



March 19, 2013

Richard Constable
Commissioner
New Jersey Department of Community Affairs
101 South Broad Street
PO Box 800
Trenton, NJ 08625-0800

Dear Commissioner Constable:

We appreciate the opportunity to respond with questions and comments regarding the state's CDBG Disaster Recovery Action Plan. These comments are intended to supplement the group comments we are submitting, and focus on additional programmatic areas of the plan.

Overall, while a number of good programs have been included in the draft plan, we have concerns about priorities for use of funds and the relative dollar amounts being allocated between various programs. We also have questions about the methodology behind the analysis and data used to back up some of the programs, and the limited specificity about how the programs will be delivered.

Homeownership Housing

4.1.1 Reconstruction, Rehabilitation, Elevation and Mitigation Program: In the area of homeownership, Network members in affected areas believe that the **Reconstruction, Rehabilitation, Elevation and Mitigation program** is important and will help a significant number of homeowners rebuild who otherwise would be unable to do so. However, we are concerned that the amount of money overall going to assist home owners greatly exceeds the amount being provided to assist renters and rebuild or create rental properties, despite the fact that according to FEMA data, close to equal numbers of both groups were affected by the storm. Data also shows that the renter population affected is of much lower income and therefore less likely to have the resources to recover without help, and that a large number of home owners received full insurance and FEMA benefits. It appears that the numbers in DCA's analysis were not adjusted to reflect this reality. We therefore recommend that the size of the **Reconstruction, Rehabilitation, Elevation and Mitigation Program** be decreased by \$100

million to facilitate an increase in the size of the **Fund for the Restoration of Multi-Family Housing** by the same amount (see below.)

We are also concerned by the lack of specificity and analysis of where the homes to be targeted by this program are located, as well as a plan for how to distribute the funds that takes need and income level of the home owner into account. In addition, more detail is needed in this section on what the delivery system will look like. It will be critical to identify a uniform program design, as well as a network of organizations able to assist homeowners in planning and overseeing the reconstruction of their homes, taking into account new building and elevation requirements. This assistance should be provided as locally as possible, with priority given to local players with this capacity, including rehab specialist firms and architects as well as CDCs and municipalities. These entities should work for the home owner/property owner to define the scope of work, estimate cost, determine feasibility, help obtain bids, select contractors, oversee construction and authorize payments, and could even manage the funds. Turning existing, on-the-ground capacity into a connected, effective delivery system would be quicker and more cost effective than building new mechanisms within state government for this purpose. A number of Network members have this capacity and are eager to assist with the implementation of this program. We would be happy to work with DCA to help connect them once the plan is approved and work moves forward.

4.1.2 Homeowner Resettlement Program: This section should either be reduced in size, or amended to allow for more flexibility in how communities rebuild. Discussions with Network members in affected areas suggest that the \$10,000 per homeowner to be provided through this program is unlikely to be enough to influence an owner's decision to rebuild his or her home and stay in the neighborhood. We do not believe that this program will have the stated result, and therefore if left as is, should be scaled back to no more than \$50 million, with the remaining funds allocated to other areas (see below.)

In addition, if the intent is to stabilize communities and markets in hard hit areas by encouraging people to stay, the program should be carefully targeted to those areas where market/community stabilization is both necessary and feasible. Criteria should be developed, areas analyzed on the basis of those criteria, and target areas for this program should be identified. The Reinvestment Fund, which has worked for DCA in the past, might be able to assist in undertaking this type of analysis.

Finally, the use of the term 'initially' at the bottom of page 4-5 raises a serious concern. This language implies that DCA's intent is to wait only so long to see if LMI households apply for these funds, and if they don't, to immediately redirect the funds to other (non-LMI) households. A set aside should be a set aside. Our position is that this word should be

eliminated. Alternatively, if DCA is proposing to place a time limit or other limitation on the set aside, it should be spelled out explicitly in the plan.

One other thing to consider here is that resettlement in the same location may not be the best solution for home owners. While the vast majority of housing recovery funds will go to help rehabilitate and repair existing housing stock, DCA should recognize that there are places that should not be rebuilt. Much like New York City's and New York State's CDBG-DR plans, funding should be provided for buy-outs to homeowners at pre-storm appraised values. This could be added as an alternate use for Resettlement Program funds. This would need to happen in a neighborhood context, where community members and the municipality agree that buy outs are the best solution for all concerned, and where the purchased lots will be used as a buffer against future storms.

