

S00A
Department of Housing and Community Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$3,680	\$9,706	\$7,199	-\$2,508	-25.8%
Deficiencies and Reductions	0	-1,605	-2,560	-955	
Adjusted General Fund	\$3,680	\$8,101	\$4,639	-\$3,462	-42.7%
Special Fund	62,087	70,814	82,223	11,410	16.1%
Deficiencies and Reductions	0	1,411	1,689	278	
Adjusted Special Fund	\$62,087	\$72,225	\$83,913	\$11,688	16.2%
Federal Fund	232,638	246,361	245,520	-841	-0.3%
Deficiencies and Reductions	0	0	-221	-221	
Adjusted Federal Fund	\$232,638	\$246,361	\$245,300	-\$1,062	-0.4%
Reimbursable Fund	785	2,025	2,165	140	6.9%
Adjusted Reimbursable Fund	\$785	\$2,025	\$2,165	\$140	6.9%
Adjusted Grand Total	\$299,190	\$328,712	\$336,016	\$7,304	2.2%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance grows by \$7.3 million, or 2.2%, across all funds.
- General funds decrease by \$3.5 million, due to one-time headquarters moving costs in the fiscal 2015 appropriation. The Board of Public Works withdrew \$1.4 million in general funds in January 2015 to be replaced with special funds. A contingent reduction reduces the general fund working appropriation by \$2.4 million in fiscal 2016 to also be replaced by special funds. The general fund allowance is about \$1.0 million higher in fiscal 2016 than in fiscal 2014, which is explained by an increase in funding for the Emergency Solutions Grant program in fiscal 2015.

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

For further information contact: Jason A. Kramer

Phone: (410) 946-5530

Analysis of the FY 2016 Maryland Executive Budget, 2015

S00A – Department of Housing and Community Development

- Special funds increase by \$11.7 million, or 16.2%, primarily due to a \$6.0 million increase in funding for energy efficiency programs.
- Federal funds decrease by 0.4%.

Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	337.00	339.00	345.00	6.00
Contractual FTEs	<u>47.94</u>	<u>79.50</u>	<u>54.50</u>	<u>-25.00</u>
Total Personnel	384.94	418.50	399.50	-19.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	20.03	5.91%
Positions and Percentage Vacant as of 12/31/14	23.00	6.78%

- Regular positions increase by 6.0 positions in the fiscal 2016 allowance compared to the current year working appropriation due to contractual conversions.
- The Department of Housing and Community Development (DHCD) reduced its contractual full-time equivalents (FTE) by a further 19.0 FTEs to reflect high vacancy rates.
- The fiscal 2016 allowance includes a turnover rate of 5.9%, which would require the department to keep 20.0 regular positions vacant throughout the year. There were 23.0 positions vacant as of November 30, 2014.

Analysis in Brief

Major Trends

Homeownership Assistance Levels Off: The rebound in usage of the Maryland Mortgage Program stalled in fiscal 2014, but DHCD believes it is a temporary slowdown.

More Affordable Rental Units Produced: The number of affordable rental housing units produced continued its increase in fiscal 2014, and is expected to climb through fiscal 2016.

Issues

Department Move to New Carrollton Will Increase Costs: Fiscal 2016 is the first year in which the department will pay the full annual costs associated with its new Prince George's County facility. The fiscal 2016 allowance includes approximately \$4.9 million for rent, electricity, security, and lease payments for new information technology (IT) equipment. For comparison, had the department not moved, the fiscal 2016 cost for the Crownsville facility would have been approximately \$1.9 million. **DHCD should comment on the status of the move and its impact on the department's operations. The Department of Legislative Services (DLS) also recommends increasing the budgeted turnover rate to 10% to better reflect the department's own estimates of the move's impact on personnel retention. Consistent with that change, DLS recommends reducing the general fund allowance by \$1,215,462 and using the special fund salary savings to replace the general fund reduction.**

Energy Program Criticized: Two large funding sources have recently led to the development of two energy efficiency programs at DHCD: the Low Income Energy Efficiency Program (LIEEP), funded by EmPOWER money, and the Targeted, Enhanced Weatherization Program (TEWP), funded by the Customer Investment Fund. While the programs have yielded energy savings, questions have been raised regarding DHCD's implementation of LIEEP. **DHCD should discuss its difficulties with establishing and operating these energy efficiency programs, any changes it has made to correct the problems it has had, and comment on the appropriateness of the department including energy efficiency programs as a part of its portfolio of public services. DLS recommends deleting \$8 million in special funds. If PSC approves further EmPOWER funding, DHCD should be authorized to process a budget amendment to add the funding to its appropriation.**

Foreclosure Rates Remain High: High foreclosure rates in the State continue to be a problem, with recent reports placing Maryland third in the nation in its foreclosure rate, and foreclosure events in the State nearing the post-recession peak of the foreclosure crisis. **DHCD should comment on the use of Prince George's County's mortgage settlement funds for the support of homeownership programs. DHCD should also comment on its outlook for the State's foreclosure rate and what actions it is taking to ease the impact on homeowners.**

Recommended Actions

	<u>Funds</u>
1. Delete general funds to be replaced by special funds saved due to increase in turnover rate to 10%.	\$ 1,215,462
2. Delete special funds due to the budgeting of unawarded EmPOWER funds.	8,000,000
Total Reductions	\$ 9,215,462

