

Financing and Monitoring Rental Housing with SHIP

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AFFORDABLE HOUSING CATALYST PROGRAM

Sponsored by the
Florida Housing Finance Corporation



we make housing affordable™



Catalyst Training Schedule

A banner for SHIP Catalyst Training. On the left, a group of diverse people are smiling and looking at a laptop. On the right, a teal background contains white text. The SHIP logo is on the left side of the banner.

Fine Tune Your SHIP Program
REGISTER NOW FOR
**CATALYST
TRAINING**

Register Now for SHIP Catalyst Training!

The Coalition is Florida's affordable housing training and technical assistance provider.

Hotline: 1-800-677-4548

www.flhousing.org



Webinar Logistics

- Participants are muted
- Enter your questions in the box in your webinar panel
- Forgot to ask a question or want to ask privately?

Email chaney@flhousing.org

This webinar is being recorded and will be available at
www.flhousing.org

- A survey will immediately follow the webinar; ***please*** complete it!




Training Announcement



Managing a Successful Purchase Assistance Program

February 22, 2022 at 2:00pm

Register at
<https://attendee.gotowebinar.com/register/1034537504018650383>



Florida Housing Coalition Hurricane Member Update Webinar

<https://www.flhousing.org/disaster-recovery/>

2022 ANNUAL STATEWIDE AFFORDABLE HOUSING CONFERENCE

HOME **MATTERS**
 IN FLORIDA



Hosted by the FLORIDA HOUSING COALITION
August 29th – August 31st
IN-PERSON AT THE ROSEN CENTRE, ORLANDO FL

Overview of Topics

- Ways SHIP Assists Rental Housing
- SHIP as Rental Development Subsidy
 - SHIP and Housing Credits
- The Missing Middle in Multifamily Development
- Monitoring SHIP Rental Housing
- Download HANDOUTS

Monitor for Rental Development, NOT Rental Assistance

Rental Development

- New Construction or Rehabilitation

Rental Assistance for 1 Household

- Rent Deposit
- Eviction Prevention
- Rent Subsidies
- Disaster

More Training:
“SHIP Rent Limits
Policy” recording at
<https://vimeo.com/285493623>

Amount of SHIP Available for Rental **Development**

100 % Allocation

- 65% Homeownership Set aside
- 10% Admin

25% of Allocation Available for
Rental New Construction or Rehabilitation

PLUS all Program Income



Less is Available for Rental Assistance

100 % Allocation

- 75% Construction/ Rehab Set aside
- 10% Admin

**15% of Allocation Available for
Rental Assistance**

PLUS all Program Income

SHIP and Low Income Housing Tax Credits

- Allocating agency – Florida Housing Finance Corporation
- Largest source of funding for rental development in the state
- Awarded to developers of affordable Multifamily rental
- Dollar for dollar reduction in federal tax liability
- Credits are “sold” to corporations to reduce their tax liability through syndication to become equity investments used to finance affordable rental units



FHFC Information

- Request for Applications (RFA) Process
 - Rulemaking
 - Anticipated timeline
 - Workshops
 - RFA release
 - Application review and preliminary awards
 - Credit Underwriting and final approval
- Web Board
- Draft RFA, Forms, Rule, Other information

Some Housing Credit requirements

- Demographic requirements
 - Elderly or family
 - Homeless
 - Persons with disabling conditions
 - Fishing/farmworker
- Usual set asides in Florida
 - 100% of units at 60% AMI or lower
 - 10% ELI requirement
 - 50% of the ELI units set side for special needs
 - Definition of ELI varies by County

How HCs become \$

FHFC Receives HC allocation from US Treasury



TAX CREDIT



FHFC allocates the credits to housing developers

TAX CREDIT



For Qualified Residents
Incomes are 60% of AMI or lower

TAX CREDIT



Limited Partnership



Syndication



TAX CREDIT



Corporate Investors



Types of Housing Credits

Competitive

- Referred to as 9% Credits
- Majority of project funding
- Must apply through FHFC's competitive RFA cycle

Non-Competitive

- Referred to as 4% Credits
- Minority of project funding
- Paired with Bonds and/or SAIL
- Can apply at any time

