

Puerto Rico State Housing Plan

Fiscal Years
2014-2018



ESTADO LIBRE ASOCIADO DE
PUERTO RICO
Departamento de la Vivienda

Alberto Lastra Power, AIA
Secretary
Department of Housing
Commonwealth of Puerto Rico



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COMMONWEALTH OF
PUERTO RICO
GOVERNOR

ALEJANDRO J. GARCÍA-PADILLA

November 5, 2014

Puerto Rico State Housing Plan
Adoption Committee
Department of Housing
PO Box 21365
San Juan, PR 00920-1365

I am pleased to present the Puerto Rico's State Housing Plan for 2014-2018. In doing so I wish to express my gratitude to the federal Department of Housing and Urban Development and its San Juan office for the support provided to the Commonwealth of Puerto Rico in this endeavor.

My Administration is committed to advancing economic and social development through an ambitious plan for economic recovery. We firmly believe that the objective of economic development is to improve the lives of all Puerto Ricans. In this endeavor our social objectives are a priority concern.

Within our social policy concerns, housing plays a key role. As the State Plan makes clear housing is not just shelter but rather an effective instrument for creating a better life for all, helping to secure safe, attractive and healthy environments. The State Plan will provide jobs, will improve quality of life for low and moderate income persons and also for those population groups that have special needs such as single mothers, the aged and others.

The implementation process will be inclusive and we look forward to have an active involvement by the various stakeholders such as municipalities, private sector entities, and community based organizations. I will make sure that all government agencies cooperate fully towards the achievement of the State Plan objectives.

The Governor of the Commonwealth of Puerto Rico,

Alejandro J. García Padilla



Letter From Secretary Julián Castro

I am pleased to congratulate Governor Alejandro García-Padilla on the release of the Puerto Rico State Housing Plan 2014–2018. With this plan, the government of the Commonwealth of Puerto Rico recognizes that addressing affordable housing is about more than building homes; it is also about creating pathways that help build stronger neighborhoods and better lives. The plan arrives at a critical moment for Puerto Rico in which economic development and institutional capacity to administer and maximize Federal funds are the central focus of joint efforts of the Federal Government and the government of the Commonwealth.

On October 30, 2009, President Barack Obama signed Executive Order 13517, which directed the President's Task Force on Puerto Rico's Status to maintain its focus on the status issue, but added to the Task Force the responsibilities of seeking advice and recommendations on policies that promote job creation, education, health care, clean energy, and economic development on the islands. Since that time, the Task Force and the local governments of Puerto Rico have worked together to advance these goals. The release of this 2014–2018 Housing Plan is an important step in aiding these efforts, serving as the master strategic planning document for capacity building, development, and preservation of federally and state funded affordable housing on the islands.

The plan recognizes that, no matter how large the Federal grant or how well constructed the policy, no community can succeed without strong local leadership and institutional capacity. Ensuring that every community has the capacity to tackle its toughest challenges requires a different kind of Federal partner—one who recognizes that one size does not fit all. That is why, through direct technical assistance on the ground, HUD has helped the government of the Commonwealth of Puerto Rico complete this plan and devise strategies that will ensure its immediate and efficient implementation during the years 2014–2018.

As implementation of the Housing Plan begins, HUD will continue to integrate its investments, so that these tools will help us go beyond oversight and program compliance to provide the kind of innovative, crosscutting technical assistance needed for Puerto Rico to maximize Federal funds, better respond to the housing needs of local families, and make its communities more resilient overall.

Julián Castro
Secretary
U.S. Department of Housing
and Urban Development



EXECUTIVE SUMMARY

This update of the 2011-2015 State Five Year Housing Plan (“State Plan” or “Plan”) covers fiscal years 2014-2018. Its basic foundation is the result of the needs assessment completed in 2011 and updated in 2013. It takes into account economic, market and demographic factors relevant to housing needs in Puerto Rico, as well as the opinions of key stakeholders of local challenges affecting the provision of safe and decent housing. The State Plan is based on the premise that housing is not just the provision of shelter. Housing is part of an intricate web of relationships that incorporate factors in different areas and housing policies require inclusive and integrated approaches. Thus, they cannot be considered in isolation from economic, social and physical influences.

This version of the State Plan is in many ways similar to the previous plan, as needs have not changed substantially since 2011 and they overlap in terms of the period covered. However, it includes Governor García Padilla’s priorities and takes into account Census information not available then, updated socioeconomic and market information, and the fiscal situation in Puerto Rico that will most likely prevail in the Plan period. The planning environment is for growth to be moderate in the next five years.

Puerto Rico is experiencing changing demographic conditions characterized by a reduction in population, with the age cohorts above 40 increasing rapidly and those below that age falling. By 2020, the over 65 population is expected to be 16.4% of the population compared with 11.2% in 2000. This demographic transition will impact the housing market, requiring specific approaches not only for providing shelter, but also for providing the complementary services. Also, the number of single parent families, mostly headed by females, continues to increase in the Island. These households require special attention given their low socioeconomic profile and the social consequences of single parenthood, and are a priority concern in the Plan.



Given the fiscal situation in the U.S. and Puerto Rico it is to be expected that federal funding of discretionary programs, including those related to housing will not grow. In fact, since the previous plan substantial reductions have occurred. What will continue to be emphasized in the Plan is the better use of existing funds and budget reallocation to support affordable housing programs. Also, the Plan places a priority on initiatives that address the high cost of housing in the Island. The recommendation is for financial incentives to be used in the future exclusively for affordable housing. Likewise, leveraging available public resources and assets with private and community resources is a key concern.

The State Plan lays out the need for affordable housing for the working population, single parent families, young adults, the elderly and for populations with special needs, such as the homeless. Puerto Rico's housing needs are considerable. For instance, according the U.S. Census of Population, in Puerto Rico close to 120,000 families share housing and there are 110,000 substandard housing units. There are 29,792 persons in the public housing waiting list (as of May 2014) and 7,955 (as of June 2014) on that for Section 8. In addition, there are over 3,400 homeless persons and some 18,500 households are in some stage of a foreclosure process.

Additional affordable, safe and decent housing will be required to serve 14,000 new low and moderate income households that are expected to form during the next five years. The Housing Policy and Implementation Committee (HPIC) will identify resources that are important for the implementation of the Plan and will develop program initiatives to address housing needs.

In addition to outlining specific policies for satisfying each of the identified needs, the State Plan incorporates policy changes in two key areas: (1) integrating land use and urban development initiatives with the housing programs and (2) assuring that the institutional framework is adequate for advancing housing policy objectives.



The Plan emphasizes the need for a strong Housing Policy that integrates social services with specific housing initiatives. Likewise, it brings together the activities of major stakeholders dealing with housing issues, creating the means for coordinating the diverse services required for housing and integrated community development.

Some key steps, among others, are:

- Incorporate municipal governments in the formulation and implementation of housing policies and create Regional Housing Councils.
- Identify available public land suitable for affordable housing development and promote its development, leveraging public and private resources.
- Promote neighborhood stabilization and renewal through infill housing and rehabilitation, and facilitating the application of legislation on nuisance properties that can make them available for this purpose.
- Stimulate rental housing and maintain Section 8 units with expiring contracts in the rental market is recommended.
- Develop programs to promote rural housing rehabilitation.
- Coordinate initiatives with the PR Planning Board and other government agencies to make possible location of affordable housing projects in areas in which affordable transportation is easily accessible.
- Continue to promote capacity building initiatives aimed at improving knowledge of requirements of affordable housing programs in banking staff, CBOs and state and municipal government staffs in order to enhance their effectiveness and assure continuity.



- Promote the introduction of innovative housing construction methods, new materials and feasible energy efficient technologies in the construction of affordable housing.
- Utilize innovative financing techniques and fund layering strategies.
- Make the Continuum of Care Model for dealing with the homeless population more flexible, recognizing that not all homeless need to go through the different stages of the process.
- Promote legislation that is consistent with the suggested housing policy recommendations.
- Concentrate government incentives exclusively on affordable housing.
- Establish a banking industry CRA entity in charge of coordinating with the HPIC the development of individual and collective bank initiatives that support the priorities of the Housing Plan.

In addition, as part of the implementation of the State Plan, an Action Plan assigns responsibilities to the various relevant entities, and establishes metrics for evaluating progress.



INTRODUCTION

The State Plan covers a five year period, Fiscal Years 2014-2018. The information on which the Plan is based was developed in the study on Housing Needs Study that provides the information on current and projected affordable housing needs for Puerto Rico. This update of the 2011-2015 Plan was the responsibility of the Puerto Rico Housing Task Force (PRHTF), under the leadership of the Secretary of Housing. It was prepared based on the Agreement for the Provision of Technical Assistance between the Commonwealth and the federal Department of Housing and Urban Development (HUD) signed on April 23, 2013.

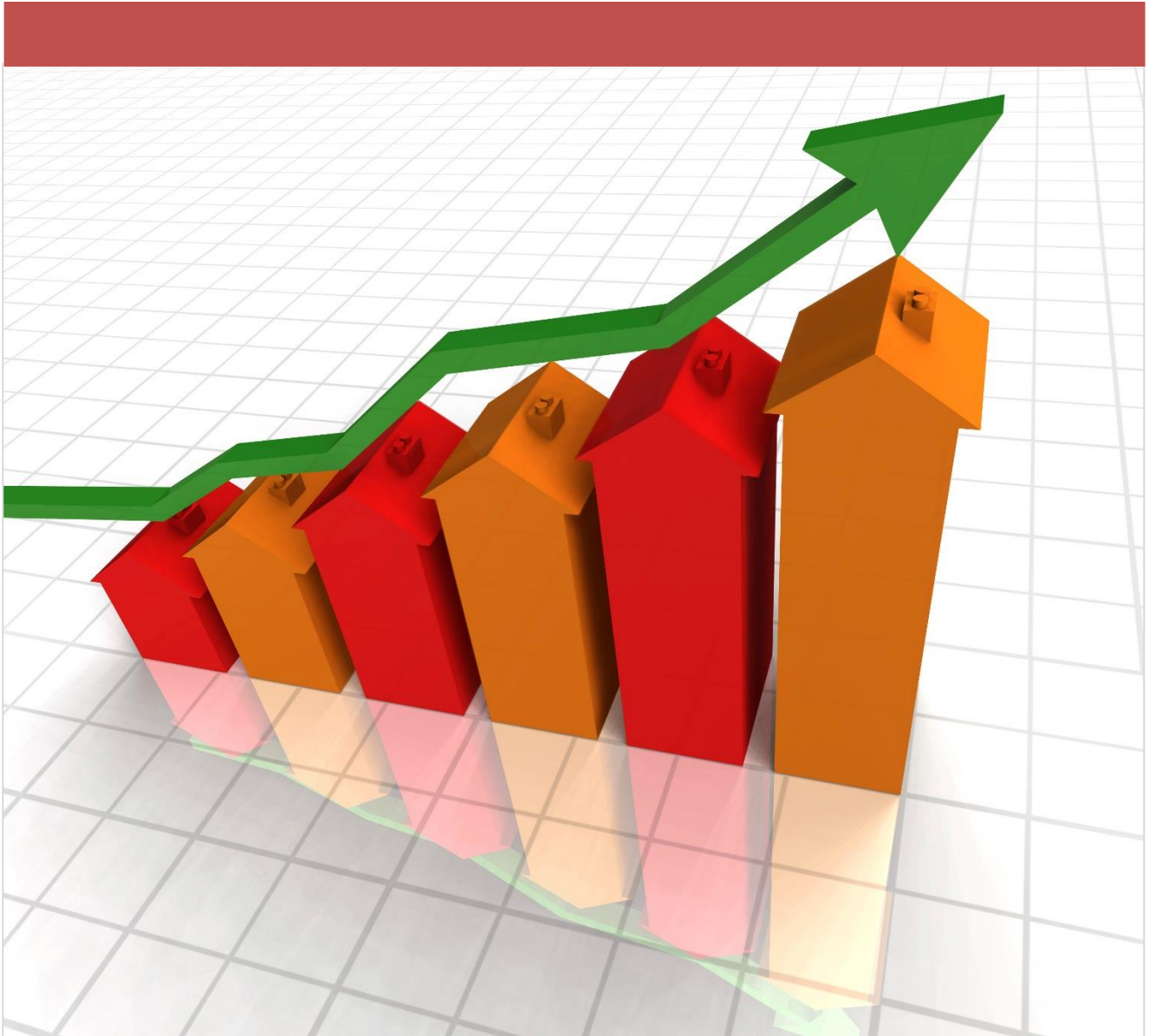
The Plan is structured as follows:

- Letter of the Governor of Puerto Rico, Hon. Alejandro García Padilla
- Letter of HUD Secretary, Julian Castro
- Executive Summary
- Background
- Housing Needs
- Challenges
- Framework for Policy Formulation
- Policies and Action Items
- Action Plan

The process of drafting the State Plan involved sessions of the PRHTF in which the different aspects of the Plan were discussed and comments and recommendations received from Task Force members. The PRHTF is chaired by the Secretary of Housing and incorporates key stakeholders. The consulting firm Estudios Técnicos, Inc., under contract to Enterprise Community Partners, provided support in preparing the Plan.

CHAPTER I:

BACKGROUND





CHAPTER I: BACKGROUND

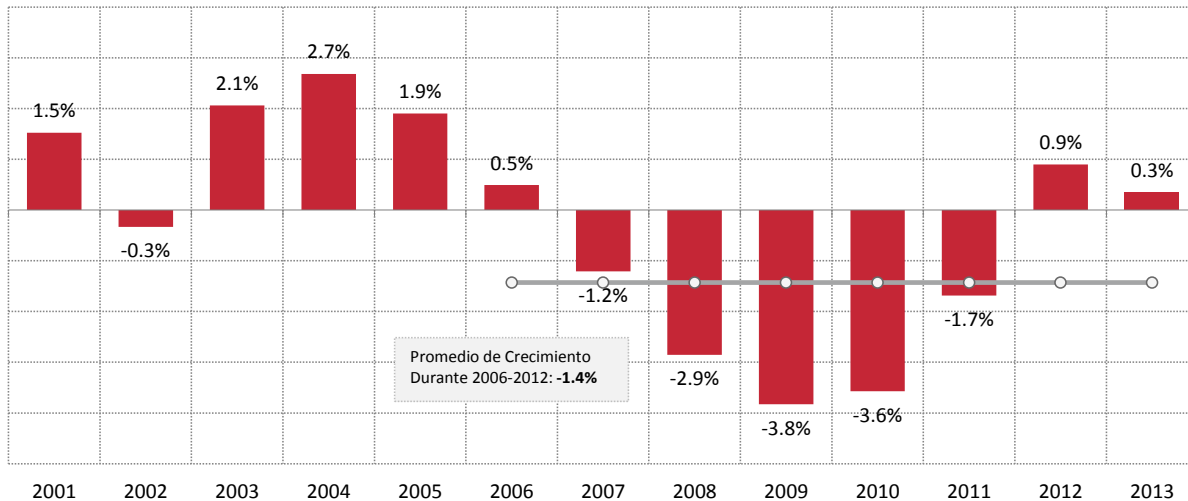
Economic conditions remain relatively similar to those described in the previous State Housing Plan. The continuing recession coupled with an ongoing demographic transition, deepening housing credit issues and a challenging fiscal situation has paralyzed the overall economy and changed fundamental aspects of the housing market and the related social needs. Further investigation and analysis into these trends will assist the Housing Plan Implementation Committee (HPIC) in making policy decisions and actionable plans to address housing needs over the next five years.

KEY ECONOMIC TRENDS

Despite improvements in some sectors, since Fiscal Year 2006 the dominant trend in the Puerto Rican economy has been one of contraction. Average economic growth in the island for the period beginning on 2006 through 2013 was -1.4%, with a net accumulated loss of 11.4% for that period. Despite the massive federal spending programs enacted throughout the period, including a local fiscal stimulus, a tax reform and strong public investment in construction, economic growth was not achieved. Many of these federally sponsored spending programs, mainly appropriations from the American Recovery and Reinvestment Act of 2009 (ARRA), will not be available during FY2014. Moreover, the Commonwealth of Puerto Rico is facing considerable challenges to reinvigorate the economy due to soaring debt levels, riskier asset ratings and increasing debt cost. These issues have forced the government to eliminate fiscal deficits, thus limiting their ability to stimulate growth in the economy. In general, the Island's economy shows substantial signs of deterioration in most sectors, and authorities have less economic leeway to adapt to these deepening problems than in 2012. Therefore, a negative economic outlook is expected.



Figure 1: GNP Real Growth – Puerto Rico



Source: Puerto Rico Planning Board (2014).

CONSTRUCTION

Federal Funding provided an artificial cushion for investment in 2012, which seceded in 2013. Real construction investment fell 11.2% in 2013, after two straight years of growth. The growth observed prior to 2013 was almost entirely attributable to ARRA funds. This can also be seen in public construction investment, which fell 12.8% in 2013 after showing a positive growth of 19.0% in 2012. Private construction investment continued to contract (9.3%) in 2013, a trend expected to continue in the coming years as little or no economic growth is expected in this sector.

