S00A

Department of Housing and Community Development

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
General Fund	$3,899	$4,403	$3,389	-$1,014	-23.0%
Special Fund	25,475	28,897	28,386	-511	-1.8%
Federal Fund	170,367	218,287	186,782	-31,505	-14.4%
Reimbursable Fund	1,077	2,898	985	-1,913	-66.0%
Total Funds	**$200,819**	**$254,486**	**$219,542**	**-$34,943**	**-13.7%**

- The fiscal 2008 allowance declines from the 2007 working appropriation primarily because a $30 million contract from the U.S. Department of Housing and Urban Development (HUD) has not materialized as expected.

- In recent years, the Department of Housing and Community Development (DHCD) has significantly reduced its use of general funds for operations, and the fiscal 2008 allowance continues this trend. Overall, federal funds continue to rise in the DHCD operating budget, even excluding the HUD contract.

- The allowance benefits from use of one-time health insurance surplus funds. Absent the use of these funds, the budget declines by $33.9 million, or 13.4%.

Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Positions	317.90	315.90	316.00	0.10
Contractual FTEs	53.50	39.50	39.50	0.00
Total Personnel	**371.40**	**355.40**	**355.50**	**0.10**

Vacancy Data: Regular Positions

Turnover, Excluding New Positions		9.48	3.00%
Positions Vacant as of 12/28/06		21.00	6.65%

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

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- The agency's budgeted turnover rate of 3% requires an average of 9.48 vacant positions throughout fiscal 2008 to achieve the savings required. The number of vacant positions as of December 28, 2006, is 21. All but one position have been vacant for six months or less.

Analysis in Brief

Major Trends

Homeownership Results Have Been Static: The number of low- and moderate-income residents who purchased a home with financing from DHCD held fairly steady from fiscal 2004 to 2006, averaging about 1,300 annually. **DHCD should comment on the assumptions it uses to generate homeownership assistance estimates because the estimates appear unattainable.**

Rental Housing Exceeds Objective in 2006; Project Timing Makes a Big Difference: The number of rental units ready for construction can be uneven from year to year. In fiscal 2006, the number was 2,940, which exceeded the estimate by 340 because the timing of two large projects made them fall just within the 2006 fiscal year.

Assistance to Nonprofits Has Grown; Business Assistance Has Declined: The number of nonprofits receiving technical assistance from DHCD has increased. At the same time, the number of communities receiving grants and loans has been relatively static, and the number of communities receiving technical assistance has declined. Since fiscal 2004, fewer businesses in distressed neighborhoods have been helped.

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

Data on Needs by Geographic Area Guide Marketing Efforts: DHCD recently conducted a study of Maryland's housing demographics and affordability. The data are categorized by urban, suburban, exurban, and rural areas. The agency is using this data to guide its marketing efforts and boost assistance to underserved areas.

Issues

So Far, Progress in Closing the Affordable Rental Housing Gap Is Slow: Maryland's shortage of affordable and available workforce rental housing units is projected to be about 125,000 units by 2014. DHCD estimated in 2004 that it could increase its coverage of the shortfall from 28 to 40% without additional State resources by enhancing existing programs. At this point, the agency has not met its annual production goal. **DHCD should comment on whether it still intends to cover 40% of the affordable rental housing shortage by 2014.**

New Live Near Your Work Program Increases Financial Flexibility, but Consideration of Geographic Effects Appears Diminished: DHCD recently unveiled a modified version of its Live Near Your Work program that provides grants to low- and middle-income homebuyers. The new program is designed to provide a more generous grant; however, the home may be up to 10 miles from the homebuyer's employer or anywhere within the boundaries of the employer's local jurisdiction.

Recommended Actions

		Funds
1.	Increase the budgeted turnover rate.	$ 216,024
	Total Reductions	**$ 216,024**

Updates

Weatherization Programs Serve About 1,000 Households Annually: In the 2005 legislative session, weatherization services for low-income families were transferred from the Department of Human Resources (DHR) to DHCD. DHR refers about 5,000 households annually to weatherization services; DHCD provides weatherization for about 1,000 households and furnace repairs for about 225 households annually.

Funding Found for Main Street and Town Manager Circuit Rider Programs in 2007: Beginning in fiscal 2006, the Main Street Improvement and Maryland Town Manager Circuit Rider programs did not receive line-item general funds in the budget. DHCD used resources from other programs and a supplemental appropriation to fund the programs in fiscal 2007.

Maryland Housing Equity Fund Still Being Established: A 2005 market assessment indicated that a private equity fund to finance affordable housing projects could perform well in Maryland. A nonprofit headquartered in Columbia is working to establish such a fund.

Task Force on Common Ownership Communities Offers Wide-ranging Recommendations: Sometimes there is confusion about how common ownership communities operate, and there are conflicts among residents, owners, property managers, and association leadership. A legislatively mandated task force issued recommendations in November 2006 addressing these challenges.

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.