S00A
Department of Housing and Community Development

Operating Budget Analysis

Program Description

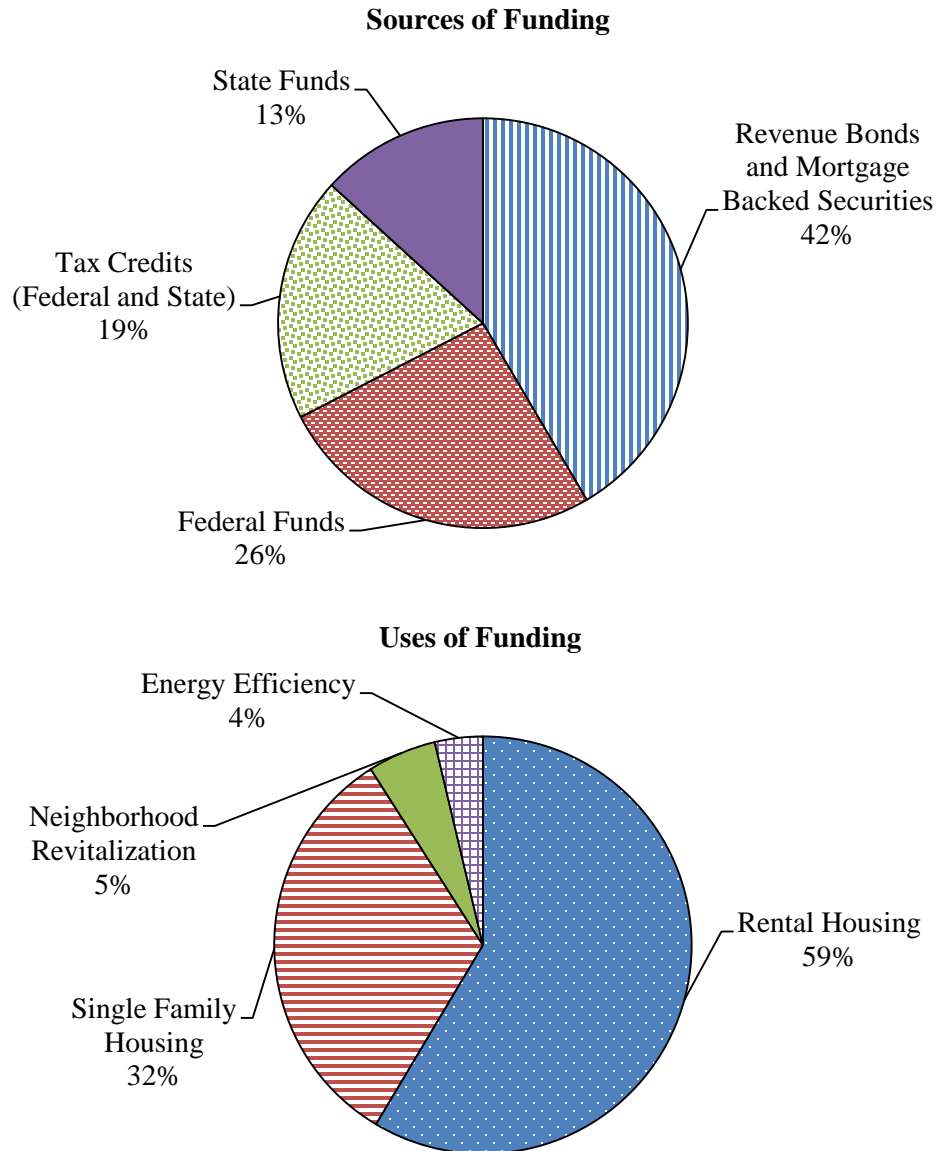
The mission of the Department of Housing and Community Development (DHCD) is to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work, and prosper.

- **Affordable Rental Housing:** As shown in **Exhibit 1**, 59% of the agency's expenditures in fiscal 2014 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 multifamily housing projects serving low-income families; some loans are also available to local governments. Federal Low Income Housing Tax Credits (which generated \$147.2 million of equity in fiscal 2014) 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.

- **Single-family Housing:** About 32% of the agency's expenditures in fiscal 2014 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 through programs like the Maryland Mortgage Program and the Down Payment and Settlement Expense Loan Program. Other Single Family Program activities support grants and loans for lead hazard reduction, indoor plumbing improvements, overall rehabilitation, and group home projects.
- **Neighborhood Revitalization:** In fiscal 2014, about 5% of the agency's expenditures 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. Other programs provide funding for small business start-ups and expansions, as well as demolition of derelict buildings, site acquisition, assembly, and development.

Exhibit 1
Sources and Uses of the Department of Housing and Community Development's
Operating and Capital Budgets
Budgeted and Nonbudgeted Sources
Fiscal 2014 Total – \$912.5 Million
(\$ in Millions)



Source: Department of Housing and Community Development

- **Energy Efficiency:** About 4% of the agency's expenditures in fiscal 2014 were in energy efficiency programs. The two largest energy efficiency programs are the Low Income Energy Efficiency Program, which allows low-income households to install energy conservation materials in their homes at no charge, and the federally funded Energy Efficiency Community Block Grant program.

