

Fiscal year 2009 Budget Statement
Of
Commissioner Joseph V. Doria

Good Morning. Thank you for giving me the chance to present the Department of Community Affairs' proposed FY '09 budget. And as importantly, giving me the opportunity to highlight, for you, some of the extraordinary things done here at DCA.

As stated in the budget document, The Department of Community Affairs has many responsibilities, but one common mission- to invest in the people, places and progress of New Jersey. The Department works to support local government; protect the environment; provide housing; advocate for women, Latinos, individuals with special needs and other minorities; and keep New Jersey families safe.

The fiscal 09 proposed budget appropriates \$1.125 billion. This is a 14% reduction to FY 08's general fund appropriation to the Department.

One of two program increases is the recommended \$15m increase in the State Rental Assistance Program known as SRAP. This is in keeping with the governor's mandate to make tough choices while protecting the State's most vulnerable citizens.

\$1.085 billion or a full 96% of our State appropriation is returned to the local level through a variety of measures including; direct property tax relief programs, state aid programs, programs for women, recreational opportunities for the disabled, smart growth, and the SRAP program.

As you know, the proposed budget includes \$25 million for a Consolidation Fund along with \$7 million of carry over funds from the SHARE program and directs that I, along with State Treasurer Rousseau and Education Commissioner Davy, develop a spending plan for this effort. We are directed to give special attention to the needs of communities with populations of 10,000 or less. I'd like to share a few of my thoughts on how this money can be used.

First, I believe that we need to re-examine how we distribute all municipal aid. With regard to municipalities with populations of 10,000 or less, DCA is willing to work with the legislature to examine ways to lessen the impact of the reduction in state aid. We will also work to develop qualitative and quantitative metrics to develop a new funding formula for the distribution of Municipal Aid within the next Fiscal Year.

We will likely increase the grant funding available through our current shared services aid program, the SHARE Program, to provide greater financial assistance for the study, development and implementation of new shared services among local units.

The Consolidation Fund appropriation does not include the restrictive language of the SHARE funding, so we will also be able to provide assistance to towns in areas that currently are restricted, such as the transitional operating and personnel costs involved with staff increases needed to cover larger service areas.

A clear priority will be funding and other assistance for any municipal consolidation study commissions that are established. I expect that we will also facilitate efforts to consolidate

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school districts and encourage greater sharing among school districts, municipalities, counties and authorities.

Through our COUNT Grants, a special SHARE Grant for county governments, we have funded 14 counties' creation of shared service coordinators. These positions will work closely with the Executive Superintendents of County Schools to identify and encourage greater sharing between local governments and school districts.

Recognizing that local officials know best what type of aid they need and where their priorities are, we may also establish some type of "local proposal application" so towns and school districts can bring us their best ideas to use this aid for consolidations, shared services and local property tax relief.

We will also look at whether it is practicable to establish some form of special aid that is dependent on sharing services or consolidation.

I am sure that the Treasurer and Commissioner Davy will have additional thoughts on how the Consolidation Fund should be used. Together we will develop a program that addresses local needs and meets the Governor's goals of reducing both the number and costs of local government in our state.

I believe it is possible for a community to share services and government functions with another community and maintain the history, culture and character that makes a place home.

However, be rest assured the hard look at efficiencies and consolidation that we ask at the local level is being done at DCA. The following is an excerpt from a memo sent to all DCA division directors on February 25th:

"With this memo I am asking you to undertake a full scale review of all your division's programs and their associated regulations. Tell me which activities we need to protect and which ones are no longer relevant or crucial and where we can weed out and pare down rule provisions that are no longer useful or efficient and may be difficult to administer. I also want to know, to the extent that you are aware, if there are programs or aspects of programs that cannot function as designed because they are in conflict or incompatible with other department's rules.

Do not give me a report that defends the status quo and requests more staff to effect improvements. Such an account will suggest that you have missed the point of the exercise."

It is of the utmost importance that government serves the public as efficiently as possible. But it is equally if not more important that the policies behind our transactions with the public reflect the most current needs of the residents and businesses that give NJ its vitality.

DCA oversees a broad range of programs that can affect the quality of life at both an individual and community level. Perhaps none has as great an impact as its housing programs. The policies

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that guide the need, placement, investment and eligibility for affordable housing touch almost everyone and thus demand that we comprehensively evaluate the effectiveness of our efforts.

We are now in the process of doing just that. Last fall I convened a Housing Policy Task Force and invited over 60 experienced individuals with a broad array of interests, concerns and perspectives to an open dialogue on the performance of the State's policies that influence the availability and affordability of housing.

