

S00A
Department of Housing and Community Development

Operating Budget Data

	(\$ in Thousands)				
	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$8,850	\$3,899	\$2,771	-\$1,128	-28.9%
Special Fund	26,257	28,362	28,680	318	1.1%
Federal Fund	160,660	221,016	218,464	-2,552	-1.2%
Reimbursable Fund	<u>1,102</u>	<u>947</u>	<u>898</u>	<u>-49</u>	<u>-5.2%</u>
Total Funds	\$196,869	\$254,224	\$250,813	-\$3,411	-1.3%

- About 82% of the appropriation for Historical and Cultural Programs was transferred to the Maryland Department of Planning (MDP), lowering the fiscal 2006 working appropriation by \$6.1 million.
- A fiscal 2006 deficiency appropriation of \$500,000 is proposed to provide additional weatherization services. This amount would be transferred from the State's Dedicated Purpose Account.
- Programs promoting homeownership, housing rehabilitation, and affordable rental housing development are set to increase about half a million dollars in the fiscal 2007 allowance, while rental services (subsidies) decrease \$2.7 million. Administration programs are set to increase nearly half a million, partly to offset an additional administrative contribution to MDP.
- The allowance continues the trend of decreasing general funds for the Department of Housing and Community Development (DHCD); federal funds have been the primary replacement source.

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

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Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	385.90	317.90	315.90	-2.00
Contractual FTEs	<u>46.52</u>	<u>37.80</u>	<u>42.90</u>	<u>5.10</u>
Total Personnel	432.42	355.70	358.80	3.10

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	6.32	2.00%
Positions Vacant as of 12/31/05	18.00	5.66%

- The allowance reflects 2.0 fewer regular positions and 5.1 additional contractual full-time equivalents.
- DHCD’s budgeted turnover rate of 2% requires an average of 6.32 vacant positions throughout fiscal 2007 to achieve the savings required. The agency’s number of vacant positions as of December 31, 2005 is 18; 7 of these have been vacant for more than 12 months.

Analysis in Brief

Major Trends

Homeownership Progress Struggles Under Market Conditions: The number of low- and moderate-income residents who purchased a home with DHCD financing increased from fiscal 2003 to 2004 but decreased in 2005. Steep home prices and low conventional interest rates have affected the marketability of DHCD mortgages.

Rental Housing Growth Dampened by Projects That Did Not Materialize: Several rental housing projects did not proceed as expected, affecting the number of affordable housing units ready for construction. The number of these units was uneven from fiscal 2002 to 2005, with an overall 44% decrease during this time.

Communities Receiving Financial Assistance Increases, but Those Receiving Technical Assistance Declines: A vacancy in the position that manages training and technical assistance has affected the overall number of communities assisted, although the number of communities receiving financial assistance has grown since fiscal 2003. **The Department of Legislative Services (DLS) recommends that DHCD comment on whether fiscal 2006 and 2007 objectives for homeownership assistance, rental housing units produced, and communities assisted are attainable. They appear to be based on fiscal 2005 estimates, which were higher than actual amounts.**

Administrative Effectiveness Measures Are on Track: Administrative measures related to the Asset Management, Building Codes, and Neighborhood Revitalization programs, among others, generally are on track.

Issues

DHCD Reports That Weatherization Programs Have Procedures to Ensure Applicants Are Appropriately Referred: In the 2005 Joint Chairmen’s Report, the budget committees requested a report detailing the measures taken to ensure that people seeking weatherization assistance from the Department of Human Resources are properly referred to DHCD. Generally, DHCD reports that the recent changes have been incorporated into existing procedures. **The Department of Legislative Services recommends that DHCD comment on how the weatherization program changes are working, and what is the outlook for weatherization programs given expected dramatic increases in electricity prices.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete 4 long-term vacant positions.	\$ 233,563	4.0
2. Increase budgeted turnover rate.	201,799	
Total Reductions	\$ 435,362	4.0

Updates

Main Street and Town Manager Circuit Rider Programs Continue; Ongoing Funding Sources Remain Uncertain: Beginning in fiscal 2006, the Main Street and Circuit Rider programs did not receive line-item general funds in the budget. DHCD reports that internal efficiencies funded additional Main Street activity, and it still is exploring funding for the Circuit Rider program. The agency hopes to use any excess loan repayments under the Community Legacy program as a potential future funding source.

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Operating Budget Analysis

Program Description

The mission of the Department of Housing and Community Development (DHCD) is to revitalize communities, encourage homeownership, and expand affordable rental housing by providing resources not available through the private sector.

The department's programs are administered through three operating divisions: the Division of Credit Assurance, which includes the Maryland Housing Fund's mortgage insurance activities; the Division of Neighborhood Revitalization; and the Division of Development Finance, which includes the Community Development Administration (CDA). CDA issues the (nonbudgeted) tax-exempt bonds that are DHCD's most plentiful resource, with \$1.3 billion in bonds outstanding as of June 2005 in residential revenue and single-family program bonds alone.

As of October 2005, DHCD's Division of Historical and Cultural Programs (HCP) was transferred to the Maryland Department of Planning (MDP). DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration.

