



THE AFFORDABLE HOUSING STUDY COMMISSION

**Meeting Summary  
October 15<sup>th</sup> and 16<sup>th</sup>, 2008  
Tampa, FL**

Commissioners Attending:

Oscar Anderson(Chair), Jeff Bagwell, Ann Kashmer, George Romagnoli, Kristin Larsen, Dorothy Ellington, Darlene Pifalo, Lelia Allen, Maria Barcus, Santos De La Rosa, Annetta Jenkins, Sharon Jenkins-Owen, Charles Milsted, Shannon Nazworth, Manny Pumariega, Gregg Truxton, Thomas Smith, Paul Curtis, Lloyd Boggio, Ellen Ramsey

Commission Staff:

Odetta MacLeish-White

Presenters:

Steve Auger, Florida Housing Finance Corporation; Ben Manning, Gulfstream-Atlantic, Inc.; Michael Cox, Biscayne Housing Group; Timothy Wheat, Pinnacle Housing Group; Sister Cathy Buster, Catholic Charities Housing; Jack Humburg, Boley Centers; Earl Pfeiffer, Florida Home Partnership, Inc.; Barbara Inman, Pinellas County Habitat for Humanity; Valerie Hendriex, Wachovia Community Development Lending; Reginald Fenn, Bank of America Community Development Lending; Nelson Black, Florida Community Loan Fund Senior Loan Officer

Public Attending:

Terry Chelikowsky, Florida Association of Community Development Corporations; Joy Beaton, Florida Community Loan Fund; Ryan Thompson, University of Florida; Jon Beck, University of Florida; Bill O'Dell, Shimberg Center; Ernest Barefield, Plant City CDC; Machel Maner, Wachovia Community Development Lending; Lisa Lombardi, Florida Association of Mortgage Brokers West Coast Chapter

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**October 15<sup>th</sup>, 2008**

The Commission meeting was called to order at 11:05 by Chairman Anderson with a welcome to the Commissioners and members of the public. Steve Auger, Executive Director of Florida Housing Finance Corporation (Florida Housing) addressed the Commission about the Universal Application Cycle (UAC) and trends in nonprofit participation in the UAC.

Prior to 2001, applications could be penalized for errors such as typos and scrivener's errors. The 2002 UAC was the first that included all funding programs and attempted to focus scoring on finding strong applications and not just the applications that were filled out properly. The 2002 UAC had a homeless set aside for 9% tax credits but there wasn't a strong group of nonprofits to access the set aside.

From 2002 to 2008, the top score possible was a 68 with certain threshold items that had to be in place as of the application deadline. Other items could be corrected. This approach was meant to encourage scores based on substance. Allowing cures meant there would be more tied scores and a need for tie breakers. Three tie breakers have been developed:

1. leveraging – is the applicant getting more matching funds with Florida Housing’s resource;
2. proximity – new developments receive more points the further away they are from existing developments (to prevent developments from “cannibalizing” each other) and can receive points for being close to community resources such as banks, hospitals, schools, parks, grocery stores (to prevent sprawl); and
3. lottery – the last resort tie breaker.

The Rule Development Workshops have been a dialogue to share possible changes to each year’s UAC and receive feedback from the development community. This provides an important mechanism for examining Florida Housing’s changes and result in changes to scoring or ranking methods before that year’s UAC opens.

In 2004-2006, even before the historic hurricane season, construction costs began to rise and then the hurricanes made labor and materials even more difficult to find. During this time the condo conversion boom further fueled high land costs, and insurance costs skyrocketed after the hurricanes. Between 2002 and 2006, there was a 33% drop in the number of applications submitted and the average number of set aside units dropped from 176 to 105. A sign of the increased amount of subsidy needed per unit is the drop in the number of units funded. In 2006, over 7700 units were funded through the UAC. In 2007 this number dropped to just over 6500 and in 2008 this number was less than 5000.

Starting in 2007, after the housing market settled back down and a couple of quiet hurricane seasons, Florida Housing found itself grappling with another trend: the 2007 UAC received 187 applications, the highest number ever. In the 2008 UAC, that number rose to 282, a 50% increase over 2007. Of this 282, 176 were tax credit applications. However, about 1/3 of the developments were withdrawn when lottery numbers were released. Rural and homeless set asides are chronically undersubscribed and it is unlikely for profit developers will try to do deals targeted at these populations. By contrast, the 9% competitive housing credits are consistently oversubscribed every year.

