Department of Housing and Community Development – Capital

Capital Budget Summary

Grant and Loan Programs
($ in Millions)

	FY 2012 Approp.	*FY 2013 Approp.*	*FY 2014 Allowance*	*Percent Change*	*DLS Recommd.*
Homeownership Programs	$10.500	$10.400	$8.500	-18.3%	$8.500
Rental Housing Programs	21.400	47.175	51.125	8.4%	46.125
Special Loan Program	10.400	10.400	10.400	0.0%	10.400
Neighborhood Business Development	4.700	18.250	4.350	-76.2%	2.850
MD BRAC Preservation Fund	4.000	4.000	2.250	-43.8%	2.250
Community Development Block Grant Program	12.500	10.300	10.000	-2.9%	10.000
Community Legacy Program	4.250	6.000	6.000	0.0%	6.000
Partnership Rental Housing Program	6.000	6.000	6.000	0.0%	6.000
Shelter and Transitional Housing Facilities Grant Program	2.000	2.000	1.500	-25.0%	1.500
Strategic Demolition and Smart Growth Impact Project Fund	0.000	2.500	7.500	200.0%	5.000
Total	**$75.750**	**$117.025**	**$107.625**	**-8.0%**	**$98.625**

BRAC: Base Realignment and Closure

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Summary of Issues

Neighborhood Business Development Experiencing Difficulty Encumbering Funds and Collecting Payments: The Department of Housing and Community Development (DHCD) has yet to fully encumber funds from the fiscal 2011 appropriation for Neighborhood Business Development and has not encumbered any funds from the fiscal 2012 and 2013 appropriations, although planned activity is currently in the process of approval. The program is also currently experiencing difficulty collecting payments on prior loans, and the department expects loan repayments to decrease by $800,000 in fiscal 2014 due to forbearance, interest-only payments, and reduced loan activity. **DHCD should discuss the amount of outstanding unencumbered funds and estimates for losses on outstanding loans. The Department of Legislative Services (DLS) recommends reducing the general obligation (GO) bond appropriation by $1,500,000, based on the amount of available unencumbered funds from prior fiscal years.**

One-time GO Bond Funding for New Capital Programs Continues into Fiscal 2014: The fiscal 2013 budget provided $17.5 million in GO bond funds for a new rental housing initiative referred to as Rental Housing Works. Although programmed as a one-time enhancement, the fiscal 2014 budget proposed by the Governor seeks to extend the initiative for an additional year with a proposed $25.0 million GO bond authorization. The funding is expected to significantly increase the amount of affordable housing units going to initial closing. **The department should comment on applications to Rental Housing Works for fiscal 2014, the estimated number of units of affordable housing that will go to initial closing in fiscal 2014 with funding for Rental Housing Works above the fiscal 2013 appropriation, and the ongoing need for State funding of the program beyond fiscal 2014. DLS recommends reducing the GO bond appropriation for Rental Housing Works by $5.0 million. The prior fiscal year appropriation was $17.5 million, and a $5.0 million reduction to the fiscal 2014 allowance would allow for a more gradual increase in the new program that was anticipated to be funded on a one-time basis.**

The Strategic Demolition and Smart Growth Impact Project Fund received $2.5 million in GO bonds in what had been billed as one-time funding for fiscal 2013. The fiscal 2014 allowance includes an additional one-time grant of $7.5 million in GO bonds for fiscal 2014. The department will determine fiscal 2014 projects based on applications to be received. As such, the current *Capital Improvement Program* (CIP) represents a total of $10.0 million in GO funding for a total of $13.4 million of applications received to date with no encumbrances made. **Given the limited basis for evaluating the efficacy and demand for the program, DLS recommends reducing the appropriation for the Strategic Demolition and Smart Growth Impact Project Fund by $2.5 million for a total fiscal 2014 appropriation of $5.0 million in GO bonds.**

Both the Smart Growth Impact Fund and the Rental Housing Works Program were billed as one-time appropriations in the CIP. Given their presence in the fiscal 2014 allowance, consideration should be given to converting funding from GO bonds to general funds in future years of the CIP to reduce the expenses of private activity GO bonds to the State. **DHCD should comment on the feasibility of using general funds for Rental Housing Works and the Smart Growth Impact Fund in future years of the CIP, if demand for the programs continues.**

Maryland Base Realignment and Closure Preservation Loan Program Receives No Applications in Fiscal 2012: Only two loans have closed to date. The department has indicated that it recently has allocated significant staff time to community and borrower outreach for the program. As a result, DHCD expects a gradual increase in demand, starting in fiscal 2014. DHCD's current target is two loans per year. The department expects to award two loans collectively valued at $2.25 million in fiscal 2014. Future years are currently budgeted at $2.25 million as well. **DHCD should discuss its newly devoted staff resources and marketing plan for the Base Realignment and Closure Fund.**

Summary of Recommended PAYGO Actions

1. Neighborhood Business Development – Capital Appropriation

   Concur with Governor's allowance for the Neighborhood Business Development and the Community Development Block Grant Program.

2. Rental Housing Programs – Capital Appropriation

   Concur with Governor's allowance for Rental Housing Programs.

3. Homeownership Programs – Capital Appropriation

   Concur with Governor's allowance for Homeownership Programs.

4. Special Loan Programs – Capital Appropriation

   Concur with Governor's allowance for Special Loan Programs.

5. Maryland BRAC Preservation Loan Fund – Capital

   Concur with Governor's allowance for the Maryland Base Realignment and Closure Preservation Loan Fund.

Summary of Recommended Bond Actions

		Funds
1.	Community Legacy Program	
	Approve funding for the Community Legacy Program.	
2.	Neighborhood Business Development Program	$1,500,000 GO
	Reduce the general obligation (GO) bond appropriation of the Neighborhood Business Development Program by $1.5 million. The program has prior authorized unencumbered GO bond funds as well as special fund capital appropriations available to support loan activity in fiscal 2014.	
3.	Strategic Demolition and Smart Growth Impact Project Fund	2,500,000 GO
	Reduce the general obligation bond appropriation for the Strategic Demolition and Smart Growth Impact Project Fund by $2,500,000.	
4.	Partnership Rental Housing Programs	
	Approve funding for the Partnership Rental Housing Program.	
5.	Homeownership Programs	
	Approve funding for Homeownership Programs.	
6.	Shelter and Transitional Housing Facilities Grant Program	
	Approve funding for the Shelter and Transitional Housing Facilities Grant Program.	
7.	Rental Housing Programs	5,000,000 GO
	Reduce the general obligation bond appropriation for Rental Housing Works by $5,000,000.	
	Total Reductions	**$9,000,000**

Program Description

The Department of Housing and Community Development (DHCD) has two programmatic units: the Division of Neighborhood Revitalization and the Division of Development Finance. The Division of Neighborhood Revitalization provides technical and financial assistance to stabilize and revitalize existing neighborhoods. The programs include:

- **Community Development Block Grant Program:** This program provides competitive federally funded grants to local governments in non-entitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and/or improving community facilities and services. Non-entitlement areas are mainly rural areas of the State. Entitlement areas receive a direct allocation from the U.S. Department of Housing and Urban Development and are not eligible for the State program.

- **Community Legacy Program:** This program provides financing to assist with the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. These neighborhoods are responsible for implementing a revitalization strategy that will reposition the community for new private investment. Funds may be used for capital improvements such as streetscape and façade improvements, recreational amenities, improvement of community gathering places, and other improvements to improve the desirability of the community.

- **Neighborhood Business Development Program:** The program, also known as Neighborhood BusinessWorks, provides grants and loans for community-based economic development activities in revitalization areas designated by local governments. The program provides gap financing to small businesses that are unable to finance 100% of a project's total costs through a traditional lender.

