

Ohio Housing Finance Agency

Senate Finance and Financial Institutions Committee

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Legislative Service Commission*

May 17, 2007

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for the

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May 17, 2007

Ohio Housing Finance Agency

- OHFA has successfully transitioned into a fully independent agency
- The executive budget recommends funding of \$9.8 million in FY 2008 and \$10.2 million in FY 2009 (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, the Ohio Housing Finance Agency became an independent state agency effective July 1, 2005.

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 allocated through Ohio's federal Volume Cap program, 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 the public as well as various housing sectors, such as lenders, homebuilders, and other stakeholders.

The agency administers its housing programs through its Executive Office and seven divisions, split between the categories of Program Support and Programs. In addition to the Executive Office, Program Support includes Administration; Communications, Marketing, and Legislative Affairs; Finance; and Information Technology. Programs encompass Homeownership; Planning, Preservation, and Development (PP&D); and Program Compliance. The agency currently is approved to employ 121 full-time employees as a result of an increase in its employment ceiling granted by the Office of Budget and Management, owing to growth in the Homeownership Program and the size of the agency's affordable housing portfolio.

Funding for the agency under the executive budget proposal totals \$9,750,953 in FY 2008 and \$10,237,491 in FY 2009. These appropriations are 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 nonappropriated agency accounts.

OHFA's Independence and 2006-2007 Biennium Highlights

The Ohio Housing Finance Agency was formerly housed within the Department of Development. The rationale for establishing OHFA as an independent agency was to enable it to operate in a more

business-like manner by transferring administrative and operational control of the agency to a more empowered Board.¹

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 were eliminated. These are (FED) Fund 380,² Housing Development Operating, and (SSR) Fund 445,³ Housing Finance Operating. The remaining cash balances in these funds at the end of FY 2005 were 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, continues to be administered by the Department of Development, and OHFA will continue to receive an allocation of moneys from this fund to support programs within the Planning, Preservation, and Development Office.

Since OHFA became independent, it has expanded its services and taken on tasks with autonomy not available to it in the Department of Development, including assisting over 7,000 evacuees from Hurricane Katrina in 2005. Its overall program growth has been significant; out of a total of approximately 100,000 homeowners served by OHFA's First-Time Homebuyer (FTHB) Program since the agency's inception in 1983, approximately 10,000 were served in 2006.

OHFA also moved to streamline its operations by beginning implementation of two major technological initiatives to promote a fully electronic workflow process. The E-Mortgage loan product includes a paperless FTHB loan application for participating lenders, and the Housing Registry Portal is designed to assist low- to moderate-income individuals locate affordable rental housing.

Additionally, OHFA has committed up to \$3 million in the current biennium for a pilot project in Summit County to provide low-interest home equity loans to qualified owners of historic homes that will allow them to preserve the homes' "historic character." OHFA has also committed \$250,000 annually for six years to assist in the Columbus vacant property initiative Home Again, which seeks to eliminate and rehabilitate blighted properties.

Homeownership Initiatives

In the current and coming biennia, OHFA is taking on a role in the Strickland Administration's Foreclosure Prevention Task Force, alongside the Departments of Development and Commerce and representatives from the state, local governments, lenders, and the nonprofit and private sectors. The Task Force was established in order to provide a cohesive response to increasing foreclosures in Ohio as a result of predatory lending practices. The group will work on developing a model for foreclosure prevention and intervention and will create strategies for assisting distressed mortgages.

Additionally, to supplement OHFA's homeownership program, the agency began a refinancing assistance program in April of 2007 that will use taxable bonds alongside the tax-exempt bonds already used for the FTHB program in an effort to leverage OHFA's volume cap allocation. The program, called the Opportunity Loan Program, makes available affordable, fixed-rate financing for qualifying homeowners who may be having difficulties with their existing mortgages.

