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August 24, 2016

Steve Auger, Executive Director
Ken Reecy, Multifamily Director
227 N Bronough, Suite 5000
Florida Housing Finance Corporation
Tallahassee, Florida 32301-1329

RE: 2016 RFA's for SAIL/LITC/Bonds

Dear Mr. Auger:

Thank you for the opportunity to comment on the RFA and Rules associated with the 2016 allocation of funds.

1. Discussion Related to Long Term Use Agreement:

Background:

It has come to my attention that there is a movement for a flat out reduction of the extended use opinion to change the use period from 50 to 30 years.

From a policy perspective, the State has every reason to encourage and support long-term use agreements for the exchange of affordable housing funds. It has been an effective tool to provide affordable housing statewide since the first "cycle of applications" during the affordable housing demonstration program in the late eighties.

It was and has been used as an incentive to "win the funds". Some of the detracting comments have been related to "other states and what they do but Florida is unique in that the additional soft funds made available through the various Housing Trusts programs, are not available in other states. Beyond the normal process for tax credits and bonds, SAIL and other funds have been made available to provide more subsidies allowing for less debt on these properties helping to extend their affordability.

As the programs have matured, changes have taken place on both sides of the table (for the developer and FHFC). From an economic perspective, interest rates and credit prices have had dramatic shifts over the past 30 years. The current environment is one of the better for both credit and debt.

In addition, 30 years later, many of the properties originally funded and under these programs are now at the point showing the need for deep recapitalization that cannot be accomplished with straight MMRBs and 4% LIHTC due to the required scope or work. Over the last few years when structuring priorities for funding and identifying goals, projects that have existing LURA's have been excluded from participation in competitive funding cycles with little exception.

Current Situation

It would seem from a developers perspective, they would not be as concerned as much about the length of the use restriction but more by having these restrictions in place being a limiting factor in recapitalizing them. FHFC current will not consider funding a project with LURA's in place. To the extent that FHFC will consider a change to its position and allow the use of SAIL funds and other competitive funding to help finance it would address this issue. What can be a relatively modest rehab scope and costs by recycling expiring use projects with only MMRBs and 4% LIHTC would be possible.

Recommendation:

Keep the current 50-year EUA/LURA requirement in the RFA's but in addition allow projects to apply in one or more of your RFA's that have existing EUA/LURA's

2. Discussion of Preservation

In Florida, creating new housing stock is still necessary to meet the needs for affordability statewide. In addition, it is important to keep the stock currently available at a level that maintains both affordability and safe and sanitary housing.

Currently, properties that have existing EUA/LURA's may not apply in any FHFC competitive funding rounds. There are many properties that are reaching the point that there is a significant need for recapitalization.

It is understandable, that not all properties are equal in terms of their specific needs but there seems to be a variety of factors that could be taken into consideration in order to screen or prioritize those in the greatest need for preservation. A distinction needs to be made between a project that received initial funding as a new construction (and is only 15 years old); versus a property that received initial funding as a rehabilitation that might have been 15-30 years old at the initial funding)

Recommendation:

Establish criteria for allowing properties with EUA's or and LURA's to apply for funds in FHFC RFA's and create a series of criteria to document need

3. Assumptions of Existing Soft Money Funds (SHIP, HOME, SAIL)

There are also older properties that have existing EUA's and LURA's that cannot be refinanced because they cannot pay the debt off and afford to refinance. Consideration could be given for finding ways to allow assumptions as normal practice instead of requiring repayment at the point of refinance.

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Recommendation:

Pro-actively allow for assumptions to facilitate the rehabilitation of affordable housing extending the use agreement and thereby extended the use for affordable housing long term.

4. Discussion of Use of National Housing Trust Fund dollars:

The idea that continued social engineering for affordable properties without the data to support the long term economic viability, is a perspective that is counter intuitive. Different programs and properties are better suited for each other.

From an ideal affordable housing perspective, mainstreaming various income groups has been accepted. But in truth, the tax-exempt bond program was never intended to benefit a 100% low-income tenant base. Because of the current economic environment with low interest rates and high credit prices, it has been somewhat acceptable to include various subsidies to write down the cost of including lower income families.

In addition, from the onset of the 1986 tax act, the laws were written anticipating a much more integrated income level than the 100% today. The lawmakers believed that they would see 40% at 60% or 20% at 50% and the remainder would be market rate. In fact, they never believed the program would work and when doing a congressional "mark up" did not provide for any liability on the taxes collected. It has turned out they were wrong and they also did not fully understand the financial reality of a mixed-use property and the investor connection.

Over the last few years it has become routine to serve "ELI" with subsidies provided by FHFC at 33% of median income. Again, not long enough to see how those numbers will effect the term long economic viability of those projects.

It has been an extraordinary positive economic environment of low interest rates and high credit prices. This environment is not the norm for properties that need to survive long term.

Florida Housing has created some unique partnerships with the recent legislative interest in special needs housing. The ability to create RFA's that are more targeted has been successful from a unit production perspective especially for group homes and facilities that are needed in small communities.

All of this is a long way of saying that this next step of serving even lower income families is problematic for a number of reasons, not the least of which is economic.

Management companies are created and are focused on the main stream of their tenants of their properties. There are many issues to be addressed beyond the basic tenant qualification and the records needed associated with those requirements. The FHFC compliance requirements along with the newest twist of keeping units empty for 30 days while trying to find someone suited for a property, which now because of RECAP may be in an area when there is no market for this income level may impact the economic viability of a property.

The requirement to add an even lower income group, serving 22% of median income, in bond properties is not consistent with the normal tenant profile within those properties. It seems that this level of subsidy would be better utilized in the special needs programs or tax credit.

There are programs that fit the tenant profile and have the systems in place by nature of that tenant profile that from an economic perspective would work better looking at that perspective long term including management skills.

Any time new programs, efforts, or focus are instituted, the next step must take place and review must occur to understand the impact of those policy decisions. Programs should be modified or institutionalized based on the success of failure of those efforts. Many of the social engineering changes that have been put in place have not had significant "time in place" to make those determinations.

<u>Recommendation:</u>

Limit the units serving 22% to special needs programs as well as homeless and others with the tenant profile for that income level. Continue to monitor properties with additional requirements for the last 5 years and determine the success or issues associated with those requirements; adjust the program or focus with the data collected to reflect the findings.

Thank you for your continued efforts to provide working programs for affordable housing in Florida.

Sincerely,

Susan J. Leigh
President