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FLORIDA HOUSING FINANCE CORPORATION

June 1, 2007

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

Dear Steve,

The fairness and equity of the Universal Funding Cycle as it relates to Applications applying for SAIL to be utilized with tax exempt bonds ("SAIL") is predicated upon a key assumption: the applicant being truthful and accurate (to the best of his/her knowledge). We believe that the truthfulness and accuracy of applications should not be outrageously distorted by providing extremely inflated total development costs purely as an attempt to "game the system" that the Corporation has put in place.

As you are aware, one of the tie-breakers that are used to determine SAIL funding between two identically scoring applicants, is SAIL as a percentage of total development cost (the "SAIL Percentage"). The not-to-exceed SAIL amount, the numerator, is determined by the Rule, however the denominator, the other portion of the fraction, is provided by the Applicant.

As required by the Florida Statutes Section 420.5087 (c)(9) and (10):

the Corporation ... shall establish by rule a scoring system for evaluation and competitive ranking of applications submitted in this program including, but not limited to, the following criteria 9) Project feasibility, 10) Economic viability of the project".

Moreover, the Corporation's Application requires:

the Application to execute a Certification under penalty of perjury that "the information [contained in this Application] is true, correct and complete."

Accordingly, the existence of the Certification makes it a threshold requirement that an Applicant truthfully believes that the total development costs stated in the Application are the reasonably anticipated cost of the development and that the Applicant is prepared to develop the property at the stated costs.

The Corporation has the power and should enforce sanctions against applicants who intentionally inflate total development costs to reduce their SAIL Percentage, otherwise such applicants will gain an unfair advantage over other applicants who play by the rules. The stakes are indeed high since the integrity of the Universal Funding Cycle process is at risk and applicants in good faith

expend significant dollars (in some cases even purchasing sites) and devote considerable staff time in preparing applications based on a belief in the integrity of the process.

In order to not reward the behavior of an applicant certifying unreasonably inflated total development costs and to satisfy the Corporation's requirements under the Statute, the Corporation has the power to, and should, do one or more of three suggested actions:

1. Reject the Application Outright

Reject the Application outright if the Applicant's Certification is, on its face, so inflated and not truthful based on the developer's past and current underwriting history for similar transactions and/or the total development costs of other applications submitted for similar projects in the same county for the same year. In addition, the Application should be rejected if a developer has submitted numerous applications in which the total development costs have been grossly inflated, beyond any reasonable point.

Commentary: The Corporation has the tools to make this determination because it retains third party credit underwriters who are constantly underwriting applications for SAIL and who have likely completed underwriting for similar projects in a county or similar adjacent counties (perhaps for even the same Applicant), recently or within the recent past.

2. Replace the Applicant if After Credit Underwriting the Applicant Does Not Have the Lowest SAIL Percentage

If at the time of credit underwriting the Applicant's total development costs decrease and if the Applicant's resulting new SAIL Percentage is higher than the next lowest SAIL Percentage, the Applicant's SAIL funding should be tolled until the Corporation completes credit underwriting for the next Applicant in line for funding. If that next Applicant's SAIL Percentage is lower than the first Applicant, the next Applicant should receive SAIL. As an alternative to this step by step process and because the number of applications which will actually be part of the SAIL Percentage tiebreaker competition is likely to be limited, the Corporation could simultaneously credit underwrite each of the applications in the SAIL Percentage competition and the Application with the lowest SAIL Percentage would receive the SAIL.

Commentary: An Applicant should not receive SAIL based upon the certification of inflated total developments costs but only if after actually determining the true SAIL Percentage by credit underwriting the transaction.

