



SENATE CAPITAL BUDGET HEARING

Tuesday, February 27, 2018

HOUSE CAPITAL BUDGET HEARING

Wednesday, February 28, 2018

Presentation by the

Maryland Department of Housing and Community Development

Secretary: Kenneth C. Holt



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Governor

BOYD K. RUTHERFORD
Lt. Governor

KENNETH C. HOLT
Secretary

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Response to Department of Legislative Services (DLS) FY 2019 Capital Budget Analysis

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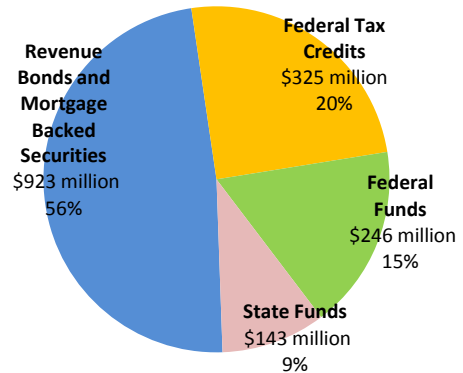
DHCD Highlights

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.

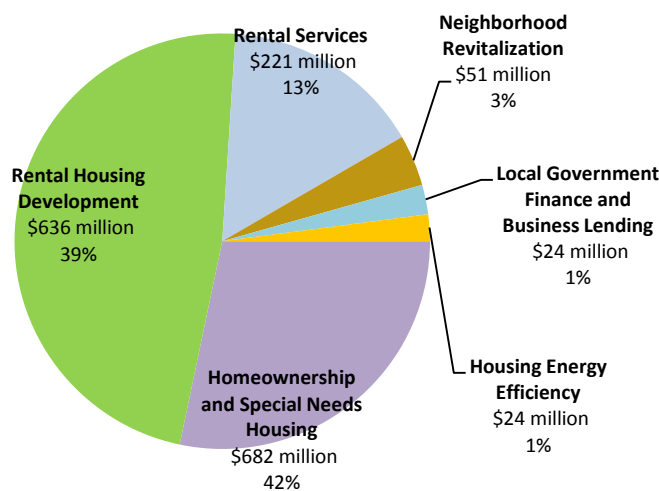
DHCD remains unique in its ability to leverage limited State funds to raise significant amounts of private capital -- spurring economic growth, creating jobs, providing safe affordable rental housing and sustainable homeownership while also revitalizing communities.

State funds on average 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 \$6.2 billion worth of housing, small business, local government infrastructure and revitalization financing using only \$610 million of State funds.

FY 2017 fund sources are shown on the chart to the right. Those funds sources allowed **DHCD to produce over \$1.5 billion of FY 2017 program activity** (see chart below).



DHCD’s programs consistently generate significant total economic impact for Maryland using limited State funding. In FY 2017, every dollar of State funding generated \$24 of economic impact in Maryland - \$3.6 billion in total, supporting more than 17,000 jobs and generating over \$69 million in State and local tax revenues.



FY 2017 DHCD program activity continued to be strong, particularly in multifamily and single family housing. In FY 2017, DHCD financed 4,254 affordable rental housing units; homeownership and special needs housing programs provided over 4,700 loans to Marylanders. The bulk of this higher FY 2017 activity was again funded through revenue bonds and mortgage-backed securities – DHCD’s largest funding source.

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DHCD also produced strong gains in small business lending, energy efficiency improvement programs. 40 small businesses were assisted in FY17, and 5,600 grants or loans were provided to energy efficiency-related projects.

Lastly, Project CORE is having an immediate and impressive impact in Baltimore City. Total state investments of \$33 million in the DHCD application process alone have resulted in redevelopment projects totaling more than *\$250 million* in new investment in the city.

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.

DHCD also manages a **\$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 over **\$1 billion portfolio** of State and federally-funded loans.

DHCD has achieved these FY 2017 results and carried out the ongoing portfolio management with just over 400 positions. In FY 2017 alone, \$3.76 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 existing personnel or other operating costs that cover new production and asset management of the existing portfolio.

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Issues/Updates

1. **Discuss setting goals for affordable housing shortage** (*page 23 of DLS Capital Analysis*)

DLS Recommendation: DLS recommends that DHCD establish specific goals for reducing the affordable housing shortage in the State.

DHCD Response:

DHCD has the proven ability to ramp up production through its creative use of State and Federal financing programs. As noted above, without DHCD's investments in affordable rental housing and homeownership, the shortage would be even more severe. That said, the reduction of the remaining shortage of affordable housing requires a sustained and increased investment in both affordable rental housing production, rental assistance, and down payment assistance.

Continued State and Federal investments in DHCD's multifamily rental housing finance programs have a proven track record of creating affordable and high quality housing. For decades, DHCD's rental financing programs have shown the ability to provide rental assistance and produce thousands of units of affordable housing every year for low- and moderate-income households. In addition, DHCD has also proven the ability to "scale up" its response to produce additional quality, affordable housing when additional funding is made available.

The following examples demonstrate DHCD's ability to boost production and create new programs with additional investment of State resources:

- The Rental Housing Works program has driven a dramatic increase in annual unit production by more than tripling annual bond issuances (and thereby leveraging significant 4% LIHTC equity) from an annualized average of approximately \$60 million to \$200 million.
- DHCD has created a number of rental assistance programs for special populations. Programs like Section 811 and MFP Bridge work with persons with disabilities. Specifically, Section 811 provides project-based rental assistance; while MFP Bridge houses individuals who are currently institutionalized so participating persons can have their health care needs met in the community rather than in an institution. New Futures, DHCD's newest rental assistance program, provides 12 months of rental assistance to victims of domestic violence, sexual assault, sex trafficking, or youth aging out of foster care who are victims of abuse or neglect.
- DHCD has leveraged state-funded DPA programs with other private, federal and other funding sources to create a full menu of mortgage products to serve the diverse needs of home buyers in Maryland.

A sustained, continuing investment by the State and Federal governments in DHCD's core housing production and rental assistance programs will have a significant impact on reducing the affordable

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housing shortage. For example, recent production increases brought about by Rental Housing Works and other State investments have enabled DHCD to dramatically increase annual unit production levels while continuing to sustain its rental assistance programs. If these investments are maintained, over the next 30 years DHCD should be able to double its overall affordable housing portfolio from approximately 65,000 units to 120,000 units, and maintain its rental assistance portfolio (which is largely funded by the Federal Government) at 25,000 units. While increasing the supply of rental housing is crucial to ensuring that we are meeting the housing needs of families in the state, reducing the barriers to homeownership also relieves pressure on the affordable rental stock by allowing families to move through the continuum.

2. **Discuss Ellicott City funding** (*page 26 of DLS Operating Analysis*)

DLS Recommendation: DHCD should comment on the anticipated disbursement of remaining funds. DLS also recommends that the budget committees adopt annual language requiring DBM, in consultation with DHCD, to submit a report providing the aggregate status of all outstanding loans and the status of current and proposed repayments to the CEA and the SMWOBA by January 22, 2019. This recommendation is contained in the analysis of the State Reserve Fund.

DHCD Response:

In July 2016, Ellicott City was struck with a natural disaster/flooding event. Over the following days and weeks of the recovery, Governor Hogan deployed funding to DHCD to assist small businesses impacted by the event.

In total, DHCD received \$4,812,500 from two sources:

\$2,500,000: Catastrophic Event Fund

\$2,312,500: The Small, Minority and Women-Owned Business Account (the administrative expense was reduced to \$0)

Utilizing the two fund sources, DHCD provided over \$3.1 million in loans to Ellicott City businesses, and has fully exhausted all potential applicants to ensure the need is, and has, been met. The Department is extremely satisfied with the response to the event, and feels confident that the funding served its purpose: to quickly provide emergency funding to businesses in need, to ensure they had adequate resources to re-build and re-open as soon as possible.

