

S00A
Department of Housing and Community Development

Operating Budget Data

	(\$ in Thousands)				
	FY 02	FY 03	FY 04	FY 03 - 04	FY 03 - 04
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$18,056	\$14,929	\$13,497	-\$1,431	-9.6%
FY 2003 Cost Containment	0	-701	0	701	-100.0%
Contingent & Back of Bill Reductions	0	-5	-61	-55	
Adjusted General Funds	\$18,056	\$14,222	\$13,437	-\$786	-5.5%
Special Funds	23,486	23,667	26,649	2,983	12.6%
Contingent & Back of Bill Reductions	0	-11	-107	-96	
Adjusted Special Funds	\$23,486	\$23,655	\$26,542	\$2,887	12.2%
Federal Funds	101,983	148,416	153,553	5,138	3.5%
Contingent & Back of Bill Reductions	0	-3	-27	-25	
Adjusted Federal Funds	\$101,983	\$148,413	\$153,526	\$5,113	3.4%
Reimbursable Funds	1,219	299	734	434	145.2%
Contingent & Back of Bill Reductions	0	0	0	0	
Adjusted Reimbursable Funds	\$1,219	\$299	\$734	\$434	145.1%
Adjusted Grand Total	\$144,745	\$186,590	\$194,238	\$7,648	4.1%

- The budget provides \$2.8 million in special funds from the Maryland Affordable Housing Trust Fund (MAHT) to fund increased MAHT grants. This is an increase of \$1,575,000 over the fiscal 2003 working appropriation.
- The budget provides \$2.4 million more for federal Section 8 rental housing certificates and \$1.5 million of additional federal funds to support Community Services Block Grants.

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

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Personnel Data

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	415.77	424.00	405.90	-18.10
Contractual FTEs	48.85	74.90	74.89	-0.01
Total Personnel	464.62	498.90	480.79	-18.11

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	12.06	2.97%
Positions Vacant as of 12/31/02	15.00	3.70%

- The department's budgeted turnover rate of 2.97% requires that an average of 12.06 positions remain vacant throughout the fiscal year to achieve the \$772,318 in savings required. The department currently has 15 vacant positions. However, four of these positions, which were added to the budget last year to support the expansion of the Banneker-Douglass Museum and Jefferson Patterson Park Museum, have been exempted from the hiring freeze and will be filled. There are 11 positions remaining vacant with total salary and fringe benefit of \$666,807, which is less than the budgeted turnover amount. However, in light of the fact that a general hiring freeze is in effect, additional vacancies should occur during fiscal 2004 to allow the department to meet its budgeted turnover rate.

Analysis in Brief

Major Trends

Community Revitalization Statistics for Distressed and At-risk Communities: Census statistics indicate that the number of distressed communities declined from the 1990 to 2000 census. However, the number of communities considered to be “at-risk” increased over this time period. **The department should provide the committees with an understanding of how a community is defined as “distressed” and “at-risk” and discuss efforts to improve the well being of communities before they are labeled as distressed.**

Homeownership among Maryland Residents Increases While the Number of Residents Assisted by the Department of Housing and Community Development to Own Their Home Declined: The Department of Housing and Community Development’s (DHCD) Managing for Results performance data indicate that the number of Maryland residents who own their own home increased from 69.9% to 70.7% from fiscal 2001 to 2002. However, the number of residents that the department assisted to own their own home declined 46% over the same time period. **The department should brief the committees concerning how its homeownership programs complement federal programs. The department should also discuss whether homeownership is best supported through the State’s allocation of revenue bonds under the State’s tax-exempt volume cap.**

Affordable Housing Decline: Statistics for the number of residents who spend more than 35% of their income for housing related expenditures indicate that more residents are seeking affordable housing. A recent report issued by DHCD states that the State is not producing enough affordable housing to meet the demand. **DHCD should brief the committees concerning how the department plans to address the affordable housing shortage.**

Issues

Governor’s Budget Proposes Fund Transfer from the Maryland Affordable Housing Trust Revolving Fund: The Governor’s budget plan includes the transfer of \$500,000 of available fund balance from MAHT to the State general fund. **The Department of Legislative Services (DLS) recommends that MAHT be directed to support rental assistance under the Rental Allowance Program and grants under the Self-help Homeownership Program with available fund balances in lieu of transferring the balance to the State general fund.**

Historic Preservation and Heritage Issues: The Maryland Heritage Areas program has increased beyond the State’s ability to fund. **DLS recommends that the program be reviewed over the interim. DLS further recommends that the statutory transfer of \$1.0 million to the Maryland Heritage Areas Authority Fund be directed to the State general fund for fiscal 2004 while the program is funded with the available fund balance during the fiscal year.** The Certified Heritage Structure Rehabilitation Tax Credit is enormously expensive. Furthermore, the tax credit is used to subsidize commercial

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development that might take place regardless of the availability of the tax credit. Finally, legislation has been introduced to eliminate the program effective June 30, 2003. **DLS recommends that DHCD brief the committees concerning whether the program is operating as intended or whether the use of the program to support commercial development is distorting the programs priorities.**

Consolidation with the Department of Business and Economic Development: Many of the functions performed by DHCD and the Department of Business and Economic Development (DBED) serve similar clients and duplicate effort. **DLS has recommended language in the DBED operating budget analysis that directs the preparation of a report on the potential strategies and benefits for consolidating the departments.**

Recommended Actions

	<u>Funds</u>
1. Add budget language reducing general funds.	
2. Add budget language requiring the Maryland Affordable Housing Trust support rent subsidy payments under the Rental Allowance Program.	
3. Reduce travel expenses.	\$ 100,000
4. Reduce general and special funds supporting contractual employee payments to the fiscal 2002 actual.	515,000
5. Delete general fund grants for the Community Legacy Program.	250,000
6. Delete general funds for the Main Street Program.	50,000
7. Delete funds for various professional training contracts, tuition grants, and Managing for Results and strategic planning contracts.	219,064
8. Reduce special funds for contractual service contracts.	100,000
9. Reduce general fund support for the Micro-Enterprises Council.	80,000
10. Delete general funds for the Self-Help Homeownership Program.	500,000
11. Delete general funds for the Rental Allowance Program.	2,300,000
12. Reduce funds for new vehicle purchases.	31,223
13. Adopt committee narrative requiring a report on the Maryland Heritage Areas Program.	

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Total Reductions

\$ 4,145,287

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Operating Budget Analysis

Program Description

The mission of the Department of Housing and Community Development (DHCD) is to revitalize communities, encourage homeownership, expand affordable housing, and enhance Maryland's historic sites and traditions. The department's programs are administered through four operating divisions and three administrative support units including the Office of the Secretary, Division of Information Technology, and Division of Finance and Administration. The operating divisions are Division of Credit Assurance, which includes the Maryland Housing Fund (MHF); Division of Historical and Cultural Programs; Division of Neighborhood Revitalization; and Division of Development Finance, which includes the Community Development Administration.

Performance Analysis: Managing for Results

The department's fiscal 2004 Managing for Results (MFR) submission includes a number of departmental level goals, objectives, and performance measures. **Exhibit 1** provides a summary of these goals and selected performance measures.

Exhibit 1

Department of Housing and Community Development
Performance Measurement Data
Fiscal 2004

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Est.</u>	<u>FY 04</u> <u>Est.</u>	<u>FY 02-04</u> <u>Ann. Chg.</u>
Goal: Revitalize Communities – Strengthen distressed communities and communities at risk of becoming distressed					
Number of distressed communities (1990 v. 2000 Census)	763	404	N/A	N/A	N/A
Percent of Marylanders living in distressed communities	42.7%	10.9%	N/A	N/A	N/A
Number of at-risk communities	1,419	2,257	N/A	N/A	N/A
Percent of at-risk communities that improved (last 3 years)	52.9%	89.2%	52.0%	52.0%	-23.6%
Goal: Encourage Homeownership – Help low and moderate income residents purchase their own home					
Percent of Maryland resident's who own their own home	69.9%	70.7%	71.0%	71.0%	0.2%
Number of resident's DHCD helped to own their own home	3,335	1,801	3,000	3,000	29.1%
Percent of homebuyers with incomes below the State median	52.7%	35.7%	50.0%	50.0%	18.3%

