

S00A
Department of Housing and Community Development

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$2,080	\$1,940	\$2,960	\$1,020	52.6%
Adjusted General Fund	\$2,080	\$1,940	\$2,960	\$1,020	52.6%
Special Fund	30,916	60,055	57,442	-2,613	-4.4%
Contingent & Back of Bill Reductions	0	0	-25	-25	
Adjusted Special Fund	\$30,916	\$60,055	\$57,417	-\$2,637	-4.4%
Federal Fund	283,504	246,045	251,527	5,483	2.2%
Contingent & Back of Bill Reductions	0	0	-13	-13	
Adjusted Federal Fund	\$283,504	\$246,045	\$251,514	\$5,470	2.2%
Reimbursable Fund	2,254	510	525	15	3.0%
Adjusted Reimbursable Fund	\$2,254	\$510	\$525	\$15	3.0%
Adjusted Grand Total	\$318,754	\$308,549	\$312,417	\$3,868	1.3%

- A deficiency appropriation for the Maryland Affordable Housing Trust would provide \$460,000 in additional special funds based on greater available revenue and demand for funding. A separate deficiency would add \$5,000,000 in federal funds for the Section 8 Housing Assistance Program.
- The all funds total for fiscal 2014 increases by 1.3%, or \$3.9 million. Federal funds for the Section 8 contract administration increase by \$12.0 million, while federal funds for weatherization programs decrease by \$6.5 million. Weatherization funding also decreases by \$2.4 million in special funds. General funds increase by \$1.2 million, primarily due to a \$1.0 million increase for a new State supplement to the federal emergency shelter grants program.

Note: Numbers may not sum to total due to rounding

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Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	320.00	316.00	327.00	11.00
Contractual FTEs	<u>50.02</u>	<u>85.50</u>	<u>70.50</u>	<u>-15.00</u>
Total Personnel	370.02	401.50	397.50	-4.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	17.44	5.52%
Positions and Percentage Vacant as of 12/31/12	33.00	10.44%

- Regular positions increase by 11 positions from fiscal 2013 to 2014. These increases are almost entirely funded by a corresponding decrease in 11 contractual full-time equivalents (FTEs). The total number of contractual FTEs decreases by 15 from fiscal 2013.
- The allowance increases the budgeted fiscal 2013 turnover rate from 3.90% to 5.52% in fiscal 2014. On December 31, 2012, the actual vacancy rate was 10.44%.

Analysis in Brief

Major Trends

Homeownership Assistance: In fiscal 2012 and 2013, the number of Maryland Mortgage Program (MMP) and Down Payment and Settlement Expense Loan Program (DSELP) loans awarded increased, consistent with a slowly recovering real estate market. The number of MMP loans increased from 1,142 to 1,450 between fiscal 2011 and 2012, and the number of DSELP loans increased from 1,089 to 1,304.

Rental Housing: The number of new affordable rental housing units going to initial closing is expected to increase in fiscal 2013 and 2014. Subsequent to a decline caused by a loss of federal funding in fiscal 2012, the Department of Housing and Community Development (DHCD) expects the volume to increase in fiscal 2013 and 2014 based on current projects in the pipeline from expanded capital funding of Rental Housing Works.

Neighborhood Revitalization: The total number of small businesses that received assistance in fiscal 2012 was 186, an increase from fiscal 2011. The department anticipates maintaining this volume of assistance through fiscal 2013 and 2014.

Issues

National Mortgage Settlement Fund Disbursement and Oversight Still in Development: DHCD has received request for proposal (RFP) applications for grants from the Settlement Fund and announced commitments in January 2013 through fiscal 2015 for legal aid grants in conjunction with the Office of the Attorney General (OAG) and other nonsettlement based DHCD funds. The department has yet to announce grants for housing counselors. **DHCD should discuss the status of the RFP process for awarding funds to housing counselors and the advantages of soliciting and awarding grant applications for multiple programs, including the Settlement Fund, through one RFP.** The national mortgage settlement funding plan for Maryland also includes \$20 million for Prince George's County and Baltimore City. DHCD has a yet to be defined oversight role for funds disbursed through OAG for neighborhood stabilization and revitalization and other housing-related programs. The budget committees had requested that a memorandum of understanding (MOU) be developed with each jurisdiction to govern the use and oversight of funds. **DHCD should discuss the status of the MOUs and plans for conducting oversight of expenditures in Baltimore City and Prince George's County made through the OAG budget.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

DHCD Relocation: Following a previously cancelled RFP for the development of a new location for DHCD, the Department of General Services (DGS) has issued a new RFP and selected a winning developer. DGS is currently negotiating the details of a lease to relocate DHCD to Prince George's County with the selected developer. DGS expects to take the lease to the Board of Public Works for approval in late April or early May. DGS currently anticipates groundbreaking to occur in the first quarter of 2014 and delivery of the completed space within 18 months of the groundbreaking.

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Department of Housing and Community Development

Operating Budget Analysis

Program Description

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

- **Affordable Rental Housing:** As shown in **Exhibit 1**, 56% of the agency's expenditures went toward 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 \$108 million of equity in fiscal 2012) are a crucial part of the financing for these projects. The loans are funded with State-appropriated rental housing funds, federal Home Investment Partnership Program funds, and the proceeds of tax-exempt and taxable bonds.

Rental housing support also includes administration of State and federal rental subsidy programs, including the federal Section 8 Performance Based Contract Administration and Housing Choice Voucher programs and the State Rental Allowance Program. Under these programs, DHCD provides rental assistance to low-income households through owners of covered units, local governments, or nonprofit subcontractors.

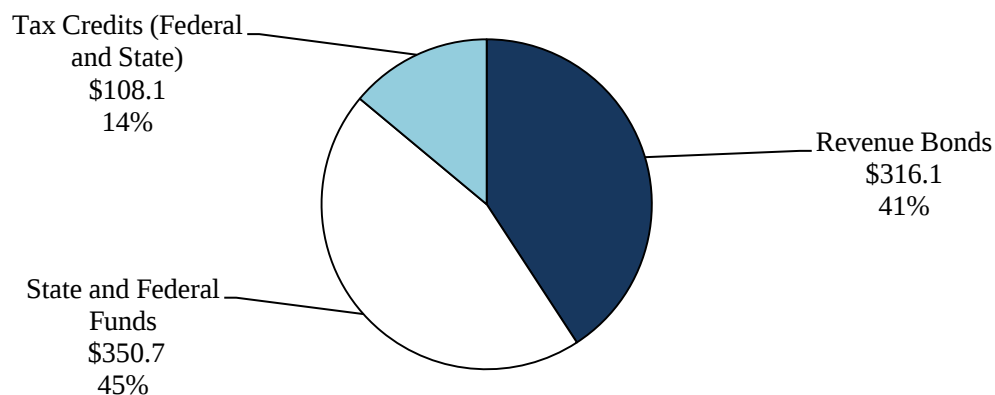
- **Homeownership:** As shown in Exhibit 1, about 40% of the agency's expenditures that incurred in fiscal 2012 were to promote homeownership. Those who meet certain income criteria can access loans with zero interest rates for down payment and settlement expenses to buy homes. Exhibit 1 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, are a significant part of the agency's funding.

Other Single Family Program activities support grants and loans for weatherization, lead hazard reduction, indoor plumbing improvements, overall rehabilitation, and group home projects.

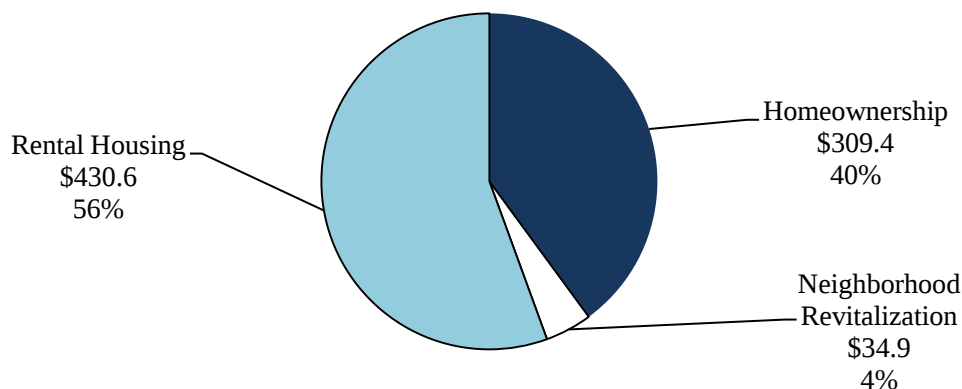
- **Neighborhood Revitalization:** As shown in Exhibit 1, about 4% of the agency's expenditures in fiscal 2012 were related to Neighborhood Revitalization related activities. Local governments, community development nonprofits, businesses, and others involved in improving communities may access grants, 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 1
Sources and Uses of DHCD's Operating and Capital Budgets
Budgeted and Nonbudgeted Sources
Fiscal 2012 Total = \$774.9 Million
(\$ in Millions)

Sources of Funding



Use of Funding



DHCD: Department of Housing and Community Development

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 and mortgage backed securities that are a major source of DHCD revenues.

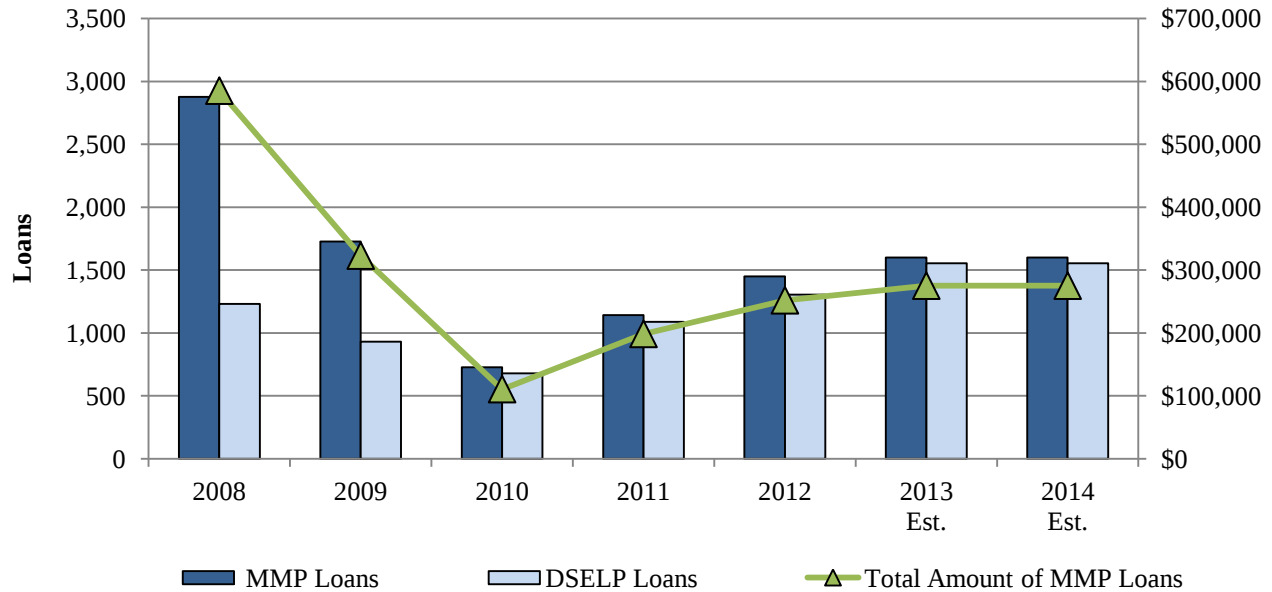
DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration.