- **Strategic Demolition and Smart Growth Impact Project Fund (Smart Growth Impact Fund):** This fund provides grants to local governments, nonprofit organizations, and private entities for redevelopment and revitalization projects in sustainable communities, Base Realignment and Closure (BRAC) Revitalization and Incentive Zones, transit-oriented developments (TOD), and areas recommended by PlanMaryland for revitalization and growth.

The Division of Development Finance provides programs to promote rental housing or homeownership opportunities for the elderly, the disabled, or people with limited income. These programs include:

- **Rental Housing Programs:** These programs rehabilitate and create new affordable housing for low- to moderate-income individuals, families, and elderly residents, or special needs populations. Low-interest loans or deferred-payment loans are provided to housing developers for the financing of affordable housing developments.

- **Special Loans Programs:** These programs provide loans or grants for abatement of lead hazards; rehabilitation or installation of indoor plumbing; rehabilitation to create accessory, shared and sheltered housing facilities; rehabilitation to eliminate health, safety, and maintenance deficiencies in residential properties; and acquisition, construction, and modifications of group homes for low-income, elderly, handicapped, disabled, or others with special housing needs.

- **Homeownership Programs:** These programs provide mortgage loans with minimum down payments to low- and moderate-income families. Programs include the Down Payment and Settlement Expense Loan Program (DSELP), which provides funds for down payment and settlement expenses, as well as the Maryland Home Financing Program, which makes direct loans to households to purchase homes.

- **Partnership Rental Housing Program:** This program provides deferred payment loans or grants to local governments or housing authorities to construct or rehabilitate rental housing for low-income families. In 2007, the program was expanded to enable private and nonprofit borrowers to access financing for the creation of housing for persons with disabilities.

- **Shelter and Transitional Housing Facilities Grant Program:** This program provides grants to local governments and nonprofit organizations to develop emergency shelters and transitional housing for homeless individuals and families.

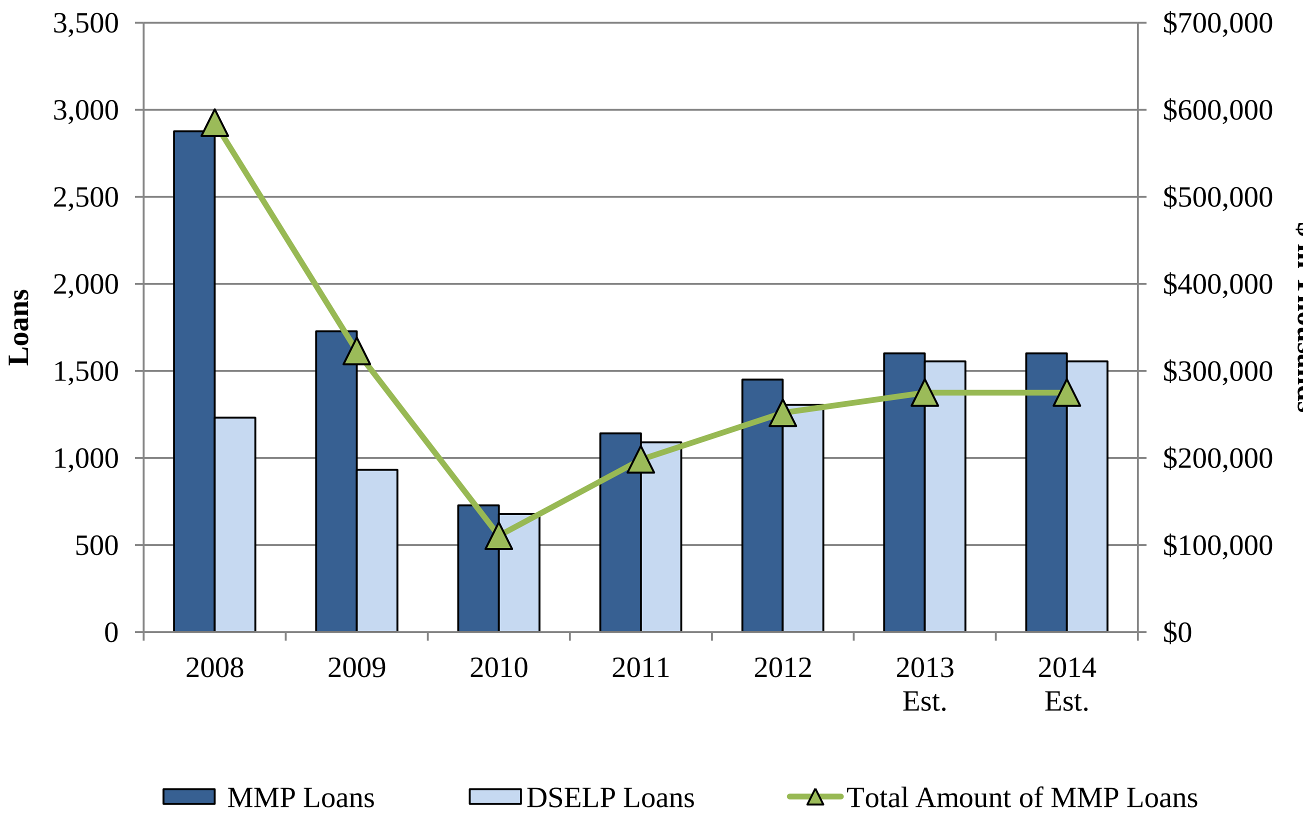
- **Maryland BRAC Preservation Loan Fund:** This fund provides loans and other financial assistance to public and private developers to preserve affordable multi-family rental housing in jurisdictions affected by the federal BRAC process.

Program Performance Measures and Outputs

Homeownership Assistance

One of DHCD’s main objectives is to help low- and moderate-income residents purchase homes. Over the last several years, DHCD’s Maryland Mortgage Program (MMP) and the DSELP have helped a significant share of the market it strives to serve, although considerable volatility in the housing market has limited its impact. **Exhibit 1** shows the substantial decline in the total number of MMP and DSELP loans provided from fiscal 2008 through 2010 during the recession and amid the turmoil in the housing market. In fiscal 2012 and 2013, the number of MMP and DSELP loans awarded increased, consistent with a slowly recovering real estate market. In fiscal 2012, DSELP loans proved to be a primary driver of potential borrowers engaging in an MMP loan. As Exhibit 1 depicts, the volumes of MMP and DSELP have converged, and in fiscal 2012, 97.2% of MMP loans used DSELP.

Exhibit 1
Homeownership Assistance
Fiscal 2008-2014



DSELP: Down Payment and Settlement Expense Loan Program
MMP: Maryland Mortgage Program

