



THE AFFORDABLE HOUSING STUDY COMMISSION
Dedicated to Promoting Affordable Housing in Florida Since 1986

**Affordable Housing Study Commission
Meeting Summary
April 5 and 6, 2006
Ft. Lauderdale, FL**

Commissioners Attending:

Helen Feinberg (Chair), Gus Dominguez, Jill Collins, Michael Davis, Robert Gregg, Priscilla Howard, Ann Kashmer, Darlene Pifalo, George Romagnoli, Santos De La Rosa, Jane Johnson, Joe Campus, Robin Lunn, Sharon Jenkins-Owen, Ellen Ramsey, Lloyd Boggio, Paul Curtis

Staff:

Odetta MacLeish-White, Nancy Muller

Ad Hoc Workgroup Members Attending:

Doug McCree

Public Attending:

Patricia Roset-Zuppa, Shimberg Center; Tom Flynn, Council for Affordable and Rural Housing, Lee Hillier

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April 5, 2006

The Finance Workgroup convened its session at 11:30am.

Bridge Loan Discussion

A bridge loan program is needed for the following reasons:

- Market rate bridge loans are expensive and add to the expense of a preservation transaction
- A bridge loan helps preserving entities to obtain control of a property quickly
- Without a bridge loan, preservation transactions that might have taken place will not happen.

Commissioner Dominguez described Greater Miami Neighborhood's (GMN) arrangement with Bank of America under which the bank loaned 85% of the post-rehabilitation value of the property. The remaining 15% of the property's value was sought from a national intermediary, such as National Housing Trust, which took a second mortgage. This bridge loan was for two years with an extension of 1 year, if needed. Developer fee was paid from the permanent financing, and rehabilitation was done around the residents to maintain the operating income of the property. Permanent financing was usually tax-exempt bonds, Miami-Dade surtax, housing credits.

Commissioner Dominguez noted that in a market of vigorous condo conversions, non profits and other preserving entities can't compete with the much higher acquisition price and keep the rents affordable.

Key Issues in Using a Preservation Bridge Loan

1. Rehabilitation needs have to be known up front so physical needs assessments must be carried out.
2. The bridge loan should be flexible enough to use for both acquisition and rehabilitation.
3. Typically, the permanent financing and any additional subsidy will be used for all or the majority of a property's rehabilitation needs. However, some lenders may insist on including money in the bridge loan to address life and safety issues.
4. A bridge loan also needs to be "nimble", meaning it can be obtained in a short period of time.

First Housing Preservation Bridge Loan Pool

Based on First Housing's Lending Pool. To create a \$25 million bridge loan pool, request First Housing's lending partners pool to contribute \$10 million dollars, with Florida Housing leveraging an equal amount. National groups such as the MacArthur Foundation, LISC, National Housing Trust, the Enterprise Foundation could be approached for the remaining \$5 million.

The first mortgage position would be held by a bank or First Housing traditional lending pool. The Bridge Loan Pool would take second mortgage position, with other funding sources taking third positions. As a second mortgage holder, the Bridge Loan Pool acts as mezzanine debt.

To maintain efficiency and speed, a single group should conduct the underwriting process, but the underwriting criteria would have to be agreeable to all groups putting money in to the pool.

Creating a Bridge Loan for Riskier Preservation Deals Using Predevelopment Loan Program

The Preservation Bridge Loan Pool described above may be unwilling to underwrite a less experienced owner/developer. Therefore, the Finance Workgroup also discussed a recommendation to bifurcate the Predevelopment Loan Program. Commissioner Dominguez noted that preservation transactions for smaller properties are often more difficult to conclude, and we should not assume that a less experienced owner should try to do these kinds of deals. The Workgroup also agreed that the PLP maximum of \$500,000 can service a preservation transaction, especially if the PLP takes a high risk position which would attract banks and other funding institutions to make larger contributions to the overall transaction cost.

Issues in connection with using some form of the PLP include:

- Review current PLP statute and Rules
- Research PLP's ability to take a first mortgage position
- Review process for using PLP funds
- Underwriting in the PLP program would have to include the partnership

Preservation Holding Entity

The Finance Workgroup discussed the creation of an intermediary owner that would purchase at risk properties and then sell them to preserving entities. Doug McCree shared that First Housing could develop a subsidiary community development corporation that would move at the last minute to purchase at risk property that would otherwise convert to market rate or condo. Nancy Muller shared that her vision of this entity included the provision of technical assistance, and

Commissioner Dominguez shared that when Greater Miami Neighborhoods offered this kind of assistance, it was unable to obtain the operating funds needed to support this work. Adding this component to the holding entity idea would mean guaranteeing operating funds.

Ultimately, the Workgroup decided not to pursue a recommendation for a preservation holding entity.

Prioritizing use of state funding and the types of properties that are most in need of state funding

The Finance Workgroup then discussed briefly how state funding might be prioritized with federal funding to execute preservation transactions.

The first part of the discussion focused on trying to answer the question, What criteria should be used to evaluate if a property needs state funding in addition to any applicable federal preservation programs? The Workgroup reviewed information prepared by staff on the rehabilitation criteria used by the North Carolina and Minnesota Housing Finance Authorities. It was decided that Minnesota's criteria are too subjective to be used in the context of Florida's application process, which requires a high level of objectivity. North Carolina's criteria are more objective but the Commission doesn't have the time left in the study year to replicate that level of detail.

The Workgroup also discussed the fact that to really prioritize funding for preservation, Florida Housing would have to create a preservation target, and criteria for tie breakers within that target could be offered by the Commission. In this scenario, tie-breakers might include priority for the rehabilitation application that includes the largest number of subsidized units, looking at a cost/benefit analysis.

Doug McCree explained which federal programs are compatible with state funding programs. 9% housing credits are least compatible because it takes a long time for both programs to be completed, and this makes it difficult to place the property in service according to federal rules. The most restrictive program will govern in terms of rent or income restrictions. Finally, in connection with properties receiving Section 8 rental assistance, most of the properties in Florida that were eligible and able to take advantage of federal preservation programs have done so, leaving the truly challenged and problematic properties for any programs the Commission might propose.

Other Finance Workgroup Items

Ms. Feinberg asked for the Workgroup's response to the following:

- 1) Expanding Florida Housing's existing 202 RFP to include rehabilitating developments with project based rental assistance. The Workgroup noted that an expanded program would have to specify that different types of properties will need varying levels of HOME funds and be flexible enough to allow owners to use funding for a variety of physical needs.
- 2) Florida Housing is now requiring extended SAIL loans be paid as amortized hard loans, rather than soft second pay loans. Commissioner Boggio noted that this creates an incentive to leave the SAIL program, and unintentionally creates an incentive for new construction. Doug McCree noted that this also moves those owners who can go to market to do so.

The Capacity Workgroup convened its session at 1:00pm

Notice Statute

The Capacity Workgroup proposed the following key edits to the current draft language:

- Change length of notice to 18 months
- Clarify right of first refusal language for Tenant Association
- This statute should be prospective in nature, meaning if passed it would apply only to new developments

After lengthy discussion about whether or not this statute could apply to the federal programs currently identified in the draft statute, the Commission referred back to its 2004 recommendation for a notice statute which stated that a notice statute should apply to the programs directly administered by the state. Staff was directed to conform the language of the statute to match the 2004 recommendation.

Risk Analysis

The Capacity Workgroup also gave its proposals for a risk analysis tool. The foundation of a risk analysis tool is to fill knowledge gaps, both within Florida Housing and in the public sector. Florida Housing should create at least two databases, one for Florida Housing's portfolio and the other for HUD funded properties. A third database for for USDA Rural Development properties could also be developed.

All properties in Florida Housing's portfolio should submit data including:

- Timeliness of loan payments
- Age and condition of property
- Vacancy rate
- Any use agreements on the property
- Where is gentrification occurring (filling, booming, converting)?

Information on HUD properties can be found in REAC scores. Reports from these databases could also be used to regularly update Florida Housing's board of directors.

Legislative Update

Nancy Muller, Policy Director for Florida Housing, shared a legislative update with the Commission. Ms. Muller noted that with 4 weeks remaining in the legislative session, neither the House nor Senate has passed a housing bill. The 2 main bills at this time are HB 1363 and SB 132. These bills are becoming the home for the variety of housing bills that are being proposed, and both remove the funding cap on the Housing Trust Fund. The Governor's Office is also interested in created a significant Hurricane Reserves, and there is some debate on whether to fund this all at once or build it up gradually.

Meeting adjourned at 6:00 pm.

February 23, 2006

Meeting convened at 8:45 am.

Public Comment

Lee Hillier spoke during public comment on the need to enforce land use policies as they are expressed in comprehensive plans. Mr. Hiller encouraged the Commission to recommend the enforcement of comprehensive plan strategies and goals for affordable housing, and to explore non-traditional housing designs and communities as a mechanism for promoting affordable housing.

Review of 2006 Final Report Draft Table of Contents

The Study Commission reviewed staff's draft table of contents for the 2006 Final Report. Commissioners will help staff review all the federal programs, and outline how they work with state funding programs. The condo conversion recommendation and information may not need to be the first chapter of the report, and might not need an entire chapter. Staff should also include rising insurance costs and operating costs as a preservation pressure. Commissioner Johnson also pointed out that the devolution of housing responsibility to the states and the uncertainty of funding federal programs puts more responsibility on the states to have responsive funding programs.

Review of Draft Condominium Conversion Recommendation Language

Staff accepted staff's draft condo conversion recommendation language as a starting point. In addition to the considerations laid out in the draft recommendation, the Commissioners also recommend Florida Housing's board consider the following issues:

- Characteristics of the residents being moved
- What income levels will be served by any home ownership opportunities?
- Are there other affordable housing opportunities for residents?

2006-2007 Study Year Topics

Nancy Muller presented Steve Auger's letter dated April 5, 2006 in which he recommends the Study Commission consider how innovative local land use strategies may augment funding to provide communities with increased capacity to provide affordable housing.

Each commissioner present then presented his or her ideas for the 2006-2007 study topic. While no vote was taken, the emerging consensus was to take up Mr. Auger's recommendation with the following additional elements:

- Consider expanding the scope to innovative local strategies, rather than focusing on land use strategies.
- Review of inclusionary zoning and community land trusts.
- Examine impediments to innovative local strategies.
- Consider how the state can educate and support local governments in providing affordable housing.

The meeting was adjourned at noon.