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	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Est.</u>	<u>FY 04</u> <u>Est.</u>	<u>FY 02-04</u> <u>Ann. Chg.</u>
Goal: Encourage Homeownership – Help low and moderate income residents improve or retain their own home					
Number provided rehabilitation/retention financing	1,053	877	1,200	1,200	17.0%
Goal: Expand decent, affordable housing – Reduce percent of low and moderate-income households who spend more than 35% of income on housing related expenses					
Percent of low and moderate income residents who spend more than 35% of their income on housing related expenses	32.9%	38.0%	N/A	N/A	N/A
Goal: Expand decent, affordable housing – Increase percentage of low and moderate income households who live in decent housing and healthy communities					
% of low & moderate-income residents living in decent housing	97.0%	*	N/A	N/A	N/A
% of low & moderate-income residents living in healthy communities	35.4%	45.5%	N/A	N/A	N/A
Number of rental housing developments going to initial closing	21	29	22	20	-17.0%
Amount committed for rental housing developments (millions)	\$78.5	\$131.7	\$90.0	\$90.0	-17.3%
Dollar amount of leveraged funds (\$ in millions)	\$99.0	\$156.0	\$90.0	\$90.0	-24.0%
Goal: Preserve and Enhance Maryland’s heritage resources					
Number of inventoried historical resources	64,781	65,454	65,794	66,094	0.5%
Goal: Preserve and Enhance Maryland’s heritage resources – Increase economic development through heritage tourism					
Amount of non-state investment leveraged in Heritage Area Target Investment Zones	\$383,280	\$943,616	\$500,000	\$500,000	-27.2%
State Historic Rehabilitation Tax Credits (SHRTC) approved (\$ in millions)	\$12.0	\$48.96	\$50.0	\$50.0	1.1%
Projects utilizing SHRTC	91	270	300	300	5.4%
Number of single family homes benefiting from SHRTC	80	214	275	275	13.4%
SHRTC projects in distressed & at-risk communities (\$ in millions)	\$1.4	\$27.5	\$25.0	\$25.0	-4.7%
Value of leveraged funds by SHTRC (\$ in millions)	\$48	\$196	\$200	\$200	1.0%

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

Source: Maryland State Budget

A number of the performance measures are based upon U.S. Census Bureau decennial census data for 1990 and 2000. As a result, comparisons between the figures presented for fiscal 2001 and 2002 for many of the department’s performance measure represent a ten-year spread and are not based upon results in a given fiscal year.

Community Revitalization

One of the department's primary goals is to administer programs that revitalize communities. The performance data provided indicates that the number of communities considered "distressed" declined from 763 from the 1990 census data to 404 for the 2000 census data, which represents a 47.0% reduction overall. However, the percent of Maryland residents living in distressed communities decreased by 74.5% over the same time period. This could mean two things, either the communities that are considered to have been revitalized are some the State's larger communities or possibly that residents are moving out of distressed communities in growing numbers. While the number of communities labeled as distressed have declined, the number of communities considered "at-risk" increased from 1,419 to 2,257 according to the 1990 to 2000 census. This would indicate that more communities are suffering from investments decline, and one might conclude that these communities are likely to become distressed communities in the near future absent State and local government and private sector intervention. **DHCD should brief the committees concerning how it defines what constitutes a "distressed" and "at-risk" community. Absent a more clear definition, it is difficult to assess the magnitude of what appears to be a problem of continued deterioration with the State's communities. DHCD should also advise the committees as to why the number of distressed communities declined while the number of at-risk communities increased and whether State, local, federal, and private sector revitalization efforts and resources would be better directed to assisting communities before they become labeled as distressed.**

Homeownership Assistance

The department is also concerned with increasing homeownership for low- and moderate-income individuals and families. The figures for this goal indicate that the percentage of State residents who own their own home has remained steady at approximately 70%. However, the number of residents who were assisted by DHCD to own their own home decreased from 3,335 to 1,801 from fiscal 2001 to 2002. This would indicate that there are other programs other than State programs available to assist these residents and that these programs have been effective in promoting homeownership. In fact there are many federal mortgage programs that assist the State's low and moderate-income families to become homeowners. **DHCD should brief the committees regarding how the department's homeownership programs complement other similar federal programs. The department should also discuss whether homeownership is best supported through the State's allocation of revenue bonds under the State's tax-exempt volume cap.**

Affordable Housing

One of the department's primary goals, which is directly related to its mission to expand affordable housing, concerns reducing the number of residents who spend more than 35% of their income on housing-related costs. This figure is viewed as the benchmark for determining if residents are over leveraged in their attempt to find and keep an affordable place to live. The figures provided in Exhibit 1, which compare data for the 1990 and 2000 U.S. census, indicate that the percent of low- and moderate-income residents who spent more than 35% for housing increased from 32.9% in 1990 to 38.0%

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by the year 2000. This reflects two major trends. First, the number of affordable housing units available to low- and moderate-income residents is considered to have declined. The department's recent report concerning the rental housing production in Maryland indicates that the number of new units and rehabilitated rental units has not kept pace with demand. Second, rents have increased in a tight rental market, which then requires a larger annual salary to stay below the 35% threshold. However, most residents of affordable housing units are employed in jobs that rarely keep up with inflation and the rising costs of housing. **DHCD should brief the committees concerning what the State can and should do to leverage additional, federal, local, and private sector resources for the creation and rehabilitation of affordable housing units for what appears to be a growing population requiring such assistance.**

Fiscal 2003 Actions

The fiscal 2003 cost containment measures applied to DHCD total \$948,000, or 3.2% of the department's fiscal 2003 general fund appropriation. A summary of the reductions is as follows.

- A reduction in the amount of \$127,000 is applied to the Division of Historic and Cultural programs. The following reductions will be made: \$90,000 in preservation operating grants; \$25,000 in museum operating assistance grants; and \$11,000 in travel related expenses.
- A reduction of \$535,000 is applied to the department's neighborhood programs. The department intends to make reductions to various grants, including the grant to the Micro-Enterprises Council; reductions in the Self-help Housing Program; and reduction to the Circuit Rider Program.
- The department will also allocate approximately \$41,000 of cost containment reductions spread out among the Office of the Secretary, Division of Information Technology, and the Division of Finance and Administration. The reductions taken will be nominal and should not have an impact on any particular program priority or initiative.
- The department's Homeownership capital grant and loan program will absorb a \$247,000 reduction in capital PAYGO general fund appropriations.

Governor's Proposed Budget

The fiscal 2004 allowance for DHCD is \$194.2 million, which represents a \$7.65 million, or 4.1% increase over the fiscal 2003 adjusted working appropriation. The allowance for general funds is \$13.4 million, which is a reduction of \$785,000 after adjusting for the general fund reductions imposed through cost containment measures. The special fund allowance is \$26.54 million representing an increase of \$2.89 million over the adjusted working appropriation. A large portion of the increase is attributable to a \$1,575,000 increase in the allowance for Maryland Affordable Housing Trust (MAHT) grants. The allowance for federal funds is \$153.53 million, which is an increase of \$5.1 million over the adjusted fiscal 2003 working appropriation. The increase is primarily explained by changes in the funding for the department's administration of the Section 8 tenant-based rental assistance program which increases by \$2.4 million in the budget. **Exhibit 2** itemizes the major programmatic and personnel changes in the

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department's budget which are discussed in the section that follows.

Exhibit 2

Governor's Proposed Budget					
Department of Housing and Community Development					
(\$ in Thousands)					
	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03 - 04</u>	<u>FY 03 - 04</u>
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Reimbursable Funds	1,219	299	734	434	145.2%
Contingent & Back of Bill Reductions	0	0	0	0	
Adjusted Reimbursable Funds	\$1,219	\$299	\$734	\$434	145.1%
Adjusted Grand Total	\$144,745	\$186,590	\$194,238	\$7,648	4.1%

Where It Goes:

Personnel Expenses

Abolished positions – salary and fringe benefits.....	-\$833
Employee and retiree health insurance costs	531
Retirement contribution cost increase	27
Turnover adjustments – budgeted rate for fiscal 2003 of 6.48% for \$26.6 million of salary and fringe benefits is reduced to 2.97% for \$26.0 of salary and fringe benefits	960
Deferred compensation match – contingent upon legislation.....	-196
Other adjustments	45

Other Changes

Reduced funding for contractual employee payments	-123
Increased telephone communication expenditures.....	14
Increased travel for conferences and seminars.....	30
Net increase for new vehicle purchases – the allowance provides funds for six new vehicles compared to three funded in fiscal 2003 – and net increase in gas and oil and maintenance for the department's vehicles	66

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Where It Goes:

