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1. Both the Fiscal Year 2011 Appropriations Act and Fiscal Year 2012 proposed budget rely on the diversion of sales tax revenue from the Enterprise Zone Assistance Fund to the General Fund to support the State budget with approximately $89 million expected to be transferred in Fiscal Year 2011 and $94 million in Fiscal Year 2012. The Enterprise Zone Assistance Fund is comprised of the zones' share of revenues derived from the 50% reduced sales tax collections. (Collections allocated to the zones were suspended under the Fiscal Year 2011 Appropriations Act.) Monies deposited in subaccounts for each local enterprise zone authority may be used to fund public improvements, economic development projects, and certain municipal services. A proposed Fiscal Year 2012 language provision would require the disbursement, by November 1, 2011, of the unexpended balances in each Enterprise Zone Assistance Fund account to each zone from the amounts available for projects and local administrative costs and would further limit each zone's administrative budget for Fiscal Year 2012 to the Fiscal Year 2011 level. Allocation of these unexpended balances and the elimination of new revenue allocations to the Enterprise Zone Assistance Fund would end State financial assistance to local enterprise zone authorities for Fiscal Year 2012.

In a letter transmitted by Commissioner Grifa to Urban Enterprise Zone mayors on March 29, 2011, the department announced that zones will no longer be required to seek New Jersey Enterprise Zone Authority approval before committing funds to qualified activities and that they may use their existing Enterprise Zone Assistance Fund balances to complete existing projects and fund new projects until those resources are exhausted. The Authority will continue to review all project applications for the remainder of the fiscal year. After July 1, 2011, the Authority would meet only as needed to consider zone extension and boundary modification applications. Management, administration, and monitoring of the program will be the responsibility of the municipality.

- **Question: For Fiscal Year 2010 and Fiscal Year 2011 to date, please provide the following sales tax data by zone: the total amount of revenue collected at the 7% sales tax rate, the total amount collected at the reduced sales tax rate, and of that amount, the amount allocated to the local zone, to the General Fund, and for administration.**

The Division of Revenue is presently compiling the actual revenue figures. The data will be supplied to the Office of Legislative Services as soon as it becomes available.

- **Question: Please explain the impact of the diversion of these revenues on each local enterprise zone authority to provide municipal services, loans to businesses, and administrative services. Has the New Jersey Enterprise Zone Authority instructed all local enterprise zone authorities to provide updated plans for the provision of local services in anticipation of the decline in State support? How will the proposed reduction in Authority staff affect the ability of the State to ensure local compliance with State laws governing the UEZ program?**

Based upon the average annual zone spending rate, the impact to the zones in FY 2011 was minimal. The same result is expected for FY 2012. The administrative impact on the zones for support activities was ameliorated by budget language allowing zones to use a small portion of

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program funds for administrative purposes. For FY 2012, based upon zone spending patterns, most zones will succeed in maintaining current level services.

FY 2012 budget language grants wide discretion to municipalities in meeting the demand for municipal services supported by zone financing. Currently zones are required to obtain an approval resolution from their local governing body as part of the application process thus assuring consideration of local municipal needs in funding zone activities. In as much as the unspent zone balances will be transferred to the municipalities on or about November 1, 2011, the local governing bodies will be responsible for ensuring compliance with statutory requirements including purchasing and auditing requirements.

2. On April 15, 2010, the Office of the State Auditor released an audit of the Urban Enterprise Zone (UEZ) program for the period July 1, 2002 to September 16, 2009. The State Auditor's report also included some general observations with regard to the condition of the UEZ program and how it can be improved. The report recommended that the Legislature consider ending the reduced sales tax rate in the zones while permitting zones to receive a portion of sales tax receipts to fund projects; balancing the need for retail and manufacturing development in each zone; capping the annual amount of sales tax revenue credited to any single zone while distributing excess funds to zones with lower revenue collections; and the development of more rigorous standards for the granting of extended terms for existing zones. The report noted that while the UEZ program was enacted as a temporary benefit for distressed municipalities to develop projects beneficial to the local economy, no zone has ever been removed or has withdrawn from the program.

Some of the concerns expressed by the State Auditor were reiterated in the "New Jersey Urban Enterprise Zone Program Assessment" prepared by the Delta Development Group, Inc. and HR&A Advisors, Inc. and submitted to the New Jersey Economic Development Authority on February 18, 2011. The program assessment also found that: the current UEZ program offers no quantifiable results relative to the original legislative intent for local business investment and expansion and job creation; the lack of accountability from fund recipients and the absence of program data and tracking systems have resulted in an inability to calculate true return on State investment, and do not justify continued allocation of public resources in the "present fashion"; and the current UEZ program diverts significant sales tax revenues without demonstrating return on State investment in the face of a budget deficit.

The program assessment also contained three recommendations regarding the future of the UEZ program. First, the State should eliminate the New Jersey Urban Enterprise Zone Authority, current UEZ program, and all program incentives by the end of Fiscal Year 2011 and transition to a new place-based community and economic development program. Second, the State should provide incentives for community and economic development within localities participating in the program with a streamlined process that eliminates the business certification process. Third, the new program should provide for increased accountability through robust performance metrics and an annual review based on established performance standards. In a memorandum transmitting the report to the State Treasurer, the Commissioner of Community Affairs and CEO of the New Jersey Economic Development Authority recommended terminating the Enterprise Zone Assistance Fund program on July 1, 2011 but recommended

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the continuation of zone business tax incentives and the reduced sales tax rate for the purchase of goods.

- ***Question:* Does the Christie Administration advocate full implementation of the recommendations of the UEZ program assessment, and will it seek enactment of legislation to do so? In light of the assessment's findings regarding the effectiveness of the business tax incentives and reduced sales tax rate, please justify the recommendation that these aspects of the program be continued. How will the assessment's conclusions affect the Authority's consideration of any zone extension applications?**

As indicated in the transmittal letter from the Commissioner and the Chairperson of the Authority, while place-based economic development and community development programs can contribute to urban economic growth, the current economic crisis does not permit the creation of new programs at this time.