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

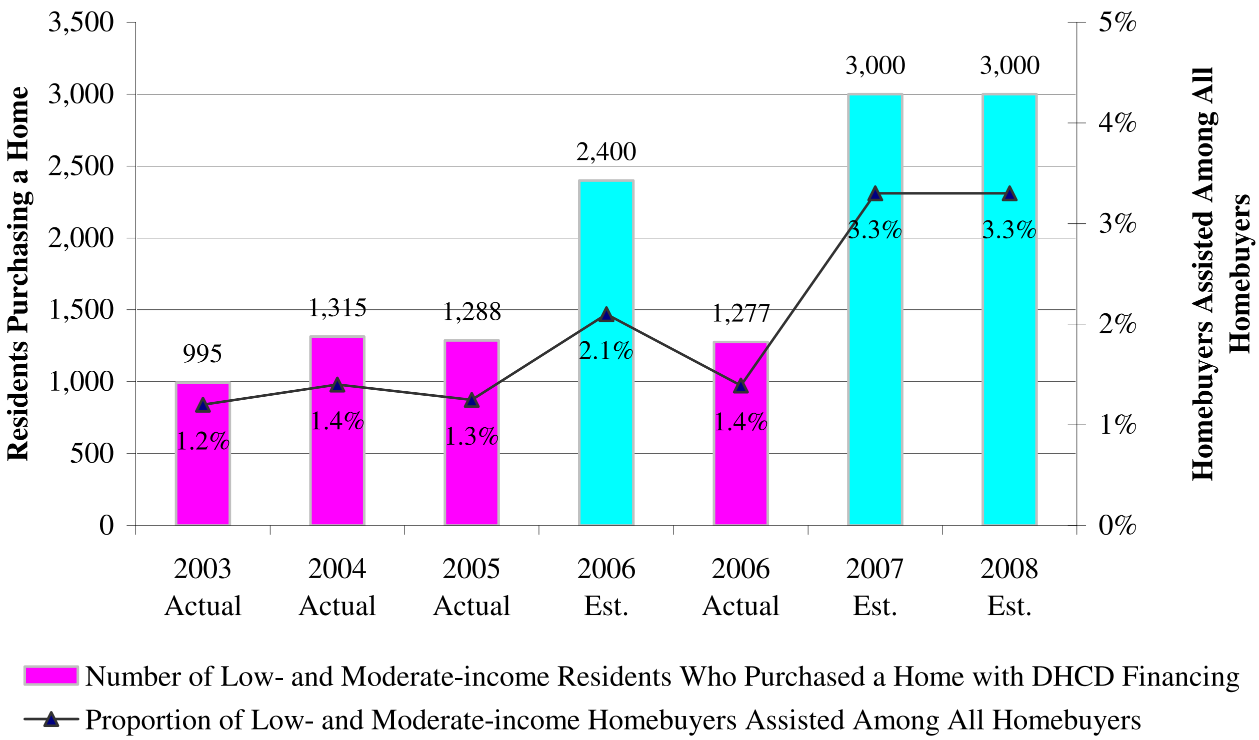
Since 2000, Maryland's homeownership rate has averaged 71%. This compares to a national average of 68% during the same time. DHCD focuses on improving homeownership – as well as affordable rental housing availability – for low- and moderate-income Marylanders. Specifically, DHCD targets families that have incomes below 60% of the median income in their area. Note that DHCD modified many of its Managing for Results (MFR) measures beginning in fiscal 2003, which means that data prior to that year are not comparable.

Homeownership Results Have Been Static

DHCD has a goal to help low- and moderate-income residents purchase or keep their homes. The number of these residents who purchased a home with DHCD financing held fairly steady from fiscal 2004 to 2006, 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 dramatic rise in the number of homes sold in Maryland combined with a decline in the inventory of available homes in the past few years led to steep home price increases. Only recently have prices stopped growing so quickly. Furthermore, market interest rates have remained low, meaning CDA mortgages do not have much of an advantage over conventional mortgages. The mortgages that DHCD offers through its CDA program are at a disadvantage in improving homeownership in these market conditions. **DHCD should comment on the assumptions it uses to generate homeownership assistance estimates because the estimates appear unattainable.**

Exhibit 1
Low- and Moderate-income Homeownership Assistance
Fiscal 2003-2008



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

Source: Governor's Budget Books, Fiscal 2005-2008

Rental Housing Exceeds Objective in 2006; Project Timing Makes a Big Difference

Another DHCD MFR 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.

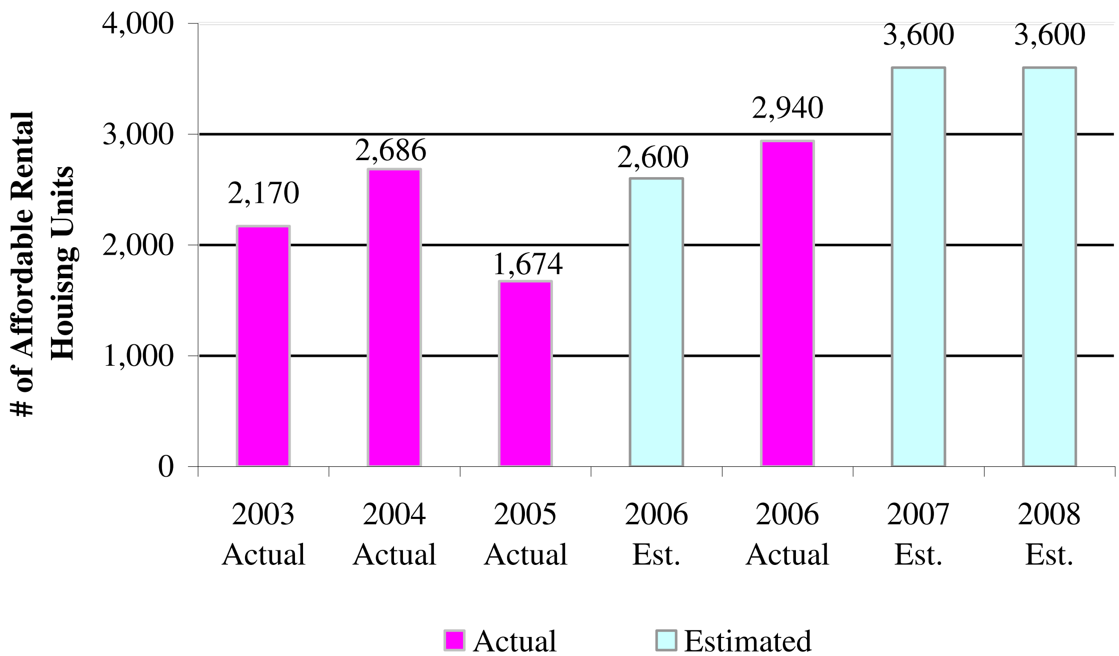
As a measure of its rental housing efforts, DHCD tracks how many new affordable housing units it supports that go to initial closing. The initial closing status means that DHCD and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 2**, the units in initial closing can be uneven from year to year. If there is a delay in a project's construction schedule, then the unit count may be applied to the following fiscal year, and projects that incorporate up to several hundred units may cause a large swing. There is an eight-month interval between competitions for State loan funds so it can be difficult to make up for projects that do not materialize in a particular year.

