



SENATE CAPITAL BUDGET HEARING

Tuesday, March 1, 2016

HOUSE CAPITAL BUDGET HEARING

Wednesday, March 2, 2016

Presentation by the

Maryland Department of Housing and Community Development

Secretary: Kenneth C. Holt

Deputy Secretary: Ellington E. Churchill Jr.



100 *Community Place* ● *Crownsville, MD 21032*
1-800-756-0119 ● www.mdhousing.org

LAWRENCE J. HOGAN JR.
Governor

BOYD K. RUTHERFORD
Lt. Governor

KENNETH C. HOLT
Secretary

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Response to Department of Legislative Services (DLS)
Capital Budget Analysis

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DHCD Highlights

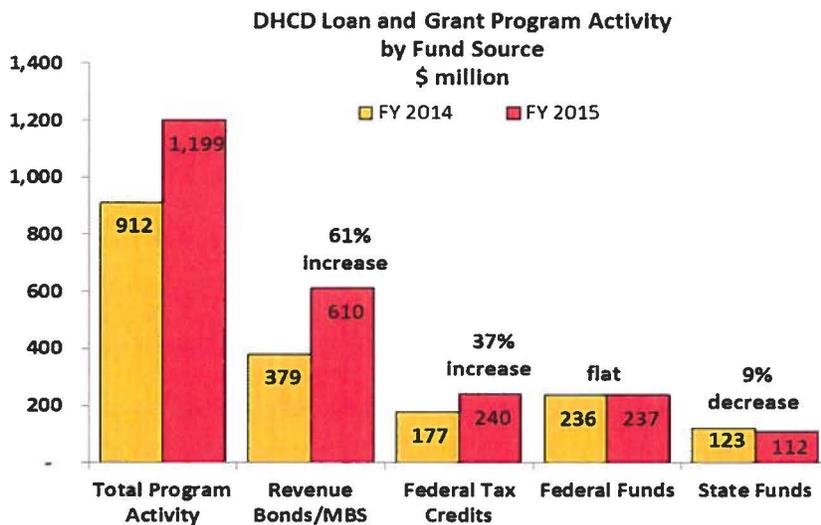
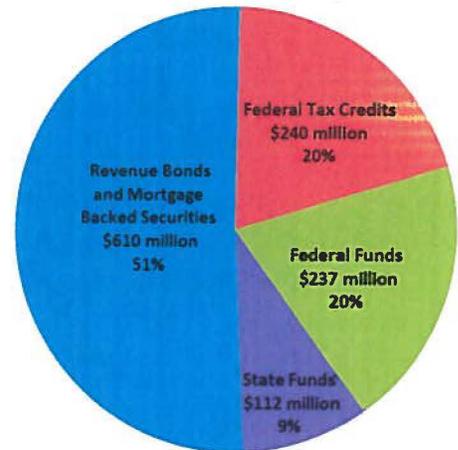
DHCD works with partners to finance and support affordable and energy-efficient homeownership, rental housing, small businesses, neighborhood revitalization and municipal infrastructure projects that change Maryland for the better.

DHCD is unique in its ability to leverage limited State funds to raise significant amounts of private capital - spurring economic growth, creating jobs, providing safe affordable rental housing and sustainable homeownership while also revitalizing communities.

State funds have comprised less than 10% percent of DHCD's total loan and grant program activity for the past five years, enabling DHCD to generate a total of \$4.6 billion worth of housing, small business, local government infrastructure and revitalization financing using only \$430 million of State funds. FY 2015 program activity by fund source is shown on the chart.

DHCD's \$1.2 billion of FY 2015 program activity was 31% higher than FY 2014's \$0.9 billion, despite a 9% reduction in State funds. Every dollar of State funds continues to leverage \$10 of private and public funds.

FY 2015 Loan and Grant Program Activity



DHCD's programs consistently generate significant total economic impact for Maryland using limited State funding. In FY 2015, every dollar of State funding generated \$23 of economic impact in Maryland - \$2.6 billion in total, supporting more than 16,000 jobs and generating over \$45 million in State and local tax revenues. The additional activity from non-State fund sources generated more economic impact than in FY 2014, when there was economic impact of \$17 per dollar of State funding and total economic impact of \$2.0 billion.

DHCD's revenue bond and mortgage-backed security issuances and portfolios are self-supporting, without any debt service costs to the State or operating cost burden to taxpayers. The capital raised by DHCD through its revenue bond and mortgage-backed securities issuances amounts to half of the total capital raised by the State of Maryland through its General Obligation Bond issuances during the same period, with no debt services costs to the State or reliance on the good faith and credit of the State.

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FY 2016 program activity is on pace for further significant increases, particularly in affordable multifamily and single family housing financed primarily through revenue bonds and mortgage-backed securities. In the first 6 months of FY 2016, DHCD financed 3,535 affordable rental housing units, 19% more than the 2,965 units financed during the whole of FY 2015. Year to date Maryland Mortgage Program loan activity is also up 57% compared to FY 2015.

DHCD also manages an existing \$3 billion portfolio of Community Development Administration assets and liabilities, including single family and multifamily mortgage revenue bonds with underlying mortgage-backed securities, mortgage loans and investments. DHCD has a fiduciary responsibility to private market investors to carry out ongoing transactional servicing and portfolio management of these asset and debt securities, provide U.S. Securities and Exchange Commission-mandated disclosures and ensure federal tax law compliance for up to 30-40 years. DHCD also manages a \$745 million portfolio of State and federally-funded loans.

DHCD has achieved these FY 2015 results and carried out the ongoing portfolio management with just over 400 positions. In FY 2015 alone, almost \$3 million of new program activity was generated per DHCD authorized position.

In addition, DHCD's administrative expense ratio (administrative operating expenses as a percentage of loan and grant program activity) is consistently less than 5%, with no General Funds used to support personnel or other operating costs that cover new production and asset management of the existing portfolio.

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Recommended Budget Reductions

1. Delete GO Bonds from DHCD's Budget and Fund with General Funds *(pages 8-16 of DLS Analysis)*

DLS Recommendation: DLS recommends deleting \$32.5 million in GO bonds authorized for DHCD Capital programs. DLS further recommends the Governor provide general funds in a supplemental budget, which will avoid the need to issue taxable GO bonds.

DHCD Response: DHCD respectfully **does not concur** with the DLS recommendations to cut \$32.5 million of General Obligation (GO) Bonds from the following programs:

- \$ 3.4 million – Neighborhood Business Development Program
- \$ 1.5 million – Baltimore Regional Neighborhoods Initiative*
- \$ 8.5 million – Homeownership Program
- \$ 1.0 million – Housing and Building Energy Programs
- \$ 6.0 million – Partnership Rental Housing Program*
- \$10.0 million – Rental Housing Works*
- \$ 2.1 million – Special Loan Programs

*Note: GO Bonds are the only source of funding for these programs.

As indicated on page 2 of the DLS Analysis, DHCD's FY 2017 GO Bonds of \$40 million are \$25.31 million (39%) lower than the \$65.31 million of GO Bonds in the FY 2015 Appropriation. The Governor's Budget, which includes these GO Bonds, limits funding from GO Bonds to \$994 million, the lowest level since FY 2011. The five-year Capital Improvement Program includes GO Bonds for these programs and continues to hold new debt below \$1 billion per year through FY 2021.

While the DLS suggests that the bulk of the remaining GO Bond funds can be replaced with General Funds, there is no assurance that General Funds will be available to replace any GO Bonds that are cut. The Governor's Budget reflects a balanced and fiscally responsible approach to controlling spending growth while fully funding all legislative mandates and other obligations, continuing to put the Maryland economy back on track by attracting new businesses, creating jobs and addressing the \$5.1 billion structural deficit.

The Governor has already made a significant commitment of \$21.5 million of FY 2017 General Funds to continue and expand the Strategic Demolition and Smart Growth Impact Program - \$18 million for Project CORE (Creating Opportunity for Renewal and Enterprise) in Baltimore City and \$3.5 million in the rest of the State, with planned funding at similar levels through FY 2019.

The \$32.5 million of DHCD GO Bonds recommended for cuts are needed to fund critical programs that leverage every dollar of State funds with \$10 of non-State funds and provide economic impact of \$23 for every dollar of State funds. These programs provide financial assistance to stabilize and revitalize existing neighborhoods and provide gap financing for affordable rental housing, homeownership and housing rehabilitation opportunities for elderly, disabled, homeless, and low and moderate income Marylanders. As noted above, GO Bonds are the only source of funding for several of the programs.

