

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: April 14, 1998 Revised: \_\_\_\_\_

Subject: Affordable Housing

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Cooper</u>	<u>Yeatman</u>	<u>CA</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>WM</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

**I. Summary:**

Committee Substitute for SB 2204 replaces the “Community Development Corporation Support and Assistance Program (CDCSAP) Act” with the “Invest in Neighborhood Vitality and Economies Act (INVEST).” The CS expands state grants and loan for community revitalization to Community-based Development Organizations (CBDOs), which includes Community Development Corporations (CDCs); establishes a three-tiered funding strategy for new and emerging, intermediate, and mature CBDOs; and expands training and technical assistance programs. In addition, the program is “sunset” June 30, 2007.

This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: 189.427, 252.82, 290.0301, 290.0311, 290.032, 290.033, 290.034, 290.035, 290.036, 290.0365, 290.037, 290.038, 290.039, 290.0395, and 943.25.

**II. Present Situation:**

CDCs, by definition, are grass-roots organizations engaged in real estate and economic development as a means to revitalize communities. They are nonprofit entities governed by boards that include local residents, business representatives, and community leaders.

Nationwide, CDCs have grown from some 100 organizations in 1970, to more than 2,500 by the mid-1990’s. According to the Local Initiative Support Corporation, a national nonprofit organization that provides funding and technical support to CDCs, 90 percent of CDCs are involved in creating affordable housing, and the average annual rate of production per CDC has been rising. It is estimated that between 1960 and 1990, CDCs and other nonprofit housing groups produced an estimated 14 percent of all federally subsidized housing units (excluding public housing).

The Office of Program Policy Analysis and Government Accountability (OPPAGA) estimates there are 87 CDCs in Florida.

Sections 290.0301-290.0395, F.S., constitutes the CDCSAP Act. The purpose of the CDCSAP is to preserve and revitalize certain communities of the state by providing financial assistance to CDCs. Each year since 1981, the Department of Community Affairs (DCA) has awarded administrative grants, project development loans, or affordable housing loans through the CDCSAP to CDCs for economic development and housing projects located within specific target areas.

Although most of the CDCs in Florida engage primarily in housing development, some also undertake a variety of activities designed to promote economic development.

Since FY 80/81, the Legislature has appropriated between \$800,000 and \$1.8 million annually for administrative grants. Between FY 80/81 and 91/92, the Legislature provided funding for economic development loans. Since FY 95/96, \$1.3 to \$1.5 million has been appropriated annually in affordable housing loans for CDCs.

The CDCSAP Act is scheduled to be repealed on June 30, 1998.

Section 290.0395, F.S., directs the Auditor General to perform a review and evaluation of the CDCSAP and provide the Legislature with a report of the findings and recommendations prior to March 1998. In February 1998, OPPAGA issued their report, and concluded that:

- Most of Florida's CDCs focus their efforts more on developing affordable housing than on economic development initiatives. CDCs emphasize affordable housing due to need and the availability of government funds.
- The CDCSAP is an inefficient means of providing support to CDCs because:
  - the administrative grants are not a major source of funding to CDCs;
  - the loan programs have not performed well;
  - the Department's cost to operate the Program is high; and
  - some requirements are needlessly restrictive and burdensome.

The OPPAGA report recommended that:

- The Legislature not reenact the CDCSAP Act.
- The Legislature redirect current CDCSAP Sadowski Act funds to other affordable housing programs, and redirect the Program's \$800,000 to either General Revenue (GR) or to other affordable housing programs.
- The Legislature direct DCA to continue to monitor outstanding program loans and grant agreements.
- The Legislature direct DCA to allocate the remaining portion of loan revenues to expand the activities of the Affordable Housing Catalyst Program.

As reported in the Agency Response in the report, DCA disagreed “strongly with the method of analysis, as well as the recommendations and conclusions” presented in the draft report.

