

S00A
Department of Housing and Community Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$3,078	\$2,061	\$1,940	-\$121	-5.9%
Adjusted General Fund	\$3,078	\$2,061	\$1,940	-\$121	-5.9%
Special Fund	28,508	34,011	29,144	-4,867	-14.3%
Contingent & Back of Bill Reductions	0	0	-469	-469	
Adjusted Special Fund	\$28,508	\$34,011	\$28,675	-\$5,336	-15.7%
Federal Fund	209,753	294,217	229,701	-64,516	-21.9%
Contingent & Back of Bill Reductions	0	0	-332	-332	
Adjusted Federal Fund	\$209,753	\$294,217	\$229,369	-\$64,848	-22.0%
Reimbursable Fund	1,208	1,565	1,894	329	21.0%
Adjusted Reimbursable Fund	\$1,208	\$1,565	\$1,894	\$329	21.0%
Adjusted Grand Total	\$242,547	\$331,855	\$261,878	-\$69,977	-21.1%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- A fiscal 2010 deficiency would provide \$240,000 in special funds for housing counseling grants in Montgomery County. Funds are made available by the county and would be used by the Department of Housing and Community Development (DHCD) for grants to housing counseling agencies to assist homeowners in that jurisdiction facing foreclosure.
- The fiscal 2011 allowance decreases \$70 million, or 21.1%, below the fiscal 2010 working appropriation. This is primarily due to the loss of federal American Recovery and Reinvestment Act of 2009 (ARRA) funds that were available in fiscal 2010. The majority of those funds supported low-income weatherization and energy efficiency activities.

Note: Numbers may not sum to total due to rounding.

For further information contact: Flora M. Arabo

Phone: (410) 946-5530

Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Positions	311.00	311.00	311.00	0.00
Contractual FTEs	<u>30.00</u>	<u>63.00</u>	<u>66.00</u>	<u>3.00</u>
Total Personnel	341.00	374.00	377.00	3.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	12.44	4.00%
Positions and Percentage Vacant as of 12/31/09	12.60	4.05%

- The fiscal 2011 allowance increases by 3.0 new contractual full-time equivalents to reflect reimbursable funds made available for the Multi-family Energy Efficiency and Housing Affordability Program.
- 100% of salaries and fringe benefits for employees of DHCD are funded with special or federal funds.
- There were 12.6 vacant positions as of December 31, 2009.

Analysis in Brief

Major Trends

Homeownership Assistance Grows: In fiscal 2006, DHCD provided financial assistance to 2.2% of low- and moderate-income residents. That share increased to 7.8% in fiscal 2007 and 8.4% in fiscal 2008.

Rental Housing Falls Short of Goal: Production of affordable rental units has fluctuated since fiscal 2004. In fiscal 2008, DHCD produced 2,568 units. This was 405 units shy of the estimate and 232 units less than fiscal 2007.

Neighborhood Revitalization Assistance Nears Goals: The total number of small businesses that were either created or expanded reached 209 in fiscal 2008. The number of jobs created also increased to 691 in fiscal 2008.

Issues

The General Bond Reserve Fund: A modest decline in the General Bond Reserve Fund's (GBRF) investment income and the need to continue special fund support for DHCD's operating programs due to the State's financial situation have placed pressure on the fund. The bond rating agencies have recently indicated tightened expectations for the GBRF's balance to maintain current bond ratings. On February 12, 2010, Moody's Investors Services placed the Community Development Administration's Residential Revenue Bond program on credit watch for a possible downgrade. **The Department of Legislative Services recommends language expressing the intent of the General Assembly that the GBRF maintain a minimum fund balance of at least \$32 million by the close of fiscal 2012, \$34 million by the close of fiscal 2014, and no less than \$35 million in subsequent years.**

Recommended Actions

1. Add language expressing intent that the General Bond Reserve Fund maintain a sufficient fund balance.

Updates

Federal Stimulus Funds Provide Major Boost to Weatherization Activities: DHCD was awarded significant federal funding as a result of the ARRA for the Weatherization Assistance Program. This raised concerns over the ability of the local jurisdictions to ramp-up their programs to meet the vast

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growth in available funding. However, local jurisdictions are currently on pace to expend 50% of federal funds within the first 18 months as needed.

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Operating Budget Analysis

Program Description

The mission of the Department of Housing and Community Development (DHCD) is to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work, and prosper.

- **Homeownership:** As shown in **Exhibit 1**, less than half of the agency's activity is geared toward promoting homeownership. Those who meet certain income criteria can access loans with below-market interest rates and grants for down payment and settlement expenses to buy homes. Mortgage revenue bonds are the primary source of funds for mortgages. Exhibit 1 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, account for most of the agency's resources.

DHCD reports that in fiscal 2009 the average homebuyer had an annual income of \$62,640, and the average home price was \$192,792 compared to \$204,570 in fiscal 2008. Minority homebuyers made up 44% of homebuyers assisted.