As the need for the funding has slowed, any funds not used for a loan to close by June 30, will be returned to the SMWOBA. The current estimate, as of today, to be returned to the Fund is \$1.595 million.

With regard to the \$3.1 million in loans closed; all current loans are performing, and in good standing.

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Below is a summary of the current, active loans:

Fund source	Amount provided to DHCD	Total amount loans closed	# loans	Of loans closed, total amount disbursed	Remaining to be disbursed
CEF	2,500,000	2,450,000	30	2,382,235	67,765
SMWOBA	2,312,500	717,000	7	436,053	280,947
					348,712

As of February 23, 2018, out of the loans that have gone to closing, only \$348,712 remains as undisbursed. The undisbursed funds are tied to three specific projects/loans that are all being disbursed in construction draws. All three projects are nearing completion and we expect all remaining funds to be disbursed by April 30, 2018.

Lastly, DHCD respectfully agrees with the recommendation for a report on the aggregate status of all outstanding loans, and repayments to the CEA and SMWOBA.

3. Targeted Communities Investment Fund *(page 15 of DLS Operating Analysis)*

DLS Recommendation: DHCD should comment on why Commerce and MEDCO were not involved with the creation of the report requested in the JCR. DHCD should also comment on why it has ignored the recommendation of the Maryland Smart Growth Investment Fund workgroup to create a dedicated fund and why its JCR report does not provide a plan for funding the TCIF as requested.

DHCD Response:

The Department of Housing and Community Development (“DHCD”, “Department”), believes that creating a flow of investment capital into the traditionally underserved areas, i.e. sustainable communities and priority funding areas, is very important.

DHCD and Commerce staff consulted on the preparation of the JCR report during the period from April through September of 2017.

From the beginning, DHCD and Department of Commerce were asked to provide the initial seed capital into the MTCIF on the terms that DHCD found to be directly in line with the strengths of the Department. DHCD is a very efficient lender for the types of projects that the work group intended to fund. As the analysts working on the feasibility study and capital formation for the Fund found out, the availability of private capital for equity investment into MTCIF was non-existent and the credit or lent

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capital was only partly available conditioned on the State funding the riskiest share of the Fund investment. The cost structure of setting up and running the previously proposed Fund was considerably higher than what DHCD could achieve through its existing relationships and infrastructure. DHCD communicated its plans and concerns to MTCIF working group, including Medco and its consulting team, all throughout this process.

The Department has undertaken strong marketing, business development and capital formation efforts for the growth of the Neighborhood Business Loan Program under the expanded NBW program authority. The Department is well positioned to raise private capital through debt issuance for this program relying on our strong underwriting and asset management expertise and leveraging owner contributions or equity investments at the project levels. Over the course of one year DHCD has built up a pipeline of over \$10 million in senior loan assets that it intends to securitize through private placements with investors. These \$10 million in senior loans are paired with \$5.7 million in thoroughly underwritten subordinate financing leveraging additional \$4.5 million in equity and owner contributions. This brings us to over \$20 million worth of projects initiated in the course of 1 year.

The Department is using its existing NBW loan and asset management systems, infrastructure and experts as well as third-party custodian services. DHCD retained a bond counsel and prepared an SEC-compliant set of offering documents at no cost to the program funds. All of these efficiencies result in lower setup and operating costs to the funded projects than the previously proposed public-private MTCIF structure.

To recap, the main reasons for choosing the DHCD-centric execution for the intent of the working group:

- The MTCIF was proposed as a loan fund, with no clearly identified equity investment commitments from private and non-for-profit entities.
- All efforts to form the Fund as an equity were unsuccessful and the \$500,000 spent to conduct the feasibility study and formalize the formation of the Fund had only led to partial lending commitments (up to 10%) from a couple of investors, making the DHCD and the Department of Commerce the largest contributors to the Fund. The Fund, in fact, was turning out to be a state-government-sponsored entity.
- The pace of expending the funds for organizational expenses and the resulting outcomes did not yield a lot of confidence that the Fund could deploy committed capital to fund specific eligible projects in short order, which would have led to further management fees and start-up expenses.
- No formal SEC compliant offering documents had been developed to attract private sector equity or debt investors. This would have required upfront capital. If the Fund was going to be capitalized with borrowed capital, investors would have required current return and standby undrawn commitment costs that may have led to considerable expenses ahead of any revenue coming from successful projects.

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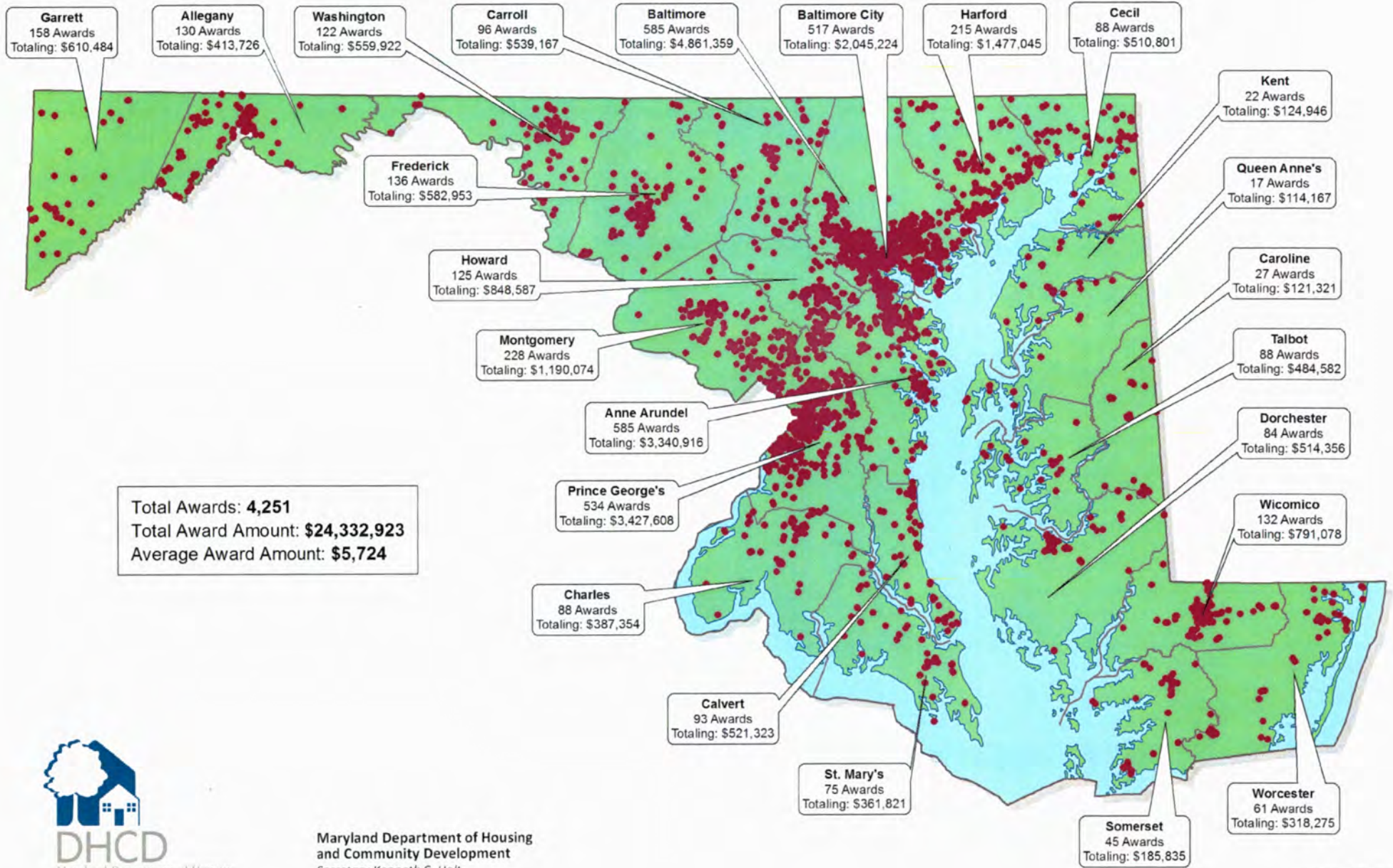
The Department has a successful track record of project financings relying on private sector project underwriters and its own real estate and financing underwriting teams, including real estate and bond counsel, and independent financial advisors. The Department reviews all external underwriting for operating and financing feasibility at the project level.

