# Capital Budget Summary

## Grant and Loan *Capital Improvement Program*
**($ in Millions)**

| Program | 2015 Approp. | 2016 Approp. | 2017 Request | 2018 Estimate | 2019 Estimate | 2020 Estimate | 2021 Estimate |
|---|---|---|---|---|---|---|---|
| Rental Housing Programs | $43.230 | $38.500 | $29.500 | $29.500 | $29.500 | $29.500 | $30.500 |
| Special Loan Programs[1] | 9.650 | 6.400 | 6.400 | 9.400 | 9.400 | 9.400 | 7.900 |
| Community Development Block Grant Program | 10.000 | 10.000 | 9.000 | 9.000 | 9.000 | 9.000 | 9.000 |
| Housing and Building Energy Programs | 9.700 | 11.450 | 8.550 | 10.050 | 9.550 | 11.050 | 10.550 |
| Homeownership Programs[1] | 11.300 | 14.000 | 9.900 | 10.000 | 10.000 | 10.000 | 10.500 |
| Partnership Rental Housing Program | 6.000 | 6.000 | 6.500 | 6.000 | 6.000 | 6.000 | 6.000 |
| Community Legacy Program | 6.000 | 6.000 | 6.000 | 6.000 | 6.000 | 6.000 | 6.000 |
| Neighborhood Business Development Program | 4.250 | 4.550 | 5.000 | 5.000 | 5.000 | 5.500 | 5.700 |
| Shelter and Transitional Housing Facilities Grant Program | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 |
| Strategic Demolition and Smart Growth Impact Fund[2] | 7.500 | 7.500 | 21.500 | 22.125 | 25.000 | 0.000 | 0.000 |

For further information contact: Jason A. Kramer Phone (410) 946-5530

| Program | 2015 Approp. | 2016 Approp. | 2017 Request | 2018 Estimate | 2019 Estimate | 2020 Estimate | 2021 Estimate |
|---|---|---|---|---|---|---|---|
| Baltimore Regional Neighborhoods Initiative | 1.680 | 3.000 | 1.500 | 0.000 | 0.000 | 0.000 | 0.000 |
| MD BRAC Preservation Loan Fund | 3.000 | 3.500 | 3.500 | 3.000 | 2.500 | 1.850 | 1.850 |
| **Total** | **$113.810** | **$112.400** | **$108.850** | **$111.575** | **$113.450** | **$89.800** | **$89.500** |

MD BRAC: Maryland Base Realignment and Closure

[1]Fiscal 2016 amounts include back of the bill reallocation of funds between Homeownership Programs and Special Loan Programs.
[2]Program not included in the *Capital Improvement Program*. Fiscal 2017 through 2019 amounts reflect Supplemental Budget No. 2 and information from the Department of Budget and Management.

| Fund Source | 2015 Approp. | 2016 Approp. | 2017 Request | 2018 Estimate | 2019 Estimate | 2020 Estimate | 2021 Estimate |
|---|---|---|---|---|---|---|---|
| PAYGO GF | $0.000 | $15.000 | $21.500 | $22.125 | $25.000 | $0.000 | $0.000 |
| PAYGO SF | 32.575 | 33.550 | 31.650 | 33.050 | 32.950 | 34.100 | 35.300 |
| PAYGO FF | 15.925 | 15.700 | 15.700 | 15.700 | 15.700 | 15.700 | 15.700 |
| GO Bonds | 65.310 | 48.150 | 40.000 | 40.700 | 39.800 | 40.000 | 38.500 |
| **Total** | **$113.810** | **$112.400** | **$108.850** | **$111.575** | **$113.450** | **$89.800** | **$89.500** |

FF: federal funds
GF: general funds
GO: general obligation
PAYGO: pay-as-you-go
SF: special funds

## *Summary of Issues*

***Project C.O.R.E. Initiative Launched:*** In an effort to support redevelopment, eliminate blight, and encourage private investment in Baltimore City, the Department of Housing and Community Development (DHCD) is launching Project C.O.R.E. (Creating Opportunities for Renewal and Enterprise Initiative), which includes $18 million in general funds aimed at demolishing vacant properties in Baltimore City. **The Department of Legislative Services (DLS) recommends withholding $500,000 in Strategic Demolition and Smart Growth Impact (SDSGI) general funds until DHCD produces a report detailing how all of the programs and financing options of Project C.O.R.E. will operate in a coordinated effort toward Baltimore City revitalization.**

## *Summary of Recommended PAYGO Actions*

1. Add language restricting funds pending submission of a report.

## *Summary of Recommended Bond Actions*

| | | Funds |
|---|---|---|
| 1. | Department of Housing and Community Development<br><br>Adopt committee narrative requesting a report on capital grant and loan programs. | |
| 2. | Community Legacy Program<br><br>Approve funding for the Community Legacy Program. | |
| 3. | Neighborhood Business Development Program<br><br>Delete the Neighborhood Business Development Program authorization. Fund as pay-as-you-go. | $3,400,000 GO |
| 4. | Baltimore Regional Neighborhood Initiative<br><br>Delete the Baltimore Regional Neighborhood Initiative authorization. Fund as pay-as-you-go. | $1,500,000 GO |
| 5. | Homeownership Programs<br><br>Delete the Homeownership Programs authorization. Fund as pay-as-you-go. | $8,500,000 GO |

