

S00
Department of Housing and Community Development – PAYGO

Pay-as-you-go Capital Budget Summary

(\$ in Millions)

	<i>FY 2007 Approp.</i>	<i>FY 2008 Approp.</i>	<i>FY 2009 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Homeownership Programs	\$15.600	\$8.600	\$8.600	0.0%	\$7.700
Rental Housing Programs	26.237	20.250	20.250	0.0%	17.400
Special Loans Programs	10.034	9.500	9.500	0.0%	8.200
Community Legacy Program	13.895	6.500	6.500	0.0%	5.500
Neighborhood Business Development Program	6.000	4.000	6.000	50.0%	5.000
Community Services Block Grant Program	10.000	10.000	9.000	-10.0%	9.000
Partnership Rental Housing Programs	6.000	2.000	0.000	-100.0%	0.000
Total	\$87.766	\$60.850	\$59.850	-1.6%	\$52.800

Fund Source					
General	\$39.032	\$8.258	\$11.550	39.9%	\$4.500
Special	31.300	36.242	32.950	-9.1%	31.950
Federal	17.434	16.350	16.350	-6.1%	16.350
PAYGO Subtotal	\$87.766	\$60.850	\$59.850	-1.6%	\$52.800
GO Bonds	0.000	0.000	0.000	0.0%	0.000
Total	\$87.766	\$60.850	\$59.850	-1.6%	\$52.800

Note: The fiscal 2007 general fund appropriation level was increased through the reallocation of general funds budgeted in the Board of Public Works and the Department of Business and Economic Development provided to partially offset the impact of the deauthorization of general obligation (GO) funds included in the Maryland Consolidated Capital Bond Loan. In total, an additional \$11,289,833 in reallocated general funds was provided in the fiscal 2007 operating budget to offset the deauthorization. Fiscal 2008 appropriation and 2009 allowance do not include \$6.0 million of GO bond funds in each year for the Partnership Rental Housing Program.

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

For further information contact: Flora M. Arabo

Phone: (410) 946-5530

Summary of Issues

State of Affordable Housing: The need for affordable housing in Maryland is expected to reach 157,000 units by 2014. The Department of Housing and Community Development (DHCD) estimated in 2004 that it could increase its coverage of the shortfall from 28% to 40% without additional State resources by enhancing existing homeownership and rental housing programs. **DHCD should comment on steps it has taken to ensure that rental housing and homeownership production is maintained at the current level or increased.**

The Maryland Housing Fund: Established in 1971, the Maryland Housing Fund (MHF) insures mortgage loans to encourage and assist in homeownership in underserved or economically distressed areas of the State. MHF's net assets are \$104.8 million as of June 30, 2007, including \$28.2 million in unallocated reserves. **The Department of Legislative Services (DLS) recommends the legislature consider adopting an amendment to the Budget Reconciliation and Financing Act of 2008 to provide for the transfer of funds from the MHF's unallocated reserves to the Homeownership, Rental Housing, and Special Loan programs to enhance the monies available for these programs and obviate the need for \$5.1 million in general funds in fiscal 2009. DLS further recommends the committees consider further Budget Reconciliation and Financing legislation that would amend Section 3-201 through 3-208 of the Housing Article to provide for an annual transfer of MHF unallocated fund balance to the Homeownership Programs Fund, Rental Housing Program Fund, and the Special Loan Programs Fund.**

Summary of Recommended Actions

	<u>Funds</u>
1. Reduce general funds.	\$ 1,000,000
2. Reduce special funds.	1,000,000
3. Add budget bill language to make appropriation contingent upon legislation.	
4. Add budget bill language to make appropriation contingent upon legislation.	
5. Add budget bill language to make appropriation contingent upon legislation.	
Total Reductions	\$ 2,000,000

Overview

Total funds for DHCD fiscal 2009 capital allowance are \$67.4 million. This is a \$500,000 (0.7%) decrease from the fiscal 2008 working appropriation, as shown in **Exhibit 1**. These figures are for all DHCD capital funding, including programs funded solely with general obligation (GO) bonds. The allowance is below the average funding from fiscal 2004 to 2007, which was \$70.8 million. Special funds represent the largest fund source, providing 49.0% of all capital funds.

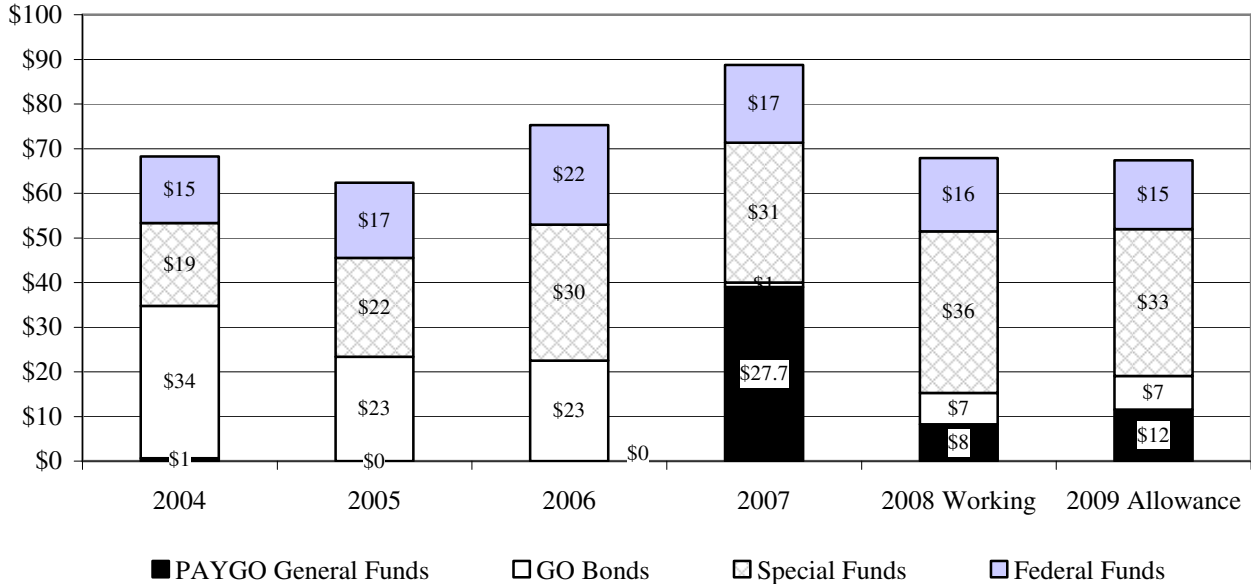
The most significant change in the allowance is an increase to general funds. The fiscal 2009 general fund allowance of \$11.6 million is \$3.3 million above the fiscal 2008 working appropriation. The increase offsets projected decreases in special funds of \$3.3 million. Finally, federal funds decrease \$1.0 million.

Four of Six Programs Are Level-funded in Fiscal 2009

Fund changes by program are shown in **Exhibit 2**. Four of six programs are level-funded in fiscal 2009.

- **Community Legacy Program:** While this program is level-funded in fiscal 2009, the source of funds shifts. The fiscal 2008 working appropriation includes \$4.5 million in general funds and \$2.0 million in special funds. The special funds are made available from the Neighborhood Business Development Program fund balance which the General Assembly authorized be transferred to Community Legacy. This action allowed for a corresponding \$2.0 million general fund reduction while not reducing the total fiscal 2008 appropriation. However, in fiscal 2009, the entire program will be supported by general funds.
- **Neighborhood Business Development:** This program is fully supported by special funds in both fiscal 2008 and 2009. The 2009 allowance is 50% greater than 2008, increasing from \$4.0 million to \$6.0 million.
- **Rental Housing Program:** Changes to the total funds for this program, as well as the source of funds, are minimal from fiscal 2008 to 2009.
- **Homeownership Program:** This program is level-funded in fiscal 2009; however, it relies more heavily on general funds than in the fiscal 2008 working appropriation.
- **Special Loan Programs:** This program shifts roughly \$150,000 from special funds to general funds in fiscal 2009. Total funding in the allowance does not change from the 2008 working appropriation.
- **Community Development Block Grant Program:** The federal program decreases \$1.0 million, or 10%, below fiscal 2008 financing due to a projected decline in federal funding.

