

**SA00**  
**Department of Housing and Community Development – Capital**

***Capital Budget Summary***

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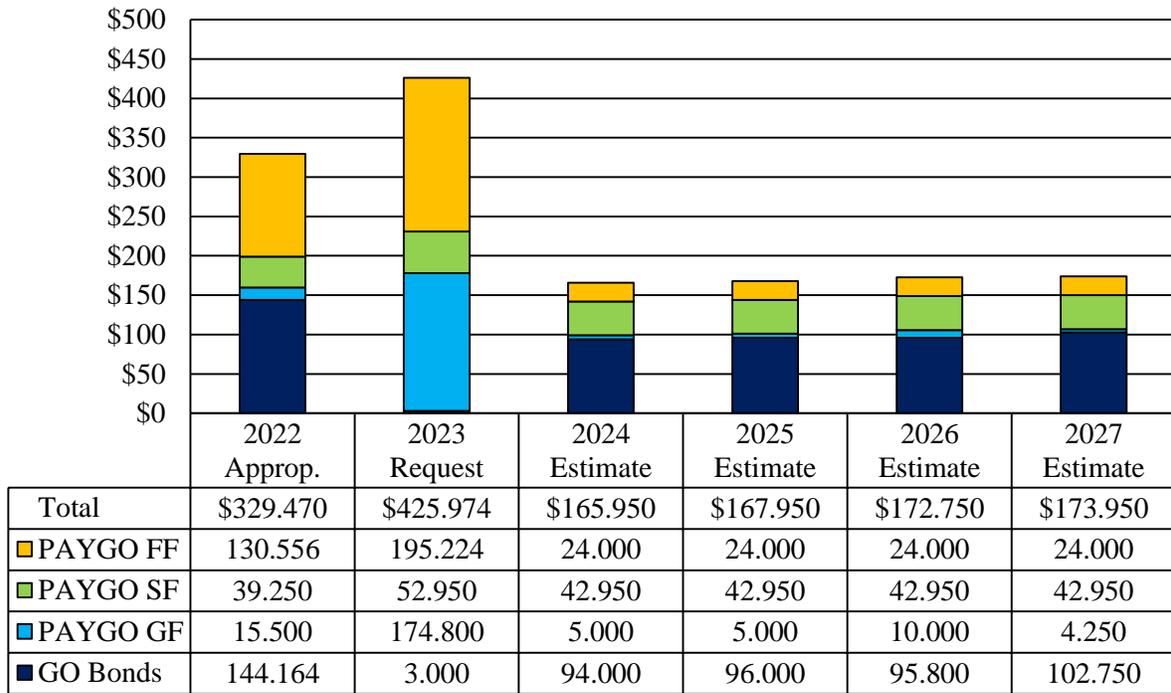
**Grant and Loan *Capital Improvement Program***  
(\$ in Millions)

<b>Program</b>	<b>2022 Approp.</b>	<b>2023 Request</b>	<b>2024 Est.</b>	<b>2025 Est.</b>	<b>2026 Est.</b>	<b>2027 Est.</b>
Community Development Block Grant Program	\$10.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000
Baltimore Regional Neighborhoods Initiative	12.000	12.000	12.000	12.000	12.000	12.000
Community Legacy Program	6.000	8.000	6.000	8.000	8.000	8.000
National Capital Strategic Economic Development Fund	7.000	7.000	7.000	7.000	7.000	7.000
Neighborhood Business Development Program	21.500	25.000	12.200	12.200	14.200	14.200
Seed Community Development Anchor Institution Fund	10.000	10.000	10.000	10.000	10.000	10.000
Strategic Demolition Fund	28.164	30.000	0.000	0.000	0.000	0.000
Homeownership Programs	93.000	42.000	21.000	21.000	23.800	25.000
Housing and Building Energy Programs	9.350	15.850	15.850	15.850	15.850	15.850
Partnership Rental Housing Program	10.000	12.000	6.000	6.000	6.000	6.000
Rental Housing Programs	67.500	67.500	50.500	50.500	50.500	50.500
Shelter and Transitional Housing Facilities Grant Program	3.000	3.000	3.000	3.000	3.000	3.000
Special Loan Programs	10.400	10.400	10.400	10.400	10.400	10.400
Statewide Broadband Infrastructure	41.556	171.224	0.000	0.000	0.000	0.000
<b>Total</b>	<b>\$329.470</b>	<b>\$425.974</b>	<b>\$165.950</b>	<b>\$167.950</b>	<b>\$172.750</b>	<b>\$173.950</b>

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FF: federal funds  
 GF: general funds  
 GO: general obligation  
 PAYGO: pay-as-you-go  
 SF: special funds

Note: The fiscal 2022 working appropriation includes federal funds for the Homeowner Assistance Fund in Homeownership Programs. Fiscal 2022 and 2023 include funding in the Dedicated Purpose Account for Statewide Broadband Infrastructure.

## ***PAYGO Recommended Actions***

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1. Concur with Governor’s allowance.

## ***GO Bond Recommended Actions***

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1. Approve the general obligation bond authorization for the Shelter and Transitional Facilities Grant Program.
2. Approve the deauthorization of \$9,180,000 in general obligation bonds for the Local Government Infrastructure Program in fiscal 2021 due to the availability of federal funds.

## ***Budget Overview of Grant and Loan Programs***

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The Department of Housing and Community Development’s (DHCD) fiscal 2023 capital budget, not including funding added through Supplemental Budget No. 1, totals \$426.0 million across 14 programs, which represents an increase of \$96.5 million, or 29%, over the fiscal 2022 funding level. Key observations about DHCD’s capital budget include:

