STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEARS ENDED
DECEMBER 31, 2016 AND 2017

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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September 19, 2019

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Housing Finance Authority. The objectives of this review were to evaluate the authority's internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the calendar years ended December 31, 2016 and 2017.

Our audit did not identify any control deficiencies or instances of noncompliance with laws, regulations, and policies, or the need for changes in management practices that warrant the attention of management.

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT J. KANE

September 19, 2019

AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEARS ENDED DECEMBER 31, 2016 AND 2017

We have audited certain operations of the Connecticut Housing Finance Authority (CHFA) in fulfillment of our duties under Sections 1-122, 8-260 and 2-90 of the Connecticut General Statutes. Included in this examination is the State Housing Authority (SHA), a subsidiary of CHFA, established in accordance with Section 8-244b of the General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended December 31, 2016 and 2017.

The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;

2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and

3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state’s information systems, and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

1. No deficiencies in internal controls;

2. No apparent noncompliance with legal provisions;

3. No need for improvement in management practices and procedures that we deemed to be reportable.

COMMENTS

FOREWORD

The Connecticut Housing Finance Authority operates under the provisions of Chapter 134, Sections 8-241 through 8-265ss of the General Statutes. The authority was established during the 1972 session of the General Assembly as the successor to the Connecticut Mortgage Authority, which the General Assembly established in 1969. CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the state and was created to alleviate the shortage of housing for low-income and moderate-income families, as well as encourage the development of a balanced community of all income levels in the urban areas. In accordance with Section 8-244b of the General Statutes, CHFA established the State Housing Authority, which is a subsidiary of CHFA. The State Housing Authority has been inactive since May 30, 2012.

CHFA primarily obtains funds to finance mortgage loans by issuing bonds, the interest from which has generally been exempt from federal income tax to the bondholder. Loans made from the proceeds of bonds are secured by a first mortgage lien. The authority pays its operating expenses using funds derived from the excess of interest income from loans over bond interest expenses.

BOARD OF DIRECTORS AND ADMINISTRATIVE OFFICIALS

In accordance with Section 8-244(a) of the General Statutes, the governing body of the authority consists of 16 directors. Five directors are ex-officio members, 7 are appointed by the Governor, and 4 are appointed by the General Assembly. Members of the CHFA board of directors as of December 31, 2017, were:

Ex-officio members:

Evonne Klein	Chairperson Commissioner, Department of Housing
Catherine Smith	Commissioner, Dept. of Economic and Community Development
Denise L. Nappier	State Treasurer
Jorge Perez	Commissioner, Department of Banking
Benjamin Barnes	Secretary, Office of Policy and Management

Appointed members:

Heidi DeWyngaert, Vice Chairperson
Richard Orr
Timothy Hodges
Nuala E. Droney
Carla Weil
Kathleen Dorgan
Michael Cicchetti
Jared Schmitt
Alicia Woodsby
Lisa Tepper-Bates
One Vacancy

There was one vacancy at the end of the 2017 calendar year; Meghan Lowney, who was appointed by the Minority Leader of the Senate, stepped down in September 2017. As of September 2019, this position remains vacant.

Karl Kilduff served as the executive director of CHFA during the audit period.

In accordance with Section 8-244b(a) of the General Statutes, the governing body of the State Housing Authority consists of 3 members appointed by the CHFA board of directors. Members of the SHA board of directors as of December 31, 2017, were:

Evonne Klein	Chairperson
Jared Schmitt	
Anne Foley	

NEW LEGISLATION

Public Act 17-2, Section 337, of the June Special Session of the General Assembly, effective October 31, 2017, established the Collapsing Foundations Credit Enhancements Program (CFCEP) administered by the Connecticut Housing Finance Authority. CFCEP assists eligible borrowers in obtaining funding for the replacement or repair of concrete foundations that have deteriorated due to the presence of pyrrhotite.

CHFA PROGRAMS

CHFA provides housing-related financing through several programs at interest rates below those generally available. Programs include Down Payment Assistance, Police Homeownership, Veterans and Military Service Members Homeownership, Teacher Mortgage Assistance, and Disabled Persons Homeownership. CHFA divides the financing programs into 2 general categories, single-family housing and multi-family housing.

Single-Family Housing

CHFA provides financing to low and moderate-income households to help create affordable housing opportunities. CHFA finances single-family and two-to-four unit homes, condominiums and qualified mobile homes. Participating lenders distribute the authority's homebuyer mortgage funds, which are available for a 30-year term.

