



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations


February 24, 2021

MEMORANDUM

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin 
Senior Legislative Budget and Policy Analyst

FROM: Warren E. Burris, Sr. 
Senior Legislative Budget and Policy Analyst

RE: Policy Analysis Statement
CB-004-2021 Housing Investment Trust Fund -Dedicated Funding

CB-004-2021 (*sponsored by:* Councilmembers Glaros, Davis, Hawkins, Taveras, Turner, