

Discussion Points for Consideration for the 2011 Universal Application Cycle

As we prepare to consider changes to the state's Qualified Allocation Plan, Consolidated Plan, Annual Action Plan, applicable Rule Chapters and Universal Application Cycle documents, Florida Housing is working to develop a vision of what type of housing we should be financing in the current climate and coming years. This document provides a preliminary overview of our initial thoughts for public discussion. The public discussion of our vision and priorities will in turn provide guidance for implementation details, to be discussed as the rule development process continues. Some discussion points may not be fully implemented in 2011, but are here to lay grounds for future consideration.

Vision

- Florida Housing envisions that new construction developments that we finance should be located in areas that have a high level need for affordable rental housing at the income levels being served by Florida Housing properties, particularly as specified by investor interest.
- Florida Housing believes that the ideal new construction development is one that:
 - Is built with strong construction materials, such as concrete, that enable the building to be viable for many years;
 - Is certified as green and energy efficient to ensure that all green and energy aspects of the property are working synergistically to provide a higher quality, sustainable development (both in terms of materials and operating costs) over time;
 - Provides units that can be easily visited by persons with disabilities by incorporating features that allow these persons to come and go more easily;
 - Is located near to mass transit, particularly rail transit that is and will be developed into the future;
 - Is near services and jobs, promoting walkability when possible;
 - Provides some ELI units for persons with special needs who are receiving supportive services and referred by a partnering supportive services agency; and
 - Is developed and maintained by strong developers and management companies.
- Florida Housing believes that additional financing should be targeted to preserve existing affordable rental properties that are at risk because of:
 - Loss due to affordability restrictions ending;
 - Loss as a result of deterioration (causing, for example, HUD to pull the project based rental assistance and 'decommission' the property); or
 - Deterioration resulting in poor living conditions for tenants.
- In addition to the targets above, Florida Housing's preservation priorities continue to be focused on ensuring that federal subsidies to support extremely low income residents (for instance, through project based rental assistance) are saved and maintained over the long term.

- Additional preservation priorities include the following:
 - Properties financed are part of a local government's broader priorities for such things as community revitalization or maintenance of affordable housing in a high income/service/job/amenity area;
 - The property currently serves tenants with special needs and/or those with extremely low incomes who have rents commensurate with their ability to pay (and will continue to do so after refinancing/rehab).

- Florida Housing believes that, in addition to meeting one or more of the priorities above, the ideal preservation development is one that:
 - Was built with strong construction materials, such as concrete, that will enable the building to be viable for many years;
 - Is retrofit to include green/energy efficient systems/features appropriate for the particular property to ensure that as many green and energy aspects of the property are working synergistically to provide a higher quality, sustainable development (both in terms of materials and operating costs) over time;
 - Provides units that can be easily visited by persons with disabilities by incorporating features that allow these persons to come and go more easily;
 - Is located near to mass transit, particularly rail transit that is and will be developed in the future;
 - Is near services and jobs, promoting walkability when possible;
 - Provides some ELI units for persons with special needs who are receiving supportive services and referred by a partnering supportive services agency; and
 - Is developed and maintained by strong developers and management companies.

I. Location

A. How should we target financing in light of low occupancy levels in many submarkets throughout the state?

B. How should we consider investor interest in markets/developers?

C. Location restrictions

1. Location A

a) No new construction would be financed due to market softness or proximity to Guarantee Fund properties as evidenced by vacant Florida Housing financed units.

b) Preservation – only deals involving existing PBRA contracts, regardless of their relative positions to Guarantee Fund deals.

2. Develop market tests for credit underwriting that include:

- a) Areas where the physical occupancy rate for like-kind developments is at least 92% and the average market rental rate, based on unit mix and inclusive of rent concessions, is at least 110% of maximum Housing Credit rental rates.
- b) Developer should be hesitant to enter any market that may be marginal or worse.