Cement sales provide further evidence of a weakening in construction investment after the termination of ARRA Funds. For the last two quarters of 2013, cement sales decreased by 17.0% and 16.0% respectively with respect to the previous year. This trend continued in the first quarter of 2014 as sales fell a further 9.3%. The expected contraction in public construction spending will severely hamper the growth prospects for upcoming years.



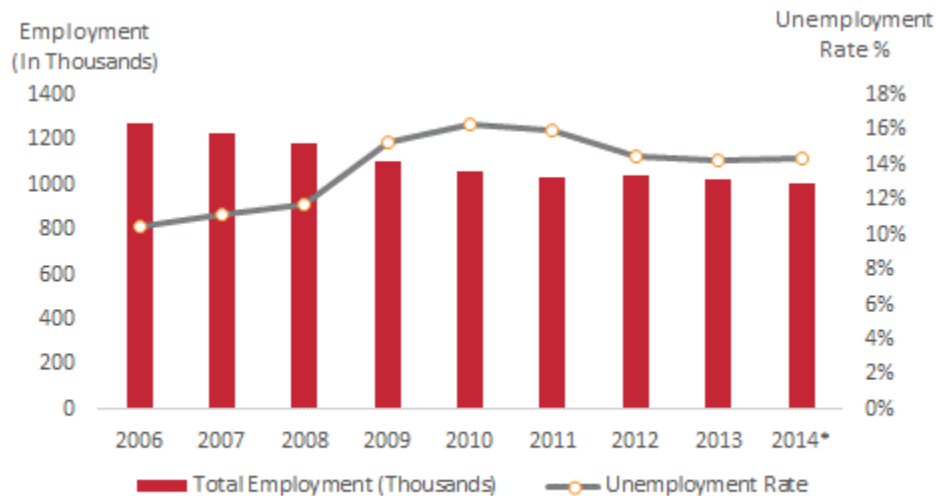
LABOR MARKET

The employment market remains weak, with a highly significant loss in jobs to be compensated. From fiscal 2005 through 2014, total employment dropped by approximately 220.7 thousand jobs. During the same period the unemployment rate plummeted from 11.3% to nearly 14.3%. The labor force participation rate (LFPR) has continued to drop from 47.7% in 2005 to 40.7% in early 2014. This indicates that the downward trend in LFPR is actually worsening, not improving.

During 2012, there was a substantial slowdown in the declining trend of employment. However, employment in fiscal 2013 suffered another contraction. This trend continued in early 2014, whereas nonfarm employment actually began to stabilize in early 2014 (0.3% growth). While public employment has fallen 2.2% in early 2014, private employment saw a 1.1% growth in the first four months of 2014. At the same time, has begun to decline in the past year. As employment and labor force participation continue to decline, the ability of the housing market to quickly recuperate will be greatly diminished. Moreover, the ranks of low and moderate income families are increasing, suggesting greater housing and economic development needs.



Figure 2: Employment Trend



Source: Housing Survey, DLHR (2014). *Data from January to April

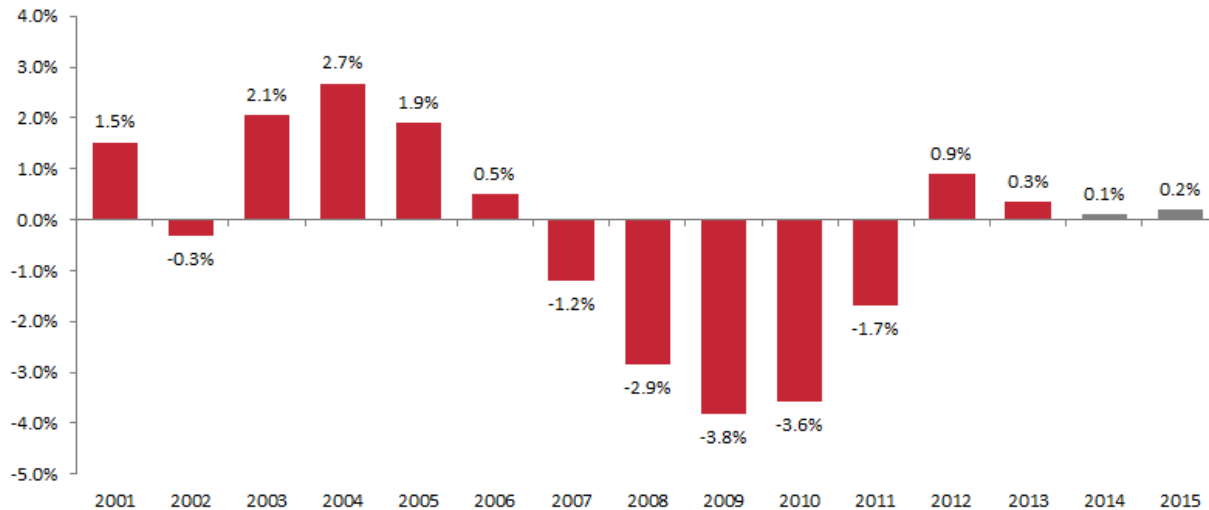
ECONOMIC OUTLOOK FOR THE SHORT AND MEDIUM TERM

Puerto Rico's economy is expected to undergo further weakening until 2015. A series of structural threats to the Puerto Rican economy –including a significant increase in public sector debt, the reduction in credit ratings of local public debt, the increase in the bond yields of local public instruments, the fast decline in employment and labor participation, an erosion of the economy's productive capacity and the disappearance of federally-funded investment programs will limit the capacity of the local economy to grow before 2015. A slowdown in public spending and construction investment will continue to strain economic growth, while consumption is expected to remain stable. Total trade balance is expected to normalize, although this is highly uncertain due to a number of patents from pharmaceutical industries becoming void in 2015. Which means that the growth projected beyond 2015 is sensitive at best. Even though a balanced budget was proposed for fiscal 2015, the threat of restructuring



of the debt or that estimated revenues might not be achieved is still present.

Figure 3: Real GNP Growth

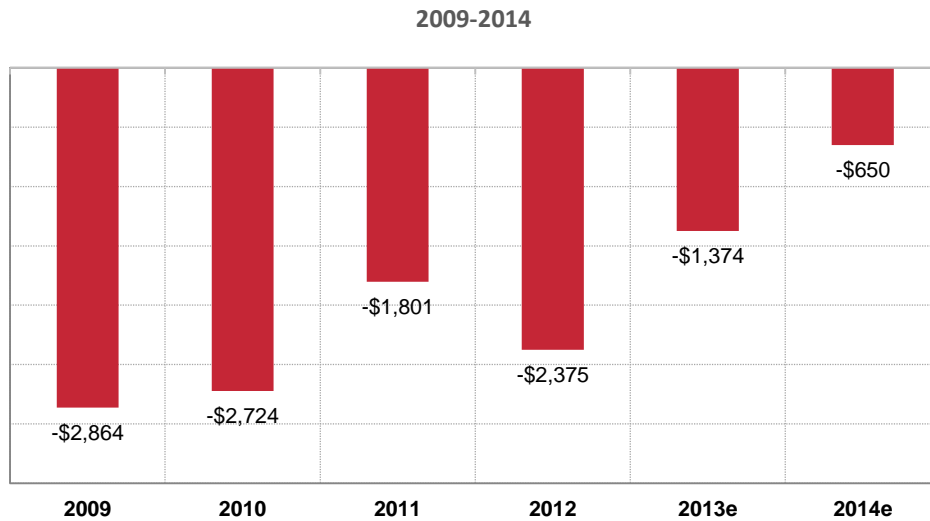


Sources: Puerto Rico Planning Board (2014). estimates Puerto Rico Planning Board (2014).

The most serious obstacle and risk factor in the near future is the challenging fiscal and financial situation of the Commonwealth of Puerto Rico. As mentioned before, credit agencies have degraded public debt to almost speculative levels, which severely limits the issuance of public debt. As debt matures, Puerto Rico is likely to face an increase in debt servicing payments, which will impose greater stress to the General Fund. All this has forced the government to balance the budget further limiting their ability to stimulate economic growth.



Figure 4: Estimated Structural Deficit



Source: Management and Budget Office (2013); 2014 *Budget Petition*. Government Development Bank (2013). e = estimates.

THE DEMOGRAPHIC TRANSITION

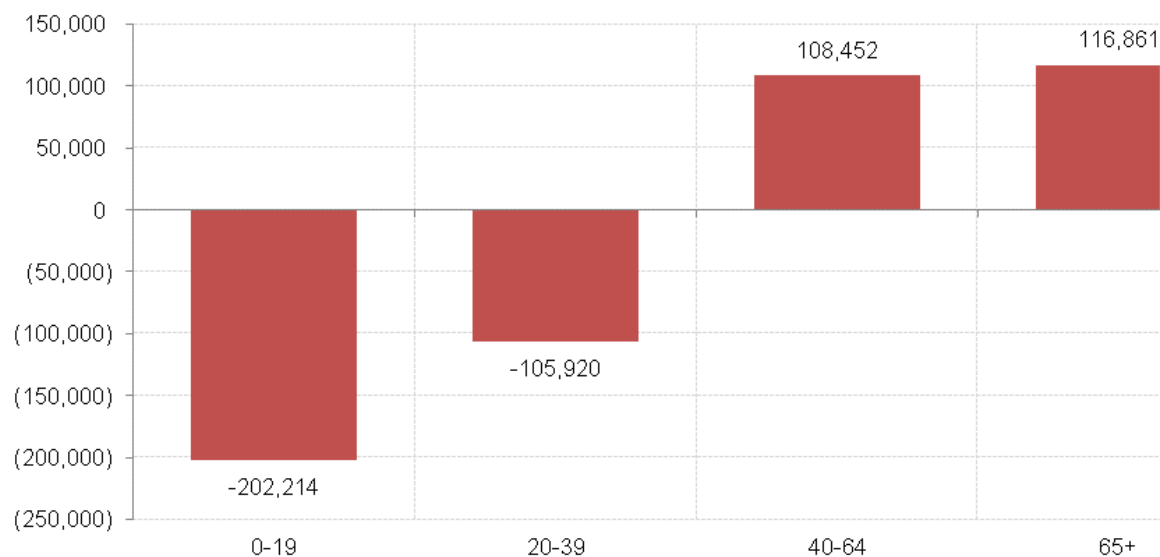
Demographic changes are causing rapid changes in social and housing needs. During the 2010 decade, Puerto Rico suffered an unexpected a population reduction of over 82,000 persons, fueled by a dramatic increase in net migration estimated at more than 225,000 persons during the period, more than 5 times the rate during 1990's. The underlying factors causing these trends are expected to influence housing and economic development policy during the next five years.

The population has continued to decline in Puerto Rico. According to the Census Bureau – as reflected by a comparison of ACS 2010 and 2012- the island lost 54,000 additional residents during the period. At this rate, the Island may suffer a loss of close to 100,000 residents during the next five years. However, based on population projections for Puerto Rico of the International Base (IDB) and on the Decennial Census and the American Community Survey of the US Census Bureau, its projected- as planning benchmark to this report- a population reduction of 94,000 persons during the next five years (2014-2018).



The report on migration “Perfil del Migrante 2011” published by the Statistics Institute of Puerto Rico (January 2013) shows that migration patterns that began to deepen during the middle of the past decade continued to affect population growth and the age structure of the resident population. According to the report, approximately 76 thousand people are migrating to and from Puerto Rico, of which more than 71% or 54 thousand people are leaving Puerto Rico annually, most of which are migrating to the US. The main concern is that the majority of those leaving the island have an age below 40 years, with a median age of 33 years of age, while the bulk of the immigrants (70%) have an age between 45 and 65. The younger families have higher education and income levels, an issue that will have social and economic implications over medium term. The elderly will be a major area of concern in Puerto Rico’s social policies in this decade. Not only will they be a major component of the population, but will also generally be a very low income group.

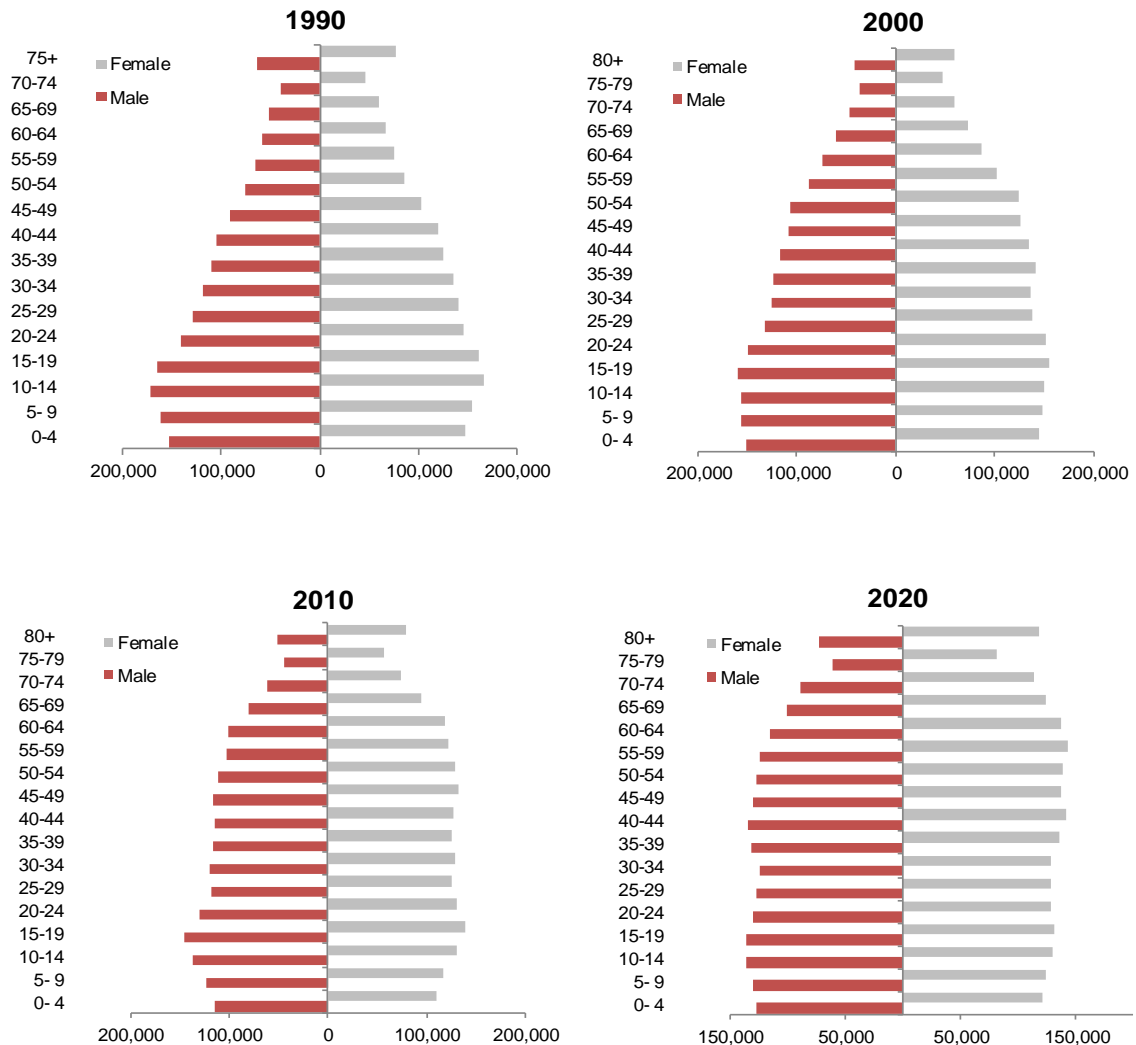
Figure 5: Projected Change in Population by Age Group: 2000-2010



Source: Puerto Rico Planning Board.



