SA00

Department of Housing and Community Development – Capital

Capital Budget Summary

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

Program	2016 Approp.	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
Rental Housing Programs	$39.500	$31.000	$30.000	$31.000	$35.000	$46.000	$46.000
Special Loan Programs	4.850	4.300	9.400	9.400	9.400	7.900	7.900
Community Development Block Grant Program	24.000	9.000	9.000	9.000	9.000	9.000	9.000
Housing and Building Energy Programs	11.450	8.050	10.550	10.050	10.050	10.050	10.050
Homeownership Programs	15.550	9.000	10.000	10.500	10.500	18.000	18.000
Partnership Rental Housing Program	6.000	5.500	6.000	6.000	6.000	6.000	6.000
Community Legacy Program	6.000	5.000	6.000	6.000	6.000	6.000	6.000
Neighborhood Business Development Program	6.050	4.500	5.000	5.500	7.000	10.700	10.700
Shelter and Transitional Housing Facilities Grant Program *	1.500	1.500	3.000	3.000	3.000	3.000	3.000
Strategic Demolition and Smart Growth Impact Fund *	7.500	21.500	25.625	28.500	0.000	0.000	0.000

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

Program	2016 Approp.	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
Baltimore Regional Neighborhoods Initiative *	3.000	2.861	3.000	3.000	3.000	3.000	3.000
MD BRAC Preservation Loan Fund	3.500	3.500	3.000	2.500	1.850	1.850	1.850
Total	**$128.900**	**$105.711**	**$120.575**	**$124.450**	**$100.800**	**$121.500**	**$121.500**

Fund Source	2016 Approp.	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
PAYGO GF	$15.000	$50.905	$0.000	$28.500	$0.000	$0.000	$0.000
PAYGO SF	35.050	31.650	34.550	33.450	33.100	34.800	34.800
PAYGO FF	30.700	15.700	16.200	16.200	16.200	16.200	16.200
GO Bonds	48.150	7.456	69.825	46.300	51.500	70.500	70.500
Total	**$128.900**	**$105.711**	**$120.575**	**$124.450**	**$100.800**	**$121.500**	**$121.500**

FF: federal funds
GF: general funds
GO: general obligation
MD BRAC: Maryland Base Realignment and Closure
PAYGO: pay-as-you-go
SF: special funds

*Totals in these programs as well as totals by fund source reflect actions contingent on passage of the Budget Reconciliation and Financing Act of 2017 as introduced by the Governor.

Note: Fiscal 2017 amounts reflect Board of Public Works cost containment actions in November 2016.

Summary of Issues

Project C.O.R.E. Takes Shape: The goals of Project Creating Opportunities for Renewal and Enterprise (C.O.R.E.) are to improve economic opportunity, encourage redevelopment, and improve the quality of life in Baltimore City neighborhoods. The plan is funded primarily via the Strategic Demolition and Smart Growth Impact Fund (SDSGI), with $21.5 million in general funds in fiscal 2017, $25.6 million in general obligation (GO) bond funds in the fiscal 2018 budget, and a planned $28.5 million in general funds in the *Capital Improvement Program* (CIP) for fiscal 2019.

While the impact of Project C.O.R.E. demolition phase is substantial, the Department of Housing and Community Development (DHCD) touts revitalization impacts that are either overstated, are not directly related to demolition and blight removal, would likely have occurred without Project C.O.R.E., or were on track to happen with or without Project C.O.R.E. **DHCD should comment on its estimates for Project C.O.R.E.'s impact. The department should also comment on plans for properties demolished by the Maryland Stadium Authority (MSA) that have no redevelopment plans attached.**

Ellicott City Disaster Assistance: On July 30, 2016, a catastrophic flood caused significant damage to businesses, homes, and infrastructure in Historic Ellicott City. DHCD has taken the role as the lead State agency in providing assistance to those affected by the flooding in Ellicott City. The agency is using $2.5 million in funding provided from the Catastrophic Event Fund and $2.5 million from the Small, Minority, and Women-Owned Business Account (SMWOBA), which is funded by video lottery terminal (VLT) proceeds. **DHCD should comment on the status of its efforts in Ellicott City.**

U.S. Department of the Treasury Finds Problems with DHCD Transactions: The State Small Business Credit Initiative (SSBCI) is a federal program funded with $1.5 billion to strengthen state programs that support lending to small businesses and small manufacturers. DHCD's Neighborhood BusinessWorks (NBW) program used approximately $900,000 in SSBCI funding for three transactions. All three were ruled to have violated U.S. Department of Treasury (Treasury Department) regulations for the program. **DHCD should comment on the reasons for not complying with Treasury Department regulations for the program.**

November 2016 Board of Public Works Cost Containment: The November 2016 Board of Public Works (BPW) cost containment reductions eliminated $7 million in general funds from DHCD's fiscal 2017 pay-as-you-go (PAYGO) appropriation. **DHCD should comment on the impact of the reductions.**

Summary of Recommended PAYGO Actions

1. Concur with Governor's allowance.

Summary of Recommended Bond Actions

		Funds
1.	Department of Housing and Community Development	
	Adopt committee narrative.	
2.	Baltimore Regional Neighborhood Initiative	$9,000,000 GO
	Increase funding for the Baltimore Regional Neighborhood Initiative by $9,000,000.	
3.	Community Legacy Program	-$1,000,000 GO
	Delete $1,000,000 of the general obligation bond authorization for the Community Legacy Program.	
4.	Neighborhood Business Development Program	-$200,000 GO
	Delete $200,000 of the general obligation bond authorization for Neighborhood Business Works.	
5.	Strategic Demolition and Smart Growth Impact Fund	
	Approve funding for the Strategic Demolition and Smart Growth Impact Fund.	
6.	Seed Community Development Anchor Institution Fund	$5,000,000 GO
	Add funds for Seed Community Development Anchor Institution Fund.	
7.	Seed Community Development Anchor Institution Fund	
	Adopt committee narrative.	
8.	Homeownership Programs	-$900,000 GO
	Delete $900,000 of the general obligation bond authorization for Homeownership Programs.	

9. Partnership Rental Housing Program -$1,000,000 GO

   Delete $1,000,000 of the general obligation bond authorization for the Partnership Rental Housing Program.

10. Rental Housing Program

    Approve funding for Rental Housing Programs.

11. Shelter and Transitional Housing Facilities Grant Program

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

12. Special Loan Programs -$2,500,000 GO

    Delete $2,500,000 of the general bond authorization for Special Loan Programs.

