

SA0
Department of Housing and Community Development – Capital
Capital Budget Summary

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

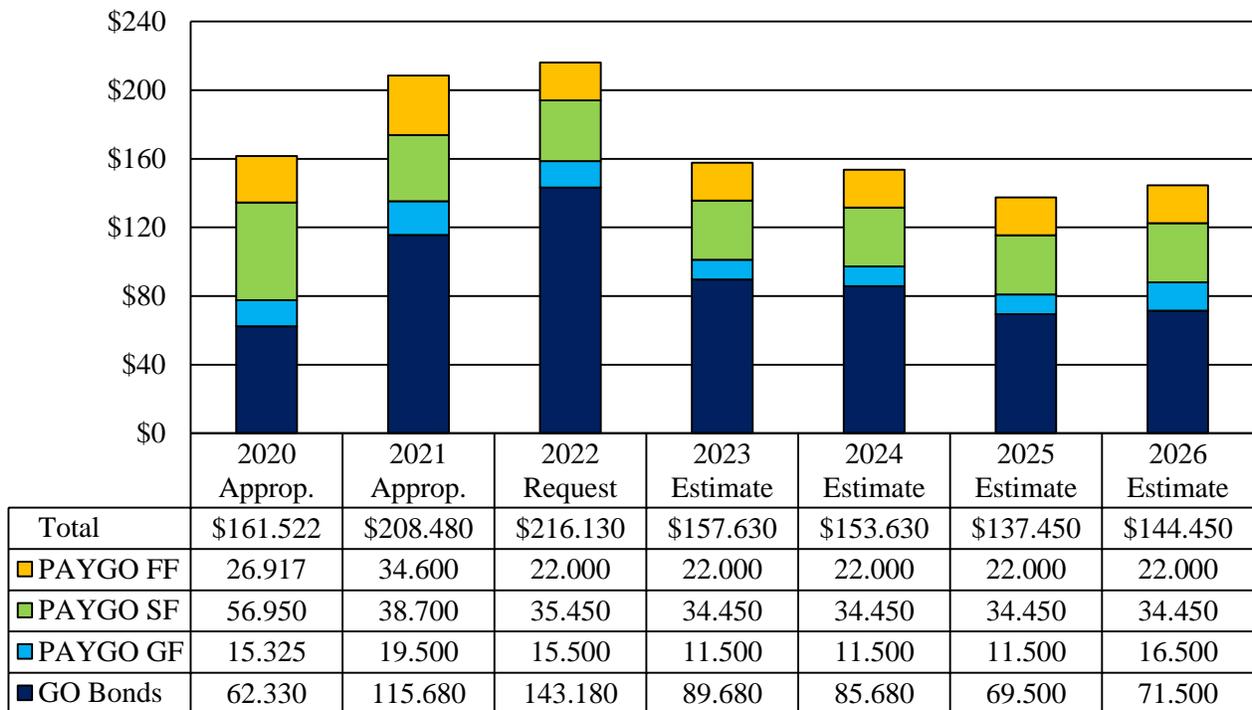
Program	2020 Approp.	2021 Approp.	2022 Request	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Community Development Block Grant Program	\$9.000	\$12.000	\$10.000	\$10.000	\$10.000	\$10.000	\$10.000
Baltimore Regional Neighborhoods Initiative	7.600	12.000	12.000	3.000	3.000	3.000	3.000
Community Legacy Program	6.000	6.000	6.000	6.000	6.000	6.000	6.000
National Capital Strategic Economic Development Fund	4.000	4.000	7.000	3.000	3.000	3.000	3.000
Neighborhood Business Development Program	10.200	10.700	17.700	10.700	12.200	12.200	14.200
Seed Community Development Anchor Institution Fund	2.500	3.000	10.000	5.000	5.000	5.000	10.000
Strategic Demolition Fund	10.475	29.500	21.000	13.500	7.000	0.000	0.000
Homeownership Programs	24.000	20.000	26.000	19.000	19.000	19.000	19.000
Housing and Building Energy Programs	10.350	9.600	9.350	9.350	9.350	9.350	9.350
Local Government Infrastructure Fund	9.680	9.180	15.180	8.180	9.180	0.000	0.000

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Program	2020 Approp.	2021 Approp.	2022 Request	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Partnership Rental Housing Program	6.000	6.000	6.000	6.000	6.000	6.000	6.000
Rental Housing Programs	46.417	73.100	62.500	50.500	50.500	50.500	50.500
Shelter and Transitional Housing Facilities Grant Program	4.000	3.000	3.000	3.000	3.000	3.000	3.000
Special Loan Programs	11.300	10.400	10.400	10.400	10.400	10.400	10.400
Total	\$161.522	\$208.480	\$216.130	\$157.630	\$153.630	\$137.450	\$144.450



FF: federal funds
 GF: general funds
 GO: general obligation
 PAYGO: pay-as-you-go
 SF: special funds

Key Observations

- The fiscal 2022 capital budget for the Department of Housing and Community Development (DHCD) totals \$216.1 million, which is a \$7.7 million increase compared to the fiscal 2021 funding level and \$55 million more than planned for fiscal 2022 in last year’s *Capital Improvement Program* (CIP). General obligation (GO) bond funding increases by \$27.5 million compared to fiscal 2021, offset by decreases in general, special, and federal funds.
- The increased funding is spread across several of DHCD’s 14 capital programs: Neighborhood Business Development; Seed Community Development Anchor Institution Fund; National Capital Strategic Economic Development Program; Homeownership Programs; and Local Government Infrastructure Fund. In addition, while funding for Rental Housing Programs and the Strategic Demolition Program decreases compared to the fiscal 2021 level, the fiscal 2022 budget includes \$16 million more than was planned in last year’s CIP for Rental Housing Programs and \$7.5 million more than was planned for the Strategic Demolition Fund. These increases are intended to provide additional assistance to families and individuals impacted by the COVID-19 pandemic.
- DHCD provided record high homeownership assistance in fiscal 2020, financing 4,771 mortgages totaling over \$1.1 billion. DHCD also provided down payment assistance to nearly 2,500 households in fiscal 2020, a 75% increase over the prior year. DHCD expects the high demand for its homeownership programs to continue in fiscal 2021 and 2022 due to continued low interest rates.

Summary of Recommended PAYGO Actions

1. Concur with Governor’s allowance.

Summary of Recommended Bond Actions

1. Department of Housing and Community Development
Add language on the use of nonbudgeted funds.
2. Baltimore Regional Neighborhoods Initiative
Approve funding for the Baltimore Regional Neighborhoods Initiative.

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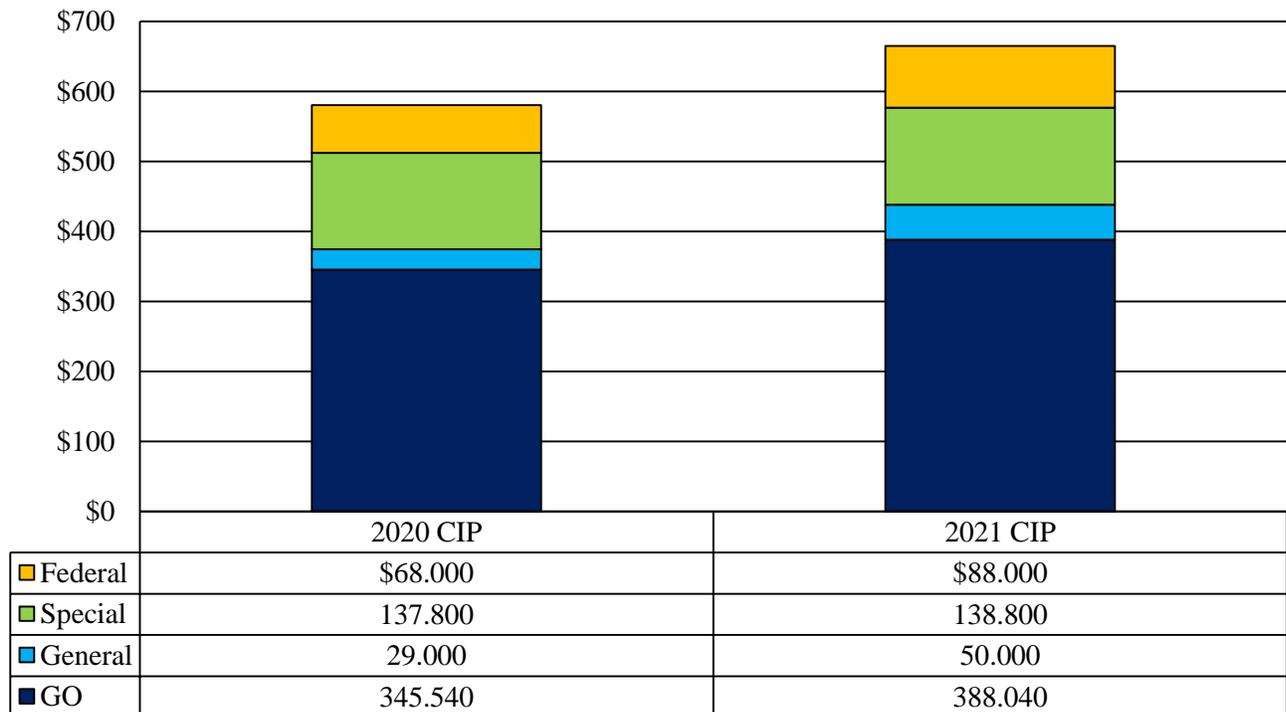
3. Community Legacy Program
Approve funding for the Community Legacy Program.
4. National Capital Strategic Economic Development Fund
Approve funding for the National Capital Strategic Economic Development Fund.
5. Neighborhood Business Development Program
Approve funding for the Neighborhood Business Development Program.
6. Seed Community Development Anchor Institution Fund
Approve funding for the Seed Community Development Anchor Institution Fund.
7. Strategic Demolition Fund
Approve funding for the Strategic Demolition Fund.
8. Homeownership Programs
Approve funding for Homeownership Programs.
9. Local Government Infrastructure Fund
Approve funding for the Local Government Infrastructure Fund.
10. Partnership Rental Housing Program
Approve funding for the Partnership Rental Housing Program.
11. Rental Housing Programs
Approve funding for Rental Housing Programs.
12. Shelter and Transitional Housing Facilities Grant Program
Approve funding for the Shelter and Transitional Facilities Grant Program.
13. Special Loan Programs
Approve funding for Special Loan Programs.

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 financial lending and loan underwriting.

Overall, for the four years that the 2021 and 2020 CIPs overlap, DHCD programs are scheduled to receive \$84.5 million more from fiscal 2022 through 2025, as shown in **Exhibit 1**. This increase is driven largely by an additional \$55 million, or 34%, in fiscal 2022 over the amount planned in last year’s CIP. The increases are spread across most of DHCD’s capital programs, with the largest increases for Rental Housing Programs, Neighborhood Business Development, and the Strategic Demolition Fund.

Exhibit 1
Comparison of 2020 and 2021 Capital Improvement Programs
Fiscal 2022-2025
(\$ in Millions)



CIP: Capital Improvement Program
 GO: general obligation

Source: Department of Budget and Management

Fiscal 2020 and 2021

Cost Containment

- **Fiscal 2020:** In May 2020, the Board of Public Works (BPW) reduced fiscal 2020 funding for the Baltimore Regional Neighborhoods Initiative (BRNI) by \$4.2 million in general funds and for the Strategic Demolition Fund by \$775,000 in general funds. Projects that did not receive funding due to the BRNI and Strategic Demolition Fund reductions in fiscal 2020 were awarded funding using the fiscal 2021 appropriations for these programs instead.
- **Fiscal 2021:** The fiscal 2021 appropriation reflects reductions made by BPW in July 2020 of \$3 million in general funds for the National Capital Strategic Economic Development Program and \$2 million in general funds for the Seed Community Development Anchor Institution Fund.

Proposed Deficiency

The fiscal 2021 appropriation includes a \$3 million special fund deficiency for the Strategic Demolition Fund using bond premiums. This appropriation will be used for unfunded or underfunded projects that applied in the fiscal 2020 or 2021 application rounds. The department is currently reviewing potential projects, and projects will be selected based on financial need, readiness to proceed, and potential economic impact.

Fiscal 2022 Proposed Budget

DHCD's fiscal 2022 capital budget includes 14 programs. Across all programs, the Governor's proposed fiscal 2022 capital budget for DHCD increases by \$7.7 million, or 3.7%, to \$216.1 million compared to the fiscal 2021 funding level of \$208.5 million. GO bonds increase by \$27.5 million, offset by a \$12.6 million decline in federal funds and small declines in general funds and special funds. The largest program increases are for Homeownership Programs, Neighborhood Business Development, and the inclusion of the full mandated funding for the Seed program, offset by a decline in funding for Rental Housing Programs and the Strategic Demolition Fund compared to fiscal 2021.

