

S00A
Department of Housing and Community Development

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$8,974	\$8,851	\$8,253	-\$598	-6.8%
Special Fund	28,229	28,456	29,506	1,050	3.7%
Federal Fund	148,249	163,475	221,875	58,401	35.7%
Reimbursable Fund	<u>1,084</u>	<u>1,231</u>	<u>1,021</u>	<u>-210</u>	<u>-17.0%</u>
Total Funds	\$186,537	\$202,012	\$260,656	\$58,643	29.0%
Contingent & Back of Bill Reductions			-578	-578	
Adjusted Total	\$186,537	\$202,012	\$260,078	\$58,066	28.7%

- After adjusting for the contingent reductions, the fiscal 2006 budget allowance increases 28.7%, or \$58.1 million from \$202.0 million in fiscal 2005 to \$260.0 million in fiscal 2006.
- The increase in the budget is largely due to \$58.4 million increase in federal funds. The U.S. Department of Housing and Urban Development (HUD) is expected to award the Department of Housing and Community Development (DHCD) a \$56.9 million contract to administer approximately 130 additional Section 8 subsidized housing contracts. The department currently administers approximately 295.
- The \$1.1 million increase in special funds is primarily due to the transfer of \$1.0 million from the Department of Human Resources (DHR) for weatherization services. The transfer is contingent on the enactment of legislation.
- Excluding the federal funds and the \$1.0 million special fund transfer and including the contingent reductions, DHCD's fiscal 2006 allowance decreases 3.4%, or \$1.3 million from fiscal 2005 and decreases 2.8%, or \$1.1 million from fiscal 2004.

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

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Personnel Data

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>
Regular Positions	365.50	385.90	384.90	-1.00
Contractual FTEs	<u>49.29</u>	<u>61.74</u>	<u>66.10</u>	<u>4.36</u>
Total Personnel	414.79	447.64	451.00	3.36

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	7.70	2.00%
Positions Vacant as of 12/31/04	27.00	7.00%

- DHCD’s fiscal 2004 regular position count was 392.9 after the reduction of 14 positions due to cost containment. The Department of Budget and Management (DBM) incorrectly reported the fiscal 2004 position count as 365.5. DHCD’s contractual positions are also reported incorrectly. The department had 70.9 contractual positions in fiscal 2004 for a total personnel count of 463.8. The fiscal 2005 regular position count was reduced to 385.9 after the abolition of 7 positions by the Board of Public Works during the 2004 interim.
- DHCD’s budgeted turnover rate of 2% requires an average of 7.7 vacant positions throughout fiscal 2006 to achieve the \$526,826 in savings required. The agency’s current number of vacant positions is 27, or 7% of DHCD’s workforce; 18 have been vacant for less than 6 months; 6 have been vacant for less than 12 months; and 3 have been vacant for longer than 12 months.
- The fiscal 2006 allowance adds 4.36 contractual positions. Six new contractual positions will administer the additional 130 Section 8 housing contracts. The Contract Administration unit currently administers approximately 295 contracts under an existing agreement with HUD. This increase is offset by a reduction of 1.64 contractual positions in the Division of Historical and Cultural Programs.
- In fiscal 2006, DHCD transfers one position and its incumbent from the Secretary’s Office to the Governor’s Office of Minority Affairs.

Analysis in Brief

Major Trends

Nationwide and Maryland Affordable Housing Shortage Continues: 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. One of DHCD's primary goals is to increase the number of low- and moderate-income families who live in decent, affordable rental housing. In fiscal 2004, DHCD increased the number of affordable rental housing units going to initial closing 23.8% from 2,170 units to 2,686 units. DHCD is projecting to increase the production further to approximately 3,600 units by fiscal 2006. The projected increase in the production of affordable units is predicated on loan program enhancements and the possible implementation of the Governor's Commission on Housing Policy recommendations submitted in December 2004. The Governor's Commission on Housing Policy recommendations and the loan program enhancements are reviewed in the DHCD PAYGO analysis.

The Community Development Administration (CDA) Plans to Initiate Product Enhancements: In order to compete more effectively against marketplace challenges such as innovative private sector products, rising housing prices, a decreasing stock of affordable homes, and low interest rates, the CDA is planning to enhance its mortgage products by offering private mortgage insurance, a 35-year fixed rate mortgage with interest only for the first 5 years, and a 40-year fixed rate amortizing mortgage. With these product enhancements, DHCD is projecting the number of low- and moderate-income Marylanders it assists to purchase a home to increase 82.5% from 1,315 in fiscal 2004 to 2,400 in fiscal 2006. **The Department of Legislative Services recommends that DHCD brief the committees on the likelihood of assisting 2,400 new homeowners in fiscal 2006 given the upward trend in the price of existing homes, a declining inventory of affordable homes for sale, and an expected rise in interest rates.**

Issues

Proposed Merger of Low-income Weatherization Programs: The Public Service Commission (PSC) has oversight responsibility over DHR's Electric Universal Service Program (EUSP), which contains the following three components: bill payment assistance; arrearage retirement; and weatherization services. DHCD also administers a weatherization assistance program. In January 2004, the Office of Legislative Audits found that DHR had not adequately managed the weatherization component of EUSP. As a result, during the 2004 legislative session, the General Assembly directed DHR, DHCD, and PSC to jointly prepare and submit a report detailing the most appropriate method of merging the two weatherization programs. The report found that DHCD should administer a merged weatherization program, and that DHR should continue to provide bill payment assistance and arrearage retirement services. PSC will retain oversight responsibility for DHR's bill payment assistance and arrearage retirement components of EUSP. **DHCD should brief the committees on its ability to effectively and fully utilize the additional \$1 million in weatherization services.**

S00A – Department of Housing and Community Development

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete 12 vacant positions.	\$ 732,641	12.0
2. Delete funding for one position through achieving efficiencies in Government, Public and External Affairs.	117,447	1.0
Total Reductions	\$ 850,088	13.0

S00A
Department of Housing and Community Development

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 (IT), 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 2006 Managing for Results Analysis (MFR) includes a number of departmental goals, objectives, and performance measures. The MFR analysis will review three department wide goals including (1) community revitalization; (2) encouraging homeownership; and (3) expanding affordable rental housing. These goals are central to achieving the department mission of revitalizing communities and encouraging home ownership and affordable rental housing for low-to moderate-income families.