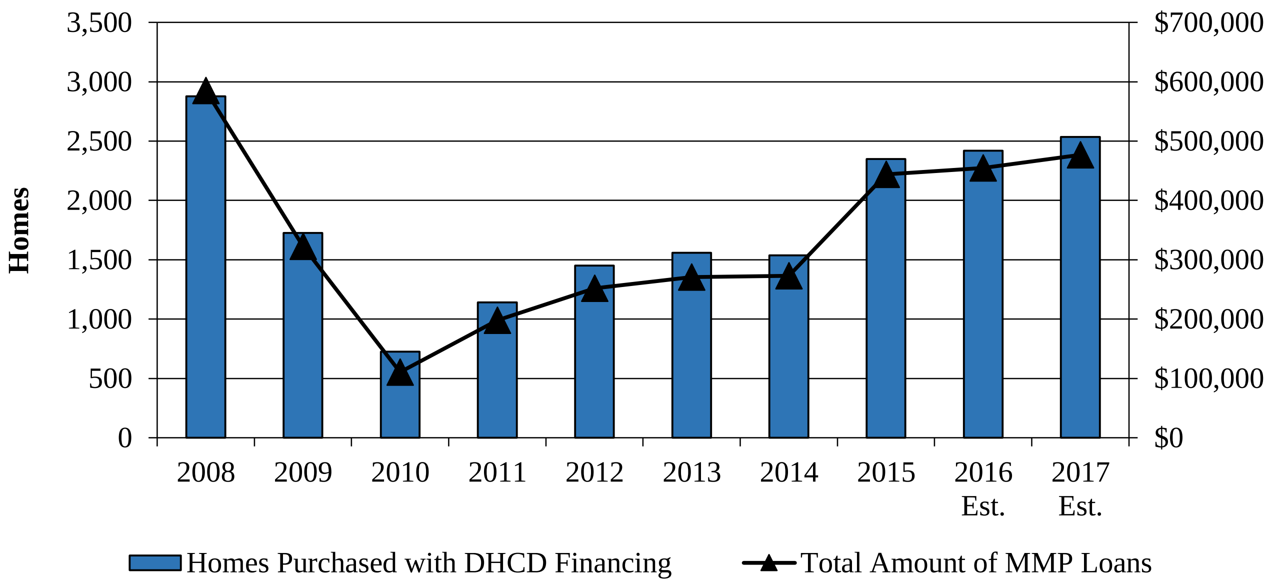
| | | |
|---|---|---|
| 6. | Housing and Building Energy Programs | $1,000,000 GO |
| | Delete the Housing and Building Energy Programs authorization. Fund as pay-as-you-go. | |
| 7. | Partnership Rental Housing Program | $6,000,000 GO |
| | Delete the Partnership Rental Housing Program authorization. Fund as pay-as-you-go. | |
| 8. | Rental Housing Program | $10,000,000 GO |
| | Delete the Rental Housing Program authorization. Fund as pay-as-you-go. | |
| 9. | Shelter and Transitional Housing Facilities Grant Program | |
| | Approve funding for the Shelter and Transitional Housing Facilities Grant Program. | |
| 10. | Special Loan Programs | $2,100,000 GO |
| | Delete the Special Loan Programs authorization. Fund as pay-as-you-go. | |
| 11. | SECTION 2 – Department of Housing and Community Development – Homeownership Programs | |
| | Approve the modification of Chapter 495 of 2015 to allow $3,000,000 in funds to be reallocated to Homeownership Programs from Special Loan Programs. | |
| 12. | SECTION 2 –Department of Housing and Community Development – Special Loan Programs | |
| | Approve the modification of Chapter 495 of 2015 to allow $3,000,000 in funds to be reallocated from Special Loan Programs to Homeownership Programs. | |
| | **Total Reductions** | **$32,500,000 GO** |

# *Performance Measures and Outputs*

## Homeownership Assistance Skyrockets

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 1** shows the large, rapid decline in the number of 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 slightly. However, fiscal 2015 saw a 52.8% increase in purchases with DHCD financing thanks to new programs and a higher profile training and marketing strategy. One of the larger new initiatives is the MMP – Triple Play, which is a program DHCD operated in Prince George's County using funds earmarked for the county from the National Attorneys General Mortgage Servicing Settlement. The Triple Play program provided up to $20,000 in down payment assistance. The department also undertook an effort to provide training to lenders and realtors to improve awareness of the department's programs.

**Exhibit 1**
**Homeownership Assistance**
**Fiscal 2008-2017 Est.**
**($ in Thousands)**




DHCD: Department of Housing and Community Development
DSELP: Down Payment and Settlement Expense Loan Program
MMP: Maryland Mortgage Program

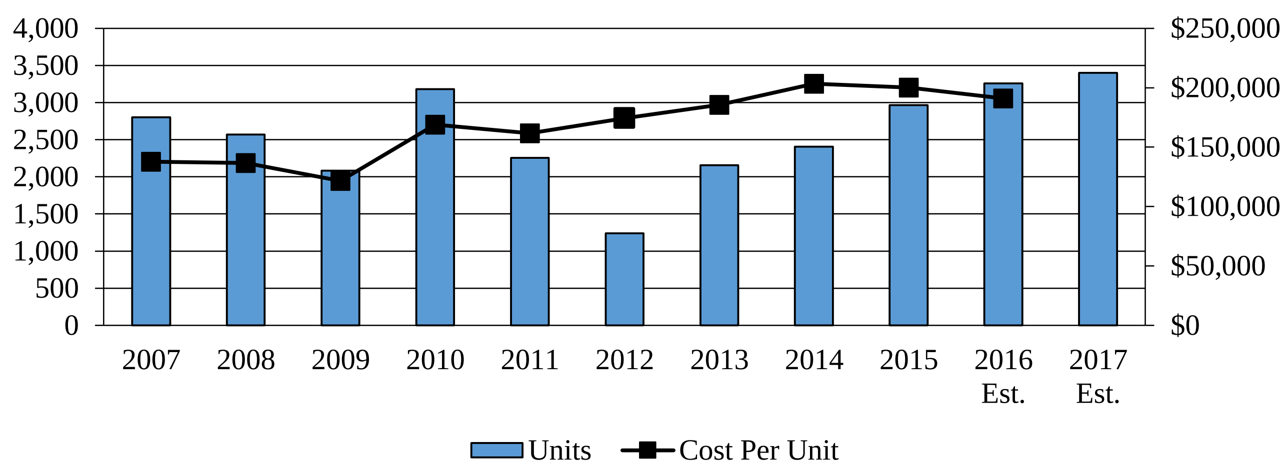
Source: Governor's Budget Books, Fiscal 2009-2015; Department of Budget and Management

## 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 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. Two large federal American Recovery and Reinvestment Act programs fueled high levels of production in fiscal 2010, followed by declines in fiscal 2011 and 2012. As shown in **Exhibit 2**, in fiscal 2013, production increased by 74.5%, with continued increases projected into fiscal 2017, including a 23.1% increase in fiscal 2015, when nearly 3,000 units were produced or preserved. The increase is due primarily to additional resources in the Rental Housing Works (RHW) program and increased use of the Multifamily Bond Program, combined with low interest rates that make more projects financially viable. DHCD has already closed on 31 projects totaling 3,664 housing units in fiscal 2016, already outpacing estimates submitted earlier in the fiscal year. The development cost per unit dropped in fiscal 2015 by 1.5% to $200,221.