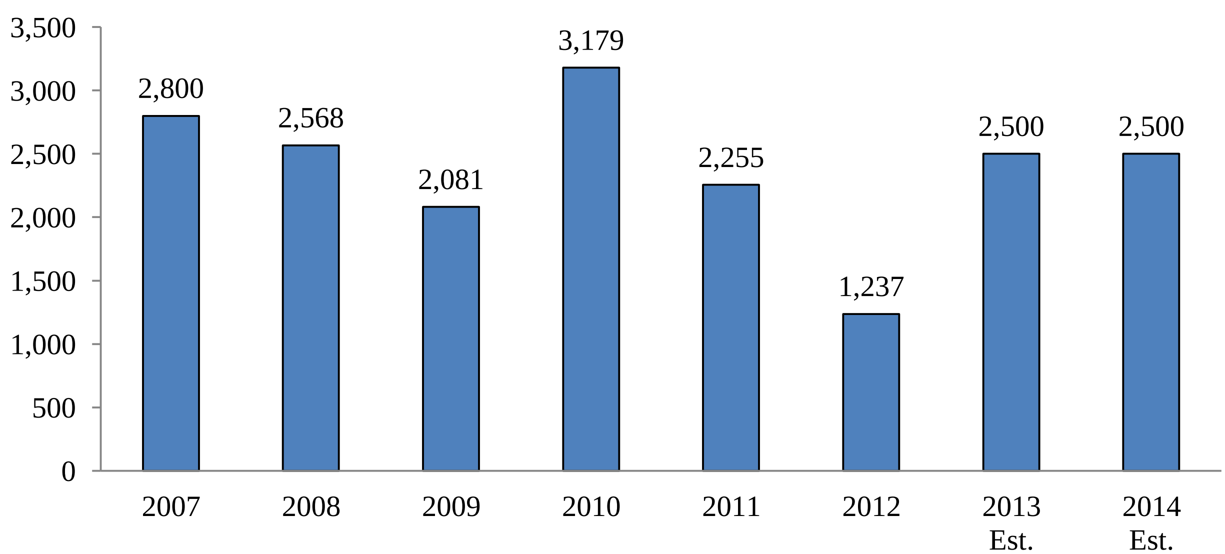
Source: Department of Housing and Community Development

Rental Housing

Another DHCD goal is to expand decent, affordable rental housing in Maryland in response to a growing shortage of affordable rental units that the agency projects. 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 or preserve existing rental housing.

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 2**, unit production has fluctuated since fiscal 2007. In fiscal 2010, production increased by more than 50%, as a result of two federal American Recovery and Reinvestment Act of 2009 (ARRA) programs that fueled production that year. Production decreased in fiscal 2011 and 2012 because the ARRA funds were exhausted. DHCD expects the volume to increase in fiscal 2013 and 2014 based on current projects funded by Rental Housing Works. In fiscal 2013, DHCD received $17.5 million on general obligation (GO) bonds and expects to fund nine acquisition and rehabilitation projects as well as seven new multi-family projects that will provide 1,450 affordable housing units, representing an amount slightly greater than the difference between fiscal 2012 and the estimates for fiscal 2013 and 2014.

Exhibit 2
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2007-2014

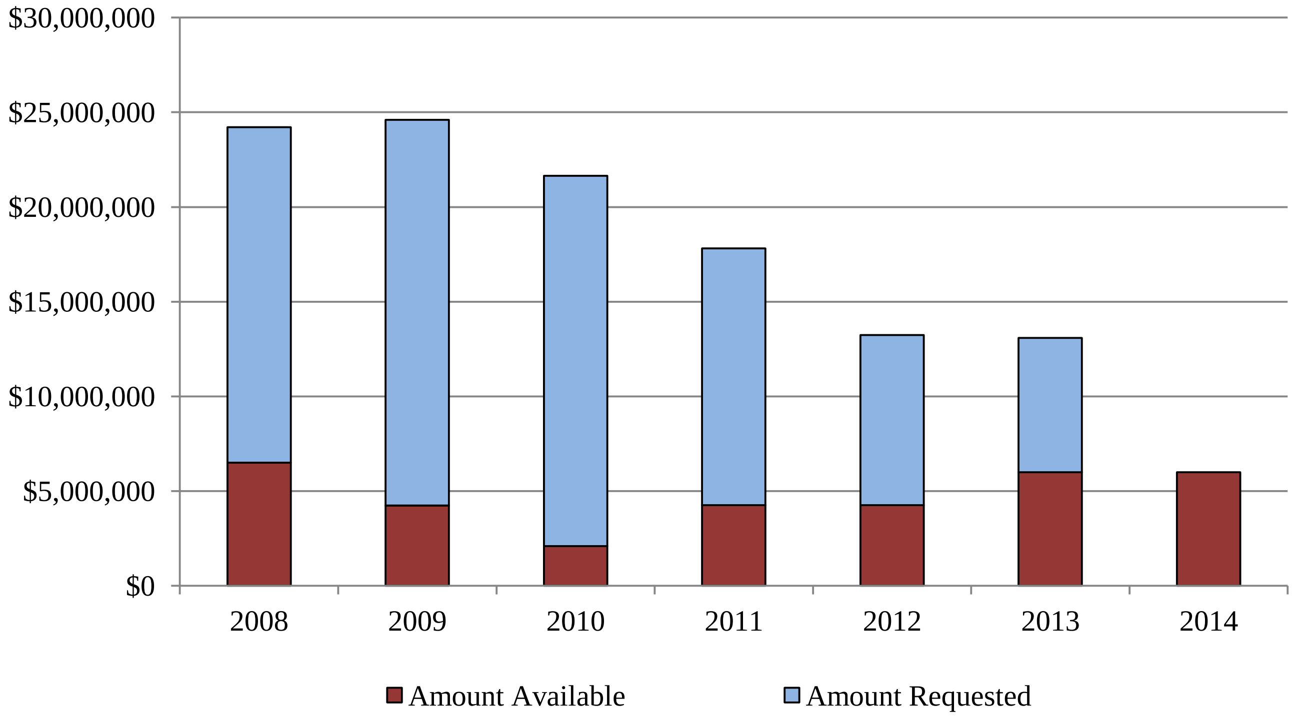


Source: Department of Housing and Community Development

Neighborhood Revitalization

DHCD's Division of Neighborhood Revitalization provides local communities, nonprofits, community development organizations, and small businesses with resources to leverage investment to stabilize and revitalize neighborhoods. The Community Legacy Program is one such effort. It provides funding to local governments and community development organizations to partially fund projects such as mixed use developments, streetscape and façade improvements, business retention and expansion, and increasing homeownership and rehabilitation. As shown in **Exhibit 3**, demand for Community Legacy Funding typically exceeds available resources. Demand, as measured by the amounts requested in applications, in both fiscal 2012 and 2013 was approximately $13 million. With a $6 million amount available in 2013, this meant that DHCD was able to award the highest percentage of the total amount requested in at least six years, with 46.0% of the total amount requested funded, compared to 32.0% in the prior fiscal year and a low of 9.7% in fiscal 2010.

Exhibit 3
Demand and Available Resources for the Community Legacy Program
Fiscal 2008-2014



Note: Demand for funding is based on the amount of funding requested through the competitive grant process. This data is not yet available for fiscal 2014. A reversion in fiscal 2009 required the department to roll encumbrances forward into fiscal 2010, allowing only $2.1 million for new projects.

Source: Department of Housing and Community Development

Capital Improvement Program

Grant and Loan Capital Improvement Program
($ in Millions)

Program	*2012 Approp.*	*2013 Approp.*	*2014 Request*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*	*2018 Estimate*
Homeownership Programs	$10.500	$10.400	$8.500	$8.500	$8.500	$8.500	$8.500
Rental Housing Programs	21.400	47.175	51.125	26.125	21.500	21.500	21.500
Special Loan Program	10.400	10.400	10.400	10.400	10.400	10.400	10.400
Neighborhood Business Development	4.700	18.250	4.350	4.250	4.250	4.250	4.250
MD BRAC Preservation Fund	4.000	4.000	2.250	2.250	2.250	2.250	2.250
Community Development Block Grant Program	12.500	10.300	10.000	10.000	$10.000	10.000	10.000
Community Legacy Program	4.250	6.000	6.000	6.000	$6.000	6.000	6.000
Partnership Rental Housing Program	6.000	6.000	6.000	6.000	6.000	6.000	6.000
Shelter and Transitional Housing Facilities Grant Program	2.000	2.000	1.500	1.500	1.500	1.500	1.500
Strategic Demolition and Smart Growth Impact Project Fund	0.000	2.500	7.500	0.000	0.000	0.000	0.000
Total	**$75.750**	**$117.025**	**$107.625**	**$75.025**	**$70.400**	**$70.400**	**$70.400**

BRAC: Base Realignment and Closure

Fund Source	*2012 Approp.*	*2013 Approp.*	*2014 Request*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*	*2018 Estimate*
PAYGO SF	$22.500	$40.375	$25.425	$26.125	$22.600	$23.500	$24.500
PAYGO FF	23.900	25.400	19.00	19.000	19.000	19.000	19.000
Nonbudgeted	0.000	0.000	0.490	0.000	0.000	0.000	0.000
GO Bonds	29.350	51.250	62.710	29.900	28.800	27.900	26.900
Total	**$75.750**	**$117.025**	**$107.625**	**$75.025**	**$70.400**	**$70.400**	**$70.400**

Budget Overview

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. In addition, DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration. **Exhibit 4** provides information on DHCD's total operating and capital spending, including all funding sources, some of which are nonbudgeted.

