SA00
Department of Housing and Community Development – Capital

Capital Budget Summary

Grant and Loan Programs
($ in Millions)

	FY 2011 Approp.	*FY 2012 Approp.*	*FY 2013 Allowance*	*Percent Change*	*DLS Recommd.*
Homeownership Programs	$12.900	$10.500	$10.400	**-1.0%**	$10.400
Rental Housing Programs	30.719	23.500	37.500	**59.6%**	37.500
Special Loans Program	12.220	10.400	10.400	**0.0%**	10.400
Neighborhood Business Development	6.666	6.750	4.250	**-37.0%**	4.250
MD BRAC Preservation Fund	6.000	4.000	4.000	**0.0%**	4.000
Community Development Block Grant Program	17.000	12.500	12.300	**-1.6%**	12.300
Community Legacy Program	4.646	4.250	6.000	**41.2%**	6.000
Partnership Rental Housing Program	6.000	6.000	6.000	**0.0%**	6.000
Shelter and Transitional Housing Facilities Grant Program	2.000	2.000	2.000	**0.0%**	2.000
Strategic Demolition and Smart Growth Impact Project Fund	0.000	0.000	5.000	**100.0%**	0.000
Total	**$98.151**	**$79.900**	**$97.850**	**22.5%**	**$92.850**

Fund Source					
Special	$23.400	$19.500	$22.400	**14.9%**	$22.400
Federal	36.300	29.000	24.200	**-16.6%**	24.200
Reimbursable	3.019	0.000	0.000	**0.0%**	0.000
PAYGO Subtotal	**62.719**	**48.500**	**46.600**	**-3.9%**	**46.600**
GO Bonds	35.432	31.400	51.250	**63.2%**	46.250
Total	**$98.151**	**$79.900**	**$97.850**	**22.5%**	**$92.850**

BRAC: Base Realignment and Closure GO: general obligation

Note: The fiscal 2011 appropriation included several one-time adjustments as follows: (1) $6.1 million of general obligation (GO) bonds authorized in full replacement transfers authorized in the Budget Reconciliation and Financing Act of 2010 (Chapter 484 of 2010) from available fund balance from the Neighborhood Business Development, Community Legacy, and Special Loans programs; (2) $3.0 million in federal funds made available from the American Recovery and Reinvestment Act (ARRA) of 2009 to the Rental Housing Program; (3) $3.0 million of reimbursable funds from the Maryland Energy Administration for the Multifamily Energy Efficiency and Housing Affordability Program; and (4) $7.0 million in federal funds as a supplement to existing Community Development Block Grant Program funds also provided through the ARRA.

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Summary of Issues

New Initiative: Rental Housing Works: In calendar 2011 through 2015, Maryland faces a shortage of nearly 127,000 units of affordable and available rental housing. The Rental Housing Works program is created to provide an additional resource for financing affordable rental housing in Maryland. **The Department of Housing and Community Development (DHCD) should comment on the new Rental Housing Works program and its expected benefits.**

Targeting State Resources to Sustainable Communities and Areas Designated in PlanMaryland: Creation of the Strategic Demolition and Smart Growth Impact Project Fund will provide funds for grants and loans to local governments, nonprofit organizations or private entities for demolition, land assembly, housing development or redevelopment, and revitalization projects. Funding will be directed to sustainable communities, Base Realignment and Closure Act incentive zones, transit-oriented development projects, and areas designated through the implementation of PlanMaryland. **The Department of Legislative Services recommends that creation and funding of the Smart Growth Impact Fund may be premature and should be deferred until DHCD submits its plan for implementing PlanMaryland and the Smart Growth Subcabinet has begun identifying Planning Areas.**

MD BRAC Preservation Loan Program Slow to Secure Local Matches: In fiscal 2010, DHCD received a $4.0 million award from the John D. and Catherine T. MacArthur Foundation to preserve affordable rental housing in eight BRAC-impacted counties throughout Maryland. The award requires local matches from at least five of the BRAC-impacted counties. Securing these local matches has been difficult given the current economic environment. At this time, only three counties have committed to providing matching funds. Three counties are still in discussion with DHCD to provide funding, and two counties have declined to participate. **DHCD should comment on its efforts to secure local matches from BRAC-impacted counties and discuss the reasons that Anne Arundel and Cecil counties have declined to participate.**

Summary of Recommended PAYGO Actions

1. Concur with Governor's allowance.

Summary of Recommended Bond Actions

		Funds
1.	Community Development Block Grant Program	
	Approve.	
2.	MD-BRAC Preservation Loan Fund	
	Approve.	
3.	Community Legacy Program	
	Approve.	
4.	Neighborhood Business Development Program	
	Approve.	
5.	Strategic Demolition and Smart Growth Impact Project Fund	$5,000,000 GO
	Delete funding for the Strategic Demolition and Smart Growth Impact Project Fund.	
6.	Partnership Rental Housing Program	
	Approve.	
7.	Homeownership Programs	
	Approve.	
8.	Shelter and Transitional Housing Facilities Grant Program	
	Approve.	
9.	Special Loan Programs	
	Approve.	

		Funds
10.	Rental Housing Program Approve.	
11.	DHCD Neighborhood Business Development Program Approve the de-authorization of $2,050,000 in general obligation bonds in fiscal 2012 for the Neighborhood Business Development Program due to a canceled fund swap with special funds.	
	Total Reductions	**$5,000,000**

Program Description

The Department of Housing and Community Development (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. The programs include:

- **Community Development Block Grant Program:** This 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 the U.S. Department of Housing and Urban Development and are not eligible for the State program.

- **Community Legacy Program:** This 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.

- **Neighborhood Business Development Program:** The program, also known as Neighborhood BusinessWorks, 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.

- **Strategic Demolition and Smart Growth Impact Project Fund (Smart Growth Impact Fund):** This fund provides grants to local governments, nonprofit organizations and private entities for redevelopment and revitalization projects in sustainable communities, Base Realignment and Closure (BRAC) Revitalization and Incentive Zones, transit-oriented developments (TOD), and areas recommended by PlanMaryland for revitalization and growth.

The Division of Development Finance provides programs to promote rental housing or homeownership opportunities for the elderly, the disabled, or people with limited income. These programs include:

- **Rental Housing Programs:** These programs 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.

- **Special Loans Programs:** These 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, handicapped, disabled, or others with special housing needs.

- **Homeownership Programs:** These programs provide below-market interest rate mortgage loans with minimum down payments to low- and moderate-income families. Programs include the Down Payment and Settlement Expense Loan Program (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.

- **Partnership Rental Housing Program:** This program provides deferred payment loans or grants to local governments or housing authorities to construct or rehabilitate rental housing for low-income families. In 2007, the program was expanded to enable private and nonprofit borrowers to access financing for the creation of housing for persons with disabilities.

