

**FLORIDA’S HOUSING TRUST FUND —
ADDRESSING THE STATE’S AFFORDABLE
HOUSING NEEDS**

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I. INTRODUCTION

As Florida’s population continues to grow, so too does the need for decent, affordable housing. With a tourist-based, service economy dependent on lower-wage jobs, ensuring an adequate amount of such housing is essential. Limiting growth can exacerbate the gap between need and supply, and such limitations are difficult to equitably maintain. Thus, the question becomes how to accommodate the state’s growing, economically diverse population, particularly the lower income population for whom for-profit developers do not typically provide housing. This paper argues that both regulatory and incentive-based approaches are necessary. The focus here will be on one significant incentive-based program, state housing trust funds, specifically Florida’s State Housing Initiatives Partnership (SHIP), the largest such program in the nation.

II. HOUSING NEEDS DEFINED

Despite the strength of the housing market during the most recent recession, a variety of sources document the ongoing, and increasing need, for decent affordable housing across the United States. As noted in *The State of the Nation’s Housing* (2003), those

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20% in the lowest income bracket continue to struggle to meet housing costs with only 34% of the renters in this group receiving any kind of assistance.¹ At the same time, privately and publicly funded rental units are being lost at an unprecedented rate.² While some lower income households have attained homeownership, this success is tempered by the fact that many of these households are at greater risk of default due to a significantly higher housing cost burden and less than favorable terms due to weak credit histories and the subsequent use of subprime loans.³ Further, with housing prices continuing to rise, fewer households will be able to afford homeownership in the future. Add to this gap the decrease in federal support, and the possibilities of meeting these significant challenges diminish.

A national study conducted in 2001 outlined that fully 59% of Florida households could not afford a median priced home and 40% could not afford the average rent in the state.⁴ In their 2003 report *Out of Reach*, the National Low Income Housing Coalition found that no state in the country offers decent, affordable housing to renters earning minimum wage. In Florida, an extremely low income household earning \$15,217 (30% of the median income of \$50,723) can only afford a rental unit at \$380 a month, much less than the Fair Market Rent of \$515 for a studio or \$605 for a one-bedroom apartment.⁵

Fifteen years earlier, the 1988 Florida Legislature established a goal to meet the state's housing needs by 2010.⁶ In assessing progress toward meeting this goal, the 1999 Florida Affordable Housing Study Commission noted that "the additional 22,134 housing units provided with 1998 program funds allowed Florida to keep up with only two-thirds of the growth of cost burdened households during that year, and did not provide for the backlog of 1.35 million cost burdened households" (13). According to the Shimberg Center's *State of Florida's Housing, 2003*, in thirteen of

1. Harvard University Joint Center for Housing Studies 2003, 4.

2. This loss is attributable to publicly assisted units reaching the end of their affordability periods and being converted to market rate housing, and "mom and pop" landlords, the primary owners of modest rental units that comprise the bulk of the affordable rental market, selling their properties, which are then subsequently converted to market rate units or demolished. Further, as noted in *The State of the Nation's Housing* (2003), the new units being constructed tend to be more expensive than those that are being lost.

3. According to *The State of the Nation's Housing* (2003), owners experiencing severe cost burdens increased from 8.8 percent in 1997 to 10.1 percent in 2001 (26).

4. Center for Community Change 2001, 28.

5. National Low Income Housing Coalition, *Out of Reach 2003*, accessed on 19 January 2004, <http://www.nlihc.org/oor2003/data.php?getstate=on&state%5B%5D=FL>.

6. Section 420.0003(2), Florida Statutes states "[b]y the year 2010, this state shall ensure that decent and affordable housing is available for all of its residents."

Florida's sixty-seven counties in 2001, the qualifying income needed to purchase a median priced home exceeded the median income for that area.⁷ Further, the 2000-2004 statewide consolidated plan projected housing needs across the state among households earning 80% or less of area median income as 614,947 units for renter households (67.4% of this group) and 508,964 units for owner households (45.7% of this group).⁸

A. Right to Housing — The Fair Growth Approach

While some argue that the marketplace can address the majority of housing needs (Salins 1998), housing advocates promote a variety of governmental responses from Downs' (1994) combination of regulatory reform and increased governmental funding for housing to Carr's (1998) call for a broader governmental response to address issues associated with transportation, jobs, and education that will support households so they can eventually work their way out of poverty and afford market rate housing to White (1992), Hartman (1998), and Steiner and Smith's (2002) argument that the only way to bridge this gap will be to consider housing a right rather than simply a privilege.

