

S00A23.06

Department of Housing and Community Development – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	<i>FY 2002* Adjusted Approp.</i>	<i>FY 2003** Adjusted Approp.</i>	<i>FY 2004 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Historical Trust Loan Fund					
PAYGO	\$400	\$250	\$250	0	\$250
GO Bond	0	0	200	0	0
Subtotal	400	250	450	80.0%	250
Community Development Block Grants					
PAYGO	7,940	8,330	8,400	0.8%	8,400
Neighborhood Business Development Program					
PAYGO	6,139	3,356	2,802	-16.5%	2,802
Community Legacy Program					
PAYGO	9,000	0	0	0	0
GO Bond	0	6,000	8,693	0	n/a***
Subtotal	9,000	6,000	8,693	44.9%	n/a
Rental Housing Program					
PAYGO	14,746	16,700	10,187	-39.0%	10,187
GO Bond	0	0	6,979	0	6,979
Subtotal	14,746	16,700	17,166	2.8%	17,166
Homeownership Program					
PAYGO	10,945	7,353	5,353	0	5,353
GO Bond	0	0	2,247	0	747
Subtotal	10,945	7,353	7,600	0.0%	6,100

S00A23.06 - Department of Housing and Community Development - PAYGO

	<i>FY 2002* Adjusted Approp.</i>	<i>FY 2003** Adjusted Approp.</i>	<i>FY 2004 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Special Loan Program					
PAYGO	10,190	11,129	6,482	-41.8	6,482
GO Bond	0	0	2,718	0	2,718
Subtotal	10,190	11,129	9,200	-17.3%	9,200
Total	\$59,360	\$53,118	\$54,311	2.28%	\$43,918
Fund Source					
GO Bond	\$0	\$6,000	\$20,837	247.3%	\$19,137
General	28,601	14,348	0	n/a	0
Special	17,104	18,011	18,608	3.3%	18,608
Federal	13,654	14,759	14,866	0.7%	14,866
Total	\$59,360	\$53,118	\$54,311	0.4%	\$52,861

* The fiscal 2002 appropriation reflects the embargo of \$6,774,000 of general fund appropriations.

** The fiscal 2003 appropriation reflects the embargo of \$246,701 of general fund appropriations.

*** There is an error in the operating budget bill that shows \$250,000 for the Historical Trust Loan Fund in the operating budget rather than a PAYGO capital allowance. The Department of Budget and Management intends to correct this in the first supplemental budget bill.

Summary of Issues

Affordable Housing Needs Not Met: A report issued by the Department of Housing and Community Development (DHCD) concludes that there is a shortage of affordable housing, and many families are paying too large a portion of their income for housing. **The Department of Legislative Services (DLS) recommends that DHCD brief the committees concerning the State's inadequate affordable housing stock.**

Liquidation of the Maryland Housing Fund: The Maryland Housing Fund (MHF) protects the purchasers of bonds issued by the Community Development Administration by maintaining reserve account. MHF no longer provides new mortgage insurance and a sizable balance has accumulated in the unallocated reserve fund. **DLS recommends that the Budget Reconciliation and Financing Act of 2003 be amended to provide for the transfer of \$10 million from the MHF unallocated reserve fund.**

Fund Transfers and Embargoes Have Limited the Use of the Downpayment and Settlement Expense Program: Embargoes of fiscal 2002 appropriations fund transfers included in the Budget Reconciliation and Financing Act of 2002 and the proposed fund transfer included in the Budget Reconciliation and Financing Act of 2003 have reduced the amount of funds provided to the department's Homeownership Program. As a result, the amount of funds dedicated to the Downpayment and Settlement Expense Loan Program (DSELP) have been reduced. **DLS recommends, in light of the State's fiscal condition, reducing the amount of GO bond funds to provide level funding, or \$1.5 million to support DSELP loans during fiscal 2004.**

Baltimore City Lead Paint Abatement Program Issues: The Governor's budget provides \$1.0 million to fund the Baltimore City Lead Paint Initiative. Although the State's three-year commitment to the program was scheduled to end with the fiscal 2003 budget, the Governor's allowance provides the \$1.0 million in funds deleted from the fiscal 2003 budget, as requested by the General Assembly through the adoption of budget language. In addition, the language required the transfer of administrative responsibility for the program from DHCD to the Baltimore City Health Department (BCHD). **DLS advises that the program is operating more efficiently, and the \$1.0 million provided in the budget should allow the city to continue funding lead abatement grants and loans during fiscal 2004. DLS also recommends that DHCD and BCHD extend the terms of the Memorandum of Understanding governing the administration of the program through fiscal 2004.**

Radium Filtration Program Proposed: DHCD issued a report that concluded that it was unnecessary to create a special program or carve out special income requirements to provide funding for families seeking to install radium filtration systems. Legislation introduced in the 2003 session, House Bill 39, would in fact establish a radium grant program in DHCD. **DLS recommends that the department brief the committees on its reported conclusion that a program is unnecessary.**

Summary of Recommended Actions

	<u>Total Reduction</u>
1. Delete general obligation (GO) bond funds for the Maryland Historical Trust Loan Fund.	\$200,000 GO
2. Delete general obligation bond funds for the Homeownership Program.	1,500,000 GO
3. Adopt committee narrative directing the execution of a Memorandum of Understanding covering the Baltimore City Lead Paint Abatement Initiative.	
Total General Obligation Bond Fund Reductions	\$1,700,000

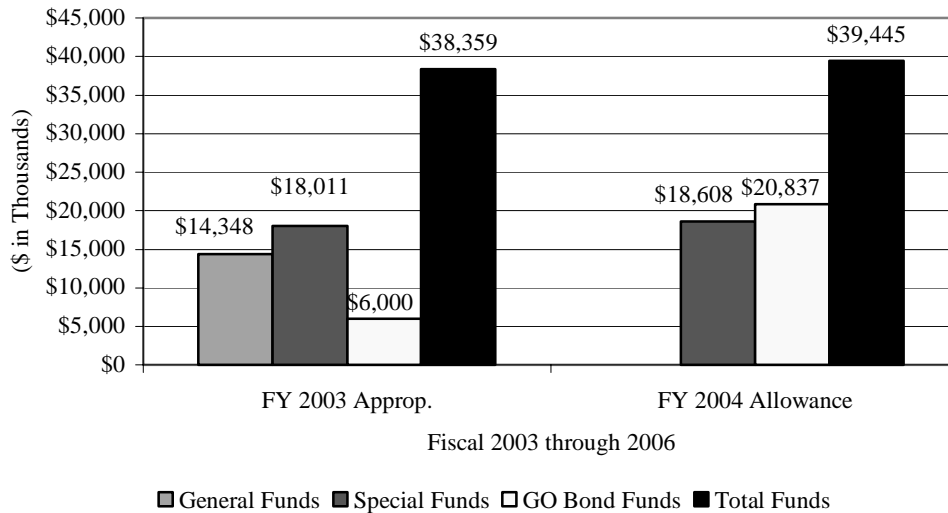
Overview

Budget Replaces General Funds for General Obligation Bonds

DHCD administers a number of capital grant and loan programs, some of which have traditionally been funded through the Pay-as-you-go (PAYGO) funds and others with GO bonds. Due to the shortage of available general funds, the Governor's fiscal 2004 allowance for DHCD's capital programs provides GO bond funds in place of PAYGO general funds for those programs that have traditionally been funded through PAYGO. As illustrated in **Exhibit 1**, comparing all sources of State funding but excluding the federal HOME Investment Partnership funds, the department's grant and loan program that have traditionally been funded with PAYGO funds are budgeted to receive \$39.4 million in State funds for fiscal 2004 compared to the \$38.4 million appropriated for fiscal 2003, an increase of approximately \$800,000 in total funding. While total funding remains basically unchanged, the mix of funding sources has changed dramatically. The use of special fund revenues generated from the loan activities of the programs continues and increases by about \$600,000 in the budget. However, as Exhibit 1 shows, the \$14.6 million of PAYGO general funds and \$6.0 million of GO bond funds appropriated for fiscal 2003 will be replaced with \$20.8 million in GO bond funds for fiscal 2004. The fiscal 2004 *Capital Improvement Plan* (CIP) indicates that the use of GO bond funds as a replacement for general funds for DHCD's capital PAYGO programs is a one-year fix, and a return to general funding for these programs will occur in fiscal 2005.

Exhibit 1

DHCD Capital Funding – General, Special, and GO Comparison of Fiscal 2003 Appropriation and 2004 Allowance



Source: Fiscal 2004 Maryland Capital Budget Book

S00A23.06 - Department of Housing and Community Development - PAYGO

The fiscal 2004 allowance provides PAYGO and GO bond appropriations for seven programs within DHCD totaling \$54,311,000. This represents a \$1,193,000 or 2.2% increase over the fiscal 2003 legislative appropriation. The allowance does not provide any general funds but rather proposes the use of GO bond funds. Changes in the individual program are discussed below.