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

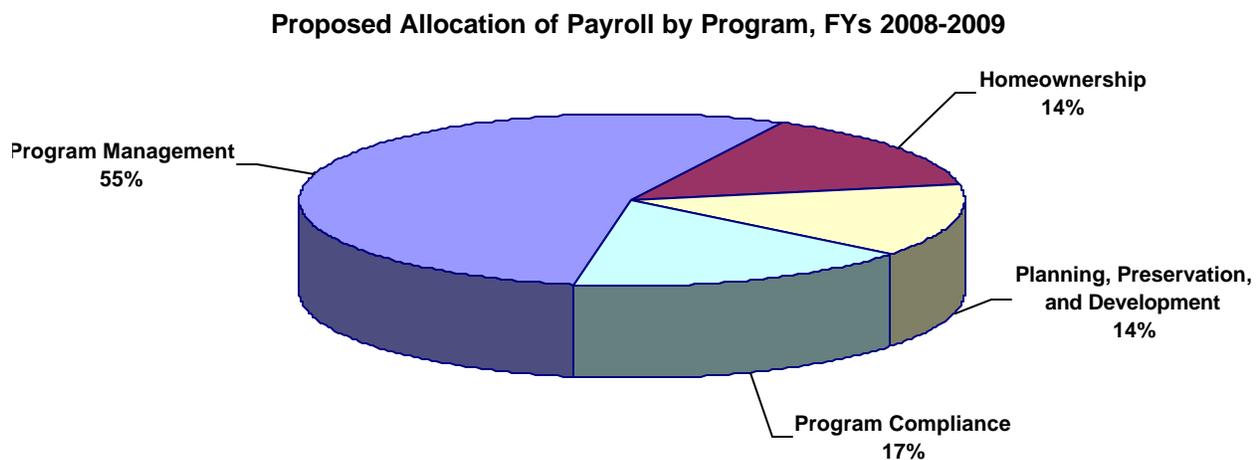
² Fund 380 supported Section 8 contract administration personnel and the OHFA Development Loan Program.

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

Summary of Executive Recommendations for FYs 2008-2009

All appropriations for OHFA's operating expenses are funded through appropriation item 997-601, located in Fund 5AZ in the Agency Fund Group. The recommendation for FY 2008 is \$9,750,953, an increase of 6.3% over the FY 2007 spending estimate of \$9,173,332. The FY 2009 recommendation is \$10,237,491, an increase of 5.0% over the FY 2008 recommendation. The entirety of the executive recommendations are appropriated to a single object of expense, Personal Services, as all OHFA operating funds are used to pay salaries and benefits for the agency's staff.

The recommendations fund a single program series, Affordable Housing, which encompasses all OHFA programs and operations in four programs. The following chart shows the allocation each program receives for its payroll expenses under the executive recommendations.



Ohio Housing Trust Fund

The Ohio Housing Trust Fund (OHTF) is administered by the Department of Development and funded through county recordation fees. OHFA receives dollars from this fund for two of its programs. The Housing Development Assistance Program (HDAP) provides financing for eligible housing projects to expand, improve, and preserve the supply of quality, low-cost housing for low- and moderate-income renters. OHTF moneys fund projects that serve households with incomes less than 50% of the median income of the project area, with a preference given to projects serving those with incomes less than 35% of the median per HUD guidelines. OHTF funds also support a portion of the Community Housing Development Organizations (CHDO) Competitive Operating Grant program, which provides a source of operating funds for eligible state-certified CHDOs with service areas in urban or rural locations. As mentioned above, the source of revenue for the Housing Trust Fund is county recordation fees.

OHFA's Share of the Housing Trust Fund, FYs 2006-2007*					
Fiscal Year	Total OHTF	OHFA Programs	OHFA Payroll + Admin	Total OHFA Allocation	% of Total OHTF
2006	\$53,000,000	\$18,000,000	\$950,000	\$18,950,000	35.8%
2007	\$53,000,000	\$21,500,000	\$1,150,000	\$22,650,000	42.7%

* Based on funds encumbered in each fiscal year.

Spending by OHFA from the OHTF in FYs 2006 and 2007 totals \$39.5 million. The Housing Trust Fund would receive appropriations of \$53 million in each of FYs 2008 and 2009 under the executive's recommendation for the Department of Development, of which OHFA will again receive an allocation.

Staffing Levels

As the Ohio Housing Finance Agency fully implemented its transition to independence, the Office of Budget and Management increased the agency's employment ceiling from 108 FTEs to 121 full-time and seven part-time employees, and authorized temporary/intermittent employees and board members for a total ceiling of 148 employees. This increase in staffing is due to considerable growth in the number of loan reservations in the Homeownership Program and an increase in the total size of the agency's affordable housing portfolio. According to OHFA, some programs could require additional staffing in the coming biennium. OHFA intends to look at these positions on a case-by-case basis.