The original INVEST proposal was an outcome of the 1994 Affordable Housing Study Commission review the CDCSAP. According to the commission’s 1994 Annual Report, commissioners found that “current levels and methods of support are grossly inadequate” and that “entirely new approaches to assisting nonprofit organizations engaged in development projects are needed.” In 1995, the commission sought support for legislation to implement these “new approaches.” The present draft of the INVEST proposal reflects the 1994 proposal with recent modifications as agreed upon by DCA, the Florida Federation of CDCs, and the Affordable Housing Study Commission.

### **III. Effect of Proposed Changes:**

The CS replaces the CDCSAP Act with INVEST; expands state grants and loan for community revitalization to CBDOs, which includes CDCs; establishes a three-tiered funding strategy for new and emerging, intermediate, and mature CBDOs; and expands training and technical assistance programs. In addition, the program is “sunset” June 30, 2007.

**Section 1** amends s. 290.0301, F.S., to rename the CDCSAP Act as the “Invest in Neighborhood Vitality and Economies Act.”

**Section 2** amends s. 290.0311, F.S., to find that CBDOs can contribute to the creation of jobs in response to federal WAGES legislation and economic development activities.

**Section 3** amends s. 290.032, F.S., to outline the policy and purpose of the INVEST program, and to specify principles on which neighborhood redevelopment is to be based. The purpose of the INVEST program is to assist CBDOs in undertaking projects “designed to create and maintain a sound industrial base, to revitalize the health of established commercial areas, to promote and retain employment opportunities, to preserve and rehabilitate existing residential neighborhoods, and to provide safe, decent, affordable housing for residents of these areas.” The Legislature declares such activities as “public purposes for which public moneys may be used.”

**Section 4** amends s. 290.033, F.S., to define a CBDO and to generally specify how a CBDO may qualify for assistance under this act. This section is also amended to delete the definition of a CDC; to substitute the Operating Trust Fund for the Community Development Support and Assistance Trust Fund; to define “neighborhood comprehensive revitalization plan”; and to modify the definition of the term “project.”

**Section 5** amends s. 290.035, F.S., to remove certain eligibility requirements for receiving INVEST funds, thereby making funds available to more CBDOs; and to add eligibility requirements, specifying that board membership of the CBDO must include area business and property owners and area employees.

**Section 6** substantially amends s. 290.036, F.S., to establish the three tiered funding strategy for awarding INVEST moneys.

- “Tier I” funding includes core administrative grants for *new and emerging CBDOs*. Such grants are limited to \$50,000 per year, and up to \$100,000 per year in project implementation loans (with an accompanying project administrative grant of up to \$15,000). Tier I CBDOs must also receive extensive training and technical assistance.
- “Tier II” funding includes core administrative grants for *intermediate level CBDOs*. Such grants are limited to \$30,000 per year, and up to \$300,000 per year in project implementation loans (with an accompanying project administrative grant of up to \$45,000). Tier II CBDOs must also receive training and technical assistance.
- “Tier III” funding includes core administrative grants for *mature level CBDOs*, if all qualified tier I and II CBDOs have been funded. Such grants are limited to \$25,000 per year, and up to \$400,000 per year in project implementation loans (with an accompanying project administrative grant of up to \$60,000). Tier III CBDOs may also receive training and technical assistance.

A development project funded under this section cannot exceed \$200,000 annually per CBDO. CBDOs may receive more than one project implementation loan as long as the loan cap is not exceeded. A CBDO may apply for project implementation loans in up to three categories -- business development, affordable housing, and commercial development -- within the total dollar limit. Applications for project administrative grants must include specified information.

In evaluating *grant* proposals, DCA must develop and consider scoring criteria, including, but not limited to, the following:

- The relative degree of distress of the service areas of the CBDO;
- The demonstrable capacity of the CBDO to improve the economic health of the service area and carry out the activities contained in the long-term revitalization plan;
- The degree to which the CBDO would provide assistance to very-low income persons, low-income persons, and WAGES recipients;
- The service area of the CBDO which is located in whole or in part within a state enterprise zone, a federal empowerment zone, or an enterprise community; and
- The extent to which the proposal would further the policy and purposes of this act.

