

SUBJECT

Homelessness and Housing Initiative Fund (HIF): FY21 Operating Budget including PILOT limits; and, FY21-26 Capital Improvements Program: (1) Affordable Housing Acquisition and Preservation; and (2) Affordable Housing Opportunity Fund

EXPECTED ATTENDEES

Aseem Nigam, Director, Department of Housing and Community Affairs (DHCA)
 Frank Demarias, Deputy Director, DHCA
 Amanda Harris, Chief, Services to End and Prevent Homelessness
 Stacy Spann, Executive Director, Housing Opportunities Commission
 Pofen Salem, Office of Management and Budget

1. HOUSING INITIATIVE FUND (OPERATING AND CAPITAL)

EXECUTIVE RECOMMENDATION

| | | |
|-------------------------------|----------------------|----------------|
| FY21 Executive Recommendation | \$84,713,877 | 18.05FTE |
| Increase (Decrease) from FY20 | \$19,536,123 7.3% | 1.0FTE 4.2% |

COUNCIL STAFF RECOMMENDATION – CONTINUITY OF SERVICES BUDGET

| | | |
|--------------------------------------|-------------------------|--------------------|
| FY21 Council Staff Recommendation | \$78,647,054 | 17.05FTE |
| Increase (Decrease) from FY20 | \$13,469,300 20.7% | (0.0)FTE (0.0%) |
| Increase (Decrease) from CE FY21 Rec | (\$6,066,823) (7.2%) | (1.0)FTE (5.5%) |

EXECUTIVE RECOMMENDED ITEMS NOT INCLUDED IN CONTINUITY OF SERVICES

- Manager for complex financial agreements and Right of First Refusal proposals (\$93,530).
- FY21 Compensation Adjustment (\$42,355).
- Retain FY20 level of \$8,005,743 in operating budget funds for affordable housing loans and grants. This is a reduction of \$5,930,938 from the CE Recommendation.
- Reduce the Transfer from the General Fund to the HIF by \$5,146,823.

CONTINUITY OF SERVICES FROM FY20

- Retain the expected FY21 beginning fund balance.
- Retain the FY20 ending fund balance assumption.

- Retain the CE Recommendations for debt service, rental assistance, DHHS housing programs, Neighborhoods to Call Home contracts, homeownership assistance, other claims on fund balance.
- Approve the Executive’s recommendation for the annual maximums for Payment in Lieu of Taxes (PILOT) agreements for non-HOC affordable housing developments. Maximum for FY21 is \$19,070,508 rising to \$25,105,230 by FY30.
- Approve the Affordable Housing Acquisition and Preservation CIP project as recommended by the County Executive. This will provide \$22 million in funding in FY21. This is consistent with the FY20 funding. See staff report pages 4-6 for details on this CIP project.
- Approve including the Affordable Housing Opportunity Fund project in the CIP but do NOT appropriate at this time. This project assumes that in FY21, \$10 million (funded by Recordation Tax Premium) will be available to leverage other financing sources to create a \$40 to \$50 million short-term financing fund. By not appropriating, the PHED Committee and Council can have further discussion on implementation before it moves forward.

See table on page 2 of the staff report for the line item changes from the Executive Recommended to the Council staff recommendation.

POTENTIAL REDUCTIONS - REVENUES

- DHCA has authorized loan payment deferrals through June 30, 2020 (© 9-10). Deferrals will change when revenue is received but will not reduce it. DHCA continues to meet with non-profit housing developers on issues related to the public health crisis. The financial stability of affordable housing developments is a national and local issue.
- The Recordation Tax Premium funds \$17 million in rental assistance programs. It is also the source of funding for the Affordable Housing Opportunity Fund. This revenue source is likely to be negatively impacted by the health and financial crisis.

POTENTIAL ITEMS RELATED TO COVID-19

- Rental/financial assistance either to tenants or directly to affordable housing providers will be needed.
- Monitoring of existing market affordable housing will be important to determine if owners/landlords are impacted in ways that result in the potential loss of affordable units.

This report contains:

| | |
|--|-----------|
| Staff Report | Pages 1-9 |
| CE Recommended Budget Excerpt on HIF | © 1-8 |
| DHCA advisory on loan repayment deferment, management of reserves, and compliance and reporting (April 20, 2020) | © 9-10 |
| Affordable Housing Acquisition and Preservation PDF | © 11-12 |
| Affordable Housing Opportunity Fund PDF | © 13-14 |

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M E M O R A N D U M

TO: County Council

FROM: Linda McMillan, Senior Legislative Analyst

SUBJECT: Housing Initiative Fund: FY21 Operating Budget including PILOT limits and FY21-26 Capital Improvements Program: (1) Affordable Housing Acquisition and Preservation; and (2) Affordable Housing Opportunity Fund

Summary of HIF Recommendation

The Housing Initiative Fund is a combination of Operating and Capital funds that:

- Supports the production and preservation of affordable housing through financing agreements,
- Assists with the provision of affordable housing for special needs populations,
- Funds certain rental assistance programs administered by the Department of Health and Human Services and Housing Opportunities Commission,
- Funds eviction prevention and rental agreements administered by the Department of Housing and Community Affairs,
- Funds contracts with non-profit organizations,
- Provides assistance to first-time homeowners meeting criteria for the State’s financing programs.

The County Executive’s FY21 recommendation for the HIF increases the funding available for program uses by \$19,536,123; \$10 million of which is in a new CIP project, the Affordable Housing Opportunity Fund. The Executive increases the transfer of General Funds to the HIF by \$6.4 million to a total of \$31.6 million.

In addition to the funding in the HIF, the budget notes that there are these additional investments in affordable housing:

| | FY20 Approved | FY21 CE Recommended* |
|--------------------------------------|---------------|----------------------|
| DHHS Housing Programs (General Fund) | 14,570,278 | 17,682,411 |
| HOC NDA Funding | 6,788,019 | 6,962,075 |
| PILOT HOC (value) | 9,833,474 | 10,079,311 |
| PILOT non-HOC (value) | 18,162,389 | 19,070,508 |

*Council staff will recommend reductions for continuity of service level.

The table on the following page outlines the **Council staff recommendation for Continuity of Services. If accepted, it would result in “Funding Available for Program Uses” to be reduced by \$6,066,823 and a reduction of \$5,146,823 in the General Funds transferred to the HIF.** The six-year fiscal plan for the HIF is attached at © 7.

