

Permanently Financing Special Needs Housing

New Jersey Housing and Mortgage Finance Agency
Legislative Advocacy: State Advocacy

HFA Staff Contact

Cynthia Gonzalez

cgonzalez@njhmf.gov



Permanently Financing Special Needs Housing
Legislative Advocacy – State Advocacy



Overview

For the first time in state history, New Jersey's Special Needs Housing Trust Fund (SNHTF) has a permanent, capitalized source of funding. The SNHTF was established in 2005 with a one-time appropriation of \$200 million that was mostly depleted by 2018. To continue to fund the programs reliant on the SNHTF, the New Jersey Housing and Mortgage Finance Agency (NJHMFA) subsidized the work from its own operating budget while working closely with state legislators to create a permanent, dedicated funding stream.

Public Law 2021, Chapter 126 established a \$20 million annual revenue allocation from the state's Realty Transfer Fee directly to the trust fund for each year beginning in FY2022. Additionally, the legislature provided a one-time direct appropriation of \$20 million prior to the close of FY2021 to support NJHMFA's supportive housing initiatives while awaiting the first formal allocation. The legislative recapitalization of the SNHTF and the long-term sustainability of this funding sources enables NJHMFA to make regulatory and programmatic changes that will increase supportive housing production and dramatically expand the number of special needs units that will come online in future years.

Background

The Special Needs Housing Trust Fund (SNHTF) was established in 2005 (Public Law 2005, Chapter 163) to provide capital financing to create permanent supportive housing and community residences for individuals with special needs in New Jersey, with priority given to persons with mental illness. At its inception, the SNHTF received a one-time appropriation of \$200 million from bond issuance supported by revenues from Motor Vehicle Commission surcharges. Between 2006 and 2021, the SNHTF and agency-supported gap financing once those funds were exhausted, utilized \$220 million in financing to develop 226 special needs housing projects in New Jersey, encompassing over 1,700 special needs housing units and almost 2,500 beds. The U.S. Department of Housing and Urban Development estimates that there are 7,291 year-round Permanent Supportive Housing beds in New Jersey. Therefore, the SNHTF is responsible for over one-third of this total.

However, the SNHTF was a victim of its own success. More than eighty percent of SNHTF activity, as measured by number of projects, number of units, and funded amounts, occurred in its first seven years of operation, during which period \$194 million was used to develop approximately 1,500 units and 2,100 beds. From 2013 through 2021, as the fund neared exhaustion, NJHMFA used the remaining funds, plus agency revenues, to finance an additional 250 units and 400 beds.

The success of the program and its financial impediments did not go unnoticed. The legislature began exploring a permanent funding source as early as 2012 when it became apparent that the SNHTF would be depleted within a few years. These early proposals considered additional bonding to be supported by the same Motor Vehicle Commission surcharges. Unfortunately, this was no longer viable due to state debt repayment schedules. After the legislation stalled for more than half a decade, renewed efforts towards recapitalization began in September 2019. In the meantime, NJHMFA created the Special Needs Housing Subsidy Loan Program, a \$30 million initiative with an initial allocation of \$15 million announced in 2019 to ensure continued production of critically needed special needs housing. As the charts under "Visual Aids" demonstrate, NJHMFA rapidly accelerated special needs housing production using these resources. However, it was clear that a more permanent, consistent revenue source was essential to long-term programmatic sustainability.

Methods and Results

Throughout 2019, NJHMFA balanced its programmatic efforts with continued advocacy regarding viable means of securing permanent revenue to support ongoing and contemplated development. Initially, the legislature exhibited renewed interest in utilizing excess revenue from Motor Vehicle Commission surcharges

to support additional debt service payments. However, existing claims against those fees were too substantial to leave adequate funds to support the SNHTF with the remainder. During a tour of the NJHMFA facility provided to members of the New Jersey Assembly Housing Committee and their staffs on September 24, 2019, conversation about the essentiality of the SNHTF as a means of ensuring permanent housing production for vulnerable populations prompted the Chair of the Assembly Housing Committee to start championing the issue. After months of discussion over various options, the legislature ultimately identified the state's Realty Transfer Fee, a revenue source collected during real estate transactions and used primarily for state housing initiatives, as a viable, sustainable source of funding for the SNHTF.

Soon after, the COVID-19 pandemic commanded all attention, and, as with many matters impacted by the urgency of the day, the SNHTF issue remained unresolved. However, in late 2020, legislators renewed their focus on housing, in part due to the burgeoning understanding of pandemic-related housing need. HMFA, in conjunction with housing advocates, returned to the SNHTF funding proposal as an extant, viable means of redress for a number of these issues.