Performance Analysis: Managing for Results

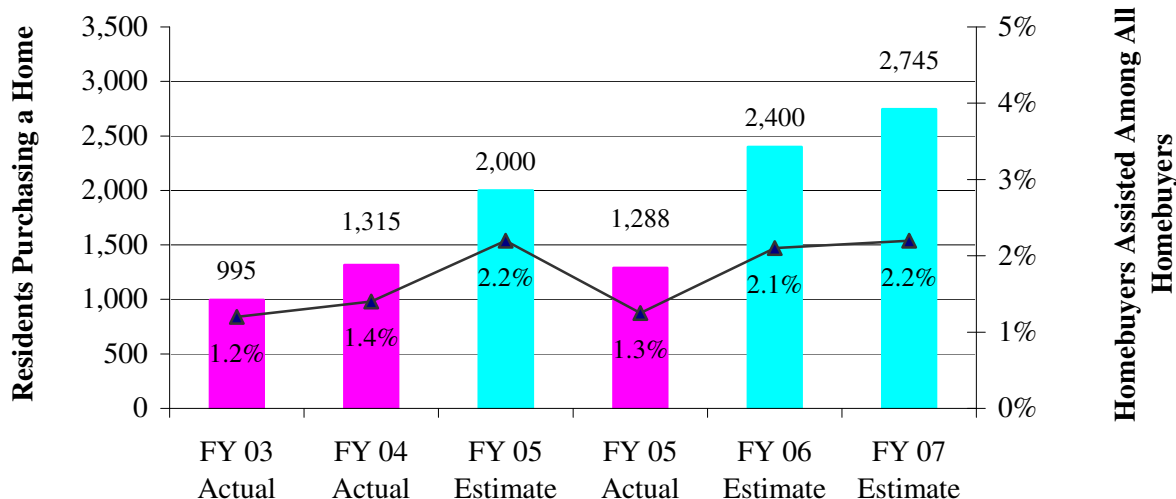
Overall, Maryland's homeownership rate increased from 69.9% in fiscal 2000 to 71.6% in 2003, according to the Managing for Results (MFR) summary data collected by the Department of Budget and Management (DBM). DHCD focuses on improving homeownership – as well as affordable rental housing availability – for low- and moderate-income Marylanders. Specifically, DHCD targets families that have incomes below 60% of the median income in their area. Note that DHCD modified many of its MFR measures beginning in fiscal 2003, which means that data prior to that year are not comparable.

Homeownership Progress Struggles Under Market Conditions

DHCD has a goal to help low- and moderate-income residents purchase or keep their homes. The number of low- and moderate-income residents who purchased a home with DHCD financing increased from fiscal 2003 to 2004 but decreased in 2005, as shown in **Exhibit 1**. The proportion of low- and moderate-income homebuyers receiving DHCD financing among all homebuyers (regardless of financing source) followed a similar pattern.

DHCD reports that the recent dramatic rise in the number of homes sold in Maryland combined with a decline in the inventory of available homes led to steep home price increases. The mortgages that DHCD offers through its CDA program were at a disadvantage in improving homeownership in these market conditions. One challenge was that, until December 2004, CDA

Exhibit 1
Low- and Moderate-income Homeownership Assistance
Fiscal 2003 – 2007



- Number of Low- and Moderate-income Residents Who Purchased a Home with DHCD Financing
- ▲ Proportion of Low- and Moderate-income Homebuyers Assisted Among All Homebuyers

Notes: Data on low- and moderate-income residents include only those receiving financial, not technical, assistance from DHCD. Data on homebuyers assisted among all homebuyers reflects the number of low- and moderate-income homebuyers receiving DHCD financing divided by the total number of homebuyers regardless of the financing source.

Source: Maryland State Budget Books

mortgages were insured only by governmental agencies, primarily the Federal Housing Administration, and the maximum loan amount allowed remained relatively static. Seven private companies now also provide insurance, with more flexible terms, for the mortgages in DHCD’s Maryland Mortgage Program. Furthermore, market interest rates remained low in fiscal 2005, meaning CDA mortgages did not have much of an advantage over conventional mortgages. The agency anticipates that its new mortgage products will improve its homeownership results in fiscal 2006 and beyond.

Beginning in fiscal 2003, DHCD changed its primary homeownership data source from the State Department of Assessments and Taxation to the Maryland Association of Realtors. DHCD reports that the new data source is better because it includes only those houses that the new owners can immediately occupy and the data are updated monthly for the entire State.

Rental Housing Growth Dampened by Projects That Did Not Materialize

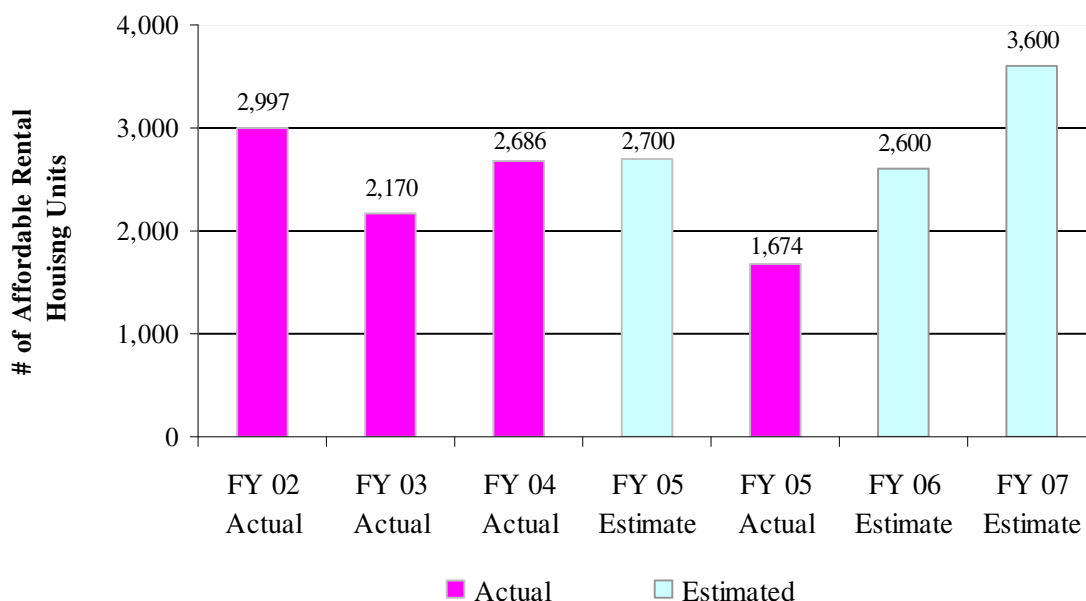
Another DHCD goal is to expand decent, affordable rental housing in Maryland. DHCD states that decent housing, at a minimum, meets all State and local health, housing, and building

codes and provides an environment that generally is safe and secure. Substandard housing may be overcrowded and may have incomplete kitchen and plumbing features.