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

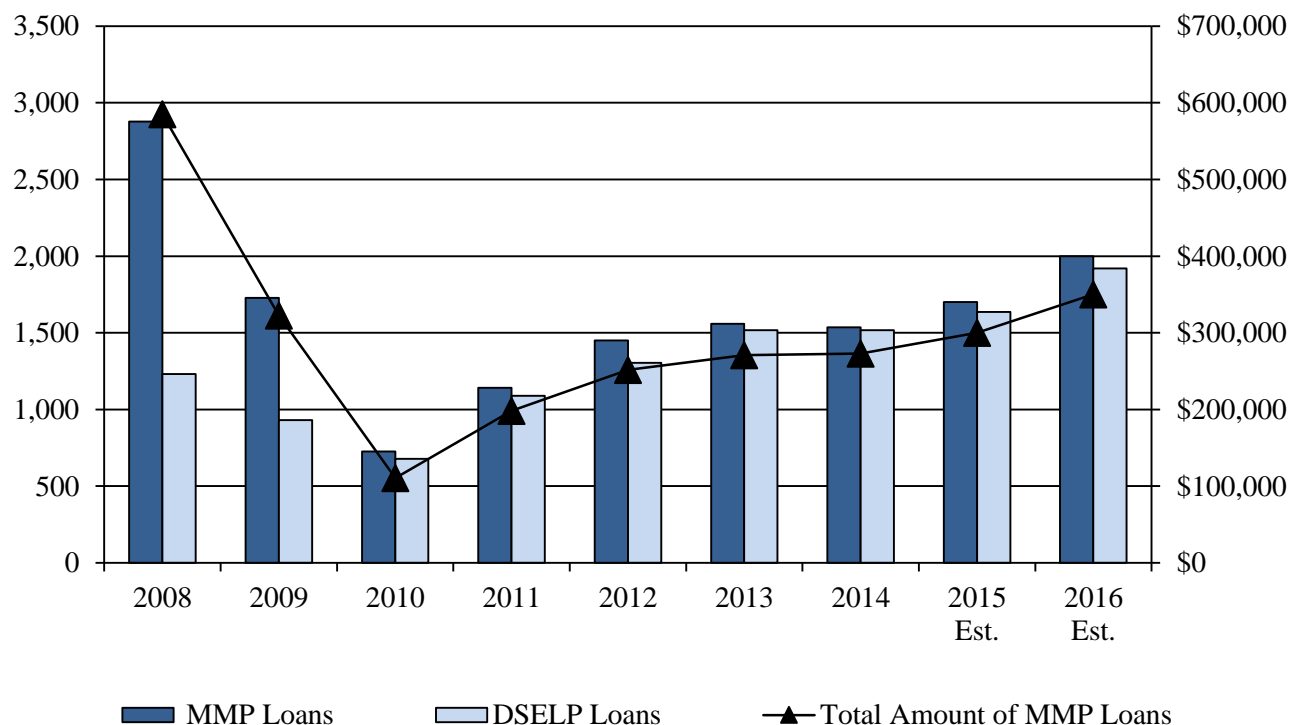
DHCD has three administrative support units: the Office of the Secretary, the Division of Information Technology (IT), and the Division of Finance and Administration.

Performance Analysis: Managing for Results

1. Homeownership Assistance Levels Off

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 trend ended in fiscal 2014, when the number of MMP loans decreased by 1.4%. However, DHCD believes the slowdown in the program usage is temporary, and will strongly rebound in fiscal 2015 and 2016 due to new programs and a higher profile marketing strategy. One of the larger new initiatives is the Maryland Mortgage Program – Triple Play, which is a program DHCD will operate in Prince George's County using funds earmarked for the county from the National Attorneys General Mortgage Servicing Settlement. This program is discussed further in the Issues section of this analysis.

Exhibit 2
Homeownership Assistance
Fiscal 2008-2016 Est.
(\$ in Thousands)



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

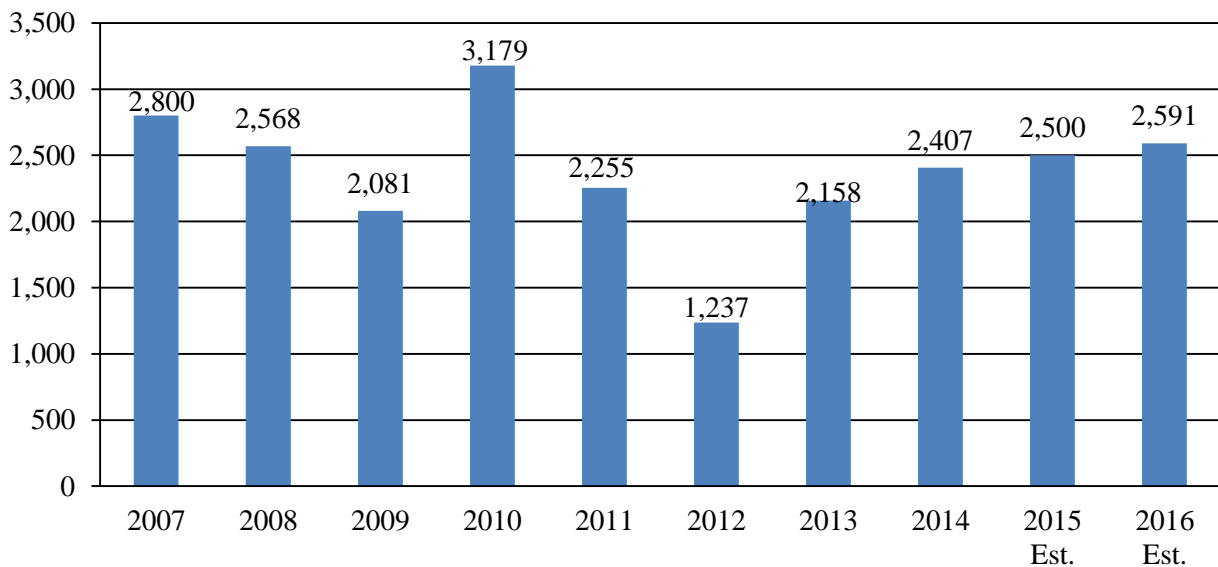
Source: Governor's Budget Books, Fiscal 2009-2015

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 50.0% 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 continued increases in fiscal 2014 and projected into fiscal 2016. The increase is due primarily 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 2007-2016 Est.