**Exhibit 2**
**Affordable Rental Housing Units Going to Initial Closing**
**Fiscal 2007-2017 Est.**




Source: Department of Housing and Community Development

# *Budget Overview*

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.

DHCD's capital budget includes 12 programs. Across all programs, the Governor's proposed fiscal 2017 capital budget for DHCD – including funds from Supplemental Budget No. 2 – decreases by $3.6 million to $108.9 million compared to the fiscal 2016 funding level. General obligation (GO) bonds comprise $40.0 million of the budget compared to $48.2 million in fiscal 2016. The following provides a summary and examination of each of the department's programs.

## Baltimore Regional Neighborhoods Initiative

The Baltimore Regional Neighborhoods Initiative (BRNI) provides grants to fund revitalization strategies in State-designated sustainable community areas in Baltimore City and Anne Arundel and Baltimore counties. Eligible projects include residential and commercial strategic property acquisition, redevelopment, rehabilitation, and new infill development.

BRNI was initiated as a pilot program in fiscal 2014 using $3.0 million in general funds. Grant recipients include residential and commercial projects with activities including property acquisition, redevelopment, rehabilitation, and new infill development. To date, all BRNI funds have been awarded to groups in Baltimore City and Baltimore County. DHCD did not receive any grant applications from Anne Arundel County in its first year and has not opened up funding to new applications due to the limited funds available. As shown in **Exhibit 3**, in fiscal 2015, BRNI provided funds to four groups totaling $2.4 million in capital and operating funds.

**Exhibit 3**
**Baltimore Regional Neighborhoods Demonstration Initiative Awards**
**Fiscal 2015**

| Awardee | Capital Award | Operating Award | Total Award |
|---|---|---|---|
| Central Baltimore Partnership | $475,000 | $300,000 | $775,000 |
| Southeast Community Development Corporation | 510,000 | 240,000 | 750,000 |
| Dundalk Renaissance Corporation | 325,000 | 210,000 | 535,000 |
| Healthy Neighborhoods | 370,000 | 0 | 370,000 |
| **Total** | **$1,680,000** | **$750,000** | **$2,430,000** |

Source: Department of Housing and Community Development

The fiscal 2016 appropriation includes $3.0 million in GO bond funding, while the fiscal 2017 budget includes $1.5 million in GO bond funding for BRNI. The department has included BRNI as a portion of its Project C.O.R.E. initiative, which is discussed in the Issues section of this analysis.

HB 684 and SB 558 would codify BRNI and mandate a $12 million annual appropriation.

**DHCD should comment on the impact of the lower funding level in fiscal 2017 combined with the program's involvement with Project C.O.R.E. DLS recommends that the $1.5 million GO bond authorization for BRNI be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee (SAC), the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Community Development Block Grant Program

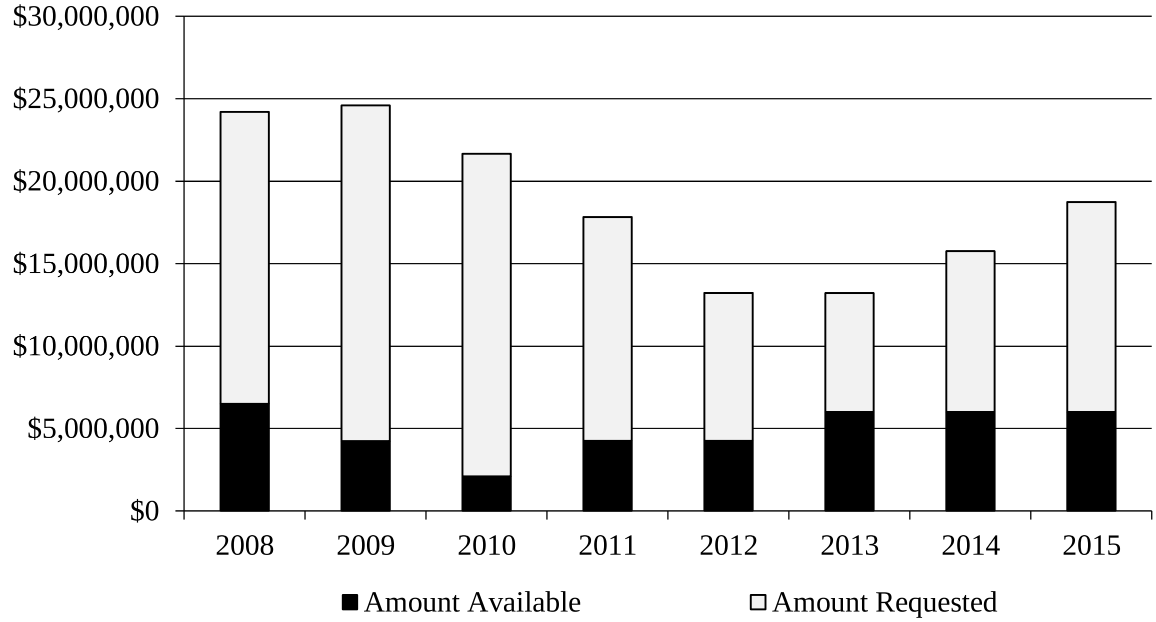
The Community Development Block Grant Program provides competitive federally funded grants to local governments in non-entitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and/or improving community facilities and services. Non-entitlement areas are mainly rural areas of the State. Entitlement areas receive a direct allocation from HUD and are not eligible for the State program. The fiscal 2017 budget includes $9 million in federal funds for this program, a $1 million decrease from fiscal 2016, due to the grantees no longer providing loans to for-profit entities. This reduced loan repayments and, therefore, program income.

## Community Legacy

The Community Legacy 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.

As shown in **Exhibit 4**, demand for Community Legacy funding typically exceeds available resources. The department received applications for $18.7 million in funding in fiscal 2015, compared to the $6.0 million in available funds.

**Exhibit 4**
**Demand and Available Resources for the Community Legacy Program**
**Fiscal 2008-2015**




Note: Demand for funding is based on the amount of funding requested through the competitive grant process. 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

The department has included Community Legacy as a portion of its Project C.O.R.E. initiative, which is discussed in the Issues section of this analysis. **DHCD should comment on the impact of the program's involvement with Project C.O.R.E.**

## Neighborhood BusinessWorks

The Neighborhood Business Development Program, which operates as Neighborhood BusinessWorks (NBW), 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.