In fiscal 2006, the units in initial closing exceeded the estimate by 340. Two projects account for most of this attainment – one was anticipated to close in fiscal 2005 but instead closed just after the beginning of fiscal 2006, and one closed just before the end of 2006. At halfway through fiscal 2007, DHCD has closed on 1,712 units, which is nearly half of the objective of 3,600.

Exhibit 2

Affordable Rental Housing Units Going to Initial Closing

Fiscal 2003-2008



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: Governor's Budget Books, Fiscal 2005-2008

Assistance to Nonprofits Has Grown; Business Assistance Has Declined

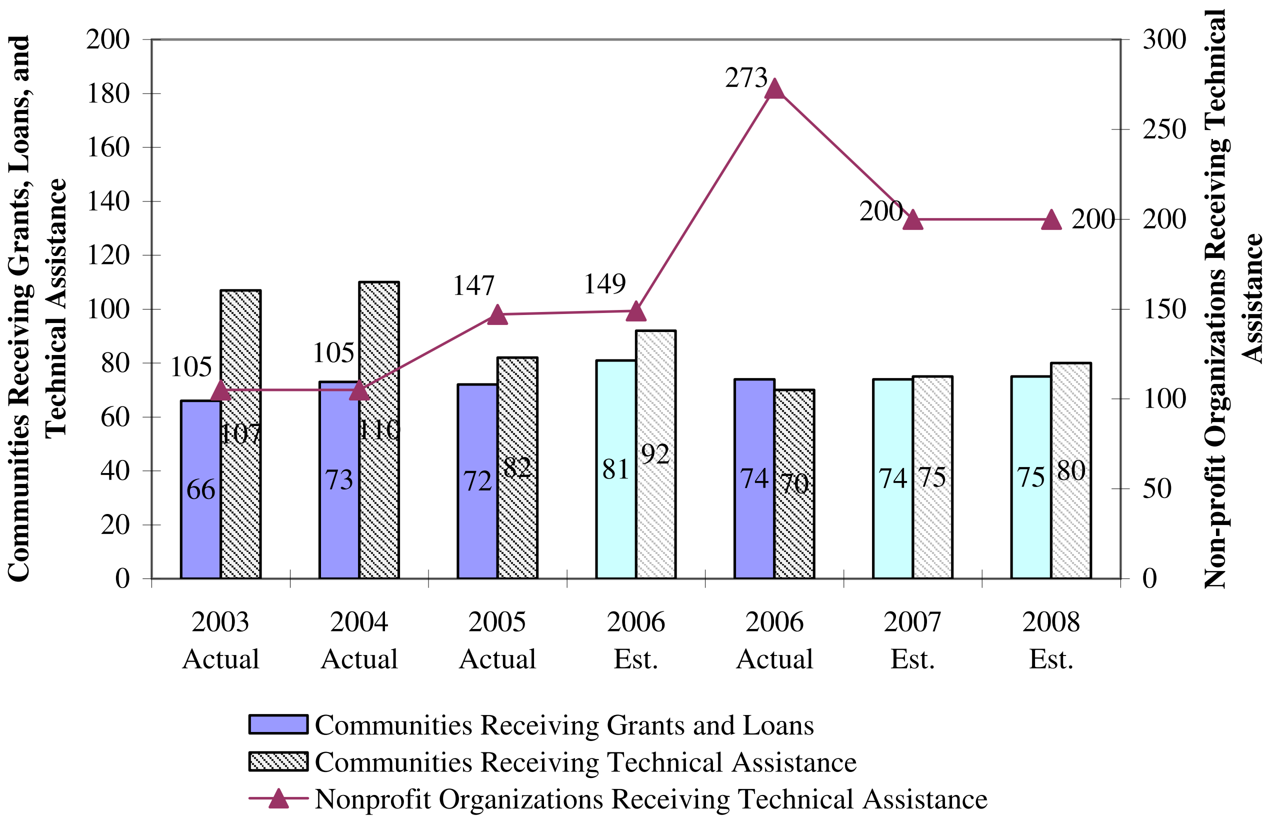
As part of its Managing for Results efforts, DHCD tracks its work at the community level. Assistance goes to nonprofit and community-based organizations as well as communities themselves, meaning local governments. The number of communities receiving grants and loans has been relatively static since fiscal 2003, as shown in **Exhibit 3**. The number of communities receiving technical assistance declined from fiscal 2003 to 2006. At the same time, the number of nonprofit organizations receiving technical assistance has increased. It spiked to 273 in fiscal 2006 because DHCD held a conference targeting faith-based organizations that drew 100 participants.

DHCD also tracks the number of businesses it helps that are located in distressed communities. The objective is to increase the number each year. DHCD financial assistance went to 25 businesses in fiscal 2003, 41 in 2004, 30 in 2005, and 17 in 2006. The agency reports that the decline in fiscal 2006 was due to continued vacancies in the Neighborhood Business Works program that hampered activity. Also, nearly half of the funds were reserved for a project that, in the end, did not close. The agency expects the number of businesses helped to increase because vacancies are expected to be filled and the program is using new underwriting software that enables increased scrutiny of applications. The intensified scrutiny will help the program fund less risky loans and should translate into more repayments into the fund and more loans that can be made in the future.

Administrative Effectiveness Measures Are on Track

DHCD has a number of MFR 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.

Exhibit 3
Financial and Technical Assistance to Revitalize Communities
Fiscal 2003-2008



Note: DHCD also provides assistance to small businesses and selected neighborhoods in distressed areas.

"Communities" means local governments.

Source: Governor's Budget Books, Fiscal 2005-2008

Data on Needs by Geographic Area Guide Marketing Efforts

DHCD conducted a study recently intended to guide the allocation of State housing and community development resources. The study was part of the 2003 Governor's Commission on Housing Policy and included comprehensive data on housing related demographics and affordability, including income, age, disability status, housing prices, number of homeowner households, and number of renter households. The data from this study may complement DHCD's MFR efforts.

The data are categorized by urban, suburban, exurban, and rural areas. DHCD developed the criteria for the categories based on a review of various housing studies. The areas represent U.S. Census Bureau block group, or sub-county boundaries.

