

PHED COMMITTEE #1
April 13, 2015

MEMORANDUM

April 9, 2015

TO: Planning, Housing, and Economic Development Committee
FROM: Linda McMillan, Senior Legislative Analyst *JM*
SUBJECT: **Worksession: FY16 Operating Budget: Housing Opportunities Commission**

Those expected to attend this worksession:

Stacy Spann, Executive Director, Housing Opportunities Commission (HOC)
Gail Willison, Chief Financial Officer, HOC
Terri Fowler, Budget Officer, HOC
Jennifer Bryant, Office of Management and Budget

Overview

For FY16, the County Executive recommends that \$6,401,408 in County tax-supported funding be provided to the Housing Opportunities Commission in support of HOC activities. This is an increase of \$24,928, or 0.39% from the FY15 approved amount of \$6,376,480. These funds are appropriated to the HOC Non-Departmental Account (NDA) and then transferred to HOC by the Director of Finance.

FY12 Approved	5,513,840
FY13 Approved	5,583,230
FY14 Approved	6,093,310
FY15 Approved	6,376,480
FY16 CE Rec	6,401,408
% Change FY15-16	0.39%

In addition to these funds, HOC also receives County funding through the Capital Improvements Program, the Housing Initiative Fund, the Department of Health and Human Services and an abatement of taxes through the Payment In Lieu of Taxes (PILOT) program. However, most of HOC's budget does not come from County funding. The total FY15 Adopted Budget for HOC is \$246,892,320. HOC has adopted a two-year budget cycle and so has a FY16 Adopted Budget of \$247,751,090.

The following table shows the uses of the County funds appropriated through this non-departmental account for FY14 and FY15. At Council staff's request, HOC staff has provided a potential distribution for FY16.

	FY14 Approved	FY15 Approved	FY16 CE (Potential)
Resident Services	4,296,229	4,369,846	4,426,265
Client Services	659,161	868,714	837,223
Customer Service Center Rent	100,000	100,000	100,000
Homeowners Association Fees	157,640	157,640	157,640
Holy Cross Center at Elizabeth House	10,000	10,000	10,000
Rental License Fees	340,280	340,280	340,280
Affordable Housing Electricity	530,000	530,000	530,000
TOTAL	6,093,310	6,376,480	6,401,408

Council staff has called the FY16 CE "potential" because, as mentioned, HOC has a two-year budget cycle and the Commission has not yet made adjustments and amendments to the FY16 budget adopted last year. HOC requested the Executive provide an additional \$222,910 (a 3.5% increase) from the FY15 Approved to provide for annualized costs for the positions associated with these programs. The Executive's Recommended Budget says that he is recommending funds for the increased personnel costs but then also recommends a \$197,982 reduction in operating expenses, resulting in the net increase of \$24,928.

Council staff recommends approval of the County Executive's recommended total amount of \$6,401,408 recognizing that HOC may need to allocate the funding differently. The impact is likely to be different from that described by the Executive because HOC will need to cover the increased personnel costs and may not be able to make operating reductions as recommended by the Executive.

Attached at ©1-3 is the Budget Message from Executive Director Spann that was included in last June's FY2015-16 Adopted Budget.

Budget Message

Adopted Budget
June 4, 2014

From Stacy L. Spann, Executive Director

Overview

The FY 2015-2016 HOC Budget reflects the progress of HOC from an agency reliant on public funding to one on a path to financial stability. Despite some challenging externalities, HOC continues to make significant progress towards this new model.

The Agency continues to seek avenues to reduce reliance on federal and other public monies. In FY 2014, HOC successfully applied to participate in the Rental Assistance Demonstration (RAD) program. The RAD program will allow HOC to convert existing multifamily Public Housing properties to a more secure project-based voucher subsidy.

Simultaneously, HOC continues to transition 669 Scattered Site Public Housing units to voucher funding, de-coupling the Agency from an unwieldy regulatory environment while continuing to serve clients of very low, low, and moderate incomes.

The shift away from Public Housing is a critical step if HOC is to remain financially viable over the long term. There is a growing consensus in the affordable housing industry that the future of Public Housing is uncertain. Voucher funding, while more stable, is not safe in the long term either.

To prepare for these eventualities, HOC must utilize a new set of tools and new approaches. The Agency must approach operations and portfolio management as a private

developer would. Each property must be evaluated on the basis of its financial performance. As appropriate, the Agency may opt to redevelop properties and possibly add market rate units to increase revenue streams. The bottom line is that for HOC to continue providing high quality, well designed, energy efficient affordable housing and strong supportive services for Montgomery County, the Agency must adapt to a new operating structure that is financially sustainable and competitive within the rental marketplace.

Although the elimination of Public Housing and other federal programs may be years away, lawmakers at every level of government continue to struggle with competing budget considerations.