In fiscal 2015, NBW funded 23 projects using $5.3 million in funds. The projects comprised:

- 6 grants totaling $1.3 million in Baltimore City;
- 10 loans totaling $3.7 million. Six loans were in Baltimore City, and 1 loan went to projects in Baltimore, Carroll, Anne Arundel, and Somerset counties; and
- 7 Maryland Business Recovery loans totaling $205,000.

HB 326 would expand the allowable uses of the proceeds of Community Development Administration (CDA) revenue bonds to include loans to small businesses; the revenue would likely be paired with the special funds or GO bond funding in this program to finance small business development. If the bill is enacted, the department believes it could provide up to $50.0 million in financing for small businesses by fiscal 2019. The department has included an expansion of business lending via CDA as a portion of its Project C.O.R.E. initiative, which is discussed in the Issues section of this analysis. **DHCD should comment on the need for CDA to be involved in small-business lending. DLS recommends that the $3.4 million GO bond authorization for the Neighborhood Business Development Program be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Strategic Demolition and Smart Growth Impact Fund

The SDSGI Fund has been used to assist in the demolition, land assembly, housing development or redevelopment, and revitalization projects in sustainable communities, Base Realignment and Closure (BRAC) Revitalization and Incentive Zones, Transit-oriented Development areas, or in areas recommended by PlanMaryland for revitalization and growth.

The fiscal 2016 allocation of $7.5 million has already been awarded, with more than $5.5 million of that in Baltimore City. This represents a shift in focus of the program; from fiscal 2013 through 2015, only 44.5% of the program's funds went to Baltimore City. Of the $5.5 million, $2.75 million is targeted at the Project C.O.R.E. initiative, discussed further in the Issues section of this analysis. As shown in **Exhibit 5**, over the life of the program, DHCH awarded 53.3% of SDSGI funds to Baltimore City.

**Exhibit 5**
**Strategic Demolition Awards by Jurisdiction**
**Fiscal 2013-2016**

| Municipality | Amount | Municipality | Amount |
|---|---|---|---|
| Baltimore City | $13,320,000 | Anne Arundel County | $450,000 |
| Prince George's County | 2,863,000 | Caroline County | 400,000 |
| Dorchester County | 1,175,000 | Montgomery County | 375,000 |
| Talbot County | 1,090,000 | Cecil County | 350,000 |
| Allegany County | 1,050,000 | Wicomico County | 250,000 |
| Harford County | 900,000 | Carroll County | 200,000 |
| Frederick County | 850,000 | Washington County | 100,000 |
| St. Mary's County | 500,000 | Worchester County | 90,000 |
| Somerset County | 500,000 | Baltimore County | 37,000 |
| Worcester County | 500,000 | **Total** | **$25,000,000** |

Source: Department of Housing and Community Development

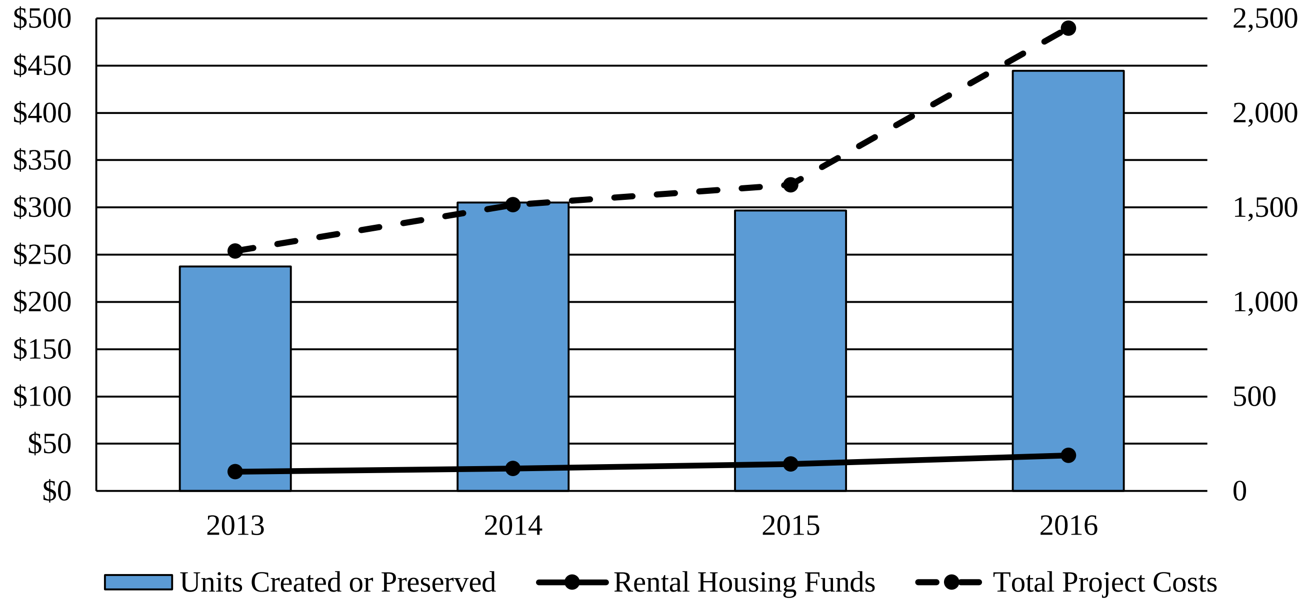
HB 686 and SB 559 would codify SDSGI as a special, nonlapsing fund and mandate a $20 million annual appropriation beginning with the fiscal 2018 budget.

## Rental Housing Programs

Rental Housing Programs, including RHW, are used to 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.

Funding for Rental Housing Programs, including RHW, decreases by $9.0 million, primarily due to a $10.0 million reduction in GO bonds and general funds for the programs. RHW has seen extensive use since program inception in fiscal 2013, with $110.1 million in Rental Housing Program funds supporting already completed or in construction rental housing. Those funds have been used as part of the financing for more than $1.3 billion in total projects for 6,419 new or rehabilitated affordable rental housing units. More than half of RHW funds have gone to Baltimore City and Prince George's and Montgomery counties. **Exhibit 6** shows the increase in usage of Rental Housing Programs, with about $37.6 million in fiscal 2016 spending leading to the creation or preservation of 2,223 affordable housing units with total project costs of $452.1 million. Of this amount, there are four Rental Assistance Demonstration (RAD) projects with 614 units using $6.8 million of DHCD funding. RAD is a HUD program that allows public housing and moderate rehabilitation properties to be converted to Section 8 rental assistance contracts. All of the RAD projects are in Baltimore City.