- **Shelter and Transitional Housing Facilities Grant Program:** This program provides grants to local governments and nonprofit organizations to develop emergency shelters and transitional housing for homeless individuals and families.

- **Maryland BRAC Preservation Loan Fund:** This fund provides loans and other financial assistance to public and private developers to preserve affordable multi-family rental housing in jurisdictions affected by the federal BRAC process.

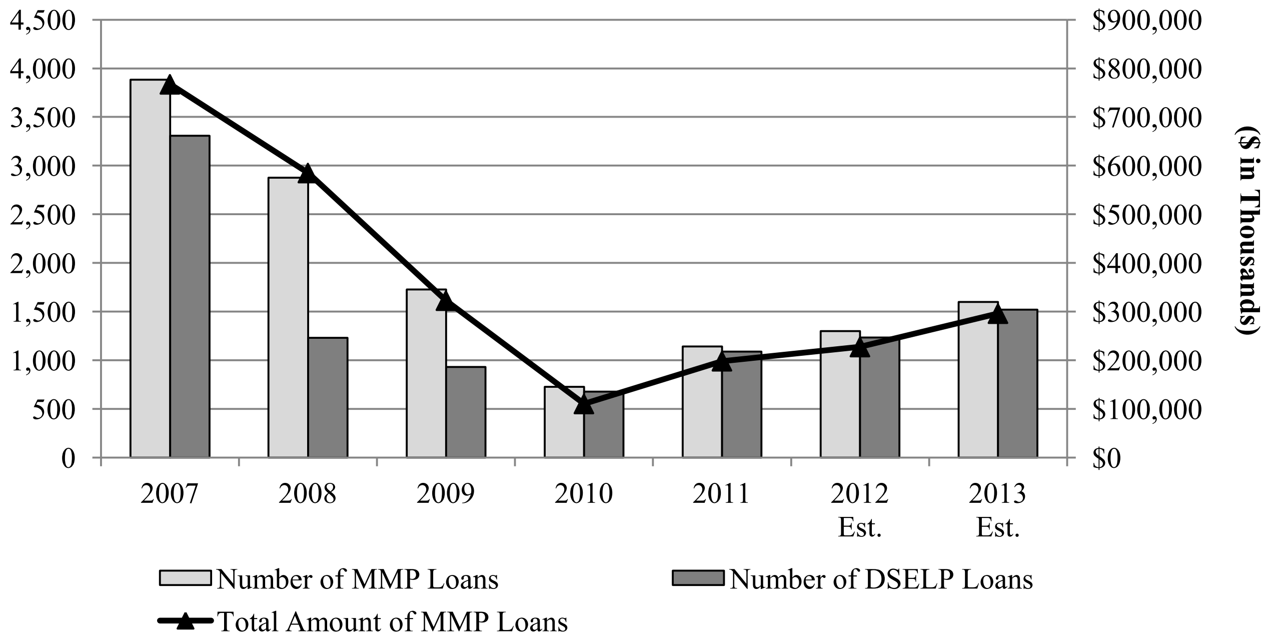
Program Performance Measures and Outputs

The mission of DHCD is to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work, and prosper. To achieve this, DHCD focuses on improving homeownership and affordable rental housing availability for low- and moderate-income Marylanders.

Homeownership Assistance

One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. Over the last several years, DHCD's Maryland Mortgage Program (MMP) and the DSELP have helped a large share of the market it strives to serve, although considerable volatility in the housing market has limited its impact. **Exhibit 1** shows the substantial decline in the total number of MMP and DSELP loans provided from fiscal 2007 through 2010 during the recession and amid the turmoil in the housing market. In fiscal 2011, the number of loans showed signs of recovery, and additional increases are expected over the next several years. In fiscal 2011, the average homebuyer receiving a DHCD loan had an annual income of $62,655, and the average home price was $179,166.

Exhibit 1
Homeownership Assistance
Fiscal 2007-2013



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

Source: Department of Housing and Community Development

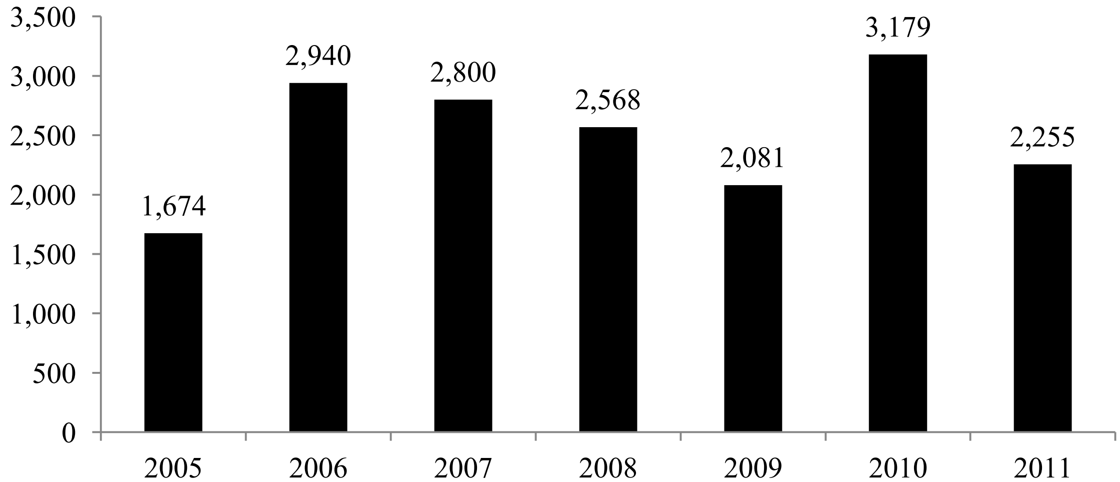
The MMP and DSELP programs have not escaped from the nationwide foreclosure crisis unharmed. In fiscal 2011, the percentage of MMP loans in delinquency (60 or more days late) was 9.2%. Although this remains below the delinquency rates of the Federal Housing Administration (10.8%), it still represents an increasing trend. The delinquency rate for MMP increased from 7.4% in fiscal 2009 to 8.6% in fiscal 2010 and 9.2% in fiscal 2011. This rising delinquency rate causes concern as it reduces the amount of special fund loan revenues received by the department and may have repercussions for the department's single family bonds. The DSELP program has also taken a hit through the foreclosure crisis. In fiscal 2011, DHCD released the liens associated with 75 loans totaling $420,747 to allow foreclosure proceedings to move forward. Homeowners that had a lien released signed promissory notes to repay the loan; however, the promissory notes lack security and may be difficult to collect. **DHCD should comment on the effect of the foreclosure crisis on the MMP and DSELP programs.**

Rental Housing

Another DHCD 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 or preserve existing rental housing.