Figure 6: Population for Puerto Rico by Age during 1990 to 2020



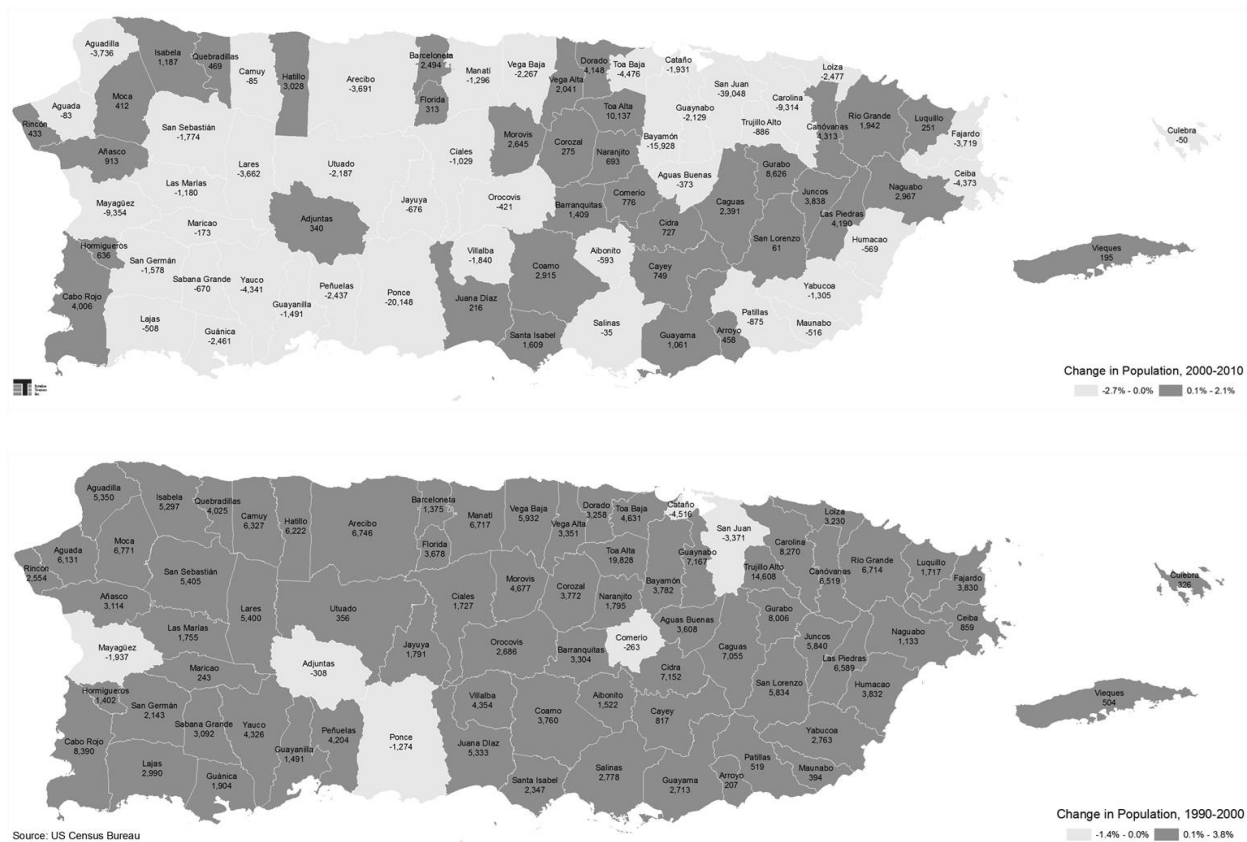
Population in thousands.

Source: Census Bureau 1980, 1990 and 2000; and Puerto Rico Planning Board.

The loss of population is clearly reflected in the following two maps that contrast population change by municipality between the 1990-2000 Census and the 2000 and 2010 Census.



Figure 7: Population Change by Municipality (1990-2000, 2000-2010)



MUNICIPAL TRENDS

Larger municipalities are considered “entitlements,” as defined by statute, and receive block grant funds for housing and community development directly from HUD. Smaller “non-entitlement” municipalities receive sub-granted federal funds for housing and community development through the Commonwealth of Puerto Rico.

It is useful to distinguish the entitlement and non-entitlement municipalities, since there are significant differences between them. The former occupy 42.0% of the Island but had 63.5% of the population and 69.1% of the housing stock.

When considering unemployment rates, the non-entitlement municipalities in general had much higher rates than the entitlement municipalities. In 2013 one of the entitled



municipalities (Guayama) had rates in excess of 20.0%, while in the other group, seventeen municipalities out of 51, had unemployment rates higher than 20.0%. This number is down from nineteen in the previous report. Typically, unemployment rates were higher in the central and southeast regions. Levels of median income varied widely among municipalities as did average salary levels.

Maps generated in the Housing Needs Assessment for Puerto Rico, as well as a table with unemployment rates by municipality, clearly reflect the differences among municipalities. What this suggests is that housing policy in Puerto Rico has to differentiate the needs by municipality and by areas among these. Given the large number of municipalities a regional focus is suggested that recognizes differences but permits a more efficient approach to policy design and implementation.



Figure 8: Unemployment Rate by Entitlement and Non-Entitlement Municipalities – 2013

Entitled	Unemployment Rate	Non-Entitled	Unemployment Rate	Non-Entitled	Unemployment Rate
Aguadilla	14.2%	Adjuntas	23.7%	Las Marías	20.3%
Arecibo	14.6%	Aguada	15.5%	Las Piedras	16.2%
Bayamón	11.2%	Aguas Buenas	14.9%	Loíza	16.9%
Cabo Rojo	16.1%	Aibonito	17.2%	Luquillo	16.7%
Caguas	12.2%	Añasco	15.9%	Maricao	25.4%
Canóvanas	15.9%	Arroyo	24.9%	Maunabo	20.7%
Carolina	10.3%	Barceloneta	19.0%	Moca	15.6%
Cayey	15.2%	Barranquitas	17.1%	Morovis	19.4%
Cidra	15.0%	Camuy	15.0%	Naguabo	17.2%
Fajardo	15.4%	Cataño	15.2%	Naranjito	16.2%
Guayama	20.8%	Ceiba	16.1%	Orocovis	21.2%
Guaynabo	8.5%	Ciales	25.2%	Patillas	21.9%
Humacao	16.9%	Coamo	20.3%	Peñuelas	17.4%
Isabela	14.0%	Comerio	21.3%	Quebradillas	16.1%
Juana Díaz	15.0%	Corozal	16.4%	Rincón	17.6%
Manatí	15.0%	Culebra	8.7%	Sabana Grande	16.9%
Mayagüez	17.7%	Dorado	11.1%	Salinas	25.3%
Ponce	13.8%	Florida	21.3%	San Lorenzo	16.9%
Río Grande	14.0%	Guánica	20.2%	Santa Isabel	17.6%
San Germán	17.9%	Guayanilla	18.4%	Utuado	18.6%
San Juan	9.8%	Gurabo	12.3%	Vega Alta	13.9%
San Sebastián	18.4%	Hatillo	16.3%	Vieques	16.4%
Toa Alta	10.7%	Hormigueros	15.6%	Villalba	19.7%
Toa Baja	11.9%	Jayuya	21.2%	Yabucoa	23.3%
Trujillo Alto	9.4%	Juncos	15.8%		
Vega Baja	15.2%	Lajas	20.8%		
Yauco	15.8%	Lares	20.5%		
Puerto Rico			14.3%		

Source: BLS Unemployment Statistics for 2013

FISCAL SITUATION OF MUNICIPALITIES

In Fiscal Year 2010-11 a total of 38 municipalities had budget deficits totaling \$181.9 million. In 2011 entitlement municipalities with deficits had a combined deficit of \$92.4 million, while non-entitlement municipalities had a combined deficit of \$89.5 million. The average deficit for



entitlement municipalities was \$8.4 million, while for non-entitlement municipalities it averaged \$3.3 million. The highest deficit among non-entitlement municipalities was held by Cataño, with a \$7.8 million deficit. Among entitlements the highest deficit was held by Ponce, with a \$22 million deficit. Five out of the 11 entitlement municipalities had deficits above \$10 million. Municipal deficits may increase due to the slowdown in economic activity and construction activity and issue that will affect the capacity of municipalities experiencing fiscal challenges to use municipal funds to promote housing and economic development.

Figure 9: Municipal Deficits, 2013

Deficits	Entitlement Municipalities	Non-Entitlement Municipalities	All Municipalities
Total Deficit	\$ (92,432,863)	\$ (89,458,441)	\$ (181,891,304)
Average Deficit	\$ (8,402,988)	\$ (3,313,276)	\$ (4,786,613)
Highest Deficit	\$ (22,017,961)	\$ (7,755,535)	\$ (22,017,961)

Source: Government Development Bank of Puerto Rico (2013)

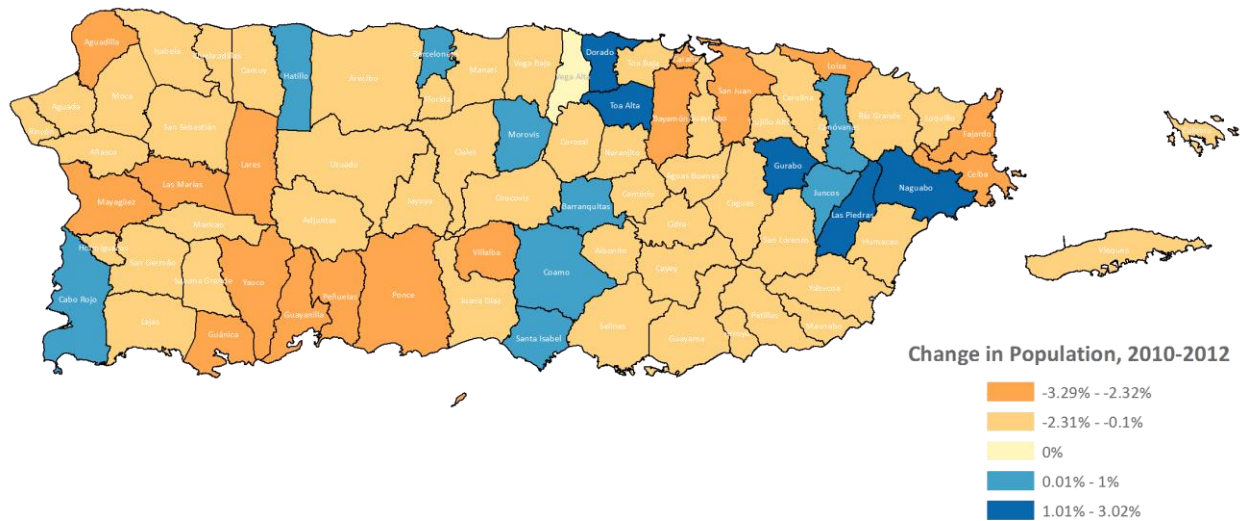

Figure 10: Municipal Deficits/Surplus-2013

Municipalities with Deficits		Municipalities with Surpluses	
Ponce	\$ (22,017,961)	Carolina	\$ 36,215,920
San Juan	\$ (16,183,607)	Isabela	\$ 24,372,286
Manatí	\$ (14,110,900)	Fajardo	\$ 15,583,434
Toa Baja	\$ (12,148,653)	Humacao	\$ 14,446,977
Arecibo	\$ (10,357,444)	Aguadilla	\$ 11,984,591
Cataño	\$ (7,755,535)	Mayagüez	\$ 9,889,624
Salinas	\$ (7,150,943)	Caguas	\$ 9,574,514
Barceloneta	\$ (6,897,091)	Bayamón	\$ 8,893,398
Vega Baja	\$ (5,870,637)	Guaynabo	\$ 8,216,448
Lares	\$ (5,796,379)	Cayey	\$ 7,705,600
Las Piedras	\$ (5,657,991)	Vieques	\$ 7,426,120
Yauco	\$ (5,481,866)	Barranquitas	\$ 5,770,330
Dorado	\$ (5,039,207)	Peñuelas	\$ 4,106,788
Naguabo	\$ (4,475,101)	Vega Alta	\$ 3,959,762
Guánica	\$ (4,325,888)	Guayama	\$ 3,254,853
Ciales	\$ (3,778,924)	Añasco	\$ 2,074,042
Toa Alta	\$ (3,387,399)	Rincón	\$ 1,891,169
Patillas	\$ (3,203,564)	Luquillo	\$ 1,875,123
Loíza	\$ (3,171,401)	Ceiba	\$ 1,782,078
Sabana Grande	\$ (2,801,232)	Coamo	\$ 1,672,291
Morovis	\$ (2,777,029)	San Sebastián	\$ 1,662,995
Guayanilla	\$ (2,706,166)	Hormigueros	\$ 1,634,726
Maunabo	\$ (2,678,351)	Aguada	\$ 1,512,974
Camuy	\$ (2,589,322)	Corozal	\$ 1,338,808
San Lorenzo	\$ (2,252,366)	Quebradillas	\$ 1,321,647
Río Grande	\$ (2,237,058)	Trujillo Alto	\$ 1,194,677
Villalba	\$ (2,228,520)	Las Marías	\$ 1,079,692
Utua	\$ (2,221,232)	Juncos	\$ 1,077,656
Yabucoa	\$ (2,216,509)	Aibonito	\$ 748,084
Lajas	\$ (1,959,693)	Naranjito	\$ 658,633
Florida	\$ (1,864,401)	Jayuya	\$ 629,946
Gurabo	\$ (1,861,860)	Orocovis	\$ 518,904
Maricao	\$ (1,812,106)	Adjuntas	\$ 414,737
Aguas Buenas	\$ (1,164,993)	Arroyo	\$ 290,770
Culebra	\$ (703,746)	San Germán	\$ 196,917
Juana Díaz	\$ (531,606)	Cabo Rojo	\$ 140,411
Santa Isabel	\$ (368,891)	Moca	\$ 136,946
Canovanas	\$ (105,732)	Cidra	\$ 54,546
		Comerio	\$ 48,940
		Hatillo	\$ 47,619
Sub-Total	\$ (181,891,304)	Sub-Total	\$ 195,404,976
Total, Deficits + Surpluses		\$ 13,513,672	

Source: Government Development Bank of Puerto Rico (2013).

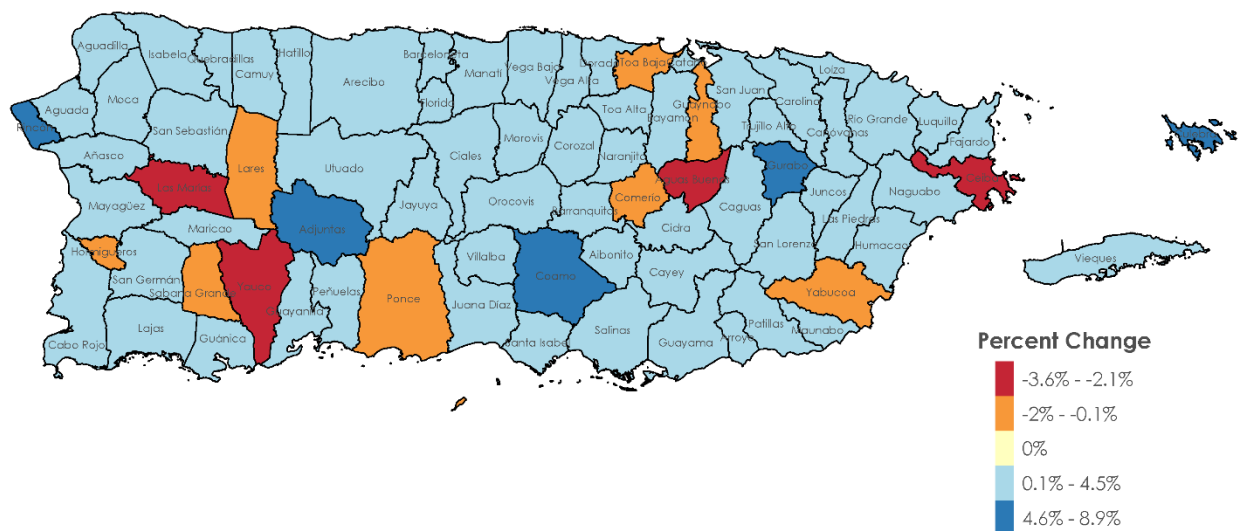


Figure 11: Change in Population, 2010-2012



Source: PRCS 2010 and 2012.

Figure 12: Change in Housing Units, 2010-2012

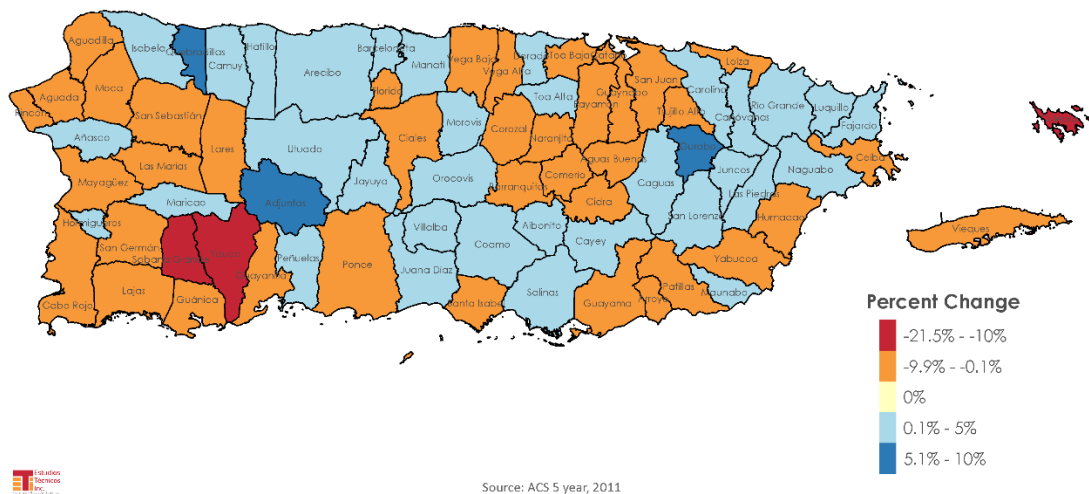


Source: ACS 5 year, 2011

Source: Puerto Community Survey 2010 and 2012.

