

May 31, 2013

Mr. Steve Auger
Executive Director
Florida Housing Finance Corporation

Re: OIG Report #130429-06, Status of Corrective Actions, Office of Program Policy Analysis and Government Accountability (OPPAGA) Report No. 12-10: The Florida Housing Finance Corporation Could Improve Its Tax Credit Allocation Process and Develop Better Performance Measures

Dear Director Auger:

In accordance with Section 20.055 (5)(h), Florida Statutes, we asked the responsible managers for the current status of each finding identified in the report.

The findings, recommendations, and the May 2013 status of corrective actions are attached. We have reviewed these and believe the actions taken are acceptable.

We are available to answer any questions.

Sincerely,



Marvin Doyal
Interim Inspector General

cc: Joint Legislative Audit Committee
OPPAGA

Rick Scott, Governor

Board of Directors: Leonard Tylka, Chairman
Mary L. Demetree • John David Hawthorne Jr. • Brian Katz • Natacha Munilla • Bernard "Barney" Smith
Executive Director: Stephen P. Auger

Florida Housing Finance Corporation
Six-Month Status Report of Corrective Actions Taken for
Office of Program Policy Analysis and Government Accountability (OPPAGA) Report 12-10

OPPAGA OBSERVATION	OPPAGA OPTIONS FOR IMPROVEMENT	STATUS AS OF MAY 2013
<p>Governance Structure: Several entities oversee the Corporation's programs and services; other states use a variety of governance structures for their affordable housing agencies.</p>	<p>The Legislature may wish to consider amending s. 420.504, Florida Statutes, to allow the President of the Senate and the Speaker of the House of Representatives to each appoint one or more members of the Florida Housing Finance Corporation's board. As stated previously, other states (e.g., California and Pennsylvania) use this approach. Such appointments would expand the Legislature's role in the corporation's governance and could help enhance communication between the Legislature and the corporation.</p> <p>We also reviewed other options for modifying the corporation's governance structure and concluded that there is no compelling reason to change the current model.</p>	<p>After receiving OPPAGA's report, the Legislature chose not to make any changes to the Corporation's governance structure.</p>
<p>Tax Credit Allocation Processes: The Corporation annually revises rules for allocating tax credits, which results in a lengthy and costly process; other states use approaches that are more streamlined.</p>	<p>While Florida law and federal requirements guide the tax credit application and allocation process, the corporation could take steps to streamline its approach. For example, given the extensive written comments that stakeholders currently provide, the corporation could consider reducing the frequency of rule development workshops by holding one public hearing, receiving written comments for a specified period, and then</p>	<p>As a result of OPPAGA's suggestion, the Corporation is shifting from the Universal Application Cycle process to a process that includes Requests for Proposal (RFP)/Request for Application (RFA). Corporation legislation, adopted in HB 437, provides additional statutory authority to use such a solicitation process to allocate tax credits. The new process will incorporate simpler rules that primarily address program credit underwriting and compliance criteria, and should not see major changes going forward. This should simplify</p>

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	<p>holding a final rule workshop.</p> <p>The corporation also could reduce the time allowed for applicants to identify problems with each other's projects and address the loss of this information by reviewing application elements that are most susceptible to developer manipulation (e.g., proximity factors).</p> <p>In addition, the corporation could emphasize projects' market feasibility by requiring developers to submit a market analysis along with their applications and considering the results during, rather than after, the scoring process. To ensure the integrity of the process, the corporation also could adopt the practice used by other states that require a market analysis to be conducted by a corporation-approved firm and could require approved firms to adopt best practices developed by the U.S. Department of Housing and Urban Development and the National Council on Affordable Housing Market Analysts.</p> <p>Finally, the corporation could streamline the scoring process by including more "threshold requirements" or pass/fail requirements for proposed developments and considering a</p>	<p>the rule development process and focus most of the attention on issues to address current policy concerns and existing or emerging market considerations.</p> <p>To allocate tax credits each year, the Corporation plans to issue a series of RFAs. Each RFA will target specific housing issues, which will likely limit the number of interested stakeholders in any particular RFA. Instead of having one application process that addresses multiple needs across all areas of the state, each RFA will be more focused and can concentrate terms and conditions on a specific set of needs.</p> <p>The Corporation has considered how to reduce the cost to the industry involved in this process. The Corporation is reducing the number of workshops held to save stakeholders time and money, and will continue to rely on solicitation of written public comments to ensure that the public can comment even if they cannot attend meetings.</p> <p>The Corporation is also shortening the time between applications are due and funding is awarded in the new RFA process by simplifying the review/scoring process.</p> <p>A number of items are being removed from the application that have been deemed less critical to the scoring process, and are being moved to the credit underwriting process. As a result, the new application is more streamlined, covering only those items that the</p>