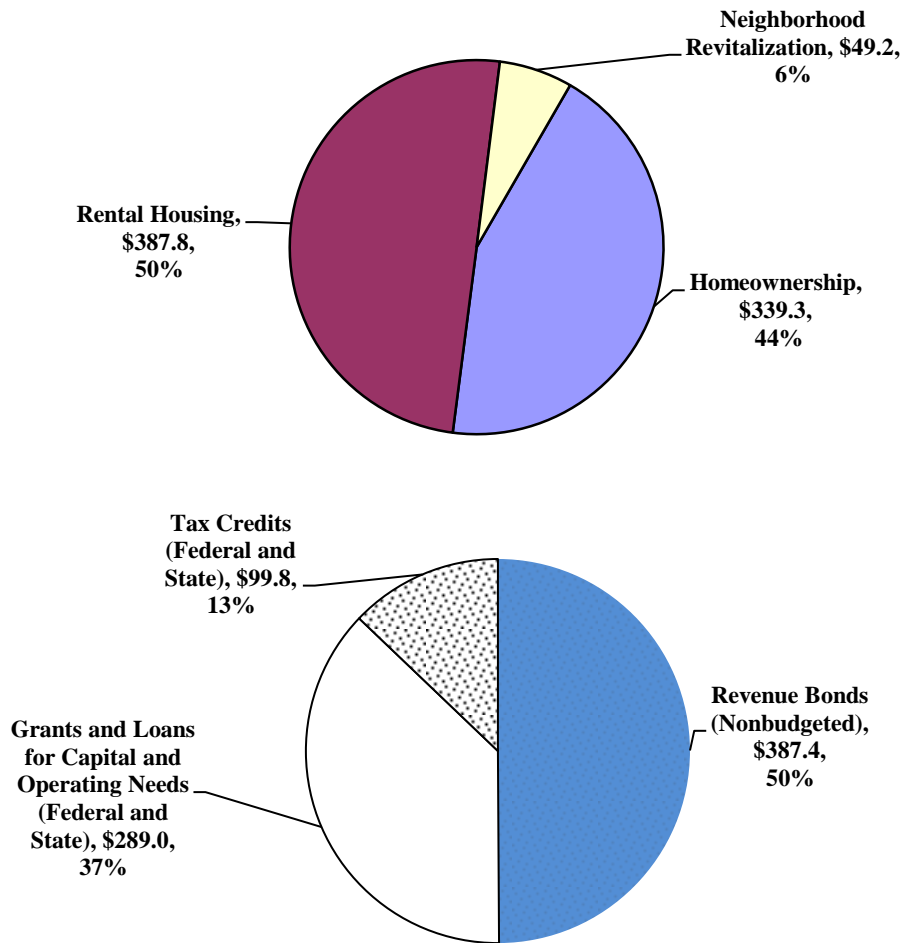
Other Single Family Program activities support grants and loans for weatherization, lead hazard reduction, indoor plumbing improvements, overall rehabilitation, and group home projects.

- **Affordable Rental Housing:** As shown in Exhibit 1, half of the agency's activity goes to developing affordable rental housing. Developers and nonprofits can access tax credits and below-market loans to help finance multi-family housing projects serving low-income families; some loans are also available to local governments. Federal Low-income Housing Tax Credits (generating \$97.4 million of equity in fiscal 2009) are a crucial part of the financing for these projects. The loans are funded with State-appropriated rental housing funds, federal Home Investment Partnership Program funds, and the proceeds of tax-exempt and taxable bonds.

Rental housing support also includes subsidy grants that are provided to low-income families in conjunction with local government, federal, and private sector assistance.

- **Neighborhood Revitalization:** As shown in Exhibit 1, about 6% of the agency's activity is for neighborhood revitalization. Local governments, community development nonprofits, businesses, and others involved in improving communities can access grants, below-market loans, and technical assistance and training. Funds are used for projects such as streetscape and façade improvements, recreational amenities, and improvement of public spaces.

Exhibit 1
Department of Housing and Community Development
Activity by Goal and Source
Fiscal 2009 Total = \$776.3 Million
(\$ in Millions)



Source: Department of Housing and Community Development

The department's programs are administered through three operating divisions: the Division of Credit Assurance, which includes the Maryland Housing Fund's mortgage insurance activities; the Division of Neighborhood Revitalization; and the Division of Development Finance, which includes the Community Development Administration (CDA). CDA issues nonbudgeted tax-exempt and taxable bonds that are DHCD's most plentiful resource.

DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration.

Performance Analysis: Managing for Results

DHCD focuses on improving homeownership – as well as affordable rental housing availability – for low- and moderate-income Marylanders. Specifically, DHCD targets families that have incomes below 60% of the median income in their area.

Homeownership Assistance

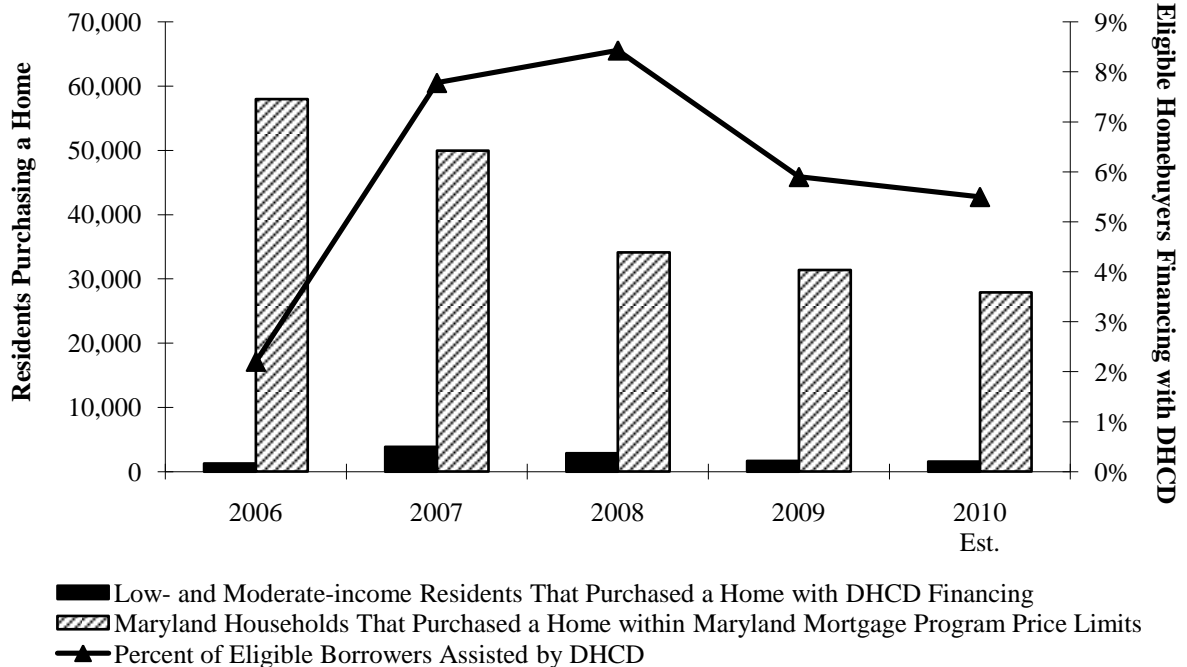
One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. Although the housing market has declined in recent years, DHCD continues to support a large share of the market it strives to serve. **Exhibit 2** shows the decline in the total number of low- and moderate-income residents that purchased a home in Maryland, which is consistent with the decline for all homebuyers regardless of income. In spite of this trend, DHCD has served a considerable share of the market. In fiscal 2006, DHCD provided financial assistance to only 2.2% of low- and moderate-income residents purchasing a home within DHCD purchase price limits. That share increased to 7.8% in fiscal 2007 and again to 8.4% in fiscal 2008 before leveling off at 5.9% in 2009.

