

Ohio Housing Finance Agency

Senate Finance and Financial Institutions Committee

Kerry Sullivan, Budget Analyst

Legislative Service Commission

May 12, 2005

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LSC Redbook
for the
Ohio Housing Finance Agency

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TABLE OF CONTENTS

Overview	1
<i>Am. Sub. H.B. 431</i>	2
<i>Housing Trust Fund.....</i>	2
<i>Staffing Levels</i>	4
Analysis of Executive Proposal.....	5
<i>Affordable Housing.....</i>	5
Requests Not Funded.....	9
Attachments:	
Catalog of Budget Line Items	
LSC Budget Spreadsheet By Line Item: Executive to House Passed	

May 12, 2005

Ohio Housing Finance Agency

- Legislation establishing OHFA as an independent agency becomes effective on July 1, 2005
- The executive budget recommends funding of \$8.1 million each fiscal year (payroll expenses only)

OVERVIEW

The Ohio Housing Finance Agency (OHFA) was established in 1983 as an agency within the Department of Development. Under Am. Sub. H.B. 431 of the 125th General Assembly (signed by the Governor on February 1, 2005 with a delayed effective date of July 1, 2005), the Ohio Housing Finance Agency will become an independent state agency.

The Ohio Housing Finance Agency offers affordable housing opportunities for Ohioans by providing financing for the acquisition, construction, and rehabilitation of owner-occupied single-family housing and multifamily rental housing projects for low- and moderate-income individuals and families. The agency's programs serve first-time homebuyers, renters, senior citizens, and other populations with special needs who otherwise might not be able to afford quality housing. The agency's programs are made possible through coordination with private industry and local communities, and are supported primarily by revenues raised through the issuance, private sale, and repayment of tax-exempt mortgage revenue bonds as well as contract fees received from the U.S. Department of Housing and Urban Development (HUD) for the administration of housing assistance payments. The agency receives no General Revenue Funding.

OHFA is governed by an eleven-member Board, consisting of the Directors of the Department of Commerce and the Department of Development, who serve as ex-officio members, and nine public members. The public members are appointed by the Governor for six-year terms and represent various housing sectors and the public.

The agency administers its housing programs through five offices: Administration, Finance, Homeownership, Planning, Preservation and Development, and Program Compliance. Upon the agency becoming an independent entity, OHFA will continue to operate with these five divisions. The agency currently employs or is approved to employ approximately 109 people, including 7 part-time and intermittent employees, and 8 approved position postings. Over the course of the biennium, the agency expects to transfer four full-time positions and hire an additional seven or eight full-time equivalent positions (primarily support staff) to carry out services previously provided by the Department of Development.

Funding for the agency under the executive budget proposal totals \$8,100,000 in each of FYs 2006 and 2007. These appropriations are intended to cover payroll and fringe benefit expenses only. Other agency operating expenses, such as equipment costs and rental payments, and all program subsidy expenditures are not reflected in OHFA's state budget recommendation, but are supported through other agency accounts.

Am. Sub. H.B. 431

The rationale for establishing the Ohio Housing Finance Agency as an independent agency was to enable the agency to operate in a more business-like manner by transferring administrative and operational control of the agency to a more empowered Board.¹ In testimony before the Senate Finance and Financial Institutions Committee, the Executive Director of the Ohio Housing Finance Agency submitted that the creation of an independent OHFA would provide for the following:

- To allow OHFA to be more flexible and to react more quickly to market opportunities that enhance programming and better serve its customers;
- To allow OHFA to be directly governed by an autonomous Board, enabling the agency to focus specifically on its mission of creating, preserving, and managing affordable housing; and
- To allow for operational efficiencies in terms of non-duplicated accounting procedures and decreased operating costs.

Under the provisions of Am. Sub. H.B. 431 of the 125th General Assembly and H.B. 66 of the 126th General Assembly, two funds within the Department of Development's budget that formerly supported operating costs for OHFA have been eliminated. These are (FED) Fund 380², Housing Development Operating, and (SSR) Fund 445³, Housing Finance Operating. Any remaining cash balances in these funds at the end of FY 2005 are to be transferred to OHFA's newly established operating fund, (GSF) Fund 5AZ, Housing Finance Agency Personal Services. The Low- and Moderate-Income Housing Trust Fund (Fund 646), which provides grants and loans for qualifying housing projects serving low- and moderate-income persons, will continue to be administered by the Department of Development, and OHFA will continue to receive an allocation of moneys from this fund.