Performance Analysis: Managing for Results

1. 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 Down Payment and Settlement Expense Loan Program (DSELP) have helped a significant share of the market it strives to serve, although considerable volatility in the housing market has limited its impact. **Exhibit 2** shows the substantial decline in the total number of MMP and DSELP loans provided from fiscal 2008 through 2010 during the recession and amid the turmoil in the housing market. In fiscal 2012, the number of MMP and DSELP loans awarded increased, consistent with a slowly recovering real estate market. The number of MMP loans increased from 1,142 to 1,450 between fiscal 2011 and fiscal 2012, and the number of DSELP loans increased from 1,089 to 1,304. In fiscal 2012, DSELP loans proved to be a primary driver of potential borrowers engaging in an MMP loan. As Exhibit 2 depicts, the volumes of MMP and DSELP have converged, and in fiscal 2012, 97.2% of MMP loans used DSELP.

Exhibit 2
Homeownership Assistance
Fiscal 2008-2014
(\$ in Thousands)



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

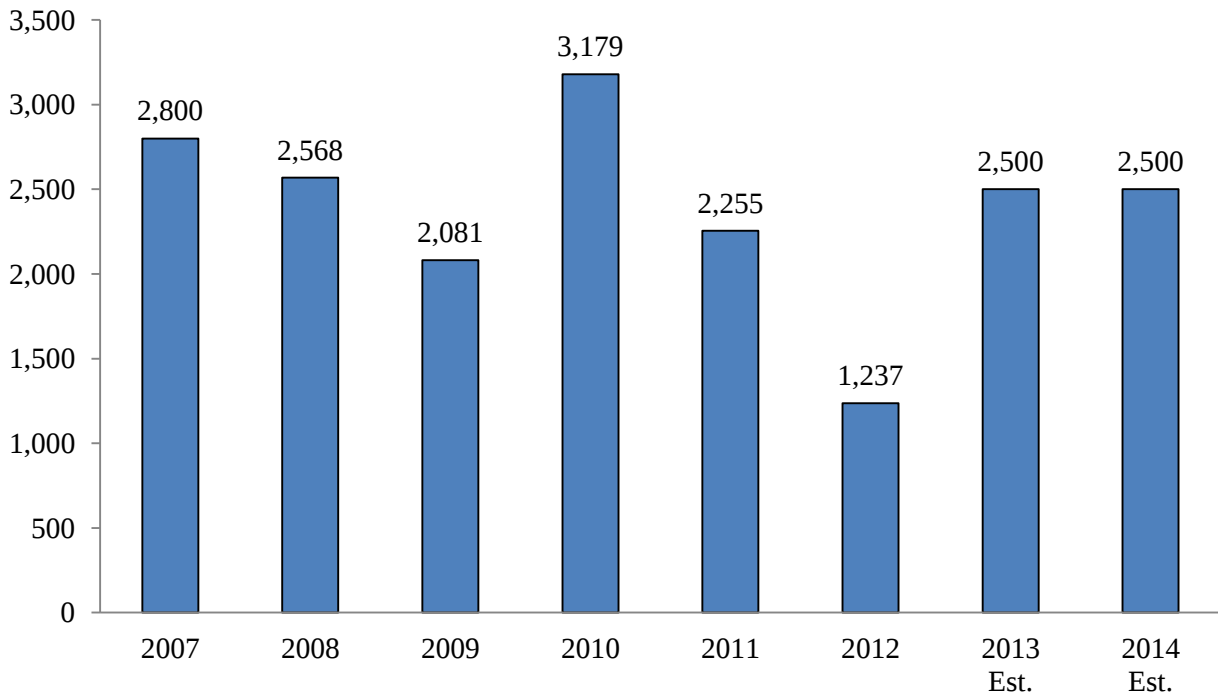
Source: Department of Housing and Community Development

2. 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. 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 3**, unit production has fluctuated since fiscal 2007. In fiscal 2010,

