

**Testimony on the Fiscal Year 2013 State Budget
Presented to the Assembly Budget Committee
March 7, 2012**

Good morning, and thank you Chairman Prieto , Vice Chairman Schaer and members of the Committee for providing the opportunity to comment on the Fiscal Year 2013 State Budget. My name is Arnold Cohen and I am the Policy Coordinator of the Housing and Community Development Network of New Jersey. **The Network** is the statewide association of more than 250 housing and community development corporations, individuals and other organizations that support the creation of housing and economic opportunities for low- and moderate-income New Jerseyans. Our members are on the front lines in our communities, working with people to help them make their neighborhoods and their lives better.

We are very concerned that Governor Christie's FY2013 budget intends to "recapture" approximately \$300 million that is already dedicated to addressing New Jersey's housing crisis and helping communities devastated by foreclosures. I draw your attention to page 121, under DCA in Schedule 1, where the Governor is calculating as revenue, an estimated \$228,159,000ⁱ from local, municipal trust funds, paid into by developers, and, to page 126, where the Governor proposed to direct \$75 million from the federal government's mortgage settlement to fill his budget gap.ⁱⁱ

New Jersey is slowly recovering from the recession. In its wake, we have thousands of foreclosed homes, vacant properties, and a huge backlog of unmet needs for affordable places to live. The state's economy is fragile, making this a critical time to make careful decisions that will support the recovery and position us for increased opportunity. Creating more jobs means making it easier for employers to recruit and maintain good workers. New Jersey can, and must, act to improve and stabilize its housing affordability and variety across the state. A first step is to transform foreclosures and blighted properties that are holding us back into positive assets. At the moment these properties are depressing neighborhood property values, preventing a healthier tax base and draining community resources.

This idea is being promoted by Senators Ray Lesniak, Barbara Buono and Assemblyman Jerry Green, through their innovative legislation, S.1566/A.2618, New Jersey Residential Transformation Act. The \$75 million from the foreclosure settlement should be used for this program and to supplement meaningful state programs that have the potential to directly impact the lives of people in New Jersey in a significant and positive way. The Municipal Housing Trust Funds can also address foreclosures in the "New Jersey Residential Transformation Act". Under this bill, a town has 45 days to use its housing trust fund to acquire foreclosed homes and address the housing needs of their community. Towns that do not need their Municipal Housing Trust Funds for this purpose should be able to transfer unused funds their County so they can be used locally rather than this money going to fill the state budget gap. Dollars collected for housing should be used for housing. This will create jobs and stimulate our economy as well as providing a home someone can afford.

Instead of investing in our communities and our residents, the Governor proposes to play a shell game with the state's finances. In response to queries about the Governor taking locally collected, locally directed money, his office cites existing programs funded in his budget. These programs include: the State Rental Assistance Program (SRAP) \$21 million, Homelessness Prevention Program \$4.4 million and Shelter Assistance \$2.3 million. This adds up to about \$28 million. We have to ask – and we hope you will too -- where is the other \$247 million going?

These are programs that have always been in the budget and paid for by the NJ Affordable Housing Trust Fund, whose revenues come from a portion of the realty transfer fee. This year, the NJ Affordable Housing Trust Fund is projected to collect \$44 million. If the money is not going to fund programs it has traditionally funded, where is that money going? It is clear this budget takes \$300 million that should be used for housing programs to fund the Governor's projected 10% income tax. That is wrong.