Whether based on social welfare, community development, or macro-economic perspectives (Hays 1995), a right to housing argument assumes some level of government assistance often framed as incentives or requirements associated with development. Many argue that both are needed. Further, a regional approach is necessary to more effectively address local resistance and connect implementation of housing programs to comprehensive planning for housing needs.

Viewing affordable housing as essential infrastructure — understanding that the economic viability of an area is tied to its workers, including lower income workers who require such housing — Steiner and Smith (2002) maintain that as infrastructure, affordable housing must be available, like adequate roads, sewer, and potable water, to the area's growing population. "Concurrency offers a different approach because it makes provision of affordable housing an explicit responsibility of local governments, with such responsibility tied to a local comprehensive plan prepared under a set of rules and regulations established by the state" (Steiner and Smith 2002, 2). Such a proposal transfers oversight to meet affordable housing needs from the local to state levels while

7. According to Table 4.1 of *The State of Florida's Housing 2003*.

8. According to Table 4-6 of the Florida Department of Community Affairs *State of Florida Consolidated Plan, Federal Fiscal Years 2000-2004*.

maintaining local responsibility, mandates a connection to comprehensive planning, and requires new development to contribute to meeting local needs.

Treating housing as infrastructure also addresses concerns about Florida's proposed Fiscal Impact Analysis Model (FIAM). In their February 2001 report "A Liveable Florida for Today and Tomorrow," the Florida's Growth Management Study Commission (Commission) recommended "adoption of a uniform fiscal impact analysis tool to assist local governments in determining the full costs and benefits of new development" (20). In 2002, the Florida legislature funded the development of FIAM in seven pilot communities: Orange County, City of Orlando, Sumter County, City of Hollywood, Sarasota County, Panama City Beach, and Palm Beach County. Though the Commission argues that they intend such an assessment tool to function as a guide "not an automatic threshold for approval or denial" (21), analyzing costs associated with affordable housing, including residents' use of local services and infrastructure, against the tax revenue generated by such housing will result in a negative balance and thus the potential to argue against its development (Davis 2003). However, if affordable housing is considered infrastructure, such an argument is not possible; affordable housing becomes an essential resource required to be in place before new development can occur.

Similarly fair growth argues for more equitably accommodating development pressures associated with rapid population increases in states such as Florida. By definition, smart growth focuses on diverting new development from low-density sprawl to higher density mixed-uses that address, among other issues, negative impacts on environmentally sensitive lands and over-burdened transportation systems. Downs (1994); Kalinosky (n.d.); Danielson, Lang, and Fulton (1999); and Calthorpe and Fulton (2001) outline the potential dangers of imposing growth limits without accommodating increased populations, resulting in inadequate land supply, and thus increasing housing prices and gentrification.

By contrast, fair growth recognizes the linkages between jobs, schools, land use, transportation networks, a healthy environment, and affordable housing. Social equity forms a primary component of a fair growth approach. "Fair Growth is a set of land use practices that attempt to curb urban sprawl without endangering housing affordability and access to jobs for minorities and low-income residents" (Fannie Mae Foundation 2000, 1). Requiring all new development of a certain size or larger to include a given percentage of affordable housing allows the realization of fair

growth goals, integrating lower income households throughout the community proximate to schools and jobs (Freeman 2000).

Treating housing as infrastructure subject to concurrency requirements and establishing a fair growth approach to deal with development pressure advance the adoption of inclusionary zoning. While it has garnered significant attention among academics as a tool to address housing needs, in reality inclusionary zoning has not been broadly implemented due to lack of political support in a country that values private property rights and more often than not adopts land use regulations and develops infrastructure that facilitate sprawl. Further, inclusionary zoning would need to be adopted regionally to be effective, otherwise a fragmented development pattern would emerge with new residential development opting to locate in those places that did not have such an ordinance. Such a lack of widespread implementation does not necessitate the elimination of this option, it simply means that adopting such a tool requires broad-based political support to ensure consistent application across the region. Inclusionary zoning then is a desirable, though underutilized tool.

