

# **Residential New Construction Attitude and Awareness Baseline Study**

The Affordable Housing Market in New Jersey

**Prepared for the New Jersey Residential New Construction Working  
Group**

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## Executive Summary

This Report presents the findings from our research on the Affordable Housing Market in New Jersey. This is part of New Jersey Residential New Construction Awareness and Attitudinal Baseline Study (RNC study). A summary report, entitled *Residential New Construction Attitude and Awareness Baseline Study-Integrated Summary: Report on Findings*, consolidates information from this and other research tasks conducted for the RNC Study.

### A. Background

The New Jersey Residential New Construction Working Group (Working Group), which consists of Public Service Electric & Gas Company, GPU Energy, Conectiv Power Delivery, NUI Elizabethtown Gas Company, South Jersey Gas, Rockland Electric Company, and New Jersey Natural Gas Company, is charged with developing and implementing a coordinated, statewide utility residential new construction program that will increase the energy efficiency of new homes constructed in New Jersey. In support of that effort, the Working Group has commissioned a comprehensive study of New Jersey's residential new construction market with the following goals.

- *Baseline Measurement:* The primary objective of the study is to establish a baseline that documents the current market for ENERGY STAR homes.
- *Program Design and Implementation:* The secondary objective of the study is to enhance the Working Group's understanding of the residential new construction market.
- *Customer Sited Clean Generation:* In addition, this study will support the work of the Customer Sited Clean Generation Working Group (CSCG Working Group).

The Working Group contracted with Roper Starch Worldwide Inc. and XENERGY Inc. to conduct the RNC study.

This study contains information about the Affordable Housing Market in New Jersey. This information was compiled through a variety of sources, including state agency publications, Internet website information, and in-depth interviews with key Affordable Housing

program administrators in New Jersey. The purpose of this report is to assist the Working Group with navigating through the complex system of administration of Affordable Housing programs in New Jersey, and to provide guidance about the key contact points on which the Working Group should concentrate.

## **B. Affordable Housing Market Actors**

A number of different organizations influence the development of affordable housing in New Jersey. Government agencies provide housing subsidies, funding for housing and community development, and technical assistance. Nonprofit developers build and sometimes operate affordable housing developments. Other nonprofit organizations advocate for affordable housing and influence affordable housing policy. Banks and other investors invest in affordable housing projects.

### **1. Government Agencies**

The New Jersey Department of Community Affairs (DCA) is the state agency with primary responsibility for affordable housing in New Jersey. Funding for affordable housing includes federal funds, state funds, private investment, and nonprofit contributions. However, most affordable housing development in New Jersey appears to be influenced in some way by DCA.

Several offices within DCA play key roles in the development of affordable housing.

- *Division of Housing and Community Resources*
- *Housing and Mortgage Finance Agency*
- *Council on Affordable Housing*

### **2. Other Market Actors**

Other market actors are responsible for individual affordable housing developments, advocate for affordable housing funding and policies, and invest in affordable housing projects. These market actors include:

- *Nonprofit Housing Developers*
- *Other Nonprofit Organizations*
- *Banks and Other Investors*

### **C. Division of Housing and Community Resources**

The mission of the Division of Housing and Community Resources (DHCR) is to strengthen and revitalize communities by assisting in the delivery of affordable housing, by providing supportive services and by promoting community and economic development.

DHCR oversees three different types of programs:

- 1) *Housing Assistance Programs*: Funded mainly by the U.S. Department of Housing and Urban Development (HUD), these programs address the housing needs of the homeless and potential homeless and provides housing assistance to eligible households.
- 2) *Housing Production and Community Development Programs*: These programs, funded by grants-in-aid, provide funding to municipalities, nonprofit and for-profit developers for housing production and rehabilitation of existing housing units for low and moderate income households.
- 3) *Housing and Community Support Programs*: These programs provide funding and technical support to municipalities, nonprofit organizations, Community Action Agencies (CAAs) and for-profit developers.

DHCR also comprises a number of operations and administrative departments, the most important of which is the Office of Research and Policy Development (ORPD). This office is responsible for identifying and pursuing federal and foundation grant funds to supplement the division's initiatives.

Of the three different types of programs support by DHCR, it seems that the housing production and community development programs offer the greatest opportunity to the utility RNC programs. In fact, PSE&G's initiatives in this area have already contributed to the development of ENERGY STAR qualified affordable housing and, in part, led to the development of the New Jersey Green Homes Office. We recommend that the utility RNC programs continue to develop those relationships as its primary focus in the affordable housing market.

### **D. Housing Mortgage and Finance Authority**

The New Jersey Housing and Mortgage Finance Agency (HMFA) is in, but not of the New Jersey Department of Community Affairs.

HMFA exercises essential governmental functions to promote the construction and rehabilitation of both rental and owner-occupied housing. The Agency's programs are designed to increase the opportunities for affordable housing by families and the elderly, to work with the private sector in meeting the above needs, to assist in urban revitalization and to develop innovative and flexible financing vehicles which will be responsive to the changing needs of the population. While the primary mechanism for achieving the above goal is the granting of low-interest mortgages financed by the sale of bonds, the HMFA can also serve as a conduit for various federal and state grants and demonstration funds.

The activities of the HMFA are governed by a seven-member board consisting of the Commissioner of the Department of Community Affairs, the State Treasurer, the Attorney General, the Commissioner of Banking and Insurance and three public members appointed by the Governor with the consent of the Senate. The day-to-day operations are carried out by an Executive Director assisted by staff organized into several Divisions.

The New Jersey Housing and Mortgage Finance Agency raises program funds by:

- selling taxable and tax-exempt bonds to private sector investors in national financial markets;
- applying for and administering federal and state grants and housing assistance programs; and
- fostering cooperative relationships with state, municipal, not-for-profit agencies and foundations.

The New Jersey Housing and Mortgage Finance Agency does not rely on any direct funding from the state Treasury to meet its core operating or administrative expenses.

