

S00
Department of Housing and Community Development – Capital

Capital Budget Summary

(\$ in Millions)

	<i>FY 2009 Approp.</i>	<i>FY 2010 Approp.</i>	<i>FY 2011 Allowance</i>	<i>Adjusted FY 2011 Allowance¹</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Homeownership Programs	\$8.600	\$8.500	\$8.500	\$8.500	0.0%	\$8.500
Rental Housing Programs	24.926	142.185	29.719	29.719	-79.1%	29.719
Special Loan Programs	9.500	9.650	12.220	10.100	26.6%	12.220
Neighborhood Business Development Program	5.000	3.100	7.616	4.050	145.7%	5.591
Community Development Block Grant Program	27.538	13.152	10.000	10.000	-24.0%	10.000
Community Legacy Program	4.240	4.200	4.646	4.250	10.6%	2.521
Partnership Rental Housing Programs	6.000	6.000	6.000	6.000	0.0%	4.100
Shelter and Transitional Housing Facilities Grant Program	1.500	1.500	2.000	2.000	33.3%	2.000
Total	\$87.304	\$188.287	\$80.701	\$74.619	-57.1%	\$74.651
Fund Source						
General	\$4.240	\$0.000	\$0.000	\$0.000	0.0%	\$0.000
Special	37.000	30.700	21.500	30.200	-30.0%	21.500
Federal	38.564	18.250	17.900	17.900	-1.9%	17.900
Federal ARRA	0.000	113.067	0.000	0.000	-100.0%	0.000
Reimbursable ARRA	0.000	7.020	3.019	3.019	0.0%	3.019
PAYGO Subtotal	\$79.804	\$169.037	\$42.419	\$51.119	-74.9%	\$42.419
GO Bonds	7.500	19.250	38.282	23.500	98.9%	32.232
Total	\$87.304	\$188.287	\$80.701	\$74.619	-57.1%	\$74.651

ARRA: American Recovery and Reinvestment Act of 2009

¹ The Budget Reconciliation and Financing Act (BRFA) of 2010 proposes transfers of Department of Housing and Community Development's special funds to the general fund. Special funds are made available in fiscal 2010 and 2011 in the Homeownership, Special Loans, Neighborhood Business Development, and Community Legacy programs. Those transfers are replaced with general obligation (GO) bonds in the fiscal 2011 allowance but would have otherwise been budgeted as special funds. The "Adjusted Fiscal 2011 Allowance" is a more accurate reflection of the availability of special funds as a result of loan repayments and the true need for GO bonds to supplement program activity. These numbers depict each program's activity levels as opposed to the level required to fund the BRFA transfers.

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Summary of Issues

Audit Reveals Community Legacy Projects Expended Funds Though Project Scope Had Changed:

A March 2009 audit of the Department of Housing and Community Development revealed that the Community Legacy (CL) Program awarded funds in some cases that were never expended or for which the original purpose had changed. DHCD had not adequately pursued collection on those grants and loans. **DLS recommends reducing the authorization for the CL Program and restricting the remaining authorization pending a comprehensive report outlining the status of all projects for which some or all funds are unexpended. DLS further recommends striking language that would exempt the CL Program from Board of Public Works' approval for all projects awarded funds.**

Office of Legislative Audits Raises Questions about Neighborhood Business Works' Lending Practices:

A March 2009 audit of the Department of Housing and Community Development (DHCD) revealed that the Neighborhood Business Works (NBW) Program had not taken appropriate collection action on a defaulted loan. Furthermore, DHCD made additional loans to that borrower without documented analysis and later modified the loan after the borrower was already delinquent. **The Department of Legislative Services (DLS) recommends reducing the authorization for the NBW Program and restricting the remaining authorization pending a detailed report outlining the status of all delinquent or defaulted loans in the NBW portfolio.**

Foreclosures Expose Revenues in Down Payment and Settlement Expense Program:

The Down Payment and Settlement Expense Loan Program (DSELP) has been impacted by increases in the foreclosure rate in the Maryland Mortgage Program. **The agency should comment on actions being taken to minimize losses in the Homeownership Programs as a result of DSELP loans tied to foreclosures.**

Summary of Recommended Actions – PAYGO

1. Concur with Governor's allowance.

Summary of Recommended Actions – Bond

<u>Program</u>	<u>Action</u>	<u>Amount</u>
1. Special Loans Program	Concur.	
2. Community Development Block Grant Program	Concur.	
3. Community Legacy	Restrict funds pending a report, reduce authorization.	-\$2,125,000
4. Neighborhood Business Development Program	Restrict funds pending report, reduce authorization.	-2,025,000
5. Partnership Rental Housing Program	Reduce authorization.	-1,900,000
6. Homeownership Programs	Concur.	
7. Shelter and Transitional Housing Facilities Grant Program	Concur.	
Total		-\$6,050,000

Overview

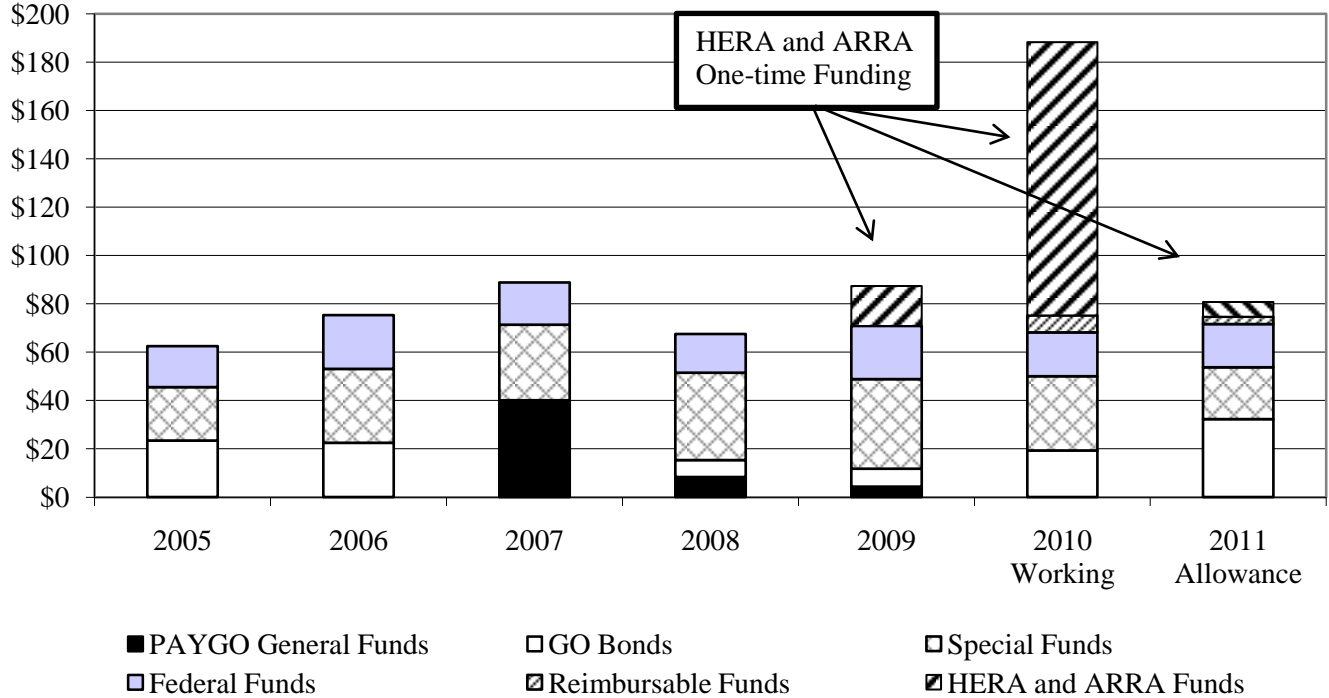
Funds in the DHCD fiscal 2011 allowance total \$80.7 million. This is \$107.6 million below, or less than half, of the fiscal 2010 working appropriation. The decrease is primarily due to \$123.1 million in federal 2009 American Recovery and Reinvestment Act (ARRA) funds made available in fiscal 2010. When adjusted for these one-time funds, the allowance actually increases \$9.5 million. The figures in **Exhibit 1** reflect all of DHCD capital funding, including programs funded solely with general obligation (GO) bonds and one-time federal and reimbursable funds provided through the ARRA or the federal Housing and Economic Recovery Act of 2008.

Federal Stimulus Funds for Housing Programs

DHCD was awarded \$203.9 million in federal stimulus funds made available through ARRA, as shown in **Exhibit 2**. Of the total, roughly \$123.1 million impacted DHCD's capital budget in fiscal 2010 and 2011. The ARRA funds included:

- \$79.2 million in Monetization Funds intended to benefit developers that have been awarded federal Low-Income Housing Tax Credits (LIHTC). In recent years, developers have been unable to raise sufficient equity from the LIHTC due to declining interest among investors that normally purchase the tax credits to generate cash for the developer. This phenomenon has slowed the development of affordable rental housing and even stalled some projects completely. The Monetization Funds allow DHCD to exchange 40% of the State's calendar 2009 LIHTC and any returned 2008 LIHTC to the U.S. Treasury. Each dollar generates \$8.50 in cash assistance which DHCD may sub-award to developers that have had difficulty with the LIHTC in the private market. Under the ARRA, all Monetization Funds must be expended by 2012.
- \$31.7 million for the Tax Credit Assistance Program (TCAP) also intended to benefit developers that have been awarded federal LIHTC. This program targets developers that have already sold their LIHTC allocation to investors but generated such insufficient equity that the project still has a gap in adequate financing. TCAP funds are structured to fill that gap and average roughly \$2.0 million to \$3.0 million per project. Similar to Monetization Funds, all TCAP funds must be expended by 2012.
- \$10.0 million for the Multifamily Energy Efficiency and Housing Affordability Program (MEEHA). These funds are provided to DHCD as reimbursable funds from the Maryland Energy Administration (MEA) although the MEA received the federal funds as part of its ARRA award. The program provides grants for energy efficiency and renewable energy improvements to affordable rental housing developments, particularly those that have received financing through DHCD's multifamily programs.
- \$2.2 million to supplement the existing Community Development Block Grant (CDBG) Program. CDBG provides grants to local governments in non-entitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and improving community facilities and services. The ARRA award boosts those efforts.

