

**S00A**  
**Department of Housing and Community Development**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$8,101	\$3,423	\$4,546	\$1,123	32.8%
<b>Adjusted General Fund</b>	<b>\$8,101</b>	<b>\$3,423</b>	<b>\$4,546</b>	<b>\$1,123</b>	<b>32.8%</b>
Special Fund	60,953	84,241	88,739	4,498	5.3%
Deficiencies and Reductions	0	0	-70	-70	
<b>Adjusted Special Fund</b>	<b>\$60,953</b>	<b>\$84,241</b>	<b>\$88,669</b>	<b>\$4,427</b>	<b>5.3%</b>
Federal Fund	236,274	245,335	245,905	570	0.2%
Deficiencies and Reductions	0	0	-25	-25	
<b>Adjusted Federal Fund</b>	<b>\$236,274</b>	<b>\$245,335</b>	<b>\$245,880</b>	<b>\$545</b>	<b>0.2%</b>
Reimbursable Fund	4,325	2,165	2,165	0	
<b>Adjusted Reimbursable Fund</b>	<b>\$4,325</b>	<b>\$2,165</b>	<b>\$2,165</b>	<b>\$0</b>	<b>0.0%</b>
<b>Adjusted Grand Total</b>	<b>\$309,653</b>	<b>\$335,164</b>	<b>\$341,260</b>	<b>\$6,096</b>	<b>1.8%</b>

- The fiscal 2017 allowance grows by \$6.1 million, or 1.8%, across all funds.
- General funds increase by \$1.1 million, or 32.8%, due to a fund swap in the Emergency Solutions Grant program. Special funds increase by \$4.4 million, primarily due to increased funds available from the Strategic Energy Investment Fund for multifamily energy efficiency programs.

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

For further information contact: Jason A. Kramer

Phone: (410) 946-5530

## ***Personnel Data***

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	<b><u>FY 15</u></b> <b><u>Actual</u></b>	<b><u>FY 16</u></b> <b><u>Working</u></b>	<b><u>FY 17</u></b> <b><u>Allowance</u></b>	<b><u>FY 16-17</u></b> <b><u>Change</u></b>
Regular Positions	337.00	337.00	339.00	2.00
Contractual FTEs	<u>51.44</u>	<u>71.00</u>	<u>71.50</u>	<u>0.50</u>
<b>Total Personnel</b>	<b>388.44</b>	<b>408.00</b>	<b>410.50</b>	<b>2.50</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	18.54	5.50%
Positions and Percentage Vacant as of 12/31/15	21.00	6.23%

- Regular positions increase by 2.0 positions in the fiscal 2017 allowance compared to the current year working appropriation due to contractual conversions.
- Contractual full-time equivalents increase by 2.5.
- The fiscal 2017 allowance includes a turnover rate of 5.5%, which would require the department to keep 18.54 regular positions vacant throughout the year. There were 21.00 vacant positions as of December 31, 2015.

## ***Analysis in Brief***

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### **Major Trends**

***Homelessness Assistance Grows:*** The Department of Housing and Community Development (DHCD) provided assistance to nearly 6,000 people who were homeless or at risk of homelessness in fiscal 2014, the first year that the department tracked this count. That number rose to approximately 7,000 people in fiscal 2015, a level that the department expects to maintain through fiscal 2017.

***Department Meets Single-family Energy Efficiency Goal:*** The DHCD goal is to provide assistance for the improvement of 3,000 single-family homes annually. After a spike in assistance in fiscal 2012 followed by a decline in fiscal 2013 due to a switch from federal funding to EmPOWER funding, the department met its goal in fiscal 2014 and 2015, and expects to continue to do so through fiscal 2017.

### **Issues**

***Energy Audit Finds Unethical Practices at Weatherization Agencies:*** In July 2015, the U.S. Department of Energy (DOE) released the results of an audit that found unethical and improper accounting practices by local weatherization agencies. DOE questioned \$1.8 million in payments, which equates to up to 100 homes that could have received energy efficiency improvements that did not. Additionally, DOE noted serious shortcomings in the DHCD oversight of the program. **DHCD should comment on the DOE audit findings and provide to the committees any further changes it has made to the operations of any energy programs. DHCD should also comment on the increasing size of its energy efficiency portfolio and its ability to provide energy efficiency services to the State.**

***Loan Tracking Software Enters Fourth Decade:*** DHCD has been using the same software maintenance provider for its single-family loan tracking software since 1985. While the provider – Application Oriented Designs – is the only firm able to provide service for the proprietary software, it is unclear if the more than 30-year-old software is the ideal solution for the agency’s needs. DHCD is currently working on determining the necessary scope of services in advance of publishing a Request for Proposal (RFP) for a new system in February 2016. **DHCD should comment on the status of the RFP for new single-family loan tracking software.**

## **Recommended Actions**

	<b><u>Funds</u></b>
1. Adopt narrative that it is the committees' intent that, beginning with the fiscal 2018 budget, the Department of Housing and Community Development should provide every program it operates with its own subprogram code.	
2. Delete contractual cost increase related to 2.5 new contractual full-time equivalents.	\$ 125,000
<b>Total Reductions</b>	<b>\$ 125,000</b>

## **Updates**

***Foreclosure Rate Remains High:*** Maryland has the second highest foreclosure rate in the nation; however, foreclosure filings ordered to docket in the State declined by 20.8% in calendar 2015 compared to the prior year.

S00A  
Department of Housing and Community Development

## *Operating Budget Analysis*

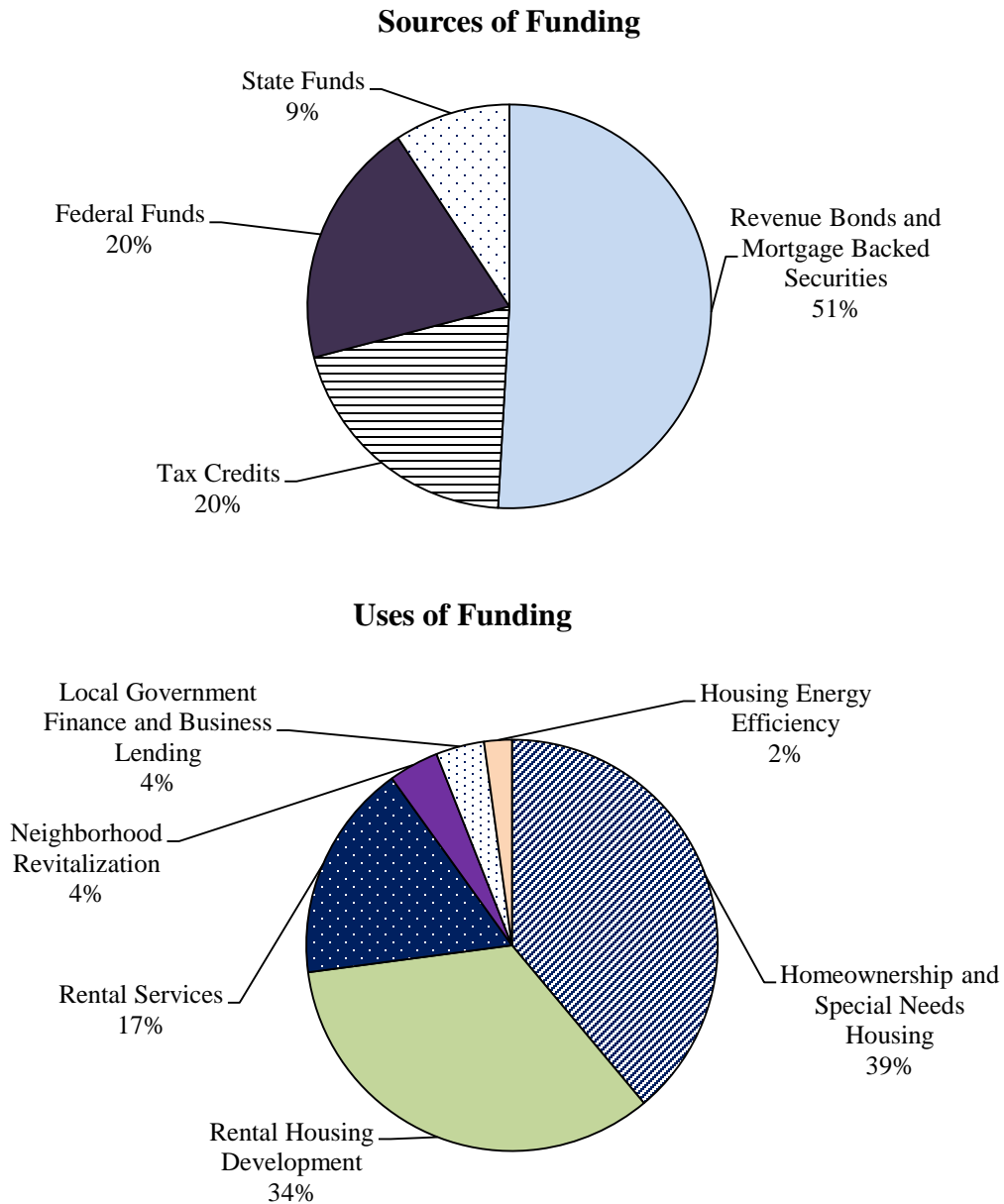
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### **Program Description**

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. As shown in **Exhibit 1**, DHCD used nearly \$1.2 billion in revenue bonds, mortgage-backed securities, State and federal tax credits, and State and federal funds to finance or provide funding to projects and programs throughout the State.

- **Homeownership and Special Needs Housing:** About \$446.7 million, or 39%, of fiscal 2015 DHCD funding was used for homeownership and special needs housing programs. 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.
- **Rental Housing Development:** About \$407.7 million, or 34%, of DHCD funding in fiscal 2015 was used for the development of 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 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 nonbudgeted proceeds of tax-exempt and taxable bonds.
- **Rental Services:** 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 (RAP). Under these programs, DHCD provides rental assistance to low-income households through owners of covered units, local governments, or nonprofit subcontractors. DHCD used \$205.9 million, or 17%, of its funding and financing for rental services programs in fiscal 2015.
- **Neighborhood Revitalization:** In fiscal 2015, about \$47.3 million, or 4%, of the agency's expenditures were related to Neighborhood Revitalization related activities. Local governments, community development nonprofits, 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 Funds**  
**Fiscal 2015 Total – \$1,199 Million**



Source: Department of Housing and Community Development

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- **Local Government Finance and Business Lending:** In fiscal 2015, about \$45.6 million, or 4%, of the agency's financing was related to providing financing to small businesses through the Neighborhood Business Works program and the Local Government Infrastructure Finance Program.
- **Housing Energy Efficiency:** In fiscal 2015, about \$26.1 million, or 2%, of the agency's financing was related to improving energy efficiency in housing. The two largest energy efficiency programs are the Low Income Energy Efficiency Program (LIEEP), 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, and the Division of Finance and Administration.

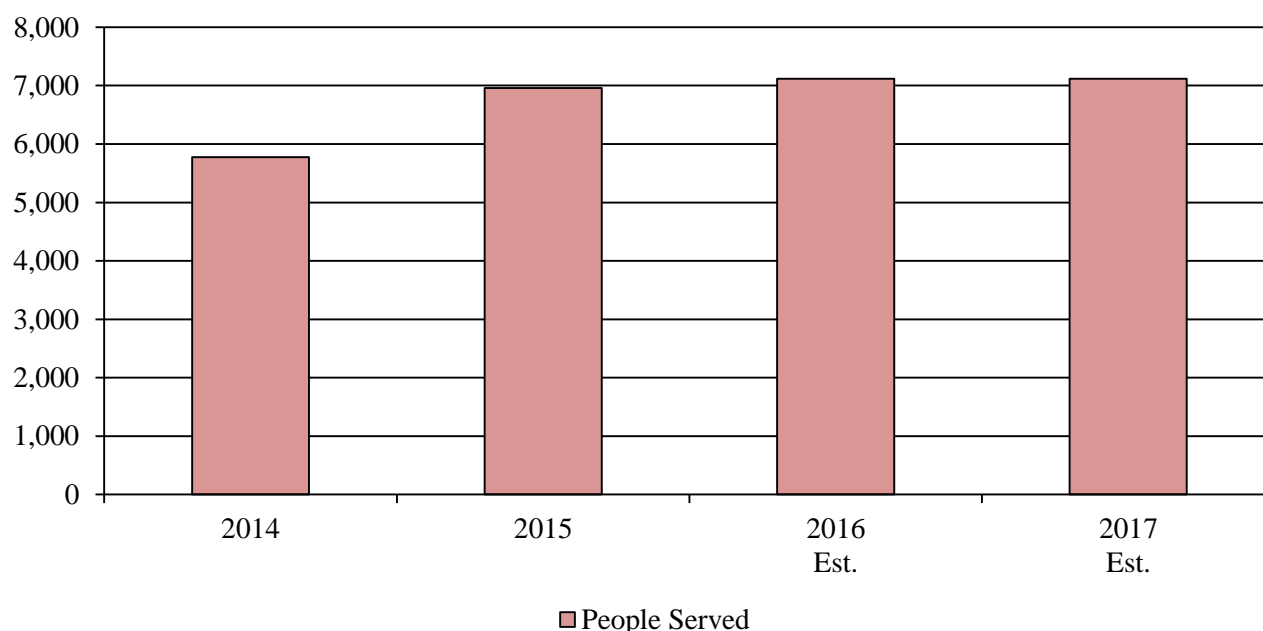
## **Performance Analysis: Managing for Results**

### **1. Homelessness Assistance Grows**

DHCD provides operating assistance to the State's homeless population via three programs. The Emergency Solutions Grant (ESG) program provides funds primarily for operating costs, case management and client services, and administrative costs for homeless shelters and transitional units. The funds mainly go to organizations in rural areas that are not eligible for funds directly from the U.S. Department of Housing and Urban Development. The fiscal 2017 allowance includes \$1.7 million in general funds, \$284,000 in special funds, and \$800,000 in federal funds for the ESG. While the total allowance for the ESG is flat compared to fiscal 2016, there is a \$1,122,943 general fund increase paired with a reduction in special funds in the same amount. The Rental Allowance Program (RAP) provides rental subsidies to people who are homeless or are in danger of becoming homeless; DHCD provides grants to local governments or community agencies that administer the program. The fiscal 2017 allowance includes \$1.7 million in general funds for the RAP. The Families First program is supported by an initial grant of \$400,000 over three years from the Freddie Mac Foundation and matching State funds. It is a pilot program launched in fiscal 2015 in Prince George's County that provides temporary rental assistance and other social services assistance to homeless veterans with families or veterans with families in danger of homelessness.

As shown in **Exhibit 2**, DHCD provided assistance to nearly 6,000 people who were homeless or were at risk of homelessness in fiscal 2014, the first year that the department tracked this count. That number rose to approximately 7,000 people in fiscal 2015, a level that the department expects to maintain through fiscal 2017.

**Exhibit 2**  
**Number of Homeless or At-risk of Homelessness People Served**  
**Fiscal 2014-2017 Est.**



Source: Department of Budget and Management

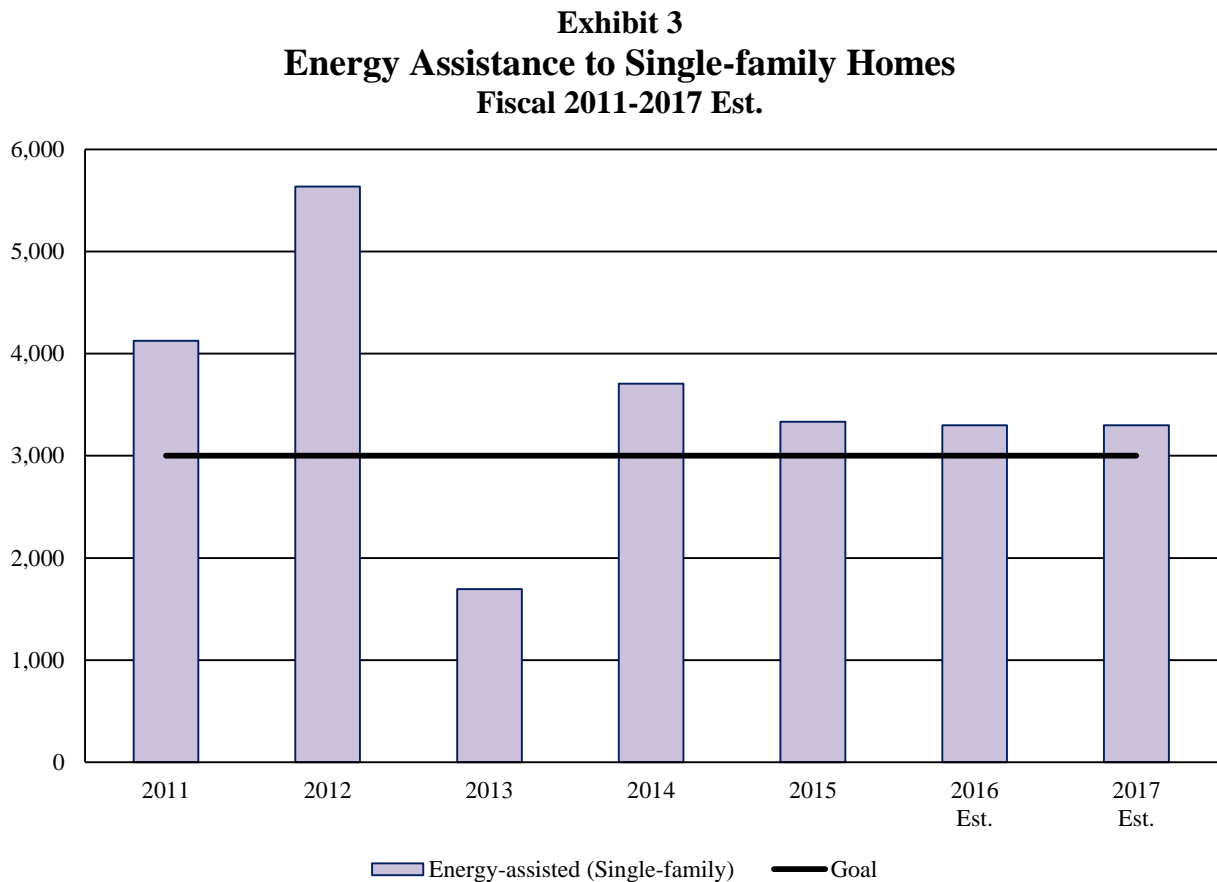
## **2. Department Meets Single-family Energy Efficiency Goal**

