

S00A
Department of Housing and Community Development – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	<i>FY 2004 Approp.</i>	<i>FY 2005 Approp.</i>	<i>FY 2006 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Historical Trust Loan Fund					
PAYGO	\$250	200	450	125.0%	450
GO Bonds	450	250	0	-100.0%	0
Subtotal	700	450	450	0.0%	450
Neighborhood Business Development Program					
PAYGO	2,802	6,091	6,000	-1.5%	6,000
Homeownership Programs					
PAYGO	5,353	4,611	6,395	38.7%	6,395
GO Bonds	2,247	2,989	1,205	-59.7%	1,205
Subtotal	7,600	7,600	7,600	0.0%	7,600
Rental Housing Programs					
PAYGO	10,187	9,791	13,455	37.4%	13,455
GO Bonds	6,979	7,409	5,395	-27.2%	5,395
Subtotal	17,166	17,200	18,850	9.6%	18,850
Special Loan Programs					
PAYGO	7,157	8,550	7,550	-11.7%	7,550
GO Bonds	2,718	0	2,750	100.0%	2,750
Subtotal	9,875	8,550	10,300	20.5%	10,300
Community Development Block Grant					
PAYGO	8,400	10,000	10,000	0.0%	10,000
Maryland Heritage Structure Rehabilitation Tax Credit Program					
PAYGO	0	0	20,000	100.0%	20,000
Total	\$46,543	\$49,891	73,200	46.7%	\$73,200
Fund Source					
GO Bonds	12,394	10,648	9,350	-12.2%	9,350
General	675	0	20,000	100.0%	20,000
Special	18,608	22,399	25,600	14.3%	25,600
Federal	14,866	16,844	18,250	8.3%	18,250
Total	\$46,543	\$49,891	\$73,200	46.7%	\$73,200

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Summary of Issues

Nationwide and Maryland Affordable Housing Shortage: The State as well as the country is facing an affordable housing shortage. To address the shortage, Governor Robert L. Ehrlich, Jr. issued an executive order in March 2003 that created the Governor’s Commission on Housing Policy. The commission recently submitted eight recommendations to the Governor to increase and preserve affordable housing in Maryland Communities. In addition to the commission’s recommendations, the Department of Housing and Community Development (DHCD) is exploring ways to use its existing funding to increase its affordable housing loan program capacity without relying on new State funds. **The Department of Legislative Services (DLS) recommends that DHCD brief the committees on the Governor’s Commission on Housing Policy’s final recommendations and how the recommendations will impact DHCD existing financing programs. DLS also recommends that DHCD brief the committees on the department’s ongoing and planned product enhancements designed to increase the State’s affordable housing stock.**

Resolution of the Baltimore City Lead Abatement Program Issues: In 2000, the former Administration made a three-year \$10.5 million commitment to combat the problem of childhood lead poisoning in Baltimore City. The fiscal 2004 budget provided the final allotment of funding for this program. However, due to implementation problems in fiscal 2001, approximately \$300,000 of the appropriation has not yet been disbursed. Additionally, in fiscal 2005, DHCD allocated \$820,000 of its statewide lead abatement funds to Baltimore City. However, due to a disagreement between DHCD and the Baltimore City Health Department (Health Department) concerning incomplete quarterly reporting on the use of the lead abatement funds, DHCD is withholding the fiscal 2001 and 2005 lead abatement funds pending the results of a recent audit of the Health Department’s records. **DLS recommends that DHCD brief the committees on the status of the Baltimore City Health Department’s fiscal 2001 and 2005 Lead Hazard Reduction Grant funds and on the status of the audit report.**

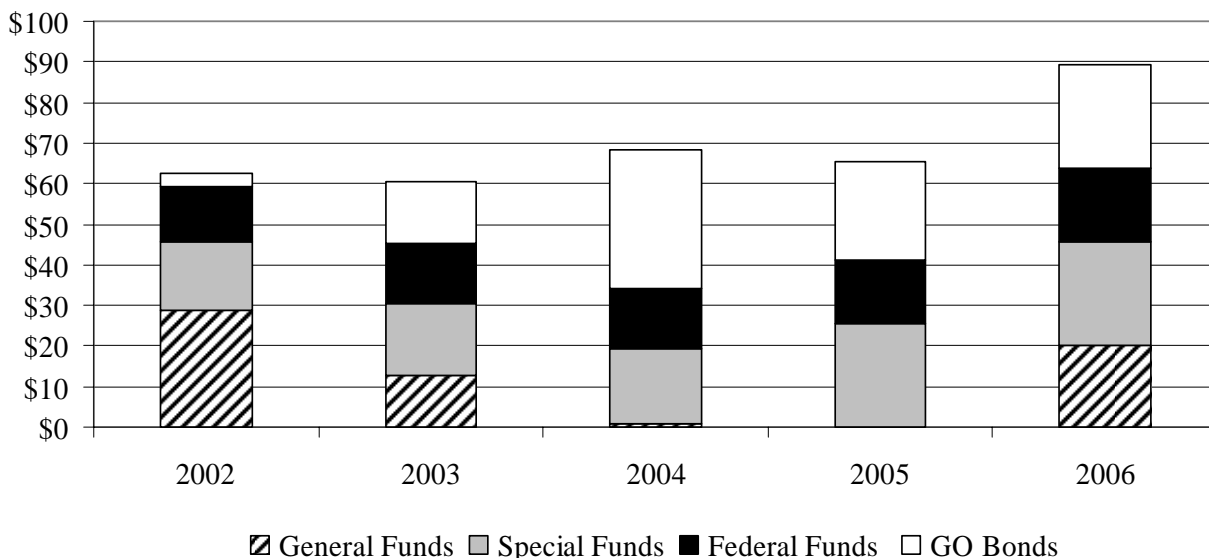
Summary of Recommended Actions

1. Concur with Governor's allowance.

Overview

Prior to fiscal 2003, DHCD's capital grant and loan programs were traditionally funded with pay-as-you-go (PAYGO) funds and general obligation (GO) bonds. However, beginning in fiscal 2003, due to a shortage of available general funds, PAYGO general funds started to be replaced with GO bonds. As shown in **Exhibit 1**, with the exception of fiscal 2006, total capital funding has remained basically unchanged; however, the mix of funding sources has changed dramatically. In fiscal 2004 and 2005, the capital grant and loan programs received virtually no general fund support, while GO bond funding grew substantially. In fiscal 2004, GO bond funding included an additional \$3.6 million to reflect the General Assembly's desire to complete its commitment to provide \$65.0 million over a period of 10 years to assist Baltimore City in replacing demolished high rise public housing units with mixed-use, mixed-income public housing buildings. The fiscal 2006 PAYGO allowance includes \$20.0 million in general funds for the Maryland Heritage Structure Rehabilitation Tax Credit Program (HSRTC). Prior to fiscal 2006, the program was administered as a traditional tax credit program. Chapter 76 of 2004 re-establishes the program subject to an annual appropriation in the budget. Excluding the HSRTC program, DHCD's total capital budget increases \$3.6 million from \$65.6 million in fiscal 2005 to \$69.2 million in fiscal 2006.

Exhibit 1
DHCD Capital Budget Funding Mix
Fiscal 2002 – 2006
(\$ in Millions)



Note: Fiscal 2005 includes \$3.0 million in special funds from the dedicated purpose account for the Hurricane Isabel Housing Rehabilitation and Renovation program. The chart includes all DHCD capital funding including programs solely funded with GO bonds.

Source: Department of Legislative Services

Excluding programs funded solely with GO bonds, the fiscal 2006 allowance provides PAYGO and GO bond appropriations for seven programs within DHCD totaling \$73.2 million. This represents a \$23.3 million, or 46.7% increase over the fiscal 2005 working appropriation. Not including the HSRTC program, the 2006 allowance increases 6.6% from \$49.9 million in fiscal 2005 to \$53.2 million in fiscal 2006. The increase is primarily due to a \$3.2 million increase in special funds resulting from higher-than-normal revenues earned from prepayments and payoffs due to the low interest rate environment. GO bond funds decrease \$2.5 million, or 12.2%, from \$10.6 million in fiscal 2005 to \$9.4 million in fiscal 2006. The decrease reflects the department’s desire to utilize GO bond authority to increase funds for the Community Legacy Program and the Maryland Historical Trust Grant Fund; both programs are funded solely with GO bond funds. Other than the HSRTC program, the 2006 allowance does not provide any general funds but rather utilizes GO bond funds.

Capital Projects Subject to Federal Restrictions on the Use of Tax Exempt Financing: The Internal Revenue Service limits the use of tax-exempt bonds for “private purpose” projects to the lesser of 5% of the bond sale’s proceeds or \$15 million per bond sale. According to the 2006 *Capital Improvement Program (CIP)* presented in **Exhibit 2**, three of DHCD’s programs that receive GO bond funding qualify as private activity.

