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Report No. 97-45

Office of Program Policy Analysis And Government Accountability

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Review of the Community Development Corporation Support and Assistance Program

Abstract

- **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 Community Development Corporation Support and Assistance Program is an inefficient means of providing support to CDCs. The Department's cost of operating the Program is high, the administrative grants primarily serve to augment other sources of government assistance, and the loan programs have not performed well.**
- **We recommend that the Legislature not re-enact the Community Development Corporation Support and Assistance Program Act.**
- **A more efficient approach would be to redirect the Program's Sadowski Act appropriations to other affordable housing programs and redirect the Program's general revenue appropriations to either the general fund or to other affordable housing programs. This will reduce the Department's cost to operate the Program, saving about $233,000.**
- **The Department of Community Affairs did not concur and submitted a detailed response. OPPAGA commented on each item in the response (see pages 10-16).**

Purpose

The Office of Program Policy Analysis and Government Accountability is directed in s. 290.0395, F.S., to review and evaluate the Community Development Corporation Support and Assistance Program Act. The Act will be repealed on June 30, 1998, unless action is taken by the Legislature.

In this review, we assessed whether the Program should be continued, revised, or repealed based on:

- the effectiveness of CDCs in reducing deteriorating economic conditions; and
- the Department of Community Affairs' effectiveness in providing support and assistance to CDCs.

This scope was determined in accordance with s. 290.0395, F.S., and in consultation with legislative committees.

Background

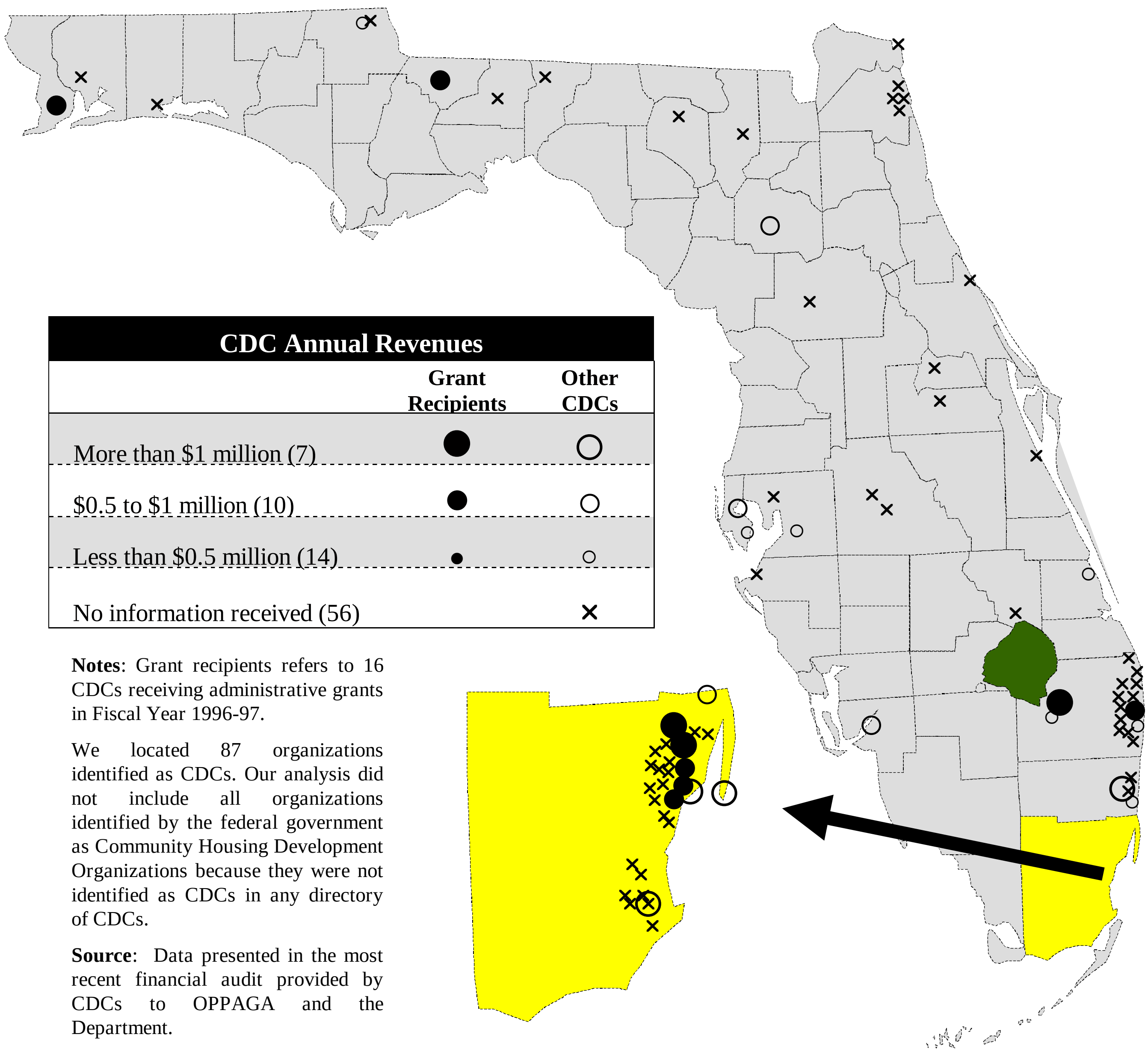
Chapter 80-250, Laws of Florida, created the Community Development Corporation Support and Assistance Program. The Program's purpose is to assist community development corporations (CDCs) in undertaking community development projects. These projects are to foster industry, commerce, employment, improved and preserved neighborhoods, and affordable housing in distressed areas of Florida.

Section 290.033, F.S., defines CDCs as community-based organizations that are committed to enhancing community well-being and facilitate or financially support revenue-generating business for the purpose of community and economic development.[1] CDCs are based in specific geographic areas and controlled by area residents. As illustrated in Exhibit 1, most CDCs are located in south Florida.

[1] CDCs are not the same as Community Redevelopment Authorities (CRAs) or various types of community development districts. These authorities and districts are special districts created by local government or the Legislature under Ch. 189, F.S.

In order to receive Program funds, a CDC must be a non-profit corporation registered under Ch. 617, F.S., or a local development company certified eligible to participate in the Federal Small Business Administration Loan Program. Although there is not widespread agreement about which non-profit organizations are CDCs, as different terms and definitions are used by various agencies, 87 CDCs were identified and located by contacting various organizations that work closely with CDCs.

Exhibit 1
Most Community Development Corporations Are Located in South Florida



CDC Annual Revenues	Grant Recipients	Other CDCs
More than $1 million (7)	● (large)	○ (large)
$0.5 to $1 million (10)	● (medium)	○ (medium)
Less than $0.5 million (14)	● (small)	○ (small)
No information received (56)		×

Notes: Grant recipients refers to 16 CDCs receiving administrative grants in Fiscal Year 1996-97.