Increased contract amount for loan service contract for the department’s mortgage loan activity.....	130
Increased expenditure for various employee training and tuition reimbursement.....	53
Rent – includes increased rent payments to the Department of General Services for DHCD Crownsville headquarters building	74
The Board of the Maryland Affordable Housing Trust (MAHT) anticipates increased grant activity utilizing the special funds deposited into the MAHT revolving fund	1,575
Increased expenditure for audit of Maryland Housing Fund – the department will be re-bidding the contract and anticipates an increase	24
Increased capital lease payments for previously purchased computers for the Division of Information Technology.....	91
Increased expenditure for various loan service, audit, appraisal, and actuarial contractual services within the Division of Credit Assurance.....	205
Reduction in general fund support for noncapital historic preservation grants	417
Anticipated increase in special fund grants administered by the Maryland Heritage Areas Authority	73
Reduction in general fund support for museum assistance operating grants	-294
Federal funding for Community Service Block Grant program to community action agencies that provide services to low-income individuals and families	1,508
Reduction in general fund support for Community Legacy operating grants	-250
Elimination of the following general fund grants: \$45,000 for rehabilitation code hotline; \$39,000 for grant to the Spanish Speaking Communities of Maryland; \$106,300 grant to Greektown; \$100,000 grant to the Historic East Baltimore Community Action Coalition; and State Community Service Block Grants \$114,000.....	-359
Net change in federal fund Section 8 rental housing grants	1,900
Reduction in special fund supported rental assistance payments to elderly persons and families in subsidized projects	-43
Reduced special fund support for teaching assistance grants	-30
Increased special fund revenues derived from statutorily required utility company payments used to support the Weatherization Assistance Program	685
Increased federal funds for Weatherization Program	836
Reimbursable fund revenues provided by the Department of Human Resources – Community Services Administration to support the Weatherization Assistance Program	263
Elimination of Live Near Your Work grants	-150
Increased expenditure for various contractual services for the Division of Development Finance programs	140
Elimination of federally funded lead based paint grant funds	-320
Other	599
Total	\$7,648

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Where It Goes:

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

Office of the Secretary, Finance and Administration, and Information Systems

The allowance for the Office of the Secretary is approximately \$2.4 million, which represents roughly a \$464,000 reduction from the adjusted fiscal 2003 working appropriation. Personnel expenditures including contractual employee payments, which account for 88% of the office's total budget, are reduced in the budget by \$290,000. The office loses 1 regular position to abolishment. The most significant non-personnel-related budget change is a \$24,000 reduction for various contractual services. Despite the reduction, the budget still provides funding for several contractual services that are noteworthy: \$35,000 for housing strategy and strategic planning studies, \$14,300 for professional training contracts, and \$47,339 for various special project and consulting services. The allowance also transfers \$140,000 to fund various employee training and tuition reimbursement programs to the Office of Management Services.

The allowance for special funded grants provided by the Maryland Affordable Housing Trust is \$2.8 million, which is a \$1,575,000 increase over the fiscal 2003 working appropriation. More on the source of funds for these grants and the increased funding can be found in **Exhibit 4** of this analysis.

The allowance for the Office of Management Services is \$2.7 million, which is a \$532,000 increase above the fiscal 2003 working appropriation. Personnel expenditures including contractual employee payments, which account for 80% of the office's total budget, increase in the budget by \$372,000. This increase is the result of the department's transfer of 5 regular positions from the Office of the Secretary, which explains the reduction in this office's personnel budget. After adjusting for the transfer of positions, Management Services loses 1 position to abolishment. The most significant non-personnel-related budget change is a \$115,000 increase in funds supporting various tuition reimbursement programs. These funds were transferred from the Office of the Secretary discussed above. The budget continues to provide funds for various employee training contractual services budgeted at \$81,220. The budget also provides \$50,000 for consulting service contracts. One of the contracts will develop improved Geographical Information Systems (GIS) applications for tracking the department's program activity, and the other contract is intended to provide an analysis of the 2000 census data for incorporation into the department's program performance review.

The allowance for the Office of Finance and Administration is \$4.66 million and remains virtually unchanged from what is provided in the fiscal 2003 working appropriation. Personnel expenditures (including contractual employee payments), which account for 69% of the office's total budget, decrease by \$135,000 in the budget. The office loses 1.5 regular positions to abolishment. The most significant non-personnel-related budget changes are as follows: (1) the budget provides approximately \$50,000 for the replacement of six new vehicles, which represents an increase of \$22,000 over what is budgeted for fiscal 2003; (2) approximately \$104,000 is budgeted for gas and oil and maintenance for the department's fleet of vehicles, which is an increase of \$44,000; (3) the department's budget for rent of its Crownsville headquarters building increases by approximately \$57,000 to a budgeted amount of \$884,000 for fiscal 2004; and (4) the budget provides \$82,000 for a contract that provides annual audits of the Maryland Housing Fund. This contract is to be rebid and is expected to increase in cost in fiscal 2004, which

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explains the \$24,000 increase provided in the allowance.

The department's Information Systems Office Division of Information Technology receives an allowance of \$3.15 million, which is a \$262,000 or 9.1% increase over the fiscal 2003 working appropriation. The allowance for personnel, including contractual employee payments, is 52% of the office's total budget and increases by \$60,000 over the fiscal 2003 working appropriation. The most significant non-personnel-related budget changes are as follows: (1) one-time computer software purchases for fiscal 2003 reduce the budget by \$223,000; however, this reduction is countered with an increase of \$215,000 for various computer hardware, software, programming, and consulting contracts; (2) the budget provides \$422,000 for installment payments and capital lease payments to the Department of Budget and Management (DBM) for previously purchased computers and micro-computers, which is a \$91,000 increase over what is budgeted for fiscal 2003; and (3) the budget includes \$69,000 for computer software equipment parts which is roughly \$20,000 less than what is budgeted for fiscal 2003.

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Division of Credit Assurance

The allowance for the Maryland Housing Fund (MHF) is approximately \$470,000, which is an increase of \$38,000 above the fiscal 2003 working appropriation. MHF is supported entirely with special fund revenues generated from the premiums generated from the fund's mortgage insurance activities. Personnel expenses associated with the 6 regular positions supporting the fund's activities comprise \$419,000, or 89% of the total allowance. The allowance for the Asset Management Office is approximately \$4.6 million and increases by \$185,000, or 4.2% above the fiscal 2003 working appropriation. Personnel expenditures including contractual employee payments, account for almost \$3.1 million of the total allowance and represent 66% of the office's total budget. The office loses 2 regular positions to abolishment. The most significant non-personnel-related budget changes are as follows: (1) a \$69,000 reduction reflects an adjustment in contractual employee payments; (2) the budget provides \$484,000 for a loan service contract for the department's loan financing programs. Funds for this contract increase in the budget by \$130,000 to reflect the actual fiscal 2002 contract payment; consequently the amount budgeted for fiscal 2003 may be insufficient; (3) the allowance provides \$763,000 for various audit, appraisal, site inspection, and actuarial contracts. The budget increases by \$75,000 for these contracts due to the anticipated increased expenditure associated with re-bidding an audit review contract.

The Maryland Building Codes Administration receives a fiscal 2004 allowance of approximately \$614,000, which is roughly \$35,000 above the fiscal 2003 working appropriation. Personnel expenditures for the 8 regular positions supporting the administration comprises 84% of the allowance and accounts for \$30,000 of the increase funding. The administration loses 1 position to abolishment.

Division of Historical and Cultural Programs

The Office of Management and Planning (OMP) receives an allowance of \$2.74 million, which is approximately \$123,000 less than what is provided in the fiscal 2003 working appropriation. OMP is funded with 19 regular positions and 2 contractual positions in the allowance, which represents a reduction of 2 regular positions due to position abolishment. Personnel expenditures for regular and contractual employees is approximately \$1.3 million, or 47% of the total budget. OMP's grant activities account for \$1,187,000 of the allowance. In total, the funding for grants is reduced by \$340,000 in the budget. The allowance continues to provide funds for the following grant programs:

- \$233,445 of general funds for non-capital grants for historic preservation and museum assistance. This program has been reduced significantly over the last two budgets. In fiscal 2002 the program was appropriated \$1.3 million; however, actions of the General Assembly reduced the funding for this grant program by one-half to \$650,000 for the fiscal 2003 budget. The Governor's allowance reduces the program still further to \$233,445.
- \$900,000 of special funds for grants from the Maryland Heritage Areas Authority Fund (MHAAF). This fund receives a \$1.0 million annual dedication of State transfer tax funds to make grants for cultural and heritage tourism projects located in certified or recognized heritage areas. The allowance represents a \$72,626 increase over the amount appropriated for fiscal 2003.

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- \$53,500 of general funds to support the activities of the Maryland Humanities Council. This grant was reduced from \$107,000 by actions of the General Assembly during the 2002 session. The grant leverages a federal fund match.
- \$87,190 of federal funds for historic preservation grants from the U.S. Department of the Interior for the purposes of carrying out the provisions of the National Historic Preservation Act. These funds assist programs to survey, register, restore, and renovate historic buildings.

The Office of Museum Services' fiscal 2004 allowance is \$3.5 million, which is a \$219,000 increase over the fiscal 2003 working appropriation. The office is funded with 39 regular positions and 13.09 contractual positions in the allowance, which represents a reduction of 1.5 regular positions due to position abolishment. Personnel expenditures for regular and contractual employees is approximately \$2.4 million, or 64% of the total budget. The allowance continues to provide general funds for operating museum grants; however, these grant funds have been reduced from \$774,657 in the fiscal 2003 budget to \$480,384 in the fiscal 2004 allowance.