DHCD also assists homeowners in keeping their homes by refinancing their existing mortgages. DHCD is able to do so through the Lifeline refinancing product. Of the 1,664 loans that DHCD made in fiscal 2009, 21 were Lifeline refinances.

Rental Housing

Another DHCD Managing for Results (MFR) goal is to expand decent, affordable rental housing in Maryland in response to a growing shortage of affordable rental units that the agency projects over the next 10 years. DHCD has several programs geared toward rental housing, including providing rent subsidies to families (in partnership with local government and private sector organizations) and providing financing to housing authorities and other developers to construct new rental housing. The new rental housing properties generally have from 30 to 300 units and cost \$5 million to \$30 million each.

Exhibit 2
Low- and Moderate-income Homeownership Assistance
Fiscal 2006-2010



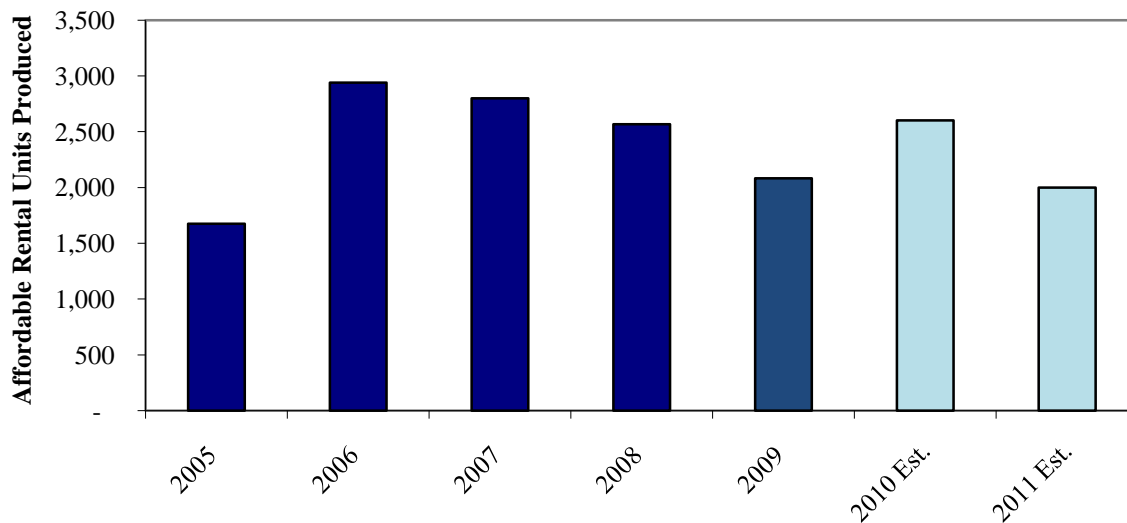
DHCD: Department of Housing and Community Development

Notes: Data on low- and moderate-income residents include only those receiving financial, not technical, assistance from DHCD. Data on homebuyers assisted among all eligible homebuyers reflect the number of low- and moderate-income homebuyers receiving DHCD financing of all homebuyers meeting Maryland Mortgage Program purchase price limits.

Source: Department of Housing and Community Development

To measure progress, DHCD tracks the number of new affordable rental housing units produced through financial support. The number of units produced is based on the projects that go to initial closing. The initial closing status means that DHCD and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 3**, unit production has fluctuated since fiscal 2005. In fiscal 2009, DHCD produced 2,081 units. This is 487 units less than fiscal 2008, though DHCD expects production to increase in fiscal 2010 with 2,600 units going to initial closing. DHCD indicates that the number of projects going to initial closing has slowed significantly in response to rising construction costs, tightening credit markets, and decreased equity available from federal Low-income Housing Tax Credits.

Exhibit 3
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2005-2011



Note: Initial closing status means that the Department of Housing and Community Development and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete.

Source: Department of Housing and Community Development

Neighborhood Revitalization

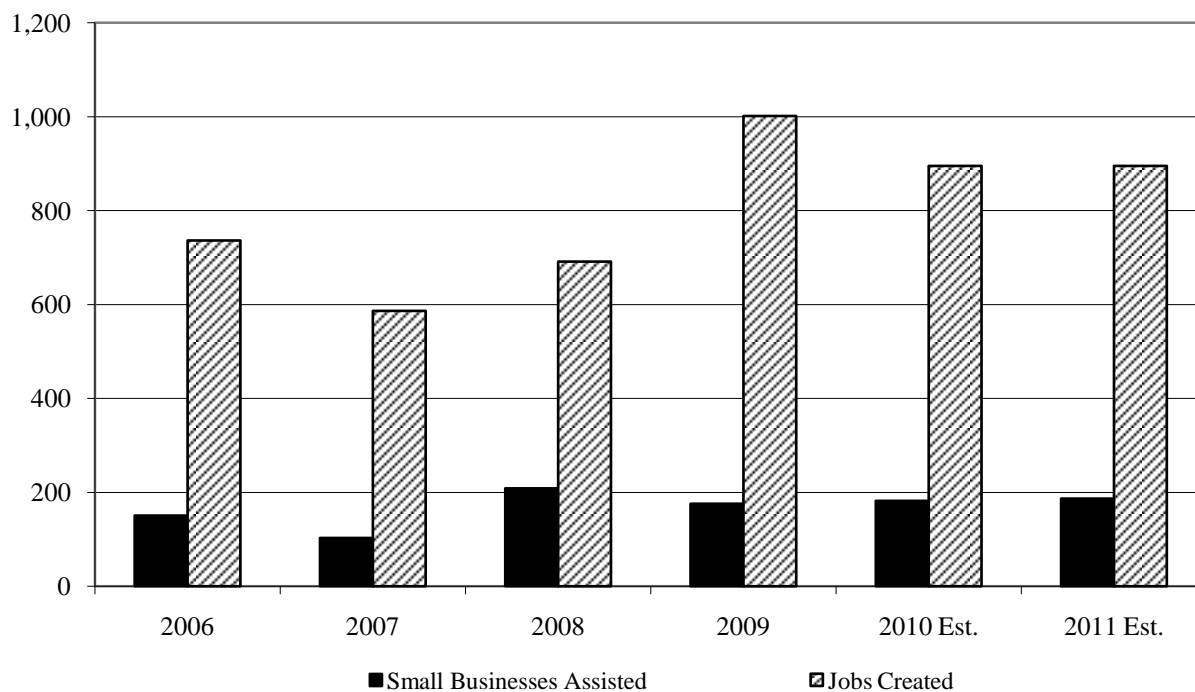
As part of MFR efforts, DHCD's Division of Neighborhood Revitalization (NR) tracks its work at the community level. Assistance goes to nonprofit and community-based organizations, local governments, and small businesses. These funds target infrastructure improvements, business and housing opportunities, main street revivals, historic sites, parks, and playgrounds. The total number of small businesses that were either created or expanded with NR funds reached 176 in fiscal 2009, as shown in **Exhibit 4**. The number of jobs created increased to 1,001 in fiscal 2009.