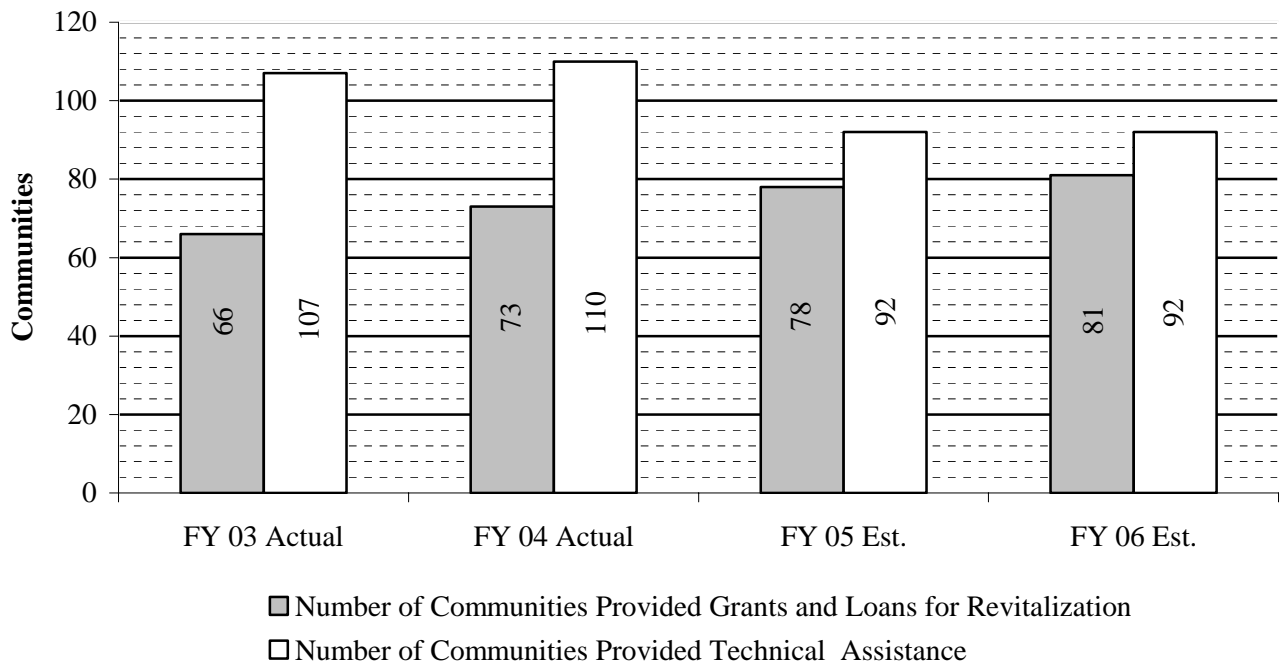
Community Revitalization

One of the department's primary goals is to administer programs that revitalize communities. As shown in **Exhibit 1**, the number of communities DHCD provided financial assistance for revitalization increased 10.6% from 66 in 2003 to 73 in 2004. The department attributes the increase to awarding smaller loans to more communities and a low interest rate environment. Technical training provided to the communities increased 2.8% from 107 in 2003 to 110 in 2004. The increase in 2004 is primarily the result of Catalyst, a training and technical assistance initiative which brings together expert panels to share information and provide training. As a result of prior intensive training and technical assistance provided by Catalyst, the capacity of local staff in communities has increased, thereby reducing the projected demand in fiscal 2005 and 2006.

Homeownership Assistance

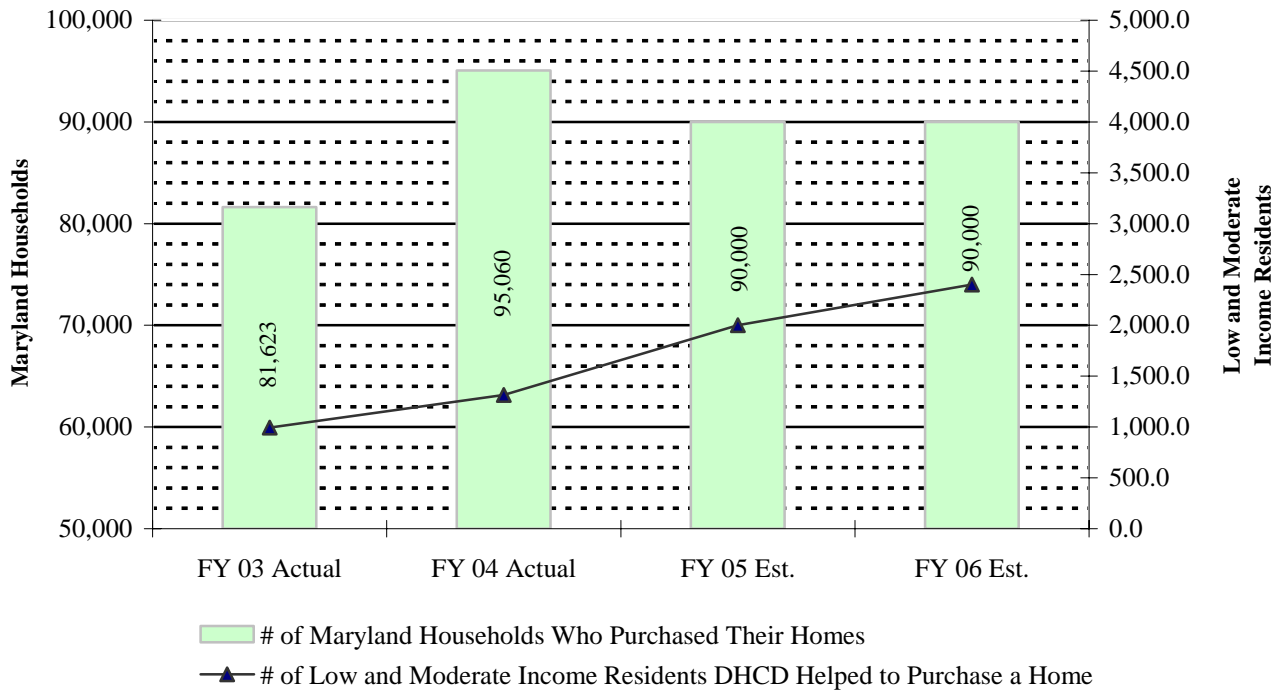
As shown in **Exhibit 2**, the number of Maryland residents who purchased their homes increased 16.5% from 81,623 in fiscal 2003 to 95,060 in fiscal 2004. The increase is the result of historically low interest rates and a rapid increase in home equity. From fiscal 2004 to 2005, DHCD increased