Source: Department of Housing and Community Development

Fiscal 2015 Actions

Cost Containment

The January 2015 Board of Public Works (BPW) cost containment measures for fiscal 2015 included a fund swap of \$1,411,000, reducing the general fund appropriation and increasing the special fund appropriation, as shown in **Exhibit 4**. The 2% across-the-board general fund cut reduced the appropriation a further \$194,121.

Exhibit 4
Fiscal 2015 Reconciliation
(\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation with Budget Amendments		\$9,706	\$70,814	\$246,361	\$2,025	\$328,906
July BPW		0	0	0	0	0
Working Appropriation		\$9,706	\$70,814	\$246,361	\$2,025	\$328,906
January BPW	Fund swap related to headquarters move	-1,411	1,411	0	0	0
January BPW	2% across-the-board reduction.	-194	0	0	0	-194
	Across the Board					
Total Actions Since January 2015		-\$1,605	\$1,411	\$0	\$0	-\$194
Adjusted Working Appropriation		\$8,101	\$72,225	\$246,361	\$2,025	\$328,712

Source: Department of Legislative Services

Proposed Budget

The fiscal 2016 allowance increases 2.2% across all funds.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$3,680	\$62,087	\$232,638	\$785	\$299,190
Fiscal 2015 Working Appropriation	\$8,101	\$72,225	\$246,361	\$2,025	\$328,712
Fiscal 2016 Allowance	<u>\$4,639</u>	<u>\$83,913</u>	<u>\$245,300</u>	<u>\$2,165</u>	<u>\$336,016</u>
Fiscal 2015-2016 Amt. Change	-\$3,462	\$11,688	-\$1,062	\$140	\$7,304
Fiscal 2015-2016 Percent Change	-42.7%	16.2%	-0.4%	6.9%	2.2%

S00A – Department of Housing and Community Development

Where It Goes:

Personnel Expenses

Net cost of 6 contractual conversions.....	\$187
Net cost of 19 eliminated contractual full-time equivalents.....	-858
Section 20: abolition of prior year 2% general salary increase	-524
Section 21: abolition of employee increments	-408
Employee and retiree health insurance.....	758
Workers' compensation premium assessment and unemployment compensation.....	-53
Turnover adjustments	-51
Retirement and Social Security contributions	442
Increments and general salary increase annualization (prior to cost containment)	434

Moving costs

One-time moving expenses	-4,556
Annualization of ongoing occupancy costs, including rent, parking, utilities, security, and equipment	3,456
Rent at Crownsville.....	-1,805

Foreclosure counseling

Funding for housing counseling from Maryland Housing Counseling Fund.....	1,650
Final year of funding from National Attorneys General Settlement	-3,350

Energy Programs

EmPOWER funding for Low Income Energy Efficiency Program (LIEEP).....	6,791
Customer Investment Fund funding for Targeted Enhanced Weatherization Program....	216
Advertising and education spending for LIEEP	200
Automobile costs, including the replacement of three Ford Escapes used for LIEEP	182
Federal Weatherization Assistance Program funding	-2,500

Other changes

Section 8 grants for subsidized rents.....	4,090
Administrative hearings for foreclosure mediation.....	2,098
Increased cost of information technology contractual services.....	340
Bridge Subsidy Program	140
2% across-the-board cut	34
Other changes	391

Total	\$7,304
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Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

The Maryland Housing Counseling Fund is funded with mortgage servicer foreclosure filing fees and borrower foreclosure mediation request fees, and its uses are restricted to providing foreclosure prevention and mediation services and housing counseling. The fiscal 2016 Governor's allowance would use \$2.4 million from this fund, contingent on budget reconciliation legislation expanding its use, to reduce the general fund allowance by the same amount. Including this contingent reduction and excluding one-time moving costs, the fiscal 2016 general fund allowance is approximately level with the fiscal 2015 working appropriation.

Personnel Expenses

Personnel costs remain approximately flat in the fiscal 2016 allowance compared to the fiscal 2015 working appropriation.

- The net cost of 6 contractual conversions is approximately \$187,000.
- The net cost of an elimination of 19 further contractual FTEs is a reduction of approximately \$858,000.
- Prior to cost containment, general salary costs increased by about \$434,000, but the abolition of the 2% COLA and employee increments would reduce salary costs by \$932,000, for a net reduction of about \$498,000.
- Retirement and Social Security costs increase by about \$442,000, and health insurance costs increase by approximately \$758,000.

Other Changes

- Spending on the foreclosure mediation program increases by \$2.1 million in the department's allowance. This represents a change in how the Department of Budget and Management budgets the funding for this service, which was previously included in the budget for the Office of Administrative Hearings.
- Section 8 project-based rent payments increase by \$4.1 million, or 2.0%, in federal funds.

Issues

1. Department Move to New Carrollton Will Increase Costs

DHCD is scheduled to move its headquarters from Crownsville in Anne Arundel County into a new facility in New Carrollton in Prince George's County in the first quarter of calendar 2015. The facility is part of a transit-oriented development near the New Carrollton Metro station, which serves Metro, Maryland Area Regional Commuter, and Amtrak. Construction of the building is largely complete. In addition to the headquarters building, the first phase includes 500 residential units and 40,000 square feet (sq. ft.) of retail space. The second phase of the development will include 250 apartment units and 80,000 sq. ft. of retail space. The Department of General Services (DGS) owns the Crownsville building, which will be considered surplus property and sold.

The significant, one-time costs associated with this move are included in the fiscal 2015 budget. The \$4.8 million cost of the move was originally to be paid with general funds, however, a fund swap to use \$1.4 million in special funds was approved at the January 2015 BPW meeting. In the 2014 session, the legislature removed \$1.1 million in general funds from the Governor's allowance intended to pay for rent at the new facility, and authorized an amendment to replace that funding with federal funds.

Fiscal 2016 is the first year in which the department will pay the full annual costs associated with the new facility, which totals \$4.9 million as shown in **Exhibit 6**. The fiscal 2016 allowance includes \$2.3 million in general funds, \$1.6 million in special funds, and \$1.0 million in federal funds for rent, electricity, security, and lease payments for new IT equipment, which will continue for three years. For comparison, had the department not moved, the fiscal 2016 cost for the Crownsville facility would have been approximately \$1.9 million. The rent paid to DGS to date had traditionally used special and federal funds. Contingent on legislation, all general fund expenditures included in the allowance would be replaced by funds from the Housing Counseling Fund. The lease for the New Carrollton facility runs for 15 years and includes an opt-out clause after 10 years. It is unclear what would be the fiscal impact of an early termination.

Exhibit 6 Moving Costs Fiscal 2016

<u>Use</u>	<u>Cost</u>
Rent and Occupancy Costs	\$4,414,000
Electricity	\$253,000
Capital Lease Payment (IT)	\$149,207
Security	\$125,000
Total	\$4,941,207

IT: information technology

Source: Department of Housing and Community Development

High Staff Turnover Expected

In addition to the fiscal costs of the move, the cost of staff upheaval must also be factored into the department's operations. Based on an employee survey, DHCD estimated that approximately 25% of its staff would at some point leave the department due to the relocation. While these departures will not all happen immediately upon moving, they will strain the department.

DHCD has been planning for the move, including succession planning in each division to identify vulnerable positions and anticipate potential vacancies. The department has also been able to identify positions where new hires can be brought in and overlap with existing employees to transfer knowledge and expertise. The vacancy rate was 6.7% in November, the last month for official data, but the department reports a 10% vacancy rate in January, an additional 35% vacancy rate for contractual full-time equivalents, with additional departures expected in the next several months.

The move from the Annapolis-area job market to the Washington, DC-area job market will exacerbate the department's problems with recruiting replacements for departing employees, as salaries in the Washington DC market are 15% to 20% higher, according to the department. Many DHCD positions require specialized skills, such as loan underwriting; bond and mortgage-backed security issuance; and construction, project, and asset management for loans and grants. While no formal request exists, the department believes it will need a modified pay structure as well as relief from any position cuts or hiring freezes to promptly fill vacancies and remain competitive in the job market. All of DHCD's salaries are paid with special and federal funds.

DHCD should comment on the status of the move and its impact on the department's operations. The Department of Legislative Services (DLS) also recommends increasing the budgeted turnover rate to 10% to better reflect the department's own estimates of the move's impact on personnel retention. Consistent with that change, DLS recommends reducing the general fund allowance by \$1,215,462 and using the special fund salary savings to replace the general fund reduction. DHCD should also comment on the fiscal implications if the State were to choose to not move.

2. Energy Program Criticized

Two large funding sources have recently led to the development of two energy efficiency programs at DHCD: the Low Income Energy Efficiency Program (LIEEP), funded by EmPOWER money, and the Targeted, Enhanced Weatherization Program (TEWP), funded by the Customer Investment Fund (CIF). EmPOWER is an ongoing source of funds, supported by a surcharge on utility bills; CIF was a payment made as a condition of approval of a merger between Constellation Energy Group and Exelon Corporation. As shown in **Exhibit 7**, the two funding sources will bring in a combined \$46.5 million in the fiscal 2016 allowance for operating and capital programs, up from \$4.3 million in fiscal 2012.

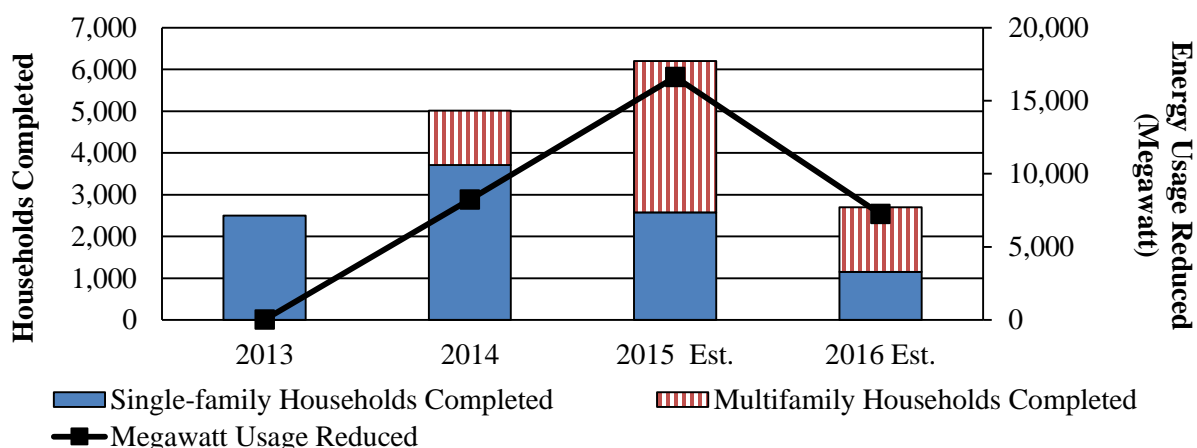
Exhibit 7
Energy Program Expenditures
Fiscal 2012-2016 Est.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 Est.</u>	<u>2016 Est.</u>	<u>Total</u>
EmPOWER	\$4,287,743	\$12,367,557	\$29,751,248	\$25,782,291	\$35,298,708	\$103,199,804
Customer Investment Fund	0	0	531,326	13,202,574	11,228,190	24,962,090
Total	\$4,287,743	\$12,367,557	\$30,282,574	\$38,984,865	\$46,526,898	\$128,161,894