| Housing Initiative Fund Approved and Recommended | FY20 Approved** | FY21 CE Rec | \$ Change FY20**-CE | COUNCIL STAFF | \$ Change CE-CC STAFF |
|--|----------------------------|------------------------|--------------------------------|--------------------------|----------------------------------|
| Resources (non-CIP): | | | | | |
| Beginning Balance | 7,160,000 | 9,570,240 | 2,410,240 | 9,570,240 | - |
| Transfer from the General Fund | 25,342,876 | 31,758,868 | 6,415,992 | 26,612,045 | (5,146,823) |
| Miscellaneous Revenues | 23,944,769 | 25,024,334 | 1,079,565 | 25,024,334 | - |
| | | | | | - |
| Resources Before Required Transfers | 56,447,645 | 66,353,442 | 9,905,797 | 61,206,619 | (5,146,823) |
| | | | | | - |
| Required Transfers: | | | | | |
| Transfer to Debt Service Fund (debt service on acquisition and preservation bonds) | (9,623,700) | (10,927,100) | (1,303,400) | (10,927,100) | - |
| To General Fund for Indirect Costs | (476,191) | (462,465) | 13,726 | (462,465) | - |
| Non-CIP Resources Available for Programs | 46,347,754 | 54,963,877 | 8,616,123 | 49,817,054 | (5,146,823) |
| | | | | | - |
| Uses: | | | | | |
| Operating Budget (Personnel and Operating Expense) | 3,710,205 | 3,386,035 | (324,170) | 3,250,150 | (135,885) |
| Debt Service Other | 56,750 | 52,050 | (4,700) | 52,050 | - |
| Labor Agreements | | - | | - | - |
| Rental Assistance (Recordation Tax Funded) | 16,367,562 | 17,217,608 | 850,046 | 17,217,608 | - |
| Affordable Housing Loans (incl Special Needs) | 8,005,743 | 13,936,681 | 5,930,938 | 8,005,743 | (5,930,938) |
| HHS Housing Programs | 9,706,200 | 9,706,200 | | 9,706,200 | - |
| Neighborhoods to Call Home | 1,181,340 | 1,251,340 | 70,000 | 1,251,340 | - |
| Homeownership Assistance Program | 2,000,000 | 2,000,000 | | 2,000,000 | - |
| Subtotal New Expenditures | 41,027,800 | 47,549,914 | 6,522,114 | 41,483,091 | (6,066,823) |
| Other Claims on Fund Balance | 2,149,954 | 5,163,963 | 3,014,009 | 5,163,963 | - |
| TOTAL Use of Op Budget Resources | 43,177,754 | 52,713,877 | 9,536,123 | 46,647,054 | (6,066,823) |
| | | | | | - |
| Ending Balance | 3,170,000 | 2,250,000 | (920,000) | 3,170,000 | 920,000 |
| | | | | | - |
| New CIP Funding | | | | | |
| HIF Revolving Program | 20,359,000 | 13,293,000 | (7,066,000) | 13,293,000 | - |
| Loan Repayment Proceeds* | 1,641,000 | 8,707,000 | 7,066,000 | 8,707,000 | - |
| Affordable Housing Opportunity Fund | | 10,000,000 | 10,000,000 | 10,000,000 | - |
| Estimated CIP Funding | 22,000,000 | 32,000,000 | 10,000,000 | 32,000,000 | - |
| | | | | | - |
| HIF Funding available for Program Uses | 65,177,754 | 84,713,877 | 19,536,123 | 78,647,054 | (6,066,823) |
| | | | | | - |
| *Display shows FY19 original approved. \$4.771 million in FY19 loan repayments later approved as an amendment. | | | | | |
| **Change is FY20 Approved to FY21 Executive Recommended | | | | | |

The following breaks out the amount for housing development and acquisition for preservation.

| NEW HIF Funding Available for Housing, Production, Acquisition, and Preservation: | FY20 Approved | FY21 CE Rec | \$ Change FY20**-CE | COUNCIL STAFF | \$ Change CE-CC STAFF |
|--|--------------------------|------------------------|--------------------------------|--------------------------|----------------------------------|
| CIP Affordable Housing Acquisition Preservation PDF | 22,000,000 | 22,000,000 | 0 | 22,000,000 | 0 |
| Affordable Housing Opportunity Fund PDF | na | 10,000,000 | 10,000,000 | 10,000,000 | 0 |
| Operating Budget Affordable Housing Loans | 8,005,743 | 13,936,681 | 5,930,938 | 8,005,743 | (5,930,938) |
| | | | | | - |
| TOTAL | 30,005,743 | 45,936,681 | 15,930,938 | 40,005,743 | (5,930,938) |

Council staff makes this recommendation understanding that the Council has not changed its unanimous support for increasing housing and affordable housing, its commitment to the Council of Government's housing goals, the commitment to make homelessness brief and non-recurring,

and reducing the number of households who are extremely rent-burdened. The Council's budget framework calls for a continuity of services because of the unique financial circumstances the county in at this moment because of the public health crisis.

In addition, Council staff notes that the Council has appropriated funds for emergency financial assistance and rent assistance and will be considering the use of available federal and state funds.

The Council staff recommendation:

- Retains the expected FY21 beginning fund balance.
- Reduces Personnel Cost by \$93,530 for a new Manager position that would be assigned to work on complex financing agreements and support the review of Right of First Refusal proposals.
- Reduces Personnel Cost by \$42,355 for FY21 compensation increases.
- Retains the FY20 level of operating budget funds for loans and grants which results in a reduction of \$5,930,938.
- Retains the FY20 assumption for the ending fund balance of \$3,170,000 for some additional flexibility/stability. This is \$920,000 above the CE FY21 estimate.
- Accounts for the resources needed to pay increased debt service.
- Reduces the transfer from the General Fund by \$5,146,523 based on the above changes.
- Council staff is retaining the assumed Recordation Tax Premium revenues and expenses recommended by the Executive. This totals \$17,217,608. It funds:
 - \$2,899,666 for the Housing Opportunities Commission rent supplement program and targeted initiatives to special needs populations.
 - \$7,846,734 for the Department of Health and Human Services permanent supportive housing and rental assistance programs (additional funding in the DHHS operating budget).
 - \$4,017,869 for DHCA to fund rental agreements that preserve affordable rents in specific rental communities and eviction prevention.
 - DHCA retains a contingency that can released throughout the year as needed and based on actual revenues received.

DHCA Deferment of Payments and Certain Operational Requirements

On April 20, 2020 Director Nigam advised non-profit affordable housing developers which is attached at © 9-10. In part, the memo describes loan repayment deferrals that are in effect until June 30, 2020. These deferrals will impact when the county will receive expected revenues but would not reduce them. Council staff understand that DHCA has been meeting regularly with non-profit affordable housing developers/providers to discuss financial and other issues related to the emergency.

Payment in Lieu of Taxes

Current law requires the Council to set a maximum for the affordable housing payment in lieu of taxes (PILOT) agreements for non-HOC affordable housing developments. The law requires the Council to adopt ten-year limits, which can be adjusted in future years. The Director of Finance cannot sign an agreement that would exceed these maximums. The Executive is recommending the following maximum. **Council staff recommends approval.**

| Year | Amount |
|------|------------|
| FY21 | 19,070,508 |
| FY22 | 20,024,034 |
| FY23 | 20,624,755 |
| FY24 | 21,243,497 |
| FY25 | 21,880,802 |
| FY26 | 22,537,226 |
| FY27 | 23,213,343 |
| FY28 | 23,909,743 |
| FY29 | 25,105,230 |
| FY30 | 25,105,230 |

Capital Improvements Program

As has been its practice, the PHED Committee held an initial worksession on CIP projects that support the Housing Initiative Fund as a part of its February worksessions. The PHED Committee then held these projects so it would be able to review them in the context of the Operating Budget portion of the HIF. This allows a full recommendation to be brought to the Council. Because of the COVID-19 emergency, the PHED Committee did not reconvene and make final recommendations on the Affordable Housing Acquisition and Preservation project, or the new project Affordable Housing Opportunity Fund. A Council staff recommendation is provided for each.

1. Affordable Housing Acquisition and Preservation (P760100) © 11-12

Expenditures (in \$000's)

| | Total | Thru FY20 | 6 Years | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---------------|---------|-----------|---------|--------|--------|--------|--------|--------|--------|
| FY19 Approved | 225,796 | 225,796 | NA | 0 | 0 | 0 | 0 | NA | NA |
| CE Recommend | 358,236 | 226,236 | 132,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 |
| | | | | | | | | | |

FY21-26 CE Recommended Funding Schedule (in \$000's)

| | Total | Thru FY20 | 6 Years | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|-------------------------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Revenue | 4,775 | 4,775 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HIF Revolving (HIF Bonds) | 259,425 | 161,490 | 97,935 | 13,293 | 8,751 | 19,053 | 18,981 | 18,857 | 19,000 |
| Loan Repayment | 89,496 | 55,431 | 34,065 | 8,707 | 13,249 | 2,947 | 3,019 | 3,143 | 3,000 |
| Recordation Tax Premium (MCG) | 4,540 | 4,540 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 358,236 | 226,236 | 132,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 |

FY22 Appropriation: \$22 million

At the February PHED worksession, the Committee discussed the two new policies in the County Executive’s recommendation:

- **The Executive has programmed funds across all six years of the CIP.** Previously, the Executive and the Council had only shown expenditures for the first two years of this CIP project. This was in part to be able to reassess the capacity to issue new HIF debt and to adjust loan repayments. By programming across all six years, the Executive did increase the overall CIP funding, but the yearly amount was consistent with previous years. There would be no reason to think that the Council would not have continued to fund this program, and in fact, the Council added \$5 million to this project for FY20 to sustain level funding.
- **There is an expectation that debt funding will increase across the six years.** As noted above, programming the first two years of this project did not set an expectation for the continued issuance of debt (taxable bonds, not G.O. Bonds) for the next six years at about \$19 million in each of years three through six. While this can be adjusted in future years, this recommendation makes an assumption about future debt.