Exhibit 1
DHCD Capital Budget Funding Mix
Fiscal 2004-2009
(\$ in Millions)



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Working</u> <u>2008</u>	<u>Allowance</u> <u>2009</u>	<u>Change</u> <u>2008-09</u>	<u>%</u> <u>Change</u> <u>2008-09</u>
PAYGO General Funds	\$0.7	\$0.0	\$0.0	\$27.7	\$8.3	\$11.6	\$3.3	39.9%
GO Bonds	34.1	23.3	22.5	1.0	7.0	7.5	0.5	7.1%
Special Funds	18.6	22.2	30.5	31.3	36.2	33.0	-3.3	-9.1%
Federal Funds	14.9	16.8	22.3	17.4	16.4	15.4	-1.0	-6.1%
Total Funds	\$68.2	\$62.4	\$75.3	\$77.5	\$67.9	\$67.4	-\$0.5	-0.7%

DHCD: Department of Housing and Community Development

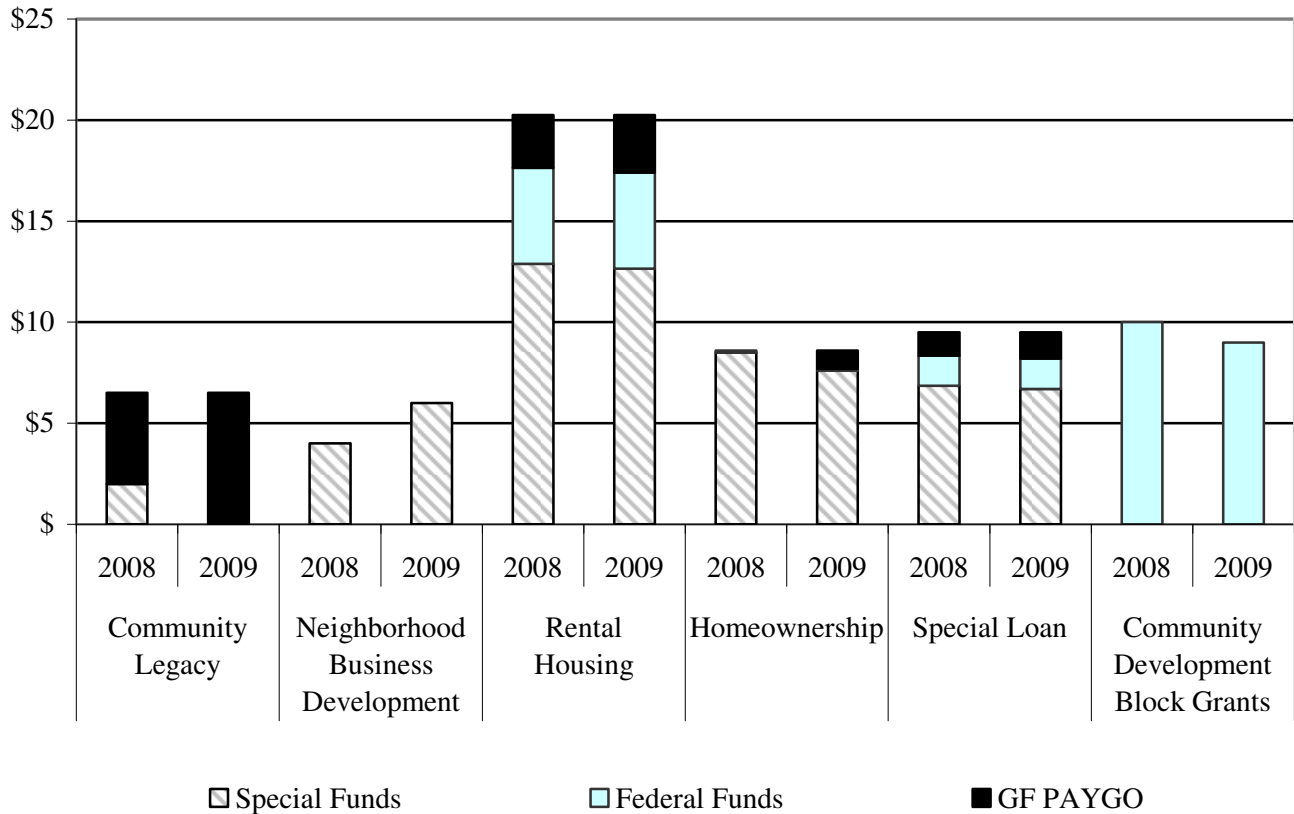
PAYGO: pay-as-you-go

GO: general obligation

Note: The graph includes all the Department of Housing and Community Development capital funding, including programs solely funded with general obligation bonds. Fiscal 2005 includes \$3 million in special funds from the dedicated purpose account for the Hurricane Isabel Housing Rehabilitation and Renovation program. Funds for the Maryland Historical Trust totaling \$200,000 in fiscal 2005 and \$450,000 in 2006 are not included, and funds for the Maryland Heritage Tax Credit program of \$20 million in fiscal 2006 are not included. These programs were transferred to the Maryland Department of Planning in fiscal 2006 as required by Chapter 440 of 2005. An additional \$11,289,833 in reallocated general funds was provided in the fiscal 2007 operating budget to offset the deauthorization of general obligation funds. For comparable year-to-year funding levels, the fiscal 2007 general fund appropriation has been adjusted to eliminate this general fund substitution.

Source: Governor’s Capital Budget, Fiscal 2009; Department of Budget and Management Capital Budget Worksheets

Exhibit 2
DHCD Capital Budget Funds by Program
Comparison of Working Appropriation and Allowance
Fiscal 2008-2009
(\$ in Millions)



DHCD: Department of Housing and Community Development
 GF: general funds
 PAYGO: pay-as-you-go

Source: Department of Budget and Management Capital Budget Worksheets

DHCD reports that it considers special funds as a whole for the Rental Housing, Homeownership, and Special Loan programs; even though one may bring in more special funds than the others, special funds are distributed among them according to DHCD’s projections of needs.

General Fund Increases to Impact Fiscal 2010

The fiscal 2009 allowance supports the Homeownership, Rental Housing, Special Loans, and Neighborhood Business Development programs with \$5.1 million in general funds. Greater reliance on general funds is programmed in the 2008 *Capital Improvement Program* (CIP) for future years. Declining fund balances reduce the amount of special funds available to support grant and loan activity. The use of general funds is expected to make up the difference. This growth allows the agency to sustain fiscal 2009 loan activity levels moving forward while maintaining a small but positive fund balance. No major revenue increases are foreseen that would either counter the need for general funds or contribute significantly to the fund balance. As a consequence, the 2008 CIP projects \$13.3 million in general funds for fiscal 2010, and another \$12.8 million in general funds for fiscal 2011. **DLS recommends the agency comment on the likelihood of sustaining current loan activity in all four programs.**

Overview Issues

1. State of Affordable Housing

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. Roughly two-thirds of the shortage is expected to affect families. DHCD notes that its programs alone cannot address the shortfall. The agency estimated in 2004 that it could increase its coverage of the shortfall from 28% to 40% without additional State resources by enhancing existing homeownership and rental housing programs. This means that DHCD would assist in the production of 62,800 units by 2014. The remaining 60% may be covered through various levels of government assistance and private sector activities. DHCD is making progress towards this goal, but reaching it will depend largely on maintaining current production levels.

Historically, DHCD has produced about 4,425 units annually through the financing of new rental housing units and homeownership. If the agency continued to produce at this rate, the projected rental housing shortage would be reduced by only 44,250 units from 2004 to 2014, leaving the shortage at an estimated 112,750 units. However, if the agency maintains its current level of production, which was 6,685 units in 2007, 65,775 units would be created by 2014 – almost 3,000 units in excess of the goal. **Exhibit 3** shows the detail. At a minimum, the agency must produce 6,260 units each year from fiscal 2008 to 2014 to reach its goal of 62,800 units, or 40%, of the anticipated shortage.

