

Permanently Financing Special Needs Housing

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

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Overview

To address the ongoing, critical need for special needs/supportive housing units statewide, New Jersey's Special Needs Housing Trust Fund (SNHTF) finally has a permanent, capitalized source of funding. The SNHTF was established in 2005 with a one-time allocation of \$200 million that was mostly depleted by 2018. To fix this issue, New Jersey Housing and Mortgage Finance Agency (NJHMFA) worked closely with state legislators to create a permanent, dedicated funding stream.

With the passage of Public Law 2021, Chapter 126 on June 29, 2021, starting with New Jersey's fiscal year 2022 budget the SNHTF has been guaranteed to receive \$20 million per year from the revenues collected by the state's Realty Transfer Fee collections. The legislative recapitalization of the SNHTF and the long-term sustainability of the funding has had an immediate effect, dramatically increasing the state's baseline supportive housing production and scaling up the number of special needs units that will come online in future years, in line with overall production capacity increases.

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 creation, the SNHTF was provided a one-time allocation of \$200 million created through a bond issuance supported by revenues from Motor Vehicle Commission surcharges. Between 2005 and 2020, the SNHTF provided over \$220 million in financing commitments for 225 special needs housing projects in New Jersey, encompassing almost 1,700 special needs housing units and almost 2,500 beds, approximately equivalent to 30 percent of New Jersey's total inventory of 8,355 year-round Permanent Supportive Housing beds, according to HUD estimates.

However, the SNHTF was a victim of its own success. In its first eight years of operation (2005 through 2012), the SNHTF committed nearly \$200 million toward 1517 units and 2151 beds. In its next eight years, from 2013 through 2020, the SNHTF was able to provide only \$20 million in financing for 174 units and 278 beds.

The funding issue did not go unnoticed. The legislature began exploring a permanent solution as early as 2012 when it became apparent that the SNHTF would be drained 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 debt repayment schedules. After legislative remedies 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. However, it was clear that a more permanent solution was sorely needed, lest another drop-off occur at this funding's expiry.

Methods and Results

Throughout 2019, NJHMFA contemplated how to extend funding for special needs housing subsidies while also communicating to the legislature information about the depletion of the SNHTF. The legislature renewed its interest in utilizing excess revenue from Motor Vehicle Commission surcharges to support additional debt service payments. However, the refinancing of the state's debt meant that the excess revenues were not high enough to support additional debt service payments to support this use. 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 SNHTF and its importance for helping vulnerable populations find stable housing prompted the Chair of the Assembly Housing Committee to start championing the issue.

After months of discussion over various options, the legislature settled on use of a direct revenue source from the state's Realty Transfer Fee, a revenue source collected during real estate transactions and used primarily for state housing initiatives.

Soon after, the COVID-19 pandemic shifted the legislature's focus away from this issue. However, in late 2020, legislators began refocusing their efforts on housing initiatives, as the relationship between COVID-19 infection rates and stable housing became apparent. HMFA, in conjunction with housing advocates, began to use this renewed interest to push the issue forward.

In February 2021, the discussions on the SNHTF resumed and Senate and Assembly committee chairs both agreed to transfer \$20 million per year from the Realty Transfer Fee collections as a permanent funding source. 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 begins on July 1, 2021. Results have been immediate and dramatic. In 2022, the SNHTF committed funding to as many units as it had in the previous three years combined, encompassing more total beds. 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. While the legislature has the option not to fund this annual appropriation, the current law requires an affirmative decision against funding the program, rather than an affirmative to fund the program. These changes have greatly expanded the number of special needs housing opportunities. As noted in the attached charts, the rollout took time, but is returning production to the heights experienced under the fully expended \$200 million allocation from two decades ago. Furthermore, as the state legislature has appropriated more than \$300 million in gap financing to produce low-to-moderate-income units, the regulatory changes that have been made will attach SNHTF revenue to create 5 to 10 special needs units in each of the developments created through American Rescue Plan funds. This will nearly double the newly expanded annual production of special needs units for 3 years by creating an additional 600 housing opportunities over and above current supportive housing production projections, helping to advance New Jersey's need to help its most vulnerable residents have long-term stable housing options.

Discussion

Permanently funding the SNHTF and then integrating these funds into every LIHTC project 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 each recent QAP values at a total of roughly \$30 million over the 10-year LIHTC period. Therefore, the SNHTF's new guaranteed annual funding stream of \$20 million represents a 66% increase to the state'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.