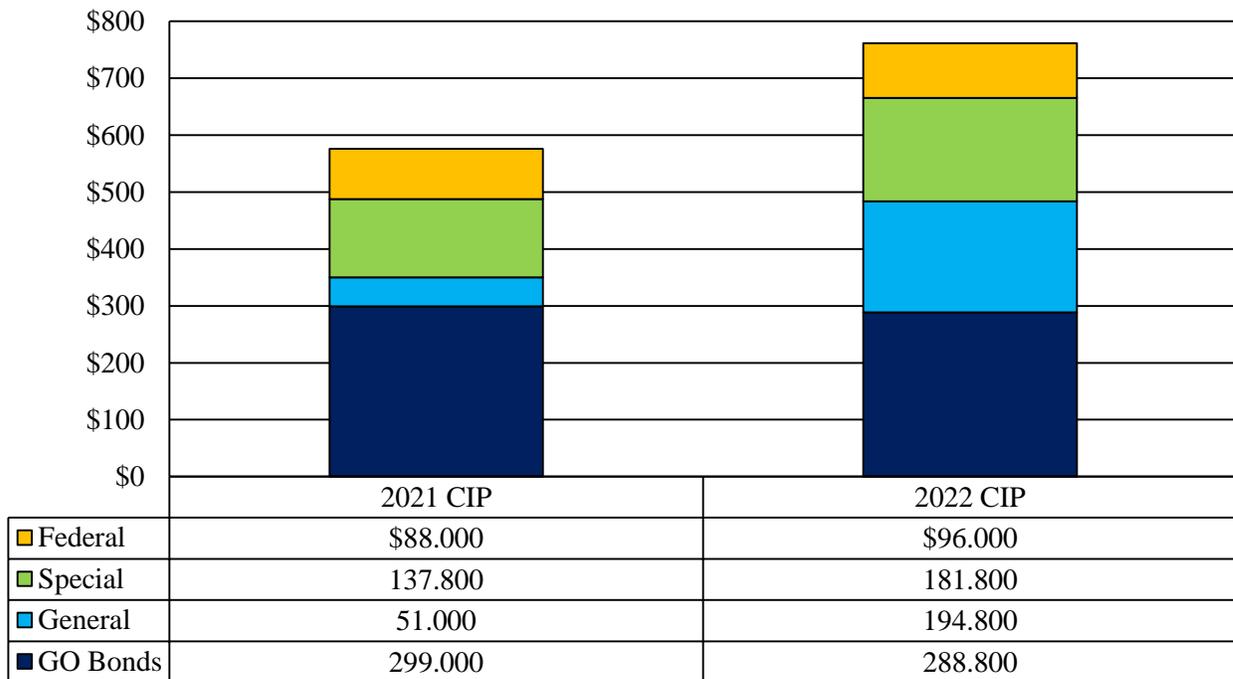
- Most of DHCD’s programs that are typically funded using general obligation (GO) bonds are funded with general funds instead in fiscal 2023. The Shelter and Transitional Housing Facilities Grant Program is the only program funded with GO bonds, totaling \$3 million;
- DHCD is administering significant additional federal funds available from the American Rescue Plan Act (ARPA) for broadband infrastructure, homeowner assistance, and business assistance. The ARPA funds for broadband initiatives total \$400 million across the fiscal 2021 to 2023 operating and capital budgets, including pay-as-you-go (PAYGO) federal funds totaling \$30 million in DHCD’s fiscal 2021 budget, \$41.6 million combined in DHCD’s budget and the Dedicated Purpose Account (DPA) in fiscal 2022 after accounting for a proposed negative deficiency, and \$171.2 million in the DPA in fiscal 2023. Broadband programs are discussed further in Issue 1 of this analysis. ARPA funding for the Homeowner Assistance Fund (HAF) totals nearly \$250 million, including \$67 million in PAYGO federal funds in DHCD’s fiscal 2022 working appropriation. Supplemental Budget No. 1 added \$65 million for the HAF program to DHCD’s fiscal 2023 capital budget, in addition to \$21 million in PAYGO federal funds from the ARPA for the State Small Business Credit Initiative (SSBCI);
- Many of DHCD’s capital programs regularly have requests that far exceed available funds, and the fiscal 2023 budget provides one-time additional funding for several programs due to additional general fund capacity. Planned funding in the outyears of the *Capital Improvement Program* (CIP) returns to a level more in line with the previous CIP, with the exception of the inclusion of the full mandated funding amounts for several programs that were not reflected properly in the previous CIP.
- Although enhanced funding is spread across many of DHCD’s programs, homeownership programs are the biggest beneficiary of these one-time State funds. Special funds increase by \$11 million due to available revenues from higher loan repayments, and rather than using this additional funding to offset other State costs, other State funding increases as well by an additional \$5 million to \$27 million, with general funds used in place of GO bonds. Overall, fiscal 2023 funding for DHCD’s homeownership programs totals \$42 million, increasing by 62% over the fiscal 2022 level and more than double the planned amount. For comparison, rental housing programs, although receiving enhanced funding over the planned amount, are funded at the same level as in fiscal 2022.

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- The fiscal 2023 allowance also includes funding in DHCD’s operating budget for 9 additional contractual full-time equivalent positions in the Division of Finance and the Community Development Administration to manage the increased workload.

Overall, for the four years that the 2022 and 2023 CIPs overlap, DHCD programs are scheduled to receive \$185.6 million more from fiscal 2023 through 2026, excluding funding for broadband, as shown in **Exhibit 1**. The increase for fiscal 2023 is primarily attributable to enhanced funding levels across almost every DHCD program, in particular the Homeownership, Rental Housing, Neighborhood Business Development (also known as Neighborhood BusinessWorks (NBW)), and Strategic Demolition programs. In addition, the 2022 CIP correctly programs the full mandated funding for the Seed Community Development Anchor Institution Fund, Baltimore Regional Neighborhoods Initiative, and National Capital Strategic Economic Development Program, which the previous CIP did not reflect.

**Exhibit 1**  
**Comparison of 2021 and 2022 Capital Improvement Programs**  
**Fiscal 2023-2026**  
**(\$ in Millions)**



CIP: *Capital Improvement Program*  
 GO: *general obligation*

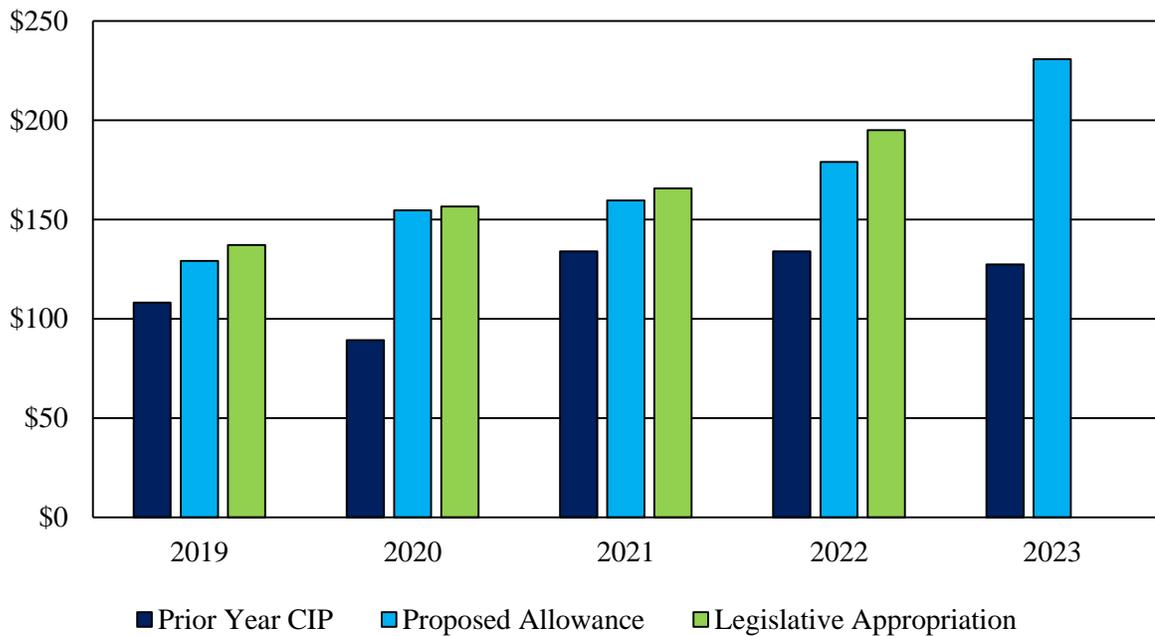
Note: Does not include planned funding for broadband initiatives.

Source: Department of Budget and Management

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It is important to note, however, that the CIP generally does not reflect the overall costs of DHCD’s programs, as the proposed allowance for DHCD continually exceeds the amount planned in the prior year’s CIP. **Exhibit 2** shows the planned amount, the proposed amount, and the legislative appropriation for the State funds in DHCD’s capital budget since fiscal 2019, excluding broadband programs. From fiscal 2019 to 2022, the proposed allowance exceeded the planned amount by nearly \$40 million on average, and the legislative appropriation added an additional \$8 million on average. These additions suggest that the current CIP likely does not accurately reflect the outyear costs for DHCD’s programs, indicating that the CIP overall is likely oversubscribed in the outyears.