Exhibit 1
DHCD Capital Budget Funding Mix
Fiscal 2005-2011
(\$ in Millions)



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Working 2010</u>	<u>Allowance 2011</u>	<u>Change 2010-11</u>	<u>% Change 2010-11</u>
PAYGO General Funds	\$0.0	\$0.0	\$27.7	\$8.3	\$4.2	\$0.0	\$0.0	\$0.0	0.0%
GO Bonds	23.3	22.5	1.0	7.0	7.5	19.3	32.2	13.0	67.3%
Special Funds	22.2	30.5	31.3	36.2	37.0	30.7	21.5	-9.2	-30.0%
Federal Funds	16.8	22.3	17.4	16.0	22.0	18.3	17.9	-0.4	-1.9%
Reimbursable Funds	0.0	0.0	0.0	0.0	0.0	7.0	3.0	-4.0	-57.0%
HERA and ARRA funds	0.0	0.0	0.0	0.0	16.5	113.1	0.0	-113.1	-100.0%
GO replacing 2010 transfer	0.0	0.0	0.0	0.0	0.0	0.0	6.1	6.1	n/a
Total Funds	\$62.4	\$75.3	\$77.5	\$67.5	\$87.3	\$188.3	\$80.7	-\$107.6	-57.1%

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

PAYGO: pay-as-you-go
 HERA: Housing and Economic Recovery Act of 2008

Notes: The graph includes all DHCD capital funding, including programs solely funded with GO bonds. Fiscal 2005 includes \$3 million in special funds from the dedicated purpose account for the Hurricane Isabel Housing Rehabilitation and Renovation program. Funds for the Maryland Historical Trust totaling \$200,000 in fiscal 2005 and \$450,000 in 2006 are not included, and funds for the Maryland Heritage Tax Credit program of \$20 million in fiscal 2006 are not included. These programs were transferred to the Maryland Department of Planning in fiscal 2006 as required by Chapter 440 of 2005.

Source: Governor’s Capital Budget, Fiscal 2010; Department of Budget and Management Capital Budget Worksheets

Exhibit 2
American Recovery and Reinvestment Act of 2009 Funding in the
Department of Housing and Community Development – Capital Budget
Fiscal 2009-2011

<u>DHCD Program</u>	<u>Federal ARRA Program</u>	<u>Actual</u> <u>2009</u>	<u>Working</u> <u>Appropriation</u> <u>2010</u>	<u>Allowance</u> <u>2011</u>
Rental Housing	Monetization Funds	-	\$79,212,812	-
Rental Housing	Tax Credit Assistance Program	-	31,702,000	-
Rental Housing	Multifamily Energy Efficiency and Housing Affordability Program	-	7,020,000	\$3,018,000
Neighborhood Revitalization	Community Development Block Grant	-	2,152,108	-
	Additional ARRA funds in operating budget	\$6,463,947	71,909,458	2,468,550
	Total	\$6,463,947	\$191,996,378	\$5,486,550

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

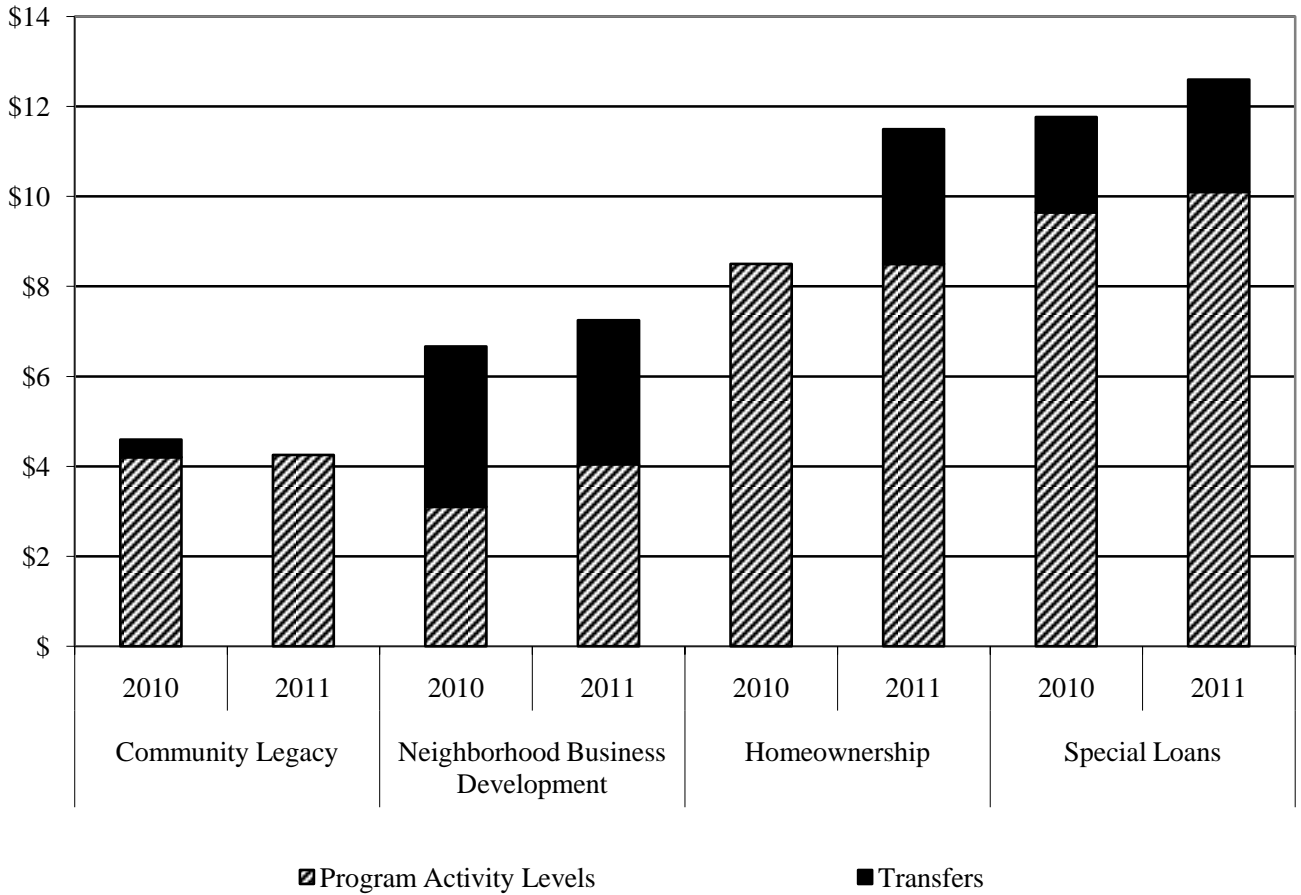
Source: Department of Housing and Community Development

Funds for Monetization, TCAP, and MEEHA are budgeted within the Rental Housing Program. The majority of ARRA funds was expended or will be encumbered in fiscal 2010. Only \$3.0 million in MEEHA funds remain in the fiscal 2011 allowance, resulting in a \$117.1 million drop in federal ARRA funds for fiscal 2011.

One-time Transfers Increase GO Need in 2011

The Budget Reconciliation and Financing Act (BRFA) of 2010 includes numerous transfers from special, nonlapsing funds to the general fund in fiscal 2010 and 2011. Transfers from the DHCD impact the agency’s Homeownership, Special Loans, Neighborhood Business Development, and Community Legacy programs. The BRFA transfers \$6.1 million in fiscal 2010 and \$8.7 million in fiscal 2011 for this purpose. These transfers are replaced with GO bonds in the fiscal 2011 allowance. The allocation of GO bonds in fiscal 2011 is double the 2010 level as a result. However, in some cases the shift to GO funding is also due to an increase in activity levels. **Exhibit 3** illustrates the impact of replacing transfers with GO in the fiscal 2011 allowance, particularly that it overstates changes in program activity levels when comparing fiscal 2010 to 2011.

Exhibit 3
Department of Housing and Community Development Capital Budget Funds
Impact of Transfers on Activity Levels
Fiscal 2010-2011
(\$ in Millions)



Source: Department of Budget and Management, Fiscal 2011 Capital Budget Worksheets

- Homeownership Programs:** The Homeownership Program is level-funded in fiscal 2011. However, it is solely funded with GO bonds, whereas the program relied heavily on special funds in fiscal 2010. This is because the BRFA includes a \$3.0 million transfer of fund balance to the general fund in fiscal 2011. However, the fund balance has been decreasing due to declining loan repayments. As a result, the GO bond allocation increases by \$5.7 million rather than \$3.0 million in order to ensure the program can be funded at the fiscal 2010 level.

- **Rental Housing Program:** The Rental Housing Program decreases \$112.5 million in fiscal 2011 due to one-time funding available in 2010. The one-time funds represent \$117.9 million in ARRA funding and a \$4.0 million award from the John D. and Catherine T. MacArthur Foundation. When adjusting for this, and another \$3.0 million in additional ARRA funds available in fiscal 2011, the allowance actually increases \$6.5 million. This is the net effect of \$2.9 million in GO bonds being eliminated from the allowance, a \$450,000 federal fund increase, and an \$8.9 million special fund increase. Additional special funds are made available as a result of a \$2.6 million transfer from the Homeownership Programs, \$2.5 million transfer from the Special Loans Program, and a \$3.0 million transfer from the Maryland Housing Fund. The Secretary is authorized to make such transfers. The allowance would significantly boost the agency's activities with regard to the financing and development of affordable rental units.

The special fund transfers to this program are a critical resource in maximizing the effectiveness of multi-family construction deals. When financing construction projects, many developers take advantage of federal Low-Income Housing Tax Credits (LIHTC). The LIHTC are awarded to developers agreeing to rent a portion of the rental units to low-income residents. The use of GO bonds decreases the amount of the LIHTC award because the federal government considers GO bonds to essentially be federal funds due to the tax-exempt nature of the bonds. As the developers are considered to have received federal funds, the LIHTC award is reduced. This results in some borrowers that may ultimately end up with a gap in project financing. Moreover, when the credits are sold to investors they may no longer generate sufficient cash for the project due to the tax credit's reduced value, emphasizing the need to maximize the total award to each developer. The use of State funds in the Rental Housing Program helps to maximize the cash that developers may generate with the LIHTC. The 2010 *Capital Improvement Program* reflects the continued use of this funding strategy through the five-year planning period. Until general funds are made available to support the Rental Housing Program, this policy reflects the best allocation of resources.

