



HOUSE OPERATING BUDGET HEARING

Wednesday, February 14, 2018

SENATE OPERATING BUDGET HEARING

Thursday, February 15, 2018

Presentation by the

Maryland Department of Housing and Community Development

Secretary: Kenneth C. Holt

Deputy Secretary: Tony Reed



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DHCD Highlights

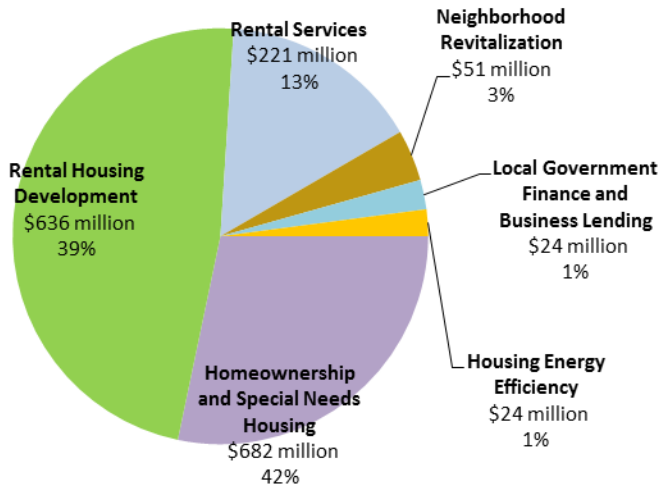
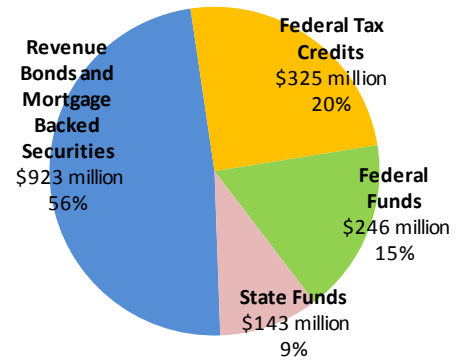
DHCD works with partners to finance and support affordable and energy-efficient homeownership, rental housing, small businesses, neighborhood revitalization and municipal infrastructure projects that change Maryland for the better.

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.

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.

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

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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 status and impact of transfer of homelessness programs from DHS** (*page 10 of DLS Operating Analysis*)

DLS Recommendation: DHCD should comment on the status of the move of the programs from DHS and how the move has impacted the provision of services.

DHCD Response:

On July 1 2017, the Bureau of Homeless Services (BHS) was transferred from the Department of Human Services (DHS) to the Department of Housing and Community Development (DHCD). Included in the transfer were four (4) programs totaling \$4.49 million in General Revenue funding, the Interagency Council on Homelessness (ICH), and four staff positions. These programs joined two (2) existing homelessness programs at DHCD. Grantees of the four DHS programs are awarded funds beginning July 1 of each year. There was no lapse and disruption of services as it was decided by DHS and DHCD to extend existing grant agreements for all DHS grantees through SFY 2018. This allowed DHCD to have time to fully integrate the four programs within the Department with a goal of developing a streamlined process for implementation for the SFY2019 grant cycle.

DHCD is currently in the process of combining existing regulatory language for six (6) programs into a consolidated set of regulations for all related homelessness programs.

This will accomplish a number of things, including:

- Alignment with nationally recognized best-practices;
- Create one (1) consolidated application;
- Streamline the reviewing and awarding of funds to eligible entities; and
- Achieve internal efficiencies in the administration of multiple grant programs.

The draft regulations will soon be ready to transmit to the Joint Committee on Agency, Executive and Legislative Review (AELR) for review. Staff is concurrently developing a consolidated approach to grant proposals and administration.

The four (4) former positions from DHS have fully integrated into the Department and the name of the Bureau is now the Homelessness Initiatives Team within the Division of Neighborhood Revitalization. Additionally, the Interagency Council on Homelessness has met four times under the leadership of Secretary Kenneth C. Holt. The Bureau of Homeless Services Transition Team held its first meeting on November 29, 2017 to provide initial input and recommendations on the transition process. The next meeting is scheduled to be held once the draft language has been approved by AELR.

2. **Impact of the loss of Energy-related funding, and discuss possible replacement funding** (*page 17 of DLS Operating Analysis*)

DLS Recommendation: DHCD should comment on the impact of the loss of these funding sources (SEIF and CIF) and discuss the possibility of short-and long-term replacement funding.