**Exhibit 2**  
**State Funds in the DHCD Capital Budget**  
**Fiscal 2019-2023**  
**(\$ in Millions)**



CIP: *Capital Improvement Program*  
DHCD: Department of Housing and Community Development

Note: This data does not include federal funds and does not include funding for broadband programs. The fiscal 2020 legislative appropriation includes \$25 million in general funds that were restricted in the Dedicated Purpose Account for DHCD programs and not released by the Governor.

Source: Department of Budget and Management

## Programs

DHCD’s fiscal 2023 capital budget includes 14 programs. Compared to the fiscal 2022 funding level, the fiscal 2023 budget increases by 62% to \$426.0 million, which is also 170% above the planned level. Much of this increase is due to federal funding available for broadband. Excluding broadband and the ARPA funding for the HAF and SSBCI programs, funding for all other DHCD programs increases by \$33.8 million, or 15%, compared to the fiscal 2022 working appropriation. The fiscal 2023 allowance is \$105.3 million, or 70%, over the planned amount from last year’s CIP, excluding broadband. **Exhibit 3** summarizes the fiscal 2023 capital budget by program and fund source. Exhibit 3 does not reflect federal funds added to the fiscal 2023 allowance through Supplemental Budget No. 1, including \$65 million for the HAF program, \$21 million for SSBCI, and \$900,000 for the Homeownership Works (HOW) pilot program.

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**Exhibit 3**  
**Capital Budget by Program**  
**Fiscal 2023**  
**(\$ in Millions)**

<u>Program</u>	<u>Fund Source</u>	<u>Fiscal 2023 Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2022</u>	<u>CIP 2021</u>
<b>Community Development Block Grant:</b> Competitive federally funded grants to local governments in nonentitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and/or improving community facilities and services. Nonentitlement areas are mainly rural areas of the State. Entitlement jurisdictions receive funding directly from the U.S. Department of Housing and Urban Development. The increase in funding for this program is based on recent trends in the availability of federal funds.	All FF	\$12.000	20.0%	20.0%
<b>Baltimore Regional Neighborhoods Initiative:</b> Grants to fund revitalization in State-designated Sustainable Community areas in Anne Arundel and Baltimore counties and Baltimore City. Eligible projects include residential and commercial strategic property acquisition, redevelopment, rehabilitation, and new infill development. Chapters 416 and 417 of 2021 made the mandated \$12 million in annual funding for the program permanent.	All GF	12.000	0.0%	300.0%

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<u>Program</u>	<u>Fund Source</u>	<u>Fiscal 2023 Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2022</u>	<u>CIP 2021</u>
<p><b>Community Legacy:</b> Awards to counties, municipalities, and community development organizations for the revitalization of neighborhoods in Sustainable Communities that are at risk of physical, economic, or social deterioration. Eligible uses include streetscape and façade improvements, recreational amenities, and improvement of community gathering places. Funding increases by \$2 million in the fiscal 2023 allowance as well as in the planned amounts for fiscal 2025 and future years due to high demand for the program as well as the Homeownership Works pilot program.</p>	All GF	8.000	33.3%	33.3%
<p><b>National Capital Strategic Economic Development Program:</b> Awards to government agencies and nonprofit community development organizations for projects located between Interstate 495 and the District of Columbia. Chapter 707 of 2021 made the mandated \$7 million in annual capital funding and \$200,000 in annual operating funding for the program permanent and increased the percentage of funds reserved for projects in targeted areas from 85% to 100%.</p>	All GF	7.000	0.0%	133.3%
<p><b>Neighborhood Business Development Program:</b> Grants and loans of up to \$5 million for community-based economic development activities in revitalization areas designated by local governments; also offers loan guarantees and credit enhancements to banks and community development financial institutions. The fiscal 2023 budget includes a one-time increase of \$14.3 million over the planned amount to provide additional support to businesses as the economy recovers from the impact of the COVID-19 pandemic.</p>	\$22.8 GF 2.2 SF	25.000	16.3%	133.6%
<p><b>Seed Community Development Anchor Institution Fund:</b> Grants and loans to anchor institutions, such as hospitals and institutions of higher education, for community development projects in blighted areas.</p>	All GF	10.000	0.0%	100.0%
<p><b>Strategic Demolition Fund:</b> Assists in demolition, land assembly, housing development or redevelopment, and revitalization projects. The program includes a statewide component (\$9 million) as well as Project CORE (Creating Opportunities for Renewal and Enterprise), which funds blight removal and redevelopment in Baltimore City (\$21 million). Last year’s CIP included \$20.5 million spread over fiscal 2023 and 2024, while the 2022 CIP includes \$30 million in fiscal 2023 as the final year of the program. Increased funding in fiscal 2023 will allow DHCD to fund an additional 10 to 15 projects through Project CORE and an additional 21 projects in the statewide program.</p>	All GF	30.000	6.5%	122.2%

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<u>Program</u>	<u>Fund Source</u>	<u>Fiscal 2023 Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2022</u>	<u>CIP 2021</u>
<p><b>Homeownership:</b> Down payment and closing cost assistance to low- and moderate-income families. Programs include the Down Payment and Settlement Expense Loan Program (\$31 million), the Smart Buy program (\$7 million) to assist homebuyers with student loan debt, and the HomeAbility program (\$2 million) to assist households with disabled persons. Funding also supports an ongoing memorandum of understanding with Montgomery County to provide down payment assistance (\$2 million).</p>	\$27.0 GF 15.0 SF	42.000	61.5%	121.1%
<p><b>Housing and Building Energy:</b> Loans and grants for energy efficiency improvements for single family and rental housing properties, including renovation of existing facilities, construction of new facilities, or installation of energy-efficient equipment or materials. Programs include the federally funded Energy Efficiency Block Grant Program (branded BeSMART) and the Multifamily Energy Efficiency and Housing Affordability (MEEHA) program, funded with special funds from the Maryland Public Service Commission through the EmPOWER program. Special funds also include funding for the Washington Gas program, which is similar to the MEEHA program but administered separately. Special funds for the Washington Gas program increase by \$6.5 million in fiscal 2023 and each of the outyears to reflect DHCD’s amended contract with Washington Gas.</p>	\$14.9 SF 1.0 FF	15.850	69.5%	69.5%
<p><b>Partnership Rental Housing:</b> Deferred payment loans or grants to local governments or housing authorities to construct or rehabilitate rental housing for residents earning less than 50% of the statewide median income. Demand for the program is driven by the federal Rental Assistance Demonstration program, which allows for the conversion of public housing to long-term Section 8 rental assistance projects.</p>	All GF	12.000	20.0%	100.0%
<p><b>Rental Housing:</b> Low-interest or deferred-payment loans to housing developers for the financing of affordable housing developments.</p>	\$42.0 GF 16.5 SF 9.0 FF	67.500	0.0%	33.7%
<p><b>Shelter and Transitional Housing Facilities Grant Program:</b> Grants to local governments and nonprofit groups to develop emergency shelters and transitional housing for homeless individuals and families. Funding will also be paired with Medicaid funding to address shelter needs related to the opioid epidemic.</p>	All GO	3.000	0.0%	0.0%