- **Special Loans Program:** This program is funded primarily with GO bonds and some federal funds in fiscal 2011, although special funds were the main fund source in 2010. The allowance increases \$2.6 million compared to the fiscal 2010 working appropriation. The GO bond allocation grows \$7.7 million because the BRFA transfers \$2.1 million in fiscal 2010 and another \$2.5 million in 2011 from this fund to the general fund. When adjusting for GO bonds to replace these transfers, the allowance is only \$450,000 greater than the fiscal 2010 working appropriation of which \$200,000 is in the form of federal funds.
- **Community Legacy Program:** The Community Legacy Program is funded solely with GO bonds. The fiscal 2011 allowance of \$4.6 million represents a \$446,000 increase over the fiscal 2010 working appropriation. However, \$396,000 of this GO allocation replaces a transfer of the program's fiscal 2010 fund balance to the general fund. When adjusting for the replacement of this transfer, the 2011 allowance increases only \$50,000.

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- ***Neighborhood Business Development Program:*** The Neighborhood Business Development Program is funded solely with GO bonds. The fiscal 2011 allowance is more than double the fiscal 2010 working appropriation. This is primarily to replace transfers of the fund's balance, including \$3.6 million in fiscal 2010 and \$3.2 million in fiscal 2011. When adjusting for these transfers, the allowance increases \$950,000.
- ***Community Development Block Grant Program:*** CDBG is fully supported with federal funds. Fiscal 2011 funding for this program is expected to decrease \$3.2 million. However, when adjusting for one-time ARRA funds made available in fiscal 2010, the 2011 allowance decreases only \$1.0 million.
- ***Partnership Rental Housing Program:*** As in fiscal 2010, the fiscal 2011 allowance for this program is entirely funded through GO bond proceeds. The allowance level funds the program.
- ***Shelter and Transitional Housing Facilities Grant Program:*** As in fiscal 2010, the fiscal 2011 allowance for this program is entirely funded through GO bond proceeds. The allowance for this program increases slightly by \$500,000.

Rental Housing Programs (Statewide)

PAYGO SF	\$21,500,000	Recommendation:	Approve
PAYGO FF	\$5,200,000		
Nonbudgeted	\$3,018,784		

Program Description: Five programs are funded through the Rental Housing Programs: (1) Rental Housing Production Program; (2) Elderly Rental Housing Program; (3) Maryland Housing Rehabilitation Program – Multi-family; (4) Nonprofit Rehabilitation Program; and (5) Office and Commercial Space Conversion Program. The programs provide low-interest or deferred payment loans for rental housing developments targeting very low-income households. In general, projects serve families with incomes below 60% of the area median, with priority given to projects serving families with incomes below 30% of the area median. The maximum loan amount generally is \$2.0 million per project, with an interest rate as low as 4% for as many as 40 years.

Comments: Funding for the Rental Housing Programs in the fiscal 2011 allowance is \$29.7 million. When adjusted for fiscal 2010 one-time funding made available through \$117.9 million in the American Recovery and Reinvestment Act of 2009 (ARRA) funds and a \$4.0 million award from the John D. and Catherine T. MacArthur Foundation, and another \$3.0 million in additional ARRA funds available in fiscal 2011, the allowance actually increases \$6.5 million. This is the net effect of \$2.9 million in GO bonds being eliminated from the allowance, a \$450,000 federal fund increase, and an \$8.9 million special fund increase. Additional special funds are made available as a result of a \$2.6 million transfer from the Homeownership Programs, \$2.5 million transfer from the Special Loans Program, and a \$3.0 million transfer from the Maryland Housing Fund. The Secretary is authorized to make such transfers. The allowance would significantly boost the agency’s activities with regard to the financing and development of affordable rental units. The budget provides \$6.5 million more than planned in the 2009 *Capital Improvement Program*.

Prior Authorization and Capital Improvement Program

Authorization Request (\$ in Millions)

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
PAYGO SF	\$15.500	\$12.600	\$21.500	\$20.500	\$20.500	\$20.500	\$20.500
PAYGO FF	9.430	4.750	5.200	5.200	5.200	5.200	5.200
PAYGO RF	0.000	0.000	3.020	0.000	0.000	0.000	0.000
GO Bonds	0.000	2.900	0.000	0.000	0.000	0.000	0.000
Total	\$24.930	\$20.250	\$29.720	\$25.700	\$25.700	\$25.700	\$25.700

Fund Data

Fund History

	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$14,518,342	\$5,752,405	\$4,262,405
Revenue			
GO Bonds	0	2,900,000	0
General Funds	0	0	0
Federal Funds	4,069,162	81,027,000	5,720,000
Transfer from Other Funds	0	8,000,000	7,100,000
Transfer from Maryland Housing Fund	0	0	3,000,000
Loan Repayments and Interest	9,460,682	9,900,000	10,200,000
Cancel Encumbrances	1,158,366	0	0
General Fund Reversion	-1,105,547	0	0
Total Revenue	13,582,663	101,827,000	26,020,000
Total Available	28,101,005	107,579,405	30,282,405
Encumbrances			
Grants and Loans*	19,500,000	100,052,000	26,700,000
State Administrative Expenses	2,779,438	2,790,000	2,790,000
Federal Administrative Expenses	69,162	475,000	520,000
Total Encumbrances	22,348,600	103,317,000	30,010,000
Ending Balance	\$5,752,405	\$4,262,405	\$272,405

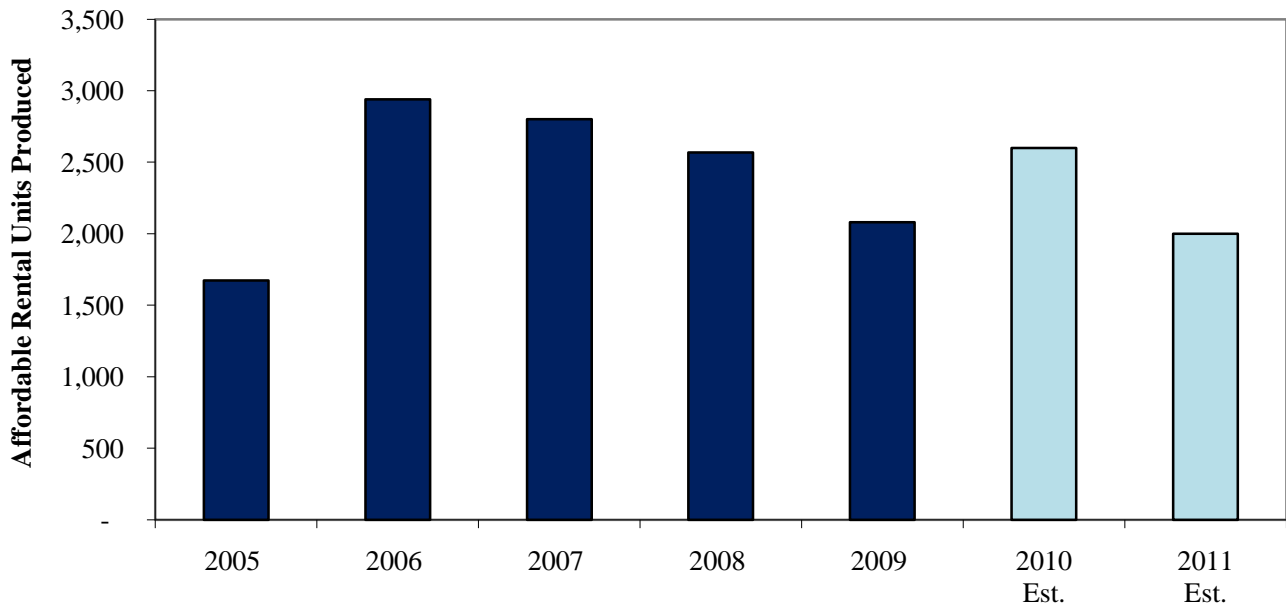
* FY 2010 loans made as of December 31, 2009.

- The fiscal 2011 special fund allowance reflects a \$2.6 million transfer from the Homeownership Programs, \$2.5 million transfer from the Special Loans Program, and a \$3.0 million transfer from the Maryland Housing Fund. These transfers eliminate the need for GO bonds in the Rental Housing Program since tax-exempt debt reduces the amount of equity private developers may raise when taking advantage of federal Low Income Housing Tax Credits.
- The fund balance at the close of fiscal 2009 was \$5.8 million. However, the ending fund balance in fiscal 2011 is expected to be only \$272,405 due to increased activity. DHCD anticipates revenue from loan repayments to improve in subsequent years.

Program Analysis and Performance

Program Performance Analysis: One of DHCD’s primary goals is to expand decent, affordable rental housing in Maryland. To measure progress, DHCD tracks the number of new affordable housing units it supports 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 4**, unit production has fluctuated since fiscal 2005. In fiscal 2009, DHCD produced 2,081 units. This is 487 units less than fiscal 2008, although DHCD expects production to increase in fiscal 2010 with 2,600 units going to initial closing. If there is a delay in a project’s construction schedule, then the unit count may be applied to the following fiscal year. Furthermore, projects may vary in size and scope, with some projects involving several hundred units. There is an eight-month interval between competitions for State loan funds so it can be difficult to make up for projects that do not materialize in a particular year. 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 4
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

Recommended Actions

PAYGO Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2010 Authorized Projects Status

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Reserved but Not Yet Encumbered		
Allegany	Klott’s Mill	\$250,000
Baltimore City	Upland’s	2,000,000
Baltimore City	Poppleton II	500,000
Baltimore City	Barclay Telesis	13,911
Subtotal – Reserved but Not Yet Encumbered		\$2,763,911
 HOME – Encumbered		
Somerset	Somerset Commons	\$839,092
Subtotal – HOME Encumbered		\$839,092
HOME – Reserved but Not Yet Encumbered		0
Subtotal – HOME Reserved		0
Grand Total HOME – Encumbered/Reserved		\$839,092
Total – Program Activity		\$3,603,003

**Monetization Funds (ARRA)
Activity Levels as of December 31, 2009**

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Monetization Funds – Federal		
Allegany	Braddock Greene	\$6,300,236
Anne Arundel	Annapolis Gardens	13,667,184
Garrett	Liberty Mews	2,086,990
Kent	Calvert Heights	5,365,659