Maryland Historical Trust Revolving Loan Fund: The allowance provides \$450,000 for the Maryland Historical Trust Revolving Loan Fund (MHTRLF), which is comprised of \$200,000 in GO bond funds and \$250,000 in special funds. This represents a \$200,000 increase over the fiscal 2003 appropriation all of which is GO bond funds.

Community Development Block Grants: The department's budget provides \$8,400,000 in federal funds from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants (CDBG). These funds are dispersed to local jurisdictions that do not receive direct funding from HUD for use in revitalizing neighborhoods, expanding affordable housing, and financing economic development activities. The fiscal 2004 allowance represents a \$70,000 increase over the fiscal 2003 appropriation.

Neighborhood Business Development Programs: The allowance provides \$2,802,000 for the Neighborhood Business Development Program (NBDP). The allowance is comprised exclusively of PAYGO special funds, which is the same as the fiscal 2003 appropriation. Overall, the allowance represents a \$554,000 decrease in funding from the fiscal 2003 appropriation.

Community Legacy Program: Community Legacy Program (CLP) receives \$8,693,000 in GO bond funds in the fiscal 2004 allowance. This is a \$2,693,000 increase over the fiscal 2003 appropriation in GO bond funds. *Because the Governor's budget proposes funding this program with GO bond funds exclusively, this analysis will not include a review of the Community Legacy program. DLS will provide an analysis of the program as part of the review of the Maryland Consolidated Capital Bond Loan program (capital budget bill).*

Rental Housing Programs: Rental Housing Production (RHP) programs receive \$17,166,000 of combined PAYGO general, special, and federal funds representing a \$466,000 increase over the fiscal 2003 appropriation. As is the case with all of DHCD's grant and loan programs, the allowance provides no PAYGO general funds and instead includes GO bond funds. The entire \$466,000 increase in funding for the program in fiscal 2004 is attributable to an adjustment in the department's allocation of federal HOME Investment Partnership (HOME) funds to the program for fiscal 2004.

Homeownership Programs: The allowance for the Homeownership Programs is \$7,600,000 which is \$247,000 less than the fiscal 2003 appropriation after adjusting for the embargo of fiscal 2003 general funds. The allowance consists of \$2,247,000 in GO bond funds (in lieu of general funds), \$5,253,000 in special funds, and \$100,000 in federal HOME funds.

S00A23.06 - Department of Housing and Community Development - PAYGO

Special Loans Programs: The Special Loans Program (SLP) receives a fiscal 2004 allowance in the amount of \$9,200,000 which represents \$1,929,500 less than what was appropriated for fiscal 2003. The reduction is attributable to a partial phase-out of the lead paint abatement initiative. The allowance does not include PAYGO general funds and is comprised of \$2,718,000 in GO bond funds, \$5,282,000 in special funds, and \$1,200,000 of federal HOME funds.

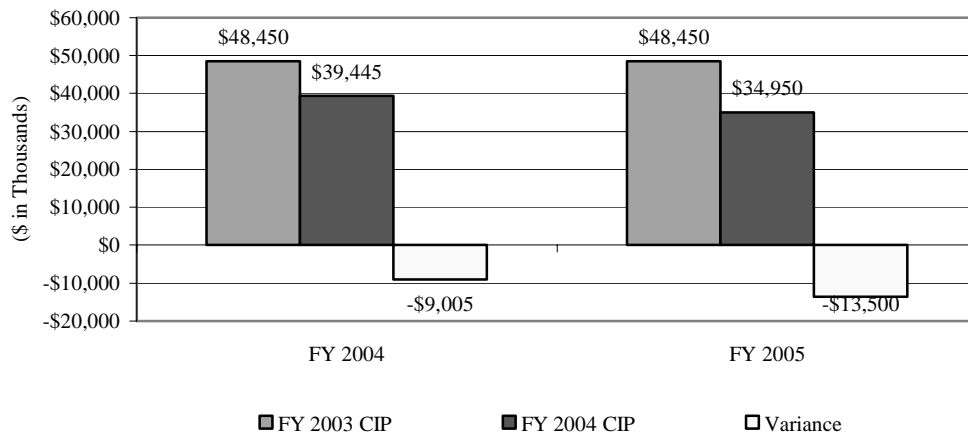
Capital Improvement Plan Indicates Declining State Investment in DHCD Programs

As illustrated in **Exhibit 2**, the fiscal 2003 CIP indicated that DHCD’s programs would receive State funding of approximately \$48.5 million in fiscal 2004 and 2005. However, the fiscal 2004 Governor’s allowance and the planned level of funding for fiscal 2005 as shown in the fiscal 2004 CIP provide levels of funding below what was planned.

For fiscal 2004, the allowance of approximately \$39.4 million is roughly \$9.0 million less than what was originally planned. The decrease in funding from what was planned is explained by the reductions made to DHCD’s programs in the fiscal 2003 budget and the carrying forward of these reductions in the Governor’s fiscal 2004 budget. Thus, while the fiscal 2004 allowance reflects a reduction from what was planned, the reduced level of funding initiated in the fiscal 2003 budget is carried forward into fiscal 2004 and reflects the general need to reduce the size of the State budget.

Exhibit 2

**DHCD Capital Funding – General, Special, and GO
Comparison of Fiscal 2003 and 2004 Capital Improvement Programs**



Source: Fiscal 2003 and 2004 Maryland Capital Budget Book

S00A23.06 - Department of Housing and Community Development - PAYGO

For fiscal 2005, the fiscal 2003 CIP again planned for approximately \$48.5 million in State funds. The fiscal 2004 CIP, however, plans for further reductions below what is budgeted for fiscal 2004. Rather than the \$39.4 million budgeted for fiscal 2004, DHCD is scheduled to receive approximately \$35.0 million for fiscal 2005. This is approximately \$4.5 million less than what is budgeted for fiscal 2004 and roughly \$13.5 million less than what was planned for fiscal 2005 in the fiscal 2003 CIP. Clearly, the State's current fiscal crises is impacting the proposed and planned funding levels for DHCD's programs.

Exhibit 3 provides a list of the actual fiscal 2002 and proposed fiscal 2003 fund transfers for the department's grant and loan programs. The fiscal 2002 transfers were included in the Budget Reconciliation and Financing Act of 2002 (Chapter 440, Acts of 2002). The proposed fiscal 2003 transfer is included in the Governor's budget plan and the Budget Reconciliation and Financing Act of 2003 (HB 935/SB 637). The total combined amount of the fund transfers is \$11.0 million, \$10.0 million of which was transferred at the close of fiscal 2002. DLS analysis of the proposed \$2.0 million transfer from the Homeownership program can be found on page 29.

Exhibit 3

Fund Transfers
Fiscal 2002 Actual and Fiscal 2003 Proposed
(\$ in Millions)

<u>Program</u>	<u>FY 02 Amount</u>	<u>FY 03 Amount</u>	<u>Total</u>
Homeownership Programs	\$6.5	\$2.0	\$8.5
Neighborhood Business Development	2.5	0	2.5
Special Loans Program	<u>1.0</u>	<u>0</u>	<u>1.0</u>
Total	\$10.0	\$2.0	\$12.0

Source: Fiscal 2002 and 2003 State Budgets

Exhibit 4 shows the embargo of fiscal 2002 and 2003 general fund appropriation for the individual grant and loan program affected by cost containment measures over the last two years. The total amount of embargo is \$7,020,701 for the two fiscal years combined. However, as indicated in the chart most of the embargo affected the fiscal 2002 general fund appropriation.

Exhibit 4

Embargoes of Fiscal 2002 and 2003 General Fund Appropriations

<u>Program</u>	<u>FY 02 Amount</u>	<u>FY 03 Amount</u>	<u>Total</u>
Homeownership Programs	\$1,354,750	\$246,701	\$1,601,451
Neighborhood Business Development	1,941,000	0	1,941,000
Rental Housing Program	1,967,750	0	1,967,750
Special Loans Program	<u>1,510,500</u>	<u>0</u>	<u>1,510,500</u>
Total	\$6,774,000	\$246,701	\$7,020,701

Source: Fiscal 2002 and 2003 State Budgets

Overview Issues

1. Affordable Housing Needs Not Met

Committee narrative included in the 2002 *Joint Chairman's Report* required DHCD to conduct a review of the department's activities and programs employed to improve the stock of affordable housing units. The report, submitted on January 15, 2003, concludes that there continues to be a significant shortage of decent affordable rental housing around the State. Furthermore, a large percentage of renter households continue to pay more than 30% of household income for housing, and a vast majority of these households earn less than \$35,000 annually, or less than 50% of the statewide median income for a family of four. Despite what DHCD characterizes as an insufficient housing stock, State support of affordable rental housing has diminished from the time the department's rental housing production program were established. The report goes on to conclude that the demand for State funds outstrips the supply each year by a margin of two to three times, and, consequently, the developers that would otherwise build and preserve more affordable housing units are turned away.