Fiscal 2010 Actions

Proposed Deficiency

A fiscal 2010 deficiency would provide \$240,000 in special funds for housing counseling grants in Montgomery County. Funds are made available by the county and would be used by DHCD to provide grants to housing counseling agencies to assist homeowners facing foreclosure in that jurisdiction.

Exhibit 4
Creation and Expansion of Businesses and Jobs
Fiscal 2006-2011



Source: Department of Housing and Community Development

Impact of Cost Containment

In July, August, and November of 2009, the Governor proposed and the Board of Public Works (BPW) adopted reductions to the fiscal 2010 appropriation. \$897,311 in cost containment actions specific to DHCD include:

- \$440,181 in special funds that were transferred to the general fund and \$3,712 in general funds for the statewide furlough;
- \$250,000 in general funds to eliminate operating grants for the Community Legacy Program; and
- \$203,418 to swap general funds with special funds for operating expenses in the Division of Neighborhood Revitalization.

Federal Stimulus Funds

DHCD was awarded \$203.9 million in federal stimulus funds made available through the federal American Recovery and Reinvestment Act of 2009 (ARRA), as shown in **Exhibit 5**. Of the total, roughly \$80.8 million impacted DHCD’s operating budget. The ARRA funds supplemented existing programs for low-income weatherization, Community Services Block Grants, and Emergency Shelter Grants. The greatest share of funding was \$61.4 million for weatherization, of which 15.4% paid the administrative expenses of the program as allowed by federal guidelines. The majority of ARRA funds were expended or will be encumbered in fiscal 2010. Only \$2.5 million of ARRA operating funds remain in the fiscal 2011 operating allowance, resulting in a \$69.4 million drop in federal funds for fiscal 2011.

Exhibit 5
American Recovery and Reinvestment Act Funding in
Department of Housing and Community Development – Operating Budget
Fiscal 2009-2011

<u>DHCD Program</u>	<u>Federal ARRA Program</u>	<u>Actual 2009</u>	<u>Working Appropriation 2010</u>	<u>Allowance 2011</u>	<u>Total 2009-2011</u>
Special Loans	Weatherization Assistance	\$6,463,947	\$52,509,248	\$2,468,550	\$61,441,745
Neighborhood Revitalization	Community Services Block Grant	-	13,719,817	-	13,719,817
Neighborhood Revitalization	Emergency Shelter Grants	-	5,680,393	-	5,680,393
Subtotal Operating		\$6,463,947	\$71,909,458	\$2,468,550	\$80,841,955
	<i>Additional ARRA Funds in Capital Budget</i>	<i>\$0</i>	<i>\$120,086,920</i>	<i>\$3,018,000</i>	<i>\$123,104,920</i>
Total Operating and Capital		\$6,463,947	\$191,996,378	\$5,486,550	203,946,875

ARRA: American Recovery and Reinvestment Act of 2009
DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

Proposed Budget

The fiscal 2011 allowance decreases \$70.0 million, or 21.1%, below the fiscal 2010 working appropriation as illustrated in **Exhibit 6**. This is primarily due to the loss of \$69.4 million in ARRA funds that were available in fiscal 2010 but will not be available in fiscal 2011. Other changes to the budget include:

Exhibit 6
Proposed Budget
Department of Housing and Community Development
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2010 Working Appropriation	\$2,061	\$34,011	\$294,217	\$1,565	\$331,855
2011 Allowance	<u>1,940</u>	<u>29,144</u>	<u>229,701</u>	<u>1,894</u>	<u>262,679</u>
Amount Change	-\$121	-\$4,867	-\$64,516	\$329	-\$69,176
Percent Change	-5.9%	-14.3%	-21.9%	21.0%	-20.8%
 Contingent Reduction	 \$0	 -\$469	 -\$332	 \$0	 -\$801
Adjusted Change	-\$121	-\$5,336	-\$64,848	\$329	-\$69,977
Adjusted Percent Change	-5.9%	-15.7%	-22.0%	21.0%	-21.1%
 Where It Goes:					
Personnel Expenses					
Adjustments for across-the-board reductions					-\$457
Contractual funding in Rental Housing program.....					332
Employee retirement system.....					334
Unemployment compensation					35
Employee and retiree health insurance					6
Social Security					-8
American Recovery and Reinvestment Act					
Low-income weatherization.....					-49,990
Community Services Block Grant program.....					-13,720
Emergency Shelter Grants					-5,680
Weatherization Assistance Program					
Regional Greenhouse Gas Initiative auctions					-4,019
One-time fiscal 2010 increase to federal Department of Energy Award.....					-3,100
Low-Income Home Energy Assistance Program funds.....					750
Neighborhood Revitalization					
Community Services Block Grants Program.....					1,300
Building Rehabilitation Code Program.....					-850
Other Changes					
Federal Section 8 contract administration fees					7,625

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Where It Goes:

Maryland Affordable Housing Trust	-1,000
One-time funds to implement information technology software	-775
Acquisition and maintenance of major information technology systems	-429
Multi-family Energy Efficiency and Housing Affordability program.....	-421
John D. and Catherine T. MacArthur Foundation grant	-333
Other	423
Total	-\$69,977

Note: Numbers may not sum to total due to rounding.

- **Personnel:** Overall personnel expenses increase \$242,000. Major increases include \$332,000 to create 3 new contractual full-time equivalents and \$334,000 for the employee retirement system. These increases are largely offset by a \$457,000 decrease to reflect fiscal 2011 across-the-board reductions.

- **ARRA:** About 89% of ARRA funds in the operating budget will be expended or encumbered in fiscal 2010. As a result, the fiscal 2011 allowance decreases \$69.4 million for the low-income weatherization, Community Services Block Grants, and Emergency Shelter Grants programs. Only \$2.5 million in ARRA operating funds remain in the fiscal 2011 allowance.

- **Weatherization Assistance Program:** In addition to one-time ARRA funds for weatherization, DHCD receives a variety of special funds and federal grants for its permanent Weatherization Assistance Program. Special funds are transferred from Regional Greenhouse Gas Initiative (RGGI) auctions which are expected to decline, resulting in a loss of \$4.0 million in fiscal 2011. This decrease is overstated in that the fiscal 2010 working appropriation reflects some fiscal 2009 RGGI funds that were not transferred from the Maryland Energy Administration (MEA) to DHCD before the close of 2009. Additionally, DHCD received a one-time \$3.1 million increase in fiscal 2010 for its annual U.S. Department of Energy award that will be unavailable in fiscal 2011.

- **Neighborhood Revitalization:** Federal support for the Community Services Block Grant Program is expected to increase in fiscal 2011 by roughly \$1.3 million and support for the Maryland Building Rehabilitation Code Program expected to decrease \$850,000.

- **Other Changes:** Other factors for consideration in the fiscal 2011 allowance is a \$7.6 million increase in federal funds for new properties that the State may receive under the Section 8 Contract Administration program, a \$1.0 million decrease to the Maryland Affordable Housing Trust, which is funded in part through a portion of interest on title company escrow accounts, and a \$1.2 million decrease to eliminate fiscal 2010 special funds that were used to implement a new information technology system. Additionally, DHCD’s capital programs received one-time funds for a grant from the MacArthur Foundation and reimbursable funds

from MEA for the Multi-family Energy Efficiency and Housing Affordability Program. The administrative expenses were budgeted in DHCD's operating budget in fiscal 2010 but are expected to decrease in 2011.

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services (DLS) has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

Issues

1. The General Bond Reserve Fund

The General Bond Reserve Fund (GBRF) was established in 1984 to provide funds for payment of principal and interest on CDA's housing revenue bonds in the event that its pledged assets and revenues are deemed insufficient. This additional security plays a significant role in maintaining CDA's bond ratings, which allows it to keep mortgage interest rates competitive. The bond rating agencies have recently indicated tightened expectations for the GBRF's balance to maintain Moody's Investors Services' (Moody's) Aa rating and Fitch Ratings' AA rating on CDA bonds. GBRF financials are a significant factor in issuing a favorable bond rating, given delinquency and foreclosure rates, problems in the private mortgage insurance market, and declines in property values.

The GBRF does not have a dedicated revenue stream. As shown in **Exhibit 7**, the GBRF generates some earnings through investment and interest income as well as financing and origination fees and multi-family servicing and tax credit monitoring fees. All assets under CDA indentures are pledged to the bondholders. Surplus funds in the indentures may be transferred to the GBRF, so long as the cash flow requirements and asset-to-debt ratios of the indentures continue to be met. Such transfers occur at the discretion of CDA, and in fiscal 2007 through 2009, transfers were critical to maintaining the GBRF fund balance on a year-to-year basis while maintaining operating support for CDA and DHCD's various housing and neighborhood revitalization programs.

The direct operating expenses of CDA are paid from the GBRF and totaled \$5.3 million in fiscal 2009. In addition, costs such as rent, information technology, asset management, legal support, human resources, and other indirect costs which are accounted for in the support units are also charged to GBRF, similar to the indirect costs charged to federal grants. The support units include the Office of the Secretary and the Divisions of Credit Assurance, Information Technology, and Finance and Administration. In fiscal 2009, the GBRF supported \$1.6 million in expenses for the Division of Neighborhood Revitalization and another \$5.4 million for the support units – an increase of \$1.8 million over fiscal 2008 and \$2.5 million over fiscal 2007. This was due, in part, to general fund reductions in those years. Roughly 61% of those funds covered personnel-related expenditures. The ending fund balance for the GBRF dropped similarly by \$2.1 million to close fiscal 2009 with \$38.1 million remaining. Although \$16.5 million was transferred from the indentures to the GBRF from fiscal 2007 through 2009, a modest decline in investment income and the need to continue special fund support for DHCD's operating programs due to the State's financial situation has placed additional pressure on the fund. As such, additional funds are drawn from the GBRF in fiscal 2010 and 2011.

Exhibit 7
General Bond Reserve Fund
Fund Summary
Fiscal 2007-2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Assets Restricted – Beginning Balance*	\$38,332,000	\$41,498,000	\$40,154,000
Revenues			
Interest income and fees	3,669,000	3,996,000	3,483,000
Interest on Mortgage loans	126,000	299,000	162,000
Other/Misc	8,000	305,000	177,000
Deferred income/fees**	144,000	605,000	785,000
Inc(Dec) FV investments***	437,000	445,000	-150,000
Total Revenue	\$4,384,000	\$5,650,000	\$4,457,000
Expenses			
Direct Costs – CDA	\$4,019,000	\$4,120,000	\$5,334,000
Direct Costs – Neighborhood Revitalization	617,000	805,000	1,575,000
Indirect costs – OS, DCA, IT, DFA	3,829,000	4,329,000	5,398,000
Professional fees (trustee, legal)	255,000	260,000	555,000
Other accrued expenses	-35,000	45,000	192,000
Total Expenses	\$8,685,000	\$9,559,000	\$13,054,000
Transfer of funds permitted by indentures	\$7,467,000	\$2,565,000	\$6,500,000
Net Assets Restricted – Ending Balance	\$41,498,000	\$40,154,000	\$38,057,000

CDA: Community Development Administration

OS, DCA, IT, DFA: Office of the Secretary and Divisions of Credit Assurance, Information Technology, and Finance and Administration

*Net Assets – Restricted – from Audited financial statements of CDA's Revenue Obligation Funds 2007, 2008, 2009.

