



FINAL REPORT

**2007**

**THE AFFORDABLE HOUSING  
STUDY COMMISSION**

## 2006-2007 MEMBERSHIP

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Chairperson

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### **Joseph C. Campus**

Representing residential home builders

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### **Jill M. Collins\*\***

Representing regional planning councils

### **W. Scott Culp\*\***

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Representing apartment development

### **Michael W. Davis**

Representing very low- and low income persons

### **Santos G. De La Rosa**

Representing very low income persons

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Representing the housing interests of homeless people

### **Priscilla L. Howard**

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Representing elder housing interests

### **Darlene Pifalo**

Representing the real estate sales profession

### **Ellen M. Ramsey**

Representing community based organizations with a population of less than 50,000

### **George D. Romagnoli**

Representing the Florida Association of Counties

\* Resigned October 2006    \*\* Resigned November 2006

## STAFF

Odetta MacLeish-White

*Jenifer Stern, Final Report Design*

## Mission Statement of the Affordable Housing Study Commission

The Affordable Housing Study Commission recommends improvements to public policy to stimulate community development and revitalization and to promote the production, preservation and maintenance of safe, decent and affordable housing for all Floridians.

## The Commission's Legislative Charge

Section 420.609, Florida Statutes, charges the Commission to recommend solutions and programs to address the state's acute need for housing for low- and moderate- income residents, elders and homeless people. The Commission believes its charge also extends to other Floridians with special housing needs, including extremely low-income residents, farmworkers and people with disabilities. The Commission's analysis is to include, but is not limited to:

- **Offering low-interest and zero-interest loans for the development or rehabilitation of housing;**
- **Educating the public and government officials to understand and appreciate the benefits of affordable housing;**
- **Use of publicly owned lands and buildings as affordable housing sites;**
- **Coordination with federal initiatives, including development of an approved housing strategy;**
- **Streamlining the various state, regional and local regulations, and housing and building codes governing the housing industry;**
- **Stimulation of public and private cooperative housing efforts;**
- **Implementation or expansion of the programs authorized under state law;**
- **Discovery and assessment of funding sources for low-cost housing construction and rehabilitation; and**
- **Development of such other solutions and programs as the Commission deems appropriate.**

In performing its analysis, the Commission is also charged to consider both homeownership and rental housing as viable options for the provision of housing and to give consideration to various types of residential construction including, but not limited to, manufactured housing.



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## THE AFFORDABLE HOUSING STUDY COMMISSION

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**CHAIR**

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Joseph J. Campus  
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Ellen M. Ramsey  
George D. Romagnoli

**STAFF**

Odetta MacLeish-White

July 13, 2007

The Honorable Charlie Crist  
Governor of Florida  
The Capitol, Suite PL05  
Tallahassee, Florida 32399-0001

The Honorable Ken Pruitt  
President, Florida Senate  
Suite 409 The Capitol  
404 South Monroe Street  
Tallahassee, Florida 32399-1100

The Honorable Marco Rubio  
Speaker, Florida House of Representatives  
420 The Capitol  
402 South Monroe Street  
Tallahassee, Florida 32399-1300

Dear Governor Crist, President Pruitt, and Speaker Rubio:

On behalf of the Affordable Housing Study Commission, I am pleased to submit our final report for 2006-2007. The report fulfills the requirements of Section 420.609, Florida Statutes, and provides the Commission's findings and recommendations following a year long review of the State Housing Initiatives Partnership (SHIP) program. SHIP was enacted as part of the William E. Sadowski Act of 1992 and is one of Florida's flagship affordable housing programs. This year marks the 15th anniversary of the SHIP program, a program that represents a national model for delivery of affordable housing via a partnership between the state and local governments. The Commission felt this was an opportune time to examine its successes and consider what changes, if any, are needed to make this program even more responsive in the coming years.

During its review of SHIP, the Commission received testimony and data establishing that SHIP has successfully met its mandate to provide housing for very low, low and moderate-income families since its inception. The Commission would like to take this opportunity to strongly encourage the Florida Legislature to reauthorize the State and Local Government Housing Trust Funds and do so without any cap on funding. The Trust Funds represent a critical mechanism to achieve the legislative mandate to make decent, safe and affordable housing available for all Floridians by the year 2010.

Speaking for all members of the Commission, I extend our appreciation for the opportunity to serve the Citizens of Florida.

Sincerely,

Helen Hough Feinberg  
Chairperson

***Dedicated to Promoting Affordable Housing in Florida Since 1986***

227 N. Bronough Street • Suite 5000 • Tallahassee, Florida 32301 • 850/488-4197 • Fax 850/488-9809

# EXECUTIVE SUMMARY



The State Housing Initiatives Partnership (SHIP) program, enacted as part of the William E. Sadowski Affordable Housing Act of 1992, is one of Florida's flagship affordable housing programs. This program provides all 67 counties and 51 cities with funds derived from the proceeds of a portion of the documentary stamp tax on real estate transactions. A national model, the SHIP program turns 15 years old in 2007, and the Affordable Housing Study Commission believed its 2006-2007 study year would be an opportune time to examine SHIP's accomplishments and consider what changes, if any, are needed to make this program more responsive in the coming years.

The Study Commission's comprehensive review of the SHIP program comes at a time of intense discussion and debate about how to respond to key pressures in the housing arena:

- **Cities and counties are confronting the challenge of providing affordable housing to a wider spectrum of incomes. Moderate-income households, which were able to purchase a home on their own in the past, have found the price of a home has risen far beyond their incomes. Federal funding targeting extremely low-income families (earning 30 percent or less of area median income) has been diminishing. At the same time, increasing attention is being paid to meeting the needs of special needs populations who often have incomes in this lowest range; and**
- **In the aftermath of two consecutive active hurricane seasons, the costs for materials and labor increased sharply and, while these costs have begun to stabilize, households are now struggling with skyrocketing insurance costs and property taxes.**

Further exacerbating these pressures, the 2005 Florida Legislature enacted a cap on the amount of dollars distributed to the State and Local Government Housing Trust Funds from the documentary stamp tax revenues. This cap went into effect on July 1, 2007, at \$243 million. At a time when state and local governments are being asked to serve more households, revenues from the dedicated source for affordable housing dollars are being restricted.

Despite this challenging context, SHIP has successfully met its statutory mandate to serve very low-, low- and moderate-income households. The state has appropriated over \$1.7 billion to the SHIP program since 1992, allowing local governments to assist over 145,000 households. Still, combining unappropriated funds and funds not distributed to SHIP because of the cap could have assisted an estimated 22,836 additional households.

Local SHIP programs have consistently met the statutory mandate to allocate 30 percent of their annual allocation for very low-income households and another 30 percent for low-income households. Furthermore, local governments have spent just over 90 percent of their SHIP funds on homeownership activities over the ten years for which closed out data are available. The SHIP statute requires them to spend a minimum of 65 percent. And, local governments spent an average of nearly 90 percent of SHIP funds (not including administrative expenses) for new construction activities, far exceeding the statutory requirement to spend a minimum of 75 percent of the funds for this purpose.

SHIP has accomplished its statutory goals by striking an effective balance between providing local governments with the flexibility to craft their own strategies and reporting and use requirements that ensure a responsible, accountable use of state dollars. The Study Commission's 2007 recommendations do not change SHIP's successful core concepts. Instead, these recommendations offer ideas for fine tuning certain areas of the program.

## REAUTHORIZATION OF THE STATE & LOCAL HOUSING TRUST FUNDS

Each Florida trust fund must be reauthorized by the Florida Legislature every four years. In 2008, the State and Local Government Housing Trust Funds are up for reauthorization. The Study Commission believes that reauthorization and full funding of these trust funds is critical to ensure that Florida can continue to address affordable housing needs into the future.

▶ *In 2008, the Florida Legislature should reauthorize the State and Local Government Housing Trust Funds without the cap.*

## INCOME TARGETING

The Commission finds no reason to adjust the statutory income goals specified in Section 420.9075, Florida Statutes, but the challenges of finding ways to serve extremely low-income families and the focus on supporting workforce housing, presented compelling reasons for the Commission to consider how SHIP might respond. With the presence of resources such as the Community Workforce Housing Innovation Pilot Program to assist families earning at or below 140 percent of area median income, the Study Commission devoted most of its discussion to extremely low-income households.

▶ *SHIP's existing income targets, and the flexibility provided to local governments to meet these targets, should be maintained.*

▶ *Florida Housing Finance Corporation should evaluate the 2007 local SHIP Annual Reports to determine whether extremely low-income households are being served by SHIP. Based on these findings, Florida Housing should consider solutions to address this population, including using the Catalyst Program to train SHIP administrators in effective strategies for serving the population.*

## PRODUCTION GOALS

The Commission determined that SHIP's statutory homeownership and new construction requirements are still meaningful and support SHIP's purpose. However, the Commission finds that these requirements may particularly hinder smaller counties needing to target rental unit production in some years. Not wishing to amend the basic statutory requirements which have served SHIP well, the Commission discussed a mechanism to allow a waiver of the homeownership requirement under certain conditions.

▶ *The Florida Legislature should amend Section 420.9075(5)(a), Florida Statutes, to create a process allowing local governments to waive the 65 percent homeownership requirement when a demonstrated need, as specified by rule, for rental units is shown.*

## EXPANDING SHIP'S EFFECTIVENESS

### Using SHIP for Manufactured Housing

According to data recently made available by the Florida Department of Revenue, manufactured homes held as real property generated over \$22 million in documentary stamp taxes in 2005 alone.<sup>1</sup> Of this amount, \$3,271,400 would have gone into the state's housing trust funds. The Commission's recommendation is confined to owner-occupied manufactured housing that is considered real property, because these types of homes contribute to the state's housing trust funds and serve as an asset building tool for families.

▶ *The Florida Legislature should revise the definition of "Eligible Housing" found at Section 420.9071(8), Florida Statutes, to create an exception allowing local governments to utilize SHIP funds to assist existing owners of HUD-Code manufactured housing designated as real property in need of accessibility modifications, utility or sewer hook-ups, or emergency repairs. SHIP funds should not be used to provide purchase assistance for such housing and Local Housing Assistance Plans should restrict this use to elderly and disabled households earning at or less than 120 percent of AMI, and all other households earning 80 percent or less of AMI.*

### Using SHIP for Smaller Rental Properties

Small, privately-owned, unsubsidized rental properties throughout the state provide families with reasonable rents, but are aging and would benefit from upgrades. The Commission's recommendations regarding this housing option encourage local governments and SHIP staff to consider directing resources, especially program income, towards these smaller properties which cannot take full advantage of bigger, state administered programs.

▶ *The Commission strongly encourages local governments to consider how unrestricted SHIP program income can support small, privately owned rental properties.*

▶ *The Florida Legislature should revise Section 420.9075(4)(e), Florida Statutes, to increase the per unit loan or grant limit on rental units which triggers annual monitoring, tenant income certification and resale restrictions in the SHIP program from \$3,000 to \$15,000. To ensure the property remains available as rental housing, the local government should provide a second mortgage under the condition that selling the property before 10 years, or converting its use from rental, will trigger repayment of the entire SHIP loan or grant.*

▶ *The Florida Legislature should revise Section 420.9075(7), Florida Statutes, to increase the administrative fee allowed on unrestricted SHIP program income to 10 percent to match the administrative fee allowed under the initial SHIP allocation.*

### Expedited Permitting and Effective Regulatory Reform

Two studies, conducted 10 years apart, report that developers and local planning officials hold differing views on the effectiveness of expedited permitting. Developers have been consistently concerned with lengthy permitting processes at the local and state level, and a lack of coordination between local housing and planning staff exacerbates delays. The Commission strongly believes that Florida

Housing Finance Corporation and the Florida Department of Community Affairs must provide leadership to local colleagues to increase attention on the value of land use policies being used in concert with SHIP funding to provide affordable housing.

▶ *Florida Housing Finance Corporation and the Florida Department of Community Affairs should train housing and planning stakeholders respectively on the statutes, rules and policies, including expedited permitting, that affect affordable housing to promote better coordination between land use policies and affordable housing funding strategies.*

### Combining SHIP with Private Funding Sources

Across the state, SHIP programs have been successful in developing partnerships with private lenders to give households access to affordable mortgage loans. However, these partnerships are being hindered by conflicting income verification and underwriting methods. Because SHIP's compliance rule identifies only the Section 8 procedures as the method for income verification, SHIP administrators are concerned that their programs will be found to be out of compliance if they use one of the other income verification methods allowed by statute. The efficient blending of SHIP dollars with private funds should balance protecting clients from predatory lending practices and unnecessary delays with keeping the SHIP program in compliance with statutory and rule requirements. The Commission believes this goal can be achieved through education of all parties involved.