Legislative Proposal to Create a Study Commission on Housing Policy

Legislation has been introduced (HB 845/SB 586) to establish a study commission on housing policy. The commission would be charged with investigating the problems relating to housing policy in Maryland, with an emphasis both on the difficulties of developing and promoting public policies affecting affordable housing and community development and on preventing sprawl. Similar legislation introduced in each of the previous two sessions failed.

DLS recommends that DHCD brief the committees concerning how the department's programs address the State's affordable housing needs, and provide the committee with a list of recommendations for increasing the development of new affordable housing units and the

rehabilitation of affordable housing units not in circulation.

2. Liquidation of the Maryland Housing Fund

During the 2002 legislative session, the General Assembly determined that the structural budget deficit situation needed to be addressed in a systemic, comprehensive fashion. As part of this effort, Chapter 343, Acts of 2002 created the Commission on Maryland's Fiscal Structure. One of the many options investigated by the commission was the liquidation of the Maryland Housing Fund (MHF).

MHF was the nation's first state administered mortgage insurance fund. Created in 1971 to insure mortgages written by private lenders in areas underserved by the conventional market, the fund later principally concentrated on insuring the revenue bond financings of the Community Development Administration (CDA). In this capacity it protects the purchasers of CDA bonds by guaranteeing payment of the mortgage obligations which underly their securities.

In 1996 the department took a series of steps to stabilize MHF after Moody's Investor Services announced its decision to place approximately \$450 million in bonds issued by the Community Development Administration (CDA) under review for possible downgrade. MHF insures a large portion of the CDA portfolio and had suffered significant losses in the multi-family program. Moody's based this decision on concerns over the claims-paying ability of MHF and projections of potential loan defaults that would reduce the ratio of reserves held to mortgage insurance issued below the acceptable range. Moody's later reaffirmed the AA rating for CDA bonds after CDA and MHF developed an acceptable asset management strategy and loss mitigation plan. However, in early 1997 MHF suspended all new insurance activity – except pool insurance on certain single-family loans and has not renewed its insurance activity since.

The fund maintains five insurance reserves accounts:

- ***Multi-Family Reserves:*** The Multi-Family program provides 100% insurance of multi-family projects financed through revenue bonds of the State or local issuers. No single multi-family project may commit more than 25% of the account's reserves.
- ***Regular Single Family Reserves:*** The Regular Single Family program insures mortgages up to 25% of the mortgage amount. Regular reserves also provide pool insurance for the proceeds of revenue bonds issued by CDA or, in some instances, local issuers, up to 10% of the amount of mortgages in the bond issue.
- ***Revitalization (PILOT) Reserves:*** This program insures loans made for the purpose of stimulating the flow of private mortgage capital into areas which have suffered decreasing home ownership and associated economic and social instability. This single family loan insurance program insures 100% of the mortgage amounts.
- ***Home and Energy Loan Reserves:*** The Home and Energy Loan Fund insures loans for rehabilitation and energy conservation of owner occupied or rental housing financed through revenue bonds of CDA and is liable for up to 100% of the loan amounts.

S00A23.06 - Department of Housing and Community Development - PAYGO

- **Unallocated Reserves:** MHF maintains an unallocated general reserve account. The funds in this account have statutory and regulatory restrictions, and may only be used to pay MHF insurance claims. DHCD advises that the insurance agreement between CDA and MHF prohibit any modification to the regulations that would be materially adverse to CDA bondholders.

As shown in **Exhibit 5**, MHF has insurance reserves of \$102.9 million. These reserves are cash in deposit with the State Treasurer. Along with the insurance reserves, MHF's financial statement shows an unrestricted accumulated deficit of \$21.1 million which represents all future potential insurance losses against MHF that are expensed in the current financial statement year. The insurance reserves less the unrestricted accumulated balance leaves MHF with net assets of approximately \$81.9 million as of the close of fiscal 2002.

Exhibit 5

Maryland Housing Fund
Statement of Changes in Net Assets for the Year Ended June 30, 2002
(\$ in Millions)

	<u>Multi-Family Reserves</u>	<u>Regular Single-Family Reserves</u>	<u>Revitalization (PILOT) Reserves</u>	<u>Home and Energy Loan Reserves</u>	<u>Unallocated Reserves</u>	<u>Unrestricted Accumulated Deficit</u>	<u>Total</u>
Balance June 30, 2001	\$44.7	\$32.3	\$2.2	\$0.5	\$16.6	-\$18.5	\$77.9
Interest income allocation	0	0	0	0	2.9	-2.9	
Transfers	0	0	0	0	3.7	-3.7	
Changes in assets	0	0	0	0	0	4.0	4.0
Balance June 30, 2002	\$44.7	\$32.3	\$2.2	\$0.5	\$23.2	-\$21.1	\$81.9

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

Source: Department of Housing and Community Development, Maryland Housing Fund Financial Statements for the year ending June 30, 2002.

As a result of the Commission on Maryland's Fiscal Structure listing as a possible solution to the State's fiscal crises the liquidation of MHF, DHCD has undertaken a review of the possible options for utilizing MHF reserves. In each instance, the department advises that all of the options will require legislation and discussions with Moody's Investor Services to ensure their concurrence to avoid the downgrade of CDA's bond rating. Three options include:

S00A23.06 - Department of Housing and Community Development - PAYGO

- utilizing all or a part of the unallocated MHF reserves for transfer to the State Treasury;
- the State assumes the risk associated with MHF's insured portfolio, thus freeing up all or part of the approximate \$103 million in MHF insurance reserves for transfer to the State Treasury; and
- MHF is liquidated by finding entities to reinsure all of MHF's current risk. The portion of MHF's insurance reserves net of the cost of reinsurance being the amount available for transfer to the State Treasury.

Moreover, for each option, DHCD has advised that it will need to develop an implementation plan. The plan would include actions such as meeting with Moody's, CDA's investment advising team, and MHF's investment financial auditor to focus on future bondholder relationships and ensure minimal impact of MHF deviating from its existing pledges to bondholders.

DHCD should brief the committees on all of the options and provide an understanding of the pros and cons associated with each option. In the short-term, DLS recommends that the General Assembly adopt an amendment to the Budget Reconciliation and Financing Act of 2003 to provide for the transfer of \$10.0 million from the MHF's unallocated reserves to the State Treasury. Furthermore, DHCD should draft an implementation plan and engage in the appropriate discussions with Moody's, CDA's investment banking team, and MHF's financial auditors to guide the General Assembly's decision making process concerning the transfer of unallocated reserves during the 2003 session.

S00A23.06 - Department of Housing and Community Development - PAYGO

Consolidated Administrative Expenses – All Programs

	FY 2002 Actual	FY 2003 Estimated	FY 2004 Estimated
Sources:			
Special Funds			
Historic Preservation Capital	\$51,965	\$51,133	\$52,689
Neighborhood Business Development	1,147,780	1,350,135	1,233,071
Rental Housing Programs	2,007,073	1,949,910	1,661,272
Homeownership Programs	1,693,316	1,725,053	1,044,054
Special Loan Programs	1,579,908	1,575,255	846,371
Subtotal - Special Funds	\$6,480,042	\$6,651,486.00	\$4,837,457
General Funds	483,248	490,681	511,248
Other Special	1,926,265	2,030,083	2,883,520
Federal Funds	274,441	287,201	286,619
Total Funds	\$9,163,996	\$9,459,451	\$8,518,844
Uses:			
Direct Expenses	\$6,053,680	\$6,474,537	\$6,370,700
Indirect Expenses			
Legal (AG, Bond Counsel, etc.)	473,414	464,727	285,002
CDA Administration	572,109	295,695	343,161
Asset Management	453,027	335,000	267,681
General (Personnel, Budget & Finance, Information Systems)	1,611,766	1,889,492	1,252,300
Total Direct & Indirect Expenses	\$9,163,996	\$9,459,451	\$8,518,844

S00A23.06 - Department of Housing and Community Development - PAYGO

The administration of PAYGO funds in DHCD is complicated in that the units which administer the State-funded loan programs also administer a variety of other programs which may be supported by general funds, federal funds, or nonbudgeted revenue bond funds. In general, the department agrees to use no more than 15% of any PAYGO fund's annual lending activity for administrative expenses. The agency is able to meet this somewhat artificial limit because other sources of funds – administration funds under federal grants and the General Bond Reserve Fund (GBRF), most notably, – are available to meet the expenses of the operating units.

The estimated total administrative expenses for fiscal 2004 is \$8,518,844 which is a decrease of \$940,607, or 9.91% below the estimated expenses for fiscal 2003. The reduction is attributable to the reduced level of encumbrance activity expected for the various programs based upon the level of funding provided in the Governor's budget.

Maryland Historical Trust Revolving Loan Fund (Statewide)

GO Bond	\$200,000	Recommendation:	Delete \$200,000 GO bond fund support
PAYGO SF	\$250,000		

Bill Text: Provide funds for the Maryland Historic Preservation Loan Program of the Maryland Historical Trust, to be administered in accordance with Article 83B, Section 5-612.