Ohio Housing Finance Agency Staffing Levels			
	Estimated		
Program Series/Division	2007	2008	2009
Executive Office	4	9	9
Administration	14	13	13
Information Technology	7	11	11
Homeownership	14	20	20
Planning, Preservation, and Development	23	19	19
Program Compliance	30	26	26
Finance	29	34	34
Marketing, Communications, and Legislative Affairs	--	7	7
Part-time/Intermittent	--	--	--
Current Approved Postings			
Totals	121	139	139

ANALYSIS OF EXECUTIVE PROPOSAL

Single Program Series

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 2008	FY 2009
General Services Fund				
5AZ	997-601	Housing Finance Agency Personal Services	\$9,750,953	\$10,237,491
General Services Fund Subtotal			\$9,750,953	\$10,237,491
Total Funding: Affordable Housing			\$9,750,953	\$10,237,491

The Program Series consist of the following:

- **Program 01.01: Program Management**
- **Program 01.02: Homeownership**
- **Program 01.03: Planning, Preservation, and Development**
- **Program 01.04: Program Compliance**

Program 1.01: Program Management

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 Division 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 Information Technology Division 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 Communications, Marketing, and Legislative Affairs Division leads all of OHFA's communications and marketing initiatives. The office coordinates the Ohio Housing Conference and other special events and handles all media and legislative relations, as well as all marketing and advertising campaigns in support of OHFA's programs.

The Finance Division provides fiscal management and accounting for the agency and all of its programs. The office currently manages more than \$2 billion in combined mortgage bonds payable and represents the agency with bond counsel, bond trustees, and investment bankers. Additionally, the office

administers over \$45 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 \$230 million.

Funding Source: User fees and administrative reimbursement for services provided, including program fees from single- and multi-family bond programs; administrative fees from Section 8, HDAP, and HOME; tax credit application and reservation fees; compliance monitoring fees; and application, closing, and loan servicing fees on Housing Development loans

Line Items: 997-601, Housing Finance Agency Personal Services, Fund 5AZ

Implication of Executive Recommendation: The executive funding recommendation of \$5,336,902 in FY 2008 and \$5,628,261 in FY 2009 will support this program's oversight of all agency activities, including centralized information technology and finance services.

Program 1.02: 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. The primary function of the office is to oversee the operations of the First-Time Homebuyer Program.

The FTHB program is the largest program operated by OHFA. 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. In partnership with more than 160 Ohio financial institutions, OHFA has used the low interest rate and fixed term under this program 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 over 100,000 Ohioans become homeowners.

Under current program rates, prospective homeowners not using down payment assistance can qualify for mortgage rates starting at 6.00%, and buyers using down payment assistance can qualify for rates starting at 6.40%. 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, or a second mortgage in an amount up to 4% of the purchase price of the home secured by the first mortgage single-family bond loan. Historically, more than one-third of the mortgages funded through this program include down payment assistance.

In the upcoming biennium, OHFA expects to issue \$300 million per year in mortgage revenue bonds to fund some 10,000 mortgages statewide.

Funding Source: Agency program fees from single-family bond programs

Line Items: 997-601, Housing Finance Agency Personal Services, Fund 5AZ

Implication of Executive Recommendation: The executive funding recommendation of \$1,405,098 in FY 2008 and \$1,469,421 in FY 2009 will support the operations of the First-Time Homebuyer Program.

Program 1.03: 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 pre-development, 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 over \$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 \$26.5 million in annual credits, resulting in the development of 60 properties consisting of 3,900 affordable housing units.

Housing Development Loan P 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 loans under this program are provided through Unclaimed Funds that are collected by the Department of Commerce. In the FYs 2008-2009 biennium, OHFA expects to approve approximately \$35 million per year in loans to enhance the financing of 1,700 affordable housing credit rental units. OHFA also operates a Loan Guarantee program that makes Unclaimed Funds Moneys available for lending institutions in the event of default or emergency during the construction or rehabilitation process.

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. In FY 2006, OHFA utilized \$6.6 million from the Housing Trust Fund to create an additional 183 housing units in 18 rental and homeownership projects under HDAP. In the upcoming biennium, OHFA expects to award \$29 million per year in HDAP loans.