3. Eliminate or Reduce the SAIL Funding if After Credit Underwriting the Total Development Costs Have Been Lowered by More Than a "Safe Harbor" Percentage

If at the time of credit underwriting the Applicant's total development costs decrease by more than a certain "Safe Harbor" percentage (to be established by the Corporation such as somewhere between 10% to 15%), the Corporation should disqualify the Applicant or, at a minimum, penalize the Applicant by reducing the SAIL amount by a percentage (say 40%) of the decline in total development costs between the amount certified and the amount underwritten. The Corporation has this power since it is only logical that if the total development costs decline the Corporation has the right to reduce the SAIL as a source. The amount of SAIL saved could then be used to fund the next application in line.

Commentary: This penalty is justified and, as noted above, the Corporation certainly has the power to reduce the SAIL amount as a source if the total development costs decline by a substantial amount. This policy would also serve as a deterrent against the certification of excessive development costs when applying for SAIL as well as enabling more SAIL for other Applications.

Set forth below are some hypothetical examples demonstrating how these remedies would operate:

Example 1

Application A (whose Applicant has also filed numerous other applications with inflated development costs for SAIL) certifies that in County X it will expend \$220,000 per unit in total development costs for a 120 unit garden style apartment complex. Application A has an initial SAIL Percentage of 18.99%.

Application B certifies that in County X it will expend \$150,000 per unit in total development costs for a 150 unit garden style apartment complex. Application B has an initial SAIL Percentage of 22.22%.

Applications C through F certify that in County X they will expend in total development costs between \$135,000 and \$150,000 per unit for garden style apartment complexes of varying unit sizes between 90 and 140 units. Applications C through F have SAIL Percentages exceeding 25.00%.

The underwriters for the state in the recent past approved total development costs for garden style apartments in County X and a similar adjacent County Y between \$125,000 and \$145,000 per unit.

All Applications seek \$5,000,000 in SAIL Funding.

Remedy: Application A should be rejected on its face as its Certification untruthfully inflated its total development costs. Applicant A abused the process by filing numerous other Applications with unreasonably inflated development costs and Application A should be rejected for this reason as well.

Example 2

Same facts as Example 1 but Application A is credit underwritten at a total development cost of \$150,000 per unit. It's SAIL percentage increases to 27.87%. Application B goes to credit underwriting and its total development costs are approved at the same amount as in its Application. Application B's SAIL Percentage stays at 22.22%.

Remedy: Application B is awarded the SAIL Funding and not Application A.

Example 3(a)

Same facts as Example 1 but, after credit underwriting, Application A's total development costs per unit are approved at \$150,000. The Corporation's "Safe Harbor" allowable percentage difference is set at 15% of total development costs so Application A does not qualify for the Safe Harbor percentage protection.

Remedy: Application A is disqualified for not satisfying the “Safe Harbor” percentage.

Example 3(b)

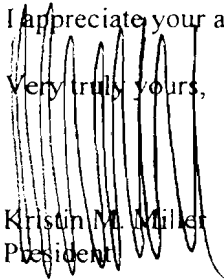
Same facts as Example 3(a) but the Corporation establishes a policy that an Application will not be rejected for failing the “Safe Harbor” test but will be subjected to a 40% penalty of the amount of decrease in it’s total development costs as credit underwritten.

Remedy: Application A’s SAIL Funding is decreased by 40% of the total development costs difference of \$70,000 per unit, so the decrease of \$28,000 per unit is multiplied by 120 units. Application A’s SAIL Funding is decreased by \$3,360,000 to a sum of \$1,640,000. The \$3,360,000 decrease is awarded to Application B.

In conclusion, as required by the Florida Statutes Section 4205087(c)(9) and (10) “The Corporation shall establish by rule a scoring system for evaluation and competition ranking of applications submitted”. It is imperative that the Corporation not permit the gaming of the system and hold the applicant to the truthfulness of what is contained in the application. The Corporation not only has the power but should take action to uphold the fairness and equity of the Universal Funding Cycle. By suggesting three courses of action we are in no way also suggesting that the Corporation does not have the power to take other or additional action to insure the fairness and equity of the process.

I appreciate your attention to this matter and look forward to hearing from you.

Very truly yours,



Kristin M. Miller
President

Cc: Vicki Robinson