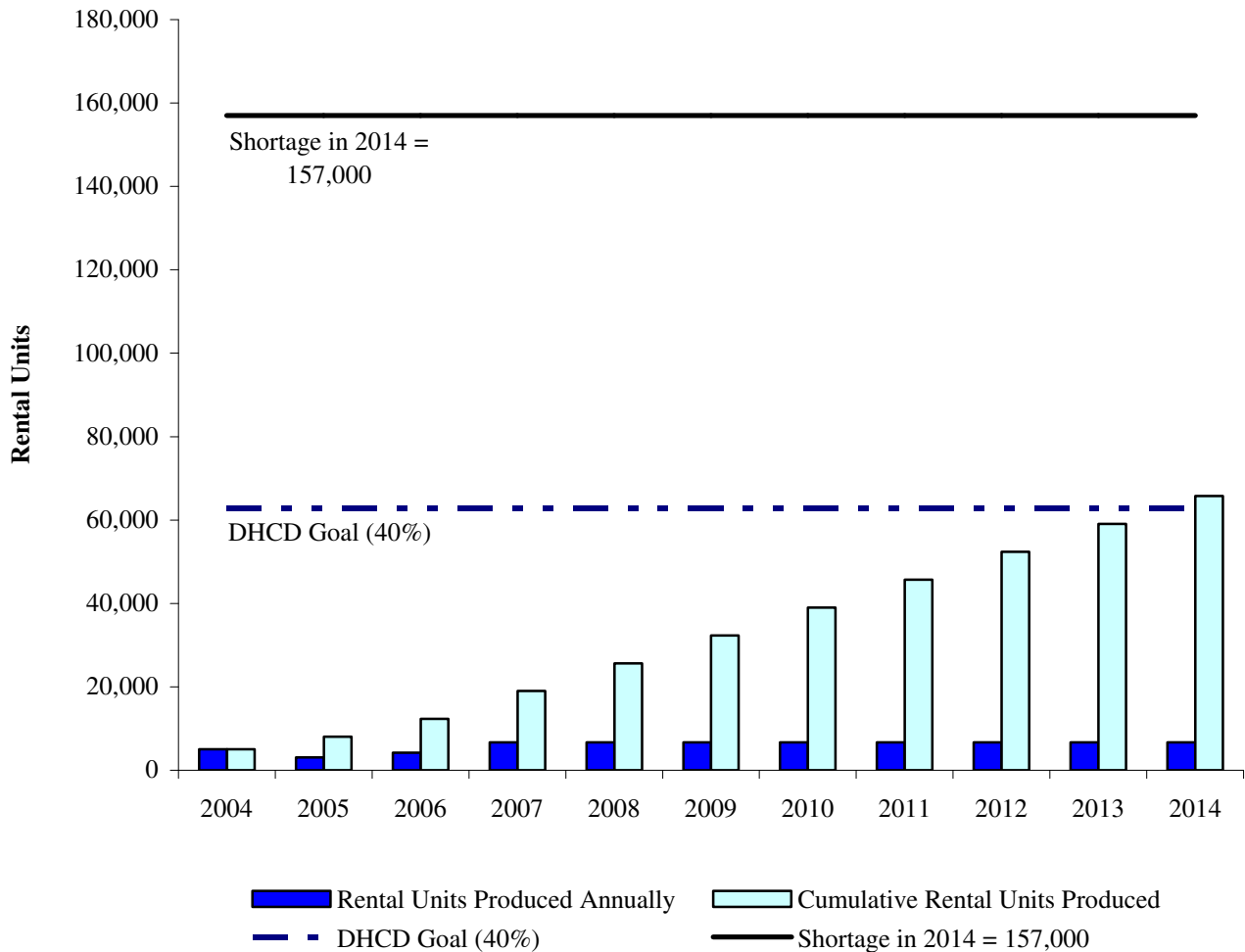
Given the constraints of the current housing climate, maintaining fiscal 2007 production levels could pose significant challenges. While DHCD's production level for fiscal 2007 was a growth of 2,468, or 58.5%, over 2006, the entire growth was in homeownership production. In applying homeownership production to the count of affordable rental housing, DHCD assumes that these purchases are new, thereby freeing up occupied rental units. However, as that level of detail is not currently tracked by the agency, it is not necessarily known whether or not the assumption is accurate. Rental unit production, on the other hand, appears to be lagging. Fiscal 2007 rental housing production of 2,800 units was 800 units short of the agency's goal. Moreover, this represented a 140 unit decrease from fiscal 2006.

DHCD should comment on steps taken to ensure that rental housing and homeownership production is maintained at the current level or increased.

2. The Maryland Housing Fund

Established in 1971 and codified under Section 3-201 through 3-208 of the Annotated Code of Maryland, the MHF insures mortgage loans issued by qualified private and public lending institutions to encourage and assist in homeownership in underserved or economically distressed areas of the State. MHF's programs protect against financial losses on mortgage loans that result from defaults or other forms of nonpayment.

**Exhibit 3
Rental Housing Shortage Over 10 Years Based on Current Production
Fiscal 2004-2014**



Source: Department of Housing and Community Development; Department of Legislative Services

In 1981, MHF’s authority was expanded to originate mortgage loans for the costs of disposing with foreclosed properties. The fund maintains five insurance reserves accounts:

- **Multi-family Reserves:** The Multi-Family program provides 100% insurance of multi-family projects financed through revenue bonds of the State or local issuers. No single multi-family project may commit more than 25% of the account’s reserves.

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- ***Regular Single Family Reserves:*** The Regular Single Family program insures mortgages up to 25% of the mortgage amount. Regular reserves also provide pool insurance for the proceeds of revenue bonds issued by the Community Development Administration (CDA) or, in some instances, local issuers, up to 10% of the amount of mortgages in the bond issue.
- ***Revitalization (PILOT) Reserves:*** This program insures loans made for the purpose of stimulating the flow of private mortgage capital into areas which have suffered decreasing homeownership and associated economic and social instability. This single family loan insurance program insures 100% of the mortgage amounts.
- ***Home and Energy Loan Reserves:*** The Home and Energy Loan Fund insures loans for rehabilitation and energy conservation of owner occupied or rental housing financed through revenue bonds of CDA and is liable for up to 100% of the loan amounts.
- ***Unallocated Reserves:*** MHF maintains an unallocated general reserve account. The funds in this account have statutory and regulatory restrictions. DHCD advises that the insurance agreement between CDA and MHF prohibit any modification to the regulations that would be materially adverse to CDA bondholders.

As shown in **Exhibit 4**, MHF's net assets are \$104.8 million as of June 30, 2007, including \$28.2 million in unallocated reserves. The financial statements also reveal a \$3.1 million unrestricted accumulated balance, which represents all future potential insurance losses against the MHF expensed in the reporting year. Net assets combined with the unrestricted accumulated deficit translate to total insurance reserves of \$107.9 million.

Despite the suspension of all new insurance activity in 1997, except for pool insurance on single family loans, MHF later opened new programs. The Special Housing Opportunity Program was re-opened in 2002, which provides insurance on loans that finance shared living spaces for the special needs population. MHF also insured a bond financed multi-family loan in January 2005. The department advises that future activity on multi-family projects will be reviewed on a case-by-case basis. In June 2005, MHF released a new product, in response to rising housing costs throughout the State that insures 40-year single family mortgages. In fiscal 2008, DHCD created a credit enhancement product using \$10.0 million from MHF's unallocated reserve in response to rising foreclosures across the State. This product insures Community Development Administration (CDA) loans as private insurers continue to tighten insurance requirements. As a result, the MHF will insure a higher proportion of CDA loans to enhance borrowers' credit so they may refinance their mortgages on the private market.

DLS recommends the legislature consider adopting an amendment to the Budget Reconciliation and Financing Act of 2008 to provide for the transfer of funds from the MHF's unallocated reserves to the Homeownership, Rental Housing, and Special Loan programs to enhance the monies available for these programs and obviate the need for \$5.1 million in general funds in fiscal 2009.

Exhibit 4
Maryland Housing Fund
Statements of Changes in Net Assets
Year Ended June 30, 2007
(\$ in Millions)

	<u>Multi- family Reserves</u>	<u>Regular Single Family Reserves</u>	<u>Revitalization (PILOT) Reserves</u>	<u>Home and Energy Loan Reserves</u>	<u>Unallocated Reserves</u>	<u>Unrestricted Accumulated Deficit</u>	<u>Total</u>
Balance at June 30, 2006	\$44.7	\$32.3	\$2.2	\$0.5	\$22.7	-\$3.8	\$98.6
Interest income allocation					5.5	-5.5	
Changes in net assets						6.2	6.2
Balance at June 30, 2007	\$44.7	\$32.3	\$2.2	\$0.5	\$28.2	-\$3.1	\$104.8

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

Source: Department of Housing and Community Development; Maryland Housing Fund Financial Statements for the year ending June 30, 2007

In addition, DLS recommends the committees consider an amendment to 2008 session Budget Reconciliation and Financing legislation that would provide for an annual transfer of unallocated reserves in excess of \$10 million to the Homeownership Programs Fund, Rental Housing Programs Fund, and the Special Loan Programs Fund. The following language could be added to Section 3-203 of the Housing Article to accomplish this annual transfer.