A key positive finding of the Delta study of zone businesses demonstrated that the business-related tax benefits of the current program were the most highly valued. The analysis clearly found that in this harsh economic climate to remove this benefit from existing zone businesses and try to implement a new program would be economically detrimental. In addition the study found the present administrative process to be cumbersome and confusing for the business community. For FY 2012, the State is implementing a simpler online registration and certification process. The new system will allow zone businesses to participate and file reports online. Further, the Governor signed legislation this spring eliminating an artificial distinction between those firms who did not have to pay sales tax on capital purchases and those firms who did and then had to seek a refund, thus further reducing bureaucratic overhead. In addition, the UEZ in conjunction with the New Jersey Economic Development Authority (NJEDA) is assisting firms that want to stay and expand in the zones. For instance, the Authority just approved such a benefit for the 500,000 square foot Wakefern food facility in Elizabeth and is working on a similar project in Newark. An additional benefit of the online system is to ensure businesses in the program are tax compliant. The system is designed to cross reference filings with other State financial data systems.

At the April 13, 2011 Authority meeting the balance of the zones eligible for extensions were approved for their final extension under the Statute. The remaining zones created by subsequent amendments to the Statute are not eligible for further extensions. The UEZ continues to work with a number of zones that wish to modify their maps to further the economic development objectives of their communities.

3. The Fiscal Year 2012 budget recommendation for Transitional Aid to Localities is $149 million, a decrease of $10 million from the Fiscal Year 2011 adjusted appropriation of $159 million. In Fiscal Year 2011, 31 municipalities submitted applications requesting $271 million in additional State assistance; 22 municipalities were awarded $157 million in Transitional Aid. Municipalities that receive Transitional Aid must submit to broad State controls over their financial and administrative affairs. Information released by the Division of Local Government Services show that 11 municipalities that operate on a Calendar Fiscal Year have requested

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$32.2 million in Transitional Aid; 6 municipalities were awarded $13.1 million. Detailed information about the Transitional Aid to Localities Program is set forth in a background paper on page 23 of the OLS Budget Analysis for the Department of Community Affairs.

According to Local Finance Notice (LFN) 2011-7, Transitional Aid is anticipated to be only discretionary aid available to provide general support of municipal budgets during the next fiscal year. It will only be available to municipalities anticipating difficulties making payments toward nondiscretionary or critical obligations, including, but not limited to, debt service, contractual obligations and public safety payroll. The LFN also states: "Applying for aid under this program is a declaration that the municipality is incapable of meeting its obligations and managing its finances without special state assistance and intervention." Although this program is intended to address a municipality's serious fiscal distress, both the Division of Local Government Services and *Wall Street Journal* have reported that one municipality was permitted to use a portion of its Transitional Aid award to provide property tax relief to residential property owners.

A National League of Cities (NLC) Research Brief on America's Cities entitled *City Fiscal Conditions in 2010* indicates that there is a lag between changes in the economic cycle and the impact of those changes on city fiscal conditions because a drop in real estate prices may not be noticed for one to several years after a downturn begins if property assessment cycles and property tax collections, as reflected in property tax assessments, lag economic changes by some period of time. The NLC survey also found that cities are still coping with budget shortfalls that have forced them to make a variety of personnel cuts, delay or cancel infrastructure projects, and reduce or eliminate basic services. They also rely heavily on property tax collections. Local governments must also respond to a variety of fiscal pressures including declining local economic conditions, increases in costs associated with infrastructure, public safety, health-care, and pensions, and reductions or freezes in State aid. Municipalities have been forced to use fund balance reserves to bridge the gap between expenditures and revenues in order to weather the effects of the downturn.

- ***Question:*** **Please identify each municipality that has notified the Division of an its intent to apply for the Fiscal Year 2012 round of Transitional Aid to Localities and the estimated amount of funding that each will request. Has the department hired new staff, or reallocated additional staff, in order to provide the intended levels of State oversight? What outcomes has the department established as measurements of program success?**

- ***Question:*** **In light of a reduced State appropriation for Transitional Aid and continued fiscal and economic challenges confronting municipal governments, what new assumptions or projections will the Division use in evaluating each municipality's request and in determining the amount of aid awarded to successful applicants? Will the department make additional aid available if municipal financial conditions do not improve and municipalities are unable to provide services essential to the health, safety, and welfare of their residents? Under what circumstances would the department permit the use of Transitional Aid funds for direct property tax relief to homeowners? As the *Wall Street Journal* has reported that Office of Legislative Services and the Executive Branch have provided**

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conflicting advice regarding the use of Transitional Aid for property tax relief, does the department intend to seek the inclusion of additional budget language that sanctions the expenditure of those funds for that purpose?

- ***Question:*** **Has any municipality been awarded Transitional Aid for use in either its Calendar Year 2010 or Fiscal Year 2011 municipal budget that will be funded by the State from the Fiscal Year 2012 Transitional Aid appropriation? If so, please identify each such municipality, the amount awarded, and the justification for awarding more aid that has been appropriated in Fiscal Year 2011.**

The following Fiscal Year municipalities have provided notice that they intend to apply for Transitional Aid: Bridgeton City, Camden City, Paterson City, Passaic City, Trenton City, Union City, and Lawnside. It should be noted that two applicants in 2011 (Irvington and East Orange) are likely not to apply for funding in 2012.

The Department reassigned duties previously assigned to one employee so that that employee could focus her time and attention on helping Transitional Aid recipients to become self-sufficient. Additionally, a competitive application process was undertaken to retain individuals to help in providing oversight with Transitional Aid communities. After receiving more than 50 resumes and interviewing more than 20 prospective candidates, the Division has retained three part-time employees and one full-time employee. Combined, these four employees have almost 100 years of municipal management experience. They provide appropriate enhanced levels of oversight, and equally important, they can help advise Transitional Aid communities when addressing difficult issues. The broad outcome that the Department is seeking and has established as a measurement of success is when the municipalities in the program take steps to become self-sufficient to the point that discretionary transitional funding is no longer needed.