Program Description: This program provides loans to nonprofit preservation foundations, organizations, and individuals to encourage and implement the acquisition and restoration of historic properties. In return for the loan, the recipient must place a preservation easement on the property in the name of the Maryland Historical Trust (MHT).

Year Program Began: 1977

Comments: The fiscal 2004 allowance provides \$250,000 in special funds and another \$200,000 in GO bonds for a total allowance of \$450,000. The total amount of funding provided is consistent with what was planned in the fiscal 2003 *Capital Improvement Plan* (CIP) but is \$200,000 more than what was appropriated for the program for fiscal 2003 due to the elimination of general fund support in fiscal 2003.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$408	\$479	276
REVENUE			
General Funds/GO Bonds	200	0	200
Loan Repayment and Interest	110	114	140
Cancelled Encumbrances	160	0	0
TOTAL REVENUE	470	114	340
TOTAL AVAILABLE	878	593	616
ENCUMBRANCES			
Loans	348	250*	450
Operating Expenses	52	68	68
TOTAL ENCUMBRANCES	400	318	518
Ending Balance	\$479	\$276	\$99

*Loans made as of 1/31/03 = \$200,000

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
GO Bonds	\$0.000	\$0.000	\$0.200	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	0.200	0.000	0.000	0.250	0.350	0.350	0.350
PAYGO SF	0.200	0.250	0.250	0.200	0.100	0.150	0.200
Total	\$0.400	\$0.250	\$0.450	\$0.450	\$0.450	\$0.500	\$0.550

Recommended Actions

	<u>Amount Reduction</u>
1. Delete general obligation bond funds for the Maryland Historical Trust Loan Fund. The fund is expected to carry forward an unencumbered balance of approximately \$275,777 into fiscal 2004. These unencumbered funds, when combined with the estimated \$140,487 in special fund revenues the fund expects to receive, will provide \$416,264 for use during fiscal 2004. Furthermore, the department does not estimate cancelled encumbrances for each of fiscal 2003 and 2004 while actual cancelled encumbrances totaled \$150,000 and \$160,000 for fiscals 2001 and 2002, respectively. To the extent cancelled encumbrances do materialize during fiscal 2003 and 2004, the fund will have use of these additional funds during fiscal 2004.	\$200,000 GO

Total General Obligation Bond Fund Reductions	\$200,000
--	------------------

Fiscal 2004 Proposed Projects

The department reports that it is currently working with sponsors on completing six separate applications for loan funds.

Fiscal 2003 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>
Reserved but not yet encumbered	Dorchester	\$200,000

Community Development Block Grants (Statewide)

PAYGO FF **\$8,400,000** **Recommendation: Approve**

Program Description: The federal Community Development Block Grant (CDBG) program provides competitive grants to local governments in non-entitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, or improving community facilities and services. The federal CDBG authorization contains constraints that guide the recipient's use of funds, the most significant of which requires that 70% of a CDBG grant must be used to principally benefit low- or moderate-income individuals.

Entitlement areas receive a direct allocation of CDBG funds from the U.S. Department of Housing and Urban Development (HUD) and are not eligible for the State program. The State's entitlement areas include: Anne Arundel, Baltimore, Harford, Howard, Montgomery, and Prince George's counties, and the cities of Annapolis, Baltimore, Cumberland, Frederick, and Hagerstown. Direct funding to these entitlement areas has totaled approximately \$57.7 million annually.

Year Program Began: DHCD began receiving CDBG funds in 1987.

Comments: Federal funds for the CDBG program are \$400,000 higher than the recommendation in the fiscal 2003 CIP. The increase reflects the current federal award of \$9.0 million which consists of \$6,050,000 for community development projects and \$2,350,000 for economic development projects. An additional \$600,000 is contained in the operating budget for special projects that are non-capital in nature.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$0	\$0.00	\$0
REVENUE			
General Funds	0	0	0
Federal Funds	12,155	8,750	8,780
Loan Repayments and Interest			
TOTAL REVENUE	12,155	8,750	8,780
TOTAL AVAILABLE	12,155	8,750	8,780
ENCUMBRANCES			
Grants	11,682	8,330*	8,400
Operating Expenses	473	420	380
TOTAL ENCUMBRANCES	12,155	8,750	8,780
Ending Balance	\$0	\$0	\$0

*Loans made as of 1/31/03 = \$9,173,580

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO FF	\$7.940	\$8.330	\$8.400	\$8.400	\$8.400	\$8.400	\$8.400

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

The department anticipates awards of \$5,668,720 in a spring fiscal 2003 round that would be funded with fiscal 2004 funds. The remaining fiscal 2004 funds would be awarded in a fall round.

Fiscal 2003 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>
Community College of Allegany County	Allegany County	\$390,000
Board of County Commissioners of Calvert County	Calvert County	895,000
County Commissioners of Calvert County	Calvert County	615,000
Town of North Beach	Calvert County	130,000
Town of Denton	Caroline County	950,000
Town of Federalsburg	Caroline County	466,400
County Commissioners of Cecil County	Cecil County	2,000,000
Town of North East	Cecil County	257,000
Board of County Commissioners of Charles County	Charles County	545,000
City of Cambridge	Dorchester County	240,000
County Commissioners of Kent County	Kent County	185,000
Queen Anne's County	Queen Anne's County	800,000
City of Crisfield	Somerset County	210,000
County Commissioners of Somerset County	Somerset County	94,500
Somerset County	Somerset County	287,580
Talbot County Council	Talbot County	135,000
Washington County	Washington County	800,000
Town of Delmar	Wicomico County	<u>173,100</u>
Total Encumbered		\$9,173,580
Reserved but Not Encumbered		\$1,345,000
Total		\$10,578,580

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$2,975	2,377	115
REVENUE			
General Funds	4,903	0	0
Loan Repayments and Interest	3,523	3,264	3,589
Cancelled Encumbrances	826	324	324
Transfer Out (Cost Containment)	-2,500	0	0
TOTAL REVENUE	6,752	3,588	3,913
TOTAL AVAILABLE	9,727	5,965	4,028
ENCUMBRANCES			
Loans/Grants	6,139	4,500*	2,800
Operating Expenses	1,211	1,350	1,200
TOTAL ENCUMBRANCES	7,350	5,850	4,000
Ending Balance	\$2,377	\$115	\$28

*Loans and grants made as of 1/31/03 = \$2,527,200

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
PAYGO GF	\$4.903	\$0.000	\$0.000	\$5.409	\$4.696	4.804	4.804
PAYGO SF	1.236	3.356	2.802	2.591	3.304	3.196	3.196
Total	\$6.139	\$3.356	\$2.802	\$8.000	\$8.000	\$8.000	\$8.000

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

Applications for loan funds are received on a continuous basis and are funded on a first-come, first-serve basis. Grants are awarded annually on a competitive basis. The department indicates that it is currently processing applications for \$3,334,982 in potential loans and grants.

Fiscal 2003 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>
<u>Loans and Grants Approved as of January 31, 2003</u>		
West Village	Anne Arundel County	\$500,000
USA Rehab	Baltimore County	112,700
Atlantic Lock & Safe	Baltimore County	185,000
Zues's Café	Baltimore City	200,000
Hampden Village Center	Baltimore City	477,890
The Bicycle	Baltimore City	145,000
African American Museum at North Brentwood	Prince George's County	58,000
Live Baltimore Market Center	Baltimore City	100,000
Crossing at Casey Jones	Charles County	80,000
A Few of My Favorite Things	Dorchester County	135,000
Smile Makers	Harford County	250,000
Izora Restaurant & Nite Club	Montgomery County	250,000
Subtotal: Loans and Grants		\$2,493,590
<u>Loans and Grants Reserved but Not Encumbered</u>		
Total		\$2,963,590
<u>Capital Access Program</u>		
Anne Arundel County		\$14,010
Baltimore City		5,250
Carroll County		1,500
Frederick County		1,890
Harford County		600
Howard County		2,860
Montgomery County		1,500
Prince George's County		6,000
Subtotal: Capital Access		\$33,610
Total Encumbrances		\$2,527,200

Rental Housing Programs (Statewide)

GO Bond	\$6,979,000	Recommendation:	Approve
PAYGO SF	\$5,021,000		
PAYGO FF	\$5,166,000		

Bill Text: Provide funds for rental housing developments that serve low- and moderate-income households. These funds shall be administered in accordance with Article 83B, Title 2, Subtitle 5 and Sections 2-303, 2-305 and 2-803.

Program Description: Five programs are funded through the Rental Housing Programs: Rental Housing Production Program, Elderly Rental Housing Program, Maryland Housing Rehabilitation Program-Multi-family, Nonprofit Rehabilitation Program, and Office and Commercial Space Conversion Program. The program provide low-interest or deferred payment loans for rental housing developments with the exception that the housing units are to serve very low-income households. In general, the development should serve families with income below 60% of the area median, with priority given to projects which serve the greatest number of families with incomes below 30% of the area median. There are no income limits associated with the Office and Commercial Space Conversion Program.