Exhibit 2
Summary of Capital Projects Possibly Subject to Federal Restrictions on the
Use of Tax Exempt Financing
Fiscal 2006 – 2010
(\$ in Thousands)

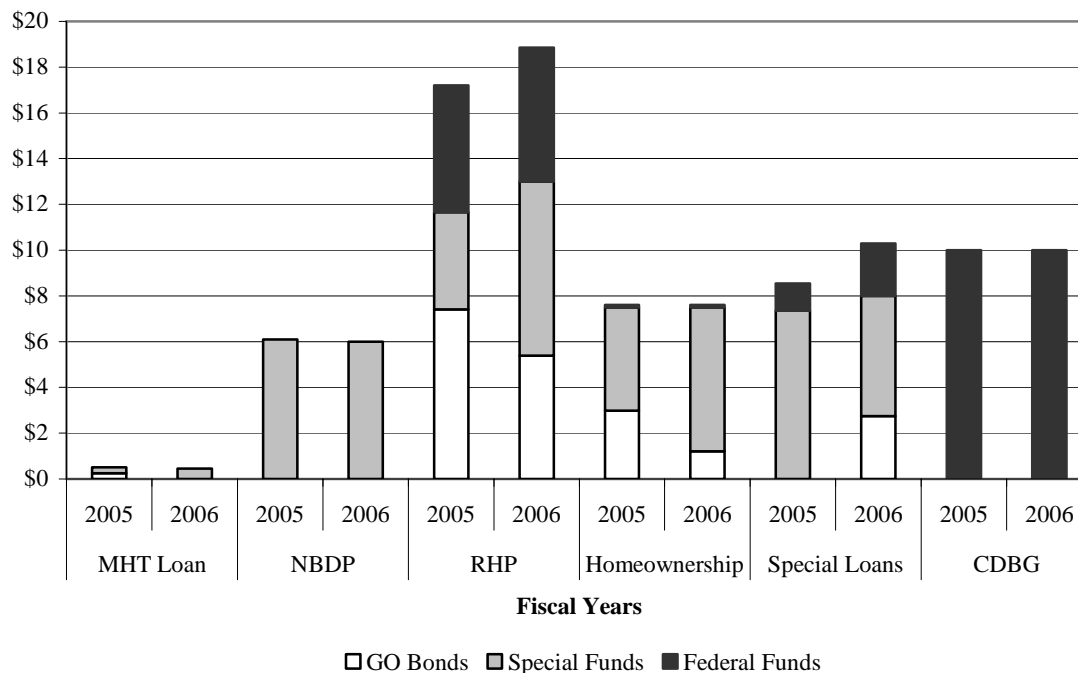
<u>Project</u>	<u>%</u> <u>Private</u>	<u>Private \$ by Fiscal Year</u>				
		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Community Legacy Program	100	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Partnership Rental Housing Programs	100	6,000	6,000	6,000	6,000	6,000
Homeownership Program	100	1,205	2,000	1,800	1,500	1,300
Total		\$15,205	\$16,000	\$15,800	\$15,500	\$15,300

Source: Department of Housing and Community Development

Changes to the individual programs are illustrated in **Exhibit 3** and discussed below.

- **Maryland Historical Trust Revolving Loan Fund:** The 2006 allowance provides \$450,000 in special funds for the Maryland Historical Trust Revolving Loan Fund. This represents a change from the fiscal 2005 appropriation of \$250,000 in GO bond funds and \$200,000 in special funds. The increase in special funds is supported by early principal payoffs in fiscal 2004 that provide sufficient revenues to support the program in fiscal 2006.
- **Neighborhood Business Development Programs:** The allowance provides \$6.0 million for the Neighborhood Business Development Program and is comprised exclusively of PAYGO special funds. This represents a small decrease from the \$6.1 million provided in fiscal 2005.
- **Homeownership Program:** The allowance for the Homeownership Program is \$7.6 million, which is the same appropriation as fiscal 2005. The allowance consists of \$1.2 million in GO bond funds, \$6.3 million in special funds, and \$100,000 in federal funds. The use of GO bond funds is reduced by \$1.8 million with a corresponding increase in special funds. An increase in prior year revenues due to early principal payoffs provides additional special funds in fiscal 2006.
- **Rental Housing Programs:** Rental Housing Programs (RHP) receive \$18.9 million, which represents a \$1.7 million increase over the fiscal 2005 appropriation. The allowance consists of \$5.4 million in GO bond funds, \$7.6 million in special funds, and \$5.9 million in federal funds. This represents an increase of \$3.4 million in special funds and \$306,000 in federal funds and a decrease of \$2.0 million in GO bond funds. An increase in prior year revenues due to early principal payoffs provides additional special funds in fiscal 2006.

Exhibit 3
Comparison of Fiscal 2005 Appropriation and 2006 Allowance
Fiscal 2005 – 2006
(\$ in Millions)



CDBG = Community Development Block Grant
MHT = Maryland Historical Trust
NBDP = Neighborhood Business Development Program
RHP = Rental Housing Programs

Source: Department of Legislative Services

- Special Loan Programs:** The Special Loan Program (SLP) receives a fiscal 2006 allowance of \$10.3 million. The allowance consists of \$2.8 million in GO bond funds, \$5.2 million in special funds, and \$2.3 million in federal funds. This represents increases of \$2.8 million in GO bond funds and \$1.1 million in federal funds and a decrease of \$2.1 million in special funds.
- Community Development Block Grant:** The department’s budget provides \$10.0 million in federal funds from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants. These funds are disbursed 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 2006 allowance is the same appropriation as was provided in fiscal 2005.

Overview Issues

1. Nationwide and Maryland Affordable Housing Shortage

Overview

The State as well as the country is facing an affordable housing shortage. Insufficient affordable housing is a significant problem faced by low- and moderate-income households, preventing them from meeting other basic needs, such as nutrition and healthcare. To address the shortage, Governor Robert L. Ehrlich, Jr. issued an executive order in March 2003 that created the Governor's Commission on Housing Policy. The purpose of the commission was to make recommendations to the Governor for specific and measurable actions that could be taken to increase and preserve quality affordable housing in all Maryland communities. On December 31, 2004, the commission submitted eight recommendations to the Governor. In addition to the work of the commission, DHCD is exploring ways to use its existing funding to increase affordable housing loan program capacity.

Affordable Rental Housing Statistics

- According to the 2004 National Low Income Housing Coalition's Annual Report, Maryland had the fourth highest "housing wage" in the country, which is defined as the wage a household needs to be able to afford an average two-bedroom apartment.
- In Maryland, an extremely low-income household, earning \$21,600, or 30% of the statewide median income of \$72,000, can afford monthly rent of no more than \$550, while the fair market rent for a two-bedroom unit is \$949.
- According to the 2000 census, an estimated 33% of Maryland households pay more than 30% of their income in rent. If a household is paying more than 30% of their income in rent, the unit is not considered affordable housing.

Homeownership Statistics

- The Maryland Department of Planning and the Maryland Association of REALTORS estimate that median home sale prices rose by 38% between 2000 and 2003, while the median household income only increased by 5%.
- The appreciation in Maryland's median home sale price is seven times more than the rise in the State's median household income.

Governor’s Commission on Housing Policy

The Governor’s Commission on Housing Policy was charged with making recommendations to the Governor for “specific and measurable actions . . . to increase and preserve quality affordable workforce housing in all Maryland communities . . .” According to a study completed by DHCD’s Office of Research and included with the final report to the Governor, there is an acute shortage of rental housing for workforce and low-income families, seniors, and individuals with disabilities at Supplemental Security Income (SSI) levels. As of 2000, Maryland had a deficit of approximately 125,000 affordable and available workforce rental housing units. An affordable unit is defined as a unit where the renter earns less than 50% of area median income (AMI) and is spending less than 30 percent of his or her gross income on rent. As shown in **Exhibit 4**, the workforce affordable rental housing shortage in Maryland is projected to grow by an additional 26% by 2014, reaching a high of approximately 157,000 units.

Exhibit 4 Projected 2014 Affordable Rental Housing Shortage in Maryland

<u>Household Type</u>	<u>Shortage</u>	<u>Percent of Total</u>
Families	103,000	66%
Seniors	25,000	16%
Individuals with Disabilities	29,000	18%
Total	157,000	100%

Note: The projected shortage is based on the number of renter households earning less than 50% of AMI and paying more than 30% of their gross income for rent. The projection takes into account population growth and assumes no new additional rental housing production by DHCD.

Source: Department of Housing and Community Development

Over the past five years, DHCD has financed the production on average of approximately 2,700 units of affordable rental housing units annually. If DHCD continues to produce at this rate, the projected rental housing shortage will be reduced by only 27,000 units over the next 10 years, leaving a total rental housing shortage of approximately 130,000 units by 2014. In an effort to help close the gap, two of the commission’s recommendations include:

- Introducing legislation that creates a Maryland Housing and Community Revitalization Trust Fund administered by DHCD that would receive a portion of the increase in real estate property taxes caused by State investment in a housing or community revitalization initiative. The recommendation does not identify specific income levels nor does it identify what percent of the trust fund would be dedicated to affordable housing and community revitalization. **DLS recommends that DHCD brief the committees if legislation to create the trust fund will be**

introduced and which income levels, as a percent of area median income, will the trust fund target. In addition, DLS recommends that DHCD brief the committees on the percentage of the trust fund that will be dedicated to affordable housing and community revitalization.

- Partnering with local jurisdictions to further a long-term commitment to an adequate supply of housing for all Maryland citizens. In that regard, utilize the Development Capacity Task Force Memorandum of Understanding, executed by the Maryland Municipal League, the Maryland Association of Counties, and the Maryland Department of Planning on August 19, 2004, as a mechanism for facilitating the development of a housing plan for each jurisdiction, as deemed appropriate by the jurisdiction.

