


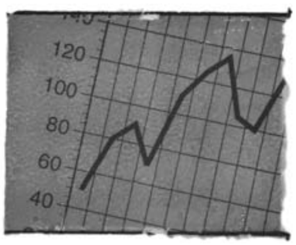



ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF COMMUNITY AFFAIRS

FISCAL YEAR 2013 - 2014

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2013

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF COMMUNITY AFFAIRS

Budget Pages....... C-3, C-10 to C-11, C-17, C-24, C-26, D-43 to D-60, F-7, F-9, and F-10

Fiscal Summary ($000)

	Expended FY 2012	Adjusted Appropriation FY 2013	Recommended FY 2014	Percent Change 2013-14
State Budgeted	$494,992	$756,882	$749,993	(.9%)
Federal Funds	$408,623	$454,291	$436,224	(4.0%)
Other	$71,166	$73,279	$78,722	7.4%
Grand Total	$974,781	$1,284,452	$1,264,939	(1.5%)

Personnel Summary - Positions By Funding Source

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2013-14
State	95	90	100	11.1%
Federal	270	256	258	0.8%
Other	561	549	564	2.7%
Total Positions	926	895	922	3.0%

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

- The appropriation for Consolidated Municipal Property Tax Relief Aid (CMPTRA) will increase from the Fiscal Year 2013 adjusted appropriation of $553.587 million to a Fiscal Year 2014 recommended amount of $575.852 million. This increase affects only three municipalities authorized to receive a portion of their Fiscal Year 2013 Transitional Aid to Localities funding as an increase in their CMPTRA payment. Budget language provides for the transfer of $319.632 million from CMPTRA to the Energy Tax Receipts Property Tax Relief Fund to support annual inflation increases in Energy Tax Receipts Property Tax Relief Aid, resulting in no change in combined formula aid distributed through these two programs.

- Funding for the State's only discretionary municipal financial assistance program, Transitional Aid to Localities, is $94.514 million, a reduction of $14.146 million from the FY 2013 adjusted appropriation of $108.660 million. Because this reduction reflects the shift of $22.265 million in aid to three municipalities through CMPTRA, and because the Executive plans to lapse an unexpended balance of $11.9 million, the funding level for FY 2014 is an effective increase of $20 million.

- The Budget assumes approval of FY 2013 supplemental appropriations totaling $6.250 million for Consolidation Implementation. The Executive Branch has indicated that these funds will support the consolidation of municipalities and local services, including the creation of the new Camden County Police Department Metro Division, and the consolidation of Princeton Borough and Princeton Township.

- The Budget anticipates receipt by the General Fund in Fiscal Year 2013 of $166 million currently held in municipal affordable housing trust funds, down from the original estimate of $200 million. Current law requires certain municipal trust fund balances to be paid to the New Jersey Affordable Trust Fund, which then would be transferred to the General Fund pursuant to the FY 2013 Appropriations Act. The transfer of these funds to the State has been delayed by litigation. FY 2014 budget language would also transfer any municipal trust fund balances received in FY 2014 to the General Fund.

- The Budget proposes to end the "prefunding" of Open Space Payments in Lieu of Taxes to municipalities allowing a one-time reduction of $6.4 million. The recommended appropriation of $36,000 will fund payments for two municipalities that operate on a July-June fiscal year. This change is not intended to reduce revenue supporting municipal budgets for calendar year 2013.

- A Grants-in-Aid appropriation of $18.5 million is recommended for the State Rental Assistance Program (SRAP), a decrease of $2.5 million, or 12% from the Fiscal Year 2013 adjusted appropriation of $21 million. The Executive attributes this decrease to the program's "trend," but does not indicate whether the trend is in program participants, rental costs, or both.

Highlights (Cont'd)

- New State funding for affordable housing construction is limited to collections of the additional fee segment of the realty transfer fee above the amount anticipated, and revenues generated by the Statewide non-residential development fee, but only to the extent that they are not needed to provide a minimum funding level of $20 million for SRAP. These additional revenues are projected to total $21.05 million.

- For the fourth consecutive year, the Budget anticipates all sales tax revenue collected in urban enterprise zones, (UEZs) as State revenue, diverting about $89.643 million from the Enterprise Zone Assistance Fund that is normally dedicated to assisting UEZ municipalities in undertaking public improvements and economic development projects. The estimated amount of revenues to be transferred to the General Fund is 12.3% less than the amount estimated to be transferred ($102.2 million) in Fiscal Year 2013. The transfer of these revenues to the General Fund has effectively ended the municipal portion of the UEZ program.

- State funding for all other Grants-in-Aid programs, including Cooperative Housing Inspection, Prevention of Homelessness, Shelter Assistance, Recreation for the Handicapped, and Special Olympics remains unchanged from the Fiscal Year 2013 adjusted appropriation.