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<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Kent	Woods Edge	7,398,237
Montgomery	Gilbert Highlands	1,175,255
Somerset	Somerset Commons	8,499,057
Subtotal Encumbered – Monetization Funds		\$44,492,618
Reserved but Not Yet Encumbered		
Allegany	Klott’s Mill	\$6,355,578
Baltimore City	Penn Square	11,092,500
Baltimore City	Barclay Telesis	10,200,000
Baltimore City	St. Stephen’s	1,123,267
Montgomery	Hampden Lane	1,000,000
St. Mary’s	Elkton Senior	4,082,686
St. Mary’s	Indian Bridge	2,610,886
Subtotal – Reserved but Not Yet Encumbered		\$36,464,917
Grand Total – Encumbered/Reserved		\$80,957,535

**TCAP (ARRA)
Activity Levels as of December 31, 2009**

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
TCAP – Federal		
Anne Arundel	Admirals Oaks	\$737,421
Anne Arundel	Glenview Gardens	2,000,000
Anne Arundel	Hammerlee House	2,700,000
Anne Arundel	North Creek Run	3,000,000
Anne Arundel	Park View Severna	2,000,000
Baltimore City	City Arts	2,635,000
Cecil	Cedar Hill Apartments	2,000,000
Dorchester	Conifer Village	3,000,000
Harford	Perryman Station	3,000,000
Subtotal Encumbered – TCAP		\$21,072,421

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<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Reserved but Not Yet Encumbered		
Allegany	Cumberland Meadows	\$2,727,000
Allegany	William Booth Tower	3,000,000
Baltimore	The Greens at Liberty Road	2,000,000
Baltimore City	Wayland Village	2,000,000
Howard	Sierra Woods	900,000
Subtotal – Reserved but Not Yet Encumbered		\$10,627,000
Grand Total – Encumbered/Reserved		\$31,699,421

ARRA: American Recovery and Reinvestment Act of 2009
TCAP: Tax Credit Assistance Program

Special Loans Programs (Statewide)

GO Bonds **\$9,520,000** **Recommendation: Approve**
PAYGO FF **\$2,700,000**

Bill Text: Provide funds to low- and moderate-income families, sponsors of rental properties occupied primarily by limited income families, and nonprofit sponsors of housing facilities, including group homes and shelters. These funds shall be administered in accordance with §§ 4-501, 4-505, 4-601 through 4-612, and 4-701 through 4-712, 4-901, 4-923, 4-927, and 4-933 of the Housing and Community Development Article.

Program Description: Programs under the Special Loan Programs include the Maryland Housing Rehabilitation Program (MHRP), Indoor Plumbing Program (IPP), Lead Hazard Reduction Program (LHRP), and Group Home Financing (GHF) Program. The programs provide preferred interest rate loans and grants to families of low- and moderate-income; to sponsors whose small rental properties are leased substantially by limited-income families; and to nonprofit sponsors of housing facilities. In general, the funds may be used to construct or rehabilitate single-family homes and multi-family housing with four or fewer units, or to acquire properties for use as group homes or shelters.

Comments: Funding for the Special Loan Programs in the fiscal 2011 allowance is \$12.2 million. This program is funded primarily with general obligation (GO) bonds and some federal funds in fiscal 2011, although special funds were the main fund source in 2010. The allowance increases \$2.6 million compared to the fiscal 2010 working appropriation. The GO bond allocation grows \$7.7 million because budget reconciliation legislation transfers \$2.1 million in fiscal 2010 and another \$2.5 million in 2011 from this fund to the general fund. Additionally, \$2.5 million will be transferred from this fund to the Rental Housing Program Fund to support activities in those programs. When adjusting for GO bonds to replace these transfers, the allowance is only \$450,000 greater than the fiscal 2010 working appropriation of which \$200,000 is in the form of federal funds.

Prior Authorization and Capital Improvement Program

Authorization Request (\$ in Millions)

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
PAYGO SF	\$8.000	\$5.300	\$0.000	\$2.200	\$2.600	\$3.100	\$3.100
PAYGO FF	1.500	2.500	2.700	2.700	2.700	2.700	2.700
GO Bonds	0.000	1.850	9.520	5.500	5.100	4.600	4.600
Total	\$9.500	\$9.650	\$12.220	\$10.400	\$10.400	\$10.400	\$10.400

Note: In fiscal 2011, this program transfers \$2.5 million from this fund to the Rental Housing Program Fund.

Fund Data

Fund History

	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$2,012,995	\$45,867	\$638,867
Revenue			
GO Bonds	0	1,850,000	7,400,000
General Funds	0	0	0
Federal Funds	2,031,469	2,750,000	2,970,000
Transfer to/from Other Funds	-2,050,000	0	-2,500,000
Transfer from Maryland Housing Fund	0	1,700,000	0
Loan Repayments and Interest	5,235,441	5,280,000	5,490,000
General Fund Reversion	0	-2,120,000	-2,500,000
Cancel Encumbrances	446,914	200,000	200,000
Total Revenue	5,663,824	9,660,000	11,060,000
Total Available	7,676,819	9,705,867	11,698,867
Encumbrances			
Grants and Loans*	5,677,473	7,530,000	10,100,000
State Administrative Expenses	1,422,010	1,287,000	1,287,000
Federal Administrative Expenses	531,469	250,000	270,000
Total Encumbrances	7,630,952	9,067,000	11,657,000
Ending Balance	\$45,867	\$638,867	\$41,867

* FY 2010 loans made as of December 31, 2009.

- The BRFA transfers \$2.1 million in fiscal 2010 and \$2.5 million in 2011 from this fund to the general fund. These transfers are replaced with GO bonds in the fiscal 2011 allowance.
- An additional \$2.5 million is transferred from this fund to the Rental Housing Program in fiscal 2011 to obviate the need for GO bonds in that program.

Program Analysis and Performance

Program Performance Analysis: The number of units assisted by Special Loan Programs is shown in **Exhibit 5**. Overall, the number of units assisted increased 43% from fiscal 2006 to 2009. While assistance provided by the programs has grown significantly, the number of units assisted through the Lead Hazard Reduction Program in particular more than doubled during this time period. At the same time, the number of beds created through the Group Home Financing Program decreased 29%.

Exhibit 5
Units Assisted by Special Loans Programs
Fiscal 2006-2009

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Est.</u> <u>2010</u>	<u>% Change</u> <u>2006-2009</u>
Maryland Housing Rehabilitation Program	66	76	73	80	75	21.2%
Indoor Plumbing Program	7	6	44	13	16	85.7%
Lead Hazard Reduction Program	46	107	64	104	201	126.1%
Group Home Financing Program ¹	38	74	58	27	55	-28.9%
Total Units Assisted	157	263	239	224	347	42.7%

¹ The Group Home Financing Program reflects the number of beds. All other programs reflect the number of loans.

Source: Department of Budget and Management Capital Budget Worksheets; Department of Housing and Community Development

The Department of Housing and Community Development (DHCD) expects to allocate fiscal 2011 Special Loan funds among the programs as follows: 46% for MHRP, 35% for GHF, 16% for LHRP, and 3% for IPP. Note that MHRP funds some plumbing projects as part of larger renovations, while IPP is dedicated only to plumbing projects.

Recommended Actions

PAYGO Recommended Actions

1. Concur with Governor's allowance.

GO Bond Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2010 Authorized Projects Status

State Funded Projects

<u>Jurisdiction</u>	<u>Amount</u>
Allegany	\$55,381
Anne Arundel	1,170,365
Baltimore	305,202
Baltimore City	541,976
Calvert	145,479
Caroline	94,869
Carroll	39,352
Cecil	27,955
Charles	130,827
Dorchester	125,711
Frederick	154,247
Harford	14,341
Prince George's	360,750
Talbot	242,189
Wicomico	88,259
Total – Encumbered	\$3,496,903
Reserved but Not Yet Encumbered	\$544,443

Federal Funds – HOME

<u>Jurisdiction</u>	<u>Amount</u>
Allegany	\$116,743
Baltimore	17,285
Caroline	13,755
Carroll	398,495
Cecil	140,000
Charles	332,793
Dorchester	166,851
Frederick	287,599
Harford	10,790
Kent	115,395
St. Mary's	60,000
Talbot	151,172
Washington	300,000
Wicomico	74,139
Total – Encumbered	\$2,185,017
Reserved but Not Yet Encumbered	
Various Jurisdictions	\$1,953,685
Total – Program Activity	\$8,180,048

Fund Data

Fund History

	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$0	\$0	\$3,100,000
Revenue			
Federal Funds	10,233,420	13,629,390	10,415,000
Transfer from Other Funds	0	0	0
Loan Repayments and Interest	0	0	0
Total Revenue	10,233,420	13,629,390	10,415,000
Total Available	10,233,420	13,629,390	13,515,000
Encumbrances			
Grants and Loans*	10,000,000	13,152,108	10,000,000
Operating Expenses	233,420	477,282	415,000
Total Encumbrances	10,233,420	13,629,390	10,415,000
Ending Balance	\$0	\$0	\$0

*Loans made as of December 31, 2009.

Program Analysis and Performance

Program Performance Analysis: HUD requires that at least 70% of the funds benefit low- and moderate-income individuals. States may choose whether to meet this requirement in a one- or three-year period. In fiscal 2009, the CDBG program approved 47 new multi-year projects, primarily in rural areas. The projects will provide new housing and rehabilitated housing for an estimated 209 households, and it will improve and rehabilitate sewer systems, water systems, streets, and sidewalks for an estimated 3,823 individuals. A total of 190 new jobs may be created as well.

Recommended Actions

PAYGO Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2010 Authorized Projects Status

<u>County</u>	<u>Grantee Name</u>	<u>Amount</u>
Allegany	Town of Westernport	\$38,183
Allegany	City of Frostburg	100,000
Allegany	Allegany County Comm.	450,000
Allegany	Allegany County	300,000
Caroline	Town of Denton	325,000
Caroline	Town of Federalsburg	500,000
Dorchester	City of Cambridge	843,500
Dorchester	Dorchester County	700,000
Garrett	Garrett County	125,000
Garrett	Town of Friendsville	750,000
Queen Anne’s	Queen Anne’s County	368,600
Somerset	City of Crisfield	710,000
St. Mary’s	St. Mary’s County	500,000
St. Mary’s	St. Mary’s County	283,000
Subtotal – Encumbered		\$5,993,283
Reserved – Not Yet Encumbered		
Caroline	Town of Federalsburg	\$200,000
Dorchester	City of Cambridge	500,000
Subtotal – Reserved – Not Yet Encumbered		\$700,000
Grand Total		\$6,693,283

ARRA Funds
Activity Levels as of December 31, 2009

<u>County</u>	<u>Grantee Name</u>	<u>Amount</u>
Allegany	Allegany County	\$800,000
Cecil	Town of Elkton	234,910
Garrett	Town of Loch Lynn Heights	350,000
Worcester	Town of Berlin	702,635
Subtotal – Encumbered		\$2,087,545
Subtotal – Reserved – Not Yet Encumbered		0
Grand Total		\$2,087,545

ARRA: American Recovery and Reinvestment Act of 2009

Community Legacy Program (Statewide)

General Obligation Bonds **\$4,646,000** **Recommendation:** **Reduce authorization by \$2,125,000, add language restricting funds and removing program from the Board of Public Works exemption**

Bill Text: Provide funds to assist neighborhoods with revitalization efforts. These funds shall be administered in accordance with §§ 6-201 through 6-213 of the Housing and Community Development Article and Code of Maryland Regulations (COMAR) 05.17.01.