**Exhibit 6**
**Rental Housing Works Usage**
**Fiscal 2013-2016**
**($ in Millions)**




Source: Department of Housing and Community Development

In addition to those projects either completed or underway, another 3,295 units using $56.6 million of RHW funds as part of $717.2 million in construction are in DHCD's pipeline. The department will formally grant funding for each project as it is ready, so funds for these projects are not yet encumbered. If all projects in the pipeline are approved, RHW would be oversubscribed through fiscal 2017 funding. There are two RAD projects in the DHCD project pipeline. **DLS recommends that the $10.0 million GO bond authorization for Rental Housing Programs be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Special Loan Programs

Special Loan 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, disabled, or others with special housing needs. The fiscal 2017 budget bill includes a swap of $3 million in GO bonds authorized in fiscal 2016 from Special Loan Programs to Homeownership Programs due to lower than anticipated demand for funds from Special Loan Programs.

As shown in **Exhibit 7**, the Maryland Housing Rehabilitation Program uses the bulk of funding. Legislation in the 2013 session authorized the use of grants from the Special Loan Program, and fiscal 2015 was the first full year in which grants were offered in this program. One reason for the change was to be able to provide funds to senior citizens and disabled homeowners who may not have had the resources to repay loans. Nearly $1 million in grants for the Accessible Homes for Seniors Program have been awarded or are expected to be awarded in fiscal 2016.

**Exhibit 7**
**Special Loan Programs Loans and Grants**
**By Program**
**Fiscal 2015-2016 Est.**

| | **2015** | | **2016** | |
|---|---|---|---|---|
| | **Loans** | **Grants** | **Loans** | **Grants** |
| Maryland Housing Rehabilitation Program | $1,843,445 | $0 | $4,519,425 | $315,000 |
| Indoor Plumbing Program | 68,985 | 0 | 358,740 | 0 |
| Accessible Homes for Senior Homeowners | 163,883 | 195,588 | 0 | 933,198 |
| Lead Hazard Reduction Grant | 45,936 | 1,411,369 | 84,705 | 2,022,495 |
| Group Home Financing Program | 567,220 | 0 | 1,692,914 | 0 |
| Home Investment Partnership Program | 2,863,860 | 0 | 4,380,129 | 0 |
| **Total** | **$5,553,329** | **$1,606,957** | **$11,035,913** | **$3,270,693** |

Note: Fiscal 2016 amounts include amounts already awarded as well as funds expected to be awarded in fiscal 2016.

Source: Department of Housing and Community Development

**DLS recommends that the $2.1 million GO bond authorization for Special Loan Programs be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State**

**should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Homeownership Programs

Homeownership Programs provide mortgage loans with minimum down payments to low- and moderate-income families. Programs include the 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.

The fiscal 2017 capital budget bill includes a swap of $3.0 million in GO bonds authorized in fiscal 2016 from Special Loan Programs to Homeownership Programs, which the department will use to meet the high demand for DSELP funds, which was discussed earlier in this analysis. The increase in fiscal 2016 is followed by a $4.1 million decrease in funding, due to the end of funding from the National Attorneys General Mortgage Servicing Settlement for use in Prince George's County, as well as the movement of some programming to the new Housing and Building Energy Programs. **Exhibit 8** shows the allocation of loans by jurisdiction in fiscal 2015, with Prince George's County homebuyers receiving about one-third of DSELP funding.

**Exhibit 8**
**Down Payment and Settlement Expense Loan Program Loans**
**Fiscal 2015**

| County | Loans | Loan Amount | County | Loans | Loan Amount |
|---|---|---|---|---|---|
| Prince George's | 582 | $4,556,500 | Calvert | 28 | $146,000 |
| Baltimore City | 366 | 2,145,138 | Cecil | 19 | 100,000 |
| Baltimore | 304 | 1,639,500 | Carroll | 18 | 97,500 |
| Anne Arundel | 184 | 952,150 | Kent | 15 | 83,800 |
| Charles | 126 | 697,500 | Caroline | 15 | 75,000 |
| Harford | 113 | 603,500 | Worcester | 14 | 70,500 |
| Frederick | 93 | 508,500 | Queen Anne's | 12 | 60,000 |
| Montgomery | 89 | 450,889 | Talbot | 11 | 60,000 |
| Washington | 76 | 403,600 | Somerset | 9 | 51,000 |
| Wicomico | 66 | 339,188 | Dorchester | 5 | 25,000 |
| St. Mary's | 58 | 329,000 | Garrett | 28 | 20,000 |
| Howard | 40 | 208,500 | Allegany | 19 | 10,000 |

Source: Department of Housing and Community Development

**DLS recommends that the $8.5 million GO bond authorization for Homeownership Programs be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Housing and Building Energy Programs

Housing and Building Energy Programs is a new category of programs within DHCD, unifying several energy efficiency programs, including programs funded by EmPOWER, the Customer Investment Fund (CIF), and the Energy Efficiency Block Grant Program. The programs provide loans and grants for energy efficiency improvements for single-family and rental housing properties, including the renovation of existing facilities, the construction of new facilities, or the installation of energy efficient equipment or materials. The fiscal 2017 allowance includes $8.55 million for these programs. The amount reflects a decrease of $2.4 million from the CIF, which had its last year of funding in fiscal 2016.

In addition, the allowance includes a decrease of $500,000 in funding for the Net Zero Homes program, created by Chapter 410 of 2014 to provide short-term loans to construct low-energy homes in sustainable communities. No loans for this program have been issued to date. The fiscal 2016 appropriation for the Maryland Energy Administration includes $1.5 million in funds for the Net Zero Homes program to be transferred to DHCD, however, an amendment has not yet been processed. **DHCD should comment on the status of the amendment and on the status of the Net Zero Homes program. DLS recommends that the $1.0 million GO bond authorization for Housing and Building Energy Programs be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Partnership Rental Housing Program

The Partnership Rental Housing Program provides deferred payment loans or grants to local governments or housing authorities to construct or rehabilitate rental housing for residents earning less than 50% of the statewide median income. Repayment is not required if the borrower continues to own and lease the housing to eligible households. In fiscal 2007, the program was expanded to enable private and nonprofit borrowers to access financing for the creation of housing for persons with disabilities. There is $6 million in GO bonds and $500,000 in special funds in the fiscal 2017 allowance. **DLS recommends that the $6 million GO bond authorization for the Partnership Rental Housing Program be deleted. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of SAC, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead use general funds.**

## Shelter and Transitional Housing Facilities Grant Program

The Shelter and Transitional Housing Facilities Grant Program provides grants to local governments and nonprofit groups to develop emergency shelters and transitional housing for homeless individuals and families. The fiscal 2017 allowance includes $1.5 million in GO bond funds for this program.