We located 87 organizations identified as CDCs. Our analysis did not include all organizations identified by the federal government as Community Housing Development Organizations because they were not identified as CDCs in any directory of CDCs.

Source: Data presented in the most recent financial audit provided by CDCs to OPPAGA and the Department.

The Department of Community Affairs administers the Community Development Corporation Support and Assistance Program. Under the Program, the Department provides administrative grants, project development loans, and technical assistance to CDCs.

- **Administrative Grants.** Administrative grants are available to help CDCs pay administrative expenses such as staff salaries, office space rental, and other overhead expenses. In order to receive an administrative grant, a CDC must submit an application to the Department. The application process is competitive, and the Department evaluates and scores applications based on requirements and criteria provided in Rules 9B-14.007 - 14.009, F.A.C.

  Since the Program's inception in 1980, the Department has typically awarded one-year administrative grants to 12 to 16 CDCs.[2] The Department is limited by statute to awarding grants to 18 CDCs. In Fiscal Year 1996-97, the Department awarded sixteen $50,000 grants. In Fiscal Year 1997-98, the Legislature appropriated $800,000 in general revenues for the administrative grant program.

- **Project Development Loans.** Section 290.037, F.S., authorizes the Department to make loans to CDCs for establishing new businesses, assisting existing businesses, or funding new construction or substantial rehabilitation of affordable housing. The Department has offered two types of loans to CDCs: economic development loans and affordable housing loans. From 1981 to 1992, CDCs used the economic development loan program to provide loans to businesses in their service areas. The Legislature has not appropriated funds to the Department for this type of loan since 1992.

  Since Fiscal Year 1995-96, the Legislature has appropriated funds to the Department for affordable housing loans, and in Fiscal Year 1997-98 it appropriated $1.5 million in Sadowski Act funds for the affordable housing loan program.[3] The Department uses this appropriation to offer zero interest rate loans to CDCs for the purchase of property for new construction or substantial rehabilitation of affordable housing.

  CDCs may apply for affordable housing loans at any time during the fiscal year. Each approved application is funded in order of receipt. CDCs must use loan funds in conjunction with other federal, state, local, and private rehabilitation program funds. The loans are for a maximum of $250,000 and must be repaid at the time of closing on the permanent financing for the project or within five years, whichever comes first.

- **Technical Assistance.** The Program may also offer technical assistance to CDCs. Section 290.038, F.S., authorizes the Department to assist in training CDCs and in providing technical assistance to help increase their capacity to administer projects. Such assistance may include conducting training seminars, providing management advice, or referring CDCs to additional sources of information or services. The Department's Affordable Housing Catalyst Program provides technical assistance for affordable housing projects to CDCs receiving state funds.

The Department allocates funds from loan repayments and interest earnings to cover its cost of operating the Program. In Fiscal Year 1996-97, the Department's expenses of $250,000 included four full-time equivalent employees and travel expenses.

In addition to the Program's assistance, CDCs receive financial assistance from numerous other government programs. As illustrated in Exhibit 2, two-thirds of CDCs that reported fiscal data receive at least 50% of their revenues from government sources. On average, CDCs receive about two-thirds of their revenue from government sources.

Exhibit 2
Two-Thirds of CDCs Receive at Least Half of Their Resources from Government Sources

Estimated Percentage of Total CDC Revenues Obtained from Government Sources	Administrative Grant Recipients[a]	Other CDCs	Total
80% to 100%	2	7	9
50% to 80%	8	4	12
0% to 50%	2	8	10
Total CDCs Responding	**12**	**19**	**31**

[a]Grant recipients refers to those CDCs receiving administrative grants for at least four of the five past fiscal years.

Source: Data presented in the most recent financial audit and other documents provided by CDCs to OPPAGA and the Department.

[2] The Department may also award multi-year administrative grants to the highest-scoring applicants.

[3] The William E. Sadowski Affordable Housing Act of 1992 designates a portion of documentary stamp taxes to the State Housing Trust Fund for affordable housing purposes.

State government funds account for about one-tenth of the total revenues received by CDCs. A major source of community development funds from the state is the Florida Housing Finance Corporation. The Florida Housing Finance Corporation is a non-profit, public-private partnership that administers affordable housing programs using state funds, including those authorized by the Sadowski Act, and federal housing funds allocated to Florida. The Corporation and the Program are the two most widely used sources of state funds by CDCs, and primarily assist them in their housing development activities. Although some state programs may be promoting economic development, CDC directors did not identify any state programs as important partners in their economic development activities, suggesting that the state's primary role in distressed areas may be supporting the development of affordable housing.

Federal government funds account for about one-half of the total revenues received by CDCs. Most of these federal funds come from the U.S. Department of Housing and Urban Development. Some of these funds, in particular Community Development Block Grants (CDBG) and Home Investment Partnerships (HOME), are distributed to local governments and may be used to assist CDCs with community development projects.

The Department is required to collect information from the CDCs it assists to evaluate the impact they have had in developing affordable housing in distressed areas or in increasing local property taxes and economic growth, such as the number of housing units developed or jobs created. However, the Department does not verify the information it receives from CDCs, and some of the reporting requirements are vague and subject to varying interpretation. CDCs report data that reflect ongoing levels of activity, rather than annual outputs or outcomes. Consequently, the Program's Annual Report cannot be used to assess the performance of CDCs.

Findings

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.

Section 290.032, F.S., provides that the purpose of the Community Development Corporation Support and Assistance Program is to provide assistance to CDCs that undertake projects in two general areas: (1) commercial development projects to create and maintain a sound industrial base, revitalize commercial areas, and provide jobs and (2) housing projects to provide affordable housing and to preserve and rehabilitate residential neighborhoods.

While CDCs perform a variety of activities, most focus their efforts on developing affordable housing.[4] CDC housing programs may include:

- single-family home construction,
- multi-family rental construction and management,
- home rehabilitation, and
- homeownership counseling and loan assistance.

Nearly all active CDCs that replied to survey questions consider housing to be a major organizational activity and about two-thirds of expenditures by CDCs are associated with affordable housing activities. In contrast, as shown in Exhibit 3, fewer CDCs are engaged in economic development activities.

[4] Affordable housing in this report refers to privately-owned housing, including rental properties, but excluding public housing owned and managed by government entities. Figures presented in this report refer to housing affordable to low-income and very low-income residents and may not include housing for residents with special needs.