▶ *Florida Housing Finance Corporation should amend the SHIP Compliance Rule found at Chapter 67-53.005(2), Florida Administrative Code, to clarify the acceptable methods of income verification.*

▶ *The Florida Legislature should amend the definition of "Annual Gross Income" found at Section 420.9071(4), Florida Statutes to read: "Annual gross income" means annual income as defined under the Section 8 housing assistance payments programs in 24 C.F.R. part 5; annual income as reported under the census long form for the recent available decennial census; or adjusted gross income as defined for purposes of reporting under Internal Revenue Service Form 1040 for individual federal annual income tax purposes; or annual gross income as defined by any other methodology deemed appropriate and approved by Florida Housing Finance Corporation.*

▶ *Florida Housing Finance Corporation should use the Affordable Housing Catalyst Training and Technical Assistance Program to provide training on all allowed methods of verifying income eligibility, including which income method works best for different housing strategies, as well as on private lending underwriting standards.*

### Minimum Allocations: Small Counties Struggle to Stretch their SHIP Dollars

Smaller counties are guaranteed a minimum annual allocation of \$350,000. However, this allocation has become less effective over the years as smaller SHIP programs face a number of pressures including increased costs for down payment assistance and rehabilitation, no federal Community Development Block Grant or



HOME dollars to supplement local affordable housing programs and an administrative fee which no longer covers the salary, benefits and other costs for a dedicated SHIP staff person.

▶ *If the cap on the housing trust funds is maintained, the SHIP minimum allocation should remain at \$350,000. If the cap is lifted, the minimum allocation should be raised to \$450,000.*

### **More Flexible Sanctions Should be Available for Non-Compliant SHIP Programs**

During the compliance monitoring process, Florida Housing Finance Corporation sometimes discovers that a local government has used SHIP funds for ineligible expenses. When this occurs, the local government is required to pay back to the SHIP program an

amount equal to the ineligible expenditure. However, for smaller counties which do not have enough general revenue to cover this expense, the only sanction available to Florida Housing is to suspend that SHIP program's funding entirely. The Commission believes that an interim level of sanction should be available which will allow a local government to continue assisting households with SHIP funds while repaying the state for funds which have not been properly used.

▶ *The Florida Legislature should amend Section 420.9075(13) (a), Florida Statutes, to allow Florida Housing Finance Corporation to withhold ineligible SHIP expenditures from future SHIP allocations to ensure repayment without resorting to complete suspension of SHIP funding.*





# INTRODUCTION

The State Housing Initiatives Partnership (SHIP) program was enacted as part of the William E. Sadowski Affordable Housing Act of 1992 (the Sadowski Act), and is one of Florida's flagship affordable housing programs. This program provides all 67 counties and 51 cities with funds derived from the proceeds of a portion of the documentary stamp tax on real estate transactions. A national model, the SHIP program turns 15 years old in 2007, and the Affordable Housing Study Commission believed its 2006-2007 study year would be an opportune time to examine SHIP's accomplishments and consider what changes, if any, are needed to keep this program responsive in the coming years.

Florida has two trust funds for affordable housing, both of which are funded with a portion of the documentary stamp taxes collected each year. The 1992 Sadowski Act established a dedicated revenue source for these trust funds from a ten cent increase per \$100 on the documentary stamp taxes generated by real estate sales. In 1995, an additional ten cents was allocated from the state's general revenue to supplement the original funding. By linking the revenue source to real estate sales, the Sadowski Act created a stream of dollars that would increase when housing prices increased, ensuring the availability of more resources for affordable housing in times when higher housing prices challenge lower income households. The State Housing Trust Fund receives approximately thirty percent of the revenue appropriated from documentary stamp taxes.<sup>2</sup> The remaining seventy percent flows into the Local Government Housing Trust Fund, and it is from this source that the SHIP program is funded.<sup>3</sup>

The Study Commission's comprehensive review of the SHIP program comes at a time of intense discussion and debate about how to respond to key pressures acting on the housing arena.

- **Cities and counties in the state are confronting the challenge of providing affordable housing to those with a wider spectrum of incomes. Moderate-income households were able to purchase a home on their own in the past, but have found the price of a home has risen far beyond their incomes in many communities. Federal funding targeting extremely low-income (ELI) families earning 30 percent or less of area median income (AMI) has been diminishing. At the same time, increasing attention is being paid to meeting the needs of special needs populations who often have incomes in this lowest range. This dynamic leaves state and local programs to bear the pressure of providing housing to more households with fewer resources.**
- **In the aftermath of two consecutive active hurricane seasons, the costs for materials and labor increased sharply and, while these costs have begun to stabilize, households are now struggling with skyrocketing insurance costs and property taxes.**

Further exacerbating the effects of these pressures, the 2005 Florida Legislature enacted a cap on the amount of dollars distributed to the State and Local Government Housing Trust Funds from the documentary stamp tax revenues. This cap went into effect on July 1, 2007, at \$243 million. At a time when state and local governments are being asked to serve more households, revenues from the dedicated source for affordable housing dollars are being restricted.

The central question of the Commission's SHIP review was whether the program could continue to be effective, in its current form, for the next 20 years. The Commission looked at a number of issues including:

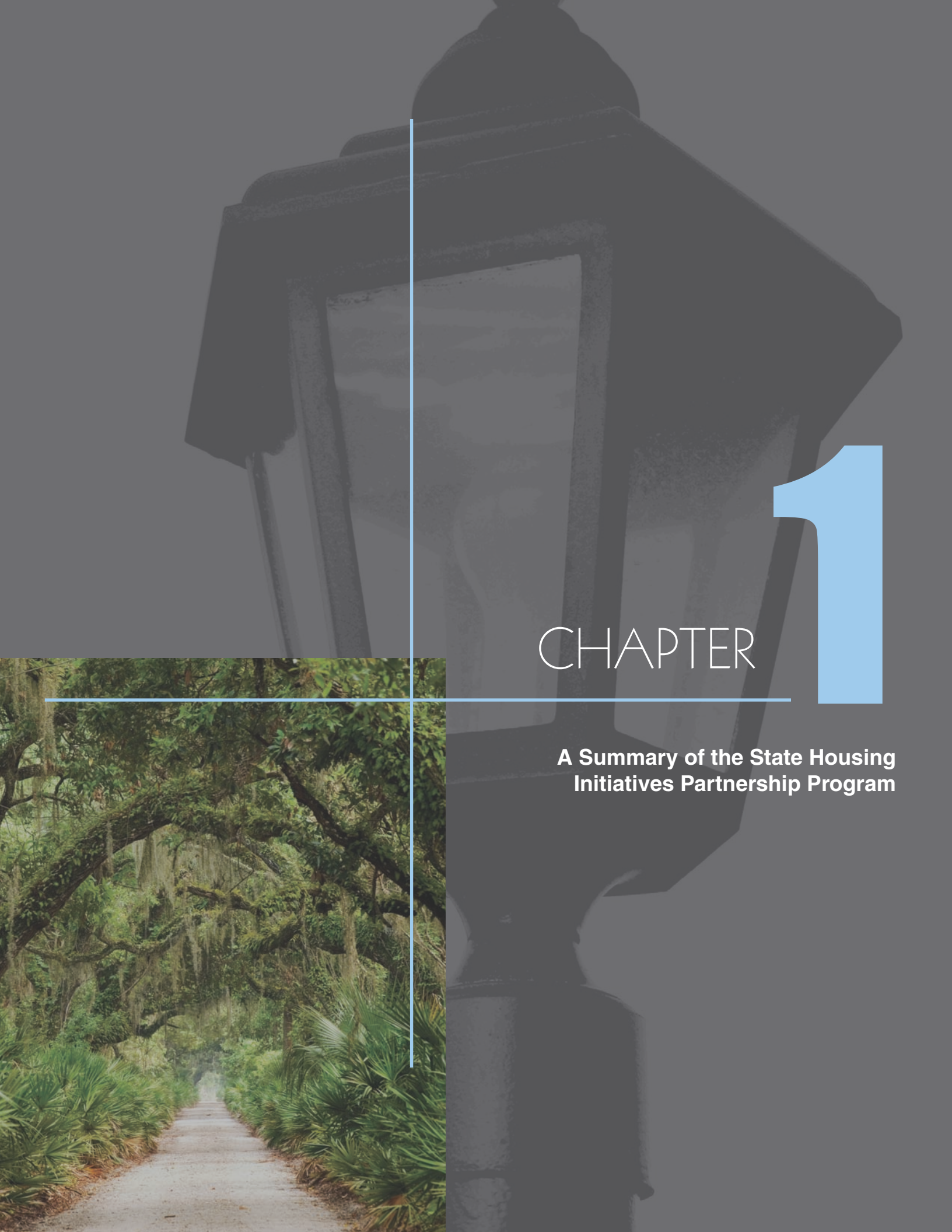
- **SHIP's accomplishments in serving statutorily mandated income levels and the strategies implemented to address the target populations;**
- **The program's success in leveraging private and other sources of income;**
- **Whether local governments have been able to meet the statutory requirement to expedite permitting and development orders for affordable housing;**
- **Whether SHIP should serve households with incomes other than those traditionally served by the program; and**
- **Whether the SHIP statute provides the flexibility needed to serve housing needs over the coming years.**

Before considering SHIP's future, the Study Commission first wanted to know if changes in household incomes and the housing industry since SHIP was enacted have affected the program's ability to meet its statutory mandates. In the period between 1990 and 2005, Florida's population grew by just over 1.96 million households.<sup>4</sup> In 1989, the statewide median income was \$52,368 (in 2006 dollars) and it increased to just \$54,800 by 2006, a 4.6 percent increase in 17 years.<sup>5</sup>

In sharp contrast, from 1990 to 2005, the median single family home sales price rose from \$118,046 (in 2005 dollars) to \$226,000, a 91.5 percent increase in 15 years.<sup>6</sup> Renters have not been spared either – in 1991, a minimum wage worker had to work 94 hours per week to afford a two bedroom apartment at fair market rent. By 2005, this number had risen to 102 hours per week.<sup>7</sup>

Adding to this pressure, per capita federal funding to Florida for housing programs has decreased. Considering Florida's local government allocations from the Community Development Block Grant, HOME, Emergency Shelter Grant and Housing Opportunities for Persons with AIDS programs, Florida received over \$16.2 million less (in 2006 dollars) in 2006 than in 1993, the earliest data available. If allocations for these programs had been keeping up with inflation, the per capita allocation would have been \$57.60. Instead, the 2006 per capita allocation for these programs was only \$39.31.<sup>8</sup>

Despite these declines in funding, and in the face of increasing population and housing prices, SHIP has always met its statutory mandate to serve very low-, low- and moderate-income households. Chapter One of this report describes the SHIP program and its accomplishments more closely, including the number of households that have been assisted and the strategies that were utilized. Chapter Two describes key trends and challenges shaping the contemporary context for the SHIP program, while Chapter Three contains the Commission's findings and recommendations following its year long review of SHIP.



# 1

## CHAPTER

**A Summary of the State Housing  
Initiatives Partnership Program**



## PROGRAM SUMMARY

The enactment of the Sadowski Act in 1992 made possible both the SHIP program and its funding source. Since its inception, the state has appropriated over \$1.7 billion to the SHIP program (Table 1), allowing local governments to assist over 145,000 households with very low-, low- and moderate-incomes (Table 2).

Enactment of the Sadowski Act was supported by a wide array of housing stakeholders, who came together in 1992 as the Sadowski Coalition. Consisting of diverse interest groups including the Florida Home Builders Association, the Florida Association of Realtors, the Department of Community Affairs, the then Florida Housing Finance Agency, the Florida Housing Coalition and 1000 Friends of Florida, the Sadowski Coalition presented a unified voice in support of a sustainable method for funding affordable housing. While the membership has changed over the years, the Sadowski Coalition has reconvened every year to promote full funding of the housing trust funds. Appendix 1 provides the current membership of the Sadowski Coalition.

SHIP funds are allocated to eligible local governments each fiscal year, which starts the clock on a three-year local cycle for encumbering and expending the dollars. Local governments have twelve months from the end of the fiscal year in which funds were allocated to fully encumber the funds received. Once funds are encumbered, local governments then have 24 months from the end of the original fiscal year to fully expend the funds. SHIP dollars are distributed through a population-based formula with a guaranteed allocation of \$350,000 to counties with smaller populations.

The annual allocation represents the foundation of a local government's SHIP funding. All local SHIP programs can take a 5 percent administrative fee from the annual allocation. An additional 5 percent administrative fee can be taken from the annual allocation if the local governing body finds, by resolution, that 5 percent of the annual allocation is insufficient to adequately pay the necessary costs of administering the program. In effect, all local governments take a full 10 percent for administration.