The Division of Historical and Cultural Programs also includes the Office of Research, Survey and Registration, and the Office of Preservation Services. Collectively, these programs are provided with \$1.7 million in the fiscal 2004 allowance, which is roughly the same amount appropriated for fiscal 2003.

Division of Neighborhood Revitalization

The allowance for the Division of Neighborhood Revitalization is \$13.0 million, which represents a \$530,000, or a 4.3% increase over the fiscal 2003 working appropriation. The allowance for personnel, including contractual employees, accounts for \$2.6 million, or 20% of the total budget. These costs increase by \$181,000 after adjusting for the abolishment of 1 regular position. A large portion of the division's funding is provided for the administration of various grant programs. The budget provides approximately \$9.9 million, or 76% of the total allowance for grants. This represents a \$395,000 increase over the fiscal 2003 working appropriation. This division administers the following grants:

- \$8,383,753 of federal funds for Community Service Block Grants. This program is funded through the U.S. Department of Health and Human Services. Grants are administered to community action agencies that provide services to low-income individuals and families. The department's estimate of the grant amount to be received represents a \$1,507,966 increase from the \$6,875,787 provided in the fiscal 2003 budget.
- \$250,000 of general funds for operating grants under the Community Legacy Program (CLP). This is a reduction from the \$500,000 provided for CLP grants in the fiscal 2003 budget
- \$600,000 of federal funds for the Community Development Block Grant Program. These funds provide grants to local governments to assist low- and moderate-income individuals with their needs and assist local governments eliminate blight.

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- \$290,000 of general funds for the Neighborhood Housing Services Grant Program. These grants assist neighborhood services corporations for the costs incurred in neighborhood revitalization efforts.
- \$120,000 of general funds for the Town Management Circuit Rider Program.
- \$86,584 of general funds are provided for the State Community Service Block Grant Program to county organizations that service low-income individuals and families.
- \$50,101 of federal funds from U.S. Department of Health and Human Services for nutrition educational programs.
- \$50,000 of general funds of the Main Streets Improvement Program.
- Grants that have been eliminated from the budget include a \$45,000 grant to support the Rehabilitation Code Hotline, a \$39,000 grant for the Spanish Speaking Communities of Maryland to support special services to the Spanish speaking populations of the State, \$106,300 of general funds for Greentown to assist with neighborhood revitalization efforts, and \$100,000 of general funds for the Historic East Baltimore Community Action Coalition to assist with neighborhood revitalization efforts.

Division of Development Finance

This division finances the development of affordable multi-family and single family housing, encourages homeownership, provides loans and grants for special housing needs, and administers State and federally funded rental subsidy programs. The allowance for the division's five programs provides \$151.8 million, which is a \$5.6 million increase over the fiscal 2003 working appropriation. While the division's total budget is very large, \$140.7 million is attributable to federal funds. Much of the department's federal funds are budgeted in the Division of Development Finance. Of the total allowance, \$108.0 million is provided by HUD for the Project-based Section 8 Contract Administration. DHCD's Rental Services Program entered into a contract with HUD to administer Section 8 rental housing assistance payments. The budget for personnel expenses is approximately \$7.6 million supporting 99 regular positions and 30 contractual positions. Overall, the programs absorbed 7.1 regular position abolishments.

The allowance includes approximately \$25.66 million of federal funds for Section 8 tenant-based rental assistance, which is approximately \$2.6 million more than is budgeted for fiscal 2003. Overall, the department's weatherization programs receive \$2.2 million of federal funds, which represents level funding from what is in the fiscal 2003 budget. Further analysis of the department's federal funds budget is provided below.

The allowance level funds \$2.3 million of general funds for the Rental Allowance program. This program provides monthly rental assistance to families who have recently lost their homes. The department also receives \$300,000 of special funds, a decrease of \$43,000 from the fiscal 2003 working appropriation, for rental subsidy payments to property owners participating in the Rental Housing Production Program and Elderly Rental Housing Program. The budget continues to provide \$500,000 of general funds for the

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Self-help Housing Program which assists nonprofit organizations and local jurisdictions to expand home ownership opportunities for families of limited income through the use of self-help methods of rehabilitation and construction, and \$180,000 of general funds for a grant to the Micro-Enterprises Council to support its small business support activities. The allowance also provides \$340,000 in special funds to support technical assistance capacity building grants which is a reduction of \$30,000 from what is in the fiscal 2003 budget. Finally, the budget provides \$518,200 of federal funds from the U.S. Department of Housing and Urban Development (HUD) for the Emergency Shelter Program.

The department's budget provides funds for a variety of contractual services, many of which relate to audit services and financial advisory services. Significant contractual service contracts include (1) \$263,000 for financial advisory services related to the department's bond issuance activity; (2) \$205,000 for an audit and other financial services for CDA; (3) \$249,000 for various contractual services for the Housing Development Program; (4) \$79,000 for credit, marketing, microfilming, and other assorted contractual services supporting the Homeownership Program; (5) \$125,000 for various contractual services for the Special Loan Programs, which represents a reduction of \$150,000 from what is budgeted for fiscal 2003; and (6) the budget provides \$735,000 in special funds derived from utility company revenues and \$413,000 in reimbursable funds from the Department of Human Resources Community Services Administration to provide funds in addition to what is provided in federal funds to support the Weatherization Assistance Program.

The Live Near Your Work program is eliminated in the Governor's fiscal 2004 allowance. The program received \$150,000 of general funds in the fiscal 2003 budget to provide cash incentives to new home buyers to purchase homes within five miles of their workplace in targeted neighborhoods around the State.

Impact of Federal Actions

Federal funds support a number of activities within the department, often with DHCD passing the funds through to local jurisdictions, municipalities, and community action agencies. As shown in **Exhibit 3**, the department expects to receive \$167.1 million in federal funds during fiscal 2004. Approximately \$13.6 million in federal funds is utilized in the department's capital PAYGO budget. The remaining \$153.5 million is budgeted in the department's operating budget and used for a variety of purposes. The most important change in the administration of federal funds concerns the funding for tenant-based rental assistance. As mandated by HUD, funding for the Section 8 Certificate program is being converted to a Section 8 Housing Choice Voucher program.

Exhibit 3

**Department of Housing and Community Development
Federal Funds
Fiscal 2002 Actual through Fiscal 2004 Allowance**

	FY 02	FY 03	FY 04	FY 03 - 04	Percent
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Difference</u>	<u>Change</u>
		<u>Approp</u>			
Rural Development Grants	\$36	\$0	\$0	\$0	n/a
Section 8 New Constr. / Substantial Rehab.	77,287	124,156	125,578	1,422	1%
Community Dev Block / Small Cities	11,682	8,330	8,400	70	1%
Emergency Shelter Grants	521	522	545	23	4%
HOME INVESTMENT Partnership	4,855	6,429	6,466	37	1%
Section 8 Rental Voucher	9,189	11,301	11,937	631	6%
Lower Income – Section 8 Mod. Rehab.	702	133	897	764	574%
Section 8 Rental Certificate	650	37	633	596	1,611%
Lead-based Paint Hazard Control	663	508	511	3	1%
Historic Preservation Fund Grants	826	820	805	-15	-2%
NPS – Assateaque	18	0	0	0	n/a
NPS – Revolutionary War Survey	127	0	0	0	n/a
Defense Legacy Resource	68	112	69	-43	-38%
National Center for Pres. Tech. and Training	28	0	0	0	0%
National Endowment for Humanities	59	69	0	-69	-100%
Institute of Museum and Library Services	7	0	146	146	100%
Weatherization Assistance – Low Income	1,877	2,211	2,211	0	0%
Promoting Safe and Stable Families	30	0	0	0	n/a
Community Services Block Grants	8,993	7,832	8,880	1,048	13%
Community Services Food and Nutrition	51	50	50	0	0%
Total	\$117,669	\$162,510	\$167,128	\$4,613	3%

NPS=National Park Society

Source: Department of Housing and Community Development

HUD Section 8 Contract Funds Not Fully Expended

Beginning in fiscal 2002, DHCD entered into a five-year contract with HUD to manage housing contracts for privately owned Section 8 properties subsidized by HUD. The majority of the contract award, \$108 million annually, assumes management of approximately 300 properties with an average Section 8 Housing Assistance Payment of \$30,000 each month. Section 8 payment amounts made to property owners are estimated at the beginning of the HUD-contract year and are adjusted monthly. A review of the department's closeout for fiscal 2002 reveals that approximately \$31 million of the federal funds from HUD to administer the program were not expended during the fiscal year. While it may be the case that during the first year of DHCD's administration that all of the contracts with privately owned, Section 8 property owners may not have been converted or transferred to the State, the significant amount of cancellation bears some discussion. **DLS recommends that the department brief the committees concerning the cancelled federal funds and whether during fiscal 2003 the department will be distributing the funds as budgeted. In addition, the department should address whether the reduced funding in fiscal 2002 reflects a decline in the number of property owners participating in the Section 8 program, and if so, what impact this might be having on the State's stock of affordable rental units for low- and moderate-income families.**

Fluctuations in Section 8 Certificate Programs

As shown in Exhibit 3, the level of federal funding under the Lower Income – Section 8 moderate rehabilitation and Section 8 Rental Certificate programs is significantly reduced in the fiscal 2003 working appropriation from what was expended during fiscal 2002 and from what is budgeted in the fiscal 2004 allowance. **The department should advise the committee whether the fiscal 2003 funding for these programs will be increased during the fiscal year and added to the budget through the budget amendment process or if the funding shown for fiscal 2003 accurately reflects the amount of funding that will be received for fiscal 2003.**

President Bush's Federal Fiscal 2004 Proposed Budget Reflects Changing Priorities at the Federal Level That Should Impact the State

President Bush's proposed fiscal 2004 budget for HUD includes \$31.3 billion to increase homeownership, promote affordable housing, and strengthen at-risk communities. A number of priorities have been articulated by the Bush Administration and are reflected in the President's budget proposal. Some of these include:

- ***Increasing Homeownership and Affordable Housing:*** The President's budget provides a 5% increase in HOME Investment Partnerships Program funding. Both State and local government housing authorities take advantage of this program that encourages the production of affordable housing. **DHCD should brief the committees concerning how the department and local housing authorities could direct these additional resources to assist the State's efforts to increase the amount of affordable housing throughout the State.**

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- ***American Dream Downpayment Initiative:*** HUD's budget level funds this program at \$200 million for federal fiscal 2004. This program is similar to the State's Downpayment and Settlement Expense program. **DHCD should brief the committees concerning how the federal and State programs complement each other and whether the State program duplicates effort.**
- ***Housing Counseling:*** The budget provides an additional \$10 million to provide counseling services to lower income individuals and families who seek to become homeowners or seek affordable rental housing. Concerns about the department's handling of housing counseling for low- and moderate-income residents have been raised by the General Assembly during the last several sessions. In a report to the budget committees, submitted just prior to the 2002 session, the department indicated that it was implementing procedures that are intended to improve its housing counseling services to State residents participating in the department's mortgage programs. **DHCD should remind the committees concerning what steps have now been taken to improve these services, and how the additional federal focus on housing counseling will work in conjunction with DHCD's efforts to ensure that State residents are adequately assisted.**
- ***Single Family Affordable Housing Tax Credit:*** The Bush Administration is proposing a tax credit of up to 50% of the cost of new construction or rehabilitation of affordable housing in distressed communities. The tax credit would target low-income households earning less than 80% of an area's median income. **DHCD should brief the committees concerning how this proposed program might assist the department's efforts to increase the production of affordable housing units, and whether a similar State program might help leverage additional federal funds if this program is approved and funded.**
- ***Self-help Homeownership Opportunity Program:*** The Bush Administration is proposing \$65 million to provide grants to support nonprofit organizations that help low-income families construct homes that they will eventually live in. The State helps fund a similar program. **DHCD should brief the committees regarding how the State's Self-help Homeownership program operates, and how the department, local housing authorities, and nonprofit organizations devoted to assisting low- and moderate-income families find affordable housing might take advantage of this potentially new program and source of funds.**
- ***Housing Choice Voucher Program:*** HUD allows local housing agencies the flexibility to use rental assistance vouchers toward moving low-income families into homeownership. Housing agencies may either provide mortgage assistance in lieu of a rental subsidy or offer families a one-time downpayment grant equal to up to one year's worth of rental assistance. **DHCD should brief the committees concerning how the department is utilizing this subsidy program to move families from rental situations to homeownership.**

Issues

1. Governor's Budget Proposes Fund Transfer from the Maryland Affordable Housing Trust Revolving Fund

Established by Chapter 265, Acts of 1992 and codified under Title 11, Section 11-101 of Article 83B of the Annotated Code of Maryland, MAHT provides grants to promote affordable housing for households earning less than 50% of the area or statewide median income. The trust is directed by a Board of Trustees and staffed by DHCD. MAHT grants are funded through the collection of interest earned on trust accounts held by title insurers doing business in the State. These funds are collected annually and deposited into a revolving special fund account for distribution by MAHT.

The Governor's budget plan includes the transfer of \$500,000 of available fund balance from the MAHT fund. As shown in **Exhibit 4**, a sizable fund balance exists from which to fund the proposed transfer.

Exhibit 4

	<u>Fiscal 2003</u>	<u>Original Fiscal 2004</u>
Beginning Balance	\$4,408,982	\$4,383,982
Revenues*	1,200,000	1,200,000
Encumbrance Budgeted	-1,225,000	-2,800,000
Proposed BRFA Transfer		-500,000
Available Balance	\$4,383,982	\$2,283,982

*The revenues for fiscal 2003 and 2004 are estimates – the fund received \$1.4 million in fiscal 2001 and \$1.7 million in fiscal 2002.

Source: Department of Housing and Community Development

The amount of the available fund balance, however, is somewhat up in the air due to potential processing of a budget amendment submitted by the department in November 2002. The budget committees have held the amendment pending resolution of the current fiscal situation. The amendment in question proposed increasing the special fund appropriation by \$1,775,000 to fund additional MAHT grants during fiscal 2003. DLS makes the following recommendations:

- The proposed \$500,000 transfer could be accomplished with an available fund balance without interrupting the planned encumbrance level for fiscal 2004. However, given the source of the revenues that accrue to the fund **DLS recommends this transfer not be made.**

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- In addition, the committee should reject Budget Amendment 097-03 and direct that the funds be utilized to support other affordable housing programs supported with general funds in the DHCD budget. **Specifically, DLS recommends that the MAHT board be directed to utilize \$2.3 million of available funds to support the Rental Allowance Program in fiscal 2004 in lieu of appropriating general funds to serve this program. Through the Rental Allowance Program, DHCD provides financial assistance to lower income households by providing fixed monthly rental allowance payments to or on behalf of eligible households. Use of the funds in this manner would ensure that MAHT funds are directed to affordable housing initiatives. Because the MAHT board is not directly controlled by DHCD but only staffed by the department, DLS recommends the following budget language to effectuate the recommendation above.**

, provided that notwithstanding Article 83B, Section 11-101 through Section 11-107, the Maryland Affordable Housing Trust Board of Directors shall use \$2,800,000 of this appropriation as outlined under subsections (1) and (2) of this section:

- (1) \$2,300,000 shall be used to fund rental allowance payments under the State Rental Allowance program in accordance with the provisions of Article 83B, Section 2-901 through Section 2-907. Authorization is hereby granted to transfer these funds to the Division of Development Finance Rental Services Program, budget code S00A2505;
- (2) \$500,000 shall be used to fund grants to nonprofit organizations and local governments that operate self-help housing programs in accordance with Code of Maryland Regulations 05.18.01.01 through 05.18.01.12. Authorization is hereby granted to transfer these funds to the Division of Development Finance Housing Development Program, budget code S00A2502.

Further provided that authorization is hereby granted to the Department of Housing and Community Development to increase the special fund appropriation by up to \$2,800,000 by approved budget amendment should sufficient revenues be available in the Maryland Affordable Housing Trust Fund to support the increase.

Based on the balance figures provided in Exhibit 4, MAHT would still have sufficient funds to meet the \$2.8 million of planned encumbrances should the budget amendment that is currently pending not be approved and the funds requested remain in the revolving fund.

2. Historic Preservation and Heritage Issues

Maryland Heritage Area Program Should Be Reviewed

The authority was established by Chapter 601, Acts of 1996 to oversee the implementation and administration of the Maryland Heritage Preservation and Tourism Areas Program. Chapter 601 also established the Maryland Heritage Areas Authority Fund, a revolving special fund from which the authority provides management planning and project grants for heritage tourism development projects within the State's certified and recognized heritage areas. Thus far, the Maryland Heritage Areas Authority (MHAA) has approved seven certified heritage areas that are eligible for both project and operating grants. Another

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five areas are designated as recognized heritage areas eligible for management plan grants only. Grants may be made for capital and noncapital projects. Noncapital project grants may not exceed \$50,000, and capital project grants are capped at \$100,000. All grants are made on a matching basis. Eligible applicants include nonprofit organizations and local jurisdictions.

MHAA Program Exceeds State's Ability to Fund

Since its establishment in 1996, the MHAA program has grown considerably and somewhat unchecked. It is possible in the very near future that the program could have 15 established heritage areas all of which will be seeking program, operations, and capital project grants from the MHAA fund. Even if the \$3.0 million was not transferred from the fund through actions of the General Assembly in the Budget Reconciliation and Financing Act (BRFA) of 2002, (Chapter 440, Acts of 2002) the demand for funding would soon outstrip the funds being directed to the program. The department has stated in the past that when fully mature the program would require up to \$10 million to support on an annual basis. This level of funding, however, is unlikely in the current economic climate. Moreover, the General Assembly should review the long-term fiscal implication of funding the program at this level.