Exhibit 2 summarizes the fiscal 2022 capital budget by program and fund source. The exhibit does not reflect COVID-19 relief funding provided through the Community Development Block Grant program or funding for the construction of an educational broadband network, both of which are included in the fiscal 2021 operating budget.

Exhibit 2
Capital Budget by Program
Fiscal 2022
(\$ in Millions)

<u>Program</u>	<u>Fund Source</u>	<u>Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2021</u>	<u>2020 CIP</u>
<p>Community Development Block Grant Program: 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 jurisdictions receive funding directly from HUD. In fiscal 2020, DHCD used \$600,000 to provide additional services to the homeless population related to COVID-19, including quarantine sheltering in hotels and motels.</p>	All FF	\$10.00	-16.7%	11.1%
<p>Baltimore Regional Neighborhoods Initiative: Grants to fund revitalization in State-designated Sustainable Community areas in Anne Arundel and Baltimore counties and Baltimore City. Eligible projects include residential and commercial strategic property acquisition, redevelopment, rehabilitation, and new infill development. Fiscal 2022 is the final year of mandated funding; the CIP includes \$3 million in general funds annually in future years.</p>	6.0 GO 6.0 GF	12.00	0.0%	0.0%
<p>Community Legacy Program: Awards to counties, municipalities, and community development organizations for the revitalization of neighborhoods in Sustainable Communities that are at risk of physical, economic, or social deterioration. Eligible uses include streetscape and façade improvements, recreational amenities, improvement of community gathering places, and other enhancements to improve the desirability of the community.</p>	All GO	6.00	0.0%	0.0%
<p>National Capital Strategic Economic Development Program: Awards to government agencies and nonprofit community development organizations, with 85% of funding reserved for projects located between Interstate 495 and the District of Columbia. The fiscal 2022 budget includes the full mandated funding of \$7 million, although the CIP only includes \$3 million in general funds annually in future years.</p>	3.0 GO 4.0 GF	7.00	75.0%	n/a
<p>Neighborhood Business Development Program: Grants and loans of up to \$5 million for community-based economic development activities in revitalization areas designated by local governments; also offers loan guarantees and credit enhancements to banks and community development financial institutions.</p>	15.0 GO 2.2 SF 0.5 GF	17.70	65.4%	73.5%

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<u>Program</u>	<u>Fund Source</u>	<u>Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2021</u>	<u>2020 CIP</u>
Seed Community Development Anchor Institution Fund: Grants and loans to anchor institutions, such as hospitals and institutions of higher education, for community development projects in blighted areas of the State. The fiscal 2022 budget includes the full mandated funding of \$10 million, although the CIP only includes \$5 million in general funds annually in future years. The program has never been funded at its mandated level due to various BRFA and budget actions.	5.0 GO	10.00	233.3%	100.0%
	5.0 GF			
Strategic Demolition Fund: Assists in demolition, land assembly, housing development or redevelopment, and revitalization projects. The program includes a statewide component (\$6 million) as well as Project CORE, which funds blight removal and redevelopment in Baltimore City (\$15 million). Increased funding is provided in fiscal 2022 compared to the programmed amount to spur economic development during the pandemic. Fiscal 2023 was previously programmed as the final year of funding, but the CIP includes \$7 million in fiscal 2024 to extend the program by one year.	All GO	21.00	-28.8%	55.6%
Homeownership Programs: Down payment and closing cost assistance to low- and moderate-income families. Programs include the Down Payment and Settlement Expense Loan Program (\$16 million), the Smart Buy program (\$9 million) to assist homebuyers with student loan debt, and the HomeAbility program (\$1 million) to provide loans to households with disabled persons. Increased funding for fiscal 2022 reflects high demand during the COVID-19 pandemic, and DHCD estimates that the additional \$6 million in GO bond funding will assist approximately 950 homebuyers.	22.0 GO	26.00	30.0%	36.8%
	4.0 SF			
Housing and Building Energy Programs: Loans and grants for energy efficiency improvements for single-family and rental housing properties, including renovation of existing facilities, construction of new facilities, or installation of energy-efficient equipment or materials. Programs include the federally funded Energy Efficiency Block Grant Program (branded BeSMART) and the Multifamily Energy Efficiency and Housing Affordability (MEEHA) program, funded with special funds from the Maryland Public Service Commission through the EmPOWER program. Special funds also include funding for the Washington Gas program, which is similar to the MEEHA program but administered separately. Funding for the Washington Gas program in the operating budget declined by \$1.25 million in the fiscal 2022 allowance and, although DHCD indicated that the intent was to shift this funding to the capital budget, neither the fiscal 2022 capital budget nor the CIP reflect a corresponding increase.	8.35 SF	9.35	-2.6%	-9.7%
	1.00 FF			

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<u>Program</u>	<u>Fund Source</u>	<u>Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2021</u>	<u>2020 CIP</u>
<p>Local Government Infrastructure Fund: The Office of Rural Broadband supports the construction of broadband infrastructure to expand internet access to unserved areas of Maryland through grants with matching requirements to local jurisdictions or internet service providers. Program funding increases by \$5 million over the planned amount in the fiscal 2022 capital budget due to \$1.3 million shifted from the operating budget as well as \$3.7 million to fund additional projects. Fiscal 2024 is the final year of programmed funding in the CIP.</p>	All GO	15.18	65.4%	49.1%
<p>Partnership Rental Housing Program: 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. Demand for the program is driven by the federal Rental Assistance Demonstration program, which allows for the conversion of public housing to long-term Section 8 rental assistance projects. Potential projects for fiscal 2022 funding include senior housing projects in Prince George’s and Frederick counties and a mixed-income project in Howard County.</p>	All GO	6.00	0.0%	0.0%
<p>Rental Housing Programs: Low-interest or deferred-payment loans to housing developers for the financing of affordable housing developments. GO bond funding increases by \$12 million in fiscal 2022 compared to the programmed amount to spur economic development during the pandemic. DHCD estimates that the increased funding will create or preserve an additional 720 affordable rental units. Federal funds increase \$4 million over the planned amount to recognize annual allocations from the Housing Trust Fund.</p>	37.0 GO 16.5 SF 9.0 FF	62.50	-14.5%	34.4%
<p>Shelter and Transitional Housing Facilities Grant Program: Grants to local governments and nonprofit groups to develop emergency shelters and transitional housing for homeless individuals and families. Potential projects for fiscal 2022 include expansion of a safe house for victims of domestic violence in Harford County and a project in Baltimore City serving families separated by substance abuse. Funding will also be paired with Medicaid funding to address shelter needs related to the opioid epidemic.</p>	All GO	3.00	0.0%	0.0%