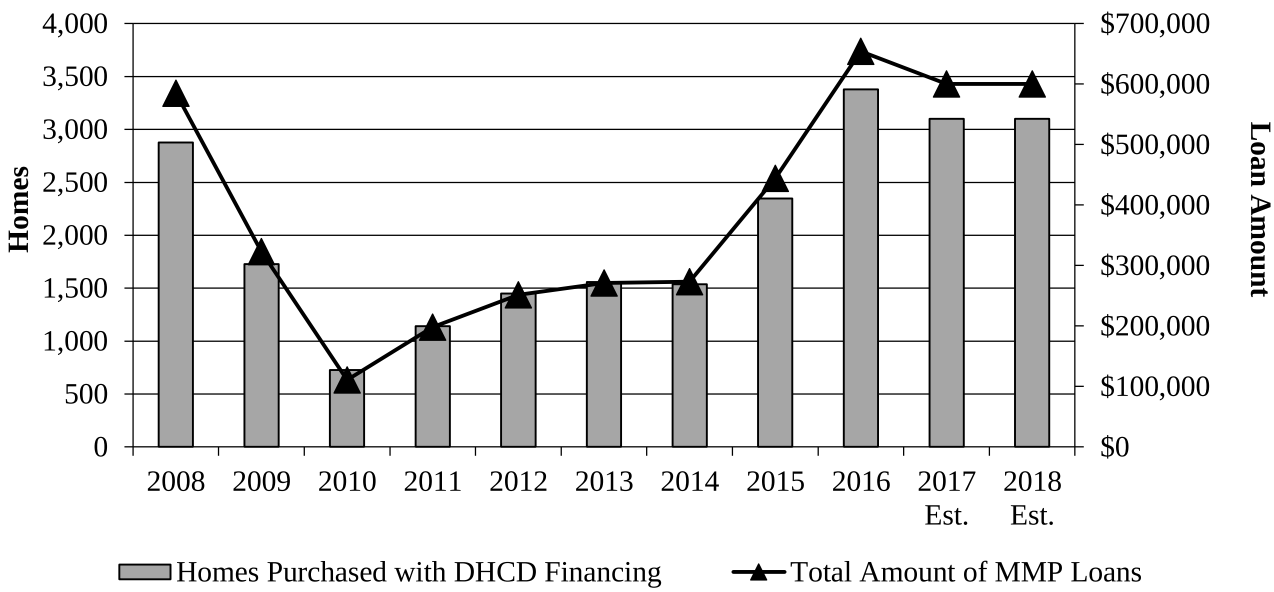
Total De-authorization Reductions/Additions	**$0**
Total General Obligation Additions	**$8,400,000**
Total Pre-authorization Reductions/Additions	**$0**

Performance Measures and Outputs

Homeownership Assistance Skyrockets

One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. Two key portions of DHCD efforts toward these objectives include the Maryland Mortgage Program (MMP) and the Down Payment and Settlement Expense Loan Program (DSELP). **Exhibit 1** shows the large, rapid decline in the number of DSELP and MMP loans provided from fiscal 2008 through 2010 followed by a steady increase in program usage through fiscal 2013. That trend ended in fiscal 2014 when the number of MMP loans decreased slightly. However, both fiscal 2015 and 2016 saw huge increases in the number and value of MMP loans. Fiscal 2016 saw a 43.9% increase in homes purchased using DHCD assistance, up to 3,378 from 2,348 in fiscal 2015. A combination of DHCD marketing efforts, including new programs and favorable economic conditions, have driven the increase. In fiscal 2016, DHCD launched a Preferred Rate product, which reduces the interest rate for borrowers who do not need down payment assistance.

Exhibit 1
Homeownership Assistance
Fiscal 2008-2018 Est.
($ in Thousands)



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

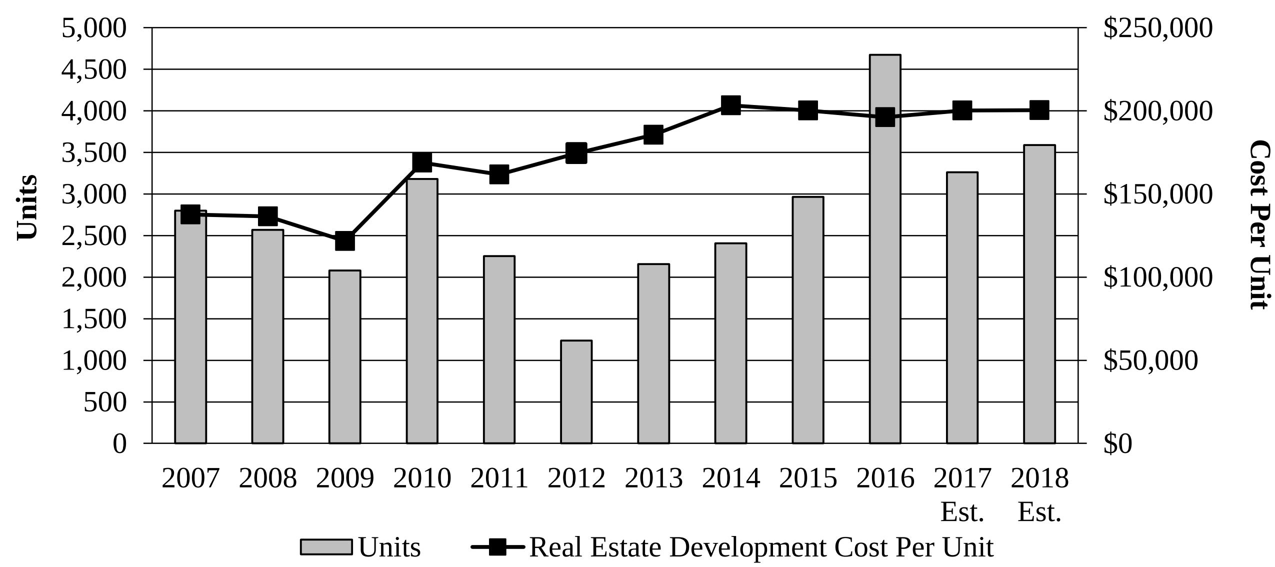
Source: Governor's Budget Books, Fiscal 2009-2018; Department of Budget and Management

More Affordable Rental Units Produced

Another DHCD goal is to expand affordable rental housing in Maryland in response to an increasing shortage of affordable rental units. There is a shortage of approximately 190,700 affordable rental housing units in the State for families earning less than 50% of the area median income, according to the most recent estimates from the U.S. Department of Housing and Urban Development (HUD). DHCD has several programs geared toward rental housing, including providing rent subsidies to families (in partnership with local government and private-sector organizations) and providing financing to housing authorities and other developers to construct new or preserve existing rental housing.

DHCD tracks the number of new, affordable rental housing units produced through its financial support. The number of units produced is based on the projects that go to initial closing, meaning that DHCD and the borrower have closed the loan on the project, and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 2**, in fiscal 2016, production increased by 57.6%, with 4,674 units produced or preserved, the most in at least 10 years. The increase is due primarily to additional resources in the Rental Housing Works (RHW) program and increased use of the Multifamily Bond Program combined with low interest rates that make more projects financially viable. DHCD has already closed on 31 projects totaling 3,664 housing units in fiscal 2016, already outpacing estimates submitted earlier in the fiscal year. The development cost per unit dropped in fiscal 2016 by 2.0% to $196,162.

Exhibit 2
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2007-2018 Est.



Source: Department of Housing and Community Development

Budget Overview

DHCD has two programmatic units: the Division of Neighborhood Revitalization and the Division of Development Finance. The Division of Neighborhood Revitalization provides technical and financial assistance to stabilize and revitalize existing neighborhoods.