GO Bonds have been successfully used to fund these program for several years. DHCD programs are eligible to be included in tax-exempt bond issuance as long as they do not exceed the 5% Internal Revenue Service cap. Since GO Bond private activity authorizations in the FY 2017 budget represents only 4.7% of the total GO Bonds of \$995 million and decline to 3.9% over the Capital Improvement Plan period, having to issue taxable bonds related to these GO Bond appropriations should not be an issue. DHCD will work with the State Treasurer's Office to minimize the use of taxable bond issuances related to its programs. **DHCD therefore strongly recommends that the GO Bonds be approved at the amounts included in the Governor's Capital Budget.**

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Issues

1. Project C.O.R.E. Creating Opportunities for Renewal and Enterprise (page 3, 8, 18-22 DLS Analysis)

DLS Recommendations:

- **DLS recommends withholding \$500,000 in Strategic Demolition and Smart Growth Impact (SDSGI) general funds until DHCD produces a report detailing how all of the programs and financing options of Project C.O.R.E will operate in a coordinated effort toward Baltimore City revitalization.**
- **In addition, DLS has asked DHCD to comment on the impact of the lower funding level for the Baltimore Regional Neighborhood Demonstration Initiative in fiscal 2017 combined with the program's involvement with Project C.O.R.E. and the impact of the Community Legacy's involvement with Project C.O.R.E.**

DHCD Response:

Project C.O.R.E. Report

It is DHCD's intention to be transparent with regard to Project C.O.R.E. and DHCD has been conducting legislative briefings to accomplish that goal. DHCD agrees with the DLS recommendation for DHCD to provide the requested report by December 2016; however, DHCD does not feel that it is necessary to withhold General Funds in order to achieve this result.

Project C.O.R.E represents an important and unique new partnership between Baltimore City, DHCD and the Maryland Stadium Authority, utilizing the core strengths of each in order to accelerate blight removal and reinvestment in Baltimore City neighborhoods, improving economic opportunity and the quality of life in Baltimore City neighborhoods:

- DHCD – financing, affordable housing and neighborhood preservation and revitalization;
- Baltimore City – community involvement, strategic code enforcement and receivership;
- The Stadium Authority – construction project management.

Project C.O.R.E will create new opportunities for renewal and enterprise in Baltimore City at a greatly accelerated pace and scale. **The State of Maryland's \$75 million investment along with \$18.75 million in-kind contributions from Baltimore City will result in a total demolition budget of \$93.75 million over the four-year Project C.O.R.E. period.**

DHCD has a long and successful track record of utilizing resources in partnership with the private sector to fund significant investment in community-focused, mission-driven projects. As an example, the addition of State resources invested through the Rental Housing Works program expanded DHCD's revenue bond activity for affordable multifamily rental housing finance by 300%. Activity surged from an average of \$65 million annually in calendar years 2010 through 2012 to an average of more than \$200 million annually from 2013 through 2015.

DHCD will utilize well-established financing tools to direct financing and redevelopment resources as part of Project C.O.R.E. **DHCD is working closely with the City and local developers to seek out and support redevelopment opportunities with the appropriate financing tools as a planned outcome of Project C.O.R.E** DHCD is confident that providing shovel-ready opportunities will generate significant incentives for local developers to revitalize Baltimore's communities and that the result will be safer and more attractive neighborhoods, more jobs, more green space, and more quality, energy efficient affordable housing for the benefit of existing residents.

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Baltimore Regional Neighborhood Initiative (BRNI)

Baltimore Regional Neighborhood Initiative (BRNI) funding of \$1.5 million is consistent with FY 2015 and FY 2016 funding levels in the Governor's Allowance. The FY 2015 Legislative Appropriation was \$1.68 million; FY 2016 was \$3.0 million.

BRNI is an important part of the Governor's initiative to transform and revitalize portions of Baltimore City in need of reinvestment. Project C.O.R.E. presents a redevelopment model that many BRNI grantees have been using over the past several years, including strategic demolition, rehabilitation of historic buildings for re-use into housing, commercial and community purposes, community engagement, and reclamation of infill greenspace into assets for the community.

BRNI awardees have also demonstrated their knowledge of private, institutional and philanthropic partners and how they can attract those resources to leverage State funding in Baltimore City and inner beltway communities. **BRNI awardees are poised to continue to help redevelop Baltimore City and inner beltway neighborhoods.**

Community Legacy (CL)

Community Legacy (CL) is another key programmatic tool to achieve the Project C.O.R.E. objectives. Approximately 25% of CL funding has gone to Baltimore City to support redevelopment and revitalization efforts. Since 2002, DHCD has invested approximately \$20 million in over 150 projects throughout Baltimore City, which have leveraged over \$200 million of other public and private funding.

DHCD has always aligned CL awards with local investment strategies. For example, CL has been utilized in a blighted area of East Baltimore by Mary Harvin Transformation Center, Inc. This nonprofit is working in coordination with Baltimore City Housing to acquire and demolish entire blocks for a new senior affordable rental housing development. In addition, the clearing of blight by the City along the rail road tracks in East Baltimore led to the Historic East Baltimore Community Action Coalition to invest in acquiring, rehabbing and reselling more than 30 row homes to new home buyers; an initiative that is growing but would not have been possible without removing the nearby blight that was a deterrent to new investment.

DHCD will continue to align and focus CL resources with the new opportunities that are created and generated through the coordinated efforts of Project C.O.R.E.

2. Neighborhood Business Development Program *(page 10 of DLS Analysis)*

DLS Recommendation: DHCD should comment on the need for the CDA to be involved in small-business lending.

DHCD Response: House Bill 326, currently under review by the Legislature, would enable DHCD to increase its small business lending through the Neighborhood Business Development Program, which operates as Neighborhood Business Works (NBW). Key to the growth of NBW is being able to make use of the financial tools, capacity and expertise of the Community Development Administration (CDA). Most importantly, CDA has the ability to issue tax-exempt and taxable bonds to provide capital needed to make loans.

By expanding CDA's enabling statute to include business lending as an allowable activity, NBW could raise capital for its lending activity through revenue bond issuances, with no debt service costs to the State. This is critical to NBW's growth; presently, NBW lending is limited to the amount of capital appropriations it receives through the State Capital Budget, limiting NBW's potential contribution to Maryland's economy.

DHCD believes that the proposed changes under House Bill 326 will provide the necessary programmatic flexibility needed to grow NBW lending from approximately \$5 million per year to \$50 million per year by Fiscal Year 2019, supporting additional small businesses and Maryland's economic growth.

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3. Housing and Building Energy Programs - Net Zero *(page 15 of DLS Analysis)*

DLS Recommendation: DHCD should comment on the status of the amendment and on the status of the Net Zero Homes program.

DHCD Response: DHCD is in the process of executing a Memorandum of Understanding with the Maryland Energy Administration, at which point it will submit a Reimbursable Budget Amendment. DHCD expects to utilize the entirety of the \$1.5 million for Net Zero construction, as soon as the Budget Amendment is approved. DHCD is in the process of identifying other viable projects which would require additional funding.

4. Maryland BRAC Preservation Loan Fund *(page 16 of DLS Analysis)*

DLS Recommendation: DHCD should comment on ways to induce demand for the use of this program

DHCD Response: DHCD has made good progress on deploying MD-BRAC loan fund capital in the past several months and three separate loans are in the closing process. DHCD is actively marketing the program to maintain deployment at a high level.

5. Capital Grant and Loan Awards Report *(page 23 of DLS Analysis)*

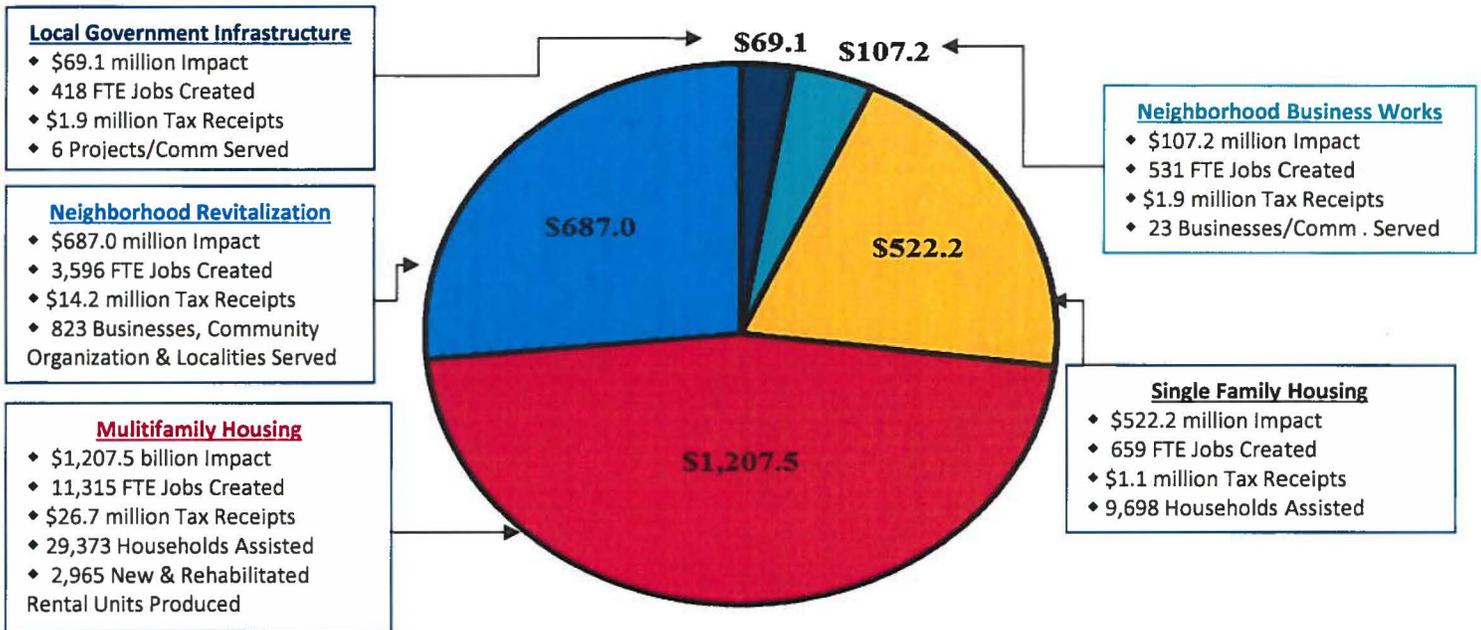
DLS Recommendation: Adopt committee narrative requesting a report on capital grant and loan programs.