Exhibit 3
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2007-2014



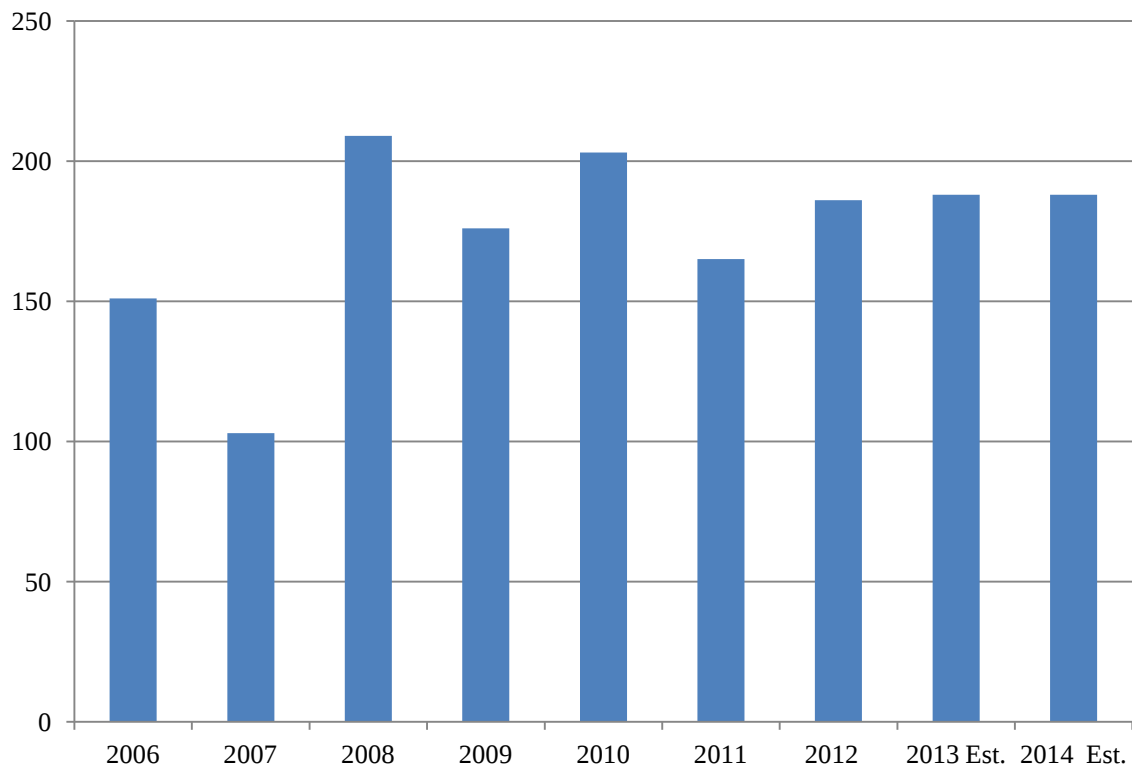
Source: Department of Housing and Community Development

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 and 2012 because the ARRA funds were exhausted. DHCD expects the volume to increase in fiscal 2013 and 2014 based on current projects funded by Rental Housing Works.

3. Neighborhood Revitalization

DHCD also does work at the community level. Assistance goes to nonprofit and community-based organizations, local governments, and small businesses. These funds target infrastructure improvements, business and housing opportunities, main street revivals, historic sites, parks, and playgrounds. As shown in **Exhibit 4**, the total number of small businesses that received assistance in fiscal 2012 was 186, an increase from fiscal 2011. The department anticipates maintaining this volume of assistance through fiscal 2013 and 2014.

Exhibit 4
Creation and Expansion of Businesses
Small Businesses Assisted
Fiscal 2006-2014



Source: Department of Housing and Community Development

Fiscal 2013 Actions

Proposed Deficiencies

There are two proposed deficiencies for the fiscal 2013 appropriation. A deficiency appropriation for the Maryland Affordable Housing Trust (MAHT) would provide \$460,000 in additional special funds based on increased demand for MAHT funding and greater available revenue from interest generated by title company escrow. A separate deficiency would add \$5,000,000 in federal funds for the Section 8 Housing Assistance Program based on higher than anticipated market rent increases.

Proposed Budget

When adjusted for across-the-board reductions, the DHCD fiscal 2014 allowance increases by \$3.9 million, or 1.3%, compared with the fiscal 2013 working appropriation.

Personnel Expenses

Personnel expenses increase by \$1.1 million. The largest increase is due to a \$607,429 increase in the statewide retirement rate contribution. The statewide rate increases are attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform. Other major changes include:

- Salaries and other compensation increase by \$376,114;
- The annualization of the costs-of-living adjustment (COLA) in fiscal 2013 results in a \$227,951 increase in regular earnings and benefits;
- A \$37,577 across-the-board reduction due to overbudgeted health care is shown as a contingent reduction. Inclusive of this reduction, employee and retiree health insurance decrease by \$116,995; and
- The conversion of 11 full-time equivalent (FTE) contractals to new regular positions results in a net increase of \$26,090 in special funds, after adjusting for decreases in contractual services. These conversions are based on long-term core agency positions that have been filled by contractual employees. While DHCD has filled long-term staffing needs with contractual FTEs, the department reports that this is not a cost-effective or efficient long-term solution since levels of program and asset management activity are expected to continue for the foreseeable future. Although costs for contractual employees are lower due to the lack of benefits, according to the department these savings are more than offset by the negative impact on program effectiveness and the costs of recruitment and re-training due to high turnover among contractual employees.

Weatherization

Special and federal funds for weatherization programs funded through DHCD decrease by approximately \$8.9 million in fiscal 2014. Federal funds for weatherization decrease by \$8.0 million from fiscal 2013 after a one-time budget amendment in fiscal 2013 realigned funds from the Energy Efficiency Conservation Block Grant program for energy efficiency programs. Federal funds increase under the Weatherization Assistance Program from the U.S. Department of Energy by \$1.5 million. Special funds for weatherization programs decrease by \$500,000 due to lower revenues available from the Regional Greenhouse Gas Initiative (RGGI) and by \$1.9 million due to a planned decrease in special fund grants from EmPower MD, based on a multi-year funding cycle.

Neighborhood Revitalization

The only significant general fund change in the DHCD budget for fiscal 2014 occurs in Neighborhood Revitalization programs with the addition of \$1 million for a new State match to the federal emergency shelter grant program (now formally named the Emergency Solutions Grants Program). The emergency shelter grant funds are used primarily to support operating costs, case management and client services, and staffing and administrative costs for shelters and post-shelter transitional units. Funds may also be used for assisting sheltered persons making the transition to permanent housing and independent living.

