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

## *Operating Budget Data*

**($ in Thousands)**

| | **FY 07 Actual** | **FY 08 Working** | **FY 09 Allowance** | **FY 08-09 Change** | **% Change Prior Year** |
|---|---|---|---|---|---|
| General Fund | $3,875 | $3,294 | $3,168 | -$126 | -3.8% |
| Special Fund | 26,803 | 28,501 | 29,218 | 717 | 2.5% |
| Federal Fund | 178,222 | 186,879 | 211,510 | 24,631 | 13.2% |
| Reimbursable Fund | 2,870 | 2,235 | 985 | -1,250 | -55.9% |
| **Total Funds** | **$211,771** | **$220,909** | **$244,881** | **$23,972** | **10.9%** |

- Overall, the fiscal 2009 allowance increases $24.0 million from the 2008 working appropriation, primarily as a result of increased federal funding.

- The underlying fiscal 2009 budget change, absent health insurance and Other Post Employment Benefits (OPEB) funding which distorts year-to-year comparisons, is $22.6 million, or 10.3%. In other words, $971,000 of the overall budget increase is directly attributable to the OPEB liability.

- In recent years, the Department of Housing and Community Development (DHCD) has significantly reduced its use of general funds for operations, and the fiscal 2009 allowance continues this trend.

## *Personnel Data*

| | **FY 07 Actual** | **FY 08 Working** | **FY 09 Allowance** | **FY 08-09 Change** |
|---|---|---|---|---|
| Regular Positions | 315.90 | 316.00 | 311.00 | -5.00 |
| Contractual FTEs | 21.59 | 39.50 | 46.50 | 7.00 |
| **Total Personnel** | **337.49** | **355.50** | **357.50** | **2.00** |

***Vacancy Data: Regular Positions***

| | | | |
|---|---|---|---|
| Turnover, Excluding New Positions | | 12.47 | 4.01% |
| Positions Vacant as of 12/31/07 | | 24.80 | 7.85% |

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

For further information contact: Flora M. Arabo Phone: (410) 946-5530

- The number of vacant positions as of December 31, 2007, is 24.8. Board of Public Works' actions taken in January 2008 resulted in 5.0 abolished positions, thus reducing the vacant positions to 19.8, for a rate of 6.4%. Eight of the positions have been vacant for six months or more.

- The agency's budgeted turnover rate of 4.01% requires an average of 12.47 vacant positions throughout fiscal 2009 to achieve the savings required.

- The fiscal 2009 allowance reflects 5.0 abolished regular positions and the creation of 7.0 contractual full-time equivalent positions.

# *Analysis in Brief*

## Major Trends

***Homeownership Assistance Grows:*** The number of low- and moderate-income residents who purchased a home with financing from DHCD held fairly steady from fiscal 2004 to 2006, then increased 204% from fiscal 2006 to 2007.

***Rental Housing Short of Goal in 2007:*** The number of rental units ready for construction can be uneven from year to year. In fiscal 2007, the number of units in initial closing was 800 shy of the estimate and 140 units less than fiscal 2006.

***Assistance to Communities and Nonprofits Varies:*** The number of nonprofits receiving technical assistance from DHCD has increased. At the same time, the number of communities receiving grants and loans has been relatively static, and the number of communities receiving technical assistance has declined.

## Issues

***The State of Affordable Housing:*** The need for affordable housing in Maryland is expected to reach 157,000 units by 2014. DHCD estimated in 2004 that it could increase its coverage of the shortfall from 28% to 40% without additional State resources by enhancing existing homeownership and rental housing programs. **DHCD should comment on steps taken to ensure that rental housing and homeownership production are maintained at the current level or increased.**

***Mortgage Loan Foreclosures in Maryland:*** New mortgage loan foreclosures in Maryland numbered 3,079 in December 2007, bringing the final quarter of the calendar year to a total of 9,735 foreclosures. December's activity was a slight decline from November's 3,129 foreclosures; however, it was more than 15 times greater than December 2006. In June 2007, Governor Martin O'Malley created the Maryland Homeownership Preservation Task Force to help prevent home foreclosures for working families in Maryland. **DHCD should brief the committees on ongoing efforts to assist homeowners facing foreclosure and comment on the agency's ability to sustain these efforts without compromising existing programs.**

***Workforce Housing Programs Continue to Evolve:*** Affordable workforce housing efforts have evolved substantially over the past several years, and changes to the program rules, structure, and name have raised questions about its overall purpose, effectiveness in encouraging Smart Growth, and attractiveness to Maryland homebuyers. **The Department of Legislative Services recommends that DHCD comment on the progress of the workforce housing programs. The legislature may wish to require DHCD to report performance measures for both the House Keys 4 Employees and Smart Keys for Employees programs to enable monitoring of program activity.**

## Recommended Actions

1. Concur with Governor's allowance.

## Updates

***Current Status of the Maryland Housing Equity Fund:*** A 2005 market assessment indicated that a private equity fund to finance affordable housing projects could perform well in Maryland. Such a fund has been established as part of the State's efforts to address the affordable housing shortage.

## *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.

- **Homeownership:** As shown in **Exhibit 1**, nearly two-thirds of the agency's activity is geared toward promoting homeownership. Those who meet certain income criteria can access loans with below-market interest rates and grants for down payment and settlement expenses to buy homes. Mortgage revenue bonds are the primary source of funds for these loans and grants. Exhibit 1 shows that DHCD bonds, which are not part of the State-appropriated budget, account for most of the agency's resources.

  DHCD reports that in fiscal 2007 its average homebuyer had an annual income of $56,570 and the average home price was $199,638. Minority homebuyers made up 53% of homebuyers assisted.

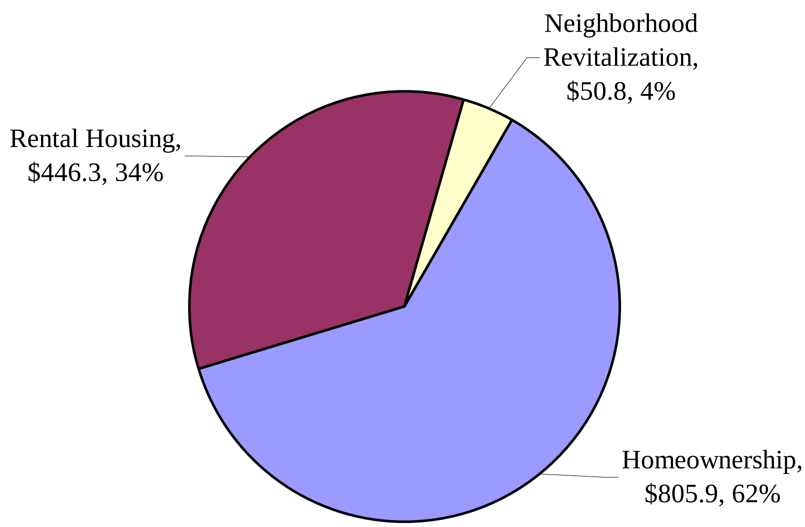
  Other homeownership support includes grants and loans for weatherization, lead hazard reduction, indoor plumbing improvements, overall rehabilitation, and group home projects.