Another source of administrative dollars for SHIP jurisdictions is program income. Program income is generated primarily from the repayment of down payment assistance loans or from the interest earned on funds invested in a local housing assistance trust fund. This income must be reinvested into the local SHIP program for housing strategies. Most SHIP programs claim a 5 percent administrative fee from program income, but smaller population counties may use up to 10 percent of program income for administrative costs. Program income is not subject to the same use restrictions as the annual allocation and is proving to be a valuable tool for local governments to address rental housing or create programs to assist households with tax or insurance payments.<sup>9</sup>

The SHIP statute (Section 420.907-9079, Florida Statutes) outlines the requirements and eligible uses of SHIP for local governments participating in the program. To receive SHIP funding, every local government must develop a Local Housing Assistance Plan (LHAP) detailing the strategies that will be implemented with the SHIP dollars. This plan must be adopted by the appropriate local elected body and submitted to Florida Housing Finance Corporation (Florida Housing), which administers SHIP at the state level, at least every three years for review to ensure that the

| <b>Table 1</b>     |                           | <b>SHIP Appropriations<br/>1992/93 to 2007/08</b> |
|--------------------|---------------------------|---|
| <b>Fiscal Year</b> | <b>SHIP Appropriation</b> |   |
| 1992/1993          | \$18,750,000              |   |
| 1993/1994          | \$25,000,000              |   |
| 1994/1995          | \$26,500,000              |   |
| 1995/1996          | \$79,000,000              |   |
| 1996/1997          | \$86,581,488              |   |
| 1997/1998          | \$87,544,560              |   |
| 1998/1999          | \$123,448,419             |   |
| 1999/2000          | \$103,300,000             |   |
| 2000/2001          | \$162,490,000             |   |
| 2001/2002          | \$139,143,685             |   |
| 2002/2003          | \$163,443,545             |   |
| 2003/2004          | \$130,756,501             |   |
| 2004/2005          | \$130,758,367             |   |
| 2005/2006          | \$130,726,637             |   |
| 2006/2007          | \$166,250,000             |   |
| 2007/2008          | \$167,600,000             |   |
| <b>TOTAL</b>       | <b>\$1,741,293,202</b>    |   |

Source: Florida Housing Finance Corporation.

| <b>Table 2</b>     |                                | <b>Number of Households Served<br/>with SHIP 1992/93 to 2005/06</b> |
|--------------------|--------------------------------|---|
| <b>Fiscal Year</b> | <b>Total Households Served</b> |   |
| 1992/1993          | 3,233                          |   |
| 1993/1994          | 3,635                          |   |
| 1994/1995          | 4,213                          |   |
| 1995/1996          | 12,932                         |   |
| 1996/1997          | 12,321                         |   |
| 1997/1998          | 12,095                         |   |
| 1998/1999          | 15,171                         |   |
| 1999/2000          | 14,089                         |   |
| 2000/2001          | 17,460                         |   |
| 2001/2002          | 15,418                         |   |
| 2002/2003          | 16,329                         |   |
| 2003/2004          | 12,624                         |   |
| 2004/2005*         | 4,527                          |   |
| 2005/2006*         | 1,673                          |   |
| <b>TOTAL</b>       | <b>145,720</b>                 |   |

Source: Florida Housing Finance Corporation SHIP Performance Measure Reports and Close Out Reports. Data for households served in Fiscal Years 2006/07 and 2007/08 are not yet available.

\*Open fiscal years. Local governments have three years to expend funds. Therefore, the total units reported for these years are not yet complete.

LHAPs comply with the SHIP statute and rule. A local government may amend one or more of its affordable housing strategies before the end of the three-year period by submitting a revised LHAP to Florida Housing for review. These amendments must also be approved by resolution of the local elected body.

Each local government using SHIP funds must also create an Affordable Housing Advisory Committee (AHAC) to recommend specific initiatives and incentives to encourage affordable housing in its community. Until 2007, local governments had to convene their AHACs only once for this purpose, to transmit their recommendations to the local elected body (although a number of SHIP jurisdictions chose to maintain a standing advisory committee to provide on-going recommendations and review).

During the 2007 Regular session, the Florida Legislature passed House Bill 1375, which now requires local governments to reconstitute their AHACs every three years both to review the effectiveness of existing affordable housing incentives and to consider specific new incentives which might be implemented. The Study Commission reviewed the initial legislation and made two recommendations to enhance the AHAC's contribution.

AHACs provide an opportunity to address a long-standing lack of coordination between land use policies contained in local government comprehensive plans and funding strategies for affordable housing. This is exacerbated by the lack of communication between local government housing and planning departments. The Study Commission's recommendations for this legislation were:

- AHACs should meet every three years to give the committee sufficient time to conduct its review, develop and adopt thoughtful implementation strategies, and allow the strategies to be used before another evaluation is required; and
- AHACs should be cooperatively staffed by the local government planning and housing departments to help facilitate true regulatory reform. Housing and planning departments must work hand in hand to develop an understanding of the processes and challenges each must face.<sup>10</sup>

The Commission was pleased to see these recommendations incorporated into the legislation, which was passed and went into effect on July 1, 2007.

### SHIP MEETS ITS STATUTORY INCOME TARGETS

Section 420.9075, Florida Statutes, requires local governments to award at least 30 percent of their annual SHIP allocation to very low-income persons earning 50 percent or less of AMI. Another 30 percent must be awarded to low-income persons earning 80 percent or less of AMI. The remainder of the funds may serve any combination of very low-, low- or moderate-income persons with incomes at 120 percent or less of AMI.<sup>11</sup> Table 3 shows that local governments have consistently exceeded the statutory requirements to serve these households.

**Table 3**

**Income Levels Served by SHIP and Percentage of Funds Allocated by Income Level 1996/1997 to 2003/2004\***

| Fiscal Year                      | Description     | Very Low-Income | Low-Income    | Moderate-Income | Totals         |
|----------------------------------|-----------------|-----------------|---------------|-----------------|----------------|
| 1996/1997                        | Households      | 6,566           | 4,314         | 1,441           | 12,321         |
|                                  | % of SHIP Funds | 46.60%          | 40.46%        | 12.94%          | 100%           |
| 1997/1998                        | Households      | 6,278           | 4,469         | 1,348           | 12,095         |
|                                  | % of SHIP Funds | 47.09%          | 41.70%        | 11.21%          | 100%           |
| 1998/1999                        | Households      | 7,870           | 5,690         | 1,611           | 15,171         |
|                                  | % of SHIP Funds | 48.44%          | 41.43%        | 10.13%          | 100%           |
| 1999/2000                        | Households      | 7,696           | 4,953         | 1,328           | 13,977         |
|                                  | % of SHIP Funds | 50.85%          | 39.55%        | 9.60%           | 100%           |
| 2000/2001                        | Households      | 8,182           | 6,900         | 1,904           | 16,986         |
|                                  | % of SHIP Funds | 46.72%          | 43.26%        | 10.02%          | 100%           |
| 2001/2002                        | Households      | 7,268           | 5,477         | 1,667           | 14,412         |
|                                  | % of SHIP Funds | 46.41%          | 42.26%        | 11.34%          | 100%           |
| 2002/2003                        | Households      | 7,269           | 5,814         | 1,771           | 14,854         |
|                                  | % of SHIP Funds | 46.82%          | 42.68%        | 10.50%          | 100%           |
| 2003/2004                        | Households      | 5,548           | 4,093         | 1,173           | 10,814         |
|                                  | % of SHIP Funds | 44.08%          | 42.87%        | 13.05%          | 100%           |
| <b>Total Households Served</b>   |                 | <b>56,677</b>   | <b>41,710</b> | <b>12,243</b>   | <b>110,630</b> |
| Average Percentage of SHIP Funds |                 | 47.13%          | 41.77%        | 11.10%          | 100%           |

Source: Florida Housing Finance Corporation SHIP Close Out Reports. \*First and last year for which data on income levels are available. The total households shown on this table are lower than that shown in Table 2 because only closed out years are included in this table.

**Table 4**

**Households Assisted by Homeownership and Rental Strategies for 10 Year Period, 1997 to 2006**

| Fiscal Year             | Homeownership        |               |               | Rental             |               |              | Totals               |                |              |
|-------------------------|----------------------|---------------|---------------|--------------------|---------------|--------------|----------------------|----------------|--------------|
|                         | Dollars              | Units         | \$/Units      | Dollars            | Units         | \$/Units     | Dollars              | Units          | \$/Units     |
| 1996/1997               | 77,123,716           | 10,026        | 7,692         | 6,832,745          | 2,295         | 2,977        | 83,956,461           | 12,321         | 6,814        |
| 1997/1998               | 80,392,861           | 9,624         | 8,353         | 6,381,302          | 2,471         | 2,582        | 86,774,163           | 12,095         | 7,174        |
| 1998/1999               | 109,036,566          | 11,805        | 9,236         | 12,731,058         | 3,366         | 3,782        | 121,767,624          | 15,171         | 8,026        |
| 1999/2000               | 99,640,327           | 10,322        | 9,653         | 9,484,833          | 3,767         | 2,518        | 109,125,159          | 14,089         | 7,745        |
| 2000/2001               | 144,358,069          | 13,219        | 10,920        | 18,082,884         | 4,241         | 4,264        | 162,440,953          | 17,460         | 9,304        |
| 2001/2002               | 126,981,675          | 11,257        | 11,280        | 18,528,201         | 4,161         | 4,453        | 145,509,876          | 15,418         | 9,438        |
| 2002/2003               | 156,636,012          | 13,243        | 11,828        | 17,739,836         | 3,086         | 5,748        | 174,375,848          | 16,329         | 10,679       |
| 2003/2004               | 138,587,364          | 9,396         | 14,750        | 13,452,687         | 3,228         | 4,167        | 152,040,051          | 12,624         | 12,044       |
| 2004/2005*              | 59,204,418           | 4,216         | 14,043        | 1,512,565          | 311           | 4,864        | 60,716,983           | 4,527          | 13,412       |
| 2005/2006*              | 22,282,199           | 1,374         | 16,217        | 4,163,217          | 299           | 546          | 26,445,416           | 1,673          | 15,807       |
| <b>Totals</b>           | <b>1,014,243,207</b> | <b>94,482</b> | <b>10,735</b> | <b>108,909,328</b> | <b>27,225</b> | <b>3,853</b> | <b>1,123,152,534</b> | <b>121,707</b> | <b>9,228</b> |
| Percentage of SHIP Used | 90.3%                |               |               | 9.7%               |               |              | 100%                 |                |              |

Source: Florida Housing Finance Corporation, SHIP Close-Out Reports. \* Denotes open years for which expended funds are tracked but final audits not yet completed. Expended dollar amounts and number of households served will change when final audits are conducted.

**SHIP SUPPORTS DIVERSE HOUSING STRATEGIES**

Perhaps the greatest strength of the SHIP program is the flexibility afforded local governments. While the program’s broad income and use requirements maintain accountability for the appropriate spending of state resources, local governments can craft an array of solutions to address their local housing needs. Local government strategies are divided into two categories: homeownership activities and rental activities.

Local governments have targeted just over 90 percent of their SHIP funds to homeownership units over the ten years for which such data are available. This percentage is well above the statutory minimum of 65 percent. Furthermore, local governments spent an average of nearly 90 percent of their SHIP funds (not including administrative expenses) for construction activities which include new construction, rehabilitation or emergency repairs, far exceeding the statutory minimum of 75 percent.<sup>12</sup>

For rental developments, local governments typically leverage SHIP funds with other funding sources, using SHIP as gap financing in a second or lower lien position. Rental strategies range from gap financing to the development of housing for special needs populations (e.g., homeless people, farmworkers, frail elders) to the provision of direct assistance to renters for security and utility deposits. SHIP does not permit ongoing rental assistance. **Table 4** shows the breakdown of SHIP dollars used and households assisted by tenure for a ten year period.

**Gap Financing** - Subsidy provided to a development that reduces the debt service on the property thereby allowing the developer to lower rents.

The three most commonly used homeownership strategies from Fiscal Year 2002/03 through 2004/05 were purchase assistance, rehabilitation and new construction.<sup>13</sup>

- **Purchase Assistance.** This strategy takes the form of a direct loan or grant to a eligible recipient to purchase a home. When assistance is provided in the form of a loan, the loan typically takes a second lien position behind a residential first mortgage.
- **Rehabilitation.** Rehabilitation funds are used to perform major repairs (e.g., structural, roofing, plumbing, electrical), minor repairs (e.g., weatherization), and specialized rehabilitation (e.g., disaster mitigation, handicap accessibility).
- **New Construction.** This strategy takes the form of development of new homes that are sold to eligible recipients within the established purchase price for the area.

Local governments used an average of 85 percent of their homeownership funds for these three strategies, assisting approximately 76 percent of the total homeowners served with SHIP dollars in Fiscal Years 2002/03 through 2004/2005. Looking at all of the homeownership strategies, the data also show a 30 percent increase over the three year period in the amount of SHIP funding spent per household. This was due to increased costs of land, rehabilitation and construction.<sup>14</sup>

Local governments provide SHIP assistance as either a grant or a loan. Generally, some portion of a SHIP loan will become repayable to the local government upon resale of the home. Loans can also be structured to reduce to zero over a certain number of years, creating an incentive for the homeowner to remain in the property for a specified period of time.

## SHIP HAS SUCCESSFULLY LEVERAGED OTHER FUNDING

The SHIP statute encourages the creation of public/private partnerships to leverage the state’s investment, and SHIP dollars have continually leveraged other funding throughout the life of the program. However, the leveraging ratio has been steadily declining. **Table 5** shows that, between Fiscal Years 1997 and 2004 (the first and last years for which leveraging data are available), SHIP leveraging fell from \$7.64 to \$4.07 on the dollar. Put another way, a single dollar of SHIP funding has leveraged a smaller amount of other resources over time, so that SHIP funds now represent a larger portion of each affordable housing transaction than in years past.

There are two key reasons for this loss of leveraging power. As housing prices have gone up and more SHIP subsidy is needed per transaction, the ratio of SHIP subsidy to private mortgage dollars has gone down. For example, a family purchasing a home costing \$60,000 might need \$5,000 in SHIP down payment assistance and a mortgage of \$55,000 to complete the purchase. In this scenario, one dollar of SHIP funding leverages \$11 in private funds. When the price of that home increases to \$180,000, that same family may need closer to \$60,000 in SHIP down payment assistance, and a mortgage of \$120,000, to make the sale. Now, a single dollar of SHIP has leveraged only two dollars in private funds. The previously discussed reduction in federal funding for housing programs is the other contributing factor to lower leveraging.