To measure progress, DHCD tracks the number of new affordable rental housing units produced through financial support. The number of units produced is based on the projects 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 2**, unit production has fluctuated since fiscal 2005. In fiscal 2009, DHCD produced 2,081 units. In fiscal 2010, production increased by more than 50%, as a result of two federal American Recovery and Reinvestment Act of 2009 (ARRA) programs that fueled production that year. Production decreased in fiscal 2011 because the ARRA funds were exhausted.

Exhibit 2
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2005-2011



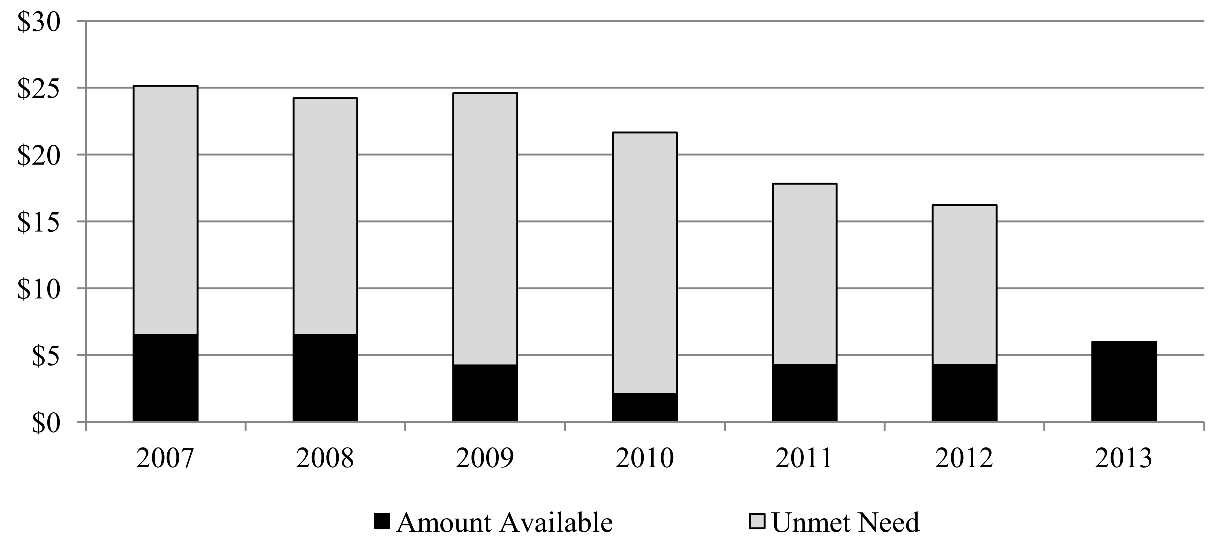
Note: Initial closing status means that the Department of Housing and Community Development and the borrower have closed the loan on the project, and construction is about to begin. Final closing is achieved after construction is complete.

Source: Department of Housing and Community Development

Neighborhood Revitalization

DHCD's Division of Neighborhood Revitalization provides local communities, nonprofits, community development organizations, and small businesses with resources to leverage investment to stabilize and revitalize neighborhoods. The Community Legacy Program is one such effort. It provides funding to local governments and community development organizations to partially fund projects like mixed use developments, streetscape and facade improvements, business retention and expansion, and increasing homeownership and rehabilitation. As shown in **Exhibit 3**, demand for Community Legacy funding typically exceeds available resources, sometimes by more than tenfold. An increase in fiscal 2013 funding for the Community Legacy Program and the creation of the Strategic Demolition and Smart Growth Impact Project Fund, aimed at providing additional resources to sustainable communities, is geared toward funding more of these projects.

Exhibit 3
Demand and Available Resources for the Community Legacy Program
Fiscal 2007-2013
($ in Millions)



Note: Demand for funding is based on the amount of funding requested through the competitive grant process. This data is not yet available for fiscal 2013. 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

Since fiscal 2009, demand for the Community Legacy program has been declining. In fiscal 2009, demand for the program exceeded available resources by $20.4 million. By fiscal 2012, this unmet need has declined to $12.0 million, despite less money being available for the program in fiscal 2009 through 2012. The economy may play a factor in this decreased demand, as Community Legacy funds must be matched by other funding sources, and projects may be stalled right now due to the difficulty of securing matching money.

Capital Improvement Program

Grant and Loan Capital Improvement Program
($ in Millions)

Fund Source	*2011 Approp.*	*2012 Approp.*	*2013 Allowance*	*2014 Estimate*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*
PAYGO SF	$23.400	$21.550	$22.400	$24.350	$24.950	$25.750	$26.550
PAYGO FF	36.300	29.000	24.200	19.000	19.000	19.000	19.000
PAYGO RF	3.019	0.000	0.000	0.000	0.000	0.000	0.000
GO Bonds	35.432	29.350	51.250	28.050	27.450	26.650	25.850
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	**$98.151**	**$79.900**	**$97.850**	**$71.400**	**$71.400**	**$71.400**	**$71.400**

Note: Fiscal 2012 is amended to reflect a cancelled replacement of special fund revenues with general obligation bonds in the Neighborhood Business Development Program.

Program	*2011 Approp.*	*2012 Approp.*	*2013 Allowance*	*2014 Estimate*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*
Homeownership Programs	$12.900	$10.500	$10.400	$8.500	$8.500	$8.500	$8.500
Rental Housing Programs	30.719	23.500	37.500	21.500	21.500	21.500	21.500
Special Loans Program	12.220	10.400	10.400	10.400	10.400	10.400	10.400
Neighborhood Business Development	6.666	6.750	4.250	4.250	4.250	4.250	4.250
MD BRAC Preservation Fund	6.000	4.000	4.000	5.000	5.000	5.000	5.000
Community Development Block Grant Program	17.000	12.500	12.300	10.000	10.000	10.000	10.000
Community Legacy Program	4.646	4.250	6.000	4.250	4.250	4.250	4.250
Partnership Rental Housing Program	6.000	6.000	6.000	6.000	6.000	6.000	6.000
Shelter and Transitional Housing Facilities Grant Program	2.000	2.000	2.000	1.500	1.500	1.500	1.500
Strategic Demolition and Smart Growth Impact Project Fund	0.000	0.000	5.000	0.000	0.000	0.000	0.000
Total	**$98.151**	**$79.900**	**$97.850**	**$71.400**	**$71.400**	**$71.400**	**$71.400**

BRAC: Base Realignment and Closure

Budget Overview

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. In addition, DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration. **Exhibit 4** provides information on DHCD's total operating and capital spending, including all funding sources, some of which are nonbudgeted.

The department is centered around three key goals:

- **Homeownership:** As shown in Exhibit 4, less than one-quarter of the agency's activity is geared toward promoting homeownership. Those who meet certain income criteria can access loans with below-market interest rates for down payment and settlement expenses to buy homes. Mortgage revenue bonds are the primary source of funds for mortgages. Exhibit 4 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, are a significant part of the agency's funding.

