Date: October 17, 2019

To: Tracy Banner, Policy Administrator, Florida Housing Finance Corporation

From: Kody Glazer, Legal Director, Florida Housing Coalition

Re: Florida Housing Finance Corporation 2019 Strategic Planning Comments

Thank you for the opportunity to comment on the Florida Housing Finance Corporation's proposed Strategic Plan.

The next 3-5 years will bring new and continued affordable housing challenges to the state that are worth addressing in the update of the Strategic Plan. For example, Florida has over 27,000 affordable units that have subsidies scheduled to expire by the end of 2030. Developments funded in the early 1990s will start reaching the end of the 30-year affordability period beginning in 2022, peaking in 2025. Another spike of lost subsidies will occur in 2027. Without a plan in place for how to preserve these affordable units, over 27,000 households are at risk of losing their homes this decade due to the winding down of affordability restrictions. As the supporting documents to the 2019 Plan note, it is most common that properties with expiring affordability requirements cease to remain affordable to the residents targeted by Florida Housing programs once the requirements expire. This is a reality that FHFC and other affordable housing advocates will need to address over the next decade.

Florida's population is growing, aging, and becoming more cost-burdened. Homeownership is decreasing and the number of Florida renters is increasing. Hurricanes and other natural disasters are causing new migration trends and putting tremendous pressure on our already tight affordable housing stock. Single-family homes dominate the housing market although our demographics suggest that a broader variety of more affordable housing types may better serve the needs of Florida's workforce. These comments address the priorities we find relevant to the Florida Housing Finance Corporation's Strategic Plan.

Recommendation 1. Increase Focus on Resiliency of the Housing Stock

We suggest that whenever "green building features" are mentioned in the Strategic Plan, "storm-resistant construction" be included as well. For example, Item K under Priority 1 of the 2014 Plan would read: "Incentivize the inclusion of green building features <u>and storm-resistant construction</u> in homeownership development programs." Item F under Priority II would read: "Incentivize the inclusion of green building features to lower operating costs,

<u>storm-resistant construction to prepare our housing stock for future natural disasters,</u> and accessibility/visitability features . . .

Discussion. Florida is at a pivotal moment when it comes to climate change. With Governor DeSantis's leadership, the state now has its first Chief Resiliency Officer whose job it is to coordinate a statewide response to prepare for the environmental, physical, and economic impacts of sea-level rise. With this new Officer, much discussion is expected in regards to improving our infrastructure to prepare for our changing environment. With FHFC's leadership, housing needs to be discussed as critical infrastructure in the same vein as our drainage, sewage, and other coastal systems.
FHFC does excellent work in incorporating Green Building features as part of the application process for state financing. Due to the reality of the recent hurricanes that have devastated the housing stock of the Panhandle and the Keys, the Florida Housing Coalition recommends that FHFC incorporate housing resiliency and other storm-resistant standards into the RFA process and its Strategic Plan.

The SAIL Statute at Fla. Stat. § 420.5087(6)(c)(16), for example, requires FHFC to include in its RFA process criteria for "[p]rojects that include green building principles, *storm-resistant construction*, or other elements that reduce long-term costs relating to maintenance, utilities, or insurance." FHFC is successful at including green building principles in its RFA process and should consider strengthening its storm-resistant standards to better prepare our housing stock for future storms. An RFA process that grants extra points to developments that are built to withstand stronger storms, for example, would be a great benefit to the housing resiliency of FHFC's housing stock. As the supporting documents to the Plan note, "[a]ny events resulting in a decrease of travel and tourism activities can have a widespread and negative impact on the state's economic health." A disaster-resilient housing stock for our state's tourism workers to live in, for example, would stymie the negative impacts of future storms on our economy.

The Shimberg Center is currently undergoing a statewide study of how many assisted-housing units are at risk of flooding. The Center found that around 60% of Florida Housing's portfolio in the Tampa Bay area alone is at risk of flooding. With so many units vulnerable to storms along the coasts, increased focus on storm-resistant construction would protect families and FHFC's portfolio.

Finally, as it relates to disaster recovery and resiliency, the Florida Housing Coalition applauds FHFC for its great work in distributing disaster relief funds to the Panhandle in 2019 as part of the Hurricane Housing Recovery Program (HHRP). Through the HHRP, FHFC has demonstrated its strong organizational capacity to disburse and provide technical assistance to utilize much needed recovery funds for disaster-affected areas. We hope FHFC continues this work in maximizing the use of its agency to deploy the disaster housing funding that is available to Florida.