The Department continues to be ready to pursue a private-public partnership with Medco, Department of Housing and Community Development, Department of Commerce and MTCIF where the Department will co-fund specific projects as a senior secured lender and possibly subordinate lender if the project underwrites to the Department's standards. This approach will optimize financing of projects that the private sector typically is not interested in funding on reasonable terms. It will also right-size the use of State resources.

Housing & Building Energy Programs

Single Family Weatherization and Energy Efficiency Programs

Awards by Jurisdiction: FY 2017

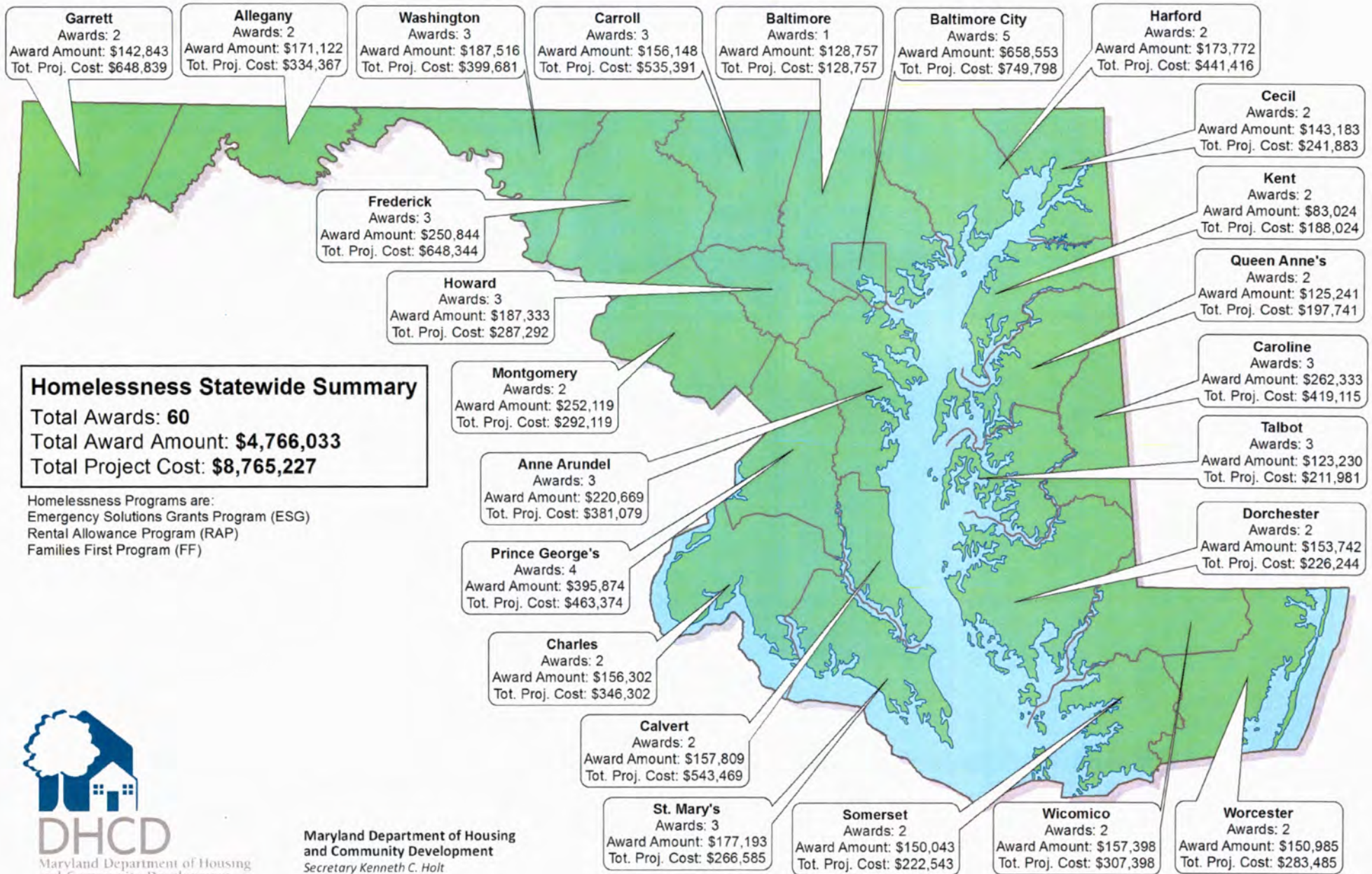


Total Awards: 4,251
Total Award Amount: \$24,332,923
Average Award Amount: \$5,724



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Helping with Homelessness Programs by Jurisdiction: 2017



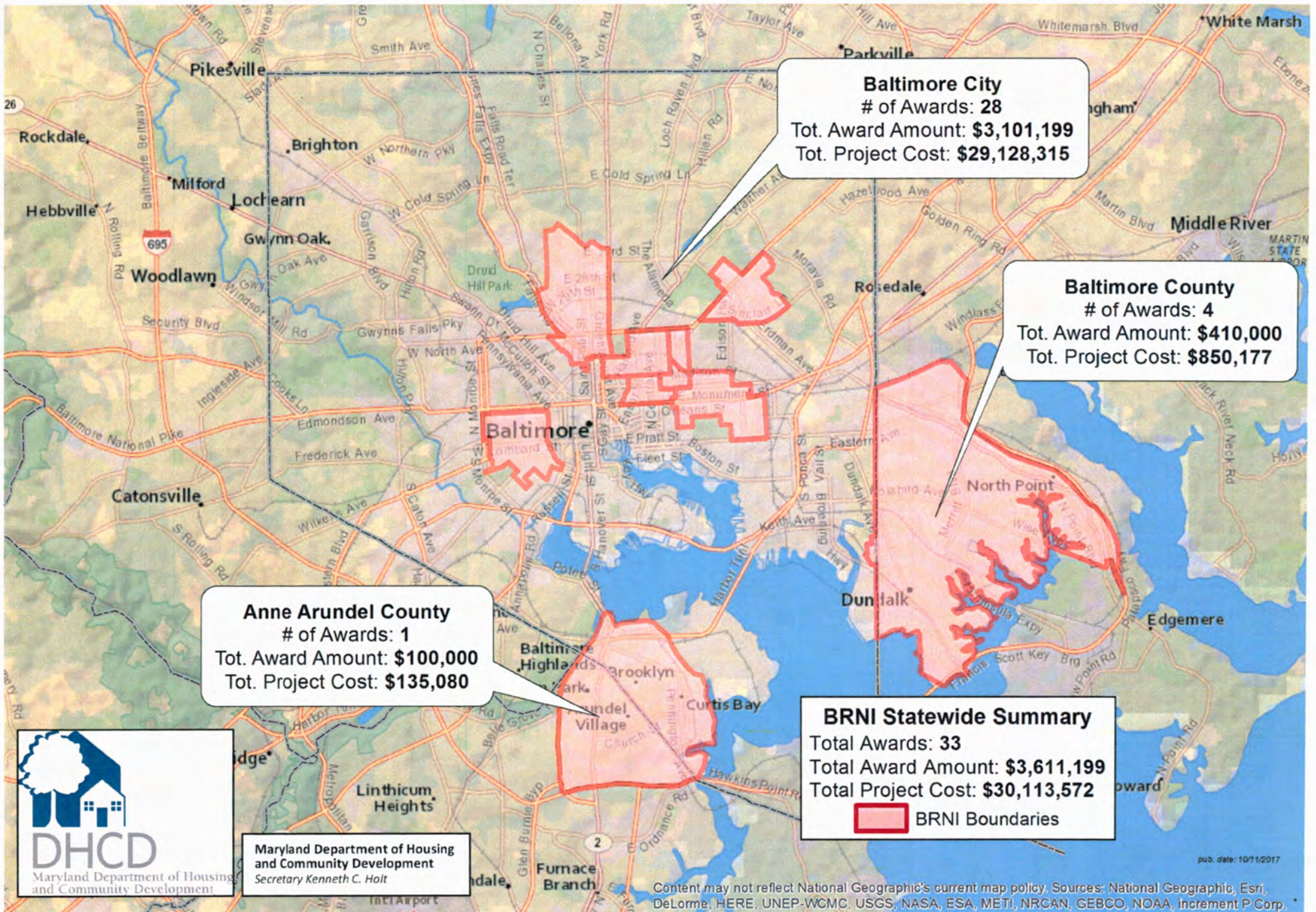
Homelessness Statewide Summary
 Total Awards: 60
 Total Award Amount: **\$4,766,033**
 Total Project Cost: **\$8,765,227**

