

S00A
Department of Housing and Community Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,940	\$3,710	\$10,653	\$6,943	187.1%
Adjusted General Fund	\$1,940	\$3,710	\$10,653	\$6,943	187.1%
Special Fund	46,135	60,390	70,997	10,607	17.6%
Contingent & Back of Bill Reductions	0	0	-266	-266	
Adjusted Special Fund	\$46,135	\$60,390	\$70,732	\$10,341	17.1%
Federal Fund	239,381	251,693	246,423	-5,270	-2.1%
Contingent & Back of Bill Reductions	0	0	-78	-78	
Adjusted Federal Fund	\$239,381	\$251,693	\$246,346	-\$5,347	-2.1%
Reimbursable Fund	488	525	525	0	
Adjusted Reimbursable Fund	\$488	\$525	\$525	\$0	0.0%
Adjusted Grand Total	\$287,944	\$316,318	\$328,255	\$11,937	3.8%

- The fiscal 2015 allowance grows by \$11.9 million, or 3.8%, across all funds.
- General funds increase by 187.1% over the current year working appropriation due to \$5.9 million in expenses related to the agency's headquarters move to New Carrollton and a \$1.0 million increase in the funding for Emergency Solutions Grant.
- Special funds increase by \$10.3 million, largely due to an increase in funds from EmPOWER and the Consumer Investment Fund.
- Federal funds decrease by \$5.2 million in the fiscal 2015 allowance compared to the current year working appropriation. The largest decrease is a \$3.5 million reduction in U.S. Department of Energy Weatherization Assistance Program funding.

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

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	316.00	337.00	341.00	4.00
Contractual FTEs	<u>85.50</u>	<u>89.50</u>	<u>71.50</u>	<u>-18.00</u>
Total Personnel	401.50	426.50	412.50	-14.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	18.54	5.50%
Positions and Percentage Vacant as of 12/31/13	27.00	8.01%

- Regular positions increase by 4.0 positions in the fiscal 2015 allowance compared to the current year working appropriation due to contractual conversions. Additionally, the Department of Housing and Community Development (DHCD) added 10.0 positions outside the “Rule of 100” in fiscal 2014, paid for entirely by special funds. The positions must be abolished when the special funds are no longer available – in this case the funding is from the Consumer Investment Fund, which is scheduled to be available only in fiscal 2015 and 2016.
- In addition to the 4.0 contractual conversions, DHCD reduced its contractual full-time equivalents by a further 14.0 positions, for a total reduction of 18.0 contractual positions.
- The fiscal 2015 allowance includes a turnover rate of 5.5%, which would require the department to keep 18.54 regular positions vacant for the entire year. There were 27.0 vacant positions as of December 31, 2013.

Analysis in Brief

Major Trends

Homeownership Assistance on the Rise: Since a collapse of Maryland Mortgage Program and Down Payment and Settlement Expense Loan Program loans in fiscal 2008 through 2010, those programs have seen a steady increase in loan activity.

More Affordable Rental Units Produced: In fiscal 2013, production of affordable rental units increased by 74.5%, with another large increase in production expected in fiscal 2014.

Increase in Small Business Assistance, Job Creation: DHCD also does work at the community level, with assistance going to nonprofit and community-based organizations, local governments, and small businesses. In fiscal 2013, the department provided assistance to 198 small businesses, leading to the creation or retention of 977 jobs.

Issues

Headquarters Move Paid with General Funds, Planned for April 2015: Site preparation for DHCD's new facility in New Carrollton is underway, with the move of DHCD headquarters planned for April 2015. DHCD will incur significant one-time costs associated with the move, totaling \$5.9 million in general funds in the fiscal 2015 allowance. **The Department of Legislative Services (DLS) recommends deleting \$5,942,839 in general funds to be used for the department's relocation and for authorizing the agency to use special and federal funds for this purpose. DLS also recommends reducing \$305,013 in special and federal funds, which represents the final two months of rent to be paid to the Department of General Services in fiscal 2015.**

Mortgage Settlement Fund and Foreclosure Rates in Maryland: In November 2013, a national mortgage and foreclosure tracker reported that Maryland ranked third in the nation in the rate of foreclosures, with a 10% increase in foreclosure activity in October 2013. However, the spike in the foreclosure rate was expected as a result of changes made by the State to assist homeowners. Fiscal 2015 is the final year in which the State will receive funds from the national attorneys general settlement, with the fiscal 2015 allowance including \$3.35 million, down from \$5.0 million in the current year working appropriation. **DHCD should comment on the level of foreclosures in the State and the department's efforts to aid homeowners in their efforts to avoid foreclosures.**

Large Influx of Funds to Energy Programs: DHCD has recently received huge influxes of funding for energy efficiency programs in the last few years from two new sources: EmPOWER and the Consumer Investment Fund. More than \$25 million from these two sources is included in the fiscal 2015 allowance. **DHCD should comment on its ability to expend its EmPOWER funds and the impact the Low Income Energy Efficiency Program has had on EmPOWER's energy consumption reduction goals. DHCD should comment on the progress of the Targeted,**

Enhanced Weatherization Program and explain its reasoning for hiring permanent staff for a program with short-term funding.

Section 8 Administration Contract Award Dispute: A legal dispute over how the U.S. Department of Housing and Urban Development (HUD) awarded contracts for the administration of its Section 8 project-based assistance program could impact the amount of fees DHCD receives for administering the program in Maryland. **DHCD should comment on the HUD dispute and how it may impact the department's operations.**

Recommended Actions

	<u>Funds</u>
1. Delete general funds for the headquarters' move.	\$ 5,942,839
2. Reduce rent paid to the Department of General Services at the current location.	305,013
Total Reductions	\$ 6,247,852

S00A
Department of Housing and Community Development

Operating Budget Analysis

Program Description

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

- **Affordable Rental Housing:** As shown in **Exhibit 1**, 62.8% of the agency's expenditures in fiscal 2013 went toward developing affordable rental housing. Nonprofits and for-profit developers and owners may access tax credits and below-market rate 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 (which generated \$108 million of equity in fiscal 2013) are a crucial part of the financing for these projects. The loans are funded with State-appropriated rental housing funds, federal Home Investment Partnership Program funds, and the proceeds of tax-exempt and taxable bonds.