<u>Background Papers</u>

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2012	Adj. Approp. FY 2013	Recom. FY 2014	Percent Change 2012-14	Percent Change 2013-14
General Fund					
Direct State Services	$46,463	$38,171	$38,351	(17.5%)	0.5%
Grants-In-Aid	22,271	38,140	35,640	60.0%	(6.6%)
State Aid	1,580	120,510	100,114	6236.3%	(16.7%)
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$70,314**	**$196,821**	**$174,105**	**147.6%**	**(11.4%)**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	424,678	560,061	575,888	35.6%	2.8%
Sub-Total	**$424,678**	**$560,061**	**$575,888**	**35.6%**	**2.8%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$494,992**	**$756,882**	**$749,993**	**51.5%**	**(0.9%)**
Federal Funds	$408,623	$454,291	$436,224	6.8%	(4.0%)
Other Funds	$71,166	$73,279	$78,722	10.6%	7.4%
Grand Total	**$974,781**	**$1,284,452**	**$1,264,939**	**29.8%**	**(1.5%)**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2012-14	Percent Change 2013-14
State	95	90	100	5.3%	11.1%
Federal	270	256	258	(4.4%)	0.8%
All Other	561	549	564	0.5%	2.7%
Total Positions	**926**	**895**	**922**	**(0.4%)**	**3.0%**

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	36.1%	36.0%	36.0%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
COMMUNITY DEVELOPMENT AND ENVIRONMENTAL MANAGEMENT					
Grants-in-Aid					
State Rental Assistance Program	**$21,000**	**$18,500**	**($2,500)**	**(11.9%)**	**D-48**

P.L.2004, c.140 established in the Department of Community Affairs a rental assistance program for low-income individuals or households, which provides grants comparable to the federal Section 8 Housing Choice Voucher program, but is only available annually to State residents who are not currently holders of federal Section 8 vouchers. The program provides both project-based and tenant-based assistance. Budget language will again appropriate at least $20 million from the New Jersey Affordable Housing Trust Fund to the State Rental Assistance Program (SRAP). According to key performance indicators on page D-45 of the Fiscal Year 2014 budget, the DCA has expended only 85% of the amount available for rental assistance in the current Fiscal Year. The Executive Branch has also indicated that $2.5 million in unexpended SRAP monies will lapse to the General Fund at the end of Fiscal Year 2013. Reduced FY 2014 funding is attributed by the Executive Branch to the program's "trend," but it is not clear whether that refers to number of participants, rental costs, or both.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Federal Funds					
Housing Services	**$279,261**	**$261,569**	**($17,692)**	**(6.3%)**	**D-49**

Most of the anticipated reduction in federal funds is due to the loss of a one-time award of federal Community Development Block Grant-Disaster Recovery Funds ($15.498 million) to New Jersey for the recovery and restoration of housing and infrastructure and economic revitalization following Hurricane Irene. Pursuant to the "Consolidated and Further Continuing Appropriations Act" (Pub.L.112-55), 80% of these funds ($12.478 million) must be spent in Passaic County because it was identified by FEMA as the local unit most impacted by Hurricane Irene. According to the "New Jersey Community Development Block Grant Disaster Recovery Program," these funds will support housing rehabilitation, housing buyouts, improvements to public facilities, and economic revitalization efforts. The remaining 20% of these funds is available for recovery efforts in all other New Jersey counties. Other programs for which reductions are projected are: Small Cites Block Grant Program ($337,000 or 4%); National Affordable Housing – Home Investment Partnerships ($584,000 or 7%); and Rental Assistance for Non-Elderly Persons with Disabilities ($1.9 million or 100%).

All Other Funds

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Housing Services	**$27,841**	**$31,050**	**$ 3,209**	**11.5%**	**D-49**

The anticipated increase in dedicated funds for housing services in Fiscal Year 2014 reflects $3.2 million in monies received by the New Jersey Affordable Housing Trust Fund. It is unclear whether these additional revenues will be needed for State Rental Assistance or made available for affordable housing production.

Uniform Construction Code	**$7,151**	**$8,251**	**$ 1,100**	**15.4%**	**D-49**

The department anticipates additional revenue collections due to a projected increase in construction permit activity caused by multiple factors including post-Hurricane Sandy rebuilding, large constructions projects (i.e., American Dream), and general economic growth. These additional revenues will support code enforcement activities.

ECONOMIC PLANNING, DEVELOPMENT, AND SECURITY

All Other Funds

Community Resources	**$8,145**	**$8,754**	**$ 609**	**7.5%**	**D-53**

The Fiscal Year 2014 budget provides for an increase in funding for the Universal Services Fund energy assistance program. The Universal Services Fund helps very low-income residents with their natural gas and electric bills. To be eligible, a household must have a gross annual income of less than or equal to 175% of the Federal Poverty Level and pay more than 3% of its annual income for electricity or natural gas. If a household has electric heat, it must spend more than 6% of its annual income on electricity to be eligible for assistance. For Federal Fiscal Year 2013 (October 1, 2012 – September 30, 2013), the maximum monthly gross income eligibility level for a family of four is $3,362. Universal Services Fund revenues are generated by a surcharge on natural gas and electricity bills.