Source: Department of Housing and Community Development

DHCD recently added the improvement of energy efficiency for low-income households as an agency goal. The emphasis on this goal has been made possible by the noted new funding. Across all of its energy efficiency programs, DHCD expects to complete 6,201 units in fiscal 2015, reducing energy usage by 16,618 megawatts over the life of the improvements. As shown in **Exhibit 8**, DHCD expects its energy efficiency work to drop off in fiscal 2016; however, that projection did not take into consideration EmPOWER funding, which has yet to be officially approved for use by the Public Service Commission (PSC). While the programs have yielded energy savings, questions have been raised regarding DHCD's implementation of the two programs.

Exhibit 8
Energy Savings and Households Improved
Fiscal 2013-2016 Est.



Source: Department of Housing and Community Development

EmPOWER and the Low Income Energy Efficiency Program

LIEEP allows for the installation of energy conservation materials in homes at no charge, with eligibility restricted to low-income households (200% of federal poverty level) with electric heating or central cooling systems that are Baltimore Gas and Electric, Delmarva Power, Southern Maryland Electric Cooperative, Pepco, or Potomac Edison customers. The EmPOWER funds used for this program are awarded by PSC on three-year cycles, with the next cycle beginning in calendar 2015. PSC approved DHCD's proposal for the current funding cycle, but for only calendar 2015 due to concerns raised by PSC staff, which recommended that DHCD not continue as a program implementer for LIEEP. That recommendation was due to concerns with both past implementation issues and DHCD's proposal for the next funding cycle. PSC staff noted issues such as:

- the number of homes weatherized was below forecast;
- the high amount paid for weatherization measures;
- savings estimate inaccuracies;
- lack of billing data; and
- a conflict of interest with DHCD's evaluation contractor, which served as the forecaster, reporter, and evaluator of the program.

Despite PSC's approval for only calendar 2015 funding for this program, the DHCD allowance includes full fiscal year funding and assumes that PSC will approve the following two calendar years of program funding.

Customer Investment Fund and the Targeted, Enhanced Weatherization Program

As noted prior, the CIF was created with a payment made as a condition of the Constellation Energy Group and Exelon Corporation. The original distribution of the payment called for DHCD to receive \$19.0 million in operating funds for TEWP from fiscal 2014 to 2016. As shown previously in Exhibit 7, DHCD projects spending \$13.8 million in its operating budget through fiscal 2015, about \$5.2 million less than expected over the three-year period. The performance period for this program runs through June 2017, however, it is notable that the PSC order approving the funding for this program was issued in 2013, and the program was considered to be in prelaunch design phase until August 2014. The department does not believe the extended design and ramp-up phase of the program will prevent it from meeting its objectives outlined in the program proposal.

It should be noted that another large CIF is likely to be created if the merger between Exelon and Pepco Holdings, Inc. is approved by PSC. Further discussion of the potential merger and payment is included in the analysis of PSC.

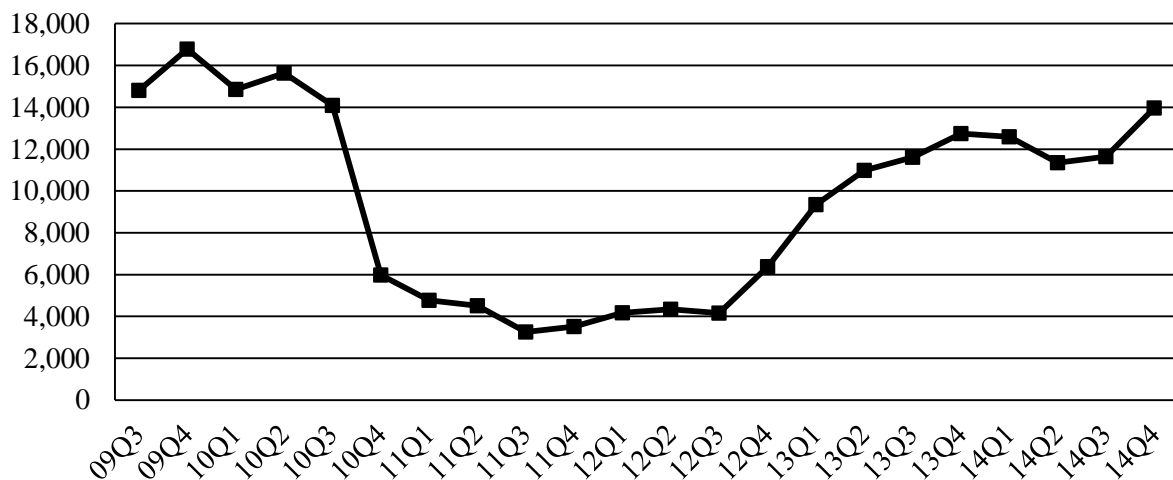
DHCD should discuss its difficulties with establishing and operating these energy efficiency programs; any changes it has made to correct the problems it has had; and comment on the appropriateness of the department including energy efficiency programs as a part of its portfolio of public services.