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<u>Program</u>	<u>Fund Source</u>	<u>Fiscal 2023 Total</u>	<u>Percent Change</u>	
			<u>Fiscal 2022</u>	<u>CIP 2021</u>
<b>Special Loan Programs:</b> Loans or grants for the abatement of lead hazards; rehabilitation to eliminate health, safety, and maintenance deficiencies in residential properties; and acquisition, construction, and modifications of group homes for low-income, elderly, disabled, or others with special housing needs. DHCD planned to start an Emergency Assistance Repair Loan pilot program in fiscal 2021 to provide immediate repairs to address health and safety issues but has delayed implementation due to focusing on other programs during the COVID-19 pandemic.	\$4.0 GF	10.400	0.0%	0.0%
	4.4 SF			
	2.0 FF			
<b>Local Government Infrastructure Fund – Statewide Broadband:</b> Supports the construction of broadband infrastructure to expand internet access to unserved areas through grants with matching requirements to local jurisdictions or internet service providers. New subprograms beginning in fiscal 2022 will also support digital inclusion and other broadband access needs throughout the State.	All FF	171.224	312.0%	1,993.2%
<b>Total</b>		<b>\$425.974</b>	<b>62.3%</b>	<b>170.2%</b>

CIP: *Capital Improvement Program*

DHCD: Department of Housing and Community Development

FF: federal funds

GF: general funds

GO: general obligation

SF: special funds

Note: For Community Legacy, the percent change from fiscal 2022 does not include \$10 million in federal funds from the American Rescue Plan Act for the Homeownership Works (HOW) pilot that have been announced for fiscal 2022 but not yet appropriated. For Homeownership Programs, the percent change from fiscal 2022 does not reflect \$67.0 million in federal funds in fiscal 2022 for the Homeowner Assistance Fund (HAF). This exhibit also does not reflect federal funds added to the fiscal 2023 allowance through Supplemental Budget No. 1, including \$65 million for the HAF program, \$21 million for the State Small Business Credit Initiative, and \$900,000 for HOW.

Source: Governor’s Fiscal 2023 Capital Budget; Department of Housing and Community Development

## **Community Legacy and Homeownership Works**

Funding for the Community Legacy program increases from \$6 million in the fiscal 2022 working appropriation to \$8 million in the fiscal 2023 allowance. In addition to addressing high demand for the program, the additional funding will be used to continue the HOW pilot program, which is funded for the first time in fiscal 2022 using \$10.15 million in federal funds available from the ARPA State Fiscal Recovery Funds. Supplemental Budget No. 1 included \$900,00 for the program in DHCD’s fiscal 2023 capital budget, and the remaining \$9.25 million is expected to be added by budget

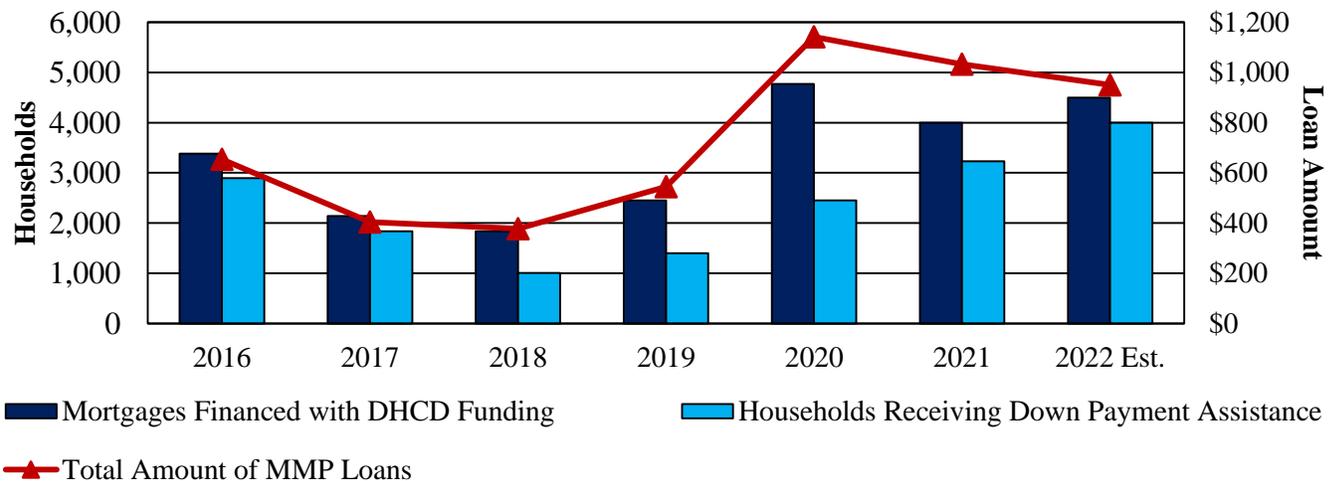
amendment to DHCD’s fiscal 2022 appropriation. In October 2021, the Governor announced the launch of the pilot, which will provide targeted investment to promote homeownership in two communities: Johnston Square in Baltimore City; and the Pine Street Historic District in Cambridge. Funding will be used to rehabilitate vacant homes or create new homes in vacant spaces, as well as provide critical repairs for existing homeowners.

In Baltimore City, DHCD is partnering with the nonprofit ReBUILD to develop the Johnston Square neighborhood. ReBUILD will use \$2.5 million from HOW to acquire and rehabilitate 36 vacant homes. HOW funding will also be used to provide façade improvements and critical repairs and energy improvements for 30 nearby homeowners. Local funding provided for Johnston Square redevelopment totals \$21.7 million to date. DHCD is partnering with Dorchester County and Habitat Choptank on the Pine Street project, which will use HOW funds to build 19 new homes, acquire and renovate 3 historic homes, and provide repairs for existing homeowners.

### Homeownership Programs

One of DHCD’s main objectives is to help low- and moderate-income residents purchase homes. The Maryland Mortgage Program and the Down Payment and Settlement Expense Loan Program are essential components of DHCD’s homeownership efforts. **Exhibit 4** shows the increased level of activity in DHCD’s homeownership programs in fiscal 2020 through 2022 compared to prior years. In fiscal 2021, DHCD provided down payment assistance to more than 3,000 households and financed nearly 4,000 mortgages totaling more than \$1 billion for the second consecutive year.

**Exhibit 4**  
**Homeownership Assistance**  
 Fiscal 2016-2022 Est.  
 (\$ in Millions)



DHCD: Department of Housing and Community Development

MMP: Maryland Mortgage Program

Source: Governor’s Fiscal 2023 Budget Books

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The fiscal 2023 budget includes \$42 million for DHCD’s budgeted homeownership programs, which represents a 62% increase over the fiscal 2022 legislative appropriation and more than double the planned amount. General funds in fiscal 2023 total \$27 million, replacing the planned \$16 million in GO bonds due to funding availability. Special funds increase from \$4 million in fiscal 2022 to \$15 million in the fiscal 2023 allowance due to a large one-time increase in revenues in fiscal 2021 as borrowers took advantage of low interest rates to refinance, paying off loans for down payment assistance.