GOVERNMENT DIRECTION, MANAGEMENT, AND CONTROL

Direct State Services

Local Government Services	**$4,082**	**$4,262**	**$ 180**	**4.4%**	**D-55**

The Fiscal Year 2013 appropriations act reduced the amount for salaries and wages in the Division of Local Government Services (DLGS) by $180,000 in anticipation of the transfer of

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Local Government ethics oversight functions from the DLGS to the State Ethics Commission. The proposed reorganization of these responsibilities did not occur, and the Fiscal Year 2014 budget recommends an increase of $180,000 for DLGS salaries and wages to restore the reduction.

State Aid

Consolidated Municipal Property Tax Relief Aid (PTRF)	**$553,587**	**$575,852**	**$22,265**	**4.0%**	**D-55**

The Fiscal Year 2014 Budget increases State Aid allocated through Consolidated Municipal Property Tax Relief Aid (CMPTRA) by $22.265 million. This increase would permit three municipalities to receive a portion of their Fiscal Year 2013 Transitional Aid to Localities funding as an increase in their CMPTRA payment as follows: Camden City, $12,000,000; Maurice River Township, $265,000; and Newark City $10,000,000. In addition, the increase in the annual inflation adjustment to Energy Tax Receipts Property Tax Relief Aid, 2.5% or $21.73 million, is to be funded by reallocating CMPTRA rather than increasing energy tax receipts appropriations. No municipality will receive a formula based increase in State aid in FY 2014.

Consolidation Implementation	**$6,250 (S)**	**$0**	**($6,250)**	**(100.0%)**	**D-55**

The department has indicated that the projected FY 2013 supplemental appropriation will be distributed to local units to assist in the payment of expenses associated with the consolidation of municipalities and local services, including the new Camden County Police Department and the consolidation of Princeton Borough and Princeton Township. A language provision in the Fiscal Year 2013 appropriations act permits the department to appropriate additional funds for non-recurring costs, as determined by the Director of the Division of Local Government Services, necessary for the implementation of municipal consolidation and annexation. Through March 31, 2013, $6.05 million had been approved pursuant to this language, but no funds have been expended. While no funds are recommended for Consolidation Implementation in FY 2014, the language is continued, allowing the department to assist future consolidation or annexation efforts.

Transitional Aid to Localities	**$108,660**	**$94,514**	**($14,146)**	**(13.0%)**	**D-55**

Transitional Aid to Localities is the State's only discretionary municipal government financial assistance program. As passed by both Houses of the Legislature, the Fiscal Year 2013 appropriations act originally allocated $113.660 million for Transitional Aid. The Governor's line-item veto of Senate Bill No. 2013 (now P.L.2012, c.18) reduced that amount by $5 million. The Governor's Veto Message stated that the appropriation was reduced to reflect pension contribution savings achieved by municipalities participating in the Transitional Aid program in

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Fiscal Year 2013. In Fiscal Year 2013, 12 municipalities submitted applications requesting $119.779 million in additional State assistance; 10 municipalities were awarded $91.815 million in Transitional Aid. Taking into consideration the shift of Transitional Aid to CMPTRA for three municipalities and the intended lapse of $11.9 million in unexpended FY 2013 funds, the recommended funding for Fiscal Year 2014 is an effective increase of $20 million above net Fiscal Year 2013 Transitional Aid.

According to Local Finance Notice 2013-05, "[a]id 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. Applying for aid under the Transitional Aid program is a declaration that the municipality is incapable of meeting its obligations and managing its finances without special state assistance, oversight, and intervention."

Open Space Payments in Lieu of Taxes (PTRF)	**$6,474**	**$36**	**($6,438)**	**(99.4%)**	**D-55**

The proposed Fiscal Year 2014 budget would end the advance funding of Open Space Payments in Lieu of Taxes to municipalities. In prior fiscal years, the annual appropriations act had "prefunded" these payments to municipalities for the subsequent municipal Calendar Year budget, i.e., State Fiscal Year 2013 appropriations supported municipal Calendar Year 2013 budgets, which commenced six months after the State fiscal year began. The proposed appropriation of $36,000 will fund payments to two municipalities, Millville City and Passaic City, that operate on the same July-June fiscal year as the State. A proposed budget language provision authorizes supplemental appropriations up to $1.1 million to permit the department to ensure that each municipality receives a payment in support of its Calendar Year 2013 budget that does not exceed its Calendar Year 2012 budget payment.