The programs administered by HMFA offer the utility RNC programs a number of opportunities for both the new home and resale markets.

## **1. Single Family Home Loans**

Currently, HMFA's Single Family Division programs offer a number of different below-market interest loans packages with attractive terms to low and moderate income homebuyers that are first-time homebuyers or who buy in an urban area. These loans are available for both new and existing homes. In addition, HMFA offers some special loan packages for homes in certain

neighborhoods. The following are some ways the utility RNC programs might use these mortgage products.

- 1) *100% Loan-to-Value Mortgages*: HMFA offers the Mortgage Opportunity Program to certain homebuyers. The program allows borrowers to finance the full purchase price of a home. The utility RNC programs could ask HMFA to include low and moderate income ENERGY STAR homes in that program.
- 2) *5% Mortgages*: Periodically, HMFA is able to offer 5% mortgages for special purposes. The “Too Good But It’s True Program” for example, offered to such mortgages to homebuyers purchasing in designated neighborhoods of selected cities. The utility RNC programs might ask HMFA to offer such an incentive for low income affordable ENERGY STAR housing in other areas. The lower interest rate would more than cover the cost of ENERGY STAR improvements.
- 3) *Home Plus Program*: Under this program, the homebuyer can include up to \$15,000 in home repairs and improvements in the first mortgage on the home. Under existing program guidelines, utility RNC programs could encourage qualified buyers of existing homes to made energy efficiency upgrades at the time of purchase.
- 4) *UHORP Program*: This program furnishes financing and subsidies for the construction of new, affordable housing. Developers compete for UHORP funding. The utility RNC programs could encourage HMFA to require ENERGY STAR as the minimum energy efficiency standard for development applications.

We are aware that some initiatives have already been proposed and are being implemented under the existing utility RNC programs. We would recommend that these efforts continue.

## 2. Multifamily Programs

HMFA offers both construction financing and permanent financing for low- and moderate-income multifamily rental housing. HMFA also administers the federal low-income housing tax credit program. Since developers compete for financing in both programs, development applications usually

pay attention to energy efficiency so that they can minimize living costs for low-income households. However, it may be appropriate for the utility RNC program to work with HMFA to encourage them to use ENERGY STAR as the standard for all applications.

### ***E. Council on Affordable Housing***

The Council on Affordable Housing (COAH) was created by the Fair Housing Act of 1985 as the State Legislature's response to a series of New Jersey Supreme Court cases known as the Mount Laurel decisions. The Supreme Court established a constitutional obligation for each of the 566 municipalities in the state to establish a realistic opportunity for the provision of fair share low and moderate income housing obligations, generally through land use and zoning powers. The legislature provided an administrative alternative to this constitutional obligation via the Fair Housing Act.

COAH establishes each municipality's fair share of affordable housing, certifies municipal fair share plans, and administers regional contribution agreements. It focuses on number of affordable units, not types and has no authority to specify the type of affordable housing units constructed. As such, it does not appear that there is any opportunity for utility RNC programs to intervene in the new housing market through COAH.

### ***F. Other Affordable Housing Market Actors***

A number of other organizations play important roles in the affordable housing market. These include nonprofit housing developers, other nonprofit organizations, and banks and other investors. In general, government agencies control the funding for and establish the policies for affordable housing. Therefore the primary focus for the utility RNC programs should be on those agencies. However, it is important for the utility RNC programs to be aware of the roles played by other affordable housing market actors.

#### **1. Nonprofit Housing Developers**

The primary role of nonprofit housing developers is to design, construct, and, in some cases, manage affordable housing projects. The developers usually put together a number of financing sources for a project and often must submit a

competitive application to DCA or HMFA to obtain funding and/or financing for a project. The Affordable Housing Network of New Jersey lists over 100 nonprofit housing and community development corporation members on its web site.

## **2. Other Nonprofit Organizations**

A number of other nonprofit organizations that work in the affordable housing area, including New Jersey Citizen Action and the New Jersey Affordable Housing Network.

## **3. Banks and Other Investors**

A number of different types of investors participate in the federal low-income housing tax credit program that is administered by HMFA's multifamily housing program office. In New Jersey's program, an affordable housing developer gets "tax credit points" approved by HMFA. Garden State Affordable Housing acts as a "Tax Credit Equity Syndicator" and serves as an intermediary between the developer and the investor. Many banks invest in low-income housing to fulfill requirements under the Community Reinvestment Act, 1977.

## I. Introduction

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### A. Background

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The Working Group contracted with Roper Starch Worldwide Inc. and XENERGY Inc. to conduct the RNC study.

## **B. Study Goals and Objectives**

The purpose of this study is to develop information on affordable housing programs. New Jersey's affordable housing have been very receptive to the existing RNC programs and to the ENERGY STAR program. The Working Group is interested in knowing which programs and organizations present the best opportunities for influencing energy standards for newly constructed affordable housing.

## **C. Study Methodology**

This report contains information about the Affordable Housing Market in New Jersey that was compiled through a variety of sources, including state agency publications, internet website information, and in-depth interviews with key Affordable Housing program administrators in New Jersey. The following list identifies that names and affiliations of individuals who furnished information for this report.

- Darren Port, Director, New Jersey Green Homes Office
- Jerome Keelan, Director of Single Family Programs, HMFA
- Greg Adkins, Chief of Policy and Planning, HFMA
- Paul Ceppi, Single Family Programs Division, HFMA
- Marty Bernstein, Multifamily Programs Division, HFMA
- Mary Abernathy, New Community Corporation
- Joseph Selzer, Garden State Affordable Housing
- Phyllis Salow-Kaye, New Jersey Citizen Action
- Cheryl Davis, Community Develop Officer for NJ, Fleet Bank

## II. Affordable Housing Market Actors

A number of different organizations influence the development of affordable housing in New Jersey. Government agencies provide housing subsidies, funding for housing and community development, and technical assistance. Nonprofit developers build and sometimes operate affordable housing developments. Other nonprofit organizations advocate for affordable housing and influence affordable housing policy. Banks and other investors invest in affordable housing projects. In this section of the report, we furnish an overview of the market actors and their roles in the affordable housing market.

