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# State of Connecticut
# Department of Developmental Services

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**DEPARTMENT OF DEVELOPMENTAL SERVICES TESTIMONY BEFORE THE PUBLIC HEALTH COMMITTEE**

March 5, 2014

Senator Gerratana, Representative Johnson, and members of the Public Health Committee. I am Terrence W. Macy, Ph.D., Commissioner of the Department of Developmental Services (DDS). Thank you for the opportunity to testify in support of our agency bill **S.B. No. 256 - An Act Concerning the Department of Developmental Services Revolving Loan Fund.**

**S.B. No. 256** would allow the transfer the administration of DDS's Revolving Loan Fund to the Connecticut Housing Finance Authority (CHFA).

Public Act 85-472 established a "community residential facility revolving loan fund". The Revolving Loan Fund is used to make loans (mortgages) to private non-profit organizations for the construction, purchase and renovation, or rehabilitation of community-based residential facilities for persons with intellectual disability. This bill would allow the transfer of the administration of DDS's Revolving Loan Fund to the CHFA. As DDS does not have a real estate or mortgage background, CHFA would be a natural fit to take over the administration of this program given the similarity of their loan process with regard to meeting the residential needs of DDS consumers under the care of contracted DDS nonprofit providers.

The loan principal for the construction or purchase and renovation of a community-based residential facility can be up to 100% of the total property development costs. However, the total property development cost cannot exceed the Community Living Arrangement (CLA) development amount approved by Department of Social Services (DSS) and DDS.

"Total property development costs" are those costs which can be capitalized under generally accepted accounting principles and include: the cost to purchase a property; the construction costs to build a new home; the cost of renovation or rehabilitation of an existing property; or development costs associated with building or renovations. The total property development costs for any eligible facility financed through this fund cannot exceed the amount approved by DSS and DDS. The principal amount of a loan for the rehabilitation of a residential facility can be up to 100% of the total property development costs, but cannot exceed $60,000.

CHFA Multifamily Underwriting has compared CHFA's and DDS's programs and found the processes for both programs to be nearly identical. Attached is a loan process comparison for your review and information.

Thank you again for your continued support of DDS. My staff and I would be happy to answer any questions that you have on **Senate Bill 256** or the Revolving Loan Fund Program. Please contact Christine Pollio Cooney, DDS Director of Legislative and Executive Affairs, at (860) 418-6066, if you would like additional information from DDS.

**March 5, 2014 for the Public Health Committee**

CHFA Multifamily Underwriting has investigated CHFA's and DDS's programs and finds the processes for both programs to be nearly identical. Differences are noted below.

| ***Tax Exempt Bond (TEB) Process:*** | ***Revolving Loan Fund Process:*** |
|---|---|
| **Identifying a Group Home** | |
| DDS (Department of Developmental Services) awards a Group Home development project to an Applicant that is qualified to do business in the State and that is licensed by DDS. | Same |
| The Applicant must be a non-profit organization that provides services to its clients who are determined by DDS to be eligible residents. | Same |
| The Applicant, in conjunction with DDS Regional staff, identifies a home to rehabilitate or land on which to build a new home. | Same |
| DDS and DSS (Department of Social Services) approve the Group Home development project via a Capital Development Agreement (CDA). | Same |
| CHFA (Connecticut Housing Finance Authority) receives the CDA from DSS once it is approved. | Same except DDS receives the CDA. |
| **Financing a Group Home** | |
| The Applicant may apply for funding for a Group Home development project either on its own (if it has sufficient resources for construction financing) or through a developer such as CIL (Corporation for Independent Living). | Applicant uses its funds or a private bank for construction financing. CIL not involved. |
| Applicant submits a Capitalization Report to DDS and DSS. DSS reviews and audits the Capitalization Report. | Same |
| DSS completes its audit of the Capitalization Report and submits it to CHFA. | Same except DDS receives the report. |
| CHFA provides DSS with a final amortization schedule showing anticipated actual debt service. DSS establishes a final property cost allowance, which equals the actual debt service on the CHFA Group Home Mortgage Loan. | The final property cost allowance established by DSS sets the maximum amount DDS will lend. |
| Residents receive funding from various federal and state sources and pay room and board to the Applicant, which supports the debt service payments. | Same |
| CHFA issues TEBs to finance the mortgage loans on the Group Homes. | DDS requests funds from its Revolving Loan Fund. |
| | |

| **Terms** | |
|---|---|
| Maturity: Not longer than the shorter of the useful life as established by DSS or the maximum maturity permitted by Chapter 134 of the General Statutes. In practice, 30 year term. | Same |
| Payments: Current interest and full amortization of the principal amount of the Mortgage Loan by level monthly payments of principal and interest [i] | Same |
| Real Estate Tax Escrows: CHFA establishes escrows for real estate taxes (if any) for each Group Home. | DDS does not establish escrows real estate tax. |
| Insurance Escrow: CHFA requires proof of insurance policies in place, but no escrow for insurance. | Same |
| Replacement Reserve: The owner of each Group Home pays equal monthly installments totaling 1% of the base value of its Group Home per annum, into a capital replacement reserve pool. | DDS does not have a replacement reserve pool. The DDS alternative is a capital repair loan. |
| CHFA relies upon DDS and DSS determinations of need, suitability, viability, costs and funding of Group Homes. | Same |
| Permanent financing only. | Same, however, DDS has the ability to provide interim financing. |
| Interest: Fixed rate of interest as established by CHFA and not in excess of the rate prescribed by the Internal Revenue Code of 1986, as amended. | Interest rate of up to 6% fixed by statute. |
| CHFA's security for the Group Home Mortgage loans lies within an Interagency Memorandum of Understanding and the State's guarantee for the debt service on the mortgages. | Same. |

The most significant difference appears to be the Applicant's source of construction financing. Borrowers under CHFA's TEB Group Home Loan Program obtain construction financing from CIL. Borrowers under DDS's Revolving Loan Fund obtain construction financing from sources other than CIL (private lenders or its own resources).

[i] Calculated based on a 360-day year consisting of 12 months, each 30 days, for 30 years.