The agency's analysis of the data indicates that one-third of Maryland households – in all geographic area types – cannot afford to purchase starter homes. Starter homes are assumed to be 85% of the overall median home price, per the National Association of Realtors definition. A household meets the affordability threshold if its monthly mortgage does not exceed 25% of its monthly gross income. The data also indicate that one-third of Maryland households – particularly in urban areas – cannot afford median rent. An affordable rental unit, as defined by the National Low Income Housing Coalition, is one where a renter spends less than 30% of gross income on rent.

DHCD reports that it is using the data by geographic area type to guide its marketing efforts. Specifically, the data have helped identify underserved areas with respect to income, age, and disability. For example, the agency determined that Prince George's County was underserved by its single family homeownership assistance programs, and it has stepped up outreach there, which has improved participation.

Governor's Proposed Budget

As shown in **Exhibit 4**, the fiscal 2007 allowance represents a $34.9 million (13.7%) decrease from the fiscal 2007 working appropriation.

Personnel Expenses Decline Modestly

Personnel expenses decline by a net $216,351 in fiscal 2008 as compared to 2007. Among increases, salary increments are set to grow by 2%, which is below the statewide average of 2.3%. Health insurance costs are set to decline at DHCD, as with all State agencies, because of one-time savings. These one-time savings represent use of fund balance because the State has overbudgeted for health insurance costs in recent years; at DHCD, fiscal 2008 costs decrease by a net $963,360. Among other personnel items, contributions to the employee retirement system increase by $400,443.

Other Changes Include Lower Federal Funds Because a $30 Million Contract Has Not Materialized

Of the nonpersonnel changes in the operating budget, the most significant is related to a $30 million contract from the U.S. Department of Housing and Urban Development (HUD). For several years, HUD has promised a contract to manage additional Section 8 properties (about 100 properties in unspecified locations), but the contract has not materialized. DHCD decided that the new contract award is uncertain and the spending authority should be cancelled. DHCD's existing contract to manage Section 8 properties totaled $135.4 million in fiscal 2006.

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

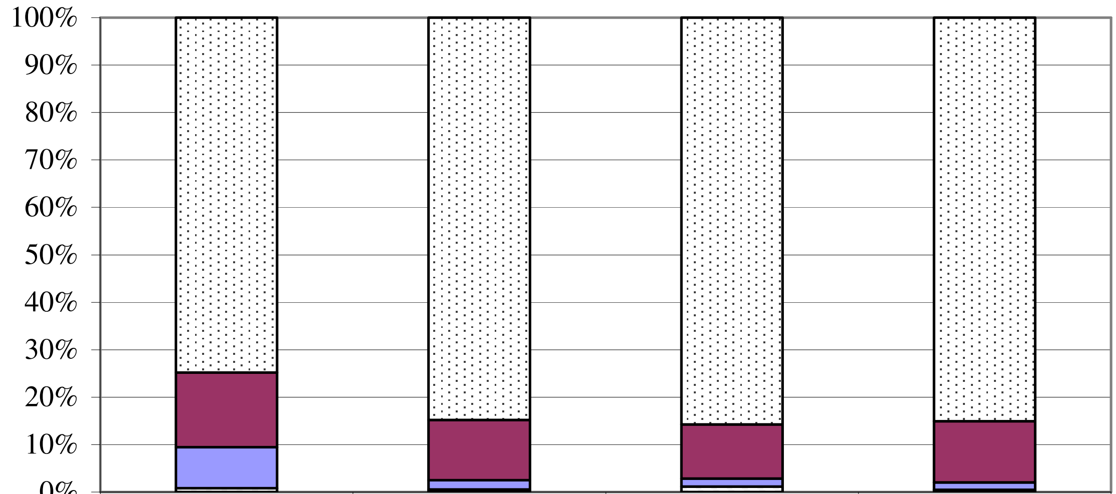
How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2007 Working Appropriation	$4,403	$28,897	$218,287	$2,898	$254,486
2008 Governor's Allowance	3,389	28,386	186,782	985	219,542
Amount Change	-$1,014	-$511	-$31,505	-$1,913	-$34,943
Percent Change	-23.0%	-1.8%	-14.4%	-66.0%	-13.7%

Where It Goes:	
Personnel Expenses	
Salary increments	$371
Health insurance costs decline due to one-time savings	-963
Employee retirement system	400
Other Changes	
Contract from the U.S. Department of Housing and Urban Development to manage additional Section 8 properties did not materialize as expected	-30,245
Weatherization funds for Special Loan Programs are one-time only in fiscal 2007	-2,000
Some federal funds available to support Division of Credit Assurance operations are one-time only in fiscal 2007	-1,654
Section 8 voucher program decreases	-1,000
Other	308
Total	**-$34,943**

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

At this time, the effect of the cancellation is seen in three fiscal years of data: the cancellation was applied to the fiscal 2006 budget, lowering actual spending ($201 million) from what was appropriated ($260 million); the 2007 budget already had been appropriated and so the working appropriation is much higher than actual spending will be; and the 2008 budget does not include the contract so it is much lower than the 2007 working appropriation. The data in **Exhibit 5** show the fluctuation.

Exhibit 5
DHCD Fund Sources
Fiscal 2003-2008
($ in Thousands)



	2003	2006	Working Approp. 2007	Allowance 2008
Federal Funds	122,791	170,367	218,287	186,782
Special Funds	25,864	25,475	28,897	28,386
General Funds	14,151	3,899	4,403	3,389
Reimbursable Funds	1,384	1,077	2,898	985

Source: Governor's Budget Books, Fiscal 2003-2008

Among other changes, $2.0 million in reimbursable funds for the weatherization assistance program was received from the Department of Human Resources. This is a one-time allotment for fiscal 2007. A budget amendment that realigned funds in fiscal 2007 provided $1.7 million in additional one-time federal funds to support operations in the Division of Credit Assurance. Federal funds for the Section 8 voucher program decrease by $1.0 million because of a lower anticipated federal allotment, bringing the fiscal 2008 amount to $12.0 million. **Appendix 4** has additional detail on budget changes by program.

Agency Continues to Diminish Use of General Funds and Increase Federal Funds

In recent years, DHCD has significantly reduced its use of general funds for operations, as shown in Exhibit 5. The fiscal 2008 allowance continues this trend. Part of the decrease represents general fund reductions in certain programs, and another part of the decrease is from lower spending on personnel. Above all, DHCD reports, the decrease represents the agency's efforts to supplant general fund support for administrative activities with special and federal funds.