## Maryland BRAC Preservation Loan Fund

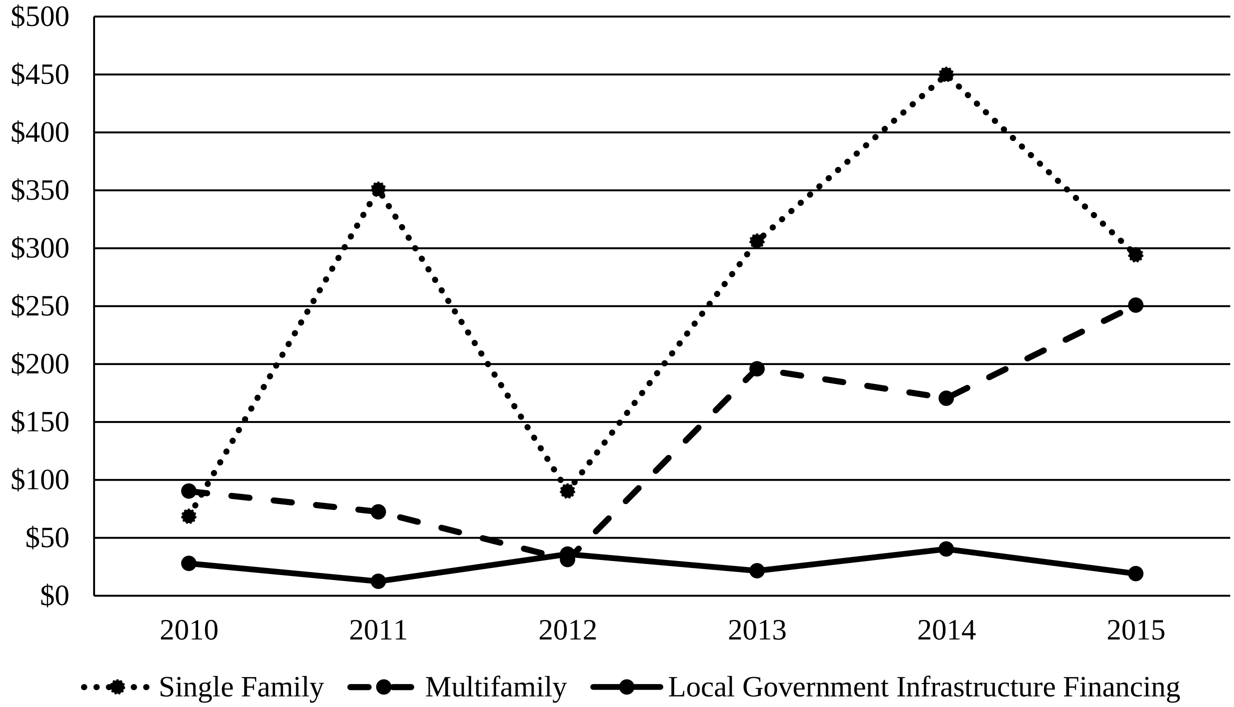
The Maryland BRAC Preservation Loan Fund provides loans and other financial assistance to public and private developers to preserve affordable multifamily rental housing in jurisdictions affected by the federal BRAC process. While $3.5 million in special funds are included in the fiscal 2017 allowance, no loans have been issued in several years. **DHCD should comment on ways to induce demand for the use of this program.**

# *Community Development Authority*

In addition to DHCD's array of budgeted programs, the department also includes CDA, which issues non-tax-supported debt with the goal of increasing the supply of affordable housing in the State. CDA funding is often used in tandem with other funds from the DHCD budget to achieve the goals of various department programs. CDA generates its funding via the sale of tax-exempt revenue bonds, taxable bonds, and mortgage-backed securities. The projects proposed for CDA assistance must match local priorities and complement and supplement local community development programs. Tax-exempt bonds are subject to a federal per capita cap, with unused capacity carrying forward into subsequent years.

As shown in **Exhibit 9**, single-family issuances are volatile due to their dependence on the private mortgage market as rates in the private market can be competitive with what CDA can offer when the added administrative burden on the bond buyer is considered. However, MMP, which provides mortgages to first-time homebuyers and other qualified homebuyers, will still operate. When the bond market is unfavorable, to fund its single-family program, CDA instead securitizes mortgages to be sold on the open market to private investors. The significant difference between these two funding methods is that the securitization of mortgages means both the debt and the asset (the mortgage) are not held by CDA, while when CDA issues bonds, it typically holds either the mortgages or a mortgage security.

**Exhibit 9**
**Community Development Authority Debt Issuances**
**Calendar 2010-2015**
**($ in Millions)**




Source: Department of Housing and Community Development

Multifamily issuances continue an upward trend, primarily due to increased State GO bond funding available in RHW. CDA issued $250.7 million in multifamily bonds in calendar 2015, up from $170.4 million the prior year.

The Local Government Infrastructure Program issues bonds on behalf of local government agencies to fund projects like roads, water and sewer systems, parks, or public buildings. Calendar 2015 issuances dropped by 53.2%, from $40.3 million to $18.9 million.

In addition to issuing debt, CDA also raises capital with the federal Low Income Housing Tax Credit program. DHCD is authorized to issue approximately $13 million in 9% tax credits annually, and an unlimited amount of 4% tax credits generated on projects financed with tax-exempt housing bonds. The tax credits are sold to investors seeking to reduce tax liability as well as generate other tax benefits. As shown in **Exhibit 10**, DHCD raised $239.8 million in equity via tax credits in fiscal 2015.

