MARYLAND
DEPARTMENT OF HOUSING
& COMMUNITY DEVELOPMENT

O'MALLEY/BROWN
TRANSITION WORKGROUP

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DEPARTMENT OF HOUSING
AND
COMMUNITY DEVELOPMENT

- .. -

FEBRUARY 2007

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The leadership team would like to thank all of the Workgroup members for the time and effort they dedicated to this report.

Table of Contents

I. Executive Summary

The Maryland Department of Housing and Community Development (DHCD) is "dedicated to improving the quality of life in Maryland by working with its partners to revitalize communities and to expand homeownership and affordable housing opportunities."

With a deeply committed staff of approximately 350 and an FY 2007 budget of $328 million (not including $800 million in bond proceeds and tax credits), DHCD performs many essential State functions. It funds and insures loans to promote homeownership and affordable rental housing for low- and moderate-income families; provides non-profit organizations with housing-related grants or loans for the elderly, developmentally disabled, and homeless; manages the federal Section 8, CDBG and CSBG programs; oversees Maryland's building rehabilitation code program; provides weatherization and energy conservation assistance; and runs the State's principal community development programs, which provide funds to communities for the revitalization of commercial districts and blighted areas.

During December 2006 and January 2007, the DHCD Transition Workgroup studied the Department, met with its staff, and discussed and debated findings and recommendations. The full Workgroup report contains 113 recommendations for consideration by the Administration organized into three subject areas: Housing, Community Revitalization, and Departmental Management. The recommendations include (1) bold steps to move Maryland's HCD agenda forward, (2) new opportunities identified by the Workgroup, (3) ways to strengthen existing DHCD programs, and (4) ideas for improving the Department's performance, efficiency, and responsiveness to its customers.

In studying DHCD and the issues it faces, five important themes and imperatives became apparent to the Workgroup:

- *Embrace Smart Growth*
- *Restore a Broad Housing and Community Development Agenda*
- *Augment Public Resources and Leverage Private Funds*
- *Proactively Address Emerging Needs and New Opportunities*
- *Demand Accountability for Outcomes*

These themes, which are discussed below along with the Workgroup's key recommendations, provide a framework for the Administration as it seeks to define and implement its HCD agenda.

<u>Embrace Smart Growth</u>

Maryland was once a Smart Growth leader. It should, and can, be a leader again. A rational allocation of limited resources to revitalize and preserve our communities is not enough. Promoting infill development, encouraging the reuse of underutilized land and vacant buildings, preserving existing housing, facilitating mixed-income communities, and building green all must be priorities. With strategic thinking by DHCD and coordination across state agencies, these priorities and other housing and community revitalization goals can be achieved.

Housing policy, and particularly the development of affordable housing, is an essential part of Smart Growth. Local governments must be encouraged, through incentives and consequences ("carrots and sticks"), to overcome local barriers to affordable housing development, such as impact fees, zoning, and other regulations and policies. The Administration should be willing to link the provision of discretionary State resources such as transportation, school, and land preservation funds, to rational and broad-minded local planning and policy.

Accordingly, this report's recommendations include:

- **Embrace Maryland's Smart Growth agenda and achieve results through greater interdepartmental coordination and collaboration. Cabinet-level coordination of programs, budgets, and results is essential.**
- **Leverage discretionary funds to reduce local housing barriers and encourage local actions that create low and moderate-income housing.**

Restore a Broad Housing and Community Development Agenda

DHCD is Maryland's housing finance agency, not a commercial bank. It has financial responsibilities, but also an obligation to aggressively promote housing and community development activities that yield stronger, healthier, communities and families. This dual obligation is often called a "double bottom line."

The past few years have seen explosive growth in DHCD's financing of homeownership opportunities for moderate-income Marylanders, and assistance to these families must continue. But the Department is less focused than before on creative ways to finance and develop rental housing, and particularly housing for the most needy, where public funding is inevitably required. Important community revitalization programs have also suffered from this priority shift. DHCD should be challenged to re-focus on these programs.

Therefore, recommendations include:

- **DHCD should better balance financial risk against its obligations as a public agency, keeping in mind its "double bottom line" of financial responsibility and social purpose.**

Augment Public Resources and Leverage Private Funds

DHCD estimates that there is a 10-year, 157,000 shortfall in affordable/workforce rental units in Maryland, which would cost $19.5 billion to fully fund. Home price increases are vastly outstripping income growth. Simply put, greater resources are needed. One opportunity, a flexible $100 million Affordable Housing Fund with a dedicated revenue source, has been proposed by a coalition of housing advocates and key legislators. Such a fund, at an unspecified level, was part of the O'Malley/Brown housing platform, and the Workgroup strongly believes the Administration should actively support this initiative.

DHCD raises substantial private money by selling tax-exempt bonds, and many of its programs require local matches of state funds. The department can go even further in leveraging resources for housing and community development. By enhancing funds and credits for the CITC and Community Legacy programs and partnering with other local stakeholders such as businesses, nonprofits, and foundations, DHCD can spur additional non-State assistance for projects.

Workgroup recommendations in this area include:

- **Support the concept of a flexible $100 million Affordable Housing Fund with a dedicated revenue source as proposed by a coalition of housing advocates and key legislators. The Administration should work with the legislature and stakeholders to identify an appropriate revenue source, finalize the legislation, and assure passage during the 2007 legislative session.**
- **Increase funding for Maryland's successful Community Legacy program from $8 million to $15 million, and for the Community Investment Tax Credit from $500,000 to $3 million. Such increased public investment for these critical revitalization programs will leverage far more in private-sector investments and public impact.**

Proactively Address Emerging Needs and New Opportunities

Maryland faces a diverse and complex set of housing and community development needs, which can also be seen as new opportunities. For example, Maryland's immigrant population grew during the 1990s by 65%, from 313,000 to 518,000. Lack of access to affordable housing and affordable housing programs often forces immigrant families to live in unhealthy conditions while working two or three minimum wage jobs to pay market rents. While program enhancements and outreach are badly needed, this growing population represents an opportunity for Maryland to grow its middle class and its overall economy, and also create rich and diverse communities.

The Administration must also take special care to address and nurture Maryland's rural areas. DHCD's housing and community development programs are often geared to provide solutions at a larger scale, and must recognize the smaller but equally important needs in rural areas.

Maryland must take maximum advantage of the Base Realignment and Closure (BRAC) process. The state should seek to match BRAC-related growth with projects designed to revitalize Maryland's communities.

And, just as important as producing new homes is keeping families in their homes. With rising foreclosure rates, aggressive foreclosure prevention is critical.

The Workgroup's recommendations include:

- **Develop a strategic plan for immigrant integration to encourage the creation of cohesive and vibrant communities.**
- **Work with rural leaders to develop housing rating and ranking approaches that do not discriminate against smaller scale affordable housing and other revitalization investments in rural communities.**
- **Provide incentives for growth in existing communities and coordinate major transportation investments to maximize economic and revitalization impact over the next decade. BRAC is a watershed opportunity to direct growth and investment into Maryland's existing communities, and avoid further sprawl.**
- **Preserve homeownership and neighborhood stability by building a public-private partnership for cost-effective foreclosure prevention solutions.**

Demand Accountability for Outcomes

”Government” and “bureaucracy” do not have to be synonymous. Governor O’Malley set new standards of accountability through CitiStat and is expected to implement a similar program Statewide. One accountability idea that deserves serious attention is the creation of Charter Agencies, an idea successfully adopted in Iowa and other jurisdictions. Charter Agencies are given broad discretion over program structure, pay setting, hiring and firing, budgeting, procurement, and other aspects of management. In exchange, the agency must be highly accountable for a set of clear, measurable results. DHCD presents an excellent opportunity to become such an agency.

Enhanced performance measures and accountability can be implemented immediately at DHCD. The Managing for Results (MFR) budget process is not enough. DHCD should develop an agency strategic plan and outcomes-based budget, which would encourage its organizational units to work together more effectively. DHCD should also evaluate its 40+ programs to eliminate overlap and duplication. While some niche programs are important to provide dedicated resources to key constituencies, larger, more flexible programs are desirable.

Finally, achieving Maryland’s housing and community development goals is highly dependent on the skill, experience, and dedication of Department staff. DHCD’s programs, especially those in finance, require skills highly sought by the private sector and by other governments that offer better salaries. The State must examine the pay structure and its effect on recruitment and retention of talented DHCD staff.

Accordingly, the Workgroup’s Management recommendations include:

- **Seriously explore the conversion of DHCD to a Charter Agency, giving the department the freedom to manage effectively and encouraging greater accountability for goals and outcomes.**
- **Produce a strategic plan that establishes bold, measurable goals for tackling Maryland’s affordable housing challenge and revitalizing communities.**
- **Evaluate the compensation structure at the Department and its effect on staff recruitment and retention, and adjust as necessary to encourage skilled staff to join and remain.**

II. Housing and Community Development Issues in Maryland

Housing demand and affordability are forefront issues in Maryland's communities. Housing needs are not just pressing for low-income households but for moderate-income or "workforce" households as well.[1] Many external factors raise the urgency of housing for the O'Malley/Brown Administration. Those factors include:

Income Levels are not Keeping Pace with Dramatic Increases in Home Prices
The State of Maryland has seen unprecedented growth in home prices over the last seven years. From 1999 to November 2006, 17 Maryland counties saw home prices increase more than 100 percent. Montgomery County led central Maryland with an average sale price of more than $500,000 but even outlying counties like Garrett saw increases of 198 percent while Talbot's average topped the scales at more than $720,000.[1] Meanwhile statewide median household income grew only 20 percent.[2]

A Massive Projected Shortage of Affordable /Workforce Housing Units
DHCD projects a need for 157,000 more affordable/workforce rental housing units over the next ten years, which would cost $19.5 billion dollars to fund. The need includes housing units for families (103,000), seniors (25,000), and individuals with disabilities (28,800). And in the face of the shortage, the percentage of all households in Maryland paying more than 30 percent of their income for housing in 2005 was 33 percent, up from 27 percent in 2000.[3]

Declining Federal Support for Housing and Community Development
Nationally, Federal appropriations for housing and community development have declined, putting pressure on state and local jurisdictions to fill the gap. Community Development Block Grant funding declined by 16 percent between 2001 and 2006. In addition, local housing authorities, which provide housing opportunities for the poorest households, have seen capital appropriations decline by 27 percent while operating funds are set at 76 cents out of every dollar needed for effective operation.

Declining Development Capacity
Development capacity in Maryland is being consumed quickly by low-density development. Coupled with high growth rates, this pattern will lead to a shortage of raw buildable land, especially in areas targeted for growth. Many jurisdictions in Central

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[1] These households are often referred to as "workforce" households because they include teachers, nurses, police officers, firefighters, and other important service professionals whose incomes typically fall within this range. Some find the term objectionable because of a perceived implication that families with incomes below 80 percent of AMI do not work; obviously, many do. Because of its common usage, however, and because the State has previously published reports and passed legislation using the term, this report sometimes uses the term "workforce" to refer to these moderate-income Maryland households with incomes between 80 percent and 120 percent of AMI. DHCD and the State may wish to evaluate the continued use of the term and/or ways to avoid any unwarranted negative implications.

Maryland and beyond will likely reach or approach "build-out" within the next 25 years. Such a scenario will have profound impacts on the cost of land, and in turn the cost of housing.[4]

Base Realignment and Closure (BRAC) Jobs are Expected to Impact Housing Market Demand

Maryland is fortunate to be one of just a few states gaining from the recent BRAC realignment. It is projected that the state will add more than 7,000 direct jobs and 45,000 to 60,000 indirect and induced jobs from the shift of military functions to bases in Maryland, such as Ft. Meade and Aberdeen Proving Grounds. Many of these jobs are expected to be in the high-paying scientific and engineering fields and will stimulate demand for additional housing.

Maryland Will Continue to Grow

Over the next 25 years, Maryland will add 1.1 million new residents growing from 5.6 million to 6.7 million residents. Households, which represent the potential demand side to account for new housing units, will grow from 2.1 million to 2.6 million necessitating the need of more than 500,000 housing units.[5] The immigrant population, which increased by 65 percent during 1990s, will also continue to drive growth.

Public Demand for Smart Growth

Maryland cannot meet its impending housing needs by paving over farm and natural resource land. In 1997, Maryland took a progressive step in stemming sprawl by passing Smart Growth legislation that aligns critical economic development and investment decisions with Priority Funding Areas that are targets for growth. This policy reflects Marylanders' desire to protect environmental resources; invest in existing neighborhoods, towns and cities; and preserve farmland.