Other recommendations include the creation of a Maryland Equity Fund; the creation of a Bridge Subsidy Program for individuals with disabilities; an interdepartmental steering committee to find and increase delivery efficiencies; and the inclusion of the Department of Housing and Community Development, with the Department of General Services, in the review process of State surplus property for identification of land appropriate for affordable housing development. **DLS recommends that DHCD brief the committees on the Governor’s Commission on Housing Policy’s final recommendations and how the recommendations will impact DHCD’s financing programs.**

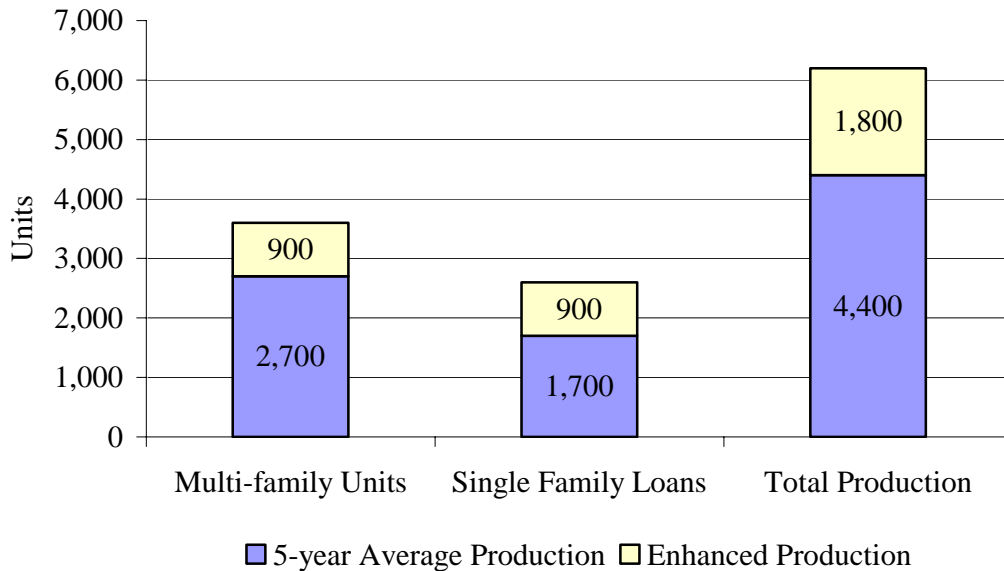
Loan Program Enhancements

In addition to the commission recommendations, DHCD is exploring ways to use its existing funding to enhance its loan program capacity without relying on additional State resources. The goal is to finance additional multi-family rental units and single family loans using existing DHCD controlled resources with no new State funds. DHCD’s controlled resources include the State-funded Rental Housing Program, the Partnership Rental Housing program, the federal HOME program, the federal Low Income Housing Tax Credits (LIHTC), and taxable and tax-exempt revenue bonds. The additional enhancements are still under development but may include leveraging rental housing funds with tax-exempt revenue bonds outside of the competitive awarding of the rental housing funds and optimizing the number of 9% tax credit projects. If implemented, as shown in **Exhibit 5**, DHCD estimates that the enhancements may create approximately 900 additional single-family loans and 900 additional multi-family rental units per year, increasing production from approximately 4,400 to 6,200 units annually.

Other ideas to enhance production include improving DHCD’s overall revenue bond program by:

- streamlining the underwriting process;
- adding private mortgage insurance;
- offering a 35-year fixed rate mortgage product with interest only for the first five years;

**Exhibit 5
Enhanced DHCD Housing Production**



Source: Department of Housing and Community Development

- offering a 40-year fixed rate amortizing mortgage;
- maintaining a sub 5%, 30-year fixed rate mortgage;
- issuing variable rate debt to lower borrowing costs;
- offering flexible terms such as a locking interest rate product; and
- providing additional closing cost assistance using premium bonds.

The enhancements are intended to supplement the department’s current production and to increase DHCD’s production of affordable workforce rental housing for families, seniors, and individuals with disabilities at SSI levels. None of the loan program enhancements require the enactment of legislation. **DLS recommends that DHCD brief the committees on how the product enhancements will impact the financing programs and if the product enhancements will compete favorably with the private sector.**

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Consolidated Administrative Expenses – All Programs

	FY 2004 Actual	FY 2005 Estimated	FY 2006 Estimated
Sources:			
Special Funds			
Maryland Historic Trust	\$59,938	\$68,793	\$65,319
Neighborhood Business Revitalization	1,161,089	1,204,158	907,326
Homeownership Program	1,828,858	1,748,400	1,943,513
Rental Housing Program	1,123,062	1,575,000	1,126,811
Special Loan Program	1,299,952	1,125,441	1,251,714
Subtotal – Special Funds	\$5,472,899	\$5,721,792	\$5,294,683
General Funds	458,397	502,194	438,403
Other Special Funds	3,226,108	3,457,219	3,067,966
Federal Funds	199,668	171,940	265,256
Total Funds	\$9,357,072	\$9,853,145	\$9,066,308

Uses:			
Direct Expenses	\$6,339,611	\$7,021,201	\$6,871,583
Indirect Expenses			
Legal (AG, Bond Counsel, etc.)	523,470	579,277	441,751
CDA Administration	420,975	301,122	302,498
Asset Management	472,252	512,393	536,650
General	1,600,764	1,439,152	913,826
Total Direct & Indirect Expenses	\$9,357,072	\$9,853,145	\$9,066,308

The administration of PAYGO funds in DHCD is complicated in that the units that 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 uses 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 – such as

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administration funds under federal grants and the General Bond Reserve Fund, most notably – are available to meet the expenses of the operating units. The estimated total administrative expenses for fiscal 2006 are \$9,066,308, which is a decrease of \$786,837, or 8% below the estimated expenses for fiscal 2005.

Maryland Historical Trust Revolving Loan Fund (Statewide)

PAYGO SF \$450,000 **Recommendation:** **Approved**

Program Description: The program provides loans to nonprofit preservation foundations, organizations, local jurisdictions, and individuals to encourage and implement the acquisition and restoration of historic properties. The program also funds the purchase or acquisition of historical property and may be used to fund the cost of restoration or rehabilitation of historic property owned by the Maryland Historical Trust (MHT). In return for the loan, the recipient must place a preservation easement on the property in the name of the Trust.

Program Performance Analysis: One of the primary goals for the MHT loan program is the protection of historical properties eligible for listing on the Maryland Register of Historic Properties through assisting in the acquisition and rehabilitation of those properties. As shown in **Exhibit 6**, demand for loans from this program has dropped due to the availability of low commercial loan rates. Currently, this program appeals to nonprofits and local governments who are not opposed to granting historical easements as a condition of the loan. If commercial interest rates rise in the next several years, demand for this program should increase.

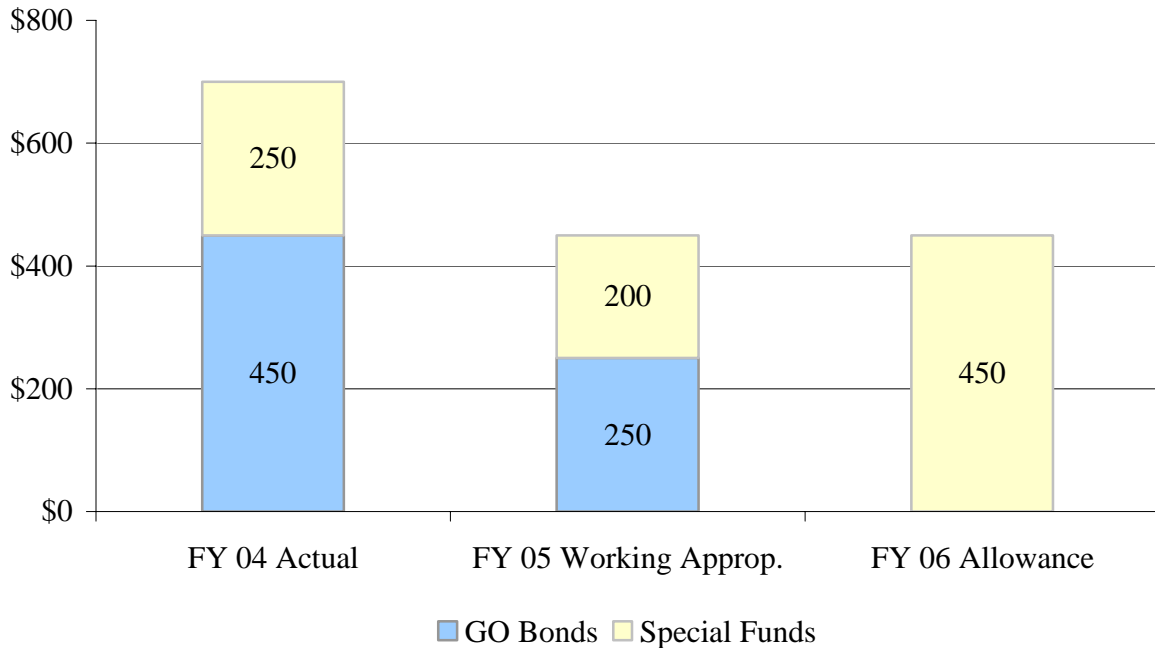
Exhibit 6
Total Number of Historic Properties Preserved
Fiscal 2001 – 2005

	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>
# of historic properties acquired	1	1	0	1	-
# of historic properties rehabbed	4	2	0	2	-
Total	5	3	0	3	5

Source: Department of Housing and Community Development

Comments: The 2005 *Capital Improvement Plan* (CIP) makes a change to the recommended funding allocation for the MHT loan program from what was included in the 2004 CIP. As shown in **Exhibit 7**, the fiscal 2006 total funding level remains unchanged at \$450,000; however, the allowance is funded exclusively with special funds as opposed to the planned 2004 CIP funding allocation of \$350,000 in GO bonds and \$100,000 in special funds. An increase in fiscal 2004 revenue due to early principal payoffs provides sufficient revenue to support the program in fiscal 2006 with special funds. However, if Department of Housing and Community Development (DHCD) encumbrances remain at fiscal 2004 levels, the program will spend down its ending balance requiring additional State funding in fiscal 2007. The current CIP plans for a return to GO bond funding in fiscal 2007 through 2009. As of December 2004, the program has encumbered \$108,000 and expended \$168,467. In fiscal 2006, the program is projecting to fund four or five loans totaling \$450,000.

