SHIP CLIPS Frequently Asked SHIP Questions

STATE HOUSING INITIATIVES PARTNERSHIP PROGRAM

by Michael Chaney

NO NEW CONSTRUCTION

Q: How can we comply with the prohibition on new construction for 2011/2012 SHIP Funds and still meet the SHIP requirement that 75% of the monies are used for construction related activities?

A: The details on the prohibition on new construction are contained in HB 639, which passed during the 2011 legislative session:

> Section 17. (1) The Legislature finds that due to the current economic conditions in the housing market there is a critical need to rehabilitate or sell excess inventory of unsold homes, including foreclosed homes and newly constructed homes, as well as a critical need for the rehabilitation and preservation of older, affordable apartments. The Legislature further finds that there is a critical need to create housing-related jobs and that these conditions require the targeting of state and local housing trust fund moneys to assist in the sale or rehabilitation of existing homes and the preservation and rehabilitation of older rental apartments.
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> (2) Notwithstanding ss. 420.507(22)(a) and (23)(a), 420.5087(6)(l), 420.5088, 420.5095, and 420.9075(1)(b) and (5)(b), Florida Statutes, funds from the State Housing Trust Fund or the Local Government Housing Trust Fund that are appropriated for use in the State Apartment Incentive Loan Program, Florida Homeownership Assistance Program, Community Workforce Housing Innovation Pilot Program, or the State Housing Initiatives Partnership Program may not be used to:
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> (a) Finance or otherwise assist the construction or purchase of housing sold to eligible individuals, unless the housing unit being sold had an initial certificate of occupancy prior to December 31, 2010; or
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> (b) Finance or otherwise assist in the construction or purchase of rental housing, unless the development being financed or assisted received its initial certificate of occupancy prior to December 31, 1996.

The SHIP rule requires that at least 75%of the SHIP allocation and any recaptured funds must be reserved for construction, rehabilitation, or emergency repair of affordable, eligible housing. Consider how this set-aside requirement affects the following types of SHIP strategies:

REHABILITATION

The decision of how to spend 11/12 funds may be easy for many SHIP jurisdictions by dedicating funds to owner-occupied rehabilitation or emergency repair strategies, which clearly comply with the Construction/Rehabilitation set-aside, and are already common strategies in many Florida communities. In some cases, this emergency repair assistance is focused on accessibility modifications, an especially beneficial service for elderly applicants and individuals with disabilities.

Rental Rehabilitation is another strategy that complies with the set-aside. SHIP staff must keep in mind that the ban on new construction applies to rental housing that received a certificate of occupancy after December 31, 1996; rehabilitation of older units, which are the units most in need of rehabilitation, is allowable.

PURCHASE ASSISTANCE

Section (2)(a) of the ban on new construction prohibits the purchase of new homes. Purchase assistance strategies may only help eligible buyers with the purchase of existing homes that received a certificate of occupancy prior to December 31, 2010.

Consider how the Construction/Rehabilitation Set-Aside effects SHIP funds spent on purchase assistance for buying existing housing. In some cases, SHIP funds are provided to help a buyer purchase and initially repair a house. All of the SHIP funds involved with such a case will count toward compliance with the Construction/Rehabilitation set-aside. In other cases, no SHIP funds are used to repair a house as it is being purchased. Because set-aside compliance is broadly interpreted, these SHIP funds will also comply with the set-aside if SHIP staff can document that another source of funding— the seller, the buyer, CDBG funds or some other source—paid for repairs 12 months before or after the house sold. There are other occasions of home purchase where none of the parties involved paid for repairs, because some existing homes are in good condition that no repairs are necessary. SHIP staff must be mindful about providing 11/12 funds in these cases as these SHIP funds will not comply with the set-aside.