Standards and criteria used to review applications for Transitional Aid are contained in Local Finance Notice (LFN) 2011-7. Because of the diversity of applicants, there is no rigid formula used to determine successful applications or amounts awarded. However, the Division looks at several factors, including, but not limited to: (1) whether the municipality has aggressively sought to control costs in the past; (2) whether remaining cost savings are being pursued; (3) whether debt profiles are sensible and sustainable; (4) whether discretionary services are being curtailed; and (5) whether discrete essential services such as sewer and water services are self-liquidating.

The application of these standards and criteria has been heightened through additional reporting requirements associated with the application process itself (inclusion of fee schedules, debt service schedules, etc.).

The Division does not anticipate additional funds being necessary to provide for the services essential to the health, safety, and welfare of the residents of Transitional Aid recipients.

Finally, all aid that is provided to Transitional Aid municipalities can be considered temporary property tax relief in the sense that, without the aid, local taxes would increase to retain services. With respect to a supposed legal analysis conflict, the Office of Legislative Services is

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apparently referring to the allocation of a portion of funds by one municipality through a REAP process. The Department has not been provided with any OLS legal analysis that conflicts with advice from the Attorney General's Office and sees no need for additional budget language.

Additional aid in the form of a $6 million short term loan is being provided to Paterson consistent with budget language allowing for such a loan. That funding is being provided with FY 2011funds and will likely be paid back by Paterson in FY 2012.

4a. A proposed revision to budget language establishing the qualifications and procedures governing the Transitional Aid to Localities program will permit the Director of Local Government Services to identify a municipality that has received a reduction in Open Space Payments in Lieu of Taxes as experiencing fiscal distress.

- ***Question:*** **Please explain the inclusion of additional budget language permitting the Director to declare that a municipality that has received a reduction in Open Space Payments in Lieu of Taxes is experiencing fiscal distress. Would that municipality be subject to all of the eligibility requirements specified in Local Finance Notice 2011-7? Under what circumstances would this option be utilized?**

Several municipalities that had received a reduction in Open Space Payments in Lieu of Taxes as a result of the FY 2011 budget expressed concerns. Language changes were proposed to make it clear that these municipalities would be eligible to apply for Transitional Aid if they were experiencing distress as a result of that loss of funding. It should be noted that no new Calendar Year municipalities have applied for funding. Maurice River applied for Transitional Aid; however, it was already a participant in the program.

4b. A proposed revision to budget language reads as follows: "an amount of Transitional Aid to Localities as determined by the Director of the Division of Local Government Services for a municipality may be deemed to constitute Consolidated Municipal Property Tax Relief Aid in an amount not in excess of the amount of Transitional Aid to Localities such municipality received in fiscal year 2011 and shall not reduce the amount of Consolidated Municipal Property Tax Relief Aid such municipality shall receive for fiscal year 2012. "

- ***Question:*** **Please explain the intent of this language. Would the Director's determination deeming Transitional Aid as CMPTRA under this language allow the Director to waive Transitional Aid oversight provisions for an affected municipality? Would it subject the amount of Transitional Aid deemed CMPTRA to reduction due to inadequate scoring on the "Best Practices Inventory?"**

There are several municipalities that have been receiving large amounts of discretionary aid for a long period of time and it is apparent that any amount of cost-cutting or local revenue options to eliminate their structural need is unrealistic. For example, the City of Camden, despite already having engaged in substantial personnel reductions and other cost saving efforts, would need to raise property taxes 300% or lay off its entire police force to compensate for an entire elimination of Transitional Aid. It is the intent of this language to allow the Director the

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flexibility to award a portion of the Transitional Aid award in these cases as increases in formula aid with an understanding that future year aid awards would reflect a continued funding.

This authority would be sparingly used and only on a case-by-case basis where recipients of funding are showing substantial progress toward eliminating structural budget imbalances. The language gives no additional authority to the Director to waive Transitional Aid oversight provisions, though it is the intent of the Director to generally modify oversight provisions for those municipalities that make substantial progress towards eliminating structural imbalances.

4c. A new language provision would allow the Commissioner of Labor and Workforce Development, in consultation with the Commissioner of Community Affairs, to establish an individualized unemployment fund reimbursement plan for a municipality that receives Transitional Aid in lieu of the standard repayment terms and conditions outlined in current law.

- ***Question:*** **Under what circumstances would it be appropriate for the Commissioner of Labor and Workforce Development to establish an individualized unemployment fund reimbursement payment plan for a municipality that receives Transitional Aid? What terms and conditions, other than the payment of interest, would be placed on a municipality that cannot provide full reimbursement to the fund? Please provide an estimate of the total amount of funding which will be required to provide persons who have been released from municipal employment with the full amount of unemployment compensation to which they are entitled. What will be the source of that State funding? Please identify those municipalities to which this language provision would apply and the amount of reimbursement expected to be owed by each.**

This language is intended to allow municipalities dependent on State aid and that are experiencing substantial layoffs the ability to reimburse the Department of Labor in a manner that helps the municipality avoid what would otherwise be larger layoffs. For example, the City of Paterson will be seeking a modified payment rate that allows them to spread what would otherwise be immediate reimbursements to the Department of Labor over a two-year period without incurring a 10% interest fee associated with late payments under current reimbursement requirements. This modified payment period is appropriate as the savings (net of unemployment reimbursements) associated with personnel reductions grow over time as unemployment benefit payments decrease. There are no special conditions that will be placed on municipalities that seek to avail themselves of this payment option.

The Department of Labor is better positioned to be able to answer the question concerning the "amount of funding required to provide persons who have been released from municipal employment with the full amount of unemployment compensation to which they are entitled." However, government employees who have been released from employment generally receive the same level of unemployment benefits as all other people who have been released from employment.