The Tax Credit Investor: Calculation of Tax Credit Equity

Eligible Basis
x Qualified Percentage
= Qualified Basis

Qualified Basis
x Tax Credit Percentage
x Ten Years
x Ownership percentage
x Tax Credit Purchase Price
= **\$\$\$Total Equity**



Competitive Tax Credit Example

- 65-unit development in medium county
- Total development Costs: \$11,000,000
- Cost of Land and other ineligible costs: \$1,000,000



Magnolia Place, Pasco County
(figures to left unrelated)

Calculation of Tax Credit Equity

Eligible Basis	\$10,000,000
<u>x Qualified Percentage</u>	x 100% (all units low-income)
= Qualified Basis	= \$10,000,000

Qualified Basis	\$10,000,000
x Tax Credit Percentage	x 0.09
x Ten Years	x 10
x Ownership percentage	x 0.9999
<u>x Tax Credit Purchase Price</u>	<u>x 0.95</u>
= \$\$\$Total Equity	= \$8,549,145

Funding Gap: \$2,450,855

Areas that MAY Be Eligible for Basis Boost

- Geographic Areas of Opportunity – designated by FHFC
- Small Area Difficult to Develop Area (SADDA) Zip Code Tabulation Area (ZCTA) – designated by HUD
- Qualified Census Tract (QTC) – designated by HUD
- Housing Authority applicant

Calculation of Tax Credit Equity with Basis Boost

Eligible Basis	\$10,000,000
x Basis Boost (130%)	x 130%
<u>x Qualified Percentage</u>	<u>x 100%</u>
= Qualified Basis	= \$13,000,000

Qualified Basis	\$13,000,000
x Tax Credit Percentage	x 0.09
x Ten Years	x 10
x Ownership percentage	x 0.9999
<u>x Tax Credit Purchase Price</u>	<u>x 0.95</u>
= \$\$\$Max Equity	= \$11,113,888.50

Local Government Contributions

- Local support for project
- Fill financing gap
- 5 Points – based on the VALUE of the contribution
- May have automatic qualifiers (e.g. rehab)
- NOTE: some RFA's do not have a contribution requirement, but still may need gap financing

Local Government Contributions

- Forms acceptable:
 - Grant
 - Loan (other than USDA)
 - Waiver or deferral of fees
- Value required to achieve maximum points listed in RFA (varies by County)

RFA: Local Government Contribution

- Check each RFA- understand developer's requirement
- Amount varies by size of community
- Decide on NOFA or open applications per project
- Need not disburse until closing on award
- How much is too much?

Local Government Contributions: Calculating Points

- Assume local government provides \$37, 500 but FHFC required \$50,000
- 5 points for \$50K
- 3.75 points for \$37,500

$$(37500/50000) \times 5 = 3.75 \text{ points}$$

No perfect score ☹️

Local Government Areas of Opportunity: FHFC

- Funding goals in certain RFA's
- Higher minimum contribution required
- Same jurisdiction cannot be awarded funding under the funding goal in consecutive cycles
- Local Government may only contribute to one development per RFA
- Contributions **MUST** be in the form of a loan or grant as a permanent source of financing
- Be aware of what is **NOT** considered a LGAO Contribution (fee waivers, contributions from developer, from PHA, or donation of land)

SHIP's Role in ELI set aside

- 10% of units for ELI (Extremely Low Income)
 - The ELI % AMI is different for each County
 - 50% of ELI units for special needs
- Help link developers with community services and meet your SHIP special needs set aside
 - LINK program
 - www.floridahousing.org
 - Serving Special Needs
 - LINK initiative

Non-Competitive Example: Cathedral Terrace, Jacksonville

Source	Amount
Multifamily Mortgage Revenue Bond Loan	\$7,600,000 (monthly debt service, 5.76%)
SAIL Loan	\$3,200,000 (1% interest, annual interest payment based on cash flow)
ELI Gap (SAIL)	\$734,400 (0%, soft debt)
Housing Credits (4%)	\$8,999,264
SHIP	\$803,005
Additional Sources (HFA loan, Seller Loan, Deferred Developer Fee)	\$4,259,972
Total Development Costs	\$25,569,641