The authority adopts limitations for eligibility in its home mortgage programs. Limitations include sales price and mortgagor income, and vary based on geographical areas within the state.

The authority requires homeowners to occupy and use the residential property for a permanent, primary residence within 60 days of closing. The CHFA procedures contain other criteria related to borrower and property eligibility.

The authority also operates a Targeted Area Mortgage Program. This program allows the authority to finance home mortgage loans in certain state and federally designated targeted areas with fewer borrower income restrictions. This program only considers applications when conventional loans are not available.

Multi-Family Housing

Multi-family mortgage loans provide permanent financing for the construction of new, or rehabilitation of pre-existing, multi-family projects. Increasing the supply and availability of affordable housing for low and moderate-income households is the primary role of CHFA. By offering financing terms not generally available in the commercial market, the authority can help developers achieve feasibility for projects which otherwise would not be possible.

CHFA may designate projects eligible for financing under this program for individuals, families, the elderly, or people with special needs. Projects must contain a minimum of 25 units, while the authority may consider smaller projects for non-profit organizations. Federal tax credits are available to developers under this plan if they meet certain set-aside requirements related to tenant income.

CHFA has a Multi-Family Housing Underwriting Unit that underwrites the financing of multi-family rental housing developments, providing direct construction and/or permanent mortgage loans to private developers and not-for-profit sponsors for construction or rehabilitation of rental housing. The staff reviews loan proposals, analyzes sites and financial statements, and performs feasibility analyses to determine a proposal's acceptability. The unit ensures that plans and specifications meet authority standards; the disbursement of construction proceeds according to approved plans and timetables, the approval of budget changes, and the monitoring the integrity of developments. The unit also verifies projected costs, reviews appraisals for accuracy and completeness, and administers the State of Connecticut Low Income Housing Tax Credits by monitoring housing unit compliance and tenant eligibility.

Section 8-251(a) of the General Statutes permits the authority to purchase or make $2,250,000,000 of mortgage loans for single or multi-family housing programs, which are uninsured or not guaranteed by a federal agency, a federally chartered corporation, a private mortgage insurance company, the state or the authority. The authority financed or firmly committed to finance approximately $1,073,084,250, or 48 % of the allowable maximum of such mortgage loans as of December 31, 2016. The authority financed or firmly committed to finance approximately $1,059,819,452, or 47 % of the allowable maximum, of such mortgage loans as of December 31, 2017.

RÉSUMÉ OF OPERATIONS

During the calendar years ended December 31, 2016 and 2017, the authority maintained three funds in accordance with the provisions of Section 8-258 of the General Statutes: The Housing Mortgage Capital Reserve Fund, the Housing Mortgage General Fund, and a Housing Mortgage Insurance Fund. In addition, the authority maintained Special Needs Housing Funds, including a Capital Reserve Fund, a Special Needs Housing Renewal and Replacement Fund, and Housing Drawdown Funds (including Bond Escrow Fund and the Rebate Fund). During the audited period, CHFA assets also consisted of various component units created to hold foreclosed real estate. We did not audit these funds, because an independent public accounting firm already audited them. We relied on the opinion expressed by the independent public accountants. The following information includes general data about CHFA-associated funds. The authority's annual reports contain detailed financial data concerning these funds.

Housing Mortgage Capital Reserve Fund

In accordance with Section 8-258(a)(1) of the General Statutes, the Housing Mortgage Capital Reserve Fund shall maintain an amount of money sufficient to meet the principal and interest payments on outstanding bonds required in the succeeding calendar year. This fund consists of proceeds from the sale of bonds that the bond resolution requires be deposited into this account. The fund also includes other monies available to the authority that it can utilize for this purpose. The authority would only use this fund to pay bond principal and interest if there were insufficient funds within the Housing Mortgage General Fund.

Housing Mortgage General Fund

The Housing Mortgage General Fund was established pursuant to Section 8-258(a)(3) of the General Statutes to account for any monies not required to be deposited into the Housing Mortgage Capital Reserve Fund or allocated to any other fund, including proceeds from the sale of bonds. The authority uses this fund to pay all operating costs, including principal and interest on authority-issued bonds. The General Assembly has not appropriated for the general operations of the authority with the exception of the initial appropriation in the 1969-1970 fiscal year. The state provides services to CHFA for the processing of payroll and related employee benefits. During the calendar years ended December 31, 2016 and 2017, CHFA wired $22,818,260 and $24,354,381 to the Office of the State Treasurer to provide for all such payroll and payroll processing costs, respectively.