<u>Recommendation 2. Incentivize Permanent Affordability to Preserve Affordable Housing</u>

Under Priority II, consider adding an item that reads: "<u>Incentivize longer-term or permanent affordability to preserve affordable housing units in perpetuity."</u>

Discussion. Over 27,000 affordable units are at risk at being lost this decade due to expiring affordability requirements. This is a result of 30-year affordability periods that began in the 1990s. First, we applaud Florida Housing Finance for now requiring a 50-year affordability period for most properties receiving financing through the corporation's programs. This long-term affordability period helps FHFC keep properties in high opportunity areas in the portfolio and prevents the displacement of lower income residents for at least 50 years.

To continue to ensure that lower income residents are not displaced from properties financed by Florida Housing, the Coalition suggests that FHFC incentivize longer-term or permanent affordability as part of the RFA process. Are developers able and willing to agree to longer affordability period or affordability in perpetuity as part of the competitive selection process? The success of the Local Government Area of Opportunity Funding process has proven that developers are capable and willing to agree to affordability in perpetuity in order to receive 9% Housing Credits.
Starting in Hillsborough County, the local government's LGAOF selection process included an evaluation factor setting the minimum affordability period at 50 years, with longer periods considered a positive factor in the evaluation. Developers immediately began proposing affordability in perpetuity, and every development selected by Hillsborough County for the LGAOF (over four years) has agreed to perpetuity.

The City of Jacksonville added the longer affordability period to their selection criteria, and for the past three years all applicants that received the LGAOF designation from the City agreed to affordability in perpetuity.

This year, Pasco County initiated a formal NOFA and evaluation process for LGAOF, again utilizing longer affordability periods as a scoring factor. Six of the eight applicants proposed affordability in perpetuity, one 75 years, and only one at 50 years. The three finalists for the LGAOF designation all proposed affordability in perpetuity.

What does this prove? That developers are willing and able to provide affordability in perpetuity - all the public body has to do is include this as a scoring provision.

<u>Recommendation 3. Incentivize the Cost-Effective use of Subsidies Through Leveraging</u>

We suggest an item be added under Priority II to read: "<u>Incentivize cost-effective development through successful leveraging strategies that reduce the total subsidy needed per unit.</u>" Alternatively, Item E under Priority II could be amended to read: "Continue to foster a more integrated approach between Florida Housing's asset management and development teams to keep development costs down <u>by incentivizing cost-effective development through successful leveraging strategies that reduce the total subsidy needed per unit</u> while incentivizing sustainable development that lowers operating costs over the long term."

Discussion. Leveraging financial resources is key to increasing our state's housing production. Through successful leveraging, FHFC's resources can be used to serve more persons in need of housing by providing funding to more units. If developers are not incentivized by a scoring system to reduce the amount of subsidy in each unit, the state ends up using more subsidy in each unit than may be required.

The high costs that we see per unit is a function of inadequate use of leveraging to drive down the cost of a unit. A developer's fee is based on the total cost – the higher the costs, the higher the development fee – and therefore has a perverse incentive to produce a product that may not be cost-effective. A scoring system in place that truly incentivizes lowering the costs and total subsidy needed per unit would better capitalize on FHFC's existing resources. Incentivizing leveraging for all FHFC programs – the SAIL statute, for example, requires leveraging as a factor in applications - is critical to increasing our state's housing production.

Recommendation 4. Incorporate Subsidy Retention Principles and Continue to Work with CLTs

The Coalition applauds FHFC for incorporating the Community Land Trust (CLT) model into recent RFA processes. The CLT model is vital for retaining subsidy in perpetuity. We suggest that subsidy retention principles be addressed in FHFC's Strategic Plan. For example, an item under "Homeownership Lender Strategies" could read: "Continue to work with Community Land Trusts and utilize subsidy retention principles wherever feasible."

Discussion. In addition to longer-term or permanent affordability, a greater focus on subsidy retention over subsidy recapture would capitalize on limited government resources. Therefore, the Coalition recommends that FHFC include permanent affordability and subsidy retention principles under the Priority referring to Homeownership Lending Strategies.

FHFC and most local governments use the subsidy recapture approach to provide homebuyer assistance. This approach requires a homebuyer who has received down-payment assistance, for example, to repay some or all of the government's funds upon sale of the home. This household is allowed to sell their home to any willing buyer with no limits on price or income-eligibility. The "recaptured" funds then go back into the government's coffers to assist a subsequent homebuyer.

While this approach may increase revenue available to FHFC, it fails on two levels: 1) housing prices go up more quickly than new or recaptured funding becomes available, so even with the additional revenue from recapture the growing gap between funding and housing costs results in fewer and fewer homebuyers assisted from year to year; and 2) when the repaying homebuyer sells their home, in most cases, this results in a home permanently lost from the inventory of affordable housing.