- (1) On June 30 of any year that the unallocated reserves of the Fund exceed \$10,000,000, the Secretary shall transfer any unallocated reserves in excess of \$10,000,000 to:**
- (1) the Homeownership Programs Fund established under § 4-502 of this article;**
 - (2) the Rental Housing Programs Fund established under § 4-504 of this article; and**
 - (3) the Special Loan Programs Fund established under § 4-505 of this article.**

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Consolidated Administrative Expenses – All Purposes

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Sources:			
Special Funds			
Maryland Historical Trust	-	-	-
Neighborhood Business Development	\$1,070,960	\$1,664,706	\$1,199,999
Community Legacy	239,794	392,368	285,000
Rental Housing Programs	3,108,078	2,274,306	2,789,999
Homeownership Programs	3,099,675	1,706,461	1,530,000
Special Loans Program	1,599,872	1,300,000	1,439,999
Subtotal – Special Funds	\$9,118,379	\$7,337,841	\$7,244,997
General Funds	\$0	\$0	\$0
Other Special Funds	3,983,766	5,767,099	6,813,071
Federal Funds	0	0	0
Total Funds	\$13,102,145	\$13,104,940	\$14,058,068
Uses:			
Direct Expenses	\$7,777,072	\$9,270,426	\$9,864,125
Indirect Expenses			
Legal Services	844,725	938,597	1,237,372
Communications and Marketing	364,475	352,711	352,254
Community Development Administration	930,042	468,365	525,312
Asset Management	368,587	445,793	419,093
General	2,817,244	1,629,048	1,659,912
Total Direct and Indirect Expenses	\$13,102,145	\$13,104,940	\$14,058,068

Source: Department of Housing and Community Development

The State-funded loan programs also administer a variety of other programs which may be supported by general funds, federal funds, or nonbudgeted revenue bond funds. In general, the department agrees to use no more than 20% of any pay-as-you-go fund's annual lending activity for administrative expenses. The agency is able to meet this somewhat artificial limit because other sources of funds – administration funds under federal grants and the General Bond Reserve Fund, most notably – are available to meet the expenses of the operating units. Such funds are used for a variety of purposes, including direct expenses associated with existing programs. These expenses have been increasing steadily over the last two years, and the fiscal 2009 estimate includes \$9.9 million for this use, which is \$2.1 million greater than fiscal 2007 actual expenditures.

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The agency should comment on the availability of funds in the General Bond Reserve Fund. The agency should also comment on the \$2.1 million increase in Direct Expenses for fiscal 2009 over fiscal 2007 actuals.

Homeownership Programs (Statewide)

PAYGO GF	\$900,000	Recommendation:	Delete \$900,000 in general
PAYGO SF	\$7,600,000		funds contingent upon the
PAYGO FF	\$100,000		enactment of legislation

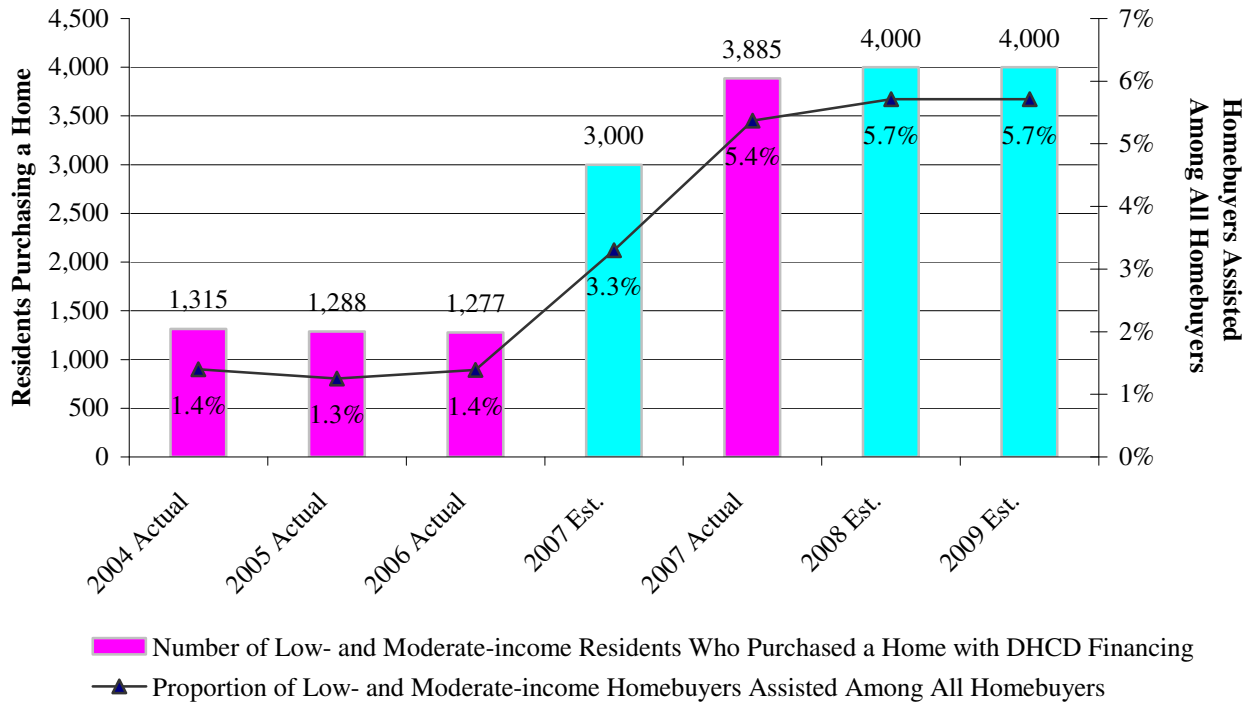
Program Description: The Homeownership Programs provide below-market interest rate mortgage loans with minimum down payments to low- and moderate-income first-time homebuyers. Two programs comprise the Homeownership Programs: (1) the Maryland Home Financing Program (MHFP) makes direct loans to very low-income households for home purchases; and (2) the Downpayment and Settlement Expense Loan Program (DSELP) assists limited-income families in meeting settlement closing costs associated with home purchases. The maximum loan amounts are \$2,500 for DSELP and for the MHFP up to the appraised value of the property. The loans may be offered at as low as 0% for a term not to exceed 40 years.

Program Performance Analysis: The Department of Housing and Community Development (DHCD) has a goal to help low- and moderate-income residents purchase or keep their homes. The number of these residents who received financial assistance from DHCD held fairly steady from fiscal 2004 to 2006, then more than doubled in 2007, as shown in **Exhibit 5**. The proportion of low- and moderate-income homebuyers receiving DHCD financing among all homebuyers (regardless of financing source) followed a similar pattern. In fiscal 2007, DHCD assisted 5.4% of all Maryland homebuyers with loans. Given current declining housing market conditions, it may prove challenging to maintain homeownership production levels at the unprecedented high level achieved in fiscal 2007.

Comments: Funding for Homeownership Programs is \$8.6 million, which is \$100,000 more than the level programmed in the 2007 *Capital Improvement Program (CIP)* for fiscal 2009. The increase is reflected in special funds. Moreover, the current CIP calls for increases in general funds for fiscal 2010 through 2012 as compared to the 2007 CIP. Such changes to the funding mix are consistent with decreases in revenue growth and a declining fund balance.

The agency should brief the committees on the assumptions used to estimate future loan activity for fiscal 2008 and 2009 given the current housing climate as well as the unprecedented increase in fiscal 2007 activity.

**Exhibit 5
Low- and Moderate-income Homeownership Assistance
Fiscal 2004-2009**



Notes: Data on low- and moderate-income residents include only those receiving financial, not technical, assistance from the Department of Housing and Community Development (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 2005-2009

Homeownership Program Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$248,516	\$3,472,075	\$1,154,075
Revenue			
General Funds	\$1,555,000	\$0	\$900,000
Transfer from Other Funds	10,500,000	0	0
Loan Repayments and Interest	8,327,758	7,100,000	7,250,000
Federal Funds	169,154	145,722	146,000
Cancel Encumbrances	1,434,738	782,000	782,000
Total Revenue	\$21,986,650	\$8,027,722	\$9,078,000
Total Available	\$22,235,166	\$11,499,797	\$10,232,075
Encumbrances			
Grants and Loans	\$15,600,000	\$8,600,000	\$8,600,000
State Administrative Expenses	3,093,937	1,700,000	1,530,000
Federal Administrative Expenses	69,154	45,722	46,000
Total Encumbrances	\$18,763,091	\$10,345,722	\$10,176,000
Ending Balance	\$3,472,075	\$1,154,075	\$56,075

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$1.555	\$0.000	\$0.900	\$1.800	\$1.550	\$1.250	\$1.050
PAYGO SF	13.945	8.500	7.600	6.700	6.950	7.250	7.450
PAYGO FF	0.100	0.100	0.100	0.100	0.100	0.100	0.100
Total	\$15.600	\$8.600	\$8.600	\$8.600	\$8.600	\$8.600	\$8.600

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that this appropriation shall be reduced by \$900,000 contingent upon the enactment of legislation authorizing the transfer of funds from the Maryland Housing Fund unallocated reserve account under Section 3-203 of the Housing and Community Development Article to the Homeownership Programs Fund under Section 4-502 of the Housing and Community Development Article.

Explanation: Funds made available from the Maryland Housing Fund’s unallocated reserves would offset the need for general funds in Homeownership Programs.

Fiscal 2009 Proposed Projects

Of the \$8.6 million in the allowance for Homeownership Programs, DHCD expects to allocate \$5.0 million to DSELP, \$2.0 million to Disabled Borrowers, and \$1.6 million to MHFP.

