

Progress Report

April 2000

Report No. 99-47



Community Development Corporation Program Not Re-Enacted, But DCA Continues Monitoring

at a glance

Consistent with our recommendations, the 1998 Florida Legislature did not re-enact the Community Development Corporation Support and Assistance Program, which sunset on June 30, 1998. Although the program was appropriated funding in Fiscal Year 1998-99, it did not receive an appropriation in Fiscal Year 1999-2000. Funding for the program is also not included in the proposed House and Senate budgets for Fiscal Year 2000-01.

Funding previously appropriated to the program remains in the State Housing Trust Fund and the General Revenue Trust Fund for appropriation to other programs. The Department of Community Affairs continues to monitor community development corporations (CDCs) that have outstanding administrative grant awards and economic development and affordable housing loans.

The department is awaiting legislative authorization to use collected loan funds for other purposes.

Purpose

In accordance with state law, this progress report informs the Legislature of actions taken in response to our 1998 report.^{1, 2}

Background

The Community Development Corporation Support and Assistance Program assisted community development corporations (CDCs) in undertaking community development projects. These projects were intended to foster industry, commerce, employment, improved and preserved neighborhoods, and affordable housing in distressed areas of Florida. As of our 1998 report, there were 87 CDCs operating in Florida.³ Under the program, the Department of Community Affairs provided three types of assistance to CDCs.

- *Administrative Grants.* CDCs were awarded grant funds to assist them in paying administrative expenses, such as staff salaries, office space rental, and other overhead expenses. Grants were awarded through a competitive application process.

¹ Section 11.45(7)(f), F.S.

² *Review of the Community Development Corporation Support and Assistance Program*, OPPAGA [Report No. 97-45](#), February 1998.

³ CDCs are 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. They are based in specific geographic areas and controlled by area residents.

Progress Report

- *Project Development Loans.* CDCs could apply for loans for establishing new businesses, assisting existing businesses, or funding the construction or substantial rehabilitation of affordable housing. The department offered two types of loans: economic development loans and affordable housing loans. CDCs used economic development loans 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. From Fiscal Year 1995-96 to Fiscal Year 1998-99, the Legislature appropriated funds to the department for zero-interest rate loans to CDCs for the purchase of property to construct or substantially rehabilitate affordable housing.
- *Technical Assistance.* The department provided technical assistance to CDCs to assist them in increasing their capacity to administer projects. The department's Affordable Housing Catalyst Program was responsible for providing technical assistance related to affordable housing projects for which CDCs received state funds.

Prior Findings

In our previous report, we found that most community development corporations that received administrative grants were focusing their efforts on developing affordable housing rather than on economic development initiatives. Nearly two-thirds of the CDCs' expenditures were on affordable housing, and nearly all of the CDCs considered affordable housing to be a major organizational activity. This emphasis was due to the

large need for affordable housing, the availability of government funding for affordable housing, and the lack of technical assistance available to CDCs to undertake economic development projects. Few CDCs were involved in economic development activities.

We also noted that the program was an inefficient means of providing support to CDCs for four reasons.

- Administrative grants were not a major funding source for CDCs, which were primarily funded from other sources. Of the 16 CDCs that were awarded grants in Fiscal Year 1996-97, grant funds accounted for only 7% of their total funding. Hence, the administrative grants served only to augment the funding that CDCs were receiving from other sources.
- CDC loan programs had a history of poor performance. The department had a 28% loss and default rate for economic development loans made to CDCs. Further, CDCs did not make full use of the funds appropriated for affordable housing loans. In the first two years that these loans were available (Fiscal Years 1995-96 through 1996-97), the department had loaned only \$768,000 of its \$2.7 million authorization.
- The department's cost to operate the program was relatively high. The department spent approximately \$250,000 to operate the program in Fiscal Year 1996-97, which was approximately 19% of the total grant and loan assistance provided to the CDCs (\$1.3 million).
- Some program requirements were needlessly restrictive for both the department and CDCs.

We recommended that the Legislature not re-enact the program because it was not an efficient way to support

CDCs. We also recommended that if the Legislature wished to continue to support similar efforts, it should redirect the program's Sadowski Act and general revenue appropriations to other state affordable housing and economic development programs that could have a higher return on investment. We noted that the department should continue to monitor outstanding program loans and grant agreements and recommended that loan repayments be used to further the activities of the department's Affordable Housing Catalyst Program.

Current Status

The program was not re-enacted, but continued to receive appropriations for one year. The 1998 Legislature did not re-enact the Community Development Corporation Support and Assistance Program, which “sunset” June 30, 1998. However, in Fiscal Year 1998-99 the Legislature appropriated it \$2.3 million for Fiscal Year 1998-99. In Fiscal Year 1998-99, the department awarded CDCs administrative grant awards totaling \$255,046 and affordable housing loans totaling \$2.2 million, a significant increase over the 1997-98 loan amount. (See Exhibit 1.) The Legislature did not fund any economic development loans.