Capital Grant and Loan Awards Report: The committees are interested in unifying the reporting of the Department of Housing and Community Development's (DHCD) capital grant and loan programs. The committees request DHCD to provide a report that details for each of its 12 capital grant and loan programs the following information: the name of the program; the grantee or loan recipient; the jurisdiction of the project; the amount of the grant or loan; if applicable, the amount of funding from the Community Development Administration; if applicable, the amount of funding from tax credits and/or tax credit equity; if applicable, the amount of funding from other sources; if applicable, a description of the other sources of funding; the total amount from all sources of the project being funded; and, if applicable, a measure of the impact of the project, such as number housing units created. The listed information should be provided for each of the previous five fiscal years. The report shall be submitted by December 1, 2016.

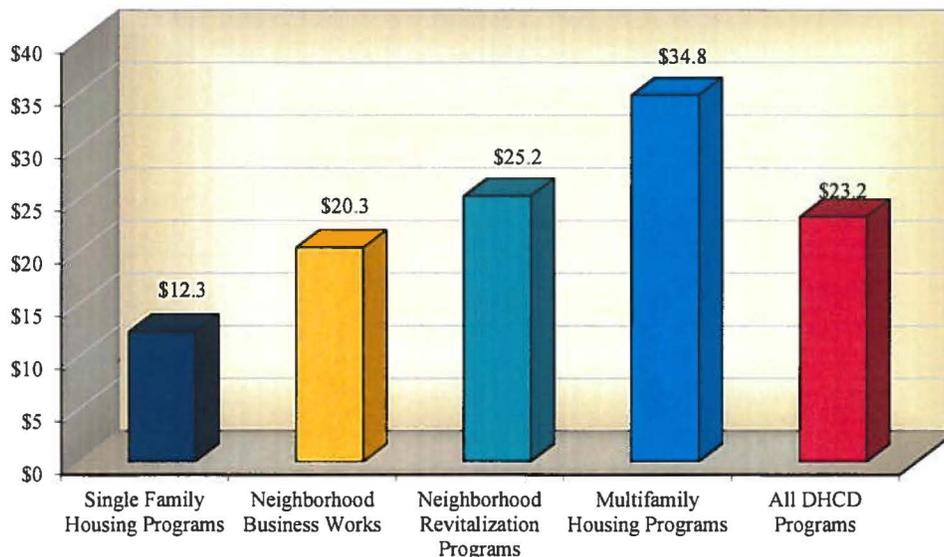
DHCD Response: DHCD concurs and will work with the DLS analyst to determine the content that will meet this request in a way that provides appropriate level of detail, and is in compliance with State privacy laws and federal disclosure restrictions under the Securities and Exchange Act.

ANNUAL ECONOMIC IMPACT OF DHCD PROGRAMS 2015 FISCAL YEAR

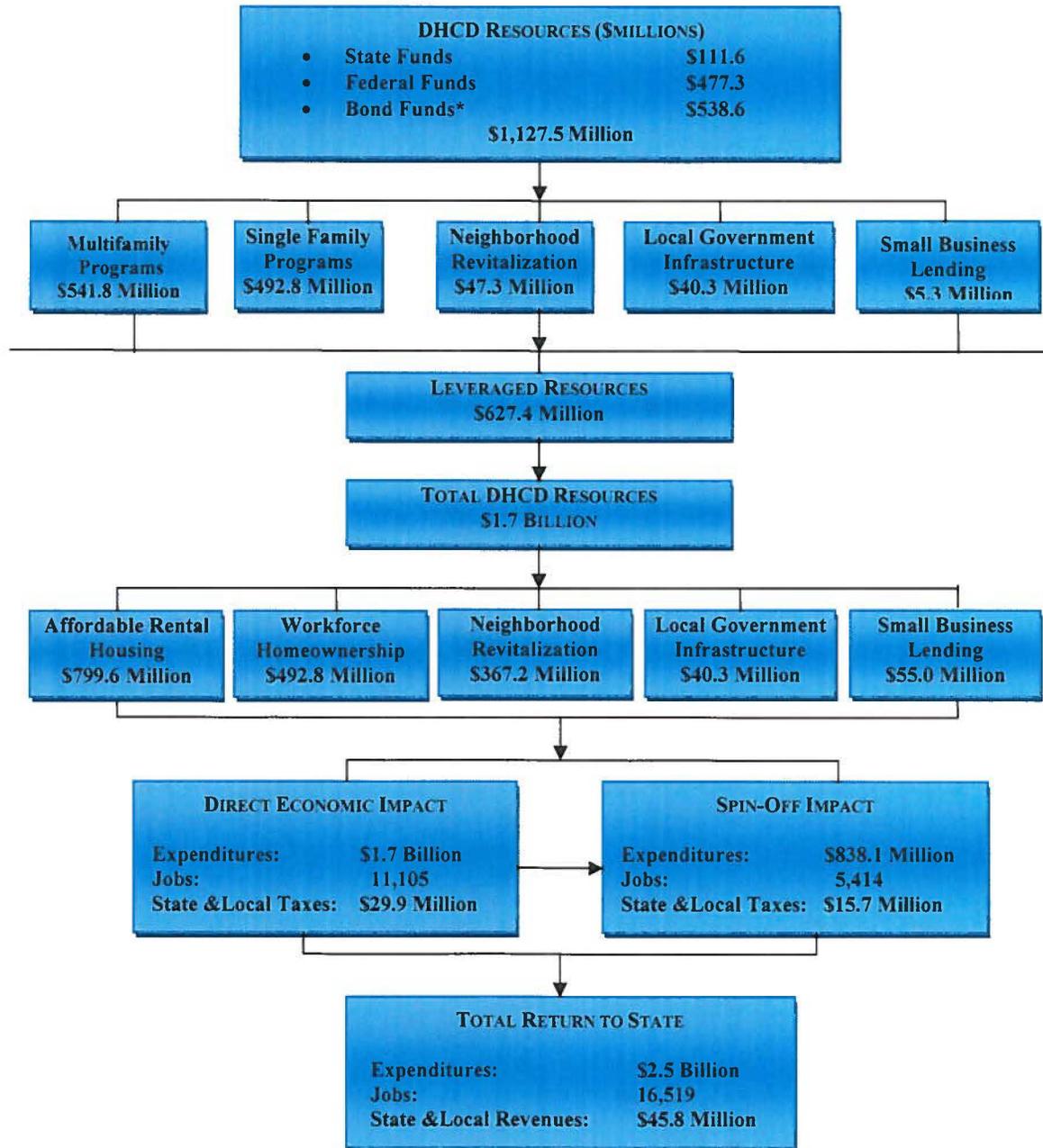
**\$2,593.0 MILLION
ECONOMIC IMPACT IN MARYLAND**