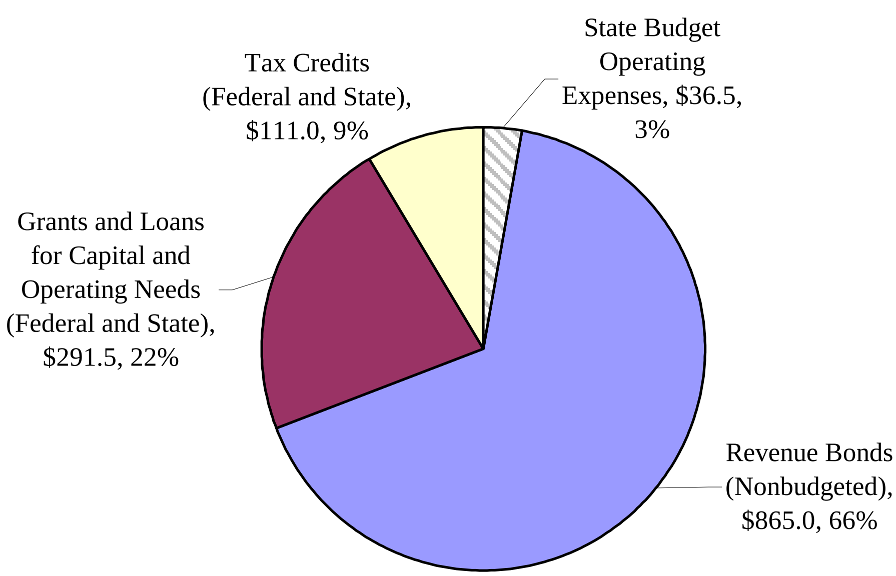
- **Affordable Rental Housing:** As shown in Exhibit 1, about one-third of the agency's activity goes to developing affordable rental housing. Developers and nonprofits can access tax credits and below-market loans to help finance multi-family housing projects serving low-income families; some loans are also available to local governments. Federal Low-Income Housing Tax Credits (totaling $109 million in fiscal 2007) 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 subsidy grants that are provided to low-income families in conjunction with local government, federal, and private sector assistance.

- **Neighborhood Revitalization:** As shown in Exhibit 1, about 4% of the agency's activity is for neighborhood revitalization. Local governments, community development nonprofits, businesses and others involved in improving communities can access grants, below-market loans, and technical assistance and training. Funds are used for projects such as streetscape and façade improvements, recreational amenities, and improvement of public spaces.

**Exhibit 1**
## DHCD Activity by Goal and Source
**Fiscal 2007 Total = $1.3 Billion**
**($ in Millions)**




DHCD: Department of Housing and Community Development

Note: State budget operating expenses are apportioned among homeownership, rental housing, and neighborhood revitalization goals according to the portion of the budget that each of these makes up.

Source: Department of Housing and Community Development

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

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

## Performance Analysis: Managing for Results

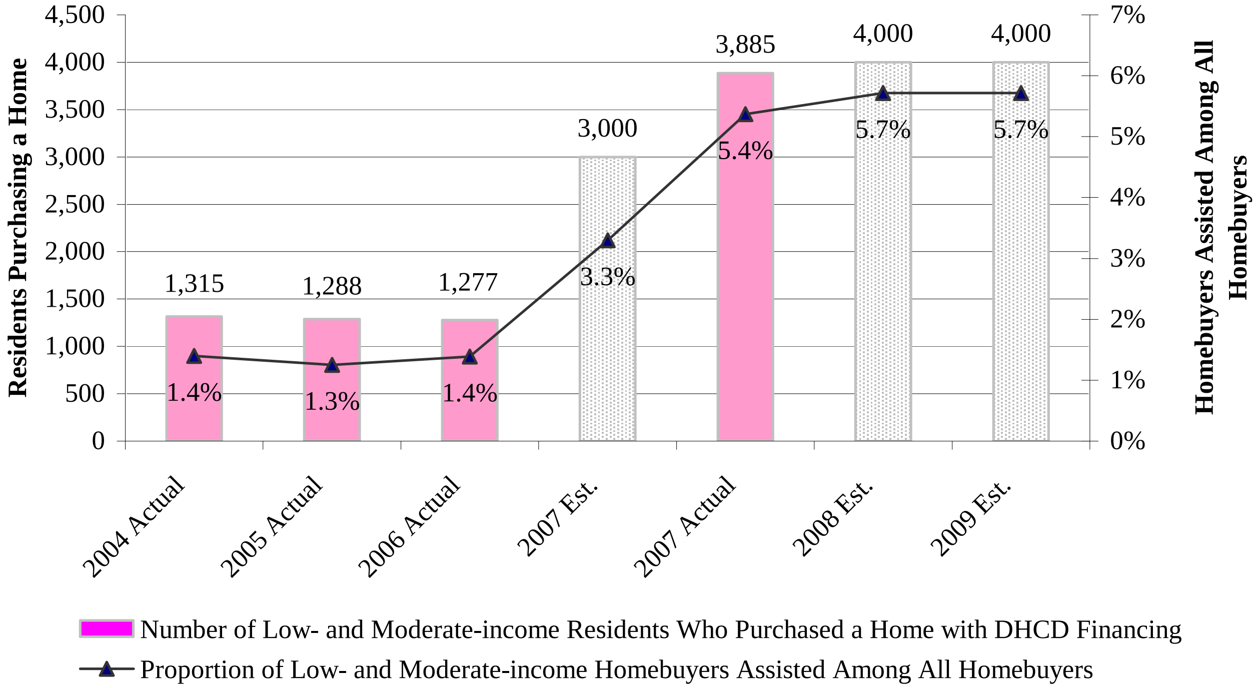
DHCD focuses on improving homeownership – as well as affordable rental housing availability – for low- and moderate-income Marylanders. Specifically, DHCD targets families that have incomes below 60% of the median income in their area. Note that in fiscal 2007, DHCD modified the Managing for Results (MFR) measures that it reports to reflect the priorities of the new Administration.

### Homeownership Assistance Grows

DHCD has a goal to help low- and moderate-income residents purchase or keep their homes. The number of these residents who received financial assistance from DHCD held fairly steady from fiscal 2004 to 2006, then more than doubled in 2007, as shown in **Exhibit 2**. The proportion of low- and moderate-income homebuyers receiving DHCD financing among all homebuyers (regardless of financing source) followed a similar pattern. In fiscal 2007, DHCD assisted 5.4% of all Maryland homebuyers with their loans.