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<u>Program</u>	<u>Fund Source</u>	<u>Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2021</u>	<u>2020 CIP</u>
Special Loan Programs: 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. DHCD planned to start an Emergency Assistance Repair Loan pilot program in fiscal 2021 to provide immediate repairs to address health and safety issues but has delayed implementation due to focusing on other programs during the COVID-19 pandemic.	4.0 GO	10.40	0.0%	0.0%
	4.4 SF			
	2.0 FF			
Total		\$216.13	3.7%	34.1%

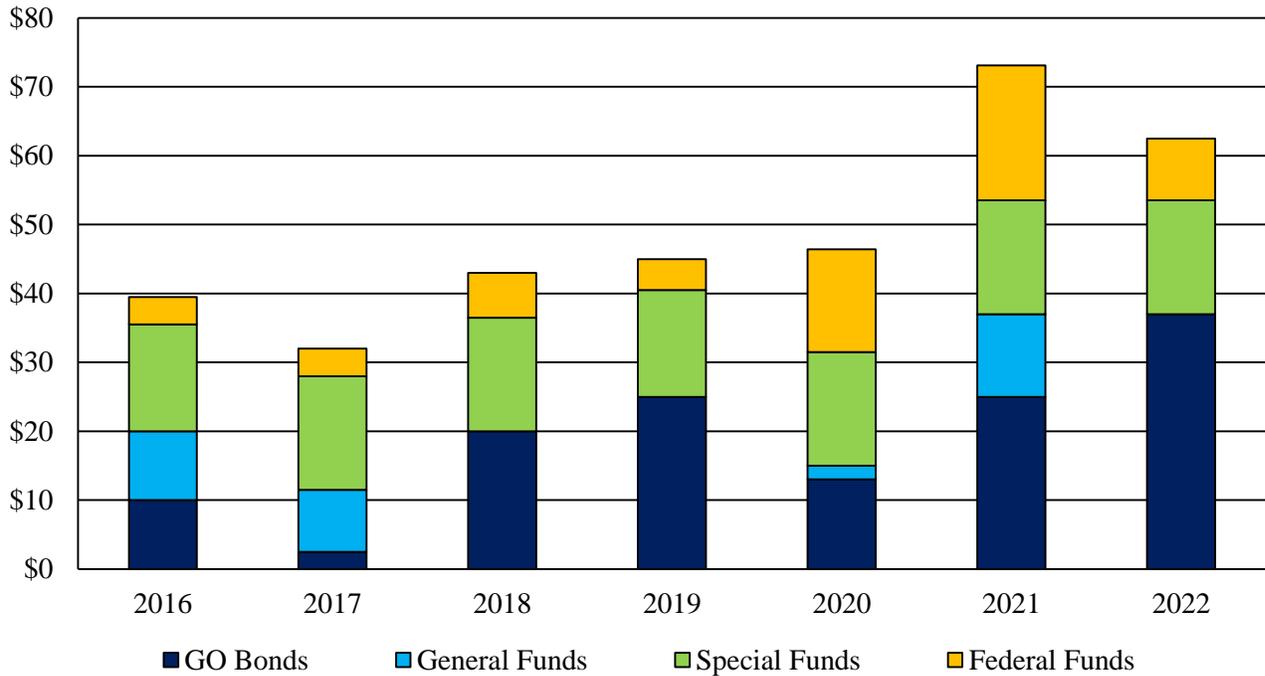
BRFA: Budget Reconciliation and Financing Act
 CIP: *Capital Improvement Program*
 CORE: Creating Opportunities for Renewal and Enterprise
 DHCD: Department of Housing and Community Development
 FF: federal funds
 GF: general funds
 GO: general obligation
 HUD: U.S. Department of Housing and Urban Development
 SF: special funds

Source: Governor’s Fiscal 2022 Capital Budget; Department of Housing and Community Development

Rental Housing Programs

Rental Housing Programs, including Rental Housing Works, are used to rehabilitate and create new affordable housing for low- to moderate-income individuals, families, and elderly residents or special needs populations. Rental Housing Programs are by far the largest part of DHCD’s fiscal 2022 capital budget, accounting for 29% of the total. As shown in **Exhibit 3**, funding for Rental Housing Programs has increased significantly over the past several years, growing from less than \$40 million in fiscal 2016 to \$73.1 million in fiscal 2021 and \$62.5 million in the fiscal 2022 budget.

Exhibit 3
Funding for Rental Housing Programs in the Capital Budget
Fiscal 2016-2022
(\$ in Millions)



GO: general obligation

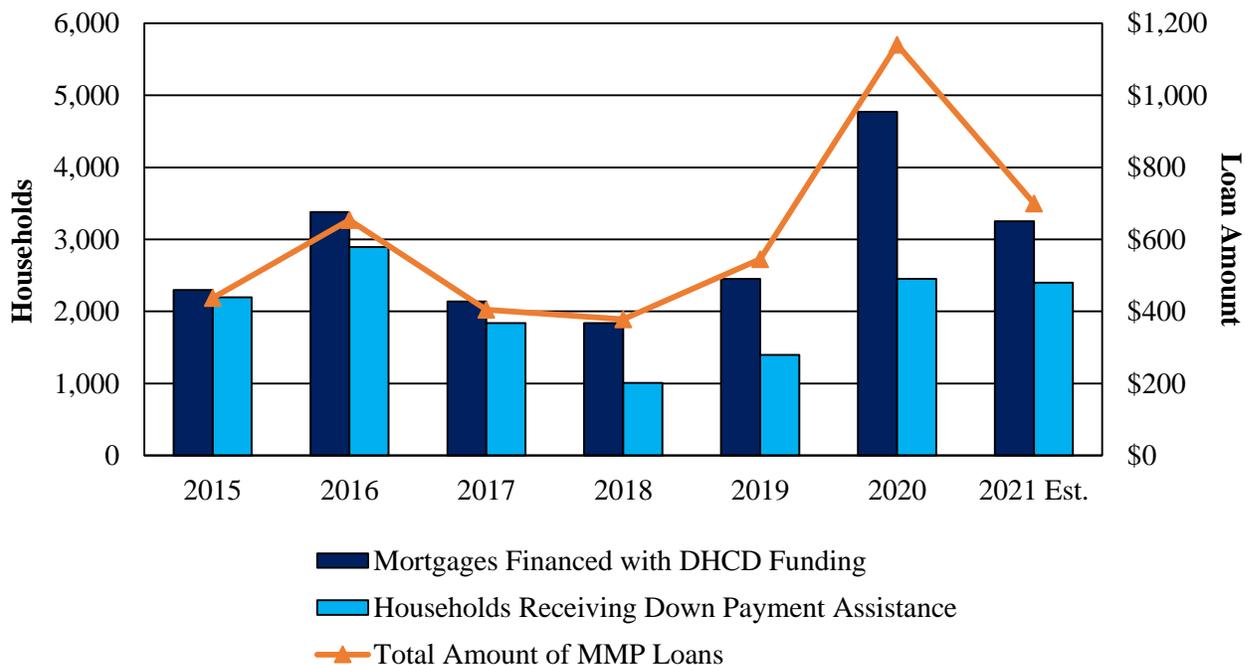
Source: Department of Budget and Management

