Department of Housing and Community Development – Capital

Capital Budget Summary

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

Program	2017 Approp.	2018 Approp.	2019 Request	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Rental Housing Programs	$32.000	$40.000	$40.000	$40.000	$46.000	$46.000	$46.000
Special Loan Programs	4.038	9.400	9.400	9.400	9.400	9.400	9.400
Community Development Block Grant Program	9.000	9.000	9.000	9.000	9.000	9.000	9.000
Housing and Building Energy Programs	13.875	10.550	10.050	10.050	10.050	10.050	10.050
Homeownership Programs	10.263	9.100	13.500	11.500	18.000	18.000	18.000
Partnership Rental Housing Program	5.500	6.000	6.000	6.000	6.000	6.000	6.000
Community Legacy Program	5.300	6.000	6.000	6.000	6.000	6.000	6.000
Neighborhood Business Development Program	9.013	5.000	5.500	5.700	10.200	10.200	10.200
Shelter and Transitional Housing Facilities Grant Program	1.500	3.000	3.000	3.000	3.000	3.000	3.000

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

Program	2017 Approp.	2018 Approp.	2019 Request	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Strategic Demolition and Smart Growth Impact Fund	21.500	25.625	28.500	0.000	0.000	0.000	0.000
Baltimore Regional Neighborhoods Initiative [1]	2.861	8.000	3.000	3.000	3.000	3.000	3.000
MD BRAC Preservation Loan Fund	3.500	3.000	2.500	1.850	1.850	1.850	1.850
Total	**$118.350**	**$134.675**	**$136.450**	**$105.500**	**$122.500**	**$122.500**	**$122.500**

Fund Source	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
PAYGO GF	$50.905	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
PAYGO SF	43.089	34.550	33.450	32.800	34.300	34.300	34.300
PAYGO FF	16.900	16.200	16.200	16.200	16.200	16.200	16.200
GO Bonds	7.456	83.925	86.800	56.500	72.000	72.000	72.000
Total	**$118.350**	**$134.675**	**$136.450**	**$105.500**	**$122.500**	**$122.500**	**$122.500**

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

[1] The Governor is mandated to fund the Baltimore Regional Neighborhood Initiative program at $12.0 million in fiscal 2019. To meet the mandate, the capital budget includes $3.0 million in GO bonds with another $9.0 million in general funds, which would be eliminated contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2018 altering the mandate. The Governor is also mandated to fund the Seed Community Development Anchor Institution Fund at $5.0 million (which is done with general funds), all of which is eliminated contingent upon the enactment of a provision in the BRFA of 2018 altering the mandate.

Summary of Issues

Affordable Housing Report: The 2017 *Joint Chairmen's Report* (JCR) requested a report from the Department of Housing and Community Development (DHCD) on the status of affordable housing availability in Maryland, DHCD's plans for addressing the shortage, an evaluation of the department's existing affordable housing programs, and a summary of best practices from elsewhere across the nation. It is estimated that the State lacked nearly 112,000 affordable rental housing units for households earning 30% of the median income and lacked 129,000 affordable rental housing units for households earning 50% of the median income. **The Department of Legislative Services (DLS) recommends that DHCD establish specific goals for reducing the affordable housing shortage in the State.**

Ellicott City Flood Assistance Funds Being Repaid: In response to severe flooding in downtown Ellicott City in summer 2016, $2.5 million was transferred from the Catastrophic Event Account (CEA), and $2.5 million was transferred from the Small, Minority, and Women-Owned Business Account (SMWOBA) into the Neighborhood Business Works program to provide loans to businesses in Ellicott City affected by the floods. According to a report submitted by the department, all $2.5 million of the CEA funds has been encumbered, with $222,284 repaid by DHCD to the account; $617,000 of the SMWOBA funds have been encumbered, with none of it yet repaid by DHCD. **DHCD should comment on the anticipated disbursement of remaining unencumbered funds. DLS also recommends that the budget committees adopt language requiring the Department of Budget and Management (DBM), in consultation with DHCD, to submit a report providing the aggregate status of all outstanding loans and the status of current and proposed repayments to the CEA and the SMWOBA by January 22, 2019. Similar language was adopted in the 2017 session. This recommendation is contained in the analysis of the State Reserve Fund.**

Targeted Communities Investment Fund Report: The 2017 JCR requested that DHCD, the Department of Commerce (Commerce), and the Maryland Economic Development Corporation (MEDCO) submit a report on a plan for funding the Targeted Communities Investment Fund (TCIF). DHCD, with no input from Commerce or MEDCO, submitted a report describing how it met the programmatic intent of the workgroup created in Chapter 592 of 2013 with a newly created Neighborhood Business Loan Program (NBLP); the report does not contain a plan for funding the TCIF. **DHCD should comment on why Commerce and MEDCO were not involved with the creation of the report as requested in the JCR. DHCD should also comment on why it has ignored the recommendation of the Maryland Smart Growth Investment Fund Workgroup to create a dedicated fund and why its JCR response does not provide a plan for funding the TCIF as requested.**

Summary of Recommended PAYGO Actions

1. Concur with Governor's allowance.

Summary of Recommended Bond Actions

1. Baltimore Regional Neighborhood Initiative

   Approve funding for the Baltimore Regional Neighborhood Initiative.

2. Community Legacy Program

   Approve funding for the Community Legacy Program.

3. Neighborhood Business Development Program

   Approve funding for the Neighborhood Business Development Program.

4. Strategic Demolition and Smart Growth Impact Fund

   Approve funding for the Strategic Demolition and Smart Growth Impact Fund.

5. Homeownership Programs

   Approve funding for Homeownership Programs.

6. Housing and Building Energy Programs

   Approve funding for Housing and Building Energy Programs.

7. Partnership Rental Housing Program

   Approve funding for the Partnership Rental Housing Program.

8. Rental Housing Program

   Approve funding for the Rental Housing Program.

9. Shelter and Transitional Housing Facilities Grant Program

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

10. Special Loan Programs

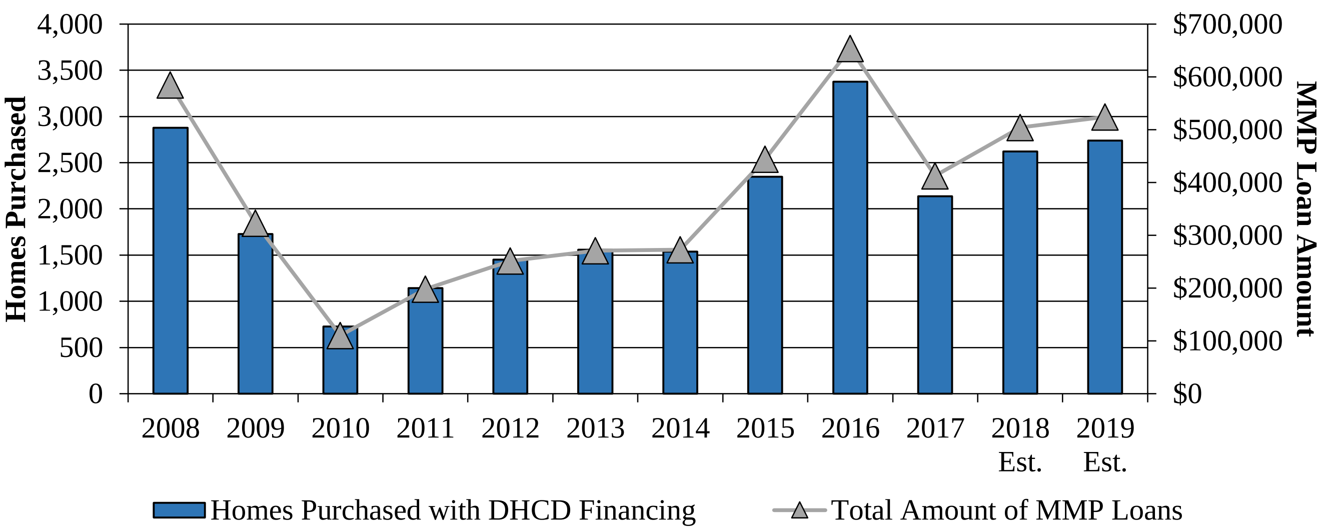
    Approve funding for Special Loan Programs.