Exhibit 1
Community Revitalization Assistance
Fiscal 2003 – 2006



Source: Department of Housing and Community Development

**Exhibit 2
Homeownership Assistance
Fiscal 2003 – 2006**



Source: Department of Housing and Community Development

the number of Marylanders it helped to purchase a home by 32.2% from 995 to 1,315. DHCD attributes the increase to (1) aggressive and professional marketing; (2) increased purchase price limits in all jurisdictions; (3) a zero and 1-point product in addition to the traditional 2-point product; (4) a 30-year fixed rate mortgage below 5%; (5) removing restrictions requiring existing home purchases to be located in certain priority funding areas; (6) streamlining the underwriting process; and (7) offering training to lenders and realtors at their place of business.

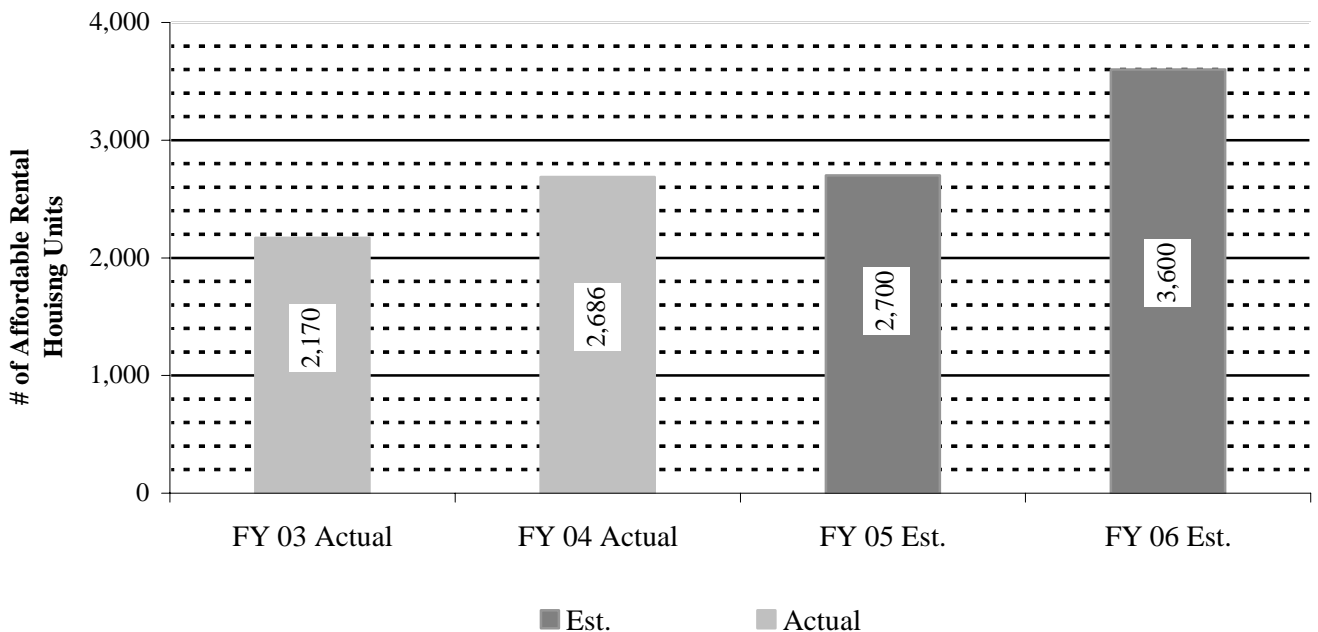
In fiscal 2005 and 2006, DHCD is expecting the pace of home purchases to slow due to rising interest rates. However, the department is projecting the number of low- and moderate-income residents it will help to purchase their homes to increase 52.1% from 1,315 in fiscal 2004 to 2,000 in fiscal 2005. DHCD attributes the projected increase to enhancements to the Maryland Mortgage Program that will be introduced in calendar 2005. The enhancements include (1) private mortgage insurance; (2) a 35-year fixed-rate mortgage product with interest only for the first 5 years; (3) a 40-year fixed-rate amortizing mortgage; and (4) additional closing cost assistance using premium bonds. **DHCD should brief the committees on the success the product enhancements are having at increasing home ownership for low-and moderate-income Marylanders; and on the**

likelihood of assisting 2,400 residents to purchase a home in fiscal 2006 given the upward trend in the price of existing homes projected to continue, a declining inventory of affordable homes for sale, and an anticipated rise in interest rates.

Affordable Housing

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. One of DHCD’s primary goals is to increase the number of low- and moderate-income Maryland families who live in decent, affordable rental housing. As shown in **Exhibit 3**, the number of affordable housing units going to initial closing increased 23.8% from 2,170 units in fiscal 2003 to 2,686 units in fiscal 2004. DHCD is projecting to increase the production of affordable units to approximately 3,600 units by fiscal 2006. DHCD attributes the current and projected increase in unit production to improved processing efficiencies; streamlined underwriting; additional financing tools such as a rate lock; and a refinancing policy designed to retain loans.

Exhibit 3
Affordable Housing Units Going to Initial Closing
Fiscal 2003 – 2006



Source: Department of Housing and Community Development

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To address the affordable housing 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 29, 2004, the commission submitted eight recommendations to the Governor. In addition to the work of the commission, DHCD is also exploring ways to use its existing funding to enhance its loan program capacity. The additional enhancements are still under development but may include leveraging rental housing funds with tax-exempt bonds outside of the awarding of the rental housing funds and optimizing the number of 9% tax credit projects. The Governor’s Commission on Housing Policy and the loan program enhancements are reviewed in the DHCD PAYGO analysis.