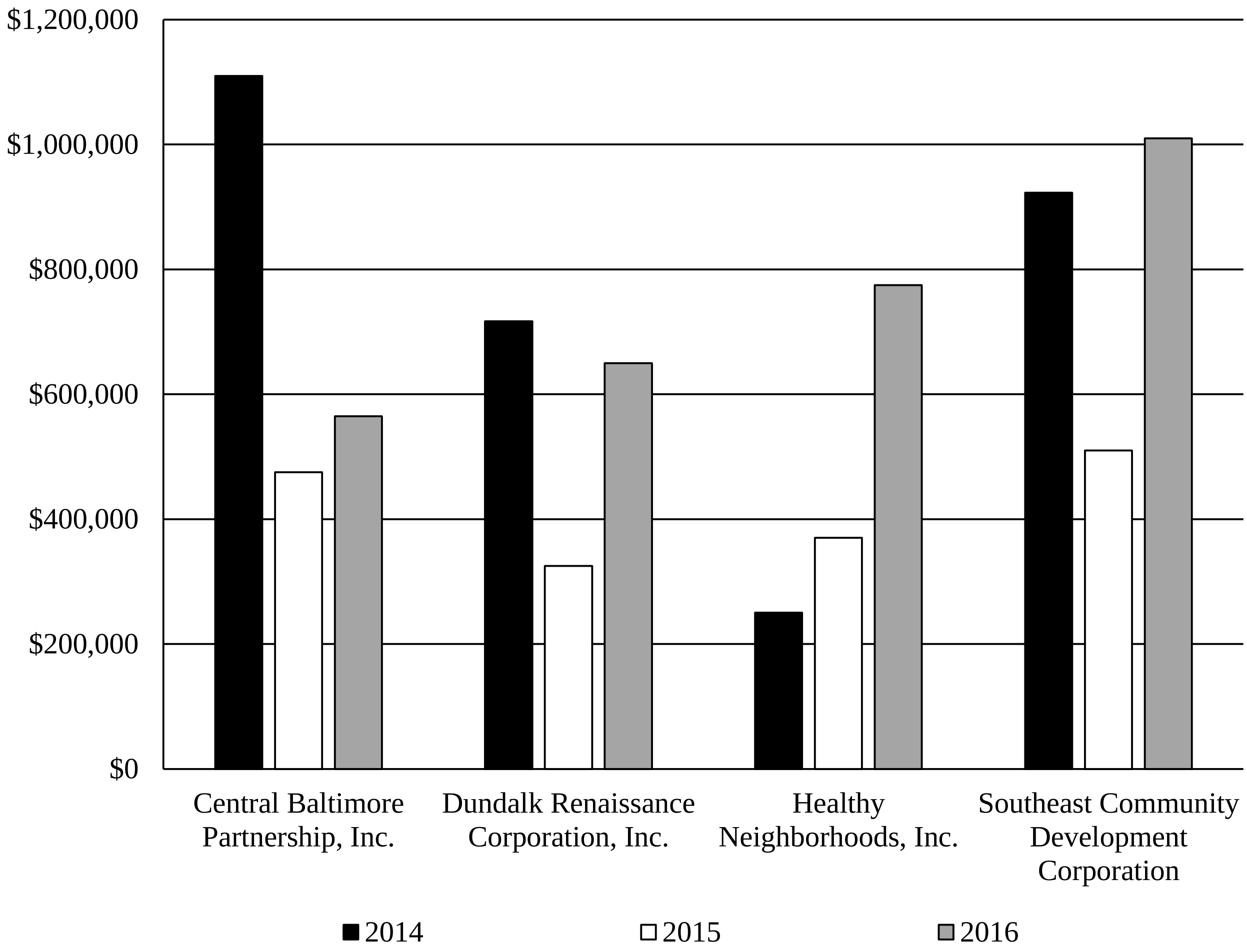
DHCD's capital budget includes 12 programs. Across all programs, the Governor's proposed fiscal 2018 capital budget for DHCD (including contingent reductions in the Budget Reconciliation and Financing Act (BRFA) of 2017) increases by $14.9 million to $120.6 million compared to the fiscal 2017 funding level of $105.7 million. GO bonds comprise $69.8 million of the budget compared to $7.5 million in fiscal 2017, when much of DHCD's GO bond amounts were replaced by general funds. The following provides a summary and examination of each of the department's programs.

Baltimore Regional Neighborhoods Initiative

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

BRNI was initiated as a pilot program in fiscal 2014 using $3.0 million in general funds. Grant recipients include residential and commercial projects with activities including property acquisition, redevelopment, rehabilitation, and new infill development. Chapter 29 of 2016 mandates $12.0 million in general funds be appropriated to BRNI in fiscal 2018 through 2022. The BRFA of 2017 includes a provision that would eliminate that mandate and allow the Governor to appropriate $3.0 million in GO bonds in fiscal 2018 and eliminate any mandated amount in fiscal 2019 and beyond. Through fiscal 2016, all BRNI funds have been awarded to groups in Baltimore City and Baltimore County. **Exhibit 3** shows the grant amounts for fiscal 2014 through 2016 for each of the four organizations that received the awards. Of the $7.7 million, DHCD awarded $6.1 million for projects in Baltimore City and $1.6 million for projects in Baltimore County.

Exhibit 3
Baltimore Regional Neighborhoods Demonstration Initiative Awards
Fiscal 2014-2016



Source: Department of Housing and Community Development

For the $2.9 million available in fiscal 2017, DHCD received 34 applications totaling $7.0 million in funding requests. The pool of awardees has expanded in fiscal 2017 to include six more organizations, including:

- Belair-Edison Neighborhoods Inc.;
- Greater Baybrook Coalition (via Strong City Baltimore);

- City Life Community Buildings;
- Southwest Partnership;
- TRF Development Partners; and
- East Baltimore Development Inc.

The Department of Legislative Services (DLS) recommends against removing the mandate for BRNI spending in the DLS analysis of the BRFA of 2017 and recommends that the Governor be allowed to use GO bonds to meet the mandate. DLS also recommends a $9 million increase in the GO bond authorization for this program to increase the fiscal 2018 funding level to the $12 million mandate established in Chapter 29 of 2016.

Community Development Block Grant Program

The Community Development Block Grant Program provides competitive federally funded grants to local governments in nonentitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and/or improving community facilities and services. Nonentitlement areas are mainly rural areas of the State. Entitlement areas receive a direct allocation from HUD and are not eligible for the State program. The fiscal 2018 budget includes $9 million in federal funds for this program, unchanged from fiscal 2017. **Exhibit 4** shows the amount granted by county in fiscal 2012 to 2016. Some funds are awarded to municipalities, while other funds are awarded directly to the county.

Exhibit 4
Community Development Block Grant by County
Fiscal 2012-2016

County	Grant Amount
Allegany	$8,738,024
Somerset	4,854,150
Worcester	3,619,813
Talbot	3,394,396
Cecil	2,876,433
Caroline	2,629,550
Garrett	2,618,490
Carroll	2,288,112
Dorchester	2,128,750
St. Mary’s	1,875,454
Washington	1,682,957
Queen Anne’s	1,643,065
Wicomico	965,000
Frederick	699,956
Charles	625,000
Kent	617,000
Calvert	303,954
Total	**$41,560,104**

Note: Entitlement areas of the State receive funds directly from the federal government. This includes Anne Arundel, Baltimore, Harford, Howard, Montgomery, and Prince George’s counties and the cities of Annapolis, Baltimore, Bowie, Cumberland, Frederick, Gaithersburg, Hagerstown, and Salisbury.

Source: Department of Housing and Community Development

Community Legacy

The Community Legacy Program provides financing to assist with the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. These neighborhoods are responsible for implementing a revitalization strategy that will reposition the community for new private investment. Funds may be used for capital improvements such as streetscape and façade improvements, recreational amenities, improvement of community gathering places, and other improvements to improve the desirability of the community. Awards are made to counties, municipalities, and community development organizations. Projects must be located in designated Sustainable Communities or Maryland Main Street or Maple Street communities.

BPW cost containment actions in November 2016 reduced the fiscal 2017 general fund allowance by $1.0 million, leaving $5.0 million. The fiscal 2018 budget includes $6.0 million in GO bond funding, returning to typical funding levels. **Exhibit 5** shows the allocation of funding from this program by county. Community Legacy is a very popular program; 101 applicants requested nearly $15.4 million in fiscal 2016, with only $6.0 million in funding available.

DLS recommends deleting $1 million of the Community Legacy GO bond authorization to fund the program at the fiscal 2017 level.