Year Program Began: These programs were organized under the Rental Housing Programs in 1990.

Comments: The fiscal 2004 allowance provides a total of \$17,166,000 consisting of \$6,979,000 in general obligation (GO) bond funds, \$5,021,000 in PAYGO special funds, and \$5,166,000 in federal HOME funds. The allowance represents a \$466,000 increase over the fiscal 2003 appropriation due to an increased allocation of federal HOME funds to the program. The allowance also replaces the use of PAYGO general funds with GO bond funds.

The department's Rental Housing Programs combine State rental housing funds and federal HOME Investment Partnership funds to provide one of many sources of financing necessary to develop multi-family housing projects. Rental Housing Program funds are typically combined with federal Low-Income Housing Tax Credits, and allocations of a portion of the State's federal tax-exempt revenue bond authority through the department's Multifamily Revenue Bond Program, to finance the construction of affordable housing units. In addition, housing developments that use State resources always leverage other funding. Local contributions are specifically required for many programs and are further encouraged through the competitive award system used for most of the State's larger multi-family projects.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$3,867	3,261	\$379
REVENUE			
GO Bond	0	0	6,979
General Funds	5,903	7,061	0
Loan Repayments and Interest	7,563	6,112	6,353
Transfer from Other Funds	0	-294	0
Federal Funds	4,085	5,217	5,683
Cancelled Encumbrances	9	89	89
TOTAL REVENUE	17,560	18,185	19,104
TOTAL AVAILABLE	21,427	21,446	19,483
ENCUMBRANCES			
Loans	15,846	18,600*	17,166
Operating Expenses	1,949	1,950	1,800
Federal Administrative Expenses	371	517	517
TOTAL ENCUMBRANCES	18,166	21,067	19,483
Ending Balance	\$3,261	\$379	\$0

*Loans made as of 1/31/03 = \$8,154,662

S00A23.06 - Department of Housing and Community Development - PAYGO

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
GO Bond	\$0.000	\$0.000	\$6.979	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	5.903	7.061	0.000	7.157	6.957	6.757	6.556
PAYGO SF	5.129	4.939	5.021	4.843	5.043	5.243	5.444
PAYGO FF	3.714	4.700	5.166	5.166	5.166	5.166	5.166
Total	\$14.746	\$16.700	\$17.166	\$17.166	\$17.166	\$17.166	\$17.166

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2004 Proposed Projects

The department reports that it currently has reservations for State and federal affordable housing funds in excess of what is available in the fiscal 2004 allowance.

Fiscal 2003 Project Status

<u>Project/Location</u>	<u>Units</u>	<u>Amount</u>
<u>Affordable Rental Housing – Encumbered State Funds</u>		
Park View at Furnace Branch – Anne Arundel County	34	\$1,160,000
Chateau Housing – Baltimore City	101	1,187,590
Magnolia Meadows – Talbot County	99	1,500,000
Cottages at River House – Wicomico County	29	1,170,540
Homes at Berlin – Worcester County	<u>42</u>	<u>1,500,000</u>
Subtotal Encumbered Affordable Rental Housing – State Funds	305	\$6,518,130
<u>Reserved but not Encumbered – State Funds</u>		
Bon Secour Chesapeake – Baltimore City		\$ 285,019
Clare Court – Baltimore City		1,392,484
Edmondson Commons – Baltimore City		1,500,000
Ednor Court – Baltimore City		700,000
Westover Manor – Baltimore City		275,444
Greenwood Terrace – Montgomery County		453,000
Mt. Ranier Apartments – Prince George’s County		824,556
Subtotal Reserved Affordable Rental Housing – State Funds		\$5,430,503
Total Affordable Housing – State Funds		\$11,948,633
<u>Affordable Rental Housing – Encumbered Federal HOME Funds</u>		
Victoria Park Jaycees – Charles County	60	\$896,125
Greenbrier Court – Worcester County	<u>24</u>	<u>740,407</u>
Subtotal Encumbered Affordable Rental Housing – Federal Funds	84	\$1,636,532
<u>Affordable Rental Housing – Reserved Federal HOME Funds</u>		
Parkview at Snowden River – Howard County		\$ 1,500,000
Hagerstown Robinwood Phase II – Washington County		1,445,876
Springfield Manor – Washington County		2,322,756
Salisbury Commons – Wicomico County		1,449,840
Snow Hill Senior Apartments – Worcester County		<u>936,182</u>
Subtotal Reserved Affordable Rental Housing – Federal Funds		\$ 7,654,654
<u>Federal HOME Initiatives</u>		
Project LIGHT – Allegany County		13,080
Mutual Self Help Housing – Allegany County		55,000
Annapolis Homeownership & Revitalization Project – Anne Arundel County		610,758
Fairground Village – Carroll County		51,450
Camper Street Revitalization – Dorchester County		28,502
Target Tract – Frederick County		120,000
Homeownership Program – Garrett County		129,430
Housing Preservation Program – St. Mary’s County		300,000
Loretta Village – Somerset County		60,000
Washington County Homebuyer Program – Washington County		<u>200,000</u>
Subtotal HOME Initiative Reserved		\$ 1,568,220

Homeownership Programs (Statewide)

GO Bond	\$2,247,000	Recommendation:	Reduce GO bond funds \$1,500,000
PAYGO SF	\$5,253,000		
PAYGO FF	\$100,000		

Bill Text: Provide funds for below-market interest rate mortgage loans with minimum down payments to low- and moderate-income families. These funds shall be administered in accordance with Article 83B, Sections 2-601 to 2-605 and 2-608 to 2-614.

Program Description: The Homeownership Programs provide below-market interest rate mortgage loans with minimum downpayments to low and moderate income families. Three programs comprise the Homeownership Programs: Maryland Home Financing Program (MHFP) makes direct loans to very low-income households for home purchases; Reverse Equity Mortgage Program provides mortgage loans to limited-income elderly homeowners so they can remain in their homes; and the Downpayment and Settlement Expense Loan Program (DSELP) assists limited-income families in meeting settlement closing costs associated with home purchases.

Year Program Began: These programs were organized under the Homeownership Programs in 1990.

Comments: The fiscal 2004 allowance provides \$7.6 million in combined State general obligation (GO) bonds and PAYGO special funds, and federal HOME investment partnership funds. The allowance would provide the program with the same total appropriation as was authorized for fiscal 2003. The 2003 *Capital Improvement Program (CIP)* shows the program is scheduled to receive \$7.6 million in total funding in each of fiscal 2005 through 2008. As with all of the department's grant and loan programs traditionally funded with State PAYGO funds, the allowance provides GO bond funds in place of PAYGO general funds.

The Department has indicated that it anticipates allocating the fiscal 2004 appropriation as follows:

- \$4,480,000 for the Maryland Home Financing Program. This amount includes \$2.5 million for the Homeownership for the Individuals with Disabilities Program which was established in part to address the State's housing responsibilities for the disabled under the Americans with Disabilities Act of 1990;
- \$20,000 for the Reverse Equity Program;
- \$3,000,000 for the Downpayment and Settlement Expense Program; and
- \$100,000 federal HOME funds.

S00A23.06 - Department of Housing and Community Development - PAYGO

The Governor's budget plan provides for the transfer of \$2.0 million of available fund balance to the State general fund at the end of fiscal 2003. Legislation which is required to effectuate this transfer is included in HB 935 and SB 637, the Budget Reconciliation and Financing Act of 2003. In order to meet the proposed \$2.0 million transfer, the department will be forced to reduce its planned level of encumbrance activity for fiscal 2003. **DLS recommends that the department brief the committees on what activity will be foregone during fiscal 2003 to meet the proposed fund transfer.**

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$1,092	\$0.00	\$0
REVENUE			
GO Bonds	0	0	2,247
General Funds	4,064	2,781	0
Loan Repayments and Interest	5,644	5,279	5,962
Federal Funds	15	110	110
Net Transfer In/Out from Other Funds	-6,290	-1,498	0
Canceled Encumbrances	632	416	416
TOTAL REVENUE	4,065	7,088	8,735
TOTAL AVAILABLE	5,157	7,088	8,735
ENCUMBRANCES			
Loans	3,417	5,353*	7,600
State Administrative Expenses	1,725	1,725	1,125
Federal Administrative Expenses	15	10	10
TOTAL ENCUMBRANCES	5,157	7,088	8,735
Ending Balance	\$0	\$0	\$0

*Loans made as of 1/31/03 = \$ 1,480,300

S00A23.06 - Department of Housing and Community Development - PAYGO

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
GO Bonds	\$0.000	\$0.000	\$2.247	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	4.064	2.781	0.000	1.782	1.503	1.302	1.587
PAYGO SF	6.081	4.719	5.253	5.718	5.997	6.198	5.913
PAYGO FF	0.800	0.100	0.100	0.100	0.100	0.100	0.100
Total	\$10.945	\$7.600	\$7.600	\$7.600	\$7.600	\$7.600	\$7.600

Issues

1. Fund Transfers and Embargoes Have Limited Use of DSELP

The Downpayment and Settlement Expense Loan Program (DSELP) provides 0% deferred loans up to \$3,000 for downpayment and settlement expense costs for low- and moderate-income homebuyers. To qualify for the program, applicants must be purchasing a home in a State Priority Funding Area using a first mortgage loan originated under the department's Maryland Mortgage Program (MMP). Applicants must also contribute a minimum equity contribution of 1% of the first mortgage amount. Certain income limits and maximum house purchase price requirements apply. DSELP loans are generally recorded in a second lien position, and repayment of the loan is deferred and due upon the earlier of maturity or prepayment of the first mortgage MMP loan, or sale, or transfer of the property.