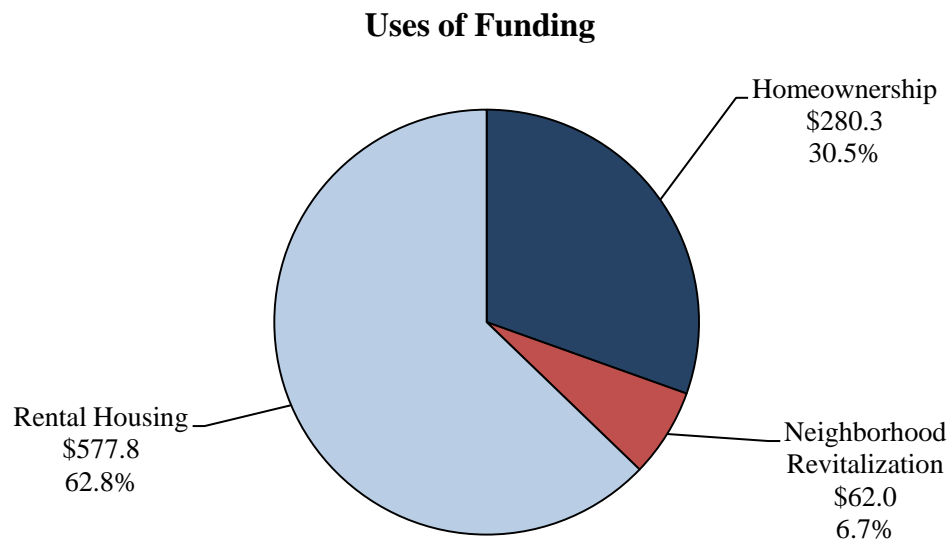
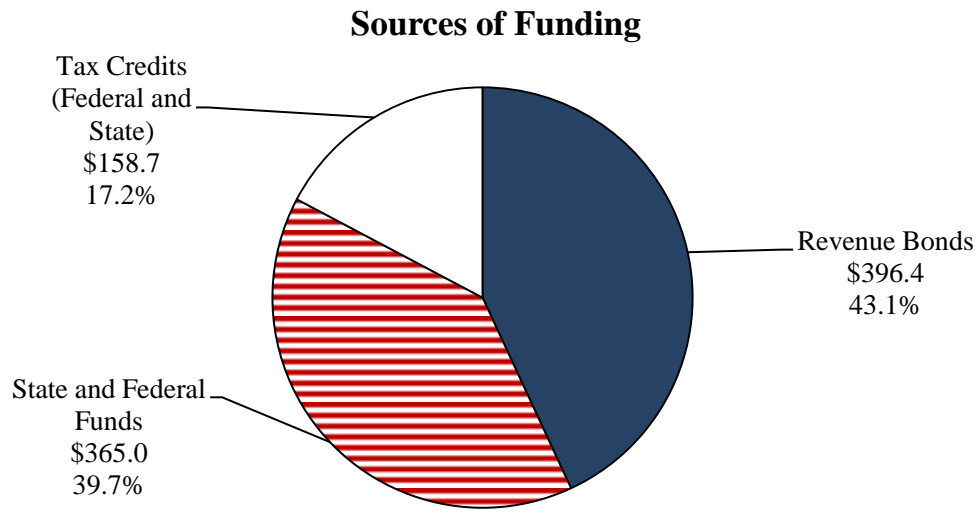
Rental housing support also includes administration of State and federal rental subsidy programs, including the federal Section 8 Performance Based Contract Administration and Housing Choice Voucher programs and the State Rental Allowance Program. Under these programs, DHCD provides rental assistance to low-income households through owners of covered units, local governments, or nonprofit subcontractors.

- **Homeownership:** As shown in Exhibit 1, about 30.5% of the agency's expenditures in fiscal 2013 were 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 1 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, make up 41% of the agency's funding.

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

- **Neighborhood Revitalization:** As shown in Exhibit 1, about 6.7% of the agency's expenditures in fiscal 2013 were related to Neighborhood Revitalization related activities. Local governments, community development nonprofits, businesses, and others involved in improving communities may access grants, below-market rate 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 1
Sources and Uses of the Department of Housing and Community Development's
Operating and Capital Budgets
Budgeted and Nonbudgeted Sources
Fiscal 2013 Total = \$920.1 Million
(\$ in Millions)