In February 2021, discussions on the SNHTF resumed and the Senate and Assembly committee chairs both agreed to enact legislation authorizing the transfer of \$20 million per year from the Realty Transfer Fee collections to NJHMFA to capitalize the SNHTF. The legislation was passed unanimously by the New Jersey State Senate (38-0) on June 3, 2021, passed unanimously by the New Jersey State Assembly (75-0-0) on June 24, 2021, and signed by the Governor as Public Law 2021, Chapter 126 on June 29, 2021, taking effect with the next state budget cycle that begin on July 1, 2021.

With the passage of Public Law 2021, Chapter 126, the SNHTF is now guaranteed to receive \$20 million per year from the revenues collected under the state's Realty Transfer Fee, starting with New Jersey's fiscal year 2022 budget. The legislative recapitalization of the SNHTF and the long-term sustainability of the funding supports NJHMFA's existing and expanded capacity to finance the production of dedicated supportive housing with special needs beds. The agency has now updated its rules to authorize a doubling of the set-asides for supportive housing in each building from five to ten units, and increased the subsidy available for each unit's construction, operating, and services needs from \$100,000 to \$150,000. These changes will dramatically expand the number of special needs housing opportunities that will come online in future years.

Discussion

Permanently funding the SNHTF is an historic accomplishment. NJHMFA's Qualified Allocation Plan (QAP) sets aside 12.5% of the state's annual 9% LIHTC allocation for supportive housing, which recent QAPs value at a total of roughly \$30 million over the 10-year LIHTC period after allocation. Therefore, the SNHTF's new guaranteed annual funding stream of \$20 million represents a 66% increase in NJHMFA's current annual supportive housing production capacity.

New Jersey's Realty Transfer Fee (N.J.S.A. 46:15-5 et seq.), enacted in 1968, imposes a 1% fee upon the recording of deeds evidencing transfers of title to real property in New Jersey with increases if the sale price goes above certain thresholds. Its average annual revenue over the last five fiscal years is approximately \$355 million, equal to 99.4% of anticipated collections. As a revenue source, it is both robust and stable, thus ensuring the security of the SNHTF's annual allocation.

Building supportive housing is an integral component of NJHMFA's mission to build affordable housing that meets the needs of vulnerable New Jersey individuals and families. The QAP, in addition to the 12.5% set-aside for supportive housing, requires that all family cycle projects receiving 9% LIHTC awards rent either five units or five percent of the total units, whichever is greater, to individuals who are homeless or

individuals with disabilities. The permanently funded SNHTF now permits HMFA to expand this requirement to all 4% LIHTC projects and increase both the quantity and subsidy of units per project.

Persons with disabilities are especially vulnerable to housing risk. In New Jersey, disabled persons are more than twice as likely to live in poverty as non-disabled persons and have a median income one-third lower than that of non-disabled persons (2020 American Community Survey 5-Year Estimates). Supportive housing allows people to live stable, dignified lives and avoid negative outcomes like institutionalization or homelessness. In 2019, the Corporation for Supportive Housing estimated New Jersey's supportive housing need to be 24,301 units (<https://www.csh.org/supportive-housing-101/data/>). Though current resources are nowhere near enough to meet this need, NJHMFA is undertaking a variety of initiatives to leverage its resources to meet this demand.

Each housing finance agency operates within a unique political reality and baseline policy framework. Though this specific accomplishment may not be directly replicable in all states, some general principles can be derived and broadly applied across markets and categories of need:

- **Build on prior success.** The SNHTF program had a proven track record of accomplishment. Not only did this provide intellectual justification for the permanent funding, but it also meant that existing stakeholders were motivated to support the bill for tangible, rather than hypothetical reasons.
- **Advocate for your agency's interests and leverage relationships with lawmakers.** NJHMFA began renewed efforts to be proactive in building relationships with legislators and serving as an active resource in their policy design in late 2018. By engaging legislators on their terms and interests, such as finding and producing housing for individuals experiencing homelessness, NJHMFA was able to match existing, proven programs to legislators' needs while advocating for the Agency's long-term policy goals. By making NJHMFA's goals match legislators' goals, legislative and executive branch support grew from there and created the avenue for bipartisan, unanimous approval.
- **Be flexible.** One of the key obstacles to earlier success was the continued focus on a prior funding source, Motor Vehicle Commission surcharges, as the sole appropriate funding source. In this case, motor vehicle surcharges were less related to and less available for SNHTF support than the Realty Transfer Tax, which, once identified, was much more readily accepted by the legislature and stakeholders as a dedicated source for the construction of housing. Once the Realty Transfer Fee was the proposed funding source, the bill quickly gained the support it needed for passage.