5. On March 25, 2011, multiple news sources reported that the State intends to layoff about 30 employees in the Division of Codes and Standards. The Division establishes and enforces building codes, in partnership with municipalities, to protect the health and safety of

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New Jersey residents. The Division also enforces the Hotel and Multiple Dwelling Law; inspects all State, county, and federal buildings; and oversees municipal enforcement of the Uniform Construction Code. It also oversees carnival and amusement ride inspections, liquefied petroleum gas installations, rooming and boarding house licensing, and the New Home Warranty program. According to an article published in *The Star-Ledger* on March 26, 2011, one of the employees to be laid off is an amusements inspector while all others are housing inspectors. Personnel Data on page D-43 of the Fiscal Year 2012 budget indicates that the Division employs 445 people.

In response to a Fiscal Year 2012 OLS budget question, the department noted that the Department of the Treasury has awarded a contract for temporary professional employment services to a private vendor, Joule Technical Staffing, Inc., for the provision of certified individuals to perform housing inspections during peak periods in the inspection cycle. New Jersey's multiple dwelling inspection program requires over 900,000 units to be inspected every five years, but the inspection cycle is not distributed evenly. The department indicated that staffing provided by a private vendor provides a reliable source of inspectors while alleviating its human resources staff of the burden of recruiting and processing State workers. The contract for temporary housing inspectors runs through October 2013.

- ***Question:*** **What are the reasons for the layoffs in the Division of Codes and Standards? How many employees in the Division of Codes and Standards have been issued layoff notices? To what bureau or office in the Division are these employees assigned? How many of these employees are licensed subcode officials? How many currently filled positions are being permanently eliminated? When will the layoff notices take effect? What effect will the layoff of these employees have on the ability of the Division to fulfill its statutory responsibilities? Does the Department intent to outsource the services that would have otherwise been provided by these employees? If not, how does the Division intend to delegate the responsibilities of those employees?**

The Division of Codes and Standards is primarily supported by fees. The continuing national recession has caused a significant reduction in the division's funding level. Revenues have fallen from $48.7 million in FY 2006 to $42.3 million in FY 2010. The division has attempted to control costs by reducing staff through attrition and reducing non-salary expenditures. Reductions in non-salary expenditures include delaying the purchase of new vehicles and computers and eliminating staff training. Nevertheless, increases in salaries and fringe benefits for employees continue to cause an imbalance between revenues and expenditures. The staff reductions are part of a continuing effort to bring costs in line with projected revenues. As required by Civil Service Commission regulations, nearly everyone in the Department of Community Affairs received a general layoff notice. The specific layoff plan targeted 23 positions, as follows:

Twelve (12) in the Office of Local Code Enforcement
Five (5) in the Bureau of Construction Project Review
Four (4) in the Bureau of Homeowner Protection
One (1) in the Bureau of Code Services
One (1) in the Office of Regulatory Affairs

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Sixteen employees hold a subcode license although only two of them hold the title of Subcode Official. The remaining fourteen employees hold the title of Construction Code Inspector 1 or Construction Code Inspector 2. These titles do not require a subcode license. Twenty three (23) positions will be permanently eliminated with layoff notices taking effect by the close of business on May 16, 2011.

The Division will continue to fulfill all statutory requirements. Additionally, the Division does not intend to outsource these activities. As stated above, the Division has seen a significant reduction in code-related activity resulting in a loss of revenues. The Division is committed to performing its statutory requirements at post-layoff staffing levels. Going forward, the Department will closely monitor staffing requirements to meet any increase in demand for services.

6. P.L.2003, c.311, the "Lead Hazard Control Assistance Act" created the Lead Hazard Control Assistance Fund (LHCAF) in the Department of Community Affairs for the purpose of making loans and grants for the remediation and removal of lead-based paint hazards in residences. The LHCAF was initially supported by a $2 million appropriation from the Catastrophic Illness in Children Relief Fund. The LHCAF is also funded by the collection of a $20 fee charged per unit inspect in a multiple dwelling concerning lead hazard control work, the annual set aside portion pursuant to P.L.1966, c.30 the "Sales and Use Tax Act" (C.54:32B-1 et seq.)[1], and penalties paid by those charged with violating section 19 of P.L.1967, c.76 the "Hotel and Multiple Dwelling Law" (C.55:13A-1 et seq.). The State's lead hazard abatement and prevention efforts have also been supplemented by Grants-in-Aid appropriations.

The department is permitted to provide financial assistance for up to 100% of the costs of lead hazard control work, including associated lead evaluation costs, and for temporary relocation assistance. No award of financial assistance may exceed $150,000 for a single dwelling unit and the period of financial assistance is determined by the department. Financial assistance provided in the form of a loan must be secured by a lien on the property on which the lead hazard control work is performed, a personal loan guarantee by the property owner, or by a lien on other real property belonging to the person to whom the loan is awarded. The department may also authorize a loan in conjunction with an award of a grant to cover all or part of the costs of the lead hazard abatement. The department has also used LHCAF funds for public education efforts and to establish a lead safe housing unit registry. Up to 5% of the total amount appropriated to the LHCAF may be used for administrative costs.

According to the New Jersey Comprehensive Financial System, the State has expended more than $27 million on lead hazard abatement and prevention efforts since Fiscal Year 2005.

[1] C.52:27D-437.11 requires the Legislature to appropriate in each State fiscal year commencing after July 1, 2004, an amount equal to the greater of $7,000,000 or the amount of revenue required to be set aside from the "Sales and Use Tax Act" that is equal to the lesser of $0.50 or the tax imposed on every retail sale of a container of paint, or other surface coating material, which may include pigmented, liquid substance to be applied to surfaces by brush, roller, spray, or other means, including but not limited to, white based paint and colorants, provided, however, that the total amount set aside shall not exceed $14,000,000 annually.

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In response to OLS discussion points, the department has provide information on expenditures but evaluation data measuring state lead hazard abatement activities has never appeared in any budget submitted by the Governor to the Legislature over this period of time. Data obtained from the Governor's Performance Center provides limited information regarding the number of lead poisoning prevention cases and reported childhood lead poisoning cases.b

- ***Question:*** **Why has the Executive Branch elected not to provide evaluation data regarding lead hazard control efforts? For each Fiscal Year since 2005: How many households have applied for lead remediation assistance? How many Lead Hazard Control Assistance Loans have been awarded? What is the average loan amount? What is the total amount of funding owed to the State by loan recipients? How many families with children have been relocated because the child has tested positive for lead poisoning? How many dwelling units have been inspected for lead hazards?**

Please see the following chart for requested Lead Hazard Control Assistance Fund statistical information:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Remediation Loans - Applications Received	33	83	143	135	132	61
Emergency Relocation - Applications Received	20	69	77	58	62	52
Total Applications Received	53	152	221	193	194	113
Loans Awarded	10	19	48	52	50	40
Average Loan Amount	$37,657	$36,940	$47,000	$54,751	$62,162	$59,319
Families Relocated due to positive lead poisoning	3	48	33	49	55	60

> Remediation Loan application processing suspended on December 15, 2010 due to lack of funds; this has contributed to a significant reduction in applications received.

> Emergency Relocation services are limited to temporary relocation in short-term rentals, emergency shelters, or a flat fee to applicants requesting emergency temporary hotel placement or permanent relocation offered waiting list due to lack of funds.

> FY 2011 through March 2011

To date, the total amount of funding owed to the State by program loan recipients is $11.2 million. Since the program's inception, 518 dwelling units have been inspected for lead hazards.

7. As of April 11, 2011, the Lead Hazard Control Assistance Fund had an uncommitted balance of $821,000 and had spent or committed a total of $4.3 million. $1.1 million from a State Grant-in-Aid appropriation has been placed in budget reserve. The Fiscal Year 2012 budget recommends a $2 million Grants-in-Aid appropriation to the fund. In response to an OLS discussion point on the Fiscal Year 2011 recommended budget, the department projected

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that it had either reserved or utilized Fiscal Year 2010 funding for Lead Hazard Control Assistance Programs and activities as follows:

LHCA Loans	$2.73 million
Emergency Relocation	$0.35 million
Lead Free Unit Registry	$0.13 million
Lead Education and Outreach	$1.23 million
Administration	$0.67 million
TOTAL	$5.11 million

The department also indicated that it had budgeted, but would not spend, $50,000 for the Geographic Organization of Lead Data and $750,000 for Housing Assistance for Lead Safe Living Opportunities (HALLO). It also anticipated the following Fiscal Year 2011 program costs:

LHCA Loans	$2.75 million
Emergency Relocation	$0.70 million
Lead Free Unit Registry	$0.07 million
Lead Education and Outreach	$1.59 million
Administration	$0.89 million
TOTAL	$6.0 million

- ***Question:*** **Please provide a final Fiscal Year 2011 spending plan, including expenditures for this fund. Does the Department project that it will commit all available resources by the end of Fiscal Year 2011? If not, what amount is projected to be available in Fiscal Year 2012, and from what sources to continue programs? What is the spending plan for this amount?**

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The following chart provides FY 2011 budget and spending information as well as the FY 2012 budget:

Lead Hazard Control Assistance Fund (LHCAF) FY 2011 Budget and Spending; FY 2012 Budget (as of 4/15/11)					
	FY 2011				FY 2012
Category	**Budget**	**Encumbered**	**Expended**	**Balance**	**Budget**
Lead Remediation loans/grants	3,935,000	110,887	3,053,299	770,814	2,550,000
Emergency Relocation	625,000	37,920	489,335	97,745	625,000
Lead-Safe Housing Registry	73,836	73,691	145	-	80,000
Lead Education, Outreach, and Training	603,903	489,734	114,169	-	545,000
Lead Identification and Field Testing (LIFT)	-	-	-	-	-
Geographic Organization of Lead Data (GOLD)	10,000	10,000	-	-	-
Housing Assistance for Lead-Safe Living Opportunities(HALLO)	-	-	-	-	-
Health Expedited Abatement of Lead (HEAL)	-	-	-	-	-
Administration	900,000	35,142	673,142	191,716	600,000
TOTAL	**6,147,739**	**757,374**	**4,330,090**	**1,060,275**	**4,400,000**

> FY 2012 LHCAF resources consist of the $2 million GIA appropriation, $1.5 million in housing inspection surcharge revenue and $900,000 in reappropriated funds.

> FY 2012 LHCAF Budget provides for approximately 52 remediation loans/grants and 100 emergency household relocations.

> $1.1 million of the FY 2011 $2 million GIA appropriation is in budget reserve

8. The New Jersey Affordable Housing Trust Fund is a non-lapsing revolving fund that subsidizes the construction and rehabilitation of affordable housing, with funds targeted to each region of the State based on that region's percentage of the State's low and moderate income housing need. The trust fund is supported by revenues generated by the additional fee segment of the realty transfer fee, proceeds from the Statewide non-residential development fee, monies lapsing or reverting from municipal development trust funds, and other monies as may be dedicated, earmarked, or appropriated by the Legislature for the purposes of the fund. This funding also supports the Council on Affordable Housing (COAH), shelter assistance, and the State Rental Assistance Program (SRAP). $20 million was appropriated annually by budget language for SRAP in Fiscal Years 2009, 2010, and 2011. The Appropriations Act has also permitted a portion of these monies to be used to provide "capacity grants" to non-profit housing organizations and authorities for creating and supporting affordable housing and community development opportunities. The Treasury Department has also indicated that $9 million in cancelled encumbrances will lapse to the General Fund at the close of Fiscal Year 2011.