**Exhibit 10**
**Low Income Housing Tax Credits**
**Fiscal 2012-2015**
**($ in Millions)**

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| 9% Tax Credit Allocation | $11.8 | $11.5 | $8.4 | $13.2 |
| 9% Tax Credit Equity | 104.0 | 114.8 | 85.1 | 130.1 |
| 4% Tax Credit Utilization | 0.9 | 4.7 | 7.7 | 11.1 |
| 4% Tax Credit Equity | 8.6 | 43.8 | 73.6 | 109.7 |

Source: Department of Housing and Community Development

# *Issues*

## 1. Project C.O.R.E. Initiative Launched

In an effort to support redevelopment, eliminate blight, and encourage private investment in Baltimore City, DHCD is launching Project C.O.R.E. With an estimated 16,000 vacant buildings in Baltimore City, demolition is the key focus of the initiative. The plan also includes potential funding from other sources, including revenue bonds, tax credits, and other State programs like Community Legacy and BRNI, although their impact has likely been overstated by the department. For every dollar committed by the State, Baltimore City has committed 25 cents in in-kind services.

### Strategic Demolition Support

The Governor provided $21.5 million in Supplemental Budget No. 2 for SDSGI, which is the heart of the initiative. Of that amount, $18.0 million is designated for Project C.O.R.E. demolition to be managed by the Maryland Stadium Authority (MSA). MSA's involvement in the initiative is only as a project manager. The Baltimore City Department of Housing will identify properties for demolition to be reviewed by DHCD. MSA will be responsible for grading, fencing, and seeding the site, while Baltimore City will be responsible for post-work maintenance.

The usage of SDSGI funds for Project C.O.R.E. represents a shift in two ways in how SDSGI operates. As noted above, Baltimore City received less than half of SDSGI funds available in fiscal 2013 through 2015. The current funding split maintains approximately level funding for the program in the rest of the State but greatly increases spending in Baltimore City. The second major shift in SDSGI's operations is the use of funds with demolition as the sole purpose of the project. Until Project C.O.R.E., SDSGI projects were almost always grants to municipalities or community development organizations to be used as the first piece of a larger redevelopment effort. Examples from fiscal 2015 include $200,000 to the Ocean City Development Corporation for demolition and pre-development costs for a mixed-use development and $300,000 to the Baltimore Development Corporation for demolition at Oldtown Mall to prepare the site for mixed-use development. The proposed Project C.O.R.E. sites do not necessarily have a specific project linked to the demolitions. As SDSGI funds will no longer be available to organizations in Baltimore City, DHCD will encourage Baltimore City groups to suggest sites for demolition through the Project C.O.R.E. initiative.

**Exhibit 11** shows the projected funding for Project C.O.R.E. from fiscal 2016 through 2019, excluding funding for the traditional SDSGI program. Fiscal 2017 is funded with general funds in Supplemental Budget No. 2, which also includes language expressing the intent to provide $75.0 million in funds in total for Project C.O.R.E. While SDSGI was not included in the *Capital Improvement Program*, an updated worksheet for SDSGI provided by the Department of Budget and Management includes plans for $22.125 million in general funds in fiscal 2018 and $25.0 million in general funds in fiscal 2019. Funds for fiscal 2016 include $2.75 million in GO bonds for work to be done by MSA, $2.775 million in GO bonds approved at the January 17, 2016 Board of Public Works meeting for projects to be done by non-profits, as well as $4.35 million in other funds. The other funds represent federal funds from DHCD's contract administration fees for operating HUD's 8 contract, which will be available due to higher than anticipated staff vacancies. These funds have been used for other programs in the past, although not on a regular basis.

**Exhibit 11**
**Planned Strategic Demolition Funding for Project C.O.R.E.**
**Fiscal 2016-2019**
**($ in Thousands)**

| | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|
| General Funds | $0 | $18,000 | $22,125 | $25,000 | $65,125 |
| General Obligation Bonds | 5,525 | 0 | 0 | 0 | 5,525 |
| Other | 4,350 | 0 | 0 | 0 | 4,350 |
| **Total** | **$9,875** | **$18,000** | **$22,125** | **$25,000** | **$75,000** |

C.O.R.E.: Creating Opportunities for Renewal and Enterprise Initiative

Source: Department of Housing and Community Development

## Nonbudgeted Support

The plan as presented by DHCD also includes support from multifamily private activity bonds, RAD, tax credit equity, and small business lending programs. Other than the small business lending program, which requires passage of HB 326, these programs are already in existence, and it is unclear if or how they will be related to demolition efforts. In addition, there are already four RAD projects in Baltimore City that have closed deals, with two more in the pipeline; and as noted above, there are already more than $700 million in projects already in DHCD's multifamily pipeline that clearly were not spurred by Project C.O.R.E. investments. It will be very difficult to determine if any individual multifamily project supported by revenue bonds or tax credit equity would have happened without the Project C.O.R.E. investment. It may even be the case that developers could receive an unplanned subsidy if site demolition work is done at a site already planned for development.

The small business lending portion of the initiative requires enactment of HB 326, which would allow CDA to issue revenue bonds in support of small business lending. As with housing revenue bonds, small business lending is market dependent. For all of the CDA financing support listed as part of Project C.O.R.E., private investment is being counted on to provide the bulk of any redevelopment effort. DHCD believes that providing cleared properties is a significant incentive to local developers to revitalize communities.

## Other State Support

The Community Legacy and BRNI programs are also noted as a part of Project C.O.R.E. However, the fiscal 2017 funding for these programs is at or below prior year funding. There is no indication of any change in how these programs will operate.

## Summary

Revitalizing portions of Baltimore City is a clear priority for both Baltimore City and the State. As part of that goal, demolishing vacant properties and eliminating blight is an important first step, and DHCD's planned $75 million investment to this end is significant. However, there does not appear to be a strong linkage between demolition and the other programs touted as a part of Project C.O.R.E. **DLS recommends withholding $500,000 in SDSGI general funds until DHCD produces a report detailing how all of the programs and financing options of Project C.O.R.E. will operate in a coordinated effort toward Baltimore City revitalization.**