**EVERY DOLLAR OF STATE FUNDS INVESTED IN DHCD PROGRAMS
GENERATED \$23.2 OF ECONOMIC IMPACT IN MARYLAND**



ECONOMIC FLOW OF DHCD PROGRAMS FISCAL YEAR 2015



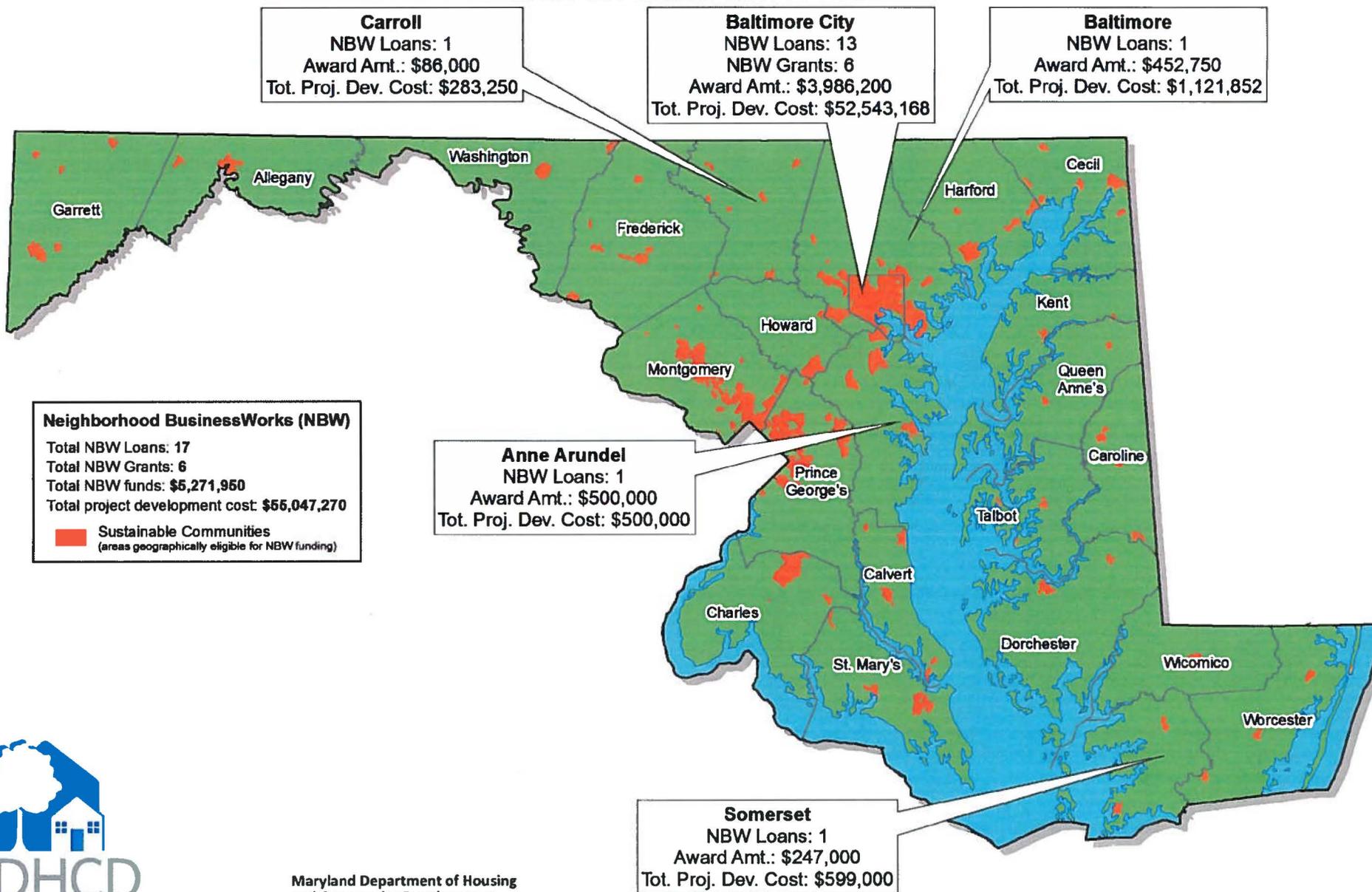
* Excludes \$71.8 million of short-term bonds issued by Multifamily