Visual Aids

These charts include all New Jersey Special Needs Housing Trust Fund (SNHTF) projects for which financing closed from 2006 through 2021. Projects that received a commitment, conditional commitment, or declaration of intent are not included.

Figure 1. NJ Special Needs Housing Trust Fund: Projects by Year, 2006–2021

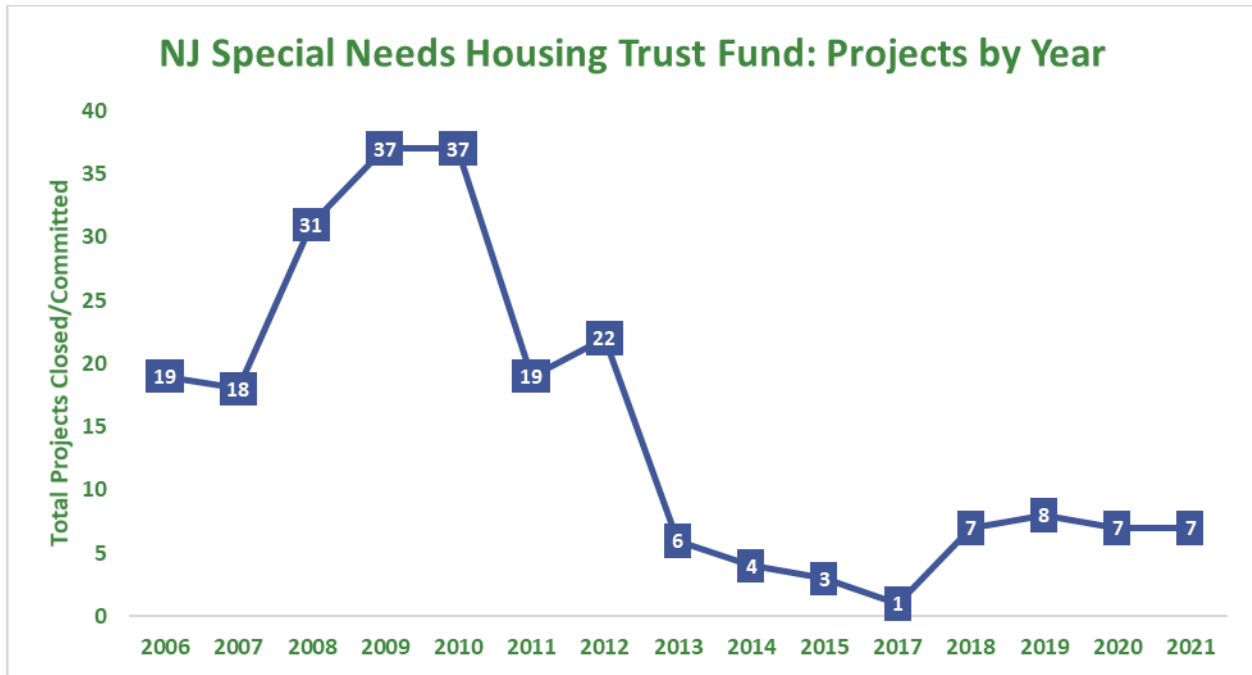


Figure 2. NJ Special Needs Housing Trust Fund: Units by Year, 2006–2021

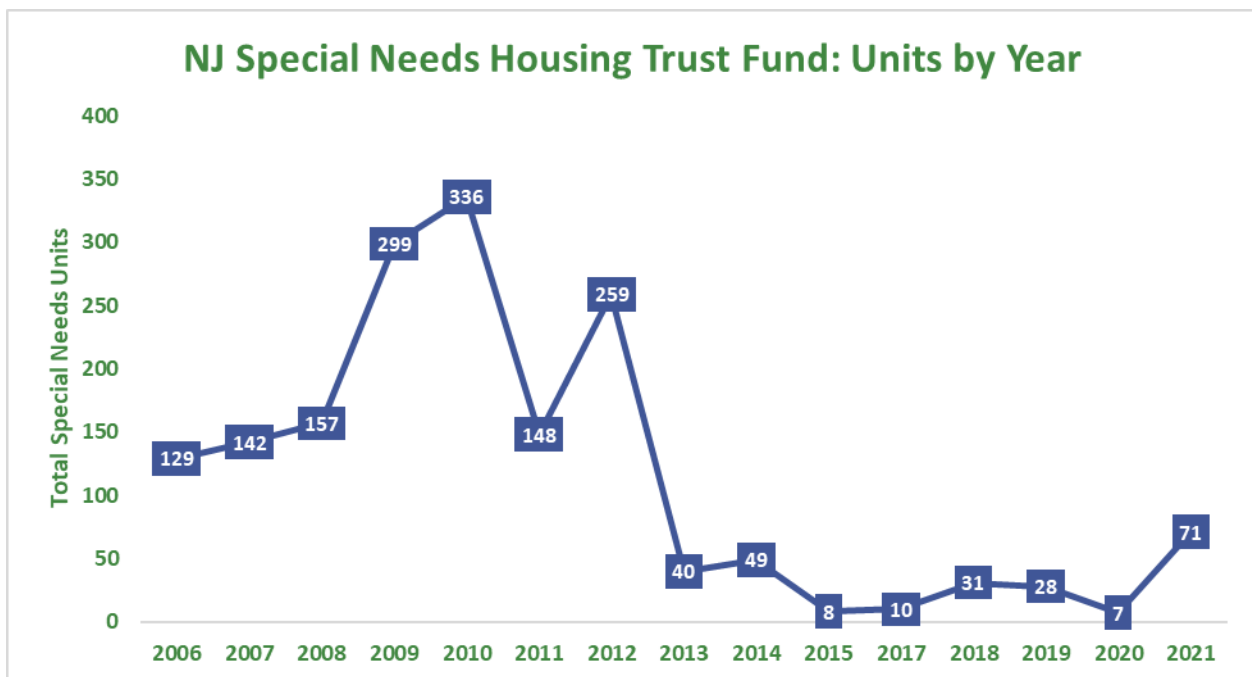


Figure 3. NJ Special Needs Housing Trust Fund: Beds by Year, 2006–2021

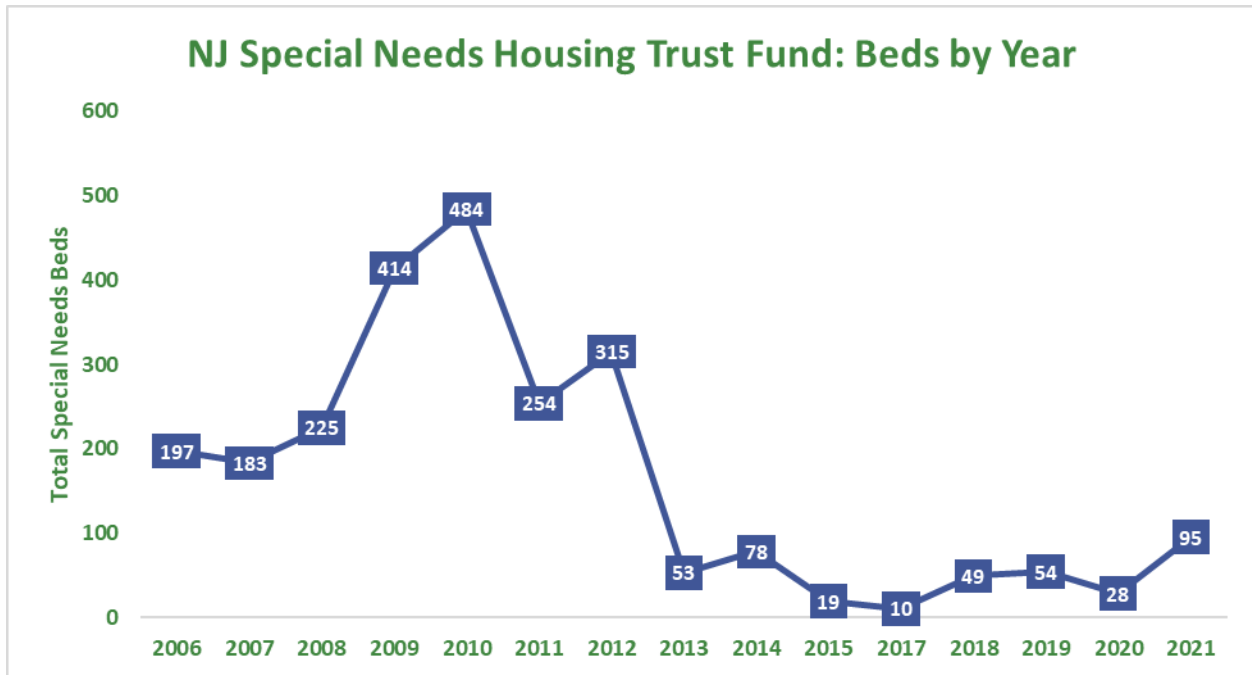


Figure 4. NJ Special Needs Housing Trust Fund: Awards by Year, 2006–2021