4.1.3 Sandy Home Buyer Assistance Program: This seems to be a good way to help create a market for the homes renovated through the **Blight Reduction Pilot Program** and other means. One question that needs to be addressed is whether home buyers receiving assistance through this program will have access to mortgages. Large numbers of prospective lower income home buyers have found it impossible to obtain mortgage financing, particularly for deed-restricted homes. This is likely to be even more problematic in many hard-hit shore communities, because of the uncertainty about market values in the wake of Sandy damage and difficult rebuilding conditions. This issue needs to be addressed in the design of the program if it is to be successful.

We strongly suggest that DCA consider re-allocate \$16.5 million of the CDBG-DR funds from the planning, oversight and monitoring line item to create a mortgage guarantee program in partnership with private lenders to assist LMI homebuyers benefiting from the Home Buyer Assistance Program to obtain mortgages for homes or condominiums in shore communities affected by Sandy. Such a program will go a long way to ensuring that home buyer assistance funds are used productively.

Rental Housing Programs

As noted both above and in our group comments, despite existing data demonstrating both the severe shortage of rental housing in the storm-affected areas and the state overall, compelling evidence that the number of renters harmed by Sandy was nearly as great as the number of home owners, and the fact that these renters are overall of much lower income with less financial ability to recover from this disaster, the distribution of funds in DCA's CDBG-DR plan severely shortchanges the needs of renters versus home owners. Nonetheless, the plan does include some good programs to address the needs of renters and the rebuilding or creation of additional rental opportunities. We recommend that dollars be shifted to expand several of

these programs, with the overall allocation between funds for homeowners and funds for renters adjusted to be consistent with the data, and that the programs be modified somewhat to address specific concerns.

We also strongly suggest that the state fund a speedy but detailed planning study for the rental housing component, to identify potentially available sites and buildings, assess the capacity of entities to put together viable projects, and lay the groundwork for timely use of this money. Otherwise there may be major delays in using these funds. This would not mean that applications for funding should not be accepted while the study is going on.

4.2.1 Fund for Restoration of Multi-Family Housing: This program is of vital importance in expanding the stock of affordable rental housing in storm-affected areas and to a much lesser extent, elsewhere in the state. We have several recommendations and comments. First, the dollar amount of the program should be significantly increased. We suggest moving at least \$100 million from the **Reconstruction, Rehabilitation, Elevation and Mitigation Program** to this program to increase the number of rental units that can be produced, or in the case of public and subsidized housing repaired or rebuilt, over the next few years to assist an additional 1,000 low-income renters.

Use of modular construction techniques could significantly speed up reconstruction of housing and potentially save funds, but is hindered by difficulties of going to scale with projects involving many separate owners and developers. The volume of new development likely to take place through use of CDBG-DR funds, in this and other programs, creates a unique opportunity for the state – in partnership with for-profit and non-profit organizations – to work with appropriately selected modular manufacturers to guarantee volume purchasing and obtain substantial price reductions and economies of scale.

With respect to public or federally subsidized housing, page 2-5 of the plan indicates that “2,188 federally subsidized units in 192 multi-family properties were damaged, and 229 households remain displaced”, while “824 public housing units were damaged in the storm, and 100 public housing households remain displaced.” These numbers suggest that the \$5 million set-aside for public and subsidized housing units in this program, which represents an average of less than \$1700 per affected housing unit, will be nowhere near the amount needed to restore even a fraction of them. The set-aside for public and subsidized housing should be increased by at least \$10 million with funds reallocated from the **Reconstruction Program**.

Finally, assistance under this program is referred to in the program description as loans. Even at low or zero interest, repayment from day one is not feasible. The terms of the loans – which should be either cash flow, deferred or forgivable – should be spelled out.

4.2.2 Fund for Rehabilitation of Small Rental Properties: This program is a good idea, and should be very helpful in restoring small rental properties damaged by the storm. As with other proposed programs, however, the program description lacks an analysis of where these properties are, how many there are, and how this program would interface or be combined with other programs in the plan such as the **Incentives for Landlords** program. We have the following questions and recommendations:

- Can funds be used to cover acquisition as well as rehab costs for owners who buy units under the small rental program?
- The standard that rents may not exceed 30% of 80% of AMI is much too high. While it may be appropriate that some units be rented at that level, the average rent needs to be much lower so that a significant number of LMI households can qualify. We suggest that the average rent be 30% of 50% (or at most 60%) of LMI, and that the size of the awards be adjusted to reflect, among other matters, the level of affordability to be attained in the units.
- The eligibility criterion that reads “projects must have received damage...” can be interpreted in two radically different ways. Does it mean:
 - Eligible projects are those that received damage from Sandy, and must require rehabilitation or contain some units in need of rehabilitationOR
 - Eligible projects are those that received damage from Sandy and must require rehabilitation, OR projects that contain a number of units in need of rehabilitation?