Exhibit 5
Community Legacy Program
Fiscal 2012-2016

Jurisdiction	Grant Amount
Baltimore City	$6,810,000
Prince George's	5,242,000
Harford	1,765,000
Dorchester	1,575,000
Allegany	1,426,000
Worcester	1,307,500
Frederick	1,176,000
Somerset	889,000
Caroline	870,000
Anne Arundel	830,000
Washington	780,000
Montgomery	730,000
Kent	600,000
Calvert	550,000
Talbot	540,000
Baltimore	500,000
Carroll	485,000
Cecil	430,000
St. Mary's	421,500
Garrett	398,000
Wicomico	375,000
Charles	200,000
Howard	200,000
Queen Anne's	150,000
Total	**$28,250,000**

Source: Department of Housing and Community Development

Neighborhood BusinessWorks

The Neighborhood Business Development Program, which operates as NBW, provides grants and loans for community-based economic development activities in revitalization areas designated by local governments. The program provides gap financing to small businesses that are unable to finance 100% of a project's total costs through a traditional lender.

BPW cost containment actions taken in November 2016 reduced the general fund appropriation to NBW by $500,000, to $2.9 million. The fiscal 2018 budget includes $3.1 million in GO bonds and $1.9 million in special funds, a $500,000 increase over the fiscal 2017 appropriation. As shown in **Exhibit 6**, NBW provided $14.4 million in loans and $3.8 million in grants through this program in fiscal 2012 to 2016 with about 71% of those funds used in Baltimore City. In fiscal 2016, $4.6 million in NBW funds was combined with $34.6 million from other sources on 14 projects.

Exhibit 6
Neighborhood Business Works
Fiscal 2012-2016

Jurisdiction	Loan	Grant	Total
Anne Arundel	$500,000	$0	$500,000
Baltimore City	8,540,450	3,088,200	11,628,650
Baltimore	1,062,250	0	1,062,250
Caroline	0	250,000	250,000
Carroll	86,600	0	86,600
Cecil	500,000	0	500,000
Frederick	150,000	0	150,000
Garrett	500,000	0	500,000
Harford	12,000	0	12,000
Howard	7,500	0	7,500
Montgomery	250,000	0	250,000
Prince George's	642,500	0	642,500
Queen Anne's	95,000	0	95,000
Somerset	897,000	0	897,000
Talbot	0	500,000	500,000
Washington	142,000	0	142,000
Wicomico	200,000	0	200,000
Worcester	840,000	0	840,000
Total	**$14,425,300**	**$3,838,200**	**$18,263,500**

Source: Department of Housing and Community Development

Chapter 482 of 2016 changed some rules for NBW, allowing it to lend in priority funding areas as well as sustainable communities; allowing it to offer primary lending, loan guarantees, and credit enhancements; and increasing the maximum loan size to $5 million, up from $500,000. DHCD notes that these changes have increased demand for the program, and all fiscal 2017 funds are already committed.

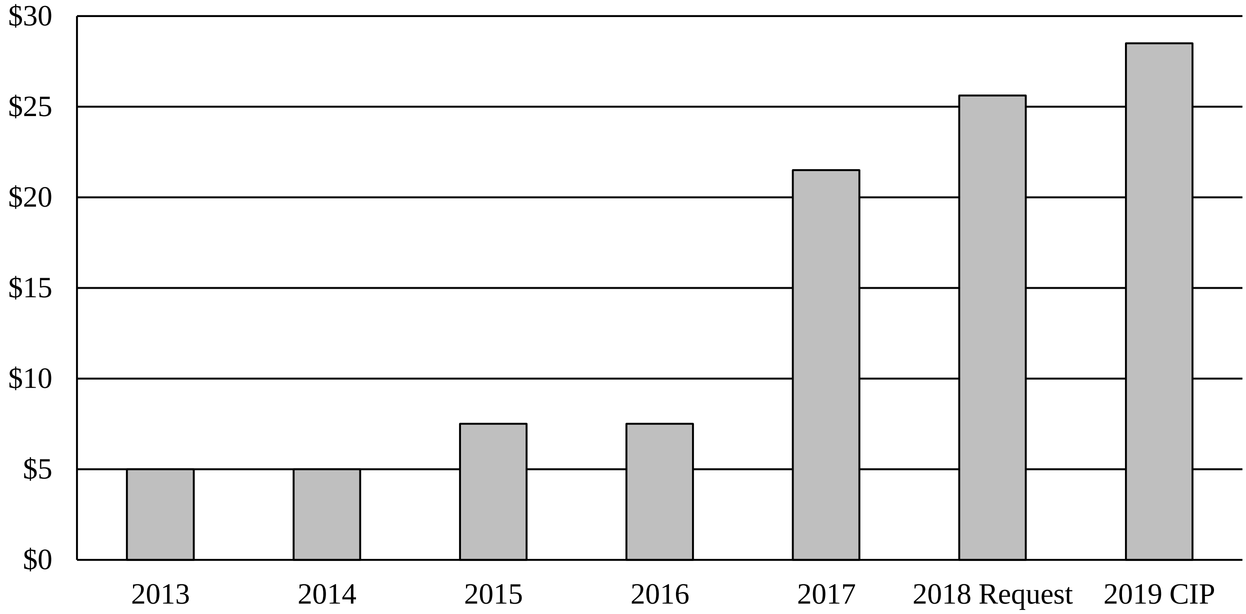
DLS recommends deleting $200,000 of the NBW GO bond authorization, which would provide the same level of GO bond funding that the program received in general funds in fiscal 2017 adjusted for the reductions made by the Administration.

Strategic Demolition and Smart Growth Impact Fund

SDSGI has been used to assist in the demolition, land assembly, housing development or redevelopment, and revitalization projects in sustainable communities, Base Realignment and Closure (BRAC) Revitalization and Incentive Zones, Transit-oriented Development areas, or in areas recommended by PlanMaryland for revitalization and growth. Since fiscal 2016, it has been the centerpiece of Project C.O.R.E., a DCHD-led effort to remove blight through demolition or stabilization and encourage redevelopment, reinvestment, and stabilization in Baltimore City. Chapter 30 of 2016 codified SDSGI and mandated an appropriation of $25.6 million in fiscal 2018 and $28.5 million in fiscal 2019. The BRFA of 2017 includes a provision that would allow those mandates to be met using GO bond funds rather than general funds, although the 2017 CIP reflects the use of general funds in fiscal 2019.

Exhibit 7 shows SDSGI spending as well as the fiscal 2018 request and the fiscal 2019 amount included in the CIP. The Project C.O.R.E. plan has approximately tripled funding for the program in fiscal 2017 to 2019 compared to prior spending levels. A complete examination of Project C.O.R.E. is included in the Issues section of this analysis. **DLS recommends approval of the use of GO bond funds for the mandate in fiscal 2018 and 2019 in its analysis of the BRFA of 2017.**

Exhibit 7
Strategic Demolition Spending and CIP
Fiscal 2013-2019
($ in Millions)



CIP: *Capital Improvement Program*

Source: Department of Housing and Community Development

Rental Housing Programs

Rental Housing Programs, including RHW, are used to rehabilitate and create new affordable housing for low- to moderate-income individuals, families, and elderly residents, or special needs populations. Low-interest loans or deferred-payment loans are provided to housing developers for the financing of affordable housing developments. BPW cost containment actions in fiscal 2017 reduced the general fund appropriation for RHW by $1.0 million. The fiscal 2018 budget includes $10.0 million in GO bonds, $15.5 million in special funds, and $4.5 million in federal funds, which is $1.0 million less than the fiscal 2017 budget. Language in the fiscal 2017 budget bill indicated the legislature's intent that the Governor include $20.0 million annually in general funds or GO bond funds. The CIP would increase funding in this program to $20.0 million in fiscal 2020 and $25.0 million in fiscal 2021.

RHW has seen extensive use since program inception in fiscal 2013, with $71.8 million in RHW funds used through fiscal 2016. **Exhibit 8** shows the usage of the program by county, with more than half of funds going to Baltimore City and Montgomery and Prince George's counties.