Several DHCD operating programs aim to improve the energy efficiency of the homes of single-family households with limited incomes. The department's goal is to assist 3,000 single-family homes with energy efficiency improvements annually through its various energy assistance programs.

The Department of Energy (DOE)-funded Weatherization Assistance Program (WAP) and the EmPOWER-funded LIEEP provide assistance to low-income households for the installation of energy conservation materials, while funds from the Strategic Energy Investment Fund (SEIF) and the Low-Income Home Energy Assistance Program are also used for single-family energy efficiency improvements.



As shown in **Exhibit 3**, after a spike in assistance in fiscal 2012 followed by a decline in fiscal 2013 due to a switch from federal funding to EmPOWER funding, the department met its goal in fiscal 2014 and 2015, and expects to continue to do so through fiscal 2017.



Source: Department of Budget and Management

## **Fiscal 2016 Actions**

### **Cost Containment**

DHCD reduced its general fund appropriation by \$160,000 in the ESG program as part of the 2% across-the-board reduction; \$80,000 of that was replaced by special funds.

## Proposed Budget

As shown in **Exhibit 4**, the fiscal 2017 allowance increases by \$6.1 million, or 1.8%. This includes a \$1.1 million increase in general funds due to a fund swap in the ESG program, and a \$4.4 million increase in special funds mostly due to newly available SEIF funds for multifamily energy efficiency programs.

### Exhibit 4 Proposed Budget Department of Housing and Community Development (\$ in Thousands)

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
Fiscal 2015 Actual	\$8,101	\$60,953	\$236,274	\$4,325	\$309,653
Fiscal 2016 Working Appropriation	3,423	84,241	245,335	2,165	335,164
Fiscal 2017 Allowance	<u>4,546</u>	<u>88,669</u>	<u>245,880</u>	<u>2,165</u>	<u>341,260</u>
Fiscal 2016-2017 Amount Change	\$1,123	\$4,427	\$545	\$0	\$6,096
Fiscal 2016-2017 Percent Change	32.8%	5.3%	0.2%		1.8%

#### Where It Goes:

##### Personnel Expenses

Contractual conversions.....	\$48
Regular earnings .....	-589
Reclassification .....	179
Turnover adjustments .....	753
Contractual compensation and fringe benefits less contractual conversions .....	608
Employee retirement system contributions.....	529
Employee and retiree health insurance .....	326
Workers' and unemployment compensation premium assessment .....	-4
Social Security contributions .....	-36

##### Energy Programs

EmPOWER multifamily less personnel, funded primarily by Cove Point SEIF payment ....	4,690
Increased SEIF funds available for multifamily energy program.....	1,000
Decrease in federal Weatherization Assistance Program grants.....	-2,000
Reduced spending on evaluation and measurement of energy efficiency programs .....	-480
Energy program training .....	-185

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**Where It Goes:**

**Other Changes**

Section 8 vouchers and administration less personnel to reflect fiscal 2016 actuals to date .	1,903
Foreclosure mediation and housing counseling decrease due to end of Prince George’s County Down Payment Assistance Program .....	-300
Administrative hearings to reflect fiscal 2015 actuals .....	-638
Other changes .....	292
<b>Total</b>	<b>\$6,096</b>

SEIF: Strategic Energy Investment Fund

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

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**Across-the-board Reductions**

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency’s share of these reductions is \$70,408 in special funds and \$24,957 in federal funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

**Salary Increments**

The fiscal 2017 budget bill includes funds for a salary increment increase in the Department of Budget and Management. The DHCD portion of the increment increase is \$345,559 in special funds and \$163,369 in federal funds.

**Personnel Changes**

The allowance includes several personnel changes totaling \$1.8 million, including:

- two contractual conversions, increasing costs by \$47,610;
- a decrease of \$589,465 in regular earnings due to an error in the personnel database;
- a reclassification of several fiscal services positions to maintain competitive salaries after the department’s move to the Washington, DC, metro area, which increased costs by \$178,560;
- an increase of \$752,923 to reflect a return of the department’s turnover rate to 5.5%, after it was at 10% for fiscal 2016 to reflect higher than normal vacancies due to the headquarters move;

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- an increase of \$608,108 driven by a lower turnover rate for contractual employees as well as 2.5 new contractual FTEs; and
- an increase of \$855,195 in health insurance and retirement costs.