Special funds decrease in Neighborhood Revitalization due to an anticipated decrease in appropriations from the Mortgage Loan Servicing Practices Settlement Fund, which is appropriated from a national settlement related to mortgage loan servicing and foreclosure practices. The funds from the settlement are used in the DHCD operating budget for grants to housing counselors and legal assistance agencies (discussed in Issue 1). The appropriation decreases from \$6.5 million in fiscal 2013 to \$5.0 million in fiscal 2014. Special funds also decrease by \$500,000 in the Housing Counseling and Foreclosure Mediation Fund, which is also used for housing counseling and legal service organizations, based on funds available from fees generated during the foreclosure process in Maryland.

Rental Services Programs

Federal funds for the Section 8 Performance Based Contract Administration increase by \$12 million based on market rental rates. Federal funds for housing vouchers increase by \$200,000 in fiscal 2014 for the same reason. Federal funds also increase by \$30,000 for the federal grant program Housing Opportunities for People With AIDS.

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Fiscal 2014 funding for MAHT would be a \$40,000 increase over working fiscal 2013 if the deficiency is approved. Absent the deficiency, the allowance represents a \$500,000 increase over fiscal 2013, as shown in **Exhibit 5**.

Other Changes

IT contractual services and acquisitions decrease by \$292,519, as the State Asset Service System project approaches completion (see **Appendix 3**), and out-of-state conferences and seminars decreases by \$137,650.

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

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2013 Working Appropriation	\$1,940	\$60,055	\$246,045	\$510	\$308,549
2014 Allowance	<u>2,960</u>	<u>57,442</u>	<u>251,527</u>	<u>525</u>	<u>312,454</u>
Amount Change	\$1,020	-\$2,613	\$5,483	\$15	\$3,905
Percent Change	52.6%	-4.4%	2.2%	3.0%	1.3%
Contingent Reduction	0	-\$25	-\$13	\$0	-\$38
Adjusted Change	\$1,020	-\$2,637	\$5,470	\$15	\$3,868
Adjusted Percent Change	52.6%	-4.4%	2.2%	3.0%	1.3%

Where It Goes:

Personnel Expenses

Net cost of conversion of new positions to convert contractual employees.....	\$26
Annualized general salary increase	228
Increments and other compensation	376
Employee and retiree health insurance savings, net of across-the-board reductions	-117
Retirement contribution rate change	607
Turnover adjustments	-53
Workers compensation	36

Weatherization

End of one-time reallocation of Energy Efficiency and Conservation Block Grant funds	-8,000
EmPower Maryland grants	-1,900
Regional Greenhouse Gas Initiative funding for weatherization	-500
Federal Weatherization Assistance Program	1,500

Division of Neighborhood Revitalization

Mortgage Loan Servicing Practices Settlement Fund grants	-1,478
Housing Counseling and Foreclosure Mediation Fund grants	-500
Energy Efficiency and Conservation Block Grant administration	-169
State match for emergency shelter grant	1,020

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Where It Goes:

Rental Services Program

Section 8 Performance Based Contract administration	12,000
Section 8 Voucher Program	200
Housing Opportunities for People with AIDS.....	30

Maryland Affordable Housing Trust

Maryland Affordable Housing Trust.....	500
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Other Changes

Departmentwide reduction in out-of-state conferences and seminars.....	-138
Information technology (IT) equipment replacement	39
Housing Development Program contractual services.....	-69
Building codes contractual services	-69
IT contractual services and acquisitions.....	-293
Rent paid to the Department of General Services	50
Contractual services throughout agency.....	121
Special payments payroll.....	123
Contractual turnover	140
Other.....	158

Total	\$3,868
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Note: Numbers may not sum to total due to rounding.

Issues

1. National Mortgage Settlement Fund Disbursement and Oversight Still in Development

In February 2012, a significant national settlement was announced between 49 states and the District of Columbia (Oklahoma was not a party to the settlement) and the nation's five largest mortgage servicers: Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, and Ally Bank (formerly GMAC). The settlement was based on mortgage loan servicing and foreclosure practices utilized by those mortgage servicers.

The settlement provided approximately \$25 billion in monetary relief. The projected benefit to Marylanders from the settlement is approximately \$957 million, which includes homeowner relief programs (\$808 million), direct payments to foreclosed borrowers (\$24 million), refinancing options for homeowners (\$64 million), and payments for housing counseling and other State-level foreclosure prevention and housing programs (\$60 million).

In Chapter 1 of the First Special Session of 2012, the General Assembly created the Mortgage Loan Servicing Practices Settlement Fund. In the statute, the General Assembly declared that the funds from the national settlement have to be approved either in the budget or through budget amendments. The use of funds are restricted to specific purposes. The General Assembly also required a formal report to be submitted every October 1 until 2016 on the funds expended and the specific outcomes or public benefits resulting from the expenditures in each fiscal year.

Over the summer of 2012, a Mortgage Settlement Funds Workgroup was appointed by the Attorney General to make recommendations for the use of these funds. The workgroup was comprised of representatives from the Senate, the House of Delegates, the Governor's office, DHCD, the Department of Labor, Licensing, and Regulation, Prince George's County Department of Housing and Community Development, Baltimore City's Department of Housing and Community Development, Baltimore City's Law Department, the Abell Foundation, and OAG. The Workgroup's plan sought to spend funds over a three year period, starting in fiscal 2013.