Since Fiscal Year 2013 appropriations for these State Aid payments were identical to those in Fiscal Year 2012, the need for additional funds in Fiscal Year 2014 to achieve parity in the amount of aid supporting 2012 and 2013 municipal budgets indicates that some municipalities were permitted to budget this aid a year earlier than the norm. A one-time appropriation in Fiscal Year 2014 would thus be required to prevent a one-year loss of aid by these municipalities.

Significant Language Changes

Green Homes Office Organizational Shift

Revision

2013 Handbook: p. B-23
2014 Budget: p. D-50

There is appropriated from the Petroleum Overcharge Reimbursement Fund the ~~sum~~ amount of $300,000 for the expenses of the Green Homes Office ~~in the New Jersey Housing and Mortgage Finance Agency~~, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language provision is revised to reflect the assumption of the functions of the New Jersey Green Homes Office (GHO) by the Department of Community Affairs, pursuant to a memorandum of agreement between the DCA and the New Jersey Housing and Mortgage Finance Agency. According to information posted on the Green Homes Office website, the goal of the GHO is to create programs, resources, and building guidelines to be used by residents, developers, and government entities to make New Jersey a leading example of "resource efficient, healthy, and cost conscious residential new construction and rehabilitation." The GHO also works with State and local agencies to incorporate, encourage, and standardize the inclusion of sustainable design practices.

Use of Realty Transfer Fees for the State Rental Assistance Program

Revision

2013 Handbook: p. B-24
2014 Budget: p. D-51

The amount hereinabove appropriated for the Shelter Assistance Program ~~and~~, the Prevention of Homelessness Program, and the State Rental Assistance Program shall be payable from the receipts of the portion of the realty transfer fee directed to be credited to the New Jersey Affordable Housing Trust Fund pursuant to section 4 of P.L.1968, c.49 (C.46:15-8) and from the receipts of the portion of the realty transfer fee directed to be credited to the New Jersey Affordable Housing Trust Fund pursuant to section 4 of P.L.1975, c.176 (C.46:15-10.1). If the receipts are less than anticipated, the appropriation shall be reduced accordingly.

Explanation

As revised, this language provision expands the list of programs supported by realty transfer fees anticipated as State revenue, instead of being deposited directly into the New Jersey Affordable Housing Trust Fund to support the State Rental Assistance Program (SRAP). As a result, $28.159 million in revenue anticipated from dedicated realty transfer fees (Schedule I State Revenues, Page C-3) will offset $28.164 million in affordable housing-related Fiscal Year 2014 appropriations.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Administrative Costs of the Special Olympics Program

Addition

2013 Handbook: —
2014 Budget: p. D-53

Of the amount hereinabove appropriated for the Special Olympics program, an amount not to exceed $75,000 may be allocated for the administrative costs of the program, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This new language provision permits the allocation of an amount not to exceed $75,000 for the Special Olympics Program without the need for prior legislative review. In prior fiscal years, the provision of funding for the administrative and operating expenses of the Special Olympics program was accomplished through a transfer of funds reviewed and approved by the Office of Legislative Services. According to information provided by the Executive Branch, $155,000 in State funding for the Special Olympics will lapse to the General Fund at the end of the current fiscal year. The Fiscal Year 2014 budget recommends no change from the Fiscal Year 2013 funding level of $405,000 for the Special Olympics program.

Distribution and Transfer of Consolidated Municipal Property Tax Relief Aid

Revision

2013 Handbook: p. B-27
2014 Budget: p. D-57

Notwithstanding the provisions of any law or regulation to the contrary, the amount hereinabove appropriated for Consolidated Municipal Property Tax Relief Aid shall be distributed in the same amounts, and to the same municipalities which received funding pursuant to the previous fiscal year's annual appropriations act, provided further, however, that from the amount hereinabove appropriated there is transferred to the Energy Tax Receipts Property Tax Relief Fund account such sums as were determined for fiscal year 2003, fiscal year 2006, fiscal year 2007, fiscal year 2008, fiscal year 2009, fiscal year 2010, fiscal year 2012, fiscal year 2013, and fiscal year ~~2013~~ 2014 pursuant to subsection e. of section 2 of P.L.1997, c.167 (C.52:27D-439) as amended by P.L.1999, c.168; and except that, the amount of Consolidated Municipal Property Tax Relief Aid received by a municipality shall be increased by such amounts of Transitional Aid to Localities deemed to constitute Consolidated Municipal Property Tax Relief Aid by the Director of the Division of Local Government Services in the previous fiscal year.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

As was the case in Fiscal Year 2003, Fiscal Years 2006 to 2010, and Fiscal Years 2012 and 2013, the proposed budget provides that the annual inflation adjustment to the Energy Tax Receipts Property Tax Relief Fund ($21.731 million or 2.5%) be funded by reallocating Consolidated Municipal Property Tax Relief Aid (CMPTRA) rather than by appropriating additional State funds. Municipalities will receive no inflation-based municipal aid increases in Fiscal Year 2014.