### A. Government Agencies

The New Jersey Department of Community Affairs (DCA) is the state agency with primary responsibility for affordable housing in New Jersey. Funding for affordable housing includes federal funds, state funds, private investment, and nonprofit contributions. However, most affordable housing development in New Jersey appears to be influenced in some way by DCA.

Several offices within DCA play key roles in the development of affordable housing.

- *Division of Housing and Community Resources*: The mission of DHCR is to strengthen and revitalize communities by assisting in the delivery of affordable housing, by providing supportive services, and by promoting community and economic redevelopment.
- *Housing and Mortgage Finance Agency*: The HMFA promotes construction and rehabilitation of rental and owner-occupied housing. While its primary mechanism is distribution of low-interest mortgages financed by the sale of bonds, the HMFA also serves as a conduit for various federal and state grants and demonstration funds.
- *Council on Affordable Housing*: COAH is an administrative and regulatory organization. It defines housing regions, estimates affordable housing needs, sets criteria for assessing a municipality's fair share of affordable housing, and reviews

and approves fair share housing plans, including regional contribution agreements.

Each of these offices has a separate mission that will be discussed in greater detail in the sections of the report that follow.

## **B. Other Market Actors**

Other market actors tend to influence individual affordable housing developments and/or to advocate for affordable housing funding and policies. These market actors include:

- *Nonprofit Housing Developers:* These developers are often community-based organizations. As such, they may have a narrow mission that is restricted to the development of affordable housing for a particular market segment (e.g., disabled households) or may have a broader mission that covers all aspects of community development. These developers compete for the funds available for affordable housing.
- *Other Nonprofit Organizations:* These organizations advocate for affordable housing. Some focus on affordable housing, while others have a broader mandate.
- *Banks and Other Investors:* Banks tend to invest in affordable housing projects to meet requirements under the Community Reinvestment Act. Other investors invest in affordable housing to obtain federal tax credits.

Each of these organizations plays a role in the development of affordable housing. In this report, we list some of these organizations and discuss the context for their participation in the affordable housing market.

### III. Division of Housing and Community Resources

The mission of the Division of Housing and Community Resources (DHCR) is to strengthen and revitalize communities by assisting in the delivery of affordable housing, by providing supportive services and by promoting community and economic development.

DHCR provides information, training and technical assistance for housing development to municipalities, non-profit organizations and private developers in order to encourage and facilitate the construction of affordable housing for low and moderate income families, and people with special needs, both the disabled and the elderly. The division is also responsible for planning and implementing programs that provide rental housing assistance, and that support neighborhood preservation and community development initiatives. It also provides financial and technical assistance to community-based nonprofit and local government agencies.

DHCR oversees three different types of programs:

- 1) *Housing Assistance Programs*: Funded<sup>1</sup> by the U.S. Department of Housing and Urban Development (HUD), these programs address the housing needs of the homeless and potential homeless and provides housing assistance to eligible households.
- 2) *Housing Production and Community Development Programs*: These programs, funded by grants-in-aid, provide funding to municipalities, nonprofit and for-profit developers for housing production and rehabilitation of existing housing units for low and moderate income households.
- 3) *Housing and Community Support Programs*: These programs provide funding and technical support to municipalities, nonprofit organizations, Community Action Agencies (CAAs) and for-profit developer. Furthermore, in conjunction with the Office of Research and Policy development (also under DHCR), programs in this category are responsible for development of the State's Consolidated and Fair Housing Plans, researching and designing new programs and initiatives and seeking federal and foundation funding to supplement current state and local financing. Programs

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<sup>1</sup> We have not always been able to ascertain the amount of annual funding for housing programs. For those cases where funding information is available, we have included it in the program description.

in this group also administer New Jersey's housing affordability controls.

DHCR also comprises a number of operations and administrative departments, the most important of which is the Office of Research and Policy Development (ORPD). This office is responsible for identifying and pursuing federal and foundation grant funds to supplement the division's initiatives. ORPD is also responsible for preparing the State's Consolidated Plan (a five-year plan that identifies New Jersey's needs for affordable housing and supportive services, and outlines a strategy for addressing those needs), and the Fair Housing Plan (a plan that identifies the impediments to fair housing choice, and presents a strategy for addressing the same). In addition, ORPD is responsible for administration of the State's HOME Program and the Public Housing Authority Training Program, and for maintaining the Division's web site.

## **A. *Housing Assistance Programs***

These programs seek to prevent homelessness by providing a series of services such as counseling, job training, education and social services to low income households. A number of these programs provide rental assistance either as part of a package of services, or in cooperation with other programs.

### **1. Family Self-Sufficiency Program**

This program which is funded by the U.S. HUD, assists families in becoming self-sufficient and self-reliant through the implementation of a jointly developed action plan. Rental assistance is provided to families who agree to participate in a series of job training, career counseling, education and social service programs. In connection with this program, assistance also is provided by the Department of Human Services. Rental assistance is offered to very low income families.

The program uses the same guidelines as the Section 8 Certificate and Housing Voucher Programs. The program recruits participants through an outreach conducted among current participants in the Department's Section 8 Housing Program.

### **2. Homelessness Prevention Program**

The result of Public Law 1984, c.180, this program assists low and moderate income tenants and homeowners who are in

imminent danger of eviction or foreclosure due to temporary financial problems. Funding from this program is used to disburse payments in the form of loans or grants to landlords and mortgage companies on behalf of eligible households.

### **3. HOME – Tenant Based Rental Assistance**

This U.S. HUD funded program provides tenant-based rental assistance to low and moderate income families with special needs and in some cases, to eligible, in-place residents of a rental project being rehabilitated under the HOME Program.

Eligible households are those who have graduated from Transitional Housing programs that meet the Division of Housing and Community Resources' guidelines for such programs, and households, where the head of household is elderly or disabled.