Source: Department of Housing and Community Development

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

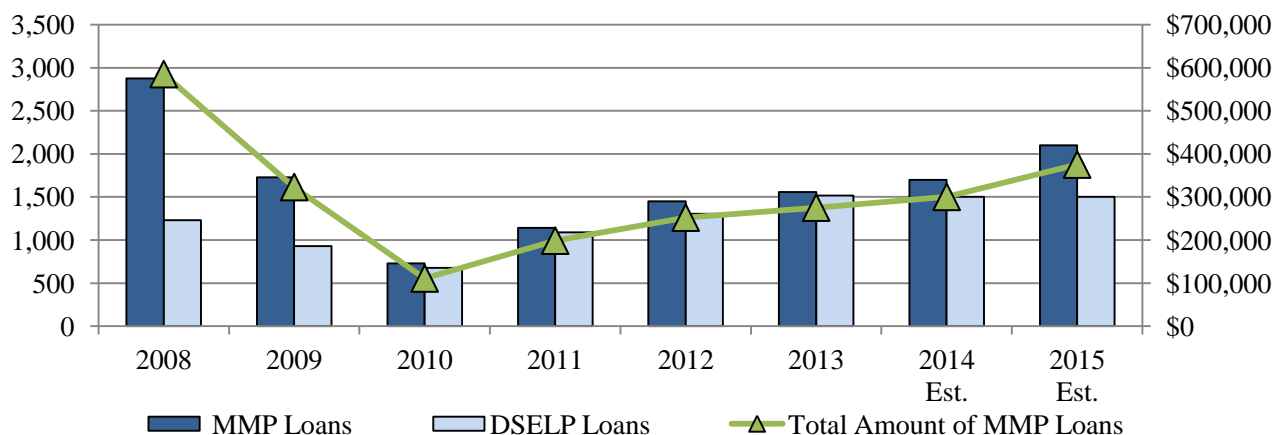
DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration.

Performance Analysis: Managing for Results

1. Homeownership Assistance on the Rise

One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. Two key portions of DHCD efforts toward these objectives include the Maryland Mortgage Program (MMP) and the Down Payment and Settlement Expense Loan Program (DSELP). **Exhibit 2** shows the large, rapid decline in DSELP and MMP loans provided from fiscal 2008 through 2010, followed by a steady increase in program usage through fiscal 2013 that is projected to continue through fiscal 2015. The agency attributes this trend to both the improving economy and the continued demand for affordable mortgage financing. The number of MMP loans increased by 7.5%, from 1,450 in fiscal 2012 to 1,559 in fiscal 2013. And continuing with what has been the norm since fiscal 2010, the DSELP program was used in conjunction with 97.4% of MMP loans.

Exhibit 2
Homeownership Assistance
Fiscal 2008-2015 Est.
(\$ in Thousands)



DSELP: Down Payment and Settlement Expense Loan Program

MMP: Maryland Mortgage Program

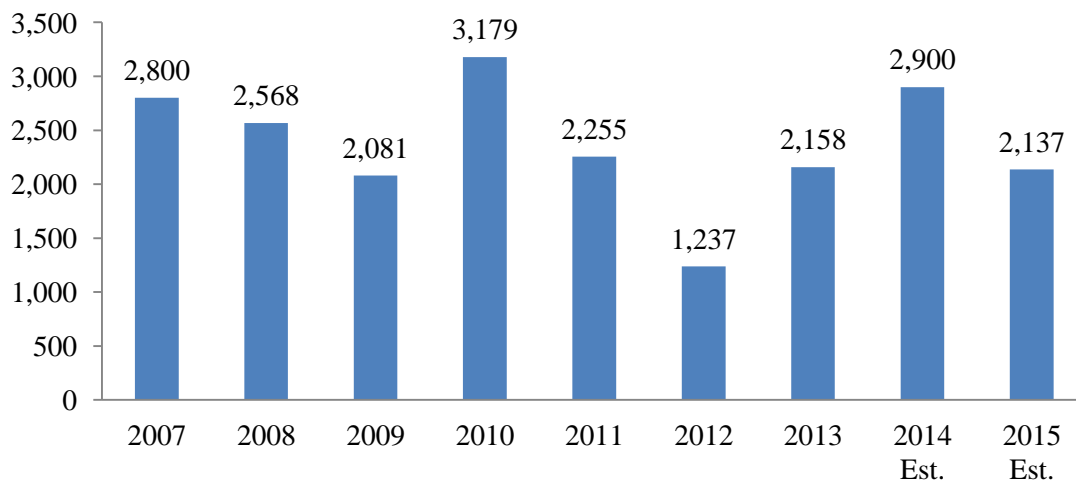
Source: Governor's Budget Books, Fiscal 2009-2015

2. More Affordable Rental Units Produced

Another DHCD goal is to expand affordable rental housing in Maryland in response to an increasing shortage of affordable rental units. There is a shortage of approximately 190,700 affordable rental housing units in the State for families earning less than 50% of the area median income, according to the most recent estimates from the U.S. Department of Housing and Urban Development (HUD). 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.

DHCD tracks the number of new affordable rental housing units produced through its financial support. The number of units produced is based on the projects that go to initial closing, meaning DHCD and the borrower have closed the loan on the project, and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 3**, 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. In fiscal 2013, production increased by 74.5%, with another large increase in production expected in fiscal 2014. The increase is due to additional resources in the Rental Housing Works program and increased use of the Multifamily Bond Program.

Exhibit 3
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2007-2015 Est.

