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

## DHCD CAPITAL BUDGET ANALYSIS

## DLS ISSUES/RECOMMENDATIONS & DHCD RESPONSES



**Appendices**

- **Economic Impact of DHCD's Programs**
- **Maps of DHCD Program Activity**

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## Recommended Budget Reductions

**1. Homeownership Programs** *(pages 11-12 of DLS Analysis)*

**DLS Recommendation: DLS recommends deleting $9 million in GO bonds for homeownership programs. Of this amount, DLS recommends that $7 million be replaced by general funds restricted from the PSCP. The $2 million difference would be a reduction of the $1 million earmarked for the Net Zero Homes program and a $1 million reduction in the Downpayment Settlement Expense Loan Program (DSELP).**

**DHCD Response**: DHCD respectfully does **not concur** with the DLS recommendation to reduce DSELP by $1 million and the NetZero Homes program and requests that the General Assembly approve the full Governor's Allowance for the Homeownership program.

**Downpayment and Settlement Expense Program (DSELP)**

A $1 million cut to DSELP funds means the loss of about $35 million in private capital for the first mortgage through the Maryland Mortgage Program (MMP), as DSELP is only offered in conjunction with MMP first mortgages. MMP homeowners are also able to take advantage of the federal mortgage credit certificate program, which provides a federal tax credit of up to $2,000 for each year that the MMP borrower owns the home.

Further, the proposed cut will have a negative impact for potential Maryland first-time homebuyers and the housing market in the State's older communities that need the most assistance in recovering from the housing crisis. MMP allows families to reduce their housing costs - **the typical MMP homeowner has a total mortgage payment between $1,200 and $1,400, which is often less than monthly rent costs before the income tax advantages of homeownership.**

First-time homebuyers play a pivotal role in the housing market. There continues to be strong pent-up, post-recession demand from first-time homebuyers. An MMP loan also often results in two housing transactions, since the sale of a home to a first-time homebuyer often is the result of the existing homeowner purchasing another home. The combination of MMP and DSELP provides sustainable homeownership opportunities for working class households that can spur investment, fill vacant properties, stabilize neighborhoods and improve overall economic conditions, particularly in neighborhoods hit hard by foreclosure, such as Prince George's County and Baltimore City. Homeownership is an investment in families and neighborhoods and helps to stabilize local governments' tax base.

The importance of homeownership, particularly in designated Sustainable Communities, was integral to Speaker Busch's 2014 request to the Sustainable Growth Commission to form the Neighborhood Stabilization and Home Ownership (NSHO) workgroup. The NSHO workgroup included housing and neighborhood revitalization experts from the public and private sectors from across the State. The NSHO workgroup worked for 6 months to reach a consensus on issues related to the importance of homeownership as a vehicle to stabilize communities. The NSHO workgroup's January 2015 report made many recommendations, including that the State appropriation for DSELP be increased to $11.5 million, higher than the amount in the Governor's Allowance - any reduction is contrary to the NSHO workgroup recommendation. The full NSHO workgroup report can be found at
http://www.dhcd.maryland.gov/Website/About/PublicInfo/documents/Homeownership_Stronger_Neighborhoods.pdf

MMP operates within federal income limits and house price limits and is targeted to working families. MMP borrowers are also required to participate in homeownership education. Further, DSELP assistance is a loan which is due upon sale, transfer and refinance. When the DSELP assistance is repaid, it gets recycled into the program for use by another homebuyer.

The average annual income of a MMP borrower is $68,000, the average MMP mortgage is $175,000 and over 40% of MMP borrowers are minorities. These customers have historically been underserved and/or poorly served by conventional lenders, as evidenced by practices that led to the National Attorneys General Mortgage Settlement and high foreclosure rates in minority areas.

The need for down payment assistance to enable working families to become homeowners continues to increase. It is very expensive to become a homeowner - borrowers are required to provide a 3.5% down payment for a Federal Housing Administration loan and up to another 7% of the home purchase price is needed for closing costs. On a typical $175,000 MMP loan, this translates into about $18,000 of cash needed to buy a home, more than most first-time homebuyers have been able to save. However, it is important to note that MMP borrowers still are required to have more of the funds than the amount of DSELP provided to close the loan.

Few investments can have such a profound impact on households and communities as a modest investment in downpayment assistance. **DHCD therefore requests that the General Assembly approve the Governor's Allowance for DSELP.**

## Energy-Efficient Homes Construction Loan Program (aka Net Zero Homes Program)

Based upon discussions with potential partners, DHCD strongly believes that full funding of the Governor's Allowance is necessary, in order to attract lenders to participate in the program. The cut to the FY 2015 Governor's Allowance from $3 million to $1.5 million prevented the successful launch of this program.