Housing Trust Fund

The Low- and Moderate-Income Housing Trust Fund (Housing Trust Fund, or HTF), administered by the Department of Development, subsidizes very low- to moderate-income persons by providing low-interest loans and some grants. Most of the programs provide loans for down payment assistance or rental housing development and grants for preservation projects. Eligible recipients for trust fund moneys vary by program, but include low-income homebuyers, developers, resident homeowners, and landlords. Income guidelines for HTF moneys require 75% of moneys be used for households with 50% of the median area income.

Under Am. Sub. H.B. 95 of the 125th General Assembly, the revenue source for the Housing Trust Fund shifted from the General Revenue Fund to county recordation fees. In addition to several OHFA programs, a portion of the HTF provides support to programs and activities of the Community Development Division at the Department of Development. The following table shows the breakdown of HTF funds used for OHFA programs, OHFA payroll, CDD programs, and CDD payroll.

¹ State Representative Michelle Schneider in sponsor testimony, submitted to the House State Government Committee on March 23, 2004.

² Fund 380 supports Section 8 contract administration personnel and the OHFA Development Loan Program.

³ Fund 445 supports administration of OHFA's single family program and housing credit program.

Expenditures of the Housing Trust Fund					
Fiscal Year	OHFA Programs*	OHFA Payroll + Admin	CDD Programs	CDD Payroll + Admin	Total OHFA+CDD
2002	\$11,281,521	\$516,977	\$8,185,500	\$400,000	\$20,383,998
2003	\$13,388,288	\$674,585	\$6,530,000	\$400,000	\$20,992,873
2004	\$20,603,853	\$531,253	\$21,781,800	\$1,100,000	\$44,016,906

* Based on funds encumbered in each fiscal year.

Total spending by OHFA from the HTF in FYs 2002, 2003, and 2004 total \$11.8 million, \$14.1 million, and \$21.1 million, respectively. The Housing Trust Fund receives appropriations of \$46 million in FY 2006 and \$48 million in FY 2007.

Staffing Levels

As the Ohio Housing Finance Agency transitions to becoming an independent agency, its employment ceiling (currently set at 108 FTEs) will be monitored by its Board and the Office and Budget and Management to allow the agency to add employees and pick up more programs as the federal government continues to transfer administration of programs to state-level agencies. Decisions to add programs will be based on programmatic needs and economic justification. Additionally, OHFA anticipates needing to hire an additional seven full-time equivalent support staff positions to carry out services formerly provided by the Department of Development.

Ohio Housing Finance Agency Staffing Levels			
Program Series/Division	2005	Estimated	
		2006	2007
Executive Office	6	4	4
Administration	7	14	14
Information Technology	3	7	7
Homeownership	12	14	14
Planning, Preservation, and Development	16	23	23
Program Compliance	24	30	30
Finance	22	29	29
Marketing, Communications, and Legislative Affairs	4	--	--
Part-time/Intermittent	7	--	--
Current Approved Postings	8		
Totals	109	121	121

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series 1

Affordable Housing

Purpose: This program series offers affordable housing opportunities for Ohioans.

The following table shows the line item that is used to fund the Affordable Housing program series, as well as the Governor’s recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Services Fund				
5AZ	997-601	Housing Finance Agency Personal Services	\$8,100,000	\$8,100,000
General Services Fund Subtotal			\$8,100,000	\$8,100,000
Total Funding: Affordable Housing			\$8,100,000	\$8,100,000

This analysis focuses on the following specific programs within the Affordable Housing program series:

- **Program Support**
- **Homeownership**
- **Planning, Preservation, and Development**
- **Program Compliance**

Program Support

Program Description: The Executive Office directs and oversees all functions performed by the agency's administrative and programmatic divisions. The office is responsible for all aspects of the agency's programmatic and operational policies, objectives, and initiatives. The office reports to the Board and represents the agency and the state to federal, state, and local elected officials, the housing industry, the mortgage lending community, the investment banking community, and the public concerning affordable housing activities of the state and the agency.

The Administration Office provides centralized services and specialized support to the agency. The office is responsible for recruiting and training personnel, processing payroll, procuring goods and services, providing telephone and mail service, overseeing facilities management and building security, and performing a variety of other services to expedite the effective operation of the agency. The communication, marketing, and legislative affairs efforts previously performed by the Department of Development will be handled in this office.

The Information Technology Office designs, acquires, and implements all aspects of OHFA's computer operations. Additionally, the office provides strategic direction for long-range planning, develops and implements network security policies, and establishes hardware and software standards for the agency.