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 made it possible for HMFA to expand this requirement to all 4% LIHTC projects, which has had a significant impact on the number of supportive housing units in production and being placed in service.

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 (2021 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/>). NJHMFA is committed to using all means available to meet the demand, as evidenced by this program and NJHMFA's commitment to scale supportive housing production in line with LMI unit production increases.

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 over diverse scenarios.

- **Build on prior success.** The SNHTF 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 that prevented prior versions of the bill from advancing was the use of Motor Vehicle Commission surcharges as the revenue source. While policy determination is made through the lens of what is feasible at the time of enactment, the Motor Vehicle Commission Surcharges was always a somewhat awkward fit with the purpose of the SNHTF. Attempting to return to the same well created pushback from various stakeholders and officials, stalling recapitalization for half a decade. As dedicated revenue from the sale of housing, the Realty Transfer Fee is conceptually much easier to understand as a dedicated source for the construction of housing. Once the source was switched to the Realty Transfer Fee, 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 that received a commitment or award of funding from 2005 through 2022.

Figure 1. NJ Special Needs Housing Trust Fund: Units Funded by Year, 2005–2022

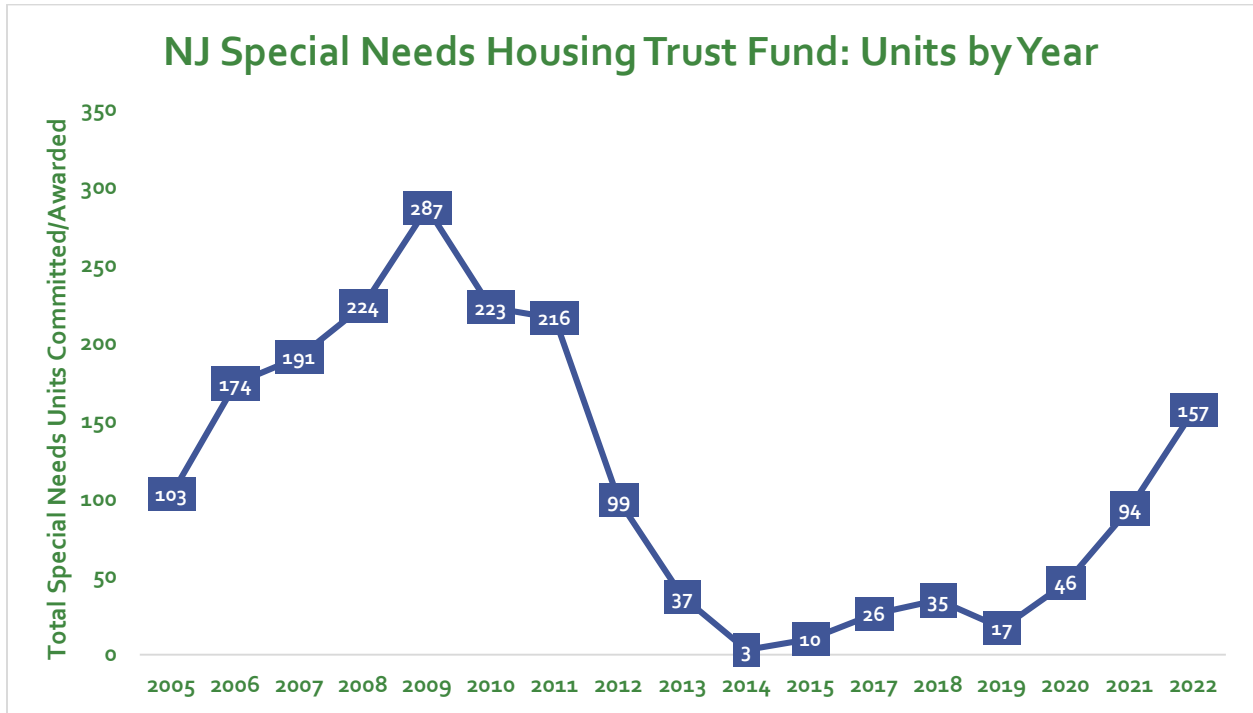


Figure 2. NJ Special Needs Housing Trust Fund: Beds Funded by Year, 2005–2022