CHDO Competitive Operating Grants

The Community Housing Development Organizations Competitive Operating Grant Program provides CHDOs with assistance for their daily operating financial needs. State-certified CHDOs may be eligible to receive funding for a 24-month period based on annual performance benchmarks and milestones. OHFA bases awards on competitive criteria established to determine the eligible applicants who have the strongest ability to produce affordable housing. This program awards approximately \$1 million annually in grants funded by a combination of federal HOME dollars supplemented by the OHTF. The HOME set-aside is allocated to CHDOs based on their location and participation in the program. Approximately 13% of HOME funds are allocated to continued funding of current "grandfathered" CHDOs, approximately 33% goes to urban CHDOs, approximately 49% to rural CHDOs, and the remaining 5% for CHDOs new to the program.

Multi-family Bond Program

This program is focused on financing multi-family 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. Approximately \$120 million in Ohio's Volume Cap allocation is currently used for multi-family bonds.

Funding Source: Administrative fees from the Ohio Housing Trust Fund and HOME Program; tax credit application and reservation fees; application, closing, and loan servicing fees on Housing Development loans

Line Items: 997-601, Housing Finance Agency Personal Services, Fund 5AZ

Implication of Executive Recommendation: The executive funding recommendation of \$1,343,717 in FY 2008 and \$1,401,331 in FY 2009 will support the staffing needs for all of the programs administered by the Planning, Preservation, and Development Office.

Program 1.04: Program Compliance

Program Description: The Program Compliance Office monitors more than 71,000 rental units in over 1,300 rental properties statewide to ensure 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 multi-family bond-financed properties consisting of 3,500 units, five Federal Deposit Insurance Corporation properties consisting of 202 units, and acts as contract administrator for privately owned HUD Section 8 properties. 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 106 projects with over 8,000 units under the Owner-Based program, representing approximately 10% of the total Section 8 properties in Ohio. 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: Administrative fees from the Section 8 subsidy program, HDAP program, and HOME program; and tax credit compliance monitoring fees

Line Items: 997-601, Housing Finance Agency Personal Services, Fund 5AZ

Implication of Executive Recommendation: The executive funding recommendation of \$1,665,236 in FY 2008 and \$1,738,478 in FY 2009 will support the staffing needs of the Program Compliance Office.

REQUESTS NOT FUNDED

The Ohio Housing Finance Agency's budget request, which consists solely of payroll, is fully funded under the executive recommendation. OHFA has been appropriated \$9,750,953 in FY 2008 and \$10,237,491 in FY 2009.

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Agency Fund Group

5AZ 997-601 Housing Finance Agency Personal Services

2004	2005	2006	2007 Estimate	2008 House Passed	2009 House Passed
\$0	\$0	\$7,572,518	\$9,173,332	\$9,750,953	\$10,237,491
		N/A	21.1%	6.3%	5.0%

Source: AGY: Moneys within the control of the Ohio Housing Finance Agency that are periodically deposited to the fund for payroll expenses for the agency, including program fees, administrative fees, and fees on the application, reservation, and servicing of loans.

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 2008 - FY 2009

<i>Fund ALI ALI Title</i>	<i>Estimated 2007</i>	<i>As Introduced 2008</i>	<i>House Passed 2008</i>	<i>% Change Est. 2007 to House 2008</i>	<i>As Introduced 2009</i>	<i>House Passed 2009</i>	<i>% Change House 2008 to House 2009</i>
HFA Housing Finance Agency, Ohio							
5AZ 997-601 Housing Finance Agency Personal Services	\$9,173,332	\$ 9,750,953	\$ 9,750,953	6.3%	\$ 10,237,491	\$ 10,237,491	5.0%
Agency Fund Group Total	\$ 9,173,332	\$ 9,750,953	\$ 9,750,953	6.3%	\$ 10,237,491	\$ 10,237,491	5.0%
<hr/>							
Total All Budget Fund Groups	\$ 9,173,332	\$ 9,750,953	\$ 9,750,953	6.3%	\$ 10,237,491	\$ 10,237,491	5.0%

As Introduced (Executive)

As Passed by the House

1 (CD-873-DEV) Use of Housing Trust Fund for Youth Shelters

No provision.

R.C. 174.03, 174.06

Specifies that emergency shelter care programs for unaccompanied youth ages seventeen and under are eligible to receive grants, loan guarantees, and loan subsidies from the Department of Development and the Ohio Housing Finance Agency.

Fiscal effect: Potentially increases expenditures from the Low- and Moderate-Income Housing Trust Fund for grants, loans, loan guarantees, and subsidies under any program formed under this section.