Performance Measures and Outputs

Homeownership Assistance Declines

One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. The Maryland Mortgage Program (MMP) and the Down Payment and Settlement Expense Loan Program (DSELP) are essential components of DHCD's homeownership efforts. **Exhibit 1** shows the large spike in the number of DSELP and MMP loans in fiscal 2015 and 2016, followed by a significant drop-off in fiscal 2017. The number and amount of loans in fiscal 2017 declined by more than one-third when compared to fiscal 2016. In the department's Managing for Results (MFR) submission in support of the fiscal 2018 budget, DHCD projected nearly 1,000 more loans and approximately $187 million more in loan funds disbursed in fiscal 2017 than the actual amounts. Several factors led to this decline. The department attributes this to a decline in home inventory leading to tighter markets, which led to higher prices and a preference for cash buyers, factors which work against low-income, first-time homebuyers typically served by MMP. Additionally, there was $6.55 million more in the Homeownership program in fiscal 2016 compared to fiscal 2017. Fiscal 2016 also included the use of funds from Baltimore City and Prince George's County to enhance DSELP efforts in those jurisdictions.

Exhibit 1
Homeownership Assistance
Fiscal 2008-2019 Est.
($ in Thousands)



DHCD: Department of Housing and Community Development
MMP: Maryland Mortgage Program

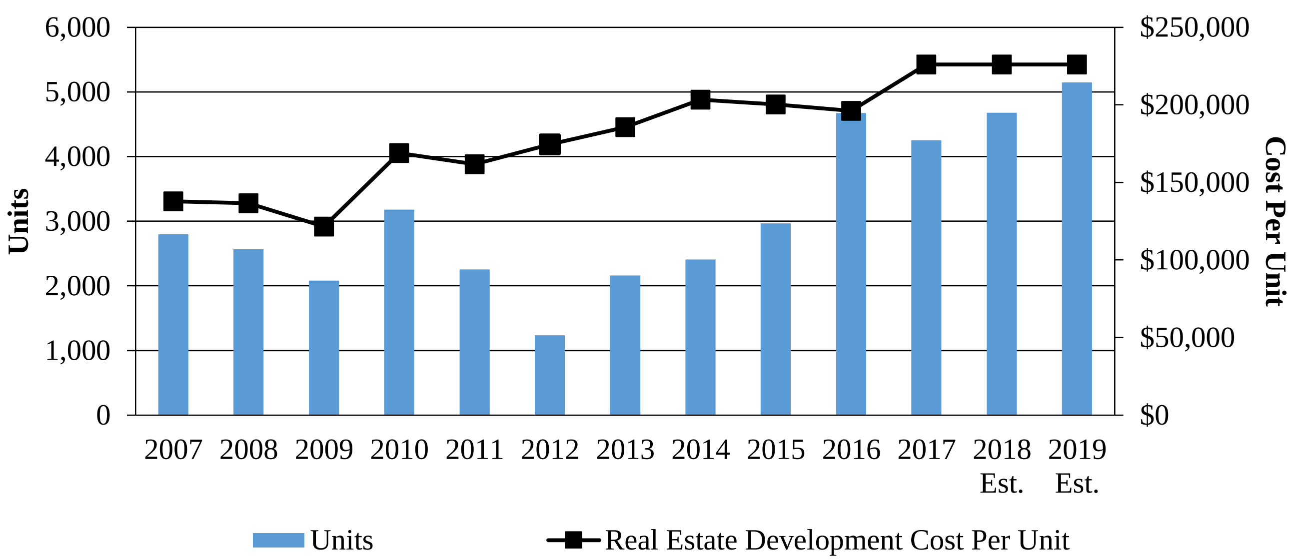
Source: Governor's Budget Books, Fiscal 2009-2019; Department of Budget and Management

More Affordable Rental Units Produced

Another DHCD goal is to expand the production of affordable rental housing units in Maryland in response to an increasing shortage of affordable rental units. 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**, production declined in fiscal 2017 to 4,254 units compared to fiscal 2016, a 9% decrease. This was the first year-over-year decline since fiscal 2012, after which annual unit production steadily increased on a year-over-year basis to the high-water mark achieved in fiscal 2016. During this period, the State began to annually increase rental housing funding. Also, during this period, the annual growth in unit production costs was modest.

Exhibit 2
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2007-2019 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, while the Division of Development Finance provides the financial lending and loan underwriting.

DHCD's capital budget includes 12 programs. Across all programs, the Governor's proposed fiscal 2019 capital budget for DHCD (adjusted for $14.0 million in contingent general fund reductions as proposed in the Budget Reconciliation and Financing Act (BRFA) of 2018 increases by $1.8 million to $136.5 million compared to the fiscal 2018 funding level of $134.7 million. General obligation (GO) bonds comprise $86.8 million of the budget compared to $83.9 million in fiscal 2018.

At both the programmatic and aggregate funding levels, the fiscal 2019 capital budget is mostly consistent with fiscal 2018 funding levels. However, the 2018 *Capital Improvement Program* (CIP) programs several significant changes in funding patterns beginning in fiscal 2020. The biggest change is that fiscal 2019 is the final year of programmed funding for the Strategic Demolition and Smart Growth Impact (SDSGI) Fund. SDSGI provides funding for the Project Creating Opportunities for Renewal and Enterprise (C.O.R.E.) initiative, discussed further in the analysis. Elsewhere, the 2018 CIP includes increases in funding for Rental Housing Programs (to $25 million in GO bonds beginning in fiscal 2021) and Homeownership Programs (to $16 million in GO bonds beginning in fiscal 2021).

The following provides a summary and examination of each of the department's programs.

Baltimore Regional Neighborhood Initiative

The Baltimore Regional Neighborhood 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. Statute now mandates $12.0 million in annual capital funding for BRNI beginning in fiscal 2018 through 2022. The BRFA of 2018 includes a provision that would eliminate the funding mandate. To meet the mandate for fiscal 2019, the capital budget includes $3.0 million in GO bonds with another $9.0 million in general funds contingent upon the enactment of a provision in the BRFA of 2018 altering the mandate.

DHCD opened up applications to new recipients in fiscal 2017 and awarded grants to six new organizations, as shown in **Exhibit 3**. All recipients are in either Baltimore City or Baltimore County.

While the program allows for Anne Arundel County recipients, no grants have been awarded there to date.