The final allocation included \$8,600,000 for housing counselors through a DHCD request for proposal (RFP) process and \$6,227,863 for legal assistance organizations also allocated through a DHCD RFP process. Additionally, the spending plan included \$20 million for Baltimore City and Prince George's County local government housing programs, to be budgeted through the Office of the Attorney General (OAG), but overseen by DHCD.

Counseling and Legal Aid Grants

A fiscal 2013 budget amendment authorizing DHCD to spend \$6,477,863 in fiscal 2013 was submitted on July 2, 2012, and approved on November 1, 2012. From the \$6,477,863 budget amendment, \$3,500,000 was for housing counselors and \$2,977,863 for legal assistance grants. In

between submission and approval of the budget amendment, DHCD received RFP applications for grants from the Settlement Fund through fiscal 2015.

In January of 2013, DHCD and OAG announced three year commitments utilizing the entire \$6.2 million settlement fund sum for legal assistance to six nonprofit legal aid and assistance organizations, in combination with funds from the Maryland Housing Counseling Fund. The following were the grant recipients of the legal assistance funds:

- Maryland Legal Aid Bureau
- Civil Justice, Inc.
- Maryland Volunteer Lawyers Services
- St. Ambrose Housing Aid Center, Inc.
- Pro Bono Resource Center
- Public Justice Center, Inc.

In making this announcement, DHCD and OAG made commitments beyond fiscal 2013 for settlement fund expenditures that have not yet been approved by the General Assembly in the budget (or by budget amendment).

Applications for housing counseling grants, like the legal services grants, are combined with applications for grants funding outside of the settlement fund through fiscal 2015. Awards have yet to be announced.

DHCD should discuss the status of the RFP process for awarding funds to housing counselors and the advantages of soliciting and awarding grant applications for multiple programs, including the Settlement Fund, through one RFP.

DHCD Oversight of \$20 Million in County Expenditures

According to a Memorandum of Understanding (MOU) between OAG and DHCD, proposals from Prince George's County and Baltimore City for neighborhood stabilization and revitalization and other housing-related programs will be reviewed by DHCD. Furthermore, DHCD will "provide comments and advice to the OAG with respect to the proposals," and "the Attorney General and the Secretary of DHCD will both sign agreements with each grant recipient and will jointly be responsible for implementation of the agreements." The \$20 million in appropriations and disbursements will come from OAG, but DHCD "in consultation with and on behalf of OAG, will monitor and provide compliance oversight of the grant recipients' progress and implementation of their proposals, including site inspection, review of payment requests and supporting documentation,

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quarterly and final reports, to ensure that the scope of the work is undertaken in accordance with the terms of the grant agreement, and in compliance with applicable State and federal requirements.”

The budget committees have yet to receive an MOU for this process to establish DHCD oversight.

DHCD should discuss the status of the MOU and plans for conducting oversight of expenditures in Baltimore City and Prince George’s County made through the OAG budget.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. DHCD Relocation

In June 2010, Governor Martin J. O'Malley announced plans to move DHCD's headquarters from Anne Arundel County to Prince George's County. In September 2010, the Department of General Services (DGS) issued an RFP to lease approximately 88,000 square feet of space in Prince George's County for DHCD. Although the location was not required to be a transit-oriented development, the RFP did make reference to Executive Order 01.01.2009.12, which established a new State policy to locate State office and laboratory space within a half-mile of transit stations whenever appropriate and feasible. A total of 16 bids were submitted in response to the RFP. Six of these bids were selected to submit best and final offers. In September 2011, the Governor announced that DHCD will move to Metroview, a mixed-use facility to be constructed in New Carrollton adjacent to the metro station. After this announcement, DGS failed to reach a final agreement with the winning offerer and subsequently issued a second RFP in October of 2012.

DGS has since identified a high score proposer to the October 2012 RFP to relocate DHCD to Prince George's County. The proposed site at the New Carrollton Metro Station is close to the previous one selected on the first round of proposals. Proposals were graded in the following categories with a maximum number of points possible in each category:

- Total occupancy cost over the lease term (140 points);
- Economic benefits and development synergy (60 selection points);
- Landlord considerations, based on financial strength and experience (25 points);
- Smart growth and transit orientated development (21 points);
- Within a half-mile of a fixed rail station (15 points);
- Agency preference and input (15 points);
- Option period rent (10 points);
- Building and site configuration, adjacency to amenities (10 points); and
- Stakeholder support and community considerations (4 points).

The proposed site will provide DHCD office space that is part of a mixed-use development that includes office and retail space. DGS will be negotiating the details of a lease with the selected developer. DGS currently plans to take the lease to the Board of Public Works (BPW) for approval in

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late April or early May of 2013. As part of the negotiations with the proposed developer, DHCD will have input on the floor plans and layout of workspaces.

DGS and the selected offeror are committed to an aggressive schedule with the groundbreaking proposed for the first quarter of 2014 and delivery of the completed space within 18 months of the groundbreaking.

Due to State procurement regulations regarding procurement actions in negotiation, DGS cannot share more information about the selected project, beyond what is described in this analysis, until the procurement is presented for a decision to BPW.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$1,940	\$31,404	\$237,270	\$1,985	\$272,599
Deficiency Appropriation	0	2,999	0	0	2,999
Budget Amendments	140	133	52,201	375	52,849
Reversions and Cancellations	0	-3,620	-5,967	-106	-9,693
Actual Expenditures	\$2,080	\$30,916	\$283,504	\$2,254	\$318,754
Fiscal 2013					
Legislative Appropriation	\$1,940	\$53,445	\$237,954	\$495	\$293,835
Budget Amendments	0	6,609	8,090	15	14,714
Working Appropriation	\$1,940	\$60,055	\$246,045	\$510	\$308,549

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

Fiscal 2012

DHCD completed fiscal 2012 \$46 million above its legislative appropriation, largely due to additional federal funding for the Emergency Mortgage Assistance Program.