- **Affordable Rental Housing:** As shown in Exhibit 4, roughly two-thirds of the agency's activity goes to developing affordable rental housing. Nonprofits and for-profit developers and owners may 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 (generating $87 million of equity in fiscal 2011) 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.

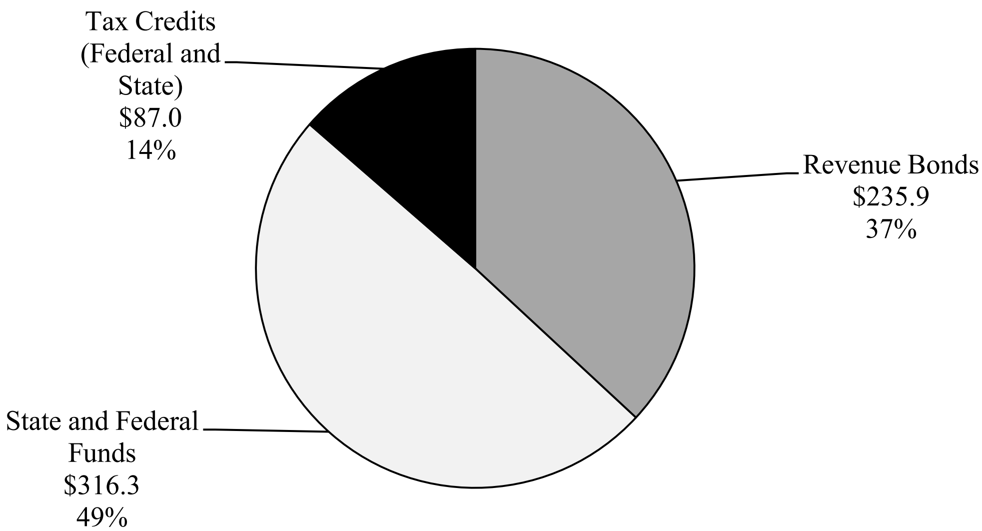
- **Neighborhood Revitalization:** As shown in Exhibit 4, about 10% of the agency's activity is for neighborhood revitalization. Local governments, community development nonprofits, businesses, and others involved in improving communities may access grants, below-market loans, and technical assistance and training. Funds are used for projects such as streetscape and facade improvements, recreational amenities, and improvement of public spaces.

Exhibit 4

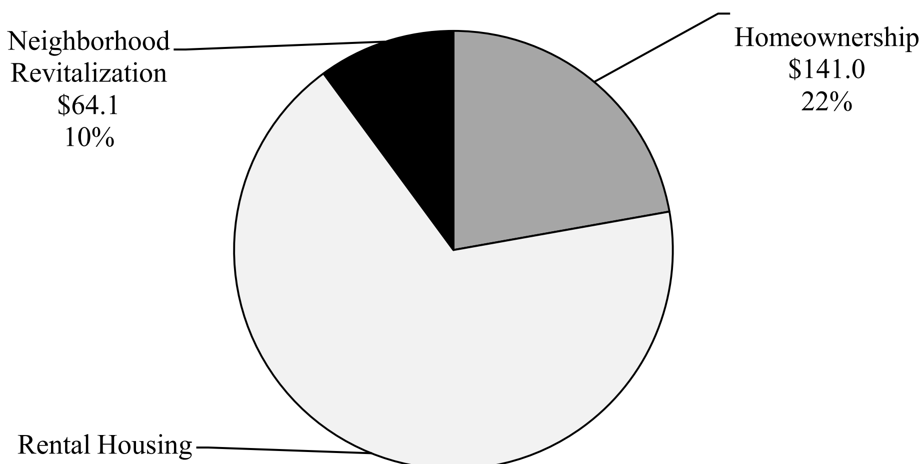
Sources and Uses of DHCD's Operating and Capital Budgets

Includes Budgeted and Nonbudgeted Sources
Fiscal 2011 Total = $639.2 Million
($ in Millions)

Sources of Funding



Uses of Funding

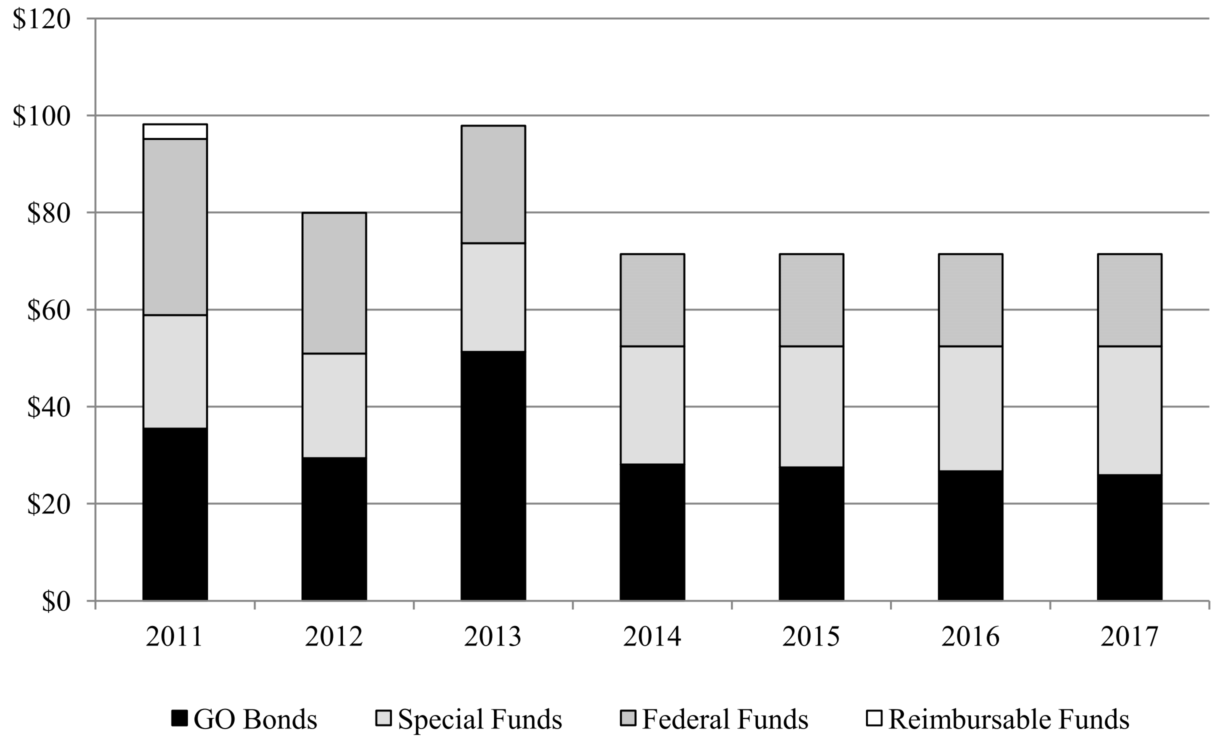


DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

In fiscal 2012 through 2017, the 2012 *Capital Improvement Program* (CIP) provides a total of $383.5 million in State-sourced funding. **Exhibit 5** provides funding by year and by source over the next five years.