III. Overview of the Department of Housing and Community Development

According to its mission statement, DHCD is "is dedicated to improving the quality of life in Maryland by working with its partners to revitalize communities, and expand homeownership and affordable housing opportunities."

DHCD performs a variety of duties including:

- funding and insuring loans for low and moderate-income families for home purchase, construction, and rehabilitation;
- aiding the elderly, developmentally disabled, and homeless through grants to non-profit organizations;
- managing Federal rent subsides (Section 8) and the Community Development (CDBG) and Community Service Block Grant (CSBG) programs for Maryland's non-entitlement jurisdictions;
- administering building codes;
- providing weatherization and energy conservation assistance; and
- allocating funds to communities for the revitalization of commercial districts and blighted areas.

The Department, which is headquartered in Crownsville and has satellite offices in Baltimore and Cambridge, has 363 permanent and contractual employees. Its total operating and capital budget, including grants, loans, and federal dollars, reached nearly $328 million dollars in FY 2007. The details of DHCD's budget are discussed in the next chapter of the report.

DHCD is organized into five divisions. The Department's outreach and assistance programs are run by the Divisions of Credit Assurance, Neighborhood Revitalization, and Development Finance (also known as the Community Development Administration). The Information Technology Division and the Finance and Administration Division handle internal administrative functions. A summary of each of the divisions and the Office of the Secretary is below:

Office of the Secretary (53 authorized positions)
The Secretary sets the policy, programmatic rules, and regulations and determines appropriate strategies to meet the Department's mission, goals, and mandate. The Secretary's Office includes offices for external affairs, communications, employee services, and research.

Division of Finance and Administration (45 authorized positions)
Manages budgets, contracts, purchasing, procurement, telecommunications, fleet management, central support services, and financial analysis and reporting services.

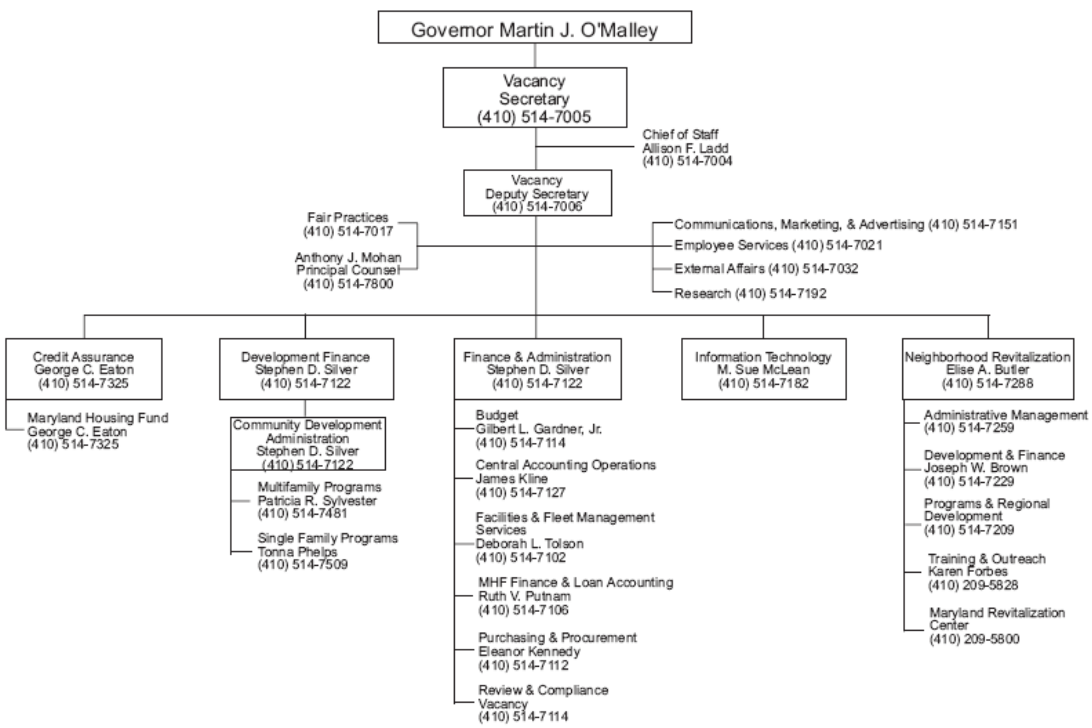
Division of Information Technology (16 authorized positions)
Provides network, hardware and software support to the entire Department.

Division of Credit Assurance (54 authorized positions)
Manages the Maryland Housing Fund, a mortgage insurance and credit enhancement program, and provides asset management functions for the Department's multi-family loan portfolio. The

asset management functions include operations and programs to insure single-family mortgages and offset risks in revitalizing communities. It also includes the Building Codes Administration, which runs the Building Rehabilitation Code Program.

Division of Development Finance (112 authorized positions)
Operates finance programs for single and multi-family housing through the proceeds of revenue bonds issued by the Community Development Administration (CDA). CDA offers taxable and tax exempt bonds, as well as general obligations bonds and special funds to finance a number of programs designed to increase the supply of housing for families of limited income, the elderly, and the disabled. CDA also administers several federal funding programs and tax credits such as the Low Income Housing Tax Credit and the HOME program. Through its numerous programs and bond offerings, CDA generates millions of dollars in special funds that are recirculated for additional affordable housing efforts and leveraged to support the entire Department's operating costs.

Division of Neighborhood Revitalization (36 authorized positions)
Provides grants, loans and technical assistance to local governments, small developers, and nonprofit organizations. The division administers several key redevelopment programs, including Community Legacy, and oversees the federal CDBG, CSBG, and Emergency Shelter Grant Programs.



IV. Budget Overview

DHCD's appropriated budget supports departmental operations and provides capital funds for numerous housing and community development program expenditures. The Department's FY 2007 budget totals $327.9 million. Including bond and tax credit activity (which are not part of the appropriated budget), the Department will manage approximately $1.2 billion of financial activity this fiscal year.

The DHCD budget is comprised of 72 percent federal funds, 18 percent special funds, and 10 percent state general funds. Federal funds include $200 million in federal Housing Choice Voucher (Section 8) Program funds to provide rent subsidies for low-income families. Special funds consist of repayment of principal and interest on outstanding loans, investment earnings, funds generated by the Maryland Building Codes Program, General Bond Fund reserves, Maryland Housing Fund reserves and utility service funds raised through utility companies.

DHCD's budget has increased significantly since FY 2000 due primarily to the growth in the Section 8 program. In the last three years alone, federal funds have increased by over $100 million reflective of new Section 8 contracts the agency is now managing.. The capital budget has also grown, from $46.9 million in FY 2000 to $75.4 million in FY 2007. During this period the budget for rental housing declined, while the funds for homeownership increased substantially. Another significant trend is declining state general funds allocated for departmental operations, which went from $3.6 million in FY 2000 to just $0.7 million in FY 2007.

Additional details:

> *Operating Budget:* The operating budget for the department is about $252 million, of which 80 percent is Section 8 subsidies. Personnel expenses are $26 million, or 10 percent of the operating budget, and other operating expenses $9.9 million. In addition to the Section 8 funds, other grants included in the operating budget are: Maryland Affordable Housing Trust ($3 million); Rental Allowance Program ($1.7 million); the Bridge Subsidy Demonstration Program ($0.7 million); the Weatherization Program; and the Circuit Rider and Main Street Programs. Federal Community Services Block Grant funds are also included in this portion of the budget. The operating budget has increased substantially over the last several years because of the growth in the Section 8 contract administration project.
>
> *Capital Budget:* The capital budget of $75.4 million is used to produce new or rehabilitated affordable rental and homeownership housing units and make loans or grants for various community development activities. The Rental Housing Loans fund of $20.8 million is used in conjunction with Low Income Housing Tax Credits and multifamily mortgage revenue bonds to make loans to developers for production of affordable rental housing. The Homeownership Loans program fund of $15.6 million includes $11.1 million for the Downpayment and Settlement Expense Loan Program (DSELP), $2.0 million for the Maryland Home Finance Program, and $2.5 million for the Disabled Borrowers Program. In the Special Loans category, $10 million is allocated among four programs: Maryland Housing Rehabilitation Program ($3.4 million); Group Homes ($2.6 million); Lead Based Paint Abatement ($2.0 million); and HOME Investment Partnership Program ($2.0 million). The Partnership Rental Housing Program is used to make grants to local governments that typically will supply land for development of rental housing

targeted to households at 50 percent of AMI or less. There is $6.0 million included in the capital budget for this program. The Shelter and Transitional Housing Program has been allocated $1.0 million in this fiscal year.

The capital budget also includes $22 million for neighborhood revitalization projects. These funds are distributed among three programs, with $6 million going for Neighborhood Business Development Loans, $6 million to Community Legacy Loans & Grants, and $10 million for Community Development Block Grants to towns, cities, and small counties throughout the state.

Non-Budget Resources: In addition to the funds in its budget DHCD uses the Low Income Housing Tax Credit program and Mortgage Revenue Bonds to raise capital to support construction of homes for low and moderate income households. In calendar year 2006 the department had about $9.0 million in credits to allocate to rental housing projects. The credits are expected to generate over $100 million in equity investment. The department expects to issue a record amount of mortgage revenue bonds this fiscal year, with about $100 million for rental projects and $750 million for the Maryland Mortgage single family homeownership program.

The following tables and charts provided by DHCD summarize the budget resources and key budget trends over the last eight fiscal years.