## ACCOUNTABILITY MEASURES AND COMPLIANCE MONITORING

The SHIP program includes a compliance monitoring and review process which ensures that local governments are held accountable for appropriate use of the state’s resources. On the front end of the process, Florida Housing’s SHIP staff reviews LHAPs, annual reports and audited financial statements for accuracy and to ensure that they meet statutory and rule requirements. As necessary, Florida Housing suggests specific Catalyst training modules to improve skill sets among local SHIP staff; this training is especially helpful to new SHIP staff. Florida Housing staff can also direct technical assistance providers in the Catalyst Program to

conduct on site technical assistance to a local government showing weaknesses or problems in managing its SHIP program.

Florida Housing also contracts with compliance monitors who perform site visits to review randomly selected files. This review ensures that proper documentation on SHIP recipients and use of SHIP funds is being maintained at the local level. This review also provides another opportunity to identify problem areas, which can be addressed through training, technical assistance and/or additional review.

Before any sanctions can be imposed, the SHIP statute requires that a pattern of violations must be established. A local government found to have significant problems with the management of its SHIP program is required to provide a Corrective Action Plan (CAP), detailing how it will address the issues raised and outlining the timeline for correcting them. The local government is then monitored for compliance with the CAP, and if the goals set forth in this action plan are not met, that jurisdiction is subject to statutory sanction. The only sanction available is suspension of a local government’s SHIP funding; however, once corrections are made the flow of funds begins again.

Very few SHIP programs have had their SHIP funds suspended. In the past 11 years, only two or three programs have faced this sanction for making ineligible expenditures. All of these went on to correct the issues by repaying the funds and are in good standing today. In these cases, the ineligible expenditures included taking too large an administrative fee, providing funds to recipients with incomes higher than those allowed by statute and providing awards higher than the maximum stipulated by the local government’s LHAP. It is important to remember that a pattern of violation must be established. While a greater number of SHIP programs are occasionally cited for an ineligible expense, these are typically errors in record keeping and are immediately corrected.

The combination of regular review of LHAPs and annual reports, consistent training and technical assistance opportunities, and compliance monitoring have kept the inappropriate use of SHIP dollars to a minimum.

**Table 5**

**SHIP Leveraging Power**



Source: SHIP Close Out Reports





CHAPTER

2

**Overview of Important Trends and  
Challenges Facing SHIP Today**

## LEGISLATIVE CAP ON HOUSING TRUST FUNDS

In 2005, the Florida Legislature enacted a cap on the amount of documentary stamp tax revenues that are distributed into the State and Local Government Housing Trust Funds. This cap went into effect on July 1, 2007. The Legislature used the initial cap amount of \$243 million to fund recurring programs such as SHIP, which was funded at just over \$166 million. As seen in **Table 6**, without the cap, estimated documentary stamp distributions into the Local Government Housing Trust Fund would have provided an additional \$54.5 million that could have been appropriated to SHIP.

As of July 1, 2007, the Local Government Housing Trust Fund contained over \$259.6 million in unappropriated revenues distributed into the trust fund in prior years. Combining these unappropriated funds with the \$54.5 million unavailable to SHIP for Fiscal Year 2007/08 would have provided over \$312.6 million with which Florida's local governments could have served an additional estimated 22,836 households.

## HOUSING COSTS ARE INCREASING, BUT INCOMES ARE NOT KEEPING PACE

In years past, when the gap between housing prices and income purchasing power was smaller, homebuyers needed smaller amounts of purchase assistance. As home purchase prices have increased, exacerbated by steep increases in property taxes and insurance rates, it now takes a larger subsidy to assist a single household. **Table 7** shows the increase in home prices compared to the increase in median incomes from 2002 to 2007 in the larger metropolitan statistical areas (MSAs) across the state.

**Table 8** shows the percentage increase in maximum SHIP awards per household for a sample of 20 local governments from 2001 to 2005. The average increase was 128 percent. The City of Sarasota posted the largest percentage increase in the sample, raising its maximum award from \$6,000 to \$45,000. Broward County raised its maximum award from \$10,000 to \$35,000, while Orlando raised its maximum award by a smaller percentage – from \$7,500 to \$10,000. While there has been an increase in the maximum SHIP award per household in higher cost areas of the state, many local governments continue to provide smaller subsidies which brings down the statewide average.

The need for increased subsidies per household has prompted many local governments to reexamine the structure of their purchase assistance programs with two objectives in mind: find sources of recurring income, and ensure that the investment of dollars is tied to long term affordability. Local governments are exploring equity sharing provisions and community land trusts as methods for meeting these objectives.

Equity sharing provisions require the homeowner to pay the local government a portion of the appreciation gained when a house is sold. This arrangement generates income for the local SHIP program to assist another eligible applicant. While the specific provisions vary from one local government to another, all generally require a prorated repayment of equity based on a certain number

**Table 6**

## Unappropriated Funds and the Cap Are Restricting the State's Resources for Affordable Housing

|   |   |               |
|---|---|---------------|
| A | Projected Fiscal Year 2007/08 Documentary Stamp Collections with No Cap <sup>1</sup>  | \$412,600,000 |
| B | Estimated Fiscal Year 2007/08 Full SHIP Appropriation with No Cap <sup>2</sup>  | \$220,700,000 |
| C | Actual Fiscal Year 2007/08 SHIP Appropriation with Cap <sup>3</sup>   | \$166,183,500 |
| D | Difference between Estimated SHIP Appropriation with No Cap and Actual Appropriation (B-C)  | \$54,516,500  |
| E | Funds Remaining Unappropriated in the Local Government Housing Trust Fund from Prior Years as of July 1, 2007 <sup>4</sup>                                    | \$259,564,881 |
| F | Estimated Number of Families That Could Be Assisted with SHIP Funds Remaining in the Local Government Housing Trust Fund and Funds Above the Cap <sup>5</sup> | 22,836        |

Source: Florida Housing Finance Corporation, based on March 2007 revenue estimates provided by the Legislative Office of Economic and Demographic Research.

### TABLE NOTES:

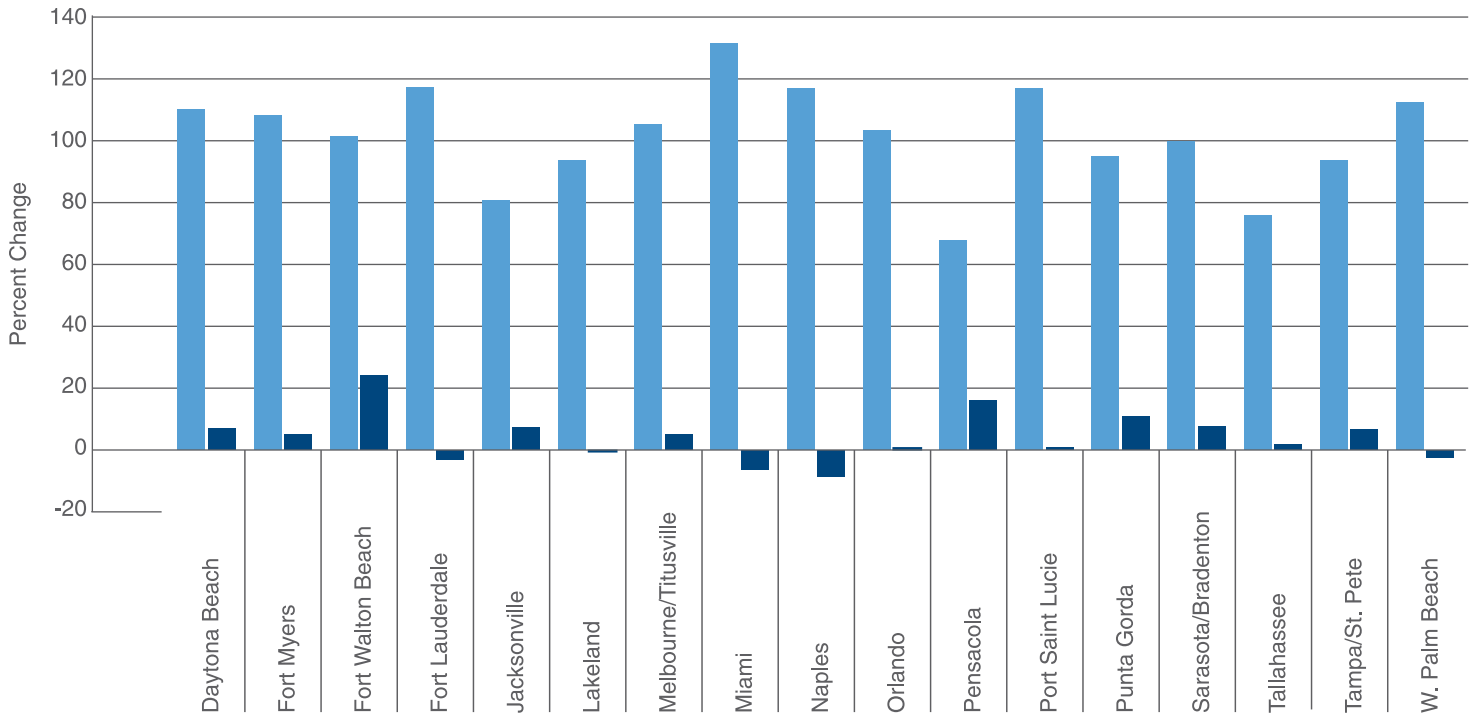
1. Estimated collections that, without the cap, would have been distributed into the State and Local Government Housing Trust Funds in Fiscal Year 2007/08.

2. The full distribution to the Local Government Housing Trust Fund in Fiscal Year 2007/08 was estimated to be \$289,000,000. This row shows the funds that would have been available to the SHIP program after removing the CWHIP appropriation of \$62.4 million and the Florida Department of Children and Families' Homeless Housing Assistance Grant (HHAG) program appropriation of \$5.9 million per the Legislature's 2007 appropriations.

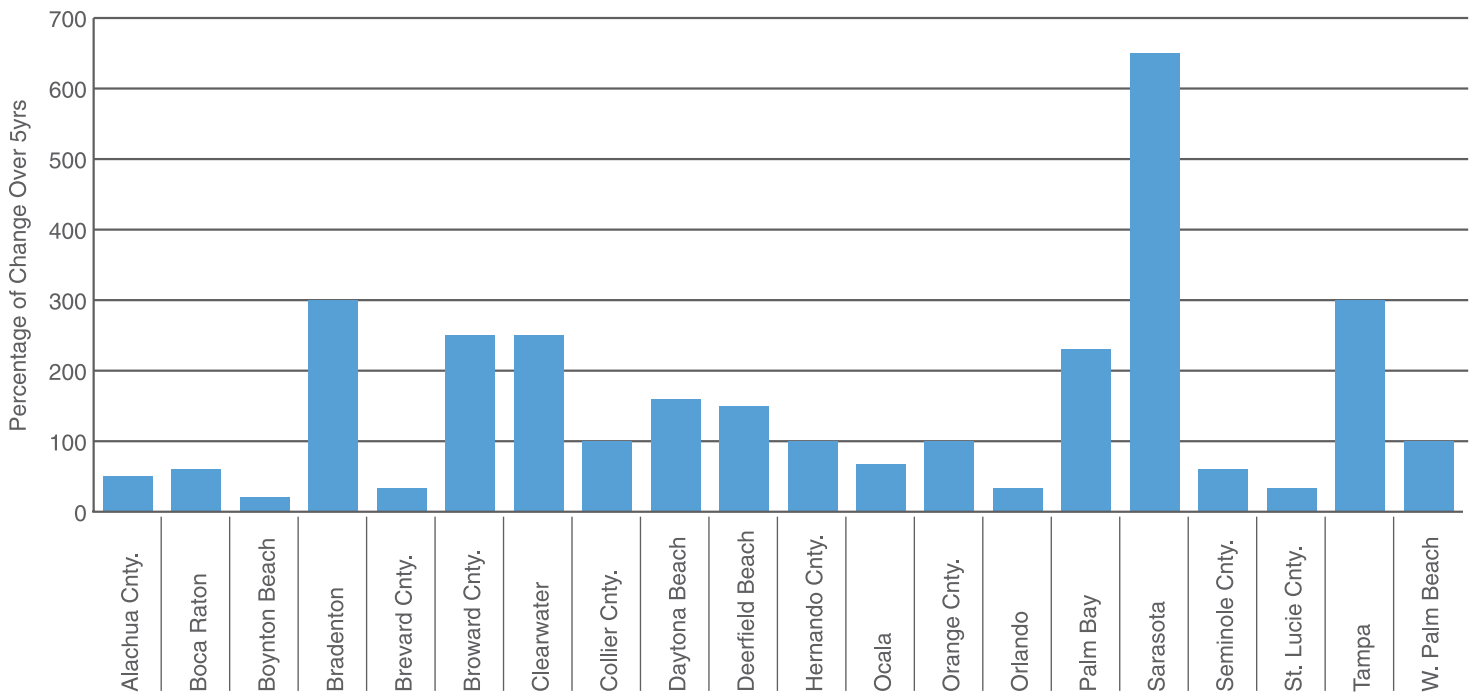
3. While the Florida Legislature appropriated \$235.9 million from the Local Government Housing Trust Fund for Fiscal Year 2007/08, only \$167,600,000 was earmarked for the SHIP program. The balance of the appropriation went to the CWHIP and HHAG programs, in the amounts outlined in Note 2 above.