DHCD also assists homebuyers through its lifeline refinancing product within homeownership programs. The agency reports that of all 3,885 loans made in fiscal 2007, only 2 loans were financed through this product, meaning nearly all loans supported the purchase of new homes. New purchases, as opposed to refinances, have the added benefit of freeing up existing rental units, as discussed in Issue 1.

**Exhibit 2**
**Low- and Moderate-income Homeownership Assistance**
**Fiscal 2004-2009**




Notes: Data on low- and moderate-income residents include only those receiving financial, not technical, assistance from the Department of Housing and Community Development (DHCD). Data on homebuyers assisted among all homebuyers reflect the number of low- and moderate-income homebuyers receiving DHCD financing divided by the total number of homebuyers regardless of the financing source.

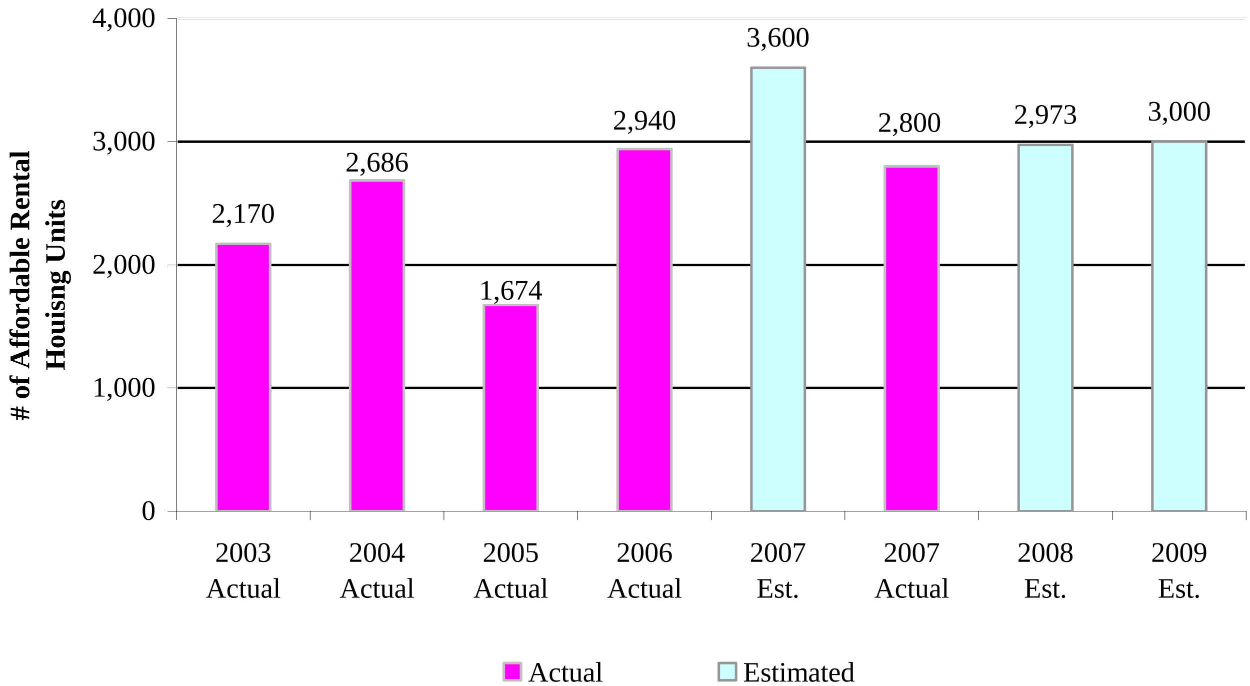
Source: Governor's Budget Books, Fiscal 2005-2009

## Rental Housing Short of Goal in 2007

Another DHCD MFR goal is to expand decent, affordable rental housing in Maryland in response to a growing shortage of affordable rental units that the agency projects over the next 10 years. 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 rental housing. The new rental housing properties generally have from 30 to 300 units and cost $5 million to $30 million each.

To measure its progress, DHCD tracks the number of new affordable housing units it supports that go to initial closing. The initial closing status means that DHCD and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 3**, the units in initial closing vary from year to year. If there is a delay in a project's construction schedule, then the unit count may be applied to the following fiscal year. Furthermore, projects may vary in size and scope, with some projects involving several hundred units. There is an eight-month interval between competitions for State loan funds so it can be difficult to make up for projects that do not materialize in a particular year. In fiscal 2007, the number of units in initial closing was 800 shy of the estimate, and 140 units less than fiscal 2006.