Governor’s Proposed Budget

As shown in **Exhibit 4**, the Governor’s fiscal 2006 budget includes two contingent reductions:

- \$400,000 in general funds contingent on the enactment of legislation authorizing DHCD to charge a fee to certify heritage structures; and
- \$177,560 for matching employee deferred compensation contributions up to \$600 contingent upon enactment of a provision in the 2006 budget reconciliation legislation.

**Exhibit 4
Governor's Proposed Budget
Department of Housing and Community Development
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimbursable Fund</u>	<u>Total</u>
How Much It Grows:					
2005 Working Appropriation	\$8,851	\$28,456	\$163,475	\$1,231	\$202,012
2006 Governor's Allowance	8,253	29,506	221,875	1,021	260,656
Contingent & Back of Bill Reductions	<u>-431</u>	<u>-118</u>	<u>-28</u>	<u>-1</u>	<u>-578</u>
Adjusted Allowance	\$7,821	\$29,388	\$221,848	\$1,021	\$260,078
Amount Change	-\$1,029	\$932	\$58,373	-\$210	\$58,066
Percent Change	-11.6%	3.3%	35.7%	-17.1%	28.7%

S00A – Department of Housing and Community Development

Where It Goes:

Personnel Expenses

Increments and other compensation	\$536
Turnover adjustments	331
Employee and retiree health insurance	-157
Retirement	197
One position transferred to the Governor’s Office of Minority Affairs	-88
Other fringe benefit adjustments	-27

Programmatic Changes

Increase of 6 contractual positions to support 130 new HUD housing contracts	335
Increase in statewide indirect costs due to increased use of special and federal funds	169
Increase in general funds for operating costs related to the new Banneker-Douglass Museum wing scheduled to open July 2005.....	12
Increase in general funds for utility contracts at the Jefferson Patterson Park and Museum	20
Elimination of general funds for the Mainstreet Improvement program.....	-50
Elimination of general funds for the Circuit Rider Program	-120
Elimination of general funds for the Maryland Downtown Development Association grant.....	-8
Reduction of general fund grant for the Neighborhood Housing Services Program	-50
Reduction in rent expense due to the closing of the Annapolis satellite office – relocated 20 employees to Crownsville headquarters building	-86
Increase in special funds for foreclosure costs related to the Neighborhood Business Development Program	40
Reduction of special funds for the rental/elderly housing subsidy loan program grant	-185
Elimination of special funds for operating assistance grants to developers	-70
Increase in special funds for the proposed merger of the Department of Human Resources’ (DHR) weatherization program into DHCD contingent on enactment of SB 202/HB 299.....	1,000
Increase in federal funds to administer privately owned, Section 8 Subsidized housing contracts on behalf of the U.S. Department of Housing and Urban Development (HUD). DHCD will administer approximately 130 new contracts.....	56,000
Reduction of federal funds for the Community Service Block Grant	-38
Increase in federal funds for Section 8 rental voucher grant	924
Reduction of federal funds for Section 8 Moderate rehabilitation grant	-133
Other	-486

Total **\$58,066**

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

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After adjusting for the contingent reductions, the Governor's fiscal 2006 allowance for DHCD increases \$58.1 million, or 28.7% over the fiscal 2005 working appropriation. The majority of the increase is the result of a \$58.4 million increase in federal funds largely due to the award of a new Section 8 housing contract. After adjusting for the contingent reductions, the fiscal 2006 allowance for general funds decreases 11.6%, or \$1,029,329 from the 2005 level and special funds increase \$932,990.

Personnel related changes include \$536,343 in increments; a reduction of \$87,668 for one position that was transferred to the Governor's Office of Minority Affairs; and an increase of \$330,995 due to a reduction in turnover from 3.25% in fiscal 2005 to 2.0% in fiscal 2006. Other personnel adjustments include a decrease of \$156,963 in health insurance resulting from the abolition of seven regular positions in fiscal 2005 and an increase of \$196,591 in retirement benefits.

Of the nonpersonnel changes in the budget, the most significant involve federal funded programs. There is an increase of \$56.0 million for a new service agreement between DHCD and HUD. The service contract awards DHCD approximately 130 new housing contracts. To administer the additional contracts, six new contractual positions are added to the budget increasing the allowance by \$334,714. Other changes to federal funding include a \$923,551 increase in the Section 8 Rental Voucher grant and a reduction of \$133,296 in the Section 8 Moderate Rehabilitation grant.

The allowance also includes a \$1.0 million increase in special funds for the proposed transfer of the weatherization assistance program from DHR to DHCD contingent on the enactment of legislation. The transfer of the weatherization program is discussed in more detail in the Issue section. Rent expense decreases \$86,000 due to DHCD closing the Annapolis satellite office and moving 20 employees to the Crownsville office. As a result of increasing special and federal funds, statewide indirect costs increase \$168,536.

The allowance eliminates \$50,000 in general funds for the Mainstreet Improvement program in the operating budget. The Mainstreet Improvement program provides grants to communities to revitalize downtown areas. Improvements range from new streetlights to new signs to building renovation. In fiscal 2006, grants associated with the program will be administered and funded through the Neighborhood Development Business Program in the capital budget. The allowance also eliminates general funds for the Maryland Town Manager Circuit Rider grant (Circuit Rider) program. The Circuit Rider program provides grants to small town governments to allow them to hire a public management professional on a part-time basis. The professional administrator provides expertise in public administration; financial management; and planning and community development. Grants associated with this program will be administered and funded in the capital budget. Also eliminated is \$8,500 in general funds for the Maryland Downtown Development Association grant and the Rental/Elderly housing subsidy grant is reduced \$185,873. Overall, DHCD's general fund operating grants are down 7.3% from \$3.1 million in fiscal 2005 to \$2.9 million in fiscal 2006. **The Department of Legislative Services recommends that DHCD brief the committees on its plans to eliminate general fund support in the operating budget for the Mainstreet Improvement program and the Maryland Town Manager Circuit Rider grant program and instead administer and fund the programs in the capital budget.**

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 5**, the department expects to receive \$240.0 million in federal funds during fiscal 2006. Approximately \$18.3 million in federal funds is utilized in the department's capital budget. The remaining \$221.9 million is budgeted in the department's operating budget and for a variety of purposes. The most significant changes in the budget include an increase of \$56.9 million in Section 8 Contract Administration, and a \$1.0 million increase in Section 8 Rental Voucher assistance. Beginning in April 2005, DHCD expects to receive additional contracts from HUD to manage housing contracts for privately owned Section 8 properties subsidized by HUD. The majority of the \$56.9 million award assumes the management of approximately 130 additional properties with an average Section 8 Housing Assistance Payment of \$36,000 each month. The department currently administers approximately 295 HUD housing contracts and with the addition of the 130 contracts will manage approximately 425 Section 8 properties.

Exhibit 5
DHCD – Federal Funds
Fiscal 2004 – 2006
(\$ in Thousands)

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u> <u>Approp.</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05 -06</u> <u>Difference</u>	<u>%</u> <u>Change</u>
Section 8 New Construction/Contract Administration	\$120,391	\$133,952	\$190,856	\$56,904	42.5%
Community Development Block/Small Cities	10,055	11,516	11,702	186	1.6%
Emergency Shelter Grants	514	517	514	-3	-0.6%
HOME Investments Partnership	11,512	8,164	8,845	681	8.3%
Section 8 Rental Voucher	11,253	12,532	13,536	1,004	8.0%
Section 8 Moderate Rehab	594	685	551	-134	-19.6%
Section 8 Rental Certificate	436	0	0	0	0.0%
Lead-based Paint Hazard Control	179	0	821	821	100.0%
Historic Preservation Fund Grants	533	573	795	222	38.7%
National Park Service	70	24	62	38	158.3%
Defense Legacy	59	5	43	38	760.0%
Defense Legacy Resource	31	37	34	-3	-8.1%
National Endowment for Humanities	53	80	45	-35	-43.8%
Institute of Museum and Library Services	2	14	3	-11	-78.6%
Weatherization Assistance – Low Income	2,668	3,256	3,215	-41	-1.3%
Community Services Block Grants	8,799	8,807	8,941	134	1.5%
Community Services Food and Nutrition	44	56	56	0	0.0%
Health & Human Services	21	30	0	-30	-100.0%
National Oceanic & Atmospheric	10	0	0	0	0.0%
US Drug Administration	25	25	0	-25	-100.0%
US Highway Plan & Construction	5	6	0	-6	-100.0%
US Army Medical Research	19	40	106	66	165.0%
Total	\$167,273	\$180,319	\$240,125	\$59,806	33.2%

Notes: The grants in fiscal 2005 and 2006 are the full grant amount including funds that will be applied to administrative expenses.

The \$59.8 million increase in the fiscal 2006 allowance includes capital funding of \$1.4 million.

Source: Department of Housing and Community Development

Issues

1. Proposed Merger of Low-income Weatherization Programs

Background

The Electric Customer Choice Act of 1999 created the Electric Universal Service Program (EUSP) to provide low-income customers with bill payment assistance, arrearage retirement, and weatherization services. EUSP is administered by DHR's Office of Home Energy Programs (OHEP) and overseen by the Public Service Commission (PSC). EUSP has been funded at approximately \$34 million per year, with the special funds being paid by electric customers in their monthly bills to the utilities. DHR generally allocated approximately 10% of the \$34 million, or \$3.4 million for the weatherization component of EUSP. The rest of the \$34 million has been spent on bill payment assistance, arrearage retirement, and administrative costs.

DHCD also administers a weatherization assistance program (WAP) that helps low-income homeowners and renters reduce their energy consumption by installing energy conservation materials in their dwellings. DHCD's WAP is funded with federal, special, and reimbursable funds. The weatherization services are provided by a network of 15 local government and nonprofit organizations that serve all 24 political subdivisions.

In January 2004, the Office of Legislative Audits released an audit report on DHR's EUSP. The report found that DHR had not adequately managed the weatherization component of EUSP. As of October 31, 2003, only 9% of the \$3.5 million authorized for the weatherization component had been spent, and funds were soon to be returned to electric customers if they remained unspent. Utilizing a clause in the enacting legislation, DHR redirected the weatherization funds to bill payment assistance during the first three months of fiscal 2005. On October 1, 2005, any unspent funds in DHR's fiscal 2005 weatherization budget will be transferred to DHCD. DHR's contract with the weatherization vendor was extended through December 2005 at no additional expense.

During the 2004 legislative session, the General Assembly directed DHR, DHCD, and PSC to jointly prepare and submit to the General Assembly a report detailing the most appropriate method of merging the two weatherization programs currently administered by DHR and DHCD. The agencies agreed that it would be feasible and desirable to merge the two weatherization programs and that the proposed merger would result in better service to more low-income households in a more cost-effective manner. The agencies also agreed that DHR should continue to administer the bill payment assistance and arrearage retirement, and DHCD should administer the merged low-income weatherization program. PSC will retain oversight responsibility for DHR's bill payment assistance and arrearage retirement components of EUSP.

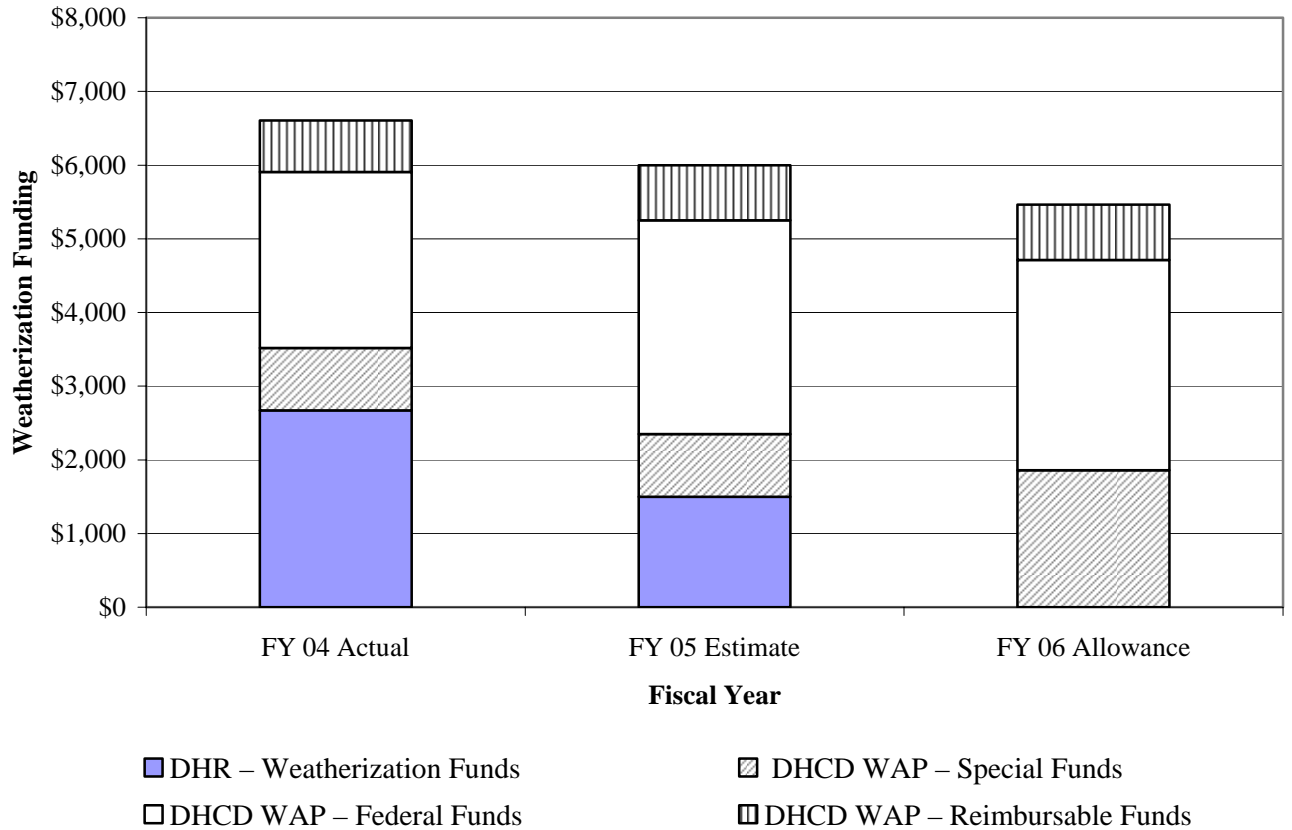
Merged Low-income Weatherization Program

DHR's and DHCD's weatherization programs currently have the same eligibility criteria – electric customers must have annual incomes at or below 150% of the federal poverty level. Proposed legislation (SB 202/HB 299) to merge the two programs would become effective July 1, 2005, and at that time, \$1 million would be transferred to DHCD to provide the weatherization services. The remaining \$2.4 million in the weatherization portion of DHR's EUSP budget would be used for bill payment assistance and arrearage retirement. As shown in **Exhibit 6**, DHCD's weatherization funding will increase 20.4% to \$5.4 million in fiscal 2006.

DHCD intends to blend the \$1.0 million with its federal grant and utilize the money to continue to weatherize homes under the U.S. Department of Energy's (DOE's) definition of weatherization. DOE's federal definition is broader than the State's definition and allows the funds to be utilized more effectively. The merged program will be allocated through the State's network of 15 local government and non-profit organizations. DHCD advises that it will administer the merged program utilizing its current staff. However, as the program grows, the department may need to add additional staff.

DHCD should brief the committees on its ability to effectively and fully utilize the additional \$1 million in weatherization services.

Exhibit 6
Weatherization Funding
Fiscal 2004 – 2006
(\$ in Thousands)



Note: \$1.0 million of DHCD’s weatherization appropriation is contingent upon the enactment of legislation (SB 202/HB 299) transferring the responsibility for the weatherization component of the Electric Universal Service Program from DHR to DHCD.

Source: Department of Legislative Services

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete 12 vacant positions. The department only needs 8 vacancies to make their budgeted turnover for fiscal 2006 but currently has 27 vacant positions. Abolishing 12 vacant positions will allow the department to fill 7 vacant positions assuming the Department of Budget and Management grants an exemption from the hiring freeze. The position abolition may be allocated among the divisions.	\$ 73,702	GF	12.0
	\$ 658,939	SF	
2. Delete one position and associated funding through achieving efficiencies in Government, Public and External Affairs. The Department of Housing and Community Development has a four-person office reporting to a Director of External Affairs within the Office of Management Services. The Department of Legislative Services recommends that the agency realign its organizational structure so its legislative liaison and public affairs positions are more closely aligned with policy development functions.	117,447	SF	1.0
Total Reductions	\$ 850,088		13.0
Total General Fund Reductions	\$ 73,702		
Total Special Fund Reductions	\$ 776,386		

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 2004					
Legislative Appropriation	\$9,924	\$25,609	\$153,526	\$734	\$189,793
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	3,578	-4,202	449	-175
Cost Containment	-949	0	0	0	-949
Reversions and Cancellations	-1	-957	-1,074	-99	-2,131
Actual Expenditures	\$8,974	\$28,230	\$148,250	\$1,084	\$186,538
Fiscal 2005					
Legislative Appropriation	\$8,784	\$27,803	\$163,432	\$1,231	\$201,250
Budget Amendments	66	653	43	0	762
Working Appropriation	\$8,850	\$28,456	\$163,475	\$1,231	\$202,012

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

Fiscal 2004

DHCD finished fiscal 2004 approximately \$3.3 million below its legislative appropriation. The impact of fiscal 2004 cost containment measures and significant budget amendments are provided below.

General Funds

The department's total general fund expenditure for fiscal 2004 was reduced through cost containment measures by \$949,368 dollars. Significant cost containment measures included a \$703,394 reduction due to the abolition of 14 positions; a \$59,590 reduction for the elimination of general fund support for 2 positions in the Neighborhood Revitalization Program; and a \$186,384 reduction for salary expenses.