The Finance Office provides fiscal management and accounting for the agency and all of its programs. In its history, OHFA has issued over \$7 billion in single-family mortgage revenue bonds and \$475 million in multifamily revenue bonds. The office currently manages more than \$1.7 billion in combined mortgage bonds payable and represents the agency with bond counsel, bond trustees, and investment bankers. Additionally, the office administers over \$47 million annually in housing assistance payments for HUD Section 8 housing projects, and acts as loan servicer for affordable housing loans and down payment assistance loans, which currently total approximately \$256 million.

Funding Source: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency

Line Items: GSF 997-601, Housing Finance Agency Personal Services

Implication of Executive Recommendation: The executive funding recommendation of \$3,823,715 in each year of the biennium will support this program's oversight of all agency activities, including centralized information technology and finance services.

Homeownership

Program Description: The Homeownership Office works to ensure safe, structurally sound, and sanitary homeownership opportunities for low- to moderate-income individuals and families by providing low-interest loans and down payment assistance. Two programs in particular that are managed by the Homeownership Office are the First-Time Homebuyer Program and the Mortgage Credit Certificate Program.

First-Time Homebuyer Program

The largest program operated by OHFA is the First-Time Homebuyer program. The program offers a 30-year, fixed-rate mortgage at a below-market interest rate to first-time homebuyers or persons purchasing homes in economically distressed areas. The low interest rate and fixed term enables the agency to create homeownership opportunities for those who could not otherwise afford to purchase a home. Since the inception of the program in 1983, OHFA has helped nearly 90,000 Ohioans become homeowners. Under current program rates, prospective homeowners not using down payment assistance can qualify for mortgage rates starting at 5.10%, and buyers using down payment assistance can qualify for rates starting at 5.50%. Down payment assistance is offered through OHFA's Single-Family Mortgage Revenue Bond Program in the form of a grant of up to 2% of the home's purchase price. These grants are available on a first-come, first-served basis.

In the upcoming biennium, OHFA expects to issue \$300 million per year in mortgage revenue bonds to fund some 6,000 mortgages statewide.

Mortgage Credit Certificate Program

The Mortgage Credit Certificate Program was created to help reduce a homebuyer's federal income tax liability. Under this program, 10% of a homebuyer's annual mortgage interest payment can be used as a tax credit, with the remaining 90% of the interest taken as an itemized deduction. For targeted areas, 20% of the interest payment can be used as a tax credit, with the remaining 80% taken as an itemized deduction.

Funding Source: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency

Line Items: GSF 997-601, Housing Finance Agency Personal Services

Implication of Executive Recommendation: The executive funding recommendation of \$994,013 in each year of the biennium will support the operations of the First-Time Homebuyer Program and the Mortgage Credit Certificate Program.

Planning, Preservation, and Development

Program Description: Programs administered by the Planning, Preservation, and Development Office provide financial assistance to developers for all stages of the development process, including predevelopment, construction, and post-construction permanent financing. All programs are accessed through a one-stop application approach, intended to encourage nonprofit and for-profit developers to increase affordable housing stock targeted to Ohio's low- and moderate-income individuals and families. The following programs are administered by the Planning, Preservation, and Development Office:

Housing Credit Program

The Housing Credit Program is designed to increase the supply of quality affordable rental housing for low-income families. These federal income tax credits, authorized by Internal Revenue Code Section 42, provide the private and nonprofit housing development community with incentives to develop affordable housing by offsetting building acquisition, new construction, or substantial rehabilitation costs. Housing credits are used to offset federal income tax liability, either individual or corporate. The housing tax credit is subtracted on a dollar-for-dollar basis from the federal income tax liability and can be received each year for up to ten years, provided proper compliance is followed for 15 years, with the affordability component enduring for a total of 30 years.

Through the Housing Credit Program, OHFA has awarded approximately \$260 million in housing credits resulting in the creation of more than 70,000 affordable housing units. In the upcoming biennium, the agency expects to allocate \$44 million in annual credits, resulting in the development of 110 properties consisting of 5,500 affordable housing units.

Housing Development Loan Program

The Housing Development Loan Program provides seed, construction, and bridge loan assistance through the use of five funding mechanisms: seed money loan, compensating balance loans, equity bridge loans, direct loans, and loan guarantees. Moneys for this program are provided through Unclaimed Funds that are collected by the Department of Commerce. Under this program, more than \$918.8 million in housing development loans have been used in the financing of 26,841 housing units.

Housing Development Assistance Program

The Housing Development Assistance Program (HDAP) provides financing for housing projects to expand, preserve, and improve the supply of decent, safe, and affordable housing for very low-income individuals and households. The Housing Trust Fund (Fund 646) provides funding to HDAP projects that predominantly serve low-income households at or below 50% of the area median income (AMI); preference is given to households at or below 35% of the AMI. Additionally, funding for HDAP projects derives from federal HOME Investment Partnership funds. Since 2000, OHFA has approved \$120.7 million in HDAP funds resulting in 20,100 affordable housing units. In the upcoming biennium, OHFA expects to award \$24 million per year in HDAP loans.