Exhibit 5
DHCD State-sourced Capital Funding
Fiscal 2011-2017
($ in Millions)



DHCD: Department of Housing and Community Development
GO: general obligation

Note: Excludes revenue bonds issued by the Community Development Administration.

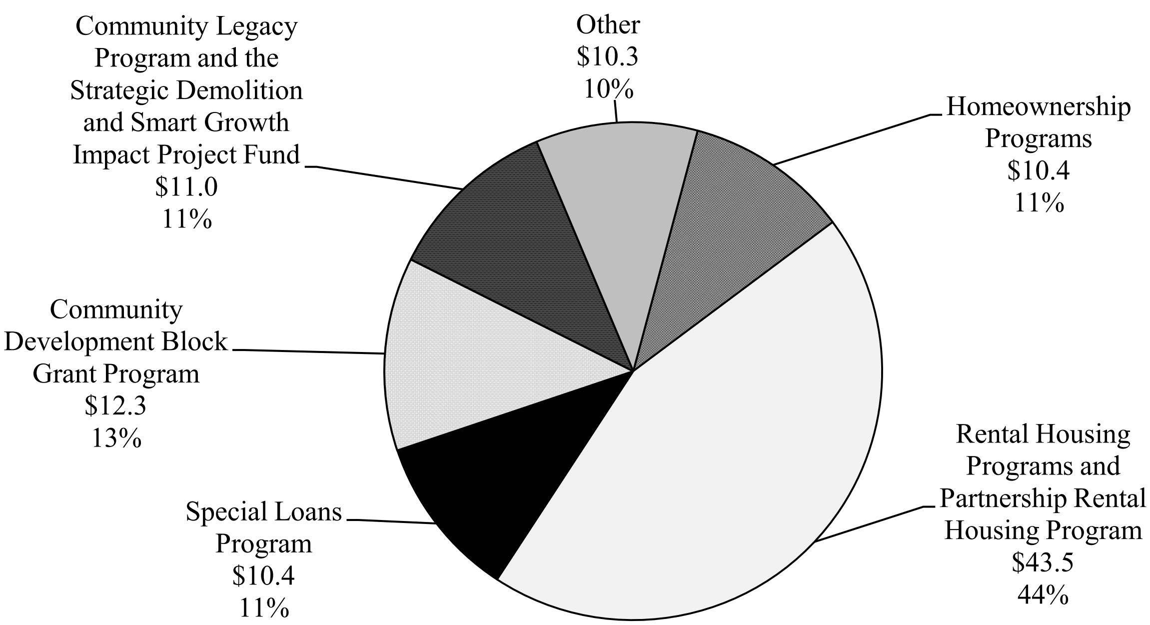
Source: Department of Housing and Community Development

DHCD receives $97.9 million of capital funding from all State-sourced funds in fiscal 2013. This is an increase of $18.0 million from fiscal 2012. The bulk of this increase is due to one-time only general obligation (GO) bond funding of $20.0 million. This additional authorization includes $15.0 million for the newly created Rental Housing Works program and $5.0 million for the newly created Smart Growth Impact Fund. Both of these new initiatives are discussed in further detail below.

In fiscal 2010 through 2012, various transfers occurred from some of DHCD's special funds from loan repayments to the State's general fund. These transfers were meant to provide temporary relief for the State's structural deficit and were replaced with GO bonds. These transfers affected the Special Loans Programs, Homeownership Programs, the Community Legacy Program, and the Neighborhood Business Development Program. In total, the transfers from fiscal 2010 through 2012 would have provided $20.5 million in relief to the general fund; however, due to concerns about the use of GO bonds to provide working capital through the Neighborhood Business Development Program, $2.1 million of transfers for this program was cancelled, and the fiscal 2013 capital budget bill includes a de-authorization of GO bonds for this same amount. There are no planned transfers in fiscal 2013.

Exhibit 6 provides a summary of the funding by program. This chart does not include revenue bonds issued by CDA, which provide a significant source of funding for DHCD's single family and multi-family mortgage programs. Since the issuance of these bonds is based on demand for the mortgage programs, there is no estimate at this time of revenue bond issuances in fiscal 2013.

Exhibit 6
State-sourced Capital Funding by Program
Fiscal 2013
($ in Millions)



Note: This excludes revenue bonds issued by the Community Development Administration. Other includes the Shelter and Transitional Housing Facilities Grant Program, the Maryland Base Realignment and Closure Preservation Loan Fund, and the Neighborhood Business Development Program.

Source: Department of Housing and Community Development

Changes by Program

DHCD's capital budget includes 10 programs. The following provides a discussion of fiscal 2013 funding in each program where significant changes are taking place.

Rental Housing Programs

The Rental Housing Programs provide loans to developers to help finance affordable housing developments. In fiscal 2011, DHCD financed the production of 2,255 units in 24 projects with a total project cost of $364.8 million. The Rental Housing Programs receive $37.5 million in funding in fiscal 2013, including $15.0 million in GO bonds, $15.5 million in pay-as-you-go (PAYGO) special funds, and $7.0 million in PAYGO federal funds. This level of funding is $16.0 million higher than the amount programmed in the 2011 CIP for fiscal 2013 and $14.0 million higher than the fiscal 2012 appropriation. Relative to the 2011 CIP, this increase includes a $1.0 million increase in federal funds as the result of additional funding available from the federal Energy Efficiency and Conservation Block Grant (EECBG) Program and an additional $15.0 million in GO bonds for the newly created Rental Housing Works Program.

Special fund revenues from loan repayments are not sufficient to support the $15.5 million in special fund encumbrances programmed for fiscal 2013. As a result, $5.6 million in special fund revenues from the Homeownership and Special Loans programs are transferred to the Rental Housing Programs. The Homeownership and Special Loans programs are then backfilled with GO bonds. Another $2.1 million is transferred from the Maryland Housing Fund to maintain current activity levels. The Secretary is authorized to make such transfers.

The Rental Housing Works Program nearly doubles the amount of available funding in the capital budget for rental housing projects. The program provides gap financing for shovel-ready new construction and rehabilitation projects developed by for-profit, non-profit and governmental entities. The new initiative is discussed further in Issue 1.

Special Loans Programs

The goal of the Special Loans Programs is to increase the percentage of low- and moderate-income Maryland households who live in decent housing. In fiscal 2011, 77 housing units were rehabilitated, 8 special needs housing units were produced, and 122 units underwent activity for the reduction of lead-based paint hazards. The Special Loans Programs receive $10.4 million in funding in fiscal 2013, including $6.9 million in GO bonds, $500,000 in PAYGO special funds and $3.0 million in PAYGO federal funds. This level of funding is consistent with the funding programmed in the 2011 CIP for fiscal 2013, although the sources of funding have changed. The level of special fund PAYGO decreased by $2.1 million due to lower loan repayment revenues and an increase in the amount of transfers to the Rental Housing Programs; therefore, the amount of GO bonds for the program increases by $2.2 million to maintain current program activity levels.