The impact in FY 2014 from sequestration was significant but not as damaging as projected due to Congressional efforts to avoid secondary sequestration measures from moving forward. However, the regulatory environment continues to require administrative measurements that are largely unnecessary in light of funding reductions. HOC must continue to communicate opportunities for improved efficiencies both to our elected officials and our partners at the U.S. Department of Housing and Urban Development.

In Annapolis, lawmakers are faced with similar fiscal challenges and FY 2014 had its share of both



Special points of interest:

"The FY 2015-2016 HOC Budget reflects the progress of HOC from an agency reliant on public funding to one on a path to financial stability."

accomplishment and disappointment. Governor O’Malley’s Rental Housing Works (RHW) initiative passed the House of Delegates in late February. The RHW legislation is important for HOC and agencies across the state because it greatly simplifies the process for application and participation in the many programs available through the Maryland Department of Housing and Community Development (MDHCD). However, Public Housing Authorities continue to press officials at the MDHCD to ensure favorable treatment and access to the RHW capital without additional requirements. After a very promising start, the Maryland HOME Act was abandoned for this legislative session after advocates and landlord groups were unable to successfully negotiate a compromise bill. The HOME Act seeks to create a new statewide law which would codify a law already on the books in Montgomery County which prohibits discrimination in rental applications based on source of income.

Our partners in Montgomery County continue to be very supportive of HOC initiatives, particularly with respect to partnerships that serve the most vulnerable in our community. Their continued support and creative vision are critically important in fulfilling our mission. Because HOC must increasingly pursue alternative methods and projects, HOC will be asking more of our local officials, if not in terms of funding then in the zoning and legislative arenas. This approach also requires that the Agency be even more vigilant of new legislation that could create unnecessary and unreasonable obstacles to the production of affordable housing in the County.

FY 2014

In FY 2014, HOC continued to evolve towards the new business model envisioned in the Agency’s Strategic Plan.

Over the past year, HOC has made considerable progress with the conversion of the disposition units. It is anticipated that by the end of FY 2014, more than 500 of the 669 units will have transitioned to voucher funding.

In FY 2014, HOC opened ten Housing Unit Based (HUB) offices located throughout the County. These offices allow the Agency to collect rent, process paperwork and provide maintenance service closer to where our clients live. In addition to the improved

service response times, HOC will realize savings in fuel consumption across our entire fleet of vehicles.

Clients also benefited in FY 2014 from the launch of 22 cloud-based computing centers. HOC is the first Public Housing Authority in the nation to offer such a service. More than 2,000 households are now able to search for employment, complete homework assignments and improve overall computer proficiency. The launch of the cloud centers will also support the next phase of the HOC Academy, which will deliver robust educational and employment training opportunities for clients. All of this is accomplished without increasing the Agency’s capital expenses.

The Agency is closing in on the launch of a new Property Assessment Tool (PAT) that will allow the Agency to accurately assist in evaluating and optimizing our portfolio based on the actual quantitative, qualitative, and compliance performance data of each property. Using the PAT will not only help HOC manage existing assets but also evaluate potential acquisition opportunities.

In FY 2014, HOC scored major successes through partnerships with Eakin, Youngentob and Associates (EYA) and Lee Development Group to redevelop the Chevy Chase Lake and Elizabeth House properties, respectively. The partnership with EYA, in which the Agency negotiated the sale of a portion of the site to EYA, is projected to yield \$19-24 million for HOC. Redevelopment plans for the site will almost triple the number of HOC owned units and nearly quadruple the number of affordable units on site from its current configuration. The successful transaction and development plan for Chevy Chase Lake provide a strong blueprint for the future redevelopment of HOC owned properties. Additionally, the partnership with the Lee Development Group allows us to transform and completely reposition an aging and functionally obsolete property sorely in need of new systems and operating life.

FY 2015-2016

HOC will continue the reorganization of the Agency with the restructuring of the Resident Services division. Along with the cloud computing centers and the rollout of the HOC Academy, HOC will formally enact HOC Works, the Agency’s Section 3 program, to benefit clients seeking employment and HOC

Connects, an initiative to help low-income HOC clients purchase laptop computers

The Real Estate Development team will continue to evaluate HOC's portfolio as well as identify opportunities which could yield additional affordable housing for Montgomery County. Special attention will be given to opportunities that already exist in the Agency portfolio in terms of redevelopment, although the team will continue to be opportunistic in search of acquisition possibilities.

Property Management will continue to play a key role in the fiscal health of the Agency and great emphasis is placed on timely collection and processing of rent payments. Much of this effort relies on focused and disciplined property management and maintenance efforts. As new and rehabilitated product is brought on line, the Property Management team is critical in ensuring that the useful life is maximized and that the Agency liaises with our residents to provide the proper support.