DHCD FY 2007 Operating & Capital Budgets

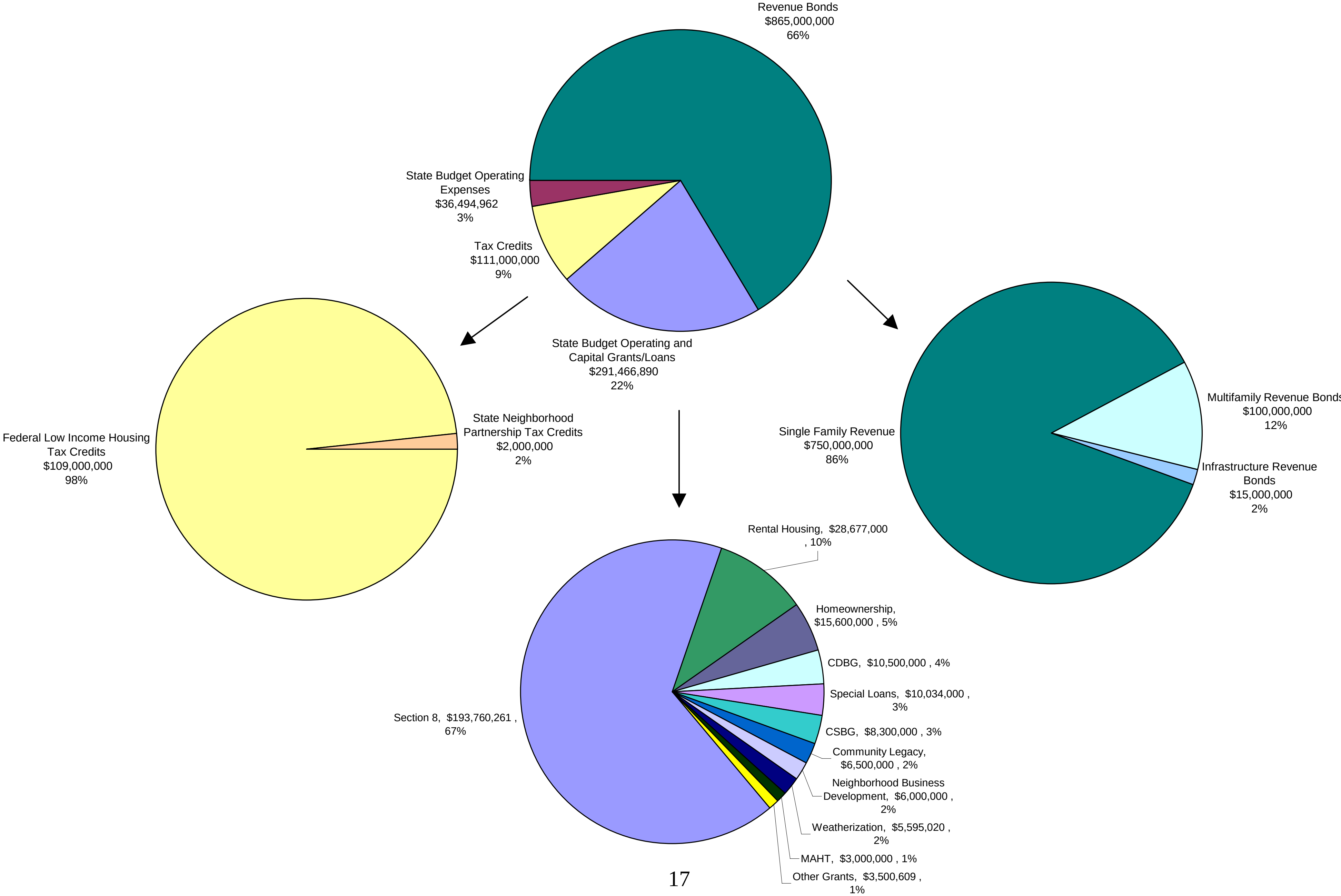
	FTE	General Funds	Special Funds	Federal Funds	Reimbursable Funds	Total Excl GO Bonds	GO Bonds	Total Incl GO Bonds	% Total	% Operating
PERSONNEL EXPENSES		726,029	15,627,972	10,199,886	-	26,553,887		26,553,887	8.1%	10.5%
OTHER OPERATING EXPENSES		25,387	9,084,022	778,230	53,436	9,941,075		9,941,075	3.0%	3.9%
OPERATING GRANTS		3,651,584	4,185,000	207,309,306	845,000	215,990,890		215,990,890	65.9%	85.5%
TOTAL OPERATING		4,403,000	28,896,994	218,287,422	898,436	252,485,852	-	252,485,852	77.0%	100.0%
CAPITAL		25,742,000	31,300,000	17,434,000		74,476,000	1,000,000	75,476,000	23.0%	
TOTAL		30,145,000	60,196,994	235,721,422	898,436	326,961,852	1,000,000	327,961,852	100.0%	
Percent of Total DHCD Funding		9.2%	18.4%	71.9%	0.3%		0.3%		100.0%	
% of Personnel & Operating Exp by Fund		2.1%	67.7%	30.1%	0.1%	100%				
OPERATING BY DIVISION	FTE									
Division of Development Finance	133	1,700,000	10,514,137	201,527,479	845,000	214,586,616		214,586,616		85.0%
Division of Neighborhood Revitalization	42	1,693,000	1,900,437	10,587,308	-	14,180,745		14,180,745		5.6%
Division of Credit Assurance	56	-	4,274,289	2,722,930	-	6,997,219		6,997,219		2.8%
Operating Units	231	3,393,000	16,688,863	214,837,717	845,000	235,764,580		235,764,580		93.4%
Office of the Secretary	53	1,000,000	6,039,822	1,505,294	53,436	8,598,552		8,598,552		3.4%
Division of Information Technology	21	-	1,479,993	1,408,040	-	2,888,033		2,888,033		1.1%
Division of Finance & Administration	53	10,000	4,688,316	536,371	-	5,234,687		5,234,687		2.1%
Support Units	127	1,010,000	12,208,131	3,449,705	53,436	16,721,272		16,721,272		6.6%
Total Division Operating	358	4,403,000	28,896,994	218,287,422	898,436	252,485,852		252,485,852		100.0%
CAPITAL BY PROGRAM										
Rental Housing Loans		10,000,000	5,542,000	5,300,000		20,842,000	-	20,842,000		
Homeownership Loans		1,555,000	13,945,000	100,000		15,600,000	-	15,600,000		
Special Loans		2,187,000	5,813,000	2,034,000		10,034,000	-	10,034,000		
Partnership Rental Housing Loans		6,000,000	-	-		6,000,000	-	6,000,000		
Shelter & Transitional Grants		-	-	-		-	1,000,000	1,000,000		
Total Housing		19,742,000	25,300,000	7,434,000	-	52,476,000	1,000,000	53,476,000		
Neighborhood Business Dev. Loans		-	6,000,000	-		6,000,000		6,000,000		
Community Legacy Grants & Loans		6,000,000	-	-		6,000,000	-	6,000,000		
Community Development Block Grants		-	-	10,000,000		10,000,000		10,000,000		
Total Neighborhood Revitalization		6,000,000	6,000,000	10,000,000	-	22,000,000	-	22,000,000		
Total Capital		25,742,000	31,300,000	17,434,000	-	74,476,000	1,000,000	75,476,000		12/15/2006

DHCD Operating and Capital Budgets FY 2000 - FY 2007

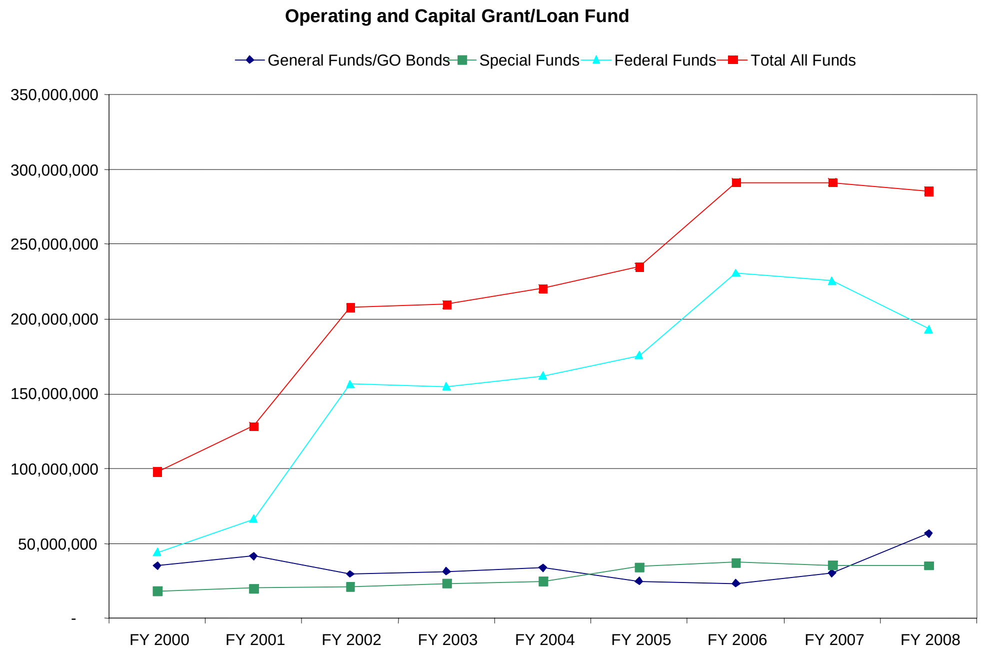
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Expense Analysis:								
Operating Expenses - Personnel	18,912,779	21,524,269	23,318,852	23,368,593	22,502,079	23,518,427	27,895,601	26,553,887
Operating Expenses - Other	7,496,053	7,390,294	7,696,950	8,665,554	7,666,504	8,116,949	7,530,054	9,941,075
Operating Grants	51,110,833	72,714,342	147,609,424	143,676,610	150,907,911	160,465,142	215,961,372	215,990,890
	77,519,665	101,628,905	178,625,226	175,710,757	181,076,494	192,100,518	251,387,027	252,485,852
Capital Grants/Loans	46,924,000	55,774,000	60,305,750	66,068,299	69,738,000	74,741,284	75,583,991	75,476,000
	124,443,665	157,402,905	238,930,976	241,779,056	250,814,494	266,841,802	326,971,018	327,961,852
Fund Analysis - Operating Expenses:								
General Funds	3,629,765	4,855,629	4,703,567	4,277,430	2,701,072	1,400,766	833,581	751,416
Special Funds	18,382,639	18,497,722	19,212,218	19,684,326	21,153,169	23,247,500	22,617,034	24,711,994
Federal/Reimbursable Funds	4,396,428	5,561,212	7,100,017	8,072,391	6,314,342	6,987,110	11,975,040	11,031,552
	26,408,832	28,914,563	31,015,802	32,034,147	30,168,583	31,635,376	35,425,655	36,494,962
Fund Analysis - Operating and Capital Grants/Loans:								
General Funds/GO Bonds	35,383,000	41,709,102	29,743,212	31,198,551	33,708,584	24,894,584	23,376,584	30,393,584
Special Funds	18,338,228	20,277,216	21,408,441	23,555,903	24,886,000	34,592,903	37,267,230	35,485,000
Federal Funds	44,313,605	66,502,024	156,763,521	154,990,455	162,051,327	175,718,939	230,901,549	225,588,306
	98,034,833	128,488,342	207,915,174	209,744,909	220,645,911	235,206,426	291,545,363	291,466,890
Employee Analysis:								
Permanent	335	353	364	338	316	311	320	316
Contractual	39	35	67	57	53	47	53	47
	374	388	430	394	369	358	373	367

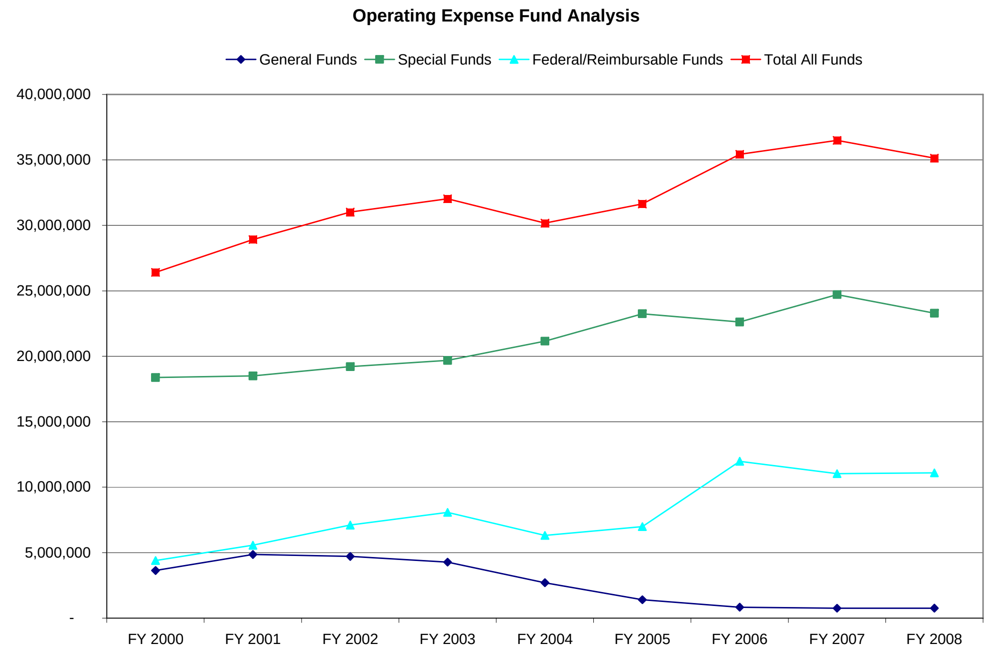
Note: Amounts exclude the Division of Historical and Cultural Programs, which was transferred to the Maryland Department of Planning effective 10/1/05 pursuant to HB1562 enacted during the 2005 legislative session.

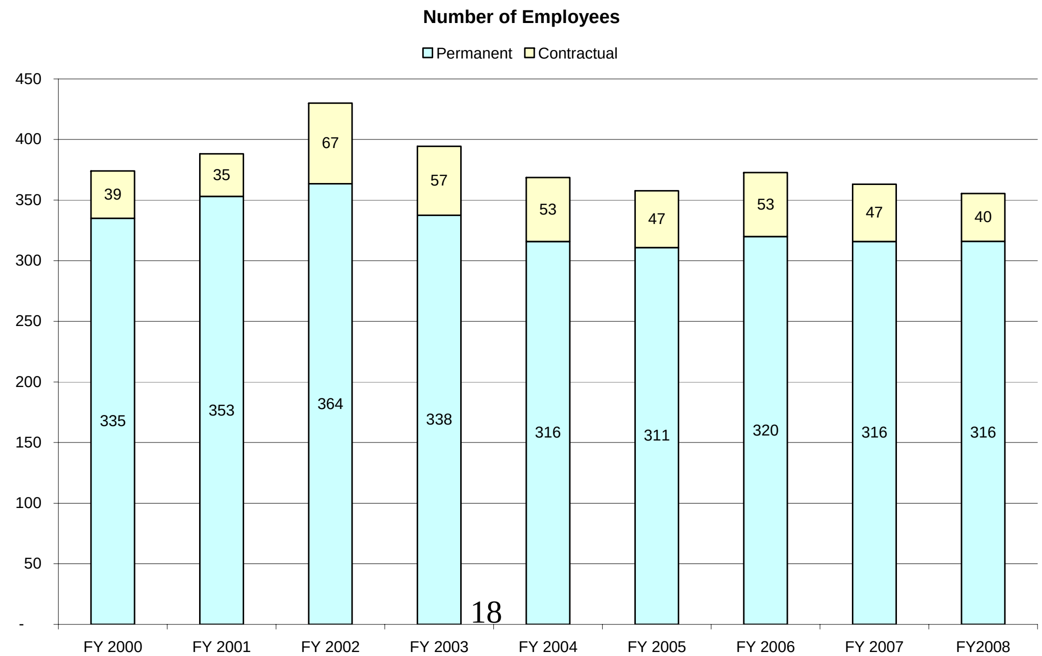
DHCD FY 2007 Projected Activity - $1.2 Billion



DHCD Budget Trends FY 2000 – FY 2007 and Projected FY 2008







V. Housing Maryland

A. Findings

Rental Housing
"The 2000 Census revealed that 33 percent of Maryland renter households were paying more than the federal affordability threshold (30 percent of gross income) for their housing. The problem has worsened since then." From 2000 to 2004, median rent increased 24.8 percent while median income actually decreased by 4.9 percent, making Maryland the fourth least affordable state for housing according to the National Low Income Housing Coalition report of 2004.[6] The lack of affordable housing has particularly affected people with disabilities and has resulted in increased homelessness.