Multifamily Bond Program

This program is focused on financing multifamily housing through the issuance and sale of tax-exempt development bonds. Revenues produced by bonds issued under the state's Volume Cap Allocation support this program, which in turn, supports low-interest mortgages for projects that involve new construction or rehabilitation. Assistance is usually provided in conjunction with the Housing Credit

Program. Under the Multifamily Bond Program, over \$475 million in rental housing development bonds have been used to help finance 7,300 multifamily housing units.

Funding Source: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency

Line Items: GSF 997-601, Housing Finance Agency Personal Services

Implication of Executive Recommendation: The executive funding recommendation of \$1,624,890 in each year of the biennium will support the staffing needs for all of the programs administered by the Planning, Preservation, and Development Office.

Program Compliance

Program Description: The Program Compliance Office monitors more than 1,000 tax credit properties and more than 500 HOME/HDAP properties across the state. Program Compliance ensures that properties are being maintained in a satisfactory manner and that properties are in compliance with Internal Revenue Service, HUD, and state regulations. In addition, the office monitors approximately 30 multifamily bond-financed properties consisting of 3,500 units, five Federal Deposit Insurance Corporation properties consisting of 202 units, and acts as contract administrator for HUD Section 8 privately owned properties consisting of more than 8,000 units. As contract administrator, OHFA is responsible for disbursing subsidy payments each month on behalf of the lower income residents and for performing site reviews of all properties to ensure compliance with federal and state regulations.

Section 8 Rental Assistance Program

The U.S. Department of Housing and Urban Development (HUD) funds the Section 8 Project-Based program, which provides rental subsidies, determined by tenant incomes, directly to private owners of Section 8 apartment developments. The tenant pays approximately 30% of his or her income toward rent and utilities, and HUD pays the remainder of the rent as agreed upon by HUD and the private owner. Additionally, HUD provides subsidies to local public housing authorities that administer the Tenant-Based program, in which rental subsidies are paid to private owners of tenant selected rental units.

The Ohio Housing Finance Agency currently serves as contract administrator for 108 projects with 8,622 units under the Owner-Based program. In the Section 8 Owner-Based program HUD provides loans to landlords that rent to low-income persons. In its role as contract administrator for HUD, OHFA performs site inspections and distributes rental assistance payments from HUD to the project owners.

Funding Source: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency

Line Items: GSF 997-601, Housing Finance Agency Personal Services

Implication of Executive Recommendation: The executive funding recommendation of \$1,657,382 in each year of the biennium will support the staffing needs of the Program Compliance Office.

REQUESTS NOT FUNDED

The legislation that establishes the Ohio Housing Finance Agency as an independent agency becomes effective on July 1, 2005. According the legislation, only payroll remains a part of the appropriation process. As such, OHFA did not submit a budget request to the Office of Budget and Management under the normal Executive budget-development process.

General Services Fund Group

5AZ 997-601 Housing Finance Agency Personal Services

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
\$0	\$0	\$0	\$0	\$8,100,000	\$8,100,000
	N/A	N/A	N/A	N/A	0.0%

Source: GSF: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency

Legal Basis: ORC 175.051 (originally established in Am. Sub. H.B. 431 of the 125th G.A.)

Purpose: Moneys in this line item cover payroll and fringe benefit expenses for employees of the Ohio Housing Finance Agency. Other agency operating expenses, such as equipment costs and rental payments, and all program subsidy expenditures are not expended from this line item, but are supported through other agency accounts.

LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	Estimated 2005	<i>As Introduced 2006</i>	<i>House Passed 2006</i>	<i>% Change Est. 2005 to House 2006</i>	<i>As Introduced 2007</i>	<i>House Passed 2007</i>	<i>% Change House 2006 to House 2007</i>
HFA Housing Finance Agency, Ohio									
5AZ	997-601	Housing Finance Agency Personal Services	\$0	\$ 8,100,000	\$ 8,100,000	N/A	\$ 8,100,000	\$ 8,100,000	0.0%
General Services Fund Group Total			\$ 0	\$ 8,100,000	\$ 8,100,000	N/A	\$ 8,100,000	\$ 8,100,000	0.0%
Total All Budget Fund Groups			\$ 0	\$ 8,100,000	\$ 8,100,000	N/A	\$ 8,100,000	\$ 8,100,000	0.0%