SET ASIDES
 240 units total
 216 for 60% AMI
 24 for 33% AMI - ELI

224 Project-Based Vouchers

Designing your local process

- Develop guidelines in advance
 - 1. Coordinate your entire SHIP RFP process with FHFC timeline **OR**
 - 2. Have open timeline for developers to apply for funding **OR**
 - 3. Have separate RFP process for competitive HC proposals to align with FHFC's timeline
- Consider local needs, preferences, existing plans
- Consider preference for permanent affordability
- Keep in mind approval processes

RFA Funding Process and Local Government Role

- Track RFA funding timeline and prepare competitive cycle to coincide with due dates
- Understand each RFA and requirement for Local Government Contribution or Area of Opportunity
- Prepare other forms as needed:
 - Verification of Zoning and Land Use regulations
 - Verification of Infrastructure- sewer and water
 - Within 21 days of invitation to credit underwriting:
 - Verification of environmental safety Phase 1 ESA
 - Phase II ESA if required
 - Verification of infrastructure- electricity, roads

Benefits of Small-Scale Development

- Attainable for many nonprofits
- Can have high impact on neighborhood development
- Rental revenue can help nonprofits build financial capacity
- Experience can qualify nonprofits for larger developments and financing with FHFC

Structuring subsidies for Small Scale

Low-cost construction
financing

Gap financing (soft debt
or grant)

The Missing Middle in Multifamily Development

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Why We're Here

- **To discuss Missing Middle financing in small multifamily developments**
- **Review Financials – Proforma**
- **Review Examples of a few projects**
- **Missing Middle possible solutions**



Who We Here

St Johns Housing Partnership

Is a Non-Profit Organization that creatively blends a unique force of individuals and community volunteer support groups, (business, corporate, educational and religious), to significantly impact the need for Affordable Housing and Affordable Living in North Florida



Elliott Manor -12 Unit Multifamily



- 12 Unit Multifamily from a Distressed Seller
- Hot market with several For Profit Buyers ready to buy
- Purchase Price \$520,000 in 2015



Elliott Manor -12 Unit Multifamily – the Acquisition

Project Cost	
Acquisition Price -	520,000
Rehab/Construction Costs	74,000
Developer's Fee	35,000
Pre-Development & Closing Costs	27,000
Impact Fees	-
1 yr Capital Reserve	10,000
<hr/>	
Total Project Cost	\$666,000



Elliott Manor -12 Unit Multifamily – the Numbers

Annual Rent Schedule:	Units	Rent/mo.
Efficiencies	0	0
One Bedroom	5	500
Two Bedrooms	7	600
Three Bedrooms	0	0

OPERATING EXPENSES		<u>Annual</u>	<u>PUPY</u>
Managem'nt fee	5.0%	4,020	335
Accounting		500	42
			42
General Administrative		500	
Repairs & Maintenance		17,700	1,264
Grounds Maintenance		1,800	100
Electric		720	20
Gas		0	-
Water/Sewer		720	60
Property Tax		0	-
Insurance		7,200	600
Replacement Reserve		4,200	350
Pest Control		2,400	200
Legal		300	25
Total Expenses		40,060	50%



Elliott Manor -12 Unit Multifamily – the Numbers

Statement of Before-Tax Cash Flow

Gross Potential Income	2.0%	80,400
Less: Vacancy and collection loss.....	7.0%	5,628
Plus: Other income		

Effective gross income.....		74,772
Less: Operating expenses....	3.0%	40,060

Net Operating income (NOI)		34,712

Annual Debt Service		27,770

Before-tax cash flow (BTCF).....		6,942
		=====
Debt Service Coverage Ratio (DSCR)		1.25
NOI / Annual Debt Service = DSCR		

Minimum DSCR	1.25
NOI Year 1	34,712
Service	\$27,769.60
Maximum Monthly Pmt for Debt Service	\$2,314.13
Maximum Loan Amount	\$416,336



Elliott Manor -12 Unit Multifamily – the Numbers

Project Costs = \$ 666,000

Mortgage Financing (based on NOI) = \$ 416,336

Shortfall or Missing Middle = \$249,664

Note: Most Banks require a 25% down payment based on the purchase price:

$\$520,000 \times 25\% = \$130,000$



Elliott Manor -12 Unit Multifamily – Need \$249,664

How can we solve this problem?