Exhibit 3
Baltimore Regional Neighborhood Demonstration Initiative Awards
Fiscal 2014-2017
($ in Millions)

	2014	2015	2016	2017	Total
Southeast Community Development Corporation	$923	$510	$1,010	$430	$2,873
Central Baltimore Partnership, Inc.	1,110	475	565	461	2,611
Dundalk Renaissance Corporation, Inc.	717	325	650	250	1,942
Healthy Neighborhoods, Inc.	250	370	775		1,395
Strong City Baltimore				625	625
Southwest Partnership				350	350
TRF Development Partners				250	250
East Baltimore Development Inc.				175	175
City Life Community Builders				170	170
Belair-Edison Neighborhoods, Inc.				150	150
Total	**$3,000**	**$1,680**	**$3,000**	**$2,861**	**$10,541**

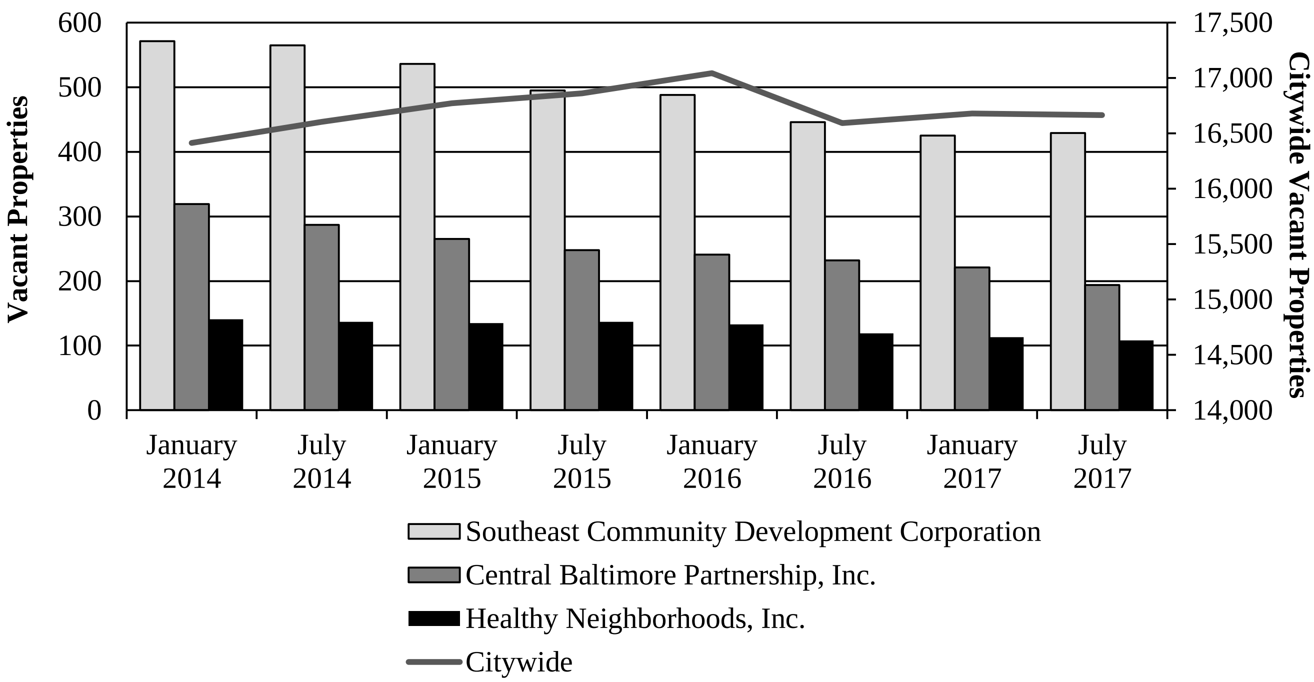
Source: Department of Housing and Community Development

Program Impacts to Date

The program, operating since fiscal 2014, has shown impacts in targeted Baltimore City neighborhoods. Using Baltimore City-provided data, DLS examined the impact on vacancies and building permits in neighborhoods that received BRNI assistance beginning in fiscal 2014. In discussions with recipients, these were two important indicators showing the impact that their efforts could have on a neighborhood. (The evaluation did not include the efforts of Dundalk Renaissance Corporation, which had a much different focus than the three Baltimore City recipients examined.)

Exhibit 4 shows the number of vacant properties in neighborhoods in which BRNI recipients funded projects. Southeast Community Development Corporation (SCDC), which received $2.9 million in BRNI funds between fiscal 2014 and 2017, funded projects in CARE (Caring Active Restoring Efforts), McElderry Park, and Milton-Montfort. Central Baltimore Partnership, Inc. (CBP), which received $2.6 million in funding between fiscal 2014 and 2017, funded projects in Barclay, Charles North, Charles Village, Greenmount West, and Remington. Healthy Neighborhoods, Inc., which received $1.9 million in funding, operates primarily in Reservoir Hill. For all three areas, the number of vacant properties declined significantly. While citywide vacancies remained approximately level between July 2014 and July 2017 in CBP neighborhoods, vacancies declined at an average annual rate of 12.2%. Between January 1, 2016, and July 1, 2016, there was a 2.6% decline in vacancies citywide; in the targeted neighborhoods, the decline was 7.5%. Across the five targeted CBP neighborhoods, there were 319 vacant properties at the beginning of 2014; and by summer 2017, there were 194. In SCDC neighborhoods, vacancies declined at an average annual rate of 8.8%; and in Remington, by an average annual rate of 7.6%.