Program Description: The Community Legacy (CL) Program provides grants and loans to assist in the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. Priority is given to communities with residents, businesses, and institutions that are committed to revitalization and have demonstrated leadership ability. Funds may be used for streetscapes and façades, recreational amenities, community gathering places, and other capital improvements that enhance the desirability of the community. Fund recipients may be community development organizations and local governments.

Comments: The fiscal 2011 allowance for the CL Program is \$4.6 million, which is \$1.9 million less than provided for in the 2009 *Capital Improvement Program* but \$446,000 greater than the working appropriation. However, \$396,000 of the fiscal 2011 general obligation (GO) allocation replaces a transfer of the program’s fiscal 2010 fund balance to the general fund. When adjusting for the replacement of this transfer, the 2011 allowance increases only \$50,000. The program is funded solely with GO bonds.

Prior Authorization and Capital Improvement Program

Authorization Request (\$ in Millions)

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
PAYGO GF	\$4.240	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
GO Bonds	0.000	4.200	4.650	4.250	4.250	4.250	4.250
Total	\$4.240	\$4.200	\$4.650	\$4.250	\$4.250	\$4.250	\$4.250

Fund Data

Fund History

	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$287,164	\$605	\$605
Revenue			
GO Bonds	0	4,200,000	4,646,000
General Funds	4,239,556	0	0
Transfer from Other Funds	0	0	0
Loan Repayments and Interest	466,441	650,000	650,000
General Fund Reversion	-3,250,482	-396,000	0
Transfer Encumbrance to 2010	2,100,000	-2,100,000	0
Cancel Encumbrances	1,150,482	0	0
Total Revenue	4,705,997	2,354,000	5,296,000
Total Available	4,993,161	2,354,605	5,296,605
Encumbrances			
Grants and Loans*	4,415,556	1,704,000	4,646,000
Operating Expenses	577,000	650,000	650,000
Total Encumbrances	4,992,556	2,354,000	5,296,000
Ending Balance	\$605	\$605	\$605

*Loans made as of December 31, 2009.

Program Analysis and Performance

Program Performance Analysis: In fiscal 2009, the Community Legacy Program approved 63 multi-year projects for communities throughout the State. The projects will improve streetscapes, commercial facades, interior amenities, and upper-story redevelopment opportunities, which is expected to attract more customers to private businesses and nonprofit corporations. All funds target the 101 designated Community Legacy areas, which includes 23 Main Street communities.

Issues

1. Audit Reveals Community Legacy Projects Expended Funds Though Project Scope Had Changed

The Community Legacy Program in the Division of Neighborhood Revitalization provides grants and some low-interest loans to local jurisdictions and community development organizations for a variety of capital projects such as streetscape and façade improvements, improvement of community gathering places, and recreational amenities. In fiscal 2009, the Department of Housing and Community Development (DHCD) awarded 63 projects totaling \$4.2 million in State funds.

At the end of a fiscal year, DHCD often encumbers 100% of CL funds as a result of the amount of time it takes to accept applications, make awards, and expend funds. Often funds are not expended in the year the awards are made. Additionally, projects identified for CL awards may be delayed for months or years if the grantee experiences difficulties in securing other funding for the capital project.

The March 2009 audit conducted by the Office of Legislative Audits (OLA) found that some projects awarded with CL funds took so long to proceed that they did not meet State regulations that require projects be ready to proceed when receiving financial assistance from the CL program. As a result of these delays, some projects changed in scope from when the award was originally made to when the funds were expended – if they were expended at all – and in some instances funds were not used for the project’s originally stated purpose. OLA noted several examples including:

- A grantee was awarded \$150,000 to purchase property that would be used for a community homeless shelter and conference center. Three years later, only \$50,000 of the award had been spent, the property had not been purchased, and DHCD had not attempted to recover the grant.
- Another grantee was awarded \$153,750 for the demolition of properties to make way for a parking lot. Two years later, the funds had not been expended, and the borrower had changed the project’s scope to the demolition of properties in an entirely different location.
- A third grantee was awarded a \$40,000 loan to acquire and renovate a building as part of a larger economic development project to provide space for a credit union branch office. Three years later, the funds had not been expended, and the project’s scope had changed to installing an ATM machine and possibly outfitting the space for a hair salon. DHCD had not attempted to collect the loan at the time of the audit.

In a response to the OLA audit, DHCD noted that it had taken actions to address the concerns including shortening grant agreements from three to two years and changing the terms of agreements to provide “more options for recapturing funds from projects that are not progressing.”

The Department of Legislative Services (DLS) recommends reducing the authorization for the CL Program and restricting the remaining authorization pending a comprehensive report outlining the status of all projects for which some or all funds are unexpended. DLS further recommends striking language that would exempt the CL Program from Board of Public Works' approval for all projects awarded funds.

Recommended Actions

1. SA24A Community Legacy Program \$ 2,521,000

Add the following language:

Community Legacy Program. Provide funds to assist neighborhoods with revitalization efforts, provided that \$2,125,000 of this authorization may not be encumbered or expended until the Department of Housing and Community Development (DHCD) submits a report to the budget committees on projects that have been awarded Community Legacy funds in fiscal 2009 or prior for which all or some funds are unexpended. The report shall include:

- (1) the dollar amount of all outstanding awards and unexpended funds by project;
- (2) identification of grant recipients and approved project scope for every grant award and approved scope modification; and
- (3) actions taken by the Community Legacy Board to re-evaluate projects for which the scope had changed.

Further provided that DHCD shall provide the budget committees with an annual report on Community Legacy projects for which some or all funds are unexpended. The budget committees shall have 45 days from the date of receipt of the report to review and comment. The funds shall be administered in accordance with §§ 6-201 through 6-213 of the Housing and Community Development Article and Code of Maryland Regulations (COMAR) 05.17.01.

<u>Allowance</u>	<u>Change</u>	<u>Authorization</u>
4,646,000	-2,125,000	2,521,000

Explanation: A recent audit by the Office of Legislative Audits found that some projects changed in scope from when the award was originally made to when the funds were expended, and in some instances, funds were not used for the project’s originally stated purpose. This action would restrict funds until the Department of Housing and Community Development submits a report on the status of all projects that were awarded in fiscal 2009 or prior for which some or all funds are unexpended. This action would also reduce the fiscal 2011 authorization by half.

Information Request	Author	Due Date
Report on status of Community Legacy Projects	Department of Housing and Community Development	November 1, 2010, and annually thereafter

S00 – Department of Housing and Community Development – Capital

2. SA24A Community Legacy Program..... \$ 2,521,000

Add the following language:

Provided that any financial assistance awarded under the ~~Community Legacy Program~~, Homeownership Programs, and Special Loan Programs is not subject to § 8-301 of the State Finance and Procurement Article.

Explanation: The above action would remove the Community Legacy Program from the exemption to § 8-301 of the State Finance and Procurement Article. As a result, all projects awarded funds through the fiscal 2011 authorization for Community Legacy would require approval from the Board of Public Works in order to proceed.

Fiscal 2010 Authorized Projects Status

<u>Awardee</u>	<u>County</u>	<u>Capital Award</u>
Previous Year Encumbrances Moved to Fiscal 2010 *		\$2,100,000
Reserved but Not Yet Encumbered		
City of Cumberland	Allegany	\$100,000
City of Frostburg	Allegany	150,000
Dundalk Renaissance Corporation	Baltimore	200,000
Baltimore Development Corporation	Baltimore City	75,000
The Reinvestment Fund	Baltimore City	300,000
City of Westminster	Carroll	75,000
Commissioners of Charles County	Charles	100,000
City of Cambridge	Dorchester	240,000
City of Cambridge	Dorchester	10,000
City of Cambridge	Dorchester	50,000
City of Havre de Grace	Harford	75,000
Howard County	Howard	100,000
Howard County	Howard	75,000
City of Takoma Park	Montgomery	100,000
City of Hyattsville	Prince George's	325,000
Town of Berlin	Worcester	75,000
Ocean City Development Corporation	Worcester	50,000
Subtotal – Reserved – Not Yet Encumbered		\$2,100,000
Total – Program Activity		\$4,200,000

* Encumbered projects moved from prior years as part of the fiscal 2009 general fund reversion.

Fiscal 2009 Authorized Projects Status

<u>Awardee</u>	<u>County</u>	<u>Capital Award</u>
Fells Point Development Corp	Baltimore City	\$85,000
City of Westminster	Carroll	100,000
Town of Sykesville	Carroll	100,000
City of Crisfield	Somerset	70,000
City of Gaithersburg	Montgomery	50,000
Dundalk Renaissance Corporation	Baltimore	100,000
City of Salisbury	Wicomico	105,500
City of Havre de Grace	Harford	50,000
City of Brunswick	Frederick	75,000
City of Cumberland	Allegany	65,000
City of Frostburg	Allegany	100,000
City of Frostburg	Allegany	50,000

S00 – Department of Housing and Community Development – Capital

<u>Awardee</u>	<u>County</u>	<u>Capital Award</u>
Town of Middletown	Frederick	100,000
City of Hyattsville	Prince George's	50,000
Town of Princess Anne	Somerset	105,000
Gateway Community Development Corporation	Prince George's	70,000
Town of Easton	Talbot	45,000
Baltimore Development Corporation	Baltimore City	250,000
City of Pocomoke	Worcester	70,000
Montgomery County	Montgomery	400,000
Hagerstown Neighborhood Develop Partnership	Washington	150,000
City of Cambridge	Dorchester	150,000
Ocean City Development Corp	Worcester	150,000
Garrett County, MD, Comm. Action Comm.	Garrett	35,000
Community Capital of Maryland, Inc.	Baltimore City	200,000
The Reinvestment Fund	Baltimore City	270,000
Town of Denton	Caroline	50,000
Housing Initiative Partnership	Prince George's	375,000
Port Towns CDC	Prince George's	264,500
Historic East Baltimore CAC	Baltimore City	280,000
Central Baltimore Partnership	Baltimore City	235,000
Jubilee Baltimore	Baltimore City	110,344
City of Havre de Grace	Harford	39,556
Subtotal – Encumbered		\$4,349,900

CAC: Community Action Committee
 CDC: Community Development Corporation

Neighborhood Business Development Program (Statewide)

General Obligation Bonds **\$7,616,000** **Recommendation:** **Reduce authorization by \$2,025,000, add language restricting funds**

Bill Text: Provide funds for grants and loans to fund community-based economic development activities in revitalization areas designated by local governments. These funds shall be administered in accordance with §§ 6-301 through 6-311 of the Housing and Community Development Article.