Exhibit 7
Maryland Historical Trust Funding Allocation
Fiscal 2004 – 2006
(\$ in Thousands)



Note: In fiscal 2004, the MHT loan program was appropriated \$200,000 in GO bond funds; however, the funding was enhanced with an additional \$250,000 of GO bond funds to assist the B & O Railroad Museum with repairs of damages caused by a February 2003 snowstorm.

Source: Department of Legislative Services

Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$493	\$594	\$456
REVENUE			
GO Bonds	450	250	
Loan Repayments and Interest	291	130	164
TOTAL REVENUE	741	380	164
TOTAL AVAILABLE	1,234	974	620
ENCUMBRANCES			
Loans	580	*450	450
Operating Expenses	60	68	67
TOTAL ENCUMBRANCES	640	518	517
Ending Balance	\$594	\$456	\$103

*Loans made as of 12/31/04 = \$108,000

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	0.250	0.200	0.450	0.200	0.200	0.200	0.200
GO Bond	0.450	0.250	0.000	0.250	0.250	0.250	0.300
Total	\$0.700	\$0.450	\$0.450	\$0.450	\$0.450	\$0.450	\$0.500

Recommended Actions

Approve.

Fiscal 2005 Project Status

As of December 31, 2004

<u>Project</u>	<u>Location</u>	<u>Amount</u>
Easement on Paw Paw Cove Paleo Indian site	Talbot	\$103,000
Susquehanna Museum of Havre de Grace	Harford	5,000
Total		\$108,000

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to restore the program’s funding level closer to historical levels in fiscal 2005. This decision was made despite sufficient demand in fiscal 2004 to increase loan activity. As of January 2005, the department has funded \$2.4 million in loan and grants activity and anticipates encumbering an additional \$3.7 million by fiscal year end. Also, in fiscal 2006 the Mainstreet Program, previously funded in the operating budget, will be funded in the NBDP.

Legislation passed during the 2004 session authorized DHCD to sell a portion of the NBDP portfolio. In fiscal 2006, DHCD is planning on selling approximately \$2.0 million of the portfolio to generate additional revenue for grants and loans. Currently, the portfolio has 123 active loans with a loan balance of approximately \$18.9 million. Selling a portion of the portfolio would likely require DHCD to price the portion for sale below its present value. The fiscal 2006 estimated loan repayments do not include revenue from portfolio sales. If the department wishes to increase its encumbrance level as a result of increase revenues from portfolio sales a budget amendment would need to be processed. **DLS recommends that DHCD brief the committees on the impact to the NBDP of selling a portion of portfolio, particularly if the sale will necessitate a price below the portfolio’s present value, and the effect on future funding requirements.**

Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$2,592	\$4,175	\$1,519
REVENUE			
Loan Repayments and Interest	5,381	4,225	5,475
Canceled Encumbrances	206	410	410
TOTAL REVENUE	5,587	4,635	5,885
TOTAL AVAILABLE	8,179	8,810	7,404
ENCUMBRANCES			
Loans	2,802	*6,091	6,000
Operating Expenses	1,202	1,200	900
TOTAL ENCUMBRANCES	4,004	7,291	6,900
Ending Balance	\$4,175	\$1,519	\$504

*Loans made as of 1/28/05 = \$2,376,951

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$2.802	\$6.091	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000

Recommended Actions

Approve.

Fiscal 2006 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.

Fiscal 2005 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>
<u>Loans and Grants Approved as of January 28, 2005</u>		
Tri-County Council of Western Maryland	Allegany County	\$2,251
Boardwalk Pizza	Anne Arundel County	110,500
Ram's Head Live	Baltimore City	500,000
Hudson Street Café	Baltimore City	115,000
Coastline Development	Baltimore City	170,000
Maryland Humanities Council	Baltimore City	100,000
Arbutus Fire House – Phase II	Baltimore	125,000
Zia's	Baltimore	50,000
Beef n Reef Cafe	Calvert	354,200
Hollywood East Cafe	Montgomery County	250,000
Estrella	Montgomery County	500,000
The Breeze	Montgomery County	100,000
Subtotal: Loans and Grants		\$2,376,951
<u>Capital Access Program</u>		
Anne Arundel County		\$12,000
Baltimore City		62,562
Charles County		6,750
Howard County		5,163
Montgomery County		10,680
Prince George's County		23,100
Subtotal: Capital Access		\$120,255
Total		\$2,497,206
Applications Received and Being Processed		\$3,580,000

Homeownership Program (Statewide)

GO Bonds	\$1,250,000	Recommendation: Approve
PAYGO SF	\$6,295,000	
PAYGO FF	\$100,000	

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

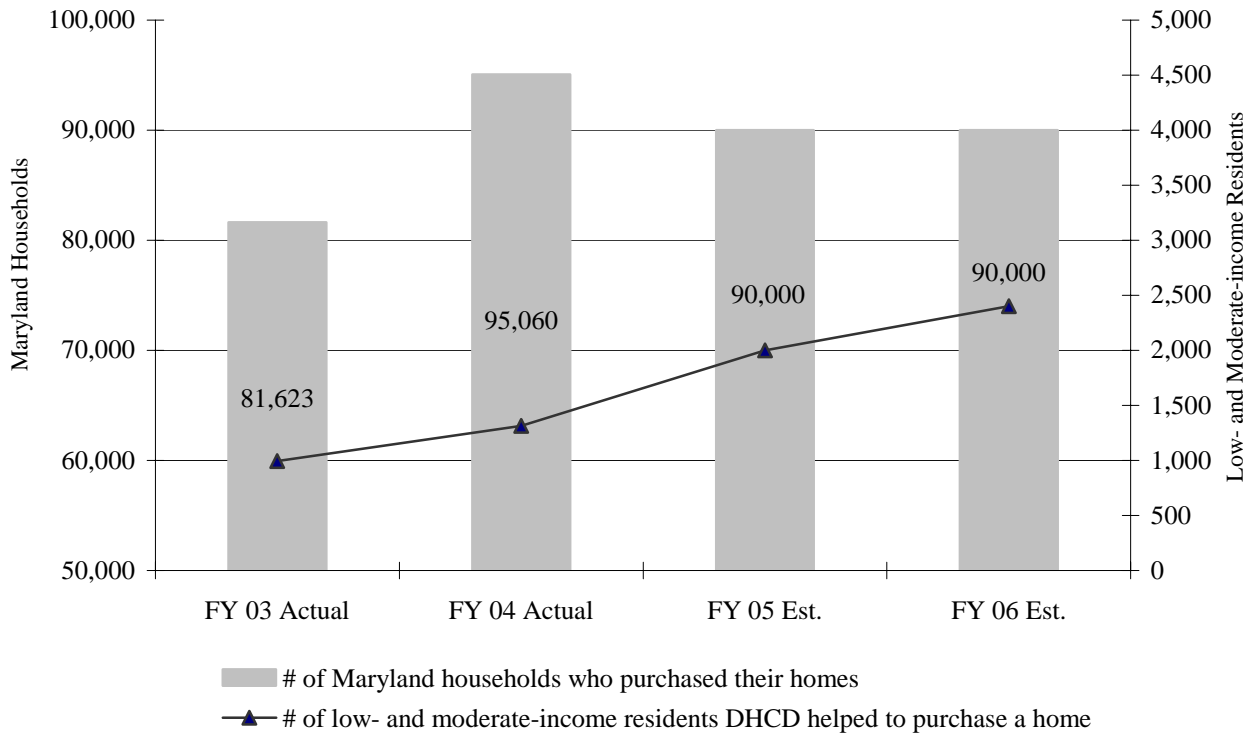
Program Description: The Homeownership Programs provide below-market interest rate mortgage loans with minimum down payments to low- and moderate-income first-time homebuyers. Two programs comprise the Homeownership Programs: the Maryland Home Financing Program (MHFP) makes direct loans to very low-income households for home purchases; and the Down payment and Settlement Expense Loan Program (DSELP) assists limited-income families in meeting settlement closing costs associated with home purchases. The maximum loan amounts are \$3,000 for DSELP and up to the appraised value of the property for the MHFP. The loans may be offered at as low as 0% for a term not to exceed 40 years.

Program Performance Analysis: The success of this program is measured by the number of low- and moderate-income residents DHCD helps to purchase a home. As shown in **Exhibit 8**, the number of Maryland residents who purchased their home increased 16.5% from 81,623 in fiscal 2003 to 95,060 in fiscal 2004. However, DHCD expects the pace of home buying to slow down in fiscal 2005 and 2006, due to rising interest rates. However, the department is projecting the number of low- and moderate-income residents it will help to purchase their homes to increase 82.5% from 1,315 in fiscal 2004 to 2,400 in fiscal 2006. DHCD attributes the projected increase to enhancements to the Maryland Mortgage Program (MMP) that will be introduced in calendar year 2005. The enhancements include:

- private mortgage insurance;
- a 35-year fixed rate mortgage product with interest only for the first five years;
- a 40-year fixed rate amortizing mortgage; and
- additional closing cost assistance using premium bonds.

In fiscal 2003 and 2004, the MHFP and the MMP successfully maintained delinquency rates at least 1% below the Maryland Federal Housing Administration rate. Since the programs are directed to first-time homebuyers, the department is projecting that at least 98% of persons applying for rental assistance, or approximately 765 renters, could become homeowners utilizing the program.