Exhibit 4
Vacant Properties in BRNI Neighborhoods
January 2014-July 2017

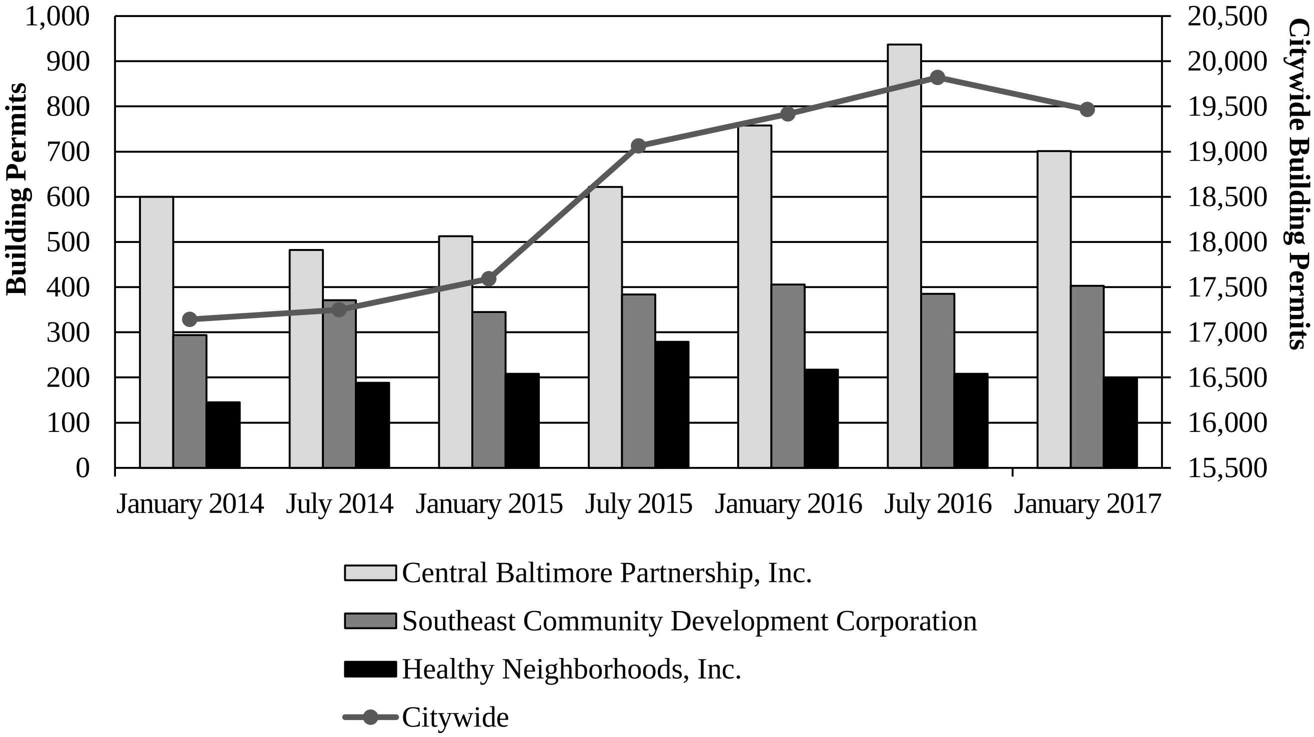


BRNI: Baltimore Regional Neighborhoods Initiative

Source: Baltimore City; Department of Legislative Services

While the change in the number of building permits issued was less dramatic than the change in vacancies, there were still increases in the targeted neighborhoods that exceeded what was seen in the city as a whole. As shown in **Exhibit 5**, in the six months prior to January 2014, there were 294 building permits issued in SCDC neighborhoods. That increased to 403 in the six months prior to January 2017, an average annual growth rate of 11.1%. Remington saw a similar rate of growth, while CBP neighborhoods increased at an average annual rate of 5.3%, compared to the citywide rate of 4.3%.

Exhibit 5
Building Permits Issued
Calendar 2014-2017



Source: Baltimore City; Department of Legislative Services

Additionally, the recipients reported other impacts of the grant funding, especially increases in property values. For example, Healthy Neighborhoods, Inc. provided subsidies to buyers of vacant properties; property values of vacants have since increased enough that subsidies are no longer necessary in the neighborhood. Other anecdotal data from grant recipients indicates similar benefits to housing values in the targeted neighborhoods. One caveat regarding these results is that the BRNI investments into these areas are relatively small compared to other investments, whether they be other State programs or private investments. For example, CBP also received $425,000 from DHCD's SDSGI Fund for work in the Barclay neighborhood. While there is a correlation between the BRNI investments and improvements in certain measures, it is not possible to ascertain causation due to the availability of State grant and loan program assistance in the catchment areas.

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 and the federal Community Development Block Grant funds appropriated through DHCD are used in the State's nonentitlement areas. The fiscal 2019 budget includes $9 million in federal funds for this program, unchanged from fiscal 2018. Entitlement areas receive a direct allocation from the U.S. Department of Housing and Urban Development's (HUD) and are not eligible for the State program. **Exhibit 6** shows the amount granted by county in fiscal 2012 to 2017. Some funds are awarded to municipalities, while other funds are awarded directly to the county.

Exhibit 6
Community Development Block Grant by County
Fiscal 2012-2017

County	Grant Amount
Allegany	$9,462,494
Calvert	553,954
Caroline	2,669,550
Carroll	2,466,672
Cecil	2,876,433
Charles	1,425,000
Dorchester	2,236,510
Frederick	1,099,956
Garrett	2,833,490
Harford	293,839
Kent	617,000
Queen Anne's	1,643,065
Somerset	6,029,150
St. Mary's	2,175,454
Talbot	4,900,973
Washington	1,682,957
Wicomico	1,265,000
Worcester	3,619,813
Total	**$47,851,310**

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 enhancements 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.

The fiscal 2019 budget includes $6.0 million in GO bond funding, the same amount as fiscal 2018. **Exhibit 7** shows the allocation of funding from this program by county. From fiscal 2012 through 2017, the Community Legacy Program provided $33.7 million in direct project funding support. Those funds were combined with $151.8 million in funding from other sources. Community Legacy is a very popular program; 131 applicants requested more than $35 million in fiscal 2017, with only $5.3 million in funding available.

Exhibit 7
Community Legacy Program
Fiscal 2012-2017

Jurisdiction	Grant Amount	Funding from Other Sources
Allegany	$1,701,000	$2,850,352
Anne Arundel	1,155,000	4,517,812
Baltimore	500,000	3,692,190
Baltimore City	7,884,540	92,968,629
Baltimore County	525,000	1,900,830
Calvert	650,000	1,874,658
Caroline	870,000	2,810,090
Carroll	485,000	434,500
Cecil	605,000	1,014,683
Charles	200,000	103,814
Dorchester	1,625,000	768,535
Frederick	1,466,000	4,875,020
Garrett	448,000	328,205
Harford	2,110,000	3,191,837
Howard	300,000	224,500
Kent	685,000	5,979,600
Montgomery	955,000	1,573,400

Jurisdiction	Grant Amount	Funding from Other Sources
Prince George's	6,257,000	11,869,154
Queen Anne's	200,000	9,404
Somerset	889,000	293,337
St. Mary's	421,500	268,959
Talbot	590,000	336,000
Washington	1,155,000	2,460,070
Wicomico	425,000	39,300
Worcester	1,567,500	7,400,031
Total	**$33,669,540**	**$151,784,911**

Source: Department of Housing and Community Development

Neighborhood BusinessWorks

The Neighborhood Business Development Program, which operates as Neighborhood BusinessWorks (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.

The fiscal 2019 budget includes $3.3 million in GO bonds and $2.2 million in special funds, a $500,000 increase over the fiscal 2018 appropriation. As shown in **Exhibit 8,** NBW provided $23.2 million in loans and $3.8 million in grants through this program in fiscal 2012 to 2017, with about 64% of those funds used in Baltimore City. The funds were combined with nearly $200 million in funds from other sources.

Exhibit 8
Neighborhood Business Works
Fiscal 2012-2017

Jurisdiction	Grant Amount	Loan Amount	Total	Funding from Other Sources
Allegany County	0	1,100,000	1,100,000	6,725,379
Anne Arundel County	$0	$500,000	$500,000	$0
Baltimore City	3,088,200	11,776,519	14,864,719	129,385,374
Baltimore County	0	1,062,250	1,062,250	4,949,412
Caroline County	250,000	0	250,000	1,386,710
Carroll County	0	86,600	86,600	130,425
Cecil County	0	707,817	707,817	2,696,000
Frederick County	0	150,000	150,000	0
Garrett County	0	500,000	500,000	1,007,982
Harford County	0	12,000	12,000	0
Howard County	0	2,592,500	2,592,500	969,500
Montgomery County	0	250,000	250,000	1,420,000
Prince George's County	0	2,162,500	2,162,500	43,006,356
Queen Anne's County	0	155,000	155,000	0
Somerset County	0	897,000	897,000	1,404,000
Talbot County	500,000	0	500,000	500,000
Washington County	0	142,000	142,000	228,500
Wicomico County	0	200,000	200,000	0
Worcester County	0	900,000	900,000	4,867,564
Total	**$3,838,200**	**$23,194,186**	**$27,032,386**	**$198,677,202**