DLS recommends deleting \$8 million in special funds. If PSC approves further EmPOWER funding, DHCD should be authorized to process a budget amendment to add the funding to its appropriation.

3. Foreclosures Rates Remain High

High foreclosure rates in the State continue to be a problem, with recent reports placing Maryland third in the nation in its foreclosure rate. As shown in **Exhibit 9**, there were approximately 14,000 foreclosure events in the State, nearing the post-recession peak of the foreclosure crisis. The prior low level in the State's foreclosure activity in calendar 2011 and 2012 was in part due to foreclosure moratoriums, the mediation law, and other actions taken by the State to aid homeowners. While some foreclosures were prevented, many others were delayed.

Exhibit 9
Foreclosure Events
Calendar 2009-2014



Source: Department of Housing and Community Development

Through fiscal 2015, DHCD has used funds from the National Attorneys General Mortgage Servicing Settlement and the Maryland Housing Counseling Fund for housing counseling and legal assistance, with funds awarded to support community-based nonprofit housing counseling and legal

support organizations to assist homeowners and renters. Funds were also provided for neighborhood stabilization projects to acquire and rehabilitate vacant and foreclosed homes, and down payment assistance for first-time homebuyers.

Also as part of that settlement, \$10 million was set aside for Prince George's County to use; to date, less than \$1 million has been spent by the county. Using \$6 million from Prince George's County's portion of the settlement funds, DHCD has launched the MMP Triple Play Initiative. This program is giving qualified homebuyers in the county up to \$20,000 in down payment assistance, comprised of a \$10,000 no-interest, deferred loan; and a \$10,000 down payment assistance grant; and a 0.25% discount on the standard MMP mortgage interest rate for homebuyers in targeted zip codes.

DHCD measures the impacts of its housing counseling and legal assistance efforts in several ways, as shown in **Exhibit 10**. In calendar 2014, 9,655 people received counseling through DHCD services, resulting in 2,824 positive outcomes, which include refinancing, forbearance, and sale of the house. The number of people getting counseling services dropped by 22.2%. Legal assistance programs have provided help to 5,655 people (a 29.8% increase) and provided training to 2,083 *pro bono* attorneys, a 5.1% increase.

Exhibit 10
Mediation Results
Calendar 2013-2014

	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Housing Counseling			
People Counseled	12,405	9,655	-22.2%
Positive Outcomes	3,622	2,824	-22.0%
HOPE Hotline Calls	11,534	8,970	-22.2%
Mediation Total Closed Cases (OAH)	5,278	4,751	-10.0%
Legal Assistance			
Total Homeowner and Tenant Intakes	4,357	5,655	29.8%
Homeowners Intakes	3,519	4,650	32.1%
Homeowners Positive Outcomes	577	456	-21.0%
Homeowners Negative Outcomes	212	219	3.3%
Tenant Intakes	812	1,005	23.8%
Tenant Positive Outcomes	28	48	71.4%
Tenant Negative Outcomes		3	n/a
<i>Pro bono</i> Attorneys Provided with Training	1,981	2,083	5.1%

HOPE: Homeowners Preserving Equity

OAH: Office of Administrative Hearings

Source: Department of Housing and Community Development

DHCD should comment on the use of Prince George’s County mortgage settlement funds for the support of homeownership programs. DHCD should also comment on its outlook for the State’s foreclosure rate and what actions it is taking to ease the impact on homeowners.

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete general funds and replace with special funds using the savings created by increasing the department's turnover rate to 10%. The department is authorized to add special funds by budget amendment to replace the general funds deleted by this action.	\$ 1,215,462	GF
2. Delete special funds due to the budgeting of unawarded funds from the EmPOWER program. The department is authorized to add special funds by budget amendment if further EmPOWER funds are approved by the Public Service Commission.	8,000,000	SF
Total Reductions	\$ 9,215,462	
Total General Fund Reductions	\$ 1,215,462	
Total Special Fund Reductions	\$ 8,000,000	

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 2014					
Legislative Appropriation	\$3,710	\$60,067	\$251,514	\$525	\$315,817
Deficiency Appropriation	0	-747	-193	0	-940
Budget Amendments	0	7,723	179	1,500	9,402
Reversions and Cancellations	-30	-4,956	-18,863	-1,240	-25,089
Actual Expenditures	\$3,680	\$62,087	\$232,638	\$785	\$299,190
Fiscal 2015					
Legislative Appropriation	\$9,706	\$70,561	\$246,297	\$525	\$327,089
Cost Containment	0	0	0	0	0
Budget Amendments	0	253	64	1,500	1,817
Working Appropriation	\$9,706	\$70,814	\$246,361	\$2,025	\$328,906

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

DHCD finished fiscal 2014 approximately \$16.6 million below its legislative appropriation.

Special Funds: Special funds increased \$2.0 million from the legislative appropriation. An amendment increased EmPOWER funding by \$6.4 million for the LIEEP to accelerate activity in the program in order to make up for its slow start. DHCD added \$1.0 million by amendment from the Maryland Housing Counseling Fund for additional housing counseling and legal services grants. Amendments for the cost-of-living adjustment (COLA) and salary increment increased the special fund appropriation by \$322,896.

A deficiency appropriation removed \$350,000 from DHCD's Special Loan programs in order to correct a budget error. The funds were moved to the Rental Housing Capital budget. Retirement contributions were reduced by \$284,942 and health care contributions were reduced by \$111,769 through deficiency appropriations.