4. This figure represents the unappropriated funds in the Local Government Housing Trust Fund as of July 1, 2007, after the 2007 appropriation of \$63.4 million to fund CWHIP and HHAG.

5. The sum of columns D and E were divided by an estimated SHIP subsidy of \$13,754 per household over the past three years (the average subsidy per household for Fiscal Years 2003/04 through 2005/06).

**Table 7****Comparison of Increases in Housing Prices versus Income, 2002-2007**

The Light Blue series shows the increase in housing prices from 2002 to 2007. The Dark Blue series shows the increase in median incomes over the same period. Sources: Office of Federal Housing Enterprise Oversight Housing Pricing Index and U.S. Department of Housing and Urban Development.

**Table 8****Increases in Local Government Maximum Awards per Household, 2001-2005**

Source: Analysis of the State Housing Initiatives Partnership and Hurricane Housing Recovery Programs, prepared by Florida Housing Finance Corporation, May 2006.

of years of ownership.<sup>16</sup> Some equity sharing provisions expire if the owner occupies the unit for a prescribed number of years, while other provisions remain on the property in perpetuity.

Another method for combating the rising costs of homeownership and ensuring long term affordability is the use of a Community Land Trust (CLT). Under the increasingly popular CLT model, homes are sold to eligible applicants, but the land is owned by a nonprofit trust which enters into a 99-year ground lease with the homeowner. The homeowner has a chance to realize some equity over a period of years, although the amount will be limited by the CLT agreement. The CLT model seems to be ideal in markets where land and housing prices are very high – by removing the cost of the land from the transaction, homeownership is brought within closer reach of low- and moderate-income families. For the local government, the CLT provides a way of creating a permanent affordable housing stock. Today there are approximately 30 CLTs throughout the state in various stages of development.

By encouraging homeowners to remain in the home for a number of years, equity sharing and CLTs also discourage the practice of flipping, where a homeowner buys and sells a home in quick succession. This drains equity from the home and makes the purchase price even more unaffordable to a lower income family.

## **STRETCHING FINITE RESOURCES TO ASSIST A BROADER ARRAY OF HOUSEHOLDS**

Generally, Florida’s rental programs have focused on serving households with incomes ranging from 40 to 60 percent of AMI, while homeownership strategies have focused on assisting households with incomes ranging from 50 to 120 percent of AMI. In more recent years households earning above 120 percent of AMI, however, state and local housing programs have been asked to serve both ELI households, which earn 30 percent or less of AMI, and households earning above 120 percent AMI. This focus on serving a broader array of income levels comes at a time when funding for state and local housing programs is not growing, forcing these programs to stretch their finite resources even further.

Essential services professionals such as teachers, firefighters, police and nurses are not finding affordable housing near their place of employment. This means these critical workers may live far from the city where they work, or in some cases, may choose to relocate out of Florida to areas where housing is less expensive. As a result, many local governments are discussing and implementing policies to set aside portions of their SHIP funds to provide assistance to applicants who work in these professions.

With a second year of funding now appropriated for the Community Workforce Housing Innovation Pilot (CWHIP) program, the Florida Legislature increased the income level that may be served by SHIP to 140 percent of AMI when SHIP funds are combined with CWHIP dollars.<sup>17</sup> Groups such as the Florida Chamber of Commerce and large employers such as hospitals and universities are exploring the use of employer assisted housing as a tool to recruit and retain the employees essential to their operations.

At the other end of the spectrum, ELI households are struggling to afford the rents on their homes. As stated earlier, a Florida renter earning the state’s minimum wage would have to work 102 hours per week, 52 weeks per year to afford a two bedroom apartment.<sup>18</sup> Developers providing affordable rental housing for ELI families are confronted with per unit operating expenses, and increases in insurance and property expenses, that are higher than the rents they are allowed to charge for these units. Therefore, higher subsidies for ELI households must be provided to ensure affordable homes for these residents.

## **MINIMUM ALLOCATIONS ARE NOT ENOUGH**

Smaller counties receiving the minimum SHIP allocation of \$350,000 are particularly challenged to assist lower income households. These counties have not been spared the trend of needing more SHIP subsidy for each household served. Additionally, these counties may not have other affordable housing programs from which to pull administrative fees. Thus it is becoming increasingly difficult to staff the local program with the 10 percent administrative fee allowed by SHIP’s statute – in these cases, only \$35,000. However, some of the smaller counties have recently initiated a change from providing grants to repayable loans, which generate program income. This switch should begin to build these counties’ SHIP programs over time, allowing them to increase housing services to local residents even as housing costs rise.

## **CONCLUSION**

SHIP has been operating in a challenging contemporary context, one in which increased per household subsidy and demands for housing from a broader income spectrum have tested the capacity of local housing programs. The Study Commission commends local governments in the implementation of their SHIP programs to serve very low-, low- and moderate-income families despite these obstacles. The Commission also commends the architects of the SHIP program for creating a program that has been capable of providing flexibility to local governments, allowing them to respond to changing conditions.

CHAPTER

3

**Recommendations for the  
State Housing Initiatives Partnership Program**



## INTRODUCTION

In its fifteen years of existence, the SHIP program has proven successful in assisting Florida's very low-, low- and moderate-income families to obtain affordable housing. Furthermore, SHIP has built the local capacity of counties and cities to address their specific housing needs. This capacity was highlighted by the successful implementation of the Hurricane Housing Recovery Program which utilized the existing infrastructure of local SHIP programs to move hurricane recovery funds quickly into needy areas. Moreover, SHIP has accomplished its goals by striking an effective balance between providing local governments with the flexibility to craft their own strategies, and reporting and use requirements that ensure a responsible, accountable use of state dollars.

The Commission considered the following questions in formulating its recommendations.

- **Should SHIP be required to serve households above the current statutory limit of 120 percent of AMI? Even though SHIP may be used now to serve ELI households, should a portion of SHIP funds be required to be directed to this population to ensure that these harder to serve residents receive assistance?**
- **Should the 65 percent homeownership and 75 percent construction requirements in the SHIP statute be changed? Have local governments' housing needs changed enough to warrant changes to these statutory requirements?**
- **Should local governments be allowed to use their SHIP dollars for manufactured housing, a use which is currently not allowed?**
- **Have local governments been able to meet the required expedited permitting incentive?**
- **What are the barriers to blending SHIP with private funding sources and how can these barriers be eased?**
- **Can SHIP support small, privately owned rental properties which offer an affordable housing option to lower income households?**

The following recommendations do not change SHIP's successful core concepts: local government flexibility, achievable and appropriate income targets, appropriate production goals and accountability measures that protect the state's resources. Instead, the Study Commission's recommendations offer ideas for fine tuning areas of the program.

## I. REAUTHORIZATION OF THE HOUSING TRUST FUNDS WITHOUT THE CAP IS CRITICAL

*Recommendation - In 2008, the Florida Legislature should reauthorize the State and Local Government Housing Trust Funds without the cap.*

▶ Each Florida trust fund must be reauthorized by the Florida Legislature every four years. In 2008, the State and Local

Government Housing Trust Funds are up for reauthorization. The Study Commission believes that reauthorization and full funding of these trust funds is critical to ensure that Florida can continue to address affordable housing needs into the future.

In 1988, the Florida Legislature set an ambitious goal to ensure that decent and affordable housing is available for all of the state's residents by 2010.<sup>19</sup> Given the multiple housing challenges that have beset the state it is unlikely that this statutory goal will be achieved. Nevertheless, the goal is still a worthy one, and should be pursued with all available resources. Limiting the state's most productive source of affordable housing funding is counterproductive to this effort.

Florida's housing trust funds, along with the SHIP program as a method for distribution, have been a national model for funding affordable housing and distributing those funds to local jurisdictions. According to the Center for Community Change, 38 states have created affordable housing trust funds. Of these, Florida and New Jersey are the only ones with annual revenues greater than \$100 million.<sup>20</sup>

Florida's affordable housing trust funds were designed to generate more revenue in years when the housing market is expanding. As housing prices increase, more documentary stamp taxes are generated, and the trust funds receive more revenue, exactly when affordable housing is most needed. The extreme hurricane seasons of recent years have shown that the housing trust funds are also an important source of funding following natural disasters.

The reauthorization of the trust funds without the cap supports a critical economic engine for the State of Florida. The state's investment triggers investments from private sources, such as equity infusions and bank loans, and a number of federal programs including mortgage revenue bonds, low income housing tax credits, and the HOME program. A white paper prepared by the Florida Housing Coalition in March 2007 finds that every \$1.00 of state funding for housing has generated over \$6.05 of federal and private sector funding.<sup>21</sup> Moreover, every \$1.0 million of state funding into the housing construction industry generates \$10.36 million of economic activity. As part of that economic activity, each \$1.0 million of state funding generates over \$4.05 million in earnings and income. Finally, every \$1.0 million of state funding creates 106 jobs and generates almost \$100,000 of sales tax revenue to the state, directly attributable to the purchase of construction materials.<sup>22</sup>

The bottom line is that providing affordable housing continues to be a difficult task, due to a number of dynamics. As noted earlier in this report, housing prices are rising while household incomes remain relatively flat, driving SHIP programs to provide higher maximum allocations per household, and resulting in fewer households being assisted. Direct federal funding to local governments for housing programs has been declining over the years putting more pressure on state dollars to meet housing demands. As the state continues pushing towards the important goal of making affordable housing available to all, reauthorizing the housing trust funds without the cap is a necessary and vital step.<sup>23</sup>

## II. INCOME TARGETING

**Recommendation** - *The Commission recommends that SHIP's existing income targets, and the flexibility provided to local governments to meet these targets, should be maintained.*

▶ One of SHIP's key strengths is its reputation as an effective program that serves the households targeted by its statute. The Commission finds no reason to adjust the statutory income goals specified in Section 420.9075, Florida Statutes. However, the challenges and urgency of finding ways to serve ELI families, and the focus on supporting workforce housing presented compelling reasons for the Commission to consider how SHIP might respond.

The Commission discussed using SHIP to assist households earning more than 120 percent of AMI with housing that has been labeled "workforce housing," and ultimately determined that SHIP funds should not be used for these households. There is no doubt that the challenges facing these households are very real – in higher cost areas of Florida, it has become difficult for teachers, nurses, police, firefighters and other essential services workers to find affordable housing near their workplaces. Employers are finding it increasingly difficult to recruit and retain key personnel, and some larger employers such as hospitals, universities and city governments have instituted programs offering purchase assistance for employees.

As noted earlier in this report, the Florida Legislature responded to this growing concern by enacting the CWHIP program. Now in its second year, CWHIP has been funded to finance the construction of workforce housing for "essential services personnel" with incomes at or below 140 percent of AMI.<sup>24</sup> Competitive funding is offered to public-private partnerships building homeownership, rental and mixed use developments. Local provision of land use and financial incentives are critical components of developments awarded CWHIP funding. The presence of these resources, combined with the fact that SHIP funds may be used for higher income families when combined with CWHIP, led the Commission to determine that households earning above 120 percent of AMI should not, as a matter of course, receive SHIP assistance.<sup>25</sup>

**Recommendation** - *Florida Housing Finance Corporation should evaluate the 2007 local SHIP Annual Reports to determine whether ELI households are being served by SHIP. Based on these findings, Florida Housing should consider solutions to address this population, including using the Catalyst Program to train SHIP administrators in effective strategies for serving the population.*

▶ Of the over 745,000 ELI households in Florida in 2004, 52 percent were renters and approximately 47 percent were employed. Over half of all ELI households – 57 percent, or just over 425,000 households – faced severe cost burdens as they paid over half of their monthly income for housing costs.<sup>26</sup> Because of the tremendous housing pressure on this population, the Commission deliberated whether the SHIP statute should require a set-aside for ELI households.

The SHIP statute requires that 30 percent of the annual allocation serve households earning 50 percent or less of AMI and another 30 percent serve households earning 80 percent or less of AMI. Both of these income ranges include ELI households. The Commission found that just over 47 percent of SHIP dollars have served very low-income households, and wondered what portion of funds actually served ELI households. The only ELI data were compiled by the Florida Housing Coalition in 2004 from 22 randomly selected Fiscal Year 2000/01 close-out reports (the most recent information available at the time). The Coalition found that those 22 SHIP jurisdictions expended just under \$6 million of their SHIP dollars on ELI households. This represented approximately 18 percent of the total SHIP dollars spent by these local governments.<sup>27</sup> Annual data on the number of ELI households served by SHIP will be available in September 2007 for the first time, when ELI data are required to be included in the SHIP annual reports.

In addition to local funding that may be targeted to ELI households, the Florida Legislature appropriated \$30 million in ELI funding that Florida Housing will provide as supplemental funding through its 2007 Universal Application Cycle to developers who commit to including ELI units in their rental developments.<sup>28</sup> Finally, the Commission notes that local governments that allocate SHIP funds to rental properties in support of applications to state administered programs also may be assisting ELI units when those applications are awarded state funding.

### SHIP STRATEGIES SERVE THE MOST VULNERABLE

#### **Pasco County's Tax & Insurance Program:**

Provides \$450,000 in SHIP funds to low-income families in the form of zero percent, 10 year loans to pay insurance premiums which have risen sharply, putting these families at risk of losing their homes.

#### **St. John's County's Betty Griffin House:**

\$100,000 in SHIP funds supported the Betty Griffin House, which provides transitional housing for domestic violence victims and their families. The SHIP funding spurred support from other private sources and helped to secure homeless assistance grants and HUD's emergency shelter grant.