Source: Department of Housing and Community Development

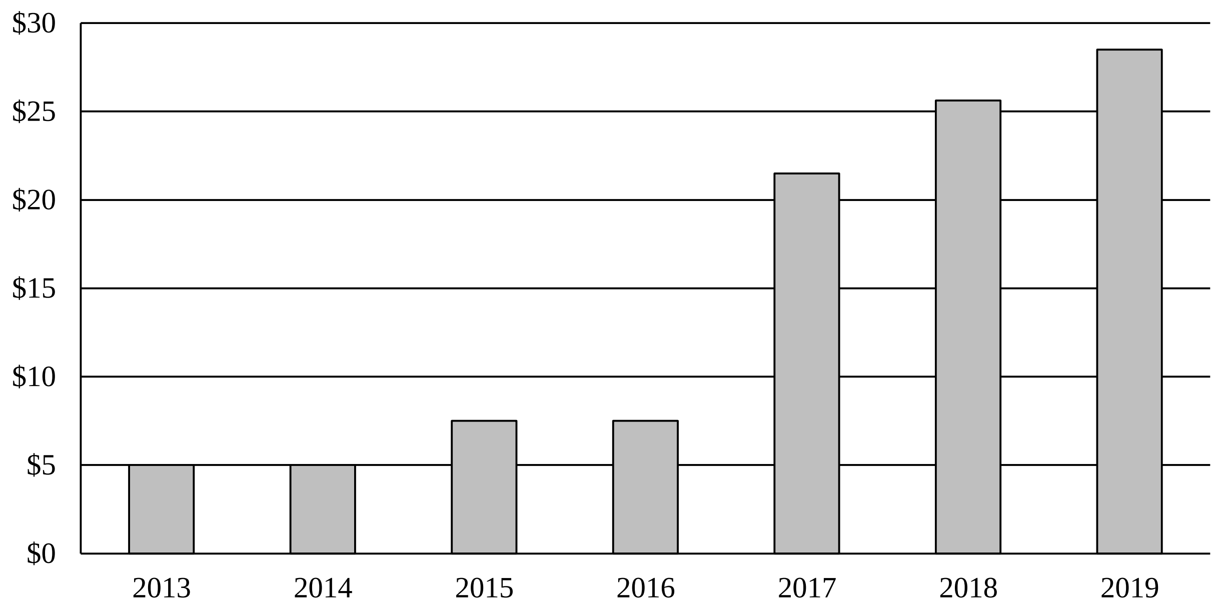
Chapter 482 of 2016 changed some rules for NBW, allowing it to lend in priority funding areas as well as sustainable communities; allowing it to offer primary lending, loan guarantees, and credit enhancements; and increasing the maximum loan size to $5 million, up from $500,000. This is discussed further in the Issues section of this analysis.

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 DHCD-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. Fiscal 2019 is the final year of programmed funding for all SDSGI activities, including Project C.O.R.E. **Exhibit 9** shows SDSGI spending as well as the fiscal 2019 request. The Project C.O.R.E. plan has approximately tripled funding for the program in fiscal 2017 to 2019 compared to prior spending levels. However, the CIP indicates an end to funding the program after fiscal 2019.

Exhibit 9
Strategic Demolition Spending and Request
Fiscal 2013-2019
($ in Millions)



Source: Department of Housing and Community Development

The large majority of funding in SDSGI continues to be used in ways similar to pre-C.O.R.E. efforts, which included demolition along with other efforts, such as land assembly, housing development or redevelopment, and revitalization projects.

The Maryland Stadium Authority (MSA), which is acting as a general contractor and subcontracting the demolition work, demolished 142 parcels in Baltimore City in fiscal 2017 at a cost of approximately $1.9 million. In addition, DHCD provided $16.6 million in funding to 20 other groups, including the Baltimore City Department of Housing and Community Development. The Baltimore City housing department projects included funding for the demolition of the 74-unit O'Donnell Heights public housing project and its redevelopment as well as funding for a multifamily development in the Upton neighborhood and the stabilization of two historic landmarks. In fiscal 2017, Project C.O.R.E. recipients demolished or stabilized 250 properties. To date, in fiscal 2018, MSA has demolished 174 properties, while funds have been awarded to groups with plans to demolish or stabilize approximately 700 properties.

Other large fiscal 2017 efforts include $2 million in funding to Neighborhood Housing Services of Baltimore for the acquisition, demolition, and environmental remediation of three commercial buildings near Coppin State University for the development of affordable housing; Druid Heights Community Development Corporation received $825,000 for the acquisition, rehabilitation, and construction of 69 housing units as well as the stabilization of two historic buildings in the Pennsylvania Avenue Commercial District. Outside of the efforts led by MSA and the large increase in funding, SDSGI does not appear to be operating significantly differently since the announcement of Project C.O.R.E.

SB 1084 would establish the Continuing the C.O.R.E. Partnership Fund to assist with removing blighted property within Baltimore City and mandate a $30 million appropriation in fiscal 2020 and $25 million in fiscal 2021 through 2024.

Rental Housing Programs

Rental Housing Programs, including Rental Housing Works (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. The fiscal 2019 capital budget provides a total of $40.0 million for DHCD Rental Housing Programs comprised of $20.0 million in GO bond funds, $15.5 million in special funds, and another $4.5 million in federal funds. Language in the 2016 session capital budget bill expressed the legislature's intent that the Governor include $20.0 million annually in general funds or GO bond funds for RHW beginning in fiscal 2018 to supplement programmed special and federal funds. As submitted, the fiscal 2018 capital budget provided $10.0 million in GO bonds for RHW that the General Assembly increased to $20.0 million. The 2018 CIP includes $25 million in GO bond funds beginning in fiscal 2021. RHW has seen extensive use since program inception in fiscal 2013, with 21 completed projects, 8 more under construction, and 19 in the pipeline, which would utilize all funds through fiscal 2018. **Exhibit 10** shows the usage of the program by jurisdiction in fiscal 2017.

Exhibit 10
Rental Housing Works Usage
Fiscal 2017

Jurisdiction	Awarded
Anne Arundel	$1,241,043
Balimore County	195,220
Baltimore City	9,213,721
Baltimore County	10,065,000
Calvert	2,500,000
Cecil	5,000,000
Harford	2,500,000
Kent	2,100,000
Montgomery	4,850,000
Prince George's	2,786,002
Talbot	2,000,000
Washington	1,000,000
Wicomico	2,000,000
Total	**$45,450,986**

Note: Fiscal 2017 encumbrances and expenditures include funds from prior year authorizations.

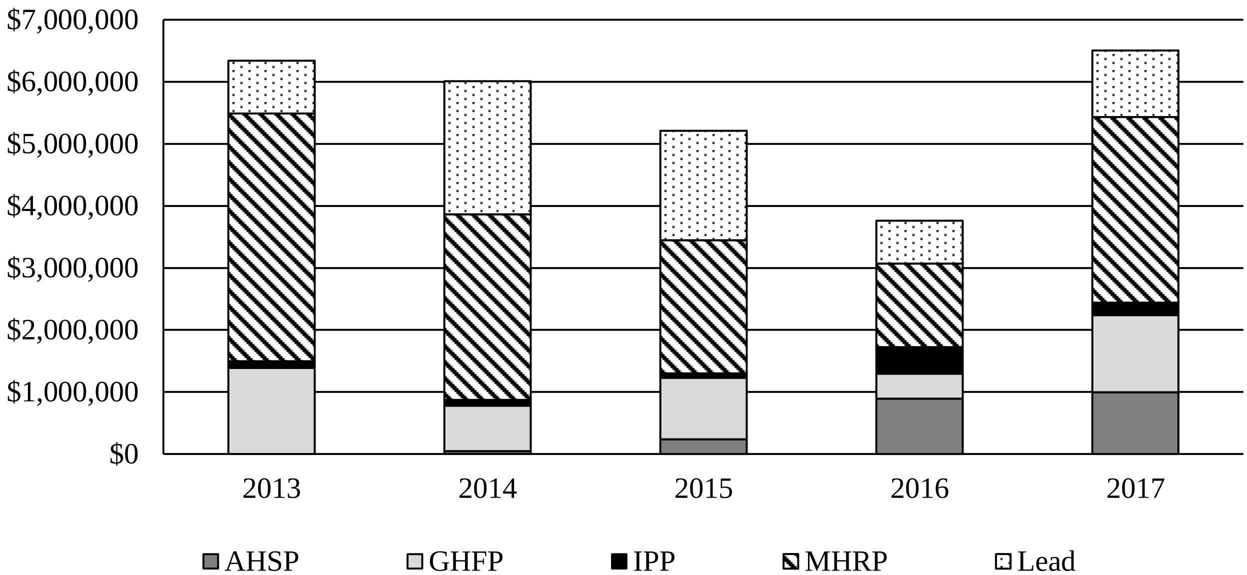
Source: Department of Housing and Community Development