Exhibit 3
Most CDCs Focus Efforts on Affordable Housing

	Percent of Total Expenditures			Number of CDCs Reporting Activity as Major		
Activity Type	Grant Recipients	Other CDCs	Total	Grant Recipients	Other CDCs	Total
Number of CDCs Analyzed:	6	13	19	12	33	45
Housing	75%	66%	70%	12	28	40
Social Services	6%	7%	7%	6	17	23
Commercial Development	4%	16%	12%	7	12	19
Business Assistance	15%	2%	5%	9	13	22
Job Training	0%	9%	6%	2	8	10
Total Expenditures	**$4.1 m**	**$12.8 m**	**$16.9 m**			

Grant recipients: CDCs receiving administrative grants for at least four of the five past fiscal years

Expenditures analysis: Reported program expenditures by type of activity, excluding administrative expenditures, for 19 CDCs providing sufficient fiscal data

Activity analysis: Number of responding CDCs that report a "major activity"

Source: Expenditure data presented in the most recent financial audit and other documents provided by CDCs to OPPAGA and the Department. Activity analysis is based on CDC response to OPPAGA survey questions.

Florida's CDCs focus on affordable housing for several reasons:

- The need for affordable housing in distressed areas is high. Most CDC directors and staff indicated safe, decent, and affordable housing is highly needed within their service area. The Florida Housing Finance Corporation estimates that 144,000 units of affordable housing are needed each year into the next century. The need for decent affordable housing is particularly high in distressed areas that, in Florida, typically contain an abundance of substandard and deteriorated housing units.

- Government funding is readily available to support affordable housing projects. For example, most state community development funds are restricted to affordable housing purposes. In contrast, relatively little state funding is available to CDCs for economic development activities. Further, as illustrated in Exhibit 4, federal funds provide about half of the total revenue CDCs receive, and most of the federal funds CDCs access are restricted to or emphasize housing development. Thus, government funding priorities strongly influence CDC activities.

Exhibit 4
One-Half of CDC Revenues Are from Federal Sources

Sources of CDCs Annual Revenue		Amount ($ millions)
U.S. Department of Housing and Urban Development		**$11.5**
Community Development Block Grants	4.5	
Various housing programs	4.0	
HOME Program	2.4	
Neighborhood Reinvestment Corporation	0.6	
Other Federal Agencies		**2.4**
Unidentified grant sources [a]		**5.1**
Florida		**3.2**
Various state programs	2.0	
CDC Support and Assistance Program	***0.8***	
State Housing Initiatives Partnership (SHIP)	0.4	
Housing program revenues [b]		**7.6**
Contributions [b]		**1.8**
Earned fees [b]		**0.9**
Local Initiatives Support Corp. (private nonprofit)		**0.5**
Other and unidentified revenue sources		**2.0**
Total (millions)		**$35.0**

[a] Based on the types of activities funded by these grants, it is likely that these grants are from federal programs.
[b] May include significant government revenues.
Source: Revenues reported in the most recent audited financial statement provided by 31 CDCs to OPPAGA and the Department. Includes only direct, identified funds. Some government programs provide indirect assistance.

- The state provides limited technical assistance to CDCs for economic development projects. Although the provision of training and technical assistance is authorized by statute, Program staff have primarily provided technical assistance related to applying for and managing the Program's grants and loans. Additional state technical assistance is available to CDCs through the Affordable Housing Catalyst Program. However, this assistance is limited to affordable housing projects. Consequently, some CDCs may not have ready access to technical assistance for economic development projects.[5] Without such technical assistance, CDCs may not have the capacity to undertake complex economic development projects.

Although they rarely are active in economic development, CDCs are an important source of affordable housing in distressed areas. Although numerous entities, including private developers, provide affordable housing, fewer of them are willing to construct such housing in distressed areas. Due to the depressed property values, the costs of rehabilitating or building houses in these areas usually exceed their sales values. Consequently, affordable housing developers typically need to obtain government subsidies for affordable housing projects in distressed areas, and private developers rarely are active in these areas.[6]

The Community Development Corporation Support and Assistance Program is an inefficient means of providing support to CDCs.

As it currently exists, the Community Development Corporation Support and Assistance Program is an inefficient way to support 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.

[5] Technical assistance is more available in some areas of the state than others. For example, CDCs in Dade and Palm Beach counties receive broad-based technical assistance from a number of non-profit entities.

[6] Data on the cost of affordable housing produced by CDCs and local government in Miami and by non-profit organizations in Tampa indicate that the average subsidy for each unit of affordable housing ranges between $12,000 and $14,000.

Administrative Grants Not Essential. The Program's administrative grants are not a major source of funding to CDCs, which obtain most of their funding from other sources. The Program's administrative grants represent a small part of most CDCs' budgets. For the 16 CDCs receiving these grants in Fiscal Year 1996-97, the grants accounted for only 7% of their total annual revenues. Grant funds were less than 10% of revenues for 9 of the 16 CDCs. Thus, the administrative grants serve to augment other government sources of financial assistance available to CDCs.

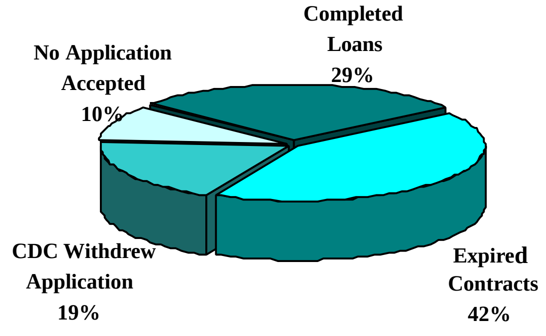
Further, most CDCs in Florida do not receive administrative grants, but fund their operations from federal, state, and local affordable housing and other redevelopment programs. Often, these CDCs pay their administrative expenses using developer fees from housing projects or other charges allowed by most community development programs. Thus, although the Program represents the state's only restricted source of administrative funds for CDCs, CDCs can obtain administrative funding from other government programs.

Without administrative grant funding, some CDCs currently obtaining assistance reported that they would need to reduce their community development activity. Administrators of larger CDCs receiving grants cited the revenue as an important source of "core" support that is not as subject to political considerations as other funds. In addition, some small CDCs reported that they may not be able to continue operating without the grants. However, most CDCs are likely to be able to continue operating by obtaining funds from other sources. Hence, the administrative grants may not be essential to maintaining their community development activities.

Loan Programs Perform Poorly. The CDC loan programs have not performed well. Unlike similar loan programs, the amount appropriated for the CDC affordable housing loan program has yet to be used in its entirety. Further, the CDC economic development loan programs have either had a high loss rate or have not been widely used.

<u>Affordable Housing</u>: The Program's affordable housing loans have not been widely used by CDCs. These loans were intended to provide CDCs with a quick and easy way to obtain zero interest rate loans to purchase property for construction or rehabilitation projects. However, the Department has loaned only $768,000 of the total $2.7 million available during the first two years of the loan program, as shown in Exhibit 5. These loans were made to only three CDCs.