Community Development Block Grant Program

In fiscal 2011, the Community Development Block Grant Program (CDBG) approved 27 new multi-year projects in primarily rural areas of the State. These projects include the construction and rehabilitation of sewer systems, water systems, streets, and sidewalks; Americans with Disabilities accessibility improvements; foreclosure counseling; and job training. DHCD estimates that demand for funds from the program is approximately double available funding. CDBG receives $12.3 million in PAYGO federal funds in fiscal 2013. This is an increase of $2.3 million from what had been planned in the 2011 CIP, but provides approximately level funding from fiscal 2012 to fiscal 2013. The additional funding over what had been planned is available from the federal EECBG program to increase the energy performance of CDBG-assisted projects.

Homeownership Programs

In fiscal 2011, 1,107 loans were funded with State funds, including 1,089 under the DSELP and 18 under the Homeownership for Individuals with Disabilities Program. The DSELP loans are provided in conjunction with first mortgages funded from CDA revenue bonds. In fiscal 2013 and beyond, there is expected to be strong demand for affordable mortgage financing through DHCD. This is the result of the tightening of the credit markets, the need to offer solutions to Marylanders facing foreclosure, and the impact of BRAC on an already tight supply of affordable housing.

The Homeownership Programs receive $10.4 million in funding in fiscal 2013, including $6.4 million in GO bonds, $2.1 million in PAYGO special funds, and $1.0 million in PAYGO federal funds. This level of funding is $0.9 million higher than the level expected in the 2011 CIP, but consistent with fiscal 2012 funding. In addition to the increased funding over what had been projected in the 2011 CIP, the funding sources have also changed. The fiscal 2013 funding includes $1.6 million in additional GO bonds to offset declining special fund revenues and maintain current activity levels and $0.9 million in additional federal EECBG funds. Special fund revenues in the form of loan repayments have been impacted by a large number of DSELP loans that the department has had to shift from a secured loan to a promissory note.

Community Legacy and the Smart Growth Impact Fund

The Community Legacy Program provides local governments and community development organizations with funding for activities like encouraging homeownership and commercial revitalization. Projects may include removing blighted buildings, improving commercial facades, renovating housing units, creating developable lots, and returning vacant or underutilized buildings to operation. As noted in Exhibit 3 above, demand for funding from the Community Legacy Program far exceeds available funding for the program.

The 2012 CIP includes $6.0 million in GO bonds for the Community Legacy Program in fiscal 2013. This is an increase of $1.8 million from fiscal 2012 and what had been included for fiscal 2013 in the 2011 CIP. The 2012 CIP also includes a one-time infusion of $5 million in GO bonds for the newly created Smart Growth Impact Fund. The increased funding for the Community Legacy Program and the creation of the Smart Growth Impact Fund are both meant to address the oversubscription of current funding levels for the Community Legacy Program. Issue 2 provides additional information on this additional funding and the new program.

Neighborhood Business Development Program

The Neighborhood Business Development Program provides grants and loans to fund community-based economic development activities in sustainable communities. In fiscal 2011, loans with a total value of $3.1 million were provided to 17 small businesses, leveraging $30.0 million in private funding for capital improvements and operating funds. The 2012 CIP includes $4.3 million in funding for the Neighborhood Business Development Program in fiscal 2013, including $2.4 million in GO bonds and $1.9 million in PAYGO special funds. This level of funding for fiscal 2013 is consistent with what was included in the 2011 CIP, although the funding sources have changed. GO bonds backfill $300,000 of special funds declining due to a projected decrease in loan revenues.

The Budget Reconciliation and Financing Act of 2011 required DHCD to transfer up to $2.1 million in special fund revenue from the Neighborhood Business Development Fund to the general fund during fiscal 2012. The capital budget bill of 2011 authorized $2.1 million in GO bonds to replace the special fund transfer. However, the Treasurer expressed strong opposition to the use of GO bonds to make loans for working capital, which is one of the expressed purposes of the Neighborhood Business Development Program. For instance, the Neighborhood Business Development Program is authorized to make loans to businesses that cannot meet their payroll obligations. Such use does not qualify as capital.

In December 2011, the Governor processed a special fund budget amendment to appropriate $2.1 million in special funds for the Neighborhood Business Development Program. This allows the program to use its special fund revenues to make loans to small businesses, thereby eliminating the need for GO bonds as well as the special fund transfer. As a result, general fund revenue for fiscal 2012 decreases by $2.1 million. The capital budget bill of 2012 includes a de-authorization of $2.1 million to cancel this special fund replacement.

Issues

1. New Initiative: Rental Housing Works

DHCD finances multi-family housing developments using the federal Low Income Housing Tax Credit (LIHTC) program and loans that support the construction and rehabilitation of affordable rental units. LIHTCs are awarded to projects in accordance with the Internal Revenue Code and developers sell these credits to investors to raise equity for the construction of the affordable rental housing. In exchange for the tax credits, developers agree to income and rent restrictions for a minimum of 30 years. Loans for these projects are funded using the proceeds of tax-exempt revenue bonds, a plentiful resource, and/or State appropriations.

During the housing and economic crisis, the ability to sell LIHTC tax credits to raise funds for equity significantly decreased. In 2007 and early 2008, the sale of $1.0 million worth of LIHTC could generate $9.0 to 10.0 million in equity for developers. In late 2008 through 2010, the value of those LIHTC tax credits had dropped to roughly $7.0 million, providing developers with less equity to fund their projects. The ARRA provided $117.9 million in Maryland for one-time funds to assist developers with financing affordable rental housing since less funding was available from the sale of LIHTC tax credits. With this money, DHCD financed 28 affordable rental housing developments statewide.