Note: Totals may not add up due to rounding

Source: Maryland Department of Housing and Community Development

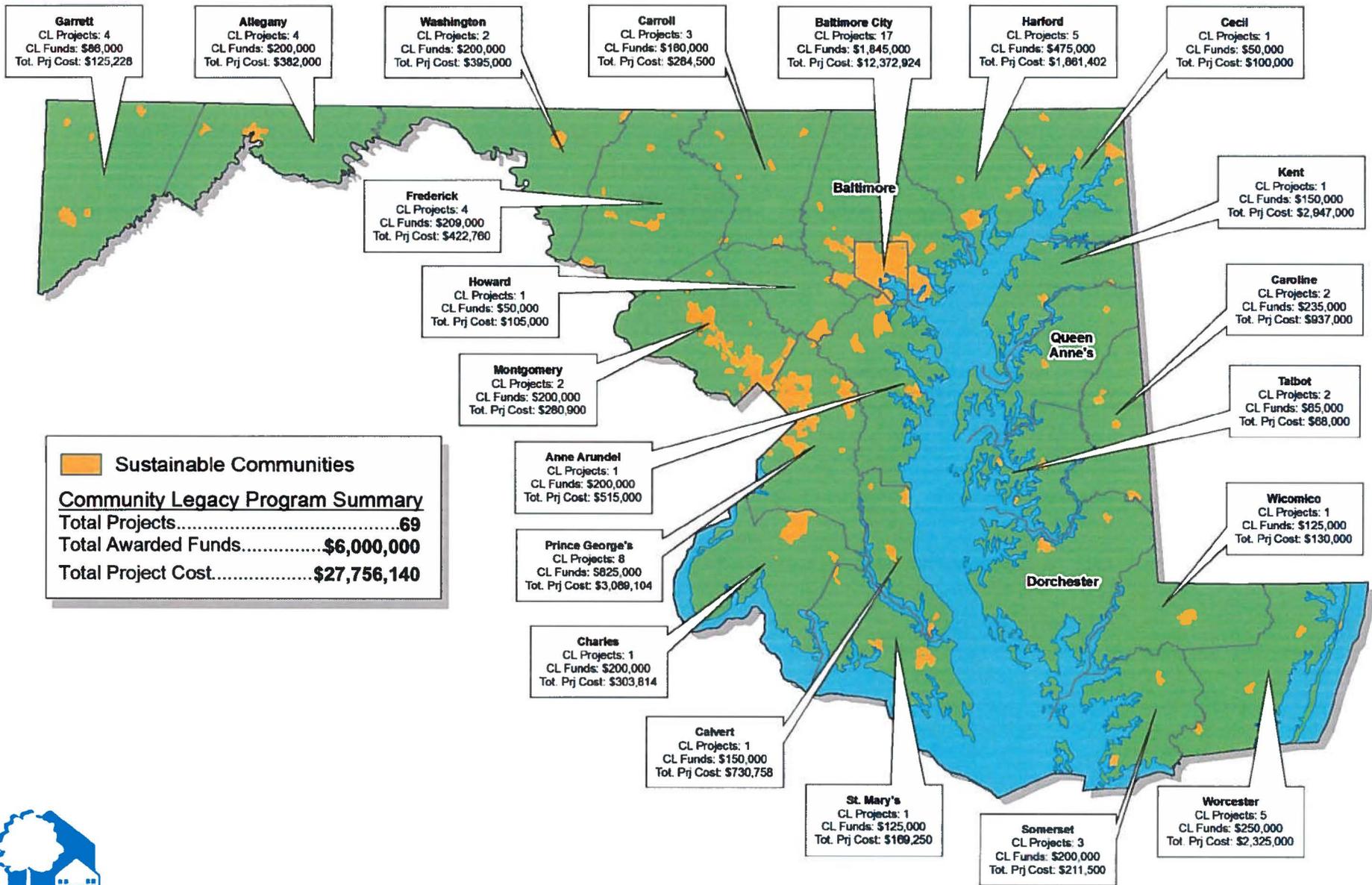
Neighborhood BusinessWorks

Loans and Grants: State FY 2015

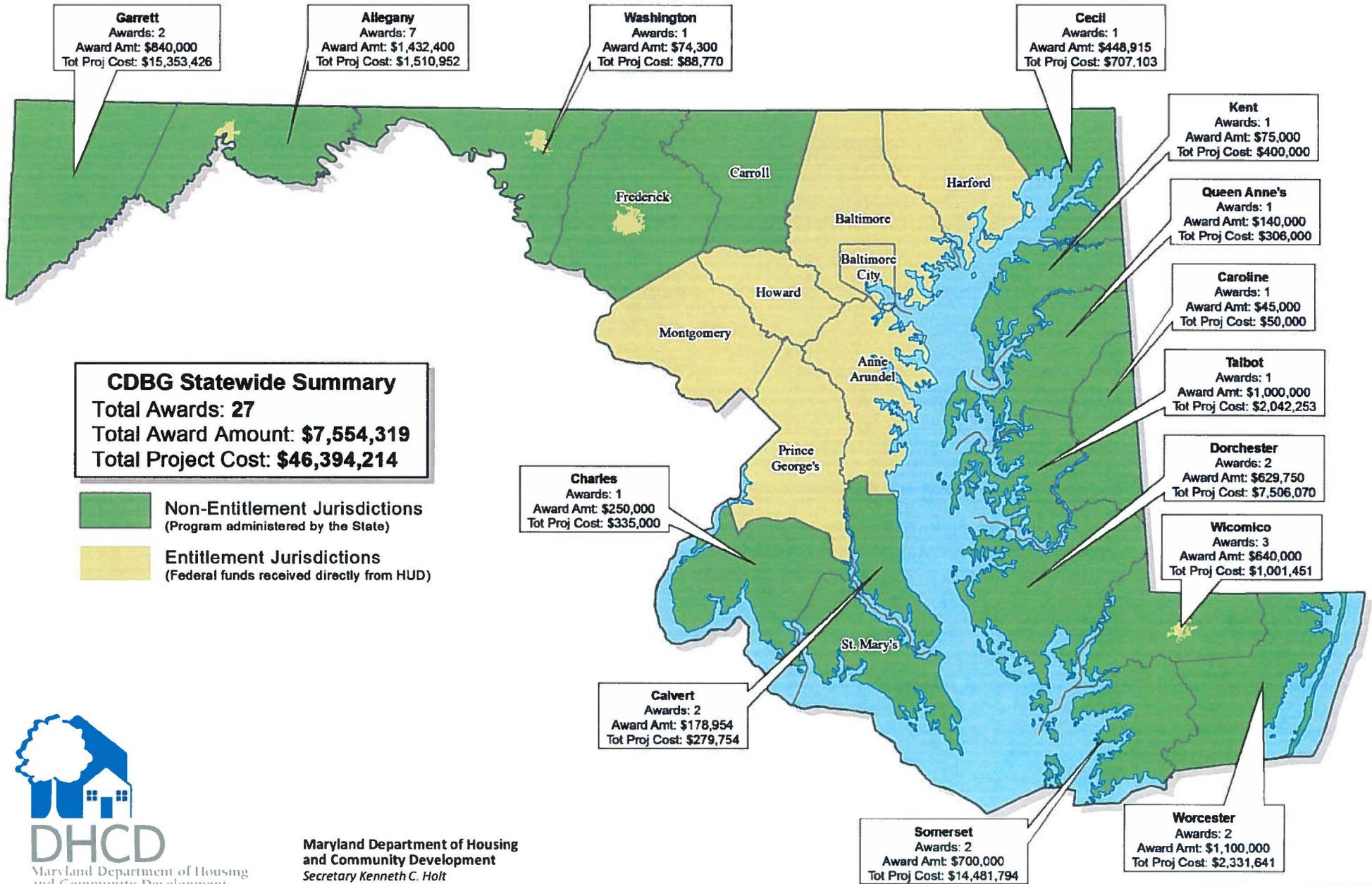


Community Legacy Program

Community Legacy (CL) Awards by County FY 2015



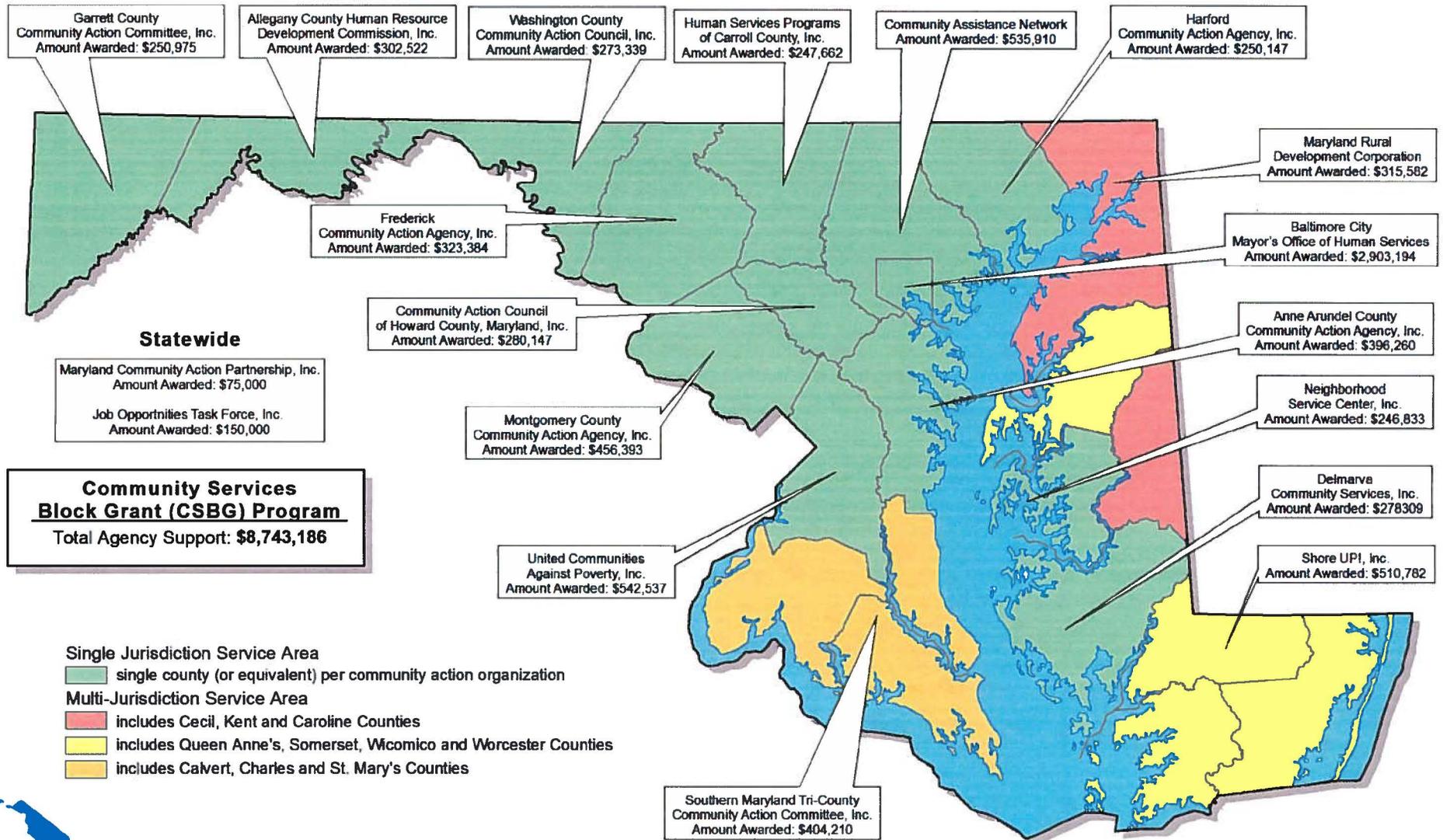
Community Development Block Grant by Jurisdiction: FY 2015



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Community Services Block Grant Program: Awards By Community Action Organization

Federal FY 2015



Foreclosure Prevention Counseling Awards FY 2015

Western Maryland

Allegany Human Resources Development Comm., Allegany Law Foundation, Frederick Community Action Agency, Frederick, City of, Garrett County Community Action Committee, Hagerstown Neighborhood Development, Washington County, Washington County Community Action Council

Baltimore Metro

Anne Arundel Community Action Agency, Arundel Community Development Services, Belair Edison Neighborhoods, Comprehensive Housing Assistance, Diversified Housing Development, Inc., Druid Heights Community Development Corporation, Eastside Community Development Corporation, Garwyn Oaks Northwest Housing Resource Center, Home Partnership, Neighborhood Housing Services of Baltimore, Park Heights Renaissance, Southeast Community Development Corporation

Eastern Shore

Cecil County Housing Agency, Delmarva Community Services, Mid-Shore Pro Bono, Inc, Salisbury Neighborhood Housing Service, Shore-Up!

Statewide

CCCS of Maryland and Delaware, Civil Justice, inc., Garden State Consumer Credit Counseling, Home Partnership, Housing Initiative Partnership, Job Opportunities Task Force, Maryland Consumer Rights Coalition, Maryland Housing Counselors Network, Maryland Legal Aid Bureau, Maryland Rural Development Corp., Maryland Volunteer Lawyers Service, MD Legal Aid Bureau, MD Volunteer Lawyers, ProBono Resource Center, Inc, Public Justice Center, St. Ambrose Housing Aid Center (Counseling), St. Ambrose Housing Aid Center (Legal)