Distribution of Open Space Payments in Lieu of Taxes

Revision

2013 Handbook: p. B-28
2014 Budget: p. D-57

Notwithstanding the provisions of any law or regulation to the contrary, payments to municipalities in lieu of taxes for lands acquired by the State and non-profit organizations for recreation and conservation purposes shall be provided only to municipalities ~~whose payments received in fiscal year 2010 exceeded $5,000 and shall be provided at two –thirds of the payment amount provided in fiscal year 2010~~ <u>operating under the State fiscal year in the amount provided in the previous fiscal year. Municipalities operating under a calendar fiscal year are authorized to continue to anticipate the State's fiscal year 2013 payments in their calendar year 2013 budgets and shall be permitted to anticipate an identical amount in their calendar year 2014 budgets.</u>

Explanation

As revised, the language provision would change the timetable on which the State Aid for Open Space Payment in Lieu of Taxes is provided to municipalities pursuant to the "Garden State Preservation Trust Act," (C.13:8C-1 et seq.). In State Fiscal Year 2014, payments would be provided to only those municipalities that operate on a July 1 to June 30 fiscal year. These payments would not be provided to municipalities that operate on a January 1 to December 31 fiscal year. State aid payments to "calendar year" municipalities were distributed on October 1, 2012 to support budgets for the fiscal period beginning January 1, 2013. When preparing their budgets for 2014, "calendar year" municipalities would be permitted to anticipate as revenue the amount of the Open Space Payment in Lieu of Taxes they received in 2013, but this aid would not be funded until the State adopts the Fiscal Year 2015 budget.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Additional Appropriation for Open Space Payments in Lieu of Taxes

Addition

2013 Handbook: —
2014 Budget: p. D-57

In addition to the amounts hereinabove appropriated for the Department of Community Affairs, an amount not to exceed $1,100,000 is appropriated to the Open Space Payments in Lieu of Taxes account to provide aid to municipalities in such amounts as the Director of the Division of Local Government Services determines to be necessary to ensure that each municipality receives funding in support of its calendar year 2013 budget not to exceed the amount received in support of its calendar year 2012 budget, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

As noted above, the Fiscal Year 2014 Budget proposes to end the"prefunding" of Open Space Payments in Lieu of Taxes. State aid payments to "calendar year" municipalities were distributed in October 1, 2012 to support budgets for the fiscal period beginning January 1, 2013. However, if a municipality was permitted to anticipate the October 1, 2012 payment in its 2012 budget, the proposed change in timing could result in a one-year loss of revenue in its 2013 budget. This proposed language provision permits the DCA to appropriate up to $1.1 million for Open Space Payments in order to prevent any revenue loss the proposed change in timing would cause in these situations.

Appropriation for Certain Administrative Costs

Revision

2013 Handbook: p. B-29
2014 Budget: p. D-60

Notwithstanding the provisions of any law or regulation to the contrary, the amount hereinabove for the Historic/Trust Open Space Administrative Costs account is transferred from the Garden State Historic Preservation Trust Fund, the 2007 Historic Preservation Fund, and the 2009 Historic Preservation Fund to the General Fund~~, together with an amount not to exceed $5,000,~~ and is appropriated to the Department of Community Affairs for Historic/Trust Open Space Administrative Costs, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

In prior fiscal years, this language provision allowed for a small amount of additional budget authority if the annual appropriation was not sufficient to cover all Historic Trust/Open Space Administrative Costs. The Executive Branch has indicated that the proposed Fiscal Year 2014 appropriation for these purposes is sufficient and the additional appropriation is not needed.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Mortgage Servicing Settlement Fund

Deletion

2013 Handbook: p. E-8
2014 Budget: ---

~~Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated from the Mortgage Servicing Settlement Fund for transfer to the General Fund as State revenue the proceeds obtained by the State and deposited into such fund from the Consent Judgment entered into in connection with the settlement of litigation involving allegations of foreclosure abuses, fraud and unacceptable business practices by the country's five largest mortgage servicers.~~

Explanation

This language provision authorized the transfer to the General Fund as State revenue any proceeds received by New Jersey as part of the settlement between the state attorneys general and the five leading bank mortgage servicers. Most of New Jersey's share of the settlement proceeds, approximately $762.1 million, will be used to modify existing home loans, provide cash payments to homeowners who lost their homes to foreclosure and suffered servicing abuse, and assist homeowners with existing home loan refinancings. The State also received a direct one-time payment over which it had substantial discretion in using. This payment, originally estimated at $75 million, now estimated at $72.1 million, is anticipated as an interfund transfer into the General Fund on page C-8 (Schedule I State Revenues) of the Fiscal Year 2013 budget.