Alternatively, subsidy retention takes the same subsidy that FHFC would normally provide to an individual homebuyer and invests it in a unit, rather than a household. Through this one-time investment, FHFC, in partnership with a Community Land Trust, for example, can impose restrictions on the resale price and the income-level of a subsequent homebuyer, thus retaining subsidy in the unit. This keeps the FHFC-financed unit perpetually affordable to homebuyers at the same income level. With a greater strain on FHFC resources due to the increasing number cost-burdened households, subsidy retention makes the most of state funds.

Recommendation 5. Incentivize the Development of Small Scale Rental

The Coalition suggests that under Priority II, language be included to incentivize the development of a broader variety of housing types. The language could read: "Incentivize the development of a broad range of housing types, such as the "missing middle," to meet the needs throughout the state."

Discussion. Demographic trends show that rental households are increasing and that the homeownership rate of younger populations, specifically, has dropped acutely over the past twenty years. Our population is aging and this aging population is more likely to want to age in place than past generations – straining our existing housing stock. Further, the average size of our households has continued to decrease. Most households in the state, 66% of them, are composed of only one or two persons. Most cost-burdened renter households, 63% of them, specifically, are of only one or two persons as well. Although our dominant household size may suggest that a smaller housing type is greater demand, the single-family home is still the dominant housing type in Florida. This is due to a mix of zoning and traditional financing issues. The housing market's traditional approach to housing types will not meet the needs of our changing demographics and population growth. Smaller housing types better capitalize on limited land resources close to centers of opportunity.

The Florida Housing Coalition suggests that FHFC make it a priority to target more resources toward smaller rental housing types such as duplexes, triplexes, and the "missing middle." The "missing middle" is defined as the housing types in between the single-family home and the apartment complex (such as duplexes, townhomes, and others) and are literally "missing" from most jurisdictions due to the single-family home being the dominant housing type. Small scale rentals, due to their relative size, may be more affordable than the traditional single-family home – especially for smaller households that may not need or want the largeness of the single-family home and do not want to live in an apartment complex.

This strategy would include exploring how the lending industry finances small scale rental development and how FHFC could fill the gaps left by traditional lenders. A strategy that continues to target resources for single-family housing opportunities while also acknowledging the need for small scale rentals may better serve the needs of our state.

Recommendation 6. Continue to Prioritize Special Needs and Homeless Housing Opportunities

As stated in the supporting documents to this comment period, homelessness continues to be a serious problem in Florida. Although homelessness has decreased in recent years, Florida has over 28,000 homeless individuals and nearly 44,000 homeless families. The Florida Housing Coalition requests that FHFC continue to recognize increased opportunities for special needs and homeless households as a key priority. The Coalition hopes FHFC will continue to improve the LINK strategy as a tool for increasing housing access to extremely low income households with special needs. The Coalition's experts on homelessness are available to explore ways to improve the LINK program.

Recommendation 7. Expand the Permanent Supportive Housing Pilot Projects

We suggest that an item under Priority III be added to read: "Increase funding for Permanent Supportive Housing Projects throughout the state."

Discussion. PSH is an intervention designed for persons experiencing chronic homelessness. Through PSH, chronically homeless individuals who have the highest barriers and vulnerabilities are housed and offered supportive services. In 2012, three pilot sites were selected across the state to construct a PSH community and conduct an analysis to determine the fiscal and social impact. These pilots all demonstrated that there are substantial cost savings associated with stabilizing chronically homeless individuals and families.

Ability Housing, one of the pilot project operators, published their findings in a report called "The Solution that Saves." Ability Housing proved that PSH decreased the costs of homeless services by 88%, arrests and bookings by 78%, jail costs by 89%, hospital visits by 61%, and ER visits by 73%. Across all interventions, total costs dropped from $4.9 million prior to housing to $2.4 million after the housing intervention. These numbers are similar in the two other pilots. Item F under Priority III of the 2014 Plan was proven correct by FHFC's pilot program– PSH does result in public cost savings. Therefore, we suggest that FHFC expand on the findings in the Pilot and increase funding for PSH projects throughout the state.

Finally, there are many facets of ending homelessness work that FHFC can explore that may not directly be stated in the Strategic Plan. For example, partnerships with health care systems and hospitals that provide services for persons experiencing homelessness can help FHFC target funding to support the development of units earmarked for high utilizers of emergency rooms and costly crisis services. A working relationship with school districts and the Department of Education can help solve the crisis of homelessness among students in the public school system. The Florida Housing Coalition is available as a resource in developing partnerships that can effectively deploy state resources to end homelessness.

Conclusion

The Florida Housing Coalition thanks the Florida Housing Finance Corporation for accepting comments as part of its Strategic Planning process. We hope these comments are helpful.

Sincerely,

Kody Glazer

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