In fact, a variety of approaches, both regulatory and incentive-based, are necessary to flexibly and effectively address the significant gap in affordable housing. In addition to inclusionary zoning, PolicyLink (2002) advocates housing trust funds as a “critical component” of an overall affordable housing strategy. Widespread implementation at the state and local levels, the current proposal for a national housing trust fund, and the lack of any recent significant study of this program type recommend further analysis of state housing trust funds as a viable means to effectively meet local housing goals.

B. The Promise of the SHIP Program

By definition housing trust funds incorporate flexibility, encourage partnerships with the private sector, and provide a dedicated source of funding to assist in meeting local housing needs. As established by the Florida Legislature in 1992, the State Housing Initiatives Partnership (SHIP) program epitomizes these goals. Supported by a broad coalition of home builders, realtors, bankers, housing advocates, county, and city governments, the largest state housing trust fund in the country was established to provide a stable funding source tied to population growth.

Thirty-four states currently maintain state housing trust funds, an increase of over 35% in the last ten years, ostensibly to fill the gap between local housing needs and available resources. In addition, for the past two years, the National Housing Coalition has

spearheaded an effort to establish a national housing trust fund. Defining characteristics of this program type include providing a critical match for federal assistance, maintaining permanency through a dedicated funding source, offering flexibility, facilitating public-private partnerships, and ensuring local administration to more directly link funding with local housing plans (Connerly 1993; Linker, Shay, and Hall 2001; Brooks 1997, 2002). Not surprisingly, housing trust funds have been accepted across the nation as a powerful tool to augment federal programs.

As the largest housing trust fund in the nation with over one billion dollars disbursed since its creation in 1992, Florida's State Housing Initiatives Partnership (SHIP) program is considered by many a model of such adaptive local sources of assistance. While Connerly (1993) noted the potential contributions of housing trust funds, he expressed reservations that they would be adopted on a widespread basis primarily due to political opposition and economic constraints. Despite these justified concerns, their number has increased significantly, including state level initiatives, which Basolo (1999) maintains are becoming a primary source of affordable housing funding. My review of the targeting, distribution strategies, and funding levels of half the state housing trust funds (17 out of 34) finds that Florida has not only the largest and most widely targeted housing trust fund, it is the only one available as a guaranteed block grant to local governments throughout the state.

In fact, the Canada Mortgage and Housing Corporation (CMHC), that country's national housing agency, recently reviewed Florida's program to better understand applicability of trust funds to Canada.⁹

The intent of the SHIP program is to augment and leverage federal funds and to do so flexibly. With over \$538 million expended and 78,480 units assisted—a minimum of 30% must target very-low and a minimum of 30% must target low- or very-low income households—SHIP clearly makes a vital contribution to the affordable housing supply in Florida.¹⁰ The trust fund also functions as an important match to federal housing programs, adding another layer of assistance and contributing to project viability. The legislation specifically outlines the program's defining

9. Canada Mortgage and Housing Corporation website, State of Florida Overview, accessed on 16 November 2003, <http://www.cmhc-schl.gc.ca/en/imquaf/afho/afadv/fite/hotrftu/case1.cfm>.

10. At the outset of the program in 1992, the 30% very-low and 30% low income minimums applied to total number of units. Currently these percentages apply to the total funding available to the local governments so that at a minimum 30% of their funding must be spent on very-low and another 30% on low income housing. Local governments can choose to spend 60% of their funding on very-low income housing and still meet the requirement.

characteristics including: to encourage public-private partnerships, to ensure flexibility, to provide a match for federal funds, and to implement the local Housing Element, required by state law as part of the local comprehensive plan (F. S. 420.9072-5).