General Funds: Actual fiscal 2012 general fund expenditures were \$140,000 above the legislative appropriation. A budget amendment increased the general fund appropriation by \$140,000 to address a shortfall in appropriations for the Rental Allowance Program to address the program's cash flow by aligning available funds with expenses, subsequent to a \$471,400 general fund reversion in fiscal 2011.

Special Funds: Actual fiscal 2012 special fund expenditures were \$0.5 million below the original legislative appropriation. Deficiency appropriations for EmPower Maryland weatherization projects increased special fund appropriations by \$3.0 million in fiscal 2012. Additionally, a one-time State employee bonus increased special fund appropriations through a \$132,992 budget amendment. These two increases were offset by \$3.6 million in reversions and cancellations.

The major special fund cancellations were:

- \$610,851 in Neighborhood Revitalization for housing counseling grants;
- \$630,348 in the Housing Development Program based on vacant positions and decreased contractual services;
- \$934,247 in Homeownership Programs due to lower revenue from the Maryland Affordable Housing Trust and vacancies for positions related to homeownership programs;
- \$412,001 in the Division of Finance and Administration based on vacant positions and a decline in contractual services; and
- \$214,834 in Office of Management Services due to vacant positions and contractual services.

Special fund appropriations were also reduced by \$250,000 due to a restriction associated with the production of a report to the budget committees on the proposed relocation of DHCD.

Federal Funds: Actual fiscal 2012 federal fund expenditures were \$46 million above legislative appropriations. The department received an additional \$52 million in federal funds for its Emergency Mortgage Assistance Program. The one-time State employee bonus of \$750 also increased federal fund appropriations by \$102,657. At the end of fiscal 2012, DHCD cancelled \$6 million in federal funds based on expenditures that were lower than anticipated at the time of appropriations. These cancellations included:

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- \$1.1 million in Neighborhood Revitalization for grants from the Energy Solutions Grant and the Community Services Block Grant Program;
- \$1.7 million in weatherization funds related to the Weatherization Assistance Program and funds from the American Recovery and Reinvestment Act;
- \$1.8 million in CDA Rental Services for Section 8 Housing Choice Voucher grants;
- \$400,744 in Asset Management due to vacant contractual FTEs; and
- \$383,747 in Administration based on unexpended contract costs.

Reimbursable Funds: Actual fiscal 2012 reimbursable fund expenditures were \$269,000 above legislative appropriations. Three budget amendments appropriated an additional \$374,941 in funds, including (1) \$24,750 of funds from the Department of Business and Economic Development (DBED) for Neighborhood Business Works program; (2) \$280,000 in funds for the Multifamily Energy Efficiency Program from the MEA; and (3) \$70,191 in funds under a contract with the Department of Health and Mental Hygiene to provide housing subsidies for persons living with HIV/AIDS to meet the requirements of the Federal Housing Opportunity for Persons Living with HIV/AIDS program. At the end of the fiscal year, DHCD cancelled \$106,312 in reimbursable funds, largely due to a \$81,562 cancellation in the Rental Services Programs.

Fiscal 2013

Special Funds: The special fund appropriation increases by \$6.6 million due to a special fund increase of \$131,596 for a statewide COLA and a \$6,477,863 budget amendment to Neighborhood Revitalization from the national mortgage loan servicing and foreclosure practices settlement.

Federal Funds: The federal fund appropriation increases by \$8.1 million due to an \$8.0 million appropriation from the Energy Efficiency Conservation Block Grant program for energy efficiency programs and a \$90,175 increase in federal funds for the statewide COLA.

Reimbursable Funds: Reimbursable funds increase by \$14,700 for the State Small Business Credit Initiative with an appropriation of federal funds through DBED.

Audit Findings

Audit Period for Last Audit:	July 1, 2008 – May 9, 2011
Issue Date:	April 2012
Number of Findings:	3
Number of Repeat Findings:	1
% of Repeat Findings:	33%
Rating: (if applicable)	n/a

***Office of the Secretary
Division of Finance and Administration
Division of Information Technology***

Finding 1: DHCD lacked documentation that collections were verified to deposit.

Finding 2: **Physical inventory results were not fully reconciled with detail records and certain equipment items were not accounted for.**

Finding 3: DHCD lacked evidence of competition for purchases made with corporate purchasing cards.

*Bold denotes item repeated in full or part from preceding audit report.

