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

Re: Comments of 2008 Universal Cycle—Cures and Leveraging

Dear Mr. Auger:

Thank you for the opportunity to comment on the 2008 Combined Cycle.

Even with good ideas, there are unintended consequences. Unfortunately, the unintended consequence of two decisions made by FHFC has had significant negative impacts on the programs.

1. Liberal cures combined with system that produces perfect scores for most applicants has lead to the buying of lottery tickets by the few developers who can swamp the system with a multitude of applications.
2. Removing leveraging as a scoring factor has lead to a massive and unwarranted increase in alleged costs.

The following is a comment made in November 2000:

“The proposed cure period will lead to a multitude of ties. The proposed tiebreaker is a lottery. The combination of the liberal cure/supplement period combined with the lottery will simply reward the largest developers who can expend the resources to control the most sites and submit the most applications. Certain developers have already demonstrated in the lotteries associated with multi-county bond pools that the “name of the game” is getting the most lottery tickets in the drawing. The lottery is patently unfair to the small and non-profit developers who develop one property every 1-2 years; they will have one lottery ticket and the larger developers could have 15-25.”

Unfortunately, this prediction has come to pass. The current system is not the “level playing field” so touted by Florida Housing, and is instead heavily biased towards the few developers who have the resources to tie up a multitude of sites.

This is not only unfair, it is dangerous for the housing production system to become concentrated in the hands of a few developers. A healthy system would have developers of all sizes competing for resources without an advantage based upon who can tie up the most sites. Specific recommendations to change this system include:

- Require complete applications at the application deadline. At some time an application must be complete—why not make that time the day the applications are due? This would eliminate shell applications. Under the current system, the real application deadline is the cure date, not the application due date. This system de facto provides lottery results to applicants in advance of the real application deadline, allowing them to “buy” lottery numbers in advance, and then submit complete applications only for winning numbers. While cures of minor errors and inconsistencies found in the application should be retained, wholesale provision of entire documents after the deadline should be eliminated.
- Limit to five the number of applications that any one developer can place in the first round of the lottery. This would still provide some advantage to larger developers, but would not so overwhelm the lottery so as to make the mid-size or smaller developer’s chances of winning overwhelmingly remote. Florida Housing has a workable definition of “financial beneficiary” (that was vetted over time), so it is not that difficult to prevent applications disguised as coming from another developer.
- Reinstate the meaningful tiebreaker status to local government contributions. At one time, the level of contribution required to obtain maximum points was difficult, and provided a meaningful differentiation between applications. The current level of contribution is so small as to become essentially a non-factor. At the last workshop, one audience member said that local government contributions were based upon contributions to local campaigns—there was absolutely no evidence that this was true. Good developers who built and managed properties that local officials found to be an asset to the community generally received the local government money over developers who did not make the same positive impression. The only downside to the system was that it was hard, causing some developers to resort to phony contributions—and this does require a thoughtful NOPSE and Florida Housing staff review to prevent these from sneaking through the system.
- Reinstate leveraging as a tiebreaker. Developments should be compared only to like type and location—however, what is wrong with giving preference to the high-rise in Miami-Dade County that uses less Housing Credits to build the same product? Florida Housing has been inundated with developer rhetoric that leveraging leads to a

“race to the bottom”. **However, there is no evidence that the product built before reduction of leveraging to the A and B Group was of lesser quality, or that it led to deals not being built.** In fact, the returned deal problem came after leveraging was downgraded as a scoring item and was much more attributable to either the large spike in construction costs in one year or to the fact that developers could flip land for a larger profit than allowed in affordable housing programs. Conversely, the elimination of leveraging has led to an unnecessary and unwarranted increase in “costs” as is evidenced by the past two years’ applications.

- For SAIL, reject applicants who submit patently absurd total development costs to manipulate their sail as a percent of total development cost calculation.
- Create a scoring (not tiebreaker) item that measures housing credits and SAIL per set-aside unit.

Thank you for the opportunity to comment on the 2008 Combined Cycle. Please feel free to contact me with any questions.

Sincerely,

Mark Hendrickson

cc: Vicki Robinson