The department is centered around three key goals:

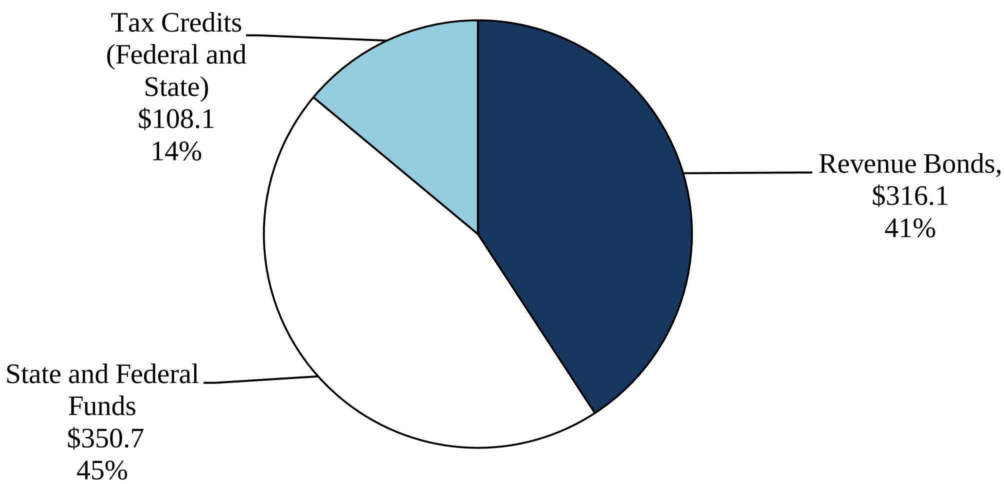
- **Homeownership:** As shown in Exhibit 4, about 40% of the agency's expenditures were incurred in fiscal 2012 to promote homeownership. Those who meet certain income criteria can access loans with zero interest rates for down payment and settlement expenses to buy homes. Exhibit 4 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, are a significant part of the agency's funding.

- **Affordable Rental Housing:** As shown in Exhibit 4, 56% of the agency's expenditures went toward developing affordable rental housing. Nonprofits and for-profit developers and owners may 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 $108 million of equity in fiscal 2012) 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.

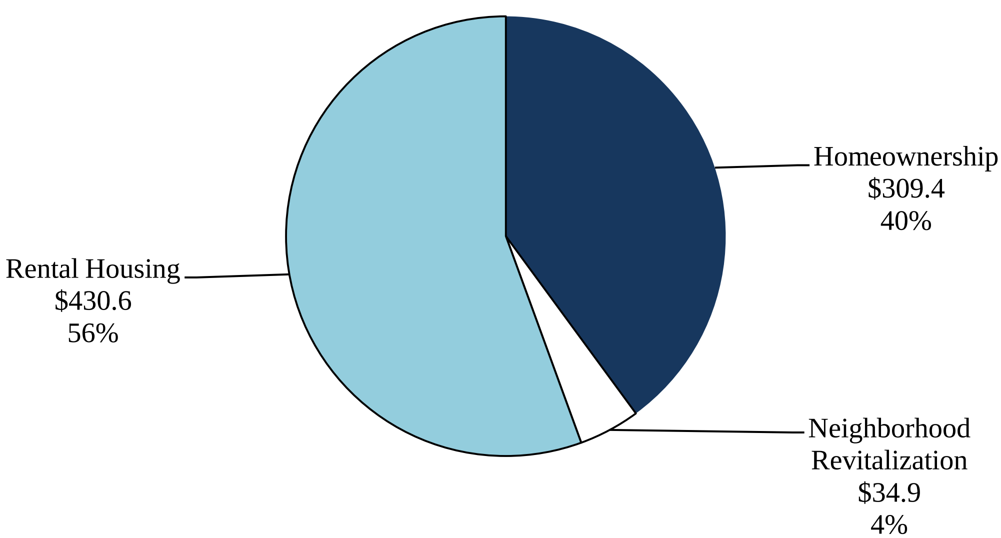
- **Neighborhood Revitalization:** As shown in Exhibit 4, about 4% of the agency's expenditure was for neighborhood revitalization related activities. Local governments, community development nonprofits, businesses, and others involved in improving communities may access grants, below-market loans, and technical assistance and training. Funds are used for projects such as streetscape and facade improvements, recreational amenities, and improvement of public spaces.

Exhibit 4
Sources and Uses of DHCD's Operating and Capital Budgets
Includes Budgeted and Nonbudgeted Sources
Fiscal 2012 Total = $774.9 Million
($ in Millions)

Sources of Funding



Use of Funding

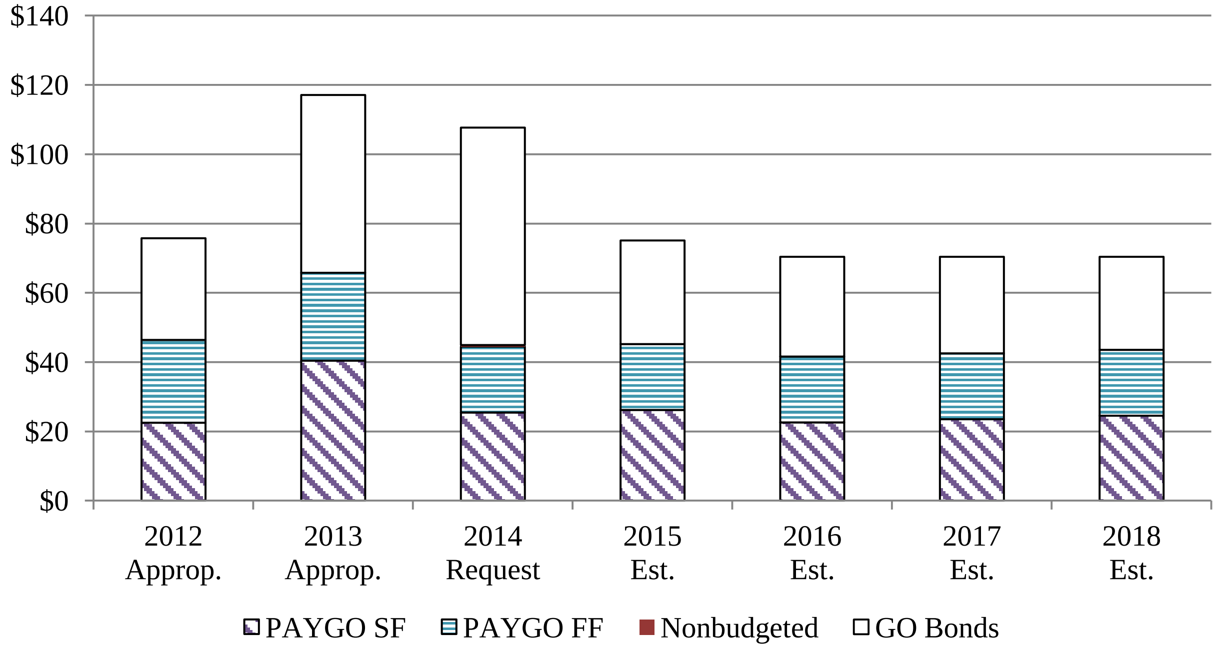


DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

In fiscal 2014 through 2018, the 2013 *Capital Improvement Program* (CIP) provides a total $393.85 million in State-sourced funding. **Exhibit 5** provides funding by year and by source over the next five years.