In fact, SHIP is intended to function as an integral component of housing planning and assistance throughout Florida. Since 1985, Florida has been a model of state-mandated planning, requiring each local government to adopt a Housing Element, consisting of housing objectives and polices based on local needs, as part of its broader Growth Management Plan. The housing trust fund also functions as an essential match to federal assistance, notably the HOME program. Thus SHIP is intended to be a key contributor to efforts that address local housing issues integrating federal funding targets with state planning mandates comprehensively applied at the local level. Further, the state's decision to target SHIP funding as an entitlement to all 67 counties and to the 48 entitlement cities that receive federal Community Development Block Grants (CDBG) reinforces the legislative intent to augment other forms of assistance to implement the local Housing Element.

At several points during its eleven-year history, continued full funding of the program has been threatened, significantly so in the past several legislative sessions. Each time, the diverse bi-partisan coalition of pro-development interests; city, county, and state governmental agencies; and non-profit housing advocacy groups that originally supported the program banded together and successfully preserved the dedicated revenue source that funds the program. Still, the amount of funding designated for SHIP during this fiscal year has been cut in half.

Knowing the constituency that comprises this coalition helps to explain the SHIP program's focus on homeownership (at least 65% of funds must be spent on this activity) and construction/rehabilitation (at least 75% of funds must be spent on this activity). Further, political threats, such as those noted above, attest to the significance of demonstrable results, which explains in part the encumbrance and expenditure deadlines to ensure that disbursed funds result in housing units and households assisted within a timely fashion (Larsen 1998).

Housing trust funds were intended to form part of an integrated and responsive local approach to meet housing needs. In assessing the contributions, challenges, and opportunities for improvement related to Florida's SHIP program, an initial series of more detailed issues emerges regarding the defining characteristics of housing trust funds as outlined in the SHIP legislation — variety of strategies to address local housing needs including homeownership versus rental strategies, developer-based versus

resident-based strategies, incomes targeted, depth of subsidy, and responsiveness to changing conditions such as increased housing costs.

Due to the issues raised regarding SHIP, the methodology uses multiple case studies (Yin 1992) to determine the nature of local implementation strategies within the broader housing planning context. The Florida Housing Finance Corporation distributes the SHIP funds to all 67 counties and 48 CDBG entitlement communities in the state based on a per capita formula. In order to assess how this program is implemented, a random sample of 34 cities and counties — 17 each — were chosen to participate in the study. The sample is also representative of the state's geography and of the range of funding distributions — small, medium and large — based on legislative parameters for amount of assistance. The mandated \$350,000 minimum for rural counties establishes the limit for the small category that includes cities that fall at or below this amount; distributions of \$1 million or more represent the large cities and counties with medium communities falling in between. These categories recognize the diversity of the population in the state — from rural to urban — and allow a means to assess potential differences in implementation and capacity between smaller and larger communities.

In addition to analyzing program implementation, this study will also examine how local governments have adjusted their strategies and assistance over time to address changing local conditions, such as increased housing costs. The methodology involves analyzing material based on the defining characteristics of trust funds in general and the requirements of the SHIP program in particular for FY 92-93, the first year of the program, and FY 01-02, the most recent year for which information is available.

Based on analysis of the sample data, certain trends appear to be emerging. For instance, all local governments are spending more than the 65% minimum on homeownership activities with over 60% of the sampled local governments targeting all their funding on such strategies in FY 01-02. Overall, 77% of the SHIP funding among the sampled governments benefits homeownership. All fund downpayment or purchase assistance and some form of owner rehabilitation. The emphasis on these two resident-based strategies translates into the majority of SHIP funds (66%) directly benefiting lower income households — providing owners the funding to use for housing costs — as opposed to targeting developers, where the funding serves to lower selling prices or rents *and* to offer an incentive to the developer to provide such housing.

In addition, limiting downpayment assistance to first-time homebuyers is a common strategy used in ten of thirty-four

communities, and in most cases, this assistance can be combined with repairs to existing homes under contract. Further, most local governments (24 of the 34 sampled) offer or require housing counseling. Owner rehabilitation varies from emergency repairs to demolition and reconstruction. In most cases, these downpayment and rehabilitation programs were in place prior to the establishment of the SHIP program, and this funding has served to increase the number of households local governments are able to assist.