Exhibit 5
The Affordable Housing Loan Program
Used Only 29% of Its Appropriations
During Fiscal Years 1995-96 and 1996-97



Status as of December 31, 1997, for $2.7 million available

Source: Department of Community Affairs records

The affordable housing loans are underused for two reasons. First, many CDCs are either unaware of the loans or not interested in applying for them. During Fiscal Years 1995-1996 and 1996-1997, CDCs applied for $2.4 million of the $2.7 million available for the affordable housing program. This contrasts with other state affordable housing programs in which the demand for support far exceeds the amount of available funds. For example, the State Apartment Incentives Loan (SAIL) Program received requests for $58 million in loans in Fiscal Year 1993-94, but had only $15 million available.[7] Program staff recognize that the CDC affordable housing loan program is not fully used and are developing strategies to market the loans more effectively.

Second, most CDCs approved for loans have failed to meet deadlines for completing the borrowing process or withdrew their applications. CDCs did not complete the borrowing process for $1.6 million of the $2.4 million in loans approved by the Program. These funds could not be distributed to other CDCs. Thus, the Program is an ineffective means of providing affordable housing loans to CDCs.

Other programs used by CDCs are more effective in distributing their funds. The Florida Housing Finance Corporation operates several large housing programs that are available to CDCs and fully use their annual appropriation. For example, the State Housing Initiatives Partnership (SHIP) Program was mentioned by many CDC administrators we interviewed as a source of assistance for housing activities. SHIP

[7] SAIL is administered by the Florida Housing Finance Corporation. Eligible housing providers may apply for loans to assist with the production of affordable rental housing.

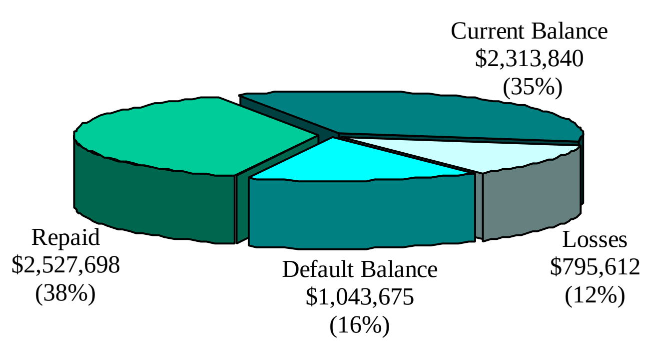
channels money directly to counties and entitlement cities for affordable housing activities. Each county receives a guaranteed minimum allocation of $350,000. Unused SHIP funds are reallocated to other affordable housing needs and thus are fully used.

Economic Development: The CDC economic development loan programs have experienced high default rates and have not been widely used (see Exhibit 6). From 1981 to 1992, the Department offered two types of economic development loans: direct loans and guaranty loans.[8] These loans permitted CDCs to make loans to small business in their service areas. However, as noted in our 1994 report, the loss and default rate for direct loans was high and has now reached 49%.[9] The guaranty loans have a lower loss and default rate (about 7%), but were not widely used–over two-thirds of these loan funds were borrowed by a single CDC. That CDC appears to have been successful and presently operates a large loan portfolio ($1.9 million as of June 30, 1997) with a loss rate of about 3%. This level of success does not appear to have been replicated by other CDCs.

[8] Guaranty loans are arranged by CDCs using state funds as security for a bank loan to the borrower. Direct loans are made by CDCs by loaning State funds directly to the borrower.

[9] Office of the Auditor General, *Performance Audit of the Community Development Corporation Support and Assistance Program*, Report No. 12232, January 24, 1994.

Exhibit 6
Economic Development Loans Have a 28% Loss and Default Rate



Status as of June 30, 1997, for $6.7 million loaned, including both direct and guaranty loans

Source: Department of Community Affairs records

Department Operating Costs. The Department's cost to operate the Program is high. The Department spent about $250,000 to operate the Program in Fiscal Year 1996-97, or about 19% of the total grant and loan assistance provided to CDCs. The Department is authorized four full-time equivalent positions to manage the administrative grant program, affordable housing loan program, and economic development loan program. As shown in Exhibit 7, the Program staff managed only $1.6 million in expenditures.

Exhibit 7
Department's Cost to Operate the Program Is High

Revenues (Fiscal Year 1996-97)	
General Revenue Appropriation (grant funds)	$ 800,000
Sadowski Act Appropriation (loan funds)	1,500,000
Interest Earnings[a]	103,839
Loan Repayments	183,147
Total Revenues	**$2,586,986**
Expenditures (Fiscal Year 1996-97)	
Program Operations	$ 250,833
Administrative Grants[b]	995,675
Housing Loans	334,140
Total Expenditures	**$1,580,648**

[a] Interest is earned on appropriated funds prior to their use.

[b] Grant payments exceed grant awards because some payments cover prior fiscal year awards.

Source: Department of Community Affairs records

In comparison, for Fiscal Year 1996-97, the Florida Housing Finance Corporation used 4.6 full-time equivalent positions to manage the $87 million State Housing Initiatives Partnership Program (SHIP) and 7.7 positions to manage the $32 million State Apartment Incentive Loan (SAIL) Program.

The Program's inefficiency is a result of the size of the appropriation for the grant program and the Department's procedures. Many of the costs of operating a grant program for 12-16 recipients are fixed and thus do not vary substantially depending on the size of the grants awarded. The size of the grant awards is determined by the amount of legislative appropriations and the number of grants that the Department awards, which is restricted by statute to less than 18 CDCs. However, the Department's procedures also contribute to the high cost of operating the Program. For example, the Department's procedures do not permit CDCs to address minor technical omissions in their grant applications. This has resulted in CDCs filing time-consuming appeals of the Department's disqualifications.

Restrictive Program Requirements. Another problem with the Program is that some requirements are needlessly restrictive and burdensome for the Department and CDCs. The process for determining that CDCs are eligible for Program assistance could be made less restrictive and burdensome by simplifying the existing eligibility standards and by providing an alternative eligibility process.

Several statutory eligibility requirements have little or no actual effect on the mission of CDCs, but require burdensome paperwork and may restrict participation in CDCs. In order to be eligible to receive Program grants and loans, a CDC must have a board that meets certain statutory membership requirements. The CDC must publicize the board's election within the service area, accept the appointment of one board member by the Governor, have specified term lengths for board members, and have a majority of board members who are elected by service area residents. CDCs and Program staff must process a large volume of paperwork to document compliance with these requirements, yet the requirements do not appear to significantly affect local participation in community development.

In addition, these eligibility criteria may be unnecessarily restrictive for some CDCs. For example, the restriction allowing only service area residents to vote for board members excludes stakeholders who may be members of the CDC but not residents of its service area. These stakeholders may include business owners, managers, and neighborhood service providers who operate within the CDC service area.

The eligibility process could be simplified for most CDCs. For example, as recommended by the Affordable Housing Study Commission, organizations designated as community housing development organizations (CHDOs) by the U.S. Department of Housing and Urban Development could be automatically eligible to apply for Program assistance. A CHDO is a non-profit agency with a governing board and organizational structure that reflects and is accountable to the low-income community it represents. Most CDCs could provide evidence of CHDO designation in lieu of the large number of documents currently required. Permitting all CHDOs to be eligible for Program assistance would reduce the focus of the Program on distressed areas because CHDOs may serve low-income people in any neighborhood.