## **Homeowner Assistance Fund**

DHCD is also administering federal funds from the ARPA for the HAF program. The ARPA created the HAF to provide relief to homeowners at risk of displacement through foreclosure or loss of utilities or home energy services. The U.S. Treasury allocated funding based on states’ share of unemployed individuals and the number of borrowers with mortgages in foreclosure or more than 30 days delinquent. Maryland received \$248.6 million for the program, all administered by DHCD. **Exhibit 5** details how DHCD is planning to use the funding, including \$156.3 million for loans to prevent foreclosure. DHCD has until September 2025 to expend HAF funds.

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**Exhibit 5**  
**Homeowner Assistance Fund Allocation Plan**  
**(\$ in Millions)**

	<u>Amount</u>	<u>Percent</u>
<b>Administrative</b>		
DHCD staff and administrative expenses	\$8.5	3%
Contract for IT, call center, and application and payment system	14.8	6%
Outreach and marketing	4.0	2%
Case Management and Administrative Reserve	10.0	4%
<b>Subtotal</b>	<b>\$37.3</b>	<b>15%</b>
<b>Services</b>		
Housing Counseling	\$6.6	3%
Legal Services	4.4	2%
<b>Subtotal</b>	<b>\$11.0</b>	<b>4%</b>
<b>Program Expenses</b>		
Grant Program	\$34.0	14%
Loan Program	156.3	63%
WholeHome Weatherization Program	10.0	4%
<b>Subtotal</b>	<b>\$200.3</b>	<b>81%</b>
<b>Total</b>	<b>\$248.6</b>	

DHCD: Department of Housing and Community Development  
IT: information technology

Note: DHCD may use up to 15% of the total award for program administration. Numbers may not sum due to rounding.

Source: Department of Housing and Community Development

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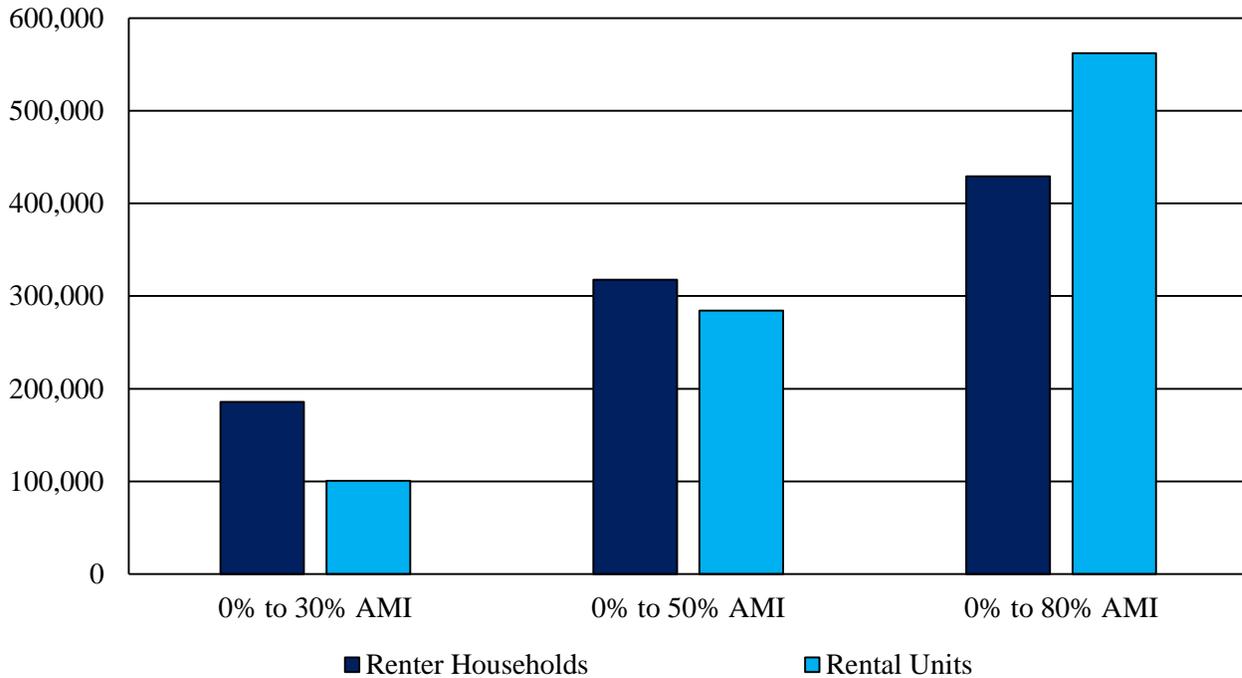
The loans of up to \$30,000 will be interest free and will be available to homeowners with income up to 150% of area median income (AMI) with the goal of reducing a homeowner’s monthly mortgage payments going forward to less than 40% of the household’s income. Repayment of the loan will be due at the end of the mortgage, although DHCD may allow full or partial forgiveness. Applications for the grant and loan programs opened on December 20, 2021, and as of mid-January 2022, DHCD had received approximately 2,000 applications that are under review pending the receipt of required documentation. Overall, DHCD expects to serve approximately 10,000 homeowners through these programs. Funding for the loan portion of the program will be added to DHCD’s capital budget, including \$67 million in fiscal 2022 that has already been added by budget amendment as well as \$65 million in fiscal 2023 added in Supplemental Budget No. 1. The other components of the HAF program are funded in the operating budget and are discussed further in the DHCD operating budget analysis.

## **Rental Housing Programs**

Funding for rental housing programs in the fiscal 2023 allowance totals \$67.5 million, which is level with the funding provided in fiscal 2022 but significantly more than the \$50.5 million planned in the CIP. Other than broadband, Rental Housing Programs comprise the largest share of DHCD’s overall capital budget, accounting for 16% of the total and more than a quarter of the non-broadband funding. Funding for the Partnership Rental Housing program also increases to \$12 million in the fiscal 2023 budget, with a one-time enhancement of \$6 million doubling the planned amount.

In response to the 2018 *Joint Chairmen’s Report* (JCR), DHCD contracted with the National Center for Smart Growth at the University of Maryland and Enterprise Community Partners, Inc. to conduct an assessment of the State’s housing needs, and the final report was published in February 2021. According to the report, Maryland lacks approximately 85,000 rental units for extremely low-income households, defined as those with income at or below 30% of AMI. **Exhibit 6** shows the gaps between the number of households and affordable units available at various income levels, according to the assessment. The report notes that these gaps are not evenly distributed throughout the State – Baltimore City had the largest deficit of available units affordable to households with incomes below 30% of AMI, while Garrett, Kent, and Queen Anne’s counties had small surpluses. The data from the report do not reflect the impact of the COVID-19 pandemic due to the timing of the study. An analysis by the National Low Income Housing Coalition estimated a much larger shortfall in Maryland of available units for households below 30% of AMI, totaling nearly 132,000 units, based on 2019 data from the American Community Survey. DHCD’s Rental Housing Works program prioritizes funding for projects that provide housing affordable to households with income below 60% of AMI.