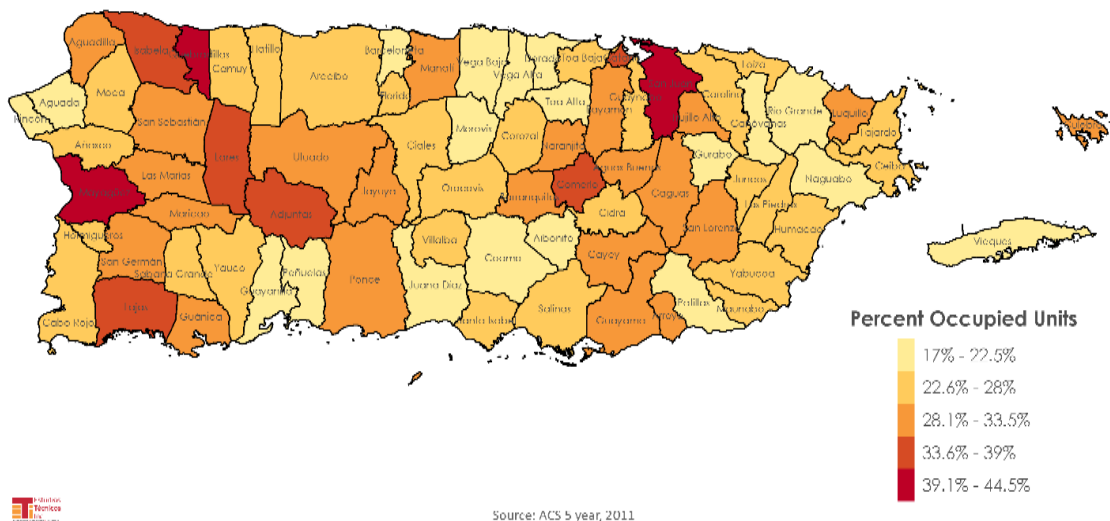


Figure 13: Change in Households, 2010-2012



Source: Puerto Community Survey 2010 and 2012.

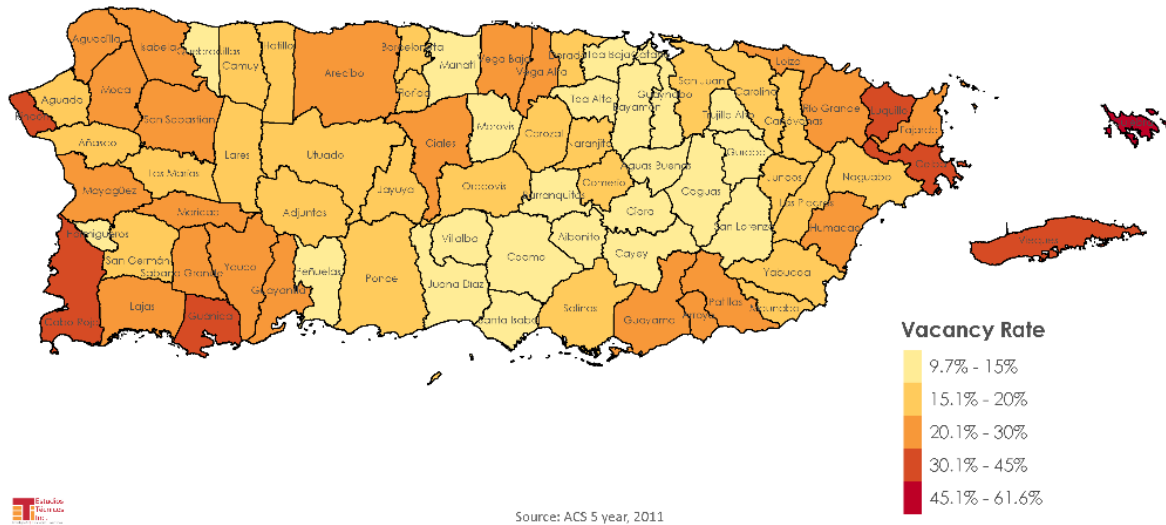
Figure 14: Percent Renter Occupied Units, 2012



Source: Puerto Community Survey 2012.

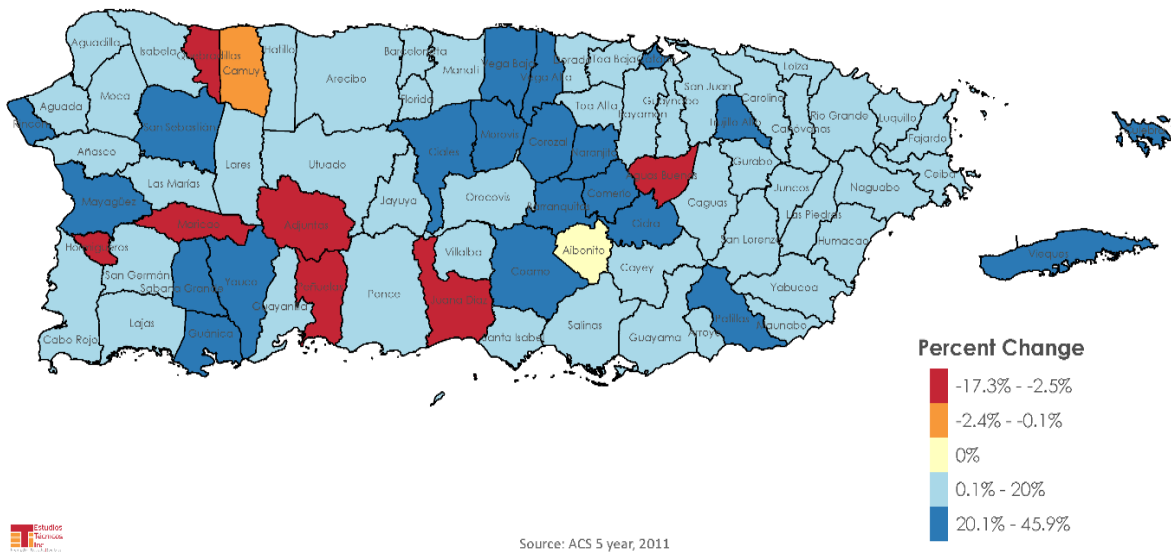


Figure 15: Vacancy Rates, 2012



Source: Puerto Community Survey 2012.

Figure 16: Change in Vacancy Rates, 2010-2012



Source: Puerto Community Survey 2010 and 2012.



POLICY ISSUES

The State Plan addresses a number of policy issues derived from the conditions presented above and the findings of the study on Housing Supply and Demand Factors. These include the following:

- Since resolving housing problems is complex and multi-dimensional, a comprehensive policy framework is needed that will permit coordination among the relevant agencies and programs necessary for success in housing programs.
- The above includes the need for greater coordination among affordable housing lenders to assure uniformity in selection criteria and other components of the process.
- There is also the need to assure that key stakeholders in the process, for-profit developers, banks, non - for profits organizations, Community Based Organizations (CBOs), Community Housing Development Organizations (CHDOS) and relevant government entities are brought into the process of developing and implementing housing policies.
- Given the economic and fiscal picture presented, the most efficient use of federal and state resources is needed. Leveraging of these resources with private sources is also a priority concern. This, in turn, requires that the institutional framework be enhanced to make this possible, including the amendment and creation of laws and regulations.
- There are areas such as housing for the working population, young adults, women heads of households, the elderly and for populations with special needs that are priority concerns, since all are directly impacted by the socio-economic trends described. In addition, the problem of families whose homes have been repossessed requires attention.



- The Housing Policy also needs to recognize the fact that the 78 municipalities differ greatly among themselves, have a great deal of influence in this and other policy issues and need to be part of the process for formulating housing policy.
- Recent demographic trends, in particular the large number individuals and families migrating to the States has generated problems related to neighborhood deterioration due to vacant properties for which demand is very limited. Integrating housing policies with neighborhood rehabilitation should be a key component of these policies.
- In addition to the constraints imposed by a very difficult economic and fiscal situation, high energy costs continue to be a major obstacle in solving housing problems and in other areas of economic and social policies.

CHAPTER II:

HOUSING NEEDS





CHAPTER II: HOUSING NEEDS

As stated, the housing needs landscape in the Island has changed dramatically since 2005. Perhaps the most relevant change has been the effect of the economy and the demographic transition on household formation. According to the PRCS, the number of occupied housing units fell by over 9,400 units between 2010 and 2012, in contrast to historical levels. Puerto Rico experienced a net gain of over 200,000 owner and renter occupied units since 2000, at a rate of close to 22,000 per year. The slowdown in household growth, coupled with economic and credit issues, has affected new housing sales, which have reached an all-time low during the current year, while vacancies have continued to increase. Notwithstanding, the accumulated gap in housing needs in the Island continues to challenge housing authorities. The available stock is not necessarily accessible to low and moderate income households.

From a market standpoint, housing sales of both new and existing housing have continued to tumble. According to the Commissioner of Financial Institution, residential sales financed by commercial and mortgage banks, declined sharply over the past three years. From 2011 to 2012 housing sales dropped by 2,693 units, or 16.8%. This trend continued into 2013, sales fell 19.9% or 2,659 between 2012 and 2013. Notwithstanding, the average price of housing sold increased during the current year, which may be associated to a reduction in the supply of lower priced housing and an increase in higher priced and quality housing being sold at very competitive prices. Overall sales are expected to be weak, mainly because of the current fiscal situation, the weak economic performance and stricter mortgage lending rules of the Consumer Financial Protection Bureau (CFPB) that came into effect on January 2014.


Figure 17: Housing Market Sales
New Housing

	2011	2012	2013	Change 2011-2013
Units	3,582	2,615	1,903	(1,679)
\$ Amount	\$ 740,476,166	\$ 528,564,376	\$ 398,848,998	(341,627,168)
Average Price	\$ 206,721	\$ 202,128	\$ 209,590	2,868

Existing Housing

	2011	2012	2013	Change 2011-2013
Units	12,468	10,742	8,795	(3,673)
\$ Amount	\$ 1,806,295,910	\$ 1,608,039,637	\$ 1,350,184,166	(456,111,744)
Average Price	\$ 144,875	\$ 149,696	\$ 153,517	8,643

Total Housing

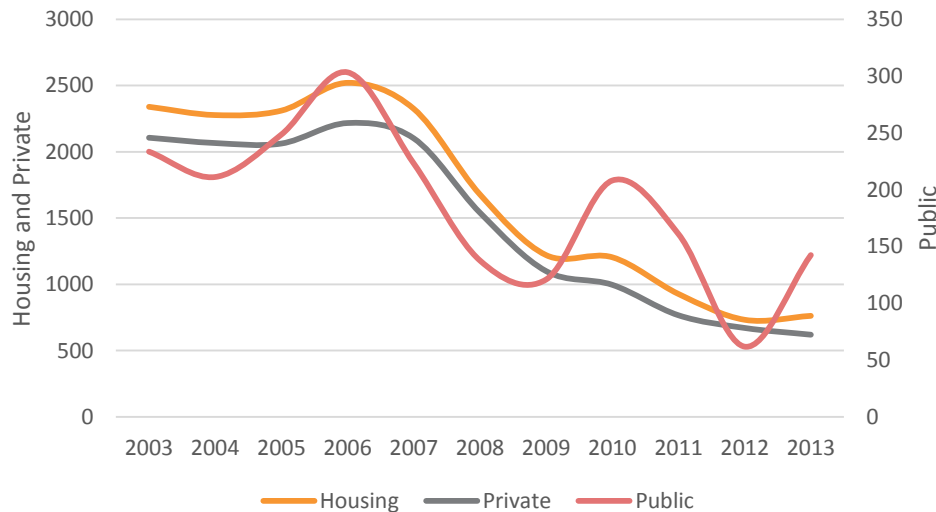
	2011	2012	2013	Change 2011-2013
Units	16,050	13,357	10,698	(5,352)
\$ Amount	\$ 2,546,772,076	\$ 2,136,604,013	\$ 1,749,033,164	(797,738,912)
Average Price	\$ 158,677	\$ 159,961	\$ 163,492	4,814

Source: Office of the Commissioner of Financial Institutions.

Meanwhile, from a supply side, PRCS estimates for 2012 show that the number of housing units in Puerto Rico fell by 22,900 additional units in two year. This trend is contradictory to the increase experienced in housing construction investment, which according to the Planning Board grew 4.1% in fiscal 2013.



Figure 18: Fixed Investment –Fiscal Years



Source: Puerto Rico Planning Board.

However, housing vacancy data shows that supply is growing at a faster rate than demand. Current data from the Puerto Rico Community Survey (PRCS)¹ shows an increase in vacant housing during the past three years. Since 2010 vacant housing increased 13.1%, which amounts to more than 32,359 additional housing units. Out of a total of 279,346 vacant units in 2013, over 55,700 were either for rent or sale. Vacant housing is mostly composed of three segments, housing only for sale, housing only for rent, and the biggest sector, seasonal or recreational housing. The vacancy rate, or the amount of total vacancies with respect to total housing also increased, from 16.8% to 18.7% between 2010 and 2013. Of the total amount of units of housing for sale, as of December 2013, at least 4,887 units were built and ready for delivery in new construction projects. Of these units only 36.0% have prices below \$140,000, with most of the inventory 53.7% in units above \$140,000 to \$299,000.²

¹ ACS 5 year survey for 2012, 2011 and 2010.

² Based on a census to new construction projects conducted by Estudios Técnicos, Inc. in September 2012. The next survey will be conducted on December 2013.



Figure 19: New Construction Housing Completed and for Sale-December 2013

Price Range	Units	%
Less than \$89,999	212	4.3%
\$90,000-\$139,999	1,549	31.7%
\$140,000-\$199,999	1,628	33.3%
\$200,000-\$299,999	996	20.4%
\$300,000-\$499,999	236	4.8%
More than \$500,000	266	5.4%
Grand Total	4887	100.0%

Source: Construction and Sales Activity Report. Estudios Técnicos, Inc.

Figure 20: Housing Vacancies

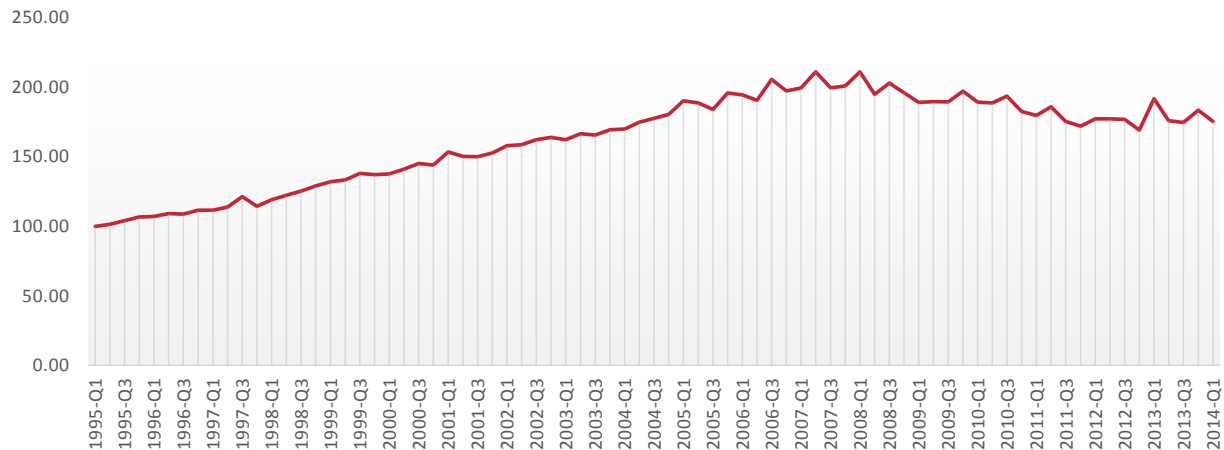
Characteristics for Vacant Housing	2010	2011	2012	% change 2010-2012
Total	246,987	270,236	279,346	13.1%
For rent	25,623	28,195	28,970	13.1%
Rented, not occupied	3,707	3,889	4,088	10.3%
For sale only	22,460	25,589	26,783	19.2%
Sold, not occupied	8,714	8,579	7,909	-9.2%
For seasonal, recreational, or occasional use	57,724	63,443	67,793	17.4%
For migrant workers	233	279	391	67.8%
Other vacant	128,526	140,262	143,412	11.6%

Note: Census 2010 vacancy data was similar to ACS 2010 data, the main difference was found in "total housing units for rent" section. A discrepancy of close to 17,000 units was found. To be able to compare 2010 data with 2012 data and identify trends in the housing market only the ACS data was presented.