**Exhibit 3**
## Affordable Rental Housing Units Going to Initial Closing
**Fiscal 2004-2009**



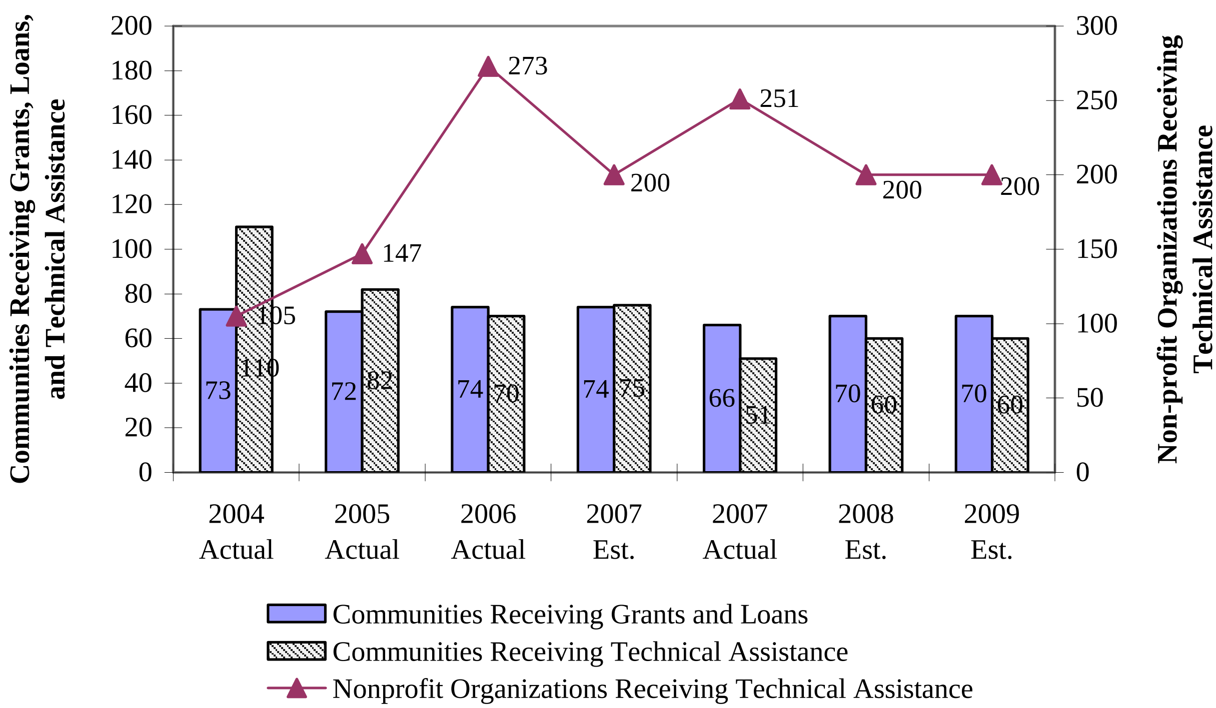

Note: Initial closing status means that the Department of Housing and Community Development and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete.

Source: Governor's Budget Books, Fiscal 2005-2009

## Assistance to Communities and Nonprofit Organizations Varies

As part of its MFR efforts, DHCD tracks its work at the community level. Assistance goes to nonprofit and community-based organizations as well as communities themselves, meaning local governments. The number of communities receiving grants and loans has been relatively steady since fiscal 2004, as shown in **Exhibit 4**, though it decreased slightly in fiscal 2007. The number of communities receiving technical assistance also decreased in fiscal 2007, but this number has been on the decline for several years. Conversely, the number of nonprofit organizations receiving technical assistance grew from 105 in fiscal 2004 to 251 in fiscal 2007.

**Exhibit 4**
**Financial and Technical Assistance to Revitalize Communities**
**Fiscal 2004-2009**




Note: The Department of Housing and Community Development also provides assistance to small businesses and selected neighborhoods in distressed areas. "Communities" means local governments.

Source: Governor's Budget Books, Fiscal 2005-2009.

## Fiscal 2008 Actions

### Impact of Cost Containment

The fiscal 2008 working appropriation takes a $100,000 reduction into effect for a cost containment initiative. The decrease was absorbed in personnel in the Division of Neighborhood Revitalization. However, DHCD was able to maintain personnel expenses by redirecting special funds for vehicle and travel expense.

## Governor's Proposed Budget

As shown in **Exhibit 5**, the fiscal 2009 allowance represents a $24.0 million (10.9%) increase from the fiscal 2008 working appropriation.

**Exhibit 5**
## Governor's Proposed Budget
**Department of Housing and Community Development**
**($ in Thousands)**

| **How Much It Grows:** | **General Fund** | **Special Fund** | **Federal Fund** | **Reimb. Fund** | **Total** |
|---|---|---|---|---|---|
| 2008 Working Appropriation | $3,294 | $28,501 | $186,879 | $2,235 | $220,909 |
| 2009 Governor's Allowance | 3,168 | 29,218 | 211,510 | 985 | 244,881 |
| Amount Change | -$126 | $717 | $24,631 | -$1,250 | $23,972 |
| Percent Change | -3.8% | 2.5% | 13.2% | -55.9% | 10.9% |

| **Where It Goes:** | |
|---|---|
| **Personnel Expenses** | |
| Health Insurance – reduce long-term Other Post Employment Benefits liability | $971 |
| Health Insurance – pay-as-you-go costs | 476 |
| Increments | 252 |
| Abolished positions | -307 |
| Remainder | 83 |
| **Other Changes** | |
| Rental Services Program | 23,700 |
| Neighborhood Revitalization | 168 |
| Information Technology | 88 |
| Finance and Administration | 63 |
| Administration | 42 |
| Special Loan Programs | -1,197 |
| Asset Management | -252 |
| Homeownership Programs | -124 |
| Other | 9 |
| **Total** | **$23,972** |

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

## Personnel Expenses Increase

Expenses for regular personnel are projected to increase $1.5 million. Savings of $307,000 result from five abolished positions; however, large increases are realized in health insurance. A $476,000 increase covers health insurance for regular personnel, and another $971,000 covers the State's Other Post Employment Benefits liability. After adjusting for these two items, the personnel budget is nearly level-funded, even with $252,000 in increments.

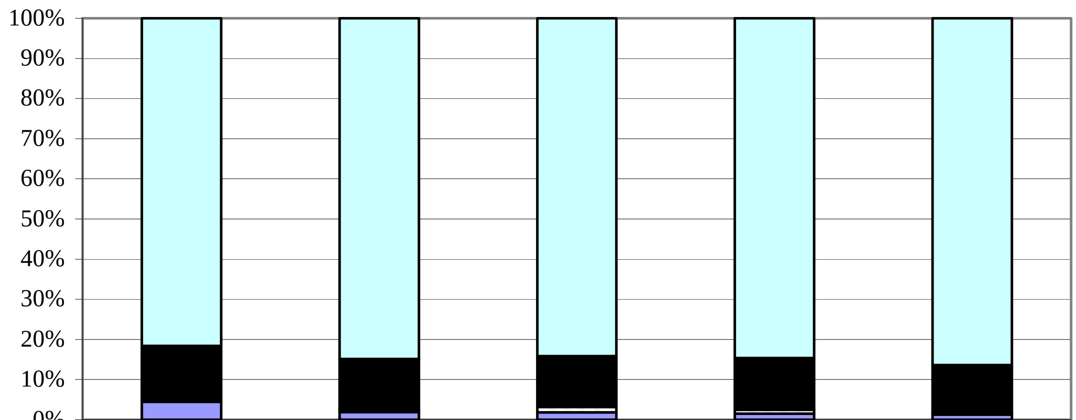
## Other Changes Include Significant Increases in Federal Funding, Decreased Reliance on General Funds

Growth in the DHCD budget is being driven by changes to federal funding. The fiscal 2009 allowance is $24.6 million greater than the fiscal 2008 working appropriation. Of this change, 96% is related to a $23.7 million agreement with the federal Department of Housing and Urban Development to manage Section 8 properties. This complements $7.0 million of new properties that DHCD anticipates receiving during fiscal 2008.

Among other changes, reimbursable funds decrease $1.3 million. Of this, $1.0 million reflects one-time funding in fiscal 2008 to support community-based housing counseling agencies in response to the Homeownership Preservation Task Force recommendations. The Maryland Affordable Housing Trust transferred the funds to the Special Loans Program. These funds are discussed further in Issue 2. The remaining $250,000 is also one-time funding transferred from the Energy Assistance Program that is not reflected in the fiscal 2009 allowance.