STRATEGIES THAT DO NOT COMPLY WITH SET-ASIDE

Rent or Utility Deposit Assistance and Foreclosure Prevention are examples of strategies that are not new construction-related or rehabilitation-related. These strategies—and also SHIP funds spent on housing counseling—do not comply with the Construction/Rehabilitation Set-Aside. Because 75% of the 11/12 SHIP allocation must comply with this set-aside and it is likely that another 10% of the allocation is dedicated to administration, this often leaves only

15% of the allocation that may be spent on activities that do not meet the construction/rehabilitation set-aside. It is important to note that program income SHIP money is not required to comply with the Construction/ Rehabilitation set-aside.

Considering how to comply with the prohibition on new construction may not be a very difficult task for many jurisdictions. For one thing, every SHIP office received less than $1 million of 11/12 funds and many received much less than this. If you have further questions about your options, contact the Florida Housing Coalition at 850 878-4219 for assistance or contact FHFC if your SHIP office reconsiders and updates its plan for how to spend 11/12 funds on strategies that do not include new construction.

PROGRAM INCOME

Q: How should I track program income?

A: Program income has many sources. SHIP staff must have a plan for tracking:

Bank Interest: This is one of the most common sources of program income, and one that every jurisdiction receives because the SHIP Local Housing Trust Fund is an interest bearing account.

Deferred Loan Repayment: This program income is received when a SHIP loan is repaid due to the sale of a home with a SHIP lien or when a homeowner refinances.

Direct Loan Repayment: Here are two divergent examples of program income received from direct loans.

1) Some SHIP jurisdictions provide direct assistance with the agreement that SHIP recipients will repay with affordable monthly payments.

2) For some large-scale development projects, SHIP funds are provided for upfront financing at the beginning of the project. The developer agrees to repay after a short number of years.

Foreclosure Repayment: In the experience of many SHIP administrators, subordinate lien holders on a SHIP-assisted home rarely receive repayment from the proceeds of a foreclosure sale. Make note if this does happen because the SHIP Annual Report provides a separate category to report program income from foreclosure repayments. Even if no proceeds are received during a foreclosure, properly track all incidents when you learn that SHIP-assisted homeowners are in default on their first mortgages or have lost their homes to foreclosure. SHIP jurisdictions are required to annually report the foreclosure and default rate by income category.

Recaptured Funds: All the SHIP-related repayments that a SHIP office may receive are categorized as program income with one exception: Recaptured funds are a specific and infrequent type of repayment when funds were not used for assistance to an eligible household for an eligible activity. Such repayments are usually received from a sponsor when there is a default on the grant or loan award.

For each of the outlined sources of program income, consider how SHIP staff should monitor and track the revenue. In each case, it should be deposited in the SHIP Local Housing Trust Fund, rather than contained in a separate account. Bank interest is easy to monitor, although you must remember that program income is tracked by the state fiscal year, which differs from the local government fiscal year. When you contact your finance department for a report of bank interest revenue, ask for the amount accrued from July 1st of one year to June 30th of the next.

All the other program income sources are tracked this way. Funds received today are logged with the current state fiscal year's funds. Therefore, if you receive a repayment in December 2011, you record this SHIP program income revenue on the 11/12 tracking spreadsheet. The expenditure deadline for this revenue is the same as the SHIP allocation with which it is associated.

Let your finance department know the types of revenues and program income you will be receiving so they can set up the accounts you need for reporting. Make sure the reports of these accounts are available for your review and reconciliation.

Tracking the proceeds from the sale of a home is generally easy because SHIP and all lien holders are contacted during this transaction. Confirm if your office is contacted directly, or if you must ask for notification from your finance department or city/county attorney's office. The same process occurs for tracking the repayment of SHIP funds during mortgage refinancing or a foreclosure.

Recaptured funds must also be tracked, which is a straight forward activity. These funds are easily identified because it is often a rare and notable experience when SHIP staff communicates with a developer or sub-recipient agency that must repay funds. A small portion of program income may be expended on additional administrative expenses—above and beyond a jurisdiction's 10% administrative budget—but no Recaptured Funds may be used for this purpose.

Properly tracking program income is as important as tracking any other source of SHIP revenue. Contact the Coalition if you have questions. **HNN**