However, simplifying the eligibility process would not necessarily reduce the Department’s expenses in operating the Program. Most of the Program's current functions and activities appear necessary to ensure that CDCs meet eligibility criteria and comply with contract requirements. For example, the requirement that CDCs be non-profit organizations is useful and necessary. A simplified process would reduce the documentation CDCs need to provide; however, according to Program staff, it would not result in significant savings or staff reductions. Thus, in order to obtain significant savings, the Program would need to be consolidated with other state affordable housing programs that are available to CDCs.

Conclusions and Recommendations

In 1980, the Legislature created the Program to address its concern that, "many of Florida's communities are exhibiting signs of the decline and deterioration of their economic, physical, and fiscal health, thereby reducing their desirability as places to live and work." Furthermore, the Legislature found that, "the amount of public resources currently available or likely to be available in the future for the revitalization of Florida's distressed areas is grossly inadequate in proportion to the size of the problem." The Legislature's findings are still valid in many of Florida's communities.

CDCs redevelop distressed communities primarily through affordable housing, although some also have economic development programs. However, the current Program is an inefficient way to provide the necessary financial assistance for affordable housing development. Affordable housing development can be assisted more efficiently by expanding other existing housing development programs and the state's technical assistance program.

The current Program is also not an effective way to support economic development initiatives. Economic development is needed in these communities and a few CDCs have undertaken initiatives that made a significant difference. However, due to the relative scarcity of government support for economic development in distressed areas, it is unlikely that $50,000 grants to CDCs can be very helpful in building economic development programs with the capacity to improve these communities.

We recommend that the Legislature not re-enact the Community Development Corporation Support and Assistance Program Act. The Program is not an efficient way to support CDCs. The Department's cost of operating the Program is high compared to other housing programs, the administrative grants primarily serve to augment other sources of government assistance, and the loan programs have either not been widely used or have experienced high loss rates.

We recommend that the Legislature redirect the Program's $1.5 million in Sadowski Act appropriations to other affordable housing programs. The CDC affordable housing loan program addresses needs that are also met by other federal, state, and local community development programs. CDCs are important developers of affordable housing and need government subsidies to address the shortage of affordable housing. The Program is one of many which receives state appropriations for affordable housing activities. A more efficient approach would be to consolidate programs with similar purposes into the smallest number of programs needed to address Florida's affordable housing needs, as illustrated in Exhibit 8.

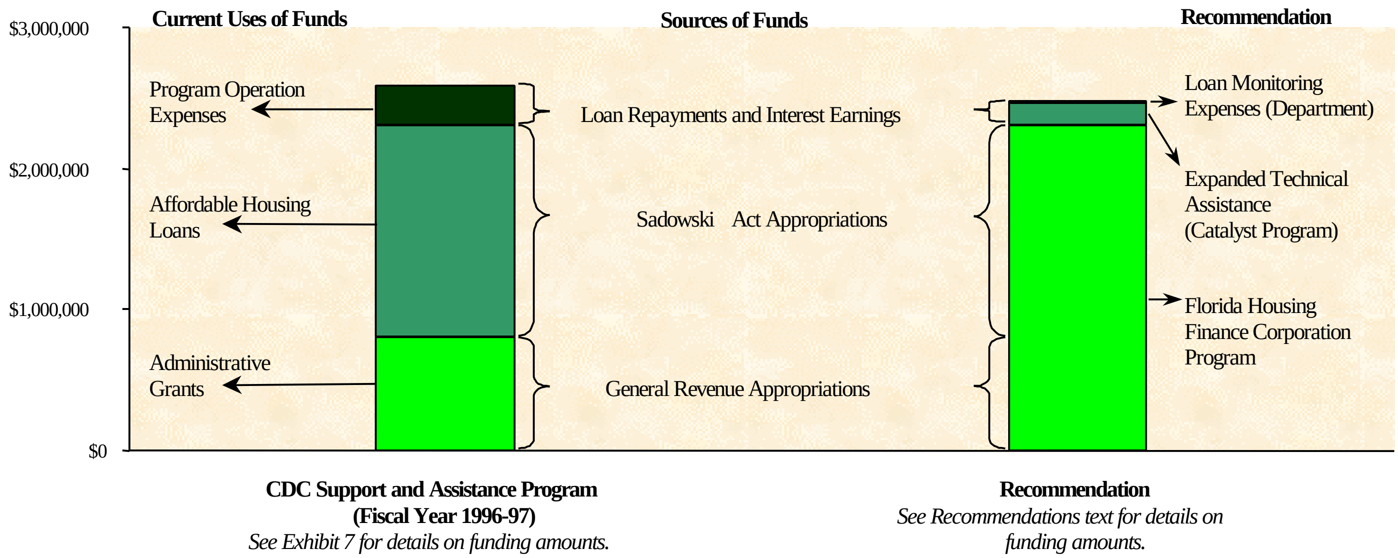
The State Housing Initiatives Partnership Program (SHIP) is most consistent with the current use of Program funds. SHIP is the only state-funded housing program widely used by CDCs and other non-profit organizations serving distressed areas. Further, like the current Program's administrative grants and affordable housing loans, SHIP provides support to very low- and low-income populations. However, since SHIP does not focus exclusively on distressed areas, the redirected funds would be available for affordable housing programs in any neighborhood.

At current levels of appropriation, $1.5 million in Sadowski Act funds would be available to be redirected. Based on Florida Housing Finance Corporation projections, an additional appropriation of $1.5 million to SHIP would be expected to create 93 affordable housing units.

Other affordable housing programs, such as the Predevelopment Loan Program and the state-administered Home Investment Partnerships (HOME), are also compatible with the current uses of Program funds, but are not widely used by CDCs. These two programs are administered by the Florida Housing Finance Corporation and are appropriated Sadowski Act funds.

Exhibit 8

Recommendation: One Option is to Redirect Program Funds to Other Affordable Housing Programs



See Exhibit 7 for details on funding amounts.

See Recommendations text for details on funding amounts.

We recommend that the Legislature consider the following two options for redirecting the Program's $800,000 in general revenue appropriations:

- Revert the appropriation to the general fund. As no existing state program appears to be effectively assisting economic development in distressed areas, and a new economic development grant program with only $800,000 in funding could be as inefficient as the current Program, we did not identify a feasible option for using these funds to assist economic development in distressed areas.

- Redirect the funds to an affordable housing program together with the Sadowski Act funds as described above and illustrated in Exhibit 8. The administrative grant program has been used primarily to assist affordable housing development. Based on Florida Housing Finance Corporation projections, an additional appropriation of $800,000 to SHIP would be expected to create 49 affordable housing units. This option would be most consistent with the current use of the Program's general revenue funds.