In recent years, the agency has significantly reduced its use of general funds for operations, and increasingly relied on special and federal funds to meet its objectives as shown in **Exhibit 6**. General funds have steadily decreased every year since fiscal 2002. Federal funding has increased annually during the same time period, and in fiscal 2009 will represent 86.4% of the agency's budget. As this trend continues, it may become challenging for the agency to sustain operations without new general funds in coming years. Federal funds, and the direct and indirect cost recoveries they generate, are predictable but not guaranteed. Furthermore, special funds to support operations are generated from the agency's revolving loan funds. These recoveries can vary significantly from year to year with fluctuations in loan repayment activity.

**Exhibit 6**
## DHCD Funding Sources
**Fiscal 2005-2009**
**($ in Thousands)**




| | 2005 | 2006 | 2007 | 2008 Working Approp. | 2009 Allowance |
|---|---|---|---|---|---|
| Federal Funds | $160,660 | $170,367 | $178,222 | $186,879 | $211,510 |
| Special Funds | $26,257 | $25,475 | $26,803 | $28,501 | $29,218 |
| Reimbursable Funds | $1,102 | $1,077 | $2,870 | $2,235 | $985 |
| General Funds | $8,850 | $3,899 | $3,875 | $3,294 | $3,168 |

DHCD: Department of Housing and Community Development

Source: Governor's Budget Books, Fiscal 2005-2009

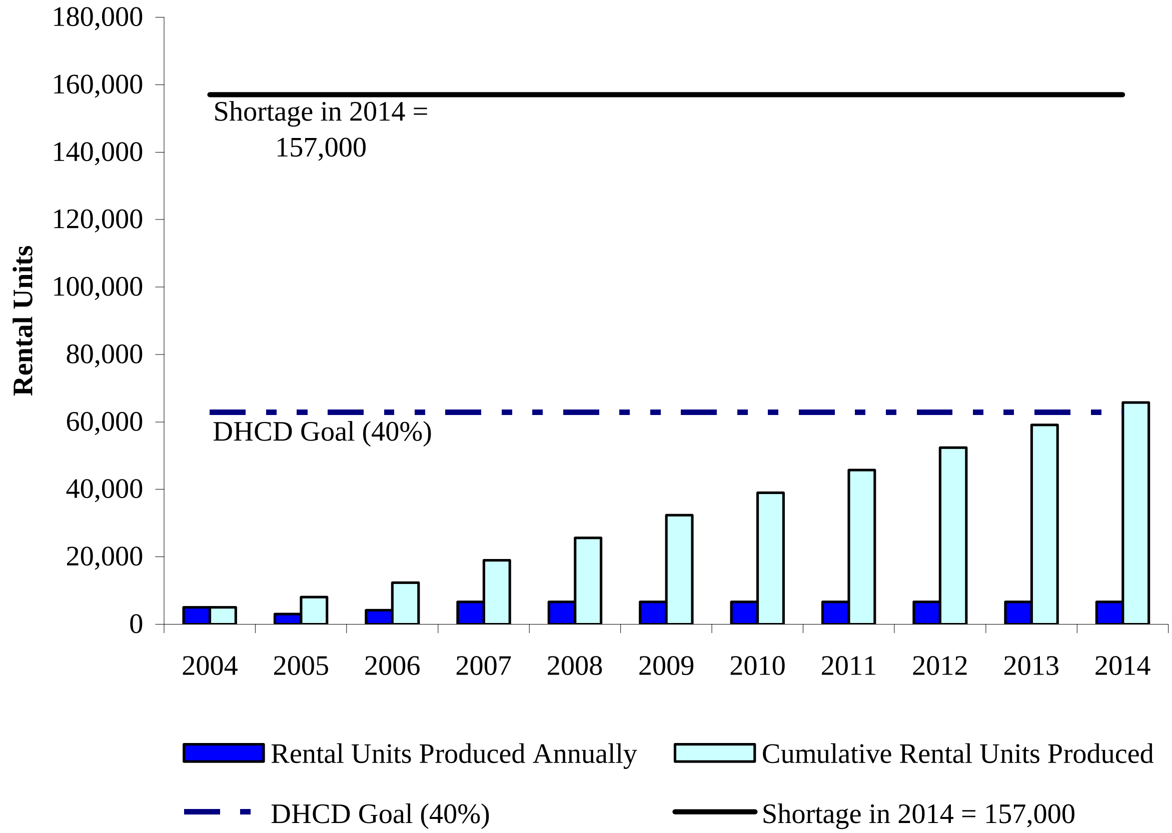
# *Issues*

## 1. The State of Affordable Housing

The need for affordable housing is expected to grow in the coming years. Maryland's shortage of affordable and available workforce rental housing units is projected to be about 157,000 units by 2014. Roughly two-thirds of the shortage is expected to affect families. DHCD notes that its programs alone cannot address the shortfall. The agency estimated in 2004 that it could increase its coverage of the shortfall from 28% to 40% without additional State resources by enhancing existing homeownership and rental housing programs. This means that DHCD would assist in the production of 62,800 units by 2014. The remaining 60% may be covered through various levels of government assistance and private sector activities. DHCD is making progress toward this goal, but reaching it will depend largely on maintaining current production levels.

Historically, DHCD has produced about 4,425 units annually through the financing of new rental housing units and homeownership. If the agency continued to produce at this rate, the projected rental housing shortage would be reduced by only 44,250 units from 2004 to 2014, leaving the shortage at an estimated 112,750 units. However, if the agency maintains its current level of production, which was 6,685 units in 2007, 65,775 units would be created by 2014 – almost 3,000 units in excess of the goal. **Exhibit 7** shows the detail. At a minimum, the agency must produce 6,260 units each year from fiscal 2008 to 2014 to reach its goal of 62,800 units, or 40% of the anticipated shortage.

**Exhibit 7**
**Rental Housing Shortage Over 10 Years Based on Current Production**
**Fiscal 2004-2014**




Source: Department of Housing and Community Development; Department of Legislative Services

Given the constraints of the current housing climate, maintaining fiscal 2007 production levels could pose significant challenges. While DHCD's production level for fiscal 2007 was a growth of 2,468, or 58.5%, over 2006, the entire growth was in homeownership production. In applying homeownership production to the count of affordable rental housing, DHCD assumes that these purchases are new, thereby freeing up occupied rental units. However, as that level of detail is not currently tracked by the agency, it is not necessarily known whether or not the assumption is accurate. Rental unit production, on the other hand, appears to be lagging. Fiscal 2007 rental housing production of 2,800 units was 800 units short of the agency's goal. Moreover, this represented a 140-unit decrease from fiscal 2006.