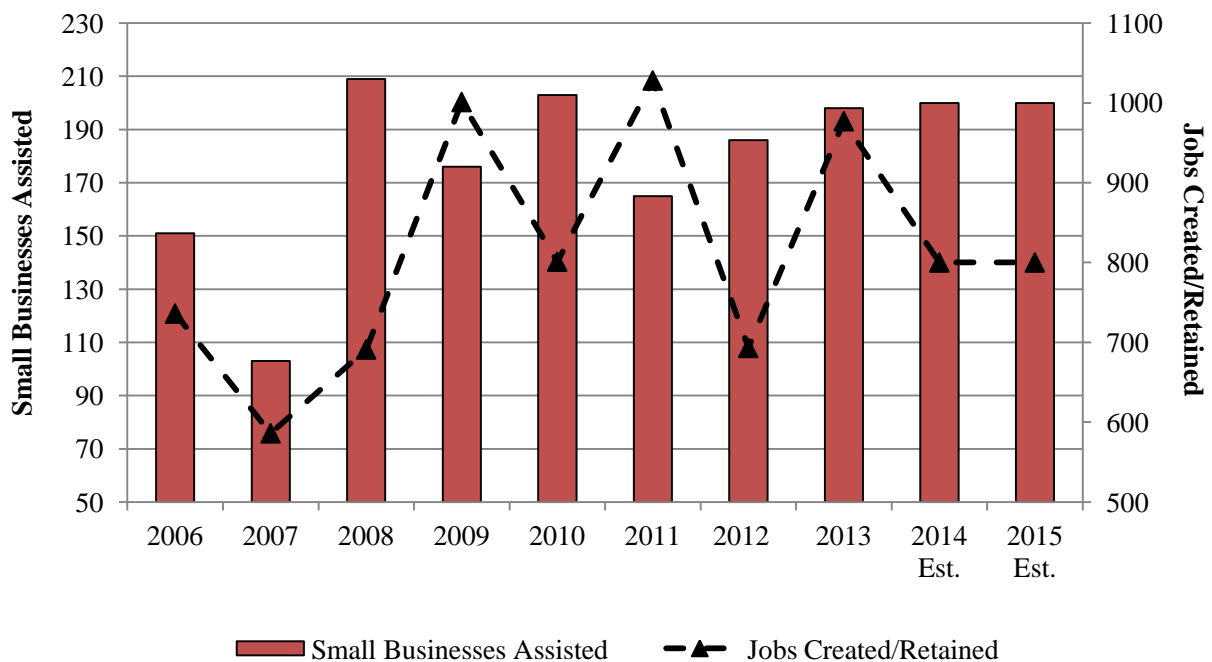


Source: Department of Housing and Community Development

3. Increase in Small Business Assistance, Job Creation

DHCD also does work at the community level. Assistance goes to nonprofit and community-based organizations, local governments, and small businesses. These funds target infrastructure improvements, business and housing opportunities, main street revitalization, historic sites, parks, and playgrounds. As shown in **Exhibit 4**, the total number of small businesses that received assistance in fiscal 2013 was 198, an increase of 6.5% over fiscal 2012. The department anticipates assisting about 200 businesses in fiscal 2014 and 2015. The assistance from these programs – Community Legacy, Neighborhood Business Works, and Community Investment Tax Credit Programs – led to the creation or retention of 977 jobs in fiscal 2013.

Exhibit 4
Creation and Expansion of Businesses
Small Businesses Assisted
Fiscal 2006-2015 Est.



Source: Department of Housing and Community Development

Proposed Budget

The fiscal 2015 allowance increases 3.8% across all funds over the fiscal 2014 working appropriation, as shown in **Exhibit 5**. The general fund allowance nearly triples to \$10.7 million, mainly to pay for the department's move to a new facility. Special funds increase by \$10.3 million, mainly due to an influx of funds for energy efficiency programs. Federal funds decrease by \$5.3 million, with the largest change coming from a \$3.5 million decrease in funds from a U.S. Department of Energy weatherization program.

Exhibit 5 Proposed Budget Department of Housing and Community Development (\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2014 Working Appropriation	\$3,710	\$60,390	\$251,693	\$525	\$316,318
2015 Allowance	<u>10,653</u>	<u>70,732</u>	<u>246,346</u>	<u>525</u>	<u>328,255</u>
Amount Change	\$6,943	\$10,341	-\$5,347	\$0	\$11,937
Percent Change	187.1%	17.1%	-2.1%		3.8%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$349
Annualized fiscal 2014 cost-of-living adjustment and increment	887
Employee and retiree health insurance	-417
Retirement contribution rate change.....	-2
Turnover adjustments	-32
Accrued leave	25
Net cost of conversion of contractual employees to new positions.....	81
Other fringe benefit adjustments	49

Moving Expenses

One-time moving expenses.....	4,796
Increase in ongoing expenses at new headquarters (3 months)	1,147

Energy Programs

Consumer Investment Fund	5,969
EmPOWER Low Income Energy Efficiency Program.....	1,923
Federal Weatherization Assistance Program	-3,500

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Where It Goes:

Homelessness Programs

Emergency Solutions grant	1,000
Families First Initiative	474

Other Changes

Section 8 grants for subsidized rents	1,130
Housing Choice Vouchers Program.....	500
Contractual turnover	320
Advertising and quality control for Maryland Mortgage Program	278
Rent paid to the Department of General Services.....	97
Travel	-156
Multifamily energy program moved to capital budget	-350
Special payments payroll (net of contractual conversions)	-905
National Attorneys General Mortgage Servicing Settlement	-1,650
Other	-74

Total	\$11,937
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Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum due to rounding.

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of Budget and Management (DBM) – Personnel and the State Retirement Agency. For DHCD, these total \$343,361.

Emergency Solutions Grant and Families First Initiative

The fiscal 2015 allowance includes two large increases in funding for programs aimed at fighting homelessness. There are \$2,020,000 in general funds in the fiscal 2015 allowance for the Emergency Solutions Grant program, a \$1 million increase over the current year working appropriation. The program is designed to help people regain stability in housing after experiencing a housing crisis or homelessness. HUD recently changed rules and now requires a one-to-one match for the grants by the sub-grantees. Since many of the sub-grantees are very small nonprofit organizations, the increased match requirement would have limited their ability to obtain the necessary funding to provide housing outreach, prevent homelessness, and provide emergency shelter. The State funding – which started in fiscal 2014 – provides money to those nonprofits in part to meet the federal match requirements, but also to allow the organizations to provide more services, since HUD caps the match at \$800,000 per year.