The PHED Committee members said that they appreciated that there will be funding now across all six years of the CIP to show ongoing commitment, noting the Council’s priority for funding this project in the past – and in the current fiscal year. The Committee’s view is that this “sets the floor” for funding. The Committee discussed the need to add resources for affordable housing financing in order to meet the Council of Government’s housing goals, which the Council unanimously supports. This may include looking at more creative ways to leverage funding from other sources.

At the February session, the PHED Committee did not make a recommendation as it was expecting to return to it during operating budget worksessions.

Council Staff Recommendation

Council staff recommends approval of this project as recommended by the County Executive. As recommended, it is consistent with a continuity of services structure.

Council staff expects that the PHED Committee and the Council will be returning the issue of affordable housing production and preservation several times during the upcoming fiscal year. The project can be amended as the fiscal picture becomes clearer and as new ways to provide financial assistance are identified.

DHCA Draft Guidelines for Use of the HIF (Notice of Funding Availability)

At the February worksession, the PHED Committee discussed the draft guidelines for use of HIF funds for financing multi-family affordable housing developments. DHCA issued the draft to have more clarity about the requirements for funding projects, which have traditionally been worked through as projects are proposed.

DHCA is continuing to work through the process for finalizing guidelines and it is somewhat dependent on what funding will be available for FY21. The PHED Committee asked that when there is a final draft, the Council receive a copy before it issued and receive copies of any comments received.

2. Affordable Housing Opportunity Fund (P762101) © 13-14

Expenditures (in \$000s)

| | TOTAL | Thru FY20 | 6 Years | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|--------------|--------|-----------|---------|--------|--------|------|------|------|------|
| CE Recommend | 20,000 | 0 | 20,000 | 10,000 | 10,000 | 0 | 0 | 0 | 0 |

FY21-26 Recommended Funding Schedule (in \$000s)

| | TOTAL | Thru FY20 | 6 Years | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|-------------------------------|--------|-----------|---------|--------|--------|------|------|------|------|
| Recordation Tax Premium (MCG) | 20,000 | 0 | 20,000 | 10,000 | 10,000 | 0 | 0 | 0 | 0 |

FY22 Appropriation: \$10 million

This new project provides \$10 million each in FY21 and FY22. The PDF says:

- Project funds would be expected to support financing activity within 6 months of allocation.
- Funds will be used to secure rental properties – right of first refusal or other situations.
- A portion of the units must serve households with incomes at or below MPDU eligibility.
- Loans will be primarily short-term (up to 36 months).
- Funds may be used for intermediate term agreements (up to 15-years).
- Funds are expected to revolve.

At the February session, the PHED Committee received an overview of this new proposal from DHCA Director Nigam and discussed a series of questions that are included later in this memo. At the February session, the PHED Committee members were encouraged that there is new thinking about how to leverage private funding or the financing capacity of other county entities but wanted to have further discussion about the specific structure of this fund.

Council Staff Recommendation

Council staff recommends that the Council include this project in the CIP but NOT APPROPRIATE at this time. This action would keep this project in the overall expenditure schedule but would require that the Council return to the project before it could be implemented by the Executive branch. In addition to giving the Council the additional time and consideration needed for creating an important new financing tool, Council staff highlights that this project is funding with Recordation Tax Premium. The availability of Recordation Tax Premium resources may change as the economic impacts of the COVID-19 are more fully understood.

Affordable Housing Opportunity Fund - Questions and Responses from the February 13, 2020 PHED Committee Worksession

1. Please provide a brief description on the structure the County expects to use to leverage non-county funds (private or other public funds). If there is more than one option under consideration, please briefly describe.

The Affordable Housing Opportunity Fund development process expects to engage financial institutions in creating the most effective structure to leverage County funds. The structures expected to be proposed would include risk sharing (using County funds as subordinated loans, or in a loss reserve) and providing cost of capital incentives for other lenders to commit funds. DHCA HIF funds traditionally serve as subordinate loans to reduce risk to senior lenders and reduce project costs. The County's funds will be in the form of a loan, not a grant, with the expectation for repayment from secured lending on the properties. DHCA expects to see proposals on different approaches for private investment, which could involve institutions having a controlled pool of funds or a process that brings funds on a transaction by transaction basis. Any structure we adopt will ensure a defined amount of funds ready and available for the targeted transaction profile, with a process providing for timely competitive bidding on properties. The level of committed private institution funding is targeted to achieve a 4:1 leveraging of County funds.

2. Will the first-year funding be limited to loans of no more than 36 months?

The FY21 funding will be used to create an acquisition focused fund with loans for up to 36 months.

3. Why are longer funding options (up to 15 years) being considered? Why not limit this fund to 36 months and then continue to use the existing HIF project fund the longer-term loans?

The potential has been identified for developing an intermediate term fund structure to attract committed pools of funds which allow a period longer than three years before refinancing with long term permanent financing and affordability. The Fund development and implementation in FY21 will help to determine the potential for FY22 funding to leverage investment funds with an intermediate horizon. The Affordable Housing Opportunity Fund project is structured for one-time funding in FY21 and FY22 and will prioritize repayments of loans to maintain a flow of repayment to fund future lending. Existing HIF project funds target long term permanent financing with affordability controls of 30 years or greater, and slow repayment.

4. DHCA indicated that seeking financing from the State of Maryland can take up to a year. Why is this? Is there a way to work with the State to accelerate their process?

The State of Maryland Bond Financing process involves the process for bond issuance and legal processing. DHCA transaction process accepts and works within the current state framework, and we will continue the dialogue with the state to support improvements.

5. The PDF only requires “a portion” of affordable units at MPDU eligible incomes. Why shouldn’t it have more specific minimum requirements, such as at least 30% at MPDU incomes and at least 10% at 50% or lower area median income (AMI)? DHCA can choose to require more, but there should be a minimum.

Acquisition financing will prioritize currently affordable properties at risk of rent increases or displacement, expecting a significant majority of units to be affordable at or below 70% AMI (MPDU eligibility). The PDF language supports design of the Fund eligibility to set a standard for affordability levels based on achieving the highest percentages of very low and low-income units. The Affordable Housing Opportunity Fund terms will include addressing the requirements for long term affordability related to the permanent financing.

6. Many of the properties that come through right of first refusal pre-date the MPDU program but now some do not. Should affordable housing requirements be in addition to the existing MPDUs? For example, if a development already has 15% MPDUs, the project absolutely should be providing a much larger percentage of MPDUs and not just the percent that was already funded through the density of the original development.

DHCA priorities for both the new Affordable Housing Opportunity Fund and the existing long-term capital loans focus on maximizing the number of restricted units and level of affordability of the units. A redevelopment of a property with continuing MPDU requirements would recognize those units as not needing subsidy and would evaluate the proposal on the basis of creating new controlled units.

Concern:

1. The MHI/HIF is established in County Code and regulation (attached @ 33-35). Council staff recommends that the PHED Committee and Council should look to revise the law so that it better reflects the current structure and use of the HIF and establishes the Housing Opportunity Fund and clarifies the time limits for loans and the rules for how it revolves.