### **4. Housing Vouchers**

This program, funded by U.S. HUD, provides housing assistance to eligible low-income families by subsidizing a portion of each tenant's monthly rent and paying directly to the property owner. The amount of financial assistance each household receives is based on family size and income.

### **5. Section 8 – Existing Housing**

The purpose of this U.S. HUD funded program is to help very low income families, or low income elderly or disabled individuals to afford safe and sanitary housing in the private rental market. The program provides direct rent subsidy payments to landlords which is calculated based on the premise that a family should not pay more than 30% of its monthly income for housing. Funding is provided on an annual basis.

This statewide program is available to residents of all New Jersey counties. Additional Section 8 Existing Housing programs are administered throughout the State by a number of municipal and county housing authorities.

## ***B. Housing Production and Community Development Programs***

The Housing Production and Community Development Programs combines a number of state and federal programs that provide funding

to developers, municipalities and low income homeowners. The purpose of these programs is to improve to quality of housing available to moderate and low income households.

### 1. **Balanced Housing Neighborhood Preservation Program**

This program was established in conformance with the Fair Housing Act of 1985 and the Mount Laurel Decision of the New Jersey Supreme Court. The purpose of this program is to financially support New Jersey's municipalities with grants and loans in their efforts to provide adequate affordable housing to low and moderate income households. The program is funded through the New Jersey Realty Transfer Tax and state appropriations.

Eligible municipalities must fall into one of the following categories:

- they have received COAH certification;
- they are subject to court-ordered builder's remedy,
- they have entered into a judicially-approved compliance agreement to settle their fair share housing obligations;
- they have been designated as a receiving municipality under a Regional Contribution Agreement (RCA);
- or, they have been eligible to receive state aid since 1988.

In 1998, DCA established maximum acceptable per-unit costs for projects to be funded, as well as maximum allowable project fees for developers. Table 4.1 provides details on the maximum per-unit costs that DCA views as acceptable.

#### 4.1 Maximum Pre-Unit Costs

Studio	One BR	Two BR	Three BR	Four BR
\$95,000	\$112,000	\$120,000	\$129,000	\$137,000

Table 4.2 identifies the maximum allowable developer fees. The allowable fees differ with the type of unit (rental or for ownership) and with the location of the development. Urban aid municipalities and targeted areas receive higher levels of funding than other municipalities.

#### 4.2 Maximum Project Fees (for developers)

Unit Size	New To Own Units not located in Targeted Areas	New Rental Units Not in Targeted Areas	New Rental Units in Targeted Areas	New To-Own Units in Targeted Areas
Studio	—	\$5,000	\$7,000	—
One BR	\$5,000	\$7,000	\$9,000	\$10,000
Two BR	\$6,000	\$8,000	\$10,000	\$11,000
Three BR	\$7,000	\$9,000	\$11,000	\$12,000
Four + BR	\$8,000	\$10,000	\$12,000	\$13,000

### 2. Downtown Living Program

The Downtown Living program, also funded through the New Jersey Realty Transfer Tax, provides low-interest loans to help stimulate the development of market-rate rental housing in New Jersey's urban communities. The loans are offered to for-profit and nonprofit developers who can demonstrate that their market-rate rental project can be integrated with or stimulate the growth of other development projects such as retail or office projects. Projects funded by the Downtown Living Program must be located within specific municipalities that participate in the Governor's Urban Coordinating Council (UCC) programs or SNAP, or are Urban Aid or UHORP municipalities. Priority is given to those projects located within a UCC or SNAP designated neighborhood.

### 3. HOME Program

HOME is a U.S. HUD funded and state administered program that supports the development of quality affordable housing for low and moderate income families through seven sub-programs which include:

- *The Investment Partnership Program*: designed to increase the supply and quality of affordable housing through strengthening public-private partnerships;
- *The Housing Production Investment Fund*: a program that provides low interest loans, grants, and interest subsidies to

for-profit and nonprofit developers of affordable housing in New Jersey;

- *The Neighborhood Preservation Program*: designed to provide financial assistance to property owners in select municipalities for the rehabilitation of substandard housing;
- *The Rental Rehabilitation Program*: which provides deferred payment loans to property owners, including nonprofits, for the rehabilitation of substandard rental housing units.

Other HOME subprograms include the Community Housing Development Organizations Fund and the Community Housing Development Organizations Operating Grants, both of which are administered by the Housing and Community Support Division of the DCA.

#### **4. Section : Single Occupancy – Moderate Rehabilitation**

The Section 8 Single Room Occupancy program is a federally funded program that assists in the rehabilitation of privately owned, substandard single room occupancy rental units. The purpose of the program is to provide affordable quality housing to the homeless and to very low income individuals. The program provides funding of at least \$3,000 per unit to owners of substandard rental properties. Upon the completion of the rehabilitation work, the project owner receives financial assistance for a ten-year period. This assistance is administered by the Housing Assistance Element in the form of Section 8 rental assistance.

#### **5. Small Cities Community Development Block Grant**

The Small Cities Community Development Block Grant provides funding for economic development and for the rehabilitation of substandard housing to non-entitlement municipalities and counties that are not eligible for state funding.

### ***C. Housing and Community Support Programs***

The Housing and Community Support Programs include a number of funding programs and some organizations that provide technical and other assistance to nonprofit housing associations.

**1. Affordable Housing Training Institute**

AHTI collaborates with nonprofit housing associations to develop and fund workshops for member organizations and also organizes its own training workshops. All AHTI programs and workshops are designed to increase the expertise in a variety of areas dealing with affordable housing and management of the staff of nonprofit housing developers, for-profit developers, special needs housing and service organizations, and municipalities. The AHTI receives funding from the Revolving Housing Demonstration Program and from First Union Bank.

**2. Community Housing Development Organizations (CHDO) Seed Money Loans**

This program provides pre-development/seed money loans to nonprofit organizations that are actively involved in the development of affordable housing and are certified by the State as CHDOs. The funds for the Seed Money Loan Program are provided by the U.S. H.U.D. HOME program.