**DHCD should comment on steps taken to ensure that rental housing and homeownership production are maintained at the current level or increased.**

### New Affordable Housing Initiative Promotes Production

The One-Stop Shop initiative is a new $75 million incentive program to preserve multi-family rental housing through the use of tax-exempt bonds. The DHCD program provides an incentive for developers of existing multi-family rental housing to not convert those homes into market-rate housing by offering them low-cost loans if they agree to maintain the property's affordability and possibly renovate and improve the homes. The agency will also be applying for up to $5 million in funding from the MacArthur Foundation to complement this effort.

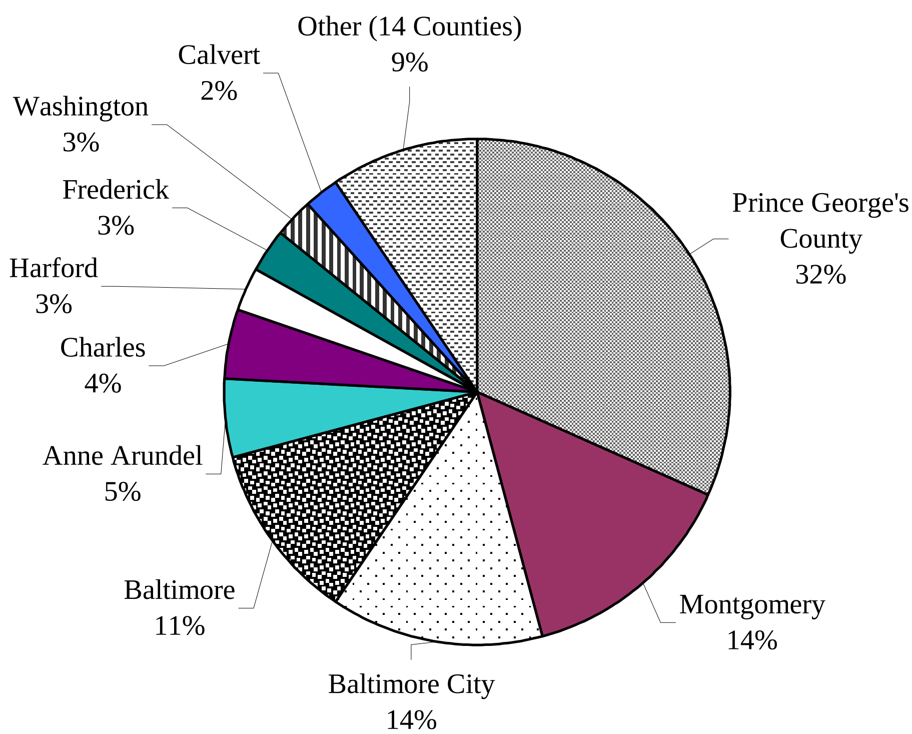
## 2. Mortgage Loan Foreclosures in Maryland

During 2002 through 2004, first-time homebuyers and long-term homeowners across Maryland with less than optimal credit took advantage of subprime and nontraditional loans offering attractive rates and flexible payment options. Low- to middle-income borrowers were most vulnerable to the adjustable or "teaser" rates offered on those loans because it allowed them to purchase properties which may have been otherwise unaffordable. Rates on such loans are resetting during 2007 and 2008, causing mortgages to increase and placing borrowers at high risk of defaulting on their payments. Thousands of foreclosures and delinquencies are already on the books for 2007.

### A Growing Trend

According to RealtyTrac, Inc., a California-based firm that collects nationwide foreclosure data, the State's foreclosure events for December 2007 numbered 3,079, bringing the final quarter of the calendar year to a total of 9,735 foreclosures. December's activity was a slight decline from November's 3,129 foreclosures; however, it was more than 15 times greater than December 2006. These results place Maryland at 19$^{th}$ in the country for foreclosure events during the month, amounting to 1 filing for every 738 households. The breakdown by jurisdiction can be seen in **Exhibit 8**.

**Exhibit 8**
**Foreclosure Events by Jurisdiction – December 2007**




Source: RealtyTrac, Inc.

## Homeownership Preservation

In June 2007 Governor Martin O'Malley established the Maryland Homeownership Preservation Task Force, co-chaired by the Secretaries of DHCD and the Department of Labor, Licensing, and Regulation, to find ways to curtail home foreclosures among working families in Maryland. In November, the task force presented these recommendations to the Governor:

- Create a "Homeownership Crisis Intervention Fund" to provide case-by-case interventions to prevent foreclosures and potential homelessness.
- Expand options for homeowners to refinance or restructure mortgages to prevent foreclosure and address affordability.
- Help communities in distress or at-risk due to concentrations of foreclosure activity in certain neighborhoods or jurisdictions.

- Promote sustainable homeownership resources through statewide outreach and marketing campaigns that will reach homeowners throughout Maryland.

- Strengthen and expand nonprofit financial and housing counseling statewide.

- Coordinate all public and private resources available in Maryland to sustain homeownership.

- Increase the commissioner of Financial Regulation's legal and regulatory oversight and enforcement of the mortgage lending industry to strengthen protections for homeowners and ensure the integrity of the industry.

- Strengthen the laws and enforcement against fraud in mortgage transactions.

- Improve Maryland's foreclosure process.

DHCD responded by expanding existing fiscal 2008 program authority in the following ways:

- Establishing "Bridge to Hope", a short-term, State-funded loan program within Homeownership Programs that assists homeowners who are delinquent on mortgage payments or having difficulty adjusting to interests rates that have reset. This $400,000 program helps homeowners stay on track until they are able to refinance or develop an exit strategy in the hopes of averting delinquency or foreclosure.

- Designing a credit-enhancement product with $10.0 million coming from the Maryland Housing Fund reserves. The Division of Credit Assurance provides the homeowner with mortgage insurance so they may refinance their subprime mortgage on the private market.

- Utilizing a $1.0 million grant from the Maryland Affordable Housing Trust to provide community-based counseling agencies with resources to provide outreach, specifically targeting communities with high foreclosure rates. These organizations offer counseling services and aid the homeowners in leveraging private funds.

- Creating a new bond-funded refinance product that offers a range of loans that reach more homeowners to prevent foreclosure. CDA is working with an equity partner to bring the program to fruition. While the aforementioned initiatives are in place, this effort is still in development stages.

In addition, DHCD is completing research, developing a statewide marketing campaign, maximizing their web site as a tool for outreach and education, and working with local organizations to encourage public-private partnerships.

**DHCD should brief the committees on ongoing efforts to assist homeowners facing foreclosure and comment on the agency's ability to sustain these efforts without compromising existing programs.**

## 3. Workforce Housing Programs Continue to Evolve

Workforce housing usually refers to housing for teachers, police officers, firefighters, and other civil servants who may be obliged to live far from their workplace because of a lack of affordable housing. DHCD has encouraged homebuyers to purchase homes near their places of employment through a program that has continued to adapt and evolve over the past few years. DHCD's Community Partner Match down payment assistance program offers several products which directly target workforce housing.