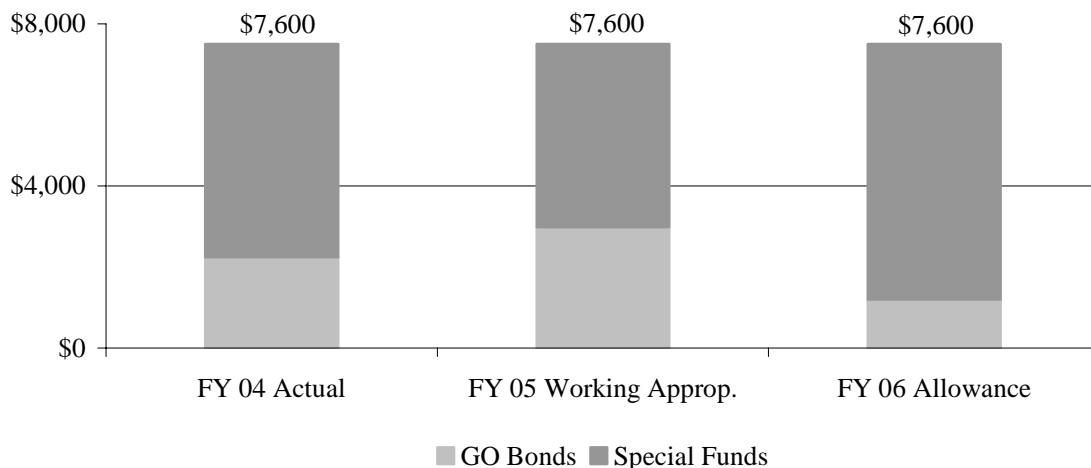
Exhibit 8
Homeownership Assistance
Fiscal 2003 – 2006



Source: Department of Housing and Community Development

Comments: The 2005 CIP makes a change to the recommended funding allocation for the Homeownership program from what was included in the 2004 *Capital Improvement Plan*. As shown in **Exhibit 9**, the fiscal 2006 total funding level remains unchanged at \$7.6 million; however, the fiscal 2006 allowance modifies the funding allocation. In fiscal 2005, the program was funded with \$3.0 million in GO bonds, \$4.5 million in special funds and \$100,000 in federal funds; however, in fiscal 2006 the allowance includes \$1.2 million in GO bonds, \$6.3 million of special funds and \$100,000 of federal funds. The significant cancellation of \$3.3 million in fiscal 2004 is primarily due to the cancellation of Fisher’s Cove in Baltimore, a large homeownership project that was not moving forward as planned due to delays caused by litigation with the American Civil Liberties Union.

**Exhibit 9
Homeownership Program
Funding Allocation
Fiscal 2004 – 2006**



Source: Department of Legislative Services

Chapters 7 and 8 of the Acts of 2004 created the Hurricane Isabel Housing Rehabilitation and Renovation Program in DHCD to provide assistance to residents whose homes were destroyed or severely damaged by Hurricane Isabel in September 2003 and whose insurance coverage and other financial resources fell short of meeting their housing needs. Financial assistance under the program commenced March 29, 2004, and terminates May 31, 2005.

DHCD reports as of January 2005, the department has closed 122 loans and 10 buy-down cases for a total of \$8.0 million and has additional commitments of \$1.5 million. Combined, total fiscal 2005 Hurricane Isabel demand is \$9.5 million, exceeding the \$7.5 million of State funding estimated at the beginning of fiscal 2005. Nearly that entire amount was committed as low-interest rate loans through the Homeownership Program. To meet the need, DHCD will transfer \$4.5 million of revenue from the Rental Housing Program (\$1.6 million) and the Special Loans Program (\$2.8 million) and \$3.0 million in special funds from the dedicated purpose account.

Demand for Hurricane Isabel Rehabilitation assistance has surpassed the fiscal 2005 estimate, and current projections suggest that an additional \$4.0 to \$5.0 million may be required to satisfy all of the demand. Currently, the department has 47 cases in the pipeline with a potential demand of \$3.1 million and the department is estimating that there are at least 10 cases being processed by the housing agencies in Anne Arundel and Baltimore counties for an additional demand of \$1.0 million. The combined effect is to push the potential demand for the program up to \$13.6 million. **DLS recommends that DHCD brief the committees on the effect the Hurricane Isabel loan demand is having on existing financing programs and on how the department intends to meet the additional demand.**

Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$274	\$2,262	\$1,004
REVENUE			
GO Bonds	2,247	2,989	1,205
Dedicated Purpose Account Transfer	0	*3,000	0
Federal Funds	817	110	110
Loan Repayments and Interest	6,965	5,454	5,767
Transfer in	0	*4,475	0
Canceled Encumbrances	3,343	649	649
TOTAL REVENUE	13,372	16,677	7,731
TOTAL AVAILABLE	13,646	18,939	8,735
ENCUMBRANCES			
Loans	9,989	**15,600	7,600
State Administrative Expenses	1,378	2,325	1,125
Federal Administrative Expenses	17	10	10
TOTAL ENCUMBRANCES	11,384	17,935	8,735
Ending Balance	\$2,262	\$1,004	\$469

*Chapters 7 and 8 of 2004 created the Hurricane Isabel Housing Rehabilitation and Renovation Program in DHCD. To fund the program, \$3.0 million in special funds will be transferred in from the dedicated purposed account, and \$4,475,000 will be transferred in by budget amendment from the rental housing program (\$1,636,397) and special loan program (\$2,838,603).

**Loans made as of 1/31/05 = \$9,238,383

S00A – Department of Housing and Community Development – PAYGO

**Authorization Request
(\$ in Millions)**

<i>Description</i>	<i>2004 Actual</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	5.253	4.511	6.295	5.500	5.700	6.000	6.200
PAYGO FF	0.100	0.100	0.100	0.100	0.100	0.100	0.100
GO Bonds	2.247	2.989	1.205	2.000	1.800	1.500	1.300
Total	\$7.600	\$7.600	\$7.600	\$7.600	\$7.600	\$7.600	\$7.600

Recommended Actions

Approve.

Fiscal 2006 Proposed Projects

The department intends to utilize \$3.0 million to fund mortgage loans for disabled borrowers through MHFP. The department also intends to utilize \$2.0 million to support individual loans through DSELP.

Fiscal 2005 Project Status

<u>Maryland Home Financing Program</u>	<u>Location</u>	<u>Amount</u>
<u>Disabled Borrowers</u>		
3 Individual Loans	Anne Arundel	\$285,550
3 Individual Loans	Baltimore	205,135
4 Individual Loans	Baltimore City	246,662
2 Individual Loans	Harford	191,000
1 Individual Loan	Montgomery	90,500
1 Individual Loan	Washington	66,700
1 Individual Loan	Worcester	62,500
Subtotal Encumbered – Disabled Borrowers		\$1,148,047
<u>Hurricane Isabel Projects</u>		
23 Individual Loans	Anne Arundel	1,891,996
36 Individual Loans	Baltimore	2,173,053
2 Individual Loans	Calvert	174,243
14 Individual Loans	Dorchester	1,151,542

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1 Individual Loan	Harford	100,000
1 Individual Loan	Kent	100,000
1 Individual Loan	Queen Anne's	100,000
3 Individual Loans	St. Mary's	251,776
1 Individual Loan	Talbot	100,000

Subtotal Encumbered – Hurricane Isabel **\$6,042,610** *

Individual Loan	Baltimore	1,800
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Subtotal **\$7,192,457**

Downpayment Settlement Expense Loan Program

Individual Loans	Allegany	36,000
Individual Loans	Anne Arundel	25,500
Individual Loans	Baltimore	305,450
Individual Loans	Baltimore City	910,406
1 Individual Loan	Calvert	5,000
Individual Loans	Caroline	15,550
Individual Loans	Carroll	34,000
Individual Loans	Cecil	34,820
Individual Loans	Charles	18,000
Individual Loans	Dorchester	8,000
Individual Loans	Frederick	9,000
Individual Loans	Harford	204,150
Individual Loan	Howard	30,000
Individual Loans	Montgomery	16,000
Individual Loans	Prince George's	142,800
Individual Loans	Queen Anne's	13,000
Individual Loans	St. Mary's	15,000
1 Individual Loan	Somerset	3,000
Individual Loans	Washington	126,250
Individual Loans	Wicomico	94,000

Subtotal **\$2,045,926**

Total Encumbered **\$9,238,383**

Reserved but Not Yet Encumbered

Disabled Borrowers	Statewide	\$629,365
Downpayment Settlement Expense Loan Program	Statewide	341,625

*Total funding for Hurricane Isabel is \$9.5 million, comprising \$6.0 million in the Homeownership Program, \$3.2 million in the Special Loans Program, and \$226,965 in fiscal 2004 funding.