In fiscal 2020 and 2021, DHCD processed budget amendments for large amounts of federal funds that were not recognized in the legislative appropriations – \$10.4 million in fiscal 2020 and \$11.6 million in fiscal 2021. Most of this additional federal funding is from the Housing Trust Fund (HTF), from which DHCD has received an award annually since fiscal 2016. Because the fiscal 2020 budget included \$12 million in general funds for Rental Housing Programs that were restricted and not released by the Governor, DHCD decided to use federal funds from the HTF to bridge the funding gap. These awards were previously not recognized and programmed in the annual CIP, which served to obscure the resources available to support rental housing initiatives. However, DHCD has agreed to report the intended draw down of these funds to the Department of Budget and Management (DBM), and the funds are now included in the 2021 CIP. The 2021 CIP includes \$4 million in HTF funding annually beginning in fiscal 2022, which provides greater transparency regarding available federal funding.

Homeownership Programs

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 4** shows the large increase in fiscal 2020 in both mortgages financed through DHCD and households that received down payment assistance from DHCD. The number of mortgages financed with DHCD funding nearly doubled in fiscal 2020 to a record high of over 4,700, and the number of households that received down payment assistance increased by 75% to just under 2,500. DHCD expects the high demand for its homeownership programs to continue in fiscal 2021 and 2022 due to continued low interest rates. Homeownership program funding from the State has fluctuated in recent years. DHCD supplemented the program in fiscal 2020 by using \$12.9 million in nonbudgeted funds from the Community Development Administration (CDA) for DSELP. The use of CDA funds to supplement budgeted DHCD programs is discussed further in Issue 1 of this analysis.

Exhibit 4
Homeownership Assistance
 Fiscal 2015-2021 Est.
 (\$ in Millions)

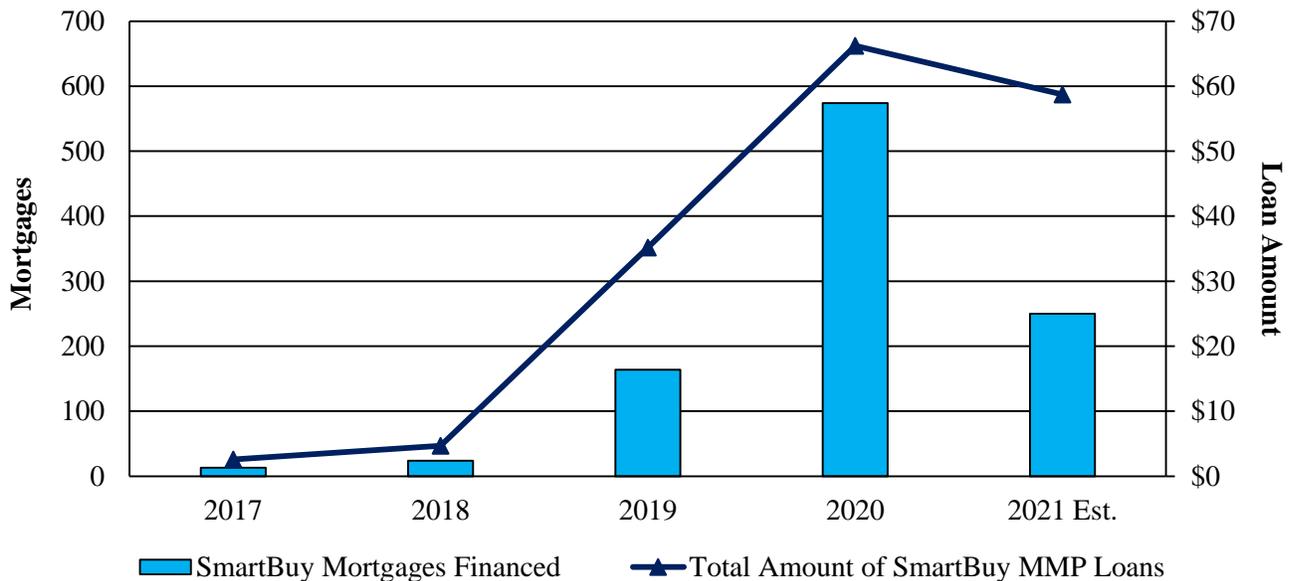


DHCD: Department of Housing and Community Development
 MMP: Maryland Mortgage Program

Source: Governor’s Fiscal 2022 Budget Books

DHCD’s homeownership efforts also include the SmartBuy initiative, which helps qualified applicants with eligible student loan debt to purchase homes by providing financing and closing cost assistance, including loan forgiveness of up to 15% of the purchase price. The program first launched in fiscal 2017 and limited purchases to CDA-owned properties. As shown in **Exhibit 5**, the program expanded dramatically in fiscal 2019, with the launch of a second iteration of the program that provides a maximum of \$40,000 of student debt relief and is open to anyone purchasing a home in Maryland that meets the MMP guidelines. In fiscal 2020, DHCD provided \$6.5 million of student debt relief and financed 574 mortgages through the program.