**Energy Program Changes**

There are also several changes in spending in various energy efficiency programs, including:

- an increase of \$4.7 million in special funds in the EmPOWER multifamily program. The increased funds are a portion of Cove Point's payment to the SEIF; the DHCD share is \$4,625,000. Cove Point made the payment to the SEIF as part of an agreement to be allowed to build an electric generation facility to export liquefied natural gas;
- a decrease of \$2.0 million in federal WAP grant funds; and
- an increase of \$1.0 million in special funds from the SEIF to supplement existing energy efficiency programs, typically to provide improvements in areas or situations that would not be eligible for EmPOWER, or DOE WAP funds.

## ***Issues***

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### **1. Energy Audit Finds Unethical Practices at Weatherization Agencies**

The U.S. Department of Energy (DOE) in July 2015 released the results of an audit conducted of the DHCD administration of the DOE-funded WAP. A complaint regarding unethical and improper accounting practices by local weatherization agencies sparked the investigation, which substantiated several serious allegations. DOE questioned \$1.8 million in payments, which equates to up to 100 homes that could have received energy efficiency improvements that did not. Additionally, DOE noted serious shortcomings in the DHCD oversight of the program.

DHCD administers the WAP through 11 nonprofit agencies and 8 local governments throughout the State. The local agencies or governments provide weatherization services using WAP funds, as well as funds from other sources, and use in-house crews as well as contractors.

The DOE Office of Inspector General (OIG) investigated allegations against two local agencies – C&O Conservation Inc. (C&O) and Maryland Energy Conservation Inc. (MEC) – as well as one of the MEC contractors, House Warmers. OIG found that between April 2009 and December 2013, C&O and MEC engaged in improper and unethical accounting practices with \$1.5 million in reimbursements that were either abusive, unallowable, or potentially unallowable. OIG found \$910,000 in unallowed payments above actual costs to C&O, which is prohibited. The unallowed payments included unsupported surcharges, claims above actual costs, and unreasonable labor costs. OIG also found another \$291,000 in unallowable or potentially unallowable costs reimbursed to C&O and MEC, and \$312,000 in reimbursements that could not be supported by C&O and MEC.

The audit also noted about \$275,000 in questionable costs involving related party transactions. Both C&O and MEC made questionable compensation payments to related parties, and C&O had warehouse and vehicle lease arrangements that violated federal regulations regarding less-than-arm's-length transactions. One notable misuse of funds included the use of program funds to perform construction on a C&O board member's home.

While the improper actions found by OIG were the responsibility of the local agencies, the audit found an environment that allowed for the activities to continue. OIG called the DHCD oversight inadequate and found that the department lacked policies for reconciling payments to local agencies to actual labor and material costs. In addition, the subgrantee's accounting deficiencies obscured the use of program funds for personal expenses, which went undetected. OIG also noted that DHCD did not ensure that repeat audit findings from C&O and MEC audits had been resolved, and weaknesses at the agencies were not resolved despite OIG raising nearly identical issues in its prior audit in January 2013.

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DOE has removed C&O, House Warmers, and MEC from government contracting and subcontracting for three years. For its part, DHCD made several programmatic changes, including the following:

- DHCD hired an assistant to the compliance auditor, and increased the compliance auditor's salary to improve retention.
- The department sent several staff members to training workshops to improve understanding of the WAP programmatic and fiscal requirements. DHCD also hired a DOE financial training consultant to provide assistance in understanding program requirements.
- DHCD completed the Maryland Weatherization Program Operations Manual in August 2015, which was approved by DOE. The manual implements changes to the grant agreement to require grantees to retain responsibility for all activities, rather than subcontracting tasks.

Finally, DOE required DHCD to perform \$1.8 million in weatherization activities in order to reimburse the program. DOE allowed DHCD to use EmPOWER funds to provide to grantees to perform this work. In addition, DHCD conducted an audit of all grantees of the program throughout the program's history and recovered \$1.2 million in unsupported costs.

### **LIEEP Issues**

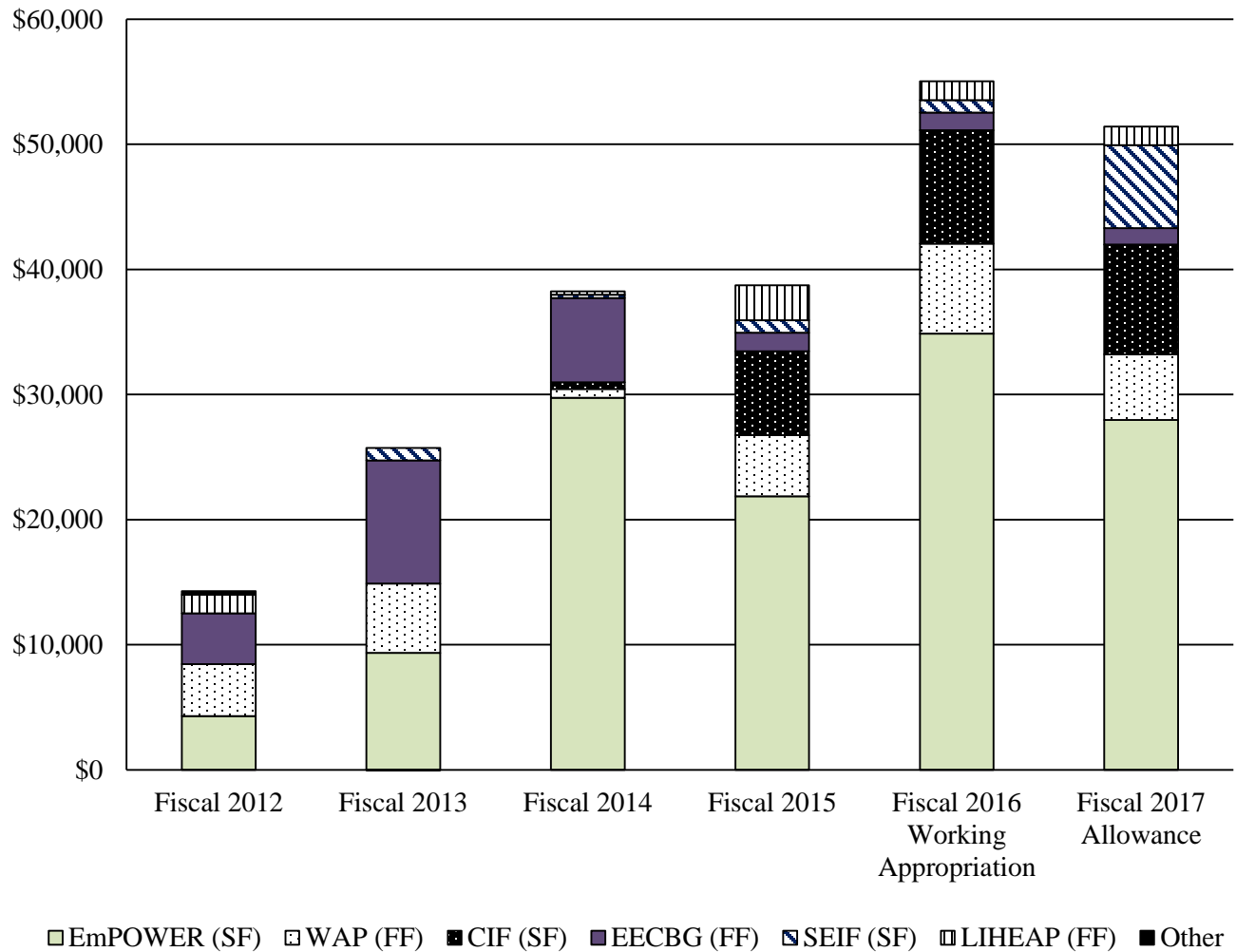
The DOE audit came shortly after Public Service Commission (PSC) staff raised issues about the DHCD operation of the EmPOWER-funded LIEEP. The LIEEP allows for the installation of energy conservation materials in homes at no charge, with eligibility restricted to low-income households (200% of federal 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.

