Boley Centers' Safe Haven, 25 beds (SRO), with on-site staff 24/7.

How to Make Homeless Deals Work in Florida

The value of a housing summit, meeting, or roundtable can span from a waste of time to a watershed event. The Florida Housing Finance Corporation recently convened a roundtable in Tallahassee to address the housing needs of the homeless. This is one such meeting which can and should be a watershed event for housing the homeless in Florida.

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FHFC is to be commended for bringing together a roundtable of representatives from state, regional, and local homeless housing providers, top staff at the FHFC, including Executive Director Steve Auger (who facilitated the meeting), the most experienced developers of housing for the homeless from around the state, one of the state's foremost credit underwriters, a national tax credit investor and syndicator, The Florida Coalition for the Homeless, the Florida Supportive Housing Coalition, and the Florida Housing Coalition. In short, FHFC seated the stakeholders and a representative from each facet of the housing industry that impacts the development of housing for the homeless to address what Florida needs to do to make homeless deals work.

The main consensus of the Roundtable was that Florida Housing needs to recognize the critical differences between the traditional real estate deal and the homeless deal. And this recognition needs to result in direction to the credit underwriters of homeless deals, so that homeless deals are not treated as conventional tax credit deals.

While seeking additional federal and local subsidies, most homeless deals in Florida need to access Florida Housing Finance Corporation's homeless SAIL set-aside, along with the accompanying 9 percent Housing Credits. Because homeless deals serve a much lower income population with related needs for services, both of these factors impact operating income and expenses, almost always leading to the need for the funding of an operating deficit reserve fund. In order to allow adequate subsidy for homeless deals, and to reflect the difference between homeless deals and traditional tax credit transactions, Florida Housing needs to direct its credit underwriters to:

1. Permit tax credits, SAIL, and/or any other subsidy to be used for operating reserves.
2. Recognize that requiring deals to cash flow after Year 15 is not realistic, and that additional subsidies will be required if the development will continue to serve a homeless population. FHFC already recognizes this concept with ELI units, which are discussed in more detail later in this article.

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3. Focus less on potential repayment of the SAIL loan, and more on using the SAIL funds to provide the needed gap financing that makes homeless deals work.
4. Permit higher developer fees—but only for mission based developers of homeless housing that agree to return the fee to the development.
5. Sharply analyze proposed capital and operating costs, particularly when traditional tax credit developers propose to enter the homeless arena, to make sure that these relaxed credit underwriting standards are not a vehicle for subsidizing over-priced housing.[1]

Operating Reserves

FHFC should not limit the use of tax credits to fund operating reserves. To the contrary, FHFC should encourage the use of tax credits to fund operating reserves because tax credits are one of the only funding sources available for funding operating reserves.

At the same time, FHFC must instruct its underwriters to evaluate the proposed costs for development to ensure that neither capital nor operating expenses have been inflated. And if they see that capital and operating expenses are excessive, the underwriter must be authorized to cut those costs in underwriting.

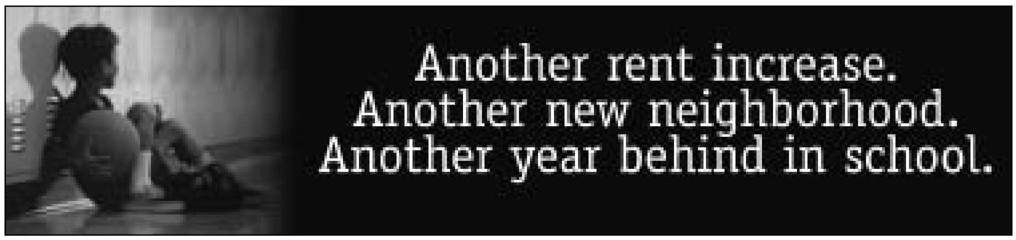
Steve Smith, Director of Enterprise Community Investment, emphasized that tax credit equity is probably the best resource for operating reserves, as it is one of the few funding sources that allows operating reserves as an allowable expense. While it is possible to misuse operating reserves as a method of covering unnecessarily high capital or operating costs, Florida Housing's credit underwriters are capable of delineating between homeless deals with reasonable costs and those that are attempting to abuse the system.

The response must not be to outlaw operating reserves; instead, it should be increased diligence to prevent abuse of reserves. The specific transaction that became a focus for this issue (Andy's Place)[2] had purported costs massively beyond any homeless transaction (over $235,000 per unit for 65 efficiency units) that has been funded—even before the reserve fund of over $50,000 per unit was factored in. The answer was to cut those costs in credit underwriting.