Fiscal 2008 Project Status

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Maryland Home Financing Program (MHFP)		
Anne Arundel	Individual Loans	\$188,900
Baltimore	1 Individual Loan	165,000
Baltimore City	1 Individual Loan	54,925
Dorchester	1 Individual Loan	97,862
Wicomico	1 Individual Loan	37,239
Subtotal Encumbered		\$543,926
Disabled Borrowers		
Baltimore	1 Individual Loan	\$37,018
Baltimore City	Individual Loans	109,021
Prince George’s	1 Individual Loan	208,835
Wicomico	Individual Loans	214,860
Subtotal Encumbered – Disabled Borrowers		\$569,734
Subtotal Encumbered – MHFP		\$1,113,660

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<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Downpayment Settlement Expense Loan Program (DSELP)		
Allegany	Individual Loan(s)	\$78,175
Anne Arundel	Individual Loan(s)	40,489
Baltimore	Individual Loan(s)	356,000
Baltimore City	Individual Loan(s)	2,077,090
Calvert	Individual Loan(s)	45,000
Caroline	Individual Loan(s)	10,500
Carroll	Individual Loan(s)	33,500
Cecil	Individual Loan(s)	5,000
Charles	Individual Loan(s)	35,000
Dorchester	Individual Loan(s)	12,550
Frederick	Individual Loan(s)	154,700
Harford	Individual Loan(s)	110,000
Howard	Individual Loan(s)	21,000
Kent	Individual Loan(s)	16,000
Montgomery	Individual Loan(s)	33,000
Prince George's	Individual Loan(s)	216,500
Somerset	Individual Loan(s)	51,400
St. Mary's	Individual Loan(s)	18,500
Talbot	Individual Loan(s)	12,500
Washington	Individual Loan(s)	111,500
Wicomico	Individual Loan(s)	126,073
Worcester	Individual Loan(s)	15,500
Subtotal Encumbered – DSELP		\$3,579,977
Total Encumbered		\$4,693,637
Reserved but Not Yet Encumbered		
Statewide	MHFP	\$0
Statewide	Disabled Borrowers	483,928
Statewide	Bridge to HOPE	0
Statewide	DSELP	1,840,816
Subtotal – Reserved but Not Yet Encumbered		\$2,324,744
Total – Program Activity		\$9,343,125

Rental Housing (Statewide)

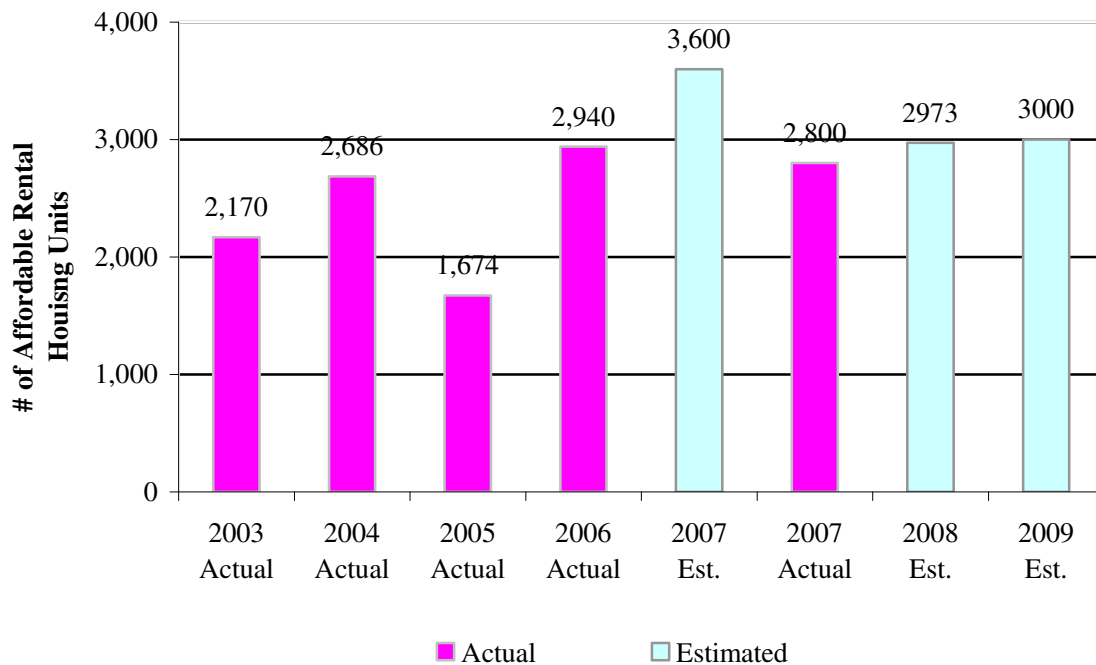
PAYGO GF	\$2,850,000	Recommendation:	Delete \$2,850,000 general funds contingent upon the enactment of legislation
PAYGO SF	\$12,650,000		
PAYGO FF	\$4,750,000		

Program Description: Five programs are funded through the Rental Housing Programs: (1) Rental Housing Production Program; (2) Elderly Rental Housing Program; (3) Maryland Housing Rehabilitation Program-Multi-family; (4) Nonprofit Rehabilitation Program; and (5) Office and Commercial Space Conversion Program. The programs provide low-interest or deferred payment loans for rental housing developments targeting very low-income households. In general, projects serve families with incomes below 60% of the area median, with priority given to projects serving families with incomes below 30% of the area median. The maximum loan amount generally is \$1.5 million per project, with an interest rate as low as 4% for as many as 40 years.

Program Performance Analysis: One of the Department of Housing and Community Development’s (DHCD) primary goals is to expand decent, affordable rental housing in Maryland. To measure its progress, DHCD tracks the number of 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 6**, the units in initial closing vary 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. Furthermore, projects may vary in size and scope, with some projects involving several hundred units. 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 2007, the number of units in initial closing was 800 shy of the estimate, and 140 units less than fiscal 2006.

Comments: Funding for the Rental Housing Programs in the fiscal 2009 allowance is \$20.3 million, which is \$1.5 million above the level programmed in the 2007 *Capital Improvement Plan* (CIP) for fiscal 2009 but the same level of total funding appropriated in the fiscal 2008 budget. While the 2007 CIP included \$6.1 million in general funds and \$8.0 million in special funds, the 2009 allowance now calls for \$2.3 million in general funds and \$12.7 in special funds. Federal funds have not changed from the original CIP. Available fund balance allowed for greater use of special funds and reduced reliance in general funds from what was projected in the 2007 CIP.

Exhibit 6
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2003-2009



Note: Initial closing status means that the Department of Housing and Community Development 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 2005-2009

Rental Housing Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$10,452,773	\$12,518,697	\$5,985,697
Revenue			
General Funds	\$15,395,000	\$2,608,000	\$2,850,000
Federal Funds	4,456,421	5,203,633	5,225,000
Transfer from Other Funds	-2,000,000	0	0
Loan Repayments and Interest	11,724,365	9,200,000	9,300,000
Cancel Encumbrances	1,180,000	259,000	259,000
Total Revenue	\$30,755,786	\$17,270,633	\$17,634,000
Total Available	\$41,208,559	\$29,789,330	\$23,619,697
Encumbrances			
Grants and Loans	\$25,337,000	\$20,250,000	\$20,250,000
State Administrative Expenses	3,296,441	3,100,000	2,790,000
Federal Administrative Expenses	56,421	453,633	475,000
Total Encumbrances	\$28,689,862	\$23,803,633	\$23,515,000
Ending Balance	\$12,518,697	\$5,985,697	\$104,697

Note: Fiscal 2007 loans include \$5.4 million in deobligated general obligation bonds.

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$15.395	\$2.608	\$2.850	\$8.500	\$8.350	\$8.050	\$7.850
PAYGO SF	5.542	12.892	12.650	7.000	7.150	7.450	7.650
PAYGO FF	5.300	4.750	4.750	4.750	4.750	4.750	4.750
Total	\$26.237	\$20.250	\$20.250	\$20.250	\$20.250	\$20.250	\$20.250

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that this appropriation shall be reduced by \$2,850,000 contingent upon the enactment of legislation authorizing the transfer of funds from the Maryland Housing Fund unallocated reserve account under Section 3-203 of the Housing and Community Development Article to the Rental Housing Programs Fund under Section 4-504 of the Housing and Community Development Article.

Explanation: Fund made available from the Maryland Housing Fund’s unallocated reserves would offset the need for general funds in Rental Housing Programs.

Fiscal 2009 Proposed Projects

DHCD expects two competitive funding rounds during fiscal 2009; one in fall 2008 and one in spring 2009. The next round will be April 1, 2008. DHCD advises that all projects are expected to be multi-family rental housing developments targeted to households at or below 60% of the State’s median income level.