We recommend that the Department continue to monitor outstanding Program loans and grant agreements. If the Legislature does not re-enact the Program, the Department will still need to continue to monitor at least $3.1 million in outstanding loans to CDCs. The Department is the most appropriate agency to monitor these loans because it is familiar with the terms of the loan agreements. The Department should continue to allocate sufficient funds from loan repayments to provide for loan monitoring. However, the Department should be able to reduce its annual expenses by approximately $233,000 (from $250,000 per year to less than $17,000 per year). Program staff estimate that existing loans could be monitored by approximately 0.25 full-time equivalent position plus travel expenses. Continued monitoring is necessary to ensure that loans are repaid.

The Department may also need to temporarily continue monitoring responsibilities related to its existing administrative grants. However, it should complete these activities by the end of Fiscal Year 1998-99.

We recommend that the Legislature direct the Department to allocate the remaining portion of loan revenues to expand the activities of the Affordable Housing Catalyst Program. Although OPPAGA has not reviewed the performance of the Catalyst Program, CDCs and other non-profit community development organizations would benefit from additional technical assistance. The Catalyst Program is the state's only source of technical assistance for community development projects. The Catalyst Program is currently unable to offer technical assistance for economic development activities because its funding source, Sadowski Act funds, is restricted to affordable housing activities.

Our recommendation is to allocate loan repayments to expand the funding available to the Catalyst Program and to permit these redirected funds to be used to provide technical assistance for either housing or economic development. Assuming the Department continues to receive approximately $180,000 in loan repayments annually, about $163,000 will be available to be redirected for this purpose. Use of these remaining loan repayment funds by the Catalyst Program should not be designated for any particular type of community development entity. Expansion of the Catalyst Program will help all types of community development projects become more successful and reduce the risk of project failure.

Agency Response

Department of Community Affairs' Response and OPPAGA's Comments
Review of Community Development Corporation Support and Assistance Program

PURPOSE

The Office of Program Policy Analysis and Government Accountability (OPPAGA) is directed in section 290.0395, Florida Statutes (F.S.), to review and evaluate the Community Development Corporation Support and Assistance Program (CDCSAP) Act.

Agency Response: The scope of the OPPAGA review does not fulfill the requirements of section 290.0395, F.S. Items not addressed include:

- analysis of physical impact on structures in Community Development Corporation (CDC) service areas;
- analysis of change in state and local revenues;
- analysis of impact of program on business activity;
- address relationship between administrative funding and the economic health of CDC service areas; and

- assess and demonstrate changes in productivity based on fluctuations in funding levels.

  OPPAGA's Comment: The scope of the review was determined in consultation with legislative committees. OPPAGA attempted to address all the items specified in the law. However, as noted in this report, valid conclusions could not be drawn regarding the Program's impact on CDC service areas due to limitations in Department data.

Further, while the report states that it will assess the "effectiveness of CDCs in reducing deteriorating economic conditions", the data and analysis fails to address the issue. As a result, the Department requests that the report be amended to reflect that the review did not comply with section 290.0395, F.S., and to specifically state the limited scope of the review, and the analyses that were performed. Without such analysis of the impact of the program on the intended outcomes, the Department questions the basis for the recommendation to eliminate the program.

> **OPPAGA's Comment: OPPAGA assessed the effectiveness of CDCs in reducing deteriorating economic conditions by reviewing the types of activities CDCs are engaged in and attempting to determine the impact of the activities. The first finding directly relates to this point: CDCs are engaged primarily in affordable housing activities and they are an "important source of affordable housing in distressed areas."**
>
> **OPPAGA could not quantitatively assess the CDCs' effectiveness because: (1) there is no statewide data on the activities of CDCs and (2) the Department's data on the CDCs that received administrative grants was not useful for assessing Program outcomes.**

BACKGROUND

Agency Response: The Department finds that the background section, while accurate, fails to provide a complete perspective on the CDCSAP, and offers the following:

- Over the years, funding appropriated for the program has fluctuated significantly. While funding for administrative grants has continued every year, project financing for business or housing loans has not. In addition, during some years proviso language has further restricted the number and distribution of grants. Additionally, there is a variance between the Affordable Housing Loan Program budget authority, and the cash received by the Department, due to the timing of the collection and distribution of documentary stamp revenues. Although $1.5 million has been authorized in each of the past two fiscal years, documentary stamp revenues collected provided only $1.3 million to the Department for this program.

Funds Authorized for the CDCSAP by Legislature

TABLE 1

Fiscal Year	Admin. Grants	Business Loans	Housing Loans
90/91	$1,539,588	$800,000	$0
91/92	$1,563,984	$600,000	$0
92/93	$800,000	$0	$0
93/94	$800,000	$0	$0
94/95	$800,000	$0	$0
95/96	$800,000	$0	$1,347,000
96/97	$800,000	$0	$1,326,000
97/98	$800,000	$0	$1,500,000*

*Budget Authority

- Data: OPPAGA discounts the entire data set from Annual Reports per section 290.039, F.S., because it was not verified by the Department. Section 290.039, F.S., does not require or authorize the Department to verify, it only empowers the Department to report "cumulatively". The OPPAGA report should reflect and contain this data on assets, jobs created, homes assisted, etc., as required by statute. The report clearly reflects that the CDCs funded are actively involved in both public and private sources of financing. In fact, the 16 CDCs funded report leveraging over $50 million in funding for community redevelopment. Additionally, much of the data used throughout the OPPAGA report was collected by OPPAGA through a survey distributed to the CDCs. The Department has requested copies of the survey, or a summary of the survey results from OPPAGA, but has not yet received any information.

<u>OPPAGA's Comment</u>: OPPAGA believes that it is the Department's responsibility to ensure it provides accurate and useful reports to the Legislature. As noted in this report and the Auditor General's 1994 report, the Department requires CDCs to report activities in such a way as to cause double counting over a number of fiscal years. As such, OPPAGA was unable to analyze the data in such a way that accurately represented the annual performance of CDCs.

While the 16 CDCs that received administrative grants from the state may have leveraged $50 million, they used multiple sources of administrative funds to support their leveraging efforts. Likewise, many CDCs that did not receive Program administrative grants also leveraged large amounts of funds from sources similar to those accessed by the 16 grant recipients.

FINDINGS

1. 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.

<u>Agency Response</u>: While the need for affordable housing in distressed areas is high, as reported by market studies, so too is the need for commercial and economic development. Yet no data was presented to reflect these other community needs. More importantly the CDCs funded are addressing both needs. The data reported in Exhibit 4 needs to reflect its use, as well as its source. For example, Community Development Block Grant money can be used for a very wide range of uses, from street improvements to economic development, or home repairs. The groupings for "other federal agencies" needs to be broken down by use. The data should also reflect the non-federal funding sources and their uses. Without such information, a comparison of CDCSAP objectives to unspecified funding allotments and unknown uses is not meaningful. The conclusions related to the provision of technical assistance to CDCs are subjective and are not supported by data. In fact, the data contained in the annual report to the Legislature does <u>not</u> support the statement that CDCs are "rarely active in economic development". It is the Department's experience that the majority of CDCs are involved in economic/ commercial development, as well as other activities that are needed in their service areas. However, the critical issue is whether viable community redevelopment can be achieved by only dealing with housing or business development. The answer is no. Redevelopment must address the entire range of community needs – physical, social and economic as a whole.