Program Growth Should Be Reviewed

In addition to the escalating cost of the MHAA program, DLS is concerned that the program has grown unchecked. According to §13-1110(c) of the Financial Institution Article, MHAA may not designate a heritage area as a recognized heritage area unless the authority finds that (1) the heritage area contains resources of statewide significance that have retained integrity of setting and a cohesive character; (2) the heritage area contains either historic districts listed in or determined to be eligible for listing in the Maryland Register of Historic Properties, or natural or recreational resources determined to be of statewide significance; and (3) public assistance for the heritage area is reasonably expected to produce additional private investment, job creation, and tourism revenues. However, based on the number of MHAA recognized or certified areas and the boundaries they encompass, a large portion of the State has been designated to receive funding consideration under the MHAA program. The boundaries of these areas, and potentially additional recognized or certified areas, are extensive and appear to run counter to the intended purpose of creating public/private cooperative projects for the establishment of specific and identifiable tourist destinations. **DLS recommends committee narrative that would require a full review of the program for consideration by the General Assembly during the 2004 session. DLS believes that program costs are prohibitive and that the program should be more focused on developing a few heritage areas in the State rather than numerous areas that cannot be supported with State resources. Furthermore, a review of the program's emphasis on creating tourism should be reviewed by the Department of Business and Economic Development Office of Tourism Development for relevancy and fit into the State's plans for tourism development.**

Recent Funding Issues

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Since fiscal 1997, MHAAF has annually received a \$1.0 million allocation from the real estate transfer tax through the Public Open Space program. Chapter 713, Acts of 2001 extended this allocation of transfer tax revenues through September 30, 2006. In each of fiscal 1997 through 2000, the \$1.0 million of dedicated annual revenues exceeded the MHAA's annual expenditures. As a result, a significant fund balance estimated during the 2002 session to reach \$3.8 million by the close of fiscal 2002, accumulated in the fund. Due to a transfer of \$3.0 million from MHAAF to the State general fund authorized by Chapter 440, Acts of 2002, the actual balance carried forward into fiscal 2003 was \$988,000 as shown in **Exhibit 5**.

Exhibit 5

Maryland Heritage Areas Authority Fund
Actual Closing Fiscal 2002 and Projected Closing Fiscal 2003 Fund Balances

	<u>Fiscal 2002</u> <u>Account Summary</u>	<u>Fiscal 2003</u> <u>Account Summary</u>
Beginning Fund Balance	\$4,230,962	\$988,005
Revenue		
Annual Transfer Tax Allocation	1,000,000	1,000,000
Interest Earnings	133,501	29,700
Budget Reconciliation Reversion	-3,000,000	0
Cancelled Encumbrances	<u>20,153</u>	<u>0</u>
Total Available	\$2,384,616	\$2,017,705
Encumbrances		
Grant Activity	1,185,234	872,000
Administrative Expenses	<u>211,377</u>	<u>133,839</u>
Total Encumbrances	\$1,396,611	\$1,005,893
Ending Balance	\$988,005	\$1,011,866

Source: Maryland Heritage Areas Authority

In November, the department submitted a budget amendment that proposed to increase the MHAA special fund appropriation by \$1,073,000 to fund the distribution of additional grants by MHAA. In light of the State's fiscal condition, the budget committees recommended that DBM not approve the additional appropriation. The figures provided in Exhibit 5 assume that the requested additional funds will not be appropriated during fiscal 2003 and will be available for use in fiscal 2004. Based on the figures above, MHAA will have approximately \$1.0 million of available fund balance for use during fiscal 2004.

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Available funding would increase to \$2.0 million with the addition of the annual transfer of \$1.0 million from the State transfer tax revenues. **In light of concern about the size and scope of the Heritage Area program, DLS recommends that the General Assembly consider amending the statute that provides for the \$1.0 million transfer from the State transfer tax to MHAA and instead direct that these funds be deposited into the State general fund for fiscal 2004. This would provide the MHAA program with approximately \$1.0 million in available funds to continue grant activities in fiscal 2004 while the program is reviewed by DLS and the General Assembly for consideration in the 2004 session. This re-direction of State transfer tax can be accomplished by amendment to the Budget Reconciliation and Financing Act of 2003.**

Certified Heritage Structure Rehabilitation Credit

Similar to the federal historic rehabilitation tax credit, the Maryland Heritage Structure Rehabilitation Tax Credit was established by the General Assembly in 1996 by Chapter 601, Acts of 1996 allowing a tax credit in an amount equal to 10% of the taxpayer's qualified rehabilitation expenditures for the rehabilitation of a certified heritage structure. A certified heritage structure is defined as a structure that is either listed on the National Register of Historic Places; designated as a historic property under local law; or a nonhistoric building that is located in a historic district or a State certified heritage area and is certified to be "contributing" to the district or area.

The amount of the heritage credit was increased by the General Assembly in 1997 to 15% of a taxpayer's qualified rehabilitation expenditures by Chapter 731, Acts of 1997 and then was further increased in 1998 to 25% of a taxpayer's qualified rehabilitation expenditures by Chapter 735, Acts of 1998. The credit claimed for any taxable year could not exceed the State tax owed for that year. Excess amounts could be carried forward for ten years. There was no maximum cap on the dollar amount of the credit that could be claimed as to a specific project or as to the aggregate dollar amount that may be claimed by all taxpayers with qualified rehabilitation expenditures each year.

Chapters 160 and 161 of 2001 further enhanced the heritage credit and provided that any excess credit over a taxpayer's tax liability in a taxable year may be claimed in refund. The legislation also added nonprofit entities to the definition of business entity for the purposes of the credit and allowed the credit to be taken by partners and shareholders of a business entity in any manner that is agreed.

During the 2001 interim, the General Assembly was advised by DLS that the State could experience significant revenue losses in the near future under the heritage credit. Based on information provided by the Maryland Historical Trust, it was projected that the heritage credit would reduce State revenues by \$50 to \$84 million annually. To attempt to control the State's fiscal exposure under this tax credit, Chapter 541, Acts of 2002 placed significant restrictions on the heritage credit, including reducing the credit percentage to 20% and providing that a State tax credit for any single rehabilitation under the program may not exceed \$3 million. To ensure that usage of the credit is monitored, Chapter 541 required extensive reporting by DHCD on a quarterly basis regarding projects potentially eligible for the credit. The Act also stated the intent of the General Assembly that Heritage Structure Rehabilitation Tax Credits for commercial rehabilitation not exceed \$50 million annually and requires DLS to monitor approval of commercial rehabilitation eligible for the credit. The Act "grandfathered" all incomplete projects for which

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an application had been submitted for approval of a proposed rehabilitation as of February 1, 2002, (the introduction date of the bill) and provided that these projects may take the credit under the law in effect on May 31, 2002. Finally, Chapter 541 provided for the termination of the heritage credit on June 1, 2004, allowing the General Assembly to evaluate the usage of the credit over a two-year period and make a determination as to its continuation.

Maryland's heritage rehabilitation tax credit has a \$3 million per project cap for commercial projects. However, there is no overall limit on the amount of credits that may be claimed in any year. While initially the revenue impact to the State was limited, this has changed over the past two years as the number of taxpayers who have completed projects and "earned" credits and the "pipeline" of projects for which plans of rehabilitation have been approved and rehabilitation is underway has grown dramatically. Under the current sunset date of June 1, 2004, an estimated \$30 million in credits in calendar 2004 and \$50 million in credits in calendar 2005 will be added to the pipeline of commercial projects. The addition of these credits to what is already in the pipeline increases the amount of credits that could be claimed in fiscal 2004 to approximately \$56.69 million and approximately \$69.8 million in fiscal 2005. Other observations:

- The cost of the program is excessive. With potential tax credits estimated to be over \$50 million annually, the program is the State's largest economic development program.
- Questions concerning whether the program is leveraging private sector funding for projects or merely providing tax breaks to developers for projects that would be completed without the tax credit must be addressed. In other words, is the program subsidizing activity that would take place otherwise?
- The program's emphasis on commercial development rather than residential development projects – approximately a seven to one tax credit award split in favor of commercial projects – should be reviewed. The program's potential for directing resources to distressed communities and to communities with historic significance and/or large numbers of properties that add historic and cultural value to the community should be emphasized, rather than subsidizing properties for commercial development.
- Consideration should be given to making additional changes to the program, should it survive legislative scrutiny, to directing more of the resources to projects that serve a tourism development and public purpose.
- Consideration should also be given to perhaps making the program a budgeted grant and loan program. This would provide more legislative scrutiny of the project seeking approval and help cap the State's exposure to some legislatively agreed upon figure on an annual basis.