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During the Fiscal Year 2011 budget process, the department indicated that the New Jersey Affordable Housing Trust Fund would be the "only direct source of State funding available through the Department of Community Affairs for the development of affordable housing." The DCA also noted that it would rely on the New Jersey Housing and Mortgage Agency (NJHMFA) to provide funds to support affordable housing purposes through the Low Income Housing Tax Credit Program. The NJHMFA anticipated financing a total of 7,800 housing units in Fiscal Years 2011 and 2012. In Fiscal Year 2012, new State funding for affordable housing production would be limited to collections of the additional fee segment of the realty transfer fee above the amount anticipated, but only to the extent that they are not needed to provide $20 million for SRAP. The budget anticipates a $6.1 million increase in revenues received by the New Jersey Affordable Housing Trust Fund, but it is unclear whether these monies will be needed for State rental assistance or made available for affordable housing production. According to Evaluation Data on page D-42 of the Fiscal Year 2011 budget, the number of affordable housing units produced has declined from 2,700 in Fiscal Year 2009 to an estimated 350 each in Fiscal Years 2011 and 2012.

Paragraph h. of 52:27D-320 requires the department to prepare and submit to the Governor, Legislature, and Joint Committee on Housing Affordability, by November 30, a report of New Jersey Affordable Housing Trust Fund activity for the prior fiscal year. The report must include a listing of all grants and loans by the number of housing units, the number and income ranges of recipients of grants or loans, the location of housing either renovated or constructed using monies from the fund, the number of units upon which affordability controls were placed, and the length of those controls and details pertaining to the use of Trust Fund monies allocated for use by the State Rental Assistance Program.

- ***Question:*** **What level of State funding will be available in Fiscal Year 2012 for affordable housing, and from what sources? How will this amount be allocated between grants to municipalities to build affordable housing and grants to non-profit housing organizations for creating and supporting affordable housing opportunities? Will the NJHMFA meet its stated goal of financing 7,800 housing units in Fiscal Years 2011 and 2012? What number of affordable housing units does the department project can be financed in Fiscal Year 2012 with State funds, NJHMFA funds, low income housing tax credits, and all others sources, respectively? What is the status of the annual report of the New Jersey Affordable Housing Trust Fund?**

The FY 2012 New Jersey Affordable Housing Trust Fund will provide funding for shelter support, homelessness prevention, COAH and SRAP; no funding will be available for affordable housing construction or grants to non-profit housing organizations. Funding for affordable housing production will, however, be available through the HMFA through the use of low-income housing tax credits, tax-exempt and taxable bond funding, the Special Needs Housing Trust Funds and HMFA's administrative funds appropriated for housing production programs. HMFA does not rely on any direct State funds or assistance.

HMFA will produce a total of 6,314 units in 2010 and 2011 – 2,347 units were produced in 2010 and 3,967 are projected to be produced in 2011. HMFA is participating in a Federal

Discussion Points (Cont'd)

Economic Stimulus Program that has enabled it to offer a more competitive interest rate in 2011. HMFA has also embarked on a marketing program, as well as hosting several realtor and lender events to highlight its mortgage programs. Through the first four months of this year alone, HMFA has already provided 400 single family loans.

The annual report has not been issued largely because of uncertainty surrounding the enactment of significant legislation to overhaul the State's affordable housing policy and because of ongoing litigation. Most of the information that the report requires, however, is currently being compiled and reported by NJHMFA, for both NJHMFA and DCA, under a previous HMFA reporting system.

9. P.L.2004, c.140 established the State Rental Assistance Program to be patterned after the federal section 8 rental choice voucher program for low income individuals or households. Pursuant to N.J.A.C.5:42-1.1 et seq., tenant-based rental assistance grants are awarded through a lottery type process only to applicants currently on the Department's existing Section 8 Housing Choice Voucher Program waiting list. Project-based rental assistance is also a component of the program, whereby payments are allocated to new or rehabilitated housing units for 15 years, and paid when qualified tenants occupy those units. The program's regulations also reserve 35% of the rental assistance for households currently on the SRAP waiting list.

The Fiscal Year 2012 budget does not provide any new direct State appropriations for SRAP. Budget language again will appropriate at least $20 million from the New Jersey Affordable Housing Trust Fund to the State Rental Assistance Program. According to the *Governor's FY 2012 Budget Summary*, $9 million transferred from the New Jersey Housing and Mortgage Finance Agency and $23.5 million from New Jersey Affordable Housing Trust Fund that was originally set aside for project-based assistance will be utilized to provide tenant-based rental assistance during the next fiscal year. As of April 5, 2011 the SRAP has an unexpended balance of $1.6 million. During the Fiscal Year 2011 budget process, the OLS asked the department to provide information on SRAP funding sources and the number of project-based and tenant-based SRAP vouchers in Fiscal Year 2010 and to provide a spending plan for this program, including total costs and the number of vouchers, for the current fiscal year. The department updated its spending projection in response to a Fiscal Year 2012 OLS Budget Question. A chart comparing the two estimates follows.

Fiscal Year 2011 State Rental Assistance Plan

Date of Spending Projection	April 2010	March 2011
Tenant-Based Vouchers	4,318	3,638
Project-Based Vouchers	659	676
Total Vouchers	**4,977**	**4,314**
Cost of Tenant-Based Vouchers	$38.4 million	$36.3 million
Cost of Project Based	$6.0 million	$5.2 million

Discussion Points (Cont'd)

Vouchers		
Total SRAP Costs[2]	**$44.4 million**	**$41.5 million**

- ***Question:*** **What growth in the number and cost of State Rental Assistance vouchers is projected in Fiscal Year 2012? Please provide a Fiscal Year 2012 spending plan for the State Rental Assistance Program, specifying administrative costs, tenant-based vouchers (number and amount by fiscal quarter), and project-based rental assistance (including number of projects, units per project, and amount by fiscal quarter. Will any new vouchers be approved in Fiscal Year 2012?**

The State Rental Assistance Program (SRAP) anticipates limited growth of tenant-based vouchers, depending on program turnover. It also anticipates 41 additional project-based (PBA) vouchers based on commitments made in prior fiscal years that are anticipated to be completed during FY 2012. DCA has made PBA commitments to 117 projects totaling 883 units. To date, 697 of these units are under lease with the remaining 186 units anticipated to come on line over the next two years.