Program Description: The Neighborhood Business Development Program (NBDP) was established to provide gap financing for small businesses in locally designated revitalization areas. Loan financing ranges from \$25,000 to \$500,000 for each project and is designed to supplement private financing and equity from the borrower. Applicants must secure private financing equal to a 50% match on State loan funds and provide a 5% equity investment to receive a low-interest or deferred payment loan. The program also provides grants to nonprofit organizations that contribute to community-based economic development revitalization efforts. Approximately 70% of the program’s funds are used for loans to private firms and nonprofits and 30% for grants to nonprofits.

Program funds also support the Capital Access Program (CAP), a component of NBDP established by Chapter 98 of 2000. The CAP is a credit enhancement program that enables private lenders to establish a loan loss reserve fund from fees paid by lenders, borrowers, and the Department of Housing and Community Development (DHCD). Borrowers and participating lenders each contribute a premium of between 0.5 and 2.0% of a loan to a reserve fund, and DHCD matches the amount of the premium. The CAP is not a direct loan program; it leverages private funds at an average rate of 40 to 1.

Chapter 209 of 2004 authorized DHCD to sell, assign, or otherwise dispose of up to \$4.0 million annually of the NBDP portfolio. The sale proceeds must be applied to the NBDP fund, and DHCD must make a reasonable good faith effort to commit 25% of the loans and grants to micro-enterprises. The legislation enabling the portfolio sales became effective October 2004. No sale has yet occurred.

Comments: The fiscal 2011 allowance for the NBDP is \$7.6 million in general obligation (GO) bond funds. The 2009 *Capital Improvement Program* assumed the program would be able to rely on special funds. However, in fiscal 2011 it is funded solely with GO bonds. In addition, the allowance is more than double the fiscal 2010 working appropriation. This is primarily to replace transfers of the fund’s balance, including \$3.6 million in fiscal 2010 and \$3.2 million in fiscal 2011. When adjusting for these transfers, the allowance increases \$950,000

Prior Authorization and Capital Improvement Program

**Authorization Request
(\$ in Millions)**

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
PAYGO SF	\$5.000	\$3.100	\$0.000	\$2.900	\$3.300	\$3.500	\$4.000
GO Bonds	0.000	0.000	7.616	1.350	0.950	0.750	0.500
Total	\$5.000	\$3.100	\$7.616	\$4.250	\$4.250	\$4.250	\$4.500

Fund Data

Fund History

	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$2,098,650	\$1,096,068	\$496,068
Revenue			
GO Bonds	0	3,566,000	4,050,000
General Funds	0	0	0
Transfer Out	0	0	0
Loan Repayments and Interest	2,944,454	3,100,000	3,350,000
General Fund Reversion	0	-3,566,000	-3,200,000
Cancel Encumbrances	509,051	200,000	200,000
Total Revenue	3,453,505	-266,000	4,400,000
Total Available	5,552,155	830,068	4,896,068
Encumbrances			
Grants and Loans*	3,461,570	3,100,000	4,050,000
Operating Expenses	994,517	800,000	800,000
Total Encumbrances	4,456,087	334,000	4,850,000
Ending Balance	\$1,096,068	\$496,068	\$46,068

*Loans made as of December 31, 2009.

Note: A total of \$3.6 million in general obligation bonds for fiscal 2010 are a part of the fiscal 2011 authorization but will become available on June 1, 2010, to allow the agency to encumber the funds in fiscal 2010.

- Budget reconciliation legislation transfers \$3.6 million in fiscal 2010 and \$3.2 million in fiscal 2011 from this fund to the general fund. The transfers are replaced with GO bonds in the fiscal 2011 allowance.

Program Analysis and Performance

Program Performance Analysis: The NBDP operates as the Neighborhood Business Works Program (NBW). In fiscal 2009, NBW approved financing through loans and grants to 13 small businesses and nonprofit organizations. NBW funding of \$3.2 million leveraged \$10.6 in private funding for every State dollar. The loans expanded or created small businesses in designated neighborhoods that resulted in 158 new jobs.

Issues

1. Office of Legislative Audits Raises Questions about Neighborhood Business Works' Lending Practices

The Neighborhood Business Works Program provides financial assistance to small businesses through low-interest or deferred payment loans. These loans provide gap financing to borrowers that cannot raise sufficient capital through traditional lenders, and DHCD requires a minimum 50% match. In fiscal 2009, DHCD made 13 loans totaling \$3.3 million through the NBW program for projects valued at a total \$26.5 million, with additional applicants in the project pipeline.

The Office of Legislative Audits (OLA) completed a fiscal compliance audit of DHCD's programs and released its findings in March 2009. OLA raised concerns with regard to a defaulted NBW loan with a \$688,000 outstanding balance for which DHCD had not taken appropriate collection actions. The original loan was for \$385,000. DHCD subsequently made additional loans totaling \$378,000 to the same borrower so the borrower could pay operating expenses and avoid bankruptcy with other lenders. OLA's audit disclosed that DHCD did not perform a documented analysis to see if the second project was viable, although the borrower had already been delinquent for six months on the original loan. The borrower represented 24% of the total dollar amount of outstanding delinquent loans in the NBW portfolio at the time the audit was conducted. Furthermore, this was a repeat finding from a prior audit that commented on a similar delinquent loan for which OLA questioned the adequacy of DHCD's collection practices.

In its response to the OLA audit, DHCD indicated that it halted foreclosure proceedings because the holder of the superior lien would have taken all proceeds of a property sale, and DHCD does not have the statutory authority to pay off a superior lien if that holder does not intervene. DHCD further noted that "while on the surface it may seem prudent to deny additional funding to delinquent borrowers, the ability to modify loans is a very useful tool that allows projects to survive and eventually prosper that otherwise may fail.

The Department of Legislative Services recommends reducing the authorization for the NBW Program and restricting the remaining authorization pending a detailed report outlining the status of all delinquent or defaulted loans in the NBW portfolio.

Recommended Actions

SA24B Neighborhood Business Development Program..... \$ 5,591,000

Add the following language:

Neighborhood Business Development Program. Provide funds for grants and loans to fund community-based economic development activities in revitalization areas designated by local governments, provided that \$2,025,000 of this authorization may not be encumbered or expended until the Department of Housing and Community Development (DHCD) submits a report to the budget committees on delinquent loans in the Neighborhood Business Development Program (NBDP). The report shall include the status of all outstanding loans in the program’s portfolio including:

- (1) an accounting of all delinquent or defaulted loans incurred during the period covering July 1, 2005, through June 30, 2010;
- (2) the final outcome or current disposition of delinquent or defaulted loans including the number of days and amount delinquent and any amount written or charged off as uncollectible;
- (3) specific actions taken by DHCD to collect payment or restructure loans identified as delinquent or in default in the report; and
- (4) a summary of DHCD’s loan delinquent collection practices and procedures for the NBDP program.

Further provided that DHCD shall provide the budget committees with an annual report on all NBDP loans that are delinquent or in default for the five most recent fiscal years. The budget committees shall have 45 days from the date of receipt of the report to review and comment. The funds shall be administered in accordance with §§ 6-301 through 6-311 of the Housing and Community Development Article.

<u>Allowance</u>	<u>Change</u>	<u>Authorization</u>
7,616,000	-2,025,000	5,591,000

Explanation: A recent audit by the Office of Legislative Audits found that DHCD loaned funds through this program to a borrower that was already delinquent and did not perform a documented analysis on the viability of the second loan. This was a repeat finding from a prior audit. The above action restricts \$2 million in general obligation bonds until DHCD submits a report detailing the status of all delinquent or defaulted loans in the NBDP dating back five fiscal years. This action also reduces the authorized funding by \$2,025,000 which is half of the fiscal 2011 allowance.

S00 – Department of Housing and Community Development – Capital

Information Request	Author	Due Date
Report on delinquent and defaulted loans in the NBDP program and DHCD'S collection practices	DHCD	November 1, 2010, and annually thereafter

Fiscal 2010 Authorized Projects Status

<u>County</u>	<u>Project Name</u>	<u>Amount</u>
Baltimore City	Sewall Union Avenue, LLC	\$374,000
Subtotal – Grant/Loan Activity to Date		\$374,000
Applications Received		\$1,953,050
Grand Total		\$2,327,050

Partnership Rental Housing Program (Statewide)

General Obligation Bonds **\$6,000,000** **Recommendation:** **Reduce authorization by \$1,900,000 to make use of available fund balance**

Bill Text: Provide funds to be credited to the Partnership Rental Housing fund to be administered in accordance with § 4-501, 4-503, and 4-1201 through 4-1209 of the Housing and Community Development Article.

Program Description: The original Partnership Rental Housing Program provided deferred payment loans to local governments for rental housing construction and rehabilitation. The local governments provided the finished site including infrastructure. Chapter 117 of 2006 modified the program so that local governments have more flexibility in determining how their contribution is determined. Furthermore, the program now may provide financing to private developers as long as they agree to include a certain number of affordable rental units for disabled individuals in the project.

If the project is owned by a local government, loan repayment is not required as long as the local government housing authority owns the housing and rents it to families with incomes at 50% or less of the State’s median income. The loan amount generally is limited to \$75,000 per housing unit but under certain circumstances may be increased to \$85,000 per unit.

Comments: The fiscal 2011 allowance for the Partnership Rental Housing Program includes \$6.0 million in general obligation bonds. This is consistent with the amount programmed in the 2009 *Capital Improvement Program (CIP)*. The CIP anticipates funding will remain at this level through 2015.