Homelessness Programs are:
 Emergency Solutions Grants Program (ESG)
 Rental Allowance Program (RAP)
 Families First Program (FF)



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Baltimore Regional Neighborhoods Initiative (BRNI) FY 2017 Awards



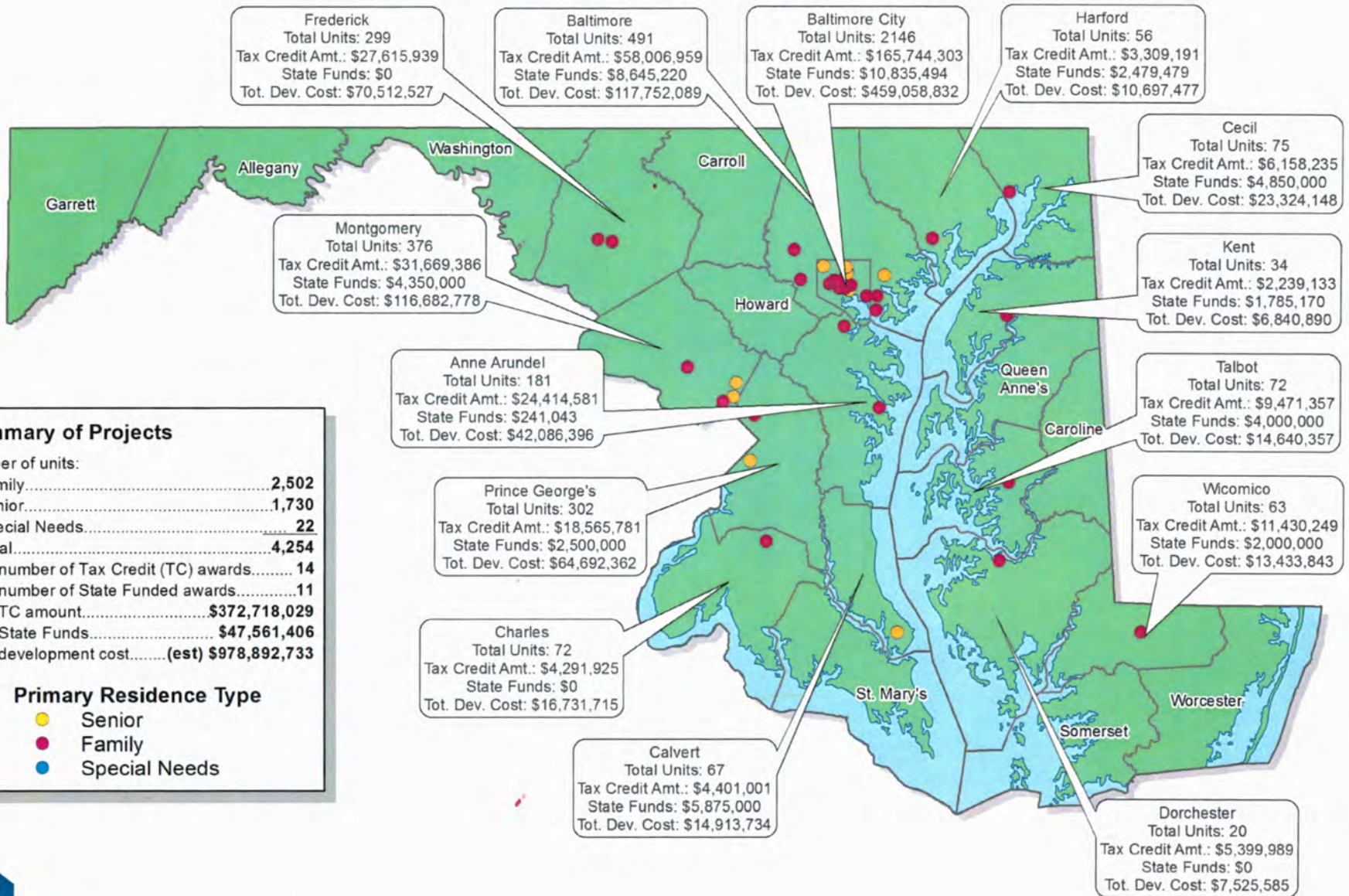
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pub. date: 10/11/2017

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Community Development Administration: Multifamily Projects

Reserved and Closed Projects by County: FY 2017



Summary of Projects

Number of units:

Family	2,502
Senior	1,730
Special Needs	22
Total	4,254

Total number of Tax Credit (TC) awards..... 14
 Total number of State Funded awards.....11
 Total TC amount.....\$372,718,029
 Total State Funds.....\$47,561,406
 Total development cost.....(est) \$978,892,733