Exhibit 8
Rental Housing Works Usage
Fiscal 2013-2016
($ in Millions)

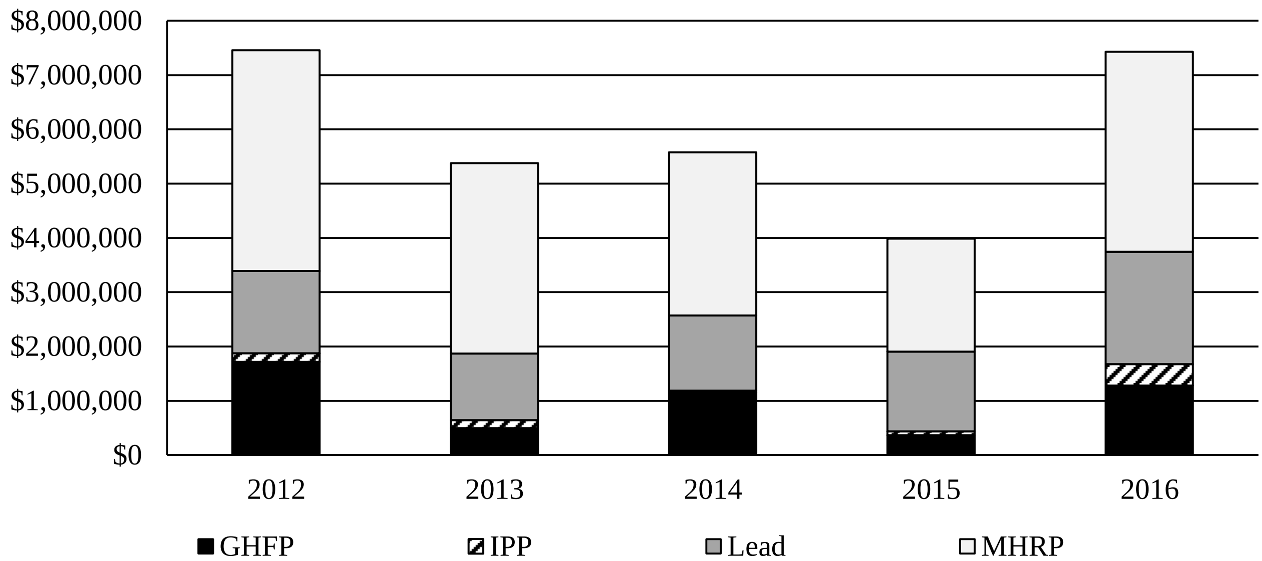
	2013	2014	2015	2016	Total
Baltimore City	$4,000,000	$4,768,653	$4,768,653	$5,690,939	$19,228,245
Montgomery	2,982,000	4,851,340	4,851,340	0	12,684,680
Prince George's	250,000	1,315,155	4,428,807	2,991,870	8,985,832
Baltimore	5,650,000	0	0	2,500,000	8,150,000
Harford	0	3,292,852	3,292,852	0	6,585,704
Cecil	576,000	2,500,000	2,500,000	0	5,576,000
Carroll County	0	2,500,000	2,500,000	0	5,000,000
Howard	250,000	772,000	772,000	0	1,794,000
St. Mary's	1,500,000	0	0	0	1,500,000
Frederick	1,500,000	0	0	0	1,500,000
Wicomico	792,000	0	0	0	792,000
Total	**$17,500,000**	**$20,000,000**	**$23,113,652**	**$11,182,809**	**$71,796,461**

Source: Department of Housing and Community Development

Special Loan Programs

Special Loan Programs provide loans or grants for abatement of lead hazards; rehabilitation or installation of indoor plumbing; rehabilitation to create accessory, shared, and sheltered housing facilities; rehabilitation to eliminate health, safety, and maintenance deficiencies in residential properties; and acquisition, construction, and modifications of group homes for low-income, elderly, disabled, or others with special housing needs. BPW cost containment actions in November 2016 reduced the general fund appropriation for Special Loan programs by $2.1 million, the entire general fund appropriation. The fiscal 2018 budget includes $4.6 million in GO bonds, $2.8 million in special funds, and $2.0 million in federal funds, a $5.1 million increase over the fiscal 2017 appropriation. As shown in **Exhibit 9**, the Maryland Housing Rehabilitation Program uses the bulk of funding.

Exhibit 9
Special Loan Programs Loans and Grants by Program
Fiscal 2012-2016



GHFP: Group Home Financing Program
IPP: Indoor Plumbing Program
Lead: Lead Hazard Reduction Grant and Loan Program
MHRP: Maryland Housing Rehabilitation Program

Source: Department of Housing and Community Development

DLS recommends deleting $2.5 million of the GO bond authorization for Special Loan Programs, which would provide the same level of GO bond funding as was provided in general funds in fiscal 2017 before the Administration reduced the fiscal 2017 level to $0.

Homeownership Programs

Homeownership Programs provide mortgage loans with minimum down payments to low- and moderate-income families. Programs include the DSELP, which provides funds for down payment and settlement expenses, and the Maryland Home Financing Program, which makes direct loans to households to purchase homes. BPW cost containment actions in November 2016 reduced the fiscal 2017 general fund allowance for Homeownership Programs by $900,000. The fiscal 2018 budget includes $8.5 million in GO bonds and $1.5 million in special funds, a $1.0 million increase over the fiscal 2017 appropriation. In addition, the CIP shows plans to nearly double the authorization of GO bonds for this program to $16.0 million in fiscal 2021 and 2022.

DHCD should comment on the large planned increase for funding for this program in the out-years of the CIP. DLS recommends deleting $900,000 of this GO bond authorization, which would provide the same level of GO bond funding as was provided in general funds in fiscal 2017.

Housing and Building Energy Programs

Housing and Building Energy Programs is a new category of programs within DHCD, unifying several energy efficiency programs, including programs funded by EmPOWER, the Customer Investment Fund, and the Energy Efficiency Block Grant Program. The programs provide loans and grants for energy efficiency improvements for single-family and rental housing properties, including the renovation of existing facilities, the construction of new facilities, or the installation of energy efficient equipment or materials. BPW cost containment actions in November 2016 reduced the fiscal 2017 general fund appropriation by $500,000. The fiscal 2018 budget includes $9.85 million in special funds and $700,000 in federal funds, a $2.5 million increase over the fiscal 2017 appropriation.

The budget includes funding for the Energy-Efficiency Homes Construction Loan Program, also known as the Net Zero Homes program. After delays related to getting access to Regional Greenhouse Gas Initiative Strategic Energy Investment Funds, the program has provided a $35,000 grant and $60,000 loan for a single-family home in Mt. Rainier. DHCD has also committed $1.4 million for 72 duplexes and single-family homes for low-income veterans.

Partnership Rental Housing Program

The Partnership Rental Housing Program provides deferred payment loans or grants to local governments or housing authorities to construct or rehabilitate rental housing for residents earning less than 50% of the statewide median income. Repayment is not required if the borrower continues to own and lease the housing to eligible households. In fiscal 2007, the program was expanded to enable private and nonprofit borrowers to access financing for the creation of housing for persons with disabilities.

BPW cost containment actions in November 2016 reduced the general fund appropriation for this program by $1 million to $5 million. The fiscal 2018 budget includes $6 million in GO bonds, a $500,000 increase over fiscal 2017, and in line with typical funding levels for the program.

DLS recommends deleting $1 million of this GO bond authorization, which would provide the same level of GO bond funding as was provided in general funds in fiscal 2017 after the Administration's cost containment actions.

Shelter and Transitional Housing Facilities Grant Program

The Shelter and Transitional Housing Facilities Grant Program provides grants to local governments and nonprofit groups to develop emergency shelters and transitional housing for homeless individuals and families. The fiscal 2018 allowance includes $3 million in general funds for this program. Chapter 698 of 2016 mandates a $3 million appropriation to this program every year; a provision in the BRFA of 2017 would allow that mandate to be met by GO bond funds and reduces the general fund allowance by $3 million. The $8.5 million in funding disbursed between 2012 and 2016 was combined with $54.4 million in funding from other sources on 11 projects.