DHCD reported that Maryland has a deficit of about 125,000 available affordable/workforce rental units, a shortage that is projected to grow to 157,000 units by 2014 and would cost $19.5 billion to fund. Units for low-income families account for the bulk of the projected deficit (103,100 units or 66 percent of the total), followed by units accessible to individuals with disabilities (28,800 or 18 percent), and the elderly (25,000 or 16 percent).

Over the past five years DHCD produced about 2,700 units of affordable/workforce rental housing a year, split about evenly between new and rehabilitated units. To meet the projected need, DHCD would need to produce an average of 15,700 units a year, nearly six times its current output.

Homeownership Housing
While the need for rental housing opportunities is clear, homeownership opportunities are also at a premium. Between 1999 and 2006, 17 Maryland counties saw average home prices rise by more than 100 percent while income growth increased by only 20 percent.[7] The Governor's Commission on Affordable Housing reported in 2004 that one-third of Maryland households cannot afford to purchase a "starter home," and the numbers have likely worsened as prices have continued to escalate. Because of increasing prices, Maryland's "workforce" is often forced to commute long distances to find moderately priced housing near their jobs. The commuting patterns significantly and negatively affect congestion, economic competitiveness, and overall quality of life in the State. Further, the shortage of local moderately-priced housing for these working Marylanders puts pressure on the supply of housing for truly low-income households.

Commuting costs and pressure on household budgets are also impacted by the rising energy costs. These costs can be critical for low and moderate-income families. According the U.S. Conference of Mayors, the average energy costs for households will reach $4,841 in 2007 – an increase of over $1,000 in just 4 years.[8]

B. DHCD Housing Programs

DHCD serves the housing sector with a variety of programs and funding mechanisms, including state appropriations, federal grants, and proceeds from the sale of bonds and tax credits. These funds are used to construct or rehabilitate housing units, provide mortgages to eligible homebuyers, subsidize rents, and assist with special programs like weatherization and lead paint removal. DHCD's programs support low- and moderate-income Marylanders. These programs are described in Appendix A.

DHCD housing assistance programs cover a wide range of incomes and a diverse spectrum of the population. Programs generally fall into two categories – rental or homeownership - as well as two income levels – affordable or moderate-income.

"Affordable" housing is used to identify housing units and programs that are primarily targeted to households earning 80 percent or less of the area-wide median income (AMI). While this category includes both homeowners and renters the largest numbers and most pressing needs appear to be in the rental area. Populations often needing the greatest assistance include special needs populations like the elderly, disable, and homeless. Such populations are typically served through programs on the rental side.

DHCD provides a range of multi-family financing programs that provide funds for the construction and rehabilitation of rental housing units. The programs range in size and capacity with some geared towards the direct provision of rental subsidies, such as the Section 8 program. Other programs, such as Partnership Rental Housing, provide funds to local governments and housing authorities for the provision of housing for households with incomes at 50 percent of AMI or less.

Many of the funds available from DHCD on the rental side are awarded competitively at designated times throughout the year with a preference for projects that provide units to tenants with incomes below 60% AMI for more than 40 years. The awards include not only state dollars but also the Federal Low Income Housing Tax Credits and HOME dollars. In all, DHCD's rental programs help produce more than 2,700 units annually.

DHCD recently initiated a new rental program, the Bridge Subsidy Demonstration Program that provides short-term rental assistance (up to three years) funded by the State for a limited number of eligible individuals with disabilities who are awaiting permanent housing assistance and are currently receiving Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) cash payments. The pilot program is only targeted for 75-100 individuals annually.

Moderate-income housing, which is often called workforce housing, typically includes households with incomes between the range of 80 percent and 120 percent of AMI. Programs for this population segment tend to focus more on homeownership because incomes are higher.

DHCD's "signature" homeownership program and a major priority of the prior administration, is the Maryland Mortgage Program (MMP). In existence for decades, the MMP uses funds derived from revenue bond sales to purchase mortgages made by commercial lenders to eligible borrowers. Dramatic increases in home prices and decreasing interest rates limited the marketability of MMP mortgages, so DHCD enhanced the program, re-branded it "More House For Less" (MH4L), and has been marketing it heavily.

MH4L serves:

First-time homebuyers (except in designated target areas where eligibility is broader)
Incomes up to $126,420 (varies by location and household size)
Home purchases up to $525,091 (varies by location)

While the program serves many buyers below 80 percent of median income, DHCD reports that approximately 40 percent of buyers in 2006 were at or above that level. MH4L has been extraordinarily successful in generating mortgages, particularly in 2006 when its 2,457 mortgages through mid-December 2006 totaled $461 million and exceeded the total amount of mortgages purchased in the preceding <u>three</u> years combined. As of December 2006, the portfolio of single-family mortgages was over $1.2 billion.

Several settlement expense programs have been developed to defray Maryland's high closing costs and are linked to the MH4L program. The Downpayment Settlement Expense Loan Program (DSELP) provides a $5,000 interest-free loan repayable upon sale of the house. The House Keys for Employees Program (HK4E) matches up to $5,000 contributed by a homebuyer's employer, also as an interest-free loan, repayable upon sale. If the borrower is willing to pay a slightly higher interest rate, the MMP-Plus program provides a closing cost grant equal to 2 percent of the loan amount, and the Live Near Your Work Plus (LNYW) program provides a buyer purchasing a home within 25 miles of her place of employment with a 3 percent closing cost grant.

C. Issues and Recommendations

1. Enhancing Maryland's Housing Capacity

Provide Affordable Housing Resources

The need for affordable housing in Maryland is large and growing. Housing costs have risen much faster than wages and many Marylanders face an uphill battle to find housing opportunities at prices they can afford. Meeting the need will require additional resources. State funding for DHCD programs that serve the low-income population has shrunk relative to rising costs.

Recommendations:

- Support the concept of a flexible $100 million Affordable Housing Fund with a dedicated revenue source as proposed by a coalition of housing advocates and key legislators. The Administration should work with the legislature and stakeholders to identify an appropriate revenue source, finalize the legislation, and aim for passage during the 2007 legislative session. (H -1)
- Support a substantial increase in the amount of state general funds for DHCD operations and capital funds to support affordable housing programs (Rental Housing, Homeownership, Special Loans). (H -2)
- Reinvest one-time real estate related proceeds, such as the sale of a state owned building, into the Affordable Housing Fund. (H - 3)
- Encourage the expansion of Tax Increment Financing to support the construction and rehabilitation of low and moderate-income housing. (H - 4)

Reduce Local Barriers to Affordable Housing
There are substantial barriers to the creation of affordable housing in Maryland. Limited land availability combined with local land use policies, zoning, subdivision, infrastructure policies, permit processes and impact fees are driving up the cost of housing. At the same time, "no growth" or "slow growth" sentiments discourage construction and encourage gentrification, also contributing to rising prices.

Some local governments need (or believe they need) State authorization to undertake affordable housing programs and provide incentives, such as modifying or waiving fees. Coupled with the local policies are state requirements for a local resolution of support and local contribution for most of the DHCD programs. Not only have these requirements been used to thwart affordable housing production, they may violate the Fair Housing Act or other federal anti-discrimination laws and could result in the loss of federal housing funds.

Recommendations:

- Adopt statewide enabling legislation granting authority to all local governments to undertake affirmative actions to promote affordable housing including, without limitation, establishing trust funds, waiving or reducing impact fees, providing land, enacting MPDU programs, providing Payment in Lieu of Taxes (PILOTS) as a matter of right for affordable rental housing, and other similar initiatives. (H - 5)
- Require local governments to submit Affordable Housing Plans that describe how they plan to accommodate and promote growth that equitably addresses housing affordability for citizens of all incomes. (H - 6)
- Develop strategies to link completion of the Affordable Housing Plans and progress by local governments toward established goals to receipt of State funding for housing and other investments in local jurisdictions, such as economic development, infrastructure, transportation and school construction. Adjust requirements for a local approval and local contribution to ensure that DHCD funded projects are built. (H - 7)

2. Emerging Housing Needs and Opportunities

Preserve the Existing Stock
Thousands of subsidized affordable housing units have been lost because of demolition or "opt outs" by program participants. Many more are at risk due to federal funding cuts and deteriorating conditions. Though many of the remaining existing units have in place restrictions, which may theoretically preserve their affordability, those guarantees rely upon the continuation of federal funding. However many other subsidized units remain vulnerable because lack of resources have led or may lead to deteriorating conditions at those properties that threaten their continued viability.

Preservation of existing housing stock is an important and effective means of managing growth; however, the strong demand for acquisition/rehabilitation loans is not being adequately met by DHCD or private lenders. DHCD has identified this program gap and has prepared draft legislation that would permit it to make acquisition/rehabilitation loans directly.

Recommendations:

- Develop an initiative to preserve the existing stock of subsidized and non-subsidized affordable housing. This effort should include an audit of the existing subsidized stock and better enforcement of the Maryland Assisted Housing Preservation Act. (H - 8)
- Consistent with Smart Growth principles, a viable “acq/rehab” program should be created to support the purchase of older housing stock needing moderate rehab and provide assistance to small landlords. (H - 9)
- Continue DHCD’s efforts to implement an acq/rehab program and address any legislative or program barriers. DHCD’s proposed legislation to permit direct lending should be evaluated for its efficacy in resolving this issue. (H - 10)
- Improve the management of DHCD’s loan portfolio to ensure that funded projects are kept affordable and in good condition. The department should consider modification of loan terms to support continued long term viability of a project. Ascertain if and how DHCD or a subsidiary can, in limited circumstances, own property to preserve low-income Section 8 projects that would otherwise convert to market rate. (H - 11)
- Include in agency loan documents a right of first refusal to purchase affordable housing developments that it finances in the event that the projects will be sold and lose their affordable status in the future. Evaluate other methods to ensure that preservation will be secured in the future for projects being built today. (H - 12)

Encourage Progressive Development Solutions

Development strategies such as mixed-income housing, green building, and transit oriented development are increasingly being used to create stronger, more diverse, and healthier communities and are an important part of smarter growth and development patterns. Mixed-income housing development creates low and moderate-income housing and avoids concentrating low-income residents by providing offering housing choices for a broad range of incomes. “Green building” efforts rest on the use of energy efficiency, green and recycled building materials, and high performance building practices. It is becoming increasingly linked to affordable and moderate housing for the long-term savings it creates. Transit Oriented Development (TOD), which is intense, comprehensive development around transit stations, presents an emerging opportunity for Maryland to anchor redevelopment efforts around its transit assets and provide alternative transportation options while promoting economic development and revitalization. The Administration should encourage all of these development solutions and incorporate them into DHCD programs.

Recommendations:

- Make necessary adjustments to DHCD programs to encourage mixed-income housing whenever possible. (H - 13)
- Housing revitalization strategies should aim to de-concentrate poverty and provide opportunities for lower income families to benefit from living close to work and good schools. (H - 14)
- Appoint and convene the Green Building Task Force created by the General Assembly in 2006. Special consideration should be made to analyze the integration and expansion of green building efforts into Maryland’s housing grants, loans, and affordable housing development programs. (H - 15)

- Expand the eight percent green tax credit, which is currently limited to buildings over 20,000 square feet, to include residential low and moderate-income housing projects that are funded through DHCD. (H - 16)
- Require the construction of energy efficient homes and buildings in state-led redevelopment projects. (H - 17)
- Expand State-led TOD based revitalization initiatives to other stations and partner in such efforts ensure the provision of housing types for all incomes. (H - 18)
- Work with local governments and communities to provide technical assistance, community training, and appropriate resources to encourage additional TOD activities. (H - 19)

Implement Foreclosure Prevention and Expand Housing Counseling

The number of foreclosures occurring in Maryland is rising at a troubling rate. This is largely the result of aggressive, "exotic," or predatory lending products that help renters become homebuyers without ensuring that they have sufficient income for debt service, maintenance, and other expenses. Most foreclosures occur in neighborhoods affordable to people below 120 percent AMI, and experts calculate that when someone loses a home to foreclosure it typically takes ten years to restore the credit and resources necessary to own a home again. In fact, advocates believe that the State is losing more affordable workforce housing to foreclosure than it can create through DHCD or local programs. Foreclosures also lower surrounding neighborhood property values and stability, and lower property values translates directly into lower property tax revenue. The Reinvestment Fund calculated that just two years of recent foreclosures in Baltimore City depressed city tax revenue by more than $20 million.

