

SHIP CLIPS Annual Report Edition

STATE HOUSING INITIATIVES PARTNERSHIP PROGRAM



By Michael Chaney

Each year when the September 15th SHIP Annual Report deadline approaches, the Coalition fields questions on report-related topics. A full collection of frequently asked report questions is available on the Coalition's website. The following annual report questions address strategies designed to help SHIP administrators across Florida as they consider how to sustain their SHIP successes in the absence of 09/10 funding.

SHIP Survival Strategy # 1: Fully Use the Administrative Budget

Q: *Since there will be no new administrative funds for fiscal year 09/10, how can I maximize the administrative funds I use and report on my annual reports?*

A: Remember that you may spend SHIP administrative funds over a three year period. Consider a jurisdiction that does not fully expend the 10% administrative budget from its 07/08 distribution by the time it receives a 08/09 administrative budget on July 1, 2008. Such a jurisdiction could expend remaining 07/08 administrative funds on expenses from July 2008, as well as August and September and so on until the 07/08 administrative budget is depleted. Only then does it tap the 10% administrative budget from its 08/09 distribution. On its 08/09 annual report, this jurisdiction will likely show that only a portion of the 08/09 administrative budget was expended by June 30, 2009, while the rest of the administrative budget is encumbered to be spent for this purpose in future months.

SHIP Survival Strategy # 2: Maximize Funding for Administrative Expenses

Q: *What are the rules on how much Program Income and Recaptured Funds may be spent on administrative expenses?*

A: Beyond the 10% Administrative Budget, there are other ways to pay for SHIP program implementation expenses. Consider that the SHIP Rule

indicates that a portion of program income may pay for SHIP administrative expenses. No recaptured funds may be expended in this fashion. Jurisdictions that receive \$350,000 or less may expend 10 percent of program income for administration while other jurisdictions may expend 5 percent.

Remember some basics about Program Income and Recaptured Funds. They are sources of revenue for the SHIP program. They must be reported on the tracking spreadsheet for the current fiscal year's SHIP distribution. For example, recaptured funds received on May 31, 2009, were received during the 08/09 state fiscal year. Record them as a source of revenue on the 08/09 tracking spreadsheet. In a close out year, you cannot carry forward any administrative budget funds, nor may any program income be carried forward and later spent on administrative expenses.

Follow Up Question:

It seems that the distinction between Program Income and Recaptured Funds is open to interpretation. Please provide guidance to help me maximize the amount of repayments that I count as program income so I can maximize the money available to pay for administrative expenses.

A: In some cases, the distinction between Program Income and Recaptured Funds is open to interpretation. To begin with, the most significant difference between these two sources of SHIP revenue is that a small portion of Program Income may pay for administrative expenses. Since no Recaptured Funds may be used for this purpose, some SHIP jurisdictions define program income revenue broadly.

Program income clearly includes bank interest on the local housing trust fund. Sometimes SHIP assistance is offered as a loan that must be paid back for a specified term and a SHIP recipient's monthly loan payment is also considered program income.

By contrast, recaptured funds have historically been interpreted as any required repayments if the conditions of a SHIP lien are defaulted on or breached. Consider an example: a former SHIP recipient sells his house before the end of the 10 year lien period and must repay SHIP assistance. Historically, this repayment has been considered recaptured funds. However, many jurisdictions interpret the income received in this scenario to be a SHIP loan repayment, and for this reason they count the revenue as program income.

Research if your jurisdiction may also interpret all such loan repayments as program income. First, check the language in the SHIP mortgage, as well as the "Terms, Recapture and Default" section of each strategy in your local housing assistance plan (LHAP). Confirm that they make no reference to the 'default' of the recapture agreement or the 'recapture' of SHIP assistance. These two key terms are included in the statutory definition of recaptured funds, and if your lien avoids using them you may categorize most repayments received as program income. In addition, consider revising your LHAP and recapture agreement to further clarify all future SHIP liens. SHIP lien terms could be outlined in the following fashion: "the sale of the home before ___ years will require the repayment of the SHIP loan as program income."

Have you got a question about the SHIP program? Free telephone technical assistance is available to help you successfully implement your SHIP funded work. Call the Florida Housing Coalition's SHIP telephone line at (800) 677-4548.