Exhibit 5
DHCD State-appropriated Capital Funding
($ in Millions)



DHCD: Department of Housing and Community Development
GO: general obligation bonds
PAYGO: pay-as-you-go

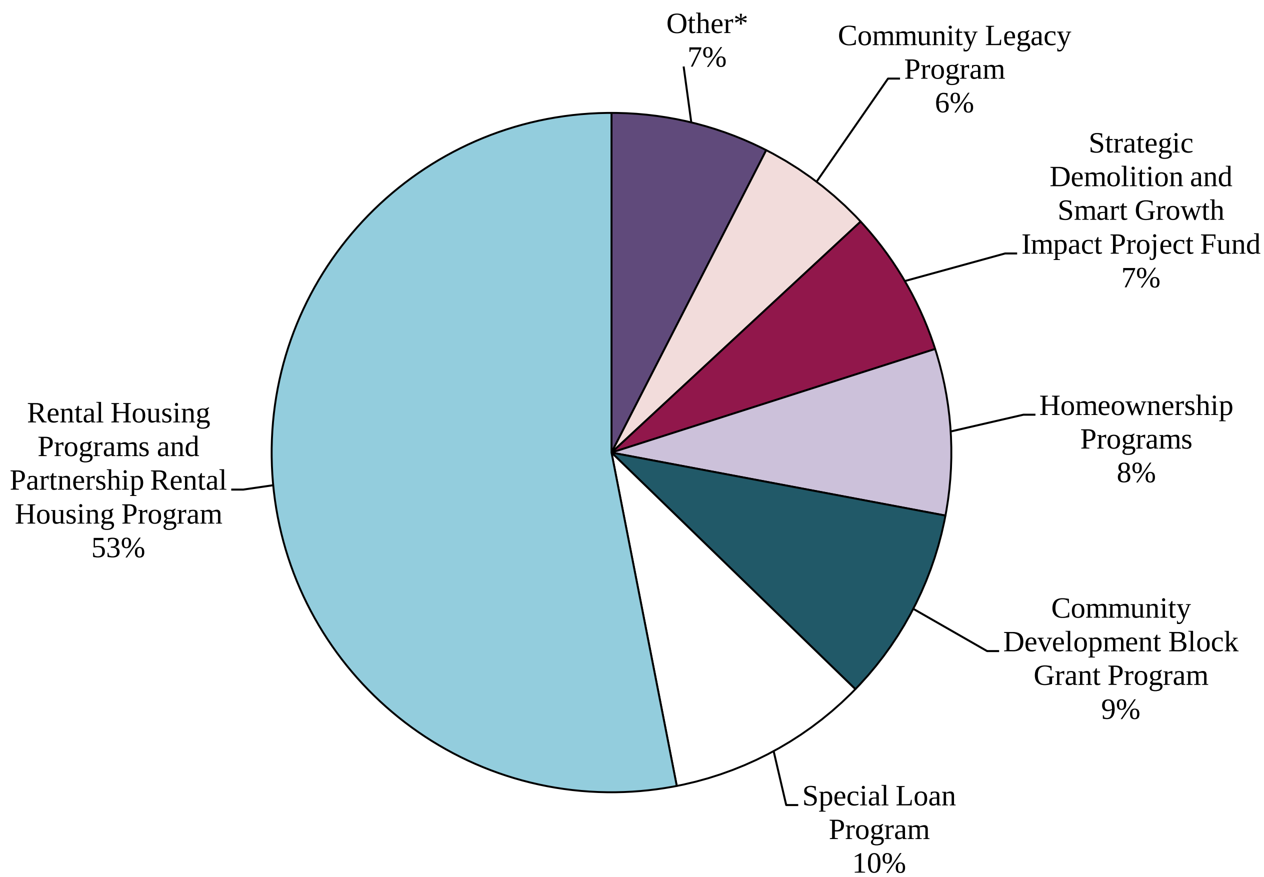
Note: Excludes revenue bonds issued by the Community Development Administration.

Source: Department of Housing and Community Development

DHCD receives $107.6 million of capital funding from all State-sourced funds in fiscal 2014. This is a decrease of $9.4 million from fiscal 2013 due to the one-time $14.0 million award to the Neighborhood Business Development Program from the Mortgage Loan Servicing Practices Settlement Fund in fiscal 2013. Two increases come from a $5.0 million increase in the Strategic Demolition and Smart Growth Impact Project Fund and a $3.95 million increase in Rental Housing Programs, partially offset by a decrease in the MD BRAC Preservation Fund of $1.75 million, a $1.9 million decrease in Homeownership Programs, and a $500,000 decrease in the Shelter and Transitional Housing Facilities Grant Program.

Exhibit 6 provides a summary of the funding by program. This chart does not include revenue bonds issued by CDA, which provide a significant source of funding for DHCD's single family and multi-family mortgage programs. Since the issuance of these bonds is based on demand for the mortgage programs, there is no estimate at this time of revenue bond issuances in fiscal 2014.

Exhibit 6
State-sourced Capital Funding by Program
Fiscal 2014



*Other: Shelter and Transitional Housing Facilities Grant Program, the Maryland Base Realignment and Closure Preservation Loan Fund, and the Neighborhood Business Development Program

Source: Department of Housing and Community Development

Changes by Program

DHCD's capital budget includes 10 programs. The following provides a discussion of each program where significant changes are taking place.

Strategic Demolition and Smart Growth Impact Fund

The Smart Growth Impact Fund received $2.5 million in GO bonds in what had been billed as one-time funding for fiscal 2013. The fiscal 2014 allowance includes an additional one-time grant of $7.5 million in GO bonds for fiscal 2014.

Homeownership Programs

Consistent with the 2012 session CIP, federal funding ends in fiscal 2014 with the end of funding from the Energy Efficiency and Conservation Block Grant (EECBG). Fiscal 2014 GO bonds decrease by $400,000 relative to fiscal 2013, and special funds increase by $400,000, both also in accordance with the 2012 session CIP.

Rental Housing Programs

The fiscal 2014 budget includes $25.0 million in GO bonds above the planned CIP due to continued funding for the new Rental Housing Works program. The $25.0 million in GO bonds represents a $7.5 million increase of the amount appropriated in the 2012 session CIP for fiscal 2013. This brings the total appropriation for Rental Housing Programs up from $47.175 million in fiscal 2013 to $51.125 million in fiscal 2014. The current CIP, however, does not include Rental Housing Works after fiscal 2014 and, therefore, fiscal 2015 drops significantly to only $21.5 million, with no GO bonds.

Special funds increase relative to the 2012 session CIP for fiscal 2014, due to a $4.625 million grant from EmPower MD. The grant will be used to fund 100% of the cost of energy audits and energy-efficiency upgrades to households in rental housing earning 200% or less of the federal poverty income.

In accordance with the 2012 session CIP, federal funds drop in fiscal 2014 to $6.0 million from $10.2 million in fiscal 2013 due to the end of funding from the EECBG.