Proposed Legislation Would Eliminate Historic Rehabilitation Tax Credit

SB 203 would change the termination date of the Maryland Heritage Structure Rehabilitation Tax Credit from June 1, 2004, to June 1, 2003. The bill also provides that the tax credit may not be claimed for a rehabilitation project unless an application for the approval of a plan of proposed rehabilitation was received by the Department of Housing and Community Development by February 1, 2003.

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In the fiscal note for SB 203, DLS estimates that the legislation would result in a revenue savings of approximately \$22.8 million in fiscal 2004 as shown in **Exhibit 6**.

Exhibit 6

**Heritage Credit – Commercial Properties Savings Resulting from SB 203
No New Projects Being Added to the Pipeline after February 1, 2003
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Credits Claimed with 6/1/04 Termination Date</u>	<u>Credits Claimed with 2/1/03 Termination Date</u>	<u>Total Savings</u>
2004	\$56,532,291	\$33,733,197	\$22,799,094
2005	69,768,374	24,961,772	44,806,602
2006	17,333,135	5,886,094	11,447,041
2007	2,694,426	1,944,426	750,000

Source: Department of Housing and Community Development

It is estimated that 85% of the credits are taken on personal income tax returns by individuals or pass-through entities that file personal income tax returns. As a result, general funds decrease by the amount of the credit taken. Conversely, the savings created by the bill result in a general fund increase. Because 76% of all corporate income tax revenues are distributed to the general fund and 24% are distributed to the Transportation Trust Fund (TTF), the savings associated with credits claimed on corporate returns will increase general fund revenues by 76% of the amount of the credits taken, and TTF revenues will be increased by 24% of the credits taken. In addition, 30% of the 24% of revenue distributed to TTF is distributed to local governments.

The credit may also be claimed for rehabilitation projects completed by individual homeowners. It is estimated that projects that will result in approximately \$5.0 million in credits will occur between February 1, 2003, and May 31, 2004. As a result of the bill, these credits would also be removed from the pipeline.

DLS recommends that the department brief the budget committees concerning the cost that the Heritage Preservation Tax Certification Program imposes on the State and whether other less expensive means for preserving historic structures is warranted.

Audit Issues

An audit conducted by the DLS Office of Legislative Audits (OLA) conducted for the period beginning

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December 1, 1998, and ending December 31, 2001, found that the Division of Historical and Cultural Programs did not ensure that State grant funds were expended in accordance with grant provisions. OLA's review of the monitoring procedures for grants disclosed that the division did not verify the grantees' reported expenditure information as permitted by grant agreements. **DLS recommends that the department brief the budget committees on what procedures have been put into place to ensure that grantees are complying with grant terms concerning own source expenditures.**

3. Consolidation with Department of Business and Economic Development

DHCD and DBED perform a variety of functions and operate many programs that in many respect share similar goals or provide similar services. The consolidation of DHCD into DBED might prove beneficial to the delivery of services, create synergies among like programs, and eliminate unnecessary and duplicative administrative costs.

As recently as 1988, the functions of DHCD and DBED were consolidated under the former Department of Economic and Employment Development (DEED). Under former Governor William Donald Schaefer's administration, DEED was subdivided into three distinct cabinet level departments – DHCD, DBED, and the Department of Labor, License, and Regulation. Since the establishment of DHCD and DBED as independent departmental entities, each has grown and added a variety of programs that assist needs of business and communities.

Both DHCD and DBED administer grant and loan program that are designed to assist and expand business opportunities, as well as expand the vitality of communities across the State. For instance, DHCD's Division of Neighborhood Revitalization administers grants and loans as well as provides loan insurance to small business through its Neighborhood Business Development Program, Capital Access Program, and Community Legacy Program. DBED also administers a variety of grant and loan programs designed to assist the needs of businesses and strengthen communities. In addition, while DHCD is the administering agency for federal Community Development Block Grants, both DHCD and DBED share the resources to provide funding to a variety of projects that meet the needs of business, communities, and low-income families. Also, DBED is the administering agency for State allocation of private-activity bonds, and much of these resources are directed to support DHCD affordable housing initiatives. A great deal of loan administration, credit underwriting, and asset management accompany each of DHCD's and DBED's programs. Finally, many of the programs and services performed by DHCD's Division of Historical and Cultural Programs lend themselves to functions performed by DBED's Office of Tourism Development.

Potential Cost Savings

A consolidation of DHCD into DBED could potentially reduce State expenditures through certain administrative efficiencies and economies of scale. Most notably it would eliminate a cabinet-level

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department. The following is a summary of the administrative efficiencies that could be realized:

- ***Eliminate Cabinet Secretary:*** Consolidation would eliminate the need for cabinet secretary functions for one department. While some positions with expertise in administering housing and community development programs would probably need to be retained, this analysis assumes that DHCD's Office of the Secretary, including the Office of Management Services, is absorbed by DBED thus eliminating the need for the cabinet-level secretary and deputy secretary positions, as well as eliminating most of the higher level office director, executive assistance, and administrative officer positions.
- ***Merge Administrative Functions:*** Consolidation allows for the merger of administrative functions in the areas of human resources management, general services, and budget and finance. DHCD's Division of Finance and Administration could be merged into DBED's administrative support offices.
- ***Merge Information Technology Functions:*** Consolidation allows for the merger of information technology functions such as system development, data processing, and computer support services. DHCD's Division of Information Technology could be merged into DBED creating certain efficiency's and reductions in personnel needs.
- ***Grant and Loan Programs:*** Each department administers several grant and loan programs. It is possible that the administration of these programs could be merged to create some cost savings. In as much as each program is designed and administered to serve a distinct purpose, it is unlikely that a wholesale merger could take place. Rather, if we assume that each program survives the merger it is more likely that some administrative functions could be merged and eliminated.
- ***Miscellaneous Savings:*** Consolidation might also provide some saving in rent costs. The Department of General Services owns DHCD's headquarters building located at 100 Commerce Drive in Crownsville. Consolidation might allow for some of DBED's functions, possibly the tourism related functions, to move to the current DHCD location. This would reduce DBED's rent costs at Redwood Towers.

DLS has recommended budget language in the DBED operating budget analysis directing DHCD and DBED, with DBM as the coordinating agency, to examine the feasibility of eliminating DHCD and transferring its functions to DBED. A report should be submitted by November 15, 2003, addressing the following issues: (1) DHCD program areas that are duplicative of DBED programs and that serve similar functions; (2) potential strategies for transferring DHCD programs to DBED; (3) the advantages, disadvantages, and estimated cost savings associated with each strategy; and (4) draft implementing legislation.

Recommended Actions

1. Add the following language:

Provided that the general fund appropriation made to the Department of Housing and Community Development shall be reduced in the amount of \$750,000. Further provided that authorization is hereby granted to increase the department's special fund appropriation on a one-for-one bases up to \$750,000 by approved budget amendment as a direct replacement for the general fund reduction.

Explanation: This language reduces the general fund appropriation to the Department of Housing and Community Development in the amount of \$750,000 to reflect the availability of various special fund sources that can be used to support the department's operations in lieu of general funds. The language authorizes a budget amendment to replace the general funds with special funds.

2. Add the following language:

, provided that notwithstanding Article 83B, Section 11-101 through Section 11-107, the Maryland Affordable Housing Trust Board of Directors shall use \$2,800,000 of this appropriation as outlined under subsections (1) and (2) of this section:

- (1) \$2,300,000 shall be used to fund rental allowance payments under the State Rental Allowance program in accordance with the provisions of Article 83B, Section 2-901 through Section 2-907. Authorization is hereby granted to transfer these funds to the Division of Development Finance Rental Services Program, budget code S00A2505;

\$500,000 shall be used to fund grants to nonprofit organizations and local governments that operate self-help housing programs in accordance with Code of Maryland Regulations 05.18.01.01 through 05.18.01.12. Authorization is hereby granted to transfer these funds to the Division of Development Finance Housing Development Program, budget code S00A2502.

Further provided that authorization is hereby granted to the Department of Housing and Community Development to increase the special fund appropriation by up to \$2,800,000 by approved budget amendment should sufficient revenues be available in the Maryland Affordable Housing Trust Fund to support the increase.

Explanation: This language directs the Maryland Affordable Housing Trust (MAHT) Board to utilize \$2.3 million of its appropriation to support the rent subsidy payments under the Rental Allowance Program, and \$500,000 to support grants under the Self-Help Homeownership Program. The MAHT fund has a sizable balance that should be used in lieu of State general fund report to support worthy affordable housing initiatives. Based on the amount of available funds, MAHT should have sufficient revenues to still provide up to \$2.8 million of MAHT grants anticipated by the MAHT board for fiscal 2004.