Housing Mortgage Insurance Fund

In accordance with Section 8-258(a)(4) of the General Statutes, CHFA is authorized to establish a Housing Mortgage Insurance Fund. This fund shall consist of mortgage insurance premium receipts, money or assets received from loan defaults or delinquencies (including sales, lease or rental of real property), monies lent or paid by the state for inclusion in this fund, and any other monies available to the authority that it can include therein. The fund pays for expenses related to the protection of the authority's interest in connection with delinquent or defaulted insured mortgages. Section 8-250 of the General Statutes permits this fund to make loans and advances.

Statement of Net Position (thousands of dollars)

	As of December 31,		
	2017	**2016**	**2015**
Assets			
Current Assets	$ 858,364	$ 717,075	$ 630,199
Noncurrent Assets	4,747,028	4,528,599	4,352,108
Total Assets	5,605,392	5,245,674	4,982,307
Deferred Outflows of Resources	113,838	131,319	148,964
Liabilities			
Current Liabilities	300,902	186,194	360,223
Noncurrent Liabilities	4,516,420	4,311,303	3,881,994
Total Liabilities	4,817,322	4,497,497	4,242,217
Deferred Inflows of Resources	20,925	12,834	-
Net Position			
Net Investment in Capital Assets	3,465	3,567	3,599
Restricted	877,518	863,095	885,455
Total Net Position	$ 880,983	$ 866,662	$ 889,054

Statement of Revenues, Expenses and Changes in Net Position (thousands of dollars)

	As of December 31,		
	2017	**2016**	**2015**
Operating Revenues			
Interest on Mortgage Loans	$ 151,752	$ 163,180	$ 164,632
Interest on Investments	47,734	36,990	25,294
Fees and Other Income	14,232	6,812	5,466
Total Operating Revenues	213,718	206,982	195,392
Operating Expenses			
Interest	137,424	127,917	125,264
Administrative	34,807	38,263	38,499
All Other Expenses	20,574	37,613	30,800
Total Operating Expenses	192,805	203,793	194,563
Operating Income	20,913	3,189	829
Non-operating Revenues (Expenses):			
Net Increase (Decrease) in the Fair Value or Investments	(5,938)	(24,593)	(17,702)
Other	(654)	(988)	(3,550)
Total Non-Operating Income (Loss)	(6,592)	(25,581)	(21,252)
Change in Net Position	$ 14,321	$ (22,392)	$ (20,423)

During the 2016-2017 calendar year, net position increased $14.3 million or 164%.

Operating revenues increased $6.7 million or 3.3% in the 2016-2017 calendar year. There was a shift in interest on investments due to the securitization of a substantial portion of new qualified mortgage loans into mortgage-backed securities instead of recognizing them as whole loans. There was an increase in fees and other income, as well as several non-recurring fees recognized in 2017, mostly due to the administration of Section 8 contracts in the multifamily portfolio.

Operating expenses decreased by $11 million or 5.4% in the 2016-2017 calendar year. Outstanding debt as of year-end was $328 million higher than the prior year and associated interest costs increased by $9.5 million. Administrative costs decreased by $3.5 million. Costs associated with the administration of variable rate demand bonds were lower than the prior year due to the replacement of expiring contracts with new contracts at lower rates. Renegotiation of collective bargaining unit contracts resulted in higher employee contributions and lower employer costs. The share of pension expense and pension liability allocated from the state resulted in lower pension costs and a smaller portion of the state's pension liability. A substantial increase in the loss reserve was required in 2016 to account for the acquisition of a multifamily portfolio acquired by the state in connection with Public Act 16-2. The authority did not make any acquisitions in 2017.

The non-operating loss in the 2016-2017 calendar year is substantially attributable to a decrease in the fair value of the investment portfolio. The reduction in fair value was due to an increasing market interest rate environment. This change in interest rates has an inverse relationship to the fair value of mortgage-backed securities.

Connecticut Housing Finance Authority Bonds

Sections 8-250(12) and 8-252 of the General Statutes authorize the authority to issue bonds as necessary to provide sufficient funds for carrying out the purposes of the authority. Bonds issued by the authority have generally been tax-exempt. The tax-exempt bonds are not backed by the full faith and credit of the State of Connecticut. However, the state (on or before December 1st of each year) must appropriate from the General Fund whatever amount the chairman of the authority certifies as necessary to restore the Capital Reserve Fund to the required minimum capital reserve. The General Fund did not fund the Capital Reserve Fund during the audited period.