Fiscal 2008 Project Status

<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
Affordable Rental Housing – State Funds		
Baltimore City	Ednor II	\$824,356
Baltimore City	Jenkins House	80,000
Frederick	Frederick Revitalization	1,500,000
St. Mary’s	Newtowne Village	500,000
Subtotal Encumbered – Affordable Rental Housing		\$2,904,356
Reserved but Not Yet Encumbered		
Baltimore City	Cherrydale	\$500,000
Baltimore City	Har Sinai	250,643
Baltimore City	Moravia Park	1,100,000
Baltimore City	Pennrose New East Baltimore	2,000,000
Baltimore County	Old Eastern Senior	1,500,000
Baltimore County	Senior Housing at Rolling Road	2,000,000
Howard County	ParkView at Emerson	1,500,000
Subtotal – Reserved but Not Yet Encumbered		\$8,850,643
Grand Total – Encumbered/Reserved		\$11,754,999

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<u>Jurisdiction</u>	<u>Project</u>	<u>Amount</u>
HOME – Encumbered		
Subtotal – HOME Encumbered		\$0
HOME – Reserved but Not Yet Encumbered		
Somerset County	Somerset Commons	\$1,500,000
Caroline County	Federalsburg Gardens	2,000,000
Caroline County	Riverview Gardens	2,000,000
Allegany County	East Side School	2,000,000
Dorchester County	Conifer Foxtail Crossing	571,316
Subtotal – HOME Reserved		\$8,071,316
Grand Total HOME – Encumbered/Reserved		\$8,071,316

Special Loan Programs (Statewide)

PAYGO GF	\$1,300,000	Recommendation:	Delete \$1,300,000 general funds contingent upon the enactment of legislation
PAYGO SF	\$6,700,000		
PAYGO FF	\$1,500,000		

Program Description: Programs under the Special Loan Programs include the Maryland Housing Rehabilitation Program (MHRP), Indoor Plumbing Program (IPP), Lead Hazard Reduction Program (LHRP), and Group Home Financing (GHF) Program. The programs provide preferred interest rate loans and grants to families of low- and moderate-income; to sponsors whose small rental properties are leased substantially by limited-income families; and to nonprofit sponsors of housing facilities. In general, the funds may be used to construct or rehabilitate single-family homes and multi-family housing with four or fewer units, or to acquire properties for use as group homes or shelters.

Program Performance Analysis: The number of units assisted by Special Loan Programs is shown in **Exhibit 7**. Overall, the number of units assisted increased 62% from fiscal 2004 to 2007. While assistance provided by the Indoor Plumbing Program and the Group Home Financing Program have held steady; the number of units assisted through the MHRP and LHRP have varied.

Exhibit 7
Units Assisted by Special Loans Programs
Fiscal 2004-2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Est. 2008</u>	<u>% Change</u> <u>2004-2007</u>
Maryland Housing Rehabilitation Program	49	161	66	76	85	55.1%
Indoor Plumbing Program	7	5	7	6	30	-14.3%
Lead Hazard Reduction Program	55	195	46	107	135	94.5%
Group Home Financing Program	15	12	12	15	75	0.0%
Total Units Assisted	126	373	131	204	325	61.9%

Source: Department of Budget and Management Capital Budget Worksheets

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DHCD expects to allocate fiscal 2009 Special Loan funds among the programs as follows: 42% for MHRP, 38% for GHF, 19% for LHRP, and 1% for IPP. Note that MHRP funds some plumbing projects as part of larger renovations, while IPP is dedicated only to plumbing projects. Federal funds will support the Federal HOME Investment Partnership Program.

Comments: Funding for the Special Loan Programs in the fiscal 2009 allowance is \$9.5 million, which is \$900,000 above the level programmed in the 2007 *Capital Improvement Program* (CIP) for fiscal 2009. While the 2007 CIP programmed \$900,000 in general funds and \$6.2 million in special funds, the 2009 allowance now calls for \$1.3 million in general funds and \$6.7 in special funds. Federal funds have not changed from the original CIP.

Special Loan Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$8,804,993	\$1,917,520	\$831,520
Revenue			
General Funds	\$2,187,000	\$1,150,000	\$1,300,000
Transfer from Other Funds	-8,500,000	0	
Loan Repayments and Interest	8,687,631	7,200,000	7,200,000
Federal Funds	4,019,193	1,747,529	1,650,000
Cancel Encumbrances	319,481	164,000	164,000
Total Revenue	\$6,713,305	\$10,261,529	\$10,314,000
Total Available	\$15,518,298	\$12,179,049	\$11,145,520
Encumbrances			
Grants and Loans	\$11,534,000	\$9,500,000	\$9,500,000
State Administrative Expenses	1,581,585	1,600,000	1,440,000
Federal Administrative Expenses	485,193	247,529	150,000
Total Encumbrances	\$13,600,778	\$11,347,529	\$11,090,000
Ending Balance	\$1,917,520	\$831,520	\$55,520

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$2.187	\$1.150	\$1.300	\$2.000	\$1.700	\$1.600	\$1.400
PAYGO SF	5.813	6.850	6.700	6.000	6.300	6.400	6.600
PAYGO FF	2.034	1.500	1.500	1.500	1.500	1.500	1.500
Total	\$10.034	\$9.500	\$9.500	\$9.500	\$9.500	\$9.500	\$9.500

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that this appropriation shall be reduced by \$1,300,000 contingent upon the enactment of legislation authorizing the transfer of funds from the Maryland Housing Fund unallocated reserve account under Section 3-203 of the Housing and Community Development Article to the Special Loan Programs Fund under Section 4-505 of the Housing and Community Development Article.

Explanation: Funds made available from the Maryland Housing Fund’s unallocated reserves would offset the need for general funds in Homeownership Programs.

Fiscal 2009 Proposed Projects

Projects receiving Special Loan funds are funded on a first-come, first-served basis. DHCD does not provide forward reservations for individual projects, and there are no established rating of ranking criteria for selecting projects.

Fiscal 2008 Project Status

<u>Jurisdiction</u>	<u>Amount</u>
Allegany	\$100,993
Anne Arundel	449,478
Baltimore	235,307
Baltimore City	58,900
Calvert	38,505
Caroline	140,530
Carroll	9,781
Dorchester	91,891
Frederick	27,424
Harford	53,307
Montgomery	119,008
Prince George’s	218,471
Queen Anne’s	6,030
Somerset	15,292
Talbot	30,745
Washington	69,591
Wicomico	253,258
Worcester	74,016
Total – Encumbered	\$1,992,527

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<u>Jurisdiction</u>	<u>Amount</u>
Reserved but Not Yet Encumbered	\$1,454,595
Federal Funds – HOME	
Allegany	\$2,798
Baltimore	32,820
Caroline	392,958
Charles	10,665
Dorchester	49,634
Frederick	27,461
Harford	17,800
Somerset	27,695
Washington	78,608
Wicomico	338,154
Worcester	524,742
Total – Encumbered	\$1,503,334
Federal Funds – Lead Paint	
Anne Arundel	
Allegany	\$76,247
Dorchester	150
Frederick	13,900
Washington	10,121
Total – Encumbered	\$100,418
Reserved but Not Yet Encumbered	
Prince George’s	\$41,679

Community Legacy Program (Statewide)

PAYGO GF	\$6,500,000	Recommendation:	Reduce general funds \$1,000,000
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Program Description: The Community Legacy Program provides grants and loans to assist in the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. Priority is given to communities with residents, businesses, and institutions that are committed to revitalization and have demonstrated leadership ability. Funds may be used for streetscapes and façades, recreational amenities, community gathering places, and other capital improvements that enhance the desirability of the community. Fund recipients may be community development organizations and local governments.

Program Performance Analysis: In fiscal 2007, the Community Legacy Program approved 73 multi-year projects for communities throughout the State. The projects include improving an estimated 32,000 linear feet of streetscapes, upgrading 7,310 linear feet of water and sewer lines, and rehabilitating or creating 369 housing units. Other projects include improving and developing parking lots, commercial façades, interior amenities, parks, municipal centers, and neighborhood safe havens.

Comments: The fiscal 2009 allowance for the Community Legacy Program is \$6.5 million in general funds which is the same level of funding provided in the fiscal 2008 budget. This is \$1.5 million below what was programmed in the 2007 *Capital Improvement Program* for fiscal 2009. The program is entirely supported by general funds whereas the fiscal 2008 appropriation used \$2.0 million of special funds transferred from the department’s Neighborhood Business Development Program fund.