DHCD reports that for each $20.0 million of rental housing funds invested by the State, it generates approximately $238 million in new affordable rental housing investment and builds or preserves approximately 1,200 affordable rental units. RHW also facilitates greater use of the department's Multifamily Bond Program, which leverages federal resources through CDA-issued tax-exempt revenue bonds and the federal 4% Low Income Housing Tax Credit (LIHTC) program. According to DHCD, the RHW program has resulted in a 300% increase in the issuance of tax-exempt revenue bonds for multifamily rental housing from an average of $65.0 million to nearly $200.0 million annually.

Special Loan Programs

Special Loan Programs provide loans or grants for the 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. The fiscal 2019 budget includes $4 million in GO bonds, $3.4 million in special funds, and $2.0 million in federal funds, level funding with the fiscal 2018 appropriation. As shown in **Exhibit 11**, the Maryland Housing Rehabilitation Program uses the bulk of funding.

Exhibit11
Special Loan Programs Loans and Grants by Program
Fiscal 2013-2017



AHSP: Accessible Homes for Senior Homeowners Program
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

Homeownership Programs

Homeownership Programs provide mortgage loans with minimum down payments to low- and moderate-income families. Programs include 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. The fiscal 2019 budget includes $12 million in GO bonds and $1.5 million in special funds, a $4.4 million increase over the fiscal 2018 appropriation. The department intends to allocate $9.0 million for DSELP, which is available to borrowers obtaining a mortgage through the department's MMP. The Homeownership for Individuals with Disabilities Program, which provides direct loans to households with disabled persons to purchase homes, is slated to receive $1.5 million in fiscal 2019. The remaining $3.0 million would be used to expand the department's SmartBuy initiative, which assists qualified applicants with eligible student loan debt to purchase homes owned by DHCD. In addition, the 2018 CIP shows plans to increase the authorization of GO bonds for this program to $16.0 million in fiscal 2021 and beyond.

Housing and Building Energy Programs

Housing and Building Energy Programs contains 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. The fiscal 2019 budget includes $1.0 million in GO bonds; $8.35 million in special funds; and $700,000 in federal funds, a $500,000 decrease from the fiscal 2018 appropriation. The $1.0 million in GO bonds are to be used to expand the use of the Energy-Efficiency Homes Construction Loan Program. This program was initially funded through an allocation of Regional Greenhouse Gas Initiative Strategic Energy Investment funds but has been expanded using GO bonds. The special funds are derived through an allocation of funds awarded to the Maryland Public Service Commission that included $20.0 million for DHCD's Multifamily Energy Efficiency and Housing Affordability (MEEHA) program to expand and promote energy efficiency and affordability in the State's multifamily rental housing developments. MEEHA provides owners of affordable multifamily properties with grants and loans to purchase and install energy efficiency improvements. The initial award was for three years covering calendar 2015 through 2017, and it is anticipated that DHCD will receive an additional award covering calendar 2018 through 2021 that accounts for the 2018 CIP programmed special funds in the out-years.

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. The fiscal 2019 budget includes $6 million in GO bonds, level with the fiscal 2018 appropriation. DHCD provided $8.1 million in loans through this program in fiscal 2017, leading to the creation of 270 housing units.

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 2019 allowance includes $3 million in general funds for this program. The $3 million level represents a doubling of annual funding compared to the level prior to fiscal 2017. DHCD indicates the fiscal 2019 amount is committed to the Sexual Assault Spouse Abuse Resource Center in Harford County. The new facility will provide 40 beds and onsite support to victims of domestic violence.

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. The fiscal 2019 request includes $2.5 million in special funds. DHCD did not issue any loans from this program in fiscal 2017. Maryland BRAC was initiated with a $4.0 million loan from the John D. and Catherine T. MacArthur Foundation. The foundation loan, which has provided $3.0 million thus far, is matched with State funds and local funds from participating jurisdictions (Baltimore, Harford, Howard, Montgomery, and Prince George's counties) for a total capitalization of $8.0 million anticipated. The State has begun repayment of the MacArthur Foundation loan, including $1.5 million of the $2.5 million budgeted for fiscal 2019. DHCD anticipates that $2.0 million will be available for distribution during fiscal 2019 comprised of $1.0 million of new special fund appropriations and $1.0 million from the foundation. Since inception, the program has provided a total of six project loans in participating jurisdictions.

Seed Community Development Anchor Institution Fund

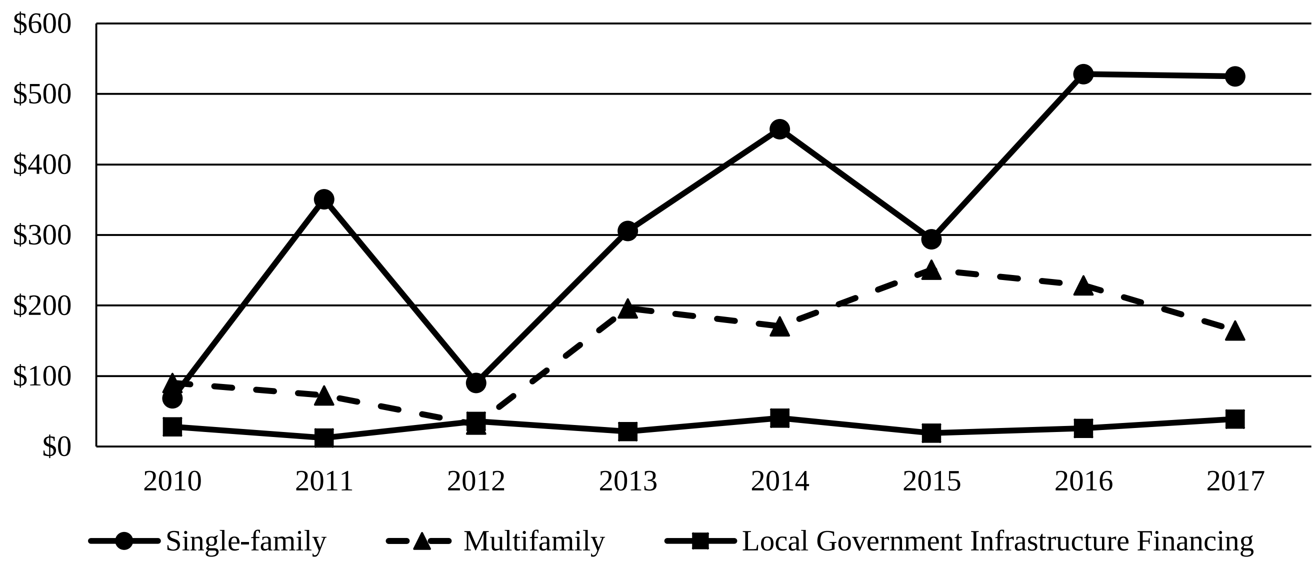
Chapter 31 of 2016 created the Seed Community Development Anchor Institution Fund within DHCD and mandated an annual appropriation of $5 million. The program is intended to provide grants and loans to anchor institutions for community development projects in blighted areas of the State. The Governor is mandated to fund the Seed Community Development Anchor Institution Fund at $5.0 million (which is done with $5 million of general funds in fiscal 2019), all of which is eliminated contingent upon the enactment of a provision in the BRFA of 2018 altering the mandate. The BRFA also proposes to eliminate the mandate.