The agency has several programs geared toward rental housing, including providing rent subsidies to families (in partnership with local government and private sector organizations) and providing financing to housing authorities and other developers to construct new rental housing. The new rental housing properties generally have from 30 to 300 units and cost \$5 million to \$30 million each.

As a measure of its rental housing efforts, DHCD tracks the number of affordable housing units it supports that go to initial closing. The initial closing status means that DHCD and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 2**, the number of units in initial closing was uneven from fiscal 2002 to 2005, with an overall 44% decrease during this time.

Exhibit 2
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2002 – 2007



Note: Initial closing status means that DHCD and the borrower have closed the loan on the project, and construction is about to begin. Final closing is achieved after construction is complete.

Source: Maryland State Budget Books

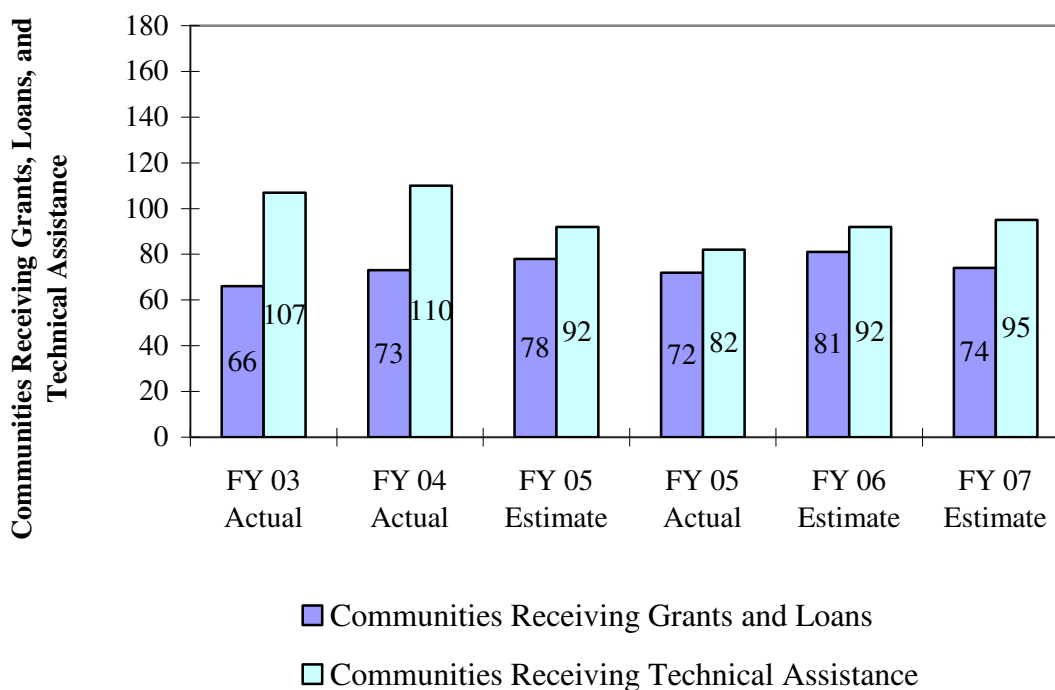
DHCD reports that several projects did not materialize as expected, and there is an eight-month interval between competitions for State loan funds so it can be difficult to make up for lost projects in a particular year. Furthermore, projects that received funds in the May 2004 round were included in fiscal 2005 projections but did not end up closing until the first half of 2006. Rental construction and other capital programs are further discussed in the DHCD PAYGO analysis.

Communities Receiving Financial Assistance Increases, but Those Receiving Technical Assistance Declines

As part of its MFR efforts, DHCD tracks its work at the community level. The number of communities receiving financial assistance increased from 66 in fiscal 2003 to 72 in 2005, as shown in **Exhibit 3**. However, the number of communities receiving technical assistance dropped from 107 to 82 during the same time, causing an overall decrease in the number of communities assisted. DHCD reports that the position of the catalyst program manager, through which training and technical assistance is provided, was vacant, causing the numbers to decline. DHCD also tracks the number of businesses it helps that are located in distressed communities. This number was 25 in fiscal 2003, 41 in 2004, and 30 in 2005.

The Department of Legislative Services (DLS) recommends that DHCD comment on whether fiscal 2006 and 2007 objectives for homeownership assistance, rental housing units produced, and communities assisted are attainable. They appear to be based on fiscal 2005 estimates, which were higher than actual amounts. Furthermore, it seems DHCD’s lower than expected MFR measures may affect its plans to reduce the State’s affordable rental housing deficit, as discussed in the DHCD PAYGO analysis.

Exhibit 3
Communities Receiving Financial and Technical Assistance
Fiscal 2003 – 2007



Source: Maryland State Budget Books

Administrative Effectiveness Measures Are on Track

DHCD also has a number of measures related to the effectiveness of its administrative functions. On the whole, the measures are on track with DHCD's objectives. For example, the Asset Management program has met its objectives since at least fiscal 2002 in reducing foreclosures in the single family loan portfolio. The Building Codes program has provided training to more than two-thirds of local governments and State agencies since at least fiscal 2002. The amount of funds leveraged by Neighborhood Revitalization program grants and loans has increased at least since fiscal 2002.

Fiscal 2006 Actions

Division of Historical and Cultural Programs Transferred to Department of Planning

Chapter 440, Acts of 2005 (HB 1562) transferred HCP from DHCD to MDP effective October 1, 2005. The fiscal 2006 appropriation for HCP included \$7.5 million in operating funds, \$20.5 million in capital funds, 73 regular positions, and 13.3 contractual positions.

DHCD submitted a budget amendment in September 2005 that transferred \$3.6 million (47.4%) of the HCP operating budget as well as \$225,000 from a capital revolving loan fund. Another amendment was submitted in December 2005 that transferred \$2.6 million (34.4%) of the operating budget and \$20.2 million in capital funds. The December capital funds represented the remaining revolving loan funds and \$20 million for the Heritage Structure Rehabilitation Tax Credit. DHCD retained \$1.4 million (18.2%) of the HCP operating budget to cover costs incurred before the effective date of the transfer.

DHCD contributed an additional \$185,000 to MDP to support administrative activities. These were general funds from the DHCD Office of the Secretary and the Division of Finance and Administration. The funds cover two full-time equivalent (FTE) regular positions, including an accountant and an information technology network administrator. DHCD also will transfer two vacant positions in fiscal 2007, including Attorney General staff who provide legal services.

Deficiency Proposed for Weatherization

A deficiency appropriation of \$500,000 is proposed for DHCD to provide additional weatherization services. This amount would be transferred from the State's Dedicated Purpose Account in the State Reserve Fund to DHCD. The agency estimates that each weatherization project costs \$4,000, so the additional funds would help about 125 more families in fiscal 2006.

Governor’s Proposed Budget

As shown in **Exhibit 4**, the fiscal 2007 allowance for DHCD represents a 1.3% decrease over 2006 before the transfer of HCP is factored in. Working from a new base without HCP, the agency’s budget decreases 0.8%.

Exhibit 4
DHCD – Operating Budget Before and After the Division of
Historical and Cultural Programs Transfer
Fiscal 2006 – 2007
(\$ in Thousands)

DHCD Operating Budget	FY 06 Working Appropriation Before Transfer	FY 06 Working Appropriation After Transfer	FY 07 Allowance	Change 06 – 07 Before Transfer	Change 06 – 07 After Transfer
General Funds	\$3,899,113	\$2,860,165	\$2,771,000	-\$1,128,113	-\$89,165
Special Funds	28,361,673	28,234,264	28,679,752	318,079	445,488
Federal Funds	221,016,280	220,842,260	218,463,825	-2,552,455	-2,378,435
Reimbursable Funds	947,238	921,052	898,436	-48,802	-22,616
Total	\$254,224,304	\$252,857,741	\$250,813,013	-\$3,411,291	-\$2,044,728
Percent Change				-1.3%	-0.8%
HCP Operating Budget	\$7,527,685	\$1,366,563	\$0		

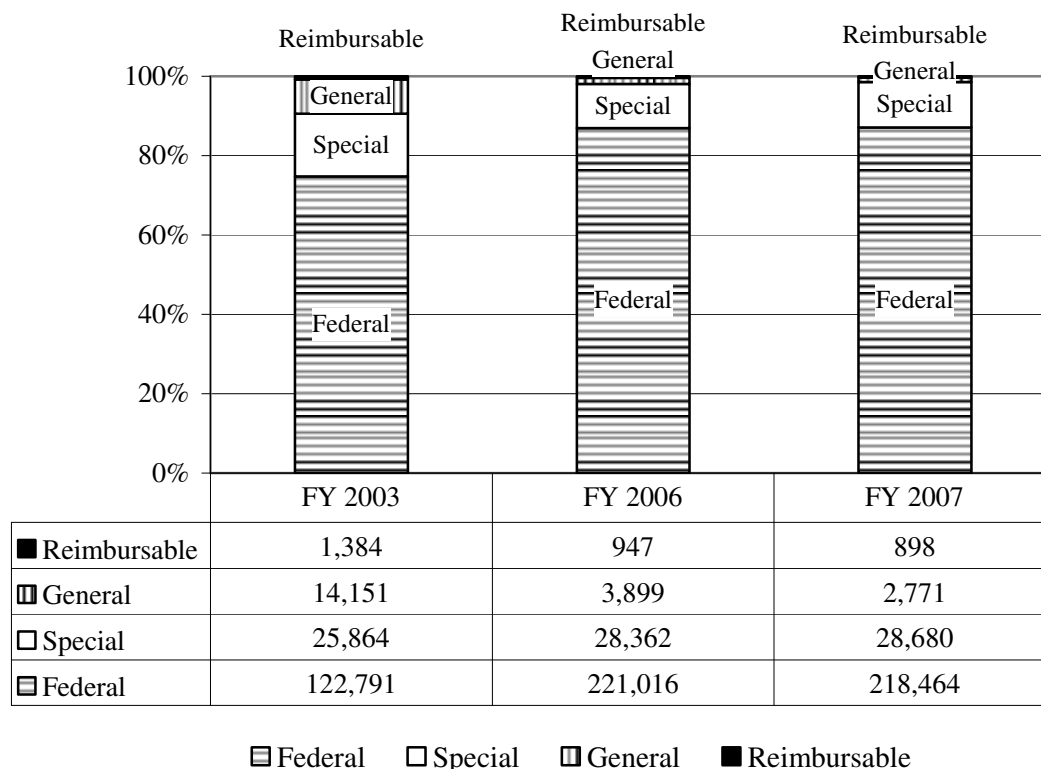
Notes: DHCD transferred 47.4% of the fiscal 2006 HCP appropriation in July 2005 and another 34.4% in December 2005. The agency retained 18.2% of the appropriation for HCP activities it conducted that occurred before the effective date of the transfer. The HCP working appropriation before the transfer includes fiscal 2006 COLA funds.

Source: Maryland State Budget; DHCD

Budget Continues Trend of Decreasing General Funds; Federal Funds Are Primary Replacement Source

Over the past several years, DHCD has significantly reduced its use of general funds. General funds decreased \$10.3 million (72.4%) from fiscal 2003 to the 2006 working appropriation, as shown in **Exhibit 5**. The fiscal 2007 allowance continues this trend, reducing general funds \$1.1 million over 2006.

**Exhibit 5
DHCD Fund Sources
Fiscal 2003 – 2006
(\$ in Thousands)**



Source: Maryland State Budget Books

Part of the decrease represents general fund reductions in certain programs, such as subsidies provided through the Rental Allowance Program and consolidation of the Smart Codes program into the Maryland Building Codes Administration. Another part of the decrease is from lower spending on personnel; total personnel have declined by 96.4 FTEs from fiscal 2003 to the 2006 working appropriation, representing 6.2% less spent (from all fund sources) on salaries, wages, and benefits. Above all, DHCD reports, the decrease represents the agency’s efforts to supplant general fund support for administrative activities with special and federal funds.