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	<p>project's cost per unit. For example, recommended construction features and amenities and resident programs could be threshold features instead of requiring a numerical score. A less prescriptive, simplified scoring system could enhance innovation and enable developers to demonstrate how they can provide the best return on the tax credit award.</p>	<p>Corporation believes are critical for evaluating applications during the competitive process.</p> <p>The Corporation has been working since last summer to create new criteria to require developers financed through the Corporation's programs to more tightly manage development costs. To address this concern, the Corporation has adopted maximum unit development cost limits based on construction type, location, and demographic served. A tighter leveraging consideration has also been proposed which will incentivize developers to keep development costs lower in order to compete successfully against other developers.</p> <p>The Corporation has not yet determined how to best make use of OPPAGA's suggestion for market analysis. The Corporation's experience is that market studies which show a positive demand for proposed housing typically do not provide enough differentiation to be useful for competitive scoring purposes. Moreover, requiring all applicants to submit a market study at application unnecessarily adds to application costs for those not awarded financing. The Corporation believes that Florida Housing should develop market study standards to ensure that studies provide consistent, high quality information, and it will consider whether there is a way to use this information differently in the scoring process.</p>

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<p>Performance Measures: The Corporation's performance measurement system primarily provides output data rather than comprehensive information about program outcomes and the condition of the rental property portfolio.</p>	<p>The Legislature may wish to consider amending s. 420.511, Florida Statutes, to expand the corporation's statutorily required performance measures so that they provide additional information on program outcomes such as the:</p> <ul style="list-style-type: none"> • percentage of underperforming properties in the corporation's multi-family rental portfolio, as measured by those with an occupancy rate below 90%, and/or those with a debt service coverage ratio less than or equal to 1; • percentage of portfolio properties with a specified level of compliance issues; • percentage of single-family homeowner loans that are in foreclosure; and • cost per square foot for housing units developed through the corporation's tax credit programs. <p>In addition, corporation management should continue to work with the board to develop a performance measurement system that will provide them, the Governor, and the Legislature with comprehensive information.</p>	<p>As part of its legislative package, the Corporation proposed revisions to Section 420.511, Florida Statutes, (specific to the Corporation's annual report) that include additional performance measures. HB 437 was passed by the Legislature and the Governor signed the bill into law on May 30, 2013. It includes changes to Section 420.511(3), Florida Statutes, related to annual reporting requirements. The Corporation evaluated each of the suggested measures provided in the OPPAGA report and included those that, based on the staff's expertise and experience, are appropriate for the annual report. For example, Section 420.511(3)(f), Florida Statutes, requires reporting of the percentage of homeownership loans that are in foreclosure and Section 420.511(3)(g), Florida Statutes, requires reporting the percentage of properties in the corporation's rental portfolio which have an occupancy rate below 90 percent. As the Corporation develops an updated performance measure system, outlined below, appropriate measures related to property compliance and development costs will be evaluated. The Corporation will incorporate the revised requirements in the 2013 annual report.</p> <p>Before the staff and Board work on an updated performance measurement system, the Board will revise its strategic plan. Once the strategic plan is updated, estimated for the first quarter of 2014, the Corporation's performance measurement system will be updated. A date will be set for this work to occur once</p>

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		<p>the Board has set a timeline for the strategic plan revision. In the meantime, the Board continues to receive detailed information on the status of the Corporation's operations, programs and program outcomes.</p>