**Exhibit 6**  
**Rental Unit Supply by Household Income**  
**Calendar 2016**

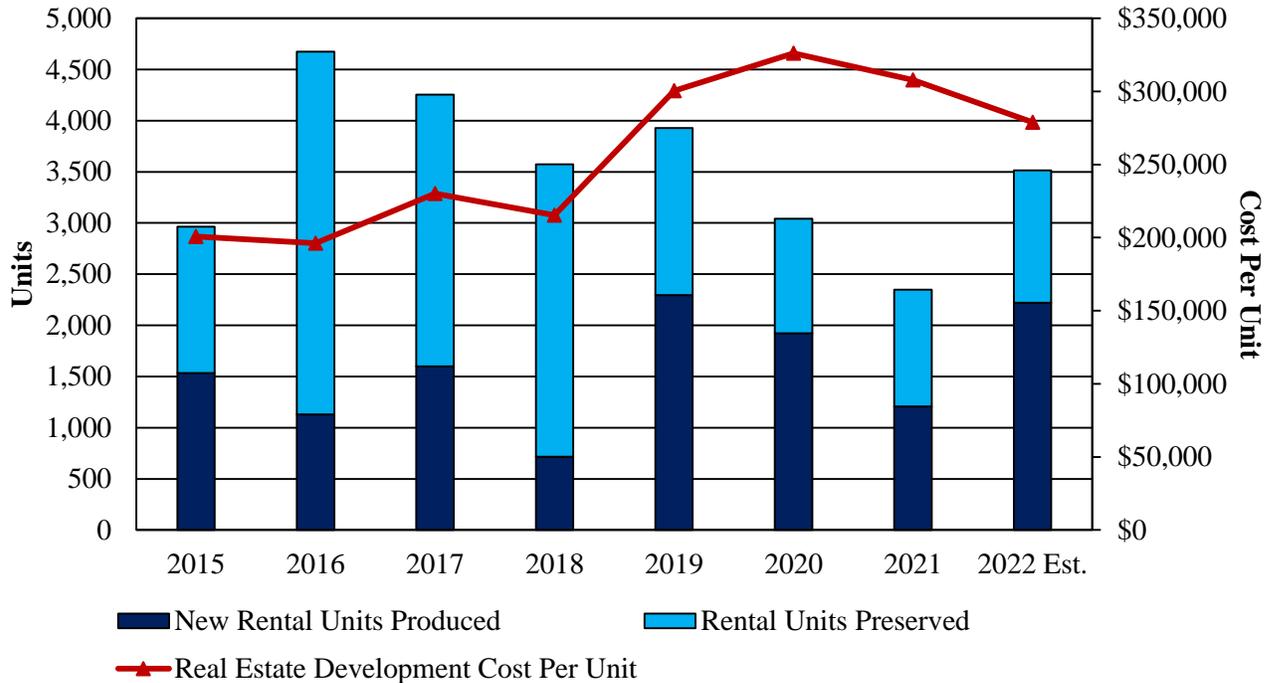


AMI: area median income

Source: Maryland Housing Needs Assessment

**Exhibit 7** shows the number of affordable rental housing units created or preserved through DHCD’s financial support, with an average of a little more than 3,500 units annually from fiscal 2015 to 2021. The number of units created and preserved decreased in each of fiscal 2020 and 2021, due in part to increased development costs. Exhibit 7 shows a decline in per unit production costs across fiscal 2020 to an estimate for fiscal 2022, despite rising construction costs in the market generally. In fiscal 2021, this decline is due in part to fewer new construction units compared to preserved units funded by DHCD. Despite DHCD’s fiscal 2022 estimate, which counterintuitively projects an increased share of new construction projects but a decline in per unit costs, DHCD asserts that the financial viability of projects in the rental housing programs pipeline is threatened as projects continue to be impacted by rising construction costs and supply chain issues. DHCD estimates an average cost increase per project of \$1.5 million. **DHCD should comment on the ongoing impact of increasing costs on the department’s Rental Housing Programs, including how projects are financing these additional costs and the impact on the number of units that can be created and preserved through projects supported by DHCD’s rental housing appropriation.**

**Exhibit 7  
Affordable Rental Housing Units Produced and Preserved  
Fiscal 2015-2022 Est.**



Source: Governor’s Fiscal 2023 Budget Books

**State Small Business Credit Initiative**

The ARPA expanded and provided a new round of funding for the SSBCI, initially established in calendar 2010. SSBCI provides funding to states for programs that expand access to capital and provide technical assistance for small and underserved businesses. Types of eligible programs include venture capital programs, loan participation and loan guarantee programs, collateral support programs, and loan loss reserve fund programs. Nationally, the ARPA provides \$10 billion for SSBCI, including a \$1.5 billion set-aside for businesses owned by socially and economically disadvantaged individuals (SEDI). Maryland’s allocation for the program totals \$187.4 million, including \$20.7 million for the SEDI set-aside. An additional \$11.0 million will be made available to the State once Maryland achieves performance standards related to assisting SEDI businesses.

DHCD submitted a proposed plan for the State’s SSBCI funding to the U.S. Treasury in January 2022. DHCD, the Department of Commerce (Commerce), and the Maryland Technology Development Corporation (TEDCO) will jointly administer Maryland’s SSBCI program, deploying

funds through existing loan and equity investment programs. Supplemental Budget No. 1 includes \$21.9 million in federal funds, including \$21 million in PAYGO in the NBW program, in DHCD's fiscal 2023 allowance. **DHCD should comment on plans for the SSBCI funding, including how funds are expected to be divided between DHCD, Commerce, and TEDCO programs.**

## **Disaster Relief**

In addition to providing gap financing for small businesses for community revitalization projects, the NBW program has provided disaster relief funding to businesses following flooding in Ellicott City in calendar 2016 and 2018 and Hurricane Ida in calendar 2021. For businesses impacted by flooding in Ellicott City, NBW received \$5 million from the Catastrophic Event Account (CEA) as well as \$2.3 million from Commerce's Small, Minority, and Women-Owned Businesses Account (SMWOBA). NBW used these funds to make loans to Ellicott City businesses totaling \$4.1 million and grants totaling \$0.9 million. Unused funding of \$1.6 million from the CEA and \$719,000 from SMWOBA were returned to their respective funds. As loans were repaid, DHCD also returned those funds to the original accounts, totaling \$1.4 million to the CEA and \$578,000 to SMWOBA. DHCD provided partial loan forgiveness per the original loan agreements, and in January 2022 the Board of Public Works authorized forgiveness of the remaining outstanding balance of \$1.9 million in order to provide additional relief due to the COVID-19 pandemic.

In October 2021, DHCD received \$3.8 million from the CEA to provide relief to businesses and residents in Anne Arundel, Cecil, and Montgomery counties that were impacted by Hurricane Ida. The department plans to provide this funding as grants rather than loans, with small business grants processed through the NBW program and grants for home repair processed through DHCD's Special Loan programs. As of February 2022, six businesses have applied for funding with requests totaling \$300,000, and three applications totaling \$135,000 have been approved. For grants to residents, five applications have been received and are under review. **DHCD should comment on the department's timeline for making grants under these programs and when any excess funding is expected to be returned to the CEA.**

## ***Issues***

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### **1. Broadband Programs Expand Significantly in Both Size and Scope**

Chapter 74 of 2021 renamed the Office of Rural Broadband in DHCD to the Office of Statewide Broadband (OSB) and expanded its responsibilities to include the development of a statewide broadband plan, collecting and publishing data on broadband availability and speed, and furthering digital inclusion efforts. Funding for broadband programs has also increased dramatically through federal legislation, including approximately \$400 million that the State designated to be used for this purpose from the ARPA and more than \$100 million anticipated from the Infrastructure Investment and Jobs Act (IIJA). Other than this federal funding, from fiscal 2019 to 2021, DHCD has administered \$9.7 million in GO bonds and \$5.3 million in general fund grants for the expansion of broadband infrastructure. The fiscal 2023 allowance includes \$171.2 million in PAYGO federal funds in the DPA for broadband initiatives from the ARPA Capital Projects Fund, including \$5 million for program administration, while DHCD’s operating allowance has \$1.2 million in general funds for regular and contractual personnel as well as operating grants. A negative deficiency of \$71.2 million in the DPA leaves \$108.1 million still available for broadband from the fiscal 2022 DPA appropriation. The fiscal 2023 capital budget deauthorizes \$9.18 million in GO bonds for fiscal 2021 as these funds were replaced with federal funds from the ARPA during the fiscal 2022 budget process.