<u>OPPAGA's Comment</u>: While OPPAGA agrees that a majority of CDCs report being involved in some type of economic development activity, the level of economic development activity for many of those CDCs is relatively low compared to affordable housing activity. This is demonstrated by the relatively small amount of funds CDCs reported expending on economic development activities. (See Exhibit 3.)

2. The CDCSAP is an inefficient means of providing support to CDCs.

2(a) Administrative Grants Not Essential.

<u>Agency Response</u>: OPPAGA's report seems to contradict their finding that administrative grants are not essential. The material presented in paragraph three, column two, page six of the OPPAGA report states that, without administrative grant funding, some CDCs would have to reduce community development activity, and others, most particularly small CDCs, would likely have to cease operations. It is the Department's position that, for many CDCs, funds provided by the CDCSAP are significant and essential to their ability to continue functioning.

The OPPAGA conclusion that since CDCSAP administrative grants represent a small portion of most CDCs' budgets, those funds must not be essential, is incorrect. It is the Department's position that the small percentage referred to is more indicative of the CDCs ability to use those administrative funds to leverage other funds, and stimulate activity. It would be more meaningful to compare CDCSAP administrative funds to the amount of other administrative funds available to a CDC, and draw conclusions based on that comparison. In fact, based on budget data reported by the 16 funded CDCs last year, the CDCSAP support averaged over 16% of their administrative costs, and ranged from as low as 4.4% to over 42%.

<u>OPPAGA's Comment</u>: OPPAGA found that CDCs use widely varying definitions of what constitutes administrative expenditures versus program expenditures. Because of these varying definitions, comparisons of grant awards to CDC administrative expenditures are not reliable.

The OPPAGA report also points out that the CDCSAP has not provided administrative grants to the majority of CDCs which exist. While the Department agrees with this conclusion, it is a factor of legislation and funding limitations. The statute limits the Department to making a maximum of 18 administrative grants in any single year. Additionally, the total funding authorized for the CDCSAP administrative grant program has diminished significantly from earlier years. For the last several years, the administrative grant program has been limited to $800,000 annually. Although this amount is significant to the CDCs which receive it, it is small when compared to the total amount of other state, federal and private dollars which are targeted for economic/commercial and affordable housing activity statewide. The benefit of CDCSAP funds is that they are used successfully to generate redevelopment activities in distressed areas which would, without those funds, not be generated.

2(b) Loan Programs Perform Poorly.

<u>Agency Response</u>:

Affordable Housing Loan Program (AHLP):

OPPAGA inaccurately states that the Department has "loaned" only $768,000 of the total $3 million received during the first two years of the program. As noted earlier, the Department did not receive $3 million in cash to loan in the years in question but only $2.67 million. In the last two years, applications were submitted for approximately 90% of the funds available. In the first year of the program, in addition to completing the start-up rule making, the Department was able to obligate over $1 million in loans. In year two $1.25 million was obligated during the fiscal year. However, while $2.25 million was once obligated, some CDCs have not been able to "close" their loans. One CDC withdrew $500,000 in applications which had previously been approved and obligated by the Department. Due to timing of the withdrawal those funds could not be re-obligated for a different loan as budget authority had lapsed.

Additionally, the Department's experience with defaults in the early years of the commercial/ economic development loan program provided a valuable lesson when designing and implementing the newly authorized AHLP. Rather than rush to execute weakly under-written loans, staff developed a program which provided strong security. This was why a first lien position is currently required for all AHLP loans. Based on the first two years experience, we have learned that under certain conditions, a subordinated security provision may be allowed without significantly increasing the Department's risk.

Rule changes are in the process of being promulgated which will include a provision allowing for a subordinated mortgage to be used to secure AHLP loans. Previously, only a first lien could be accepted. It is the Department's understanding that CDCs have delayed submitting applications this year in anticipation of that and other proposed changes.

The report attempts to compare the CDC loan program to those administered by the Housing Finance Corporation (HFC). To be of assistance, the report needs to specify which HFC programs are "available to CDCs", how many CDCs have accessed HFC programs in past years, and the percent of funding committed from each such program to CDCs. One example cited was the SHIP program, yet only $400,000 out of $87 million available got to CDCs (per Exhibit 4 .0046%). While a few CDCs have succeeded in securing project financing from the HFC sources, the Department does not have evidence that this is replicable to the entire universe of CDCs.

<u>OPPAGA's Comment</u>: SHIP funds are widely used by CDCs, although they may not appear in statements of CDC revenues. SHIP funds are used by 15 of 24 CDCs, according to directors interviewed by OPPAGA. The figures presented in Exhibit 4 do not represent all the financial assistance provided by SHIP because SHIP financing is often provided directly from a local government to a new homeowner acquiring a property built or rehabilitated by a CDC. This assistance makes it possible for the CDC to help complete a property's sale, but would not be recorded as revenue to the CDC.

Economic Development Loans:

Economic Development loan funds have not been authorized by the Legislature since 1992. Throughout its history, the Department has been responsive to the program's track record, and has changed it to make it more accessible and reduce default rates. High default rates in the Direct Loan Program caused the Department to develop a Guaranty Loan Program, which has demonstrated a strong repayment record, and a very low default rate. The OPPAGA report provides an inconsistent message. In section, the Department is criticized for high default rates (in the early years of the program), yet in the AHLP section, the Department is criticized for acting deliberately to create low default rates.

OPPAGA's Comment: OPPAGA is not criticizing the Department for acting deliberately to create low default rates. OPPAGA found that most CDCs have not used the affordable housing loan program and thus concluded that the loan program was not a viable means for addressing the significant problems in CDC service areas.

2(c) Department Operating Costs. The Department's cost to operate the Program is high.

Agency Response: The calculation of administrative costs as a percentage of program costs is problematic, unless everyone agrees as to what constitutes the base for program costs. In the report, the base amount only includes the grant and loan assistance provided to CDCs. However, the Department's cost is not limited to just the amount provided in grants and loans. It also includes the value of loan portfolio being managed, the repayments recovered, and other costs. For example, the CDCSAP staff also manages the Federal Enterprise Community grants and it is assisting in developing a statewide technical assistance clearinghouse of housing and community development programs, and technical assistance. Managing the $9.0 million Enterprise Community program and developing the clearinghouse complements the Department's mission of assisting in comprehensive community redevelopment and in providing training and technical assistance to non-profits.