DHCD initiated the DSELP program beginning in fiscal 2001. However, due to the impact of the \$1.4 million embargo on the Homeownership Program fiscal 2002 appropriation and the \$6.5 million transfer of funds provided in the Budget Reconciliation and Financing Act of 2002, DHCD shut the program down and provided no loans during fiscal 2002. Reductions made to DHCD's fiscal 2003 appropriation forced the department to allocate \$1.5 million to the program down from the \$4.0 million originally anticipated. However, it is likely that once again the department will have to consider reducing its DSELP loan activity during fiscal 2003 due to the proposed transfer of \$2.0 million from the fund included in the Budget Reconciliation and Financing Act of 2003. As shown in the project chart on page 31, the department has only made \$82,100 in DSELP loans through January 31, 2003,

For fiscal 2004, the department intends to allocate \$3.0 million of available appropriations to support DSELP loans. **In light of the State's budget situation, DLS recommends level funding the DSLEP program for fiscal 2004 at \$1.5 million. This can be accomplished by reducing the GO bond authorization by \$1.5 million leaving \$747,000 of GO bond funds to support the department's Homeownership Programs during fiscal 2004.**

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce general obligation funds for the Homeownership Programs. The department has earmarked the use of \$3.0 million to support the Downpayment and Settlement Expense Loan Program (DSELP) to support increased homeownership for low- and moderate-income families. However, over the last two fiscal years, the department has either completely shut down or limited the use of DSELP in order to prioritize its use of limited State resources. The reduction proposed would level fund the program and provide \$1.5 million to support DSELP during fiscal 2004.	\$1,500,000 GO
Total General Obligation Fund Reductions	\$1,500,000

Fiscal 2004 Proposed Projects

The department intends to utilize \$2.5 million to fund mortgage loans for disabled borrowers through the Maryland Home Financing Program. The department also intends to utilize \$3.0 million to support individual loans through the Downpayment and Settlement Expense Loan Program.

Fiscal 2003 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>
<u>Disabled Borrow Program Encumbrances</u>		
Anne Arundel County – 1 individual loan		\$ 81,000
Baltimore County – 3 individual loans		280,250
Baltimore City – 1 individual loan		62,350
Dorchester County – 1 individual loan		10,000
Harford County – 1 individual loan		100,000
Howard County – 1 individual loan		84,000
Prince George’s County – 2 individual loans		196,000
Washington County – 2 individual loans		184,000
Subtotal Disabled Borrow Program Encumbrances		\$ 997,600
<u>Disabled Borrow Program Reservations</u>		
Statewide		\$ 636,700
<u>Forward Reservation Projects Encumbrances</u>		
CNHS Revitalized Home Project – Maryland Home Finance Program	Allegany	\$ 200,000
Brooklyn & Curtis Bay Coalition – Maryland Home Finance Program	Balt. City	200,000
Individual loan – Reverse Equity Mortgage Program	Balt. County	<u>600</u>
Subtotal Forward Reservation Projects Encumbrances		\$ 400,600
<u>Downpayment and Settlement Expense Loan Program Encumbrances</u>		
Allegany County – individual loan		3,000
Baltimore County – various individual loans		13,800
Baltimore City – various individual loans		53,900
Harford County – various individual loans		6,000
Howard County – individual loan		3,000
Washington County – individual loan		<u>2,400</u>
Subtotal DSELP Encumbrances		\$ 82,100
<u>Federal HOME Funds Reservations</u>		
Graham’s Park – Talbot County		145,000

Special Loan Programs (Statewide)

GO Bonds	\$2,718,000	Recommendation:	Approve
PAYGO SF	5,282,000		
PAYGO FF	1,200,000		

Bill Text: Provide funds to low- and moderate-income families, sponsors of rental properties occupied primarily by limited income families, and nonprofit sponsors of housing facilities, including group homes and shelters. These funds shall be administered in accordance with Article 83B, Sections 2-301 to 2-313, 2-1401 to 2-1411, and 2-701 to 2-709.

Program Description: The programs under the Special Loan Programs include the Maryland Housing Rehabilitation Program; Indoor Plumbing Program; Lead Hazard Reduction Program; and Group Home Financing. The programs provide preferred interest rate loans and grants to families of low- and moderate-income; to sponsors whose small rental properties are leased substantially by limited-income families; and to nonprofit sponsors of housing facilities. In general the funds can be used to construct or rehabilitate single-family homes and multi-family housing with four or fewer units, or to acquire properties for use as group homes or shelters.

Year Program Began: The programs were organized under the Special Loan Programs in 1990.

Comments: The fiscal 2004 allowance provides a total of \$9.2 million of combined State and federal funds consisting of \$2,718,000 in State general obligation (GO) bond funds, \$5,282,000 in PAYGO special funds, and \$1,200,000 in federal HOME Investment Partnership funds. As is the case with all DHCD grant and loan programs, the GO bond funds replace the use of PAYGO general funds for fiscal 2004. The 2003 *Capital Improvement Program* (CIP), however, indicates a return to the use of PAYGO general funds in fiscal 2005 through fiscal 2008.

The department reports that it intends to allocate the fiscal 2004 allowance as follows:

- ***Maryland Housing Rehabilitation Program*** – \$3,951,000 – this is the same allocation planned by the department for fiscal 2003. Typically, the department utilizes \$672,000 of these funds to support a statewide lead reduction program;
- ***Group Home Financing Program*** – \$3,049,000 – this is the same allocation planned by the department for fiscal 2003;
- ***Baltimore City Lead Paint Initiative*** – \$1,000,000 – this is a \$1.5 million reduction in the funding allocation as compared to fiscal 2003. The reduction reflects the elimination of the three-year \$3.5

S00A23.06 - Department of Housing and Community Development - PAYGO

million annual funding commitment for lead abatement rehabilitation grants to residents of Baltimore City housing units. The \$1.0 million in funding represents the funding requested by the General Assembly to make up for the fact reduction taken in 2003 due to the underutilization of prior year appropriations.

- **Federal HOME Investment Partnership Funds** – \$1,200,000 – this represents a \$451,000 decrease in the department’s allocation of HOME funds to the Special Loan Programs. The department is allocating more funds to its Rental Housing Programs for fiscal 2004.

Fund Data

Fund History

	<i>FY 2002 Actual</i>	<i>FY 2003 Estimated</i>	<i>FY 2004 Estimated</i>
Beginning Balance	\$1,011	\$635.00	\$1
REVENUE			
Go Bonds	0	0	2,718
General Funds	4,532	4,753	0
Loan Repayments and Interest	6,058	6,180	6,219
Transfer from Other Funds	-1,210	-455	0
Federal Funds	1,241	1,749	1,320
Cancelled Encumbrances	36	113	113
TOTAL REVENUE	10,657	12,340	10,370
TOTAL AVAILABLE	11,668	12,975	10,371
ENCUMBRANCES			
Loans	9,378	11,129*	9,200
State Administrative Expenses	1,575	1,725	1,050
Federal Administrative Expenses	80	120	120
TOTAL ENCUMBRANCES	11,033	12,974	10,370
Ending Balance	\$635	\$1	\$1

*Loans made as of 1/31/03 = \$6,546,751

S00A23.06 - Department of Housing and Community Development - PAYGO

(\$ in Millions)

<i>Description</i>	<i>2002 Approp.</i>	<i>2003 Approp.</i>	<i>2004 Request</i>	<i>2005 Estimate</i>	<i>2006 Estimate</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>
GO Bonds	\$0.000	\$0.000	\$2.718	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO GF	4.532	4.753	0.000	1.453	1.297	1.144	1.060
PAYGO SF	4.458	4.747	5.282	5.547	5.703	5.856	5.940
PAYGO FF	1.200	1.629	1.200	1.200	1.200	1.200	1.200
Total	\$10.190	\$11.129	\$9.200	\$8.200	\$8.200	\$8.200	\$8.200

Issues

1. Baltimore City Lead Paint Abatement Program Issues

Governor's Allowance Does Not Renew the Program

The Governor's allowance provides \$1.0 million in State funds to assist Baltimore City with its lead paint abatement efforts to prevent lead poisoning. This level of funding is made available in response to the General Assembly's request, articulated in budget language adopted in the fiscal 2003 budget (Chapter 439, Acts of 2002) that the administration increase the funding for the city's lead abatement program by \$1.0 million in fiscal 2004. This language was adopted in response to a \$1.0 million reduction taken in the program in the fiscal 2003 budget. While the Governor has provided the \$1.0 million requested, the budget reflects a \$2.5 million reduction to the Baltimore City's lead abatement program due to the expiration of the original three-year commitment to fund this initiative.