#### **Jacksonville's Liberty Center IV:**

SHIP dollars were infused into the construction budget for this development providing permanent housing for homeless persons, helping to create a \$1.5 million operating reserve to support the property's on-going operating costs.

#### **Marion County's Genesis House:**

SHIP dollars were provided to this emergency transitional housing for teens aging out of the foster care system in the form of a zero interest loan.

*Source: November 8, 2006, Affordable Housing Study Commission Meeting testimony.*

### III. PRODUCTION GOALS

*Recommendation - The Florida Legislature should amend Section 420.9075(5)(a), Florida Statutes, to create a process allowing local governments to waive the 65 percent homeownership requirement when a demonstrated need, as specified by rule, for rental units is shown.*

▶ SHIP requires local governments to distribute a minimum of 65 percent of their annual allocation to homeownership activities, and at least 75 percent to construction activities which can include new construction, emergency repairs and rehabilitation. After evaluation of testimony and available data, the Commission decided that these statutory requirements are still meaningful and support SHIP's purpose.

However, the Commission finds that these requirements may particularly hinder smaller counties needing to target rental unit production in some years. Not wishing to amend the basic statutory requirements which have served SHIP well, the Commission discussed a mechanism to allow a waiver of the homeownership requirement under certain conditions. The Commission did note, however, that a significant number of counties are earning program income which is not subject to the same statutory restrictions on use as the annual allocation, and therefore can be directed towards rental developments.

The Commission found a precedent for a waiver process in the Hurricane Housing Recovery Program (HHRP) which offered local governments a streamlined waiver process allowing them to use less than 65 percent of their HHRP funds for homeownership activities when the local government determined that hurricane recovery strategies were better targeted to rental homes. This process required a letter to Florida Housing stating the local government's intention to divert funds to rental units. The Commission embraced the concept of a waiver, but agreed that a more structured process would be appropriate for the SHIP program. This process might incorporate the following elements:

- **A public hearing or resolution by the local governing body formally requesting the waiver. The resolution must include the percentage of SHIP funds to be utilized for rental units for each fiscal year as stated in the LHAP;**
- **Clear demonstration of high demand for rental units as evidenced by a market study no more than 24 months old or by established waiting lists of families seeking rental housing. Local governments should consider prioritizing preservation of their rental stock or addressing dilapidated rental housing;**
- **Documented lack of ability to utilize SHIP funds under current SHIP requirements to adequately provide sufficient subsidy for assistance to the number of rental units needed; and**
- **This request for waiver should coincide with the submission of a Local Housing Assistance Plan or amendment to a Local Housing Assistance Plan.**

### IV. EXPANDING SHIP'S EFFECTIVENESS

#### **Using SHIP for Manufactured Housing**

*Recommendation - The Florida Legislature should revise the definition of "Eligible Housing" found at Section 420.9071(8), Florida Statutes, to create an exception allowing local governments to utilize SHIP funds to assist existing owners of HUD-Code manufactured housing designated as real property in need of accessibility modifications, utility or sewer hook-ups, or emergency repairs. SHIP funds should not be used to provide purchase assistance for such housing and Local Housing Assistance Plans should restrict this use to elderly and disabled households earning at or below 120 percent of AMI, and all other households earning 80 percent or less of AMI.*

▶ Of the 7.3 million housing units in Florida in 2000, almost 850,000 of those units are manufactured housing built to the Manufactured Home Construction and Safety Standards or "HUD-Code."<sup>29</sup> Of these manufactured housing units, 81.7 percent are owner-occupied.<sup>30</sup> Owner occupied manufactured housing placed on leased land (such as a mobile home park) has little likelihood of appreciating in value, making such housing a poor asset building tool for families. Manufactured housing placed on owned land (especially prevalent in Central and North Florida) has a greater potential for appreciation as the value of the underlying land increases. We do not know what portion of these homes are real property versus personal property.

Residents of manufactured housing tend to be lower income elders. According to the International Hurricane Center's (IHC) 1999 statewide survey, almost 36 percent of manufactured housing residents reported incomes below \$20,000, with the majority (51.4 percent) having incomes between \$20,000 and \$50,000. Further, 49.4 percent of all manufactured housing units in the state had at least one member who was over 65, and 37 percent had residents who were all over 65 years of age.

The SHIP statute does not allow SHIP funds to be used for manufactured housing.<sup>31</sup> When the Study Commission examined the role of manufactured housing in Florida in its 2003 report, it concurred that the prohibition on using SHIP funds for manufactured housing be maintained.<sup>32</sup> This prohibition is based on the source of funding for SHIP—revenues from documentary stamp taxes arising from real estate transactions. In the past, most manufactured housing transactions were personal property transactions that did not generate documentary stamp tax revenues to fund the SHIP program. This made the 2003 Study Commission reluctant to use limited SHIP dollars to support the use of a housing option that does not generate additional funds to support the program and its mission. The Study Commission acknowledged that a growing number of manufactured housing transactions are financed as real property, and therefore generate documentary stamp tax revenues that are distributed into the housing trust funds. However, no data were available in 2003 to determine the proportion of real property transactions.

According to data recently made available by the Florida Department of Revenue, manufactured homes held as real property



generated over \$22 million in documentary stamp taxes in 2005 alone.<sup>33</sup> Of this amount, \$3,271,400 would have gone into the state's housing trust funds. This represents 0.7 percent of the total distribution to the housing trust funds in Fiscal Year 2004/05.

Knowing the contribution that real property manufactured housing makes to the housing trust funds and the role this housing option plays in providing shelter for many low-income elder and persons with disabilities makes the Commission more willing to recommend the use of SHIP to assist manufactured housing under certain conditions. The Commission's recommendation is confined to owner-occupied manufactured housing that is considered real property, because these types of homes contribute to the state's housing trust funds and serve as an asset building tool for families.

### **Using SHIP for Smaller Rental Properties**

**Recommendation** - *The Commission strongly encourages local governments to consider how unrestricted SHIP program income can support small, privately owned rental properties.*

▶ During its two year preservation study, the Commission considered the role of small, privately-owned, unsubsidized rental properties throughout the state in providing an affordable housing option. These "mom and pop" properties provide families with reasonable rents, but are aging and would benefit from upgrades. Many of these properties are conventionally financed and, therefore, have no affordability or use restrictions keeping them accessible to lower income families. The Commission's recommendations regarding this segment of the housing stock are offered to encourage local governments and SHIP staff to consider directing resources, especially program income, towards these smaller properties which cannot take full advantage of bigger, state administered programs.

If local SHIP programs assist these types of properties, it will be important to ensure that they remain affordable over time. The Commission believes the Hurricane Housing Recovery Program offers useful criteria for targeting lower income households. The Commission recommends that SHIP funds targeted to smaller rental properties be located in a census block group in which more than 51 percent of the households have incomes at or below 80 percent of the area median income.<sup>34</sup> Targeting these geographic areas provides some assurance that the households served will meet SHIP's income requirements.

**Recommendation** - *The Florida Legislature should revise Section 420.9075(4)(e), Florida Statutes, to increase the per unit loan or grant limit on rental units which triggers annual monitoring, tenant income certification and resale restrictions in the SHIP program from \$3,000 to \$15,000. To ensure the property remains available as rental housing, the local government should provide a second mortgage under the condition that selling the property before 10 years, or converting its use from rental, will trigger repayment of the entire SHIP loan or grant.*

▶ Currently, the SHIP statute states that any loan or grant in the original amount of \$3,000 or less shall not be subject to annual monitoring and determination of tenant eligibility requirements. Only the initial renter must be income eligible and pay an affordable rent. This minimal requirement acknowledges that local SHIP administrators generally have limited resources to carry out ongoing income certification and monitoring on rental properties. The Study Commission recommends that the SHIP statute be amended to raise the rehabilitation expense limit on properties of 10 units or less from \$3,000 to \$15,000 per unit similar to what was implemented for the Hurricane Housing Recovery Program.

**Recommendation** - *The Florida Legislature should revise Section 420.9075(7), Florida Statutes, to increase the administrative fee allowed on unrestricted SHIP program income to 10 percent to match the administrative fee allowed under the initial SHIP allocation.*

▶ The Study Commission encourages local governments to use program income, which is not subject to the same use restrictions as the annual allocation, to address rental needs. The Commission further acknowledges that using program income requires the same staff time and effort as administering the annual allocation. Therefore, the SHIP statute should be amended to allow a 10 percent administrative fee on program income to match the administrative fee allowed for the annual allocation.

### **Expedited Permitting and Effective Regulatory Reform**

**Recommendation** - *Florida Housing Finance Corporation and the Florida Department of Community Affairs should train housing and planning stakeholders respectively on the statutes, rules and policies, including expedited permitting, that affect affordable housing to promote better coordination between land use policies and affordable housing funding strategies.*

▶ Section 420.9076, Florida Statutes, outlines a menu of affordable housing incentives intended to lower the costs of developing affordable housing in SHIP jurisdictions. Section 420.9071(16), Florida Statutes, requires local governments to implement three of the incentives listed in the statute:

- **Expediting development orders and permits for affordable housing developments;**
- **An ongoing process for review of local policies, ordinances, regulations, and plan provisions that increase the cost of housing prior to their adoption; and**
- **A schedule for implementing the incentive strategies.**

In addition, H.B. 1363, adopted in 2006, now requires local governments to create an inventory of locally owned public land that is suitable for affordable housing.

Of the three required incentives, the Commission was particularly interested examining in the effects of expedited permitting. Long

waiting periods for permits or development orders not only delay both construction and a developer's income from a project, but also increase the costs of developing affordable housing as construction loans accrue interest. Expedited permitting is intended to promote the production of affordable housing by reducing the time it takes to review and approve all types of developmental orders and permits. However, developers, local planning officials and SHIP administrators have varied perceptions on whether expedited permitting is taking place in Florida. The Commission wanted to know whether expedited permitting is working, and if not, what obstacles are preventing its effectiveness.

These perceptions have been studied in two surveys, the first conducted in 1997 by 1000 Friends of Florida<sup>35</sup> and the second in 2007 by Jonathan Frederick.<sup>36</sup> The 1997 study was the first attempt to test the perceptions of local government and private developers regarding the implementation of regulatory reform and whether these measures to decrease the costs of producing affordable housing were effective. Responses showed that developers were most concerned with delays caused by lengthy land use approval processes, with special concern over the delays in the regional Water Management District permitting process. On the other hand, developers were most satisfied when the local government permitting process was centralized in one location or where a local government staff person was available to guide and facilitate a development through each step of the process.



The 2007 study also probed perceptions of, and real life experiences with, expedited permitting from the perspective of developers, local government planning officials and SHIP administrators. The study sought to determine the specific strategies local governments are using to expedite affordable housing, the types of permits that actually receive expedited processing, whether all affordable housing developments receive expedited permitting and how effective the most common strategies have been at expediting the permitting process.

Frederick's 2007 study utilized online surveys, customized for developers, planning officials and SHIP administrators. The survey responses were supplemented with phone calls. This methodology resulted in response rates of just under 41 percent for developers, 58 percent for SHIP administrators and just over 55 percent for local planners. In addition to the survey, the local housing assistance plans for all SHIP jurisdictions were reviewed to determine the strategies that the jurisdictions are using to expedite the permitting process.

According to Frederick's study, local planners and developers have consistently different views on whether expedited permitting is actually occurring. While just over 54 percent of local planners surveyed believe all affordable housing developments are receiving expedited permitting, only 39 percent of developers agree with this perception. In some SHIP jurisdictions, affordable housing is defined as only those developments receiving federal or state subsidy rather than any housing that is affordable to households with lower incomes. Nearly half of the planners and three-quarters of the developers reported that projects without subsidy received no permitting benefits. A more restrictive definition of affordable housing means that the number of projects that qualify for expedited permitting is reduced, undermining the ability of incentives to encourage the private market to develop affordable housing.

Further blunting the intended impact of expedited permitting is the fact that only the simplest kinds of permitting – those for building permits and site plans – usually receive expedited review. More complicated processes such as rezoning can take approximately 12 months, sometimes more, which is clearly not an expedited schedule. Frederick's study also captured the impact that lengthy state permitting processes and lack of coordination at the local level are having on achieving expedited permitting. Developers reported that local expedited permitting was useless to them when state departments such as the Florida Department of Environmental Protection or a regional Water Management District were required to review the development. The lack of coordination between local housing and planning staff creates further delays. Even though statutory revisions have been made to ensure that all types of permitting are expedited and that Water Management Districts are required to expedite affordable housing permitting, Frederick's survey results suggest that these two issues still are not resolved.

Finally, Frederick's study examined which strategies are most effectively expediting permitting. The review of the LHAPs revealed that many of the plans do not provide detail about how the local government will achieve expedited permitting. The most common strategies included in the LHAPs were the use of

an ombudsman or a flagged application process. An ombudsman is a designated staff person charged with the responsibility for guiding affordable housing developments through the permitting and development process. The flagged application process can be as simple as using a colored sheet of paper to identify affordable housing applications – this sheet of paper then moves the application up in priority for review.

Other strategies identified for expediting permitting were pre-development meetings and concurrent reviews. Ultimately, planners and developers still have different perceptions regarding the effectiveness of expedited permitting strategies: a majority of both developers and SHIP administrators believe that an expedited permitting tool can impact the cost of housing, while nearly half of the local planning officials surveyed believe that this tool has no effect on housing cost.