Rental Housing Program (Statewide)

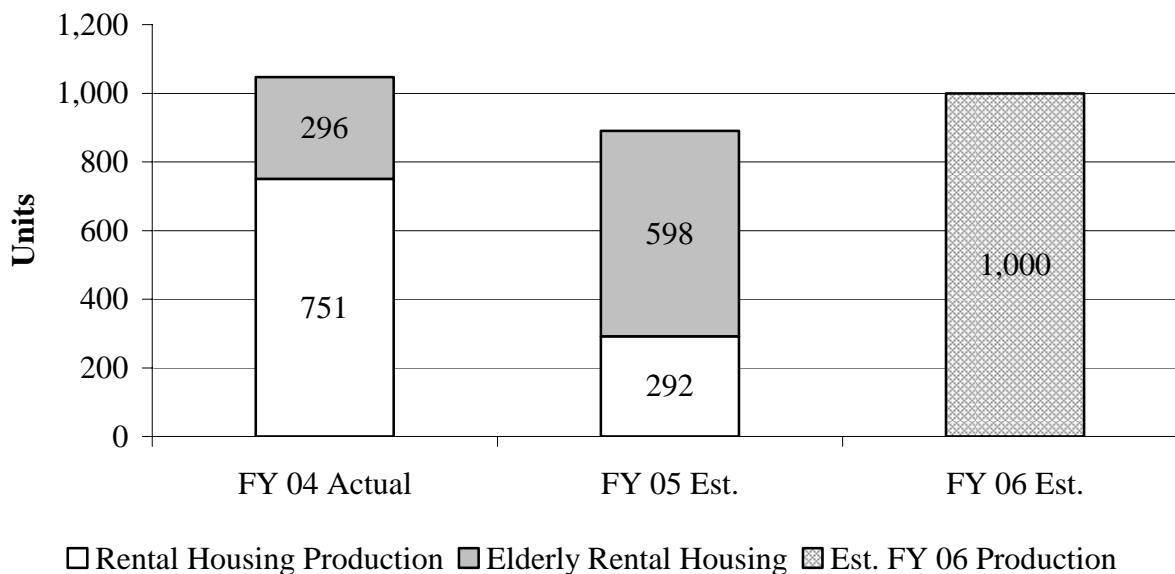
GO Bonds	\$5,395,000	Recommendation: Approve
PAYGO SF	\$7,605,000	
PAYGO FF	\$5,850,000	

Bill Text: Provide funds for rental housing developments that serve low- and moderate-income households. The 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 (RHP): 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 provides 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. The Maryland Housing Rehabilitation Program, Non-Profit Rehabilitation Program, and Office Conversion Program are inactive at this time.

Program Performance Analysis: The goal of the RHP is to rehabilitate and create new affordable rental housing for low- and moderate-income families. As of 2000, Maryland had a deficit of approximately 125,000 affordable and available workforce rental housing units. An affordable unit is defined as a unit where the renter earns less than 50% of area median income and is spending less than 30% of his or her gross income on rent. As shown in **Exhibit 10**, the number of affordable rental units created by the Rental Housing Program decreased slightly from 1,011 in fiscal 2004 to 890 in fiscal 2005. However, the decrease is not significant because a small amount of the fiscal 2005 appropriation financed the creation of units in fiscal 2004. Despite increased State funding in fiscal 2006, DHCD is estimating it will create approximately the same number of units as in fiscal 2004 due to rising construction costs.

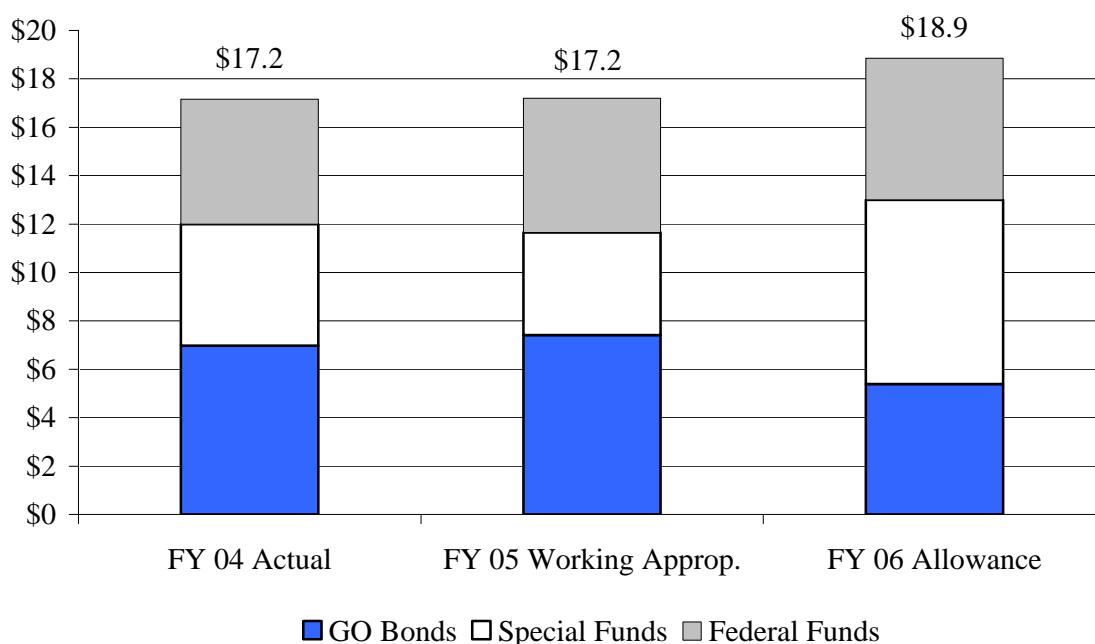
Exhibit 10
Rental Housing Units Produced
Fiscal 2004 – 2006



Source: Department of Housing and Community Development

Comments: The 2005 CIP makes two significant changes to the recommended funding for the RHP from what was included in last year’s CIP. First, as illustrated in **Exhibit 11**, the total funding level in fiscal 2006 increased \$1.7 million from \$17.2 million to \$18.9 million. This represents a \$1.7 million increase over what was planned in last year’s CIP for 2006. Second, the fiscal 2006 allowance modifies the funding allocation. In fiscal 2005, the program was funded with \$7.4 million in GO bonds, \$4.2 million in special and \$5.5 million in federal funds; however, in fiscal 2006 the allowance includes \$5.4 million in GO bonds, \$7.6 million in special funds, and \$5.9 million in federal funds. The increase in special funds is the result of higher-than-normal revenues earned from loan prepayments and payoffs that continued in fiscal 2005 due to the low interest rate environment.

Exhibit 11
Rental Housing Programs
Funding Allocation
Fiscal 2004 through 2006
(\$ in Millions)



Source: Department of Legislative Services

In fiscal 2005 the RHP will transfer out \$1.6 million to the Homeownership Program to fund Hurricane Isabel (Isabel) rehabilitation loans. Assuming DHCD encumbrances remain at current levels the program will spend down its ending balance in fiscal 2006 requiring continued GO bond funding in fiscal 2006 through 2010. As of December 2004, the program has encumbered \$2.9 million and expended \$9.8 million. According to the department, it takes approximately nine months to complete final underwriting and construction review before the funds are encumbered. DHCD awarded the entire fiscal 2005 appropriation during spring 2004 competitive awarding of funds and will encumber the remaining funds in spring 2005, after underwriting and construction review are completed.

Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$148	\$2,407	\$2,041
REVENUE			
GO Bonds	6,979	7,409	5,395
Federal Funds	8,452	6,060	6,435
Transfer to Other Funds	0	-1,636	0
Loan Repayments and Interest	9,075	7,183	7,580
Canceled Encumbrance	5	84	83
TOTAL REVENUE	24,511	19,100	19,493
TOTAL AVAILABLE	24,659	21,507	21,535
ENCUMBRANCES			
Loans	20,224	*17,200	18,850
State Administrative Expenses	1,801	1,748	1,950
Federal Administrative Expenses	228	517	585
TOTAL ENCUMBRANCES	22,253	19,465	21,385
Ending Balance	\$2,407	\$2,041	\$150

*Loans made as of 12/31/04 = \$4,220,172

**Authorization Request
(\$ in Millions)**

Description	<i>2004 Actual</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	5.021	4.247	7.605	6.200	6.200	6.600	6.700
PAYGO FF	5.166	5.544	5.850	5.850	5.850	5.850	5.850
GO Bonds	6.979	7.409	5.395	5.800	5.800	5.400	5.300
Total	\$17.166	\$17.200	\$18.850	\$17.850	\$17.850	\$17.850	\$17.850

Recommended Actions

Approve.

Fiscal 2006 Proposed Projects

The department will hold two rounds in calendar 2005 to award its fiscal 2006 funds. Twenty applications for the first round were received by the deadline of January 27, 2005. The second round's application deadline is early September.

Fiscal 2005 Project Status

As of December 31, 2004

<u>Affordable Rental Housing – State Funds</u>	<u>Amount</u>
Cove Point – Baltimore (Split with prior year)	\$1,787,013
Weinberg Village II	1,500,000
Woodbridge Commons	631,000
Hampstead Village (Split with prior year)	302,159
Subtotal Encumbered Affordable Rental Housing – State Funds	\$4,220,172
<u>Reserved but Not Encumbered – State Funds</u>	
Wiley H. Bates Senior Apt. – Anne Arundel	\$867,224
Victoria Park at Edgewater – Anne Arundel	1,488,644
Park View at Miramar – Baltimore	1,215,000
Westminster Bond II – Carroll	1,198,400
Ft. Washington – Prince George's	550,000
Gateway Crossing IV – Washington	2,000,000
Total – Affordable Rental Housing	\$11,539,440
<u>Reserved but Not Encumbered – Federal Funds (Home)</u>	
Waldorf Astor – Charles	\$758,856
Parkside Village	1,284,206
Pysell Ridge	1,495,000
Cottages at River House II	1,457,500
Villages at Mitchell Pond	1,464,850
Subtotal – HOME Reserved	\$6,460,412

S00A – Department of Housing and Community Development – PAYGO

Home Initiatives

Chesapeake Apartments – Anne Arundel	\$245,000
Crisfield Homebuyer Program – Somerset	210,000

Subtotal – HOME Initiative Reserved **\$455,000**

Total – HOME Reserved **\$6,915,412**

Special Loan Program (Statewide)

GO Bonds	\$2,750,000	Recommendation: Approve
PAYGO SF	\$5,250,000	
PAYGO FF	\$2,300,000	

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 through 2-313, 2-1401 through 2-1411, and 2-701 through 2-709.