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In addition, there is \$474,150 in special funds for a new program called the Families First Initiative. The source of the funding is half from the General Bond Reserve Fund and half from a grant from the Freddie Mac Foundation. The program is a self-sufficiency program for veterans in Prince George's County and will assist veterans with children that are either homeless or at imminent risk of homelessness. Through this program, DHCD will be able to assist approximately 40-45 veterans and their families by providing a stable living situation through rental subsidies. In conjunction with the subsidies, the veterans will be enrolled in a program that will connect the veteran with community resources such as workforce training, career development, childcare, and transportation. The goal is that upon graduation, the family will be able to afford a market rate rental unit and achieve self-sufficiency.

Housing Choice Vouchers Program

The Housing Choice Vouchers program increases by \$500,000 in federal funds to account for increases in the expected amount of assistance paid to participants. The program is federally funded, administered by DHCD, and is a subsidy issued directly to landlords on behalf of very low-income, elderly, or disabled residents.

Issues

1. Headquarters Move Paid with General Funds, Planned for April 2015

Site preparation for DHCD's new facility is already underway, with the move of DHCD headquarters planned for April 2015. In early 2013, the Board of Public Works approved a lease with Berman Enterprises NC Station for the new building, to be constructed in New Carrollton. The site is a mixed-use, multi-phased transit-oriented development. In addition to DHCD headquarters, the first phase of the site will include 500 residential units and 65,000 square feet of retail space. When complete, the project will have as many as 2,400 residential units, 100,000 square feet of retail, and a 300-room hotel. The relocation is intended to serve as a model for employers and developers that are considering transit-oriented development in Prince George's County and also serve as an anchor in a development located near currently underutilized transit infrastructure.

DHCD will incur significant one-time costs associated with the move and significant ongoing cost increases compared to the costs associated with its current Crownsville location. **Exhibit 6** details the one-time costs of moving.

The purchase of approximately \$2.7 million in new furniture for the new location is the largest cost. Due to the interior design requirements related to the State's requirement of LEED Silver or better green building standards, DHCD is not able to move its current furniture to the new building. The new location also requires fixtures and building fittings, a new phone system, a new high-density filing system, and new information technology (IT) equipment. Combined with the cost of the physical move to the new headquarters, the one-time expenses total nearly \$4.8 million. Not included in the fiscal 2015 allowance is an additional \$703,000 in IT equipment that DBM believes will be eligible for lease financing through the State Treasurer's Office. Those payments will not be due until fiscal 2016.

The relocation also results in an increase in ongoing operating costs, which are also shown in Exhibit 6. Based on a moving date of April 2015, DHCD will pay approximately \$1.1 million in rent to its new landlord and an additional \$91,250 annually in new security and utility costs. The allowance includes DHCD's full year of rent paid to the Department of General Services (DGS). Based on a full year of occupancy in the new building, the new, ongoing expenses related to the relocation total \$1,146,764. The total fiscal 2015 impact of the move on general funds is \$5,942,839.

All of the one-time costs of the relocation are paid using general funds, as are the increased ongoing costs in rent, security, and utilities. DHCD has not used general funds in the past for facility costs. For example, in fiscal 2013, rent paid to DGS was \$1,673,901, with about 65% paid using special funds and 35% using federal funds. Security costs of \$1,287 were paid using special funds. There is no separate utility cost at the Crownsville location.

Exhibit 6
Development Relocation Costs
Department of Housing and Community

One-time Expenses

New office furniture	\$2,678,000
Phone system	639,000
Building fixtures/fitting	427,750
Physical move	408,325
High-density filing system	403,000
Information technology equipment*	240,000
	\$4,796,075

Increase in Annual Expenses Incurred in Fiscal 2015

New Carrollton rent (3 months)	\$1,055,514
Utilities – electricity (3 months)	61,250
Security service (3 months)	30,000
	\$1,146,764

Total Fiscal 2015 Expenses **\$5,942,839**

Change in Full-year Expenses

New Carrollton rent	\$3,865,054
New Carrollton parking**	357,000
Utilities	245,000
Security service	120,000
Removal of Department of General Services' rent payment	-1,830,082
	\$2,756,972

* Does not include \$703,000 in equipment to be financed through the State Treasurer's Office, with the first payments due in fiscal 2016.

** Decreases to \$204,000 in year six of the lease due to a reduction in parking spaces.

Source: Department of Housing and Community Development

The State plans to sell the Crownsville building after DHCD moves out. An appraisal of the building has not yet been performed, due to requirements that the appraisal be dated within one year of the sale date. **The Department of Legislative Services (DLS) recommends deleting \$5,942,839 in general funds to be used for the department's relocation and authorizing the agency to use special and federal funds for this purpose. DLS also recommends reducing \$305,013 in special and federal funds, which represents the final two months of rent to be paid to DGS in fiscal 2015.**

2. Mortgage Settlement Fund and Foreclosure Rates in Maryland

In November 2013, a national mortgage and foreclosure tracker reported that Maryland ranked third in the nation in the rate of foreclosures, with a 10% increase in foreclosure activity in October 2013. However, the spike in the foreclosure rate was expected as a result of changes made by the State to assist homeowners. These changes include establishment of new standards intended to prevent foreclosure practices that prompted investigation of mortgage servicers. The National Attorneys General Mortgage Servicing Settlement resulted in many foreclosure filing rejections; many of the current foreclosures are refilings of old foreclosures. Other changes in State law lengthened the foreclosure timeline, pushing out a backlog of foreclosures, partially leading to the current spike.

Fiscal 2015 is the final year in which the State will receive funds from the attorneys general settlement. The fiscal 2015 allowance includes \$3.35 million, down from \$5.0 million in the current year working appropriation. The funds are split between housing counseling and legal assistance, as shown in **Exhibit 7**. DHCD also used nearly \$17.0 million for neighborhood stabilization projects in fiscal 2013.