Special Funds

The actual fiscal 2004 special fund expenditures were approximately \$2.6 million greater than the legislative appropriation. Significant adjustments consisted of an increase of \$3.6 million through budget amendments offset by approximately \$1.0 million in cancellations.

Budget Amendments

<u>Purpose</u>	<u>Source of Funds</u>	<u>Amount</u>
To provide funds for personnel previously funded with general funds.	Existing fund balance of General Bond Reserve Fund	\$750,000
To provide funds for the Division of Development Finance – Rental Services Program (RSP) for the Tax Credit Monitoring service contract within RSP.	Existing fund balance of General Bond Reserve Fund	528,000
To fund grants planned by the Maryland Affordable Housing Trust (MAHT) Board of Directors. The increase in special funds is replacing \$2.3 that was transferred from MAHT to the Division of Development Finance for the Self-Help Housing (\$1.8 million) and Rental Allowance Programs (\$500,000)	Existing fund balance of MAHT	<u>2,300,000</u>
Total		\$3,578,000

S00A – Department of Housing and Community Development

Federal Funds

The actual fiscal 2004 federal fund expenditure was approximately \$5.3 million less than the legislative appropriation. The major changes included:

- \$4.8 million decrease via budget amendment due to slower than anticipated transfer of projects from HUD to DHCD for administration of Project-Based Section 8 contracts than was originally projected by DHCD. DHCD budgeted a full year of administration for 300 contracts, but 54 were not transferred until the second quarter.
- \$1.1 million increase via budget amendment for the Division of Neighborhood Revitalization reflecting the reallocation of staff to monitor federally funded projects (\$180,000), an increased allocation for Community Development Block Grants to fund greater demand for non-capital projects (\$420,000), and the transfer of the administration of the Emergency Shelter Grant Program from the Community Development Administration to the Neighborhood Revitalization Program (\$516,000).
- \$1.1 million cancellations reflecting \$766,161 in vacancies greater than expected turnover and \$308,224 in weatherization pass –through grants less than budgeted.

Reimbursable Funds

The actual fiscal 2004 reimbursable fund expenditure was approximately \$350,518 greater than the legislative appropriation due to budget amendments and cancellations. The following table lists the divisions where the significant reimbursable funds were expended.

<u>Funds Disbursed To</u>	<u>Amount</u>
Division of Development Finance	\$400,201
Division of Historical and Cultural Programs	10,897
Division of Neighborhood Revitalization	<u>38,192</u>
Total	\$449,290

Fiscal 2005

DHCD's fiscal 2005 working appropriation is \$762,318 greater than its legislative appropriation due to an increase of \$312,318 as a result of the statewide cost-of-living adjustment and an increase in special funds of \$450,000 to support personnel costs that were previously supported with general funds. The general funds were eliminated in the fiscal 2005 legislative appropriation; however, the 2004 *Joint Chairmen's Report* authorized DHCD to process a budget amendment to restore the reduction with available special funds.

Audit Findings

The October 2002 audit reviewed the following divisions:

- Division of Credit Assurance;
- Division of Development Finance; and
- Division of Neighborhood Revitalization

Audit Period for Last Audit:	February 1, 1999 – October 31, 2001
Issue Date:	October 2002
Number of Findings:	14
Number of Repeat Findings:	5
% of Repeat Findings:	36%
Rating: (if applicable)	n/a

Finding 1: A significant number of questionable property sales transactions were identified during the audit that were referred to both the State’s Office of the Attorney General and the United States Attorney’s Office.

Finding 2: Employees responsible for maintaining and selling foreclosed properties were not adequately separated and were not subject to independent management approval.

Finding 3: Certain foreclosed properties were not aggressively marketed to help ensure that properties were widely advertised and sold at optimum prices in a timely manner.

Finding 4: The fund did not adequately document the expected cost/benefit in performing repairs on foreclosed properties and did not always accurately report the amount of repairs that were performed or were expected to be performed on individual properties.

Finding 5: The department did not obtain adequate documentation when contracting and processing payments for maintenance and repair services on foreclosed properties to ensure that the best price was obtained and that services paid for were satisfactorily received.

Finding 6: The funds’ method for establishing minimum bid prices for foreclosure auctions prevented the recovery of losses incurred on certain defaulted loans.

Finding 7: Records maintained for cash flow loans were incomplete and inaccurate.

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Finding 8: The department did not always issue bills for cash flow loan payments as required.

Finding 9: Evidence of possible criminal conduct by entities doing business with the department was not promptly referred to the Office of the Attorney General’s Criminal Investigation Division as required.

Finding 10: Audited financial statements and related independent auditor certifications were not always submitted by multifamily projects as required or reviewed by the department in a timely manner.

Finding 11: Current management agreements were not always on file.

Finding 12: The department did not always ensure that loan servicers complied with insurance coverage and annual certification requirements.

Finding 13: The department did not sufficiently verify the continued eligibility of borrowers with State funded preferred interest rate mortgage loans as required.

Finding 14: The department’s underwriting guidelines for certain loans were not clear and a process to monitor grant recipients has not been established.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Department of Housing and Community Development**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	365.50	385.90	384.90	-1.00	-0.3%
02 Contractual	49.29	61.74	66.10	4.36	7.1%
Total Positions	414.79	447.64	451.00	3.36	0.8%
Objects					
01 Salaries and Wages	\$ 24,023,231	\$ 25,226,041	\$ 26,195,400	\$ 969,359	3.8%
02 Technical & Spec Fees	2,068,730	2,581,696	3,026,218	444,522	17.2%
03 Communication	468,375	575,016	497,408	-77,608	-13.5%
04 Travel	316,178	366,122	375,853	9,731	2.7%
06 Fuel & Utilities	215,236	198,457	245,900	47,443	23.9%
07 Motor Vehicles	96,950	97,687	102,051	4,364	4.5%
08 Contractual Services	8,497,915	9,896,629	10,676,893	780,264	7.9%
09 Supplies & Materials	433,139	389,004	401,812	12,808	3.3%
10 Equip - Replacement	401,257	306,949	361,836	54,887	17.9%
11 Equip - Additional	268,735	180,317	135,158	-45,159	-25.0%
12 Grants, Subsidies, Contr	148,474,601	160,853,865	217,308,353	56,454,488	35.1%
13 Fixed Charges	1,261,974	1,340,398	1,328,627	-11,771	-0.9%
14 Land & Structures	10,445	0	0	0	0.0%
Total Objects	\$ 186,536,766	\$ 202,012,181	\$ 260,655,509	\$ 58,643,328	29.0%
Funds					
01 General Fund	\$ 8,973,813	\$ 8,850,579	\$ 8,252,733	-\$ 597,846	-6.8%
03 Special Fund	28,229,241	28,456,176	29,506,142	1,049,966	3.7%
05 Federal Fund	148,249,403	163,474,534	221,875,469	58,400,935	35.7%
09 Reimbursable Fund	1,084,309	1,230,892	1,021,165	-209,727	-17.0%
Total Funds	\$ 186,536,766	\$ 202,012,181	\$ 260,655,509	\$ 58,643,328	29.0%