Washington Metro

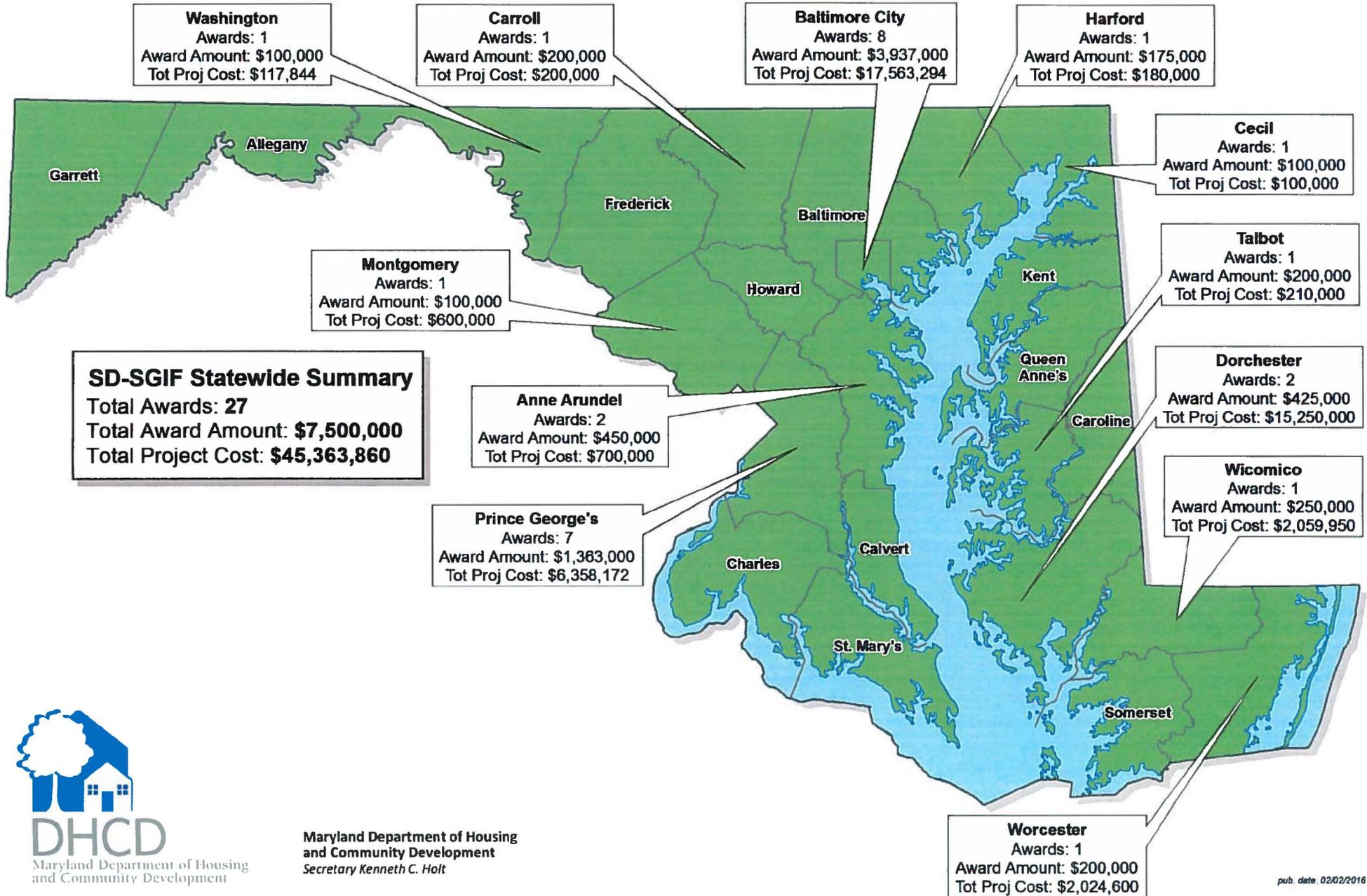
Asian American Homeownership Counseling, Centro de Apoyo Familiar, Community Legal Service of PG County, Greater Washington Urban League, HomeFree-USA, Housing Counseling Services, Housing Initiative Partnership, Housing Options and Planning Enterprises, Kairos Community Development Corp., Latino Economic Development Corporation, Lydia's House, Southern Maryland Tri-County CAC, Sowing Empowerment and Economic Development, Springboard Nonprofit Consumer Credit Mgmt., United Communities Against Poverty, Unity Economic Development Corporation

Service Region	Funds Awarded
Western Maryland	\$411,793
Washington Metro	\$2,419,333
Eastern Shore	\$450,744
Baltimore Metro	\$1,239,086
Statewide	\$3,020,476
Total Funds Awarded	\$7,541,432



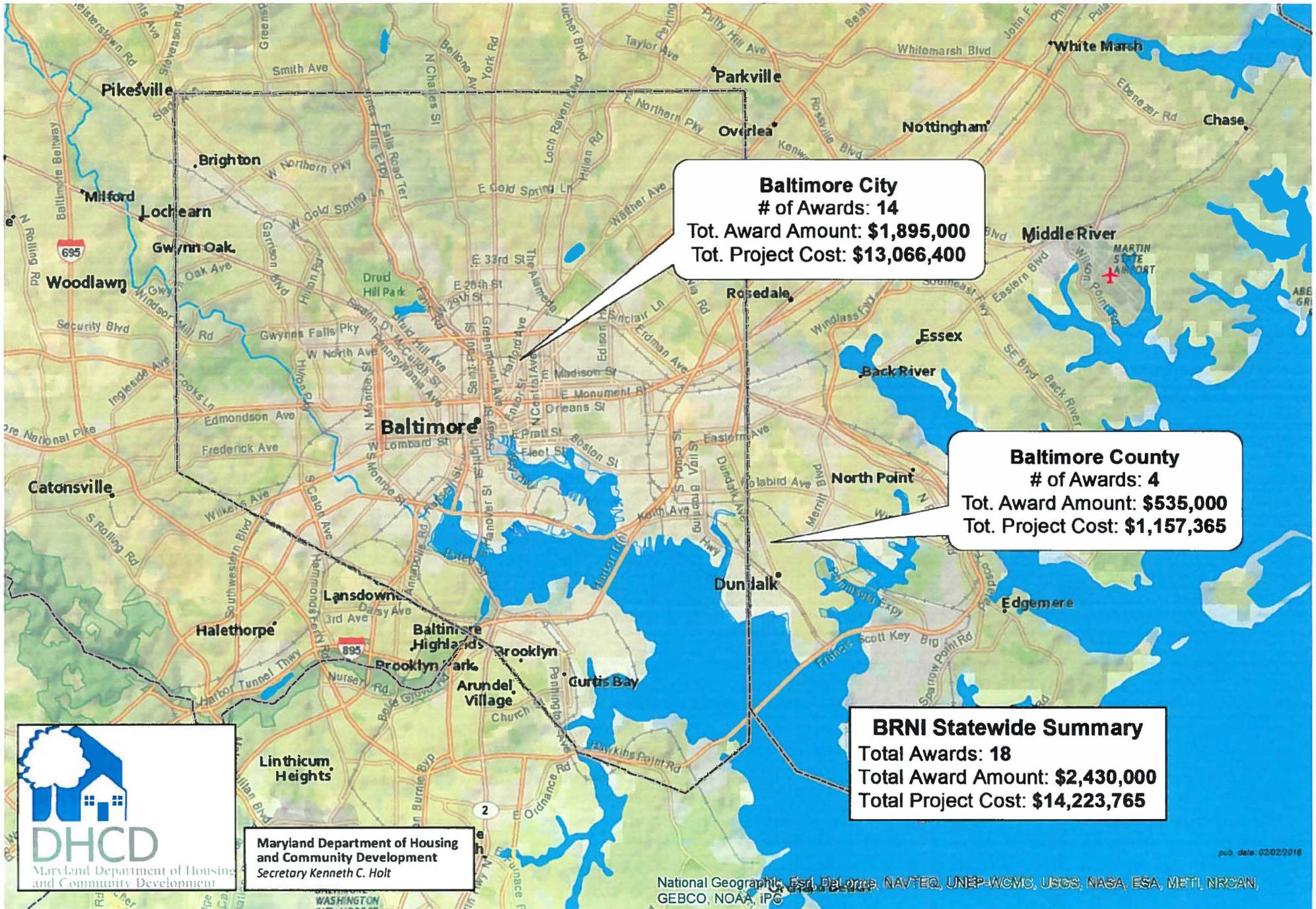
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Strategic Demolition and Smart Growth Impact Fund (SD-SGIF) by Jurisdiction: 2015