In the Baltimore area, the Baltimore Homeownership Preservation Coalition (BHPC) has been formed to tackle these problems and has implemented such ideas as using Baltimore City's 311 call service to provide foreclosure prevention advice. DHCD has one product, the "Lifeline" loan, to address this problem.

Housing counseling would also promote homeowner stability by providing advice on such topics as household budgeting. Such counseling is now delivered largely through a network of local counselors without any statewide system or standards. In fact, some local requirements create disincentives to participation in programs like MH4L.

Recommendations:

- Preserve homeownership and neighborhood stability throughout Maryland by building upon Baltimore's public-private partnership for cost-effective foreclosure prevention solutions. (H - 20)
- Step-up foreclosure intervention efforts immediately. DHCD should create a foreclosure intervention hotline to serve all Maryland homeowners threatened with foreclosure and the Governor should immediately appoint a task force to anticipate and address this looming crisis. DHCD should increase outreach and marketing for its "LifeLine" loan and determine how to reach the lowest-income borrowers, perhaps with the assistance of nonprofit lending partners. (H - 21)
- Develop a strategy for supporting homeowner counseling and emergency funding programs to help prevent and stop foreclosures. (H - 22)

- DHCD should not encourage homeownership before buyers are ready and should not lower its standards to compete with the sub-prime market by offering products that do not help homeowners build equity. (H – 23)
- Promote legislative initiatives that strengthen consumer protections in real estate practices and foreclosure. (H - 24)
- Develop standards for implementation of a statewide housing counseling program that is broadly available to homebuyers, whether their home mortgage loans are public or private. (H -25)

Review Recommendations from 2006 Governor's Task Force on Workforce Housing
DHCD has had little time to act on the July 2006 recommendations of the Governor's Task Force on Workforce Housing. The Task Force report contains a number of recommendations that could form the basis for a coherent and comprehensive workforce/moderate-income housing policy in Maryland. These include creative use of state-owned land for housing development, helping people live in affordable housing near their work, and a return to "smart-growth" principles.

Recommendations:

- Assign a multi-departmental group, led by DHCD, to fully review the recommendations of the July 2006 Governor's Task Force on Workforce Housing report and propose an implementation plan. (H - 26)

Implement and Fund Maryland Workforce Grant Housing Program
The Maryland Workforce Grant Program, which was enacted in 2006, has high potential to enable moderate-income families to purchase homes. As enacted, the program would make grants to participating counties and municipalities that provide a Workforce Housing Element in their Comprehensive Plans or 5-Year Consolidated Plans. The State funds must be matched dollar-for-dollar and can be used to help rental households between 50-100 percent of AMI and homeowner households between 60 and 120 percent of AMI (up to 150 percent in MMP targeted areas). Funds can be used for acquisition, site clearance and preparation, relocation, construction, renovation, and financing. The law requires the State and local funds to be repaid on sale of funded homeownership units and for 20 percent of the appreciation (declining to 0 percent over 15 years) to be paid to the State and locality. Rental units funded must remain affordable for 25 years.

This promising program is unfunded in FY 2007 and no budget request has been made for it by DHCD in FY 2008. Legislative remedies are being introduced to address identified technical and policy issues.

Recommendations:

- Support legislation and enact regulations to administer the Workforce Housing Block Grant Program and fund the program in the FY 2008 budget so it may be implemented by DHCD. (H - 27)

3. Strengthen Existing Housing Programs

Implement Program/Process Reengineering
DHCD funds affordable housing projects through a multi-stage process that involves selection, underwriting, and loan closing. While program customers have expressed concerns about all phases of the process, it is the period between selection and closing that has been singled out for the most criticism. Customers complain that the review of projects is too detailed relative to the risk that DHCD is taking; communication during the process is limited and staff are not responsive; program regulations are interpreted rigidly instead of looking for flexibility; DHCD has not kept up with private sector financial markets with regard to loan underwriting; and use of technology, such as electronic signatures, is limited.

Customers also expressed concern that the current selection system through the Qualified Allocation Plan tends to reward priorities that increase the cost of projects and/ or require more gap financing; the selection system is complex and tends to reward regular applicants who are familiar with the details of the point structure; and there are too many niche programs with different statutes and regulations that lead to operational inefficiencies.

Recommendations:

- Streamline and shorten the rental housing process from project selection through closing. Strive to make the process transparent at all stages. Evaluate the model of the Federal Home Loan Bank of Atlanta, which uses a fully automated process with interactive modules that keep the applicant updated throughout the entire process. (H - 28)
- Create a top-down attitude that rewards innovation and an appropriate risk/reward balance. Encourage new program users by reducing the requirements to qualify as a borrower. Include process cost-savings and ease of use in the criteria for success, along with secure lending and public purpose. (H - 29)
- Consolidate several separate programs into one Rental Housing Fund program. Specifically, consider collapsing the Rental Housing Production Program, the Elderly Rental Housing Program, and the Maryland Housing Rehabilitation Program into one fund. (H - 30)
- As much as possible, remove underwriting guidelines and other procedures from regulation to allow for a more nimble underwriting process, with greater emphasis on flexible problem solving approaches. (H - 31)
- Consider modifying underwriting guidelines to make loan terms more like grants and allow for sharing of cash flow with sponsors and local governments to create more of a commonality of interests. (H - 32)

Expand Opportunities for the Homeless and Very Low Income
The number of Maryland residents living below the poverty line is now over 500,000 and continues to increase. These are families and individuals who have no housing, have unstable housing, or live in fear of losing their housing. These households are more likely to include people with disabilities, the elderly, persons leaving institutions, the working poor, and families that live “doubled up’. The number of homeless is difficult to ascertain but the more than 6,250 emergency shelter and transitional beds are at a continuous 99 percent to 100 percent capacity.

Many jurisdictions have launched campaigns to end homelessness. The housing first strategy has emerged, where permanent housing is the cornerstone. DHCD has no program that is dedicated to providing permanent housing for individuals and families who would otherwise be homeless. The Shelter and Transitional Housing Grant Program is limited, as are the programs directed at the very poor.

Recommendations

- Develop a grant program dedicated to providing permanent housing for formerly homeless families and individuals. (H - 33)
- Improve coordination among all state agencies dealing with homeless issues. Expand the role of DHCD and implement a "housing first" approach to dealing with the homeless. Evaluate the transfer of DHMH and DHR capital grant programs to DHCD. (H - 34)
- Support legislation to make the Partnership Rental Housing Program available to non-profit housing providers. (H - 35)
- Increase the availability and use of rental assistance for all very low-income households. Make the Rental Allowance Program more effective by increasing the grant amount and extending the time for participation. (H - 36)
- Expand operating and program support for small non-profits that typically work with very low-income clients. Use the MAHT as the vehicle to develop a more structured and robust non-profit capacity building and support program. (H - 37)

Explore Soft Second Mortgages in More House for Less Program
While MH4L is very useful in many jurisdictions, it is not effective in jurisdictions with high home prices above the program's federally-imposed price limits, or where home prices are high enough to preclude purchases by families with incomes below the federally-imposed income limits. While the volume of loans made through MH4L is impressive, it is unclear to what extent the program itself (particularly apart from the settlement cost assistance) facilitates the purchase of homes that would not otherwise be purchased by their buyers. It is also unclear whether the new program name of "More House for Less" represents a desirable public policy goal. Is the State's goal to facilitate home purchases, or to enable buyers to buy the largest home possible for their dollars? Yet, DHCD is clearly heavily invested in the MH4L/Downpayment program and is examining ways to maximize the amount of funds available for such programs, for which it sees essentially unlimited demand.

Recommendations

- DHCD should aggressively explore ways to address moderate-income homeownership in jurisdictions where home prices are too high for MH4L to be effective. One option may be the use of "soft second" mortgages from other sources which could fill the gap between conventional first mortgages and purchase cost. Additional sources such as the proposed Housing Trust Fund are potential sources to support moderate-income homeownership. (H - 38)

Strengthen Settlement Expense Assistance
By providing and linking settlement expense funds provided through DSELP, HK4E, and LNYW to the MH4L program, DHCD helps create certain servicing and production efficiencies, but also assures a market for the MH4L loans when demand for them is lower (*i.e.*, when the

bond interest rate is close to market). DHCD has an interest in continuing to make as many MH4L loans as possible, because DHCD realizes substantial revenue from the bond sales, which it uses as Special Funds for other departmental purposes.

Only DSELP and HK4E rely on State appropriations; MMP-Plus and LNYW are funded from bond proceeds in consideration of the slightly higher interest rate. In calendar year 2006, DHCD made over $14 million in DSELP and HK4E grants to over 2,000 borrowers. In anticipation of continuing demand, DHCD has requested $25 million for DSELP/HK4E in its FY 2008 budget, the most significant increase in the entire proposal.

Recommendations

- Target limited state settlement assistance funds to the purchase of homes below a specified price, giving buyers of other homes access only to bond-funded settlement expenses. (Because the bond-funded programs slightly increase the interest rate, care must be taken not to erase the modest rate differential between MH4L and conventional loans. Further, even the bond-funded programs are ultimately limited by the State's volume cap.) (H - 39)
- Live Near Your Work-Plus, which provides borrowers with a 3 percent closing cost assistance grant in exchange for a slightly higher interest rate, was recently expanded to include purchases of homes within 25 miles of the borrower's place of employment. This limit is too far, runs counter to Smart Growth and progressive development policy, and should be amended by DHCD to truly encourage "living near your work". (H - 40)
- DHCD should examine ways to assist moderate-income renters, in addition to moderate-income homeowners, so that they are encouraged to remain in Maryland and live near their work. (H - 41)

VI. Revitalizing Maryland's Communities

A. Key Findings

The unprecedented housing boom that occurred both nationally and locally over the last 6 years in conjunction with Maryland's Smart Growth has accompanied a renewed interest in urban lifestyles and has spurred increasing trends to redevelop older communities. Numerous large scale projects are taking place in Baltimore City and in counties across the state.

According to the Maryland Department of Planning, Maryland is expected to add 500,000 new households and 1.1 new residents over the next 25 years. Some of this growth will be sparked by BRAC which will put additional development pressure on Central Maryland.

Revitalization can direct growth to existing areas able to support additional capacity. A prime example is Baltimore City. After losing 1/3 of its population since the 1950s, planners estimate that the City can support an additional 71,000 households or 170,000 new residents.[9] Already, more than 25,000 housing units are in planning or concept stage.[10]

Compared to suburban development, urban revitalization efforts require a stronger government role to plan initiatives with local impacted communities, coordinate efforts among stakeholders, assist with development preparation, and overcome the environmental, structural, and financial barriers that inhibit market driven action. "*Revitalization*," is about rejuvenating and building from existing community assets and strengths.

B. DHCD Revitalization Programs

The State's role in community revitalization has, for the last twelve years, largely been the charge of the Neighborhood Revitalization Division (NRD) within the Department of Housing & Community Development. NRD was established in 1996 and took the place of the Community Assistance Administration within DHCD.

In its early years, NRD developed a new tool box of flexible and effective loan and grant programs to meet the diverse needs of Maryland's small towns, larger cities, counties and rural areas, including: *Neighborhood Business Development* (later renamed BusinessWorks), *Live Near Your Work* (defunded over the last four years but resurfacing recently after legislative intervention), *Maryland Capital Access*, *Neighborhood Partnership* (later renamed Community Investment Tax Credit) and *Community Legacy*. The Division also undertook the major task of creating *SmartCodes/Maryland Building Rehabilitation Code* in order to merge diverse local construction codes into a single code to ease the process of re-using older and historic buildings.

During the Glendening Administration, NRD was recognized for its leadership role in designating targeted revitalization areas, aggressively coordinating its own resources with those of other State agencies, and making multi-year investments to build investment momentum in communities. Communities across the State show the success of a targeted, multi-year and multi-agency revitalization approach. These include Salisbury, Bel Air, Cumberland, and Baltimore's Patterson Park neighborhood and Belvedere Square Marketplace.