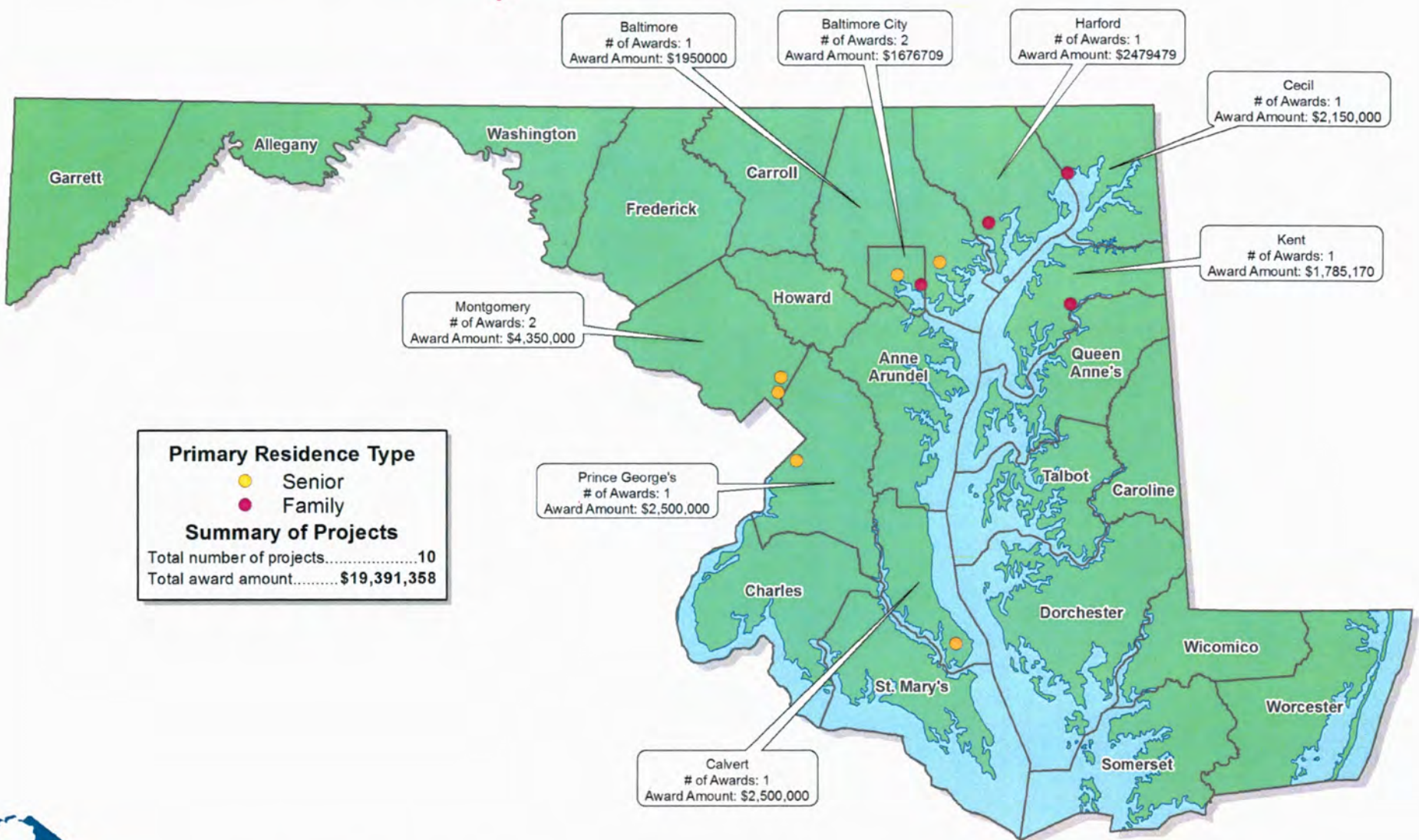
Primary Residence Type

- Senior
- Family
- Special Needs



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Community Development Administration: Rental Housing Works (RHW) by County: FY 2017



Primary Residence Type
 ● Senior
 ● Family

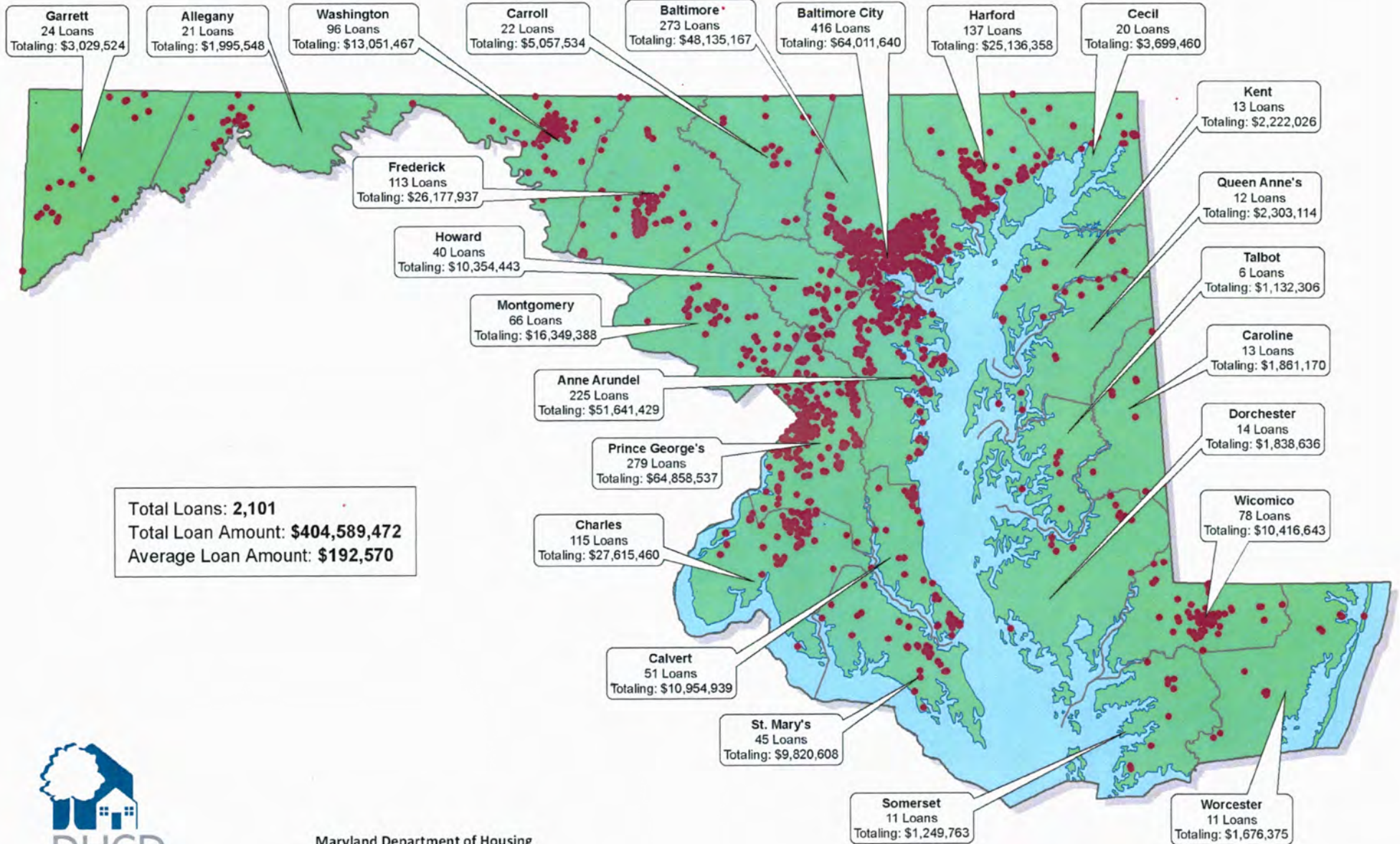
Summary of Projects
 Total number of projects.....10
 Total award amount.....\$19,391,358



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CDA Maryland Mortgage Program