**3. HOME- Community Housing Development Organizations Fund**

This subprogram of the HOME program provides grants and loans to nonprofit agencies designated as CHDOs for the purpose of developing affordable housing. Ninety percent of the funding is reserved for the creation of housing owned, developed or operated by the CHDOs. The remaining 10% is used for special projects, technical assistance and seed money.

**4. HOME Community Housing Development Organizations Operating Grant**

This HOME subprogram provides operating support in the form of grants and loans to State certified CHDOs that are actively involved in the development of affordable housing.

**5. Office of Housing Advocacy**

The Office of Housing Advocacy provides technical assistance to nonprofits, for profit corporations, and municipalities interested in developing or preserving affordable housing in the state of New Jersey. The type of assistance offered may include a project

feasibility review, referral to capital funding sources and coordination with financial institutions.

## **6. Partnership Awards**

The purpose of this awards program is to encourage cooperation and partnerships among different organizations that develop affordable housing in New Jersey. The program, which is funded through the Revolving Housing Demonstration Program, provides grants to nonprofit organizations that are actively involved with the development of affordable housing in partnership with either a for-profit or nonprofit entity.

## ***D. Program Recommendations***

Of the three different kinds of programs outlined above, it seems that the housing production and community development programs offer the greatest opportunity to the utility RNC programs. In fact, PSE&G's initiatives in this area have already contributed to the development of ENERGY STAR qualified affordable housing and, in part, led to the development of the New Jersey Green Homes Office. The utility RNC programs should continue to develop those relationships.

### **1. Sustainable Development/Affordable Housing Pilot Program**

The purpose of the Sustainable Development/Affordable Housing Pilot Program, an initiative of the New Jersey Department of Community Affairs (DCA) in collaboration with New Jersey's largest utility, Public Service Electric and Gas Company (PSE&G.), is to determine how to incorporate sustainable design principles and energy efficiency into affordable housing. Also participating in this effort are the New Jersey Housing and Mortgage Finance Agency, the New Jersey Department of Environmental Protection, the U.S. Environmental Protection Agency, the State Energy Office and the New Jersey Commerce and Economic Growth Commission.

The goals of the program are:

- 1) To promote implementation of the New Jersey Development and Redevelopment Plan by applying proven energy efficient technologies and environmentally sensitive construction practices and materials.

- 2) To encourage developing municipalities to provide affordable housing by demonstrating that it can be attractive and an asset to the community.
- 3) To encourage site selection, site planning and building design which minimize the impact on environmental quality and limit emissions of greenhouse gases.
- 4) To promote a market transforming approach to energy and resource-efficient design, construction and methodologies for conserving other natural resources.
- 5) To produce housing for low and moderate income households that is highly energy efficient, cost efficient and easy to maintain.

In November, 1998, DCA published a Request for Proposals seeking housing development teams to design and construct housing that is affordable, highly energy efficient and meets sustainable development criteria. New construction, substantial rehabilitation and conversion were eligible activities. DCA was seeking creative approaches that use a combination of various proven techniques, including consideration of market-ready, state-of-the-art technologies that meet the program goals. Developers were encouraged to team up with professional consultants, planners, architects and builders experienced in sustainable design. Applicants were directed to employ specific sustainable design strategies to as great an extent as possible within the constraints of site and cost.

In 1999, eight projects were announced as recipients of pilot funding. One project is currently under construction.

Pilot Program projects received several types of assistance:

- The State-financed Balanced Housing Program furnished subsidy up to \$11 million;
- The PSE&G Energy Efficient Home (EEH) *5 Star* Program provided builders with financial incentives to offset typical incremental costs of energy efficiency upgrades. Amounts range from \$1200 to \$2500 per unit;
- Up to \$5 million in low-interest single family mortgages has been committed by the New Jersey Housing and Mortgage Finance Agency;

- \$200,000 has been committed by the State Energy Office to design and incorporate passive or active solar technologies.

Developers have received ongoing technical assistance and logistical support from: Vermont Energy Investment Corporation of Burlington, Vermont, consultants to PSE&G; Steven Winter Associates of Norwalk, Connecticut under the Partnership for Advancing Technology in Housing (PATH) a program administered by HUD; and the New Jersey Sustainable Business Office.

## **2. New Jersey Green Homes Office**

The New Jersey Green Homes Office aspires to be the main link between housing developers and state/federal sources of funding for housing projects. As such is an important contact point and source of reference for the Working Group.

The mission of the New Jersey Green Homes Office is to fundamentally improve the environmental performance, energy efficiency, quality and affordability of housing in New Jersey. Situated within the Division of Housing and Community Affairs of the DCA, the New Jersey Green Homes Office provides advocacy services, education programs, and technical assistance to housing developers. The purpose of these programs is to accelerate the use of innovative green design and building technologies, raise building standards and create a consumer demand for efficient high performance homes.

The Green Homes Office is an outcome of the Sustainable Development Affordable Housing Pilot Program initiated by DCA in partnership with PSE&G in 1998. The purpose of this program has been to determine how to incorporate sustainable design principles and energy efficiency into affordable housing.

The Green Homes Office has recently launched a number of initiatives, the most important of which are:

- Development of minimum green building construction specifications for developers seeking state funding;
- Establishment of a financial incentives program to offset solar installation costs;
- Support of energy efficient mortgage programs and mortgage service providers;

- Development of a statewide system for the certification of home energy raters;
- Development of a green building/energy efficiency advertising campaign.

It seems appropriate for the utility RNC programs to build upon the work already done in this area. As such, the RNC programs should support and supplement the work of the New Jersey Green Homes Office.

## IV. Housing Mortgage and Finance Authority (HMFA)

The New Jersey Housing and Mortgage Finance Agency (HMFA) was created in 1967 as the Housing Finance Agency (HFA) for the purpose of increasing the supply of safe, decent and affordable multifamily housing for the low- and moderate-income citizens of this state. In 1984, the Housing Finance Agency and its sister agency, the New Jersey Mortgage Finance Agency, whose charge was to promote the construction and rehabilitation of owner-occupied housing, were merged. The merger of the two agencies has created a consolidated statewide force to meet the challenge of providing affordable housing.