However, the program did not receive an appropriation in Fiscal Year 1999-2000. Funding for the program is also not included in the proposed House and Senate budgets for Fiscal Year 2000-01.

Funding previously appropriated to the program remains in the State Housing Trust Fund and the general revenues are available for appropriation to other programs. Prior to the program's sunset, its Sadowski Act and general revenue

appropriations were deposited into the department's Operating Trust Fund for program use. As a result of the program not being re-enacted, legislative staff have indicated that the Sadowski Act funds will remain in the State Housing Trust Fund and the general revenue funds will be available for appropriation to other programs.

Exhibit 1 Funding Continued After the Program Terminated

	Fiscal Year 1997-98	Fiscal Year 1998-99
Revenues		
General Revenue		
Appropriation (grant funds)	\$ 800,000	\$ 0
Sadowski Act Appropriation (loan funds) ¹	2,681,571	3,456,425
Interest Earnings ²	208,351	230,697
Loan Repayments	380,420	193,425
Total Revenues	\$4,070,342	\$3,880,547
Expenditures		
Operating Costs	\$ 336,623	\$ 172,292
Administrative Grants ³	412,278	225,046
Housing Loans	434,322	2,168,640
Total Expenditures	\$1,183,223	\$2,565,978

¹ Amount includes budget authority carried over from prior years.

² Interest is earned on appropriated funds prior to their use.

³ Grant payments exceed general revenue appropriations because some payments cover prior fiscal year awards.

Source: Department of Community Affairs.

Department staff continue to monitor grant agreements and loan repayments. Although the department has not allotted full-time staff to carry out program responsibilities, various department staff continue to monitor administrative grant agreements and loan repayments, as we recommended in our 1998 report. Most program loans will be paid off in 2004.

The department is awaiting legislative authorization to use collected loan funds. Most CDCs continue to make loan repayments

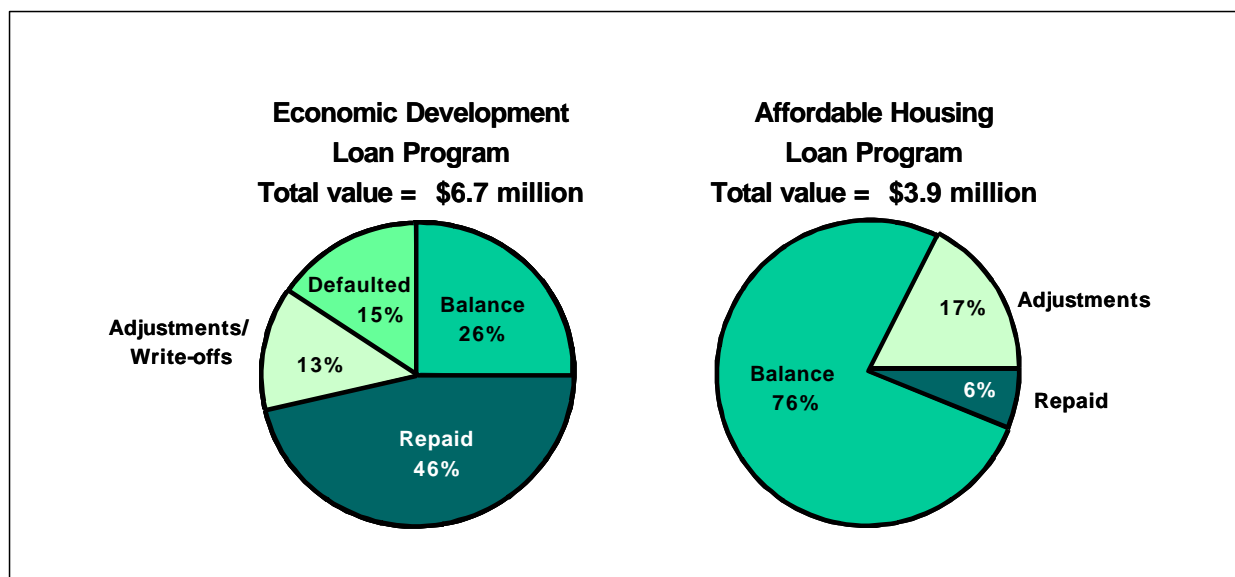
Progress Report

according to the economic development and affordable housing loan agreements. CDCs have repaid nearly half of the \$6.7 million (46%) in economic development loans and continue to owe \$2.8 million (28%). However, 28% of the \$6.7 million loaned is uncollectable (\$845,612 written-off and \$1 million in default). In contrast, CDCs have repaid \$248,746 (6%) of the \$3.9 million

loaned for affordable housing, but no housing loans are currently in default. (See Exhibit 2.) CDC loan repayments were previously used to support program administrative costs. However, since the program's sunset, the department must receive legislative authorization to use collected loan funds for such purposes.

Exhibit 2

28% of the Amount Loaned to CDCs for Economic Development Is Uncollectable; Existing Affordable Housing Loans Are Current¹



¹ Adjustments include unused portions of the original loan amounts that were returned by CDCs.

Source: Department of Community Affairs.

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