



State of New Jersey

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PHILIP JAMES DEGNAN
State Comptroller

November 14, 2018

Leslie A. Anderson, Executive Director
New Jersey Redevelopment Authority
150 West State Street
P.O. Box 790
Trenton, NJ 08625

Re: Follow-up Report - New Jersey Redevelopment Authority, Selected Fiscal and Operating Practices

Dear Ms. Anderson:

Pursuant to *N.J.S.A. 52:15C-1 et seq.*, the Office of the State Comptroller (OSC) has conducted a follow-up review to assess the implementation of the recommendations contained in the audit report, *New Jersey Redevelopment Authority, Selected Fiscal and Operating Practices* issued on June 24, 2014. Our findings and conclusions are set forth below.

Background, Scope, and Objective

The New Jersey Redevelopment Authority (NJRA or Authority) was created in 1996 as an independent state authority to provide a coordinated state response to revitalizing New Jersey's most distressed urban neighborhoods. To accomplish its mission, NJRA partners with community-based organizations, real estate developers, and businesses to initiate redevelopment projects that foster economic opportunities. NJRA offers various forms of financial assistance to developers including loans, loan guarantees, and equity investments. The Authority is governed by a Board of Directors (Board) consisting of 21 members. The Commissioner of the Department of Community Affairs serves as the Chairperson of the Authority.

In our 2014 audit report, OSC identified weaknesses in NJRA's internal controls concerning its loan underwriting process. We also found that although required by law, NJRA had not prepared

a biennial redevelopment strategy document¹ (strategy document) for ten years. The objective of our follow-up review was to determine if the NJRA has implemented the two recommendations contained in our initial audit report.

Summary Conclusion

Our follow-up review found that NJRA has made some progress in implementing the recommendations contained in the initial audit report. Specifically, both audit recommendations have been partially implemented.

Status of Initial Audit Recommendations

Recommendation 1

Maintain a complete project file that includes written evidence that the underwriting process has been followed.

Status: Partially Implemented

During the initial audit, OSC found that NJRA's project files did not contain adequate written documentation of its efforts to assess the credit rating of developers and project risk. Specifically, NJRA's project files did not include documentation of the property appraisal or any evidence indicating that NJRA had conducted a thorough review of the developer's financial records to determine the financial viability of each project or its potential benefit to the state.

In its corrective action plan, NJRA stated that it "prepares an underwriting memo which outlines the process followed for underwriting projects recommended for approval. The underwriting memo remains with the project file and is completed by the Relationship Manager presenting the project for approval."

NJRA also implemented a loan intake process policy effective January 2, 2015, which outlines the specific loan underwriting process and procedures including all documentation requirements. The policy addresses the basic underlying loan origination and credit policies of NJRA based on its lending theory that each loan must be repayable from three different sources. The policy also provides general guidance on the requirements for assessing the basic elements of credit, including: cash flow, collateral, capital, conditions, and character.

During our follow-up, OSC found that NJRA had made some improvements regarding the underwriting process and the formal documentation maintained in its project files. Between 2015 and 2017, NJRA closed five loans for redevelopment projects. OSC selected three of those five

¹ In our initial audit report the strategy document was reported as being required bi-annually and is corrected herein to be submitted biennially.

projects to assess NJRA's compliance with its corrective action plan and found that none of the project files included sufficient evidence to support the completion of the underwriting process as outlined in its policy and summarized in the underwriting memo.

Although the project files reviewed included an underwriting memo, OSC found that many of the specific assessments detailed in the underwriting memo either were not substantiated with supporting documentation or were not accurate. These errors may have led the Board to believe that certain financial facts had been analyzed and verified. Moreover, none of the project files reviewed contained formal evidence or other supporting documentation to substantiate the loan underwriting evaluation or analysis conducted. Specifically, NJRA did not include details of the actual review completed in verifying the borrower's cash flow, the manner or method of verifying the borrower's credit history, the verification and determination of the collateral to determine that it was appropriate and in compliance with NJRA policy, or any evidence that NJRA obtained personal guarantees from all owners as outlined in its policy.

OSC reminds NJRA that it should continue its efforts with the goal of reaching full implementation of this recommendation.

Recommendation 2

Develop the strategy and performance metrics required by N.J.S.A. 55:19-45.

