To: Jean.Salmonsen@floridahousing.org

Re: Public Comments on RFA 2013-212 Housing Credit Viability Funding for Development in Monroe County that have an Active Award of SAIL Financing and 9 Percent Credits

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Rural Neighborhoods, Incorporated, Landings at Sugarloaf Key, LLC and Dockside at Sugarloaf Key, LLC are pleased to provide comments on the June 26th, 2023, draft RFA noted above.

Comment 1: Paragraph 4. Funding; Subparagraph (2)(A) Non-Corporation Permanent Funding Sources.

This provision reads the *"Non-Corporation Permanent Funding Sources that will be used for the application for this calculation will be the greater of any Non-Corporation permanent funding on a per unit basis disclosed in the Original Application ….".* It is our view this proposed level of required debt results in a not feasible pro forma income and expense. Two applicants eligible to combine applications have $1,275,000 in permanent funding in a prior 28-unit project ($45,536 per unit debt) and $7,200,000 in permanent funding in a prior 60-unit project ($120,000 per unit debt). Under the proposed RFA, a small project of 56 units would be required to carry a minimum of $5,393,182 in debt or $96,306 per unit.

First, this approach departs from debt minimum standards used in several recent "viability" opportunities. In RFA 2023-211, FHFC set a minimum first mortgage amount sized at a ratio not to exceed 1.25x – 1.30x depending on project characteristics. In RFA 2022-CHIRP, FHFC set its gap analysis guidelines at 1.30x. These analyses reflect reasoned precedent and, in the latter RFA, now includes credit underwriting experience and success in preserving projects. The sizing standard proposed in 2013-212, to the best our knowledge, is untried.

- Use of debt service coverage – like the 30% requirement for Deferred Developer Fees -- is elastic. In one simple standard adjustable to multiple projects regardless of their total number of units, choice of income-targeting, or bedroom mix. DSC enables the Developer to best match bedroom mix and target incomes to market needs. It also responds to inherent interest rate

changes over time from, for example, RFA 2018-115's application submittal to the RFA 2023-212 due date.

- The more simplistic choice of matching per unit debt from past applications does not reflect those applications' differences. In RFP 2018-115 applicants could choose up to 55% of units – so-called workforce units - to be comprised of Housing Credit and Workforce Units (using income averaging) or to be solely >80% AMI to 120% AMI. If forced to utilize *"per unit debt*," an active award holder cutting units could not target average income units successfully since debt could not be amortized. It would be forced to commit to greater numbers of 120% AMI units just to meet debt amortization albeit most likely at higher interest rates than in 2018-19. This does enable Developer to address changed market conditions. Though workforce units could fall in the 80% range per language of the original RFP (as Dockside, in fact, generally did), preservation of per unit debt rather than DSC requires a reduced, combined unit to set aside significant numbers at 120% AMI. In the interim, Quarry II and Coca Vista have or will have added significant 120% units both south (closer to Stock Island/Key West) and north (in Marathon across the 7-mile bridge). The modest size of a reduced 56-unit scattered site property with high numbers of 120% units renting at the $3K per month reduces the number of interested LIHTC investors who view those high rent units as added risk due to the high per unit debt not offset by housing credits.

Second, matching per unit debt is required to achieve dual public policy objectives of preserving FHFC capital or reducing financial windfall to the Developer. In RFP 2023-2011 and 2022-CHIRP, FHFC achieved fairness and equitable awards using two methodologies: requiring minimum Deferred Developer Fee requirements and limited DSC in a manner that forced Developers to borrow equitable levels of debt. Unfortunately, matching per unit debt may well force a Developer to select DSC levels close 1.0 or to choose an undesirable AMI mix. In the Florida Keys (and arguably statewide) the economic environment is one in which insurance operating costs are rapidly rising as are personnel costs for leasing and maintenance employees. Inordinate debt not tied to DSC may lead to subsequent operating financial problems. I am hesitant to see FHFC choose matching per unit debt in circumstance in which insurance premiums recently experienced >40% increases and Federal Reserve rate increases are project to rise 50BPS before calendar year end.

The intent and meaning of the final paragraph that reads as follow is unclear: "*However, in the case of the permanent funding disclosed in the Original Application and a CHIRP ITP Application, if applicable, the amount of the first mortgage may be discounted by 5% prior to making the comparison.*"

Is this interpreted to mean the matching per unit debt may be 5% less than the actual combined debt or is this limited to the presence of CHIRP. If so, this does not impact the views expressed above.

Comment 2: Paragraph 5. Development Cost Pro Forma (b) Operating Deficit Reserves

FHFC has included its traditional prohibition re Operating Deficit Reserves and exclusion from Developer Fees. Note that turmoil in the insurance markets is resulting in increased conversation regarding prepaid reserves from our primary and secondary debt lenders and investors that seek additional financial protections against deductibles and related matters. This is particularly true in Monroe County in which reinsurance markets are increasingly limited including business interruption. Accordingly, I point FHFC to prior TCEP/TCAP period practices that funded significant operating reserves as market protections.

Though prohibited from including such costs in our pro forma, FHFC appears open to such requirements as raised by the equity provider, first mortgage lender and or cedit/underwriter. It is our opinion that the concerns or requirements of a secondary mortgage lender, particularly local government sources who may be inclined to provide capital for such use, be included as those empowered to request reserves be underwritten.

The second paragraph of that section is acknowledged.