The above data is consistent with housing price trends. The House Price Index (HPI) developed by the Federal Housing Finance Agency (FHFA) showed a steady decline in overall prices between 1Q-2013 and 1Q-2014. During this period the index dropped 16.02 points or 8.5%. With the exception of 2013 which grew 3.6% with respect to 2012, the HPI has consistently fallen over the past four years (2011-2014). This data is consistent with that found in the PRCS, housing prices have consistently fallen over the last three years (2010-2012).



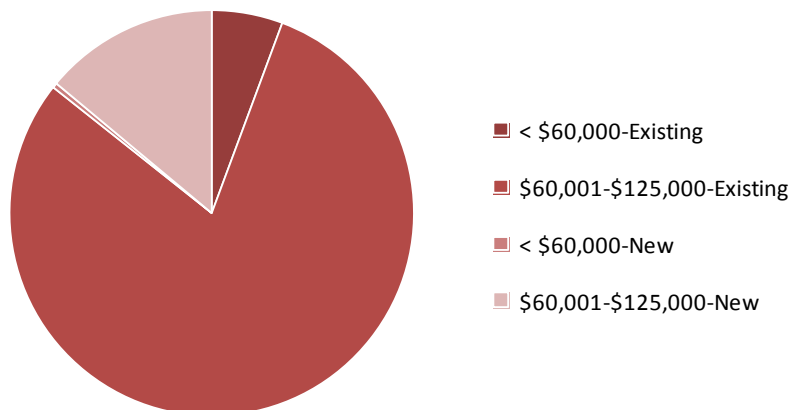
Figure 21: Purchase-Only House Price Index for Puerto Rico (SA)



Source: FHFA (2013).

Due to the shortage of new construction affordable housing its relatively high costs compared to the median income in Puerto Rico, home sales at affordable prices are mostly resale units. According to mortgage data on housing purchases³ done by individual buyers –homeowners as opposed to investors- more than 85% of all home sales at prices below \$120,000 are associated to existing housing.

Figure 22: Housing Sales by Price-2013



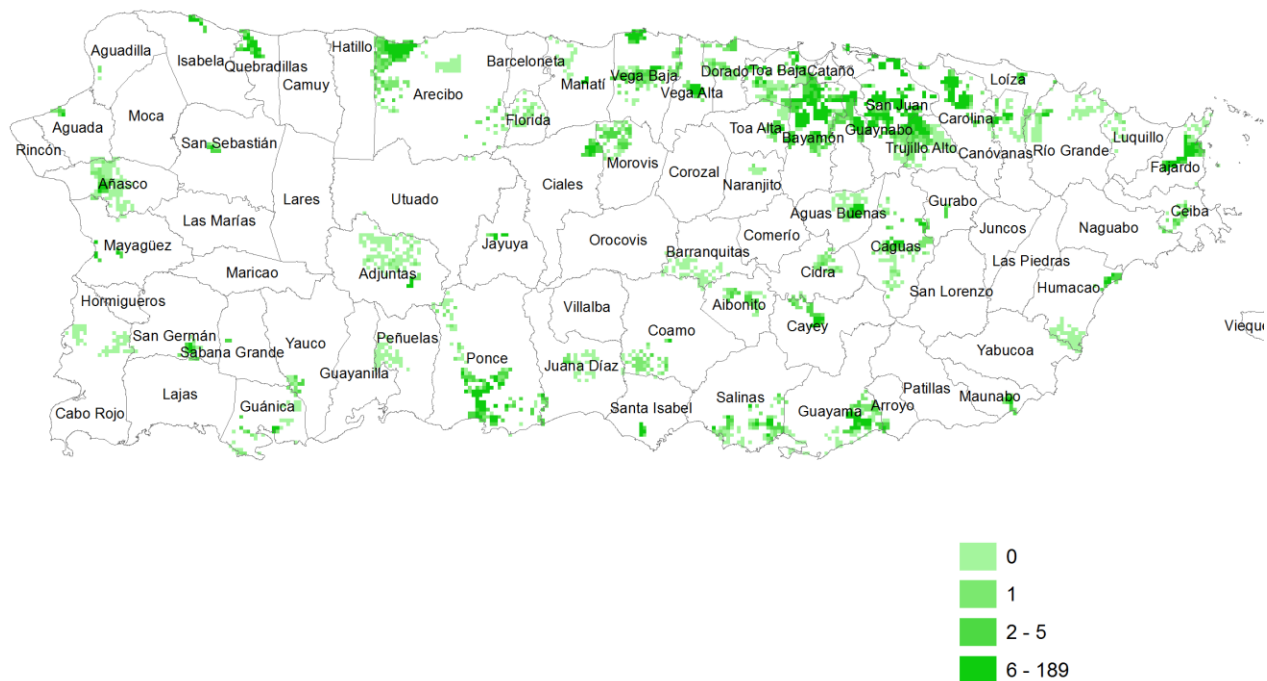
Source: Office of the Commissioner of Financial Institutions.

³ Office of the Commissioner of Financial Institutions, 2013.



Given worsening residential sales, increasing foreclosure rates and migration patterns, housing vacancies may continue to grow during the next few years. This creates an opportunity to invest in the acquisition and renovation of existing vacant or foreclosed housing instead of focusing mostly on building new housing to address housing needs. This would help bolster current housing values while at the same time it may support the redevelopment or rehabilitation of affordable housing for low, moderate and medium income families at a lower cost to satisfy the housing needs summarized below. Areas with high concentration of vacant units are presented on the following chart.

Figure 23: Areas with high concentration of vacant units



Source: United States Postal Service / U.S. Department of Housing and Urban Development.



HOUSING NEEDS

The above context suggests that housing needs in the Island are growing at much lower rate than in the past. However, substantial housing gaps persist in the Island based on the following facts:

1. There are 29,792 persons in the public housing waiting list (as of May 2014) and 7,955 on that for Section 8 (as of June, 2014);
2. In 2010 the Census reported 110,000 substandard housing units, these are those that lack plumbing and complete kitchen facilities;
3. 107,724 persons in subfamilies⁴, according to the PRCS 2012;
4. More than 4,100 homeless persons as of 2013.
5. It is estimated that 4,536 units will be foreclosed in 2014.⁵
6. An expected growth of 14,212 low and moderate income households during the next five years.

Moreover, close to 234,000 low income households, of which 64,422 were elderly homeowners had some sort of housing problem in 2011, including cost burden, overcrowded households and substandard housing. In addition, close to 12,000 elderly households will enter the ranks of those with housing burdens within the next five years. For this population, housing activities must continue to promote the development of new housing stock, because elderly projects are fully occupied in the Island. However, funds must also be allocated towards rehabilitation activities and rental housing for the elderly.

Among moderate income households, those with incomes between 80% and 125% of the median, the net housing need is expected to increase by 5,444 households. The main challenge among this income group is the cost of housing in Puerto Rico relative to their income, a gap

⁴ A married couple (with or without children) or a single parent with one or more never-married children under the age of 18, not including the householder or the householder's spouse. When grown children move back to the parental home with their own children or spouse, they are considered a subfamily.

⁵ Office of the Commissioner of Financial Institutions and Estudios Técnicos, Inc.



that leads to an increase in housing burdens among the group. To address this issue, State sponsored homebuyer and rental assistance programs are needed, as well as the adoption of policies, strategies and activities leading to a reduction in the cost of housing in Puerto Rico.

A key housing issue in the Island is the price of housing. The average price of housing sold in Puerto Rico during the past five years was \$208,932. A trend that is of concern is the growth in median income households. Many families lack the resources to purchase homes at these prices without a subsidy. Meanwhile, HUD funds to support housing programs, particularly CPD allocations from 2010 to 2013, have dropped by more than 44%, from \$167.3 million in 2010 to \$93.1 million to 2013.

According to PRCS 2012, 39.0% or 132,067 owner occupied housing with annual incomes lower than \$20,000 were paying more than 30% of their income toward housing costs. Meanwhile, 76.5% or 97,288 of renters making less than \$20,000 were burdened by paying more than 30% of their income towards housing costs.

An area of concern is the need to build or rehabilitate inadequate and unsafe housing. Across Puerto Rico and particularly in non-entitlement areas, the majority of the owner occupied housing units were built before 1990. According to the 2008-12, Puerto Rico Community Survey (PRCS) estimates, nearly 74.5% were built between 1960 and 2000, and 15.9% of houses were built prior to 1960. For entitlement municipalities housing built between 1960 and 1990 was slightly lower at 73.6% and non-entitlement was closer to 76.3%. What this suggests is that given the age of the housing stock, its rehabilitation is an issue that will require attention, and will likely become a more urgent need in the near future.

Policies should also promote the redevelopment of urban areas, in particular to serve the needs of an aging population. In 2012 single family structures (attached and detached) represented 80.1% of all housing units. In non-entitlement areas, multi-family housing is 8.7% of all housing. Multifamily projects are much more common in San Juan, in 2012 Multifamily represented



49.5% of all units in the municipality. Meanwhile, housing rehabilitation is required in rural areas which areas with substantially lower income.

A considerable number of project base affordable housing units are also at risk of conversion during the next five years. Strategies and incentives must be developed to address the issue. A total of 103 multifamily projects with 8,860 units have contracts expiring between 2013 and 2018. Although the economic situation may not motivate developers to withdraw these units from the subsidized affordable housing inventory, State and other local jurisdictions should take steps that help preserve these units under the existing programs.

Although, Puerto Rico's housing stock consists primarily of owner-occupied units, additional rental units in appropriate locations and inadequate conditions will be required to serve the needs of households undergoing increasing affordability issues, the elderly, persons with special needs and younger households, with a higher tendency to rent. Also, new construction should be considered in areas and market (or needs) niches where additional development if justifiable.

SPECIAL NEEDS

FEMALE HEAD OF HOUSEHOLDS

Female headed households have become an area of great social concern given the socio economic characteristics of this segment of the population. In fact, they are quite poor. According to the Census Bureau⁶, 31.2% of householders in the Island are headed by single women with no husband present that either live alone or have a family or subfamily member living with them. Their socioeconomic conditions are quite



⁶ Data extracted from PUMS Puerto Rico Community Survey 2011



severe. These women having a median income of \$14,800, which is 27.5% below the median for other household types. Moreover, 55% depend on food stamps and only 39.1% work. According to the PRCS, most of them satisfy their housing needs by renting a unit at a median rent of \$306 annually; suggesting most are living in public housing or receive Section 8 assistance.

Figure 24: Characteristics of Female Head of Household*

Characteristics	Female head of Household	Rest of Households
Number of Households	298,427	957,421
Median Age of Head of Household	46	55
Median Income of Household	\$14,800	\$20,414
Receive Food Stamps (%)	55%	30%
Average Housing Value	\$110,000	\$120,000
Median Monthly Rent	\$306	\$350
Employment Rate	39.1%	41.9%
Unemployment Rate	20.4%	10.1%
Not in Labor Force	50.9%	53.3%

Source: PUMS Puerto Rico Community Survey, 2012

Single parent children, teenage pregnancies and increasing divorce rates are social trends that will continue to fuel the growth of this type of household and become an increasing challenge for local housing authorities. Given the social and economic disadvantages affecting this group of women, an integrated interagency and multidimensional approach is required to address their needs.

ELDERLY

The elderly population will be the fastest growing population cohort in Puerto Rico. This group is characterized for having an income 20.2% below the median for Puerto Rico. The most urgent need for this population is housing in areas suitable to satisfy their recreational, health and social needs.





Access to complementary services will be a major challenge given the growing number of elderly persons who will be living in rural areas, in suburban communities and places lacking adequate transportation.

ACS 2012 showed that nearly 60,000 elderly homeowners had some kind of housing burden. During the next five years, this amount may increase to 76,000 elderly households.

HOMELESS

Continuums of Care (CoCs) data reported to HUD for 2013 identified a total of 4,128 homeless persons. The main characteristics of this population as determined by the Point in Time Survey are the following.



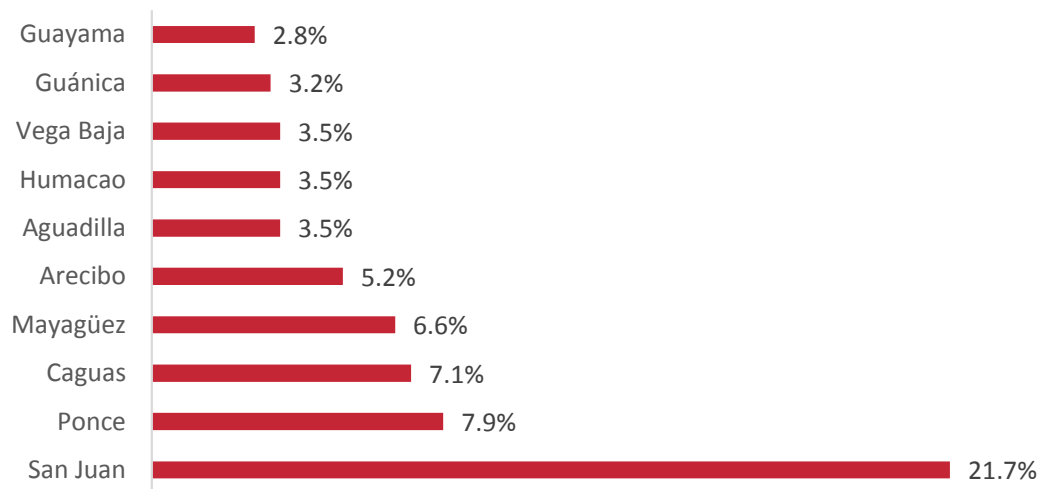
- Close to **80%** are men
- **16%** are either children or children with at least one adult
- **361** homeless children
- **51.6%** are chronically disable
- **45.3%** suffer from chronic substance abuse
- **18.5%** were severely mentally ill
- **7.9%** have been victims of domestic violence.
- **7.4%** had contracted HIV/AIDS
- **2.0%** has served in the armed forces

San Juan has by far the largest amount of homeless on the island, with close to 22% of the homeless population in the Island. The other municipalities having relatively higher



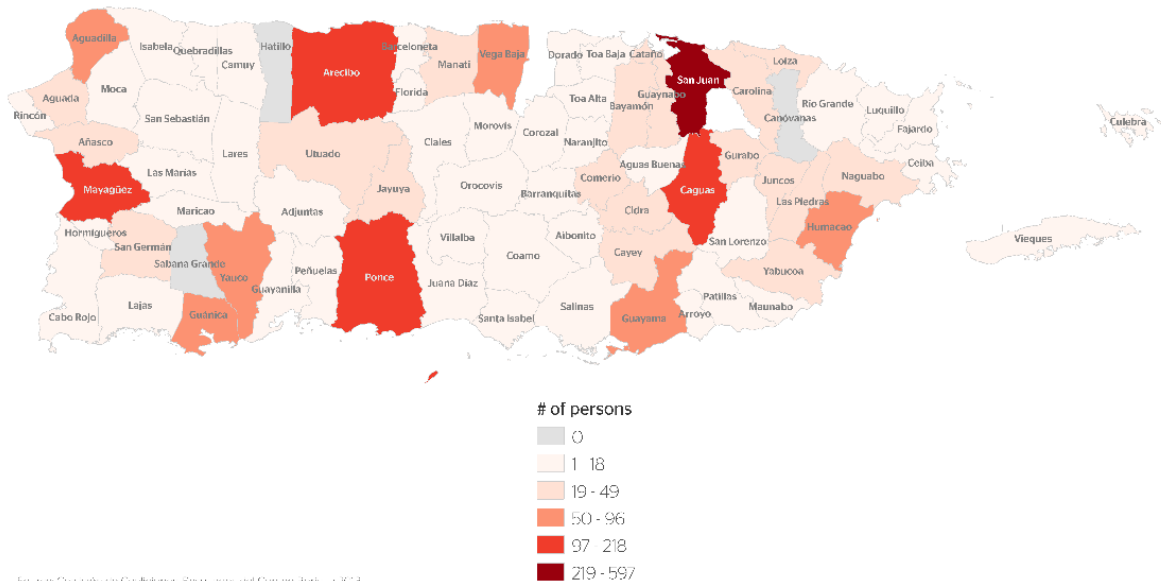
concentrations of homeless were Ponce (7.9%), Caguas (7.1%), Mayaguez (6.6%) and Arecibo (5.2%). It is widely known that upon becoming homeless the majority of persons remain within the municipalities of administrative coalitions where they formerly resided in permanent housing. However, San Juan and Fajardo show different patterns of mobility as a result to some extent to the higher concentration of shelters in the San Juan area.⁷

Distribution of Homeless by Municipality



Source: Coalición de Coaliciones , Resultados de Conteo Boricua 2013

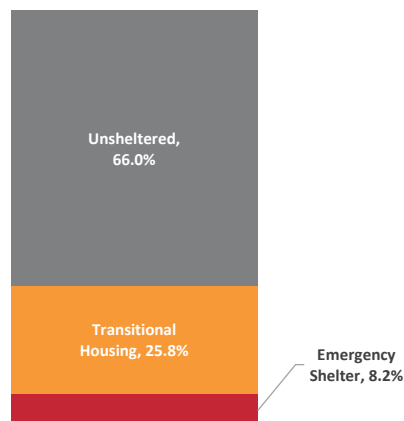
⁷ This analysis was conducted for the previous Housing Needs Report, in which the mobility patterns of the Island's homeless population was mapped out.



The distribution of homeless by their shelter status shows that a vast majority of homeless persons were unsheltered (66.0%). Only 25.8% of the homeless population use transitional housing while 8.2% use emergency shelters. Over 151 of 361 homeless children counted were unsheltered, while 188 were in transitional housing and 22 were in emergency shelters.

Distribution of homeless by Shelter Status

Distribution of Homeless



Source: HUD's 2013 Continuum of Care Homeless Assistance Programs Homeless Populations and Subpopulations



Summary by household type reported:	Homeless Households			
	Emergency Shelter	Transitional Housing	Unsheltered	Total
Persons in households without children¹	300	757	2,409	3,466
Persons Age 18 to 24	14	58	80	152
Persons Over Age 24	286	699	2,329	3,314
Persons in households with at least one adult and one child²	39	306	313	658
Children Under Age 18	22	188	151	361
Persons Age 18 to 24	4	34	13	51
Persons Over Age 24	13	84	149	246
Persons in households with only children³	0	0	4	4
Total Homeless Persons	339	1,063	2,726	4,128

* Safe Haven programs are included in the Transitional Housing category.

¹ This category includes single adults, adult couples with no children, and groups of adults.

² This category includes households with one adult and at least one child under age 18.

³ This category includes persons under age 18, including children in one-child households, adolescent parents and their children, adolescent siblings, or other household configurations composed only of children.

The housing options available for the homeless population are reflected in the Housing Inventory Count (HIC). In the latest HIC, 4,144 beds of emergency shelter, safe haven, or transitional housing were identified. An additional 3,690 Permanent housing support beds were reported, but HUD does not include these beds or persons occupying them as homeless, for a total 7,834 beds. Of these 38.2% are transitional housing, 12.5% emergency shelters and 2.2% classified as safe havens. The remaining 47.1% are classified as permanent supportive housing.



Source: HUD's 2013 Continuum of Care Homeless Assistance Programs Housing Inventory Count Report

*HUD's point-in-time count does not include persons or beds in permanent supportive housing as currently homeless.



Distribution of Continuum of Care Units



Source: HUD's 2013 Continuum of Care Homeless Assistance Programs Housing Inventory Count Report

*HUD's point-in-time count does not include persons or beds in permanent supportive housing as currently homeless.

According to these numbers the needs of the homeless appear to be well served. However, the community serving these populations have been consistent in expressing the need for transitional and permanent housing for women with children, and emergency shelters for those subjected to domestic violence. In addition, the Homelessness Prevention and Rapid Re-Housing Program (HPRP) program in 2011 identified over 10,000 families in Puerto Rico that were found to be at risk for becoming homeless, which suggests many families may be living in precarious situations. Due to the increasing economic limitations and the rise in foreclosures, the need may have broadened. There is also a gap in terms of complementary services for homeless and other special needs populations.

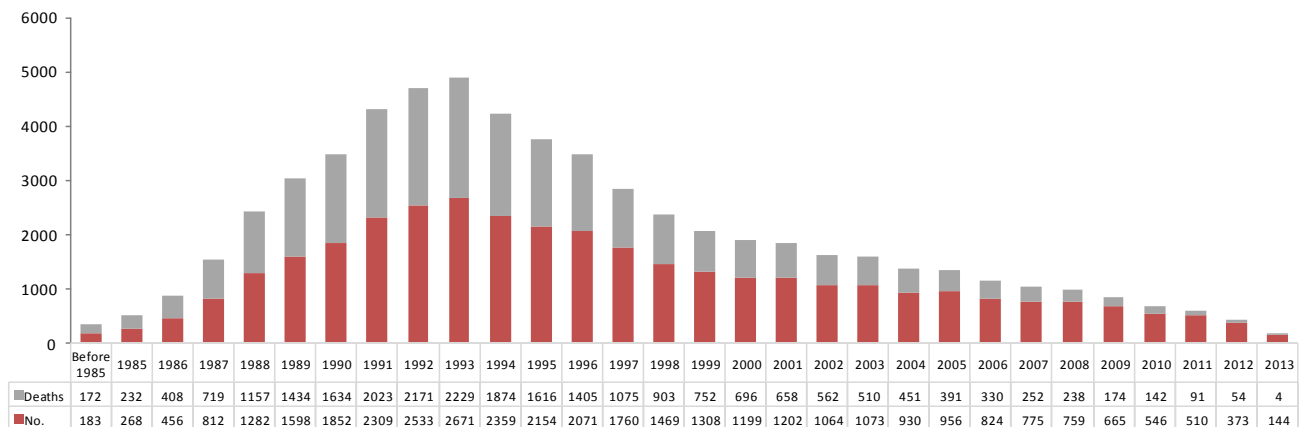
PERSONS WITH HIV/AIDS

A total of 36,105 AIDS cases have been reported in the Island as of September 30, 2013. Out of these cases, 24,357 persons died, representing a fatality rate of 67%. With respect to persons affected by HIV, not AIDS, 9,251 persons were registered with the Department of Health as of September 30, 2013. Almost 35% of HIV/AIDS cases are residents of the San Juan Metropolitan Area. The high risk populations for HIV infection in Puerto Rico differ from the high risk populations in most states and territories. Injection drug use (IDU) has been the predominant mode of exposure since the beginning of the epidemic, followed by Heterosexual Contact and



men who have sex with men (MSM), including MSM-IDU. Although there has been an increase in the proportion of cases attributed to heterosexual contact in Puerto Rico, it is the IDU and MSM populations that present the greatest challenge for HIV prevention efforts.

Figure 25: Cumulative AIDS Cases diagnosis as September 30, 2013



Source: PR Department of Health; OCASET.

The important issue relating to HIV is linkage to care and interagency coordination for the provision of prevention and treatment services. This was a key finding of the enhanced comprehensive HIV Prevention Plan a demo project sponsored by the CDC.

CHAPTER III:

CHALLENGES





CHAPTER III: CHALLENGES

Implementing affordable housing programs is confronted with a number of challenges that need to be addressed. These include the following:

CONSTRUCTION COSTS

In Puerto Rico, construction costs have escalated due to the increased cost of materials, particularly copper, re-bars, and aggregates. High energy costs also present a significant burden for low and moderate income families and the operations of affordable housing projects. Industry data reflects increases on the order of 20% for materials over the last four years. Since these are mostly imported, there is very little that can be done to mitigate the impact of increasing material costs and the cost of transportation due to the cost of fuel and the limited availability of public transportation.

Part of the problem with construction costs has been the absence of innovation with respect to materials used, at present concrete and concrete blocks exclusively, and the type of development constructed, detached single family units. The Puerto Rico Housing Finance Authority (PRHFA) is fully aware of this and since 2011 has explored alternative technologies and project designs so as to lower construction costs. These measures include modular pre-fabricated units, use of new materials and construction methods and, with respect to project design moving to higher densities through clustering of new units.

LAND

Another major obstacle to affordable housing programs is the availability and cost of land. What this has meant over the years is a movement toward the periphery of urban areas for affordable housing programs. The result being that low and moderate income families have to incur high transportation costs, since there is no mass transit system to provide them with affordable transportation services. In addition, the resulting urban sprawl has generated very



high social costs in terms of pollution, high energy consumption and the loss of green areas and productive agricultural lands.

There have been attempts over the years to deal with the land issue, including the creation of the Land Administration in the sixties as the agency charged with the responsibility of managing the government's land properties. Merged with the Land Authority, the new entity has the capacity to identify excess land in government possession, dispose of it for socially beneficial uses and, in short, act as manager of the land resource in such a way as to assure its optimal use.

To the extent that affordable housing programs adopt the low density, detached single family approach the land constraint becomes even more powerful. Recent projects sponsored by the Housing Department have begun to modify this. A development planned for the site of the Las Gladiolas project in Hato Rey uses the row house format to achieve higher densities. High rise projects with very high densities have proven to be unsuccessful and, as in the mainland, some have had to be demolished, as is the case with Las Gladiolas.

The Puerto Rico Planning Board has committed to preparing a Land Use Plan (LUP) of the Island that will incorporate set-asides for the various uses. This LUP will resolve a number of existing problems related to land availability and permitting.

PERMITTING

For decades permitting has been a major obstacle for housing and the inefficiency and the length of time it takes to have a project approved was so extensive that costs for developers were prohibitive. A major part of the permitting problem is due to the absence of land use plans. This has meant that site approvals, known in Spanish as “consultas de ubicación”, were handled on a case by case basis with the end result that there was no coherence in urban growth.



The approval in 2010 of a new Permitting Law did not solve the problems and may have made them more intractable. It called for simplified procedures and greater transparency, but when implemented resulted in a complex, costly process. The other initiative is the Planning Board's completion of the Islandwide Land Use Plan to be completed in 2014. This Plan will necessarily have to incorporate municipal land use plans where they exist, but will introduce new concepts and objectives aimed at generating better allocation of the scarce land resource. The parameters used by the Board include more compact urban areas, transit oriented developments and other such concepts. Better coordination between municipal planning and permitting offices and the PR Planning Board has also been instrumental in improving the process.

A new Law has been adopted that calls for a major restructuring of the permitting process in order to make it more agile and less costly. At the time this is being drafted it is too early to make an assessment of its impact. In affordable housing projects construction taxes on a per unit basis should be paid as units are sold or in any other way that permits tax payments to be made once sales have taken place. At the present these taxes are paid up-front which imposes a heavy burden on developers.

MUNICIPAL ISSUES

The 1991 Municipal Autonomy Law changed the manner in which Puerto Rico is governed, by providing municipalities with the wherewithal to assume greater control over a number of policy areas. One such area relates to the fact that municipalities are free to impose a construction tax at the level they consider adequate. The result has been a wide variety of tax rates that introduces uncertainty in addition to higher costs. One major difficulty with the construction tax, as mentioned previously, is that it is an up-front tax, paid before construction begins and therefore imposes a serious initial cost on developers. Municipalities also impose property taxes on both real estate and non-real estate assets.



In order to obtain autonomy, municipalities must prepare a land use plan (“Plan Territorial”, in Spanish). Most municipalities have had their plans approved. Both the PR Planning Board and the Office of the Commissioner of Municipal Affairs have expressed their intention of accelerating the completion of the remaining plans. Coherence with statewide guidelines is protected because the Planning Board must approve these plans. Conflicts have arisen, however, in areas such as the zoning classifications used. These are being dealt with in the process of preparing the island wide Land Use Plan.

Another area in which municipal conditions have impacted affordable housing programs relate to the fact that municipalities tend to look askance at affordable housing projects. The reason is that these projects typically do not generate tax income for the municipality, given the fact that there is an exemption on property taxes up to \$15,000 of the appraised value, and they generate additional expenses in road maintenance, security and garbage collection. Appraisal values have not been updated in close to six decades that means that low cost housing is almost automatically exempt. However, municipalities should consider the development of economic incentives to promote affordable housing in abandoned properties as strategy to promote urban and economic revitalization in their traditional urban centers.

Proper administration of housing programs with Federal and local funds requires well-trained staff, both at the state and municipal level that understand program rules, financial management, and project underwriting. The Commonwealth of Puerto Rico and Municipalities need a means to establish and maintain that capacity.

Governor García Padilla issued an Executive Order creating a Decentralization Commission that will render a report by January, 2014 outlining possible decentralization options. It appears that regionalization will be used and incorporate measures such as cost sharing agreements, among others. This is very much in line with the recommendation concerning the need for Regional Housing Councils.



FISCAL LIMITS

As mentioned in the initial chapter, Puerto Rico's fiscal situation remains very fragile, likewise that of 38 of its municipalities. The Central Government Budget for 2013 was close to 12% lower than it was in fiscal 2010 and government has made the reduction of government expenses a priority in order to improve the fiscal situation. Also, the Federal Government "sequestration" has meant lowered funding for housing and community development programs. Thus, it is unlikely to expect increases in expenditures for housing and other government programs in the five year Plan period.

The Garcia Padilla Administration has had to deal with a very difficult fiscal situation, and has taken steps to correct the fiscal imbalances that exist. The implication of the tight fiscal situation in Puerto Rico, together with the reduction in federal spending, is that the State Plan should focus on better use of existing resources and emphasize leveraging of private, municipal and community resources in implementing housing programs. In that respect, Municipalities have the wherewithal to put in place programs that will permit better use of properties that have become a public nuisance. In fact, legislation approved in 2012 makes the process of expropriation a simpler and less costly one.

CHAPTER IV:

FRAMEWORK FOR POLICY FORMULATION





CHAPTER IV: FRAMEWORK FOR POLICY FORMULATION

The State Plan is based on the premise that housing is not just the provision of shelter, but the building of homes. Housing is part of an intricate web of relationships that incorporate factors in different areas and require integrated approaches. Thus, housing policies cannot be considered in isolation from economic, social and physical influences and must be seen as an instrument for also achieving goals with respect to these factors such as, for example, neighborhood improvement.

Housing programs need to be integrated with land use and urban planning policies. In the case of Puerto Rico, the absence of this integration through the decades lead to a very negative urban sprawl situation on the one hand and, on the other, to siting of affordable housing projects away from urban centers and job locations. This generated the need for persons to use the automobile for transportation since there is no easily accessible mass transportation system in most urban areas. The consequence was increased costs for low and moderate income families in terms of commuting and shopping trips.

Part of the problem mentioned is also related to construction regulations and financing requirements that stimulated construction of single family detached units that require large tracts of land that could only be found in the periphery of urban areas. The tax, financing and regulatory environment acted against higher densities and urban center development of affordable housing.

Developing more effective housing policies will require changes in land use planning, in urban development policies and in the regulatory environment, including tax issues and the financing criteria of private banks.

Neighborhood deterioration has accelerated in the last decade due to the recession that has affected the Island, out migration and the very large number of foreclosures that have



characterized Puerto Rico in the last three years. This is a problem that cuts across neighborhoods with different housing prices, but is clearly a more serious problem in low and moderate income ones.

In these cases, housing policies can be instrumental in stopping further deterioration by promoting rehabilitation of abandoned properties, supporting families at risk of losing their homes, and providing support for maintenance and rehabilitation of deteriorated properties. By promoting initiatives that stimulate infill housing through tax and regulatory changes, housing policies can be key factors in preventing neighborhood deterioration.

Although much has been made of the need to deal with central city decay, the fact is that the process is also taking place in the first ring of suburban development. In the case of Puerto Rico the first such developments took place in the fifties (Puerto Nuevo, for example) and sixties (initial developments in Carolina and Bayamón). Some of these initial developments are now entering a phase in which two trends have manifested themselves: families moving to higher income neighborhoods, families simply abandoning the houses either because of inability to pay, because they have migrated, or simply because they couldn't sell or rent the unit and they had to move.

The potential of these "first ring" suburbs for rehabilitation and use for affordable housing is significant. Construction costs are lower than in the central city, access to newer infrastructure is better and, in general, access to transportation is likewise better. The reason for this has to do with the fact that public transportation routes generally cover this segment and that the road system is better geared to greater use of automobiles. There are, of course, difficulties in that land consolidations are difficult because of the individual ownership of units. This means that rehab efforts must concentrate on infill housing projects, rather than larger developments involving a large number of units. Nevertheless, the central areas of towns and cities are restricted in terms of sites for new housing. Obviously, the emphasis on infill housing applies to



both central cities and the first ring of suburbs that, in many places now have conditions not too dissimilar from central city sectors.

Community economic development is closely tied to housing policies in many ways. One is, of course, the fact that housing is a type of economic activity that opens up possibilities for job creation at the local level. This suggests the need for integrating housing programs with training activities that improve the capacity of community groups to carry out construction activities. There have been examples of such links between housing and the generation of local economic activity throughout the years and in many jurisdictions.

One major factor influencing housing policy going forward is the significant housing inventory, the collapse of the housing market, the economic situation of individuals and the increasing number of foreclosed homes. In September, 2013 the estimate of unsold completely constructed units is of some 5,000 units, not counting foreclosed units that re-enter the market, estimated at 4,000 for 2013, as per The Office of the Commissioner of Financial Institutions. In addition, mortgage delinquency rates are above 13% in commercial banks, which is an indication of the severe economic situation affecting a substantial amount of local residents.

The bulk of the new inventory is of units with prices below \$210,000. What the situation provides is an opportunity to convert part of the existing inventory into affordable housing. A significant number of projects have lost value after being abandoned for months and these were made available at very low prices. The government does not have the financial capacity to purchase these projects outright but incentives could be provided to developers for conversion to affordable housing. For example, profit tax exemption can be granted if pre-established conditions are met with respect to affordability.

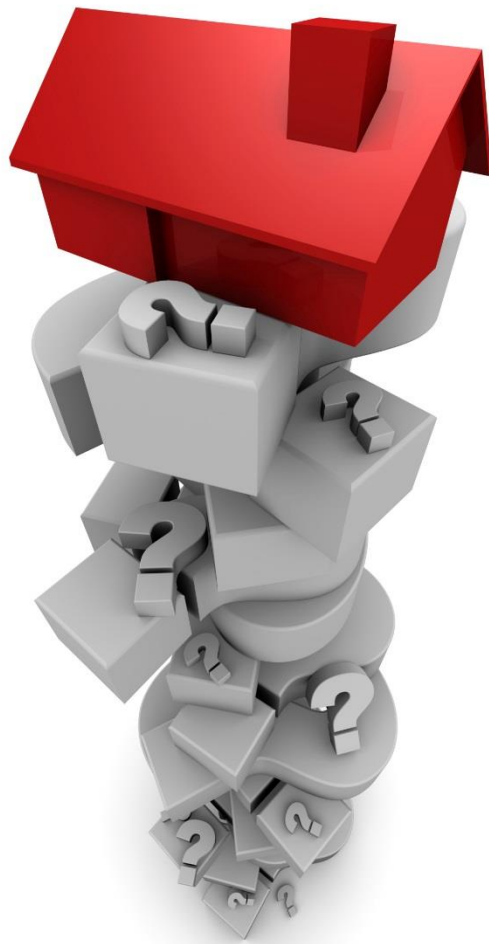


In addition, the growing inventory of foreclose or vacant existing properties is an opportunity to promote housing rehabilitation programs for low and moderate income households.

The discussion in the previous paragraphs supports the need for a strong housing policy that ties the issues discussed into a coherent statement of purpose that goes beyond individual agency concerns. The Housing Policy Implementation Committee created in 2011 has provided a means for integrating housing concerns with economic, social and land use concerns.

CHAPTER V:

POLICY AND ACTION ITEMS





CHAPTER V: POLICIES AND ACTION ITEMS

POLICIES AND ACTION ITEMS

The Puerto Rico Department of Housing has defined its priorities as providing affordable housing for the working population including young adults (Policy 1), for the elderly (Policy 2) and for populations with special needs such as the homeless, persons with HIV/AIDS, single women heads of households and others, for example, those who have had their houses foreclosed or are at risk (Policy 3). The following list of policy statements and action items is based on these priorities and, in addition, incorporates policies on urban and land use planning (Policy 4) and on institutional arrangements (Policy 5). Although treated separately it must be understood that successful implementation of programs in the priority areas depends on the integration of many of these action items. Many of the items included in Policy 1, apply to Policy areas 2 and 3, and recommendations regarding the other two policy areas (4 and 5) apply to all three.

Given the present economic conditions in the U.S. and Puerto Rico and the serious fiscal constraints that exist at the moment what is emphasized is the better use of existing funds and budget reallocations to support affordable housing programs. For example, in the case of Puerto Rico, the Government has in place incentives to stimulate the purchase of homes, including “Mi Casa Propia” home purchasing assistance program and “Cierre Seguro” which provides second mortgages backed by the PRHFA to cover down payment and closing costs⁸

These incentives should be used mostly for affordable housing, as they are currently. Likewise, a number of action items relate to the need to leverage available state resources with private and community resources.

⁸ This program is under PRHFA’s Mortgage Insurance Program (Law 87 of June, 1965).



Each major Policy area incorporates a number of action items. The study on Housing Supply and Demand Factors, updated in 2013, incorporates a number of specific recommendations. Priorities and responsibilities for implementing policies are incorporated in the Action Plan Chapter.

POLICY #1. AFFORDABLE HOUSING FOR THE POPULATION

Policy

Fill the gap between the need for housing at affordable prices and available supply for working families, the elderly, single female headed households and young families seeking entry level housing, while minimizing sprawl, as well as travel costs and energy costs, both of which impose a heavy burden on moderate and low income families.

Action Items

1. Tax credits that can be sold in the open market are a potentially strong stimulus for affordable housing construction and should be used to stimulate specific programs for increasing the supply of affordable housing, as well as housing for the elderly and for those with special needs. Given market conditions and specifically restrictions in the local financial sector and in the government, the use of tax credits combined with other funding eligible sources is a potentially effective manner of making possible these developments, including Section 42 tax credits (4% & 9%), federal sources (HOME, Section 8) and local funding (PR Law 173 funds).
2. Inclusionary zoning and the use of density bonuses and other such instruments require a fairly active market for market rate units, and this is not the case in Puerto Rico and will not be for at least three years. Nevertheless, specific legislation should be prepared that



will permit the use of these instruments when market conditions permit. Dealing with the cultural preference for owner occupied single family, low density developments will be dealt with through better design of higher density developments and an educational campaign. This will require formulating collaborative programs with CHDOS and CBOs. In addition, policy and regulatory issues impeding the development of higher density developments will be addressed. Municipalities have to be convinced that affordable housing can be a positive factor in order to change present attitudes. Municipalities should be brought into the process early on. Municipalities must play a key role in selecting sites for potential affordable housing developments in their municipalities and should in collaboration with the State provide incentives for affordable housing, possibly by making land available for housing development.

3. In order for affordable housing to be centrally located or near mass transportation facilities, identifying suitable locations, excess land owned by the Commonwealth or Puerto Rico and its municipalities and integrating the space in the perimeter of the urban train stations and available public transportation for affordable housing programs, is essential. This will require collaboration between the Housing Department, The Planning Board and agencies and municipalities having suitable land for development.
4. It is important to retain the 7,955 Section 8 units (as of June 2004) and vouchers in the rental market, and to maximize the quantity of those units near transit and job centers. Operating rental housing for very low income households often requires operating subsidies, particularly in supportive housing and in housing for the elderly (e.g. Section 8, Law 173 and SHP).



5. Resistance to rental housing is an impediment that needs to be addressed. According to the Needs Assessment, this segment of the housing industry faces legal obstacles that can be resolved. Dealing with the “Not in My Back Yard” (NIMBY) resistance through educational programs will be required not only for affordable housing projects, but particularly for those aimed at populations with special needs and subsidized rental projects. Municipal guidelines have been developed in a number of places for this purpose. A particularly interesting approach is contained in the Canadian *Housing in My Backyard: A Municipal Guide for Responding to NIMBY*.
6. Rental housing may also be a strategy to provide housing to moderate income young adults. Currently, the PRHFA is conducting a study on rental housing as a first step in promoting its development. The Plan must address the legal obstacles that have traditionally affected the development of rental housing projects for moderate income households.
7. A more flexible nuisance property legislation has been approved that considers the existing legal framework, and that will make it possible for abandoned and/or vandalized properties to be acquired by either the central government or municipal governments, and turned over to potential developers of affordable housing, be they for-profit or non-profit. However, the process for expropriating properties declared as nuisance remains a lengthy and costly one. There is an obvious need to put in place measures to accelerate this process on the part of municipalities. In addition, municipalities lack the financial resources to acquire properties, so there is also a need for a financial vehicle that supports this process.
8. The PRHFA is piloting a housing rehabilitation program that supports the rehabilitation and sale of foreclosed properties being held by the institution and promotes the development of housing rehabilitation cooperatives. Due to the availability of foreclosed properties in the Island’s private banks, financial cooperatives and public institutions –



mainly HUD, Rural Development, AFV and Entitlements- the program should be expanded to include other inventory sources. Funding sources must be identified and underwriting guidelines must be developed to broaden the effectiveness of the program.

9. Infill housing policies will be established to stimulate inner city and development of first ring suburbs through incentives of various types, including the turning over of expropriated nuisance properties to potential private developers, CBOs and other entities. The PRHFA may develop a capital fund or other financing products to provide financing to interested developers.
10. Measures should be put in place so that when the private market revives, a mixed income policy can be implemented. Mixed income developments that depend on market rate units to subsidize affordable housing ones are not viable in Puerto Rico at the moment.
11. Leverage and align available federal government programs, not only in HUD, but also in areas such as health, education and infrastructure. These include, but are not limited to HUD programs that are currently underutilized such as Section 108. Section 108 can play a key role in lowering infrastructure costs, although repayment by municipalities may be an issue due to decreasing formula funding allocations.
12. Innovative financing structures will be implemented by the Housing Finance Administration. Multiple funding sources need to be explored, including Tax Increment Financing, which would require legislation, the creation of trust funds financed from property or special taxes as well as others, for example, substituting construction taxes with a more housing friendly source of income for municipalities (e.g. development impact fees).



13. Municipal governments can also facilitate new affordable residential construction by making land available. There have been a number of precedents, notably Caguas. By eliminating land cost or reducing it, loan to value for the rest of the financing would look much better and private financing made easier.
14. The State can use available housing funds to stimulate private for-profit developers to partner with nonprofits and CHDOS to accomplish affordable housing goals. These initiatives can include revolving loan funds with a patient predevelopment cap that have favorable terms for construction loan financing. The idea is to leverage available funding as much as possible given the local and federal funding constraints.
15. Create State homeownership programs that target households at 65-80% of median income. This would help to qualify more buyers for private first mortgages. Banks should be encouraged to create specialized mortgage products aimed at moderate income households with 65%-80% of median income.
16. Work with the banking industry to educate their employees on affordable housing programs and transactions, both rental and sales, so they are better informed and able to participate at a higher level in various housing programs. Design specialized annual trainings and workshops for bank employees that treat specific topics and issues related to affordable housing. These trainings and workshops should be required if banks wish to participate in housing programs for households up to 120% of median income.
17. Identify, adopt and implement design, construction and rehabilitation standards and technologies that are appropriate for the Island's climate, aimed at reducing construction costs and promote energy efficiency.



18. The absence of predevelopment capital available to non-profits and CHDOS to finance architectural/engineering design, environmental testing, financial feasibility studies and other soft costs, can be compensated with a tax credit program that will stimulate professional firms to provide these services at below market rates and earmark available federal and local funds for these uses. Other financial approaches may be developed to fill this gap.

POLICY # 2. HOMES FOR THE ELDERLY

Policy

Recognizing the increasing challenge of housing a rapidly growing and low income elderly population, put in place integrated approaches that respond to the specific needs of this population. In addition to the recommendations included in Policy # 1, specific action items to address housing for the elderly include:



Action Items

19. Identify the specific needs of the population with respect to the type of unit needed and the services required to accompany the housing provided, including health, transportation and quality of life. Integrate the agencies that provide these services into the planning of elderly housing programs.



20. Site selection for elderly homes must take into account ease of access to health and other services. Best practices exist that can provide guidelines for the production of housing for the elderly.
21. A program aimed at providing funding for repairs to existing housing occupied by elderly persons is essential, in particular housing located in traditional urban centers.
22. Evaluate the development of accessory dwelling units in older urban neighborhoods with large elderly populations will provide rental housing while providing complementary income to older residents that no longer need as much space.
23. Given the weak fiscal situation of Law 173 Program, the Committee must reevaluate and recommend funding alternatives for the program and its priorities.

POLICY # 3. HOMES FOR THE HOMELESS AND POPULATIONS WITH SPECIAL NEEDS

Policy

Increase the provision of permanent housing, together with the provision of needed supporting services, by integrating agencies that provide these services and coordinate actions among them and the Housing Department. In addition to the recommendations included under Policy #1, specific action items to address housing for homeless persons and those with special needs include:



Action Items

24. The complex issues arising from the needs of these populations will require inter-agency collaboration and the provision of public financing using both local and federal sources.



A precise evaluation of needs and available social services is needed for the homeless population and for others with special needs. This could provide the foundations for a referral system that would make access to such services simpler and faster. A key institution in this respect would be the “Concilio Multisectorial en Apoyo a la Población de Personas Sin Hogar”, part of the Department of Family, an entity commissioned to develop policy for serving the homeless.

25. The preservation and development of new low rent units is essential in satisfying the needs of these populations. Given actual market conditions, the initiatives will have to be public sector driven. Efforts to maintain current Section 8 units as rental units will provide support to owners for rehabilitation purposes so that the units can be maintained in the rental market.
26. Efforts to support families in risk of losing their houses need to be strengthened given the current and expected level of foreclosures.
27. The policy with respect to homelessness has to be flexible enough to differentiate among the causes of homelessness and the potential in each case for a permanent housing solution. Although transitional housing is an important step in the continuum of care model it is not necessary in some instances. The Point in Time Survey of 2011 reflected a growing number of homeless with children. In most cases these families do not need to go through the different stages of the Continuum of Care model. Emergency shelters for these populations (victims of domestic violence and their children, or families that have lost their homes due to the economic crisis) may be required until a permanent solution is found.
28. Two specific population groups, identified by the Governor, that require attention are young adults and single mothers who are heads of households. Both are confronted with a severely constrained labor market in which available entry level jobs are



characterized by low wage levels. They also face difficulties in meeting banking requirements for financing the purchase of new homes. Those who already own their homes are facing foreclosures due to economic conditions. Housing policy will address the needs of these groups through a coordinated effort with the local banking sector and by coordinating actions of relevant Government agencies such as the Department of Family and Social Services, Department of Labor and Human Resources and the municipalities. The objective is to provide integrated support services to young adults seeking housing, women heads of households with their own specific needs such as childcare, and, as mentioned previously, working with banks to forestall foreclosures and minimizing the social cost of such actions.

POLICY # 4. LAND USE, RURAL HOUSING AND URBAN PLANNING ISSUES

Policy

Achieve the flexibility necessary in planning and land use regulations to facilitate the construction and rehabilitation of affordable housing, support the development of rural housing and deal with urban rehabilitation issues.



Action Items

25. Make certain that the PR Planning Board's Land Use Plan incorporates set asides for affordable housing and housing for populations with special needs. Inclusionary zoning could be integrated into land use plans so that when the market recovers it can be utilized. With the present condition of the housing market, inclusionary zoning will not be effective. A precedent exists in the joint development planning projects around



urban train stations. These will eventually prove to be examples of successful inclusionary zoning, although joint development projects are still very few due to market conditions.

26. Addressing the problems presented by the deterioration of the older first ring of suburbs presents an opportunity for the development of affordable housing and urban renewal since infrastructure and access are generally better than in the older town centers. Revisiting the joint development projects associated with the Urban Train and revising them in order to stimulate development of affordable housing could be a major opportunity. In addition, the effort undertaken by the Puerto Rico Planning Board to map out available infrastructure capacity in urbanized area is an important initiative to promote affordable housing development in adequate areas and reduce predevelopment and offsite costs.
27. A neighborhood based approach should be adopted by municipalities, the PR Planning Board and the Department of Housing to preserve, rehabilitate and improve neighborhoods, particularly those that can be characterized as “anchor neighborhoods” that provide stability to urban areas. In fact, various municipalities including San Juan and Bayamón are following this approach.
28. Promote development of community gardens as a strategy to promote community cohesion, beautify neighborhoods, promote resource conservation, reduce food costs, promote self-reliance and improve the quality of life of the community.
29. The PR Planning Board and the Land Administration should be responsible for managing land banking initiatives that will provide space for affordable housing projects at a reasonable cost. The PR Conservation Trust provides a model for handling a land banking initiative through a Land Trust.



30. The present Administration has made solving rural housing problems a priority concern, recognizing that much of the rural population lives below the poverty line. The emphasis is to be placed on rehabilitation of deficient existing owner occupied housing by low income households that meets certain criteria as to ownership of the land, value of the property and condition of the unit. The Housing Department will coordinate the program, define the rehabilitation programs depending on the condition of the unit and establish the performance metrics needed to evaluate program results. Regulations to provide guidance to the program will be prepared by the Housing Department and widely circulated.

POLICY # 5. INSTITUTIONAL ISSUES

Policy

Solving the housing problem is a long term proposition and measures have to be put in place to assure that adopted policies and priorities have continuity and are not abandoned with changes in administration or in agency staffing.



Action Items

31. The State Housing Policy and Implementation Committee (HPIC) with participation of key stakeholder groups, municipalities and the central government will continue to do the following:
- a. Prioritize action items
 - b. Set goals and timelines



32. Promote legislation that is consistent with the suggested housing policy recommendations in a coherent and meaningful manner. This may include policy recommendations for land use, taxes, legislation referring to specific programs, and other pertinent items.
33. Promote the creation of strategic alliances and partnerships between government agencies, as well as nonprofit and private entities for the planning and implementation of housing projects.
34. Create a subcommittee, in charge of the identification of potential sources of funding for strategic projects to be developed through multi-sectorial alliances, such as "Promise Neighborhoods", "Byrne Criminal Justice Innovation", and "Choice Neighborhoods" and the "Health Center Program". These funds are part of the Neighborhood Revitalization Initiative focused in the implementation of placed-based initiatives to transform distressed communities. The group should also be in charge of coordinating the efforts of stakeholders for the submission of proposals for such projects.
35. A regional focus will be used that recognizes differences in income levels and other conditions among the Island's regions. The Governor has expressed his conviction that decentralization of government programs is a must. He issued an Executive Order creating a bipartisan Decentralization Commission. The Commission is already at work preparing recommendations on decentralizing government programs.
36. Regional Housing Councils are very much in line with the decentralization efforts. Municipal agencies and coalitions of non-profit service providers grouped in these Councils will have an important role in advancing affordable housing programs. The larger municipalities will act as hubs, providing technical and support services to the smaller ones. Strengthening the technical staffs at the municipal level should be part of the process.