DHCA has conferred with the County Attorney's Office. Section 25B-9(b) of the Code, the law establishing the MHI/HIF, provides that the MHI/HIF fund "may use appropriated funds and receipts from any source" Hence, amending the Chapter 25B to address the Affordable Housing Opportunity Fund is probably unnecessary. However, DHCA looks forward to working with the Council to address all concerns and suggestions for updating the law.



Housing and Community Affairs

RECOMMENDED FY21 BUDGET

\$66,297,423

FULL TIME EQUIVALENTS

101.00

 **ASEEM NIGAM, DIRECTOR**

MISSION STATEMENT

The mission of the Department of Housing and Community Affairs (DHCA) is to prevent and correct problems that contribute to the physical decline of residential and commercial areas; ensure fair and equitable relations between landlords and tenants; increase the supply of affordable housing; and maintain existing housing in a safe and sanitary condition.

BUDGET OVERVIEW

The total recommended FY21 Operating Budget for the Department of Housing and Community Affairs is \$66,297,423, an increase of \$7,536,514 or 12.83 percent from the FY20 Approved Budget of \$58,760,909. Personnel Costs comprise 18.47 percent of the budget for 106 full-time position(s) and one part-time position(s), and a total of 101.00 FTEs. Total FTEs may include seasonal or temporary positions and may also reflect workforce charged to or from other departments or funds. Operating Expenses and Debt Service account for the remaining 81.53 percent of the FY21 budget.

DHCA expects the total signed agreements for affordable housing projects through the Payment in lieu of Taxes (PILOT) program to abate \$19.1 million in taxes in FY21.

In addition, this department's Capital Improvements Program (CIP) requires Current Revenue funding.

COUNTY PRIORITY OUTCOMES

While this program area supports all seven of the County Executive's Priority Outcomes, the following are emphasized:

-  **An Affordable, Welcoming County for a Lifetime**
-  **A Greener County**
-  **Effective, Sustainable Government**

INITIATIVES

- ★ Provide the highest level of affordable housing funding in County history by allocating \$84.7 million in affordable housing. This includes \$52.7 million in the Montgomery Housing Initiative (MHI) Fund, \$22 million in FY21 for the Affordable Housing Acquisition and Preservation CIP project, and \$10 million for the new Affordable Housing Opportunity Fund. This increases dedicated funding and provides for renovation of distressed housing, the acquisition and preservation of affordable housing units, creation of housing units for special needs residents, services to the "Building Neighborhoods to Call Home" and "Housing First" programs, and creation of mixed-income housing.
- ★ Provide new resources to streamline affordable housing underwriting, Accessory Dwelling Unit (ADU) navigation and production, tenant advocacy and support, and assistance for the Distressed Community Task Force.
- ★ Continue to protect lower-income residents living near transit corridors from rent increases by working with nonprofits to identify and preserve at-risk naturally-occurring affordable housing (NOAH) and actively engaging purchasers with rental agreements to preserve affordable rents.
- ★ Continue to actively underwrite affordable housing loans to preserve and produce affordable housing. Four developments, including one senior and three family projects, have already been identified with another thirteen under consideration. These four developments would preserve or produce over 1,000 total and 800 affordable units.
- ★ Create a Countywide Facade Easement Capital Improvement Program to revitalize commercial areas, with a focus on older commercial property, throughout Montgomery County to stimulate local economic growth. The objective is to provide support to small business and to encourage private investment. Improvements will include gateway signage, pedestrian lighting, connectivity, streetscape elements, plant material installation, acquisition of long-term facade and center signage easements, and other amenities. DHCA has initially identified five commercial areas, including Montgomery Village, Hillandale, Downtown Wheaton, Glenmont, and Layhill Shopping Centers. This program may also be expanded to other areas of the County.
- ★ Collaborate with Health and Human Services (HHS) and the Housing Opportunities Commission (HOC) to provide rental assistance programs to the County's most vulnerable residents. Over 4,500 households are projected to be assisted in FY21. A renewed focus will be on eviction prevention including targeted assistance and financial literacy seminars in areas experiencing high evictions.
- ★ Receive additional funding from Federal grants (i.e., Community Development Block Grant - CDBG, the HOME Investment Partnership Grant, and the Emergency Solutions Grant), which provide funding for affordable housing, housing rehabilitation, commercial revitalization, focused neighborhood assistance, public services, and preventing homelessness.

INNOVATIONS AND PRODUCTIVITY IMPROVEMENTS

- ★ Hosted a developer's forum to provide clarity on the County's housing objectives and affordable housing project review process, and to solicit recommendations from development partners. With this information, DHCA developed a point-based affordable housing loan application scoring system, created a housing advisory committee to review and make county funding recommendations, and announced the County's first Notice of Funding Availability (NoFA). This innovative approach provides structure and transparency throughout the loan review process.
- ★ DHCA's technology team continues to update its core application portfolio with additional or improved functionalities to support new and existing business needs. Specific examples include implementing full-text search of the Commission on Common Ownership Communities (CCOC) decisions and creating a new system to support electronic citation writing and management. DHCA is currently undertaking a project to address the growing housing inspection volume through route optimization and workload management improvements.
- ★ Continued efforts to co-locate housing projects with County facilities with requirements that these projects provide units for very low and low income tenants.

- ✦ Planning the deployment of a new Internet-facing affordable housing search application called "Market Place". The Market Place leverages the most recent web application development standards providing users with an intuitive and efficient interface. The application emphasizes speed, accuracy, and responsiveness.
- ✦ Implemented the Code Enforcement Handbook to provide property owners and residents with detailed, illustrated information about housing code requirements and enforcement. The Code Enforcement Handbook will be available online to provide an easy access to resources and references.

PROGRAM CONTACTS

Contact Tim Goetzinger of the Department of Housing and Community Affairs at 240.777.3728 or Pofen Salem of the Office of Management and Budget at 240.777.2773 for more information regarding this department's operating budget.

PROGRAM PERFORMANCE MEASURES

Performance measures for this department are included below (where applicable), with multi-program measures displayed at the front of this section and program-specific measures shown with the relevant program. The FY20 estimates reflect funding based on the FY20 Approved Budget. The FY21 and FY22 figures are performance targets based on the FY21 Recommended Budget and funding for comparable service levels in FY22.

PROGRAM DESCRIPTIONS

✦ Administration

This program provides overall direction, administration, and managerial support to the Department. Activities include budgeting, financial management, asset management, personnel management and administration, program oversight, training, automated systems management, and policy/program development and implementation.

| Program Performance Measures | Actual FY18 | Actual FY19 | Estimated FY20 | Target FY21 | Target FY22 |
|---|--------------|--------------|----------------|--------------|--------------|
| Asset Management - Loan repayments billed / received ¹ | \$12,617,188 | \$14,169,659 | \$10,000,000 | \$11,000,000 | \$12,000,000 |
| Department MC311 Service Requests (SR) | 19,892 | 22,247 | 24,000 | 25,000 | 26,000 |
| Department MC311 Service Request success rate | 83.22% | 87.30% | 93.02% | 94.00% | 95.00% |
| NACo Awards earned | 0 | 5 | 3 | 4 | 4 |

¹ FY18/19 spike in loan repayments includes several large refinancing payoffs.

| FY21 Recommended Changes | Expenditures | FTEs |
|---|------------------|--------------|
| FY20 Approved | 2,193,362 | 13.20 |
| Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. | 31,080 | 0.00 |
| FY21 Recommended | 2,224,442 | 13.20 |

✦ Affordable Housing Programs

This program creates and preserves affordable single-family housing units. It enforces Chapter 25A of the County Code to ensure that Moderately Priced Dwelling Units (MPDUs) are provided and monitored for resale control. The Code requires that 12.5 percent to 15.0 percent of an approved development of 20 dwelling units or more be MPDUs, depending on the amount of



Multi-Family Housing Programs

This program creates and preserves affordable multi-family housing units. Loans are made to the HOC, nonprofit organizations, property owners, and for-profit developers. This program provides funding to:

- preserve existing affordable housing units;
- construct and acquire affordable housing units;
- rehabilitate existing rental housing stock;
- participate in housing or mixed-use developments that will include affordable housing;
- acquire land to produce affordable housing; and
- provide low-income rental housing assistance.