As a body corporate and politic, in, but not of the New Jersey Department of Community Affairs, the HMFA exercises essential governmental functions to promote the construction and rehabilitation of both rental and owner-occupied housing. The Agency's programs are designed to increase the opportunities for affordable housing by families and the elderly, to work with the private sector in meeting the above needs, to assist in urban revitalization and to develop innovative and flexible financing vehicles which will be responsive to the changing needs of the population. While the primary mechanism for achieving the above goal is the granting of low-interest mortgages financed by the sale of bonds, the HMFA can also serve as a conduit for various federal and state grants and demonstration funds.

The activities of the HMFA are governed by a seven-member board consisting of the Commissioner of the Department of Community Affairs, the State Treasurer, the Attorney General, the Commissioner of Banking and Insurance and three public members appointed by the Governor with the consent of the Senate. The day-to-day operations are carried out by an Executive Director assisted by staff organized into several Divisions.

The New Jersey Housing and Mortgage Finance Agency raises program funds by:

- selling taxable and tax-exempt bonds to private sector investors in national financial markets;
- applying for and administering federal and state grants and housing assistance programs; and
- fostering cooperative relationships with state, municipal, not-for-profit agencies and foundations.

The New Jersey Housing and Mortgage Finance Agency does not rely on any direct funding from the state Treasury to meet its core operating or administrative expenses.

### **A. *Subsidiary Corporations***

The HMFA has formed two separate subsidiary corporations, the Statewide Acquisition and Redevelopment Corporation ("STAR"), and the A Better Camden Corporation ("ABC"). These subsidiaries have all of the powers of the Agency except that they cannot contract indebtedness without the express consent of the Agency Board. Both STAR and ABC have Boards of Trustees, and both receive staff support from Agency employees. Pursuant to the Agency's statute, the Executive Director of the Agency is automatically the President of each subsidiary.

#### **1. STAR Corporation**

The STAR Corporation was formed in April 1996 primarily in order to facilitate the development of the Agency's Scattered Site AIDS Permanent Housing program, the SHORE-EASY program, and the redevelopment of the Amity Village I and II projects.

#### **2. ABC Corporation**

The ABC (A Better Camden) Corporation was formed in April 1997 to facilitate the implementation of the Camden Initiative which is a coordinated effort among the Agency, the Department of Community Affairs, the New Jersey Department of Environmental Protection and the New Jersey Economic Development Authority to stimulate housing and economic development in the City of Camden.

### **B. *HMFA Single Family Division Programs***

HMFA has a number of homeownership programs that serve primarily the low, moderate and middle income first-time homebuyers and urban homebuyers<sup>2</sup>. These programs are supervised by the Agency's Single Family Division. Most HMFA homeownership loans are originated by private lenders that are approved to participate

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<sup>2</sup> HMFA does not require urban homebuyers to be first-time homebuyers.

in the Agency's programs. Single family is the HMFA's focal point for construction financing and subsidy.

### **1. The Home Buyer Mortgage Program**

This is the Agency's largest and most important program. First-time homebuyers and urban area buyers are eligible to receive a below-market, fixed interest rate, 30-year mortgages. The homebuyer must provide a down-payment of as little as 3% from his/her own assets.

In 1999, the Agency provided home ownership loans totaling more than \$140 million to 1,473 first-time homebuyers throughout the state.

### **2. Homeownership for Performing Employees (HOPE)**

HOPE is an employer guaranteed loan program that offers no down-payment, below-market, fixed rate mortgages to eligible employees without private mortgage insurance. Employers must be approved by the HMFA. The program adheres to the same mortgage program requirements as the Homebuyer Program. Any size company can participate. The employer can establish qualifications in addition to HMFA program restrictions.

### **3. Home-Plus Program**

A fixed interest rate home mortgage to qualified first-time and urban area home buyers with immediate home improvement needs. Homeowners are allowed to finance up to \$15,000 toward home repairs and improvements as part of the first mortgage. Improvements allowed include replacing a roof, painting, installing improved heating or air conditioning systems, renovating a kitchen or bath, renovating plumbing or electrical systems and enlarging rooms. It is important to note that energy conservation and solar energy improvements are also eligible for funding under the Home-Plus program.

### **4. Mortgage Opportunity Program (MOP)**

The Mortgage Opportunity Program (MOP) is available to first time homebuyers and urban homebuyers who meet certain income guidelines. Eligible properties include newly constructed, fee-simple, non-condominium housing units in statewide and

urban areas. The mortgage loan is offered at the prevailing fixed interest rate for a term of 30 years. Borrowers may finance the full purchase price, as well as closing costs, provided the Loan-to-Value (LTV) does not exceed 100%. Borrowers must have funds to cover escrows required at settlement.

#### **5. 100% Mortgage Program**

The 100% Mortgage Program provides no down-payment, no mortgage insurance, mortgage loans at Agency-approved new or rehabilitated single-family housing developments and for certain newly constructed units. First-time and urban area buyers are eligible for 30-year fixed rate financing at the HMFA's prevailing interest rate. The program is subject to funding and housing availability. One Hundred Percent financing is available only when purchasing homes pre-approved by the Agency and listed on the One Hundred Percent Project List. Not-for-profit and for-profit developers can apply for project approval.

#### **6. Purchase/Rehabilitation Mortgage Program**

Qualified first-time home buyers and urban target area buyers can receive below-market interest rate financing for the purchase and rehabilitation of a home, or the rehabilitation of a presently owned home. Seventy-five percent of the home's existing external walls and interior structural framework must remain in place as part of the rehabilitation.

#### **7. Too Good But It's True Program**

The "Too Good, But It's True" Mortgage Program offers 5% 30 year fixed rate mortgages with zero points to home buyers purchasing in designated neighborhoods of selected cities which have been identified by the Urban Coordinating Council (UCC). Funds are unavailable at this time. The Agency anticipates the release of new funds at some unspecified point in the future.