### Live Near Your Work

DHCD had a program called Live Near Your Work (LNYW) that offered incentives to homebuyers to purchase housing near their employers and strengthen neighborhoods by keeping income levels diverse. In the original LNYW program, homebuyers were given a $3,000 grant, with $1,000 provided by DHCD, $1,000 by the local government, and $1,000 by the employer. Local governments were responsible for defining a boundary within which the program's incentives applied. Employers defined their participation boundaries, which had to fall within those set by the local government.

### House Keys 4 Employees, Live Near Your Work Plus

In September 2005, DHCD announced House Keys 4 Employees (HK4E), a new CDA product where employers and/or local governments provide a grant or loan of up to $5,000 that is matched by DHCD. With HK4E, there are no boundary restrictions and the homebuyer receives down payment and/or closing cost assistance under the Maryland Mortgage Program. The agency then unveiled a modified version of LNYW called Live Near Your Work Plus in 2006. Homebuyers who qualified for a CDA mortgage received a DHCD grant equal to 3% of the mortgage amount if the homes were within 25 miles of their workplaces. With this approach, the grant amount increased as the mortgage increased, whereas the older program provided a flat amount. Employers and local governments entered the picture if the homebuyers' employers participated in HK4E. The new program let employers decide the geographic boundaries within the 25-mile radius to which they wanted their incentives to apply.

## Smart Keys 4 Employees

In February 2007, DHCD announced the Smart Keys 4 Employees, a new Smart Growth enhancement to HK4E. This program replaced the Live Near Your Work Plus program. It allows borrowers to receive additional matching funds by doubling the HK4E match up to $5,000 if the home borrower meets the program's criteria. The property the borrower purchases must be in a priority funding area, and must be located within 10 miles of the homebuyer's place of employment or within the boundaries of the local jurisdiction. The Smart Keys 4 Employees program provides incremental financial benefits to the homebuyer. It also gives consideration to the State's Smart Growth policy by providing incentives for consumers to live near where they work and discouraging suburban sprawl.

Affordable workforce housing efforts have evolved substantially over the past several years, and changes to the program rules, structure, and name have raised questions about its overall purpose, effectiveness in encouraging Smart Growth, and attractiveness to Maryland homebuyers. From the standpoint of home purchasers as well as realtors, employers, or local governments who have a role in marketing the program, this instability could make it more difficult to reach out to potential participants. **The Department of Legislative Services recommends that DHCD comment on the progress of the workforce housing programs. The legislature may wish to require DHCD to report performance measures for both the House Keys 4 Employees and Smart Keys for Employees programs to enable monitoring of program activity.**

# *Recommended Actions*

1. Concur with Governor's allowance.

# *Updates*

## 1. Current Status of the Maryland Housing Equity Fund

A 2005 market assessment indicated that a private equity fund to finance affordable housing projects could perform well in Maryland. Such a fund has been established as part of the State's efforts to address the affordable housing shortage. The fund is managed by Enterprise Community Investment, Inc. (Enterprise), a nonprofit headquartered in Columbia, and a fund manager has been hired. DHCD indicates that the fund is still in progress and Enterprise continues to raise capital and search for deals. The equity fund will help leverage financing available from DHCD to maximize affordable workforce housing production by reducing borrowing costs on multi-family rental development projects. As Enterprise reaches out to developers, it will include DHCD programs as possible sources of funding for projects.

Appendix 1

# *Current and Prior Year Budgets*

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

| | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| **Fiscal 2007** | | | | | |
| Legislative Appropriation | $3,394 | $28,657 | $218,287 | $898 | $251,236 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 992 | 240 | -600 | 2,000 | 2,632 |
| Reversions and Cancellations | -511 | -2,094 | -39,465 | -28 | -42,098 |
| **Actual Expenditures** | **$3,875** | **$26,803** | **$178,222** | **$2,870** | **$211,770** |
| **Fiscal 2008** | | | | | |
| Legislative Appropriation | $3,383 | $28,260 | $186,698 | $985 | $219,326 |
| Cost Containment | -100 | 0 | 0 | 0 | -100 |
| Budget Amendments | 11 | 241 | 181 | 1,250 | 1,683 |
| **Working Appropriation** | **$3,294** | **$28,501** | **$186,879** | **$2,235** | **$220,909** |

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

## Fiscal 2007

DHCD finished fiscal 2007 $39.5 million below its legislative appropriation, primarily due to changes in the federal contracts administration appropriation.

**General Funds:** The actual fiscal 2007 general fund expenditure was $481,492 above the legislative appropriation. The increase is due to a $1.0 million budget amendment to return the Maryland Affordable Housing Trust appropriation to its fiscal 2003 funding level. DHCD also received $9,356 to support the employee cost-of-living adjustment (COLA), and absorbed a $17,227 reduction in the Division of Neighborhood Revitalization as a result of cost containment.

**Special Funds:** The actual fiscal 2007 special fund expenditure was a net $1.9 million lower than the legislative appropriation. A budget amendment for the employee COLA increased the appropriation $240,000, and DCHD cancelled $2.1 million to adjust for remaining balances and realignment of fund sources.

**Federal Funds:** The actual fiscal 2007 federal fund expenditure was $40.1 million lower than the legislative appropriation. DHCD's contract administration appropriation came in $600,000 below budget, and at the end of the year, the agency reverted $39.5 million because a contract to manage several new Section 8 properties did not come through in time.

**Reimbursable Funds:** The actual fiscal 2007 reimbursable fund expenditure was $2.0 million higher than the legislative appropriation. This is a result of a $2.0 million budget amendment that transferred funds from the Department of Human Resources' Energy Assistance Program to DHCD's Weather Assistance Program grants.

## Fiscal 2008

The DHCD fiscal 2008 working appropriation is $1.6 million higher than the legislative appropriation.

**General Funds:** General funds decrease mainly due to a $100,000 cost containment reduction impacting the Division of Neighborhood Revitalization. An increase of $11,000 supports the employee COLA.

**Special Funds:** A $240,513 increase in special funds supports the employee COLA.

**Federal Funds:** A $181,000 increase in federal funds also supports an employee COLA.

**Reimbursable Funds:** Reimbursable funds are $1.3 million above the legislative appropriation. Of this amount, $1.0 million was transferred from the Maryland Affordable Housing Trust to support the Homeowners Preserving Equity initiative, and $250,000 was transferred from the Maryland Energy Administration for energy efficiency activities.