In the first interpretation, only projects that received Sandy damage are eligible – in the second others are. This should be clarified.

4.2.3 Housing Programs for Targeted Development Areas We greatly appreciate the inclusion of the two programs contained in this section, and believe they will be very helpful to the overall effort, both in cleaning up abandoned and blighted properties, and in getting additional developments into the pipeline more quickly. We have some overall questions concerning these two programs that need to be addressed in the program description, however, as well as specific recommendations for both programs, and a recommendation for an additional program component.

Our general questions are:

- What criteria are to be used to identify which target communities are ‘at risk of physical decay and economic decline’?
- Will those targeting criteria affect all use of funds under 4.2.3? If so, they must be spelled out. If not, the exceptions must also be spelled out.

- What does the language (bottom of page 4-10) ‘directly or indirectly’ impacted by Sandy mean? The term ‘indirectly’ is not defined. How does it relate to the targeting language set forth earlier?

4.2.3.1 Predevelopment Fund for Affordable Rental Housing It is not clear whether these funds can be used for new construction, rehab or both? Can they be used to demolish and replace dilapidated structures? Does the criterion that buildings must be ‘unsafe, underutilized or in foreclosure’ does that mean that a vacant lot is not eligible?

We recommend that projects aimed at both new construction and rehabilitation be eligible for this predevelopment fund, and also that home ownership projects as well as rental projects be eligible. This suggests the advisability of increasing the size of the program by another \$5 million. We suggest this amount be taken from either the **Landlord Incentive Program** or the **Continuation and Enhancement of Essential Public Services** program area.

In addition to predevelopment funding, it is important to allocate funds to help nonprofit organizations with the capacity to play a meaningful role in rebuilding to gear up to take on more and/or larger development projects. Creating a \$5 million **Implementation Fund** for nonprofit organizations to use to bring on additional development or rehab staff over the next two years would increase these organizations’ contribution to the rebuilding effort, and help to expend funds in the proposed programs more expeditiously. As with the predevelopment fund, we suggest that this funding also be taken from the **Landlord Incentive** or the **Continuation and Enhancement of Essential Public Services Program**.

4.2.3.2 Blight Reduction Pilot Program: This program also seems very positive but needs some clarification in its design. First, reference is made to a ‘mixed-income model’ – is there a minimum target percentage of LMI households required overall or per project? Requiring affordability at 30% of income is appropriate for LMI rental housing, but not for market rate housing if that is part of the model.

We suggest that the criterion “Properties ‘may’ have 7 units or less” be changed to ‘must’. It should be clarified that the \$100K maximum award is a per unit rather than a per project award, unless the intent really is to limit the program to \$100K per project, in which case the program should be targeted to smaller projects of 4 units or less.

4.2.4.1 Project Based Incentives for Landlords to Provide Affordable Housing

We suggest scaling this program back by \$10 million to cover the increase to **Predevelopment** and the new **Implementation Program** we are proposing. The remaining \$30 million in this program should prioritize accommodating displaced households in areas near their prior residences, rather than statewide, as well as to the owners participating in the **Fund for Rehabilitation of Small Rental Properties** to maximize the impact of that program.

The amount of landlord subsidy rather than being the same across the board should be calibrated on the basis of affordability and duration of subsidy. It should also be adjusted geographically based on variations in AMI. 2013 AMIs in the impacted area vary widely:

MIDDLESEX	103,900
MON/OCEAN	\$91,800
BERGEN	\$90,900
ESSEX	\$89,100
ATLANTIC	\$65,400

Finally, these funds should augment, and not replace, funds available for rental assistance from other sources such as the State Rental Assistance Program and HOME.

Economic Development

4.3.1 Grants and Recoverable Loans to Small Businesses

While this program initially appears to be limited to businesses that sustained physical damage from the storm, language in the second paragraph suggests that it can be used anywhere NJEDA wants. Funding targeted to businesses seriously harmed by Sandy is of critical importance. Any criteria for exceptions should be clearly spelled out.

With relation to home-based businesses, it is not clear why they should be excluded from assistance. Many of them, such as dentists or craftspeople, may have sustained damage or lost valuable equipment and supplies that impair their livelihoods.

4.3.2 Direct Loans for Impacted Small Businesses

The plan should clarify what criteria will be used to target funds through this program.