DLS recommends approval of the BRFA provision to use GO bonds in place of general funds for this program.

Maryland BRAC Preservation Loan Fund

The Maryland BRAC Preservation Loan Fund provides loans and other financial assistance to public and private developers to preserve affordable multifamily rental housing in jurisdictions affected by the federal BRAC process. DHCD issued $4.5 million in loans using this program to projects in Montgomery County in fiscal 2016. The department is actively trying to allocate the final $1.0 million of the initial investment in the program, likely to Howard or Prince George's counties.

Seed Community Development Anchor Institution Fund

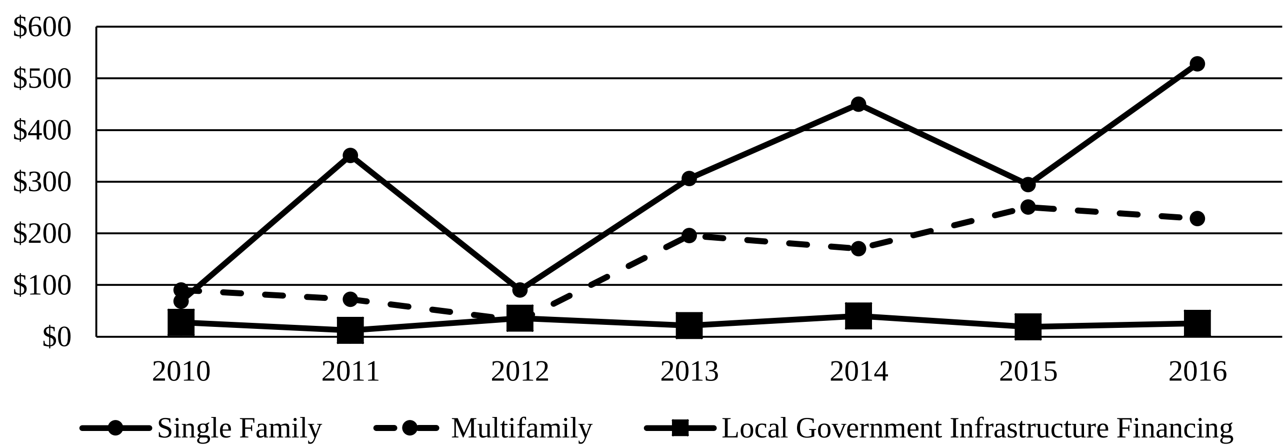
Chapter 31 of 2016 created the Seed Community Development Anchor Institution Fund within DHCD and mandated an annual appropriation of $5 million. The program is intended to provide grants and loans to anchor institutions for community development projects in blighted areas of the State. The BRFA of 2017 eliminates the mandated appropriation. **In its analysis of the BRFA of 2017, DLS recommends against the provision eliminating the mandated appropriation and recommends that the Governor be allowed to use GO bond funds to meet the mandate. DLS recommends adding a $5 million GO bond authorization for this program. DLS also recommends that DHCD produce a report on how the funds for this program will be used.**

Community Development Authority

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

As shown in **Exhibit 10**, single-family issuances are volatile due to their dependence on the private mortgage market as rates in the private market can be competitive with what CDA can offer when the added administrative burden on the bond buyer is considered. However, MMP, which provides mortgages to first-time homebuyers and other qualified homebuyers, will still operate. When the bond market is unfavorable to fund its single-family program, CDA instead securitizes mortgages to be sold on the open market to private investors. The significant difference between these two funding methods is that the securitization of mortgages means both the debt and the asset (the mortgage) are not held by CDA, while when CDA issues bonds, it typically holds either the mortgages or a mortgage security. In calendar 2016, single-family issuances increased by nearly 80% to $528.1 million.

Exhibit 10
Community Development Authority Debt Issuances
Calendar 2010-2016
($ in Millions)



Source: Department of Housing and Community Development

Multifamily issuances declined by 8.7% in calendar 2016 to $229.9 million. The Local Government Infrastructure Program issues bonds on behalf of local government agencies to fund projects like roads, water and sewer systems, parks, or public buildings. Calendar 2016 issuances increased by 36.4%, from $18.9 million to $25.7 million.

In addition to issuing debt, CDA also raises capital with the federal Low Income Housing Tax Credit program. DHCD is authorized to issue approximately $13.0 million in 9% tax credits annually and an unlimited amount of 4% tax credits generated on projects financed with tax-exempt housing bonds. The tax credits are sold to investors seeking to reduce tax liability as well as generate other tax benefits. As shown in **Exhibit 11**, DHCD raised $325.3 million in equity via tax credits in fiscal 2016.

Exhibit 11
Low Income Housing Tax Credits
Fiscal 2012-2016
($ in Millions)

	2012	2013	2014	2015	2016
9% Tax Credit Allocation	$11.8	$11.5	$8.4	$13.2	$14.4
9% Tax Credit Equity	104.0	114.8	85.1	130.1	151.1
4% Tax Credit Allocation	0.9	4.7	7.7	11.1	17.4
4% Tax Credit Equity	8.6	43.8	73.6	109.7	174.2

Source: Department of Housing and Community Development

Issues

1. Project C.O.R.E. Takes Shape

In early 2016, DHCD, in conjunction with MSA and Baltimore City, launched Project C.O.R.E. The goals of Project C.O.R.E. are to improve economic opportunity, encourage redevelopment, and improve the quality of life in Baltimore City neighborhoods. The plan is funded primarily via SDSGI, with $21.5 million in general funds in fiscal 2017, $25.6 million in GO bond funds in the fiscal 2018 budget, and a planned $28.5 million in general funds in the CIP for fiscal 2019. The program also used previously budgeted SDSGI in fiscal 2016.

The department is working with both the Baltimore City Department of Housing and Community Development and MSA in its Project C.O.R.E. efforts. The three work together in developing lists of properties for demolition and selecting which properties will be demolished. Project C.O.R.E. efforts are, in general, on three tracks. The first track is demolition and stabilization done by Baltimore City, which is not funded by the State. The second track is demolition and stabilization managed by MSA, which receives SDSGI funding from DHCD. From January through September 2016, the department removed 644 blighted properties. For these properties, there are no immediate redevelopment plans.

The third track is projects funded by DHCD and performed mainly by nonprofit community redevelopment organizations. These projects use the Project C.O.R.E. funding for things such as site acquisition, demolition, stabilization, site development, and architectural and engineering costs. Those activities are typically the first step of a larger project. DHCD awarded $15.9 million of its fiscal 2017 SDSGI appropriation to nonprofit organizations. The SDSGI awards will lead to a variety of redevelopment projects, including commercial, mixed use, affordable housing, and community space projects.

Impact of Project C.O.R.E.

While the impact of Project C.O.R.E. demolition phase is substantial, DHCD touts revitalization impacts that are either overstated, are not directly related to demolition and blight removal, would likely have occurred without Project C.O.R.E., or were on track to happen with or without Project C.O.R.E. **Exhibit 12** shows DHCD's estimate of investments in Baltimore City in two four-year periods around the start of Project C.O.R.E. efforts. The estimates are reported in a report requested by the budget committees in the 2016 *Joint Chairmen's Report*.