In evaluating *project administrative grant* proposals, DCA must develop and consider scoring criteria, including, but not limited to, the following:

- The reasonableness of project goals and production schedules;
- Prior experience and performance of the applicant in the production of similar housing, commercial, or business developments;
- The extent of financial leveraging with private and public funding;

- The demonstrable capacity of the community-based development organization to improve the economic health of the target area as seen by the reasonableness of its comprehensive neighborhood revitalization plan and the impact of the proposed project;
- The degree to which the project will benefit very-low-income persons, low-income persons, and, particularly, WAGES recipients;
- The location of the target area of the community-based development organization in whole or in part in a state enterprise zone designated on or after July 1, 1995, in accordance with s. 290.0065 or a federal empowerment zone or enterprise community; and
- The extent to which the proposal would further the policy and purposes of the act.

This section is also amended to expand the eligible activities to expend grant moneys for to include preparing a “neighborhood comprehensive revitalization plan.” In addition, the organizational plan required to be submitted with the grant application must have a “clear relationship to the agency’s neighborhood comprehensive revitalization plan.”

**Section 7** substantially rewords s. 290.0365, F.S., to replace CDC planning grants with the community-based development training and technical assistance program for CBDOs. The training component must include resource development, project management, real estate financing, business or venture plan development, strategic planning for community economic development, and community leadership and participation. The technical assistance must be provided by DCA to CBDOs receiving INVEST grants. DCA must coordinate the technical assistance and training in support of affordable housing development with the department’s Affordable Housing Catalyst Program.

**Section 8** amends s. 290.037, F.S., to establish the community development project implementation loan program. This program differs from its predecessor in that DCA can make loans for new business ventures and commercial developments, and for first, second, and other subordinate mortgage loans or loan guarantees in the construction of homes for low and very-low income persons or WAGES recipients. Loans to a single CBDO are limited to 40 percent of the total annual appropriation for loans or \$400,000, whichever is less.

In evaluating *project loan* proposals, DCA must consider the following:

- The economic feasibility of the project and the capacity of the venture to repay the loan;
- The relative degree of distress of the target area;
- The ratio of private and nonstate public money committed to a project to the amount of state money to be committed;
- The demonstrated inability of the borrower to secure funding from conventional sources at the terms offered by the CBDO;
- The number of temporary and permanent jobs generated by the project;
- The overall net positive long term impact of the project on local economic and social conditions;
- The degree to which the project directly benefits or provides assistance to very-low income individuals, low-income individuals, or job-displaced individuals or WAGES recipients; and

- The demonstrated capacity of the CBDO and technical assistance providers to see that the project is successfully carried out and managed.

**Section 9** amends s. 290.038, F.S., to make conforming changes to reflect references to the term “community-based development organizations.”

**Section 10** amends s. 290.039, F.S., to reword this section to expand reporting requirements of CBDOs receiving administrative funds and project administrative funds. The new reporting requirements include identifying the impact the CBDO has had on area residents and its relationship to expected outcomes listed in the agency’s comprehensive neighborhood revitalization plan as a result of receiving INVEST funds.

**Section 11** substantially amends s. 290.0395, F.S., to require CBDOs receiving administrative or incentive grants or loans under the INVEST program to undergo an annual performance review by DCA. Finally, the Office of Program Policy Analysis and Government Accountability is required to conduct an evaluation of the INVEST program prior to the 2007 Legislative Session.

**Section 12** repeals s. 290.034, F.S., which requires the Legislature to annually fund the CDCSAP and establishes the Operating Trust Fund within DCA.

**Section 13** amends s. 189.427, F.S., to delete a reference to s. 290.034, F.S., which is deleted by this bill.

**Section 14** amends s. 252.82, F.S., to delete a reference to s. 290.034, F.S., which is deleted by this bill.

**Section 15** amends s. 943.25, F.S., to delete a reference to s. 290.034, F.S., which is deleted by this bill.

**Section 16** requires DCA to identify and provide technical assistance to potentially qualified CBDOs in regions of the state where no CBDOs have applied for core administrative grants.

**Section 17** provides that this act shall take effect October 1, 1998.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Neighborhoods in which CBDOs operate will benefit from resulting economic development activities and the creation of affordable housing.

C. Government Sector Impact:

None.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.