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DHCD Response:

The Department has had an impressive track record of delivering energy efficiency improvements for Marylanders. DHCD expects to exceed its annual goal of assisting 3,000 single-family homes with energy efficiency improvements through our various energy assistance programs – managing through shifts in the availability of funding sources, and leveraging those funds with one another, maximizing the delivery of those benefits to Marylanders.

The EmPOWER-funded LIEEP program was again awarded \$83M for weatherization, \$63M for single family housing and \$20M for Multifamily projects. This is a 3 year award (2018-2020), and the Department expects to spend an estimated \$20M in FY 2019 based on this award.

The annual award Maryland receives from the US DOE Weatherization Assistance Program (WAP) is \$2.2M from our approved allocation. These funds will provide for weatherization in areas that EmPOWER cannot perform work. These funds will also be used to leverage other sources. The US DOE award maximizes DHCD's effectiveness in servicing low income Marylanders with weatherization. The DOE WAP funding level in FY 2018 was an anomaly, as a four year cycle ended in June 2017 based on a grant of \$5.3M. DHCD expects the annual award to continue into the future at the normal, annual award amount.

The Department is actively reviewing other funding sources with state agencies to determine availability, timing, program requirements, and leveraging opportunities, with the full expectation that additional funding will be made available to DHCD for energy efficiency-related projects.

3. Discuss the process for designating Opportunity Zones (page 15 of DLS Operating Analysis)

DLS Recommendation: DHCD should comment on its process to date for designating Qualified Opportunity Zones.

DHCD Response:

DHCD is working with sister agencies to analyze eligible census tracts to identify areas of significant economic development potential for the Governor's consideration. Based on federal guidelines, the state of Maryland will be able to nominate 148 census tracts. The Governor will submit census tract nominations to the US Treasury Secretary.

Recommended Budget Actions:

1. Reduce funds for the rural broadband initiative by \$1m (*page 19 of DLS Operating Budget Analysis*)

DLS Recommendations: Reduce funds for the rural broadband initiative in the Office of the Secretary (\$1m). The remaining funds (\$1m) should be sufficient to launch the program.

DHCD Response:

DHCD respectfully disagrees with this recommendation. DHCD requests the full \$2 million remain in the FY19 budget. These funds will be a critical resource for the state to begin addressing rural broadband accessibility. Over 64,000 Marylanders have no access at all; over 339,000 people have either no access or only one provider, which can often be unaffordable. Cutting the program at the onset will either delay or stall the overall initiative.

Utilizing departmental loan programs, grant resources, and State funded appropriations, the Department will develop a program to implement the recommendations of the *Task force on Rural Internet, Wireless and Cellular Service* (Senate Bill 717/House Bill 1169 – Connecting Rural Maryland Act of 2017). DHCD will work with the Department of Information Technology (“DoIT”) and the Governor’s Office of Rural Broadband to provide adequate and scalable broadband service to un-served and underserved rural areas in Maryland.

Possible DHCD Funding Scenario:

- CDA will issue bonds and lend the proceeds to participating incorporated local governments in order to fund broadband network capital asset improvements.
- The capital assets will be owned, operated, and maintained by the local government and benefit the public service system.
- Local governments will extend adequate security pledge(s) sufficient to secure “Aa” range bond credit ratings. Security pledges may include, but are not limited to:
 - A full faith and credit general obligation pledge
 - A State-aid- intercept pledge
 - Other revenue pledges
- Fixed rate taxable execution.
- 20 year loan term. Loan term dependent on the useful life of the asset
- State appropriation totaling \$2 million will be directed to fund a DSRF and/or cover COI in order to support bond issuance.

2. Restrict \$1m of appropriation made available for the expansion of rural broadband access (*page 19 of DLS Operating Budget Analysis*)

DLS Recommendations: Add the following language to the general fund appropriation:

...provided that \$1,000,000 of this appropriation made to expand rural broadband access may not be expended until the Department of Housing and Community Development submits a report to the budget committees detailing a plan for the use of the funds to support the Office of Rural Broadband. The report should also include the goals and priorities of the project. The budget committees shall have 45 days to review and comment. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted.

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DHCD Response:

DHCD respectfully agrees to this recommendation. DHCD will supply the required report as soon as possible, and provide the details requested.

LAWRENCE J. HOGAN JR.
Governor

BOYD K. RUTHERFORD
Lt. Governor

KENNETH C. HOLT
Secretary