Exhibit 12
DHCD Estimate of Project C.O.R.E. Investments in Baltimore City
Fiscal 2012-2019
($ in Thousands)

	2012-2015	2016-2019	Difference
Strategic Demolition Programs	$7,832.0	$75,000.0	$67,168.0
Housing Revenue Debt	36,245.0	353,295.0	317,050.0
Rental Assistance Demonstration	0.0	493,730.4	493,730.4
Tax Credit Equity	45,815.4	183,999.3	138,183.9
State Funds and Private Activity Bonds for Small Business	5,596.2	47,755.0	42,158.9
Community Legacy Program	5,510.0	6,555.0	1,045.0
Baltimore Regional Neighborhoods Initiative	4,733.0	23,746.2	19,013.2
Seed Community Development Anchor Institution Program	0.0	10,000.0	10,000.0
Total	**$105,731.5**	**$1,194,080.9**	**$1,088,349.4**

C.O.R.E.: Creating Opportunities for Renewal and Enterprise
DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

The report estimates a $1.1 billion difference in investment over a four-year period due to Project C.O.R.E. However, it is not clear how much of this difference is due to Project C.O.R.E. The amount of housing revenue debt issued, as well as tax credit equity, is tied to market demand and interest rate levels, and many of the multifamily housing funded with these bonds are related to RHW funds. The Rental Assistance Demonstration is a federal program designed to privatize public housing and was planned prior to Project C.O.R.E. The BRNI estimate includes amount in excess of what is included in the Governor's budget, and similarly, the Seed Community Development Anchor Institution program is not funded in the Governor's budget.

Measurement

DHCD is tracking progress in Project C.O.R.E. in several ways. The department is tracking blighted units that are demolished and stabilized, public- and private-sector funding for blight elimination and redevelopment, and jobs generated by Project C.O.R.E. and DHCD investments. The department will use an economic impact model to assess the overall economic impact.

DHCD should comment on its estimates for Project C.O.R.E.'s impact. The department should also comment on plans for properties demolished by MSA that have no redevelopment plans attached.

2. Ellicott City Disaster Assistance

On July 30, 2016, a catastrophic flood caused significant damage to businesses, homes, and infrastructure in Historic Ellicott City. The following day, the Governor issued an executive order to declare a state of emergency in Howard County. According to media reports, 190 residents were displaced from their homes, and 90 business were either destroyed or severely damaged. Because the most extensive damage occurred on Main Street, small retail businesses were disproportionately affected. The State decided to take a significant role in helping these small businesses to rebuild.

DHCD has taken the role as the lead State agency in providing assistance to those affected by the flooding in Ellicott City. The agency is using $2.5 million in funding provided from the Catastrophic Event Fund and $2.5 million from the SMWOBA, which is funded by VLT proceeds. This program is designed to make grants to eligible fund managers who, in turn, make investments or low-interest loans to small, minority, and women-owned businesses across the State. DHCD is taking a 7.5% administrative fee from the SMWOBA funds. DLS believes those funds were not properly budgeted in the operating budget for fiscal 2017. A recommendation regarding this topic is made in the operating analysis.

In order to administer the SMWOBA money, DHCD became a new fund manager only for the distribution of the transferred funds to businesses in Ellicott City. DHCD has experience in Main Street revitalization projects and retail business assistance. This program could complement DHCD's existing NBW, and DHCD would have a visible presence in Howard County during the recovery. In order for DHCD to receive $2.5 million during fiscal 2017, existing fund managers would have to forgo a portion of their previously allocated funds. In fiscal 2017, there are eight fund managers located across the State. Forgone funding ranged from $190,000 to $414,000. The Howard County Economic Development Corporation is an existing fund manager, and it relinquished approximately $310,000 of its $3.0 million allocation.

Concerns about DHCD Efforts

DHCD's Business Lending Team, as well as other personnel, were in Ellicott City at the county's Recovery Assistance Center every day for approximately two to three weeks following the flooding. In addition, DHCD personnel met several times with other State agencies and Howard County officials regarding the recovery effort. However, after those early weeks, area business leaders and county officials expressed concerns about the limited amount of the State's physical, easily accessible presence at the site of the damage. Since November 28, 2016, DHCD officials have been on-site on Main Street on a regular basis and continue to work with Howard County officials, Preservation Maryland, and the Ellicott City Partnership.

Funding Provided

To date, DHCD, through NBW, has approved and funded 25 loans totaling $1.5 million. Currently, NBW has six applications under review totaling about $750,000. The average time from application to close for the 15 funded loans has been approximately 30 days. The department expects to use all funds within two years.

DHCD is splitting its recovery efforts into two pieces:

- Small, short-term loans for short-term needs, strictly for minor repairs, inventory replacement, cleanup, and other similar efforts. The above funding is all in this category.

- Larger, long-term (up to 15 years) loans intended for large-scale projects such as reconstruction of buildings. DHCD has not yet approved any funding for this category.

In addition to recovery loans, DHCD also provided rental assistance to 27 households displaced by the flood. The department also provided two loans totaling $250,000 through its Special Loans Programs. **DHCD should comment on the status of its efforts in Ellicott City.**

3. U.S. Department of the Treasury Finds Problems with DHCD Transactions

SSBCI is a federal program funded with $1.5 billion to strengthen state programs that support lending to small businesses and small manufacturers. Under SSBCI, participating states use federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy but are not getting the loans they need to expand and create jobs.

Maryland's allocation from this program was $23 million total, to be allocated in three tranches, with the first two tranches already awarded. To get the next tranche, the State must show 80% of previous tranche has been spent. In Maryland, the State's SSBCI efforts are coordinated by the Department of Commerce (Commerce). DHCD's NBW program used approximately $900,000 for three transactions. All three were ruled to have violated Treasury Department regulations for the program. Two transactions were ruled to not have included enough private capital at risk, and one violated the prohibition against using SSBCI funds with a transaction that generated tax credits. In response to these violations, the Treasury Department is reducing the amount of the State's final SSBCI disbursement by $925,000, the amount of DHCD's transactions. The department's remaining $70,000 in SSBCI funding will be returned to Commerce, and DHCD will not be allocated any further funds from the program. **DHCD should comment on the reasons for not complying with Treasury Department regulations for the program.**

4. November 2016 Board of Public Works Cost Containment

During the 2016 session, the legislature used general funds to replace GO bonds in the fiscal 2017 appropriation in several programs that require the issuance of taxable bonds. The swap was done in order to save on debt service costs. The November 2016 BPW cost containment reductions eliminated $7 million in general funds from DHCD's fiscal 2017 PAYGO appropriation. **Exhibit 13** shows the amounts reduced and remaining in each program that saw a cut. BRNI, SDSGI, and the

Shelter and Transitional Housing Facilities Grant Program received general funds and/or GO bonds in fiscal 2017 but were not affected by the cost containment reductions. **DHCD should comment on the impact of the reductions.**

Exhibit 13
November 2016 Cost Containment Actions
Fiscal 2017

	General Fund Reduction	General Funds and GO Bond Funds Remaining
Neighborhood Business Works	$500,000	$2,900,000
Community Legacy	1,000,000	5,000,000
Rental Housing Programs	1,000,000	11,500,000
Homeownership Programs	900,000	7,600,000
Special Loans Program	2,100,000	0
Partnership Rental Housing	1,000,000	5,000,000
Housing and Building Energy Programs	500,000	500,000
Total	**$7,000,000**	**$32,500,000**

GO: general obligation

Source: Board of Public Works

Operating Budget Impact Statement

Consolidated Administrative Expenses – All Programs

	FY 2016 Actual	**FY 2017 Estimated**	**FY 2018 Estimated**
Sources			
Special Funds			
Rental Housing	$3,100,000	$3,100,000	$3,100,000
Special Loan	570,000	1,480,000	1,480,000
Community Development Block Grant	0	0	0
Homeownership	3,110,000	1,800,000	2,000,000
Partnership Rental Housing	120,000	70,000	70,000
Community Legacy	150,000	100,000	100,000
Neighborhood BusinessWorks	810,000	910,000	1,000,000
Shelter and Transitional Housing Facilities Grant	0	0	0
Strategic Demolition and Smart Growth Impact Project	0	0	0
Energy Efficiency Conservation Block Grant	0	0	0
Energy Innovation Fund	0	0	0
Subtotal – Special Funds	***$7,860,000***	***$7,460,000***	***$7,750,000***
General Funds	0	0	0
Federal Funds	1,947,380	3,200,811	3,127,683
Nonbudgeted Funds	0	0	0
Total Funds	**$9,807,380**	**$10,660,811**	**$10,877,683**