4.3.3 Neighborhood and Community Revitalization

While this program is called 'neighborhood' revitalization, the language indicates that it is limited to commercial districts. We recommend that the size of this program be increased from \$75 million to \$100 million, with the additional \$25 million coming from the **Essential Public Services Program** or the **Planning, Oversight and Monitoring** pot, and that half of it be allocated for residential neighborhoods with 50% or more LMI occupancy. This carve-out should be administered by the NJRA, DCA or a CDFI instead of by EDA, and should prioritize activities in storm affected areas with DCA-approved or Wells Fargo Regional Foundation funded neighborhood plans.

The use of the word 'transformative' in the second paragraph of the program description implies that criteria will be applied to ensure that these funds are well-targeted to achieve significant impact. A definition of what constitutes 'transformative', as well as criteria designed to elicit high-impact projects, should be defined in the plan.

Support for Governmental Entities

4.4.2 Continuation and Enhancement of Essential Public Services

There is a tremendous need for funding to support existing housing counselors who are already providing services in storm-affected areas without compensation for those services; as well as to hire and train additional housing counselors and case managers to help individuals and families seriously affected by the storm to learn about their available options, make critical decisions, and piece together the funds to rebuild or relocate. If the decision is to rebuild, they need guidance in how to make sure they will meet the new building and elevation requirements, and how to cut through the procedural red tape to manage this unwieldy process. HUD has clearly indicated that Housing counseling is an allowable and even recommended use of CDBG-DR funds (see 3/15/2013 release entitled: HUD RELEASES MODEL PROGRAMS FOR USE BY COMMUNITIES SEEKING FEDERAL DISASTER ASSISTANCE, attached).

We urge DCA to allocate \$10 million to hire approximately 50 additional counselors/case managers to be housed within local organizations for two years to perform this service. Already existing local organizations have the trust and track record of the people seeking assistance. They also have in-house expertise in housing development, rehab, and/or reconstruction. This money could either be a carve-out of the **Essential Public Services fund**, or could be added as a separate program under the housing area with \$10 million reallocated from the **Home Owner Resettlement Program** or another area. We are available and willing to help coordinate and support the development of a strong housing counseling network that would encourage peer training, sharing of best practices and on-going support. The Network already performs that role on an informal basis.

4.4.3 Code Enforcement Grant Program

How local code offices will be supplemented should be spelled out. Use of funds for local hiring, as well as contracting with private firms should be pursued to enable the process to gear up more quickly than if the program focuses on hiring additional state employees. Use of contract services for what is a short-term program will limit the potential future problems of having to lay off state employees after this source of funds has been exhausted.

4.6 Planning, Oversight and Monitoring

As this program reads, all \$84M will be spent by the state or its consultants with the exception of \$2.5M for mitigation studies. The text reads ‘planning grant assistance is available on a local and/or regional basis in order to guide long-term recovery, etc...’ It is not clear what this means, or whether DCA is planning to establish a separate program to support local planning activities. If so, it should be referenced and described.

In any event, a significant amount of funds should be made available for neighborhood/ local/regional planning to facilitate all of the activities planned for CDBG-DR funds – housing development/rehab, business development, neighborhood and commercial district revitalization, etc. – and to ensure that it takes place in ways most appropriate for the long-term sustainability of the hard-hit areas and the state as a whole. We recommend that at least

\$10 million be made available to local and county governments and qualified non-profit entities for such planning activities.

Furthermore, \$84 million, even if reduced by \$12.5 million as suggested above, is enough to pay for nearly 400 FTE positions over a two year period. We believe that this is far more than is needed to carry out state-level planning, oversight and monitoring of the use of the CDBG-DR funds. The total funds allocated under this section should be reduced to \$42.5 million, of which \$12.5 should be used for local planning and mitigation studies, and no more than \$30 million for state-level planning and monitoring. The rest should be redeployed to other areas, including \$25 million to the **Neighborhood Revitalization Fund**, and the remainder to the **Home Buyer Assistance** area to create a loan guarantee program.

Supporting More Manufactured Housing as an Affordable Residential Model

Finally, one area that was not covered in the plan is any funding to create the infrastructure to place additional manufactured homes in the many mobile home parks that exist in a number of the areas affected by Sandy. It costs between \$10,000 and \$20,000 to construct a foundation under the new building requirements, which then creates an affordable opportunity for a family to purchase a reasonable priced manufactured home to locate on that site. Funding and/or eligibility for this purpose could easily be incorporated into one of the programs in this plan. One program it could be fairly easily combined with is the Sandy Home Buyer Assistance Program.

Thank you for considering these comments. We are available to discuss any of these suggestions with you and look forward to the opportunity.

Sincerely yours,

Diane Sterner,
Executive Director

Staci Berger
Director of Policy and Advocacy