For the 2009 UAC, Florida Housing wants a system that is accessible to small for profit and to nonprofit developers. Florida Housing also wants to see a smaller number of higher quality applications submitted by the deadline – not shell applications that meet threshold requirements and then rely on the cure period to fill in the blanks. Some ideas on the table at the time of this meeting include requiring certain forms to be complete at application deadline:

- Availability of infrastructure;
- Zoning;
- Site plan approvals;
- Environmental assessments.

Also considering a scoring process that would prioritize the top 3 applications from a single developer.

Florida Housing sees a number of joint venture structures with nonprofits and for profits:

- 1) New nonprofits need to joint venture with a more experienced developer to meet the UAC experience requirement;

- 2) Nonprofits with experience serving a population in one of the UAC set asides will partner with a for profit to provide services while the for profit handles the construction side of the deal; and
- 3) One time deals in which the nonprofit is looking to do one development and not become a repeat developer.

Annetta Jenkins noted that nonprofits face some insurmountable issues when engaging the UAC process:

- Most nonprofits do not have the luxury of geographic diversity when looking for land to buy (they are tied to a specific geographic service area);
- It is very hard to secure predevelopment financing that will carry a deal for 2 to 3 years;
- Soft cost funding sources are not aligned with Florida Housing's timelines.

Maria Barcus pointed out that the lack of predictability in funding from the 9% tax credit program is another challenge facing nonprofits. Nonprofits have to develop staying power to wait out funding cycles which means they must be able to maintain site control and have low carrying costs for their land.

Ellen Ramsey asked if other states use their resources for nonprofit operational costs. According to Steve Auger there some states doing this and Nancy Muller pointed out that federal money used to be available for operational costs but is now going to address more difficult, chronic homeless housing.

### **Joint Venture Partnerships Panel**

- Tim Wheat: Pinnacle Housing Group sustains relationships with public housing authorities and with nonprofits around the state.
- Michael Cox: Biscayne Housing Group formed in 2004 by a developer who started at a nonprofit and has developed 12 properties all with nonprofit partners.
- Ben Manning: Gulfstream-Atlantic is new to Florida but has 1000 units across 8 states including Louisiana, Michigan, Nevada, California and New Mexico.

#### *What roles do nonprofits play in your joint ventures?*

Nonprofit partners should play to their strengths in joint ventures. Public housing authorities can bring land to a deal, traditional nonprofits bring community contacts and representation, as well as access to land and grant funding. It is important that legal agreements between nonprofits and for profits in a joint venture clearly spell out the allocation of duties and risks between the partners. Ideally, the nonprofit should be learning the development process which means including them in all decisions.

#### *What role do nonprofits play in securing soft money for the deals?*

This is where nonprofits can play perhaps the most active role in the partnership, and the for profit partner will be trusting the nonprofit to secure grant or low interest funding from local government or federal sources.

#### *What are some of the tensions in partnerships with nonprofits?*

The first and most important issue in building a successful partnership is building trust between the parties. A for profit partner should encourage representatives from the nonprofit to attend conferences and workshops to increase their understanding of the development process and affordable housing funding programs. Nonprofits can be hampered by their own bureaucracy

and internal dysfunctions. Sometimes the staff or board members are impatient with the rules and regulations that govern affordable housing funding programs. Lack of engagement can also create deep tensions in a partnership and is usually the root of a failed relationship. Nonprofit partners must be kept updated, involved and participating in the decisions and application processes. It is important to be clear about what the for profit partner brings to the table and what is outside the for profit's realm of control.

*What changes could the Study Commission recommend to make Florida's process friendlier?*

Other states have very strict regulations to ensure nonprofits are being fully engaged in the development process and are playing the best roles for them which include being the eyes, ears and legs of the partnership in the community and to local government. It is important to keep the expectations of expertise high – nonprofits can learn to do these deals well and should be expected to do so. The Predevelopment Loan Program is an example of a funding program that combines money with technical assistance. Nonprofits are the best organizations to help a household move from a rental situation into home ownership and incentives should be created that play to this strength. For example, the 50 year affordability set aside should be re-examined to allow an earlier opt out for nonprofits that want to move the units from rental to homeownership.

*Who initiates the partnership and how do you decide with whom to work?*

Michael Cox shared that his organization reaches out to nonprofits but is also approached by nonprofits. Ben Manning has outreached to nonprofits more often than having a nonprofit approach him for a partnership. Tim Wheat's organization reaches out to nonprofits and often starts joint venture relationships with the nonprofits providing social services to a development. All of the panelists felt that a clear development agreement was crucial to the success of the partnership because it clearly outlines responsibilities and roles and can help to manage everyone's expectations about what each party can and should do.