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

Fiscal Summary
Department of Housing and Community Development

<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>
01 Office of the Secretary	\$ 2,582,253	\$ 2,878,672	\$ 3,090,305	\$ 211,633	7.4%
02 Maryland Affordable Housing Trust	2,800,000	2,000,000	2,000,000	0	0%
03 Office of Management Services	2,022,174	2,116,804	2,267,310	150,506	7.1%
01 Maryland Housing Fund	371,233	443,935	496,357	52,422	11.8%
02 Asset Management	3,691,248	4,357,224	4,263,330	-93,894	-2.2%
03 Maryland Building Codes Administration	603,703	577,828	650,095	72,267	12.5%
01 Management and Planning	2,480,138	2,572,148	2,603,848	31,700	1.2%
02 Office of Museum Services	3,279,663	3,173,183	3,414,229	241,046	7.6%
04 Research, Survey, and Registration	810,701	861,610	891,331	29,721	3.4%
05 Preservation Services	733,413	794,439	768,978	-25,461	-3.2%
01 Neighborhood Revitalization	13,620,910	13,408,180	13,837,297	429,117	3.2%
01 Administration	2,058,591	2,205,580	2,408,606	203,026	9.2%
02 Housing Development Program	2,949,694	3,486,015	2,846,781	-639,234	-18.3%
03 Homeownership Programs	2,035,130	2,090,482	2,016,354	-74,128	-3.5%
04 Special Loan Programs	4,953,541	5,651,317	6,576,395	925,078	16.4%
05 Rental Services Program	134,329,345	147,842,906	204,720,561	56,877,655	38.5%
01 Information Technology	2,823,652	2,978,013	2,923,606	-54,407	-1.8%
01 Finance and Administration	4,391,377	4,573,845	4,880,126	306,281	6.7%
Total Expenditures	\$ 186,536,766	\$ 202,012,181	\$ 260,655,509	\$ 58,643,328	29.0%
General Fund	\$ 8,973,813	\$ 8,850,579	\$ 8,252,733	-\$ 597,846	-6.8%
Special Fund	28,229,241	28,456,176	29,506,142	1,049,966	3.7%
Federal Fund	148,249,403	163,474,534	221,875,469	58,400,935	35.7%
Total Appropriations	\$ 185,452,457	\$ 200,781,289	\$ 259,634,344	\$ 58,853,055	29.3%
Reimbursable Fund	\$ 1,084,309	\$ 1,230,892	\$ 1,021,165	-\$ 209,727	-17.0%
Total Funds	\$ 186,536,766	\$ 202,012,181	\$ 260,655,509	\$ 58,643,328	29.0%

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

Fiscal 2006 Cost Containment Actions
As Submitted by the Agency
Estimated Fiscal 2006 Savings
Compared to Fiscal 2005

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Positions Reduced</u>	<u>Impact of Action</u>
Elimination of GF support for Office of the Secretary, replaced with SF	SOOA2001	\$0	-\$91,823	\$91,823			See below
Elimination of GF support for Office of Mgmt Services, replaced with SF	SOOA2003	0	-101,370	101,370			
Elimination of GF support for Codes Administration, replaced with SF	SOOA2203	0	-95,073	95,073			
Consolidation of Smart Codes functions within Codes Administration	SOOA2401	-115,869	-115,869				
Reduction of operating grants to Neighborhood Housing Services	SOOA2401	-50,000	-50,000				
Consolidation of Main Street Improvement Program	SOOA2401	-50,000	-50,000				
Consolidation of Circuit Rider Program	SOOA2401	-120,000	-120,000				
Contingent reduction of General Funds in DHCP (note 1)	SOOA2305	-400,000	-400,000				
Elimination of Operating Assistance Grants	SOOA2502	-70,000		-70,000			
Conversion from microfiche technology to electronic document imaging	SOOA2503	-25,000		-25,000			
Elimination of GF support for Rental Allowance administration, replaced with SF	SOOA2505	0	-47,210	47,210			
Closed Annapolis office - consolidated 20 employees to Crownsville office	SOOA2505	-103,118			-\$103,118		
Created electronic interface for Section 8 payments (note 2)	SOOA2701	0					
Reduced the motor pool by 4 sedans and 1 van (note 3)	SOOA2701	0					
		-\$933,987	-\$1,071,345	\$240,476	-\$103,118		

Notes:

- (1) Contingent upon legislation authorizing fees for historic tax credit projects; a budget amendment will be needed to allow for special fund expenditures to offset the general fund reduction.
- (2) Without the electronic interface, DHCD would need to hire additional finance support staff to process payments at an estimated cost of \$40,000 to absorb additional contracts from HUD in fiscal 2006.
- (3) Had the fleet reduction policy not been implemented, the fiscal 2006 budget would have been approximately \$60,000 higher.
- (4) Savings in excess of \$2.5 million from the consolidation of 16 separate loan servicers to a single master servicer are reflected in the revenue bond fund accounts maintained by the Bond Trustee. These savings will allow the Department to implement innovative programs, including lowering the interest rate on loans to future homebuyers.