Major Information Technology Projects

Department of Housing and Community Development State Asset Service System

Project Status ¹	Implementation.	New/Ongoing Project:	Ongoing.
Project Description:	The Department of Housing and Community Development's (DHCD) State Asset Service System (SASS) project seeks the acquisition and implementation of a commercial off-the-shelf software solution for the accounting and servicing of approximately \$585 million in State loan assets. SASS will be a commercial off-the-shelf solution with minimal customization needed for servicing non-industry standard unique multi-family gap financing loans. Much of the desired SASS functionality is currently performed manually or via limited automation in spreadsheets. The Office of Legislative Audits (OLA) has deemed these spreadsheet records as inadequate. OLA is also concerned because DHCD does not have a single, integrated source of cash flow loan data that can provide a comprehensive record of cash flow balances and related loan activities, such as billings and loan performance. SASS will be a sub-ledger account system and will enable DHCD to efficiently service loans, account for State money and provide borrowers online account information. Upon full implementation DHCD expects to save \$100,000 per year in outside contract services.		
Project Business Goals:	SASS will be a sub-ledger accounting system, enabling DHCD to efficiently service loans by: 1. Improving the capability to manage cash flow loans and collections; 2. Enabling interoperability with existing systems; 3. Providing appropriate security and auditing capabilities; 4. Providing online account information via the Internet for project and property managers; and 5. Improving the ability to report on cash flow loan balances and activities.		
Estimated Total Project Cost¹:	\$1,095,000	Estimated Planning Project Cost¹:	\$0
Project Start Date:	6/30/2005	Projected Completion Date:	06/30/2014
Schedule Status:	The SASS project schedule has been updated and currently allows for resource staffing variations but still contains deficiencies that need to be addressed. The Department of Information Technology will work with DHCD SASS to update its schedule to verify completion date in the fourth quarter fiscal 2013.		
Cost Status:	Due to a lack of resources on the SASS project, it has been extended for one year. The planned budget of \$960,000 will now be \$1,035,000 to accommodate the full fiscal year of operations and maintenance post implementation.		
Identifiable Risks:	Key resources have been removed periodically to work on other DHCD projects and this continues to impact the project schedule. As a risk mitigation strategy, DHCD has added three employees to the SASS project. Additionally, the director of DHCD's financial division has volunteered to offer oversight and guidance for the asset management component of the SASS project and supplement the project's oversight. Finally, DHCD is actively tracking this issue, and the SASS project team has made efforts to update the project schedule with adequate resources to handle the impact.		

Fiscal Year Funding (\$ in Thousands)		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	1,020.0	75.0	0.0	0.0	0.0	0.0	75.0	75.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$1,020.0	\$75.0	\$0.0	\$0.0	\$0.0	\$0.0	\$75.0	\$1,095.0

¹ In calendar 2011, a two-step approval process was adopted. Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

Object/Fund Difference Report
Department of Housing and Community Development

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	320.00	316.00	327.00	11.00	3.5%
02 Contractual	50.02	85.50	70.50	-15.00	-17.5%
Total Positions	370.02	401.50	397.50	-4.00	-1.0%
Objects					
01 Salaries and Wages	\$ 25,428,253	\$ 26,846,073	\$ 28,813,933	\$ 1,967,860	7.3%
02 Technical and Spec. Fees	3,345,093	3,615,921	3,087,868	-528,053	-14.6%
03 Communication	350,669	316,480	328,076	11,596	3.7%
04 Travel	195,605	277,550	126,250	-151,300	-54.5%
07 Motor Vehicles	117,805	118,471	127,161	8,690	7.3%
08 Contractual Services	6,798,361	16,138,343	7,827,674	-8,310,669	-51.5%
09 Supplies and Materials	287,677	347,200	346,100	-1,100	-0.3%
10 Equipment – Replacement	47,776	150,087	189,400	39,313	26.2%
11 Equipment – Additional	50,938	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	230,791,115	258,696,689	269,509,694	10,813,005	4.2%
13 Fixed Charges	1,970,791	2,042,215	2,098,232	56,017	2.7%
14 Land and Structures	49,369,443	0	0	0	0.0%
Total Objects	\$ 318,753,526	\$ 308,549,029	\$ 312,454,388	\$ 3,905,359	1.3%
Funds					
01 General Fund	\$ 2,080,000	\$ 1,940,000	\$ 2,960,000	\$ 1,020,000	52.6%
03 Special Fund	30,916,335	60,054,791	57,442,285	-2,612,506	-4.4%
05 Federal Fund	283,503,562	246,044,538	251,527,103	5,482,565	2.2%
09 Reimbursable Fund	2,253,629	509,700	525,000	15,300	3.0%
Total Funds	\$ 318,753,526	\$ 308,549,029	\$ 312,454,388	\$ 3,905,359	1.3%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
Department of Housing and Community Development

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
20 Office of the Secretary	\$ 6,580,582	\$ 6,638,729	\$ 6,956,496	\$ 317,767	4.8%
22 Division of Credit Assurance	5,962,788	5,860,068	6,013,072	153,004	2.6%
24 Division of Neighborhood Revitalization	18,623,827	25,988,203	24,909,301	-1,078,902	-4.2%
25 Division of Development Finance	279,407,521	260,271,288	264,682,598	4,411,310	1.7%
26 Division of Information Technology	2,389,048	3,440,374	3,260,518	-179,856	-5.2%
27 Division of Finance and Administration	5,789,760	6,350,367	6,632,403	282,036	4.4%
Total Expenditures	\$ 318,753,526	\$ 308,549,029	\$ 312,454,388	\$ 3,905,359	1.3%
General Fund	\$ 2,080,000	\$ 1,940,000	\$ 2,960,000	\$ 1,020,000	52.6%
Special Fund	30,916,335	60,054,791	57,442,285	-2,612,506	-4.4%
Federal Fund	283,503,562	246,044,538	251,527,103	5,482,565	2.2%
Total Appropriations	\$ 316,499,897	\$ 308,039,329	\$ 311,929,388	\$ 3,890,059	1.3%
Reimbursable Fund	\$ 2,253,629	\$ 509,700	\$ 525,000	\$ 15,300	3.0%
Total Funds	\$ 318,753,526	\$ 308,549,029	\$ 312,454,388	\$ 3,905,359	1.3%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.