Loans purchased by Jurisdiction: FY 2017

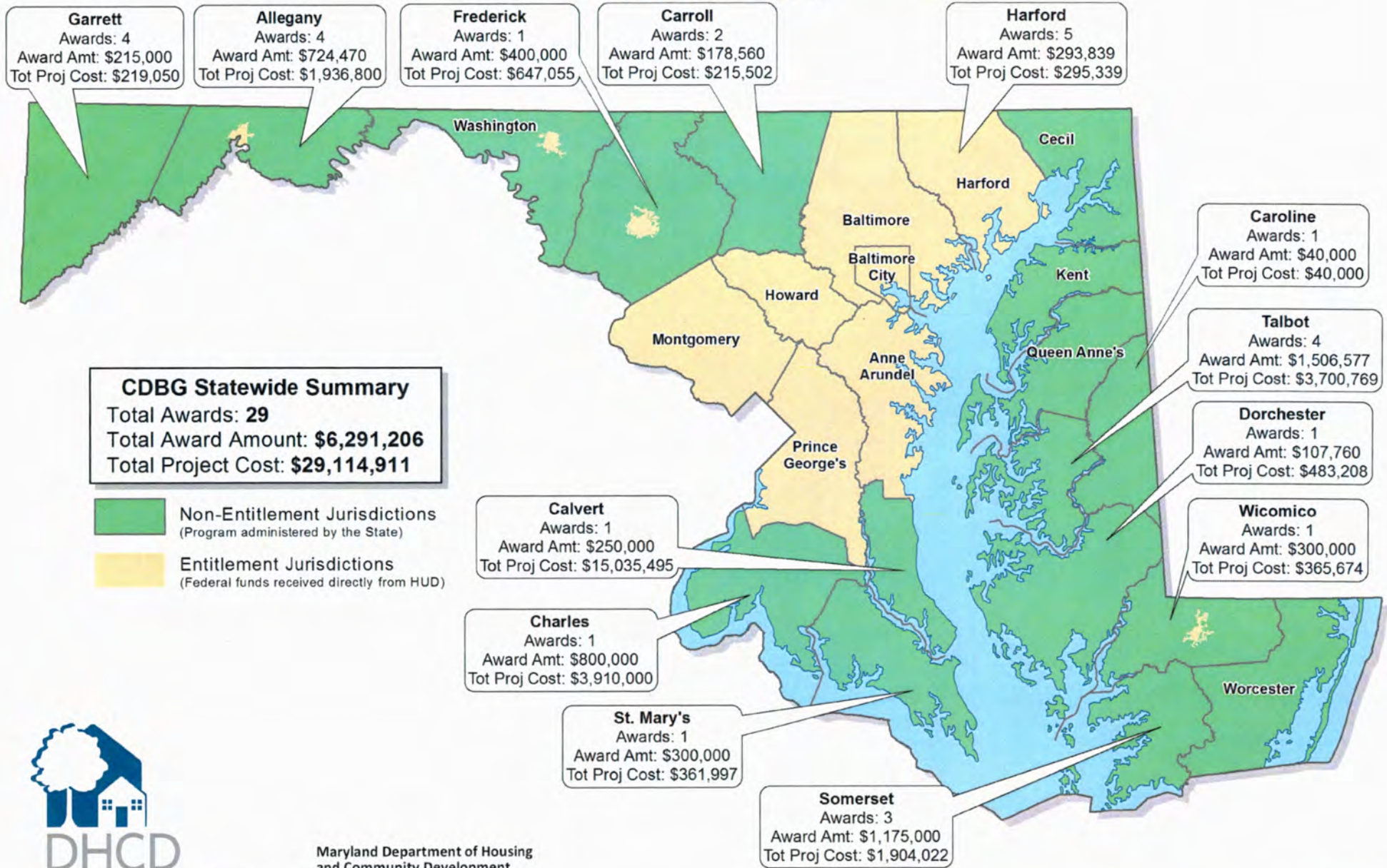


Total Loans: **2,101**
 Total Loan Amount: **\$404,589,472**
 Average Loan Amount: **\$192,570**



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Community Development Block Grant by Jurisdiction: FY 2017