Use of Mortgage Servicing Settlement Fund Proceeds

Deletion

2013 Handbook: p. E-8
2014 Budget: ---

~~Notwithstanding the provisions of any law or regulation to the contrary, such sums as were appropriated from the Mortgage Servicing Settlement Fund for Transfer to the General Fund as State revenue are hereby appropriated, subject to the approval of the Director of the Division of Budget and Accounting, for the following purposes: attorneys fees, investigation and other expenses related to the investigation and resolution of the mortgage servicing settlement, Affordable Housing, Local Planning Services, Developmental Disabilities Residential Services, State Rental Assistance Program, Homelessness Prevention, Shelter Assistance, Community Based Senior Programs, Mental Health Residential Programs, Social Services for the Homeless, and Temporary Assistance for Needy Families.~~

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

This language provision specified the allocation of any funds transferred to the General Fund from the Mortgage Servicing Settlement Fund. According to a summary published by the executive committee of state attorneys general that negotiated the settlement, these funds may be used for foreclosure relief and housing programs, including housing counseling, legal assistance, foreclosure prevention hotlines, foreclosure mediation, and community blight remediation. The OLS notes that the allocation of these revenues did not result in an equivalent increase in Fiscal Year 2013 State appropriations for the several authorized purposes above their Fiscal Year 2012 adjusted levels. Since the settlement payment was a one-time revenue, this language serves no purpose after FY 2013.

Background Paper: The New Jersey HomeKeeper Program

During September and October 2010, the New Jersey Housing and Mortgage Finance Agency (NJHMFA) received $300.5 million in aid through the federal government's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (simply known as the "Hardest Hit Fund") for a new foreclosure assistance program intended to assist homeowners struggling with the effects of the economic recession. According to the U.S. Department of the Treasury (Treasury), the Hardest Hit Fund provides funding for state housing finance agencies (HFAs) to develop locally tailored foreclosure prevention solutions in areas that have been acutely affected by home price declines and high unemployment. The federal government has awarded over $7.6 billion to 18 states and the District of Columbia. States were selected for funding because they were struggling with either unemployment rates at or above the national average, or declines in home prices greater than 20 percent. Each state's program was designed and is administered by its HFA.

The Allocation of Hardest Hit Funding

New Jersey was deemed eligible to receive federal assistance from the third and fourth rounds of Hardest Hit Fund assistance.[1] Third round funding targeted 18 states and the District of Columbia that had high, sustained unemployment rates (through the 12-month period ending in June 2010) that were at or above the national average. This expansion of the Hardest Hit Fund provided $2 billion in funding for HFAs to offer a standard unemployment bridge program that pays a portion of borrowers' mortgage payments while they are unemployed or underemployed. HFAs were permitted to begin distributing funds immediately after approval of the Housing Participation Agreement by Treasury. However, prior to significant activity, each HFA was required to complete a readiness assessment that focused on ensuring that proper procedures and controls were in place before full-scale program implementation. Within 90 days of closing, each HFA was also required to deliver a compliance and fraud control plan to Treasury.

The New Jersey HomeKeeper Program: Funding & Eligibility Requirements

On September 23, 2010 New Jersey was awarded $112.2 million in third round funding. The Fifth Amendment to the HFA Participation Agreement (executed August 24, 2012) indicated that this entire amount was dedicated for assistance to the unemployed and underemployed through the HomeKeeper Program. In addition, a fourth round of Hardest Hit Fund assistance totaling $3.5 billion was awarded to all participating HFAs on September 29, 2010; New Jersey received $188.3 million. These funds may be used for administrative costs, to expand the HomeKeeper Program, or to fund other foreclosure prevention programs, provided they are approved by Treasury. These funds were initially placed in each HFAs largest program. States that wanted to reallocate the additional funds to another program were required to submit a budget and plan to Treasury. Of the $188.3 million in fourth round funding, $38.6 million has been dedicated for administration. On March 13, 2013, the NJHMFA Board approved guidelines and funding allocations for a HomeKeeper II Program ($50 million) and a Hardest Hit Fund Note Purchase Program ($25 million). These two programs must be approved by Treasury before they can be implemented. It is not yet clear how the NJHMFA will utilize the remaining $74.685 million in fourth round funds. All HHF monies may be used to assist

[1] The first two rounds of funding targeted five states with home price declines greater than 20% and the second round of funding also targeted five states with high concentrations of people living in economically distressed areas, defined as counties in which the unemployment rate exceed 12 percent in 2009. New Jersey did not meet either of these criteria.

Background Paper: The New Jersey HomeKeeper Program (Cont'd)

homeowners until December 31, 2017. After that date, all remaining and recaptured funds will be returned to Treasury.

According to the HFA Participation Agreement between the NJHMFA and Treasury, the HomeKeeper Program will provide no-interest 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 HomeKeeper mortgage loan amount is $48,000 and loan proceeds are 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 to exceed 24 months.