Prior Authorization and Capital Improvement Program

**Authorization Request
(\$ in Millions)**

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
GO Bonds	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000
Total	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000

Fund Data

Authorization Summary (\$ in Millions)

<i>Fiscal Year</i>	<i>Authorization</i>	<i>Funds</i>		<i>Balances</i>	
		<i>Encumbered</i>	<i>Expended</i>	<i>To Be Encumbered</i>	<i>To Be Expended</i>
Prior Years	\$156.558	\$156.558	\$154.006	\$0.000	\$2.552
2006	6.000	6.000	4.665	0.000	1.335
2007	6.000	6.000	3.669	0.000	2.331
2008	8.000	7.625	5.016	0.375	2.984
2009	6.000	2.980	0.000	3.020	6.000
2010	6.000	0.000	0.000	6.000	6.000
Total	\$188.558	\$179.163	\$167.356	\$9.395	\$21.202

The agency should provide a status on projects for which expenditures are still yet to be booked as well as whether any of the older encumbrances for which expenditures have not taken place may now be deauthorized by the State.

Program Analysis and Performance

Program Performance Analysis: The Department of Housing and Community Development reports that the Partnership Rental Housing Program committed funding to 191 workforce/affordable housing units in fiscal 2009 through five projects for households whose incomes are below 50% of the median income for the project’s location. One of these projects created three units for disabled households with incomes at or below 30% of area median income.

Recommended Actions

SA25A Partnership Rental Housing Program \$ 4,100,000

Allowance
6,000,000

Change
-1,900,000

Authorization
4,100,000

Explanation: The Partnership Rental Housing Fund is estimated to have a fund balance of \$1,983,035 at the close of fiscal 2011. This reduces the general obligation authorization for this program in order to make use of available funds. The Governor is authorized to process a special fund budget amendment for \$1.9 million to make use of the fund balance in the Partnership Rental Housing Fund.

Fiscal Year 2010 Proposed Listings

<u>County</u>	<u>Project Name</u>	<u>Total Est. Project Cost</u>	<u>Prior Authorization</u>	<u>Fiscal 2010 Amount</u>	<u>Future Request</u>	<u>Total State Share</u>
Howard	Guilford Gardens	\$39,869,708	\$538,671	\$3,086,329	-	9%
St. Mary's	Greenview Village	7,053,052	-	-	-	0%
Baltimore City	Thompson 22	5,900,000	-	788,671	\$861,329	28%
Allegany	Frederick Street (aka Banneker)	5,500,000	-	2,125,000	-	39%
Total		\$58,322,760	\$538,671	\$6,000,000	\$861,329	

Fiscal Year 2011 Proposed Listings

<u>County</u>	<u>Project Name</u>	<u>Total Est. Project Cost</u>	<u>Prior Authorization</u>	<u>Fiscal 2010 Amount</u>	<u>Future Request</u>	<u>Total State Share</u>
Baltimore City	Thompson 22	\$5,900,000	\$788,671	\$861,329	-	28%
St. Mary's	Greenview Village	8,000,000	-	1,703,052	-	21%
Baltimore City	Disability Units – Bailey	8,000,000	-	2,580,619	\$1,019,381	45%
Wicomico	WCHA Scattered Sites			855,000	-	-
Total		\$21,900,000	\$788,671	\$6,000,000	\$1,019,381	36%

WCHA: Wicomico County Housing Authority

Fund Data

Fund History

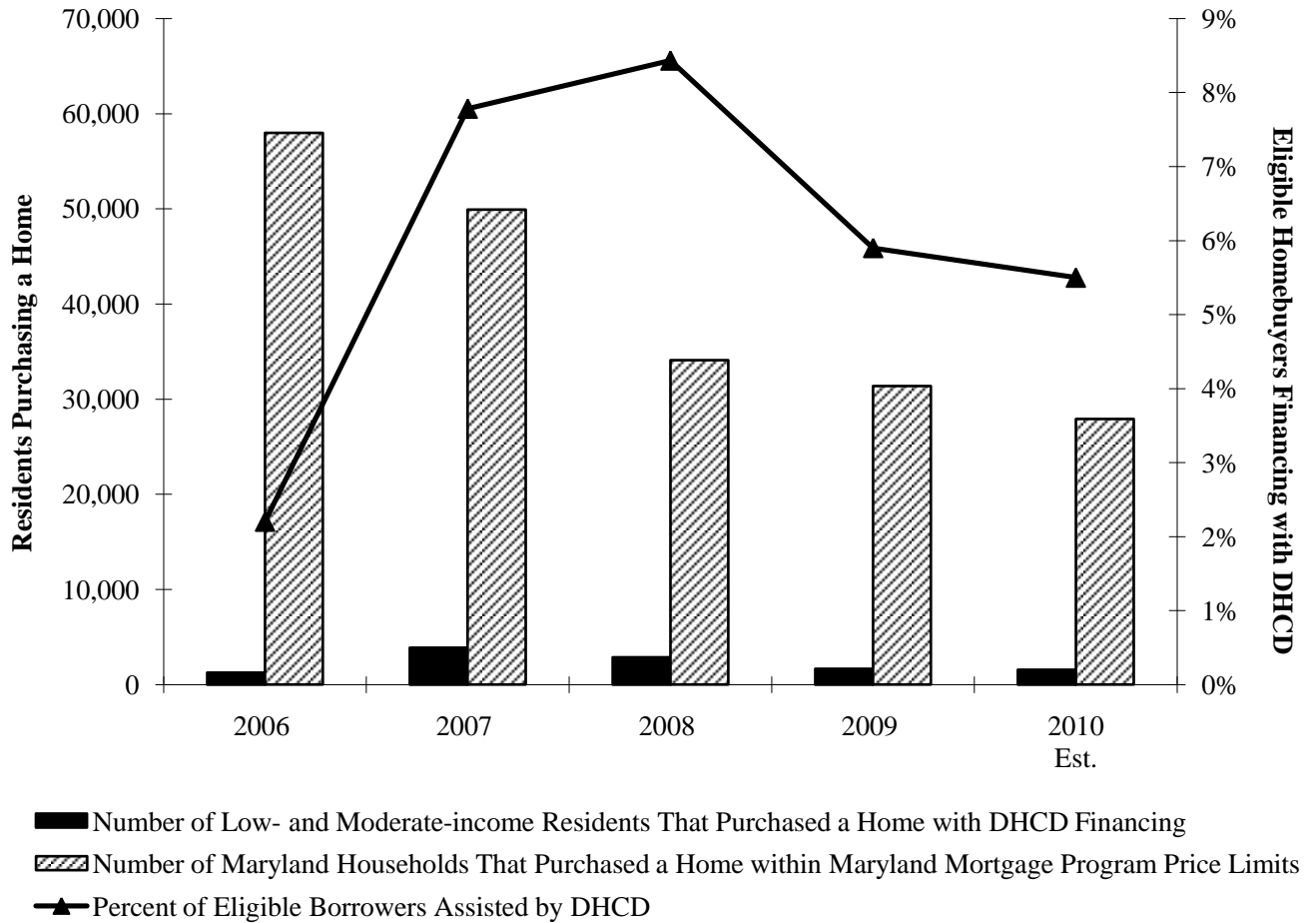
	<i>FY 2009 Actual</i>	<i>FY 2010 Estimated</i>	<i>FY 2011 Estimated</i>
Beginning Balance	\$1,583,353	\$72,670	\$1,892,670
Revenue			
GO Bonds	0	2,800,000	8,500,000
Transfer from/to Other Funds	2,050,000	0	-2,600,000
Transfer from Maryland Housing Fund	0	4,000,000	0
Federal Funds	0	0	0
Loan Repayments and Interest	4,705,572	4,900,000	5,100,000
General Fund Reversion	0	0	-3,000,000
Cancel Encumbrances	240,439	150,000	150,000
Total Revenue	6,996,011	11,850,000	8,150,000
Total Available	8,579,364	11,922,670	10,042,670
Encumbrances			
Grants and Loans*	7,009,440	8,500,000	8,500,000
Operating Expenses	1,497,254	1,530,000	1,530,000
Total Encumbrances	8,506,694	10,030,000	10,030,000
Ending Balance	\$72,670	\$1,892,670	\$12,670

*Loans made as of December 31, 2009.

Program Analysis and Performance

Program Performance Analysis: One of the Department of Housing and Community Development's (DHCD) 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 6** 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.

Exhibit 6
Low- and Moderate-income Homeownership Assistance
Fiscal 2006-2010



DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

Issues

1. Foreclosures Expose Revenues to Down Payment and Settlement Expense Program

The Down Payment and Settlement Expense Loan Program provides zero percent deferred loans to borrowers that do not have the resources for a down payment on a home. Although these loans are limited to \$3,500 per borrower, borrowers may also qualify for up to \$10,000 in additional down payment or closing cost assistance through DHCD's House Keys 4 Employees program. DSELP loans are paid back when the mortgage matures or the home is sold. This causes some unpredictability in loan repayments since the amortization of loans is based on anticipated home sale or mortgage maturity rather than routine, structured payments. DSELP loans are available to borrowers that purchase a home through the Community Development Administration's (CDA) Maryland Mortgage Program (MMP). This is a useful tool for borrowers that do not have funds for a down payment and increases their chances of qualifying for a home mortgage. Of 1,664 mortgages issued through the MMP in fiscal 2009, 931 were paired with DSELP loans valued at \$4.3 million.

CDA has experienced an increase in the number of foreclosures in the outstanding portfolio of single-family mortgages. Although CDA has not participated in the practice of subprime loans or other forms of predatory lending, it has been impacted by the overall decline in real estate prices as well as job losses, loss of borrower income, and the economic recession. While the increase is consistent with market trends in the U.S. and Maryland and the CDA foreclosure rate has been lower than what has been experienced in the private market, it has nonetheless exposed the DSELP program to potential losses. When a CDA borrower forecloses on their home, the DSELP loan is forwarded to the Maryland Central Collections Unit (CCU) to collect the debt. The CCU will, in turn, set up a payment plan for the borrower of between 5 and 20 years.

Foreclosure is not necessarily indicative that a DSELP loan will be written off. DHCD advises that only 17 DSELP loans have been written off in the last 10 years. From 2002 to 2007, only 10 MMP foreclosures per year were tied to a DSELP loan. However, that number jumped to 41 in 2008 and 182 in 2009. This may impact the loan repayment schedule for the Homeownership Programs Fund and raises questions over potential losses to the program.