#### **8. Urban Home Ownership Recovery program (UHORP)**

Unlike the other Single Family Division programs that provide funding to individual homebuyers, this program provides construction financing for developers of urban for-sale housing. It also includes access to subsidy pool money (Housing Incentive

Fund) and HMFA homebuyer mortgage programs. A number of resale restrictions apply on subsidized units.

UHORP's purpose is to positively impact neighborhood development and provide a mix of market homeownership units in urban areas. From 1996 through 1999, 1,800 total units (including rentals) have been committed for construction in 59 projects in 21 cities under the UHORP Program.

### **C. Multifamily Division Programs**

In an effort to provide affordable rental housing to low income households, the HMFA, through its Multifamily Division Programs, provides financial support to for-profit and nonprofit housing developers. This division supervises the Agency's construction loan programs and the federal low-income housing tax credit program.

#### **1. Construction Loans**

The Agency offers two types of multi-family housing mortgage loan programs:

1. permanent takeout financing;
2. construction loans that convert to permanent financing

These construction loans are financed through the sale of tax-exempt and taxable bonds. In 1999, the Agency issued \$37.7 million in triple-A rated multi-family housing revenue bonds. Proceeds from the bond sale provided the construction or permanent financing of 895 units of multi-family rental housing in eight developments throughout the state.

The Agency's multifamily programs division has worked with PSE&G on the rehabilitation of one development, The Berkeley in Orange. This was the first project to receive PSE&G recognition as an energy efficient development.

#### **2. Federal Low Income Tax Credit Program**

The federal low income housing tax credit was enacted in 1986 and it provides a dollar for dollar for reduction in federal tax liability to developers of affordable housing. While the federal code requires a minimum affordability period of 15 years, New Jersey typically requires 45 year income and rent restrictions.

Affordability is defined as either 60% or 50% of county median income adjusted for family size.

Each state is vested with \$1.25 worth of credits per capita. New Jersey's authority was approximately \$10.3 million in 2000. Since the low income credit is a ten year credit, the value is \$103 million.

Given the success of the program and in spite of complex application and certification procedures, demand for credits exceeds supply by three to one. The Agency currently oversees 350 tax credit developments with over 15,000 units, and assists with the rehabilitation or construction of approximately 20 projects per year.

#### **D. Recommendations**

The programs administered by HMFA offer the utility RNC programs a number of opportunities for both the new home and resale markets.

##### **1. Single Family Home Loans**

Currently, HMFA's Single Family Division programs offer a number of different below-market interest loans packages with attractive terms to low and moderate income homebuyers that are first-time homebuyers or who buy in an urban area. These loans are available for both new and existing homes. In addition, HMFA offers some special loan packages for homes in certain neighborhoods. The following are some ways the utility RNC programs might use these mortgage products.

- 5) *100% Loan-to-Value Mortgages*: HMFA offers the Mortgage Opportunity Program to certain homebuyers. The program allows borrowers to finance the full purchase price of a home. The utility RNC programs could ask HMFA to include low and moderate income ENERGY STAR homes in that program.
- 6) *5% Mortgages*: Periodically, HMFA is able to offer 5% mortgages for special purposes. The "Too Good But It's True Program" for example, offered to such mortgages to homebuyers purchasing in designated neighborhoods of selected cities. The utility RNC programs might ask HMFA to offer such an incentive for low income affordable ENERGY STAR housing in

other areas. The lower interest rate would more than cover the cost of ENERGY STAR improvements.

- 7) *Home Plus Program*: Under this program, the homebuyer can include up to \$15,000 in home repairs and improvements in the first mortgage on the home. Under existing program guidelines, utility RNC programs could encourage qualified buyers of existing homes to made energy efficiency upgrades at the time of purchase.
- 8) *UHORP Program*: This program furnishes financing and subsidies for the construction of new, affordable housing. Developers compete for UHORP funding. The utility RNC programs could encourage HMFA to require ENERGY STAR as the minimum energy efficiency standard for development applications.

We are aware that some initiatives have already been proposed and are being implemented under the existing utility RNC programs. We would recommend that these efforts continue.

## **2. Multifamily Programs**

HMFA offers both construction financing and permanent financing for low- and moderate-income multifamily rental housing. HMFA also administers the federal low-income housing tax credit program. Since developers compete for financing in both programs, development applications usually pay attention to energy efficiency so that they can minimize living costs for low-income households. However, it may be appropriate for the utility RNC program to work with HMFA to encourage them to use ENERGY STAR as the standard for all applications.

## V. Council on Affordable Housing

The Council on Affordable Housing (COAH) is an administrative agency that oversees the implementation of the Fair Housing Act of 1985. While a significant amount of affordable housing is constructed as a result of the Act, COAH does not directly set policy on affordable housing.

### A. *COAH's Mandate*

COAH was created by the Fair Housing Act of 1985 as the State Legislature's response to a series of New Jersey Supreme Court cases known as the Mount Laurel decisions. The Supreme Court established a constitutional obligation for each of the 566 municipalities in the state to establish a realistic opportunity for the provision of fair share low and moderate income housing obligations, generally through land use and zoning powers. The legislature provided an administrative alternative to this constitutional obligation via the Fair Housing Act.

With 11 members appointed by the Governor on the advice and consent of the Senate, COAH is empowered to: (1) define housing regions, (2) estimate low and moderate income housing needs, (3) set criteria and guidelines for municipalities to determine and address their own fair share numbers and then (4) review and approve housing elements/fair share plans and regional contribution agreements (RCAs) for municipalities. As a quasi-judicial organization, COAH can also impose resource restraints and consider motions regarding housing plans.

In December 1990 the New Jersey Supreme Court directed COAH to determine criteria for development fee ordinances and then to review and approve the ordinances for municipalities.