Despite the focus on homeownership beyond the minimum required by the program, the number of communities among the random sample targeting rental strategies has practically doubled since FY 92-93 (from 7 to 13). Yet the majority of the communities assisting rental projects spend no more than 20% of their funds on such assistance. While the number of strategies funded has expanded in most areas since FY 92-93, these additional strategies, such as land acquisition, individual rental assistance, rental conversion to homeownership, and foreclosure prevention, are not heavily funded or widely implemented. Still, the variety of downpayment assistance and owner rehabilitation options have increased significantly.

Further, my research indicates that while the legislation allows all the funds to be targeted at very-low and low income households, quite a few target moderate income households — serving those who earn from 80% to 120% of median income. In FY 92-93, 58% of the sampled communities assisted moderate income households; in FY 01-02, that percentage had risen to over 73%. Given the emphasis on homeownership, it is not surprising that targets include those with incomes in this category. Thus, this analysis suggests that within and across programs there does not appear to be a consistent emphasis on addressing the lowest income local housing needs.

A recent study of FY 99-00 and FY 00-01 SHIP assistance conducted by Stan Fitterman and Wight Gregor of the FHC found a similar strong focus on homeownership beyond the minimum requirements outlined in the legislation. Their study specifically focused on one strategy — purchase assistance — and assessed whether a relationship exists between the depth of subsidy for the purchase assistance offered and the affordability index they constructed for that area based on sales price data and median income. Using regression analysis they found that the subsidy amount did *not* vary based on widening gaps between house prices and incomes (Fitterman and Gregor 2003). Similarly, my research indicates that the maximum amount of assistance per unit designated for particular strategies did not change or fell in several

communities when comparing the first year of the program, FY 92-93, and FY 01-02. These findings indicate that local governments have tended not to be responsive to depth of subsidy as housing costs have increased.

Consequently, the program clearly has been effective at meeting local housing needs particularly among lower income households seeking homeowner rehabilitation and/or downpayment assistance. In addition, it is providing a critical match for the HOME program. While the diversity of homeowner rehabilitation and downpayment assistance strategies has increased since FY 92-93, other strategies are rarely implemented, or if they are, funded at minimal rates. Review of the Housing Elements has not yet commenced to determine whether downpayment assistance and owner rehabilitation are the primary needs outlined in these plans. Further, the focus on assisting moderate income households has increased since the inception of the program. Altogether, these initial findings reflect a more narrow local focus than that encouraged by the legislation. Further analysis of housing plans, including the Consolidated Plan, which outlines local governments' federal funding targets, and final Annual Reports for FY 01-02 funds, which will indicate final expenditure information for SHIP funds, will adjust and augment the initial findings discussed here.

III. THE FUTURE: SUSTAINING AND STRENGTHENING SHIP AS A CRITICAL STRATEGY TO MEETING FLORIDA'S AFFORDABLE HOUSING NEEDS

As non-federal funding becomes more essential to addressing an increasing affordable housing need, programs such as SHIP provide a critical source of assistance to local governments. If developers and local governments are assured that they can depend on a consistent source of assistance, then they can more effectively plan — coordinate, leverage, and layer programs — and thus ensure more efficient utilization of scarce resources. Designed to encourage local governments to address current housing needs through implementation of their housing elements and to integrate SHIP with other funding programs and regulatory initiatives, Florida's state housing trust fund offers a means to comprehensively address local housing needs.

Initial findings from this ongoing study indicate that the sampled local governments do not fully appreciate the intent of the housing trust fund as outlined in its defining characteristics including meeting a variety of local housing needs. Deadlines for encumbrance and expenditure of funds potentially encourage adoption of strategies and inclusion of higher income targets that

facilitate meeting these requirements as opposed to addressing critical needs.

Still significant changes to the program could threaten to dissolve the broad political support that has sustained it for over eleven years. Further, as this study shows, local governments could in fact use the existing program much more flexibly to comprehensively respond to local housing needs and adjust the program to address local changes in housing costs and variations in income. Together with the recognition that affordable housing for lower income groups is essential to the continued health of Florida's economy, SHIP offers an essential tool for realizing the state's affordable housing needs.