Appendix 2

# *Audit Findings*

The November 2007 audit reviewed the Electric Universal Service Program.

| | |
|---|---|
| Audit Period for Last Audit: | January 6, 2004 – June 30, 2007 |
| Issue Date: | November 2007 |
| Number of Findings: | 1 |
| Number of Repeat Findings: | 0 |
| % of Repeat Findings: | 0% |
| Rating: (if applicable) | n/a |

***Finding 1:*** The Office of Home Energy Programs and DHCD had not established adequate procedures to ensure the propriety of weatherization services provided and related billings.

The January 2008 audit reviewed closeout for all State agencies.

| | |
|---|---|
| Audit Period for Last Audit: | July 1, 2006 – June 30, 2007 |
| Issue Date: | January 2008 |
| Number of Findings: | 1 |
| Number of Repeat Findings: | 0 |
| % of Repeat Findings: | 0% |
| Rating: (if applicable) | n/a |

***Finding 1:*** A $7.4 million negative revenue accrual was made by DHCD to shift non-budgeted fund revenues from fiscal year 2007 and preceding years to fiscal year 2008 revenue.

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

| Object/Fund | FY07 Actual | FY08 Working Appropriation | FY09 Allowance | FY08-FY09 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 315.90 | 316.00 | 311.00 | -5.00 | -1.6% |
| 02 Contractual | 21.59 | 39.50 | 46.50 | 7.00 | 17.7% |
| **Total Positions** | **337.49** | **355.50** | **357.50** | **2.00** | **0.6%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 22,726,959 | $ 23,714,186 | $ 25,189,649 | $ 1,475,463 | 6.2% |
| 02 Technical and Spec. Fees | 1,090,431 | 2,171,253 | 2,546,187 | 374,934 | 17.3% |
| 03 Communication | 297,344 | 355,625 | 320,379 | -35,246 | -9.9% |
| 04 Travel | 335,860 | 294,377 | 289,728 | -4,649 | -1.6% |
| 06 Fuel and Utilities | 3,044 | 1,900 | 2,500 | 600 | 31.6% |
| 07 Motor Vehicles | 184,567 | 135,884 | 128,370 | -7,514 | -5.5% |
| 08 Contractual Services | 4,758,983 | 5,341,708 | 4,951,793 | -389,915 | -7.3% |
| 09 Supplies and Materials | 318,440 | 275,000 | 372,741 | 97,741 | 35.5% |
| 10 Equip. – Replacement | 397,029 | 147,073 | 179,837 | 32,764 | 22.3% |
| 11 Equip. – Additional | 166,430 | 50,767 | 87,071 | 36,304 | 71.5% |
| 12 Grants, Subsidies, and Contributions | 179,788,475 | 186,941,116 | 209,228,766 | 22,287,650 | 11.9% |
| 13 Fixed Charges | 1,385,525 | 1,480,261 | 1,584,234 | 103,973 | 7.0% |
| 14 Land and Structures | 317,500 | 0 | 0 | 0 | 0.0% |
| **Total Objects** | **$ 211,770,587** | **$ 220,909,150** | **$ 244,881,255** | **$ 23,972,105** | **10.9%** |
| **Funds** | | | | | |
| 01 General Fund | $ 3,875,254 | $ 3,294,372 | $ 3,168,280 | -$ 126,092 | -3.8% |
| 03 Special Fund | 26,802,890 | 28,500,723 | 29,217,717 | 716,994 | 2.5% |
| 05 Federal Fund | 178,221,967 | 186,879,055 | 211,510,258 | 24,631,203 | 13.2% |
| 09 Reimbursable Fund | 2,870,476 | 2,235,000 | 985,000 | -1,250,000 | -55.9% |
| **Total Funds** | **$ 211,770,587** | **$ 220,909,150** | **$ 244,881,255** | **$ 23,972,105** | **10.9%** |

Note: The fiscal 2008 appropriation does not include deficiencies.

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

| Program/Unit | FY07 Actual | FY08 Wrk Approp | FY09 Allowance | Change | FY08 - FY09 % Change |
|---|---|---|---|---|---|
| 01 Office of the Secretary | $ 2,802,319 | $ 2,991,176 | $ 3,048,603 | $ 57,427 | 1.9% |
| 02 Maryland Affordable Housing Trust | 4,663,585 | 3,000,000 | 3,000,000 | 0 | 0% |
| 03 Office of Management Services | 2,319,055 | 2,321,809 | 2,358,193 | 36,384 | 1.6% |
| 01 Maryland Housing Fund | 561,886 | 572,639 | 609,933 | 37,294 | 6.5% |
| 02 Asset Management | 3,695,894 | 4,293,375 | 4,273,235 | -20,140 | -0.5% |
| 03 Maryland Building Codes Administration | 553,082 | 622,611 | 679,934 | 57,323 | 9.2% |
| 01 Neighborhood Revitalization | 13,559,945 | 13,854,641 | 14,257,546 | 402,905 | 2.9% |
| 01 Administration | 2,376,461 | 2,525,500 | 2,695,067 | 169,567 | 6.7% |
| 02 Housing Development Program | 3,387,667 | 3,733,425 | 3,864,444 | 131,019 | 3.5% |
| 03 Homeownership Programs | 2,212,344 | 2,756,573 | 2,742,583 | -13,990 | -0.5% |
| 04 Special Loan Programs | 7,542,898 | 8,028,183 | 6,886,464 | -1,141,719 | -14.2% |
| 05 Rental Services Program | 159,787,544 | 168,161,400 | 192,048,726 | 23,887,326 | 14.2% |
| 01 Information Technology | 3,014,603 | 2,678,664 | 2,789,162 | 110,498 | 4.1% |
| 01 Finance and Administration | 5,293,304 | 5,369,154 | 5,627,365 | 258,211 | 4.8% |
| **Total Expenditures** | **$ 211,770,587** | **$ 220,909,150** | **$ 244,881,255** | **$ 23,972,105** | **10.9%** |
| General Fund | $ 3,875,254 | $ 3,294,372 | $ 3,168,280 | -$ 126,092 | -3.8% |
| Special Fund | 26,802,890 | 28,500,723 | 29,217,717 | 716,994 | 2.5% |
| Federal Fund | 178,221,967 | 186,879,055 | 211,510,258 | 24,631,203 | 13.2% |
| **Total Appropriations** | **$ 208,900,111** | **$ 218,674,150** | **$ 243,896,255** | **$ 25,222,105** | **11.5%** |
| Reimbursable Fund | $ 2,870,476 | $ 2,235,000 | $ 985,000 | -$ 1,250,000 | -55.9% |
| **Total Funds** | **$ 211,770,587** | **$ 220,909,150** | **$ 244,881,255** | **$ 23,972,105** | **10.9%** |

Note: The fiscal 2008 appropriation does not include deficiencies.

Appendix 4