** Deferred income/fees include accrued admin fees from standalones or Cap Fund Securitization Bonds .

***Inc(Dec) Fair Value investments is assumed zero for 2010 as investments are in Money Market Funds at the beginning of FY 2010.

Source: Community Development Administration/Department of Housing and Community Development

In 1997, CDA adopted a determination to maintain the fund balance at a minimum of \$20 million in response to a potential downgrade to the Multi-family Bond Program. Today, Moody's continues to require this as the minimum balance. These funds must be available to meet CDA's obligations to the bondholders should the revenues and assets specifically pledged to the bonds not be sufficient for the payment of principal and interest on such bonds. These revenues are

critical as CDA bonds are not backed by the full faith and credit of the State. A recent analysis by Moody's ranked CDA in the lowest one-third for the ratio of reserves to debt as compared with other states.

CDA notifies the rating agencies if the fund's ending balance drops below determined levels or available funds become restricted for any other purpose. However, it has been the intention of CDA to maintain an ending fund balance between \$35 and \$40 million. According to the agency, this level is deemed sufficient to maintain its current bond rating, keep interest rates charged to borrowers competitive, and secure a financial position that allows it to weather financial upheavals, such as the market turmoil of 2008 and 2009. However, the GBRF has increasingly supported the operations of DHCD's operating functions in response to the economic climate and decline in general fund availability.

On February 12, 2010, Moody's placed CDA's Residential Revenue Bond program on credit watch for a possible downgrade due to ongoing problems in the private mortgage insurance market. Due to the importance of the GBRF's financial health in issuing a favorable bond rating, drawing on the fund's revenues to support DHCD's operating budget would not be in the best interest of the agency's housing programs.

DLS recommends language expressing the intent of the General Assembly that the GBRF maintain a minimum fund balance of at least \$32 million by the close of fiscal 2012, \$34 million by the close of fiscal 2014, and no less than \$35 million in subsequent years.

Recommended Actions

1. Add the following language:

It is the intent of the General Assembly that the General Bond Reserve Fund maintain an ending fund balance of at least \$32 million by the close of fiscal 2012, \$34 million by the close of fiscal 2014, and no less than \$35 million in subsequent years.

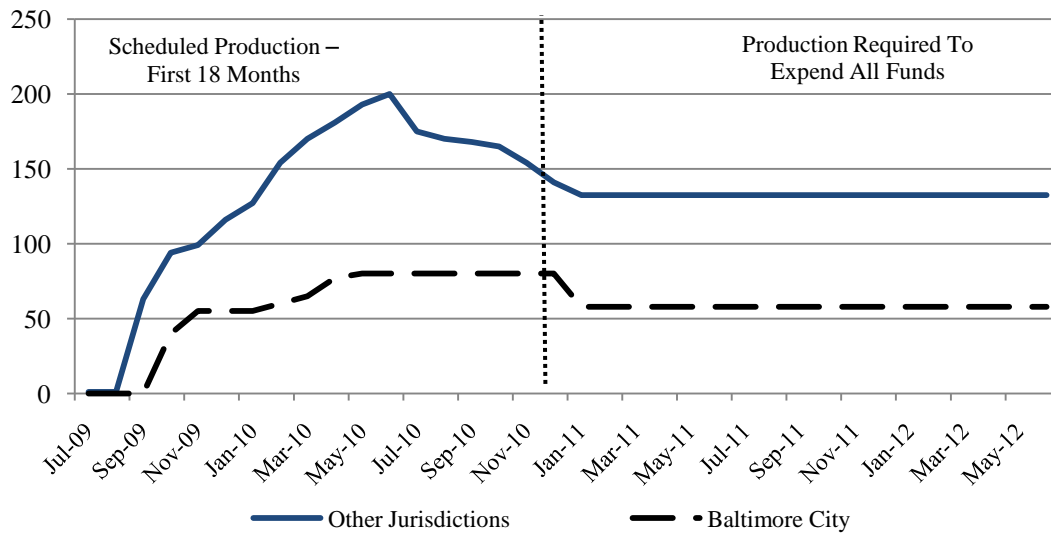
Explanation: The committees are concerned with the fund balance of the General Bond Reserve Fund and the continued use of fund balance to support operations of the Department of Housing and Community Development (DHCD) in lieu of general funds. It is the intent of the General Assembly that DHCD endeavor to increase the fund's ending balance to at least \$32 million by the end of fiscal 2012, \$34 million by the end of 2013, and no less than \$35 million in subsequent years.

Updates

1. Federal Stimulus Funds Provide Major Boost to Weatherization Activities

As a result of the ARRA, DHCD was awarded significant federal funding for the Weatherization Assistance Program (WAP). WAP provides resources to local jurisdictions for energy efficiency activities which reduce the energy bills and consumption for low-income households. The award of \$61.4 million was an enormous increase for WAP which received just over \$6.0 million in special, federal, and reimbursable funds during fiscal 2009. This raised concerns over the ability of the local jurisdictions to ramp-up their programs to meet the vast growth in available funding and expend all the funds within three years as required by the ARRA. **Exhibit 8** shows that although from July through December of 2009 the programs were slowly increasing production, local jurisdictions will be on pace to expend 50% of federal funds within the first 18 months, if they are able to continue ramping up production through June 2010 according to the scheduled production plan. This suggests they will be on track to spend all the federal funds in a timely manner.