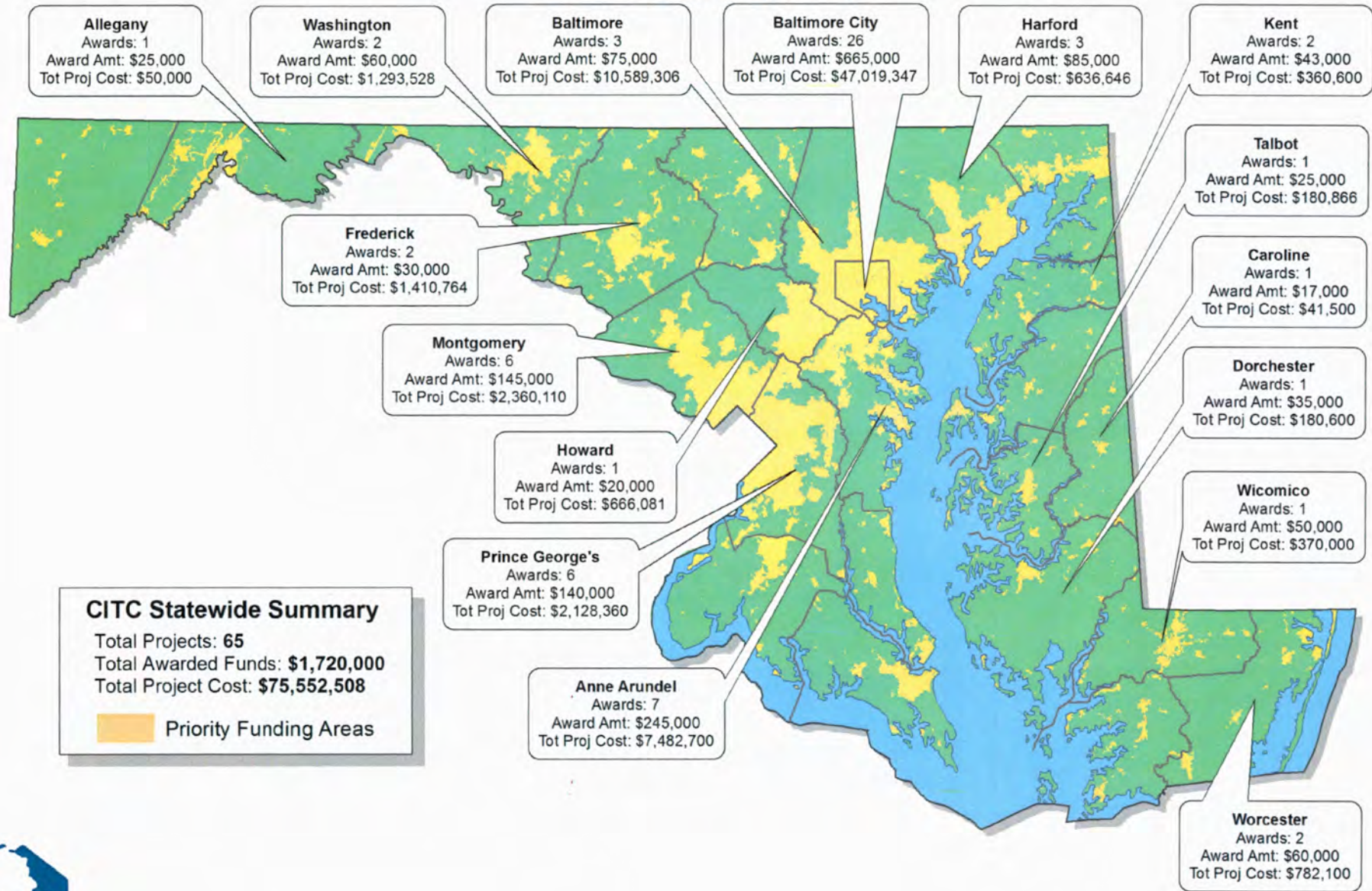


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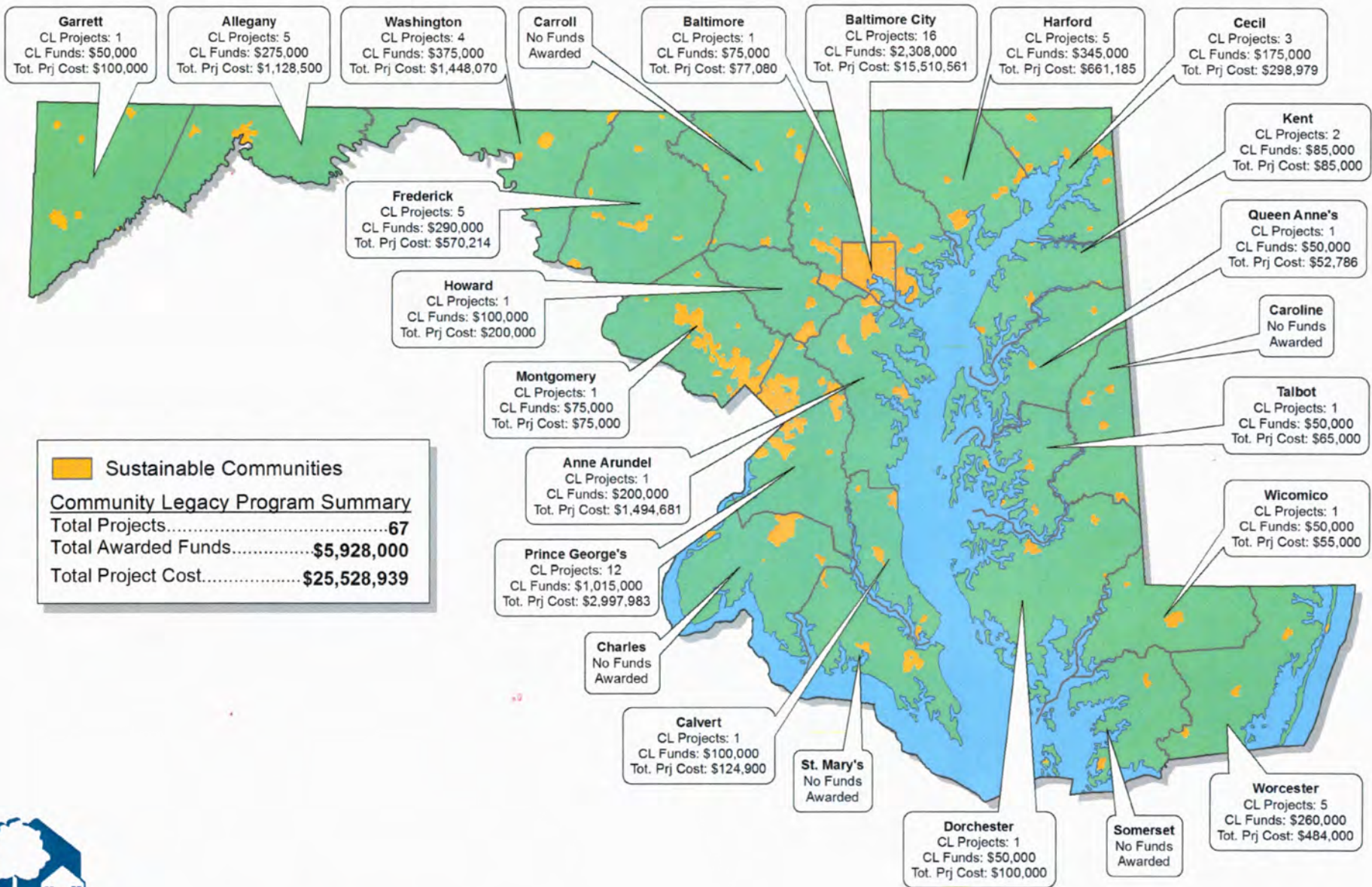
Community Investment Tax Credit Program

FY 2017: Awards by County



Community Legacy Program

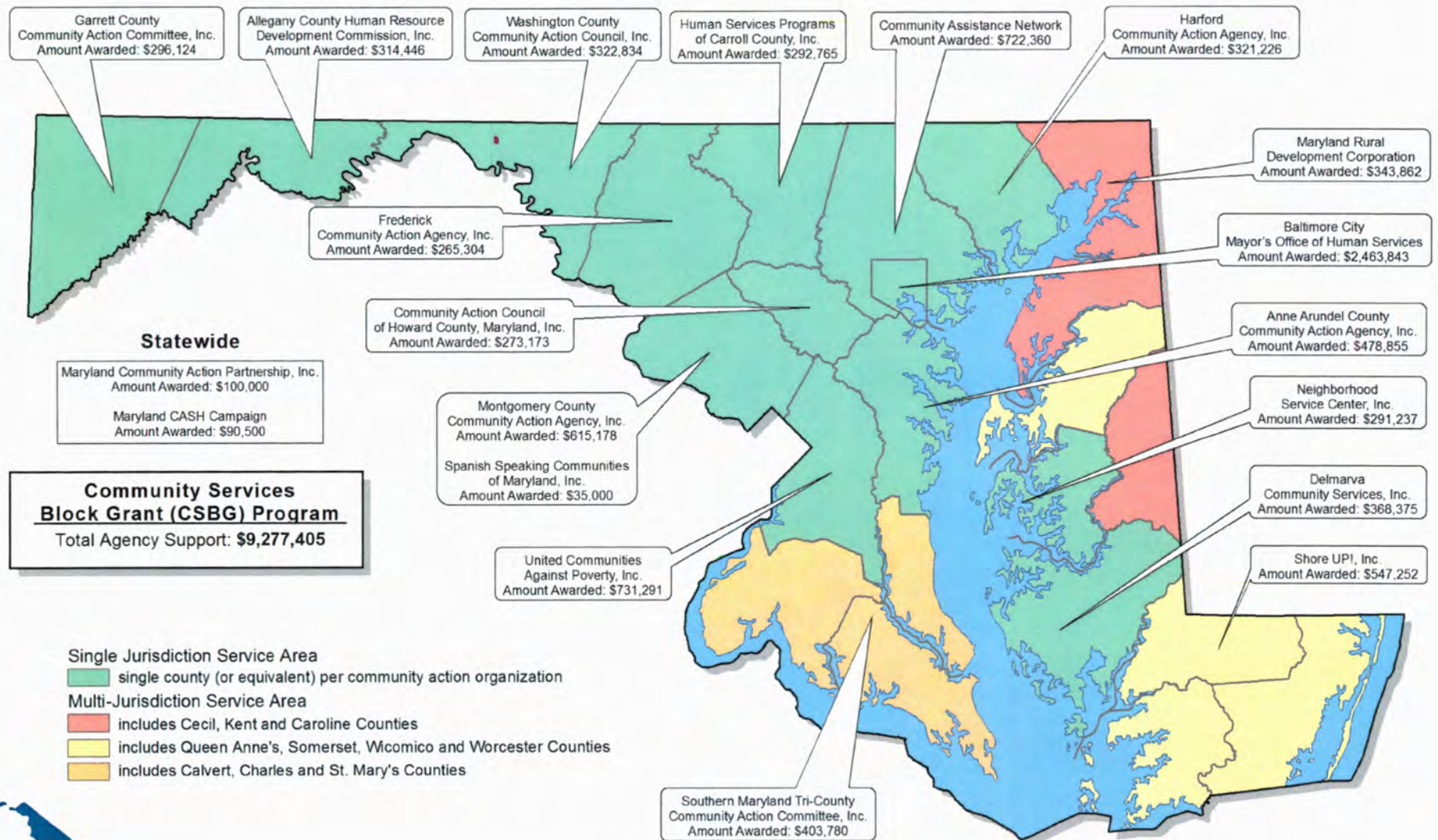
Community Legacy (CL) Awards by County FY 2017