Neighborhood Business Development Program

Projected loan repayments continue to decline due to forbearance, interest-only payments and reduced loan activity. The department expects loan repayments to decrease by $800,000 in fiscal 2014. This decrease is partially funded by $490,000 in nonbudgeted funds the department will receive in fiscal 2014 to administer the State Small Business Credit Initiative. As a result, GO bond funding increases by $410,000 above the 2012 session CIP plan for fiscal 2014.

The fiscal 2013 appropriation also increased by $14 million via a budget amendment approved in January 2013 from funds available from the Mortgage Loan Servicing Practices Settlement Fund. The fund consists of monies from a significant national settlement that was announced in February 2012 between 49 states and the District of Columbia (Oklahoma was not a party to the settlement) and the nation's five largest mortgage servicers: Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, and Ally Bank (formerly GMAC). The settlement was based on mortgage loan servicing and foreclosure practices utilized by those mortgage servicers. The $14 million in the Neighborhood Business Development Program will be used for capital grants and awarded based on a collaborative review process between the Office of the Attorney General and DHCD. A request for proposal has been issued by DHCD.

The $14 million will be awarded under a program known as the Neighborhood Conservation Initiative (NCI). The eligible uses for NCI funding are:

- down payment and closing cost assistance for income-eligible homebuyers to acquire houses as their primary residence (capped at $20,000 per homebuyer);
- acquisition and rehabilitation of houses for resale or rental to income eligible persons;
- acquisition and redevelopment of blighted or abandoned properties to be used for new housing or community facilities; and
- other innovative strategies that demonstrate significant funding leverage and potential to stabilize local neighborhood housing markets.

All housing activities must benefit persons at or below 120% of the area median income established annually by the Department of Housing and Urban Development for each county. All beneficiaries must be income qualified.

MD BRAC Preservation Fund

The MD BRAC Preservation Fund has taken longer than anticipated to secure required local partnerships to fully capitalize the fund. The department expects to award two loans collectively valued at $2.25 million in fiscal 2014. This amount is $2.75 million less than the 2012 session CIP anticipated. In order to match the expected loans with the CIP, the allowance in the CIP is, therefore, reduced by $2.75 million to a $2.25 million special fund authorization for fiscal 2014.

Shelter and Transitional Housing Facilities Grant Program

The fiscal 2014 appropriation decreases by $500,000 in GO bonds, in accordance with the 2012 session CIP. In conjunction with the fiscal 2013 appropriation of $2.0 million and the fiscal 2014 allowance of $1.5 million, DHCD will be able to fund four projects in the project pipeline for a total cost of $3.2 million. In fiscal 2012, the program funded one transitional housing and emergency shelter facility, House of Freedom II, which is currently under construction and includes 150 transitional housing units for homeless veterans with mental illness and substance addictions.

Special Loan Programs

In accordance with the 2012 session CIP, special revenues from loan repayments increase by $300,000, and the GO bond appropriation decreases by the equivalent amount in fiscal 2014.

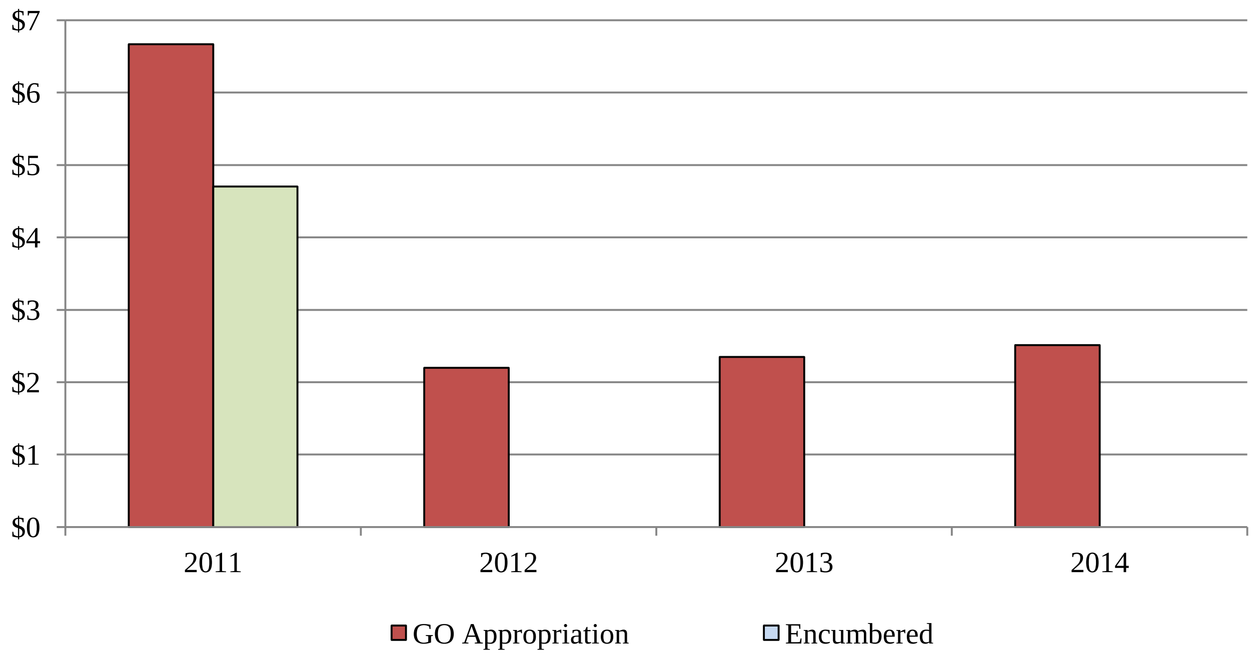
Issues

1. Neighborhood Business Development Experiencing Difficulty Encumbering Funds and Collecting Payments

Neighborhood Business Development provides grants and loans for community-based economic development activities in revitalization areas designated by local governments. The program provides gap financing to small businesses that are unable to finance 100% of a project's total costs through a traditional lender.

As **Exhibit 7** shows, as of December 31, 2012, DHCD has not encumbered funds for Neighborhood Business Development appropriations beyond the fiscal 2011 appropriation.

Exhibit 7
General Obligation Bond Appropriations vs. Encumbrances
Fiscal 2011-2014
($ in Millions)



GO: general obligation

Source: Department of Housing and Community Development

Planned activity by fiscal year includes:

- **2011:** DHCD is still in the process of encumbering funds from the 2011 appropriation. There is approximately $2.0 million of unencumbered funds from the 2011 appropriation. DHCD is waiting for Board of Public Works approval for six loans totaling $948,426. Additionally, four loans totaling $1.2 million will be encumbered using GO bonds, with $161,833 applied toward fiscal 2012 funds.

- **2012:** DHCD is waiting for commitment letters for four loans totaling $1.75 million to apply toward the fiscal 2012 appropriation, which would leave approximately $290,000 unencumbered.

- **2013:** For the fiscal 2013 GO appropriation, DHCD has a current pipeline of $1.645 million in projects, which would leave approximately $700,000 unencumbered.

- **2014:** Projects will be determined based on future applications received by DHCD.

In addition to unencumbered funds reaching back several fiscal years, the program is currently experiencing difficulties in collecting payments on prior loans. Projected loan repayments continue to decline due to increased delinquencies and loss mitigation efforts, such as loan forbearance and interest-only payments. The department expects loan repayments to decrease by $800,000 in fiscal 2014 and requested an additional $800,000 in GO bonds to maintain program activity levels. The allowance is instead partially funded in fiscal 2014 by $490,000 in nonbudgeted funds that the department will receive to administer the State Small Business Credit Initiative. As a result, GO bond funding increases by $410,000 above the 2012 session CIP plan for fiscal 2014.