DHCD cancelled approximately \$5.0 million in special funds, including:

- \$1.6 million due to lower than expected usage of grants to Local Weatherization Agencies participating in the LIEEP;
- \$1.2 million due to unawarded Maryland Affordable Housing Trust grants and lower than anticipated costs in Single Family Housing programs;
- approximately, \$500,000 due to position vacancies and other miscellaneous costs;
- approximately, \$422,000 due to lower than anticipated contractual services costs in Neighborhood Revitalization programs; and
- approximately, \$1.2 million in lower than anticipated administrative and other miscellaneous costs across all operating programs.

Federal Funds: Federal funds decreased by about \$18.9 million from the legislative appropriation.

Amendments for the COLA, salary increment, and the annual salary review increased the federal fund appropriation by \$178,708. Retirement contributions were reduced by \$136,472 and health care contributions were reduced by \$56,375 through deficiency appropriations.

DHCD cancelled approximately \$18.9 million in federal funds, including:

- \$12.8 million due to lower than expected rental rates in the Section 8 rental assistance program, resulting in lower pass-through payments;

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- \$4.7 million due to lower than anticipated weatherization costs in the Weatherization Assistance Program. The department used EmPOWER funds due to a deadline for spending the money; the federal funds will be used in fiscal 2015;
- approximately \$508,000 due to unawarded housing counseling grants in the NeighborWorks America program; and
- approximately \$1 million in administrative and other lower than anticipated costs.

Reimbursable Funds: Reimbursable funds were \$260,000 above the legislative appropriation. A budget amendment added \$1.5 million from the Department of Human Resources for weatherization activity, however, DHCD cancelled about \$1.2 million; the funds were not encumbered due to a closeout error, and will be expended in fiscal 2015.

Fiscal 2015

The fiscal 2015 legislative appropriation increased by \$205,498 in special funds and \$57,960 in federal funds for the COLA, and \$47,141 in special funds and \$6,417 in federal funds for annual salary review reclassification for loan underwriters.

A \$1.5 million amendment added reimbursable funds from the Department of Human Resources for weatherization of low-income households.

Object/Fund Difference Report
Department of Housing and Community Development

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	337.00	339.00	345.00	6.00	1.8%
02 Contractual	47.94	79.50	54.50	-25.00	-31.4%
Total Positions	384.94	418.50	399.50	-19.00	-4.5%
Objects					
01 Salaries and Wages	\$ 28,350,656	\$ 31,177,971	\$ 33,135,218	\$ 1,957,247	6.3%
02 Technical and Spec. Fees	2,681,205	3,560,738	2,462,240	-1,098,498	-30.9%
03 Communication	381,031	429,530	426,219	-3,311	-0.8%
04 Travel	257,655	282,700	139,550	-143,150	-50.6%
06 Fuel and Utilities	0	61,250	253,000	191,750	313.1%
07 Motor Vehicles	84,652	162,363	343,971	181,608	111.9%
08 Contractual Services	19,402,827	26,998,520	32,355,924	5,357,404	19.8%
09 Supplies and Materials	337,901	305,750	304,550	-1,200	-0.4%
10 Equipment – Replacement	206,658	4,542,750	466,905	-4,075,845	-89.7%
11 Equipment – Additional	19,459	40,350	0	-40,350	-100.0%
12 Grants, Subsidies, and Contributions	245,359,772	258,081,723	262,592,071	4,510,348	1.7%
13 Fixed Charges	2,088,966	3,262,424	4,627,613	1,365,189	41.8%
14 Land and Structures	18,914	0	0	0	0.0%
Total Objects	\$ 299,189,696	\$ 328,906,069	\$ 337,107,261	\$ 8,201,192	2.5%
Funds					
01 General Fund	\$ 3,680,000	\$ 9,706,075	\$ 7,198,519	-\$ 2,507,556	-25.8%
03 Special Fund	62,087,461	70,813,595	82,223,320	11,409,725	16.1%
05 Federal Fund	232,637,505	246,361,399	245,520,422	-840,977	-0.3%
09 Reimbursable Fund	784,730	2,025,000	2,165,000	140,000	6.9%
Total Funds	\$ 299,189,696	\$ 328,906,069	\$ 337,107,261	\$ 8,201,192	2.5%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
Department of Housing and Community Development

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
20 Office Of The Secretary	\$ 6,738,040	\$ 7,600,930	\$ 9,965,272	\$ 2,364,342	31.1%
22 Division Of Credit Assurance	6,187,288	6,362,472	6,377,876	15,404	0.2%
24 Division Of Neighborhood Revitalization	27,413,300	28,081,392	27,916,362	-165,030	-0.6%
25 Division Of Development Finance	248,968,091	270,547,049	278,919,252	8,372,203	3.1%
26 Division Of Information Technology	3,629,668	3,984,521	4,459,194	474,673	11.9%
27 Division Of Finance And Administration	6,253,309	12,329,705	9,469,305	-2,860,400	-23.2%
Total Expenditures	\$ 299,189,696	\$ 328,906,069	\$ 337,107,261	\$ 8,201,192	2.5%
General Fund	\$ 3,680,000	\$ 9,706,075	\$ 7,198,519	-\$ 2,507,556	-25.8%
Special Fund	62,087,461	70,813,595	82,223,320	11,409,725	16.1%
Federal Fund	232,637,505	246,361,399	245,520,422	-840,977	-0.3%
Total Appropriations	\$ 298,404,966	\$ 326,881,069	\$ 334,942,261	\$ 8,061,192	2.5%
Reimbursable Fund	\$ 784,730	\$ 2,025,000	\$ 2,165,000	\$ 140,000	6.9%
Total Funds	\$ 299,189,696	\$ 328,906,069	\$ 337,107,261	\$ 8,201,192	2.5%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.