However, over the last four years, agency priorities have changed. DHCD focused much its efforts on expanding its mortgage program offerings while NRD shifted to a more "business-like" approach, such as converting some grant programs to loans and adding fees. Some programs, such as Neighborhood BusinessWorks, seem to have lost their effectiveness.

C. Issues and Recommendations

1. Enhancing Maryland's Revitalization Capacity

Coordinate Multi-Agency Investment in Maryland's Communities
The effectiveness of Maryland's community revitalization efforts are predicated on the strength, experience, and leadership of existing and new staff and their ability to balance and weave together DHCD's focus on housing finance and revitalization. The Administration should consider ways to effectively coordinate the budgets of the Department of Planning, DHCD, DBED, Energy, Transportation and Natural Resources toward a common set of goals. This model has precedent in the successful approach Massachusetts has taken with its "Office of Commonwealth Development." Such coordination would be particularly effective in planning for BRAC related growth. With innovative planning, older communities can absorb the influx of anticipated population by enhancing efforts and investments in transit-oriented community development and regional transit improvements. Structural enhancements would also be helpful in successfully leveraging mixed income housing opportunities in a variety of state-led revitalization projects such as Odenton Town Center and State Center. These billion dollar "revitalization" projects are being led by MDOT.

Recommendations

- Consider consolidating NRD and related offices – such as Smart Growth, the Arts & Entertainment District program in DBED, and Historic Preservation in Planning -- to make a Cabinet level position in the Governor's office to lead this work and provide authority to review and coordinate budgets of impacted agencies. (R - 1)
- Make community revitalization a top priority by designating a cabinet-level official, such as the Lt. Governor or a Deputy Chief of Staff, to coordinate the revitalization investments of multiple State agencies, including Planning, Transportation, and DBED (See also program consolidations and shifts on pages 39). (R - 2)

Enhance DHCD Revitalization Capacity
Often one of the largest barriers to revitalization is capacity. This is true in redevelopment plans in big and small communities.

NRD investments can complement larger redevelopment projects, but the Division's tools are very important to smaller localities and rural areas that may not be in engaged in larger redevelopment initiatives. Staffing and skill levels are particularly important when providing technical assistance to smaller jurisdictions. Nonprofits and municipalities that receive NR grants are sometimes slow to implement projects. Delays can slow the use of program funding and may even put program funding levels at legislative risk.

Success is also inhibited by declining or stagnating appropriations to key programs such as Community Legacy and the Community Investment Tax Credit, as well difficulties in putting budgeted funds on the street through the Neighborhood Business Works program. Actual funds administered by NRD invested in Maryland communities have declined by $10 million dollars, or 25 percent, since 2002, falling from $38 million to $28 million. Some of this decline is reflective of Federal funding cuts to the CDBG and CSBG program, but the largest declines are in State-funded revitalization programs such as Community Legacy.

Recommendations

- Stabilize State funds for NRD programs and enhance available funds for Community Legacy to $15 million and the CITC to $3 million. The CITC funding will be leveraged up to $6 million through the private contributions made to nonprofit revitalization partners. (R - 3)
- Expand efforts to provide predictable and critical funding streams for large-scale revitalization projects. (R - 4)
- Maintain flexibility to respond to diverse community needs and avoid encumbering NRD's scarce funding in just a few larger projects when the resources can best be used in catalytic ways throughout the State. (R - 5)

2. Emerging Community Revitalization Needs and Opportunities

Leverage Support and Partnerships with Non-Profits and Institutions
Local nonprofits, institutions, religious organizations, hospitals, universities and businesses can play key roles in providing human, financial, and other critical support for local revitalization efforts.

Community development-related nonprofits are also important partners. However, lack of consistent and sufficient operating support remains a major obstacle for nonprofit organizations trying to build individual, family and community assets in Maryland. The emerging Asset Building and Community Development (ABCD) Network, which includes nearly 100 member nonprofit organizations from across the state, has identified increasing operating support for its members and allied organizations as the central issue it would like DHCD to address. See Appendix B.

Strengthening the LNYW and the CITC programs that encourage business investment in revitalization and homeownership activity can also enhance support.

Recommendations

- Adopt components to create a stronger NRD capacity building program (R - 6):
    - Tailor workshops to groups of nonprofits organized by area of concentration and level of readiness.
    - Contract with a firm/organization to provide needs-based training and coaching.

    - Create a rapid response unit for critical/creative interventions in NR partner crises.
    - Incorporate performance measures to tie together revitalization initiatives, and link to evaluation and follow-up.
    - Establish a statewide technical advisory group to focus on capacity building.
- Take a leadership role in engaging high-level corporate use of the CITC program, rather than relying on small nonprofits to recruit hundreds of small donations from the same companies. (R - 7)
- Outsource the provision and coordination of general community development and nonprofit development workshops to the Maryland Asset Building Community Development (ABCD) Network, which is dedicated to improving access to information and resources among Maryland community development nonprofits and community action agencies (and has emerged to take the place of the defunct Maryland Center for Community Development). (R - 8)

Preserve the Affordable Housing Stock in Neighborhoods

Through NRD, the State can develop innovative and coordinated residential revitalization approaches. An acquisition/rehabilitation program, such as the Healthy Neighborhoods Program in Baltimore, could use acquisition and rehabilitation dollars to strengthen home values in targeted neighborhoods. Such efforts could be used in concert by better targeting DHCD's mortgage program and encouraging the use of Historic Rehabilitation Tax Credits.

Maintaining stable mixed-income and mixed-generational communities will require innovative rehabilitation incentives for homeowners in transitional neighborhoods. An example of such innovation would be the Cuyahoga County (Ohio) Treasury Department's partnership with local banks that provides community homeowners with low- and no-interest loans to renovate or retrofit homes. The county takes a lower interest rate in exchange for which the banks offer funds that allow growing families to accommodate family additions or older homeowners to "age in place." This kind of strategy also helps residents of modest means and fixed incomes to remain in neighborhoods that are experiencing rapid appreciation.

Recommendations

- Consider expanding elements of Baltimore's Healthy Neighborhoods Initiative and other best practices for residential revitalization to transitional communities. (R - 9)
- Focus CDA finance streams on targeted communities where possible. (R - 10)
- Integrate the Maryland Rehabilitation Code effectively into local jurisdictional use so that residential renovations are easier and more cost-effective. (R - 11)
- Work closely with the Maryland Historical Trust to align/promote use of the Maryland Rehabilitation Tax Credit in residential areas also targeted by CDA funding. (R - 12)
- Review revitalization needs and opportunities of Maryland's older citizens. Residential revitalization programs should consider opportunities for allowing seniors to better "age in place." (R - 13)

Mitigate Lead Paint

In existing communities, aging housing stock often presents health hazards (such as lead paint), energy inefficiencies and inadequate accessibility for older or disabled citizens. Lead paint, energy efficiency and broader Green Building issues intersect in the concept of "Healthy Homes." Energy price increases are making it difficult for lower-income and fixed-income seniors to make ends meet. The continuing presence of lead is damaging to children.

Recommendations

- Lead abatement funding should be consolidated, or at the very least, better coordinated among State agencies, and should be targeted for impact in the most affected communities. (R - 14)
- Integrate lead- and hazard-abatement funding with emergency repair and weatherization funds to create a Healthy Homes Initiative and Fund. Target these funds strategically to align with other NRD and State revitalization investments. (R - 15)

Address Unique Needs of Rural Areas

The State lacks a comprehensive approach to addressing rural revitalization needs. "Revitalization" may have a different meaning in the context of communities that are less dense. NRD's flexible Community Legacy program, however, has proven very helpful and NRD's CDBG and CSBG programs are considered "life blood" to rural areas. However, CDA housing finance programs are geared to 30+unit developments, while affordable rental rehabilitation opportunities in rural areas are often much smaller in scale (2 or 3 units at a time).

Recommendations:

- Work with rural leaders to develop housing rating and ranking approaches that do not discriminate against smaller scale affordable housing and other revitalization investments in rural communities. (R - 16)

Serve a Changing Population

During the 1990's, Maryland's foreign-born population grew from 313,000 to 518,000, an increase of 65 percent. In 2000, the foreign born represented 10 percent of Maryland's total population. Many jurisdictions in the state have seen rapid increase in new residents from Central and South America, East and South Asia and various African countries. Housing and other state staff serving these populations must actively market affordable housing programs to our new Marylanders. There are no specific programs in HDCD targeted to immigrant populations. Lack of access to affordable housing and affordable housing programs forces immigrant families to live in unhealthy conditions and at the same time work two or three minimum wage jobs to pay market rents.

The State lacks a comprehensive approach to *immigrant integration*. Immigrants bring great strengths to Maryland communities. How can new or existing neighborhood revitalization tools attract increased immigrant investment? Hard work, homeownership and business ownership are highly valued by immigrant leaders. The State's leader for neighborhood revitalization should innovate in supporting these communities.

Recommendations:

- Develop a strategic plan for *immigrant integration* -- defined as the two-way process in which newcomers and the receiving society work together to build secure, vibrant and cohesive communities. Illinois's New Americans Executive Order provides a model and is the first-in-the-nation strategic state government approach to immigrant integration. The summary Executive Order is included in Appendix C of this report. (R -17)

- Ensure that DHCD programs are equally accessible to immigrants residing in Maryland. Remove barriers that effectively bar immigrants from participating and taking advantage of DHCD programs that allow access to affordable housing. (R - 18)
- Make available program information in predominantly spoken non-English languages such as Spanish. Program materials should be written in terms and language easily understood – culturally competent and user friendly. (R - 19)
- Review program participation requirements and insure that they are uniform and non-discriminatory against immigrants. Review and enforce non-discriminatory policies and practices by local participating agencies. (R -20)
- The State must train revitalization and other public agency staff to be culturally competent and must recruit bilingual staff where possible. (R - 21)
- Develop an aggressive outreach and marketing program targeted to specific immigrant communities. (R - 22)
- Work with sister agencies to help immigrant households build wealth and move them into the mainstream banking systems that are required for home purchase. (R - 23)

Redevelop Vacant and Underutilized Buildings

Older communities are at a disadvantage when reinvestment in older and historic buildings is more difficult and expensive than building anew in cornfields. Some communities also struggle with underutilized vacant and deteriorating properties that have a negative impact on the economic prospects of older communities. The State, through NRD, should strengthen the tools communities have available for reclaiming vacant property. The Maryland Rehabilitation Building Code was developed to address this issue, but its integration and local use have not been an agency priority in recent years.

Recommendations:

- Programs such as Baltimore's Vacant Building Receivership should be examined as potential models for application in other communities throughout the state. (R - 24)
- Integrate the Rehabilitation Building Code into code materials and processes used in the local jurisdictions. (R - 25)
- The State could develop a land acquisition fund and/or support community land trusts that would provide perpetually affordable housing. The State should work with non-profit affordable housing developers to help acquire parcels that relate to local affordable housing and revitalization plans. (R - 26)

Design Creative Approaches to Strengthen Community Safety

Revitalization by its nature replaces deteriorated assets with newer, stronger assets. Because the goal goes beyond just physical revitalization, the State's efforts should also address abatement of drug nuisance activity, which encourages property disinvestment and abandonment and thwarts new investment. Baltimore's Property-Based Crime Solutions Program (PBCS) is a model one-stop shop for the abatement of nuisance activity. Located within Baltimore Housing's Code Enforcement Legal Section, the program provides the framework within which the Baltimore Police Department, the State's Attorney's Office of Maryland for Baltimore City, the Mayor's Office and Baltimore Housing work cooperatively to achieve outcomes beyond the reach of any single agency when addressing nuisance properties. The strong partnership demonstrates an important community safety model already enabled by statute that may be applicable to other Maryland jurisdictions.

Recommendations

- Build linkages between DHCD's revitalization programs and Maryland community safety related programs. (R - 27)
- Enhance information sharing of community safety related best management practices. (R - 28)

3. Strengthening Existing Revitalization Programs

Strengthen Community Legacy

Community Legacy awarded $40 million in grants and loans in its first five years of operation and is highly valued by nonprofits and municipalities from diverse communities throughout the State. Over the last four years, local leaders and revitalization advocates have sought increases in the State's allocation of CL funds; however, funding levels have varied widely, ranging from the initial allocation of $9 million to a 2005 low of $5 million. A group of community leaders from throughout the State is asking the incoming administration to raise CL levels to $15 million, including $2 million in operating funds. As a cost-effective way to leverage local and private-sector revitalization funding, this program deserves support.

CL grants and loans operate within a flexible term of up to five years, reflecting a realistic, multi-year approach to community revitalization. Originally designed as a grant program, CL was modified to be a "patient capital" loan program. The rationale for this change was that funds will revolve, return to NRD, and result in a sustainable resource for future CL investment. However little or no funding has returned to date.