DHCD should discuss the amount of outstanding unencumbered funds and estimates for losses on outstanding loans.

The Department of Legislative Services (DLS) recommends reducing the GO bond appropriation by $1,500,000, based on the amount of outstanding unencumbered funds from prior fiscal years.

2. One-time GO Bond Funding for New Capital Programs Continues into Fiscal 2014

The 2012 CIP included funding for two new programs, the Rental Housing Works program and the Strategic Demolition and Smart Growth Fund. These capital programs received $20 million in GO bonds in what had been billed as one-time funding for fiscal 2013. Both receive greater funding in fiscal 2014 which the 2013 CIP suggests will not continue beyond fiscal 2014.

Rental Housing Works

DHCD finances multi-family housing developments using the federal Low Income Housing Tax Credit (LIHTC) program and CDA revenue bonds which support the construction and rehabilitation of affordable rental units. LIHTCs are awarded to projects in accordance with the Internal Revenue Code and developers sell these credits to investors to raise equity for the construction of affordable rental housing. In exchange for the tax credits, developers agree to income and rent restrictions for a minimum of 30 years. Loans for these projects are funded using the proceeds of tax-exempt revenue bonds, a plentiful resource, and/or State appropriations.

During the housing and economic crisis, the ability to sell LIHTC tax credits to raise project equity significantly decreased. In 2007 and early 2008, the sale of $1 million worth of LIHTC could generate $9 million to $10 million in equity for developers. In late 2008 through 2010, the value of those LIHTC tax credits had dropped to roughly $7 million, providing developers with less equity to fund their projects. The value of the tax credits dropped because they are used by corporations as tax credits against profits that have been lower during the recession and because the most common category of LIHTCs (4%) are reduced in value by the Internal Revenue Service when interest rates on Treasury Bonds decrease.

The ARRA provided $117.9 million in Maryland for one-time funds to assist developers with financing affordable rental housing since less funding was available from the sale of LIHTC tax credits. With this money, DHCD financed 28 affordable rental housing developments statewide.

Starting in fiscal 2013, despite ongoing strong demand for the production of affordable rental housing units, funding through ARRA programs ended and was exhausted. To help offset the loss of federal funds through the ARRA, the fiscal 2013 capital budget included funding for the new Rental Housing Works program, designed to leverage the Multifamily Revenue Bond Program, by combining this resource with GO bonds. The program is intended to fuel the production of affordable rental housing by providing a source of gap financing to enable development projects to move forward and start construction using the Multifamily Revenue Bond Program.

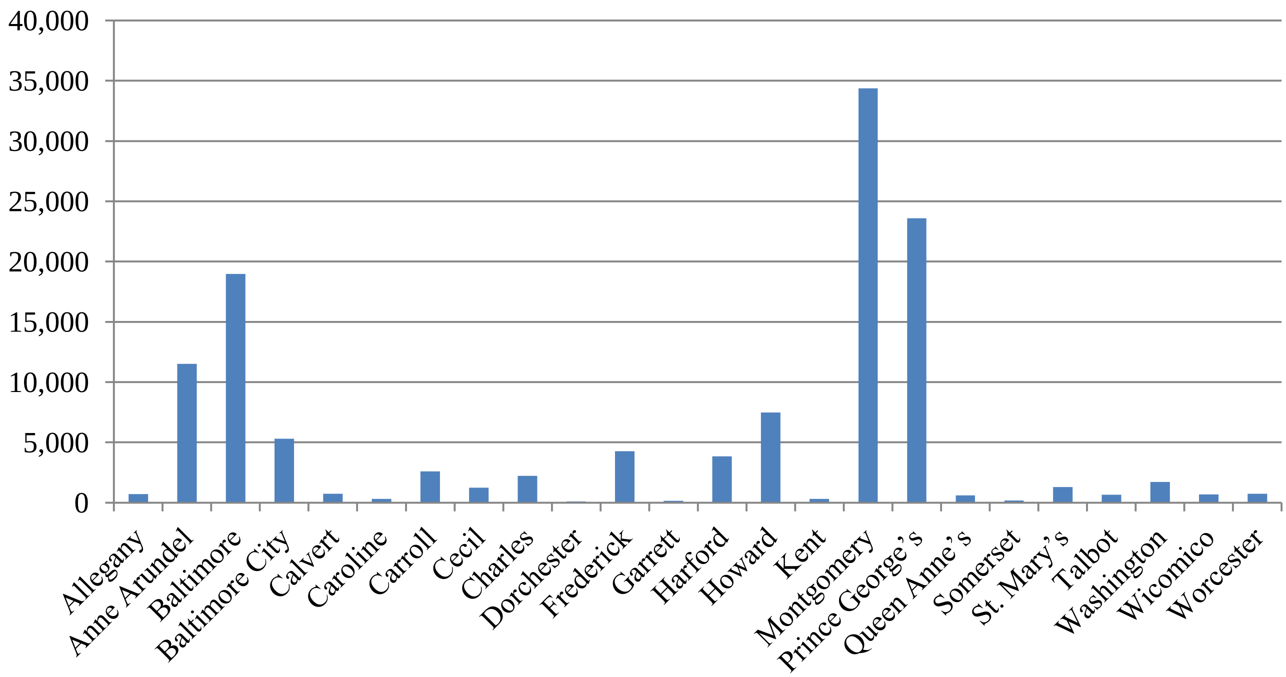
Some developers who have received bond financing through DHCD's Multifamily Revenue Bond Program may still not have enough financing to move a project forward, even with the LIHTC. The Rental Housing Works program provides gap financing to such developers, including for-profit, nonprofit, and government entities.

DHCD originally estimated that given $15.0 million in one-time funding in fiscal 2013, it would be able to finance approximately 1,700 units of rental housing and leverage $300.0 million in private investment. DHCD was allocated $17.5 million in GO bonds for fiscal 2013, and now expects to fund nine acquisition and rehabilitation projects and seven new construction projects. Together, these projects are expected to provide 1,450 affordable housing units at a total cost of approximately $231.0 million. Five of the 16 projects will provide housing for senior citizens, 10 are multi-family projects, and 1 includes both senior and multi-family units.

The effect of Rental Housing Works on the number of affordable rental housing units going to initial closing is rather large. As shown in Exhibit 2, in fiscal 2010, 3,179 units went to initial closing, a peak due to federal funding. This declined to 1,237 units in 2012. With the 1,450 units from Rental Housing Works in fiscal 2013, DHCD expects the number of units going to initial close to increase from 1,237 in fiscal 2012 to 2,500 in fiscal 2013.

Exhibit 8 depicts the shortage of housing by county of over 120,000 units, with a total shortage across the State between calendar 2013 and 2015.

Exhibit 8
Net Shortage of Affordable and Available Rental Housing
Units by County
Calendar 2013-2015



Source: Department of Housing and Community Development

The department should comment on applications to Rental Housing Works for fiscal 2014, the estimated number of units of affordable housing that will go to initial closing in fiscal 2014 with funding for Rental Housing Works above the fiscal 2013 appropriation, and the ongoing need for State funding of the program beyond fiscal 2014.

DLS recommends reducing the GO bond appropriation for Rental Housing Works by $5.0 million. The prior fiscal year appropriation was $17.5 million, and a $5.0 million reduction to the fiscal 2014 allowance would allow for a more gradual increase in the new program that was anticipated to be funded on a one-time basis.

Strategic Demolition and Smart Growth Impact Project Fund

The Strategic Demolition and Smart Growth Impact Project Fund (Smart Growth Impact Fund) provides funding to government agencies, nonprofit organizations, and private entities for demolition, land assembly, housing development or redevelopment, and revitalization projects in areas designated a Sustainable Community, a BRAC Revitalization and Incentive Zone, or a TOD area. The fund will also support areas designated for revitalization under the PlanMaryland initiative.