In determining how it will fund administrative costs, DHCD 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. Special funds are generated by direct and indirect cost recovery 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.

Overall, federal funds continue to rise in the DHCD budget. Even without the HUD Section 8 contract that has not materialized as expected, federal funds are expected to be $188 million in fiscal 2007, which is an increase over 2006. Federal funding by program can vary. The Section 8 voucher program has increased since fiscal 2004, but it is expected to decrease by $1 million in 2007. The agency manages a number of Section 8 properties on behalf of HUD, and the funds received for this activity has increased since fiscal 2004; the amount is a function of the reimbursement rate set by HUD, times the number of properties. In the capital budget, Community Development Block Grant funds have held steady. The Rental Housing and Special Loans programs in the capital budget have had declining federal fund amounts. These programs are discussed further in the DHCD capital PAYGO analysis.

Issues

1. So Far, Progress in Closing the Affordable Rental Housing Gap Is Slow

The need for affordable housing is expected to grow in the coming years. Maryland's shortage of affordable and available workforce rental housing units is projected to be about 157,000 units by 2014. Most (two-thirds) of the shortage is expected to affect families.

Historically, DHCD has financed the production of about 2,700 units of affordable rental housing units annually. If the agency continues to produce at this rate, the projected rental housing shortage would be reduced by 27,000 units from 2000 to 2014, leaving the shortage at an estimated 112,750 units. **Exhibit 6** shows the detail. DHCD notes that it cannot by itself address the shortfall. Partners from all levels of government and the private sector will be needed.

By devising new ways to use existing funds it controls, DHCD estimated in 2004 that it could create about 900 additional multifamily rental units annually. Enhancements in existing homeownership programs were expected to free up an additional 900 rental units. Exhibit 6 shows that, if the agency's objectives are realized, DHCD would increase its coverage of the rental housing shortfall from 28 to 40% without additional State resources.

So far, DHCD has not been able to increase its total rental housing production above historic levels. In fact, Exhibit 6 shows that the agency produced less than the historic level in fiscal 2006, particularly because of lagging homeownership production. Legislation passed in the 2006 session may increase rental housing production in the future. Chapter 117 of 2006 modified the capital budget Partnership Rental Housing program, which provides loans to local governments to finance rental housing construction, so that there is flexibility in how the local contribution level is determined. Furthermore, the program may now support private developments. **DHCD should comment on whether it still intends to cover 40% of the affordable rental housing shortage by 2014.**

Two New Efforts Help Get Rental Housing for People with Disabilities

For Marylanders with disabilities who are living independently, average one-bedroom rents were 145.2% above their monthly Supplemental Security Income (SSI) in 2004. In other words, significant housing subsidies are needed for this population in order for them to afford housing and have money left over for food, clothing, transportation, and other living expenses. Maryland had the fourth highest percent of SSI needed after Washington, DC; Hawaii; and New Jersey. These findings were in an August 2005 report titled *Priced Out in 2004* by the Technical Assistance Collaborative and the Consortium for Citizens with Disabilities Housing Task Force. DHCD has a pilot program and a modified capital program that address housing needs for individuals with disabilities.

Exhibit 6
Addressing the Shortage in Affordable Rental Housing
Fiscal 2004-2014

	Historic DHCD Production	DHCD Objective	Fiscal 2006
Rental Housing Production	2,709	3,609	2,940
Homeownership Production*	1,716	2,616	1,277
Total Number of Rental Housing Units Produced Annually	**4,425**	**6,225**	**4,217**
Shortage Over 10 Years (2004 to 2014)	157,000	157,000	157,000
Units Produced Over 10 Years	44,250	62,250	42,170
Percent of Shortage Covered	28%	40%	27%
Remaining Shortage at End of 10 Years	112,750	94,750	114,830

*Increased homeownership directly affects the workforce affordable rental housing market by freeing up occupied rental units and by reducing the demand for rental housing.

Source: Department of Housing and Community Development, *Workforce Affordable Housing in Maryland*, December 2004; Governor's Budget Books, Fiscal 2008

Bridge Subsidy Demonstration Program: The Bridge Subsidy Demonstration Program began in 2006 and is designed to provide short-term rental assistance for 75 to 100 individuals annually, for up to three years, while they await permanent housing assistance such as a HUD Section 8 voucher. The program's cost is estimated at $2.1 million over three years, and DHCD has committed $2.1 million. Local and other sources will contribute the remainder. At this point, the program is serving 17 individuals.

Partnership Rental Housing Program: Chapter 117 of 2006 expands the parameters of the Partnership Rental Housing Program, which is part of the DHCD capital budget. Before, funds could go only to local governments to help finance projects, and local governments were required to provide the finished site with infrastructure improvements as well as to own the property and oversee operations. Now, the funds may go to privately owned housing. In exchange, the private developer is required to rent a certain number of units to individuals with disabilities at affordable rates.

2. New Live Near Your Work Program Increases Financial Flexibility, but Consideration of Geographic Effects Appears Diminished

Workforce housing usually refers to housing for teachers, police officers, firefighters, and other civil servants who may be obliged to live far from their workplace because of a lack of affordable housing. The household income level is just below or above the area median income. DHCD has a program called Live Near Your Work (LNYW) that offers incentives to homebuyers to purchase housing near their employer and simultaneously strengthen neighborhoods by keeping income levels diverse. DHCD recently unveiled a modified version of the program called Live Near Your Work Plus.

Original Program: In the original LNYW program, homebuyers were given a $3,000 grant, with $1,000 provided by DHCD, $1,000 by the local government, and $1,000 by the employer. Local governments were responsible for defining a boundary within which the program's incentives apply. They were given statutory guidance on what types of criteria to consider, including proximity of the neighborhoods to employers likely to participate, and the neighborhood's homeownership rate. Employers defined their participation boundaries, which had to fall within those set by the local government.