Exhibit 8
Weatherization Assistance Program
Projected Weatherization of Low-income Units under ARRA Funds
July 2009-May 2012



ARRA: American Recovery and Reinvestment Act of 2009

Source: Department of Housing and Community Development

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Housing and Community Development (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$3,157	\$28,944	\$211,308	\$985	\$244,394
Deficiency Appropriation	300	1,366	6,627	0	8,293
Budget Amendments	9	2,765	172	250	3,196
Cost Containment	-380	-289	-55	0	-724
Reversions and Cancellations	-7	-4,279	-8,299	-27	-12,612
Actual Expenditures	\$3,079	\$28,507	\$209,753	\$1,208	\$242,547
Fiscal 2010					
Legislative Appropriation	\$2,518	\$32,125	\$268,323	\$985	\$303,951
Cost Containment	-457	-440	0	0	-897
Budget Amendments	0	2,326	25,894	580	28,800
Working Appropriation	\$2,061	\$34,011	\$294,217	\$1,565	\$331,854

Note: Numbers may not sum to total due to rounding.

Fiscal 2009

DHCD finished fiscal 2009 \$1.8 million below its legislative appropriation, due to a variety of deficiency appropriations, budget amendments, and cost containment actions under its general, special, federal, and reimbursable fund appropriations.

General Funds: Actual fiscal 2009 general fund expenditures were \$78,000 below the legislative appropriation. The appropriation increased by \$300,000 for foreclosure prevention activities and \$8,547 for a cost-of-living adjustment (COLA) budgeted in the Department of Budget and Management (DBM). There were also several decreases for cost containment actions enacted by BPW totaling \$379,889. The agency reverted \$7,000 at the close of the fiscal year.

Special Funds: Actual fiscal 2009 special fund expenditures were \$437,000 below the legislative appropriation. Deficiency appropriations increased the budget for a \$1.0 million transfer from the Maryland Affordable Housing Trust and a \$366,000 transfer of funds from the GBRF to replace general funds. Other increases implemented via budget amendment included (1) \$2.5 million to allocate low-income weatherization funds available from the RGGI; (2) \$246,175 for a COLA budgeted in DBM; and (3) \$19,344 for annual salary reviews. However, these increases were offset by a \$289,005 decrease for cost containment actions by BPW and \$4.3 million in cancellations due primarily to (1) \$1.9 million in additional low-income weatherization funds available from the RGGI that were anticipated for fiscal 2009 but not available until fiscal 2010; (2) \$672,439 in NR grants that were not committed in a timely manner; and (3) \$654,195 due to reduced activity in the Maryland Affordable Housing Trust.

Federal Funds: Actual fiscal 2009 federal fund expenditures were \$1.6 million lower than the legislative appropriation. Deficiency appropriations reflect \$6.6 million for low-income weatherization funds made available by the ARRA as well as \$75,000 in Neighborhood Stabilization Program funds. A \$172,337 budget amendment reflects a COLA. However, BPW reduced \$55,415 for cost containments initiatives, and DHCD cancelled \$8.3 million in federal funds that were not attained. The cancelled funds were primarily due to \$6.7 million in Section 8 Contract Administration properties that were not received as anticipated and \$1.3 million in Community Services Block Grant and Neighborhood Stabilization Program funds that were not committed in fiscal 2009.

Reimbursable Funds: The reimbursable fund appropriation increased by \$223,000 primarily due to \$250,000 from MEA for the Assisted Home Performance Grant Pilot Program for low-income weatherization.

Fiscal 2010

DHCD's fiscal 2010 working appropriation is \$27.9 million higher than the legislative appropriation. This is primarily due to a budget amendment increase of \$25.9 million in federal ARRA funds for low-income weatherization, the Community Development Block Grant Program, and the Neighborhood Stabilization Program. Other budget amendment increases are for:

S00A – Department of Housing and Community Development

- \$1.8 million to appropriate special funds from the Strategic Energy Investment Fund;
- \$350,000 in special funds to appropriate administrative expenses associated with an award from the John D. and Catherine T. MacArthur foundation;
- \$207,130 in special funds from the GBRF to replace general funds reduced by BPW; and
- \$580,000 in reimbursable funds from MEA to reflect administrative expenses for the Multi-family Energy Efficiency and Housing Affordability Program.

Cost containment actions totaling \$897,311 reflect actions taken BPW in July and August of 2009, including \$440,181 in special funds that were transferred to the general fund and \$3,712 in general funds for the statewide furlough; \$250,000 in general funds to eliminate operating grants for the Community Legacy Program; and \$203,418 to swap general funds with special funds for operating expenses in the Division of Neighborhood Revitalization.

Audit Findings

Audit Period for Last Audit:	January 27, 2005 – February 29, 2008
Issue Date:	March 2009
Number of Findings:	8
Number of Repeat Findings:	5
% of Repeat Findings:	62.5%
Rating: (if applicable)	

Division of Development Finance, Division of Credit Assurance, and Division of Neighborhood Revitalization

- Finding 1:** Multi-family projects – Records for cash flow loans totaling approximately \$227 million were incomplete.
- Finding 2:** Multi-family projects – Critical financial reports were not always obtained and reviewed timely.
- Finding 3:** NR grants, loans, and tax credits – appropriate collection efforts were not taken and additional fund were awarded to a delinquent borrower.
- Finding 4:** NR grants, loans, and tax credits – certain approved community legacy projects were not started timely as required by state regulations.
- Finding 5:** NR grants, loans, and tax credits – DHCD did not always obtain documentation of additional funding commitments and required final project reports were not always obtained.
- Finding 6:** NR grants, loans, and tax credits – DHCD did not always obtain required tax credit reports.
- Finding 7:** Single Family and Special Grants and Loans – DHCD had not performed monitoring review of certain Special Loan programs and did not adequately monitor borrowers’ income.
- Finding 8:** Single Family and Special Grants and Loans – Procedures and controls for a critical system were inadequate.

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Audit Period for Last Audit:	July 1, 2005 – June 30, 2008
Issue Date:	February 2009
Number of Findings:	4
Number of Repeat Findings:	1
% of Repeat Findings:	25%
Rating: (if applicable)	

Office of the Secretary, Division of Finance and Administration, and Division of Information Technology

Finding 1: Maryland Affordable Housing Trust – DHCD did not ensure that all funds due to the Trust were received and that grantee reports were obtained.

Finding 2: Property – Property and equipment records have not been properly transferred to the Maryland Department of Planning.

Finding 3: Property – DHCD had not established adequate accountability and control over equipment.