Therefore, Florida Housing should accept that operating reserves are necessary to support homeless developments and FHFC should not limit what is a permitted use under Housing Credit regulations.

Post 15-Year Feasibility

While the operating reserves can provide the necessary funds to keep a homeless deal above water for 10-15 years, no credit underwriting will show feasibility after that period. FHFC has recognized this for Extremely Low Income (ELI)



units—by removing the income targeting requirement after 15 years for those units that received extra subsidy to make them feasible. Homeless deals must be treated in a similar manner. The fairest way to handle this is to acknowledge that if other operating subsidies are not identified and the operating reserve cannot be re-capitalized, the project will revert to the tax credit rents. This is the assumption made in underwriting by syndicators in the event that any of the sources of operating subsidy or rental assistance are not available in the future. The fact is that organizations developing Homeless projects will do all they can to maintain the low rents of the projects, as that is their mission. These developers will do all they can to continue the targeting past Year 15.

Additional Considerations

Comparison of ELI subsidy to Homeless Subsidy

Despite the fact that ELI units may serve a higher income group than homeless development, and that homeless developments also have significant additional operating costs related to services to the target population, the amount of subsidy provided for a homeless unit in Florida is less than the subsidy provided for an extremely low income unit.

It should be noted that Florida Housing pays $85,000 per unit to "buy" ELI units for 15 years—but provides a much lower subsidy per unit for homeless transactions and requires those to serve the homeless for a much longer period. This is despite the fact that homeless residents have lower incomes and pay lower rents than the typical ELI household.

The point? Florida Housing routinely gives for-profit developers $85,000 per unit of additional subsidy (on top of whatever SAIL and/or Housing Credit has already been given for a unit)—simply to "pay" for the cost of reducing the operating income of that unit to a rent level affordable to residents at 25 - 40 percent of area median income for 15

years. There is no credit underwriting of this need, and the funds are converted to a grant if the developer complies with the set-aside for 15 years.

However, homeless deals undergo rigorous credit underwriting, so that FHFC can make sure that there is sufficient revenue to pay loan interest and/or fees, and repay the loan—all while serving a much lower income group than the grant given for serving ELI residents.

Homeless Deals that Don't use Tax Credits

If Florida Housing would make any monies set-aside for the homeless in the universal cycle, but not accessed, as a set-aside in the Special Needs RFP, these monies could be used by developers of smaller homeless projects. For the population of homeless people who have special needs, such as those with mental health needs, a homeless project may be as small as a four unit project. The developer of a small special needs homeless project is unlikely to compete in the universal cycle. Putting unused homeless set-aside monies from the universal cycle into special needs RFP would also eliminate the incentive for the larger for-profit developers to try to knock out the homeless projects from the Universal Cycle. Currently, when homeless deals fail in the Universal Cycle, those set-aside monies become available for non-Homeless developments. Having the un-used set-aside monies in the Universal Cycle flow to a Special Needs RFP will fix that problem.

Rental Assistance for the Temporarily Homeless

A point made at the meeting, is that most homeless persons fall within one of two general groups. One is the chronically homeless, often those with substance abuse and mental health issues. This group must receive substantial non-housing related social services. The second group is those that are homeless because of temporary housing issues—the loss of a job, divorce, or other events has moved an individual or a family into homeless status. This group does not need the full array of social services, and can be served as part of a rental community that is targeted to tax credit eligible residents. However, these people need some sort of rental assistance over a 1-2 year period while they reestablish themselves financially. As HOME funds can be used for rental assistance, this would be an ideal source for this subsidy. Florida Housing should use HOME funds to provide two year rent subsidies for homeless people living in mainstream tax credit or bond developments.

Next Steps

In addition to implementing the changes outlined above, the consensus of the roundtable was that better coordination with services for residents provided by other state agencies is needed. State agencies that fund the services provided to the chronically homeless need to be part of the conversation, most especially the Department of Children and Families, and the Department of Health. Coordination of resources between various state agencies touching the lives of those served is required. This has been done in other localities. For example, in Minneapolis developers of projects for the homeless enter agreements with the equivalent of DCF that refer qualifying families to their projects and they will also ensure appropriate services are provided to those projects. This partnership ensures that each agency's resources are being utilized to the greatest benefit of the family served as well as the State's budget.

[1] *Steve Smith from Enterprise Community Investment commented that other states permit a higher Developer Fee for homeless projects with the understanding that the increased fee will be contractually reserved to support the long-term operation of the project.*

[2] *Andy's place was a tax credit deal in Jacksonville submitted by a homeless social services provider with no experience in the development of affordable housing, and a for-profit affordable housing developer.*