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Governor

STATE OF CONNECTICUT
DEPARTMENT OF HOUSING



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Commissioner

**Response to Questions raised by the Office of Fiscal Analysis
on behalf of the Bond Subcommittee
pursuant to Proposed State Bond Budget
April 4, 2019**

1. Concerning DOH's bonding for affordable housing development:

- a. What is the layout of the pipeline?
- b. What has been the average annual expenditure of last few years?
- c. What is the expectation for annual expenditure going forward, if Governor's proposed capital budget is adopted?
- d. Who will be impacted by lower bond funds?

Attached for your reference as Attachment 1 is a list of projects currently under construction and anticipated expenditures for the next 9 to 12 months. As you can see, we have expended \$153,787,270 during the current fiscal year, and anticipate spending \$95,738,151 in order to complete these active projects.

For the period ending June 30, 2018, the Department expended **\$98,026,216** in bond funds. For the period ending June 30, 2017, the Department expended **\$65,119,296** in bond funds.

With regard to lower bond funds, a reduction in the Department's authorizations **will not have any immediate or short term impact**, as is demonstrated from Attachment 1. It is important to understand that projects that are "approved" generally require 6 to 9 months to be under contract, and then have a construction/rehabilitation period that extends between 12 and 24 months, depending upon the specifics of the project.

2. Concerning CHFA's first-time homebuyer program using Downpayment Assistance Program (DAP), what is the (fairly static) percentage of "bad loans"?

CHFA's seriously delinquencies for 4th quarter of 2018 represent 5.4% of all CHFA loans which reflects the greater risk taken in our unique market. DAP borrowers carry a greater level of risk and their serious delinquency rate is 1.78% higher (or 7.2%) than the rate for all CHFA mortgages.

CHFA made changes to the DAP program in April 2018 which reduced the size of DAP loans and the loan-to-value maximum used in underwriting the loan. These changes were aimed at preserving capital for the DAP program and to help the borrower. More time and experience with program changes is needed to assess the rate of improvement with DAP loans following program revisions.

3. How do the proposed authorizations for DAP differ from each other?

The Governor's budget provides for \$4,000,000 in each year of the biennium to support the DAP program as it currently exists. A second source of down payment assistance was also included in the budget in the amount of \$500,000 for each year of the biennium.

The \$4,000,000 proposed authorization would be used to re-capitalize the CHFA DAP program which is only eligible to first-time homebuyers who also have a CHFA mortgage.

It is CHFA's understanding that the \$500,000 down payment program is to be earmarked to assist minority teachers in purchasing a home.

4. How do the funds for DAP relate/differ from the funding provided under the Flexible Housing authorization to CHFA last year?

The \$12 million authorization provided in 2018 was an initial re-capitalization of the program. CHFA had administered the fund since 1998 without capital support for the program. Prior to CHFA's administration, the state provided \$10 million per year in capital support.

The source of funding in 2018 was a re-authorization of Flexible Housing (FLEX) funds designated for the Department of Housing. This source of fund carries with it a limitation on the income level for the beneficiary of the State's dollars. In this case, the individual's income cannot exceed 120% of the Area Median Income. FLEX did not exist in 1998 and the original source of funds not provide for a limitation on income. Rather, the source of CHFA's funds that support first-time homebuyers limited the income of the borrower.

5. Does DPA have anything to do with the Emergency Mortgage Assistance Program?

While the Down Payment Assistance Program (DAP) and the Emergency Mortgage Assistance Program (EMAP) are both loan programs, they are very distinct programs that serve different goals. They are not related to each other.

Down Payment Assistance loans provide access to homeownership for low- to moderate-income, first-time homebuyers. While a monthly rent payment can be the same amount as a mortgage payment, a potential homebuyer may not have had the means to save for a down payment.

The availability of DAP is only to those first-time homebuyers eligible for and receiving a CHFA mortgage. The DAP loan carries the same interest rate as the CHFA mortgage.

EMAP loans are meant to keep homeowners in their home if they are facing foreclosure and is not restricted to CHFA-only borrowers. Eligibility and underwriting requirements for EMAP are

described by statute and require other steps to have been taken before EMAP is an option. The borrower has to be facing a hardship but also must have made an effort to negotiate a new repayment plan with lender. The borrower must have also participated in Judicial mediation.

The standards for repayment of an EMAP loan are also described in statute. Borrowers must have their hardship re-certified annually and repayment is based on the borrower's ability to repay if their financial circumstances have changed.

6. How are the Flexible Housing and Housing Trust Fund program related?

a. Without changing the rate of spending, how long are existing unallocated balances in these programs expected to last?

Flexible Housing is the generic term that is used to describe the Housing Assistance Bond Fund (HABF). This fund, codified under Section 8-37qq of the general statutes, can be used to fund most of the bond funded programs under the Department's historic area of responsibility; however, the majority of these expenditures fall under the Affordable Housing Program (also sometimes known as the Flexible Program) as described in Section 8-37pp of the general statutes. Eligible activities include A) acquisition, construction, rehabilitation, repair and maintenance of residential or mixed use structures, (B) acquisition, construction, rehabilitation, repair and maintenance of related infrastructure, facilities and amenities incidental and pertinent to the provision of affordable housing and intended primarily to serve the residents of the affordable housing project, that may include, but not be limited to, a community room, laundry, day care space, computer center, management office or playground, or (C) demolition, renovation or redevelopment of vacant buildings or related infrastructure.