The HomeKeeper Program provides two types of financial assistance. Mortgage Payment Assistance may be provided to eligible homeowners who, as a direct result of unemployment or underemployment are already delinquent on their mortgage payments or are likely to become delinquent within 90 days of their HomeKeeper application. Reinstatement Assistance provides financial support, for use as a one-time payment to settle mortgage arrearages accumulated during a period of unemployment or underemployment, to those who have, by the time of their HomeKeeper application, regained sufficient employment income to pay all mortgage payments going forward. If the homeowner refinances their mortgage or sells their property within the first five years of the loan closing date, the full amount of the loan is due and payable upon the sale, transfer, or refinancing of the property. The full amount also must be repaid if the homeowner no longer occupies the property as their primary residence. After the fifth year, the HomeKeeper loan is forgiven by 20% per year, and forgiven in full after the tenth year.

There is no maximum household income eligibility limit. HomeKeeper assistance is provided on a first come, first served basis to borrowers who meet certain qualifications. The first set of HomeKeeper eligibility guidelines were stringent. Program participation was limited to homeowners who had become unemployed within the last 12 months, had an income reduction of at least 25%, purchased their home before January 2009, and had a loan-to-value ratio of 100% or less. However, in response to a high borrower application rejection rate, the NJHMFA revised the program guidelines in July 2011, December 2011, and August 2012. If an application was denied because it did not meet prior guidelines that have since been revised the homeowner may submit a written appeal to the NJHMFA in order to have the application reconsidered.

Under the current program guidelines, eligible homeowners:

- May be current on mortgage payments, but are expected to become delinquent within a 90-day period due to loss of employment income OR may be 30 days or more delinquent on mortgage payments due to loss of employment income;
- Must provide a financial hardship affidavit attesting to their inability to make mortgage payments;
- Must show evidence of having made payments on their first mortgage loans;
- Must exhaust other available financial resources/assets (excluding recognized retirement and education savings plans) before qualifying for assistance, except that they may keep liquid assets amounting to a maximum of nine months of mortgage payments;

Background Paper: The New Jersey HomeKeeper Program (Cont'd)

- Must be paying, as a result of employment income loss, more than 25% of monthly gross household income to cover all existing mortgage payments;
- Must have no more than a combined total of $429,619 for a one-unit dwelling or $550,005 for a two-family dwelling in outstanding principal balance due on all existing mortgage loan(s) on the home at the time of application; and
- Must participate and cooperate in sessions with a HomeKeeper approved housing counseling agency.

Program Performance

Participating HFAs are required to report aggregate-level metrics to Treasury through the Bank of New York Mellon, Treasury's financial agency for the Hardest Hit Fund program. These reports show a broad array of data including, but not limited to: borrower characteristics (i.e., income category, race, gender, and delinquency status), assistance characteristics (i.e., number of homeowners approved or denied assistance; median housing payment before and after assistance; and monthly spending data), and performance outcomes (number of borrowers who remain in their homes six months after assistance, dollar amount of leveraged assistance from lenders, servicers, and investors, and the percentage of program participants who transferred into another loan modification program). HomeKeeper performance reports have to be filed by the 15th day of the month following the end of the calendar quarter.

The performance reports filed by the NJHMFA show that the HomeKeeper Program got off to a slow start. In the first quarter following the launch of the program in May 2011, the NJHMFA had not closed a single loan even though the agency had received nearly 1,300 applications. By the end of the first quarter of 2012, the NJHMFA had awarded loans to 168 borrowers and denied assistance to 432 applicants. Since by that point over 2,700 applications for assistance had been received, a backlog of 2,445 applications pending review developed. In its response to OLS Discussion Points during the Fiscal Year 2013 budget process, the department acknowledged that the program's initial eligibility requirements resulted in a high rejection rate, and a lack of staff dedicated to the program resulted in long delays between the submittal of an application and the provision of assistance to eligible borrowers. In testimony before a joint meeting of the Assembly Financial Institutions and Insurance Committee and the Assembly Housing and Local Government Committee, DCA Commissioner Constable explained, "...the HMFA had to build a program from the ground up with little guidance or direction from the federal government. Unlike other states, which either already had a program in place, or received 'Hardest Hit' funds well ahead of New Jersey, the HMFA quickly found itself having to play catch up."

There was a notable increase in HomeKeeper activity in the final three quarters of 2012. Over 1,700 borrowers received assistance totaling $25.8 million. The number of full-time program staff has increased from 6 to 47 and the borrower rejection rate has declined from 71.2% in the first three quarters of the program to 63.4% in the subsequent three quarters of program. The median assistance amount has increased from about $4,100 to $10,300. Of 111 borrowers no longer active in the HomeKeeper Program: 93 households have received the full amount of assistance for which they were eligible; 16 households transitioned out of the HomeKeeper Program, but maintain ownership of their home; and 2 households transitioned out of the program because the homeowner regained an appropriate level of employment. Approximately $9.3 million has been spent on administrative support, outreach, and

Background Paper: The New Jersey HomeKeeper Program (Cont'd)

counseling. According to the *Fiscal Year 2014 Budget Summary*, $96 million in HomeKeeper funds have been committed to borrowers[2].