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	<u>Amount</u>	
	<u>Reduction</u>	
3. Reduce special funds for travel expenditures. This reduction still provides the department with a 3% annual increase in travel above the fiscal 2002 actual expenditure.	\$ 100,000	SF
4. Reduce general and special funds supporting contractual employee payments to the fiscal 2002 actual. This reduction is made in the Division of Neighborhood Revitalization but should be allocated among the department's programs.	60,000 455,000	GF SF
5. Delete general fund grants for the Community Legacy Program. These funds are in addition to the \$8.7 million of general obligation bond funds provided in the budget. Should Community Legacy Program be funded in the fiscal 2004 budget, the general funds supporting operating grants should be foregone due to the State's fiscal condition, or the grants should be supported by the department with available special funds.	250,000	GF
6. Delete general funds for Main Street Improvement Program grants. This reduction still leaves \$340,000 in special funds in the budget to support the program.	50,000	GF
7. Delete funds for various professional training contracts, tuition grants, and Managing for Results contracts. The reduction is budgeted in the Division of Neighborhood Revitalization but should be allocated as follows: (1) 35,000 reduction for professional training services budgeted in the Office of the Secretary; (2) 43,864 for contracts to be determined special projects in the Office of Management Services; (3) 25,000 for Managing for Results studies in the Office of Management Services; and (4) 115,200 for employee tuition grants and professional service training in the Office of Management Services.	219,064	GF

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|-----|---|------------------|----------|
| 8. | Reduce special funds for contractual service contracts. The department's budget includes a number of contracts that are budgeted in excess of what may be required and miscellaneous contracts that may be eliminated. This reduction is budgeted in the department's Finance Administration program but should be allocated among the department's programs. | 100,000 | SF |
| 9. | Reduce general fund support for the Micro-Enterprises Council. This reduction leaves \$100,000 in general funds to support the councils activities during fiscal 2004. | 80,000 | GF |
| 10. | Delete general funds for the Self-Help Homeownership Program. Sufficient funds exists in the Maryland Affordable Housing Trust Fund to support Self-Help Howeownership Program grants to nonprofit organizations and local jurisdictions. | 500,000 | GF |
| 11. | Delete general funds for rent subsidy payments under the Rental Allowance Program. Sufficient funds exist in the Maryland Affordable Housing Trust Fund to support rent subsidy payments in fiscal 2004. | 2,300,000 | GF |
| 12. | Reduce general and special funds for new vehicle purchases. This reduction still provides \$18,245 to fund the purchase of two vehicles that the department has indicated are in a state of disrepair. | 19,811
11,412 | GF
SF |

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13. Adopt the following narrative:

Maryland Heritage Areas Program Review: The Maryland Heritage Preservation and Tourism Areas Program was established by legislation in 1996 to foster heritage tourism through the creation of additional historic and cultural destination within the State. In the last six years, the program has expanded to include seven certified heritage areas and another five recognized heritage areas. Funding for the program is provided through an annual 1.0 million dedicated transfer from the State transfer tax. This funding, however, is not enough to support the project initiatives envisioned by the Maryland Heritage Areas Authority thus creating an unfounded liability. Furthermore, the program’s emphasis on tourism development is not readily apparent. The committees direct the Department of Housing and Community Development Division of Historical and Cultural Programs, the Maryland Heritage Areas Authority, and the Department of Business and Economic Development Office of Tourism Development to prepare a five-year strategic plan for the development of the certified and recognized heritage areas. The strategic plan should provide a blueprint for the future development of each certified and recognized heritage area, including the one-time and ongoing State funding requirements for each designated area; an assessment of local government participation; the planned level of private sector involvement and leveraged funds; and a statistical evaluation of the tourism that will be generated at each certified and recognized area. The report should be submitted to the committees by November 1, 2003.

Information Request	Authors	Due Date
Five-year strategic plan for the development of heritage areas	DHCD MHAA DBED	November 1, 2003
Total Reductions		\$ 4,145,287
Total General Fund Reductions		\$ 3,478,875
Total Special Fund Reductions		\$ 666,412

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$18,374	\$23,670	\$149,857	\$269	\$192,170
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,841	-3,810	1,440	-529
Reversions and Cancellations	-318	-2,025	-44,063	-490	-46,896
Actual Expenditures	\$18,056	\$23,486	\$101,984	\$1,219	\$144,745
Fiscal 2003					
Legislative Appropriation	\$14,929	\$23,667	\$148,416	\$299	\$187,311
Budget Amendments	-706	-11	-3	0	-720
Working Appropriation	\$14,223	\$23,655	\$148,413	\$299	\$186,590

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

Object/Fund Difference Report
Department of Housing and Community Development

Object/Fund	FY 02	FY 03	FY 04	FY 03 - FY 04	Percent Change
	Actual	Working Appropriation	Allowance	Amount Change	
Positions					
01 Regular	415.77	424.00	405.90	-18.10	-4.3%
02 Contractual	48.85	74.90	74.89	-0.01	0%
Total Positions	464.62	498.90	480.79	-18.11	-3.6%
Objects					
01 Salaries and Wages	\$ 25,283,397	\$ 24,838,152	\$ 25,548,979	\$ 710,827	2.9%
02 Technical & Spec Fees	1,982,417	3,192,673	3,069,493	-123,180	-3.9%
03 Communication	643,860	563,813	577,207	13,394	2.4%
04 Travel	315,143	408,084	437,939	29,855	7.3%
06 Fuel & Utilities	188,773	226,827	209,143	-17,684	-7.8%
07 Motor Vehicles	165,019	116,815	167,846	51,031	43.7%
08 Contractual Services	6,474,566	7,790,087	8,130,635	340,548	4.4%
09 Supplies & Materials	405,675	450,919	404,507	-46,412	-10.3%
10 Equip - Replacement	313,410	253,173	321,468	68,295	27.0%
11 Equip - Additional	203,005	240,588	209,849	-30,739	-12.8%
12 Grants, Subsidies, Contr	106,998,714	148,064,518	154,083,454	6,018,936	4.1%
13 Fixed Charges	1,162,703	1,164,676	1,273,258	108,582	9.3%
14 Land & Structures	608,400	0	0	0	0.0%
Total Objects	\$ 144,745,082	\$ 187,310,325	\$ 194,433,778	\$ 7,123,453	3.8%
Funds					
01 General Fund	\$ 18,056,095	\$ 14,928,659	\$ 13,497,318	-\$ 1,431,341	-9.6%
03 Special Fund	23,486,025	23,666,704	26,649,346	2,982,642	12.6%
05 Federal Fund	101,983,484	148,415,696	153,553,323	5,137,627	3.5%
09 Reimbursable Fund	1,219,478	299,266	733,791	434,525	145.2%
Total Funds	\$ 144,745,082	\$ 187,310,325	\$ 194,433,778	\$ 7,123,453	3.8%

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

Fiscal Summary
Department of Housing and Community Development

<u>Unit/Program</u>	FY 02		FY 03		FY 03		FY 02 - FY 03		FY 03 - FY 04	
	<u>Actual</u>		<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>			
20 Office Of The Secretary	\$ 6,712,806		\$ 6,257,353	\$ 6,257,353	-6.8%	\$ 7,899,562			26.2%	
22 Division Of Credit Assurance	5,203,993		5,452,765	5,452,765	4.8%	5,710,504			4.7%	
23 Division Of Historical And Cultural Programs	11,708,509		8,291,224	8,291,224	-29.2%	8,216,174			-0.9%	
24 Division Of Neighborhood Revitalization	14,373,570		12,440,917	12,440,917	-13.4%	12,971,316			4.3%	
25 Division Of Development Finance	99,324,480		147,345,421	146,187,096	47.2%	151,830,379			3.9%	
26 Division Of Information Technology	2,471,671		2,885,527	4,043,852	63.6%	3,147,526			-22.2%	
27 Division Of Finance And Administration	4,950,053		4,637,118	4,637,118	-6.3%	4,658,317			0.5%	
Total Expenditures	\$ 144,745,082		\$ 187,310,325	\$ 187,310,325	29.4%	\$ 194,433,778			3.8%	
General Fund	\$ 18,056,095		\$ 14,928,659	\$ 14,928,659	-17.3%	\$ 13,497,318			-9.6%	
Special Fund	23,486,025		23,666,704	23,666,704	0.8%	26,649,346			12.6%	
Federal Fund	101,983,484		148,415,696	148,415,696	45.5%	153,553,323			3.5%	
Total Appropriations	\$ 143,525,604		\$ 187,011,059	\$ 187,011,059	30.3%	\$ 193,699,987			3.6%	
Reimbursable Fund	\$ 1,219,478		\$ 299,266	\$ 299,266	-75.5%	\$ 733,791			145.2%	
Total Funds	\$ 144,745,082		\$ 187,310,325	\$ 187,310,325	29.4%	\$ 194,433,778			3.8%	

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