Major funding for these projects is provided from the Montgomery Housing Initiative Fund, the Federal HOME Grant, the Federal Community Development Block Grant, and State grants. The program emphasizes the leveraging of County funds with other public and private funds in undertaking these activities.

| Program Performance Measures | Actual FY18 | Actual FY19 | Estimated FY20 | Target FY21 | Target FY22 |
|--|----------------|----------------|-------------------|----------------|----------------|
| Number of affordable housing units preserved and available for occupancy (County funded) | 3,644 | 6,019 | 5,264 | 5,290 | 4,952 |
| Number of affordable housing units produced and available for occupancy (County funded) ¹ | 468 | 403 | 621 | 585 | 150 |
| Ratio of non-County dollars leveraged to County dollars in affordable housing projects | 1.07 | 4.54 | 9.49 | 4.85 | 5.00 |
| Total affordable housing units produced | 1,525 | 1,623 | 1,376 | 1,002 | 544 |
| Total affordable housing units preserved ² | 4,390 | 6,077 | 6,118 | 6,205 | 5,713 |

¹ Out year projections may fluctuate based on current pipeline activity and certain assumptions on preservation / production strategies.

² Preservation increases projected in FY18-20 due to increases in MHI rental assistance funding.

| FY21 Recommended Changes | Expenditures | FTEs |
|---|-------------------|-------------|
| FY20 Approved | 40,024,810 | 6.90 |
| Increase Cost: Affordable Housing Initiative | 6,915,992 | 0.00 |
| Increase Cost: Operating Expenses to Reflect Adjusted Revenue Estimates | 605,499 | 0.00 |
| Add: Capital Improvement Manager for the Right of First Refusal and Preservation Housing Projects | 93,530 | 1.00 |
| Decrease Cost: Operating Expenses to Offset Personnel Cost Increase | (93,530) | 0.00 |
| Decrease Cost: Operating Expenses to Reflect Adjusted Debt Service Transfer | (1,303,400) | 0.00 |
| Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. | (26,618) | 0.00 |
| FY21 Recommended | 46,216,283 | 7.90 |

Neighborhood Revitalization

This program provides planning and implementation for neighborhood revitalization in targeted areas. Activities include commercial revitalization (physical and economic) in both local retail centers and central business districts as well as assistance to address other community concerns, including issues related to housing and public services. Primary funding for these activities is provided from the County's Capital Improvements Program and from other Federal and State funds, including Community Development Block Grants and State Community Legacy Grants.

BUDGET SUMMARY

| | Actual FY19 | Budget FY20 | Estimate FY20 | Recommended FY21 | %Chg Bud/Rec |
|----------------------------------|-------------------|------------------|------------------|---------------------|-----------------|
| State Grants | (35,957) | 0 | 0 | 0 | — |
| Grant Fund - MCG Revenues | 11,089,032 | 9,074,224 | 9,074,224 | 9,730,075 | 7.2 % |

DEPARTMENT TOTALS

| | | | | | |
|---------------------------|------------|------------|------------|------------|--------|
| Total Expenditures | 65,615,163 | 58,760,909 | 58,764,881 | 66,297,423 | 12.8 % |
| Total Full-Time Positions | 102 | 106 | 106 | 106 | — |
| Total Part-Time Positions | 2 | 1 | 1 | 1 | — |
| Total FTEs | 97.45 | 100.70 | 100.70 | 101.00 | 0.3 % |
| Total Revenues | 45,537,734 | 40,953,692 | 40,746,994 | 43,091,323 | 5.2 % |

FY21 RECOMMENDED CHANGES

| | Expenditures | FTEs |
|---|-------------------|--------------|
| COUNTY GENERAL FUND | | |
| FY20 ORIGINAL APPROPRIATION | 8,403,108 | 62.65 |
| <u>Changes (with service impacts)</u> | | |
| Add: Program Manager for Accessory Dwelling Unit Navigation and Compliance [Licensing and Registration] | 79,534 | 0.00 |
| Add: Office Services Coordinator for Improving Landlord Tenant Relations [Landlord-Tenant Mediation] | 60,818 | 0.00 |
| Add: COC Program Office Service Coordinator for Distressed Communities Initiative and Records Processing [Common Ownership Community Program] | 60,818 | 0.00 |
| <u>Other Adjustments (with no service impacts)</u> | | |
| Shift: Funding from Community Grants to the Department's Base Budget [Grants Administration - Federal Programs] | 245,000 | 0.00 |
| Increase Cost: FY21 Compensation Adjustment | 162,623 | 0.00 |
| Increase Cost: Annualization of FY20 Lapsed Positions | 147,640 | 0.00 |
| Increase Cost: Annualization of FY20 Compensation Increases | 73,045 | 0.00 |
| Increase Cost: Print and Mail Adjustment | 4,136 | 0.00 |
| Re-align: Personnel FTE Adjustment [Affordable Housing Programs] | 0 | 2.60 |
| Decrease Cost: Elimination of One-Time Items Approved in FY20 | (13,760) | 0.00 |
| Decrease Cost: Motor Pool Adjustment | (70,331) | 0.00 |
| Decrease Cost: Retirement Adjustment | (135,197) | 0.00 |
| FY21 RECOMMENDED | 9,017,434 | 65.25 |
| MONTGOMERY HOUSING INITIATIVE | | |
| FY20 ORIGINAL APPROPRIATION | 41,283,577 | 17.05 |
| <u>Changes (with service impacts)</u> | | |
| Add: Capital Improvement Manager for the Right of First Refusal and Preservation Housing Projects [Multi-Family Housing Programs] | 93,530 | 1.00 |

HIF
→



BUDGET SUMMARY

| | Actual FY19 | Budget FY20 | Estimate FY20 | Recommended FY21 | %Chg Bud/Rec |
|--|-------------------|-------------------|-------------------|---------------------|-----------------|
| Salaries and Wages | 1,356,906 | 1,700,781 | 1,791,347 | 1,917,444 | 12.7 % |
| Employee Benefits | 460,102 | 616,499 | 525,933 | 563,591 | -8.6 % |
| Montgomery Housing Initiative Personnel Costs | 1,817,008 | 2,317,280 | 2,317,280 | 2,481,035 | 7.1 % |
| Operating Expenses | 46,557,314 | 38,966,297 | 38,961,979 | 45,068,879 | 15.7 % |
| Montgomery Housing Initiative Expenditures | 48,374,322 | 41,283,577 | 41,279,259 | 47,549,914 | 15.2 % |
| PERSONNEL | | | | | |
| Full-Time | 0 | 0 | 0 | 0 | — |
| Part-Time | 0 | 0 | 0 | 0 | — |
| FTEs | 15.20 | 17.05 | 17.05 | 18.05 | 5.9 % |
| REVENUES | | | | | |
| Asset Management Fee | 10,680 | 70,200 | 70,200 | 70,200 | — |
| Commitment Fee | 0 | 200,000 | 200,000 | 200,000 | — |
| Investment Income | 3,677,262 | 2,765,250 | 2,562,870 | 1,939,470 | -29.9 % |
| Loan Payments | 5,891,105 | 2,700,000 | 2,700,000 | 2,900,000 | 7.4 % |
| MHI Transfer Tax | 67,140 | 100,000 | 100,000 | 100,000 | — |
| Miscellaneous Revenues | 88,850 | 75,006 | 75,006 | 75,006 | — |
| MPDU Alternative Payments | 0 | 360,000 | 360,000 | 360,000 | — |
| MPDU Revenues | 1,813,744 | 1,250,000 | 1,250,000 | 1,610,000 | 28.8 % |
| Other Financing Sources | 13,727 | 56,750 | 54,400 | 52,050 | -8.3 % |
| Recordation Tax | 16,024,635 | 16,367,562 | 16,365,594 | 17,717,608 | 8.2 % |
| Montgomery Housing Initiative Revenues | 27,587,143 | 23,944,768 | 23,738,070 | 25,024,334 | 4.5 % |