Community Development Authority

In addition to DHCD's array of budgeted programs, the department also includes the Community Development Authority (CDA), which issues nontax-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 through 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 12**, 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 2017, total issuances declined slightly by 6.9% to $729 million.

Exhibit 12
Community Development Authority Debt Issuances
Calendar 2010-2017
($ in Millions)



Source: Department of Housing and Community Development

In addition to issuing debt, CDA also raises capital with the federal LIHTC program. Two types of LIHTCs are available depending on the type of rental housing construction. The 9% credit is generally used for new construction. Each year, for 10 years, a tax credit equal to roughly 9% of a project's cost of construction may be claimed. The applicable credit rate has historically not actually been 9%; instead, the specific rate that a project would receive was set so that the present value of the 10-year stream of credits equaled 70% of a project's cost. The 4% credit is typically claimed for rehabilitated housing and new construction that is financed with tax-exempt bonds. Like the 9% credit, the 4% credit is claimed annually over a 10-year credit period. The actual credit rate fluctuates around 4% but is set by the Treasury to deliver a subsidy equal to 30% of a project's cost. The 9% LIHTCs are allocated to states based on population; 4% LIHTCs do not have allocation limits. DHCD is authorized to issue approximately $15.0 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 13**, DHCD raised $372.8 million in equity via tax credits in fiscal 2017. Typically, the amount of equity raised is roughly 10 times the size of the tax credit allocation. One impact of the recent federal tax legislation is to lower the value of the tax credits, which are syndicated by CDA and sold to investors seeking to minimize their tax obligations. With a lower tax rate, the value of tax credits is also lower. Throughout calendar 2016, $1 in tax credits was worth approximately $1.01 to $1.06 on the open market. As discussion of tax reform continued through 2017, prices dropped to between $0.91 to $0.93. In December 2017, a tax credit on average sold for $0.89. The impact of this price reduction is that the department is able to raise less equity per tax credit that it had been prior to the reduction in tax rates.

Exhibit 13
Low-income Housing Tax Credits
Fiscal 2013-2017
($ in Millions)

	2013	2014	2015	2016	2017
9% Tax Credit Allocation	$11.5	$8.4	$13.2	$14.4	$15.0
9% Tax Credit Equity	114.8	85.1	130.1	151.1	166.0
4% Tax Credit Allocation	4.7	7.7	11.1	17.4	19.9
4% Tax Credit Equity	43.8	73.6	109.7	174.2	206.8

Source: Department of Housing and Community Development

Issues

1. Affordable Housing Report

The 2017 JCR requested a report from DHCD on the status of affordable housing availability in Maryland, DHCD's plans for addressing the shortage, an evaluation of the department's existing affordable housing programs, and a summary of best practices from elsewhere across the nation.

Size of the Affordable Housing Shortage

Exhibit 14 shows the estimated size of the shortage of affordable rental housing in Maryland, with affordability defined as costing no more than 30% of income. Estimates are based on HUD's adjusted median family income (HAMFI), which HUD uses to calculate an area's fair market rent levels. It is estimated that on average from calendar 2009 to 2013 (the most recent period for which data is available), the State lacked nearly 112,000 affordable rental housing units for households earning 30% of the median income and lacked 129,000 affordable rental housing units for households earning 50% of HAMFI. In addition to the shortage of available housing, many renters face cost burdens or other housing problems. For example, an estimated 65% of renters paid more than 50% of their income for rent and utilities.

Exhibit 14
Affordable Rental Housing Shortage
Calendar 2009-2013

	Up to 30% HAMFI	Up to 50% HAMFI	Up to 80% HAMFI
Renter Households	169,842	291,119	397,046
Units Affordable and Available	58,028	162,043	350,813
Shortage of Rental Units Affordable to Income Group	111,814	129,076	46,233

HAMFI: U.S. Department of Housing and Urban Development adjusted median family income

Source: Comprehensive Housing Affordability Strategy 2009-2013

In addition to a shortage of affordable rental housing units, a widening gap between home prices and income contributes to reduced homeownership affordability in Maryland. Between 2005 and 2014, the homeownership rate in Maryland declined from 71.2% to 65%.

Plan to Address the Affordable Housing Shortage

As described earlier in this analysis, the department has many budgeted and nonbudgeted programs designed to increase the availability of affordable housing in the State. DHCD reports it sets its priorities with a three-part strategy.

- Periodically updating the Qualified Allocation Plan (QAP) and its Multifamily Rental Financing Program Guide through a public engagement process. Changes to the QAP are discussed later in this section. These documents provide a scoring system for awarding 9% LIHTC and Rental Housing Program funds that reflect statewide priorities.

- Maintaining a "first-ready, first-serve" pipeline for RHW, tax-exempt bonds, and 4% LIHTC, which do not have a scoring system.

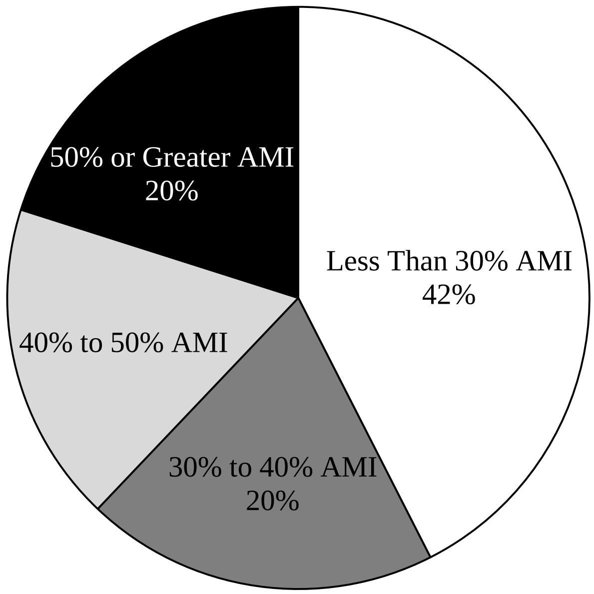
- Working with local governments to ensure subsidized rental housing properties and developments are preserved and improved for residents.

While certain portions of DHCD's affordable housing production tools – such as 9% tax credits – have specific priorities built in, and others are at least partially driven by market forces outside the department's control, it is not clear how decisions are made regarding how much funding to allocate to each of the department's various programs. DHCD does track production data in its MFR submission, such as the number of rental units produced and preserved, but it does not set any goals. The JCR states that the department expects that at current funding levels over the next 30 years, it could double its affordable housing portfolio from 65,000 units to 120,000 units. DHCD should consider setting more specific goals to reduce the size of the affordable housing shortage in the State.