Exhibit 5
SmartBuy Mortgages
Fiscal 2017-2021 Est.
(\$ in Millions)



MMP: Maryland Mortgage Program

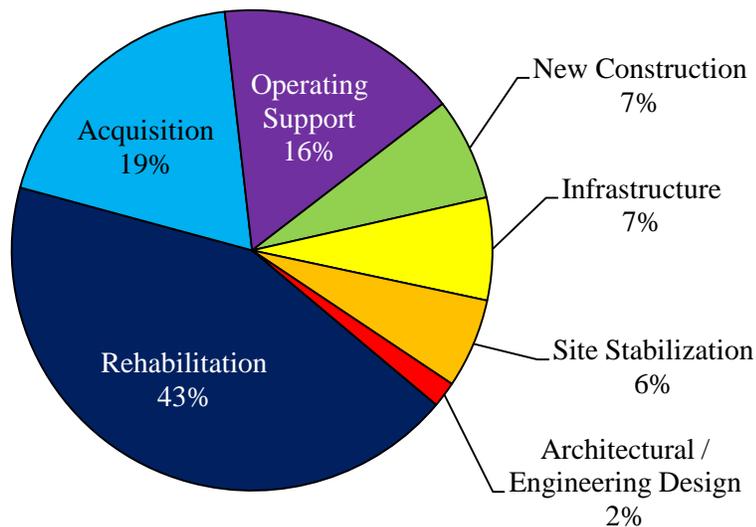
Source: Governor’s Fiscal 2022 Budget Books

Baltimore Regional Neighborhoods Initiative

Chapter 29 of 2016 mandates \$12 million in annual capital funding for BRNI through fiscal 2022, and the CIP plans \$3 million in funding annually each year thereafter. SB 699 and HB 867 of 2021 would extend the \$12 million mandate through fiscal 2026.

DHCD indicates that the fiscal 2020 awards for BRNI are supporting the rehabilitation of more than 400 units of housing and the construction of nearly 300 new units, as well as streetscape improvements and the repurposing of over 800,000 square feet of vacant or underutilized space. The use of BRNI funding by project type for awards made in fiscal 2019 and 2020 is shown in **Exhibit 6**. Most awards are for rehabilitation or property acquisition projects.

Exhibit 6
Baltimore Regional Neighborhoods Initiative Projects by Type
Fiscal 2019-2020



Source: Department of Housing and Community Development

DHCD updated its application format beginning with the awards for fiscal 2021 to better capture performance data going forward for all of the department’s Neighborhood Revitalization programs. Revisions include requesting that applicants provide outputs and outcomes for the project and categorize the project into subcategories among one of six types: capacity building; community health and services; housing; infrastructure; local economy and jobs; and transportation. Outputs and outcomes identified by the applicant at this stage could then be verified and tracked as the project progresses.

Neighborhood BusinessWorks

The fiscal 2022 budget includes \$17.7 million for the Neighborhood Business Development Program, which operates as Neighborhood BusinessWorks (NBW), compared to \$10.7 million in fiscal 2021. The increase of \$7 million in GO bond funding is to support additional businesses during the COVID-19 pandemic. Due to the pandemic, DHCD offered temporary forbearance on loans to small business in the NBW program.

Fiscal 2021 was the first year of funding for the Opportunity Zone Micro-grant Program under NBW. The fiscal 2022 budget continues funding the program at the same level of \$500,000 in general funds, and the CIP programs the same amount annually in future years. The program provides grants of up to \$50,000 to new or expanding small businesses in opportunity zones that demonstrate plans for growth and provide a matching contribution. Funds may be used for both capital and noncapital expenses, such as equipment purchases, inventory, and payroll. The program experienced overwhelming demand, with applications totaling nearly \$3 million submitted within six hours of opening. Due to the high demand, DHCD supplemented the grants with an additional \$500,000 in nonbudgeted funds from CDA to fund a total of \$1 million in grants. DHCD has updated the application to better capture how the funding will help businesses expand and plans to open a second round of applications to award the supplemental funds in spring 2021; the department will contact many of the applicants from the first round to encourage them to reapply. **Exhibit 7** shows the grant awards made under the first round of the Opportunity Zone Micro-grant Program. Applications were evaluated based on factors including the significance of the impact on the community and how the award would help the business expand.

Exhibit 7
Opportunity Zone Micro-grant Awards
Fiscal 2021

<u>Grantee</u>	<u>County</u>	<u>Award</u>
Sandtown Millworks	Baltimore City	\$45,000
Mogan’s Oyster House	Wicomico	40,000
Corner Tavern and Cafe	Allegany	50,000
GD Laminates & Millwork	Baltimore City	50,000
Outlook Enterprises, LLC	Baltimore City	50,000
Clene Nanomedicine, Inc.	Cecil	50,000
Manta Biofuel Inc.	Baltimore	21,500
Mera Kitchen Collective, LLC	Baltimore City	18,500
Microsphere Material Solutions	Prince George’s	30,000
Tenth Ward Distilling Company	Frederick	25,000
Planet Found Energy Development, LLC	Somerset	50,000
ARMR Systems, Inc.	Baltimore City	50,000
Southbound One, Inc.	Worcester	20,000
Total		\$500,000

Note: These grants are from the first round of fiscal 2021 funding awarded in fall 2020. The department plans to open applications for a second round of \$500,000 in spring 2021.

Source: Department of Housing and Community Development

Local Government Infrastructure Fund

The Office of Rural Broadband was established by executive order in 2017 to support the provision of affordable, high-speed Internet service to every Maryland home. Fiscal 2020 was the first year of funding for the program in the capital budget. The fiscal 2022 capital budget includes \$15.18 million in GO bond funding for the program, and the CIP plans \$8.18 million in fiscal 2023 and \$9.18 million in fiscal 2024, the final year of funding. DHCD estimates that a total of at least \$100 million will be required from all sources to meet the State’s last-mile infrastructure needs for broadband. Based on the amount programmed in the CIP in addition to prior appropriations, the State share of that cost would total \$51.4 million.

Rural broadband initiatives also receive funding in the operating budget. In fiscal 2021, the operating budget included \$2 million for grants to local governments for pilot projects as well as to support counties in conducting feasibility studies and applying for federal funding. For example, DHCD used operating funding to support Talbot County and Easton Utilities in applying for a grant from the U.S. Department of Agriculture to expand broadband to most unserved households in the county, and the project was awarded \$13 million in federal funds in July 2020. Funding in the operating budget declined to \$700,000 in the fiscal 2022 allowance as the remaining \$1.3 million was shifted instead to GO bonds in the capital budget.

In addition to the shift of \$1.3 million in operating funds to the capital budget, the fiscal 2022 capital budget for broadband initiatives increases by a further \$3.7 million over the planned amount to facilitate the acceleration of projects. DHCD anticipates excess demand for the program in the fiscal 2021 funding round and hopes to use the additional \$3.7 million at the start of fiscal 2022 to fund additional projects that applied in fiscal 2021 before a new round of applications is opened for the remaining fiscal 2022 funding. DHCD expects to make the fiscal 2021 awards in March 2021.