GRANT FUND - MCG

EXPENDITURES

| | | | | | |
|---|------------------|------------------|------------------|------------------|---------------|
| Salaries and Wages | 1,545,282 | 1,778,599 | 1,778,599 | 1,788,640 | 0.6 % |
| Employee Benefits | 530,636 | 603,863 | 603,863 | 531,848 | -11.9 % |
| Grant Fund - MCG Personnel Costs | 2,075,918 | 2,382,462 | 2,382,462 | 2,320,488 | -2.6 % |
| Operating Expenses | 7,751,419 | 6,691,762 | 6,691,762 | 7,409,587 | 10.7 % |
| Grant Fund - MCG Expenditures | 9,827,337 | 9,074,224 | 9,074,224 | 9,730,075 | 7.2 % |

PERSONNEL

| | | | | | |
|-----------|-------|-------|-------|-------|---------|
| Full-Time | 0 | 0 | 0 | 0 | — |
| Part-Time | 0 | 0 | 0 | 0 | — |
| FTEs | 23.00 | 21.00 | 21.00 | 17.70 | -15.7 % |

REVENUES

| | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|-------|
| Federal Grants | 7,726,183 | 6,816,697 | 6,816,697 | 7,462,246 | 9.5 % |
| Investment Income | 617,563 | 0 | 0 | 0 | — |
| Loan Payments | 2,399,235 | 2,000,000 | 2,000,000 | 2,000,000 | — |
| Miscellaneous Revenues | 76,585 | 0 | 0 | 0 | — |
| Other Intergovernmental | 305,423 | 257,527 | 257,527 | 267,829 | 4.0 % |

| FY21-26 PUBLIC SERVICES PROGRAM: FISCAL PLAN | | Montgomery Housing Initiative | | | | | |
|--|---------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| FISCAL PROJECTIONS | FY20 ESTIMATE | FY21 REC | FY22 PROJECTION | FY23 PROJECTION | FY24 PROJECTION | FY25 PROJECTION | FY26 PROJECTION |
| ASSUMPTIONS | | | | | | | |
| Indirect Cost Rate | 20.45% | 18.64% | 18.64% | 18.64% | 18.64% | 18.64% | 18.64% |
| CPI (Fiscal Year) | 1.4% | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% | 1.5% |
| Investment Income Yield | 1.9% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |
| BEGINNING FUND BALANCE | 17,227,281 | 9,570,240 | 2,250,000 | 1,330,000 | 410,000 | 0 | 0 |
| REVENUES | | | | | | | |
| Taxes | 16,465,594 | 17,817,608 | 18,731,167 | 19,789,157 | 20,870,075 | 22,067,750 | 23,397,201 |
| Charges For Services | 70,200 | 70,200 | 71,330 | 72,471 | 73,618 | 74,764 | 75,915 |
| Miscellaneous | 7,202,276 | 7,136,526 | 7,084,858 | 7,062,436 | 7,089,716 | 7,015,208 | 7,015,208 |
| Subtotal Revenues | 23,738,070 | 25,024,334 | 25,867,353 | 26,924,064 | 28,013,407 | 29,157,720 | 30,488,322 |
| INTERFUND TRANSFERS (Net Non-CIP) | | | | | | | |
| Transfers To Debt Service Fund | (9,623,700) | (10,927,100) | (11,918,400) | (13,418,500) | (15,022,900) | (16,616,800) | (18,224,200) |
| MHI Property Acquisition | (9,623,700) | (10,927,100) | (11,918,400) | (13,418,500) | (15,022,900) | (16,616,800) | (18,224,200) |
| Transfers To The General Fund | (476,191) | (462,465) | (465,251) | (465,251) | (465,251) | (465,251) | (465,251) |
| Indirect Costs | (476,191) | (462,465) | (465,251) | (465,251) | (465,251) | (465,251) | (465,251) |
| Transfers From The General Fund | 25,342,876 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 |
| From General Fund | 25,342,876 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 | 31,756,868 |
| TOTAL RESOURCES | 56,208,336 | 54,963,877 | 47,492,570 | 46,129,181 | 44,694,124 | 43,834,537 | 43,557,739 |
| PSP OPER. BUDGET APPROP/ EXP'S. | | | | | | | |
| Operating Budget | (3,222,280) | (3,386,035) | (3,386,035) | (3,386,035) | (3,386,035) | (3,386,035) | (3,386,035) |
| Debt Service: Other (Non-Tax Funds only) | (54,400) | (52,000) | (49,650) | (47,200) | (54,510) | 0 | 0 |
| Labor Agreements | n/a | 0 | (7,545) | (7,545) | (7,545) | (7,545) | (7,545) |
| Rental Assistance Program (RAP) | (16,365,594) | (17,217,608) | (18,131,167) | (19,189,157) | (20,270,075) | (21,467,750) | (22,797,201) |
| Affordable Housing Loans | (8,670,445) | (13,896,681) | (10,977,693) | (9,478,734) | (7,875,479) | (6,015,667) | (4,400,418) |
| HHS Housing Programs | (9,706,200) | (9,706,200) | (9,706,200) | (9,706,200) | (9,706,200) | (9,706,200) | (9,706,200) |
| Neighborhoods to Call Home | (1,251,340) | (1,251,340) | (1,251,340) | (1,251,340) | (1,251,340) | (1,251,340) | (1,251,340) |
| Homeownership Assistance Program | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) |
| Subtotal PSP Oper Budget Approp / Exp's | (41,279,259) | (47,549,914) | (45,509,630) | (45,066,241) | (44,551,184) | (43,834,537) | (43,557,739) |
| OTHER CLAIMS ON FUND BALANCE | (5,358,837) | (5,163,863) | (652,940) | (652,940) | (142,940) | 0 | 0 |
| TOTAL USE OF RESOURCES | (46,638,096) | (52,713,877) | (46,162,570) | (45,719,181) | (44,694,124) | (43,834,537) | (43,557,739) |
| YEAR END FUND BALANCE | | | | | | | |
| Affordable Housing and Acquisition and Preservation CIP Project #P760100 | (22,440,000) | (22,000,000) | (22,000,000) | (22,000,000) | (22,000,000) | (22,000,000) | (22,000,000) |
| Affordable Housing Opportunity Fund CIP Project #P762101 | | (10,000,000) | (10,000,000) | | | | |
| TOTAL ALLOCATION IN AFFORDABLE HOUSING (MHI Fund + CIP Projects) | (69,078,096) | (84,713,877) | (78,162,570) | (67,719,181) | (66,694,124) | (65,834,537) | (65,557,739) |
| END-OF-YEAR RESERVES AS A | | | | | | | |
| PERCENT OF RESOURCES | 17.0% | 4.1% | 2.8% | 0.9% | 0.0% | 0.0% | 0.0% |

Assumptions:

- A total of \$84.7 million will be allocated in affordable housing, including expenditures of \$52.7 million reflected in this fund, \$22 million for the Affordable Housing Acquisition and Preservation CIP Project #760100, and \$10 million for Affordable Housing Opportunity Fund CIP Project #762101. The CIP fund assumes the issuance of \$18.29 million of debt, \$8.71 million in estimated loan repayments, and \$10 million funded with Recordation Tax Premium in FY21. The funding provides a continued high level of support for renovation of distressed housing, the acquisition and preservation of affordable housing units, creation of housing units for special needs residents and mixed-income housing, and a variety of services for permanent supportive housing and community development.
- The new Affordable Housing Opportunity Fund CIP is to address the urgent challenge of preservation and development of affordable housing in areas at risk of rent escalation to higher market rents, including County transit corridors.
- Montgomery County Council Resolution #15-110 provides for an allocation from the General Fund to the Montgomery Housing Initiative fund (MHI) of the equivalent to 2.5 percent of actual General Fund property taxes from two years prior to the upcoming fiscal year for the purpose of maintaining and expanding the supply of affordable housing. However, the actual transfer from the General Fund will be determined each year based on the availability of resources.