DHCD advises that fiscal 2008 project activity will not be available until February 28, 2008. **The agency should comment on the rating and ranking process for awarding grants and loans as well as the extended delays in making such determinations.**

Community Legacy Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$226,907	\$200,272	\$20,000
Revenue			
General Funds	\$13,894,833	\$4,500,000	\$6,500,000
Transfer from Other Funds	0	2,000,000	0
Loan Repayments and Interest	194,010	250,000	285,000
Cancel Encumbrances	19,149	0	0
Total Revenue	\$14,107,992	\$6,750,000	\$6,785,000
Total Available	\$14,334,899	\$6,950,272	\$6,805,000
Encumbrances			
Grants and Loans	\$13,894,833	\$6,500,000	\$6,500,000
Admin Expense/Operating Grants	239,794	430,272	285,000
Total Encumbrances	\$14,134,627	\$6,930,272	\$6,785,000
Ending Balance	\$200,272	\$20,000	\$20,000

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$13.895	\$4.500	\$6.500	\$6.500	\$6.500	\$6.500	\$6.500
PAYGO SF	0.000	2.000	0.000	0.000	0.000	0.000	0.000
PAYGO FF	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	\$13.895	\$6.500	\$6.500	\$6.500	\$6.500	\$6.500	\$6.500

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce general funds \$1 million. This reduction would still provide \$1 million more in general funds than was appropriated for fiscal 2008.	\$ 1,000,000	GF

Fiscal 2009 Proposed Projects

Community Legacy projects are awarded annually on a competitive basis.

Fiscal 2007 Project Status

<u>Awardee</u>	<u>Project Name</u>	<u>County</u>	<u>Capital Award</u>
Cumberland, City of	Virginia Avenue Corridor Redevelopment Plan Infrastructure	Allegany	\$100,000
Cumberland, City of	Virginia Avenue Corridor Blight Removal	Allegany	75,000
Cumberland, City of	Virginia Avenue Corridor Revitalization Property Compliance	Allegany	100,000
Annapolis, City of – Clay Street	Town Pines Court – Rehabilitation	Anne Arundel	175,000
Annapolis, City of – Clay Street	Public Safety Project	Anne Arundel	625
Arundel Community Development Services, Inc.	Brooklyn Park Property Rehabilitation Program	Anne Arundel	150,000
Dundalk Renaissance Corporation	Main Street Manager	Baltimore	375
Dundalk Renaissance Corporation	Housing Restoration Program	Baltimore	75,000
B & O Railroad Museum, Inc.	B&O Railroad Museum Whistle-stop Gateway – Phase II	Baltimore City	50,000
Baltimore Development Corporation	Roll Down Grate Removal Project	Baltimore City	100,000
Charles Village Community Benefits District	Four Small Facade Grants	Baltimore City	50,000
Comprehensive Housing Assistance, Inc.	Residential Facade Renovations	Baltimore City	75,000

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<u>Awardee</u>	<u>Project Name</u>	<u>County</u>	<u>Capital Award</u>
Diakon Lutheran Social Ministries	Ashland Park Project in Madison East End	Baltimore City	120,000
Faith Fund, Inc.	Harford Road Commercial Development Revolving Loan Fund	Baltimore City	200,000
Govanstowne Business Association	Govanstowne: Building on Progress	Baltimore City	50,000
Govanstowne Business Association	Kingdom First Federal Credit Union	Baltimore City	60,000
Great Blacks In Wax Museum, Inc.	Facade Retention and Restoration Program	Baltimore City	75,000
Greater Harvest Housing Corp.	Project Harvest	Baltimore City	50,000
Holy Nativity Saint Johns Development Corporation	Pimlico Road Arts and Community Center	Baltimore City	100,000
Jubilee Baltimore, Inc.	Hollins Market Historic District	Baltimore City	175,000
Midtown Development Corp.	Balto. School for the Arts Renovation – Expansion	Baltimore City	320,612
Oliver Community Association	Oliver Economic Development Corporation	Baltimore City	750
Patterson Park Community Development Corp.	Belnord Theatre Stabilization Project	Baltimore City	60,000
Reinvestment Fund, The	The Oliver Project	Baltimore City	100,000
Washington Village – Pigtown Neighborhood Planning Council	Pigtown Main Street Revolving Loan Fund	Baltimore City	125,000
Washington Village – Pigtown Neighborhood Planning Council	Ward Street Affordable Housing Green Build	Baltimore City	75,000
North Beach, Town of	Chesapeake Avenue Underground Utilities Project Phase II	Calvert	100,000
Denton, Town of	Fourth Street Redevelopment Phase II-III	Caroline	100,000
Mount Airy, Town of	Parking Lot Redesign	Carroll	75,000
Westminster, City of	Workforce Housing and Section 8 Home Ownership Initiative	Carroll	75,000
Charles County, Commissioners of	Heathcote Road Community Revitalization	Charles	70,000
Cambridge, Commissioners of	Downtown Market Analysis	Dorchester	625
Cambridge, Commissioners of	Historic Replica of the Choptank River Lighthouse	Dorchester	225
Brunswick, City of	Sidewalk Replacement Project	Frederick	50,000
Frederick, City of	Renovation of Storage Facility	Frederick	150,000
Town of Thurmont	Thurmont Tolley Trail	Frederick	25,000
Town of Thurmont	Consultant for National Trust Designation	Frederick	375

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<u>Awardee</u>	<u>Project Name</u>	<u>County</u>	<u>Capital Award</u>
Garrett County Community Action Committee, Inc.	Comprehensive Plan Updates	Garrett	875
Garrett County Community Action Committee, Inc.	Facade Improvement Program	Garrett	60,000
Garrett County Community Action Committee, Inc.	Community Trails and Parks	Garrett	39,463
Bel Air, Town of	Bel Air Armory – Air Conditioning installation	Harford	100,000
Harford County, Maryland	Lee Court Acquisition	Harford	150,000
Harford County, Maryland	Housing Incentive Rehabilitation Program – Admin. Support	Harford	750
Havre de Grace Main Street	Main Street Program Operating Expense	Harford	500
Havre de Grace, City of	Franklin Street Streetscape Improvement Project	Harford	51,000
Howard County Dept. of Housing and Community Development	The Corridor Housing Revolving Loan Project	Howard	175,000
Gaithersburg, City of	Streetscape Improvements at Gateway to Olde Towne	Montgomery	75,000
Montgomery County	Burtonsville, East County Community Legacy Plan	Montgomery	700
Montgomery County	Georgia Avenue/Triangle Lane Connection	Montgomery	75,000
Montgomery County	Day Laborer Center for Employment and Training Improvements	Montgomery	50,000
Takoma Park, City of	New Hampshire Avenue Corridor Initiative	Montgomery	28,000
Bladensburg, Town of	Project Manager Bostwick	Prince George's	500
Bladensburg, Town of	Bladensburg Town Center Pre-development Project	Prince George's	25,000
Bowie, City of	Street Improvement Program: WB&A – Bowie State Trail Linkage	Prince George's	750
CASA of Maryland, Inc.	Prince George's Worker Center	Prince George's	100,000
Central Gateway Community Development Corp.	Kingdom Square Facade Improvement – Phase II	Prince George's	300,000
College Park, City of	Parking Garage and Land Acquisition	Prince George's	150,000
Edmonston, Town of	Street Lighting Project	Prince George's	35,875
Gateway Municipalities Community Development Corp.	Brentwood Town Community Center	Prince George's	100,000
Housing Initiative Partnership, Inc.	Homeowner Rehab. Program	Prince George's	75,000
Housing Initiative Partnership, Inc.	Hylton Street Burn-out Recovery	Prince George's	52,500
Hyattsville, City of	Streetscape for Hamilton Street	Prince George's	60,000

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<u>Awardee</u>	<u>Project Name</u>	<u>County</u>	<u>Capital Award</u>
Mount Rainier, City of	3409 Multi-use Center	Prince George's	130,000
Seat Pleasant, City of	Acquire vacant properties and rehabilitate	Prince George's	100,000
Washington Area Community Investment Fund	Expanding the Model Block Concept	Prince George's	350,000
Leonardtown, Commissioners of	Leonardtown Wharf	Saint Mary's	200,000
Easton, Town of	Easton Facade Improvement Program	Talbot	50,000
St. Michaels , Town of	Planning Funds	Talbot	500
Hagerstown, City of	Barbara Ingram School for the Arts/Front Facade	Washington	115,000
Hagerstown, City of	Adaptive Re-use/Media's Building	Washington	115,000
Salisbury, City of	Isabella Street Streetscape Phase II	Wicomico	50,000
Ocean City Development Corp.	OCDC Facade Improvements Program	Worcester	50,000
Pocomoke, City of	Mar-VA Theater Seating Project and Operating Funds	Worcester	25,000

Neighborhood Business Development Program (Statewide)

PAYGO SF	\$6,000,000	Recommendation:	Reduce special funds \$1,000,000
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Program Description: The Neighborhood Business Development Program (NBDP) was established to provide gap financing for small businesses in locally designated revitalization areas. Loan financing ranges from \$25,000 to \$500,000 for each project and is designed to supplement private financing and equity from the borrower. Applicants must secure private financing equal to a 50% match on State loan funds and provide a 5% equity investment to receive a low-interest or deferred payment loan. The program also provides grants to nonprofit organizations that contribute to community-based economic development revitalization efforts. Approximately 70% of the program’s funds are used for loans to private firms and nonprofits and 30% for grants to nonprofits.