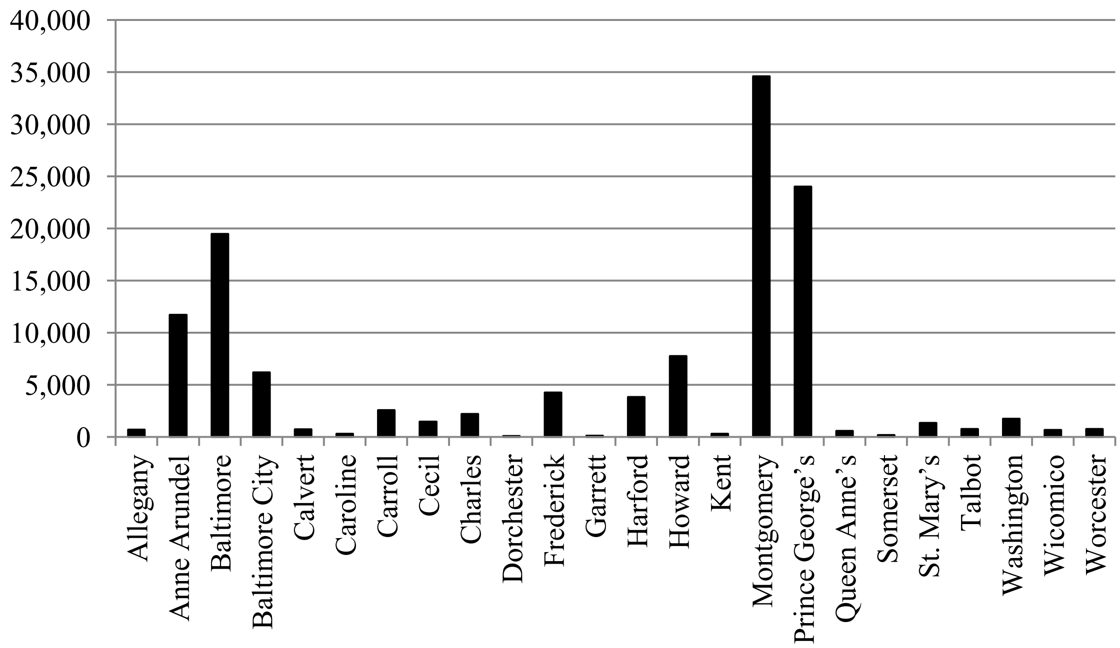
The ARRA included two programs:

- **Tax Credit Exchange Program** (Section 1602 of ARRA) allowed DHCD to exchange, or monetize, 40% of the State's calendar 2009 LIHTC and any returned 2008 LIHTC to the U.S. Treasury to receive cash to be used to help developers who were unable to sell their LIHTC credits.

- **Tax Credit Assistance Program** (TCAP) targeted developers who had already sold their LIHTC allocation to investors but generated insufficient equity and a gap in financing still existed. TCAP funds help fill that gap.

In calendar 2011 through 2015, Maryland faces a shortage of nearly 127,000 units of affordable and available rental housing. **Exhibit 7** provides the projected shortage of units by county. In fiscal 2013, despite the strong demand for the production of affordable rental housing units that still exists, the two programs providing ARRA funding outlined above have been exhausted. Therefore, the fiscal 2013 capital allowance includes a new Rental Housing Works program designed to leverage an existing but underutilized resource, the Multifamily Revenue Bond Program, by combining this resource with GO bonds. The new funding is intended to fuel the production of affordable rental housing and create jobs by providing gap financing to enable development projects to move forward and start construction using the Multifamily Revenue Bond Program.

Exhibit 7
Net Shortage of Affordable and Available Rental Housing Units by County
Calendar 2011-2015



Source: Department of Housing and Community Development

The Rental Housing Works program would benefit developers that received financing through DHCD's Multifamily Revenue Bond Program and qualified for the 4% LIHTC. Current interest rates in the bond market have made debt more expensive for developers. As a result, some developers having received bond financing may still not have enough financing to move the project forward even with the LIHTC. The Rental Housing Works program would provide gap financing to such developers, including for-profit, nonprofit, and government entities.

Unlike other state and federal programs, Rental Housing Works may be able to support the production of affordable rental housing for persons living in the 60 to 100% area median income (AMI) range. Since most state and federal programs rarely target units at this range, this would be a valuable resource to developers with units targeting individuals at that AMI.

DHCD estimates that that the $15 million in one-time funding will finance approximately 1,700 units of workforce rental housing, support 1,100 jobs, and leverage $300 million in private investment funds from DHCD's Multifamily Revenue Bond program. A pipeline of 37 projects totaling over $500 million in project costs exists for this program, and 10 of these projects have already submitted applications and should be ready for financial close in the first half of fiscal 2013. The creation of design and construction jobs associated with the projects will begin in fiscal 2013.

DHCD should comment on the new Rental Housing Works program and its expected benefits. DHCD should also comment on the demand for this program and the additional benefits that may accrue from increased funding in fiscal 2013.

2. Targeting State Resources to Sustainable Communities and Areas Designated in PlanMaryland

Creation of the Smart Growth Impact Fund will provide funds for grants and loans to local governments, nonprofit organizations or private entities for demolition, land assembly, housing development or redevelopment, and revitalization projects. Funding will be directed to sustainable communities, BRAC incentive zones, TODs, and areas designated through the implementation of PlanMaryland. Funds will also be available for public-private partnerships at the local level and may be coupled with other innovative financing tools like tax increment financing, land banks and community land trusts.

Sustainable Communities

The Sustainable Communities Act of 2010 (Chapter 487 of 2010) combines two geographically based revitalization designations in the Community Legacy Program and the Neighborhood Business Development Program into a single sustainable community designation. To qualify as a sustainable community, a community must be located within a priority funding area. Priority funding areas are those areas that Maryland State and local governments have designated for fostering economic growth and development. Such locations include the entire areas inside the Washington and Baltimore beltways and a variety of urban and dense suburban locations throughout the state.

The law created a transition period in which all areas currently identified as designated neighborhoods in the Neighborhood Business Development Program automatically become sustainable communities, effective June 1, 2010, and for a period of two years thereafter. Similarly, all areas currently designated as community legacy areas automatically become sustainable communities, effective June 1, 2010, and lasting for a period of two to three years thereafter. After these transition periods end, local governments are eligible to apply for the sustainable community designation. House Bill 1327 of 2012 would extend these transition periods and allow local governments additional time to apply for the sustainable community designation. Chapter 487 also stipulates that all designated TODs and BRAC revitalization and incentive zones also qualify as sustainable communities.

PlanMaryland

PlanMaryland is a policy framework for growth and preservation in the State and a blueprint to help guide State agencies in their decisionmaking on programs and funding for growth and preservation. The final PlanMaryland document was submitted to Governor Martin J. O'Malley in December 2011. On December 19, 2011, the Governor accepted PlanMaryland and filed Executive Order 01.01.2011.22, which outlines a process for implementing the plan.

PlanMaryland proposes focusing State financial assistance in specific geographic areas and aligning State regulations and procedures. The plan calls for targeting State financial assistance to specific places that are designated for growth, revitalization, land preservation and resource conservation, and maintaining public services and quality of life. The plan anticipates a future local-State effort to identify planning areas that reflect local feedback and data from existing State mapping tools. To streamline State regulations and procedures, the plan proposes that State capital spending and noncapital plans, programs, and procedures be realigned and focused to achieve the objectives; and that the Maryland Department of Planning collaborate with other State agencies to incorporate PlanMaryland into other strategic State plans for major needs, such as transportation.

The Governor's executive order on implementing PlanMaryland clarifies the plan's purpose; specifies a multiple stakeholder process for developing planning areas and associated planning area guidelines; and outlines other implementation requirements, which are summarized below.