Recommendations

- Increase funding for CL up to the $15 million recommended by community leaders, including increased operating resources essential for effective project planning and implementation. (R - 29)
- Better link CL initiatives to other community revitalization investments and agencies such as Maryland Historic Trust (newly relocated to MD Planning) and MDOT. (R - 30)
- Provide targeted technical assistance to CL grantees, and help local leaders network and learn from one another's revitalization innovations and impacts. (R -31)
- Review the real cost/benefits of managing CL as a loan program rather than a grant program. (R - 32)

Restore Business District Revitalization Programs

NRD manages an important suite of targeted programs for the revitalization of Maryland's community-scale and historic business districts -- Neighborhood BusinessWorks, Main Street Maryland and MD Capital Access. It is important that a revitalization-focused team like NRD manage these business development programs.

Neighborhood BusinessWorks broke new ground in providing below-market financing aimed at helping small businesses in targeted revitalization areas but the use of this program is waning. In FY 2002, for example, the program issued 24 loans totaling $4.0 million and $2.2 million in grant awards. In contrast, for FY 2005 NBW was budgeted at $6.1 million, of which $1.4 million was not used. In FY 2006, of $6 million budgeted, only $3.3 million was encumbered. DHCD estimates that fewer than ten loans will be made in FY 2007.

Maryland Capital Access is a business loan guarantee program that could do more to complement NBW and encourage private investment in local business revitalization. The program provides loan guarantees to encourage private lenders to provide expanded financing to local businesses. Use of the program requires extensive knowledge of local opportunities and an entrepreneurial approach to persuading private lenders to extend financing to revitalization projects.

Main Street Maryland predates NRD but has expanded from 10 to 18 State-designated districts and has been a successful program. In addition, Baltimore Main Streets includes another ten designated districts. NRD and the City of Baltimore contracts with the National Trust for Historic Preservation to provide technical assistance to designated districts. However, there are a number of smaller towns that would like to have a Main Street program but cannot afford local sponsorship of a Main Street manager, a minimum qualification for State designation. In addition, current Main Street members would like more than technical assistance support from the State; NRD did recently respond by carving out a special allocation of NBW funds for façade improvement.

Recommendations

- Neighborhood BusinessWorks: Fill the key senior underwriting/loan officer vacancies with skilled and appropriately compensated staff. (R - 33)
- Conduct a complete review of NBW policy changes (such as interest rate increases) to see if the program is positioned to provide low-cost gap financing for catalytic impact in targeted areas. (R - 34)
- Maryland Capital Access: Be more entrepreneurial in using local opportunities to leverage private investment through this loan guarantee program. (R - 35)
- Main Street Maryland: Consider reinstituting the Main Street Improvement Program (MIP), using program income from NBW to provide small operating grants for marketing, promotion and small-scale capital enhancements. (R - 36)
- Develop ways to assist localities with funding of Main Street staff and operations (potentially through a centralized pool of funds leveraged via an expanded CITC), and strengthen Main Street Maryland's partnership role with localities. (R - 37)

Connect and Support CDBG and CSBG

The federal Community Development Block Grant program is administered by the State for smaller "non-entitlement" communities. The State also administers the Community Services Block Grant program for all Maryland jurisdictions. Though Federal funding for these important programs has declined significantly in the last six years, the State has not filled the gap. These income-restricted programs are particularly important for basic infrastructure improvements and community development in Maryland's lowest income and rural areas.

The State should consider matching federal allocations to increase the impact of these programs in lower income communities and populations.

Recommendations

- Continue to work closely with grant recipients, particularly in rural areas, to make application and reporting processes easier. (R - 38)
- Help fill funding gaps caused by declines in federal allocations. (R - 39)
- Align CDBG and CSBG investment with other NRD investment. (R - 40)
- Regarding CSBG funds, continue to help grant recipients statewide (primarily Community Action Agencies) network and learn from one another's innovations and challenges. (R - 41)

Increase Community Investment Tax Credits

CITC was authorized in 1996, and has awarded tax credit allocations to approximately 200 nonprofit projects over 10 years. Credits are awarded annually by DHCD on a competitive basis to nonprofit organizations that sponsor community activities in Priority Funding Areas. Credits are sold to MD businesses in exchange for contributions of cash or goods to support the nonprofits' approved projects. The businesses may claim a 50 percent State tax credit, in addition to deductions for charitable contributions that companies may claim on their Federal and State tax returns (so the net cost of a contribution may be as low as 27 cents per dollar contributed). One potentially important CITC innovation in recent years is that "real property" can be donated and can convey tax benefits to donors.

CITC is DHCD's main vehicle for providing operating support to community development nonprofits in Maryland. But the program remains small in dollars allocated, difficult for smaller nonprofits to access, and spread across many types of activities. (In addition to housing and community development, nonprofit awardees include providers of youth services, job training, arts and culture, and tourism promotion.) Maryland has been issuing only $500,000 per year in credits – a small amount - which yields $1,000,000 in private contributions. By contrast, Florida allocates <u>$10.5 million</u> in credits per year for low-income homeownership activities, which leverages approximately <u>$21 million</u> in corporate contributions to community development activities in the state. A single company in Florida is eligible to receive up to $200,000 in credits (vs. Maryland's cap of $50,000).

Recommendations

- Retool the CITC program to offer $3 million in credits in 2007 and increase this number by $1 million per year, to $6 million by 2010. Offer community investment tax credits to individuals as well as corporations, and correct the tax loopholes that limit corporate utilization of the credits. (R - 42)
- Expand use of the new "real property" particularly in areas in which vacant, code deficient and underutilized properties are problematic for communities. (R - 43)

VII. Managing Maryland's Housing and Revitalization Efforts

A. Key Findings

DHCD's ability to address the range of housing and revitalization needs facing Maryland is predicated on its ability to manage resources, deliver those resources to people and places efficiently and effectively, and measure the results of its impact.

The department is competently managed, with adept, dedicated public servants in the key leadership positions. DHCD has been recognized as an innovator among state housing agencies, received national awards for its data analysis and reporting, and was recently praised by Moody's Investors Service for the "seasoned and capable" management of its bond and loan portfolios.

But DHCD is constrained by the state's one-size-fits all personnel, procurement, budgeting and other administrative rules, which it must follow despite being largely self-sufficient in funding its operations, working in a fast-paced and ever-changing market, and having to compete for talent with the lucrative financial services industry. Further, the agency has a risk-averse mindset. In pursuing its public purpose of creating housing for low- and moderate- income individuals and families, DHCD should be more aggressive in its willingness to accept additional financing risk.

DHCD administers nearly forty separate programs, many of them small and narrowly focused. This "balkanized" program structure limits the department's flexibility in responding to emerging market realities and opportunities. It also results in dollars being spread too thin, diffusing program impacts.

B. Issues and Recommendations

1. Explore Creating Charter Agencies

Closing Maryland's affordable housing gap in an era of tightening state budgets and rapidly rising land and construction costs requires more than competence. It will take breakthrough performance, which is why an important recommendation is to consider making DHCD a "charter agency." A charter agency designation would give DHCD broad discretion over pay setting, hiring and firing, budgeting, procurement, and other aspects of management. In exchange, DHCD must be highly accountable for a set of clear, measurable results.

The charter agency approach was implemented by former Iowa Governor Tom Vilsack, who used the approach to redirect time and money from paper work and rule compliance to innovation toward results. The "deal" Governor Vilsack offered Iowa's state agencies is outlined below. An article about Iowa's charter agencies initiative is included as Appendix D.

Iowa's Charter Agency Deal

- Produce measurable benefits—and improvements in those benefits—for the people they serve.
- Help close the current year's budget gap, through contributed savings or additional revenues. Additional revenues should be entrepreneurially achieved, not raised through new taxes or fees. Charter agencies must collectively come up with at least $15 million each year.

In return, charter agency enacting legislation provides:

1. Charter agency directors may stand in the shoes of the director of administrative services to "exercise the authority granted to the department of administrative services" in three areas: "personnel management concerning employees of the charter agency," "the physical resources of the state," and "information technology."
2. Charter agency directors may "waive any personnel rule," "waive any administrative rule regarding procurement, fleet management, printing and copying, or maintenance of buildings and grounds," and "waive any administrative rule regarding the acquisition and use of information technology."
3. Charter agencies are exempted from required Executive Council approval for out-of-state travel, convention attendance, and professional organization memberships.
4. Charter agencies may retain the proceeds of capital asset sales.
5. Charter agencies may retain half of year-end appropriation balances.
6. The governor may authorize a bonus for a charter agency director of up to 50 percent of the director's salary. Similarly, a charter agency director may authorize employee bonuses of up to 50 percent of the amount of the director's salary.
7. During FY04 and FY05, charter agencies are exempt from mandatory across-the-board budget cuts.
8. Charter agencies are not subject to FTE caps.
9. Charter agencies are eligible for part of the $3 million Charter Agency Grant Fund to foster innovation.

Source: Jim Chrisinger and Babak Armajani, "Beyond Bureaucracy with Charter Agencies," The Council of State Governments: SPECTRUM: The Journal of State Government, Spring 2005.

Charter Agencies and other efforts to make financial divisions more independent of state bureaucracies are not unheard of. Many state housing finance agencies are independent authorities overseen by governor-appointed boards of directors. Maryland will need to develop its own approach reflective of priorities and the existing regulatory environment but should take into account strong interagency coordination and investment strategies.

Recommendations

- Explore a Maryland "Charter Agency" program and consider using DHCD to test the model. (M - 1)

2. Aligning Program Structure, Organization and Coordination

The effective leveraging and delivery of existing programs and vital resources can hinge on how well such resources are aligned with other program delivery efforts. Such connections are important not just within DHCD but also among efforts by its sister agencies or even those undertaken by other stakeholders such as nonprofit and local governments. If these fundamentals are not sound, even the best management will struggle to achieve optimal results.

The transition documents provided by DHCD list nearly forty separate programs - many of them appear to overlap. This multiplicity of small, narrowly focused grant and loan programs leads to inefficiency and dilutes the department’s impact. DHCD can benefit from a streamlining of its program structure and improved internal and external coordination.

In addition, the grant and loan programs for neighborhood revitalization do not seem to be well coordinated with housing or infrastructure loans/grants awarded by DHCD. These programs were put into a single state agency for good reason, but they often appear to operate independently of one another.

This issue of coordination of efforts is not just limited to DHCD. Various housing, infrastructure, community development and neighborhood revitalization efforts are not well coordinated across state agencies. This lack of coordination is particularly notable with regard to Smart Growth Initiatives, and was exacerbated by the recent transfer of Historical and Cultural Programs from DHCD to the Department of Planning. Coordination is also important to the Maryland Affordable Housing Trust who must rely on the Insurance Administration to enforce the funding mechanism for the program. In addition, there are range of key issues that are intertwined and highly dependent on programs and funds in other agencies of the state such as senior housing, providing assistance to individuals with disabilities, lead paint, family asset development, rural development, green building, and revitalization (See Appendix E). The later issue, revitalization, is hinged on the spending priorities and work of an uncountable number of Maryland agencies.

Recommendations

- Consider shifting Historical and Cultural Programs, now in Planning, back to DHCD. (M – 2)
- Develop an agency strategic plan and outcomes-based budget (these are discussed further in the next section), which would, among other things, encourage its organizational units to work together more effectively. A more targeted investment of Neighborhood Revitalization funding might also create more opportunities for meaningful collaboration with the housing finance programs. (M – 3)
- Consolidate programs into just a few large, flexible programs that allow DHCD leadership to respond effectively to market trends and emerging priorities, and seize opportunities to advance housing and community development goals. (M – 4)
- Put in place an effective coordination mechanism at the Governor's level to ensure that relevant state agencies work together toward a common set of measurable goals on affordable housing, community development, and Smart Growth. (M – 5)
- DHCD should be delegated authority by the Maryland Insurance Administration to identify delinquent title companies and refer them for enforcement action. (M – 6)

3. Implementing Performance Management, Evaluation, and Budgeting

DHCD’s performance measures, evaluation activities, and budget documents, represent the agency’s management direction and form the foundation for accountability. Each of the three elements are highly linked. Performance management and evaluation are about setting goals and priorities and measuring efforts of achievement. Budgeting is particularly important because it is often the means to achieve goals.

Implement Performance Planning

Performance Planning is an effective means to identify goals for organizations and measure efforts to achieve those goals. DHCD does not have a strategic plan that articulates its highest order goals and the actions necessary to achieve them. The closest thing to this is the agency's annual "Managing for Results" (MFR) budget submissions, which follow a template dictated by the Department of Budget and Management. An analysis of DHCD's FY 2007 MFR (see Appendix F for full analysis) finds that DHCD's performance measures are more concerned with production counts than the extent to which housing and community conditions are improving and that performance and budget information are not integrated.