PSC staff noted issues such as a below-forecast number of homes being weatherized, the high cost of weatherization, a lack of billing data, and a conflict of interest with a contractor that evaluated the program's impact. The legislature deleted funding related to the program in the 2015 session and authorized an amendment to return the funding once PSC awarded the funds, which it did in May 2015.

### **Energy Growth**

While energy efficiency programs represent a small portion of the DHCD overall portfolio, funding for energy efficiency programs (both operating and capital) has rapidly expanded from \$14.3 million in fiscal 2012 to \$51.4 million in the fiscal 2017 allowance, as shown in **Exhibit 5**. New sources such as EmPOWER and the Customer Investment Fund (CIF) provide the bulk of the increase. Both the department and PSC staff have noted implementation issues early in the history of both CIF- and EmPOWER-funded programs, as DHCD saw delays as it ramped up the program to fully utilize available funding.

**Exhibit 5**  
**Energy Program Funding Sources**  
**Fiscal 2012-2017 Est.**  
**(\$ in Thousands)**



CIF: Customer Investment Fund  
 EECBG: Energy Efficiency and Conservation Block Grant  
 FF: federal funds  
 LIHEAP: Low-Income Home Energy Assistance Program  
 SF: special funds  
 SEIF: Strategic Energy Investment Fund  
 WAP: Weatherization Assistance Program

Source: Governor's Budget Books, Fiscal 2014-2017

**DHCD should comment on the DOE audit findings and provide to the committees any further changes it has made to the operations of any energy programs. DHCD should also comment on the increasing size of its energy efficiency portfolio and its ability to provide energy efficiency services to the State.**

## **2. Loan Tracking Software Enters Fourth Decade**

DHCD has been using the same software maintenance provider for its single-family loan tracking software since 1985. While the provider – Application Oriented Designs – is the only firm able to provide service for the proprietary software, it is unclear if the more than 30-year-old software is the ideal solution for the agency’s needs. DHCD notes that the current system doesn’t place any limitations on the department’s operations.

In April 2015, the Board of Public Works (BPW) approved the annual \$300,000 contract for maintenance and enhancement of the software. The department has renewed the contract on a sole-source procurement basis, since installation in 1985. A 1999 assessment found that no upgrades were needed to the software, but no review has been performed since. DHCD is currently working on determining the necessary scope of services in advance of publishing a Request for Proposal (RFP) for a new system in February 2016. **DHCD should comment on the status of the RFP for new single-family loan tracking software.**



## ***Recommended Actions***

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1. Adopt the following narrative:

**Provide Unique Subprogram Codes for All Department Programs:** The budget committees are concerned about the Department of Housing and Community Development's budgeting process and a potential lack of transparency due to many programs not having their own eight-digit program and subprogram code. It is the intent of the committees that beginning with the fiscal 2018 budget, the department should provide all programs with a unique, eight-digit program and subprogram code in its budget preparation.

	<b><u>Amount Reduction</u></b>
2. Delete \$125,000 in special funds intended for the increase in Object 2 contractual costs due to 2.5 contractual full-time equivalents that are unjustified.	\$ 125,000 SF
<b>Total Special Fund Reductions</b>	<b>\$ 125,000</b>

