Community Affairs (DCA) has a responsibility to ensure that the funds allocated to its funding recipients will be efficiently used to create well-constructed, well-managed affordable housing. Some Applicants do not yet possess the necessary owner and/or developer experience to own, develop, rent up, and provide management oversight of affordable housing projects without additional technical assistance. In this case, this Plan devises a way for inexperienced Applicants to meet DCA experience requirements by engaging the services of an experienced consultant or partnering with an experienced entity that meets the Owner and/or Developer experience requirements. The key to this interim strategy of developing Owner and/or Developer experience for these Applicants is the requirement that training take place during the term of the Consultant/Partnership agreement. The Partnership between the experienced and inexperienced entities should allow the inexperienced entity to participate in all project negotiations, the development of the final project design and observe the development and construction process from start to finish. The ultimate goal is to have a financially sound Applicant that can initiate, own, develop, and oversee the management of future projects independently.

2008 QAP Provisions

Partnering to meet Experience

An inexperienced Owner or an inexperienced Developer can meet DCA Threshold experience requirements by partnering with an experienced Owner or Developer. The applicant must submit the following documentation in the Application in order to meet experience through partnering:

- 2008 DCA experience certificate for experienced Owner and/or Developer Partner or evidence that the Owner and/or Developer are on the DCA Experienced list.
- If the applicant is inexperienced in the Owner category, an executed partnership agreement with a partner that meets DCA Owner experience requirements should be included. The inexperienced partner must be part of the General Partnership entity for the Project. The agreement must describe in detail the responsibilities of both the experienced and inexperienced partner.
- If the applicant is inexperienced in the Developer category, an executed partnership/development agreement with a partner that meets DCA Developer experience requirements should be included. The defined relationship of the parties must be co-developers. The agreement must describe in detail the responsibilities of both the experienced and inexperienced partner.

Consulting Agreements

An inexperienced Owner or an inexperienced Developer that can show that one property meets DCA experience requirements can also meet the requirements of this section by retaining an Owner and/or Developer Consultant that meets

the DCA experience requirements. Owners and developers that have no experience cannot use a consultant to meet experience requirements. Consultant's eligible to contract with inexperienced developers for purposes of meeting experience requirements must have a minimum compliance history score of 10 and must not have any non-cured outstanding instances of noncompliance at their own projects.

The applicant must submit the following documentation in the Application in order to meet Owner and or Developer experience through a consultant:

- 2008 DCA experience certificate for the experienced Owner and/or Developer Consultant;
- If the applicant is inexperienced in the Owner category, an executed agreement with a consultant that meets DCA Owner experience requirements should be included. If the applicant is inexperienced in the Developer category, an executed agreement with a consultant that meets DCA Developer experience requirements

2008 Consultant/ Partnership Training Manual

DCA Office of Affordable Housing should be included. The agreement must describe in detail the responsibilities of the experienced consultant as well as the inexperienced Owner and/or Developer; and

- Each executed consulting agreement must include a training plan providing for the training of the inexperienced partner by the experienced partner in the Ownership and/or development of the project. The training plan must specify that the training services will be provided from project commencement, through construction, lease up, and permanent loan conversion. In addition, consultants that fail to provide consulting services through the required time period may be prohibited from contracting as a consultant for purposes of meeting DCA Experience requirements in future rounds. Timetables, milestones and projected training hours per week must be included in the plan. The training plan should be attached as an exhibit to the executed consultant agreement.

Agreement Requirements

- Both the experienced and inexperienced partner/consultant must actively participate in the Ownership and/or Developer responsibilities.
- The partnership relationship must remain in effect until the property is complete and has reached stabilized occupancy for a minimum period of two years.
- Each executed partnership/consultant agreement must include a training plan providing for the training of the inexperienced partner by the experienced partner in the Ownership and/or development of the project.

- The training plan must specify that the training services will be provided from project commencement, through construction, lease up, and permanent loan conversion and or issuance of 8609's—whichever is later. Timetables, milestones and projected training hours per week must be included in the plan.
- The experienced Partner/Consultant must agree to submit bi-monthly written reports to DCA outlining the progress made in the development of the project, outstanding issues that need to be resolved and disclosure of any issues regarding the training of the inexperienced entity. The report must also contain a summary of the date and time of all meetings between the experienced and inexperienced entity and the experienced entities training progress. These reports will be due on the 15th of the month, commencing on January 15 following project award.
- In the event that a project fails to meet any of the DCA deadlines for submission of documents or commencement of construction, both parties will be required to meet with DCA representatives to discuss the status of the project.
- The inexperienced Applicant must materially participate in decision making regarding the project notwithstanding the involvement of a Consultant/Partner.
- All communication between DCA and the ownership entity throughout the project development process must include the inexperienced Applicant.
- There can be no change in the experienced Consultant or Partner without DCA's prior written consent
- Inexperienced Applicants must take the DCA Tax Credit course prior to issuance of 8609s
- Inexperienced Applicants will be required to meet with DCA representatives at least twice the year following project award. At that meeting DCA will discuss the status of the project.