D. Prioritize properties located near transit centers

1. Promote Transit Oriented Development (TOD) by giving points to developments in local government designated TODs. See [Attachment 1](#) for an overview of TOD.
 - a) TODs are moderate to high density, mixed-use, and walkable developments designed to maximize access to transit. TODs encompass a radius of ¼ to ½ mile around a transit station, a distance most pedestrians are willing to walk. They incorporate street-oriented design features that encourage comfortable and convenient access to properties within the transit station area. [From Florida state guidelines, developed by DCA/DOT]
2. If not in a TOD, award points for proximity to commuter rail stations, bus stations and bus stops to within ¼ mile from a proposed property.
3. Should local government location priorities for preservation (above) take precedence over transit and other proximity concepts?

E. Prioritize properties located near services

1. To promote property locations that are convenient to community amenities, Florida Housing is considering calculating proximity scores by measuring actual walking/driving distances to community amenities rather than the current approach—the straight line, or “as the crow flies” distance. Whereas a straight line measurement may cut through obstacles such as major highways and buildings, a walking/driving distance would be measured as a definitive route that a person could actually travel to get to the amenity.
 - (1) Street Atlas has this capability. We could use the *shorter* of the distance derived from Street Atlas using the walking and driving functions of the software.
2. To promote walkable communities, decrease distances to achieve maximum proximity points to be within ¼ mile of the development.
3. Consider adding services that can receive proximity points, including:
 - a) Public park/public community center;

- b) Public library;
- c) VA medical facility; and
- d) Senior Center (elderly developments only).

F. Difficult Development Areas

1. *GO Zone* DDA designation. For developments in a *GO Zone* DDA that have not met the placed-in-service requirements by 12/31/2010, the development will not have DDA designation at time of execution of 8609s, unless the subject area is designated a DDA in the traditional manner or FHFC so designates it as such.
2. 2008 HERA Requirements for DDA Designation. Through 12/31/2013 FHFC has the ability (if approved in QAP) to designate a non-DDA to be a DDA for housing credit purposes. FHFC will need to adopt the parameters of how it decides the designation in the QAP prior to 12/31/2010.
3. How should Florida Housing use its discretion to designate DDAs?

II. Local Government Support

A. Local Government Contributions

1. Currently Applicants that receive contribution with a net present value equal to or greater than the minimal amounts outlined in the chart found on page 65 of the 2009 Application Instructions receive five (5) points.
2. Florida Housing is considering prioritizing applications within each local government jurisdiction that have received higher per unit local government contributions as a way to allow local governments that choose this option to set their priorities for which developments should be awarded financing.

B. How can Florida Housing incorporate local government location priorities for preservation developments, including these possible location types?

1. An area that the local government has designated for community revitalization (as specified by an adopted plan, ongoing projects and financing going to the area, etc).
2. An area that is growing and/or gentrifying where services and jobs exist or are being created and where affordable housing is at risk of disappearing.
3. Others?

III. Preservation Priorities

A. Florida Housing continues to target properties with federal funding in place to maintain subsidies that support ELI residents.

B. As stated in II.B. above, Florida Housing believes local governments should play a critical role in setting preservation priorities within broad parameters (location, etc).

C. What about the following types of priorities?

1. At risk of loss due to affordability restrictions expiring – i.e., because the property is in a strong market?

2. Substandard property condition (but with a physical plant that is functionally strong if rehab is carried out)?

3. Properties that are 20 or more years of age?

D. Set-Aside Commitment for PBRA deals. Florida Housing is considering requiring developers with PBRA properties to set aside 40% of the property's units for ELI residents. The rule could be modified to indicate that, should the PBRA contract be lost as a result of loss of congressional funding, affordability restrictions would revert to the traditional restrictions in place for Housing Credit (or other financing) at the time of award (including for 2011, a 10% ELI set-aside) unless Florida Housing at its discretion provided financing to keep the additional ELI units in place.

E. The required affordability period for preservation deals would be 30 years or the remaining useful life of the property as designated by a capital needs assessment (CNA). If the CNA indicates that the remaining useful life is less than 30 years, then the Development would no longer be eligible for funding and the funding would be offered to the next highest ranked development or it would be added to the next cycle's available resources.