This money was collected, by local governments, to meet each communities' need for more affordable home choices. We hope the Legislature will not let the Governor pick every community's pocket to balance this budget. These trust funds must be spent as intended, to improve our housing market, which will help restore the economic vitality of our state. We know that housing production dollars are a tremendous investment in our state's ability to create jobs and improve our tax base. If the \$225 million in local trust funds were to be used strictly for production, it would mean:

- Leveraging at least \$900 millionⁱⁱⁱ in total housing investment, the majority of which will be private investment in New Jersey's economy.
- Creating over 9,900^{iv} one-time jobs, including both construction jobs and related secondary jobs created as a result
- These workers will earn \$648 million^v in total income, and pay \$14.4 million^{vi} in state income taxes
- Purchases of construction materials and spending by the workers hired as a result of this activity will generate \$16.2 million^{vii} in state sales tax revenues.
- Once the homes are built, they and their residents will generate 1800^{viii} ongoing jobs, and \$1.98 million per year in state income taxes.^{ix}
- Generating as much as \$11.7 million per year^x in local property tax revenues.
- Over 5 years, the state and its localities will realize over \$99 million in total sales, income and property tax revenues.

While the foreclosure transformation process does not have exactly the same economic impact as the creation of homes, there will still be a very big bang for our housing dollars by using these to let municipalities turn foreclosed property that is sitting vacant into affordable or market rate homes .

One bright spot in the Governor's 2013 budget is the proposal to use the old Hagedorn Psychiatric Hospital to provide the location for Veterans Haven North which will house 50 homeless veterans and provide them with needed supportive services. We also support the recommendation to reinvest savings from the closure of Hagedorn Psychiatric Hospital to provide an additional **\$5.6 million** to the Division of Mental Health and Addiction Services to fund 133 new units of supportive housing and Rental assistance for 100 individuals utilizing mental health or substance abuse services. It is critical to provide more appropriate housing choices for these vulnerable populations and to provide the supportive housing services they need in order to live independently.

The "Great Recession" left New Jersey with high unemployment, wage stagnation and, in many cases, pay cuts. The number of vacant homes has risen by 38% in New Jersey over the last decade. Every foreclosed home represents a problem for remaining residents. Vacant properties diminish property values and community prosperity, as they are a drain on municipal budgets, and often they become subject to crime, dumping, fires and other dangerous or unwanted activities. Local governments are forced to spend resources on a property they gain little or no tax revenue from, or allow even more deterioration and loss. We encourage you to see this crisis as more than a dangerous time – but rather as an opportunity to reinvigorate our communities with housing choices and economic improvements,

that will ultimately enhance the quality of life for all New Jersey residents. Using the state's dedicated resources to solving the foreclosure crisis and creating homes people can afford will help put New Jersey's economy and our future on a solid footing.

Thank you for your time today.

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ⁱ In FY13 for "Affordable Housing and Neighborhood Preservation- Fair Housing

ⁱⁱ Physical page, 126, under InterFund Transfers in Schedule 1, an estimated \$75,000,000 in FY13 from the "Mortgage Servicing Settlement Fund.

ⁱⁱⁱ Assumes an average total development cost of \$200,000 per unit, which is conservative.

^{iv} Derived from National Association of Home Builders (2009) "The Local Impact of Multifamily Construction in a Typical Metropolitan Area." (NAHB study). For purposes of this analysis, we used the average of the projected impacts of rental apartments and multifamily condominiums.

^v NAHB study

^{vi} Assumes that state income taxes are an average of 2.2% gross income.

^{vii} This represents a combination of sales taxes paid on taxable construction materials in the housing projects and the sales taxes paid on retail expenditures by the workers whose jobs are created as a result of the housing. With respect to sales taxes on construction materials, we have assumed that 30% of development budgets are taxable construction materials, and 50% of the developers are non-profit, and thus eligible for a sales tax exemption. We have assumed that 15% of worker incomes were spent on expenditures subject to NJ sales tax.

^{viii} NAHB study

^{ix} Assumes average of \$50,000 annual FTE wage per job created and income taxes at average of 2.2% of gross income.

^x Assumes that the 500 units are divided between 250 rental and 250 homeownership units. Rental units pay a payment in lieu of taxes of between 5 - 15% of gross rent roll on average annual rents of \$10,000 (\$833/month), while sales units pay taxes on an average property value of \$150,000 at an average rate of 2.5% of equalized valuation.