Uses			
Direct Expense	5,014,265	6,260,811	6,477,683
Indirect Expenses (legal, marketing, asset management)	4,793,115	4,400,000	4,400,000
Total Direct and Indirect Expenses	**$9,807,380**	**$10,660,811**	**$10,877,683**

PAYGO Recommended Actions

1. Concur with Governor's allowance.

GO Bond Recommended Actions

1. Adopt committee narrative.

Capital Grant and Loan Awards Report: The committees are interested in unifying the reporting of the Department of Housing and Community Development's (DHCD) capital grant and loan programs. Consistent with the language in the Maryland Transparency Act, the committees request DHCD to provide a report on awards to for-profit and nonprofit entities for each of its 12 capital grant and loan programs, in compliance with State privacy laws and federal disclosure restrictions under the U.S. Securities and Exchange Act. The Maryland Public Information Act prohibits the disclosure of names and addresses of individuals who receive a benefit from the State based on income qualifications.

The report should include the following information, to the extent permitted by law:

- ***Baltimore Regional Neighborhoods Initiative:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Community Development Block Grant Program:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Community Legacy Program:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Homeownership Programs:*** The name of the program and subprogram, the grantee or loan recipient if the grant or loan is in excess of $50,000, the total amount of all awards less than $50,000, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Housing and Building Energy Programs:*** The name of the program and subprogram, the grantee or loan recipient if the grant or loan is in excess of $50,000, the total amount of all awards less than $50,000, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***MD-BRAC Preservation Loan Fund:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Neighborhood Business Development Program:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Partnership Rental Housing Program:*** The name of the program and subprogram; the grantee or loan recipient; the jurisdiction of the project; the amount of the grant or loan; the amount of funding from all other sources; the total amount from all sources of the project being funded; and a measure of the impact of the project, such as the number of housing units created.

- ***Rental Housing Programs:*** The name of the program and subprogram; the grantee or loan recipient; the jurisdiction of the project; the amount of the grant or loan; the amount of funding from all other sources; the total amount from all sources of the project being funded; and a measure of the impact of the project, such as the number of housing units created.

- ***Shelter and Transitional Housing Facilities Grant Program:*** The name of the program and subprogram; the grantee or loan recipient; the jurisdiction of the project; the amount of the grant or loan; the amount of funding from all other sources; the total amount from all sources of the project being funded; and a measure of the impact of the project, such as the number of housing units created.

- ***Special Loan Programs:*** The name of the program and subprogram, the grantee or loan recipient if the grant or loan is in excess of $50,000, the total amount of all awards less than $50,000, the jurisdiction of the project, the amount of the grant or loan, the amount of funding from all other sources, the total amount from all sources of the project being funded, and a measure of the impact of the project.

- ***Strategic Demolition Fund:*** The name of the program, the grantee or loan recipient, the jurisdiction of the project, the amount of the grant or loan, the amount of funding for the project from all other sources, the total amount from all sources of the project being funded, and the future plans for the demolition or deconstruction site. For projects where demolition is performed by the Maryland Stadium Authority, provide a list of each demolition or deconstruction site.

The listed information should be provided for all programs for fiscal 2013 through 2017, for any projects awarded funding in fiscal 2017 at the time of the report's submission, and for any projects in DHCD's existing pipeline at the time of the report's submission that are anticipated to receive current or future fiscal year funding. The report shall be submitted by October 1, 2017.

Information Request	**Author**	**Due Date**
Capital grant and loan report	DHCD	October 1, 2017

2. Increase funding for the Baltimore Regional Neighborhood Initiative by $9,000,000.

SA24A Baltimore Regional Neighborhood Initiative................ $ 12,000,000

Allowance	Change	Authorization
3,000,000	9,000,000	12,000,000

Explanation: Increase the Baltimore Regional Neighborhood Initiative authorization by $9,000,000 in general obligation bonds, consistent with a recommendation to restore a mandate for this program in the Budget Reconciliation and Financing Act of 2017.

3. Delete $1,000,000 of the general obligation bond authorization for the Community Legacy Program

SA24B Community Legacy Program....................................... $ 5,000,000

Allowance	Change	Authorization
6,000,000	-1,000,000	5,000,000

Explanation: Delete $1,000,000 of the general obligation bond authorization for the Community Legacy Program, which reduces funding to the fiscal 2017 level reached with the cost containment reductions by the Board of Public Works.

4. Delete $200,000 of the general obligation bond authorization for Neighborhood Business Works

SA24C Neighborhood Business Development Program........... $ 2,900,000

Allowance	Change	Authorization
3,100,000	-200,000	2,900,000

Explanation: Delete $200,000 of the general obligation bond (GO) authorization for Neighborhood Business Works. This reduces funding to the level of GO bonds and general funds in fiscal 2017 for this program after cost containment actions by the Board of Public Works.

5. Approve the Strategic Demolition and Smart Growth Impact Fund.

6. Add funds for Seed Community Development Anchor Institution Fund

SA24E	Seed Community Development Anchor Institution Fund	$ 5,000,000

Add the following language:

(E)	Seed Community Development Anchor Institution Fund. Provide funds for grants and loans to anchor institutions for community development projects. The funds shall be administered in accordance with § 4-508 of the Housing and Community Development Article	5,000,000

Allowance	**Change**	**Authorization**
0	5,000,000	5,000,000

Explanation: Add funds for the Seed Community Development Anchor Institution Fund. This action is consistent with legislation passed in 2016 to create the program.

7. Adopt committee narrative

Seed Community Development Anchor Institution Fund: The committees are interested in learning more about the Seed Community Development Anchor Institution Fund. The committees request that the Department of Housing and Community Development (DHCD) provide a report on its plans for the program and how the funding would be awarded. The report should also include information on how the program would be used in conjunction with other DHCD programs.

Information Request	**Author**	**Due Date**
Seed Community Development Anchor Institution Fund report	DHCD	September 1, 2017

8. Delete $900,000 of the general obligation bond authorization for Homeownership Programs.

SA25A	Homeownership Programs...	$ 7,600,000

Allowance	**Change**	**Authorization**
8,500,000	-900,000	7,600,000

Explanation: Delete $900,000 of the general obligation bond authorization for Homeownership Programs, which would provide the same amount of funding as the program received in fiscal 2017 after the cost containment actions of the Board of Public Works.

9. Delete $1,000,000 of the general obligation bond authorization for the Partnership Rental Housing Program.

SA25B	Partnership Rental Housing Program............................	$ 5,000,000

Allowance	**Change**	**Authorization**
6,000,000	-1,000,000	5,000,000

Explanation: Delete $1,000,000 of the general obligation bond authorization for the Partnership Rental Housing Program. This provides funding equal to the fiscal 2017 general fund appropriation after the cost containment actions by the Board of Public Works.

10. Approve funding for Rental Housing Programs.

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

12. Delete $2,500,000 of the general bond authorization for Special Loan Programs.

SA25E	Special Loan Programs	$ 2,100,000

Allowance	**Change**	**Authorization**
4,600,000	-2,500,000	2,100,000

Explanation: Delete $2,500,000 of the general obligation bond authorization for the Special Loan, which reduces funding to the fiscal 2017 level reached with the cost containment reductions by the Board of Public Works

Total General Obligation Bonds Additions **$8,400,000**