The Energy-Efficient Homes Construction Loan Program was established to provide low-interest loans to home builders for the construction of "low-energy" and "net-zero" homes. "Low-energy home" means a home that, due to design, technologies, and construction products, is designed to be at least 60% more energy efficient than a home built to applicable building code standards in effect before July 1, 2014. "Net-zero home" means a residence that, due to design, technologies, and construction products, is designed to produce as much energy as it uses in a year.

DHCD will continue to work with the Maryland Energy Administration (MEA) to execute an MOU that will enable DHCD to utilize the $1.5 million of Regional Greenhouse Gas Initiative Strategic Energy Investment Funds budgeted as MEA special funds and restricted for use by DHCD for the Energy-Efficient Homes Construction Loan Program in FY 2015, as well as the $0.5 million of MEA special funds similarly budgeted in FY 2016.

This, combined with the $1 million of GO Bonds in the FY 2016 Governor's Allowance would provide a total of $3 million for the program start-up, equivalent to the amount included in the FY 2015 Governor's Allowance. **DHCD therefore requests that the General Assembly approve the Governor's Allowance for the Energy-Efficient Homes Construction Loan Program.**

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## Issues

**2. Use of Taxable Debt** *(page 17 of DLS Analysis)*

**DLS Recommendations**: **To reduce debt service cost, DLS recommends that to the extent possible DHCD restrict its use of GO bonds.**

**DHCD Response:** The DLS analyst has recommended that general funds rather than General Obligation (GO) Bonds be utilized for DHCD programs that fund uses that may be considered "private purpose." Since the amount of private activity uses that can be funded in each issuance of the State's tax-exempt GO Bonds is limited by the federal Internal Revenue Code, taxable bonds may have to be issued. Taxable bonds in a recent bond sale incurred an interest premium of 0.44%.

Specific DLS recommendations in the FY 2016 capital budget include replacing GO Bonds with general funds restricted from the Board of Public Works' Public School Construction Program in the following programs and amounts:

| | |
|---|---|
| Rental Housing | $10 million |
| Homeownership | $ 7 million |
| Special Loans | $ 3.715 million |

To the extent that private activity funding throughout the State may create the need to issue more expensive taxable GO Bonds ***and* that General funds are available to replace the GO Bonds currently included in the CIP**, DHCD would be amenable to receiving general funds in place of GO Bonds in FY 2016 and future years. DHCD will also continue to explore most financially viable ways to issue tax-exempt bonds for critical DHCD capital projects with the State Treasurer's Office.

**However, DHCD strongly believes that the private leverage and economic impact of its programs outweigh the incremental funding costs of taxable bonds to such an extent that taxable GO Bonds should be provided for DHCD programs if general funds are not available.**

**Community Development Administration**

**3. Rental Housing Programs** *(pages 9-10 of DLS Analysis)*

**DLS Recommendation: DHCD should comment on the continued need for affordable rental housing in the State and also comment on what it foresees as the future needs for State support of RHW. DLS recommends deleting $10.0 million, in GO bonds for RHW to be replaced by general funds restricted from the Board of Public Works' Public School Construction Program.**

**DHCD Response:** Rental Housing funds contribute to decreasing the enormous shortfall in the availability of affordable units for lower income households, but they are also essential for creating the projects that provide housing opportunities for persons with disabilities, revitalizing communities, reducing energy consumption in the State's multifamily housing stock, and creating jobs and economic opportunities for Maryland workers and businesses. Any increase to available funds increases the State's ability to meet these important goals. **Each dollar of State investment in affordable housing under RHW provides more in taxes on a present value basis over the next 15 years than the State's general fund or GO Bond outlay, *including the costs of taxable financing.***

Rental Housing Works (RHW) Funds are essential to leveraging federal and private resources tied to the Federal 4% Low Income Housing Tax Credit. Their ability to do so effectively explains the substantial excess demand now in the pipeline ($88 million in demand vs. $62.7 million allocated through FY 2015). DHCD anticipates that the need and demand for these funds will remain strong.

**4. Special Loan Programs** *(pages 10-11 of DLS Analysis)*

**DLS Recommendation: DHCD should comment on how the addition of grants will impact demand for Special Loan Programs funding. The department should also comment on the impact on future funding with the removal of loan repayments as future income. DLS recommends deleting $3,715,000 in GO bonds for the Special Loan Program to be replaced by general funds restricted from the PSCP.**

**DHCD Response:** Offering grants in lieu of loans in Special Loan Programs should stimulate demand and allow DHCD to better serve families with disabilities and seniors. While seniors are very reluctant to have liens on their home, they are also cautious about accepting a grant. DHCD is breaking the skepticism barrier by educating senior service providers. DHCD has reserved a fund balance of $800,000 for grants and anticipates fully utilizing this amount. However, this amount is not so large as to have a major impact on revenues in future years.