- Is there existing financing we can Assume?
 - Yes, \$70,000 2nd Mortgage owed to the St Johns Housing Finance Authority (\$333/mo payment)
- Balance Needed: \$179,664
 - St Johns County SHIP contributed \$120,000 with No Debt Service
- \$54,664 Balance
 - (\$35,000 was our developer Fee and \$74,000 was our rehab budget)
- We have enough to close and we'll seek a rehab grant from Florida Housing Finance Corp.



Old Colony Apartments 8 Unit Multifamily - \$540,000



- **8-year-old, 8 Unit building built for condo conversion until the market changed**
- **Rents at acquisition were \$740 per month**
- **Max SHIP rents at 80% of AMI were \$1,140**



Old Colony Apartments 8 Unit Multifamily - \$540,000

Project Costs

- **Purchase Price - \$540,000**
- **Rehab Budget - \$78,000**
- **Developer Fee - \$32,400**
- **Closing Costs - \$21,000**
- **Total Needed - \$671,400**
- **Florida Community Loan Fund agreed to lower the DSCR to 1.15 = \$436,000 Loan**
- **Missing Middle = \$235,400**



Old Colony Apartments 8 Unit Multifamily - \$540,000

- **Missing Middle = \$235,400**
- **St Johns County SHIP contributed \$235,000 as a deferred Mortgage with No Debt Service**
- **Seller transferred \$5,000 in Security Deposits**
- **In 2020, Property Appraised this month for \$840,000**



Missing Middle Solutions

Local Government

- **Seek SHIP funds**
- **Any Florida Housing Finance Corp - RFAs that match project (timing is critical and usually doesn't match up)**
- **DRI funds paid by developers but managed by local government**
- **Interest Only loans from the local Housing Finance Authority**
- **Junior mortgages that sit behind defaulting 1st Mortgages**

Seller of the Project

- **Request Tax Deductible Donation**
- **Assume all existing financing and ask to subordinate to new 1st Mortgage (offer lump sum payment, increase interest rate or tax deduction)**
- **Ask to Pay Closing Costs**



Missing Middle Solutions

Banking Partners

- Available Grants
- Equity Investment
- Line of Credit for Acquisition and/or Construction
- FHLB available grants

Other Nonprofits

- Offer housing opportunities to their clients, first or exclusively, in exchange for One-time funding

Foundations

- Program Related Investments allow higher contributions with deferred payments, at below market rates (project must be consistent with their mission)



Summary

- **Local government funds are critical to affordable housing in small to medium sized counties**
- **The available real estate opportunities are:**
 - Too small for tax credit funding
 - Most RFAs have restrictions that are too tight or the timing rarely works for Sellers
- **Local funding opportunities are critical to a successful affordable rental property**



Elements of Monitoring

SHIP Requires Rental Monitoring

Rental units constructed, rehabilitated or otherwise assisted from the local housing assistance trust fund must be monitored at least **annually for 15 years** or the term of assistance, whichever is longer, for compliance with tenant income and affordability requirements

---SHIP Rule: 67-37.007(11), F.A.C.



SHIP Monitoring Rules

- Tenant income of projects that receive more than \$10,000 must be monitored annually.
 - Used to be \$3,000
- May rely on monitoring report of another entity even if periodic.

“....to the extent another governmental entity or corporation program provides periodic monitoring and determination, a municipality, county, or local housing financing authority may rely on such monitoring and determination of tenant eligibility.”
- Does not require utility allowances

Suggested Text for SHIP Agreements with Developers of Tax Credit Properties



The developer agrees that, in consideration of the SHIP funds provided for this development, it will engage the compliance monitoring firm assigned to this project by FHFC to also monitor for compliance with the set-aside requirements for the SHIP funded units. The term for compliance monitoring will be concurrent with the term required under the extended use agreement that is recorded in the public records.

Income Compliance on Small Rental Properties

Technical Bulletin Handout

Highlights:

- Monitoring for at least 15 years is required even if property is owned by a sponsor or sub-recipient (non-profit partner)
- In this case, a contract must be executed
- Do not delegate the responsibility of performing inspections to the sponsor/sub-recipient

Prepare for Monitoring: Review SHIP Agreement with Owner of Rental

- Amount of the award
- How many rental units?
- Tenants at what Income Level?
- Affordability period?
15 Years? 50 Years?
- Other requirements? Special Needs,
for example?