New Program, First Version: In the new LNYW Plus program unveiled in September 2006, homebuyers who qualify for a CDA mortgage receive a DHCD grant equal to 3% of the mortgage amount if the home is within 25 miles of their workplace. With this approach, the grant amount increases as the mortgage increases, whereas the old program provided a flat amount. Employers and local governments enter the picture if the homebuyer's employer participates in the CDA program called House Keys 4 Employees, where employers and/or local governments provide a grant or loan of up to $5,000 that is matched by DHCD (in addition to the initial 3% grant). The new program lets employers decide the geographic boundaries within the 25-mile radius to which they want their incentive to apply.

New Program, Second Version: DHCD reports that as of February 1, 2007, the LNYW program has new rules. Homebuyers who qualify for a CDA mortgage may receive a grant equal to 3% of the mortgage amount if the home is within 10 miles of their workplace, or if it is within the boundaries of the employer's local jurisdiction.

In short, the new program provides increased financial benefits. It appears to have less emphasis, however, on concentrating growth in certain areas. The only geographic constraint is that, to be eligible for homeownership through the primary CDA mortgage program called More House 4 Less, a new home must be in a Priority Funding Area as defined by the Department of Planning. Existing homes do not have to be in a Priority Funding Area.

Issues

The LNYW program has evolved from an appropriated program open to any participant who purchased a home near their work, to an off-budget down payment assistance program for users of DHCD mortgage services. The new program is less directly related to home purchase decisions relative to work locations. This raises the following policy issues:

- ***Encouraging Home Purchasers to Live Near Their Work:*** While there is statutory authority for the LNYW program, it is very broad as currently constituted and does not provide much detail on either home purchases in proximity to work (which is a desired public policy goal) or requirements pertaining to the length of time that a purchaser must agree to stay in the home (absent job changes);

- ***LNYW Program Structure and Stability:*** DHCD has changed the structure of the program two times so far. From the standpoint of home purchasers as well as realtors, employers, or local governments who have a role in marketing the program, this instability could make it more difficult to market the program to likely participants;

- ***Legislative Oversight Issues:*** As an off-budget down payment assistance program, the legislature has much less oversight of the LNYW program as well as levels of appropriations for this purpose. Oversight can be enhanced by requiring that the program be appropriated in the budget, as well as to have the agency report performance measures to enable monitoring of program activity.

The Department of Legislative Services recommends that DHCD explain its goals to provide incentives for home purchasers to live near their workplace. The legislature may wish to consider legislation to modify the Live Near Your Work program to establish clear parameters for participation, require that funds be appropriated in the State budget to improve oversight, require DHCD to report performance measures for the program, and to consider requirements for program participants pertaining to the length of time that they live in their home absent job changes or face repayment stipulations.

Recommended Actions

		Amount Reduction	
1.	Increase the budgeted turnover rate. The rate for fiscal 2008 is 3%, while from fiscal 2000 to 2007 the department's vacancy rate has averaged 6.6% (as of December 31 of each year). The reduction amount represents changing the rate from 3 to 4% and may be distributed among the department's divisions.	\$ 5,867 \$ 125,909 \$ 84,248	GF SF FF
	Total Reductions	**\$ 216,024**	
	Total General Fund Reductions	**\$ 5,867**	
	Total Special Fund Reductions	**\$ 125,909**	
	Total Federal Fund Reductions	**\$ 84,248**	

Updates

1. Weatherization Programs Serve About 1,000 Households Annually

In the 2005 legislative session, weatherization services for low-income families were transferred from the Department of Human Resources (DHR) to DHCD. Now, DHCD helps low-income homeowners and renters install energy conservation materials in their dwellings, while DHR focuses on bill payment assistance and overdue debt retirement.

DHR's local network locations serve as the primary source of intake for weatherization assistance. DHR makes an estimated 5,000 weatherization referrals annually to the local agencies. DHCD provides weatherization for about 1,000 households and furnace repairs for about 225 households annually. Not every referral receives DHCD services because, as the agency reports, some referrals may previously have been weatherized, some may be renters whose owners do not wish to participate, some may live in homes that do not qualify for weatherization due to the overall condition of the home, and some may not respond to the program when inspections are being scheduled. However, some referrals may be placed on a waiting list or asked to reapply the following year through the Maryland Energy Assistance Program.

The weatherization program gives preference to the elderly, disabled, and families with children younger than age 5. Homes with no heat also receive preference during the coldest months, from November 15 to March 31.

2. Funding Found for Main Street and Town Manager Circuit Rider Programs in 2007

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 general funds in the budget.

The budget committees adopted narrative in the 2005 session requesting that DHCD report on how these two programs are funded. DHCD reported that it would use savings from internal efficiencies and special or federal funds to cover the costs of the programs for fiscal 2006, but it had not identified an ongoing funding source.

For fiscal 2007, the Main Street program is generously funded by the Neighborhood Business Works program; a total of \$750,000 was awarded to 11 Main Street communities. Furthermore, Main Street communities generally are in areas served by the Community Legacy capital program and they can apply for those resources. The Circuit Rider program is funded by \$125,000 from the fiscal 2007 supplemental budget.

3. Maryland Housing Equity Fund Still Being Established

As part of its efforts to address the State's affordable housing shortage, the Governor's Commission on Housing Policy recommended exploring the feasibility of a housing equity fund in Maryland. A 2005 market assessment indicated that a private equity fund could perform well. In the 2006 legislative session, the budget committees requested that DHCD provide additional information on how such a fund would operate and how it would help leverage DHCD funds.

Given the positive results of the market assessment, Enterprise Community Investment, Inc. (Enterprise), a nonprofit headquartered in Columbia, is working to establish a private equity fund in the State. Enterprise is a leader in providing affordable housing financing, particularly from equity built up by the sales of federal low-income housing tax credits. As of December 2006, the organization is working to hire a fund manager, finalizing legal documents, conducting outreach to investors and developers, and identifying members for an oversight board. Some investors are expected to be in place by the end of the first quarter of 2007, and deals could form during the second quarter.

The fund is envisioned as a "double bottom line" fund or family of funds. The first bottom line is a traditional financial one: a risk-adjusted, upper-quartile market rate of return for institutional investors. The second bottom line is to provide quality affordable housing, generating positive economic, social, and environmental benefits, as defined by the governing board. As envisioned in the market assessment, the fund would be structured as two funds of $50 to $75 million each that can, among other things, reduce borrowing costs on multifamily rental development projects. The equity fund will help leverage financing available from DHCD. As Enterprise reaches out to developers, it will include DHCD programs as possible sources of funding for projects.