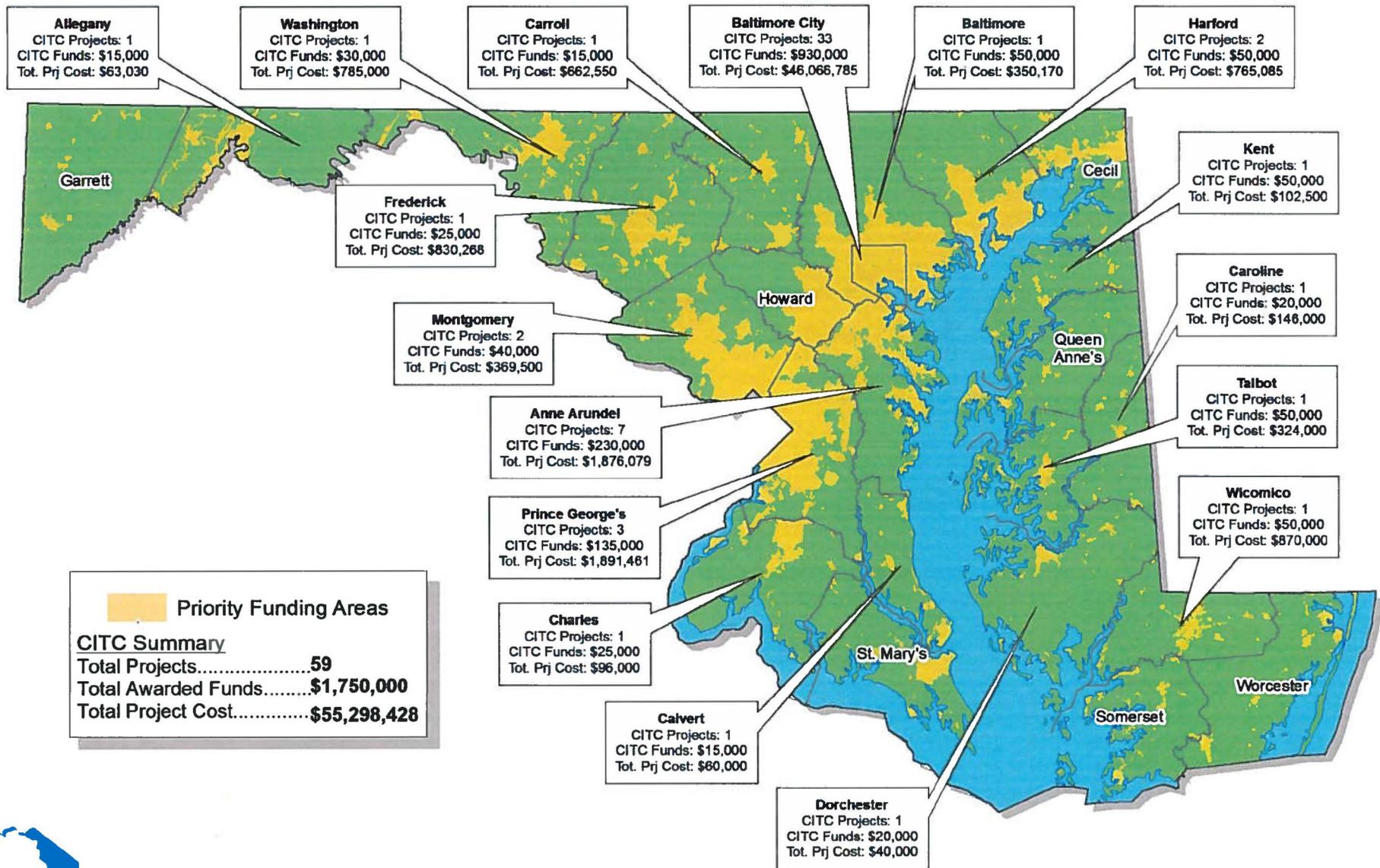
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Baltimore Regional Neighborhoods Initiative (BRNI) FY 2015 Awards



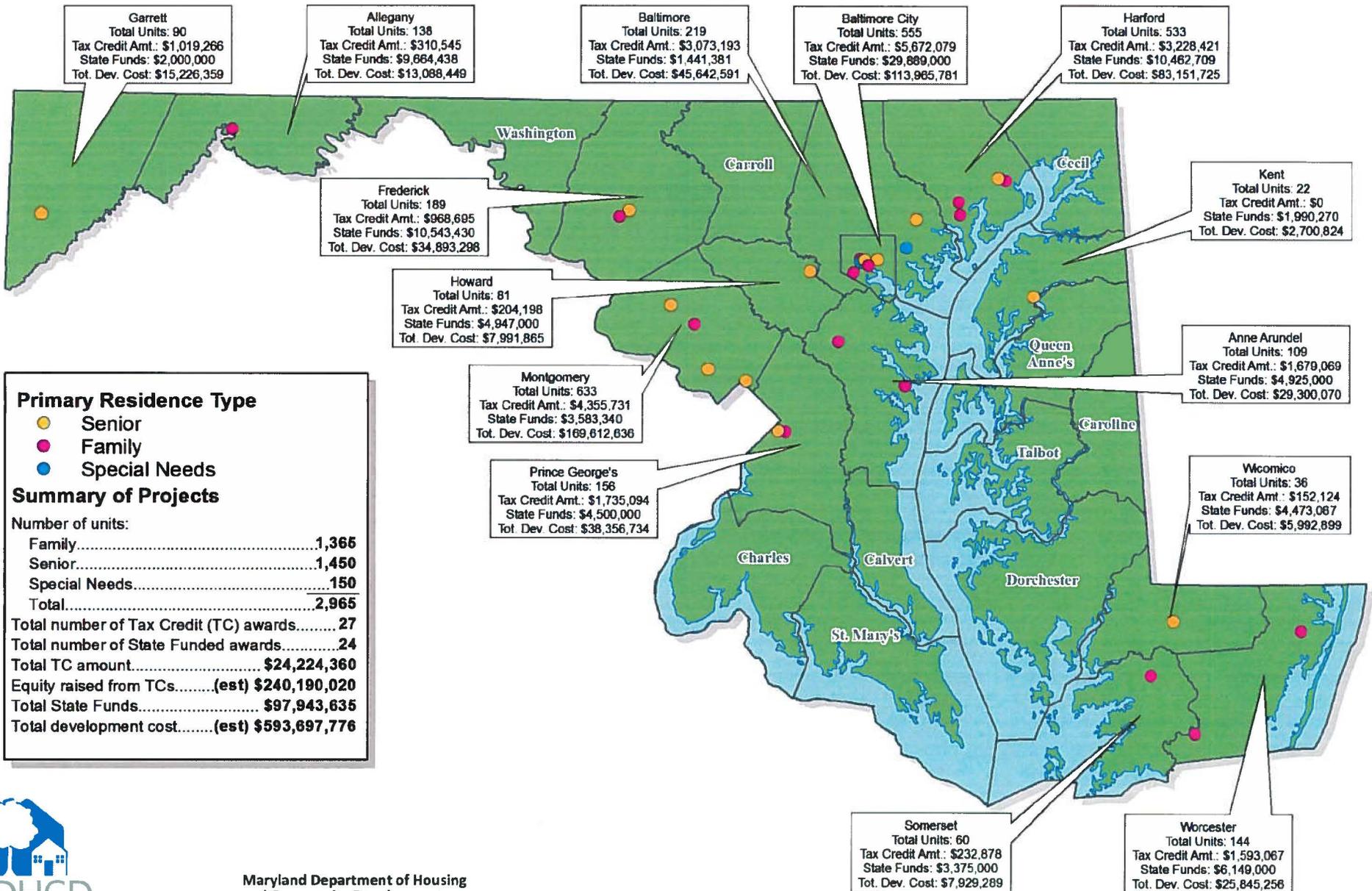
Community Investment Tax Credit Program

Community Investment Tax Credit (CITC) Awards by County FY 2015



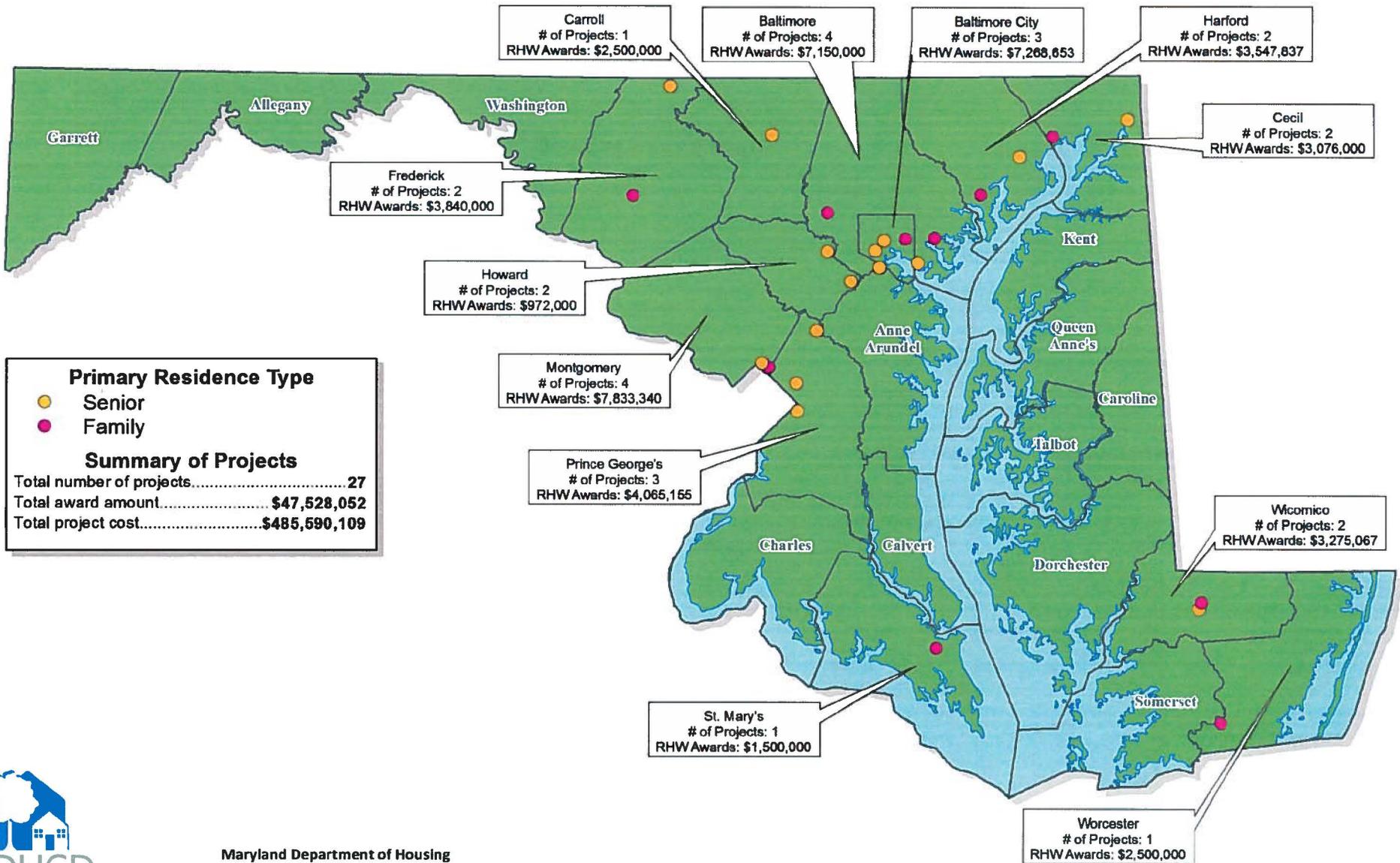
Community Development Administration: Multifamily Projects