Program Description: The programs under the Special Loan Programs (SLP) 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.

Program Performance Analysis: The success of the program is measured by the number of units assisted. As shown in **Exhibit 12**, DCHD is estimating it will provide assistance to 289 units in fiscal 2006. The substantial increase in units assisted in fiscal 2004 is the result of new federal lead hazard reduction grant funds.

Exhibit 12
Number of Units Assisted
Fiscal 2003 – 2006

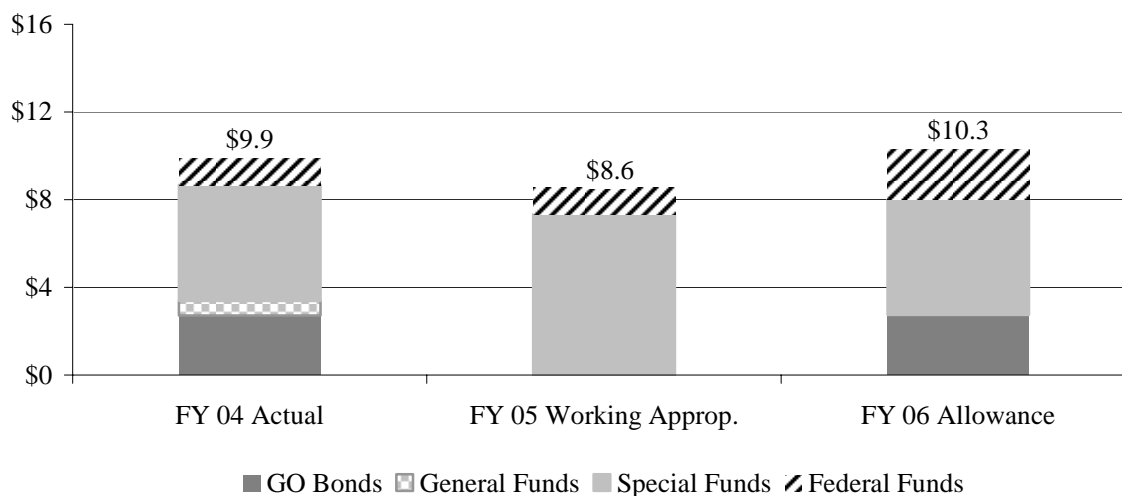
	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>
Maryland Housing Rehabilitation Program	53	56	47	65
Indoor Plumbing Program	6	8	6	6
Lead Hazard Reduction Program	33	184	109	133
Group Home Financing Program	<u>43</u>	<u>57</u>	<u>85</u>	<u>85</u>
Total Units Assisted	135	305	247	289

Source: Department of Housing and Community Development

S00A – Department of Housing and Community Development – PAYGO

Comments: The 2005 CIP makes two significant changes to the recommended funding for the SLP from what was included in last year’s CIP. First, as illustrated in **Exhibit 13**, the total funding level in fiscal 2006 increased \$1.75 million from \$8.55 million to \$10.3 million. This represents a \$2.1 million increase over what was planned in last year’s CIP for 2006. Second, the fiscal 2006 allowance modifies the funding allocation. In fiscal 2005, the program was funded with \$7.4 million in special and \$1.2 million in federal funds; however, in fiscal 2006 the allowance includes \$2.6 million of GO bonds, \$5.3 million of special funds, and \$2.3 million of federal funds. Previously, fiscal 2004 was the only year in which GO bonds were allocated. The increase in federal funds is the result of a \$3.0 million grant award in fiscal 2004 from the U.S Department of Housing and Urban Development (HUD) for the Lead-Based Paint Hazard Control Grant Program. The funds will be used over a three-year period to reduce or eliminate lead-based paint hazards for eligible owner occupied and rental housing.

Exhibit 13
Special Loan Program
Funding Allocation
Fiscal 2004 – 2006
(\$ in Millions)



Note: Fiscal 2005 includes an additional \$3.0 million in special funds from the dedicated purpose account to provide financial assistance to Tropical Storm Isabel victims.

Source: Department of Legislative Services

In fiscal 2005, the SLP will transfer out \$2.8 million to the Homeownership Program to fund Hurricane Isabel rehabilitation loans. The increase in fiscal 2006 GO bond funding restores the program’s fund balance to support other rehabilitation loans that were deferred in fiscal 2005 to fund Hurricane Isabel loans. Assuming DHCD encumbrances remain at current levels the program will spend down its ending balance in fiscal 2005 requiring continued GO bond funding in fiscal 2006 through 2010. As of December 2004, the program has encumbered \$7.3 million and expended \$5.8 million.

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The department reports that it intends to allocate the fiscal 2006 allowance as follows:

- **Maryland Housing Rehabilitation Program:** \$3.4 million – this allocation is approximately \$400,000 more than in fiscal 2005. The program lends funds to eligible individuals and sponsors to finance the rehabilitation of housing occupied by families of limited income. The Indoor Plumbing Program currently has 187 loans in their portfolio, excluding loans that are paid off. This allocation includes \$275,000 for the Indoor Plumbing Program. The 2000 census estimates there are 9,033 units lacking complete plumbing facilities and 8,223 units lacking complete kitchen facilities. DHCD expects to assist six units in fiscal 2005 and six units in fiscal 2006.
- **Group Home Financing Program:** \$2.6 million – this allocation is approximately \$108,000 less than that provided in fiscal 2005. This program provides loans to sponsors to finance the costs of acquiring, constructing, and modifying buildings, which will provide group homes for low-income, elderly, handicapped, and other citizens of the State with special housing needs.
- **Lead Hazard Reduction Program:** \$2.7 million – this allocation is approximately \$1.1 million more than that was provided in fiscal 2005. The Lead Based Paint Hazard Control funds will be used to reduce or eliminate statewide lead-based paint hazards for eligible-owner-occupied and rental housing. DHCD set aside \$820,000 in fiscal 2005 to Baltimore City for lead abatement efforts to assist the city with match requirements for a new federal grant from HUD.
- **Federal HOME Investment Partnership Funds:** \$1.6 million – this allocation is approximately \$400,000 more than planned by the department for fiscal 2005. This program is used to leverage and expand the State loan funds. The funds are used to make deferred loans for certain housing activities that cannot be funded with State funds, such as replacement houses or for rehabilitation loans to individuals with poor credit who would not qualify for a State loan.

Fund Data

Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$2,459	\$4,855	\$0
REVENUE			
GO Bonds	2,718	0	2,750
General Funds	675	0	0
Federal Funds	1,772	1,320	2,580
Transfer to Other Funds	0	-2,839	0

S00A – Department of Housing and Community Development – PAYGO

Loan Repayments and Interest	6,990	6,374	6,387
Cancelled Encumbrances	42	63	63
TOTAL REVENUE	12,197	4,918	11,780
TOTAL AVAILABLE	14,656	9,773	11,780
ENCUMBRANCES			
Loans	8,612	8,550	10,300
State Administrative Expenses	1,043	1,103	1,200
Federal Administrative Expenses	146	120	280
TOTAL ENCUMBRANCES	\$9,801	9,773	11,780
Ending Balance	\$4,855	\$0	\$0

*Loans made as of 12/31/04 = 3,346,466

**Authorization Request
(\$ in Millions)**

Description	<i>2004 Actual</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO GF	\$0.675	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO SF	5.282	7.350	5.250	5.600	5.800	6.050	6.300
PAYGO FF	1.200	1.200	2.300	2.200	1.600	1.600	1.600
GO Bonds	2.718	0.000	2.750	1.400	1.200	0.950	0.700
Total	\$9.875	\$8.550	\$10.300	\$9.200	\$8.600	\$8.600	\$8.600

Issues

1. Resolution of the Baltimore City Lead Abatement Program Issues

In 2000, the former Administration made a three-year \$10.5 million commitment to combat the problem of childhood lead poisoning in Baltimore City. The fiscal 2004 budget provided the final allotment of funding for this program. However, due to implementation problems in fiscal 2001, approximately \$300,000 of the appropriation has not yet been disbursed.

Additionally, in fiscal 2005, DHCD committed \$820,000 of its statewide lead abatement funds to Baltimore City to assist the city to match a new federal grant. However, due to a disagreement

S00A – Department of Housing and Community Development – PAYGO

between DHCD and the Baltimore City Health Department (Health Department) concerning incomplete quarterly reporting on the use of the lead abatement funds, DHCD is withholding the fiscal 2001 and 2005 lead abatement funds pending the results of a recent audit of the Health Department's records.

Prior to fiscal 2002, DHCD funded and administered the Baltimore City Lead Hazard Reduction Grant Program. In fiscal 2002, DHCD transferred responsibility for the administration, reporting and funding of the program to the Health Department. However, initial control of the grant funds remained with DHCD and prior to the release of funds each year a memorandum of understanding (MOU) between DHCD and the Health Department was executed. In addition, the Health Department was required to provide satisfactory quarterly reporting on the use of lead abatement funds to DHCD and to the General Assembly. The Health Department submitted quarterly reports in fiscal 2002 and 2003; however, DHCD deemed the reports incomplete and initially withheld fiscal 2004 funds. The fiscal 2004 funds have been released, but a resolution to the reporting problems has not been reached. In 2004, DHCD requested an audit of the Health Department's records.