COAH is an administrative and regulatory organization. It does not produce, fund or compel municipalities to expend local funds to build affordable housing. Funding is usually provided by the DCA through its various housing programs or by the HMFA using its bonding capabilities or its federal low income housing tax credit allocations. Some municipalities also expend their own funds or utilize bonding resources.

## **B. COAH's Certification Procedures**

COAH does provide municipalities that choose to enter its process and obtain substantive certification of their fair share plans with an administrative shield from developer's lawsuits. Often such lawsuits result in the imposition of "builder's remedies" (four market units for each low and moderate income unit).

The COAH Process New Jersey municipalities enter the COAH process voluntarily. They do so by filing a housing element (required by the Municipal Land Use Law as part of each municipality's master plan) and a fair share plan establishing a realistic opportunity for the provision of a predetermined number of units affordable to low and moderate income households.

Within two years of such filing, municipalities must petition COAH for substantive certification (approval) of such plans if a municipality is to remain under COAH's jurisdiction. Petitioning assures continued protection from lawsuits while COAH reviews, sometimes requests revisions and possibly mediates objections from interested parties before COAH grants or denies substantive certification. Certification is granted for a six-year period and may be withdrawn if a municipality fails to assure the continuing realistic opportunity for its fair share housing obligation.

Often municipalities can meet a portion of their fair share obligation through rehabilitation of existing units. To provide a realistic opportunity for the construction of new units, municipalities may zone specific sites for residential developments by the private sector. Developers must agree to build a fixed percentage of affordable units--usually 20 percent---of the total constructed on the site, to market to low and moderate income households and to maintain affordability for 30 years.

Other methods for meeting the obligation include municipally sponsored construction using for-profit or nonprofit builders, the purchase of existing units for sale or rent to eligible householders, regional contribution agreements (RCAs), the creation of accessory apartments within existing structures, a write-down/buy-down program and the provision of alternative or congregate living arrangements including group homes for the physically handicapped or developmentally disabled.

Of the 566 municipalities in the state, approximately 260 are participating as of June 6, 2000. An additional 23 urban aid municipalities are providing affordable housing as receivers of RCA

dollars. Another 40 municipalities are under the jurisdiction of the court.

Every county in the state has at least two municipalities involved in the COAH process or in a court-ordered effort. Bergen County has the highest number (38) followed by Morris County (34).

### **C. Affordable Housing Results**

To date, according to COAH's monitoring reports, the opportunity for approximately 58,500 affordable units has been provided. This includes about 26,800 units that have been built or are under construction, 14,600 units that have realistic zoning in place, 6,700 RCA units and 10,400 units that have been rehabilitated. The statistics are based on monitoring information from municipalities under COAH's jurisdiction. There are hundreds more units that have been created and/or have zoning in place in municipalities that are under the court's jurisdiction and do not report to COAH.

The Fair Housing Act permits certified or court-ordered municipalities to transfer up to 50 percent of their fair share obligations to one or more municipalities within the applicable housing region. The sending municipality must transfer a negotiated payment now established at \$20,000 per unit (which is expected to increase for new petitions after January 1, 2001) as the minimum. Funds may be used to subsidize new construction or to rehabilitate existing units for occupancy by low or moderate income households. More than \$130 million has been approved for transfer to urban areas.

### **D. Recommendations**

COAH establishes each municipality's fair share of affordable housing, certifies municipal fair share plans, and administers regional contribution agreements. It focuses on number of affordable units, not types and has no authority to specify the type of affordable housing units constructed. As such, it does not appear that there is any opportunity for utility RNC programs to intervene in the new housing market through COAH.

## VI. Other Affordable Housing Market Actors

A number of other organizations play important roles in the affordable housing market. These include nonprofit housing developers, other nonprofit organizations, and banks and other investors. In general, government agencies control the funding for and establish the policies for affordable housing. Therefore the primary focus for the utility RNC programs should be on those agencies. However, it is important for the utility RNC programs to be aware of the roles played by other affordable housing market actors.

### A. *Nonprofit Housing Developers*

The primary role of nonprofit housing developers is to design, construct, and, in some cases, manage affordable housing projects. The developers usually put together a number of financing sources for a project and often must submit a competitive application to DCA or HMFA to obtain funding and/or financing for a project.

The missions of these developers are diverse. Some restrict their activities to a single neighborhood, while others operate throughout the state. Some focus on housing, while others are broad-based social service agencies. Some build housing for a specific target group (e.g., disabled adults), while others build housing that is available to a broader range of households.

The Affordable Housing Network of New Jersey lists over 100 nonprofit housing and community development corporation members on its web site.

### B. *Other Nonprofit Organizations*

In the process of collecting information about affordable housing programs, we identified a number of other nonprofit organizations that work in the affordable housing area. They include:

- *New Jersey Citizen Action*: This organization advocates for a number of low income causes, including affordable housing.
- *New Jersey Affordable Housing Network*: The primary mission of this organization is to advocate for affordable housing.

- *Garden State Affordable Housing*: This organization acts as an intermediary between nonprofit affordable housing developers and investors.

### **C. Banks and Other Investors**

A number of different types of investors participate in the federal low-income housing tax credit program that is administered by HMFA's multifamily housing program office. In New Jersey's program, an affordable housing developer gets "tax credit points" approved by HMFA. Garden State Affordable Housing acts as a "Tax Credit Equity Syndicator" and serves as an intermediary between the developer and the investor.

Many banks invest in low-income housing to fulfill requirements under the Community Reinvestment Act, 1977. The Act encourages depository institutions to help meet the credit needs of the communities in which they operate. For example, as part of its agreement with state banking officials to acquire Summit Bank, Fleet Bank agreed to a number of CRA expenditures, including investments in low-income multifamily housing and a commitment to furnish mortgage loans to low- and moderate-income households.

### **D. Recommendations**

In general, government agencies control the funding for and establish the policies for affordable housing. Therefore the primary focus for the utility RNC programs should be on those agencies. However, it is important for the utility RNC programs to be aware of the roles played by other affordable housing market actors.

## Appendix

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