Notes:

- These projections are based on the Executive's Recommended budget and include the revenue and resource assumptions of that budget. The projected future expenditures, revenues, and fund balances may vary based on changes not assumed here to fee or tax rates.
- The Executive recommends an additional \$6.42 million to be transferred from the General Fund to the MHI fund, compared to the FY20 amount. A combination totaling \$31.76 million transferred from the General Fund and the additional Recordation Tax Premium collected from property sales of \$3 million and above will reach the 2.5% policy goal.
- Operating budget includes personnel costs, contracts for homeownership education, and miscellaneous expenses for consultants, technology

AFFORDABLE HOUSING SUPPORT SUMMARY

| Funding Sources | Total County Resources (FY08 - FY19) | 10-Yr Avg (FY10- FY19) | FY20 CC Approved Budget | FY21 CE Recommended Budget | Projected Creation / Preservation of Affordable Housing (FY21) | Notes |
|---|--------------------------------------|------------------------|-------------------------|----------------------------|--|---|
| Operating Budget Expenditures | | | | | | |
| DHCA - MHI Operating Budget | 322,548,663 | 26,575,044 | 41,293,021 | 47,549,914 | | |
| DHCA - MHI Debt Service (Interest only) | 27,883,864 | 2,788,386 | 4,173,700 | 4,546,700 | | |
| HHS - General Fund - Housing Programs | 110,777,417 | 11,077,742 | 14,570,278 | 17,882,411 | 2,000 | Clients Served |
| HOC - Non-Departmental Account | 73,510,777 | 6,163,885 | 6,788,019 | 6,962,075 | | |
| Total Operating Budget | 534,720,721 | 46,605,057 | 66,825,018 | 76,741,100 | | |
| Affordable Housing Acquisition and Preservation Project (CIP) | | | | | | |
| MHI | 4,775,000 | | | | | |
| HIF Revolving Loan Program | 140,931,000 | 11,599,100 | 20,555,000 | 13,293,000 | | |
| Loan Repayment Proceeds (actual) | 53,549,507 | 5,354,951 | 1,881,000 | 8,707,000 | | |
| G.O. Bonds | 0 | | | | | |
| Recordation Tax Premium | | | | | | |
| DHCA - Affordable Housing Acquisition and Preservation Project (CIP) - Total | 203,795,507 | 17,629,551 | 22,440,000 | 22,000,000 | | |
| Affordable Housing Opportunity Fund (CIP) | | | | | | |
| DHCA - Payment in Lieu of Taxes (Non-HOC PILOTS) | 134,223,825 | 11,982,383 | 18,163,389 | 19,070,508 | 6,749 | Incl. MHI & CIPS. |
| DHCA - Payment in Lieu of Taxes (HOC PILOTS) | 106,033,032 | 9,073,362 | 9,833,474 | 10,079,311 | 300 | In support of operating cost for Non-profits and Senior housing |
| DGS - Discounted Land Value | 37,823,483 | 9,455,871 | - | - | 50 | Units Captured in DHCA |
| Total Affordable Housing Support | 1,016,596,568 | 94,746,223 | 117,360,881 | 137,890,919 | 9,099 | |

Note: 1) As transmitted in the FY21-26 Full CIP, the Executive's budget recommendations include reallocating \$0.44 million loan repayments in FY20 for the Affordable Housing Acquisition and Preservation CIP Project (P760100).

2) HHS-General Funded housing programs do not include related personnel costs. If personnel costs were included to provide permanent housing supportive services to County residents in need, the total HHS-General Funded amount would be \$21,868,640 for FY20 and \$25,350,458 for FY21.

8



DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Marc Elrich
County Executive

Aseem Nigam
Director

MEMORANDUM

April 20, 2020

TO: Sidney Katz, Council President

FROM: Aseem Nigam, Director, *AKN*
Department of Housing and Community Affairs

SUBJECT: COVID-19 Advisory to Montgomery County Nonprofit Development Community

The Department of Housing and Community Affairs (DHCA) has a multifamily loan portfolio that consists of 510 loans with a total mortgage receivable in excess of \$351 million leveraging over \$1.5 billion in affordable real estate. Annually, DHCA collects between \$10M - \$20M in loan repayments. Considering the current environment, DHCA has determined that we can and should help to reduce the immediate negative impacts of COVID-19 on the county's nonprofit developers to improve their ability to support the residents in their properties and the county's affordable housing investments.

Our leading nonprofit affordable housing partners have worked with us to explain the cashflow crisis they face from rent losses. The expectations for 30 percent or greater rent loss for multiple months, and slow recovery with repayment plans, will make payment of fixed operating expenses impossible for many properties. Creditors including State and Federal loan guarantors have implemented relief options, and the County is asked to provide relief. The risks of the crisis include potential insolvency of the properties and putting the county's loans at risk.

DHCA has determined that we can provide relief that allows deferment of payments and reduced operational requirements without a permanent fiscal impact on the County.

DHCA guidance is divided into three items: loan repayment deferment; management of reserves; and compliance and reporting. The first item, loan repayment deferment, will likely have a fiscal impact but is consistent with recent guidance from the Federal and State government.

Office of the Director

100 Maryland Avenue, 4th Floor • Rockville, Maryland 20850 • 240-777-3600 • 240-777-3677 FAX
www.montgomerycountymd.gov/dhca

1. Loan Repayment Deferment
 - a. Nonprofits may defer loan repayments on cashflow and must-pay loans through June 30. During this time, nonprofits may apply applicable COVID expenses to reduce the deferred cashflow repayments. Interest will accrue.
 - b. DHCA will defer compliance monitoring fees through June 30. The fees will continue to accrue and will be collected in full.
2. Management of Reserves
 - a. Replacement reserves exist to fund capital expenditures. Nonprofits should not utilize replacement reserves or other capital reserves for non-capital expenses unless approved by their senior lender.
 - b. Nonprofits may utilize operating reserves for non-capital expenditures to the extent allowed by their senior lender.
3. Compliance and Reporting
 - a. DHCA will suspend HIF compliance monitoring through September 30. This includes the annual affordability report and onsite monitoring but not housing code enforcement. Unless otherwise promulgated by HUD, HOME and CDBG monitoring will continue.
 - b. DHCA will allow existing HIF tenants to self-certify through September 30. New tenants must be certified. Unless otherwise promulgated by HUD, HOME and CDBG Program recertification protocol still applies.
 - c. DHCA will extend due date of Rental Survey to June 30.

Deferring loan repayments will have an impact on timing of repayments but will not reduce the loan amount or the long-term recovery of the County's investment. On average, over the past three fiscal years, DHCA has collected \$1.9 million during Q4 (April through June). It is expected that this amount would be reduced; however, the extent is unknown given the size of DHCA's multifamily portfolio and that each property will experience COVID impacts to different degrees. Reductions in repayment will reduce the funds available for new capital loans.

Additionally, DHCA expects to collect \$125,000 in monitoring fees in FY20 and has received \$75,000 to date. DHCA expects that up to \$50,000 in compliance fees would be deferred but fully collected. DHCA will continue to closely monitor revenue collection and if necessary, will offset the delay in collecting revenues by delaying certain expenditures.