The agency should comment on actions being taken to minimize losses in the Homeownership Programs as a result of DSELP loans tied to foreclosures.

Recommended Actions

GO Bond Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2010 Authorized Projects Status

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Maryland Home Financing Program		
Disabled Borrowers		
Baltimore	1 Individual Loan	\$56,120
Baltimore City	Individual Loans	77,542
Frederick	1 Individual Loan	31,712
Prince George’s	1 Individual Loan	99,433
Washington	Individual Loans	164,840
Subtotal Encumbered – Disabled Borrowers		\$429,647
Ground Rent Reduction		
Baltimore	1 Individual Loan	\$1,660
Baltimore City	1 Individual Loan	2,072
Subtotal Encumbered – Ground Rent Reduction		\$3,732
Bridge to HOPE		
Frederick	1 Individual Loan	\$15,000
Washington	1 Individual Loan	8,660
Subtotal Encumbered – Bridge to HOPE		\$23,660
Subtotal Encumbered – MHFP		\$457,039
Downpayment Settlement Expense Loan Program (DSELP)		
Allegany	Individual Loan(s)	\$92,000
Anne Arundel	Individual Loan(s)	19,000
Baltimore	Individual Loan(s)	125,500
Baltimore City	Individual Loan(s)	1,768,900
Calvert	Individual Loan(s)	5,000
Cecil	Individual Loan(s)	11,000
Charles	Individual Loan(s)	123,000
Frederick	Individual Loan(s)	70,000
Harford	Individual Loan(s)	89,500
Howard	Individual Loan(s)	15,500
Montgomery	Individual Loan(s)	25,000
Prince George’s	Individual Loan(s)	790,500
St. Mary’s	Individual Loan(s)	32,000

S00 – Department of Housing and Community Development – Capital

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Talbot	Individual Loan(s)	10,000
Washington	Individual Loan(s)	158,500
Wicomico	Individual Loan(s)	40,000
Subtotal Encumbered – DSELP		\$3,375,400
Total Encumbered		\$3,832,439
Reserved but Not Yet Encumbered		
Statewide	Disabled Borrowers	\$442,303
Statewide	DSELP	771,200
Subtotal – Reserved but Not Yet Encumbered		\$1,213,503
Total – Program Activity		\$5,045,942

Shelter and Transitional Housing Facilities Grant Program (Statewide)

General Obligation Bonds **\$2,000,000** **Recommendation: Approve**

Bill Text: Provide grants to acquire, design, construct, renovate, and equip facilities for homeless individuals and families. The funds shall be administered in accordance with the Code of Maryland Regulations (COMAR) 05.05.09.

Program Description: The Shelter and Transitional Housing Facilities Grant Program provides grants to local governments and nonprofit organizations to develop emergency shelters and transitional housing for homeless individuals and families. Funding is generally limited to 50% of a project’s costs but in exceptional cases may be as high as 75%.

Comments: The \$2.0 million general obligation bond request for fiscal 2011 is \$500,000 greater than the level programmed in the 2009 *Capital Improvement Program*. Currently, there are two proposed projects for fiscal 2010 totaling \$1.5 million. Requests for fiscal 2011 include five projects totaling \$2.0 million with another \$2.5 million in future years. In addition to these projects, there are four other projects in the pipeline with total projected future costs of \$3.0 million

Prior Authorization and Capital Improvement Program

Authorization Request (\$ in Millions)

<i>Description</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Request</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
GO Bonds	\$1.500	\$1.500	\$2.000	\$1.500	\$1.500	\$1.500	\$1.500
Total	\$1.500	\$1.500	\$2.000	\$1.500	\$1.500	\$1.500	\$1.500

Authorization Encumbrance and Expenditure Data

Authorization Summary (\$ in Millions)

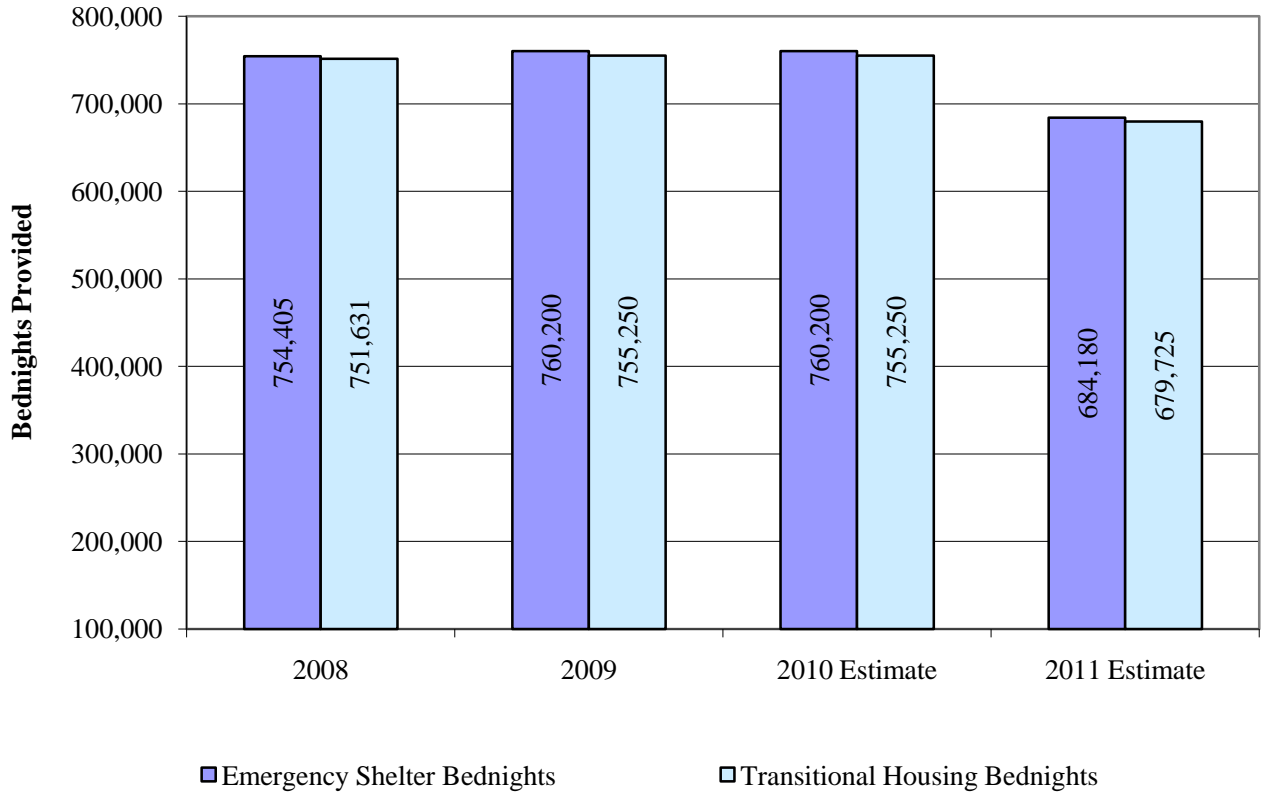
<i>Fiscal Year</i>	<i>Authorization</i>	<i>Funds</i>		<i>Balances</i>	
		<i>Encumbered</i>	<i>Expended</i>	<i>To Be Encumbered</i>	<i>To Be Expended</i>
Prior Years	\$14.950	\$14.950	\$14.950	0.000	0.000
2006	1.000	1.000	1.000	0.000	0.000
2007	1.000	1.000	1.000	0.000	0.000
2008	1.000	1.000	0.664	0.000	0.336
2009	1.500	1.500	0.704	0.000	0.796
2010	1.500	0.000	0.000	1.500	1.500
Total	\$20.950	\$19.450	\$18.318	\$1.500	\$2.632

Program Analysis and Performance

Program Performance Analysis: The program produced housing and shelter for 45 households in fiscal 2009. The number of beds produced is counted at the conclusion of a project. This number may vary significantly depending upon the units contained in each project. As a result, there may be wide swings in the bed count number from year to year.

The Department of Housing and Community Development Shelter and Transitional Housing program is one of the public and private funding sources for homeless services in Maryland. **Exhibit 7** shows the total number of emergency shelter and transitional housing bednights provided to the homeless statewide for facilities that receive State funds.

Exhibit 7
Shelter and Transitional Housing Provided for the Homeless Statewide
Fiscal 2008-2010



Note: Information is based on reported data and surveys from local jurisdictions. Includes services provided by organizations that do not receive financial assistance from the Department of Human Resources or the Department of Housing and Community Development.

Source: Department of Human Resources

Recommended Actions

GO Bond Recommended Actions

1. Concur with Governor's allowance.

Fiscal Year 2010 Proposed Listings

<u>County</u>	<u>Project Name</u>	<u>Total Est. Project Cost</u>	<u>Prior Authorization</u>	<u>Fiscal 2010 Amount</u>	<u>Future Request</u>	<u>Total State Share</u>
Anne Arundel	Light House	\$8,500,000	\$614,148	\$600,000	-	7%
Montgomery	Cordell Homes	8,914,148	-	900,000	-	10%
Total		\$17,414,148	\$614,148	\$1,500,000	-	9%

Fiscal Year 2011 Proposed Listings

<u>County</u>	<u>Project Name</u>	<u>Total Est. Project Cost</u>	<u>Prior Authorization</u>	<u>Fiscal 2011 Amount</u>	<u>Future Request</u>	<u>Total State Share</u>
Baltimore City	Dayspring Programs	\$3,125,000	-	\$1,000,000	-	32%
Baltimore City	House of Freedom III	1,800,000	-		\$800,000	44%
Baltimore City	Project PLASE Vets Transitional	6,900,000	-	100,000	900,000	14%
Queen Anne's	Queen Anne's County Coalition Emergency Shelter	1,600,000	-	10,000	790,000	50%
Washington	Way Station Homeless Vets	3,290,000	-	890,000	-	27%
Total		\$16,715,000		\$2,000,000	\$2,490,000	27%

**Department of Housing and Community Development
Shelter and Transitional Housing Facilities Grant Program
Activity Levels as of December 31, 2009**

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Anne Arundel	Annapolis Area Ministries	\$1,214,148
Montgomery	Cordell Homes	900,000
Subtotal Encumbered – Affordable Rental Housing		\$2,114,148
Reserved But Not Yet Encumbered		\$0
Grand Total – Encumbered/Reserved		\$2,114,148