IV. Construction Type

A. Sticks and bricks

1. Prioritize new construction and preservation developments that are built with sustainable materials such as concrete and concrete block.

2. Preservation construction features/amenities

a) Should there be required or optional features/amenities?

b) Rehab needs – require a capital needs assessment to be carried out in credit underwriting that will be used to determine rehab needs and replacement reserves, and ensure that the property is eligible for funding.

c) Less than 50% of the proposed construction work must consist of new construction.

d) Applicants would be required to meet a minimum rehabilitation expenditure requirement of \$20,000 per unit. In the event that the capital needs assessment didn't substantiate the need for the level of expenditures required, the Development would no longer be eligible for funding and the funding would be offered to the next highest ranked development or it would be added to the next cycle's available resources.

B. Green Features (See [Attachment 2](#) for further information)

1. New Construction Applicants may choose from a list of green building options to get points. Options will be weighted based on their cost and value as a feature. In the application applicants will commit to selecting options at credit underwriting.
2. New Construction Applicants may commit to become green certified to get more points.
3. Rehabilitation for Acquisition/Rehab and Preservation developments would be required to be carried out according to a green retrofit evaluation carried out as part of the capital needs assessment in credit underwriting.

C. Universal Design (See [Attachment 3](#) for proposed features and overview)

1. Required universal design features are proposed for all New Construction developments for all units. For additional points, New Construction Developments would choose to include the Optional Universal Design Features package in 20% of the total units. A commitment to include the Optional Universal Design Features package would be in addition to the federal requirement that 5% of the units be handicapped-accessible.
2. All Acquisition/Rehab and Preservation Developments would be required to include the Required Universal Design Features that are feasible, depending on the rehabilitation activities and improvements being made to a development's units.

V. Financial Structure

A. General measures

1. Replacement Reserves (to follow stimulus RFP, plus a tweak)
2. Operating Deficits Reserve can be approved as a separate line item cost up to six (6) months before being classified as a sub-set of developer fee.

- B. How should Florida Housing utilize our HOME funds?

VI. Sponsor Strength

- A. How can Florida Housing determine, for the purpose of scoring, which developers will be best positioned to attract equity investment?
- B. For scoring of developer experience, what components of experience should Florida Housing consider?
- C. Florida Housing would like to develop 'past experience' parameters to keep out owners of properties eligible for preservation who have not maintained properties well. Such properties could be encouraged for preservation when current owners will not be any part of a new ownership structure. What past experience parameters could be used to score such an item?
- D. Florida Housing expects to further codify credit underwriting considerations to mitigate lending risk. In doing so, how should we consider foreclosures?
 - 1. What percentage of a General Partner's portfolio, in terms of number of overall transactions, should be allowable in the current environment before more stringent underwriting parameters should be required for that party on a future transaction?
 - 2. What percentage of a Limited Partner's portfolio, in terms of number of overall transactions, should be allowable in the current environment before more stringent underwriting parameters should be required for that party on a future transaction?
 - 3. What mitigating factors should be considered when evaluating a foreclosure (General Partner cash contributions, foregone Developer Fee, etc.)?

VII. Other Items

- A. Developer / General Contractor Preference
 - 1. Based on the current statutory requirement, Florida Housing will need to consider the following:
 - a. Domicile of the Developer and the General Contractor
 - (1) Whether the developer's or general contractor's principal office is located in Florida; and

(2) Whether a majority of the developer's or general contractor's principals and financial beneficiaries reside in Florida.

Or

b. Substantial Experience of the developer or the general contractor (regardless of domicile)

(1) Whether the developer or general contractor has completed at least five (5) developments using funds either provided by or administered by Florida Housing.

2. The proposed statutory change would require Florida Housing to consider the developer's and general contractor's rate of Florida job creation in the development and construction of affordable housing as a final tie-breaker.