#### **Program and Funding Overview**

**Exhibit 8** shows the broadband programs administered by DHCD as well as the fund sources for these programs. The vast majority of funds are from the ARPA, which requires that funds be encumbered by December 2023 and expended by December 2026. Applications recently closed for the fiscal 2022 funding round for Connect Maryland, the largest infrastructure program. Requests totaled more than \$250 million, which far exceeds available funding across fiscal 2022 and 2023, although DHCD has not yet reviewed these applications for eligibility. DHCD expects to announce the awards in April 2022 and, depending on the amount awarded, DHCD may elect not to open a separate round of applications in fiscal 2023.

**Exhibit 8**  
**DHCD Broadband Programs and Funding Sources**  
**Fiscal 2019-2023**  
**(\$ in Millions)**

<u>Program</u>	<u>Prior Years Actual</u>	<u>2022 Approp.</u>	<u>2023 Allowance</u>	<u>Description</u>
<b>Infrastructure Build Out</b>				
Connect Maryland (formerly Broadband Infrastructure Grants)	\$30.3	\$26.4	\$171.2	Construction of new networks to unserved areas of 500 to 1,500 households.
Neighborhood Connect (formerly Broadband Pilot Extension Grants)	8.8	15.2		Extension of existing networks to unserved pockets of households.
Connecting Public Housing		45.0		Funding for local jurisdictions to expand service into public housing, including wiring, extension of service from the street to the building, and other needs to ensure access for residents. Application period expected to start in February or March 2022.
Rural and Digital Connectedness		23.7		Block grants to local jurisdictions based on proposals to reach difficult-to-connect households. Applications expected to open by spring or summer 2022.
Education Assistance	24.0			Grants to local school districts and libraries to provide access to students for remote learning, in addition to a \$15 million program under development to address students' long-term connectivity needs.
RELIEF Act Grants	2.0			Supplementary grants similar to Connect Maryland and Neighborhood Connect programs.
Other	3.2			Feasibility studies, technical assistance, and other operating grants.
<b>Affordability and Adoption</b>				
Maryland Emergency Broadband Benefit		45.0		\$15 per month subsidy for low-income households, supplementing federal benefit. Currently serving 30,947 households.
Maryland Device Subsidy Program		30.0		Grant program through local jurisdictions to distribute computing devices to low-income households. Under development, with procurement for devices anticipated in February 2022.

<u>Program</u>	<u>Prior Years Actual</u>	<u>2022 Approp.</u>	<u>2023 Allowance</u>	<u>Description</u>
<b>Affordability and Adoption</b>				
Digital Inclusion Program		2.0		Grants to nonprofits or local jurisdictions to improve digital adoption. Applications expected to open in February 2022.
Gap Networks		5.0		Grants to nonprofits or local jurisdictions to provide free broadband service to low-income households unable to afford other options. Applications expected to open in February 2022.
UM Extension Programs		6.0		Digital literacy training and navigators.
<b>Total</b>	<b>\$68.1</b>	<b>\$198.3</b>	<b>\$171.2</b>	
<b>Fund Source</b>				
GO Bonds	9.7			
CARES Act	23.7			
ARPA: Added to DHCD Budget	32.0	90.2		
ARPA: Dedicated Purpose Account		108.1	171.2	
General Funds	5.3	0.7	0.5	Does not include regular or contractual personnel costs.
<b>Total</b>	<b>\$70.7</b>	<b>\$199.0</b>	<b>\$171.8</b>	
<b>Available Funding Not Yet Allocated to Specific Programs</b>	<b>\$2.6</b>	<b>\$0.7</b>	<b>\$0.5</b>	

ARPA: American Rescue Plan Act  
 CARES: Coronavirus, Aid, Relief, and Economic Security  
 DHCD: Department of Housing and Community Development  
 GO: general obligation  
 UM: University of Maryland

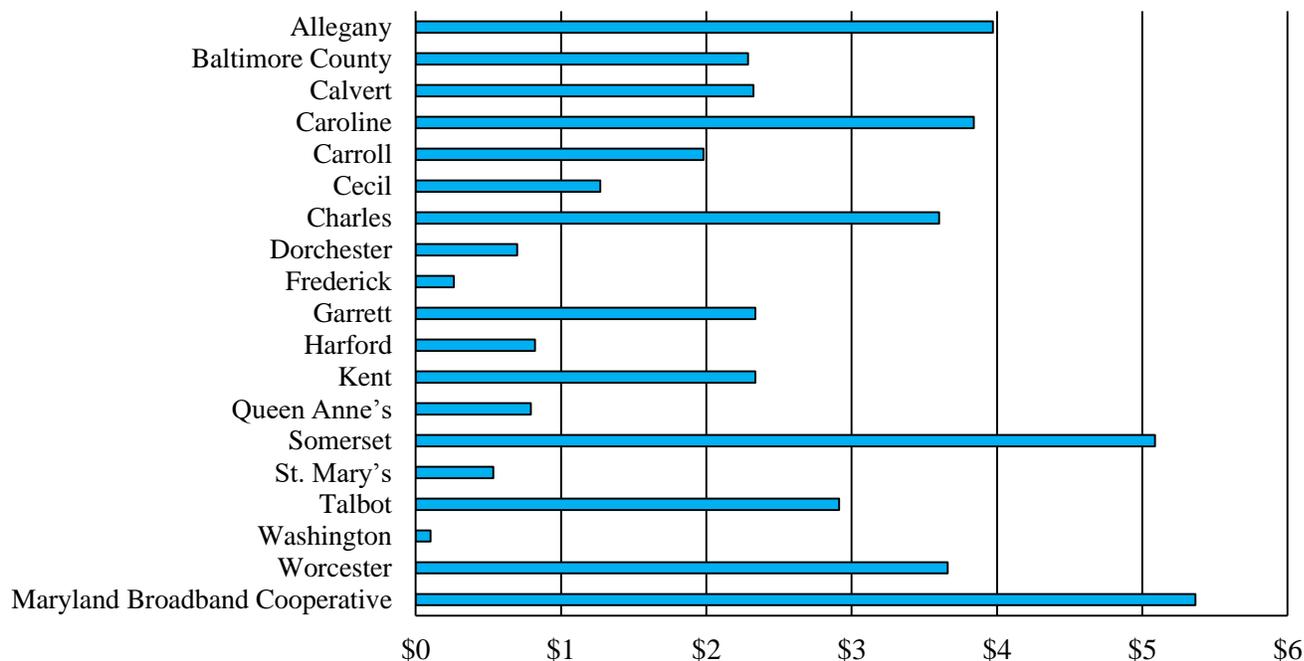
Note: Numbers may not sum to total due to rounding. Prior years' funding accounts for the proposed deauthorization of \$9.2 million in GO bonds in fiscal 2021. The fiscal 2022 appropriation includes a negative deficiency in the Dedicated Purpose Account. The funding for University of Maryland Extension programs will be transferred by budget amendment to the University of Maryland, College Park.