Exhibit 7
Mortgage Settlement Fund Spending
Department of Housing and Community Development
Fiscal 2013-2015

	<u>Housing Counselors</u>	<u>Legal Assistance</u>	<u>Neighborhood Revitalization</u>	<u>Total</u>
Original Total Spending Plan	\$8,600,000	\$6,227,863	\$16,993,130	\$31,820,993
Fiscal 2013 Actual	3,273,058	2,821,976	16,993,130	23,088,164
Fiscal 2014 Appropriation	3,000,000	2,000,000	0	5,000,000
Fiscal 2015 Allowance	2,100,000	1,250,000	0	3,350,000
Total	\$8,373,058	\$6,071,976	\$16,993,130	\$31,438,164

Source: Office of the Attorney General; Department of Budget and Management

DHCD awarded the funds (combined with Maryland Housing Counseling Fund money) to support 53 community-based nonprofit organizations in order to assist homeowners and renters. The awards are for a three-year period that began in January 2013 and are subject to performance reviews. In calendar 2013, the department provided support for 39 housing counseling groups, which allowed those groups to expand staff from 86.0 to 103.0. Nine legal services groups used funding to expand from 27.5 staff members to 41.5. In fiscal 2013, the department awarded its neighborhood stabilization funding to 17 projects, which support activities including acquisition and rehabilitation of vacant and foreclosed homes, down payment assistance for first-time homebuyers, and rental housing preservation.

DHCD measures the impacts of its housing counseling and legal assistance efforts in several ways, as shown in **Exhibit 8**. In calendar 2013, 12,405 people received counseling through DHCD services, resulting in 3,622 positive outcomes, which include refinancing, forbearance, and sale of the house. Legal assistance programs have provided help to 4,357 people and provided training to 1,981 *pro bono* attorneys.

Exhibit 8
Housing Counseling and Legal Assistance Outcomes
Department of Housing and Community Development
Calendar 2013

	<u>Jan. – June 2013</u>	<u>July – Dec. 2013</u>	<u>Total</u>
Housing Counseling			
People counseled	6,432	5,973	12,405
Positive outcomes	1,744	1,878	3,622
HOPE Hotline calls	6,172	5,362	11,534
Mediation total closed cases (OAH)	2,438	2,840	5,278
 Legal Assistance			
Total homeowner and tenant intakes	1,895	2,462	4,357
Homeowners intakes	1,506	2,013	3,519
Homeowners positive outcomes	248	329	577
Homeowners negative outcomes	90	122	212
Tenant intakes	389	423	812
Tenant positive outcomes	18	10	28
Tenant negative outcomes	0	0	0
<i>Pro bono</i> attorneys provided with training	n/a	n/a	1,981

OAH: Office of Administrative Hearings

Source: Department of Housing and Community Development

While fiscal 2015 is the final year of the settlement funding, the Maryland Housing Counseling Fund, which was established in 2010, will continue as an ongoing source of funding for housing counseling and financial education.

In addition to the funds provided directly to DHCD, Baltimore City and Prince George's County each received \$10 million. A full explanation of the memorandum of understanding for DHCD's oversight of this funding is included in the analysis of the Office of the Attorney General. Further discussion of foreclosure issues in the State is included in the analysis of the Department of Labor, Licensing and Regulation – Business Regulation. **DHCD should comment on the level of foreclosures in the State and the department's efforts to aid homeowners in their efforts to avoid foreclosures.**

3. Large Influx of Funds to Energy Programs

DHCD has recently received huge influxes of funding for energy efficiency programs in the last few years from two new sources: EmPOWER and the Consumer Investment Fund (CIF). The EmPOWER program provides funds that DHCD uses for the Low Income Energy Efficiency Program (LIEEP) via an assessment on rate payers of Baltimore Gas and Electric (BGE), Delmarva Power, Southern Maryland Electric Cooperative (SMECO), Pepco, and Potomac Edison. The CIF was created with funds paid to the State as a condition of the approval for the merger between the Exelon Corporation and the Constellation Energy Group. DHCD will draw \$28 million from the CIF in fiscal 2014 through 2016. **Exhibit 9** shows the operating appropriation and allowance for fiscal 2013 through 2015.

Exhibit 9
Energy Program Expenditures
Department of Housing and Community Development
Fiscal 2013-2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Increase 2014-2015</u>
EmPOWER	\$7,741,369	\$16,400,000	\$18,322,888	\$1,922,888
Consumer Investment Fund	0	1,181,115	7,150,025	5,968,910
Total	\$7,741,369	\$17,581,115	\$25,472,913	\$7,891,798

Source: Department of Housing and Community Development

EmPOWER Funds Used for Low Income Energy Efficiency Program

EmPOWER Maryland is a State initiative run through the Maryland Energy Administration with the goal of reducing energy consumption 15% by 2015. With EmPOWER funds, DHCD administers the LIEEP, which allows low-income households to install energy conservation materials in their homes at no charge. To date, DHCD estimates the LIEEP has resulted in the savings of 17,169 megawatt hours. Eligibility for this program is restricted to low-income households with electric heating or central cooling systems that are BGE, Delmarva, SMECO, Pepco, or Potomac Edison customers. Since the inception of the program in spring 2012 through December 2013, the department has improved the efficiency of 3,238 low-income homes with \$18.8 million in ratepayer funds.