DCA anticipates quarterly spending to increase in FY 2012 to $10.9 million from $10.5 million in FY 2011. This increase is the result of projected rent increases of 3% and the additional 41 project-based vouchers coming on line.

[2] The total program cost does not include an estimated $3.9 million for SRAP Administration in Fiscal Year 2011.

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SRAP FY 2012 PROJECTED NUMBER OF VOUCHERS				
PROGRAM CATEGORY	**QUARTER 1**	**QUARTER 2**	**QUARTER 3**	**QUARTER 4**
Tenant Based	3,638	3,638	3,638	3,638
Project-Based	697	718	718	738
Total Vouchers	**4,335**	**4,356**	**4,356**	**4,376**

SRAP FY 2012 PROJECTED EXPENDITURES					
PROGRAM CATEGORY	**QUARTER 1**	**QUARTER 2**	**QUARTER 3**	**QUARTER 4**	**TOTAL**
VOUCHER EXPENDITURES					
Tenant Based	$9,580,126	$9,580,126	$9,580,126	$9,580,126	**$38,320,503**
Project-Based	$1,346,115	$1,360,362	$1,360,362	$1,398,504	**$5,465,343**
Total HAP Expenditures	$10,926,241	$10,940,488	$10,940,488	$10,978,630	**$43,785,846**
ADMINISTRATIVE EXPENDITURES					
Administrative Fees	$543,750	$543,750	$543,750	$543,750	**$2,175,000**
GRAND TOTAL	**$11,469,991**	**$11,484,238**	**$11,484,238**	**$11,522,380**	**$45,960,846**

Anticipated FY 2012 Budget	$48,664,000
Projected Expenditures	$45,960,846
Projected Balance	**$2,703,154**

10. P.L.2008, c.104 appropriated $12 million to the New Jersey Housing and Mortgage and Finance Agency (NJHMFA) from the former Long Term Obligation and Capital Expenditure Fund for two components of the "New Jersey Economic and Assistance Recovery Plan." $9.5 million was appropriated for foreclosure mediation and $2.5 million was appropriated for mortgage counseling. The NJHMFA established the Mortgage Assistance Program (MAP) in May 2008 and the New Jersey Judiciary Foreclosure Mediation Program (NJJFM) was launched on December 1, 2008. The MAP provides temporary financial assistance to income-eligible homeowners who wish to remain in their homes but are in danger of foreclosure due to short-term financial problems beyond their control. Funding recipients can use these monies to bring their mortgages current or pay other expenses (such as prepayment penalties) in order to successfully refinance the terms of a mortgage. The maximum mortgage loan is $20,000 and applicants may receive assistance covering a period not to exceed six months.

In response to a Fiscal Year 2011 OLS discussion point, the department noted that 6,000 NJJFM mediation sessions had been scheduled through February 2010; 5,829 cases were in the mediation process; and 2,507 had been completed. 72 homeowners had received assistance through the MAP while another 25 applications were under review. The NJJFM also used $700,000 in federal grant funds from the National Foreclosure Mitigation Program to provide pre-foreclosure and financial counseling to 2,000 homeowners. In Calendar Year

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2009, the NJHMFA expended $2.6 million on foreclosure mediation efforts. Major categories of expenditure included $360,000 in counseling fees; $397,000 for outreach; and $792,000 for attorney fees. The agency also provided $3.725 million in capacity funding to housing counseling agencies from January 2009 through March 2010.

The foreclosure mediation program also proposed hiring 6 full-time mediators in July 2010 that would work closely with equity judges and CDR coordinators in each county to organize the scheduling of mediations. Each full-time mediator is expected to handle 500 clients and bring 250 cases to conclusion for a total of 3,000 clients and 1,500 conclusions over a 12-month period. The projected cost of hiring these mediators and additional support staff (full-time cases managers and administrative personnel) would be $610,000. NJJFM reported that 3 full-time mediators currently on staff were retained in January 2010 and funded by a $1 million settlement with Countrywide Financial Corporation.

- ***Question:*** **Please provide final spending plans for Fiscal Year 2010 and Fiscal Year 2011, including all expenditures, for the New Jersey Judiciary Foreclosure Mediation Program. How many households have received either foreclosure mediation or mortgage counseling? How many foreclosures have been prevented by foreclosure mediation programs subsidized with this funding? How many homeowners have received financial assistance through the Mortgage Assistance Program? What is the amount projected to be available, and from what sources, to continue each program in Fiscal Year 2012? Was the NJJFM Program able to proceed with its plan to hire additional full-time mediators? How many clients have been processed and cases closed by each new mediator? Have the NJJFM Program and NJHMFA developed any qualitative and quantitative indicators that are being used to measure program outcomes?**

In CY 2010 spending in the New Jersey Judiciary Foreclosure Mediation Program totaled $3.4 million and included $2.3 million to provide capacity building grants to participating housing counseling agencies; $500,000 to pay per client counseling fees; $558,200 to pay per client attorney fees; and $35,000 for miscellaneous expenses.

In CY 2011, it is projected that $2.95 million will be expended as follows: $1,050,000 in counseling fees (note: per client fee was increased from $400 to $700 but the capacity grant was eliminated in 2011); $600,000 to pay per client attorney fees; and $100,000 to cover marketing expenses. Additionally, $1.2 million was transferred to the Administrative Office of the Courts to cover costs related to the mediation component of the program. Approximately 50% of this money was provided to the Office of Dispute Settlement to fund a full-time mediator program.

As of January, 2011, more than 5,300 cases have been completed -- 1,381 received a permanent settlement; 1,235 received a provisional settlement; 2,694 were completed with no settlement; 35 cases were terminated. There are approximately 16,000 cases in various stages of the mediation process, and another 2,000 homeowners have contacted the housing counselors and their cases are under review.