Capital Reserve Fund Requirements and Deposits (thousands of dollars)

	Capital Reserve Funds	
	Bond Resolution	**Special Needs Indenture**
December 31, 2016		
Minimum Required Reserve	$ 237,925	$ 4,584
Reserve Required to Issue New Debt	284,832	4,589
Actual Reserves	**766,027**	**5,567**
December 31, 2017		
Minimum Required Reserve	256,542	5,048
Reserve Required to Issue New Debt	298,586	5,048
Actual Reserves	**$ 716,000**	**$ 5,333**

Minimum required reserve is the amount of debt service due in the following year. Reserve required to issue new debt is the largest amount of debt service due in any succeeding year. The authority generally issues two types of bonds; the Housing Mortgage Finance Program Bonds and the Special Needs Housing Mortgage Finance Program Bonds. The table below illustrates the changes in bonds payable for the years ended December 31, 2016 and December 31, 2017.

Change in Bonds Payable (thousands of dollars)

	Balance at 12/31/15	Additions	Reductions	Balance at 12/31/16
Types of Program Bonds				
Housing Mortgage Finance*	$ 3,426,262	$ 897,641	$ (613,503)	$ 3,710,400
Special Needs Mortgage Finance	58,080		(1,955)	56,125
Single Family Special Obligation	293,390		(25,895)	267,495
Multifamily Special Obligation	25,910		(430)	25,480
Qualified Energy Conservation	5,280	4,355	(44)	9,591
	$ 3,808,922	$ 901,996	$ (641,827)	$ 4,069,091

	Balance at 12/31/16	Additions	Reductions	Balance at 12/31/17
Deferred Outflows of Resources				
Housing Mortgage Finance*	$ 3,710,400	$1,027,685	$ (676,731)	$ 4,061,354
Special Needs Mortgage Finance	56,125	37,365	(29,225)	64,265
Single Family Special Obligation	267,495		(30,285)	237,210
Multifamily Special Obligation	25,480		(450)	25,030
Qualified Energy Conservation	9,591		(356)	9,235
	$ 4,069,091	$1,065,050	$ (737,047)	$ 4,397,094

*Includes Housing Mortgage Finance Program Other Bonds.
Additions include new issues and accreted interest.
Reductions include retirements and refunded bonds.

Investments

In accordance with Section 8-258(c) and Section 8-250(18) of the General Statutes, CHFA shall invest any funds not needed for immediate use or disbursement, including any funds held in reserve. The nature of such investments is limited to obligations issued or guaranteed by the United States of America or the State of Connecticut and other obligations that are legal investments for savings banks in this state and time deposits or certificates of deposit or similar type investments as determined by the authority. The authority's investments were valued at $1,826,049,000 on December 31, 2016 and $2,304,635,000 on December 31, 2017, including $769,702,000 and $719,576,000 in capital reserve funds for the respective audited years. Interest earnings on investments totaled $36,990,000 for the year ended December 31, 2016 and $47,734,000 for the year ended December 31, 2017.

Staffing Levels

CHFA employed 136 and 137 individuals as of December 31, 2015 and 2016, respectively, an increase of .7 percent. The authority employed 140 employees as of December 31, 2017, an increase of 2.1 percent.

Personal services costs, including fringe benefits, increased by about $436,441, or 1.9 percent, for 2016 and increased by about $1,536,122, or 6.3 percent, for 2017. Increases in 2016 and 2017 were mainly attributable to salary increases and payouts for accrued leave for departing employees.

Other Examinations

CHFA has been subject to annual audits by independent public accountants covering its financial operations. The independent public accountant's report to CHFA dated April 10, 2017 for the year ended December 31, 2016, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control. The independent public accountant's report to CHFA dated April 10, 2018 for the year ended December 31, 2017, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control.

RECOMMENDATIONS

Our prior audit report on the Connecticut Housing Finance Authority contained one recommendation, which will not be repeated in our current audit. Our current audit report did not result in any recommendations.

Status of Prior Audit Recommendations

- The Connecticut Housing Finance Authority should be cognizant of the nature and amount of payroll expenses and avoid making payments that could be deemed unreasonable. **This recommendation will not be repeated.**

Current Audit Recommendations

The current audit did not result in any recommendations.

ACKNOWEDGEMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Gary Kriscenski
Nancy Niedzwiecki

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Housing Finance Authority during the course of our examination

Nancy Niedzwiecki
Staff Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor