

Using the State Housing Initiatives Partnership (SHIP) Program to Finance Rental Housing

As a result of the recent economic recession, the homeownership rate in Florida and the nation dropped. During the foreclosure crisis, many homeowners who lost their homes turned to rental housing, and as the economy recovered and younger Floridians began to look for housing, they were more interested in renting. Understanding the increased need for affordable rental housing the Affordable Housing Workgroup looked to the SHIP Program to provide financing for this purpose.

Local governments that participate in the SHIP Program develop plans to address locally defined needs. The SHIP statute provides several broad goals that all local programs must adhere to:

- At least 65 percent of the local SHIP allocation must be used for homeownership activities;
- At least 75 percent of the local allocation must be used for construction activities; and
- Up to 10 percent may be used for local program costs.

This means that a local SHIP program can use as much as 25 percent of its allocation for rental activities, (including up to 15 percent for short term rental assistance). Note that these broad goals do not apply to SHIP program income dollars that come back to the local government (except that only five percent of program income may be used for administrative expenses). This means that for local programs in which SHIP loans are repaid, that income may be used for whatever allowable housing purpose deemed needed, without regard for the homeownership or construction goals above.

State funding for affordable housing has focused on two key programs: the State Apartment Incentive Loan (SAIL) Program, and SHIP, which has been thought of as mainly a homeownership program because the SAIL program is only for rental housing. And in fact, over the life of the SHIP program, a high percentage of its funding has been used for homeownership, sometimes approaching 90 percent, particularly in the early years of the program. The Work Group reviewed more recent uses of SHIP to see how local governments have been using the program. As the table shows, during the 3-year period from 2013 through 2015, only 32 local governments out of 119 – about one-quarter of participating communities – used SHIP for rental strategies. These 32 locales used just over 17 percent of their SHIP funds for rental purposes.

This information shows that during this time most local governments did not use SHIP to fund rental housing.

FINDING

The Workgroup finds that there is an increased need for affordable rental housing throughout the state. The SHIP Program is an under-utilized source of financing for rental housing, with only one-quarter of SHIP communities choosing to use SHIP for rental purposes in recent years.

WORK GROUP RECOMMENDATION OPTIONS

Based on discussions at prior meetings the following options are provided for Workgroup discussion towards a final recommendation to promote the use of SHIP funds for rental housing.

OPTION 1: With the decrease in the homeownership rate in Florida, local governments should evaluate the need for affordable rental housing in their communities and consider using SHIP funds to assist in developing new affordable rental housing.

- **PRO:** The data show that many locales in the state don't use their SHIP funding for rental. This recommendation takes an educational approach to rental usage.
- **CON:** Because the recommendation does not suggest a change to statute, local governments may not make any change in their current approach.

OPTION 2: The Legislature should revise the SHIP homeownership goal in section 420.9071, F.S., from a minimum of 65% of SHIP funds used for homeownership to a minimum of 50% for homeownership.

PRO: Easy to implement and measure. Increases the attention to rental housing.

CON: Not easily supported by the Florida Realtors. May be considered unnecessary considering how little of the SHIP funds are currently used for rental and the fact that SHIP program income has no homeownership restrictions associated with it.

OPTION 3: The Legislature should exempt SHIP funding used to finance small rental developments for persons with special needs from the 65 percent homeownership requirement.

PRO: Implementation would be simple. If a locale used \$100,000 out of its \$1 million SHIP allocation for this purpose, then only \$900,000 would be subject to the 65 percent homeownership requirement. This would incentivize funding for this greatly needed housing, but still retain the 65 percent requirement in statute. Rulemaking would be needed to specify that this funding would not be for repairs/rehab on existing affordable rental housing, nor perhaps would it be allowable for larger specialized developments that are receiving federal low income housing tax credits.

CON: May not be easily supported by the Florida Realtors, because it is perceived as a way around the 65 percent requirement.

OPTION 4: The Legislature should revise the SHIP statute at sec. 420.9075(5), F.S., to allow the minimum 65 percent homeownership goal to be met over three fiscal years.

PRO: Could give local governments a perceived incentive that they could use more funding from one year's allocation to do rental production, and then make up the 65 percent requirement in the other two years.

CON:

- Florida Housing believes this is unnecessary. Local governments are now allowed to commit funding for strategies over multiple funding years, which provides flexibility for this purpose. This means that today a local government could commit funds today, and then when it comes time to close on the funding for the development, the local government can spread the funding among various open SHIP years (assuming appropriations have been made, locals have up to three years of SHIP funding open at once).
- In addition, local governments with program strategies that allow them to recoup program income when loans are repaid have no homeownership restrictions on this income.

- FHFC has determined that this would be extremely difficult to administer and keep track of. We would probably want to line up the three years of fiscal year funding with the corresponding three-year Local Housing Assistance Plan, which would mean some redesign of the annual reporting system. Local governments would report once every three years to show they'd met these goals, and they would be reporting on activity going back as far as five years. This could cause issues in compliance and the delay in discovering ongoing issues within the program. From Florida Housing's point of view, it would be less serviceable to the work done to report to the Legislature on how locals are spending their SHIP funds (which we are typically asked to do every year).

OPTION 5: The Legislature should require that a minimum of XX percent of a local government's SHIP allocation be used for rental housing, except that in any year when a local government's SHIP allocation is \$500,000 or less, then that year's allocation is not required to be spent on rental strategies.

PRO:

- Would force local governments to use funding for rental housing. If the percentage was on the lower side, could garner support from homeownership stakeholders.
- For counties that receive low amounts of SHIP, either because of their population or because of a low total appropriation, it becomes more difficult to fund rental variety of required approaches. In more rural areas of the state, the key SHIP strategies used are rehabilitation of existing owner-occupied housing or down payment assistance. This recommendation ensures that small SHIP allocations are not hampered by too many requirements, thus diffusing the small amount of funds received.

CON: Removes the flexibility of the SHIP program, which has been a critical part of its success and why it has been known as a best practice across the nation. As set up currently, the SHIP program is truly a locally determine program, mainly centered on homeownership, but providing allow local governments the flexibility to revise the program as resident needs and the real estate markets change. If a percentage is recommended for rental housing, the Workgroup should keep in mind that local programs may also reserve a portion of SHIP funds for homebuyer counseling – and this may not be incorporated into the homeownership goal, because the SHIP program approach is that all funding except counseling and administration must be attributed to a unit being funded. Counseling does not necessarily result in a unit being funded, depending on the ability of the homebuyer to qualify after they have received counseling.

Additional Rental Recommendation

The Catalyst Training and Technical Assistance Program should continue to provide regular training opportunities to local SHIP administrators about options for using SHIP for rental strategies.

A Key Barrier to Using SHIP Funds for Rental Housing

Another barrier that makes it more difficult for local governments to use SHIP for rental housing is a statutory compliance monitoring requirement. Local governments must monitor rental housing funded with SHIP to ensure that over the affordability period the residents living at these properties are eligible

under the terms specified in the local plan. While an important strategy, this is a barrier for medium and smaller local governments that have limited staff and infrastructure to carry out these annual activities.

Florida Housing is familiar with this problem and worked with the Legislature to tweak the SHIP statute some time ago to narrow the compliance monitoring requirements. The current statute requires annual monitoring of rental properties financed with SHIP funding. The statute allows local SHIP staff to rely on Florida Housing (or other entity) to carry out monitoring when these entities also have monitoring involvement in such a property. Finally, if \$10,000 or less in SHIP funds has been provided to the property, no monitoring is required.

Recommendation

Florida Housing should develop a simple monitoring report template for local governments to use for any rental properties that are not covered by compliance reporting under other corporation administered programs. Florida Housing should also examine the approach of allowing “self-certifications” provided by smaller properties, as the corporation already allows for smaller, special needs properties in its portfolio.