The agency reports that in determining how it will fund administrative costs, it looks first to federal funds. Indeed, federal funds represent more than 80% of the operating budget, so the indirect cost recovery associated with federal programs is significant. Federal funds increased by \$98 million from fiscal 2003 to 2006. Special funds, which increased \$2.5 million during the same time, also help cover administrative costs. The special funds are generated by direct and indirect cost recovery

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from the agency's revolving loan funds as well as the Maryland Housing Fund, which provides insurance for mortgages financed with CDA revenue bonds, and the General Bond Reserve Fund, which also is associated with CDA bonds.

Federal funds decrease by \$2.6 million in the fiscal 2007 allowance primarily because DHCD has not started work on a major new Section 8 contract from the U.S. Department of Housing and Urban Development (HUD). The agency still is discussing the timing of this contract with HUD; the allowance assumes that DHCD will manage 400 properties on behalf of HUD in fiscal 2007.

DLS recommends that DHCD comment on how potential reductions in federal funds for housing would affect its operating activities.

Rental Services Set to Decrease; Administration Increases Include Offset from an Additional Historical Programs Transfer

Changes in the fiscal 2007 allowance as compared to the 2006 working appropriation are shown in **Exhibit 6**. Personnel changes are separated out from other program change amounts. The DHCD operating budget by program category is shown in **Exhibit 7**, with detail for each program shown in **Appendix 4**.

Programs that promote homeownership and affordable rental housing total \$224.1 million in the allowance, with personnel and all other expenditures considered together; this is a \$2.1 million decrease from fiscal 2006. Most of these funds are related to federal Section 8 housing programs. Net changes in the allowance are primarily in the Rental Services program, with decreases including a \$3 million Section 8 adjustment due to a delay in work on a new contract, and increases including \$700,000 for the Bridge Subsidy Demonstration Program, a new program for individuals with disabilities.

Community assistance programs total \$13.4 million in the allowance, a \$387,829 decrease from fiscal 2006. Administration programs total \$13.4 million, a \$471,600 increase over fiscal 2006. Part of the increase is to offset an additional administrative contribution to the MDP in support of HCP. Finally, the transfer of HCP represents a \$1.4 million decrease below the fiscal 2006 working appropriation. HCP's total budget is about \$7.5 million, but DHCD transferred \$6.1 million by December 2005, leaving the new fiscal 2006 working appropriation as \$1.4 million.

Exhibit 6
Governor's Proposed Budget
Department of Housing and Community Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2006 Working Appropriation	\$3,899	\$28,362	\$221,016	\$947	\$254,224
2007 Governor's Allowance	<u>2,771</u>	<u>28,680</u>	<u>218,464</u>	<u>898</u>	<u>250,813</u>
Amount Change	-\$1,128	\$318	-\$2,552	-\$49	-\$3,411
Percent Change	-28.9%	1.1%	-1.2%	-5.2%	-1.3%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$586
Contractual personnel.....	253
Employees' retirement system	184
Employee and retiree health insurance.....	62
Turnover adjustments	53
Deferred compensation State match.....	43
Personnel expenses associated with HCP transfer to Department of Planning	-1,299
Workers' compensation premium assessment	-164
Unemployment insurance.....	-23
Other personnel changes.....	-9

Other Changes

Programs to promote homeownership and affordable, decent rental housing:

<i>Special Loan Programs</i> provide rehabilitation and weatherization; this increase is primarily from additional federal funds received for weatherization.....	117
<i>Homeownership Programs</i> increase for a call center and marketing initiatives	98
<i>Rental Services</i> provides State rent subsidies in partnership with local governments and the private sector, and it administers the federal Section 8 program; the decreases are mainly from a \$3 million Section 8 adjustment due to a delay in work on new contracts; an increase of \$700,000 is included to fund the Bridge Subsidy Demonstration Program for individuals with disabilities	-2,409
<i>The Housing Development Program</i> handles rental housing financing, operating assistance for nonprofits, bond issuances, and administration of three federal programs; the decreases include small reductions to nonprofit grants and foreclosure costs.....	-45

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Community assistance programs:

Neighborhood Revitalization provides financial and technical assistance to local governments, community organizations, and small businesses; the decrease is primarily from lower CDBG special projects funding to address increased capital project requests -487

Historical and cultural programs:

HCP non-personnel costs transferred to the Maryland Department of Planning -214

Administration:

Finance and Administration increases are mainly for facilities and fleet management 212

Information Technology decreases are mostly from lower equipment costs -261

Asset Management decreases are primarily attributable to decreased contractual services, including loan servicing and property appraisals -146

Other changes 40

Total **-\$3,411**

CDBG = Community Development Block Grants

HCP = Historical and Cultural Programs

MDP = Maryland Department of Planning

Note: Numbers may not sum to total due to rounding

**Exhibit 7
DHCD – Budget by Program
Fiscal 2006 – 2007
(\$ in Thousands)**

	<u>Fiscal 2006 Working Appropriation</u>	<u>Fiscal 2007 Allowance</u>	<u>06 – 07 Change</u>	<u>06 – 07 % Change</u>
Programs to Promote Homeownership and Affordable, Decent Rental Housing	\$226,211	\$224,082	-\$2,128	-0.9%
Community Assistance Programs	13,755	13,367	-388	-2.8%
Administration	12,892	13,364	472	3.7%
Historical and Cultural Programs	1,367	0	-1,367	-100.0%
Total	\$254,224	\$250,813	-\$3,411	-1.3%

Source: Maryland State Budget

Regular Personnel Decreases by 2.0 Positions; Contractuals Increase by 5.1 Positions

As part of its statewide personnel reductions, DBM abolished three DHCD positions in fiscal 2006:

- a program manager I in the Neighborhood Revitalization program; and
- a program manager I and a program manager II in the Rental Services program.

DHCD transfers a total of 77 regular and 13.3 contractual positions to MDP in support of HCP; all the transfers are reflected in the fiscal 2006 working appropriation except 2.0 regular positions that are transferred in the 2007 budget.

From this lower base, the fiscal 2007 allowance funds 2.0 fewer regular positions. Both are related to HCP:

- a vacant assistant attorney general II position; and
- a vacant assistant attorney general III position that was reclassified from an administrative officer I loan accountant.

The allowance provides for 5.1 FTE additional contractual positions, including:

- 2.0 project managers for Neighborhood Revitalization programs;
- 2.0 computer information specialists;
- 1.0 advanced accountant; and
- 0.1 assistant attorney general to increase a part-time position by four hours per week.

Looking at personnel differences from fiscal 2005 to 2006, and accounting for the 2006 abolitions and transfer of HCP, DHCD gained 10 regular positions and 4.6 contractuals. The regular positions were contractual conversions for federally funded employees in the contract administration unit, and these were not subject to State personnel increase limits. The 4.6 contractuals were approved during the budget process for fiscal 2006.

Issues

1. DHCD Reports That Weatherization Programs Have Procedures to Ensure Applicants Are Appropriately Referred

Chapter 468, Acts of 2005 (SB 202/HB 299) transferred low-income weatherization services from the Department of Human Resources (DHR) to DHCD. In the 2005 *Joint Chairmen's Report*, (JCR) the budget committees requested a report detailing the measures taken to ensure that people seeking weatherization assistance from DHR are properly referred to DHCD. Generally, DHCD reports that coordination between the two agencies on weatherization issues has been in place since 1987 and that the recent changes have been incorporated into procedures for referring applicants to appropriate services.

For fiscal 2006, \$1 million in special funds was transferred from DHR's Electrical Universal Service Program (EUSP) to the DHCD Weatherization Assistance Program (WAP). With this change, DHR focuses its energy-related activities on bill payment assistance and arrearage (overdue debt) retirement. DHCD concentrates on helping low-income homeowners and renters install energy conservation materials in their dwellings.

DHR's local network locations serve as the primary source of intake for weatherization assistance. During the application process, each household is informed about weatherization services and, if interest is expressed, a note is made on the application form. Applications for those interested are referred to the appropriate local DHCD weatherization agency depending on the applicant's geographic location. DHCD administers its energy programs through a network of 15 local government and nonprofit organizations. When DHR certifies that an applicant is eligible for its bill payment or arrearage assistance, the applicant automatically is qualified to receive DHCD weatherization services because the programs serve the same income levels (annual income at or below 150% of the federal poverty level).

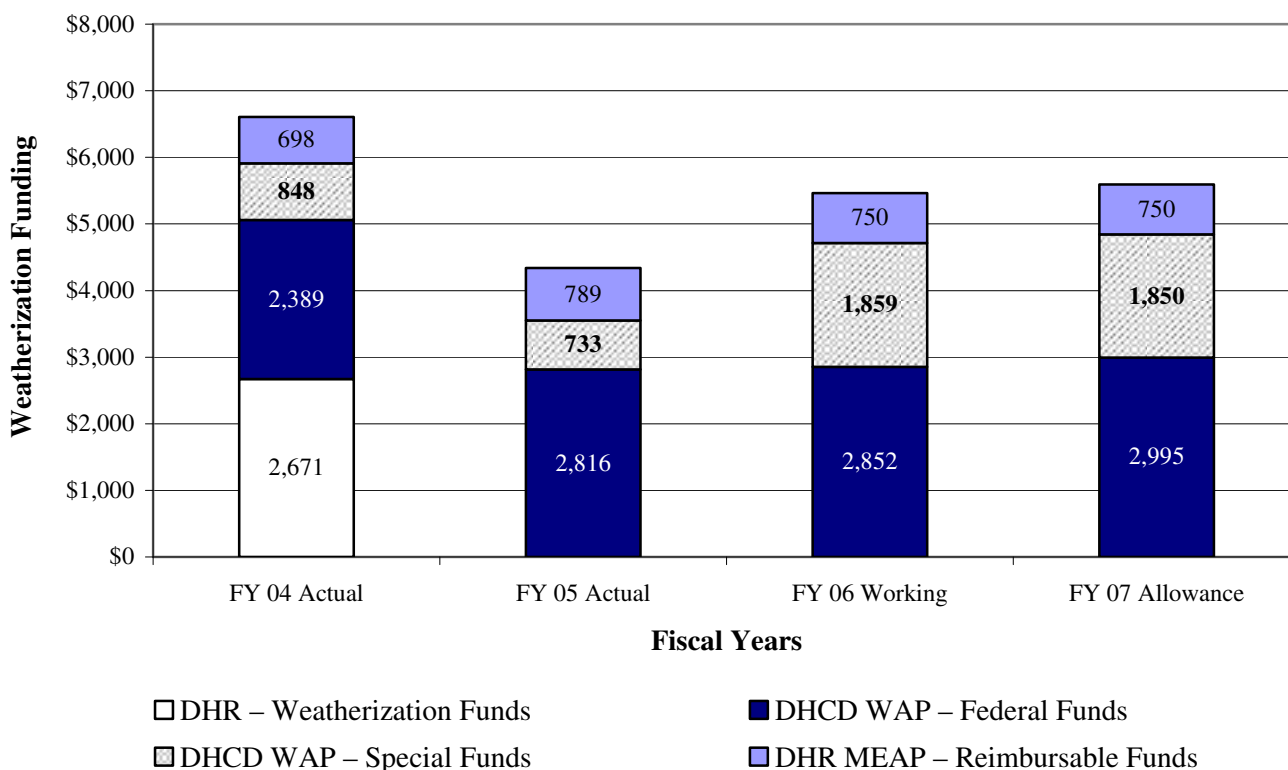
To enhance coordination and discuss program operations, DHR and DHCD conduct annual joint training sessions for all the local agencies involved. DHCD uses the same local network for its weatherization services no matter the source of funds for the work.

DHR makes an estimated 5,000 referrals annually to the local weatherization agencies. DHCD provides weatherization for about 1,000 households and furnace repairs for about 255 households annually. With its additional weatherization funds from DHR, DHCD estimates it can serve 350 more households.

Weatherization Funding Averages \$5.8 Million

Weatherization funding has averaged about \$5.8 million since fiscal 2004, as shown in **Exhibit 8**. WAP receives federal, special, and reimbursable funds. The primary source of federal funds is the U.S. Department of Energy (DOE). WAP also receives DOE support in the form of reimbursable funds that are passed through DHR's Maryland Energy Assistance Program (MEAP). WAP special funds include those received through EUSP as well as separate funds from Baltimore Gas & Electric and Washington Gas to cover their respective territories.

**Exhibit 8
Statewide Weatherization Funding
Fiscal 2004 – 2007
(\$ in Thousands)**



Source: Department of Housing and Community Development

DHCD uses its EUSP funds for conservation services such as air infiltration reduction, insulation, and windows and doors. Funds received directly from DOE also support these services but are more flexible and can also be used for incidental weatherization repairs related to health and safety of up to \$500 per unit. MEAP funds are used solely for furnace repair or replacement.

DHR receives about \$34 million annually for its bill assistance and arrearage retirement services. Its funds are from EUSP, which is funded by electric customers as part of their monthly payments to utilities, as well as MEAP, which receives funds from DOE.

The Department of Legislative Services recommends that DHCD comment on how the weatherization program changes are working, and what is the outlook for weatherization programs given expected dramatic increases in electricity prices.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete 4 long-term vacant positions. The department is carrying 12 more vacant positions than needed to meet budgeted turnover. Position numbers 45472, 38785, 84263, and 77304 have been vacant 19 or more months. The fund reductions from deleting these 4 positions may be allocated among the department's divisions.	\$ 65,157	SF	4.0
	\$ 168,406	FF	
2. Increase budgeted turnover rate. The budgeted turnover rate for fiscal 2007 is 2%, while from fiscal 2000 to 2006 the department's vacancy rate has averaged 6.5% (as of December 31 of each fiscal year). The turnover reduction amounts represent changing the rate from 2 to 3% and may be distributed among the department's divisions.	2,238	GF	
	23,158	SF	
	176,403	FF	
Total Reductions	\$ 435,362		4.0
Total General Fund Reductions	\$ 2,238		
Total Special Fund Reductions	\$ 88,315		
Total Federal Fund Reductions	\$ 344,809		

Updates

1. Main Street and Town Manager Circuit Rider Programs Continue; Ongoing Funding Sources Remain Uncertain

Through fiscal 2005, the Main Street Improvement and Maryland Town Manager Circuit Rider programs were budgeted as line-item general fund grants. The Main Street program received \$50,000, and the Circuit Rider program received \$120,000 each year. Beginning in fiscal 2006, these programs did not receive line-item funds in the budget.

During the 2005 legislative session, DHCD reported that it would attempt to find alternative funding sources to continue the activities of these programs. In the 2005 JCR, the budget committees requested a report detailing DHCD's final determination of how the two programs would be funded in fiscal 2006, the impact on those sources of funding, and the criteria that makes those sources eligible to fund the two programs.

A DHCD report indicates that internal efficiencies freed up funds for the Main Street program. In fact, DHCD provided \$128,000 in fiscal 2005, \$78,000 beyond what was budgeted, which would compensate for possible lower funding in 2006. Funds needed in fiscal 2006 for the Circuit Rider program were reduced to \$88,025, based on adjustments to the range of circuits, local funding matches, and circuit staffing. DHCD reports that it is exploring funding the Circuit Rider program with Community Development Block Grant (CDBG) funds, excess special fund repayments from the Community Legacy program, the agency's technical assistance fund, or a one-time adjustment in federal program management funds. DHCD hopes to use any excess loan repayments under the Community Legacy program as a potential future funding source.

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 2005					
Legislative Appropriation	\$8,784	\$27,803	\$163,432	\$1,231	\$201,250
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	66	653	-2,257	45	-1,493
Reversions and Cancellations	0	-2,199	-515	-174	-2,888
Actual Expenditures	\$8,850	\$26,257	\$160,660	\$1,102	\$196,869
Fiscal 2006					
Legislative Appropriation	\$27,792	\$29,466	\$221,864	\$1,021	\$280,143
Budget Amendments	-23,893	-1,104	-848	-74	-25,919
Working Appropriation	\$3,899	\$28,362	\$221,016	\$947	\$254,224

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

Fiscal 2005

DHCD finished fiscal 2005 at \$4.4 million below its legislative appropriation.

General Funds

The actual fiscal 2005 general fund expenditure was \$66,363 greater than the legislative appropriation due to the \$752 State employee cost-of-living adjustment (COLA).

Special Funds

The actual fiscal 2005 special fund expenditure was a net \$1.5 million lower than the legislative appropriation. During the year, special funds increased by \$652,937 million through budget amendment to fund employee COLA increases. Special fund cancellations totaled \$2.2 million and were primarily from vacancies, actual foreclosure expenses coming in lower than the budgeted amount, and expenses for weatherization assistance funded by utility companies being lower than expected.

Federal Funds

The actual fiscal 2005 federal fund expenditure was a net \$2.8 million lower than the legislative appropriation. During the year, federal funds decreased by \$2.3 million through budget amendment. Of this amount, \$1.7 million was related to CDBG. Given fund levels, DHCD had excess appropriations in the Section 8 program but a shortage of appropriations in the CDBG program. The decrease represents a transfer of appropriations or spending authority, not funds, from Section 8 to CDBG.

Reimbursable Funds

The actual fiscal 2005 reimbursable fund expenditure was a net \$128,556 below the legislative appropriation. Reimbursable funds increased by \$45,000 through budget amendment due to a transfer from the Department of Health and Mental Hygiene AIDS Administration to provide housing services for people living with HIV/AIDS. Reimbursable fund cancellations totaled \$173,556.

Fiscal 2006

The DHCD fiscal 2006 working appropriation is a net \$25.9 million less than the legislative appropriation.

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General Funds

General funds are a net \$23.9 million below the fiscal 2006 legislative appropriation. The single increase is \$52,963 for the 1.5% State employee COLA. Decreases represent \$23.9 million related to the transfer of HCP from DHCD to MDP in accordance with legislation enacted in 2005. This amount represents about 80% of the program's budget. DHCD transferred about half of the appropriation in October 2005, and transferred another one-third in December 2005. The remainder remains in the DHCD appropriation to cover expenses incurred through November 2005.

Special Funds

Special funds are a net \$1.1 million below the fiscal 2006 legislative appropriation. The single increase is \$251,085 to support the 1.5% employee COLA. Decreases represent \$1.4 million related to the transfer of HCP from DHCD to MDP.

Federal Funds

Federal funds are a net \$848,117 below the fiscal 2006 legislative appropriation. The single increase is \$74,938 to support the 1.5% employee COLA. Decreases represent \$923,055 related to the transfer of HCP from DHCD to MDP.

Reimbursable Funds

Reimbursable funds are a net \$73,759 below the fiscal 2006 legislative appropriation. Increases include \$48,208 from the Maryland Department of Agriculture for the Maryland Agricultural Education and Rural Development Assistance Fund grants. Decreases were due to \$121,967 related to the transfer of HCP from DHCD to MDP.

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>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	385.90	317.90	315.90	-2.00	-0.6%
02 Contractual	46.52	37.80	42.90	5.10	13.5%
Total Positions	432.42	355.70	358.80	3.10	0.9%
Objects					
01 Salaries and Wages	\$ 24,541,185	\$ 23,892,200	\$ 23,384,401	-\$ 507,799	-2.1%
02 Technical & Spec Fees	1,916,883	1,956,723	2,153,014	196,291	10.0%
03 Communication	528,430	431,337	330,529	-100,808	-23.4%
04 Travel	378,159	331,288	361,948	30,660	9.3%
06 Fuel & Utilities	239,973	56,672	1,700	-54,972	-97.0%
07 Motor Vehicles	110,412	91,855	143,456	51,601	56.2%
08 Contractual Services	8,437,980	10,451,039	10,630,183	179,144	1.7%
09 Supplies & Materials	372,109	330,818	288,105	-42,713	-12.9%
10 Equip – Replacement	273,796	361,438	200,006	-161,432	-44.7%
11 Equip – Additional	252,802	134,591	61,838	-72,753	-54.1%
12 Grants, Subsidies, and Contributions	158,487,927	214,885,602	211,833,715	-3,051,887	-1.4%
13 Fixed Charges	1,258,774	1,300,741	1,424,118	123,377	9.5%
14 Land & Structures	70,500	0	0	0	0.0%
Total Objects	\$ 196,868,930	\$ 254,224,304	\$ 250,813,013	-\$ 3,411,291	-1.3%
Funds					
01 General Fund	\$ 8,850,202	\$ 3,899,113	\$ 2,771,000	-\$ 1,128,113	-28.9%
03 Special Fund	26,256,730	28,361,673	28,679,752	318,079	1.1%
05 Federal Fund	160,659,663	221,016,280	218,463,825	-2,552,455	-1.2%
09 Reimbursable Fund	1,102,335	947,238	898,436	-48,802	-5.2%
Total Funds	\$ 196,868,930	\$ 254,224,304	\$ 250,813,013	-\$ 3,411,291	-1.3%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

Fiscal Summary
Department of Housing and Community Development

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Office of the Secretary	\$ 3,163,390	\$ 3,136,982	\$ 3,129,063	-\$ 7,919	-0.3%
02 Maryland Affordable Housing Trust	2,128,763	2,000,000	2,000,000	0	0%
03 Office of Management Services	2,007,360	1,981,909	2,380,237	398,328	20.1%
01 Maryland Housing Fund	468,276	531,442	527,623	-3,819	-0.7%
02 Asset Management	3,926,936	4,224,815	4,175,347	-49,468	-1.2%
03 Maryland Building Codes Administration	526,230	656,035	655,155	-880	-0.1%
01 Management and Planning	2,782,726	333,276	0	-333,276	-100.0%
02 Office of Museum Services	3,123,890	653,149	0	-653,149	-100.0%
04 Research, Survey and Registration	835,334	204,697	0	-204,697	-100.0%
05 Preservation Services	658,318	175,441	0	-175,441	-100.0%
01 Neighborhood Revitalization	13,817,187	13,754,782	13,366,953	-387,829	-2.8%
01 Administration	2,039,322	2,473,216	2,549,860	76,644	3.1%
02 Housing Development Program	2,701,530	2,945,515	3,034,568	89,053	3.0%
03 Homeownership Programs	1,991,780	2,063,002	2,185,442	122,440	5.9%
04 Special Loan Programs	5,142,194	6,566,782	6,905,544	338,762	5.2%
05 Rental Services Program	144,589,789	204,750,114	202,048,883	-2,701,231	-1.3%
01 Information Technology	2,577,337	2,939,037	2,831,457	-107,580	-3.7%
01 Finance and Administration	4,388,568	4,834,110	5,022,881	188,771	3.9%
Total Expenditures	\$ 196,868,930	\$ 254,224,304	\$ 250,813,013	-\$ 3,411,291	-1.3%
General Fund	\$ 8,850,202	\$ 3,899,113	\$ 2,771,000	-\$ 1,128,113	-28.9%
Special Fund	26,256,730	28,361,673	28,679,752	318,079	1.1%
Federal Fund	160,659,663	221,016,280	218,463,825	-2,552,455	-1.2%
Total Appropriations	\$ 195,766,595	\$ 253,277,066	\$ 249,914,577	-\$ 3,362,489	-1.3%
Reimbursable Fund	\$ 1,102,335	\$ 947,238	\$ 898,436	-\$ 48,802	-5.2%
Total Funds	\$ 196,868,930	\$ 254,224,304	\$ 250,813,013	-\$ 3,411,291	-1.3%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.