Status: Partially Implemented

During the initial audit, OSC found that NJRA had not prepared and submitted the biennial strategy document required by *N.J.S.A. 55-19:45*, since 2003. Pursuant to the statute, NJRA is to "devise and employ techniques for forecasting and measuring relevant indices of accomplishment of its goals of economic revitalization" including such factors as the number of jobs created, or to be created, by, or as a result of, the project; the cost, or estimated cost, to the state, involved in the creation of those jobs; and the amount of private capital investment in, or stimulated by, a project, in proportion to the public funds invested.

NJRA's corrective action plan stated that the strategy document would be incorporated into the annual report beginning with its 2014 Annual Report.

For our follow-up, we reviewed the strategy documents included in NJRA's 2014 and 2016 Annual Reports. Although the annual reports included a strategy document, our review found that both documents failed to satisfy the statutory requirements of *N.J.S.A. 55:19-45*. The information presented in the strategy documents failed to include the forecasted goals of economic revitalization to be satisfied and the specific measurement of the goals achieved, as required. In addition, the data is not specific to the biennial period and appears to summarize statistics for all projects. Because

this analysis is not defined in the report it is difficult to assess the time period referenced, specific goals and objectives, and the accomplishments.

NJRA should continue its efforts with the goal of reaching full compliance with this recommendation.

Reporting Requirements

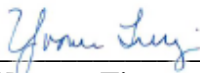
We provided a draft copy of this report to the NJRA for their review and comment. NJRA's response was considered in preparing our final report and is attached as Appendix A.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, NJRA shall report periodically to this Office advising what additional steps they have taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of the NJRA for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

PHILIP JAMES DEGNAN
STATE COMPTROLLER

By: 

Yvonne Tierney, Director
Audit Division

c. Sheila Y. Oliver, Lt. Governor, NJRA Board Chairperson

Appendix A - Auditee Response



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LESLIE A. ANDERSON
PRESIDENT & CEO

SHEILA Y. OLIVER
LIEUTENANT GOVERNOR,
CHAIRMAN

October 23, 2018

Yvonne Tierney, Director
Audit Division
State of New Jersey
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625

Re: New Jersey Redevelopment Authority – Selected Fiscal and Operating Practices

Dear Ms. Tierney:

Pursuant to the follow up report as referenced above, please see our responses below:

Recommendation 1 – *Maintain a complete project file that includes written evidence that the underwriting process has been followed.*

Effective January 2, 2015, the NJRA implemented a loan underwriting policy which outlines the specific loan underwriting process and procedures including documentation requirements. Inclusive in the loan underwriting process, the NJRA developed an underwriting summary sheet that serves as written evidence of the proposed loan that includes the following analysis:

- Project Site information
- Borrowers Structure/ownership
- Borrowers Financial capacity
- Project costs/source of funds
- Borrowers Cash flow and overall risk

The NJRA reviews the project description, property owner and impact on the surrounding neighborhood and obtains an appraisal to determine the value of the property. The NJRA underwriting process provides specific guidelines that the NJRA uses to determine the loan value.

The NJRA underwriting summary sheet is prepared by the lender and reviewed and approved by the NJRA Chief Operating Officer. In addition, it is presented to project

review committee which consist of several NJRA Board members that review each loan request prior to Board submission. This review highlights the financial facts that the NJRA analyzes and verifies during its review of the proposed deal.

The NJRA underwriting process states that personal guarantees are required of every owner of 20% or more of the company stock, **if applicable**. The primary source of repayment is cash flow, secondary source is the liquidation of collateral and the third source is the personal guarantees (if applicable). The requirement of personal guarantees is determined in the overall risk assessment. If the risk assessment determines that the cash flow is sufficient, and the collateral provides sufficient coverage the requirement of personal guarantees may not be required.

Recommendation 2 – *Develop the strategy and performance metrics required by N.J.S.A. 55:19-45*

The NJRA will include in its annual report the recommendations proposed by the OSC regarding the strategy document.

The NJRA has been committed to underwriting loans based on our internal underwriting process as well as industry standards. The Underwriting summary sheet was developed as a tool to provide written evidence that the underwriting process has been followed which includes cash flow analysis and sufficiency of the financial statements. The lenders review consists of face to face meetings with the borrower and or municipalities to discuss the project, analyze financial statements, capital stack and any missing documentation if applicable. The lender prepares the underwriting summary sheet and the information is reviewed and approved by the COO.

Sincerely,

A handwritten signature in cursive script, appearing to read "Leslie A. Anderson", followed by a horizontal line extending to the right.

Leslie A. Anderson
President & Chief Executive Officer