Over the past four months, six diverse committees have considered the impediments and recommended solutions to address those barriers. Each committee had a particular area of focus: affordable housing, interdepartmental coordination, workforce housing, community revitalization, land use and planning, and homeless/special needs. The committees are composed of housing professionals, community leaders, housing and consumer advocates, university faculty, land use experts, clergy; in short, representatives from every aspect of community life. In addition, the committees sought further input by holding public hearings, inviting a host of authorities to address them or both.

I expect that within the next month or two, I will present the Governor with a strategy for meeting the State's current and future housing needs while respecting the goals established to protect sensitive land and water supply.

Everyday as Commissioner of DCA, I am learning how the extraordinary women and men are truly doing more with less. I would like to highlight several of our programs that exemplify this:

On December 17th, the Council on Affordable Housing voted to propose its revised third round affordable housing methodology. The rules were revised in response to the January 2007 Appellate Division decision which upheld in part and invalidated in part COAH's previous growth share methodology. The new methodology calls for 115,000 affordable housing units to be provided over the next 10 years, an increase from 52,000 in the previous rule proposal.

The proposal maintains a growth share approach to providing affordable housing, with affordable housing required in keeping with market-rate housing and jobs that are provided in a community. I recognize that the new COAH rules set an ambitious affordable housing goal in a difficult economic climate, but I am confident that all the stakeholders, including municipalities, for-profit developers, non-profit developers and housing advocates, can work together to meet the affordable and workforce housing needs of our State's low and moderate income households over the next ten years.

Under the new growth share ratios, one affordable unit must be provided among every five residential units and one affordable unit must be provided for every 16 jobs. (The old ratios, invalidated by the Courts, were one affordable unit for every nine residential units and one affordable unit for every 25 jobs.) In addition, municipalities are given planning targets for the 2004 to 2018 period so that they plan for growth to meet the affordable housing need. The planning targets can be adjusted based on actual data on vacant land in each municipality.

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The rules also provide for a four-year deadline for municipalities to spend the \$168 million in development fees currently in municipal affordable housing trust funds. The rules also increase the Regional Contribution Agreement (RCA) amount from \$35,000 per unit to a range of \$67,000 to \$80,000 per unit, depending on the region of the state. These new amounts more realistically reflect the cost of building and rehabilitating affordable housing in our State. We have also established new payment in lieu of construction standards averaging \$160,000 per affordable unit.

I am working with the legislature and NJ-NAIOP to further expand the pool of funds available for affordable housing production by creating a statewide non-residential development fee of 2.5% that will generate at least \$60 to \$80 million annually for affordable housing.

Through public subsidies such as these and partnerships with the private sector, we can reach our affordable housing goals.

COAH's 60-day public comment period ended on March 22nd. COAH has received comments from over 600 organizations and individuals, spanning over 2,500 comments. We have held five public hearings throughout the State to solicit additional comments and maximize public participation.

We are in the process of reviewing the comments received from municipalities, developers, affordable housing advocates, the business community, environmentalists and others. I am pleased that there has been so much public input. I am confident that the final COAH rules to be adopted in early May will be integral to the Governor's commitment to provide 100,000 affordable housing units over the next 10 years.

The danger of the legislative and executive branches not working together to achieve affordable housing objectives is the judiciary appointing a special master to do the job for us.

The Department of Community Affairs' (DCA) housing assistance and housing production programs remain integral to the State's commitment to provide affordable housing to New Jersey's citizens.

The DCA's federally funded Housing Choice Voucher (HCV) Program or Section 8, as it is commonly referred to, assists over 19,200 households monthly and will assume an additional 1,300 vouchers in June. The DCA has leased 100% of the HCV vouchers that HUD appropriated to it.

This year the U. S. Department of Housing and Urban Development (HUD) again acknowledged the DCA as a "High Performer." HUD also invited the DCA to apply for the new Veterans Support Housing Program vouchers.

The successful State Rental Assistance Program (SRAP) currently serves 2,079 clients and has awarded an additional 700 project based vouchers. As of March 2008, the DCA will have expended/committed all of the \$99 million that has been appropriated. Considerably more SRAP

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funding will be required if the DCA is to keep pace with the growing demands of the State's most vulnerable citizens.

For example:

1. DCA is working with the Department of Human Services to allocate up to 500 vouchers from the additional funding to assist in meeting the court imposed Olmstead mandates.
2. The elderly eligible age limit for Tenant-Based Assistance has also been reduced from 65 to 62. Many more seniors are now eligible for benefits.
3. DCA has also increased the households assisted with Tenant-Based vouchers by 15 percent between September 2007 and March 2008. That trend is continuing without interruption.

In SFY 2007, the DCA's Balanced Housing Program committed the funds necessary to produce more than 1,400 affordable units. Included in that financing was the leveraging of Federal Low Income Housing Tax Credits that would have been lost if not for the use of the Balanced Housing Fund.

The demand for Balanced Housing funds continued into SFY 2008. However, it was not long before the DCA had to stop approving applications in SFY 2008 because of a shortfall of funding. Approvals stopped because of the need to secure the State's greatest financial resource for affordable homes – Federal 9% Low Income Housing Tax Credits (LIHTC).

The DCA estimates that it will need to provide \$40 million in Balanced Housing subsidy to secure the leveraging of these credits. Due to the fact, Balanced Housing is funded monthly from the Realty Transfer Tax in unpredictably varying amounts; the DCA must accumulate the \$40 million needed for the LIHTC's before committing funds to the non-tax credit projects in our project pipeline.

Failure to do so would result in a transgression of the law created by the commitment of funds that are currently unavailable. The DCA currently has 45 Balanced Housing applications under review totaling \$33.7 million and representing the potential of 1,111 affordable housing units.

The DCA administers the federal Low Income Energy Assistance Program (LIHEAP). In 2007, LIHEAP provided \$90 million in financial assistance to low-income households to offset the high cost of utility bills. As part of a comprehensive approach to provide energy assistance to New Jersey's at-risk population, the DCA also administers the Universal Service Fund (USF) for the New Jersey Board of Public Utilities. In 2007, the USF provided low-income families with an estimated \$160 million in utility bill credits.

In November 2007, DCA developed an application in an effort to better assess the needs of municipalities seeking Special Municipal Aid. Applications were sent out to Asbury Park City, Camden City, Bridgeton City, Harrison Town, Paterson City, Jersey City, Union City, Newark City, Irvington and Ewing. To date, we have received nine applications back.

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As part of the application process, each municipality must submit a budget. The Division of Local Government Services is currently in the process of reviewing the materials submitted. Allocations are determined by the Local Finance Board.

The Local Finance Board has established a memorandum of understanding that sets forth the terms and conditions of enhanced state oversight with each municipality receiving Special Municipal Aid. This memorandum was altered slightly due to the partnership forged between the Division of Local Government Services, Office of Economic Growth, Urban Enterprise Zone Board and the Economic Development Agency. Newly added, to the document is a presentation the SMA municipality must make to the above "partnership" so that each member of the partnership knows the direction of development within the SMA community, thus leading to lesser dependence on Special Municipal Aid.

In addition to DCA's mission of providing high quality affordable housing, the Department is tasked with assuring that the current housing stock is safe for our youngest residents.

New Jersey remains the only state in the nation addressing lead hazards through a comprehensive housing inspection program. The Department includes checking for lead-safe maintenance, as part of its regular inspection of multiple dwellings. Since the program began in 2005, more than a quarter of a million housing units built before 1978 have been inspected for lead hazards. And more than 20,000 buildings containing 52,000 dwelling units have been cited for violations.

Committed to revitalizing urban New Jersey, the NJRA partners with community-based organizations, municipalities, developers, nonprofit and for-profit groups as well as businesses to leverage its resources for redevelopment projects in 69 eligible municipalities throughout New Jersey. While the NJRA operates in traditional urban centers such as Newark, Trenton and Camden; the NJRA also does project funding in areas such as Philipsburg, Lakewood and Pemberton.

The NJRA provides customized project financing for urban redevelopment initiatives. These resources, critical to the redevelopment process, are offered in the form of loans, loan guarantees, bond financing, and equity investments. The NJRA's resources remain flexible and responsive to ensure successful redevelopment throughout New Jersey.

In 2007:

- The NJRA invested more than \$12 million; which leveraged more than \$249 million in total project costs.
- Allocated more than \$750,000 to cover various predevelopment activities including feasibility studies, architectural costs, environmental and engineering studies, legal and other related soft costs for development to occur.
- Provided financing, which will result in over 700 projected units of market-rate, moderate and affordable housing.

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- Invested in more than 137,000 square feet of commercial space.
- Graduated over 300 students from the Redevelopment Training Institute in its first year of operation.

Over its 10 year history the NJRA has invested more than \$328 million in eligible municipalities throughout the state which has leveraged more than \$2.8 billion in total development costs. As a result of these strategic investments, over 5000 units of housing and over 2 million square feet of commercial space have been created in these communities.

NJRA's creative financing programs have allowed for numerous redevelopment projects and the formation of valuable public-private partnerships that have resulted in comprehensive redevelopment efforts. These projects will have a positive effect on the community in the form of jobs, housing creation and retail services.

In light of the nations' current economic situation and in particular the sub-prime mortgage crisis, I want to speak briefly on the State's efforts, lead by HMFA.

In October, DCA together with the Department of Banking and Insurance and other partners including HUD, and national non-profit partners such as NeighborWorks, announced the NJ Homeownership Preservation Effort (NJ HOPE). NJ HOPE is a voluntary public/private alliance of government agencies, not-for-profit organizations, and financial institutions that all agreed to work together to raise consumer awareness of available mortgage products, funding and refinancing, increasing access to credit and loan counseling, and providing temporary assistance to consumers facing foreclosure.

HMFA assisted in this endeavor by creating the Homeownership Preservation Refinance Program (originally called the Rescue program) to provide borrowers with an affordable financing alternative to existing homeowners whose current mortgages are not suitable for their financial situation. Specifically, where residents hold adjustable rate or interest only mortgages that, when they reset – will make the payments unaffordable to the resident.

Soon after announcing the HMFA refinance program, we found that many of the borrowers who reached out for assistance were already too far behind in their mortgage payments for this program to help – and residents really needed the assistance of Foreclosure and Credit counselors. These counselors – who perform a separate function than standard Homeownership Counselors – are trained and positioned to work with borrowers and their lenders to renegotiate the terms of borrowers' mortgages directly.

In response to this, HMFA developed a more comprehensive approach to address this issue - and focused our energies to assisting on the Counseling side. We created a program to provide for in-depth credit counseling to households who do not qualify under the State's or other refinancing products. HMFA has partnered with the national non-profit group, NeighborWorks America, to train qualified counselors in foreclosure prevention and asset preservation

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counseling – and is supporting qualified counseling agencies to hire additional staff and we are training them. The training is taking place from March 31st – April 4th and we have over 30 NJ Counselors enrolled in the week long training.

In addition, HMFA applied for and received an award of close to **\$1 million in grant** funds provided by the National Foreclosure Mitigation Counseling Program, a national grant to be used to pay counselors and provide capacity building dollars to counseling agencies.

Finally – HMFA’s Board recently approved a program that will provide “temporary” financial assistance to eligible homeowners – who have experienced a short term financial problem – and who need help with “catching up” in their payments. The program – the Mortgage Assistance Program – is a loan of up to \$10,000 – which will be repaid upon the sale of the home.

And we continue to work with the NJ HOPE alliance in continuing to raise the issues and inform the public through outreach, public meetings and doing our part to encourage residents to reach out for help.

However, it is not enough to be reactive to the current housing situation. HMFA continues to maintain an excellent bond rating, and is viewed by the industry as a quality lender who offers stable credit products and maintains high underwriting standards. Since January 2006, HMFA provided close to \$1 billion to fund single family mortgages for 4,500 New Jersey families. In 2007 alone, HMFA originated over 2,100 single-family loans for approximately \$600 million worth of mortgages for first-time or urban target homebuyers. These are more mortgages than any other time in the Agency’s history. This is accomplished without resorting to the use of the non-traditional, interest only, adjustable rate or sub-prime mortgage products that have caused such turbulence in the market.

The increased demand for HMFA mortgages is viewed as a “flight to quality” by the public. Because the Agency does not offer any “non-traditional” mortgage products, it has been looked to as a reputable and trustworthy lender by the public and a stable bond issuer by the credit market. Additionally, the default rate is less than 2 percent, which is better than most banks.

I could not be more proud of the men and women at DCA. Our 1,148 employees are tasked with serving the needs of all of New Jersey’s nine million citizens. This fiscal year will see the adoption of a revised state plan through the State Planning Commission and the Office of Smart Growth; and revised COAH regulations. These two documents will help assure that New Jersey remains at the forefront of intelligent development and redevelopment that balances the needs of all our citizens, regardless of income; with our responsibility as stewards of the states natural resources.

I have briefly outlined for you only some of the many programs and initiative that DCA provide to enhance the lives of NJ’s citizens; but there are many more. I would be happy to arrange a more in depth meeting or information session on what has been discussed today or any of our other programs. I am happy to take your questions.