Beginning with the fiscal 2001 budget, a three-year commitment was made to provide annual State appropriations in the amount of \$3.5 million to fund lead abatement rehabilitation grants to residents of Baltimore City housing units. Due to a number of issues, including the low number of certified lead contractors participating in the program, the inability to adequately fund other costly rehabilitation in conjunction with lead abatement rehabilitation, and the lengthy loan documentation requirements, the lead abatement initiative was not performing effectively. The General Assembly reduced the fiscal 2003 appropriation by \$1.0 million to reflect the large amount of unencumbered and unexpended prior year State appropriations. **Exhibit 6** shows the fiscal 2001 through 2004 programmatic funding for Baltimore City lead abatement initiative.

Exhibit 6

**State Funding for the Baltimore City Lead Abatement Initiative
Fiscal 2001 through 2004**

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Total</u>
Rehabilitation	\$2,375,000	\$1,790,240	\$1,835,240	\$1,000,000	\$7,000,480
Personnel	427,260	427,260	427,260	0	1,281,780
Relocation	640,240	350,000	100,000	0	1,090,240
Testing	57,500	57,500	137,500	0	252,500
Initiative Total	\$3,500,000	\$2,625,000	\$2,500,000	\$1,000,000	\$9,625,000

Note: The fiscal 2002 appropriation was reduced by \$875,000 due to the statewide embargo on general fund PAYGO appropriations. The fiscal 2003 appropriation was reduced by \$1.0 million due to the large amount of unencumbered and unexpended funds. The fiscal 2004 allowance is made available pursuant to budget language included in the fiscal 2003 budget bill, Chapter 439, Acts of 2002, that stipulated the Governor include \$1.0 million in the fiscal 2004 allowance for the Baltimore City lead paint abatement initiative should substantive changes improving the effectiveness of the program be implemented.

Source: Baltimore City Health Department

A representative of the Baltimore City Health Department should brief the committees concerning how the city intends to proceed with its lead paint abatement efforts in the face of declining State funding support. Particular emphasis should be placed on identifying the amount and source of federal and Baltimore City funds that will and have been used to supplement the program since inception and will be utilized in the future.

Administration Transferred to the Baltimore City Health Department

During the 2002 legislative session, the General Assembly adopted budget bill language directing the DHCD to enter into a Memorandum of Understanding (MOU) that provides for the transfer of State appropriations, made for the purpose of funding lead abatement grants and loans in Baltimore City under the Lead Hazard Reduction Grant Program (LHRGP), to either the Baltimore City Health Department (BCHD) or a designated private entity. In addition to requiring quarterly reports on the number and amounts of grants and loans distributed, the restrictive language also stipulated that the grants and loans made under the Baltimore City LHRGP shall be made in accordance with the following requirements:

- Priority shall be given to homeowners whose annual family income is below 80% of the State's median family income.

S00A23.06 - Department of Housing and Community Development - PAYGO

- Priority shall be given to owners of less than four total properties, including those held by Limited Liability Companies.
- Grants and loans may not be made to applicants who have any properties within Baltimore City for which safety or health code violations exist unless action is being taken to remediate those violations.

On September 17, 2002, DHCD submitted an executed MOU between the department and Baltimore City that designated the BCHD as the entity responsible for administering the LHRGP in the city. Although DHCD remains ultimately responsible for ensuring that the State funds are expended in accordance with the statutory and regulatory requirements of the lead hazard reduction program, the MOU provides the BCHD with the authority to approve grants and make loans for lead abatement work on behalf of the department. The transfer of responsibility for the administration of the LHRGP in Baltimore City was intended to streamline the financial and administrative process, including the loan application and contract payment processes, and result in quicker and more abatements than have been achieved by the program during the previous two fiscal years.

The MOU provided for the direct transfer of \$5,125,000 of State general fund appropriations from DHCD to BCHD. These funds consists of \$2,625,000 of unexpended fiscal 2002 appropriations retained by DHCD in the department's Special Loan Programs revolving fund and \$2,500,000 appropriated for the program in the fiscal 2003 budget. It was later determined that an additional \$202,386 of unencumbered fiscal 2001 State appropriations were available and these were subsequently transferred in accordance with the MOU. The funds are used to provide grants and loans to homeowners with homes located within targeted zip codes to cover any expenses resulting from lead abatement work. Specifically, the MOU and the BCHD work plan limit the use of the funds to abatements, window replacements, relocation and temporary housing, testing, and salary and fringe benefit costs for BCHD staff dedicated to the lead abatement program.

For the most part, the MOU did not alter the manner in which the LHRGP is to be administered in Baltimore City. The primary goals of the program remain the reduction of the incidence of lead poisoning among children and a reduction in the number of houses and rental units testing positive for elevated lead levels. The MOU did, however, outline some changes to the LHRGP. The most significant include an increase in the cap on the per-unit grant or loan limit from \$8,500 to \$15,000; the ability to increase the grant and loan limit to as much as \$30,000 in extreme cases upon approval by DHCD; expansion of the program area beyond the previously established zip codes; and an agreement by DHCD to an expanded definition of what constitutes lead abatement work. The increase in the grant and loan cap and the expansion of the definition of what constitutes lead abatement work are intended to help address problems that have limited the effectiveness of the lead abatement program in Baltimore City. In particular, these changes are intended to provide the capacity to fund separate but related rehabilitation projects in conjunction with lead abatement work.

Exhibit 7 shows the fiscal 2001 through 2003 funding by programmatic expenditure item, the total encumbrance activity for the period covering October 1, 2002, through December 31, 2002, the total encumbrance/expenditures for the program to date, as well as the balance of unencumbered funds by programmatic source as of the end of second quarter of fiscal 2003. From these figures it is evident that the city's efforts to improve the effectiveness of the program and streamline the administrative aspects of

Exhibit 7

Baltimore City Lead Initiative Budget Reports
Fiscal 2001 through 2003 Funding
 (As of December 31, 2002)

	<u>Total Budget</u>	<u>Fiscal 2003 Second Quarter Encumbrance/ Expenditures Through Dec. 31, 2002</u>	<u>Total Encumbrance/ Expenditures Through Dec. 31, 2002</u>	<u>Balance</u>
Construction-Settlements	\$6,000,480	\$1,489,514	\$3,009,898	\$2,990,582
Personnel	1,281,780	108,392	757,013	524,767
Relocation	1,090,240	138,505	519,540	570,700
Testing	252,500	5,000	95,528	156,972
Total Funds	\$8,625,000	\$1,741,411	\$4,381,879	\$4,243,021

the program are working. As the chart shows, the almost \$1.5 million of construction abatement settlements made in the second quarter of fiscal 2002 represent almost half of the total construction abatement settlements initiated from the program's inception. These figures represent encumbrances and reflect the number of loans that have gone through settlement but do not represent the expenditure of funds for the number of properties that have been abated. Moreover, it also appears that the city has made strides in improving the time it takes to complete abatements. Of the 136 properties where abatement rehabilitation work has been completed, 42 of these were completed in the second quarter of fiscal 2003. The time it takes to move a project through the pipeline has been reduced from 311 days to 240 days. The number of lead contractors participating in the program has increased and the business relationship with these contractors has improved. The city reports that it now has 19 lead contractor companies participating in the program which is more than twice the number than were participating at this time last year. As the program has matured, the ability to move a project from the loan application stage to fully completed abatement has improved.

Despite the reduction in funds allocated to the Baltimore City lead abatement program in the Governor's budget, there looks to be sufficient funds to continue the administration of the program through fiscal 2004 with the addition of the \$1.0 million included in the fiscal 2004 allowance. If one extrapolates forward the expenditures for personnel, relocation, and testing, shown in Exhibit 7, there should be funds remaining at the close of fiscal 2003 to support these activities in fiscal 2004. Furthermore, with the additional funding the city should be able to increase the number of loans in the pipeline to a level that will keep the lead contractors sufficiently busy for some time to come. **A representative of the Baltimore City Health Department should brief the committees on how the State funding will be utilized to provide for continuation of the program through fiscal 2004. DLS also recommends that the Baltimore City Health Department and DHCD extend the terms of the MOU currently governing the program through June 30, 2004, to reflect the continuation of State funding support through fiscal 2004.**

2. Radium Filtration Program Proposed

Committee narrative in the 2001 *Joint Chairman's Report* required DHCD to submit a report which discusses the potential for creation of a grant and loan program to reimburse homeowners for the cost of radium filtration systems. The report was not submitted in time for review during the 2002 session; however, it has been made available and provides the following information.