There is one notable exception to this rule: if a household defaults on a first mortgage and loses a house to foreclosure, any money recovered by the SHIP jurisdiction must be counted as Recaptured Funds.

SHIP Survival Strategy # 3: Achieve Compliance with Set-Asides

NOTE: In past years, Florida Housing staff has reported that this is the most common problem delaying final approval of a jurisdiction's reports. This September, the Web Report system will not even permit a jurisdiction to submit a report if compliance with the income, construction/ rehabilitation and homeownership set-asides is not demonstrated.

Q: *Are the SHIP set-aside percentage calculations based only on the annual distribution and not on any recaptured funds or bank interest?*

A: You calculate compliance with the Homeownership Set-aside and the Construction/Rehab Set-aside based on the sum total of Distribution plus Recaptured Funds. Compliance with the Income Set-aside, on the other hand, is calculated based on the total of all sources of SHIP revenue, including carry forward funds and program income.

Q: *I have a question about the section of Form 2 that addresses the homeownership and construction/rehabilitation set-asides. The amount of SHIP funds we have expended and committed to compliance with these set-asides is significant. According to the annual report, it even exceeds the amount of the Trust Fund used to calculate this set-aside compliance. Do we need to add an explanation as to why this amount is greater than 100% of the Trust Fund?*

A: No special explanation is needed. Consider how "Trust Fund" is defined for this question: compliance with these two set-asides is calculated as a percentage of the sum total of the

Distribution plus Recaptured Funds. However, several communities receive a significant amount of program income, which they also spend on homeownership and/or construction or rehabilitation activities. Therefore, it is common in many jurisdictions that this percentage exceeds 100% of the Trust Fund. This question illustrates an important lesson about Program Income, which may be expended on activities that do not comply with these set-asides. If your jurisdiction receives a significant amount of program income, you could dedicate it to a rental project, for example.

MORE: There is more to be said about set-aside compliance. Consider reviewing the videos on this topic at the Coalition's website, www.flhousing.org. On the top pull-down menu for "Local Government and Nonprofit Developer Tools", select (SHIP) Program Update. These videos are available under the headline "SHIP Annual Report: Training Videos" and are about 7 minutes each.

SHIP Survival Strategy # 4: Achieve compliance with Deadlines

NOTE: Florida Housing indicates that non-compliance with either the expenditure or encumbrance deadline is another common problem delaying final approval of a jurisdiction's reports.

Q: *My jurisdiction has not yet expended all the funds in the close out distribution. How do I request an extension for turning in my annual reports after September 15, so we can quickly finish expending funds?*

A: There is no available extension for the annual report, which must be turned in on or before September 15th. In your case, the close out report you submit will illustrate that your jurisdiction has not yet finished expending funds.

First, recognize that it is common to have a small amount of unspent SHIP funds

from a close out distribution; this is not a violation of the expenditure deadline. Whether the amount is \$300 or \$3000, this small unencumbered amount is insufficient to fully assist the next recipient for any of your strategies. In such a case, you may simply "carry forward" these remaining dollars. The new Web Report will identify these unencumbered funds as the carry forward amount and will automatically add this amount as the carry forward revenue on the 07/08 annual report.

In your case, however, the remaining amount of encumbered and unencumbered funds is too big to be considered the carry forward amount. Your jurisdiction may have tens or hundreds of thousands of SHIP dollars left to spend. Do not wait until September 15th. As soon as you discover that you will miss the expenditure deadline, you should request an expenditure deadline extension from Florida Housing. This request must be done in writing; direct your correspondence to SHIP staff members Darlene Raker and Terry Auringer.

Your request should include:

- The exact amount of funds still encumbered and/or unencumbered,
- A brief explanation of why these funds have not been expended within the three year deadline. Was there, for example, a lack of contractors or materials, or is the jurisdiction still working to achieve some set-aside compliance?
- Outline your plan to expend funds quickly, along with a timeline and estimate of when the funds will be fully expended. Indicate if changes have been made to SHIP strategies to address the delays. For example, if a strategy has not been working, have you redesigned it, replaced it, or reallocated funds to a strategy known to be successful?