## Updates

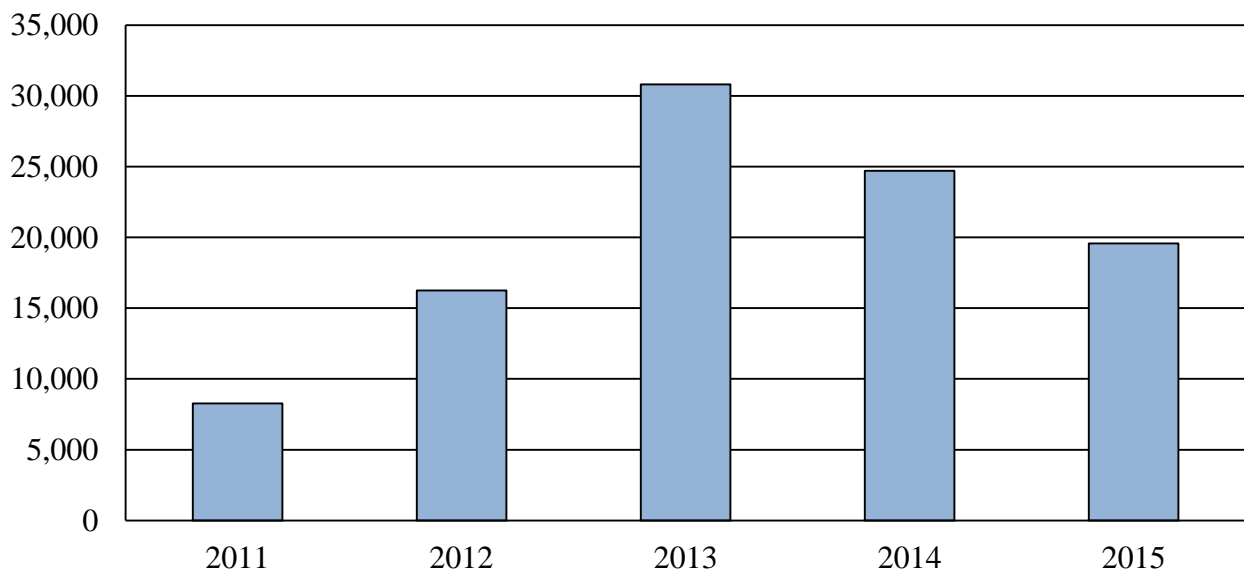
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### 1. Foreclosure Rate Remains High

High foreclosure rates in the State continue to be a problem, with recent reports placing Maryland second in the nation in its foreclosure rate. As shown in **Exhibit 6**, there were approximately 19,575 foreclosure filings ordered to docket in the State in calendar 2015, down 20.8% from calendar 2014. 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.

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**Exhibit 6**  
**Foreclosure Filings Ordered to Docket**  
**Calendar 2011-2015**



Source: Department of Housing and Community Development

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While funding from the National Attorneys General Mortgage Servicing Settlement ended in fiscal 2015, funds from the Maryland Housing Counseling Fund (MHCF) remain available 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.

## ***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2015</b>					
Legislative Appropriation	\$9,706	\$70,561	\$246,297	\$525	\$327,089
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-1,605	0	0	0	-1,605
Budget Amendments	0	2,253	64	3,815	6,132
Reversions and Cancellations	0	-11,861	-10,087	-15	-21,963
<b>Actual Expenditures</b>	<b>\$8,101</b>	<b>\$60,953</b>	<b>\$236,274</b>	<b>\$4,325</b>	<b>\$309,653</b>
<b>Fiscal 2016</b>					
Legislative Appropriation	\$3,423	\$73,351	\$245,221	\$2,165	\$324,160
Budget Amendments	0	10,890	114	0	11,004
<b>Working Appropriation</b>	<b>\$3,423</b>	<b>\$84,241</b>	<b>\$245,335</b>	<b>\$2,165</b>	<b>\$335,164</b>

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

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## **Fiscal 2015**

DHCD finished fiscal 2015 approximately \$17.4 million below its legislative appropriation.

**General Funds:** The general fund appropriation was reduced by \$1.6 million as part of the January 2015 across-the-board BPW reduction, including \$1.4 million that was intended to be used to purchase replacement office furniture for the department's new headquarters at New Carrollton. DHCD instead used available special funds originally intended for another purpose (contractual services in energy programs).

**Special Funds:** The special fund appropriation decreased by \$9.6 million compared to the legislative appropriation. Amendments increased the appropriation by \$205,498 for the cost-of-living adjustment (COLA), and by \$47,141 for the Annual Salary Review (ASR). Another amendment moved \$4.5 million from the capital appropriation in the Division of Neighborhood Revitalization to the operating appropriation to be used for a down payment assistance program in Prince George's County, while a later amendment returned \$2.5 million to the capital appropriation.

DHCD cancelled \$11.9 million in special funds, approximately \$7.7 million of which was in energy programs funded by EmPOWER Maryland and the CIF. The EmPOWER-funded programs slowed due to uncertainty about continuation of the programs, while CIF-funded programs were slow to launch. Also cancelled was \$1.5 million due to lower than expected relocation costs, mainly furniture and equipment. The department also had cancellations of the following amounts either directly, or indirectly, due to staff shortages:

- \$1.6 million due to lower than anticipated expenses for contractual services;
- \$837,000 due to lower than expected salary expenses due to higher turnover related to the relocation; and
- \$125,000 grants lower than expected due to staff shortages that impeded the awarding of grants.

**Federal Funds:** The federal fund appropriation decreased by \$10 million compared to the legislative appropriation. Amendments increased the appropriation by \$57,960 for the COLA and by \$6,417 for the ASR.

DHCD cancelled \$10.1 million in federal funds, including \$6.9 million in lower than expected pass-through payments in the Section 8 rental assistance program due to lower than expected rental rates. Federal grant activity in the WAP and Energy Efficiency and Conservation Block Grant Program was lower than anticipated, resulting in the cancellation of \$1.6 million. DHCD also cancelled:

- \$891,700 due to lower than anticipated spending related to the Community Development Block Grant program and spending on Hurricane Sandy relief;
- \$234,500 due to lower than anticipated expenses for contractual services;

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- \$113,400 due to salary savings from permanent and contractual vacancies; and
- approximately \$400,000 due to other lower than expected costs.

**Reimbursable Funds:** Reimbursable funds were \$3.8 million higher than the legislative appropriation due to the following amendments:

- \$2.8 million from the Department of Human Resources Office of Home Energy Program for furnace replacement or repairs that are necessary prior to other weatherization activities in the LIEEP or the WAP, both of which do not allow furnace repair or replacement; and
- \$1.0 million from the Department of Health and Mental Hygiene for Project Rental Assistance Demonstration, a housing subsidy for Medicaid recipients.