Fiscal 2020 Awards

The fiscal 2020 appropriation of \$9.68 million in the capital budget funded awards in three subprograms: the Broadband Infrastructure Grant Program; the Broadband Pilot Extension Program; and the Emergency Education Broadband Assistance Program.

Broadband Infrastructure Grant Program

The Broadband Infrastructure Grant Program provides grants of \$1 million to \$3 million to fund up to 50% of the capital costs of construction of new broadband networks in unserved areas of the State. Projects that include areas in Sustainable Communities or Priority Funding Areas may be eligible for a reduced match of 25% of the total construction costs. **Exhibit 8** shows the fiscal 2020 awards for this program and the number of households, businesses, or other entities that will be served by each project. These projects have until September 2023 to use the grant funding, and DHCD expects construction to begin in spring 2021. DHCD advises that grantees will typically use the first 6 to 8 months after receiving an award to complete design and other preparatory work, and then major construction will take an additional 12 to 18 months to complete. Fiscal 2020 awards were made in May 2020 and, as of February 2021, Maryland Broadband Cooperative is the only grantee to draw funds (\$370,000).

**Exhibit 8
Broadband Infrastructure Grant Awards
Fiscal 2020**

<u>Grantee</u>	<u>Grant Amount</u>	<u>Total Capital Construction Costs</u>	<u>Households or Other Entities Served</u>	<u>County</u>
Spectrum Southeast, LLC	\$1,208,159	\$1,610,878	407	Somerset
Maryland Broadband Cooperative, Inc.	2,154,240	2,154,240	Up to 950	Allegany, Charles, Dorchester, Garrett, Wicomico
ThinkBig Networks, LLC	2,924,083	5,848,166	1,484	Charles
QCOL, Inc.	1,001,447	2,002,894	786	Garrett
Total	\$7,287,929	\$11,616,178	Up to 3,627	

Note: The Spectrum Southeast project is eligible for a reduced match of 25% of total capital construction costs. The Maryland Broadband Cooperative project provides middle mile interconnection services, and the match will be provided by last mile infrastructure to be constructed by cooperative members. Maryland Broadband Cooperative, Inc. will offer reduced rates for use of the infrastructure.

Source: Department of Housing and Community Development, Board of Public Works

Broadband Pilot Extension Program

The Broadband Pilot Extension Program provides grants of up to \$200,000 for local governments to partner with Internet service providers on projects that extend broadband networks into pockets of unserved rural areas with a 100% required match unless otherwise agreed upon with the Office of Rural Broadband. **Exhibit 9** shows the fiscal 2020 awards made under this program and the number of households or other entities served. The fiscal 2020 grantees have until the end of calendar 2021 to use this funding. Prior awards were made under this program using funding in the operating budget.

Exhibit 9
Broadband Pilot Extension Grants
Fiscal 2020

<u>Grantee</u>	<u>Grant Amount</u>	<u>Total Capital Construction Costs</u>	<u>Households or Other Entities Served</u>
Allegany County	\$133,655	\$267,310	409
Baltimore County	34,639	69,277	24
Cecil County (Four Projects)	413,758	763,000	186
City of Crisfield	39,960	79,960	Unknown
Dorchester County	194,526	389,052	40
Garrett County (Three Projects)	704,828	1,138,057	465
Kent County (Seven Projects)	565,394	903,832	209
St. Mary’s County	200,000	400,000	56
Total	\$2,286,760	\$4,010,488	1,389

Note: Projects in Cecil, Garrett, and Kent counties have reduced match requirements.

Source: Department of Housing and Community Development; Board of Public Works

Emergency Education Broadband Assistance Program

The Emergency Education Broadband Assistance Program provided grants to school districts and libraries to purchase and install equipment to expand the reach of broadband service and serve students learning at home in response to the COVID-19 pandemic. These grants were funded using funds from both the operating and capital budgets and are separate from the \$8.7 million awarded to school districts using coronavirus relief funds, which are discussed in the DHCD operating budget analysis. Awards are shown in **Exhibit 10**.

Exhibit 10
Emergency Education Broadband Assistance Grants
Fiscal 2020

<u>Grantee</u>	<u>Amount</u>
Allegany County School District	\$50,000
Baltimore County School District	38,557
Calvert Library	8,226
Charles County Library	20,466
Enoch Pratt Free Library	46,347
Harford County Public Library	23,863
Queen Anne's County Library	2,400
Somerset County School District	2,986
Worcester County School District	32,750
Total	\$225,595

Note: Of these awards, \$87,705 used general obligation bond funding, while the remainder used general funds from the operating budget.

Source: Department of Housing and Community Development

Issues

1. Community Development Administration

In addition to DHCD’s array of budgeted programs, the department also includes 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. In some cases, CDA funds are used to directly supplement some of DHCD’s budgeted programs, such as Homeownership Programs and NBW. When demand for the department’s DSELP and SmartBuy programs exceeds the available Homeownership Programs appropriation, the department funds the shortfall in DSELP with leveraged funds from CDA. The appropriation helps CDA keep interest rates low on its loan products, which helps fuel increased loan production and bond investor demand and generate the additional funds CDA uses to supplement the appropriation. CDA also uses bond proceeds to fund additional loans in the NBW program, including \$500,000 in fiscal 2021 to double the budgeted funding for the new Opportunity Zone Micro-grant Program. **Exhibit 11** shows the additional funding provided by CDA for each of these programs from fiscal 2018 to an estimate for fiscal 2022.