In Exhibit 7, the base should be expanded by Value of Loan Pool Administered ($3.1 million) and by Value of Enterprise Community Grants Managed ($9.0 million). The percentage cost to administer the CDCSAP drops to 4.4% (not 19%) if only the loan pool value is added to the base (250,833÷5,686,986). The administration cost drops to 1.7% when the Enterprise Community grants are added to the base (250,833÷14.6 million). The Department finds that its cost to administer the program is not excessive.

Likewise, the comparison of CDC staffing to staffing at HFC/SHIP and SAIL is not an effective measure of efficiency. HFC contracts out for many functions like monitoring and underwriting, which are routinely performed by the CDCSAP staff. How much difference does this make? SHIP contract amount of $200,000 for monitoring only is the equivalent of 3 to 4 FTEs. In addition, to administer a competitive grant program a core staffing level is needed, whether you are awarding $1,000 or $200 million. Our staff levels are consistent with our charge to manage a competitive grant process, underwrite loans, monitor compliance and provide technical assistance.

OPPAGA's Comment: OPPAGA did not include the value of the loan pool in the base because Department staff reported that the cost to administer the Program's outstanding loans would be less than $17,000 if it were handled as a separate activity.

Since the federally funded Enterprise Community Program is separate from the CDC Support and Assistance Program, OPPAGA does not agree that the value of the Enterprise Community Program's grants should be included in the base.

2(d) Restrictive Program Requirements

Agency Response: The Department agrees with OPPAGA finding that some of the program requirements are restrictive and should be changed in Statute or Administrative Rule, such as the mandate that the Governor appoint one member to the Board of each CDC.

The department is seeking clarification on the discussion of expansion of eligibility. Is OPPAGA recommending the program be available to CHDOs as recommended by the Affordable Housing Study Commission? If so, why?

The Department agrees that simplifying the eligibility process would reduce expenses, but it would free time for staff to provide more technical assistance to CDCs.

> **<u>OPPAGA's Comment</u>: OPPAGA has no position on whether all CHDOs should be eligible for Program assistance if the Program is re-enacted. OPPAGA concluded that this change would reduce the documentation requirements for CDCs that qualify as CHDOs as well as reduce the amount of time Program staff spend reviewing documents to assess a CDC's eligibility for Program funding support.**

CONCLUSIONS AND RECOMMENDATIONS

1. We recommend that the Legislature not re-enact the Community Development Corporation Support and Assistance Program Act.

<u>Agency Response</u>: The Department does not agree with this recommendation. OPPAGA's analysis is incomplete and does not determine if the program has addressed the legislative intent, which is to help revitalize distressed communities. Data from CDCs support re-enactment and OPPAGA has not provided evidence to the contrary. In Fiscal Year 1996-97, 16 funded CDCs provided:

- 1,332 jobs created;
- 784 homes repaired or built;
- 963 businesses assisted; and
- leveraged over $50 million in other sources to aid in redeveloping their service areas.

> **<u>OPPAGA's Comment:</u> The data cited by the Department may not accurately reflect CDC performance. For example, the Department requests that CDCs report the number of homes in development or under construction rather than the number "repaired or built." Consequently, it should be reporting that 784 homes were in development or under construction rather than "repaired or built" in the fiscal year. It also appears that many of these same homes were under construction in Fiscal Year 1995-96 and were included in Department figures reported for that fiscal year as well.**

2. We recommend that the Legislature redirect the Program's appropriations to other affordable housing programs.

<u>Agency Response</u>: The Department finds that the only effective means to redevelop our distressed communities is to do so in a holistic manner – treat the physical, social and economic conditions together. The Department disagrees strongly with this recommendation as it would eliminate one of the few sources of money to support community based redevelopment leadership and place even greater reliance on housing to go it alone as the state's vehicle for redevelopment. The key is to broaden the resources available to meet the wide array of needs.

This recommendation will result in no longer having a source targeted to CDCs, and no longer meets the legislative intent to assist in the revitalization of the state's distressed areas, as the affordable housing programs are not targeted to distressed neighborhoods.

> **<u>OPPAGA's Comment</u>: As illustrated in Exhibit 3 of this report, most of the funding obtained by CDCs supported by the Program is used for affordable housing. OPPAGA's conclusions were based on the observation that CDCs were primarily emphasizing affordable housing activities, even though the Legislature intended the Program to support community development in a holistic manner.**

3. We recommend that the Department continue to monitor outstanding Program loans and grant agreements.

<u>Agency Response</u>: The Department does not support this recommendation. If the CDCSAP is not re-enacted, the assets and monitoring/collections activities should be transferred with the funding to the Housing Finance Corporation.

> **<u>OPPAGA's Comment</u>: OPPAGA believes the Department is most qualified to manage these loans. The Housing Finance Corporation would incur significant start-up costs to take on this responsibility, while the Department estimates that it would require only $17,000 in funds if it retained the responsibility.**

4. We recommend that the Legislature direct the Department to allocate the remaining portion of loan revenues to expand the activities of the Affordable Housing Catalyst Program.

Agency Response: The Department does not support this recommendation as part of the over all intent to terminate the CDCSAP. If the Legislature accepts the OPPAGA recommendation, the Department would welcome the transfer of the savings from HFC to DCA annually ($163,000), provided this is not a justification to reduce the Sadowski funding to the technical assistance efforts of the Affordable Housing Catalyst Program. As a point of clarification the Department has other sources of community development assistance in Fiscal Year 1997-98. They are:

Small Cities CDBG	$ 320,000
PVE	$1,000,000

OPPAGA's Comment: OPPAGA believes that the Department should only be allowed to direct loan repayment revenues to the Affordable Housing Catalyst Program if it continues its loan monitoring responsibilities.

SUMMARY

To be effective, community redevelopment efforts need to be:

- community based -- organized by and around residents of the area;
- community lead -- leadership from within the community;
- holistic -- address physical, social and economic needs in concert, not separately; and
- share broad partnerships -- be supported by public and private sectors.

The CDCSAP deserves to be maintained and strengthened; given:

- experience from funded CDCs which are moving to rebuild the economic and housing resources;
- CDCs provide a critical community leadership and community organizing role;
- CDCs have proven capacity to bring a wide array of public and private resources to the effort (over $50 million); and
- CDCSAP provides critical seed money upon which to build capacity and leverage.

The Department recommends:

- CDCSAP be reauthorized;
- CDCSAP be funded at current or improved levels;
- CDCSAP be more outcome oriented -- measured change to community condition;
- CDCSAP be centered on holistic efforts -- funding should be provided for broad based efforts.

Attachments

1. CDCSAP Annual Report, 1996-97
2. Summary Assessment Report, "Rebuilding Communities Initiatives", prepared for The Annie E. Casey Foundation

OPPAGA NOTE: The above-listed attachments are not reproduced herein, but are available upon request.

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