In deciding with whom to work, it is important to look at the nonprofit's internal organization and board structure as well as the balance sheet if the nonprofit wants to be a co-owner or co-developer. Groups like Enterprise Foundation can be brought in to do due diligence on the parties and determine if there is capacity to deliver promised results.

*What does a nonprofit need to do or be to make them attractive as a joint venture partner?*

It is important for a nonprofit to understand the financial risks being taken by the for profit partner. Some nonprofits demand payments from developer fee or cash flow that may be out of proportion with their financial risks. A strong nonprofit partner will have some combination of the following attributes:

- 1) Own land or know how to get land donated from local government;
- 2) Ability to secure gap financing through grants or other low interest sources;
- 3) Be a respected advocate in the community to represent the partnership to the larger community, the local government and navigate local politics to the benefit of the development;
- 4) Understand, or be willing to learn about, the affordable housing industry and funding programs; and
- 5) Some expertise in serving a specific population.

- Jack Humburg: Boley Centers, which has been serving mentally ill persons since 1970
- Sister Cathy Buster: Catholic Charities, which has developed over 400 units of Section 202 housing and housing for single mothers
- Earl Pfeiffer: Florida Home Partnership, Inc. which specializes in creating home ownership opportunities through self help housing programs
- Barbara Inman: Pinellas County Habitat for Humanity which has built 155 homes in 5 years and is now moving into developing subdivisions

*What are the challenges for a nonprofit developing affordable housing?*

Financing is the number one hurdle to nonprofit affordable housing developers. Finding enough appropriately zoned land is also an obstacle – rezoning property in built out areas can take a long time and often triggers intense NIMBY-ism. Finally, funding affordable housing developments requires layering multiple funding sources each of which has its own requirements and timelines and monitoring. Nonprofits also have a steep learning curve when competing with for profits for local government funding and then have to hold onto to funding through other program cycles. Mr. Pfeiffer’s self help housing model receives operational funds from the US Dept. of Agriculture but faces challenges with Florida’s down payment assistance programs running out of funds very quickly.

*What recommendations should the Study Commission make to increase the effectiveness of nonprofit affordable housing developers?*

A little more flexibility in the rents that can be charged in rental developments could help nonprofit owners earn more cash flow. Mr. Humburg noted that nonprofits are often trying to house the poorest people and have to build a pro forma on this scant income while denied much or any profit by HUD programs. Florida Housing should continue the Catalyst program. Peer to peer counseling and support for nonprofit/nonprofit partnerships could help build capacity as more experienced nonprofits help less experienced nonprofits to learn the process. Mr. Pfeiffer commented that nonprofits would benefit from training in financial management, such as building reserves. Standardizing reports to various funding programs that ask for the same information could help reduce paper work for nonprofits with small staff.

*How much federal funding has your organization received?*

The Boley Centers receives Section 811 funds which come with project based rental assistance. Mr. Pfeiffer’s Florida Home Partnership relies heavily on federal funds in its budget from programs such as CDBG, HOME, USDA down payment assistance and SHOP dollars. For Pinellas County Habitat for Humanity federal dollars make up 10-20% of the annual budget. All the panelists noted that federal dollars can help a nonprofit to build a development but there is no operational funding available.

*Would you partner with a for profit developer?*

Ms. Inman shared a positive experience with a for profit builder who completed a house for them in 5 days and helped them to streamline their construction process and reduce costs. Mr. Pfeiffer uses private vendors to supply his construction needs and as long as his organization is not being used merely for its 501c3 status, he would work with a for profit developer. Mr. Humburg would work with a for profit developer as long as they respected Boley Center’s mission and strengthened them financially.

**Public Comment**

*Ernest Barefield, Plant City Community Development Corporation:* Plant City CDC is a new nonprofit doing infill deals. He received mentoring from Mr. Pfeiffer. As a new CDC, the greatest barrier has been not having guidance or training for his CDC to do multifamily deals. The Commission encouraged him to contact the Catalyst program.

*Terry Chelikowsky, Florida Association of CDCs:* Ms. Chelikowsky reported that the nonprofit and CDC representatives attending the Stakeholders Breakfast enjoyed the opportunity to share their experiences and observations with the Study Commission. She also reported that the FLACDC now has a report analyzing the 2005-2007 UAC and how nonprofits have fared during these cycles. Recommendations from this report include:

- Cap the number of applications a for profit developer can submit
- Create incentives for nonprofit applications
- Increase the minimum nonprofit set aside of 9% tax credits
- Establish a separate lottery for nonprofit applications.