# *Operating Budget Impact Statement*

## Consolidated Administrative Expenses – All Programs

| | FY 2015 Actual | FY 2016 Estimated | FY 2017 Estimated |
|---|---|---|---|
| **Sources** | | | |
| Special Funds | | | |
| Rental Housing | $3,100,000 | $3,100,000 | $3,100,000 |
| Special Loan | 1,480,000 | 1,380,000 | 1,410,000 |
| Community Development Block Grant | 0 | 0 | 0 |
| Homeownership | 1,700,000 | 2,100,000 | 2,400,000 |
| Partnership Rental Housing | 90,000 | 80,000 | 70,000 |
| Community Legacy | 700,000 | 200,000 | 150,000 |
| Neighborhood Business Works | 850,000 | 850,000 | 1,045,000 |
| Shelter and Transitional Housing Facilities Grant | 0 | 0 | 0 |
| Strategic Demolition and Smart Growth Impact Project | 0 | 0 | 0 |
| Energy Efficiency Conservation Block Grant | 0 | 0 | 0 |
| Energy Innovation Fund | 0 | 0 | 0 |
| Rental Housing | 3,100,000 | 3,100,000 | 3,100,000 |
| ***Subtotal – Special Funds*** | ***$7,920,000*** | ***$7,710,000*** | ***$8,175,000*** |
| General Funds | 0 | 0 | 0 |
| Federal Funds | 2,821,760 | 2,656,111 | 2,580,136 |
| Nonbudgeted Funds | 0 | 0 | 0 |
| **Total Funds** | **$10,741,760** | **$10,366,111** | **$10,755,136** |

| | | | |
|---|---|---|---|
| **Uses:** | | | |
| Direct Expense | $7,149,201 | $6,944,111 | $7,278,136 |
| Indirect Expenses (legal, marketing, asset management) | 3,592,559 | 3,422,000 | 3,477,000 |
| **Total Direct and Indirect Expenses** | **$10,741,760** | **$10,366,111** | **$10,755,136** |

# *PAYGO Recommended Actions*

1. Add the following language to the general fund appropriation:

   , provided that $500,000 of this appropriation made for the purpose of the implementation of Project C.O.R.E., Creating Opportunities for Renewal and Enterprise, in Baltimore City may not be expended until the Department of Housing and Community Development submits a report to the budget committees that provides the following information:

   (1) An evaluation of how all State programs and financing options, Baltimore City participation, and Maryland Stadium Authority participation are to be coordinated, including projected timelines for demolition and private redevelopment investment.

   (2) The measures the department will use to assess the impact of Project C.O.R.E., including a list of redevelopment projects on sites made available through Project C.O.R.E.

   The report shall be submitted by December 31, 2016, and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

   **Explanation:** This action restrictions $500,000 in general funds pending the receipt of a report outlining the Department of Housing and Community Development's (DHCD) efforts to coordinate the various aspects of Project C.O.R.E. with each other and with private investment, as well as how the success of the project will be measured.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report on Project C.O.R.E. coordination, measurement, and results | DHCD | December 31, 2016 |

# *GO Bond Recommended Actions*

1. Adopt committee narrative requesting a report on capital grant and loan programs.

**Capital Grant and Loan Awards Report:** The committees are interested in unifying the reporting of the Department of Housing and Community Development's (DHCD) capital grant and loan programs. The committees request DHCD to provide a report that details for each of its 12 capital grant and loan programs the following information: the name of the program; the grantee or loan recipient; the jurisdiction of the project; the amount of the grant or loan; if applicable, the amount of funding from the Community Development Administration; if applicable, the amount of funding from tax credits and/or tax credit equity; if applicable, the amount of funding from other sources; if applicable, a description of the other sources of funding; the total amount from all sources of the project being funded; and, if applicable, a measure of the impact of the project, such as number housing units created. The listed information should be provided for each of the previous five fiscal years. The report shall be submitted by December 1, 2016.

| Information Request | Author | Due Date |
|---|---|---|
| Capital grant and loan report | DHCD | December 1, 2016 |

2. Approve funding for the Community Legacy Program.

3. Delete the Neighborhood Business Development Program authorization. Fund as pay-as-you-go.

SA24B Neighborhood Business Development Program........... $ 0

| Allowance | Change | Authorization |
|---|---|---|
| 3,400,000 | -3,400,000 | 0 |

**Explanation:** Delete the Neighborhood Business Development Program authorization of $3,400,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

4. Delete the Baltimore Regional Neighborhood Initiative authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA24C | Baltimore Regional Neighborhood Initiative................ | $ 0 |

| Allowance | Change | Authorization |
|---|---|---|
| 1,500,000 | -1,500,000 | 0 |

**Explanation:** Delete the Baltimore Regional Neighborhoods Initiative authorization of $1,500,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

5. Delete the Homeownership Programs authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA25A | Homeownership Programs........................................... | $ 0 |

| Allowance | Change | Authorization |
|---|---|---|
| 8,500,000 | -8,500,000 | 0 |

**Explanation:** Delete the Homeownership Programs authorization of $8,500,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

6. Delete the Housing and Building Energy Programs authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA25B | Housing and Building Energy Programs ...................... | $ 0 |

| Allowance | Change | Authorization |
|---|---|---|
| 1,000,000 | -1,000,000 | 0 |

**Explanation:** Delete the Housing and Building Energy Programs authorization of $1,000,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

7. Delete the Partnership Rental Housing Program authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA25C | Partnership Rental Housing Program........................... | $ 0 |

| **Allowance** | **Change** | **Authorization** |
|---|---|---|
| 6,000,000 | -6,000,000 | 0 |

**Explanation:** Delete the Partnership Rental Housing Program authorization of $6,000,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

8. Delete the Rental Housing Program authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA25D | Rental Housing Program............................................. | $ 0 |

| **Allowance** | **Change** | **Authorization** |
|---|---|---|
| 10,000,000 | -10,000,000 | 0 |

**Explanation:** Delete the Rental Housing Program authorization of $10,000,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

9. Approve the Shelter and Transitional Housing Facilities Grant Program.

10. Delete the Special Loan Programs authorization. Fund as pay-as-you-go.

| | | |
|---|---|---|
| SA25F | Special Loan Programs ............................................... | $ 0 |

| **Allowance** | **Change** | **Authorization** |
|---|---|---|
| 2,100,000 | -2,100,000 | 0 |

**Explanation:** Delete the Special Loan Program authorization of $2,100,000 in general obligation (GO) bonds. The Governor should provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds. Consistent with the recommendation of the Spending Affordability Committee, the State should end the use of GO bonds to support programs that cannot be funded with tax-exempt financing and instead should use general funds.

11. Approve the modification of Chapter 495 of 2015 to allow $3,000,000 in funds to be reallocated to Homeownership Programs from Special Loan Programs.

12. Approve the modification of Chapter 495 of 2015 to allow $3,000,000 in funds to be reallocated from Special Loan Programs to Homeownership Programs.

**Total General Obligation Bonds Reduction** **$32,500,000**