Finding 4: Year-end Closing Transactions – DHCD recorded federal fund accrued revenues for which funding may not be available.

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

Department of Housing and Community Development State Asset Servicing System

Project Description:	The acquisition and implementation of a customized-off-the-shelf (COTS) solution for accounting and servicing of approximately \$585.0 million in State loan assets. The State Asset Servicing System (SASS) project will implement a loan servicing software application that will provide an integrated solution in support of the Department of Housing and Community Development loan portfolio, particularly multi-family cash flow loans.							
Project Business Goals:	The goal is to streamline processes, improve data accuracy and redundancy, and enable secure self-service access to data.							
Estimated Total Project Cost:	\$1,085,000				New/Ongoing Project:		New	
Project Start Date:	2/1/2008			Projected Completion Date:		3/1/2010		
Schedule Status:	With an award and Notice To Proceed issued, the project's schedule has been baselined. The development, testing, and implementation for the SASS projected are anticipated to be completed in September of 2010.							
Cost Status:	The total project cost for the SASS project is estimated at \$1,085,000 and includes cost for an IV&V.							
Scope Status:	No changes.							
Project Management Oversight Status:								
Identifiable Risks:	(1) Special funds necessary to fund project; (2) internal and external resources are available but documentation requirements will be significant; (3) the SASS vendor will support the application and its maintenance; and 4) the SASS system is based on an existing COTS-type software product, but will require some modifications and testing of those modifications.							
Additional Comments:								
Fiscal Year Funding (000)	Prior Years	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Balance to Complete	Total
Personnel Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and Outside Services	0.950	0.075	0.060	0.0	0.0	0.0	0.0	1.085
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$0.950	\$0.075	\$0.060	\$0.0	\$0.0	\$0.0	\$0.0	\$1.085

**Object/Fund Difference Report
Department of Housing and Community Development**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	311.00	311.00	311.00	0	0%
02 Contractual	30.00	63.00	66.00	3.00	4.8%
Total Positions	341.00	374.00	377.00	3.00	0.8%
Objects					
01 Salaries and Wages	\$ 23,773,327	\$ 25,282,660	\$ 25,988,245	\$ 705,585	2.8%
02 Technical and Spec. Fees	1,392,844	2,817,836	3,149,746	331,910	11.8%
03 Communication	291,146	276,680	253,200	-23,480	-8.5%
04 Travel	262,565	310,150	111,500	-198,650	-64.0%
06 Fuel and Utilities	1,151	2,000	2,000	0	0%
07 Motor Vehicles	100,640	219,645	87,120	-132,525	-60.3%
08 Contractual Services	5,915,986	12,359,497	8,557,660	-3,801,837	-30.8%
09 Supplies and Materials	325,729	355,900	337,300	-18,600	-5.2%
10 Equipment – Replacement	246,761	150,694	142,147	-8,547	-5.7%
11 Equipment – Additional	242,889	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	208,443,740	288,194,298	222,095,616	-66,098,682	-22.9%
13 Fixed Charges	1,550,494	1,885,694	1,954,759	69,065	3.7%
Total Objects	\$ 242,547,272	\$ 331,855,054	\$ 262,679,293	-\$ 69,175,761	-20.8%
Funds					
01 General Fund	\$ 3,078,452	\$ 2,061,288	\$ 1,940,000	-\$ 121,288	-5.9%
03 Special Fund	28,507,661	34,011,410	29,144,309	-4,867,101	-14.3%
05 Federal Fund	209,753,205	294,217,356	229,700,984	-64,516,372	-21.9%
09 Reimbursable Fund	1,207,954	1,565,000	1,894,000	329,000	21.0%
Total Funds	\$ 242,547,272	\$ 331,855,054	\$ 262,679,293	-\$ 69,175,761	-20.8%

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
Department of Housing and Community Development**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Office of the Secretary	\$ 3,085,232	\$ 3,241,233	\$ 3,342,376	\$ 101,143	3.1%
02 Maryland Affordable Housing Trust	3,345,805	4,000,000	3,000,000	-1,000,000	-25.0%
03 Office of Management Services	2,591,519	2,969,383	3,105,569	136,186	4.6%
01 Maryland Housing Fund	611,681	612,600	642,348	29,748	4.9%
02 Asset Management	3,839,496	4,269,179	4,286,648	17,469	0.4%
03 Maryland Building Codes	726,653	752,141	711,337	-40,804	-5.4%
01 Neighborhood Revitalization	15,019,815	34,790,608	16,099,498	-18,691,110	-53.7%
01 Administration	2,314,068	2,486,904	2,606,733	119,829	4.8%
02 Housing Development Program	3,599,333	5,012,563	4,275,526	-737,037	-14.7%
03 Homeownership Programs	2,579,616	2,832,781	3,042,408	209,627	7.4%
04 Special Loan Programs	13,382,879	65,229,735	8,851,183	-56,378,552	-86.4%
05 Rental Services Programs	183,099,006	196,617,300	204,069,158	7,451,858	3.8%
01 Information Technology	3,207,228	2,532,098	2,660,410	128,312	5.1%
02 Unknown Title	0	850,000	75,000	-775,000	-91.2%
01 Finance and Administration	5,144,941	5,658,529	5,911,099	252,570	4.5%
Total Expenditures	\$ 242,547,272	\$ 331,855,054	\$ 262,679,293	-\$ 69,175,761	-20.8%
General Fund	\$ 3,078,452	\$ 2,061,288	\$ 1,940,000	-\$ 121,288	-5.9%
Special Fund	28,507,661	34,011,410	29,144,309	-4,867,101	-14.3%
Federal Fund	209,753,205	294,217,356	229,700,984	-64,516,372	-21.9%
Total Appropriations	\$ 241,339,318	\$ 330,290,054	\$ 260,785,293	-\$ 69,504,761	-21.0%
Reimbursable Fund	\$ 1,207,954	\$ 1,565,000	\$ 1,894,000	\$ 329,000	21.0%
Total Funds	\$ 242,547,272	\$ 331,855,054	\$ 262,679,293	-\$ 69,175,761	-20.8%

Note: The fiscal 2010 appropriation does not include deficiencies.