Program funds also support the Capital Access Program (CAP), a component of NBDP established by Chapter 98 of 2000. CAP is a credit enhancement program that enables private lenders to establish a loan loss reserve fund from fees paid by lenders, borrowers, and the Department of Housing and Community Development (DHCD). Borrowers and participating lenders each contribute a premium of between 0.5% and 2.0% of a loan to a reserve fund, and DHCD matches the amount of the premium. CAP is not a direct loan program; it leverages private funds at an average rate of 40 to 1.

Chapter 209 of 2004 authorized DHCD to sell, assign, or otherwise dispose of up to \$4.0 million annually of the NBDP portfolio. The sale proceeds must be applied to the NBDP fund, and DHCD must make a reasonable good faith effort to commit 25% of the loans and grants to micro-enterprises. The legislation enabling the portfolio sales became effective October 2004. No sale has yet occurred.

Program Performance Analysis: In fiscal 2007, the Neighborhood Business Works (NBW) Program approved financing through loans and grants to 63 small businesses and nonprofit organizations. NBW loaned \$1.9 million to 9 small businesses, which leveraged \$4.3 million in private funding for capital improvements. The loans expanded or created small businesses in designated neighborhoods that resulted in 291 new jobs and retention of 557 existing jobs.

Comments: The fiscal 2009 allowance for NBDP is \$6 million in special funds, which matches the amount and type of funds programmed in the 2007 *Capital Improvement Program* (CIP). That plan assumed the program would continue to be fully supported through special funds for all outlying years. In contrast, the current CIP allows for general funds of \$1.0 million in 2010, which increases annually thereafter as shown in the fund tables on page 35 of this analysis.

Neighborhood Business Development Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$4,395,294	\$3,527,731	\$2,367,731
Revenue			
Transfer to Other Funds	\$0	-\$2,000,000	\$0
Loan Repayments and Interest	5,978,317	5,200,000	5,250,000
Cancel Encumbrances	477,162	440,000	440,000
Total Revenue	\$6,455,479	\$3,640,000	\$5,690,000
Total Available	\$10,850,773	\$7,167,731	\$8,057,731
Encumbrances			
Grants and Loans	\$6,000,000	\$4,000,000	\$6,000,000
Administrative Expenses	1,323,042	800,000	1,200,000
Total Encumbrances	\$7,323,042	\$4,800,000	\$7,200,000
Ending Balance	\$3,527,731	\$2,367,731	\$857,731

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$0.000	\$0.000	\$0.000	\$1.000	\$1.200	\$1.500	\$1.300
PAYGO SF	6.000	4.000	6.000	5.000	4.800	4.500	4.700
Total	\$6.000	\$4.000	\$6.000	\$6.000	\$6.000	\$6.000	\$6.000

Recommended Actions

- | | <u>Amount
Reduction</u> |
|--|------------------------------------|
| 2. Reduce special funds by \$1 million. This reduction will ensure that there are sufficient funds available in the Neighborhood Business Development Fund balance to eliminate the estimated use of general funds in fiscal 2010. | 1,000,000 SF |

Fiscal 2009 Proposed Projects

Applications for loan funds are received continually and are funded on a first-come, first-served basis. Grants are awarded annually on a competitive basis.

Fiscal 2008 Project Status

<u>County</u>	<u>Project Name</u>	<u>Amount</u>
Allegany	Alliance Publishing and Marketing	\$500,000
Baltimore City	4321 Harford Road	85,000
Baltimore	MV Fitness	235,000
Baltimore City	Visionary Marketing Group, Inc.	190,000
Baltimore City	City Pets	250,000
Baltimore City	Pennsylvania Avenue Redevelopment Collaborative	40,000
Carroll	Deja Vu	32,500
Montgomery	Hollywood East Café	53,457
Prince George's	Suitland Family and Life Development	25,000
Prince George's	Bikram Yoga Takoma Park	171,500
Subtotal – Grant/Loan Activity to Date		\$1,582,457
Applications Received		\$789,170
Capital Access Program		
Various		\$40,575
Subtotal – Capital Access		\$40,575
Reserved but Not Yet Encumbered		\$0

Community Development Block Grant Program (Statewide)

PAYGO FF

\$9,000,000

Recommendation: Approve

Program Description: The federal Community Development Block Grant (CDBG) program provides competitive grants to local governments in non-entitlement areas of the State to revitalize neighborhoods, expand affordable housing and economic opportunities, and improve community facilities and services. Entitlement areas receive a direct allocation of CDBG funds from the U.S. Department of Housing and Urban Development (HUD) and are not eligible for the State program. The State’s entitlement areas include Anne Arundel, Baltimore, Harford, Howard, Montgomery, and Prince George’s counties and the cities of Annapolis, Baltimore, Bowie, Cumberland, Frederick, Gaithersburg, Hagerstown, and Salisbury.

Program Performance Analysis: HUD requires that at least 70% of the funds benefit low- and moderate-income individuals. States may choose whether to meet this requirement in a one- or three-year period. In fiscal 2007, the CDBG program approved 38 multi-year projects, primarily in rural areas. The projects will provide new housing and rehabilitated housing for an estimated 296 households, and it will improve and rehabilitate sewer systems, water systems, streets, and sidewalks for an estimated 13,536 individuals.

Comments: The fiscal 2009 allowance for CDBG is \$9.0 million in federal funds, which matches what was programmed in the 2007 *Capital Improvement Program* for fiscal 2009. The funds are budgeted based on expected federal grant amounts.

Community Development Block Grant Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$0	\$0	\$0
Revenue			
Federal funds	\$10,359,673	\$10,415,000	\$9,385,000
Total Revenue	\$10,359,673	\$10,415,000	\$9,385,000
Total Available	\$10,359,673	\$10,415,000	\$9,385,000
Encumbrances			
Grants and Loans	\$10,000,000	\$10,000,000	\$9,000,000
Federal Administrative Expenses	359,673	415,000	385,000
Total Encumbrances	\$10,359,673	\$10,415,000	\$9,385,000
Ending Balance	\$0	\$0	\$0

Note: Fiscal 2009 estimate does not reflect \$4.0 million of uncommitted funds held by the federal government from prior appropriations. Of this amount, \$1.7 million will be awarded for future Community Development Block Grant projects in the Department of Housing and Community Development.

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO FF	\$10.000	\$10.000	\$9.000	\$9.000	\$9.000	\$9.000	\$9.000

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2009 Proposed Projects

Applications from non-entitlement local governments will be due in spring 2008, and awards will be made after July 1, 2008.

Fiscal 2008 Project Status

<u>County</u>	<u>Grantee Name</u>	<u>Amount</u>
Allegany	County Commissioner of Allegany County	\$30,000
Allegany	County Commissioner of Allegany County	200,000
Allegany	Town of Lonaconing	8,941
Calvert	Town of North Beach	400,000
Caroline	Town of Denton	500,000
Charles	County Commissioners of Charles County	144,000
Dorchester	Dorchester County	1,700,000
Garrett	Garrett County Commissioners	400,000
Garrett	Town of Accident	210,000
Garrett	Town of Grantsville	800,000
Kent	County Commissioner of Kent County	35,000
Somerset	Town of Princess Anne	250,000
St. Mary's	County Commissioner of St. Mary's County	385,288
Talbot	Talbot County	750,000
Talbot	Town of St. Michaels	554,231
Worcester	City of Pocomoke	159,094
Worcester	County Commissioner of Worcester County	300,000
Subtotal – Encumbered		\$6,826,554
Reserved – Not Yet Encumbered		\$45,000
Grand Total		\$6,871,554

Fiscal Summary
Department of Housing and Community Development – PAYGO

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
02 Neighborhood Business Development – Capital Approp.	\$ 29,894,833	\$ 20,500,000	\$ 21,500,000	\$ 1,000,000	4.9%
07 Rental Housing Programs – Capital Appropriation	25,337,000	20,250,000	20,250,000	0	0%
08 Homeownership Programs – Capital Appropriation	15,600,000	8,600,000	8,600,000	0	0%
09 Special Loan Programs – Capital Appropriation	11,534,000	9,500,000	9,500,000	0	0%
10 Partnership Rental Housing	6,000,000	2,000,000	0	-2,000,000	-100.0%
Total Expenditures	\$ 88,365,833	\$ 60,850,000	\$ 59,850,000	-\$ 1,000,000	-1.6%
General Fund	\$ 39,031,833	\$ 8,258,000	\$ 11,550,000	\$ 3,292,000	39.9%
Special Fund	31,300,000	36,242,000	32,950,000	-3,292,000	-9.1%
Federal Fund	18,034,000	16,350,000	15,350,000	-1,000,000	-6.1%
Total Appropriations	\$ 88,365,833	\$ 60,850,000	\$ 59,850,000	-\$ 1,000,000	-1.6%

Note: The fiscal 2008 appropriation does not include deficiencies.