4. Task Force on Common Ownership Communities Offers Wide-ranging Recommendations

Common ownership communities (COCs) are designed to give homeowners control over services and amenities that might otherwise be provided by a local government. COCs are widespread in Maryland and may include condominiums, cooperative housing corporations, and homeowners associations.

In a COC, each unit owner has an interest in common elements such as the clubhouse, swimming pool, or landscaping. COCs have governing boards that are responsible for collecting assessments from owners and overseeing maintenance and improvements for common elements. Sometimes there is confusion about how COCs operate, and there are conflicts among residents, owners, property managers, and association leadership. Chapter 469 of 2005 established the Task Force on Common Ownership Communities to study challenges that confront COCs.

The task force issued its final report in November 2006. Some recommendations would require legislation. Following are brief descriptions of some recommendations:

- **Education and Training:** The task force recommended that an appropriate State agency host a web site with information about the rights and responsibilities of living in a COC.

- **Alternative Dispute Resolution:** Most COC disputes are not alleged violations of law but of COC bylaws. The task force recommended that local governments, either individually or regionally, should be required to provide COC alternative dispute resolution services.

- **Uniform Common Interest Ownership Act:** The National Conference of Commissioners on Uniform State Laws has developed a model act for laws governing COCs. The organization is currently considering revisions to the model act; thus, the task force recommended that consideration of the act be deferred until a final version is complete.

- **Aging Communities:** Some COCs struggle with maintaining common elements because of the way control is transferred from a developer to the COC governing board. Developers are obliged to deposit funds into a reserve account when control is transferred, and the task force recommended that a study be required to determine how much developers should deposit.

- **Collection of Assessments:** If an owner is delinquent in paying assessments, COCs may have to establish a lien against the owner's unit. The task force recommends that COC assessments be given lien priority under specified conditions.

- **Resale of Units:** The seller of a COC unit is subject to certain requirements concerning the information that must be disclosed to a prospective buyer. The task force recommended that COCs use a uniform, one-page checklist of disclosure documents for the sale or resale of COC units.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$7,792	$29,466	$221,864	$1,021	$260,143
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-3,893	-604	-2,967	75	-7,390
Reversions and Cancellations	0	-3,386	-48,530	-18	-51,934
Actual Expenditures	**$3,899**	**$25,475**	**$170,367**	**$1,077**	**$200,819**
Fiscal 2007					
Legislative Appropriation	3,394	$28,657	$218,287	$898	$251,236
Budget Amendments	1,009	240	0	2,000	3,250
Working Appropriation	**4,403**	**28,897**	**$218,287**	**2,898**	**254,486**

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

Fiscal 2006

DHCD finished fiscal 2006 at $59.3 million below its legislative appropriation.

General Funds: The actual fiscal 2006 general fund expenditure was $3.9 million less than the legislative appropriation. The decrease is due to the transfer of the Historical and Cultural Programs (HCP) from DHCD to the Department of Planning. DHCD received a small increase in general funds ($52,963) related to the State employee cost-of-living adjustment (COLA).

Special Funds: The actual fiscal 2006 special fund expenditure was a net $4.0 million lower than the legislative appropriation. Budget amendments total $604,375. Increases include a $500,000 deficiency appropriation from the Dedicated Purpose Account for weatherization and $251,085 for the employee COLA, and decreases amount to $1.4 million from the transfer of HCP to the Department of Planning. Cancellations total $3.4 million. Of this amount, $2.4 million was cancelled in the Asset Management program because some indirect cost recovery from federal funds was used to support the program instead. Among other cancellations, $301,664 was cancelled because weatherization funds from Baltimore Gas and Electric Company were not received; the company did not achieve high enough revenues to make a payment toward public weatherization services.

Federal Funds: The actual fiscal 2006 federal fund expenditure was $51.5 million lower than the legislative appropriation. Budget amendments total -$3.0 million. Of the amendments, decreases include $2.1 million transferred to DHCD capital programs and $923,055 related to the transfer of HCP. Increases include $74,938 for the employee COLA. Cancellations total -$48.5 million. Of this amount, $47.1 million was cancelled because a contract from HUD to manage additional Section 8 properties has not materialized as expected. Another $1.1 million was cancelled because the funds were not needed for the Section 8 Choice Voucher program, where DHCD serves as a public housing authority for certain communities on the Eastern Shore.

Reimbursable Funds: The actual fiscal 2006 reimbursable funds expenditure was $56,265 higher than the legislative appropriation. Small changes were made related to weatherization services, building codes enforcement, and transfer of HCP to the Department of Planning, among others.

Fiscal 2007

The DHCD fiscal 2007 working appropriation is $3.3 million higher than the legislative appropriation.

General Funds: General funds are $1.0 million above the fiscal 2007 legislation appropriation. Of this amount, $9,356 supports the employee COLA in the Division of Neighborhood Revitalization, and $1 million supports the Maryland Affordable Housing Trust.

Special Funds: Special funds are $240,000 above the fiscal 2007 legislative appropriation to support the employee COLA.

Reimbursable Funds: Reimbursable funds are $2 million above the legislative appropriation. The funds were received from the Department of Human Resources to support weatherization services.

Appendix 2

Audit Findings

The April 2006 audit reviewed the following divisions:

- Office of the Secretary;
- Division of Finance and Administration;
- Division of Historical and Cultural Programs; and
- Division of Information Technology

Audit Period for Last Audit:	January 1, 2002 – June 30, 2005
Issue Date:	April 2006
Number of Findings:	7
Number of Repeat Findings:	1
% of Repeat Findings:	14%
Rating: (if applicable)	n/a

Finding 1: An automated system for the Multi-family housing program was not successfully implemented.

Finding 2: DHCD did not consolidate temporary personnel service procurements.

Finding 3: DHCD did not report federal fund activity to the State Treasurer and improperly retained interest of approximately $288,000.