Reserved and Closed Projects by County: FY 2015



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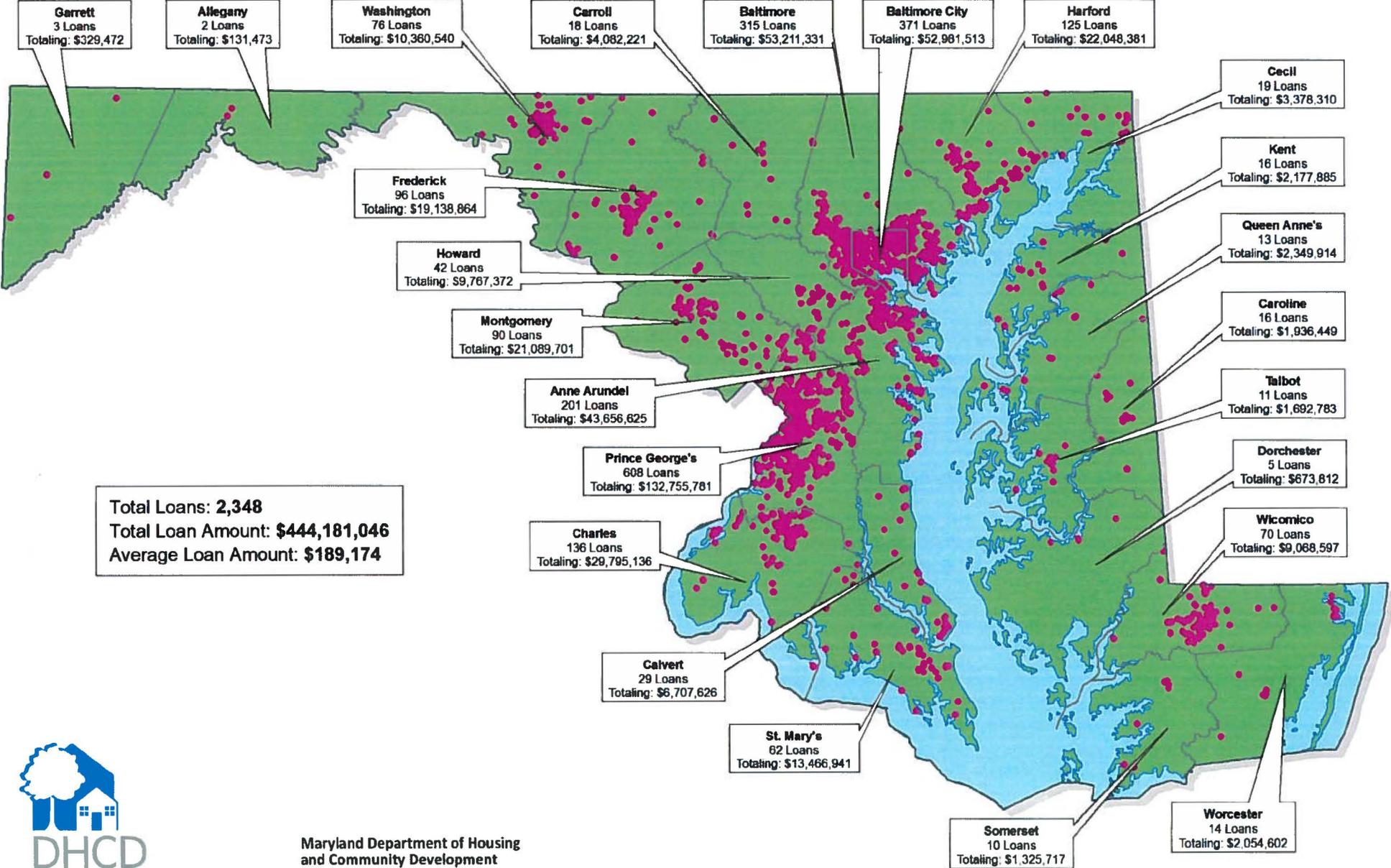
Community Development Administration: Rental Housing Works (RHW) by County: Inception to Present



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CDA Maryland Mortgage Program

Loans purchased by Jurisdiction: FY 2015

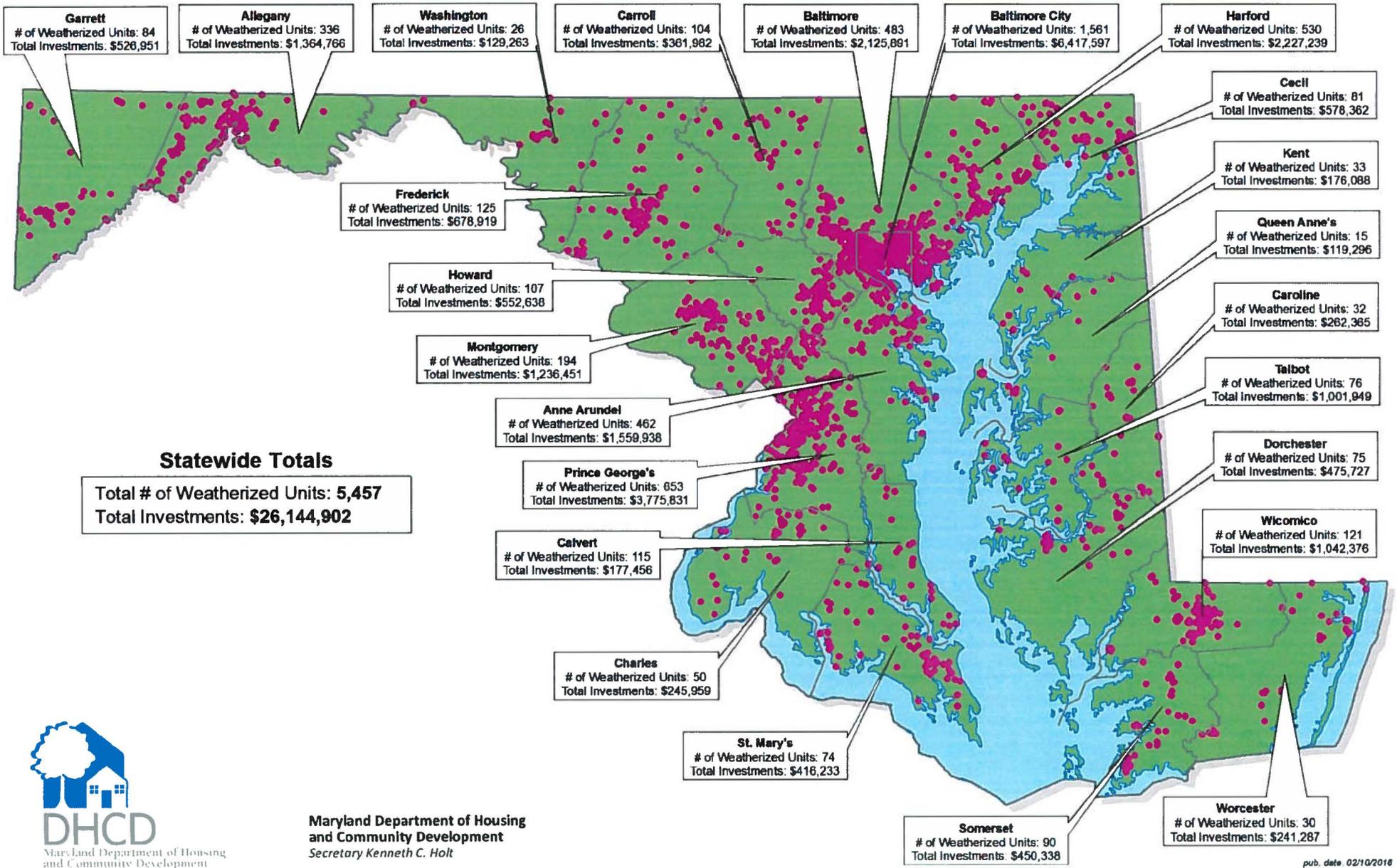


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CDA – Home & Building Energy Programs

Weatherization Assistance and EmPOWER Low Income Energy Efficiency Programs

homes by Jurisdiction: FY 2015



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