37. A Housing Policy requires integrated approaches that recognize that it is much more than shelter. In the government, this requires creating an entity that will incorporate the social services and infrastructure dimensions. It also implies the coordination of efforts among different social service agencies and nonprofit organizations, as well as the promotion of place-based approaches, such as the ones encouraged by the Neighborhood Revitalization Initiative (NRI), to help distressed communities transform into neighborhoods of opportunity⁹. The NRI, is designed to help local leaders design integrated solutions to address interconnected problems in the communities. It "engages the White House Domestic Policy Council (DPC), White House Office of Urban Affairs (WHOUA), and the Departments of Housing and Urban Development (HUD). Education (ED). Justice (DOJ). Health and Human Services (HHS) and Treasury in support of local solutions to revitalize and transform neighborhoods. The interagency strategy is designed to catalyze and empower local action while busting silos, prioritizing public-private partnerships, and making existing programs more effective and efficient".¹⁰

38. Breaking down bureaucratic silos through carefully crafted agreements and or policy statements is essential. Metrics for measuring department performance should move away from single purpose measures and recognize the importance of inter-agency collaborative efforts.

39. Establish a training program and minimum capacity standards for housing agencies and municipalities. Training programs should be continuous and benefit from the use of new technologies to have a greater impact, in a cost efficient way. Learning and training

⁹ The NRI; greater flexibility for grantees to tailor federal tools to fit local circumstances; and provides incentives for city leaders to make strategic investment choices instead of just spreading federal funds around equally to all areas irrespective of need (National Poverty, Summit September 22, 2012).

¹⁰ The White House, retrieved from the Web in July, 2013.

<http://www.whitehouse.gov/administration/eop/oua/initiatives/neighborhood-revitalization>



experiences should be based in information gathered through systematic approaches for identifying capacity building needs of housing agencies and municipalities.

40. Promote broad participation of CBOs, private sector organizations and private firms in dealing with housing issues to improve existing, as well as introduce new programs. These should strengthen CBOs in terms of their knowledge of housing, permitting compliance with HUD regulations, construction and community development programs. A certification procedure should be instituted that identifies specific entities as those most adept at implementing housing related programs. CHDOS should likewise be evaluated to determine their capacity to meet HOME program requirements. The goal is to develop experienced and capable CHDOS on a regional basis to implement housing programs. Spanish language materials must be developed to facilitate this process for CHDOS and other CBOs. HUD is already providing support for these efforts.
41. Create an aggressive marketing plan for HUD and other programs to increase their familiarity among consumers and stakeholders.
42. Efforts will be made to align and streamline taxing mechanisms among municipalities, related to construction taxes and impact fees.
43. Municipal assistance for home repairs can be leveraged by self-help programs that have proven to be very successful in some municipalities. The municipality provides materials and the homeowner seeks the voluntary work of neighbors and, of course, him or herself. Guidelines for these initiatives need to be drafted in order to assure transparency in the procedures and assuring minimum quality standards.
44. Integrating the banking sector is essential and a specific collaborative mechanism needs to be established that will permit programs for first time homebuyer mortgages, credit repair and counseling to ease the process for low and moderate income households.



45. The banking sector needs to strengthen its CRA activities with respect to affordable housing. Banks can create a CRA program that promotes the development of investment vehicles that promote the development of affordable housing. There exists an industry CRA Committee, with a limited charter, which is a first step in the proposed direction.

CHAPTER VI:

ACTION PLAN





CHAPTER VI: ACTION PLAN

BACKGROUND

The State Housing Plan presents data related to needs and assets, government priorities, and the policy framework articulated in Chapter IV. Chapter V provides an extensive list of recommendations for policies and actions that in general terms address the housing needs in Puerto Rico. This Action Plan provides targeted action steps that can, in the short term, accomplish results that meet the housing needs of the populations prioritized by the Department of Housing: working families, single parent households, young adults, the elderly and special needs populations such as the homeless. The Housing Plan data indicates several key housing issues impacting these citizens:

- High housing cost burden
- Lack of affordable rental projects
- Substandard housing, vacant units and abandoned lots
- Social service challenges facing the elderly and those with special needs
- The historically high foreclosures

These housing needs can be met by developing projects and programs that result in affordable homes being developed, preserved and rehabilitated. The implementation framework to accomplish this involves four key operating principles:

1. Prioritizing needs based on data and available resources and selecting projects that meet these needs
2. Strategic investment of resources
3. Fostering institutional systems change focused on interagency integration policies
4. Ongoing capacity building in public and non-profit sectors



The implementation of these four operating principles will result in outcomes such as:

- Timely development of new affordable homes that meet the needs of priority populations in appropriate neighborhoods with amenities
- Development or rehabilitation of in-fill sites
- Coordination of housing development with other sources of financing for affordable housing and the social service sector, with accompanying resources
- Incentivation of adjacent redevelopment activities to create comprehensive community and economic development

In addition, and as important, this Action Plan is about securing the future beyond the immediate term by designing and implementing policies that will move the State to a place of innovation and the achievement of the highest and most efficient leveraging of resources possible. The implementation of this Plan will forge these new policies and practices into a long-lasting foundation for meeting housing needs in the future.

THE HOUSING POLICY AND IMPLEMENTATION COMMITTEE (HPIC)

A Housing Policy and Implementation Committee (HPIC) has been created to both adopt the Housing Plan as well as to formulate overall housing policy and implement the State Housing Plan. This Committee is made up of the following:

- Secretary of Housing – Chairman
- Executive Director of the PRHFA
- HUD Puerto Rico Office Director
- The Governor’s Advisor on Housing
- Executive Director of the OGPE (Office of Permits Management)
- President of the Puerto Rico Planning Board
- Chair of the Mayors’ Association



- Chair of the Mayors' Federation
- A representative of the Municipality of San Juan
- The Commissioner of Municipal Affairs
- A representative of the Community Based Organizations

The HPIC's most important objective is to prioritize action items, coordinate/oversee implementation of the State Housing Plan and support the development of a capital plan to advance affordable housing development.

The following Action Plan Implementation Steps are designed to initiate the implementation process and set the stage for ongoing HPIC activities that will facilitate meeting State Housing Plan goals. Each Implementation Step is accompanied by proposed immediate actions and timelines.

The Implementation Steps call for four working groups to deal with regulations, land use, financing and technical assistance. Each group will incorporate the relevant entities in government, CBOs and the private sector in its work. Additional working groups will be formed as needed. It is through these working groups that specialized entities will be brought into the process of integrating the different dimensions of the housing issue.

ACTION PLAN IMPLEMENTATION STEPS

1) *Prioritizing Needs/Selecting Projects to Meet Needs*

a) **Prioritizing Needs:** The State Housing Plan depicts substantial needs experienced by diverse groups, in different geographies and related to various housing types. By identifying the sources of funding and other resources and opportunities available to meet these needs, the HPIC can create a prioritized list of projects and programs that will accomplish the goals of the State Plan in the short, mid and long term.



b) **Selecting Projects:** The project selection process is a powerful tool in ensuring that the housing funds which the Commonwealth has control over drive projects that meet prioritized needs. A well designed process can leverage funding from a variety of sources and should be targeted, strategic, transparent, and focused on performance and outcomes.

Immediate Actions:

- **Identify the on-going initiatives that relate to the State Housing plan.**

Timeline: Sept. – Oct. 2014

- Prepare a matrix of available funding sources including (but not limited to) HOME, CDBG, Low Income Housing Tax Credits, Federal homeless programs, HOPWA, and Section 8 project-based vouchers as well as local sources such as Law 173, Law 212 and others. This list of sources should correlate to the housing needs each source is eligible to meet.

Timeline: Oct. – Dec. 2014

- Issue a Joint Agency Notice of Funding Availability (NOFA) that leverages funding from multiple sources, with underwriting criteria that will result in projects that meet Housing Plan priorities. For example, new public housing developments, such as Las Gladiolas, Puerta de Tierra and Gautier Benitez can be the focal point for a NOFA that leverages multiple resources across state agencies to create a placed-based comprehensive redevelopment initiative that can be completed in a timely manner.

Timeline: Jan. – Mar. 2015

2) Strategic Investment of Resources

a) **Funding Strategies:** With limited resources coming from the Federal government, coupled with a capital constrained local environment, the strategic deployment of funding and careful identification of priorities, along with alignment and leveraging becomes critical.



The Puerto Rico Public Housing Authority's incorporation of a mixed finance approach to its redevelopment activities reflects the type of funding strategy and underwriting standards that are a best practice around the country and an expectation of national funders. The HPIC can amplify this effort to better leverage and align these precious resources so that they are being used effectively, efficiently and to ensure that they meet State goals and priorities. These approaches will also position projects to be more competitive for national funding sources.

Immediate Actions:

- Develop joint underwriting standards for all agencies participating in the Joint Agency NOFA that will result in viable projects that can be brought on line in an expeditious manner and that meet State Housing Plan goals.

Timeline: Oct. – Dec. 2014

b) **Land:** Finding appropriate land for development of affordable housing is a critical asset that can ensure project viability. Land banking, dealing with nuisance properties and providing for infill housing are additional land use policy components related to meeting housing needs.

Immediate Actions:

- Create a Land Use Working Group of the HPIC, chaired by the PR Planning Board. Included in the group will be relevant agencies and private organizations, as well as representatives of the municipalities.
- The first activity of the Working Group should be the creation of an inventory of suitable locations for affordable housing and housing for population with special needs. Information needed includes location of sites, ownership status, and readiness to be assembled for affordable housing development and the means for transferring land for use as the site for affordable housing and/or related



community development and service amenities.

Timeline: Working Group convenes by Nov. 2014 and develops agenda for 2015 activities.

c) **Banks:** Banks are particularly critical in solving housing problems and must become more proactive with their Community Reinvestment Act (CRA) obligations.

Immediate Actions:

- The Secretary of Housing will initiate discussions with the Puerto Rico Bankers Association (PRBA) to create an entity to deal with CRA requirements and issues at the industry level. This program would integrate the efforts and facilitate both the identification of potential investment vehicles and other opportunities for CRA eligible activities. The identification of projects, assigning housing priorities, and the types of projects to be financed would be considered at the industry level. The program will lower costs for the consumers and reduce risks for individual banks.

Timeline: Commence in January 2015.

3) *Institutional Changes*

Regional collaboration and the horizontal integration of agencies, jurisdictions and other strategic partners are needed to ensure that new projects and programs are properly resourced and provide comprehensive and holistic solutions to addressing housing needs. Creating policies that demand interagency integration, foster collaboration, and drive the leveraging of resources and alignment of opportunities will yield true systems change. Implementing these policies through the actual development of projects will institutionalize these changes.

a) Expand the current Collaboration Agreement between OCAM and AFV to include other State and municipal agencies. This Agreement is dedicated to developing joint underwriting criteria, funding efforts and standards, and capacity building initiatives.



Immediate Actions:

- Identify the parties that should be added to the Collaboration Agreement
- Set a timeline for execution of an expanded Agreement.

Timeline: Oct. – Dec. 2014; ongoing

b) Develop a pilot program in one or more municipalities that partners State and municipal governments in advancing a housing development or program that meets State Housing Plan priorities. For example the coordination of the Caño Martín Peña Quisqueya site with the PRPHA Las Gladiolas site, in partnership with the Commonwealth and municipality of San Juan would represent such a collaborative efforts.

Immediate Actions:

- Design a pilot program in a designated jurisdiction or multiple jurisdictions that meets a specific housing need
- Identify and dedicate funding sources to fund this collaboration pilot program
- Creating a Pilot Program Working Group to oversee the implementation of this program

Timeline: Jan. – June 2015

c) Establish Regional Housing Councils that bring together larger municipalities, with the capacity to implement housing programs, with smaller municipalities so that certain services can be shared and efforts coordinated. The Regional Housing Councils are in agreement with Law 1 of 2013 and the Governor's creation of a bipartisan Commission to deal with decentralizing central government activities.

Immediate Actions:

- Form a Regional Collaboration Working Group to identify opportunities and their alignment with Housing Plan priorities. The Working Group would recommend to



the Secretary and the HPIC one or two regions within which to commence initial Regional Housing Council activities.

Timeline: Jan. – Dec. 2015

d) Develop housing related legislation that will facilitate the implementation of State Plan recommendations in a coherent and meaningful manner. Areas to be considered include policy recommendations related to the institutional framework, land use, taxes, and will consider new instruments such as Tax Increment Financing, the expropriation of nuisance properties and their use for affordable housing, inclusionary zoning, and others. Legislation will be considered that will mandate the creation of the Land Trust through specific legislation for this purpose.

Immediate Actions: Duration of Housing Plan; dependent upon legislative cycles.

- Convene a Housing Legislation Working Group to develop a list of issues that can be addressed legislatively to present to the HPIC for review and prioritization.

Timeline: TBD

e) Develop sustainable design, construction and rehabilitation standards specific to affordable housing, in order to lower construction and operating costs and to reduce energy consumption. Efforts already made in this direction by the CHDO organization should be incorporated in the working group's evaluation of these alternative approaches.

Immediate Actions:

- Create a Sustainable Development Working Group to develop modified construction design standards in collaboration with developers, architects, engineers, and general contractors.

Timeline: Jan. – Dec. 2015



4) Capacity Building

Assuring continuity was frequently mentioned as a priority by those stakeholders interviewed in the process of preparing the State Plan. Although the HPIC is an instrument to secure such continuity, others means are recommended. These include the professionalization of staff dealing with housing issues in the non-profit and public sectors, municipalities, and community based organizations. Special emphasis will be placed in assuring that career government staff is well versed in housing issues. The HPIC will immediately establish the processes and content, to commence educational campaigns aimed at improving knowledge of housing issues, federal and local programs and procedures.

OCAM's Center for Social Innovation can serve as a platform for building and maintaining the capacity identified as a need in the Plan, serving municipal government, as well as other partners and stakeholders engaged in meeting housing and community development needs.

Broad participation of CBOs, CHDOs, and other non-profit organizations in dealing with housing issues is an important element. However, making CBO and CHDO participation more effective will require that the HPIC begin programs that will strengthen these organizations in terms of their knowledge of housing, permitting, compliance with HUD regulations, construction and community development programs. HPIC will work with HUD to provide capacity building and training to strengthen local nonprofit CBO and CHDO housing developers to ensure they can develop affordable housing units in accordance with this Plan. A certification procedure will be instituted by the HPIC that identifies specific entities as those most adept at implementing housing related programs. CHDOs will be evaluated to determine their capacity to meet HOME program requirements. The goal is to develop experienced and capable CHDOs on a regional basis to implement housing programs. Spanish language materials will be developed by the HPIC to facilitate this process for CHDOs and other CBOs.



The HPIC will work with HUD and its Technical Assistance providers to deliver training and capacity building that enables Municipalities, CHDOS, and CBOs to implement the housing policy articulated in the State Plan.

Immediate Actions:

- Develop an outline, funding, and implementation strategy launching OCAM's Center for Social Innovation to serve municipal governments, as well as CHDO partners and other non-profit and for-profit affordable housing developers.
- Support continuation of HUD Funded CHDO Capacity Building efforts.

Timeline: Oct. 2014 – ongoing

MEASURING SUCCESS

The Puerto Rico Department of Housing will monitor progress in achieving State Plan goals and objectives. In order to do so, the appropriate metrics will be developed for each component. The monitoring plan to be adopted by the Department will incorporate benchmarks and the appropriate metrics. The following metrics are illustrative of those that will be used in monitoring progress:

- Number of units built for each of the three priority groups
- Number of homeless moved to permanent housing
- Nuisance properties devoted to affordable housing
- Reduction in waiting lists for public housing
- Reduction in the number of cost burdened households
- Cost per unit of the different types of housing
- Units built using “green technologies”, including energy efficient designs and materials
- Projects initiated by CBOs and CHDOS



- Projects resulting from public-private alliances
- Jobs generated in communities as a result of Plan implementation.



CONCLUDING REMARKS

The Commonwealth of Puerto Rico is committed to being a model of effective action in solving the housing problems of lower income groups, the elderly, single heads of households, young adults, the homeless and other population groups with special needs. This Plan lays out the blueprint for implementing effective initiatives that will stand out as innovative approaches to the housing problem. We are confident that in implementing the Plan, the quality of life of all residents of Puerto Rico will improve. The Government is committed to implementing the Plan and making it a participatory initiative in which the federal government, the government of Puerto Rico, municipalities, the private sector and non-profit community based organizations can work together to achieve a better future for all.