Finding 4: DHCD did not adequately ensure that all funds due to the trust were received and deposited.

Finding 5: **The department did not ensure that certain State grant funds were expended in accordance with grant provisions.**

Finding 6: Monitoring of network traffic was not adequate.

Finding 7: Password controls for remote and network access were inadequate.

The May 2006 audit reviewed the following divisions:

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

Audit Period for Last Audit:	November 1, 2001 – January 26, 2005
Issue Date:	May 2006
Number of Findings:	10
Number of Repeat Findings:	3
% of Repeat Findings:	30%
Rating: (if applicable)	n/a

Finding 1: **Cash flow loan records were incomplete and inaccurate.**

Finding 2: **Audited financial statements were not always obtained, and DHCD did not take adequate follow-up actions.**

Finding 3: DHCD was not adequately monitoring certain delinquent loans and taking corrective actions in a timely manner.

Finding 4: Grant funds totaling $1.6 million awarded to a local health department could not be accounted for.

Finding 5: DHCD did not have procedures to ensure that its loan servicer made changes to borrowers' interest rates and payments.

Finding 6: DHCD had not performed monitoring reviews of certain special loan programs.

Finding 7: A $500,000 loan was awarded in August 2004 to an applicant/guarantor despite significant credit history deficienies.

Finding 8: DHCD did not obtain sufficient documentation of additional funding commitments for certain projects.

Finding 9: **DHCD did not adequately document its monitoring of certain grant and loan agreement provisions**.

Finding 10: DHCD's collection efforts on certain delinquent loans were inadequate.

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

Object/Fund Difference Report
Department of Housing and Community Development

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	317.90	315.90	316.00	0.10	0%
02 Contractual	53.50	39.50	39.50	0	0%
Total Positions	**371.40**	**355.40**	**355.50**	**0.10**	**0%**
Objects					
01 Salaries and Wages	$ 23,424,889	$ 23,746,893	$ 23,530,542	-$ 216,351	-0.9%
02 Technical and Special Fees	1,285,951	2,113,115	2,159,528	46,413	2.2%
03 Communication	378,473	330,529	353,122	22,593	6.8%
04 Travel	328,161	361,948	346,290	-15,658	-4.3%
06 Fuel and Utilities	55,763	1,700	1,900	200	11.8%
07 Motor Vehicles	86,521	143,456	183,940	40,484	28.2%
08 Contractual Services	4,118,703	6,835,026	5,344,240	-1,490,786	-21.8%
09 Supplies and Materials	318,971	277,104	275,000	-2,104	-0.8%
10 Equipment – Replacement	235,912	200,006	147,073	-52,933	-26.5%
11 Equipment – Additional	153,969	61,838	50,767	-11,071	-17.9%
12 Grants, Subsidies, and Contributions	169,187,092	218,979,119	185,669,798	-33,309,321	-15.2%
13 Fixed Charges	1,244,706	1,435,118	1,480,261	45,143	3.1%
Total Objects	**$ 200,819,111**	**$ 254,485,852**	**$ 219,542,461**	**-$ 34,943,391**	**-13.7%**
Funds					
01 General Fund	$ 3,899,018	$ 4,403,000	$ 3,389,000	-$ 1,014,000	-23.0%
03 Special Fund	25,475,430	28,896,994	28,386,119	-510,875	-1.8%
05 Federal Fund	170,367,401	218,287,422	186,782,342	-31,505,080	-14.4%
09 Reimbursable Fund	1,077,262	2,898,436	985,000	-1,913,436	-66.0%
Total Funds	**$ 200,819,111**	**$ 254,485,852**	**$ 219,542,461**	**-$ 34,943,391**	**-13.7%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 3

Fiscal Summary
Department of Housing and Community Development

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
01 Office of the Secretary	$ 3,091,143	$ 2,971,711	$ 2,763,988	-$ 207,723	-7.0%
02 Maryland Affordable Housing Trust	3,178,282	3,000,000	3,000,000	0	0%
03 Office of Management Services	2,203,231	2,626,841	2,558,651	-68,190	-2.6%
01 Maryland Housing Fund	524,111	590,000	584,002	-5,998	-1.0%
02 Asset Management	3,666,483	5,921,026	4,287,796	-1,633,230	-27.6%
03 Maryland Building Codes Administration	573,768	486,193	492,750	6,557	1.3%
01 Management and Planning	333,273	0	0	0	0%
02 Office of Museum Services	653,146	0	0	0	0%
04 Research, Survey, and Registration	204,692	0	0	0	0%
05 Preservation Services	175,440	0	0	0	0%
01 Neighborhood Revitalization	13,300,529	14,180,745	14,013,581	-167,164	-1.2%
01 Administration	2,509,677	2,409,524	2,443,556	34,032	1.4%
02 Housing Development Program	2,961,865	3,791,323	3,844,324	53,001	1.4%
03 Homeownership Programs	2,076,318	2,449,171	2,579,694	130,523	5.3%
04 Special Loan Programs	6,732,788	8,908,817	6,817,352	-2,091,465	-23.5%
05 Rental Services Program	151,361,687	199,027,781	168,051,190	-30,976,591	-15.6%
01 Information Technology	2,449,094	2,888,033	2,752,627	-135,406	-4.7%
01 Finance and Administration	4,823,584	5,234,687	5,352,950	118,263	2.3%
Total Expenditures	**$ 200,819,111**	**$ 254,485,852**	**$ 219,542,461**	**-$ 34,943,391**	**-13.7%**
General Fund	$ 3,899,018	$ 4,403,000	$ 3,389,000	-$ 1,014,000	-23.0%
Special Fund	25,475,430	28,896,994	28,386,119	-510,875	-1.8%
Federal Fund	170,367,401	218,287,422	186,782,342	-31,505,080	-14.4%
Total Appropriations	**$ 199,741,849**	**$ 251,587,416**	**$ 218,557,461**	**-$ 33,029,955**	**-13.1%**
Reimbursable Fund	$ 1,077,262	$ 2,898,436	$ 985,000	-$ 1,913,436	-66.0%
Total Funds	**$ 200,819,111**	**$ 254,485,852**	**$ 219,542,461**	**-$ 34,943,391**	**-13.7%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 4