This guidance will help to lessen the immediate negative impacts of COVID on the nonprofit development community and their residents and will help to strengthen the fiscal position of the County's affordable housing investments. My staff and I are available to answer any questions you have regarding this matter.



Affordable Housing Acquisition and Preservation

(P760100)

| | | | |
|----------------------|-----------------------------------|-----------------------------|-----------------------------|
| Category | Community Development and Housing | Date Last Modified | 01/06/20 |
| SubCategory | Housing (MCG) | Administering Agency | Housing & Community Affairs |
| Planning Area | Countywide | Status | Ongoing |

EXPENDITURE SCHEDULE (\$000s)

| Cost Elements | Total | Thru FY19 | Est FY20 | Total 6 Years | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 | Beyond 6 Years |
|---------------------------|----------------|----------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Land | 358,236 | 176,048 | 50,188 | 132,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | - |
| TOTAL EXPENDITURES | 358,236 | 176,048 | 50,188 | 132,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | - |

FUNDING SCHEDULE (\$000s)

| Funding Source | Total | Thru FY19 | Est FY20 | Total 6 Years | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 | Beyond 6 Years |
|--|----------------|----------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Current Revenue: Montgomery Housing Initiative | 4,775 | 2,500 | 2,275 | - | - | - | - | - | - | - | - |
| HIF Revolving Program | 259,425 | 122,955 | 38,535 | 97,935 | 13,293 | 8,751 | 19,053 | 18,981 | 18,857 | 19,000 | - |
| Loan Repayment Proceeds | 89,496 | 46,053 | 9,378 | 34,065 | 8,707 | 13,249 | 2,947 | 3,019 | 3,143 | 3,000 | - |
| Recordation Tax Premium (MCG) | 4,540 | 4,540 | - | - | - | - | - | - | - | - | - |
| TOTAL FUNDING SOURCES | 358,236 | 176,048 | 50,188 | 132,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | 22,000 | - |

APPROPRIATION AND EXPENDITURE DATA (\$000s)

| | | | |
|-----------------------------|---------|--------------------------|---------|
| Appropriation FY 21 Request | 22,000 | Year First Appropriation | FY01 |
| Appropriation FY 22 Request | 22,000 | Last FY's Cost Estimate | 225,796 |
| Cumulative Appropriation | 226,236 | | |
| Expenditure / Encumbrances | 183,467 | | |
| Unencumbered Balance | 42,769 | | |

PROJECT DESCRIPTION

This project provides funding for acquisition and/or renovation of properties for the purpose of preserving or increasing the County's affordable housing inventory. The County may purchase properties or assist not-for-profit, tenant, or for-profit entities, or Housing Opportunities Commission with bridge financing to purchase and renovate properties. The monies may be used to purchase properties that are offered to the County under the Right of First Refusal Law or otherwise available for purchase. A portion of the units in these properties must serve households with incomes that are at or below incomes eligible for the Moderately Priced Dwelling Unit (MPDU) program. A priority should be given to rental housing.

COST CHANGE

11

Added funding over the next six-year period to continue support for preserving and increasing the County's affordable housing units. Also reflects an increase based on additional FY19 loan repayments.

PROJECT JUSTIFICATION

To implement Section 25B, Housing Policy, and Section 53A, Tenant Displacement (Right of First Refusal), of the Montgomery County Code. Opportunities to purchase property utilizing the County's Right of First Refusal arise without advance notice and cannot be planned in advance. Properties may be acquired by the County, non-profit developers, HOC or other entities that agree to develop or redevelop property for affordable housing.

OTHER

Resale or control period restrictions to ensure long term affordability should be a part of projects funded with these monies.

FISCAL NOTE

Debt service will be financed by the Montgomery Housing Initiative (MHI) Fund. In addition to the appropriation shown above, future loan repayments are expected and will be used to finance future housing activities in this project.

DISCLOSURES

Expenditures will continue indefinitely.

COORDINATION

Housing Opportunities Commission, non-profit housing providers, and private sector developers.



Affordable Housing Opportunity Fund

(P762101)

| | | | |
|----------------------|-----------------------------------|-----------------------------|-----------------------------|
| Category | Community Development and Housing | Date Last Modified | 01/06/20 |
| SubCategory | Housing (MCG) | Administering Agency | Housing & Community Affairs |
| Planning Area | Countywide | Status | Planning Stage |

EXPENDITURE SCHEDULE (\$000s)

| Cost Elements | Total | Thru FY19 | Est FY20 | Total 6 Years | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 | Beyond 6 Years |
|---------------------------|---------------|-----------|----------|---------------|---------------|---------------|----------|----------|----------|----------|----------------|
| Land | 20,000 | - | - | 20,000 | 10,000 | 10,000 | - | - | - | - | - |
| TOTAL EXPENDITURES | 20,000 | - | - | 20,000 | 10,000 | 10,000 | - | - | - | - | - |

FUNDING SCHEDULE (\$000s)

| Funding Source | Total | Thru FY19 | Est FY20 | Total 6 Years | FY 21 | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 | Beyond 6 Years |
|-------------------------------|---------------|-----------|----------|---------------|---------------|---------------|----------|----------|----------|----------|----------------|
| Recordation Tax Premium (MCG) | 20,000 | - | - | 20,000 | 10,000 | 10,000 | - | - | - | - | - |
| TOTAL FUNDING SOURCES | 20,000 | - | - | 20,000 | 10,000 | 10,000 | - | - | - | - | - |

APPROPRIATION AND EXPENDITURE DATA (\$000s)

| | | | |
|-----------------------------|--------|--------------------------|---|
| Appropriation FY 21 Request | 10,000 | Year First Appropriation | |
| Appropriation FY 22 Request | 10,000 | Last FY's Cost Estimate | - |
| Cumulative Appropriation | - | | |
| Expenditure / Encumbrances | - | | |
| Unencumbered Balance | - | | |

PROJECT DESCRIPTION

This project provides funding to address the urgent challenge of preservation and development of affordable housing in areas at risk of rent escalation to higher market rents, including the Purple Line Corridor and other County transit corridors. The funds will be used to provide seed money to establish a public-private preservation fund to proactively attract investors and leverage additional public and private capital to preserve targeted affordable rental housing when opportunities arise. Project funds would be expected to support financing activity within six months of allocation, based on time needed to identify partners, develop investment guidelines, and document responsibilities. The funds will be used to secure rental properties offered to the County under the Right of First Refusal Law or otherwise available for purchase by non-profit and for-profit developers. A portion of the units in these properties must serve households with incomes that are at or below incomes eligible for the Moderately Priced Dwelling Unit (MPDU) program. Loan terms will primarily be short-term (up to 36 months) in duration, but funds may support companion intermediate-term agreements (up to 15-year duration). Funds are expected to revolve based on refinancing or redevelopment financing.

PROJECT JUSTIFICATION

The County has a severe shortage of affordable housing and needs to maximize and leverage private investment in the preservation and

creation of dedicated affordable housing. The fund structure will establish predetermined underwriting parameters and qualifications for rapidly purchasing targeted properties. The fund structure will allow time for implementing a range of longer-term actions addressing specific property opportunities, from rental agreements to redevelopment. The expectation is that these funds will leverage approximately \$4 for every \$1 of County funding. Opportunities to purchase property utilizing the County's Right of First Refusal could arise without advance notice and would not be planned in advance. Other targeted acquisitions would benefit from access to a dedicated source of ready funding. Properties may be acquired by the County, the Housing Opportunities Commission, non-profit developers or other entities that agree to maintain affordability, or develop/redevelop a property for affordable housing.

OTHER

Resale or control period restrictions to ensure long-term affordability should be a part of projects funded with these monies.

FISCAL NOTE

Future loan repayments are expected and will be used to finance future housing activities in this project.

COORDINATION

Montgomery County Revenue Authority, Housing Opportunities Commission, non-profit housing providers, private sector developers, and financing institutions.