- The Smart Growth Subcabinet, which is composed primarily of the heads of State agencies, must coordinate implementation of the plan among State agencies and report on progress.

- State agencies must review and then modify and align their plans, programs, and policies with the plan and within future State planning areas.

- State agencies must submit a report on their efforts, which includes implementation work plans, timelines, and performance tracking methods, in June 2012.

- The Smart Growth Subcabinet must review the State agency work plans, timelines, and tracking methods and prepare a report summarizing how each State agency proposes to implement the plan by August 2012.

Smart Growth Impact Fund

Uses of the Smart Growth Impact Fund will be fairly similar to the Community Legacy Program; however, there are several key distinctions. Community Legacy funding is available to local governments and community development organizations only. Recipients of the Smart Growth Impact Fund include local governments, nonprofit organizations, and private entities. Similarly, the Community Legacy program is limited to funding in sustainable communities; however, funding from the Smart Growth Impact Fund is available for sustainable communities, BRAC zones, TODs, and areas that become designated under the implementation of PlanMaryland. PlanMaryland provides a process for local governments to submit their preferred Planning Areas for review by the Smart Growth Subcabinet. These Planning Areas will help to align State and local government efforts to target resources.

PlanMaryland includes an implementation schedule for identifying Planning Areas that shows the first round of identification taking place in December 2012. Given the length of time it took to finalize PlanMaryland, this implementation schedule is likely optimistic. It is also unclear why a separate set of Planning Areas identified through PlanMaryland are being developed given the fact that part of the intent of the Sustainable Communities Act of 2010 was to streamline the process of identifying areas targeted for State funding and to remove duplicative designations. Furthermore, as required by PlanMaryland, all State agencies are currently reviewing, modifying, and aligning their plans, programs, and policies with PlanMaryland and within future State planning areas and will submit these changes to the Smart Growth Subcabinet for review. This review will not take place until summer 2012.

The Department of Legislative Services recommends that creation and funding of the Smart Growth Impact Fund may be premature and should be deferred until DHCD submits its plan for implementing PlanMaryland and the Smart Growth Subcabinet has begun identifying Planning Areas.

3. MD BRAC Preservation Loan Program Slow to Secure Local Matches

In fiscal 2010, DHCD received a $4.0 million award from the John D. and Catherine T. MacArthur Foundation to preserve affordable rental housing in eight BRAC-impacted counties throughout Maryland. The award was seed money for a program to make loans to local governments directly impacted by BRAC and the potential 25,000 households which may come to those jurisdictions. The loans are intended to be short-term (12 to 24 months) to help expand the State's supply of affordable housing. DHCD created a separate non-lapsing revolving special fund – the MD BRAC Preservation Loan Fund – so that loan repayments could be collected and used to make additional loans in subsequent years.

The first $2.0 million of the MacArthur award was appropriated in fiscal 2010, and the State provided a match using $2.4 million in available special funds from Section 8 Contract Administration fees collected in prior years. In fiscal 2012, the foundation released $1.0 million in funding, but the remaining $1.0 million is being held until all of the local matches are committed. The foundation requires that for the final funds to be released, at least five of the BRAC-impacted counties have to commit funding of $320,000 each. Securing these local matches has been difficult given the current economic environment. At this time, only Montgomery, Harford, and Howard counties have committed to providing matching funds. To date, Montgomery, Harford, and Howard counties remitted a match of $320,000, $50,000, and $160,000, respectively. DHCD has indicated it is working with Baltimore, Prince George's, and St. Mary's counties to secure additional matches. However, it is unknown whether those matches will be secured during fiscal 2012. Anne Arundel and Cecil counties are also considered BRAC-impacted counties; however, thus far they have chosen not to provide matching funds for the grant and, therefore, will not be eligible to receive loans through the program.

The fiscal 2013 allowance of $4 million in special funds reflects the delays in loan capitalization from county partner matches. This delay in capitalization of the fund has significantly slowed DHCD's potential for rental housing initiatives in BRAC-impacted jurisdictions. Currently, only one loan has been made through the program since its inception in fiscal 2010. The one project funded by the program was Parkview Towers in Montgomery County. **DHCD should comment on its efforts to secure local matches from BRAC-impacted counties and discuss the reasons that Anne Arundel and Cecil counties have declined to participate.**

PAYGO Recommended Actions

1. Concur with Governor's allowance.

GO Bond Recommended Actions

1. Approve funding for the Community Development Block Grant program.

2. Approve funding for the Maryland Base Realignment and Closure Preservation Loan Fund.

3. Approve funding for the Community Legacy Program.

4. Approve funding for the Neighborhood Business Development Program.

5. Delete funding for the Strategic Demolition and Smart Growth Impact Project Fund.

   SA24C Strategic Demolition and Smart Growth Impact Project Fund………. $ 0

Allowance	Change	Authorization
5,000,000	-5,000,000	0

   Explanation: This action deletes funding for the Strategic Demolition and Smart Growth Impact Project Fund. The fund is created to provide funding for projects in sustainable communities and Planning Areas identified by the implementation of PlanMaryland. The Community Legacy Program already exists to provide funding to sustainable communities and given the proposed implementation schedule for PlanMaryland and the controversy surrounding it, it is unlikely that Planning Areas will be identified before the end of fiscal 2013. While making no recommendations about the program itself, funding of the program is premature.

6. Approve funding for the Partnership Rental Housing Program.

7. Approve funding for the Homeownership Programs.

8. Approve funding for the Shelter and Transitional Housing Facilities Grant Program.

9. Approve funding for the Special Loan Programs.

10. Approve funding for the Rental Housing Programs.

11. Approve the de-authorization of $2,050,000 in general obligation bonds in fiscal 2012 for the Neighborhood Business Development Program due to a canceled fund swap with special funds.

Total General Obligation Bonds Reduction	**$5,000,000**

Fiscal 2011 Projects Awarded Community Legacy Funds

Jurisdiction	Number of Projects	Total Funds Awarded	Total Project Cost
Allegany	2	$198,000	$433,500
Anne Arundel	2	425,000	1,208,600
Baltimore	No applications submitted		
Baltimore City	9	855,000	16,021,310
Calvert	1	47,000	55,000
Caroline	1	50,000	58,000
Carroll	2	170,000	195,000
Cecil	No applications submitted		
Charles	No applications submitted		
Dorchester	1	100,000	102,500
Frederick	3	300,000	405,000
Garrett	1	50,000	50,000
Harford	4	225,000	320,000
Howard	No applications submitted		
Kent	1	30,000	50,997
Montgomery	2	125,000	220,146
Prince George's	6	615,000	2,462,156
Queen Anne's	No applications submitted		
Somerset	2	175,000	184,000
St. Mary's	1	100,000	105,812
Talbot	1	50,000	103,000
Washington	2	150,000	420,000
Wicomico	1	75,000	78,000
Worcester	8	460,000	1,707,100
	50	**$4,200,000**	**$24,180,121**