Smart Growth Impact Funds partner with Community Development Financial Institutions (CDFI) that will add additional financial capital and financing options to critical revitalization projects. Eligible applicants for funds include public-private partnerships that comprise two or more of the following and in which the lead entity is a local government or nonprofit development entity:

- local government and their government-supported economic development authorities;
- community development corporations and CDFIs;
- groups of local governments sharing a common purpose or goal;
- private developers and financial institutions; and
- civic institutions such as universities or hospitals.

DHCD received applications for 30 smart growth projects totaling $13.4 million in September 2012. **Exhibit 9** breaks out the types of projects that DHCD received applications for with the total sum of the amounts requested and the total project costs.

The Smart Growth Impact Fund received $2.5 million in GO bonds in what had been billed as one-time funding for fiscal 2013. The fiscal 2014 allowance includes an additional one-time grant of $7.5 million in GO bonds for fiscal 2014. The department will determine fiscal 2014 projects based on applications to be received. As such, the current CIP represents a total of $10.0 million in GO funding for a total of $13.4 million of applications received to date with no encumbrances made.

Exhibit 9
Smart Growth Impact Fund Applications
Fiscal 2013

Project Type	Amount Requested	Total Project Cost
Acquisition and Site Improvements	$242,650	$2,614,264
Architectural & Engineering (A&E) Designs	314,850	3,061,000
A&E Designs, Acquisition	250,000	1,195,000
A&E Designs, Infrastructure Improvements	433,940	433,940
Building, Site Assembly	2,868,250	89,920,000
Building, Site Assembly, A&E Designs	500,000	5,000,000
A&E Designs, Site Development, Demolition, and Acquisition	475,000	4,437,000
Demolition	2,025,000	36,620,243
Demolition, Design, and Building	4,831,000	170,505,542
Infrastructure Improvements	500,000	510,000
Site Acquisition	500,000	27,900,000
Site Development	500,000	12,346,253
Total	**$13,440,690**	**$354,543,242**

Source: Department of Housing and Community Development

Given the limited basis for evaluating the efficacy and demand for the program, DLS recommends reducing the appropriation for the Strategic Demolition and Smart Growth Impact Project Fund by $2.5 million for a total fiscal 2014 appropriation of $5.0 million in GO bonds.

The Use of GO Bond Funds for Private Activity Should Be Discontinued

Both the Smart Growth Impact Fund and the Rental Housing Works Program were billed as one-time appropriations in the CIP. Given their presence in the fiscal 2014 allowance, consideration should be given to converting funding from GO bonds to general funds in future years of the CIP. Much of the GO bonds issued by DHCD, including all of the funds for both the Smart Growth Fund and Rental Housing Programs, are related to private activities. Continuing to authorize private activity projects throughout the State will result in additional taxable bond authorizations and add to the increasing shortfall in the Annuity Bond Fund, especially in the out-years, as the additional costs for issuing taxable debt are likely to increase. Despite the fact that the fiscal 2014 allowance has the lowest structural deficit since before the Great Recession began, private activity authorizations increased – the highest level in years – at a time when funding for the related programs should instead be shifting back to general funds. The same is true here for DHCD and Rental Housing Works and the Smart Growth Impact Project Fund.

DHCD should comment on the feasibility of using general funds for Rental Housing Works and the Smart Growth Impact Fund in future years of the CIP, if demand for the programs continues.

3. Maryland Base Realignment and Closure Preservation Loan Program Receives No Applications in Fiscal 2012

In fiscal 2010, the department received $4 million from the John D. and Catherine T. MacArthur Foundation to preserve affordable rental housing in counties impacted by the federal BRAC process. The award was seed money for a program to make loans in jurisdictions directly impacted by BRAC and the potential 25,000 households which may come to those jurisdictions.

The loans are intended to be short-term (12 to 24 months) to help preserve affordable housing in areas impacted by BRAC. The loans are repaid through long-term financing made available through DHCD and its partners. But the aim is to commit funding within 30 days of the receipt of a complete application and close loans within 60 days, so as to facilitate a quick decisionmaking process to preserve affordable housing. All loans must be approved by both DHCD and the county in which the project is located. Loans are capped at $1.5 million.

The first $2.0 million of the MacArthur award was appropriated in fiscal 2010, and the State provided a match using $2.4 million in available special funds from Section 8 Contract Administration fees collected in prior years. In fiscal 2012, the foundation released $1.0 million in funding. The remaining $1.0 million was held until all of the local matches were committed. The fund has now obtained a sufficient number of matches, and DHCD expects the remaining $1.0 million to be released in fiscal 2013 to fully capitalize the loan fund at $8.0 million. Match commitments have been obtained from Anne Arundel, Baltimore, Cecil, Frederick, Harford, and Howard counties.

Only two loans have closed to date. The department has indicated that it recently has allocated significant staff time to community and borrower outreach for the program. As a result, DHCD expects a gradual increase in demand, starting in fiscal 2014. DHCD's current target is two loans per year. The department expects to award two loans collectively valued at $2.25 million in fiscal 2014. Future years are currently budgeted at $2.25 million as well.

DHCD should discuss its newly devoted staff resources and marketing plan for the BRAC Fund.

PAYGO Recommended Actions

1. Concur with Governor's allowance for the Neighborhood Business Development and the Community Development Block Grant Program.

2. Concur with Governor's allowance for Rental Housing Programs.

3. Concur with Governor's allowance for Homeownership Programs.

4. Concur with Governor's allowance for Special Loan Programs.

5. Concur with Governor's allowance for the Maryland Base Realignment and Closure Preservation Loan Fund.

GO Bond Recommended Actions

1. Approve funding for the Community Legacy Program.

2. Reduce the general obligation (GO) bond appropriation of the Neighborhood Business Development Program by $1.5 million. The program has prior authorized unencumbered GO bond funds as well as special fund capital appropriations available to support loan activity in fiscal 2014.

SA24B	Neighborhood Business Development Program	$ 1,010,000

Allowance	**Change**	**Authorization**
2,510,000	-1,500,000	1,010,000

Explanation: The program has outstanding unencumbered funds from appropriations in fiscal 2011, 2012, and 2013.

3. Reduce the general obligation bond appropriation for the Strategic Demolition and Smart Growth Impact Project Fund by $2,500,000.

SA24C	Strategic Demolition and Smart Growth Impact Project Fund	$ 5,000,000

Allowance	**Change**	**Authorization**
7,500,000	-2,500,000	5,000,000

Explanation: There is a limited basis for evaluating the efficacy and demand for the program, with no awards having been made in the fund as of December 31, 2012. A $2,500,000 reduction will result in a doubling of the appropriation over the prior fiscal year, instead of a tripling, and will result in a more gradual implementation and development of this new program.

4. Approve funding for the Partnership Rental Housing Program.

5. Approve funding for Homeownership Programs.

6. Approve funding for the Shelter and Transitional Housing Facilities Grant.

7. Reduce the general obligation bond appropriation for Rental Housing Works by $5,000,000.

SA25E	Rental Housing Programs	$ 20,000,000

Allowance	**Change**	**Authorization**
25,000,000	-5,000,000	20,000,000

Explanation: Reduce the general obligation bond appropriation for Rental Housing Works by $5,000,000. The prior fiscal year appropriation was $17,500,000, and a $5,000,000 reduction of the fiscal 2014 appropriation would allow for a more gradual increase in the new program that was anticipated to be funded on a one-time basis.

Total General Obligation Bonds Reduction	**$9,000,000**