DHCD does maintain a strategic business plan to enhance workforce and affordable housing in the multifamily and single-family programs. This document, which is not shared with the public, contains strategy maps and logic models that show how the agency plans to improve its performance in these areas. It does not, however, include specific performance targets.

Recommendations

- Produce a strategic plan that establishes bold, measurable goals for tackling Maryland's affordable housing challenge and revitalizing communities. (M – 7)
- The strategic plans should serve as the basis for a hierarchy of performance goals and measures that cascade from the highest order outcomes to operational metrics that front-line employees can relate to in their daily work. The plan should describe the actions necessary to achieve targeted performance levels. (M – 8)
- Lead in developing a "Managing for Results" budget submission that integrates performance and budget information. Ideally, the submission would array dollar requests against both the traditional categories (program, object code) and performance goals and measures. (M – 9)
- Establish an office to coordinate strategic planning, policy analysis, performance management, and business process review. (M – 10)

Balance Risk Management

Closely tied to performance management is risk management. DHCD's central challenge is to meet what is often referred to as a "double bottom line" – achieving its public purpose of closing Maryland's affordable housing gap while maintaining a sound financial portfolio. Finding the right balance is no easy task, and DHCD has felt the sting of criticism for past financial lapses. A key issue to be examined is whether DHCD can responsibly take on more risk to significantly boost housing production and better serve low-income Marylanders.

Closing Maryland's affordable housing gap without a huge infusion of additional funding will require a greater leveraging of existing resources, which means adopting a new philosophy about putting state dollars at risk.

Recommendations

- DHCD should work with the Governor, General Assembly, and state auditor to present an acceptable risk-adjusted commitment to lending in order to produce the outcomes necessary to reduce the gap in affordable housing. In other words, the state's leadership should explicitly choose the combination of risk and reward it wants to pursue in the area of affordable housing production and community investment. More specific risk management recommendations include (M – 11):

- DHCD should complete a new actuarial update to the state mortgage insurance fund and set forth how much new state funding would be needed to prudently leverage the fund to engage lending needs in single family first mortgages, and a limited amount of multi family lending.
- CDA should suspend its policy to not issue any obligation which is not AA rated. It should be willing to issue bond issues where the agency credit is not on the line and/or where in the case of subordinated debt an institutional investor takes the investment credit risk.

Expand Evaluation Efforts

Another critical aspect of performance management is evaluation, which should answer basic questions about the impact of DHCD's programs. DHCD's Office of Research has done notable work over the past four years, particularly in the areas of economic modeling and statistical analysis of housing data. Two of its publications – "Marketing Strategy for Improving Homeownership" and "Blueprint Maryland" (a monthly housing review) – have received national awards. A Resource Allocation Model, developed in 2003, purports to calculate the economic impacts of alternative affordable housing and community revitalization investment strategies.

Despite these impressive efforts, it does not appear that there is ample work evaluating DHCD's programs. Public documents were not identified that, for example, probe the fundamental question of how DHCD's programs impact housing conditions for low-income Marylanders or the rate of homeownership for moderate-income Marylanders. This kind of evaluation would likely yield valuable information about how to make the programs more effective. There are additional concerns that the Resource Allocation Model, which is used to measure the economic impact of DHCD programs, may be calibrated to maximize reported economic impacts of DHCD investments.

Recommendations

- Evaluate how programs impact the outcomes DHCD seeks to achieve, such as increasing homeownership and boosting the percentage of Marylanders living in decent, affordable housing. These evaluations should include cost-benefit analyses. (M – 12)

- Commission an external review of DHCD's Resource Allocation Model. (M – 13)

4. Improving Customer Service and Operational Efficiency

Streamline Operational Efficiency

Several efficiency measures have been implemented by DHCD over the past five years, including reducing the servicing cost for loans, improving the efficiency of Maryland Mortgage Program loan origination, introducing new mortgage lending products, putting grant applications on line, and accelerating vendor payment processing. The department is currently implementing document imaging to improve information management and is exploring the concept of a "one-stop shop" where borrowers can find solutions to all of their affordable housing needs.

Several senior staff and customers expressed concerns about bureaucratic, time-consuming, and outdated business processes. Some individuals complained specifically about slow loan processing and a lack of transparency in lending decisions. The challenge in assessing DHCD's business processes is that, for the most part, the department does not measure its operational performance in a systematic way. It appears that specific obstacles to progress include legacy administrative systems in need of replacement, lack of investment in formal business process reengineering, and resistance to using electronic signature technology, which would open the door to automating several paper-intensive activities.

Recommendations

- DHCD should develop operational metrics for all of its business functions. These metrics should be monitored monthly by senior managers. They should include indicators of such things as timeliness, accuracy, efficiency, compliance, project status, and customer satisfaction. For each metric, DHCD should establish standard and target performance levels. A quarterly "scorecard" report for the Secretary would show traffic light (red/yellow/green) scores for each metric. Score-carding is a good accountability tool and promotes competition across diverse business functions. (M – 14)
- DHCD should use its metrics scores to identify candidates for formal Business Process Reviews (BPRs). BPRs map processes in detail and recommend efficiency improvements such as streamlining and automation. (M – 15)
- DHCD should work with the State Attorney General's office to implement electronic signature technology in a way that meets legal requirements. Electronic signatures open up vast opportunities to automate business processes, eliminate paper, improve information management, and reduce burden on customers and staff. (M – 16)
- DHCD should use competition to improve performance and reduce costs. Competition could take the form of inviting private, non-profit, and other state government organizations to bid against current employees to perform selected business functions. These competitions are frequently won by current employees and generate 20-30 percent savings. They rarely result in layoffs, because if an outside organization wins, it must look first to the current employees in hiring staff. An alternative to open competition is called "bid to goal," in which employees bid against a mock proposal developed by industry experts. (M – 17)

Build Customer Service

The most recent annual customer satisfaction survey, for calendar year 2005, is oriented more toward gathering marketing information (how customers learned about DHCD, why they chose a DHCD program, ratings of the web site) than gaining insights into the customer experience. The results are generally positive, but it is a basic survey and provides little data that would be useful for managers.

- DHCD can strengthen its customer feedback mechanisms in several ways (M – 18):

    - Conduct a more comprehensive, in-depth annual customer survey. DHCD should use the University of Michigan's American Customer Satisfaction Index (ACSI).

    ACSI is scientific, inexpensive, and would allow DHCD to benchmark its scores against like organizations.
  - Gather continuous customer feedback through mini-surveys given when transactions are completed (such as loan closings). The information from these surveys could be used for monthly metrics to give managers signals of how well their customer service initiatives are working.
  - Appoint a Customer Ombudsman and Customer Advisory Board. These steps would show DHCD's commitment to its customers and enhance communication about emerging issues.
  - Publish customer service standards and give customers recourse if they are not met. For example, borrowers whose loans are not processed within a specified time period might be given a slightly lower interest rate.
  - Assign an "Expediter" to help customers navigate the loan process. This gives each customer more efficient, personal service and keeps them from getting the "run around."

- DHCD should look for opportunities to give customers "self-service" capability and choices in service providers. For instance, make it possible for customers to complete the entire loan process online. (M – 19)
- DHCD should provide one-stop shopping for its products and services. (M – 20)

Improve Grants and Loans Management
The Neighborhood Revitalization program is struggling to effectively manage over 1,000 projects and is constrained from pulling the plug on bad projects. These findings, added to the fact that Department of Legislative Services auditors have repeatedly identified grants oversight weaknesses in the Community Legacy and Neighborhood Business Works programs, raised concerns. DHCD staff report that a fully integrated grants management system is now in place.

Recommendations
- New DHCD leadership should ensure that the agency has adequate resources to monitor its grant portfolio. (M-21)
- DHCD should be authorized to process and close State rental housing loans as simply and efficiently as possible requiring only the essential legal documentation to protect the Department's security interest. (M – 22)
- DHCD should establish a small internal control assessment team to continuously test internal controls and coordinate corrective actions. The agency should not rely on triennial DLS audits to identify deficiencies. (M – 23)

5. Strengthening Human Capital

One of the most widely shared concerns identified by DHCD managers is that the Maryland state government position classification and salary structure is an impediment to attracting and retaining talented staff. More than most state agencies, DHCD competes directly with the private sector – in this case the lucrative financial services industry. DHCD hires and trains bright young financial analysts, only to see them lured away by much higher salaries, not only in the private sector, but also in the federal government, many of Maryland's city and county governments, and other states' housing authorities.

Some senior managers say that the result of these recruitment and retention difficulties is an insufficiently experienced workforce and heavy reliance on a relatively small cadre of high performing employees. One senior manager went so far as to say that a lack of experienced staff threatens DHCD's ability to raise capital at the lowest possible rates.

DHCD has taken steps to address a few specific staffing challenges. It upgraded financial analyst positions, replacing clerical staff with professionals, and used special visas to hire software developers from India.

One important element of human capital is the investment in employee's professional development and monetary awards for outstanding performance. DHCD's spending on employee training is well below the industry standard of two percent of payroll; it was only 0.79 percent in FY 2007.

Incentive awards can be made to employees at the Secretary's discretion within the provisions of the State Personnel and Pension Article 10-204. The maximum award is $3,000. According to the human resources director, DHCD has had a very active Employee Recognition Program since 1992. However, the amount of funding devoted to performance incentives is negligible, averaging one-tenth of one percent of payroll over the past four years. DHCD should spend at least one percent of payroll on performance pay.

In 2006, DHCD presented a proposal to the Secretary of Budget & Management to establish a more robust Merit Bonus Program, offering to serve as a pilot agency. DBM has not yet responded to the Merit Bonus Program, but did suggest that DHCD make fuller use of the current Incentive Awards program.

An interesting opportunity to leverage human capital and innovation is through the utilization of Governor's Policy Fellows. Interns and fellows can provide a unique "R&D" capacity that state personnel policies and budgets may not otherwise allow, and can move into permanent positions upon program completion or graduation.

The racial diversity of DHCD's staff matches closely that of the state as a whole. Few concerns were raised about diversity issues in the department, though one senior manager recommended a stronger diversity training program.

Recommendations

- DHCD should be freed from the state's one-size-fits-all personnel structure and given more flexibility to set staffing levels, salaries, appraisal and incentive systems, and conditions of employment. This flexibility is justified by DHCD's financial self-sufficiency and unique challenges in attracting and retaining staff for critical positions. (M – 24)
- DHCD should be authorized to pilot the Merit Bonus Program it has proposed, as well as a gainsharing program in which employees can receive a portion of the savings they

generate through efficiency initiatives. A significant percentage of merit pay should be linked directly to work unit achievement of quantitative performance targets. (M – 25)

- DHCD should develop a human capital strategic plan that (M – 26):
    - incorporates results of an employee satisfaction survey;
    - analyzes critical workforce skill gaps and outline steps to fill them, including more focused employee training;
    - mitigates the impact of retirements and other departures through succession planning and knowledge management;
    - improves diversity through targeted outreach and hiring programs;
    - promotes greater efficiency in human capital management systems by increasing the use of technology and using operational metrics;
    - ensures that employee work plans and appraisals are aligned with the department's strategic plan and performance measures, and that high performers are meaningfully recognized;
    - empowers front-line employees to make decisions and effectively serve customers;
    - promotes a family-friendly workplace, including through telework and flexible work schedules; and
    - makes full use of any and all flexibilities provided under the state's personnel system that would help DHCD attract and retain talented staff.

- DHCD should seek to incrementally increase its investment in employee training and education, with funding targeted at the skill gaps identified in the human capital strategic plan. The department should partner with a state university to offer degree or continuing education opportunities to employees (M – 27).
- Leverage the research and development opportunities that Policy Fellows and Interns can offer by strengthening relationships with the University of Maryland system. (M – 28)
- Maintain staff diversity throughout all levels of the agency. (M –29)

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[1] Metropolitan Regional Information Systems
[2] 2000 and 2005 Census Data. Income figures for 2006 are not yet available.
[3] 2000 and 2005 Census Data
[4] Maryland Department of Planning, "Development Capacity Task Force Report" July 1, 2004
[5] Maryland Department of Planning
[6] Taken from a publication by the League of Women Voters entitled "Affordable Housing – What Is It?" dated 10/05.
[7] Metropolitan Regional Information Systems
[8] The U.S. Conference of Mayors, *Metro Economies Report,* October 2006. Available online at www.mayors.org.
[9] Baltimore City Department of Planning
[10] Baltimore Housing