The department set a goal of expending \$45.0 million in the LIEEP by the end of calendar 2014, meaning it would have to spend an additional \$26.2 million this year, or slightly more than \$2.0 million per month. **DHCD should comment on its ability to expend its EmPOWER funds and the impact the LIEEP program has had on EmPOWER's energy consumption reduction goals.**

Consumer Investment Fund Used for Weatherization Program

DHCD is using CIF funding to support the Targeted, Enhanced Weatherization Program (TEWP), aimed at households receiving energy assistance and that are high energy users in the BGE service territory outside Baltimore City. The original plan – outlined by the Public Service Commission – called for DHCD to receive \$1.9 million in fiscal 2014, \$8.0 million in fiscal 2015, and \$9.1 million in fiscal 2016, for a total of \$19.0 million. (A related multi-family energy efficiency program funded by the CIF is included in the department’s capital budget.) In the operating budget, as shown in Exhibit 9, DHCD expects to spend about \$1.2 million in the current year working appropriation, and \$7.15 million is in the fiscal 2015 allowance.

The TEWP is a pilot initiative that provides funding for energy efficiency improvements and funding for rehabilitation costs. DHCD is targeting the TEWP at high-energy use customers who are either deferred or ineligible from participating in EmPOWER or the U.S. Department of Energy’s Weatherization Assistance Program (WAP), also administered by DHCD. At the time of this writing, very little CIF money has been expended outside of recruitment and hiring of staff to run the TEWP. As noted earlier, the department has been authorized to hire 10 full-time, regular employees using CIF funds. These positions are required to be abolished when the funds run out, which is expected to be fiscal 2016. **DHCD should comment on the progress of the TEWP and explain its reasoning for hiring permanent staff for a program with short-term funding.**

In addition to the EmPOWER and CIF activities, DHCD also administers the WAP and Regional Greenhouse Gas Initiative (RGGI) weatherization activities. RGGI funding is flat in the fiscal 2015 allowance for DHCD at \$500,000. WAP funds decline by \$3.5 million in the fiscal 2015 allowance. The WAP funding level represents a normal annual level in the fiscal 2015 allowance after several years of higher funding due to the ARRA.

In the 2013 *Joint Chairmen’s Report*, committee narrative requested a joint report from DHCD and the Department of Human Resources (DHR) on actions to revise policies to incentivize participation in weatherization programs. A key policy change allows energy assistance applicants at DHR – Office of Home Energy Programs to be automatically referred for weatherization services unless the applicant specifically opts out. **DHCD should comment on the impact of this policy change.**

4. Section 8 Administration Contract Award Dispute

DHCD is the Maryland Performance-Based Contract Administrator (PBCA) for HUD’s Section 8 project-based assistance program. HUD awarded a new contract to DHCD to continue to act as Maryland’s PBCA that was to start on January 1, 2014. However, an appeal in a lawsuit over HUD’s contract decision (*CMS Contract Management Services et al. v. U.S.*) is pending in court. In the interim, DHCD is operating under the prior contract, which is to be renewed in 90-day intervals until the dispute is resolved. The current extension expires March 31, 2014. HUD has indicated it will continue with 90-day extensions until a decision is made. If the court rules in HUD’s favor, it will move forward with its new contract. If the court rules against HUD, the agency has indicated it

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will likely extend the current contract for two years in order to appeal or comply with the decision. Similarly, even if the case is decided in HUD's favor, plaintiffs may appeal, which also would likely lead to extension of the current contract terms.

The outcome (or the delay of a decision) impacts the amount of fees DHCD collects for administering the Section 8 program. The differences in the contract are in pricing and the tasks involved. The new contract would slightly change the tasks required of DHCD, require some training for existing or new staff, and reduce the payment by about half, resulting in administrative fees which will be approximately \$3.5 million lower. However, the lower administrative fees will still cover all direct costs and approximately \$1.5 million of DHCD indirect costs per year. **DHCD should comment on the HUD dispute and how it may impact the department's operations.**

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete general funds intended for the move of the headquarters of the Department of Housing and Community Development. The department is authorized to add special and federal funds by budget amendment, if necessary, to fund the headquarters' move.	\$ 5,942,839	GF
2. Reduce funds for rent. The Department of Housing and Community Development is moving from its current Crownsville location to a new facility in New Carrollton in April 2015. The reduction reflects the final two months' rent in fiscal 2015 to the Department of General Services.	155,013	SF
	150,000	FF
Total Reductions	\$ 6,247,852	
Total General Fund Reductions	\$ 5,942,839	
Total Special Fund Reductions	\$ 155,013	
Total Federal Fund Reductions	\$ 150,000	

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$1,940	\$53,445	\$237,954	\$495	\$293,835
Deficiency Appropriation	0	460	5,000	0	5,460
Budget Amendments	0	6,609	8,090	15	14,714
Reversions and Cancellations	0	-14,380	-11,664	-22	-26,065
Actual Expenditures	\$1,940	\$46,135	\$239,381	\$488	\$287,944
Fiscal 2014					
Legislative Appropriation	\$3,710	\$60,067	\$251,514	\$525	\$315,817
Budget Amendments	0	323	179	0	502
Working Appropriation	\$3,710	\$60,390	\$251,693	\$525	\$316,318

Note: Numbers may not sum to total due to rounding. The fiscal 2014 working appropriation does not include deficiencies or contingent reductions.

Fiscal 2013

DHCD finished fiscal 2013 approximately \$3.8 million below its legislative appropriation.

Special Funds: Special funds decreased \$7.3 million from the legislative appropriation. Approximately \$6.5 million in special funds – part of the Attorney General’s settlement with mortgage lenders – was added by amendment to be used for grants to nonprofit housing counseling and legal assistance entities to help homeowners avoid foreclosure. The Maryland Housing Trust also received \$460,000 in a deficiency appropriation to be used for homeownership programs. The budget was also amended to increase special funds by \$131,596 for the cost-of-living adjustment (COLA).

Approximately \$14.4 million in cancellations more than offset those increases. The agency canceled about \$10.0 million due to delays in implementing the EmPOWER LIEEP. The department also spent \$2.4 million less on housing counseling grants than expected and \$1.1 million less than expected on professional services. Finally, higher-than-anticipated turnover resulted in the cancellation of \$864,000 in special funds.