The Housing Trust Fund, codified under Section 8-336m of the general statutes, the purpose of the program is to: (1) Encourage the creation of housing for homeownership at a cost that will enable low and moderate income families to afford quality housing while paying no more than thirty per cent of gross household income on housing, (2) promote the rehabilitation, preservation and production of quality, well-designed rental and homeownership housing affordable to low and moderate income families or persons, (3) maximize the leveraging of state and federal funds by encouraging private sector investment in housing developments receiving assistance, (4) encourage housing that maximizes housing choices of residents, (5) enhance economic opportunity for low and moderate income individuals and their families, (6) promote the application of efficient land use that utilizes existing infrastructure and the conservation of open spaces, and (7) encourage the development of housing which aids the revitalization of communities.

It is important to understand that projects that are "approved" generally require 6 to 9 months to be under contract, and then have a construction/rehabilitation period that extends between 12 and 24 months, depending upon the specifics of the project.

- 7. What is the average time from an award being made to housing becoming available under either the Housing Trust Fund and Flexible Housing?**
- a. How many affordable units does the program add in a year**
 - b. What is the average cost of developing an affordable housing unit?**

There is no “average time” from date of award to availability of occupancy. Each project or activity is unique. This time frame is impacted by a wide variety of factors including, but not limited to: a) other financing commitments; b) local permitting and approvals; c) completion of plans/specifications; d) procurement of contractors/subcontractors/etc.; e) state permitting (flood management as an example), if applicable; f) new construction versus substantial rehabilitation; g) infrastructure activity; and h) environmental cleanup/remediation, if applicable. In our experience, we have some projects proceed to contracting, construction and occupancy in as little as 24 months; others have literally taken 4 or more years to reach completion.

- a. The following table details the amount of affordable housing produced since 2011.

Housing Units Completed		
Year	Total Units	Affordable
2011	81	81
2012	1,348	1,338
2013	2,455	2,411
2014	2,230	2,170
2015	2,312	1,643
2016	2,034	1,838
2017	<u>2,041</u>	<u>1,716</u>
Since 2011	12,501	11,197

In addition, 1,185 total units, of which 1,098 were affordable, were produced in 2018.

- b. The following table analyzes the cost of affordable housing activities that are currently under construction, or were completed within the last year.

	TDC	DOH	Total Units	DOH Units	Total Cost Per Unit	DOH Cost Per Unit
Fairfield County	\$276,385,804	\$56,373,873	786	621	\$351,635.88	\$90,779.18
Hartford County	\$344,345,545	\$107,082,678	1248	782	\$275,917.90	\$136,934.37
Norwich/New London	\$80,203,311	\$22,488,872	326	250	\$246,022.43	\$89,955.49
Tolland County	\$34,558,656	\$12,759,000	129	117	\$267,896.56	\$109,051.28
Litchfield	\$26,400,667	\$13,943,087	88	78	\$300,007.58	\$178,757.53
Windham	\$4,918,601	\$4,215,086	32	32	\$153,706.28	\$131,721.43
New Haven	\$262,360,592	\$71,974,896	1100	1057	\$238,509.63	\$68,093.56
Middlesex	\$21,992,137	\$7,988,034	97	97	\$226,723.06	\$82,350.87
	\$1,051,165,313	\$296,825,526	3806	3034	\$276,186.37	\$97,833.07

As this analysis shows, the average cost per unit is approximately \$276,186 and this includes an average of approximately \$97,833 per unit in state assistance.

8. What is the status of the IDASH program?

- a. Have applications been accepted for the grants?**
- b. Have the unallocated funds been earmarked for a particular project or is the Department still receiving applications?**

The current status of the IDASH program is that we have stopped accepting new applications, in large part because we have applications well in excess of the available authorizations.

- a.** Currently, we have \$7,024,634 in bond authorizations, against three current applications which are requesting in excess of \$19,000,000 in assistance.
- b.** The unallocated funds have not yet been earmarked for a particular project. The three applications noted above (2 in Hartford, 1 in New London) are being reviewed as part of the Department's overall evaluation of priorities for funding, as well for program eligibility. However, we are not actively seeking additional applications at this time.

9. How were homelessness prevention funds used in the last year?

- a. Have there been any programmatic changes to the program?**

DOH committed funds to supply operating subsidies for four (4) youth homelessness supportive housing projects. Each project will provide up to \$1,000,000 in operating subsidies over a ten (10) year period, or about \$100,000 per year for each project. Each project will serve approximately 10 homeless youth in a given year.

- a.** There have not been any programmatic changes to the program to date, however, DOH is seeking technical changes through H.B. 7068 that will allow for easier implementation in the future.