SHIP Innovation Funding Concept

While SHIP allows a great deal of flexibility to participating local governments to assist them in meeting their needs as they change over time, funds are allocated to all eligible local governments based solely on the statutory population formula. The Workgroup has discussed the idea of building an “innovation component” into the SHIP program to reward communities that expend funds in a creative manner to provide affordable housing. Should the Workgroup be interested in putting forth such a recommendation, the following items should be considered.

How the Innovation Component Would be Funded

The SHIP appropriation would be separated into “regular” or base SHIP funding, allocated according to the current population formula in statute, and innovation funding to be granted competitively by Florida Housing.

Pros:

- Could create new affordable housing types/opportunities that do not currently exist.
- Could incentive local governments to further analyze their housing needs and provide specialized strategies to address these needs.
- Competition for funds could create efficiency in allocating and expending funds, resulting in units being created in a faster or more leveraged manner.

Cons:

- Creating a competitive process for local governments could work against the current culture of the program in which cooperative relationships exist amongst communities.
- Could “force” local governments to go after projects that are innovative, but that may not necessarily be useful to meet the greatest need in the community.
- Could create advantages for urban areas where creative approaches to housing and the resources to carry those out are more readily available.

Process

The innovation concept would require a competitive application process in which local governments submit proposals for their innovative projects/strategies to Florida Housing. These applications would be evaluated, scored and ranked by the corporation.

Pros:

- Could allow Florida Housing to direct more funding to areas where there are creative solutions to affordable housing needs.
- Could allow Florida Housing to focus on particular types of housing in areas of need in conjunction with other housing programs.
- Could allow local governments to fund larger portions of developments that are difficult to fund such as housing for persons with special needs.

Cons:

- A competitive process would take time to develop and implement.

- A competitive process would open Florida Housing to protests/legal action by local governments.
- The competitive process would potentially exclude smaller communities where innovation ideas may be more difficult to develop/execute (mainly because of a lack of resources/staff).

What Qualifies as Innovation

The biggest question is “What is innovative?”

- Is a project innovative if it has never been done before?
- Is a project still innovative after several local governments propose or have carried out the same activity?
- Does the fact that a particular type of housing has been done in one or more areas preclude it from being innovative in this process? What if it has been done in another state, but not in Florida? In an urban area, but not in a rural area?
- How does one “rank” ideas that are more innovative than others?

Are these innovative?

- Tiny houses
- Tiny apartments (micro-units)
- Shipping containers used for homes
- Community Land Trusts
- Shared housing

Reporting/Monitoring

Once funds were expended for these innovative projects, the local governments would be required to report how the funds were spent and provide evidence to Florida Housing that the end result has met what was intended/proposed. Additional onsite monitoring might be required to ensure that the project meets the original intent, raising the cost of monitoring for this purpose.

Possible Recommendation for Workgroup Consideration

The Legislature should fund an innovation component in the SHIP Program. To carry this out, the following parameters should be implemented:

- Initial funding should be provided through legislative proviso language as a pilot, allowing Florida Housing to implement the innovation component through a competitive solicitation, initially without going through rulemaking.
- Initial funding should not be provided through the 2018 budget, so as not to compete with possible hurricane housing recovery funding that may be diverted by the Legislature from regular SHIP Program funding. Doing this pilot during a hurricane recovery year would both diminish the overall funding available in any one of these pots and drive hard hit locales to seek innovation funding when they are already overworked addressing hurricane recovery planning/implementation.

- When the pilot is funded, eligible local governments should first receive their base allocations through the statutorily mandated population method. For instance, for a \$100 million appropriation, \$85 million would go for the base amount to be allocated according to the statutory formula, and the remaining \$15 million would fund the pilot above the base level.
- Once funds through the innovation pilot have been awarded, Florida Housing should be required to report on the results of the pilot. This report should be used to inform a final decision about whether an innovation component should be incorporated into the SHIP statute, along with statutory criteria for implementation.
 - **TO THE WORKGROUP:** Since local governments have three years to expend funds, real results will only show up after the three-year period. However, the Legislature may want to see a report before this.