As a result of the Commission’s legislative recommendations to Representative Mike Davis on H.B. 1375 and Senator Rudy Garcia on S.B. 780, local Affordable Housing Advisory Committees are now required to convene every three years. Their purpose is to evaluate the implementation of established policies, procedures and regulations and propose specific new actions to local plan provisions and other regulatory policies to facilitate the development of affordable housing. The new requirement that these committees be jointly staffed by local planning and housing departments can ensure that an integrated approach is brought to the committees’ work. The Commission applauds this step. However, the Commission strongly believes that Florida Housing Finance Corporation and the Florida Department of Community Affairs must provide leadership and perspective to local colleagues on the purpose of this work and the possibilities for increasing attention on the value of land use policies being used in concert with SHIP funding to provide affordable housing.

### **Combining SHIP with Private Funding Sources: A Challenge and an Opportunity**

**Recommendation - Florida Housing Finance Corporation should amend the SHIP Compliance Rule found at Chapter 67-53.005(2), Florida Administrative Code, to clarify the acceptable methods of income verification.**

▶ Combining SHIP dollars with private mortgage loans and mortgages financed by the sale of tax exempt bonds can be a fertile source of leveraging opportunities for SHIP jurisdictions providing homeownership opportunities. Tax exempt bonds can be issued to provide some of the lowest available mortgage interest rates, while the combination of private mortgage loans and SHIP dollars fulfills the statute’s goal of encouraging partnerships to reduce the cost of housing by effectively combining all available resources and cost-saving measures.

Across the state, SHIP programs have been successful in developing partnerships with private lenders to give households access to affordable mortgage loans. However, these partnerships are being hindered by conflicting income verification and underwriting methods. Private lenders, working with the secondary

market, generally rely on computerized underwriting and income verification process. These lenders are approving loans faster than SHIP administrators, who tend to rely on manual underwriting and the lengthier Section 8 verification requirements.<sup>37</sup>

The challenge is heightened when SHIP funds are combined with tax exempt bond mortgages which mandate an IRS based income verification process. Lenders find themselves duplicating efforts and waiting for SHIP approvals to be completed. If the delay is too long, the private lender must repeat the verification and approval process for that client. This situation does not promote private lender participation in affordable homeownership transactions that include SHIP funds.

Historically, SHIP administrators have utilized the Section 8 income verification requirements because, in the early days of the program when more federal HOME dollars were available for leveraging, the Section 8 method blended well with the HOME income requirements. Today it is less common to blend HOME dollars with SHIP, but the practice of using the Section 8 method has become generally accepted by SHIP administrators and Florida Housing. Many SHIP administrators like the Section 8 formula because it allows them to report more specific sources of income for the entire household, thereby establishing whether the household can truly afford the mortgage for which it is applying.

Further reinforcing their choice is the Affordable Housing Catalyst Training and Technical Assistance Program’s focus on the Section 8 method in its training modules. Finally, SHIP administrators are concerned that their programs will be found to be out of compliance if they use one of the other allowed methods for income verification, because SHIP’s compliance rule identifies only the Section 8 procedures as the method for income verification. The Study Commission recommends that Florida Housing amend the SHIP compliance rule to align definitions of acceptable income verification with those outlined in the SHIP’s statute.

**Recommendation - The Florida Legislature should amend the definition of “Annual Gross Income” found at Section 420.9071(4), Florida Statutes to read: “Annual gross income” means annual income as defined under the Section 8 housing assistance payments programs in 24 C.F.R. part 5; annual income as reported under the census long form for the recent available decennial census; or adjusted gross income as defined for purposes of reporting under Internal Revenue Service Form 1040 for individual federal annual income tax purposes; or annual gross income as defined by any other methodology deemed appropriate and approved by Florida Housing Finance Corporation.**

▶ The Study Commission believes that, in addition to the three methods in statute, Florida Housing should have the flexibility to define an appropriate method for income verification to respond to underwriting processes as they change over time. This recommendation does not eliminate any of the existing methods and allows Florida Housing to consider appropriate alternatives which may facilitate the use of SHIP funds with private loan products as market conditions change.

**Recommendation** - Florida Housing Finance Corporation should use the Affordable Housing Catalyst Training and Technical Assistance Program to provide training on all allowed methods of verifying income eligibility, including which income method works best for different housing strategies, as well as on private lending underwriting standards.

▶ Different approaches to underwriting also contribute to the divide between local SHIP programs and private partners. While some SHIP programs continue to underwrite clients manually (i.e., they rely on the review of submitted paperwork to determine if a client is eligible for a loan and focus on the household’s “debt to income” ratio), private lenders have moved to computerized underwriting programs which analyze a wide range of factors, including debt and income factors, to approve mortgages. This difference in approach can result in the private lender approving a loan that is denied by the SHIP program.

The efficient blending of SHIP dollars with private funds should be facilitated while protecting clients from predatory lending practices and unnecessary delays. It is important that SHIP administrators utilize practices which confirm a household’s ability to afford a mortgage and keep the program in compliance with statutory and rule requirements. The Commission believes this goal can be achieved through education of all parties involved.

The Commission recommends that Florida Housing change the emphasis in the Catalyst Program’s “Understanding the Income Qualification Process” module to include explanations of all three of the statutorily accepted income eligibility methods and the circumstances in which each one may be most effective. Furthermore, SHIP administrators and other interested parties should receive training in the underwriting criteria used by private lenders to ensure that local programs are responding effectively to private lender needs as appropriate.

### **Minimum Allocations: Small Counties Struggle to Stretch their SHIP Dollars**

**Recommendation** - If the cap on the housing trust funds is maintained, the SHIP minimum allocation should remain at \$350,000. If the cap is lifted, the minimum allocation should be raised to \$450,000.

▶ The SHIP statute outlines a population based formula for distributing SHIP dollars among the counties and eligible municipalities. Smaller counties are guaranteed a minimum the annual allocation of \$350,000. Currently, there are 20 counties receiving this minimum allocation. This amount of funding has become less effective over the years as housing costs increase. Some of the key pressures confronting these smaller SHIP programs:

- **The costs for down payment assistance and rehabilitation have increased. Immediately following the hurricanes, bids for repair and construction work on single family homes rose from between \$65,000 and \$70,000 to more**

**than \$90,000.<sup>38</sup> While these costs have fallen more recently, it is not likely they will return to pre-hurricane levels;**

- **Small counties do not receive federal entitlement Community Development Block Grant or HOME dollars to supplement their affordable housing programs; and**
- **The 10 percent administrative fee which can be taken from the annual allocation no longer covers the salary, benefits and other costs for a dedicated SHIP staff person.**

The Commission recognized that increasing the minimum annual allocation for these counties would require minimal reductions in the allocations to other counties, ranging from a low of approximately \$1,700 to a high of approximately \$150,000. In the context of restricted funding for affordable housing, the Commission recommends that the minimum allocation stay at \$350,000. However, with elimination of the cap, the minimum allocation should be raised to \$450,000.

### **More Flexible Sanctions Should be Available for Non-Compliant SHIP Programs**

**Recommendation** - The Florida Legislature should amend Chapter 420.9075(13)(a), Florida Statutes, to allow Florida Housing to withhold ineligible SHIP expenditures from future SHIP allocations to ensure repayment without resorting to complete suspension of SHIP funding.

▶ During the compliance monitoring process, Florida Housing sometimes discovers that a local government has used SHIP funds for ineligible expenses. Ineligible expenses can include providing assistance to a recipient with an income greater than that allowed by statute or taking too large an administrative fee. When this occurs, the local government is required to pay back to the SHIP program an amount equal to the ineligible expenditure. Local governments can use their general revenue funds to make these payments. However, for smaller counties which do not have enough general revenue to cover this expense, the only sanction available to Florida Housing is to suspend that SHIP program’s funding entirely.

Based on testimony from Florida Housing staff, the Study Commission believes that an interim level of sanction should be created, one which will allow a local government to continue assisting households with SHIP funds while repaying the state for funds which have not been properly used. The Commission recommends amending Section 420.9075(13)(a), Florida Statutes, to permit Florida Housing to withhold an amount equal to any ineligible expenditures from a SHIP program’s future allocation. As an example, if a local government entitled to the minimum allocation of \$350,000 was found to have expended \$10,000 of SHIP funds on ineligible activities, the jurisdiction would only receive \$340,000 from its next fiscal year allocation. If, on further investigation, the expenses in question were shown to be eligible, the withheld amount could then be distributed to the local SHIP program.

# 2007 FINAL REPORT CONCLUSION

Following its year long review of SHIP, the Study Commission remains convinced that this program is a key part of the foundation of Florida's ability to address its affordable housing needs. The Florida Legislature should reauthorize the State and the Local Government Housing Trust Funds and do so without the cap. The bottom line is that SHIP, along with the state's other affordable housing programs, are a critical economic engine for the state and Florida must ensure that they are positioned to do their utmost to meet our residents' housing needs in the coming years.



## END NOTES

<sup>1</sup>Data provided by Bob McKee, Florida Department of Revenue, via email, April 9, 2007.

<sup>2</sup>Revenues directed to the State Housing Trust Fund are allocated for programs such as the State Apartment Incentive Loan, the Homeownership Assistance Program, the Catalyst Program and the Predevelopment Loan Program.

<sup>3</sup>In addition to the SHIP program, revenues distributed to the Local Government Housing Trust Fund have been appropriated for pilot programs such as the Community Workforce Housing Initiatives Pilot Program and recurring programs, such as the Department of Children and Families' Homeless Housing Assistance Grant program. In Fiscal Years 2005/06 and 2006/07, hurricane recovery programs were also funded out of the Local Government Housing Trust Fund.

<sup>4</sup>Comparison of 1990 U.S. Census and 2005 American Community Survey.

<sup>5</sup>[www.huduser.org](http://www.huduser.org). Comparison of HUD state median incomes for 1989 and 2006. All dollar figures have been adjusted to provide accurate comparisons.

<sup>6</sup>County Property Appraiser Data compiled by the Shimberg Center for Affordable Housing.

<sup>7</sup>*Out of Reach Report*, National Low Income Housing Coalition, 1991 and 2005.

<sup>8</sup>[www.hud.gov](http://www.hud.gov). Community Planning and Development Appropriations. Figures include CDBG, HOME, ESG and HOPWA (minus state allocation of these funds). 1993 data are earliest available.

<sup>9</sup>Recaptured funds are still another source of income for SHIP jurisdictions. Recaptured funds are recouped when a client defaults on a loan or grant causing the jurisdiction to reclaim the financial assistance provided. Section 420.9071(24), Florida Statutes.

<sup>10</sup>Full text of the Commission's letter and recommendations can be found in Appendix Two.

<sup>11</sup>Section 420.9075(5)(d)2, Florida Statutes.

<sup>12</sup>*Analysis of the State Housing Initiatives Partnership and Hurricane Housing Recovery Programs*, Florida Housing Finance Corporation, May 2006.

<sup>13</sup>*Ibid.*

<sup>14</sup>*Ibid.*

<sup>15</sup>The Florida Legislature appropriated a total of \$391.4 million out of the housing trust funds for affordable housing for Fiscal Year 2007/08, which is \$148.4 million above the cap. This additional funding was drawn from unappropriated distributions into the trust funds in prior years.

<sup>16</sup>If the loan is sold on the secondary market, repayment is restricted to the same percentage as the subsidy provided.

<sup>17</sup>SHIP funds combined with CWHIP dollars for developments in the Florida Keys can serve income levels at or below 150 percent of AMI.

<sup>18</sup>*Out of Reach Report*, National Low Income Housing Coalition, 1991 and 2005.

<sup>19</sup>Chapter 420.0003(2), Florida Statutes.

<sup>20</sup>*Housing Trust Fund Progress Report 2007*, Mary E. Brooks, The Center for Community Change, page 11.

<sup>21</sup>*Economic Benefits of Sadowski Act: State and Local Housing Trust Fund Monies (State Funds)* white paper, Mark Hendrickson, March 19, 2007.

<sup>22</sup>*Ibid.*

<sup>23</sup>The Affordable Housing Study Commission offered a comprehensive policy to assist the state in reaching this goal in its 1998 report which can be found at [www.floridahousing.org/AHSC/AnnualReports](http://www.floridahousing.org/AHSC/AnnualReports).

<sup>24</sup>Essential Services Personnel must be defined by the local government in the Local Housing Assistance Plan prepared for the local SHIP program.

<sup>25</sup>Section 420.5095, Florida Statutes (the statute governing the CWHIP Program), was revised to authorize local governments to use SHIP funds for persons or families whose total annual household income does not exceed 150 percent of the area median income, adjusted for household size, in areas that were designated as areas of critical state concern (i.e., the Florida Keys).

<sup>26</sup>"A Demographic Profile of Extremely low-income Renter Households in Florida," Florida Housing Finance Corporation, January 2006.

<sup>27</sup>"Serving the Extremely low-income with SHIP," Stan Fitterman, *Housing News Network*, Summer 2004.

<sup>28</sup>Under the 2007 program, developers requesting competitive 9% housing credits are required to set aside 10 percent of the total units for ELI families. To receive the supplemental funding from Florida Housing, the developer must then commit to set aside an additional 10 percent of the units for which s/he can receive \$85,000 for each unit above the first 10 percent. For applications to all other state administered funding programs, no minimum ELI set-aside is required, but to receive the supplemental funding of \$85,000 per unit, the developer must set aside 5-10 percent of the units for ELI. The developer will not receive funding for units above the 10 percent maximum.