Source: Department of Housing and Community Development; Governor's Fiscal 2023 Budget Books

## Program Awards

**Exhibit 9** shows all broadband infrastructure awards, other than education assistance, made by DHCD from fiscal 2019 to 2021 by jurisdiction, totaling \$44.2 million. These projects are estimated to serve more than 26,000 households and nearly 600 businesses. Local jurisdictions and Internet service providers also provide matching funds, typically at least 50% of the total project costs, totaling \$43.9 million. Some projects meet the matching requirement through extending last-mile coverage. Typically, the larger projects involving building new networks are expected to take approximately three years to expend awarded funds, while extension projects are expected to take 18 months. In addition to State investments, federal funds awarded directly to broadband projects in Maryland during this time period totaled \$14.5 million, primarily consisting of \$13.1 million awarded to Talbot County. DHCD provided assistance to Talbot County for the application for federal funds.

**Exhibit 9**  
**Broadband Awards by Jurisdiction**  
**Fiscal 2019-2021**  
**(\$ in Millions)**



Note: Awards include only State funding and do not reflect additional awards made for education purposes. Awards for Somerset County include one grant made to the City of Crisfield, and awards for Carroll County include a \$1.3 million loan made to the City of Westminster. Maryland Broadband Cooperative funding is for middle-mile infrastructure projects spanning multiple jurisdictions, including Allegany, Charles, Dorchester, Garrett, and Wicomico counties. Two project awards totaling \$7.2 million, reflected in Caroline and Somerset counties, also cover parts of Queen Anne's County.

Source: Department of Housing and Community Development

**IIJA**

The IIJA was signed by President Joseph R. Biden Jr. in November 2021 and includes more than \$60 billion in funding nationally for broadband programs. The largest program is the Broadband Equity, Access, and Deployment Program (BEAD), which provides \$42.5 billion for grants to states allocated by formula, with a \$100 million state minimum. The formula is based on the proportion of unserved locations in each state as well as unserved locations in high-cost areas, both of which will be determined using maps currently under development by the Federal Communications Commission (FCC). These maps are not expected to be complete until late calendar 2022 at the earliest, with BEAD funding anticipated to reach states no sooner than early calendar 2023. **Exhibit 10** summarizes the broadband programs that will be funded through the IIJA and the nationwide funding available through each program. Although the timeline and funding allocations are still uncertain, DHCD estimates that Maryland may receive approximately \$434 million for broadband projects from the IIJA.

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**Exhibit 10**  
**Infrastructure Investment and Jobs Act Broadband Programs and**  
**National Funding Levels**  
**(\$ in Billions)**

<b><u>Program</u></b>	<b><u>Funding</u></b>	<b><u>Allocation Method</u></b>	<b><u>Description</u></b>
Broadband Equity, Access, and Deployment	\$42.5	Formula; State Minimum: \$100 million	Infrastructure projects in unserved or underserved areas. Requires 25% matching, which can include federal COVID-19 relief funding.
State Digital Equity Capacity Grant	1.5	Formula; State Minimum: \$1.5 million annually	Funding for states to develop plans to ensure disadvantaged and vulnerable communities have access to affordable Internet.
Digital Equity Competitive Grant	1.3	Competitive	Eligible grantees include nonprofits, libraries, and community institutions. Funding can be used for digital inclusion activities, training and workforce development, provision of devices or equipment, or upgrading public access computing centers.
Middle-Mile Infrastructure Grant	1.0	Competitive	Funding to build out middle-mile infrastructure that does not connect directly to the end user. Eligible applicants include state and local governments, nonprofits, and technology and telecommunications companies.
Rural e-Connectivity Program	2.0	Competitive	Additional funding for existing broadband infrastructure grant program for rural areas.
Affordable Connectivity Benefit	14.2	Subsidy	Subsidizes broadband costs for low-income households. Makes permanent the Emergency Broadband Benefit created through the Consolidated Appropriations Act of 2020 and reduces the monthly benefit amount from \$50 to \$30.
<b>Total</b>	<b>\$62.4</b>		

Source: Infrastructure Investment and Jobs Act

## Estimated Broadband Needs

Chapter 74 charged OSB with developing a statewide plan by July 1, 2022, to ensure that all households in Maryland have access to affordable and reliable broadband service by the end of calendar 2026. OSB is working with Salisbury University and the Eastern Shore Regional GIS Cooperative to develop the broadband plan and complete the mapping required to understand Maryland’s broadband needs. OSB anticipates maps developed through this effort may be available by the second quarter of calendar 2022. The development of new maps is needed, as previous FCC mapping is known to substantially underestimate need. Estimates of need must also take into account both lack of infrastructure as well as affordability and other access issues. DHCD estimated a minimum of 60,000 unserved households based on using the FCC data as a lower bound as well as more than 300,000 metropolitan households lacking the digital tools required for broadband access, based on data from the Abell Foundation. **Exhibit 11** shows estimates of the percent of households with no Internet access based on the American Community Survey.

**Exhibit 11**  
**Percent of Households with No Internet Access by Jurisdiction**

19.7%	21.0%	18.6%	8.6%	10.6%	10.4%	9.4%	12.6%		
Garrett	Allegany	Washington	Frederick	Carroll	Baltimore	Harford	Cecil		
			5.8%	4.4%	20.4%		21.8%		
			Montgomery	Howard	Baltimore City		Kent		
				10.0%	7.1%		9.9%		
				Prince George’s	Anne Arundel		Queen Anne’s		
				11.0%	7.8%		12.1%	17.0%	
				Charles	Calvert		Talbot	Caroline	
					12.5%		20.0%	15.9%	
					St. Mary’s		Dorchester	Wicomico	
							22.2%	14.1%	
							Somerset	Worcester	

Source: American Community Survey, 2015-2019

**Appendix 1**  
**2021 JCR Responses from DHCD**

The 2021 JCR requested that DHCD prepare 2 reports related to the department's capital programs. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Community Input on Project Awards:*** DHCD submitted a report outlining the role of its Office of Community Engagement in conducting outreach and public awareness campaigns for all of DHCD's programs. In addition, DHCD noted that Sustainable Community Action Plans developed by local stakeholders and updated regularly are a key input for DHCD's Neighborhood Revitalization programs. Applicants must also discuss how proposed projects have engaged the local communities in which the project is located, and DHCD provides notice to local governments during the application process for all Neighborhood Revitalization programs. For Rental Housing Programs, DHCD holds public forums annually when updating the Qualified Allocation Plan for awarding federal tax credits, and the department also accepts comments year-round through a dedicated email address.
- ***NBW Loan Processes and Activity:*** The budget committees requested a report on the underwriting process for the NBW program as well as data on minority business participation and interest rates for loans made under the program. DHCD's response indicated that the program accounts for both cash flow and credit requirements in its underwriting process as well as nontraditional lending considerations such as catalyzing non-State funding to encourage investment in underserved communities. The report provides data on interest rates for all NBW loans and loans that went to self-identified minority-owned businesses over the period from fiscal 2012 to 2021, with an average rate of 1.27% (including interest-free loans) for all loans and 1.39% for loans to minority-owned businesses.