Exhibit 11
Supplemental Funding for Budgeted Programs
Fiscal 2018-2022 Est.
(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 Est.</u>	<u>2022 Est.</u>
Homeownership					
Budgeted funding	\$10.3	\$14.5	\$24.0	\$20.0	\$26.0
CDA funding	0.0	2.3	12.9	21.0	20.4
Total	\$10.3	\$16.8	\$36.9	\$41.0	\$46.4
Neighborhood BusinessWorks					
Budgeted funding	\$5.0	\$5.5	\$10.2	\$10.7	\$17.7
CDA funding	8.4	0.0	0.7	20.5	TBD
Total	\$13.4	\$5.5	\$10.9	\$31.2	TBD

CDA: Community Development Administration
TBD: to be determined

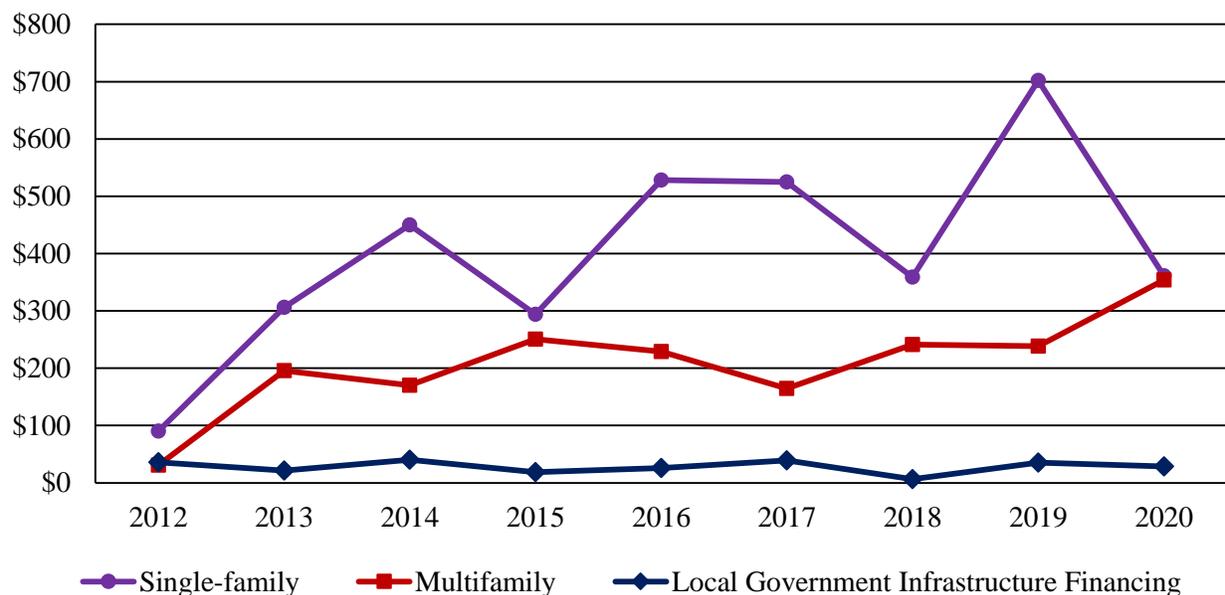
Source: Department of Housing and Community Development

The availability of nonbudgeted CDA resources can provide a much needed, warranted, and alternative source of funds to supplement important DHCD capital initiatives and programs. However, there should be greater budgetary transparency when DHCD decides to utilize these resources. DHCD should comment on the policies that the department uses to determine how and when CDA nonbudgeted funds are to be used as a source of supplementary funding for its capital programs. The Department of Legislative Services recommends budget language to require DHCD to report the use of CDA funds for budgeted programs with its annual budget request to DBM, which should be incorporated into the information DBM provides to the budget committees in support of the Governor’s annual capital program budget submission for DHCD.

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 private capital markets and CDA’s ability to achieve competitive interest rates in order to pass them through to Maryland homebuyers. When bond rates were too high, CDA developed expertise to access for-sale mortgage-backed security markets, generating proceeds to continue funding loans through MMP. The significant difference between these two funding methods is that the securitization of mortgages means that both the debt and the asset (the mortgage) are not held by CDA, while when CDA issues bonds, it holds either the mortgages or a mortgage security. In calendar 2020, total issuances decreased by 24% to \$744 million with the decrease driven by a 49% decrease in single-family issuances from a record high in calendar 2019.

Exhibit 12
Community Development Administration Debt Issuances
Calendar 2012-2020
(\$ in Millions)



Source: Department of Housing and Community Development

In addition to issuing debt, CDA also raises capital with the federal Low-Income Housing Tax Credit (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. Historically, the applicable credit rate has 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 U.S. Treasury to deliver a subsidy equal to 30% of a project’s cost. The 9% LIHTCs are allocated to states based on population; 4% credits do not have allocation limits. DHCD is authorized to award approximately \$15 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 allocated to developers and sold to investors seeking to reduce tax liability as well as generate other tax benefits.

As shown in **Exhibit 13**, DHCD raised \$397.3 million in equity via tax credits in fiscal 2020, a 2.8% increase compared to fiscal 2019. Typically, the amount of equity raised is roughly 10 times the size of the tax credit allocation.

Exhibit 13
Low-Income Housing Tax Credits
Fiscal 2016-2020
(\$ in Millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
9% Tax Credit Allocation	\$14.4	\$15.0	\$14.4	\$15.6	\$23.1
9% Tax Credit Equity	151.1	166.0	141.8	151.1	218.9
4% Tax Credit Allocation	\$17.4	\$19.9	\$10.3	\$24.6	\$18.9
4% Tax Credit Equity	174.2	206.8	96.6	235.3	178.4

Source: Department of Housing and Community Development

PAYGO Recommended Actions

1. Concur with Governor's allowance.

GO Bond Recommended Actions

1. Add language on the use of nonbudgeted funds.

SA0* Department of Housing and Community Development \$ 0

Add the following language:

Provided it is the intent of the General Assembly that the Department of Housing and Community Development (DHCD) report the use of nonbudgeted funds, including funds derived from the Community Development Administration, that are used to support the department’s capital grant and loan programs. DHCD shall provide this information with the department’s annual budget request to the Department of Budget and Management (DBM), and this information should be included in the documents that DBM provides the budget committees in support of the Governor’s annual capital budget submission.

Explanation: This language establishes a reporting requirement for the Department of Housing and Community Development to report its use of nonbudgeted funds, including those derived from the Community Development Administration, in support of the department’s capital grant and loan programs.

2. Approve funding for the Baltimore Regional Neighborhoods Initiative.
3. Approve funding for the Community Legacy Program.
4. Approve funding for the National Capital Strategic Economic Development Fund.
5. Approve funding for the Neighborhood Business Development Program.
6. Approve funding for the Seed Community Development Anchor Institution Fund.
7. Approve funding for the Strategic Demolition Fund.
8. Approve funding for Homeownership Programs.
9. Approve funding for the Local Government Infrastructure Fund.
10. Approve funding for the Partnership Rental Housing Program.
11. Approve funding for Rental Housing Programs.

SA0 – Department of Housing and Community Development – Capital

12. Approve funding for the Shelter and Transitional Facilities Grant Program.
13. Approve funding for Special Loan Programs.