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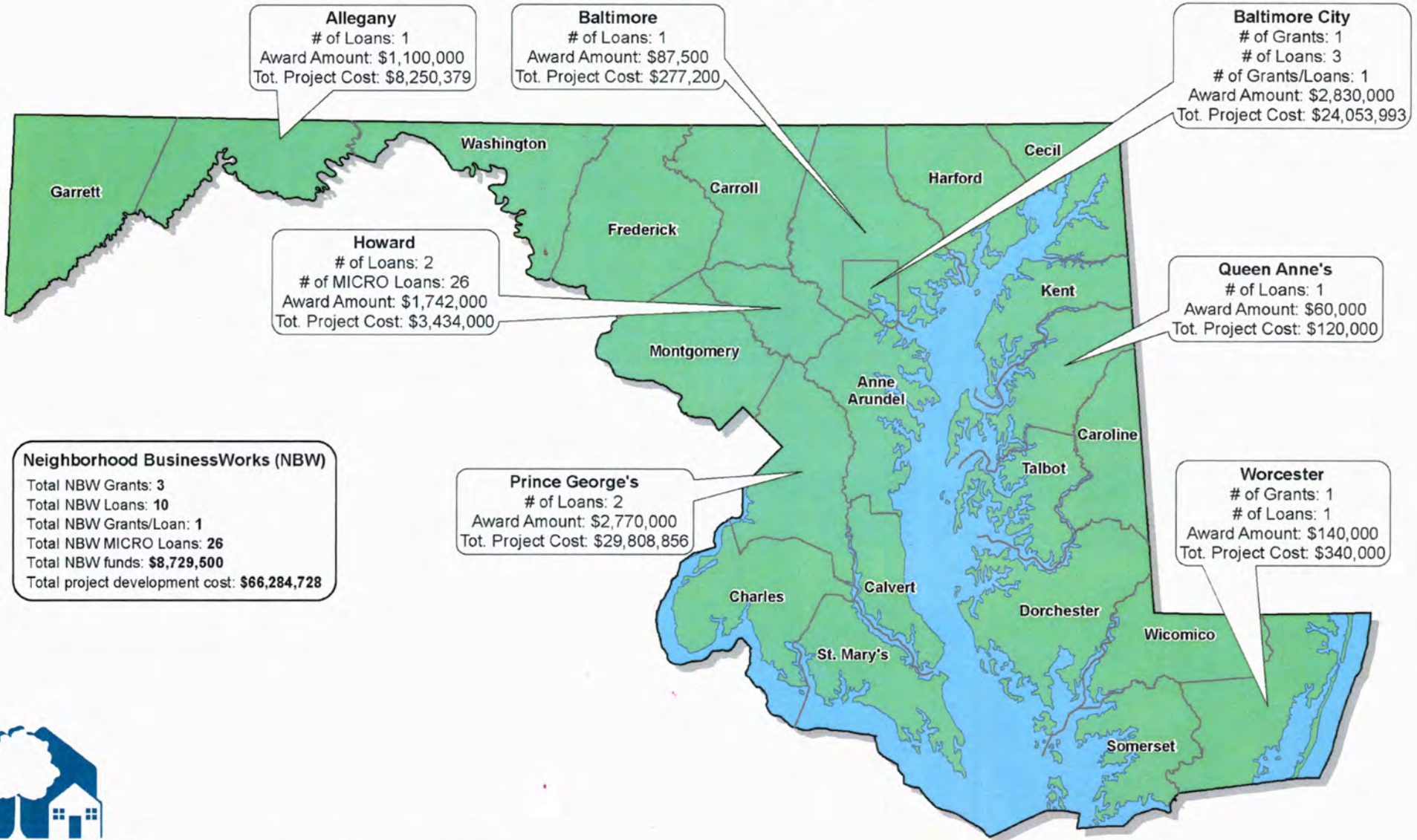
Community Services Block Grant Program: Awards By Community Action Organization

Federal FY 2017



Neighborhood BusinessWorks

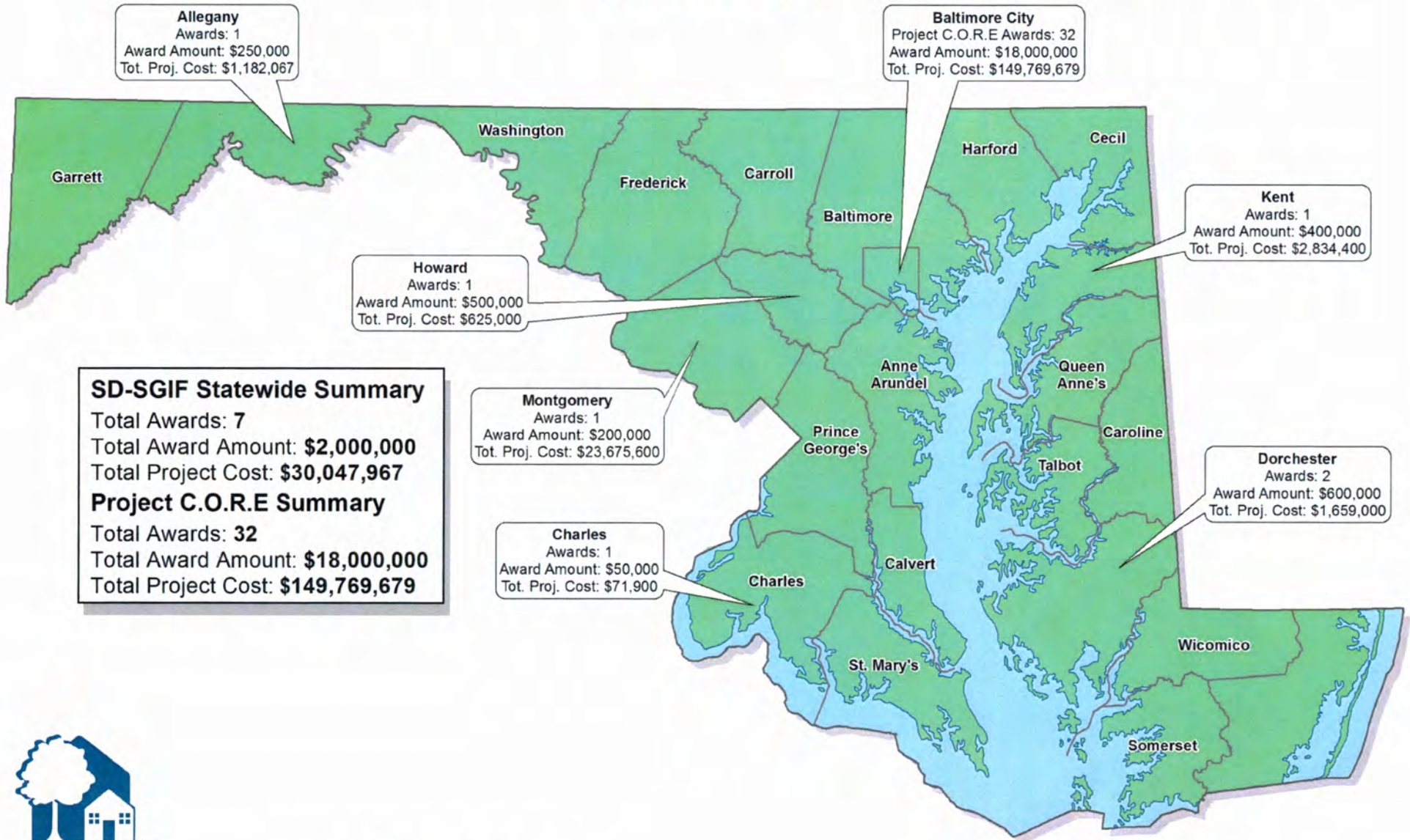
Grants and Loans: State FY 2017



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Strategic Demolition and Smart Growth Impact Fund (SD-SGIF) & Project C.O.R.E by Jurisdiction: 2017



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