## **Fiscal 2016**

The fiscal 2016 legislative appropriation increased by \$10,890,000 in special funds and \$114,000 in federal funds.

The special fund increase included:

- an \$8,000,000 increase from EmPOWER Maryland for various energy efficiency programs. The fiscal 2016 allowance included these funds, but as PSC had not yet awarded the funds, the legislature deleted it from the budget and authorized the Governor to process an amendment to restore the appropriation after being awarded by PSC. PSC awarded the funds in May 2015;
- a \$2,400,000 increase from the MHCF, to replace a \$2,400,000 general fund budget reduction contingent on the enactment of Chapter 489 of 2015 (the Budget Reconciliation and Financing Act (BRFA)). Approval for the transfer from the MHCF was included in the BRFA of 2015; and
- an \$80,000 increase from the General Bond Reserve Fund to backfill half of the 2% across-the-board general fund reduction included in the fiscal 2016 budget. The funds will be used in the Emergency Solution Grants program.

The working appropriation also increased by \$410,000 in special funds and \$114,000 in federal funds for salary increment increase.

## ***Audit Findings***

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Audit Period for Last Audit:	March 30, 2011 – June 30, 2014
Issue Date:	November 2015
Number of Findings:	6
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

- Finding 1:** DHCD did not monitor housing projects to ensure that rental units were reserved for low-income households as required.
- Finding 2:** Documentation of the proposal evaluation process for certain grants was not maintained.
- Finding 3:** Written procedures were lacking for performing and documenting program compliance monitoring of certain grants.
- Finding 4:** Receivable balances were not adequately reconciled with loan servicer records.
- Finding 5:** Controls over employee access to the single-family loan accounting system were not sufficient.
- Finding 6:** DHCD did not always comply with State procurement regulations.

**Object/Fund Difference Report**  
**Department of Housing and Community Development**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	337.00	337.00	339.00	2.00	0.6%
02 Contractual	51.44	71.00	71.50	0.50	0.7%
<b>Total Positions</b>	<b>388.44</b>	<b>408.00</b>	<b>410.50</b>	<b>2.50</b>	<b>0.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 31,217,116	\$ 32,172,528	\$ 33,545,314	\$ 1,372,786	4.3%
02 Technical and Spec. Fees	2,867,163	3,145,279	3,681,387	536,108	17.0%
03 Communication	411,848	329,218	346,266	17,048	5.2%
04 Travel	201,963	295,117	226,717	-68,400	-23.2%
06 Fuel and Utilities	60,000	253,000	253,000	0	0%
07 Motor Vehicles	187,527	343,971	182,599	-161,372	-46.9%
08 Contractual Services	19,710,281	31,997,076	30,866,294	-1,130,782	-3.5%
09 Supplies and Materials	322,954	290,450	290,450	0	0%
10 Equipment – Replacement	818,250	317,698	396,009	78,311	24.6%
11 Equipment – Additional	2,570,867	25,000	25,000	0	0%
12 Grants, Subsidies, and Contributions	246,847,013	261,383,796	266,924,837	5,541,041	2.1%
13 Fixed Charges	2,985,013	4,611,013	4,617,191	6,178	0.1%
14 Land and Structures	1,452,711	0	0	0	0.0%
<b>Total Objects</b>	<b>\$ 309,652,706</b>	<b>\$ 335,164,146</b>	<b>\$ 341,355,064</b>	<b>\$ 6,190,918</b>	<b>1.8%</b>
<b>Funds</b>					
01 General Fund	\$ 8,100,954	\$ 3,423,057	\$ 4,546,000	\$ 1,122,943	32.8%
03 Special Fund	60,952,784	84,241,362	88,739,225	4,497,863	5.3%
05 Federal Fund	236,273,968	245,334,727	245,904,839	570,112	0.2%
09 Reimbursable Fund	4,325,000	2,165,000	2,165,000	0	0%
<b>Total Funds</b>	<b>\$ 309,652,706</b>	<b>\$ 335,164,146</b>	<b>\$ 341,355,064</b>	<b>\$ 6,190,918</b>	<b>1.8%</b>

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary**  
**Department of Housing and Community Development**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
20 Office of the Secretary	\$ 7,109,229	\$ 6,460,063	\$ 6,555,890	\$ 95,827	1.5%
22 Division of Credit Assurance	6,671,970	6,160,518	6,447,607	287,089	4.7%
24 Division of Neighborhood Revitalization	28,705,703	29,032,213	28,330,395	-701,818	-2.4%
25 Division of Development Finance	252,457,886	279,013,336	284,789,920	5,776,584	2.1%
26 Division of Information Technology	3,988,277	4,121,026	4,486,182	365,156	8.9%
27 Division of Finance and Administration	10,719,641	10,376,990	10,745,070	368,080	3.5%
<b>Total Expenditures</b>	<b>\$ 309,652,706</b>	<b>\$ 335,164,146</b>	<b>\$ 341,355,064</b>	<b>\$ 6,190,918</b>	<b>1.8%</b>
General Fund	\$ 8,100,954	\$ 3,423,057	\$ 4,546,000	\$ 1,122,943	32.8%
Special Fund	60,952,784	84,241,362	88,739,225	4,497,863	5.3%
Federal Fund	236,273,968	245,334,727	245,904,839	570,112	0.2%
<b>Total Appropriations</b>	<b>\$ 305,327,706</b>	<b>\$ 332,999,146</b>	<b>\$ 339,190,064</b>	<b>\$ 6,190,918</b>	<b>1.9%</b>
Reimbursable Fund	\$ 4,325,000	\$ 2,165,000	\$ 2,165,000	\$ 0	0%
<b>Total Funds</b>	<b>\$ 309,652,706</b>	<b>\$ 335,164,146</b>	<b>\$ 341,355,064</b>	<b>\$ 6,190,918</b>	<b>1.8%</b>

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.