**5. Partnership Rental Housing Program** *(page 15 of DLS Analysis)*

**DLS Recommendation: DHCD should comment on the low encumbrance rate in the Partnership Rental Housing Program.**

**DHCD Response:** As the development community has come to better understand recent changes in the Partnership Rental Housing Program (Partnership), particularly the eligibility of Non-Elderly Disabled units, applications for the program have increased significantly. HUD's Rental Assistance Demonstration Program (RAD) has also substantially boosted the rate of Public Housing Authority redevelopment activity. Public Housing Authorities are eligible for Partnership funding as they recapitalize and physically renew their projects under the RAD program. DHCD has seen a significant increase in their requests for Partnership funds, such that the program is now over subscribed. Long project development times (on average 16 months from application to closing) mean delays in encumbrances, which will catch up with the increased demand over time.

**6. Shelter and Transitional Housing Facilities Grant Program** *(page 15 of DLS Analysis)*

**DLS Recommendation: DHCD should comment on the low encumbrance rate in the Shelter and Transitional Housing Facilities Grant Program.**

**DHCD Response:** Requests for Shelter and Transitional Housing Facilities Grant Program (STHFGP) slowed significantly during the recent economic downturn as facilities rely upon public and private contributions for operating costs. Since August 2013, DHCD has received nine applications requesting $7.3 million in STHFGP funds. Two of these projects have closed and are in construction, the remaining seven projects active in the pipeline. At this point, the pipeline exceeds the available funds, including the GO Bonds in the FY 2016 Governor's Allowance.

## Neighborhood Revitalization

### 7. Strategic Demolition and Smart Growth Impact Fund (SDSGIF) *(page 12 of DLS Analysis)*

**DLS Recommendation: DHCD should comment on the status of the program and its future.**

**DHCD Response:** DHCD's view is that the Strategic Demolition and Smart Growth Impact Fund (SDSGIF) effectively addresses a significant local need for redevelopment resources. Local governments and their partners often cite barriers to reinvestment related to land assembly, demolition of dilapidated properties, and needed infrastructure improvements.

In FY 2014, DHCD received 30 applications totaling $13.5 million for $5 million of SDSGIF funding. Financial assistance was awarded to 13 projects that leveraged an additional $292 million.

In FY 2015, DHCD received 37 applications totaling $22 million for $7.5 million of SDSGIF funding. Financial assistance was awarded to 27 projects that leveraged an additional $103 million in investment.

As a result of these SDSGIF investments, the following outcomes are projected:

- 110 vacant buildings will be put back into operation
- 113 blighted properties will be removed/razed
- 137 lots will be made ready for development
- 715 new housing units will be created
- 266 new homeowners will be created

### 8. Neighborhood BusinessWorks *(pages 13-14 of DLS Capital Analysis)*

**DLS Recommendation: DHCD should comment on the progress of Maryland Fresh Food Financing Initiative (FFFI) and the projected impact of the program.**

**DHCD Response:** The Maryland Fresh Food Financing Initiative (FFFI) was publically launched in January of this year through issuance by the Department of RFP's for local governments that wish to create a food desert designation and for lending partners focused on brining grocery stores and other food enterprises to food deserts.

"Food deserts," are defined as communities that do not have close access to healthy foods including fresh fruits and vegetables, typically in the form of a supermarket or grocery store. A January 2014 report by The Reinvestment Fund found that more than 600,000 Marylanders, or 9.6 percent of the State's population live in areas with limited access to supermarkets, of these, 48 percent live in low income census tracts.[1] The lack of access to fresh food or "food deserts" exists in urban communities such as Baltimore, suburban Prince George's County and rural communities on the Eastern Shore and Western Maryland.

[1] The Reinvestment Fund, "Food Access Market Analysis for Maryland", January 2014.

Maryland's FFFI is designed to provide flexible financing, through DHCD's Neighborhood Business Development Program, operating as Neighborhood BusinessWorks (NBW), for the start-up, rehabilitation or expansion of businesses and nonprofits, with a particular emphasis on those that will source fresh food from Maryland farmers to designated food deserts areas and Sustainable Communities.

Pending applications include:

- The Reinvestment Fund (TRF) has a pending FFFI Intermediary Lender application in the amount of $500,000. TRF has been a leader on this work in Pennsylvania and is working closely with fresh food policy makers in Baltimore City and Prince George's County to address food desserts.
- The Shift Restaurant in Frostburg is applying via FFFI for a direct loan of $90,000 to open a farmers market to expand access to locally produced fresh foods.