Components of a Good Rental Monitoring Plan

Who?

- 3rd party or internal staff

When?

- Annually unless FHFC monitors
(Get a copy of their report and review it!)

What?

- Income Eligibility
- Rent Affordability
- Property condition
- Property performance



Monitoring Income Eligibility

- Is the project owner using the correct income limits to determine eligibility of tenants?
- Are tenants income-eligible at the time of initial occupancy?
- Is the project owner recertifying tenant income annually?
- As tenants vacate, are they replaced by tenants of the same income category?

What if Tenant Income Increases?

Low Income Definition in SHIP Statute: “While occupying the rental unit, a low-income household’s annual income may increase to an amount not to exceed 140 percent of 80 percent of the area’s median income adjusted for family size.”

Example

\$55,000 = 80% AMI

\$77,000 = 140% of 80% AMI ($55,000 \times 1.4$)

Monitoring Rent Affordability

In determining the maximum allowable rents, ***30 percent of the applicable income category*** divided by 12 months shall be used based on the number of bedrooms...

A **rental limit chart** based on the above calculation adjusted for bedroom size will be provided to the local governments by the Corporation annually.

---SHIP Rule: 67-37.007(11), F.A.C.

SHIP Rent Limits

- Maximum Rent on Rent Limits Chart
- For Extremely Low Income tenants (30% AMI), look at the 50% AMI row of the chart

Marion County (Ocala MSA) Median: 51,500	30%	12,060	16,240	20,420	24,600	27,450	29,500	31,500	33,550	Refer to HUD		301	353	510	650	737	813
	50%	17,800	20,350	22,900	25,400	27,450	29,500	31,500	33,550	35,560	37,592	445	476	572	660	737	813
	80%	28,500	32,550	36,600	40,650	43,950	47,200	50,450	53,700	56,896	60,147	712	763	915	1,057	1,180	1,301
	120%	42,720	48,840	54,960	60,960	65,880	70,800	75,600	80,520	85,344	90,221	1,068	1,144	1,374	1,585	1,770	1,951
	140%	49,840	56,980	64,120	71,120	76,860	82,600	88,200	93,940	99,568	105,258	1,246	1,335	1,603	1,849	2,065	2,276

		Rent Limit by Number of Bedrooms in Unit					
9	10	0	1	2	3	4	5
Refer to HUD		301	353	510	650	737	813
5,560	37,592	445	476	572	660	737	813
6,896	60,147	712	763	915	1,057	1,180	1,301
5,344	90,221	1,068	1,144	1,374	1,585	1,770	1,951
9,568	105,258	1,246	1,335	1,603	1,849	2,065	2,276

THE FLORIDA HOUSING COALITION



Rent Limit is NOT 30% of Household's Income

Instead, Chart lists Maximum Rent **Per Income Category**

- Rent Limit for Low Income is calculated according to 80% AMI.
- Low Income Households include those earning 50% - 80% of AMI
- For a rental applicant with income at 55% AMI, the Rent Limit is MORE than 30% of household income

Monitoring Physical Condition

- BEST PRACTICE, but not actually addressed in SHIP monitoring by the State
- Include standards in your agreement

Physical Condition Standards

- Site: fencing, grounds, walkways, and more
- Building exterior
- Systems: water heater, electrical system, elevators, emergency power, fire protection, HVAC, sanitary system
- Common Areas

MORE about Physical Condition



- Dwelling Units: bathroom, kitchen, bedrooms and more
- Free of health/safety hazards
- Compliance with local codes: “These standards do not supersede codes”

Common Findings

- Rental units not being monitored annually
- Noncompliant with initial rent limits
- Noncompliance with income limits
- Noncompliance with set asides
- LHAP, Agreement, LURA, mortgage terms conflict
- Income certification completed incorrectly
 - Asset calculation, income calculation & documentation
 - Not signed, white out, no date stamp/inconstant dates



Questions?

Please complete the evaluation!

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