Federal Funds: Federal funds increased by about \$1.4 million over the legislative appropriation.

DHCD received \$8 million in ARRA funds in a budget amendment in order to provide grants for agricultural energy efficiency programs, rebates for fossil fuel heated households and households outside of the EmPOWER Maryland eligibility area, and grants for energy efficiency programs through Be SMART. A deficiency appropriation for the Section 8 Housing assistance program added \$5 million to the legislative appropriation. An amendment added \$90,175 in federal funds for the COLA.

Those increases were mostly offset by \$11.7 million in cancellations. The department awarded fewer Community Development Block Grant/Emergency Shelter Grants than anticipated, resulting in a \$326,000 cancellation, and fewer Community Service Block Grants than anticipated, resulting in a cancellation of \$1.5 million. The department also cancelled \$8.7 million due to lower than anticipated costs associated with administration of the Section 8 rental housing program. Finally, \$1.0 million was cancelled due to higher than expected staff vacancies.

Reimbursable Funds: Reimbursable funds were \$7,259 below the legislative appropriation. An amendment increased the appropriation by \$14,700 for the administrative portion of funds for the State Small Business Credit Initiative.

Fiscal 2014

Salaries increased by \$178,708 in federal funds and \$322,896 in special funds due to the distribution of centrally budgeted funds for the COLA, salary increment increase, and annual salary review.

Audit Findings

Audit Period for Last Audit:	March 1, 2008 – March 29, 2011
Issue Date:	July 2012
Number of Findings:	3
Number of Repeat Findings:	1
% of Repeat Findings:	33%
Rating: (if applicable)	n/a

**Division of Development Finance
Division of Credit Assurance
Division of Neighborhood Revitalization**

- Finding 1:** Escrow reports were not reconciled on a timely basis and did not always include adequate supporting documentation.
- Finding 2:** Maryland Affordable Housing Trust funds erroneously deposited with another State entity were not recovered until auditor inquiries.
- Finding 3:** Discrepancies in amounts due from the federal government were not resolved.

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

Object/Fund Difference Report
Department of Housing and Community Development

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	316.00	337.00	341.00	4.00	1.2%
02 Contractual	85.50	89.50	71.50	-18.00	-20.1%
Total Positions	401.50	426.50	412.50	-14.00	-3.3%
Objects					
01 Salaries and Wages	\$ 25,788,853	\$ 29,444,127	\$ 30,920,178	\$ 1,476,051	5.0%
02 Technical and Spec. Fees	3,138,436	3,813,122	2,947,743	-865,379	-22.7%
03 Communication	450,647	453,656	454,255	599	0.1%
04 Travel	232,912	275,745	119,650	-156,095	-56.6%
06 Fuel and Utilities	0	0	61,250	61,250	N/A
07 Motor Vehicles	97,619	127,161	161,713	34,552	27.2%
08 Contractual Services	8,631,608	14,648,014	21,946,965	7,298,951	49.8%
09 Supplies and Materials	315,357	370,850	321,950	-48,900	-13.2%
10 Equipment – Replacement	87,300	199,400	4,634,156	4,434,756	2,224.1%
11 Equipment – Additional	36,302	30,000	30,000	0	0%
12 Grants, Subsidies, and Contributions	248,107,859	264,860,708	263,723,982	-1,136,726	-0.4%
13 Fixed Charges	2,093,944	2,095,632	3,276,828	1,181,196	56.4%
14 Land and Structures	-1,037,116	0	0	0	0.0%
Total Objects	\$ 287,943,721	\$ 316,318,415	\$ 328,598,670	\$ 12,280,255	3.9%
Funds					
01 General Fund	\$ 1,940,000	\$ 3,710,000	\$ 10,652,839	\$ 6,942,839	187.1%
03 Special Fund	46,135,089	60,390,296	70,997,469	10,607,173	17.6%
05 Federal Fund	239,380,891	251,693,119	246,423,362	-5,269,757	-2.1%
09 Reimbursable Fund	487,741	525,000	525,000	0	0%
Total Funds	\$ 287,943,721	\$ 316,318,415	\$ 328,598,670	\$ 12,280,255	3.9%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
Department of Housing and Community Development

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
20 Office of the Secretary	\$ 6,328,161	\$ 6,968,941	\$ 7,252,911	\$ 283,970	4.1%
22 Division of Credit Assurance	6,056,297	6,078,650	6,225,830	147,180	2.4%
24 Division of Neighborhood Revitalization	23,669,548	25,785,589	25,244,649	-540,940	-2.1%
25 Division of Development Finance	242,590,129	267,113,739	273,380,281	6,266,542	2.3%
26 Division of Information Technology	3,158,478	3,676,210	3,995,738	319,528	8.7%
27 Division of Finance and Administration	6,141,108	6,695,286	12,499,261	5,803,975	86.7%
Total Expenditures	\$ 287,943,721	\$ 316,318,415	\$ 328,598,670	\$ 12,280,255	3.9%
General Fund	\$ 1,940,000	\$ 3,710,000	\$ 10,652,839	\$ 6,942,839	187.1%
Special Fund	46,135,089	60,390,296	70,997,469	10,607,173	17.6%
Federal Fund	239,380,891	251,693,119	246,423,362	-5,269,757	-2.1%
Total Appropriations	\$ 287,455,980	\$ 315,793,415	\$ 328,073,670	\$ 12,280,255	3.9%
Reimbursable Fund	\$ 487,741	\$ 525,000	\$ 525,000	\$ 0	0%
Total Funds	\$ 287,943,721	\$ 316,318,415	\$ 328,598,670	\$ 12,280,255	3.9%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

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Appendix 4