- Radium is a radioactive metal that occurs naturally in soil and ground water. Radium naturally dissolves in groundwater where acid conditions are found.
- The potential need for a reimbursable program to cover the costs of adding a radium filtration system to a well stem primarily from a problem in the northern area of Anne Arundel County.
- DHCD agrees that the cost of installing a radium filtration system may cause a financial burden for homeowners; however, the department already offers assistance under the Indoor Plumbing Program (IPP) and Maryland Housing Rehabilitation Program (MHRP) through the Special Loan Programs. The program offers low interest loans to assist homeowners of low- and moderate-income as well as landlords who rent to low- and moderate-income tenants with essential plumbing repairs including the installation of water filtration systems.
- Providing grants rather than loans through IPP and MHRP would negatively impact the annual revenues generated by these programs which are relied on to fund the programs.
- The income limits for the IPP and MHRP programs are up to 80% of either the stateside or Washington, DC median income depending upon the location of the property. Opening the program to applicants with incomes higher than 80% of the median would distort the programs historic targeting of assistance to low- and moderate-income families. Furthermore, the modest cost of installing a water filtration system should not pose a financial burden for families earning more than 80% of the median income.
- DHCD does not feel there is a compelling need to create another program or change the structure or terms of existing program in order to provide financing for water filtration systems.

Legislation Would Create a Radium Pilot Grant Program

House Bill 39 would create a Radium Grant Program in DHCD to provide financial aid to residential well owners to remove radium from well water. Implementation of the program is subject to the availability of funds in the State budget. The program would sunset on June 30, 2006.

Under the proposed legislation, DHCD can only award a grant to a well owner who (1) lives in a county that participates in the program; (2) has installed a water filtration system that removes excess radium; and (3) does not earn more than 110% of the statewide or metropolitan statistical area median income. Counties that choose to participate in the program must process grant applications from well

S00A23.06 - Department of Housing and Community Development - PAYGO

owners. DHCD must match the grant awarded by the county and make a formula available to the counties that uses a sliding scale based on income so that lower income well owners will be eligible for larger grants. The combined county and State grant cannot exceed 25% or be less than 10% of the cost of the filtration system installed by the well owner. The bill authorizes DHCD to adopt regulations to implement the program.

According to the DLS fiscal note for the proposed program, general fund expenditures would increase by approximately \$44,800 for fiscal 2004, 2005, and 2006, assuming funds are available in the budget. DHCD estimates that water filtration systems would cost \$2,000 and that grants would range from \$200 to \$500 per well owner. This estimate also assumes that:

- the program would only be needed in Anne Arundel County;
- DHCD and the county would split the share of the grant equally;
- 10% of the eligible households would apply for a grant;
- households with annual incomes of \$19,999 or less would receive 45% of the grants (State portion: \$15,150); and
- households with annual incomes between \$20,000 and \$58,150 would receive the remainder (State portion: \$29,650).

DLS recommends that the department brief the committees on its reported conclusion that a separate radium filtration grant program is necessary. Moreover, DHCD should discuss whether the proposed radium filtration program fits within the income requirements established for the IPP and MHRP programs and whether these income limits should be waived for applicants seeking funds for radium filtration systems given the relatively small fiscal impact associated with the program.

Recommended Actions

1. Adopt the following narrative:

Baltimore City Lead Paint Abatement Program: Budget language added to the fiscal 2003 budget bill directed the Department of Housing and Community Development to transfer administration of the Baltimore City Lead Hazard Reduction Grant Program (LHRGP) to the Baltimore City Health Department (BCHD) or some other designee. This included the transfer of all State appropriations made in support of the city's LHRPG program. A Memorandum of Understanding (MOU) was executed effectuating this transfer. The committees direct that the \$1.0 of fiscal 2004 State funding provided in support of the Baltimore City LHRPG be transferred to the Baltimore City Department of Health in accordance with the MOU that is currently in place. The committees further direct that an MOU between DHCD and BCHD be executed governing the use of the State funds through fiscal 2004. The MOU requested shall provide that the distribution of LHRGP grants and loans in Baltimore City shall be made in accordance with the following provisions:

- priority shall be given to homeowners whose annual family income is below 80% of the State's median family income;
- priority shall be given to owners of less than four total properties, including those properties held by Limited Liability Companies;
- grants and loans may not be made to applicants who have any properties within Baltimore City for which safety and health code violations exists, unless the applicant can demonstrate that appropriate action is being taken to remedy those violations; and

BHCD shall submit quarterly reports to DHCD that includes statistical data on the use of the grant proceeds. The statistical data shall include the name of each lead abatement grant or loan recipient, the amount of each grant or loan provided, and the property address for which lead abatement grants and loan funds have been made available. The statistical data shall be segregated so as to separately report information on completed lead abatement projects for which grant and loan funds have been expended, and those projects considered to be in the pipeline and not completed but where funds have been encumbered.

Fiscal 2004 Proposed Projects

All projects receiving Special Loan Programs funding are funded on a first come first serve basis. The department does not provide forward reservations for individual projects, and there is no established rating or ranking criteria for selecting projects.

Fiscal 2003 Project Status

<u>Location</u>	<u>Amount</u>
<u>State Funded Project Encumbrances</u>	
Anne Arundel County	\$ 406,681
Allegany County	29,051
Baltimore County	376,571
Baltimore City	2,725,965
Caroline County	92,085
Carroll County	160,873
Dorchester County	61,294
Frederick County	135,690
Harford County	62,714
Howard County	195,032
Kent County	45,766
Montgomery County	389,806
Queen Anne's County	122,423
St. Mary's County	2,580
Talbot County	37,179
Wicomico County	143,182
Worcester County	68,321
Total State Funded Project Encumbrances	\$ 5,055,213
<u>State Funded Project Reservations</u>	\$ 658,681
<u>Federal HOME Funded Project Encumbrances</u>	
Anne Arundel County	\$ 189,744
Allegany County	59,774
Baltimore County	18,900
Calvert County	70,398
Caroline County	187,944
Dorchester County	169,273
Frederick County	130,159
Kent County	84,085
Somerset County	258,517

S00A23.06 - Department of Housing and Community Development - PAYGO

St. Mary's County	102,325
Washington County	35,750
Wicomico County	100,000
Worcester County	<u>84,669</u>
Total Federal HOME Funded Project Encumbrances	\$ 1,491,538
<u>Federal HOME Funded Project Reservations</u>	\$ 449,874

Object/Fund Difference Report
 Dept. of Housing and Community Development - PAYGO

<u>Object/Fund</u>	<u>FY02 Actual</u>	<u>FY03 Working Appropriation</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants,Subsidies,Contr	\$ 25,458,880	\$ 0	\$ 33,224,000	\$ 33,224,000	N/A
13 Fixed Charges	479	0	0	0	0.0%
14 Land & Structures	41,380,072	47,365,000	0	-47,365,000	-100.0%
Total Objects	\$ 66,839,431	\$ 47,365,000	\$ 33,224,000	-\$ 14,141,000	- 29.9%
Funds					
01 General Fund	\$ 28,602,000	\$ 14,595,000	\$ 0	-\$ 14,595,000	-100.0%
03 Special Fund	21,680,788	18,011,000	18,358,000	347,000	1.9%
05 Federal Fund	16,556,643	14,759,000	14,866,000	107,000	0.7%
Total Funds	\$ 66,839,431	\$ 47,365,000	\$ 33,224,000	-\$ 14,141,000	- 29.9%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

**Fiscal Summary
Dept. of Housing and Community Development - PAYGO**

<u>Unit/Program</u>	<u>FY02 Actual</u>	<u>FY03 Legislative Appropriation</u>	<u>FY03 Working Appropriation</u>	<u>FY02 - FY03 % Change</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 % Change</u>
06 Historical Preservation - Capital Appropriation	\$ 347,750	\$ 250,000	\$ 250,000	- 28.1%	\$ 0	- 100.0%
02 Neighborhood Business Development - Capital Approp.	29,593,286	11,686,000	11,686,000	- 60.5%	11,202,000	- 4.1%
07 Rental Housing Programs - Capital Appropriation	16,413,274	16,700,000	16,700,000	1.7%	10,187,000	- 39.0%
08 Homeownership Programs - Capital Appropriation	7,481,707	7,600,000	7,600,000	1.6%	5,353,000	- 29.6%
09 Special Loan Programs - Capital Appropriation	13,003,414	11,129,000	11,129,000	- 14.4%	6,482,000	- 41.8%
Total Expenditures	\$ 66,839,431	\$ 47,365,000	\$ 47,365,000	- 29.1%	\$ 33,224,000	- 29.9%
General Fund	\$ 28,602,000	\$ 14,595,000	\$ 14,595,000	- 49.0%	\$ 0	- 100.0%
Special Fund	21,680,788	18,011,000	18,011,000	- 16.9%	18,358,000	1.9%
Federal Fund	16,556,643	14,759,000	14,759,000	- 10.9%	14,866,000	0.7%
Total Appropriations	\$ 66,839,431	\$ 47,365,000	\$ 47,365,000	- 29.1%	\$ 33,224,000	- 29.9%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.