*Joy Beaton, Florida Community Loan Fund:* the Florida Community Loan Fund has been a Community Development Financial Institution since 1994 and, as such, as been lending to nonprofit developers. FCLF provides gap financing that bridges government lenders and private funds. Florida's nonprofits need a system of capital flow in which all programs work well together.

Meeting recessed at 4:45pm

**October 16<sup>th</sup>, 2008**

Meeting reconvened at 8:45am.

### **Funders Panel**

- Nelson Black, Senior Lender, Florida Community Loan Fund: FCLF lends only to nonprofits doing community development work. There are 140 loans out now totaling \$130 million and leveraging \$170 million.
- Reginald Fenn, Bank of America Community Development Lending: Bank of America has been lending for affordable housing developments since 1997 and in Florida has invested \$10 billion in direct lending and equity investments. Charitable giving to universities and nonprofits in Florida totals \$14 million.
- Valerie Hendriex, Wachovia Community Development Lending: Wachovia has loaned \$7 billion in Florida in direct lending and equity investments.

### What criteria do you use when funding a nonprofit?

The panelists agreed that they use the same criteria when judging a nonprofit or a for profit, since affordable housing development is, at its core, a real estate transaction. There are, however, some unique attributes of nonprofits that should be in place.

All organizations should show:

- Positive track record in development
- Updated business plan
- Clear community development plan
- Plans to address weaknesses in the organization
- Strong financial standing
- Ability of staff to execute their roles

- Willingness to take some risks

Attributes unique to nonprofits include:

- Provision of social services
- Access to public subsidies and/or grants
- Connections to local government and community organizations
- Access to free or low cost land

There is a direct correlation between the amount of 9% tax credit available to nonprofits and the number of nonprofits that become rental affordable housing developers. If nonprofits could build up their reserves, it would counterbalance the lack of personal guarantees. As a lender, they each ask if the nonprofit is taking on a deal that is appropriate in scope and scale to their financial wherewithal and experience level.

*How are your underwriting criteria different between for profits and nonprofits?*

There are some intangibles that go into making the decision to lend to a nonprofit but there is no difference in the underwriting criteria between for profits and nonprofits. It is important that a nonprofit stay within its realm of expertise and venture carefully into areas where it has little or no experience. This can happen when a nonprofit is left to manage a property and the staff has no experience with asset management.

*How closely do you look at a partnership's development agreement or memorandum of understanding?*

If a bank is looking to become a long term partner in a joint venture between a nonprofit and for profit, it is important to look at the strength of each partner and make sure they are filling a role that fits strengths. Banks are not likely to review a development agreement and then pass a judgment on whether the nonprofit is being taken advantage of. Technical assistance should be provided that teaches nonprofits how to protect their interest in a development agreement. Mr. Black noted that for profits and nonprofits have very different motivations when entering into a development agreement but the best partnerships will be based on a clear statement by each side of their shared values and the desire to create a relationship that can be repeated.

Joint ventures should be regarded as a tool for learning and gaining meaningful experience – this means sharing as many resources as possible (staff, office space, attending the same meetings, repeat projects). Intermediaries, such as LISC, can provide some facilitation and guidance between the parties.

*What are the attributes of a successful joint venture and why are nonprofits stronger in other states?*

A strong joint venture is characterized by clear expectations and a clear understanding of the division of roles and responsibilities. Moreover, there is usually a kind of mutual attraction which arises naturally because the values of each partner complement each other.

Nonprofits in other states have benefited from a long term commitment by state and local government to the very presence of nonprofits, and then further support as these nonprofits learned how to be developers. These nonprofits had the chance to try and fail and try again with ongoing operating support. This kind of patience does not exist today.

Lloyd Boggio pointed out that cities with strong nonprofit developers such as Boston, New York City and Chicago have provided operational funding to nonprofits over a long period of time which has given those nonprofits predictable resources to work with.

### **Next Steps**

After a lengthy discussion about how the Study Commission can best provide input into the Universal Application Cycle, in response to the requests for action at the Stakeholders Breakfast, the staff director was charged to draft a letter for review by the Chairperson and other members of the Commission to be submitted in time for the Florida Housing's next Rule Development Workshop.

The Commission divided into two workgroups to further examine:

- 1) nonprofit/for profit joint ventures; and
- 2) the Catalyst and Predevelopment Loan Programs.

These workgroups will hold at least one conference call before the January meeting and report out their findings at the January meeting.

The staff director was also charged with bringing to the January meeting:

- 1) a draft outline of the 2009 final report;
- 2) a panel of local government representatives;
- 3) testimony on capacity building strategies in other states; and
- 4) testimony about statewide development entities.

Meeting adjourned at 12:15pm.