<sup>29</sup>Compiled at 24 CFR Part 3280, and the companion Manufactured Home Procedural and Enforcement Regulations, compiled at 24 CFR Part 3282.

<sup>30</sup>Manufactured housing in Florida is taxed in three ways, depending on the property status of the home. It may be taxed as real property, taxed through an annual license tax, or assessed and taxed as tangible personal property. If the owner of the unit permanently affixes the manufactured housing unit to land that the owner also owns, the unit is considered real property and must be assessed by the county property appraiser, placed on the real property assessment roll and taxed annually as real property. If the owner of the unit does not own the land or lot on which the unit is located, the owner must pay an annual license tax under Chapter 320, Florida Statutes, and purchase an "MH" series sticker from the Department of Highway Safety and Motor Vehicles.

<sup>31</sup>SHIP funds may be used for manufactured housing built to Florida Building Code standards.

<sup>32</sup>The recovery efforts of counties hit hard by the 2004-2005 hurricane seasons revealed the need for a funding source that could rehabilitate existing manufactured housing. The state-funded Hurricane Housing Recovery Program allowed local governments to utilize their recovery funds for these repairs or replacements with newer HUD-Code homes. Florida Housing's 2006 analysis of SHIP and HHRP found that eleven communities were directing HHRP dollars to 339 units of manufactured housing.

<sup>33</sup>Data provided by Bob McKee, Florida Department of Revenue, via email, April 9, 2007.

<sup>34</sup>Hurricane Housing Recovery Program Emergency Rule, Chapter 67ER06-42 through 48, Florida Administrative Code.

<sup>35</sup>*Regulatory Reform Survey Report*, 1000 Friends of Florida, October 1996. This survey looked specifically at expedited permitting and the process for reviewing local policies, ordinances, regulations and incentive plan provisions that impact the cost of housing.

<sup>36</sup>*Expedited Permitting and Affordable Housing: A review of the expedited permitting processes mandated by the 1992 Sadowski Act for all affordable housing projects in the State of Florida*, Jonathan D. Frederick, Spring 2007 (draft).

<sup>37</sup>The SHIP statute provides three choices for verifying a client's income eligibility: the Section 8 housing assistance payments programs found in 24 C.F.R. part 5; the census long form for the most recent available decennial census; or the Internal Revenue Service Form 1040 for individual federal annual income tax purposes.

<sup>38</sup>March 12, 2007, SHIP Administrative Workgroup Conference Call.

### 2007 SADOWSKI COALITION MEMBERSHIP

- AARP of Florida
- Associated Industries of Florida
- Coalition of Affordable Housing Providers
- Florida Association of Counties
- Florida Association of Homes and Services for the Aging
- Florida Association of Housing and Redevelopment Officials
- Florida Association of Local Housing Finance Authorities
- Florida Association of Realtors
- Florida Bankers Association
- Florida Catholic Conference
- Florida Chamber of Commerce
- Florida Chapter of the American Planning Association
- Florida Coalition for the Homeless
- Florida Department of Community Affairs
- Florida Home Builders Association
- Florida Housing Coalition
- Florida Housing Finance Corporation
- Florida Impact
- Florida League of Cities
- Florida Legal Services
- Florida Supportive Housing Coalition
- Florida Retail Federation
- Florida United Way
- 1000 Friends of Florida



## THE AFFORDABLE HOUSING STUDY COMMISSION

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Darlene Pifalo  
Ellen M. Ramsey  
George D. Romagnoli

**STAFF**

Odetta MacLeish-White

April 13, 2007

The Honorable Mike Davis  
405 House Office Building  
402 South Monroe Street  
Tallahassee, Florida 32399-1300

The Honorable Rudy Garcia  
416 Senate Office Building  
404 South Monroe Street  
Tallahassee, Florida 32399-1100

RE: Recommendations on HB 1373 and SB 780 – TIME SENSITIVE

Dear Representative Davis and Senator Garcia:

The Affordable Housing Study Commission was created by the Legislature in 1986 to evaluate affordable housing policy programs for people with very low to moderate incomes and to recommend public policy changes that will ensure that Floridians have access to decent, affordable housing. Each year, the Commission provides its recommendations to the Governor and Legislature.

The Affordable Housing Study Commission has devoted its 2006-2007 study year to an examination of the State Housing Initiatives Partnership (SHIP) program. Over its 15 year history, SHIP has become a national model for local governments to fund adaptable and responsive affordable housing strategies to meet locally determined needs. As part of this year long review, the Study Commission received testimony at both its September and April meetings on the affordable housing incentives outlined in Section 420.9076, Florida Statutes.

During our discussions it became clear that a major obstacle to the effectiveness of these incentives is a long overlooked lack of coordination between housing and planning departments at the local and state levels. Each of you has proposed legislation that would require local SHIP Affordable Housing Advisory Committees to meet regularly. The committees evaluate the implementation of established policies, procedures and regulations and propose specific new actions to local plan provisions and other regulatory policies to facilitate the development of affordable housing. These committees are currently required to meet one time only as a local government initially establishes its SHIP program. House Bill 1373 would require these committees to meet every two years, while Senate Bill 780 would require such meetings to occur every three years.

The Study Commission would like to take this opportunity to share our recommendations relating to these important citizen groups.

***Dedicated to Promoting Affordable Housing in Florida Since 1986***

227 N. Bronough Street • Suite 5000 • Tallahassee, Florida 32301 • 850/488-4197 • Fax 850/488-9809



The Honorable Mike Davis  
The Honorable Rudy Garcia  
April 13, 2007  
Page Two

1. The Study Commission recommends that Affordable Housing Advisory Committees be required to meet once every three years to recommend and review the implementation of affordable housing incentives in each SHIP jurisdiction.

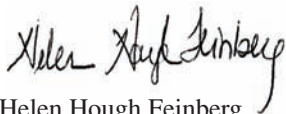
- HB 1373 currently recommends that this review process occur biennially. The Study Commission believes that the biennial requirement would not give local governments sufficient time to conduct the review, develop and adopt thoughtful implementation strategies, and allow the strategies to be used before another evaluation is required. We believe that a biennial timetable will create a constant cycle of meetings without enough time to see how well the changes actually work. Moreover, a 3-year timeframe would allow local governments to carry out the advisory committee process on the same timetable that the SHIP Local Housing Assistance Plan expires and is re-written, providing a useful efficiency for staffs. We recommend that HB 1373 be amended to require a three-year timetable.

2. The Study Commission further recommends that the advisory committees be cooperatively staffed by the local government planning and housing departments to ensure that an integrated approach is brought to the committee's work.

- To achieve true regulatory reform, housing and planning departments must work hand in hand to develop an understanding of the processes and challenges each must face. From testimony received by the Commission, we believe that increased interaction between these departments is needed. Requiring a cooperative administrative approach for these advisory committees would promote this conversation.

I have enclosed a copy of the Commission's recommended statutory language for your review. The Study Commission is encouraged by the proposed legislation to reinvigorate these committees. Please let me know if you have any questions. I can be reached at (727) 895-8892.

Sincerely,



Helen Hough Feinberg  
Chair

Enclosure

cc: Steve Auger, Executive Director, Florida Housing Finance Corporation  
Barbara Hoagland, Policy Chief, House Economic Expansion and Infrastructure Council  
Tom Yeatman, Staff Director, Senate Committee on Community Affairs

## Enclosure to April 13, 2007 Letter

### **RECOMMENDED STATUTORY AMENDMENTS to REINVIGORATE the SHIP AFFORDABLE HOUSING ADVISORY COMMITTEES**

Provided by the Affordable Housing Study Commission, April 13, 2007. Note: The Study Commission's additional recommendations are italicized and in bold.

420.9076 Adoption of affordable housing incentive strategies; committees.—

(2) The governing board of a county or municipality shall appoint the members of the affordable housing advisory committee by resolution. Pursuant to the terms of any interlocal agreement, a county and municipality may create and jointly appoint an advisory committee to prepare a joint plan. The ordinance adopted pursuant to s. 420.9072 which creates the advisory committee or the resolution appointing the advisory committee members must provide for eleven nine committee members and their terms. The committee must include:

- (a) One citizen who is actively engaged in the residential home building industry in connection with affordable housing.
- (b) One citizen who is actively engaged in the banking or mortgage banking industry in connection with affordable housing.
- (c) One citizen who is a representative of those areas of labor actively engaged in home building in connection with affordable housing.
- (d) One citizen who is actively engaged as an advocate for low-income persons in connection with affordable housing.
- (e) One citizen who is actively engaged as a for-profit provider of affordable housing.
- (f) One citizen who is actively engaged as a not-for-profit provider of affordable housing.
- (g) One citizen who is actively engaged as a real estate professional in connection with affordable housing.
- (h) One citizen who actively serves on the local planning agency pursuant to s. 163.3174.
- (i) One citizen who resides within the jurisdiction of the local governing body making the appointments.
- (j) One citizen who represents employers within the jurisdiction.
- (k) One citizen who represents essential services personnel, as defined in the local housing assistance plan.

If a county or eligible municipality whether due to its small size, the presence of a conflict of interest by prospective appointees, or other reasonable factor, is unable to appoint a citizen actively engaged in these activities in connection with affordable housing, a citizen engaged in the activity without regard to affordable housing may be appointed. Local governments that receive the minimum allocation under the State Housing Initiatives Partnership Program may elect to appoint an affordable housing advisory committee with fewer than eleven representatives if they are unable to find representatives that meet the criteria of paragraphs (a)-(k).

(4) ***Triennially***, the advisory committee shall review the established policies and procedures, ordinances, land development regulations, and adopted local government comprehensive plan of the appointing local government and shall recommend specific actions or initiatives to encourage or facilitate affordable housing while protecting the ability of the property to appreciate in value. ~~The Such~~ recommendations may include the modification or repeal of existing policies, procedures, ordinances, regulations, or plan provisions; the creation of exceptions applicable to affordable housing; or the adoption of new policies, procedures, regulations, ordinances, or plan provisions, ***including recommendations to amend the local government comprehensive plan and corresponding regulations, ordinances and other policies***. At a minimum, each advisory committee shall submit a report to the local governing body that includes ~~make~~ recommendations on, and ***triennially*** thereafter evaluates the implementation of, affordable housing incentives in the following areas:

- (a) The processing of approvals of development orders or permits, as defined in s. 163.3164(7) and (8), for affordable housing projects is expedited to a greater degree than other projects.
- (b) The modification of impact-fee requirements, including reduction or waiver of fees and alternative methods of fee payment for affordable housing.

(c) The allowance of flexibility in densities ~~increased density levels~~ for affordable housing.

(d) The reservation of infrastructure capacity for housing for very-low-income persons, ~~and low-income persons, and moderate-income persons.~~

(e) The allowance of affordable accessory residential units in residential zoning districts.

(f) The reduction of parking and setback requirements for affordable housing.

(g) The allowance of flexible lot configurations, including zero-lot-line configurations for affordable housing.

(h) The modification of street requirements for affordable housing.

(i) The establishment of a process by which a local government considers, before adoption, policies, procedures, ordinances, regulations, or plan provisions that increase the cost of housing.

(j) The preparation of a printed inventory of locally owned public lands suitable for affordable housing.

(k) The support of development near transportation hubs and major employment centers and mixed-use developments.

The advisory committee recommendations ~~may~~ must also include other affordable housing incentives identified by the advisory committee. Local governments that receive the minimum allocation under the State Housing Initiatives Partnership Program shall perform the initial review, but may elect to not perform the *triennial* review.

**(5) *The advisory committee shall be cooperatively staffed by the local government planning and housing departments to ensure that an integrated approach is brought to the committee's work.***

(5)(6) The approval by the advisory committee of its local housing incentive strategies recommendations and its review of local government implementation of previously recommended strategies must be made by affirmative vote of a majority of the membership of the advisory committee taken at a public hearing. Notice of the time, date, and place of the public hearing of the advisory committee to adopt final local housing incentive strategies recommendations must be published in a newspaper of general paid circulation in the county. The ~~Such~~ notice must contain a short and concise summary of the local housing incentives strategies recommendations to be considered by the advisory committee. The notice must state the public place where a copy of the tentative advisory committee recommendations can be obtained by interested persons.

(6) (7) Within 90 days after the date of receipt of the local housing incentive strategies recommendations from the advisory committee, the governing body of the appointing local government shall adopt an amendment to its local housing assistance plan to incorporate the local housing incentive strategies it will implement within its jurisdiction. The amendment must include, at a minimum, the local housing incentive strategies required under s. 420.9071(16). The local government must consider the strategies specified in paragraphs (4)(a)-(k) as recommended by the advisory committee ~~(4)(a)-(j).~~

(8) The advisory committee may perform other duties at the request of the local government, including:

(a) The provision of mentoring services to affordable housing partners including developers, banking institutions, employers, and others to identify available incentives, assist with applications for funding requests, and develop partnerships between various parties.

(b) The creation of best practices for the development of affordable housing in the community.



**THE AFFORDABLE HOUSING STUDY COMMISSION**

Dedicated to Promoting Affordable Housing in Florida Since 1986

227 N. Bronough Street • Suite 5000 • Tallahassee, Florida 32301 • 850-488-4197 • Fax 850-488-9809