Failure to Perform

DCA will monitor completion of the training plan included in these Agreements to ensure that the inexperienced Applicant is receiving the services agreed to in the Consultant/Partnership Agreement approved by DCA. While the inexperienced Applicant is solely responsible for ensuring that the services for which it has contracted are delivered by the Consultant/Partner, DCA reserves the right to prohibit future participation in DCA funding rounds of Consultant/Partners and/or inexperienced Applicants that DCA determines, at its sole and absolute discretion, are not providing/receiving the services agreed to in the Consultant/Partnership Agreement. DCA also reserves the right to determine that an inexperienced Applicant has not materially participated in the project. Therefore, the project may not be used to meet experience requirements for the

2008 Consultant/ Partnership Training Manual

DCA Office of Affordable Housing inexperienced entity in future rounds. The Consultant/Partner and the inexperienced Applicant must retain evidence that each task and milestone of the Training Plan has been completed based on the terms of the Consultant/Partnership Agreement.

A P P E N D I X I V

Nonprofit Affordable Housing Development Glossary

NONPROFIT AFFORDABLE HOUSING DEVELOPMENT GLOSSARY

Community-Based Organization (CBO)

– A nonprofit organization that serves low- and moderate-income people in the community in which it is based. Services provided can include healthcare, education, youth programs, and employment and training.

Community Development Block Grants (CDBG)

– Flexible federal aid intended for use by cities and towns to promote neighborhood revitalization, economic development, and improved community facilities and services. Funds are administered by either state or city offices of community or economic development.

Community Development Corporation (CDC)

– A community-based organization owned and controlled by community residents and engaged in affordable housing, business, and/or commercial development. The vast majority are nonprofit, tax-exempt 501(c)(3) organizations.

Community Development Financial Institution (CDFI)

– A specialized financial institution working in markets underserved by traditional financial institutions. Products include mortgage financing for low-income homebuyers and not-for-profit developers, flexible underwriting and risk capital, and technical assistance, commercial loans and investments. CDFIs include regulated institutions, such as community development banks and credit unions, and non-regulated institutions, such as loan and venture capital funds.

Community Housing Development Organization (CHDO)

– A federal term for CDCs and similar organizations, which are eligible for set-aside funding under the federal HOME program.

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

– A federal agency that funds many programs designed to promote economic development and affordable housing.

Enterprise Foundation

– A national intermediary supporting community development. Works with partners to provide low-income people with affordable housing by providing loans, grants and technical assistance to nonprofit organizations that are building and revitalizing local neighborhoods.

Equity

– Permanent capital invested in a project.

HOME (Home Investment in Affordable Housing Program)

– Created by the Cranston-Gonzalez National Affordable Housing Act of 1990, HOME provides funds to states and local governments for the acquisition, rehabilitation, and new construction of affordable housing and for tenant-based rental assistance.

Housing Trust Fund

– A fund established by state or city legislation that uses public capital to finance the construction or renovation of affordable housing. Designed to provide an ongoing source of revenue, usually from tax- or program-generated revenues. Funds are usually administered by a public agency.

Intermediary

– An organization that mediates between grassroots organizations and large-scale sources of capital. Intermediaries aggregate capital from various sources and disburse it to grassroots groups, along with technical assistance.

Local Initiatives Support Corporation (LISC)

– An intermediary founded by the Ford Foundation in 1979. LISC provides capital (pre-development, construction and permanent financing), technical expertise, training and information to support the creation of affordable housing, commercial, industrial and community facilities, businesses and jobs.

Low-Income Housing Tax Credits (LIHTC)

– A provision of the Internal Revenue Code, which provides tax credits to corporations that invest in low-income housing. Eligible projects are awarded credits by state government through a competitive process.

Neighborhood Reinvestment Corporation (NRC)

– A congressionally chartered, federally funded, public nonprofit corporation, established in 1978, whose mission is to assist in the revitalization of low-income communities. NRC works through CDCs, providing training, technical assistance, and operating grants.

Pre-Development Financing

– Funds required to bring a development project to the point that it is able to close on a construction loan and begin construction. Property acquisition, consulting, legal, financing fees, appraisal, environmental analysis and project sponsor's overhead may be included.

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