In July 2004, DHCD committed \$820,000 to Baltimore City for lead abatement in order to assist the city with match requirements for a new federal grant from HUD. In September 2004, the city received notice they were awarded the \$4.0 million HUD grant. However, before executing the 2005 MOU with the Health Department, DHCD is waiting for the results of the audit. If the audit discloses findings that are not resolved by the Health Department, DHCD will release the 2001 and 2005 grant funds to the Health Department utilizing local agency agreements. Local agency agreements would require the Health Department to submit cases individually to DHCD for review, prior to DHCD releasing the funds. If the Health Department adequately addresses any audit finding, DHCD will execute the 2005 MOU with the Health Department releasing the fiscal 2001 and 2005 lead abatement funds. **The Department of Legislative Services recommends that DHCD brief the committees on the status of the Baltimore City Health Department's fiscal 2001 and 2005 Lead Hazard Reduction Grant funds and on the status of the audit report.**

Recommended Actions

Approve.

Fiscal 2006 Proposed Projects

All projects receiving Special Loan Program 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 2005 Project Status

As of December 31, 2004

State Funded Projects

<u>Location</u>	<u>Amount</u>
Allegany	\$79,464
Anne Arundel	397,888
Baltimore	5,082
Baltimore City	44,050
Caroline	39,740
Charles	186,125
Dorchester	73,824
Frederick	4,864
Garrett	9,680
Montgomery	111,401
Prince George's	275,637
Queen Anne's	15,000
Talbot	51,350
Washington	109,568
Wicomico	22,320
Worcester	31,865
Total	\$1,457,858
Reserved but not yet encumbered	\$1,310,565

Hurricane Isabel – State Funds

<u>Location</u>	<u>Amount</u>
Anne Arundel	\$450,762
Baltimore	1,159,954
Baltimore City	24,527
Cecil	12,870
Dorchester	282,347
Prince George's	42,509
Queen Anne's	60,183
Somerset	78,978
Talbot	122,399
Total	\$2,234,529 *

Hurricane Isabel – HOME Funds

<u>Location</u>	<u>Amount</u>
Dorchester	\$746,875
Somerset	156,388
St. Mary's	87,715
Total	\$990,978 **

S00A – Department of Housing and Community Development – PAYGO

Federal Funds – Home

<u>Location</u>	<u>Amount</u>
Anne Arundel	\$34,805
Allegany	150,781
Calvert	293,545
Caroline	291,282
Cecil	430
Charles	143,760
Dorchester	99,979
Garrett	130,010
Kent	221,165
Queen Anne's	95,853
Somerset	421,647
St. Mary's	0
Talbot	355,147
Washington	91,102
Wicomico	165,369
Total	\$2,494,875
Reserved not yet encumbered	759,692

Federal Funds – Lead Paint

<u>Location</u>	<u>Amount</u>
Montgomery	364,440
Frederick	410,400
Total	774,840

*Amount does not include \$11,352, which was encumbered in fiscal 2004.

**Amount does not include \$215,613, which was encumbered in fiscal 2004.

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ENCUMBRANCES			
Loans	8,370	*10,000	10,000
Federal Administrative Expenses	354	430	430
TOTAL ENCUMBRANCES	8,724	10,430	10,430
Ending Balance	\$0	\$0	\$0

*Loans made as of 12/31/04 = 10,834,788

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO FF	8.400	10.000	10.000	10.000	9.000	9.000	9.000
Total	\$8.400	\$10.000	\$10.000	\$10.000	\$9.000	\$9.000	\$9.000

Recommended Actions

Approve.

Fiscal 2006 Proposed Projects

The department will hold one competitive CDBG round in calendar 2005 with applications due in mid-May. Awards will not be announced until after the availability of federal funds on July 1, 2005.

Fiscal 2005 Project Status

As of December 31, 2004

<u>Project</u>	<u>Location</u>	<u>Amount</u>
City of Frostburg	Allegany	\$800,000
Town of Lonaconing	Allegany	400,000
Town of Westernport	Allegany	610,780
Allegany County	Allegany	122,500
Caroline County	Caroline	300,000
Town of Union Bridge	Carroll	175,000
Charles County	Charles	126,342

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<u>Project</u>	<u>Location</u>	<u>Amount</u>
Town of Hurlock	Dorchester	35,000
Dorchester County	Dorchester	100,000
City of Brunswick	Fredrick	251,675
Town of Mountain Lake Park	Garrett	600,000
Garrett County	Garrett	100,000
Town of Oakland	Garrett	300,000
Garrett County	Garrett	230,000
Kent County	Kent	500,000
Somerset County	Somerset	10,000
St. Mary's County	St. Mary's	224,991
St. Mary's County	St. Mary's	4,500,000
Washington County	Washington	60,000
Washington County	Washington	30,000
Town of Snow Hill	Worcester	750,000
City of Pocomoke	Worcester	33,000
Total Encumbered		10,259,288
Reserved not yet encumbered		575,000
Total		\$10,834,788

Maryland Heritage Structure Rehabilitation Tax Credit Program (Statewide)

PAYGO GF \$20,000,000 Recommendation: Approve

Program Description: The Maryland Structure Rehabilitation Tax Credit Program (HSRTC) was scheduled to sunset on June 1, 2004. Chapter 76 of 2004 re-establishes the HSRTC modifying the program from a traditional tax credit program to a tax credit program that is subject to an annual appropriation, with an aggregate limit for the awarding of commercial credits. The HSRTC is administered by the Maryland Historical Trust (MHT) and provides tax credits equal to 20% of the qualified capital costs expended in the rehabilitation of a certified heritage structure. Certified structures must meet one of the following requirements: (1) is listed on the National Register of Historic Places; (2) is designated as a historic property under local law and determined by MHT to be eligible for listing on the national register of historic places; or (4) is located in a certified heritage area and is certified by Maryland Heritage Areas Authority as contributing to the significance of the certified heritage area. The credit is available for owner-occupied residential property as well as commercial property; however, there is no aggregate cap or reserve fund for the residential tax credits. The residential tax credit program operates as a traditional tax credit program. The maximum amount of credits earned for an individual owner occupied rehabilitation project cannot exceed \$50,000. The HSTRC program is scheduled to sunset on June 30, 2008.

2004 Legislative Changes

Major changes to the HSRTC established by the 2004 legislation include:

- the creation of a certified heritage structure rehabilitation tax credit reserve fund;
- an appropriation by the Governor to the reserve fund, of at least \$20.0 million in fiscal 2006, and \$30.0 million annually in fiscal 2007 and 2008;
- the restriction that the initial credit certificates issued by MHT in each fiscal year cannot exceed the amount appropriated to the reserve fund in the State budget;
- the mandate that once a project is completed, MHT is required to notify the Comptroller on a quarterly basis, the certified credit amount for the completed projects. Upon this notification from MHT, the Comptroller is required to transfer from the reserve fund to the general fund, the total amounts stated in initial credit certificates for each rehabilitation project completed during that quarter;
- the requirement that a maximum of 50% of the total initial credit certificates issued in a fiscal year may be allocated for projects located in one county or Baltimore City;

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- the obligation that at least 10% of the total initial credit certificates issued are required to be allocated to non-profit organizations; and
- the requirement that maximum credits earned for commercial projects cannot exceed the lesser of \$3.0 million or the maximum amount stated on an initial credit certificate.

Prior HSRTC Program

Under the previous HSRTC program, a person may claim a tax credit in an amount equal to 20% of the qualified rehabilitation expenditures for a certified heritage structure, for the tax year in which a certified rehabilitation was completed. In 2003 a cap of \$23.0 million was placed on the amount of tax credits allowed to be claimed by commercial properties. The cap was increased in calendar 2004 to \$25.0 million of which \$10.0 million had to be awarded on a competitive basis by MHT. Under this program, \$125 million has already been claimed on tax forms, and DHCD reports that 138 commercial rehabilitation projects are still outstanding. Once these tax credits are claimed, they will act to reduce State revenue by approximately \$113.4 million, in addition to the annual appropriation in the budget.

Fund Data

**Authorization Request
(\$ in Millions)**

<i>Description</i>	<i>2004 Actual</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO GF	\$0.000	\$0.000	\$20.000	\$30.000	\$30.000	\$0.000	\$0.000

Recommended Actions

Approve.

Fiscal Summary
Department of Housing and Community Development – PAYGO

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
06 Historical Preservation - Capital Appropriation	\$ 130,000	\$ 200,000	\$ 450,000	\$ 250,000	125.0%
07 Heritage Reserve Fund	0	0	20,000,000	20,000,000	
02 Neighborhood Business Development - Capital Approp	11,174,725	16,091,000	16,000,000	-91,000	-0.6%
07 Rental Housing Programs - Capital Appropriation	13,244,786	9,791,000	13,455,000	3,664,000	37.4%
08 Homeownership Programs - Capital Appropriation	7,741,936	4,611,000	6,395,000	1,784,000	38.7%
09 Special Loan Programs - Capital Appropriation	5,895,060	8,550,000	7,550,000	-1,000,000	-11.7%
Total Expenditures	\$ 38,186,507	\$ 39,243,000	\$ 63,850,000	\$ 24,607,000	62.7%
General Fund	\$ 675,000	\$ 0	\$ 20,000,000	\$ 20,000,000	N/A
Special Fund	18,488,000	22,399,000	25,600,000	3,201,000	14.3%
Federal Fund	19,023,507	16,844,000	18,250,000	1,406,000	8.3%
Total Appropriations	\$ 38,186,507	\$ 39,243,000	\$ 63,850,000	\$ 24,607,000	62.7%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.