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Although unrelated to the mediation program, HMFA applied for and received grants from *NeighborWorks America* which has funded counseling for over 4,200 homeowners. The homeowners receiving this counseling are not in foreclosure but are at risk of foreclosure.

Over 100 homeowners have received assistance and 40 applications are in process. This program enables eligible homeowners who had temporary setbacks, such as short-term medical issues, to catch up on their mortgage payments.

After 2011, projected expenses for the Mediation Program are anticipated to total $3 million, or the balance of the original $12.5 million state appropriation.

A total of $2.6 million in funding has been allocated to the Mortgage Assistance Program (MAP) thus far from the Department of Community Affairs Homelessness Prevention Program (HPP) and another $1.3 million in HPP funding is being requested and is expected to fund MAP throughout the remainder of 2011 and in 2012. This new funding will assist another 75 or more homeowners. Three additional full-time mediators were hired bringing the total to six full-time mediators. The additional mediators were hired on March 21, 2011. Since the inception of the full-time mediator program in January 2010, 1,569 cases were handled, 872 cases were completed, and 697 cases are in process. Of the 872 completed cases, 378 cases were settled and 328 homeowners stayed in their homes. It is anticipated that each full-time mediator will handle approximately 250 cases in 2011.

11. In September and October 2010, the New Jersey Housing and Mortgage Finance Agency (NJHMFA) received over $300 million in aid from the federal government's "Hardest Hit Fund" for a new foreclosure prevention program that is intended to assist homeowners struggling with the effects of the economic recession. According to the Housing Finance Agency Participation Agreement between the NJHMFA and federal Department of the Treasury, the New Jersey HomeKeeper Program will provide 0% interest rate, deferred payment mortgage loans to unemployed and substantially underemployed homeowners who, through no fault of their own, are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure. The maximum HomeKeepers mortgage loan amount is $48,000 and loan proceeds would be used to pay existing mortgage arrearages and/or an approved amount of the homeowner's existing mortgage payments each month for a period of time not exceeding 24 months. Eligible homeowners will not be subject to maximum household income limits but they must meet a series of criteria regarding the frequency of and percentage of gross income necessary to cover their existing mortgage payment; provide a notarized financial Hardship Affidavit; exhaust other available financial resources; have a combined loan-to-value ratio of no more than 125% for all mortgages on the home (including the proposed HomeKeepers mortgage); and participate in sessions with an approved counseling agency.

The Participation Agreement anticipates that New Jersey HomeKeepers Program will start with a 3-month pilot program to begin within 90 days of the commencement of funding. At the end of the 3-month period, the NJHMFA will review the HomeKeepers Program with key stakeholders and make any necessary changes, with the approval of the federal Treasury Department, in order to better serve eligible homeowners. The NJHMFA's Hardest Hit Fund Proposal indicates that the agency may need to hire up to 10 additional personnel to implement

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the HomeKeepers Program. An amendment to the Participation agreement dated December 16, 2010 estimates that approximately 6,900 participating households will receive an average assistance loan of $38,000. The NJHMFA also projects that it will spend over $38.6 million on permitted expenses as follows: $2.7 million for One-Time/Start-Up; $22.1 million for Operations/Administration; and $13.8 million for Transaction Fees and Counseling Expenses. All unused funds must be returned to the federal Treasury at the end of 2017.

- ***Question:*** **Has the NJHMFA established a New Jersey HomeKeepers Pilot Program? How many households have received mortgage assistance with these funds? What is the average loan amount? When will the pilot program end and what is the target for the activation of a Statewide Program? What is the Agency's plan for public outreach to potential participants? Has the NJHMFA hire any additional staff to coordinate the HomeKeepers Program? If a pilot program has not yet been established, what other steps has the NJMHFA taken to effect its implementation? Please provide a Fiscal Year 2012 spending plan for the New Jersey HomeKeepers Program.**

HMFA established a pilot program that began March 8, 2011. To date, 100 homeowners have applied and complete applications are being referred to participating housing counselors for further review and assistance. It is expected that the average per household loan amount will be $36,000. The pilot will end May 8, 2011, at which time HMFA will offer the program on a statewide basis.

A website, www.njhomekeeper.gov was created to provide program information to the public, and a toll-free call center directing the public to this website is now operational (855-NJ-KEEP-1). Letters to mayors and librarians are scheduled to be mailed this month with program-related handouts, public speaking sessions, and marketing links with the State unemployment office and One Stop Centers are also underway.

Additional staffing will be necessary and at least three new hires are expected to begin shortly before the statewide program opening date. More staff will be hired throughout the ensuing months as needed.

Spending Plan for the New Jersey HomeKeepers Program

$36,000 average loan size @ 2,000 loans	$72.0 million
Administrative Costs	$6.0 million
Personnel & Operating Costs	$2.4 million
Underwriting and transaction-related costs	$2.3 million
Counseling Fees	$1.3 million
Total	$84.0 million

12. General Provision 77 of the 2011 appropriations act required a deduction from each municipality's Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Aid "equal to the amount of the reduction in State formula aid from the previous local budget year which the municipality took into account in establishing its adjusted levy increase for the current local budget year consistent with section 10 of P.L.2007, c.62 (C.40A:4-45.45)." The referenced section of law allowed any municipality to increase its maximum

Discussion Points (Cont'd)

permissible tax levy by the amount of reduction in municipal aid. The language was recommended by the Governor in the FY 2011 budget and was approved by the Legislature as proposed, without any alteraton.

- ***Question:*** **Where any deductions taken from any municipality's Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Aid pursuant to the above language provision? If so, please list each affected municipality and the amount deducted. If not, please explain why not.**

No deductions were taken from State Aid under this provision. It was not used because the provision penalized any municipality that wanted to increase property taxes to offset the aid loss and no municipality chose to be penalized.