Other Program Options
States that received allocations from the Hardest Hit Fund were permitted to establish five different types of homeowners assistance programs: mortgage payment assistance, reinstatement, principal reduction, second lien reduction, and transition assistance. According to the Federal National Mortgage Association (commonly known as "Fannie Mae"), all HFAs have used either all or a portion of their funds for mortgage payment assistance and reinstatement; ten states have established principal reduction programs; seven states have funded transition assistance, and six states used their Hardest Hit Fund awards to create second lien reduction programs. As noted above, $112 million of New Jersey's allocation will be used for mortgage payment assistance and reinstatement assistance. An additional $75 million has been reserve for two new programs awaiting Treasury approval.

Senate Bill No. 2202 (1R) of 2012 ("S-2022") requires the NJHMFA to expand the New Jersey HomeKeeper Program to include components to purchase mortgages; facilitate permanent mortgage modifications through principal reductions by lenders; facilitate second mortgage reductions or payoff; provide loans or subsidies to cover past-due amounts and facilitate reinstatement; expand eligibility for mortgage assistance for underemployed and unemployed persons; and, provide transition assistance. The bill mandates that a minimum of 20% of the amount remaining from the State's Hardest Hit Fund allocation be spent in any calendar year. S-2022 further directs that not less than $50 million of the State's Hardest Hit Fund monies be used to establish a mortgage principal reduction program. Program eligibility would be expanded to include homeowners who are current in their mortgage obligations, as well as homeowners who are delinquent but against whom a judgment of foreclosure has not been entered by a judge of the Superior Court pursuant to the provisions of the "Fair Foreclosure Act," P.L.1995, c.244 (C.2A:50-53 et seq.). The bill also requires the NJHMFA to review, and either approve or deny, all applications for HomeKeeper Program assistance not later than the 90th day after submission. The NJHMFA would be required to provide, not later than January 31st, a plan for the expenditure of Hardest Hit Funds in the calendar year and a year-end report detailing the amount of moneys expended during the previous calendar year, the number of homeowners who were provided financial assistance, and the amount expended for administrative purposes. S-2022 passed both Houses of the Legislature on December 20, 2012.

S-2022 was conditionally vetoed by the Governor and returned to the Senate on January 28, 2013. The Governor's proposed changes would name S-2022 the "New Jersey Residential Foreclosure Prevention Act." The recommended changes remove provisions in the bill requiring the NJHMFA to expand the New Jersey HomeKeeper Program to include other foreclosure prevention initiatives, the review of applications within 90 days, and the additional monitoring requirements. Instead, the Governor's recommended amendments require the NJHMFA to use the State's allocation from the Hardest Hit Funds to establish a foreclosure prevention program portfolio. The NJHMFA would be required to use these funds to create other foreclosure prevention programs, upon approval by Treasury. The foreclosure prevention program portfolio may include a principal reduction program, a foreclosure mediation program, and a program to assist homeowners who are in arrears due to a temporary hardship other than

[2] Funds are paid to borrowers on a monthly basis.

Background Paper: The New Jersey HomeKeeper Program (Cont'd)

underemployment or unemployment, such as a natural disaster. No further action has been taken on this legislation.

The chart below is a summary of select cumulative HomeKeeper Performance Data, as of the end of the end of the 4th quarter of 2012 (October 1, 2012 – December 31, 2012)[3].

Program Intake, Expenditure, and Financial Data	
Number of Applicants Receiving Assistance (Borrowers)	1,922
Number of Applicants Denied Assistance	3,383
Number of Withdrawals from Program	145
Total Number of Applicants	6,722
Total Assistance Paid	$26,747,680.61
Total for Administrative Support, Outreach, and Counseling	9,309,794.20
Total Program Expenditures	$36,057,474.81
Median First Lien Unpaid Principal Balance Before Program Entry	$184,656.41
Median Length of Time Borrower Receives Assistance	3 months
Median Assistance Amount	$10,329.88
Median Length of Time from Initial Request to Assistance Granted	233 Days
Select Borrower Data	
% of Borrowers with Income Below $50,000	74.08%
% of Borrowers with Income Below 80% of Area Median Income	83.79%
Number of Borrowers Receiving Assistance due to Unemployment	1,526
Number of Borrowers Receiving Assistance due to Underemployment	396
% of Borrowers 90+ Days Delinquent at Time of Assistance	62.12%
% of Borrowers Current at Time of Assistance	24.51%

[3] Each state HFA must report performance data by the 15th day of the month following the quarter. Data for the first quarter of 2013 (January 1, 2013 – March 31, 2013) must be reported by April 15, 2013, and is not available at this time.

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Individuals wishing information and committee schedules on the FY 2014 budget are encouraged to contact:

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