Evaluation of Affordable Housing Programs

As described earlier in this analysis, the department has many budgeted and nonbudgeted programs dedicated to producing affordable housing. DHCD estimates its programs are responsible for the creation of 65,000 affordable rental housing units over the past 30 years. **Exhibit 15** below shows occupant income levels at DHCD-financed properties. The department anticipates producing more than 17,000 new units over the next five years focused mainly on the range of affordability for those earning 30% to 50% of the area median income, which would reduce the shortage of affordable units by approximately 5%. **DLS recommends that DHCD establish specific goals for reducing the affordable housing shortage in the State.**

Exhibit 15
Income Levels of Residents in DHCD-financed Rental Properties



AMI: area median income
DHCD: Department of Housing and Community Development

Source: Department of Housing and Community Development

Best Practices

The department notes several areas it is examining from elsewhere nationally to potentially be deployed in its efforts to increase affordable housing, including:

- hybrid LIHTC transactions – Virginia, California, and other states are combining 4% and 9% LIHTCs on single projects; this could expand the usage of the 4% LIHTC;

- federal initiatives – recent federal legislation, such as the creation of a National Housing Trust Fund and tax reform, has created opportunities that housing agencies can use to expand affordable housing; and

- acquisition/repair mortgage – DHCD is examining 203(k) mortgages, which would allow borrowers to get a loan to purchase the home as well as make repairs.

QAP Changes

DHCD entered into an agreement in September 2017 to settle a fair-housing complaint brought against the State by the Baltimore Regional Housing Campaign. The group had accused the State of reinforcing housing segregation by clustering affordable housing developments in less desirable areas. Maryland has agreed to finance the development of 1,500 affordable housing units in prosperous neighborhoods in the Baltimore region and rewrite certain affordable housing policies, such as its QAP. The QAP is in the final stages of revision. There was recently a public hearing, after which the document was to be signed by the Governor for final adoption. The major changes to the QAP center around new scoring incentives directed toward producing rental housing for families in Communities of Opportunity in the Baltimore region. Communities of Opportunity are based on measures of community health, economic opportunity, and educational opportunity. Communities of Opportunity have an index of these measures above the State average.

2. Ellicott City Flood Assistance Funds Being Repaid

In response to severe flooding in downtown Ellicott City in summer 2016, $2.5 million was transferred from the CEA, and $2.5 million was transferred from SMWOBA into the DHCD NBW program to provide loans to businesses in Ellicott City affected by the floods. As part of its review of the transfer of funds from the CEA, the Legislative Policy Committee recommended that DHCD develop a process by which the funds or repaid loans are deposited into the CEA. Additionally, the budget committees requested a report with information on the amount of outstanding loans and current and proposed repayments for loans made by DHCD's NBW program.

According to a report submitted by the department, the department plans on making quarterly repayments to both accounts. **Exhibit 16** details the status of disbursements, loan repayments, and the amount DHCD has repaid to each fund. As of November 2017, the department has only disbursed $2.4 million out of the $5.0 million pledged for Ellicott City support. **DHCD should comment on the anticipated disbursement of remaining funds. DLS also recommends that the budget committees adopt annual language requiring DBM, in consultation with DHCD, to submit a report providing the aggregate status of all outstanding loans and the status of current and proposed repayments to the CEA and the SMWOBA by January 22, 2019. This recommendation is contained in the analysis of the State Reserve Fund.**

Exhibit 16
Repayment Status of Ellicott City Loans
($ in Thousands)

Fund Sources	CEA	SMWOBA
Original Transfer to DHCD	$2,500	$2,500
Undisbursed	381	2,195
Disbursed	2,119	305
Disbursed and Repaid to DHCD	611	107
Repayment Pending	1,508	198
Returned to CEA/SMWOBA	328[1]	188
Still Outstanding	**$2,172**	**$2,313**

CEA: Catastrophic Event Account
DHCD: Department of Housing and Community Development
SMWOBA: Small, Minority, and Women-Owned Businesses Account

[1] Only $222,284 has been deposited as of January 1, 2018.

Source: Department of Housing and Community Development

3. Targeted Communities Investment Fund Report

In 2013, the General Assembly passed legislation (Chapter 592) creating the Maryland Smart Growth Investment Fund Workgroup to make recommendations for the design and creation of an investment fund that would encourage and support smart growth in targeted areas. The workgroup recommended that MEDCO be the "sponsor" of the fund and act as an intermediary between the State and the private sector. MEDCO agreed to develop a plan for the creation of the fund and to select a fund manager and to determine investment criteria. In fiscal 2016, after numerous discussions with DHCD and Commerce, MEDCO announced the creation of the Maryland TCIF. The fund was to be a privately managed, public-private partnership (P3) with plans to raise $50 million from private investors. To date, the agencies have been unable to come to an agreement on how DHCD will participate in capitalizing the fund.

The 2017 JCR requested that DHCD, Commerce, and MEDCO submit a report on a plan for funding the TCIF. DHCD, with no input from Commerce or MEDCO, submitted a report describing how it met the programmatic intent of the workgroup created in Chapter 592 with a newly created NBLP; the report does not contain a plan for funding the TCIF.

Rather than create a new fund, such as the TCIF, DHCD is using CDA as the provider of the initial collateral contribution to the NBLP. The department is accomplishing this using the expanded authority of CDA granted by Chapter 482, which authorized CDA to lend to business projects in specified areas of the State. To date, CDA has authorized $15.9 million in loans for five projects through this program, as shown in **Exhibit 17**. CDA holds a senior loan position for about two-thirds that amount and a subordinate position for the remainder. These projects included $6.0 million in owner contributions or grants and $13.5 million in private loans. Neither Commerce nor MEDCO are involved in this program.

Exhibit 17
NBLP Project Financing
($ in Thousands)

	CDA Senior	CDA Subordinate	Equity/Owner Contribution/Grant Capital	Private Loan	Total
CALMRA, Inc.	$1,450	$620	$125	$0	$2,195
Hamilton Hotel	1,400	1,357	2,808	0	5,565
Gray Ghost	854	1,226	466	0	2,546
Union Collective	0	500	2,600	12,500	15,600
Union Mill	6,500	2,000	50	1,000	9,550
Total	**$10,204**	**$5,703**	**$6,049**	**$13,500**	**$35,456**

CDA: Community Development Authority
NBLP: Neighborhood Business Loan Program

Source: Department of Housing and Community Development

It does appear that NBLP aligns with the smart growth goals laid out in the original workgroup's report. DHCD is targeting sustainable communities and priority funding areas, as suggested by the workgroup. It is also funding affordable housing, commercial development, and community revitalization projects. However, it does not align with another workgroup recommendation to create a P3 that allows for decision-making independent from a State agency. HB 817 would mandate that $3.75 million is appropriated to the Maryland Smart Growth Investment Fund if it is created and has a fund balance of at least $25 million on March 1, 2019.

DHCD should comment on why Commerce and MEDCO were not involved with the creation of the report requested in the JCR. DHCD should also comment on why it has ignored the recommendation of the Maryland Smart Growth Investment Fund Workgroup to create a dedicated fund and why its JCR response does not provide a plan for funding the TCIF as requested.

PAYGO Recommended Actions

1. Concur with Governor's allowance.

GO Bond Recommended Actions

1. Approve funding for the Baltimore Regional Neighborhood Initiative.

2. Approve funding for the Community Legacy Program.

3. Approve funding for the Neighborhood Business Development Program.

4. Approve funding for the Strategic Demolition and Smart Growth Impact Fund.

5. Approve funding for Homeownership Programs.

6. Approve funding for Housing and Building Energy Programs.

7. Approve funding for the Partnership Rental Housing Program.

8. Approve funding for the Rental Housing Program.

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

10. Approve funding for Special Loan Programs.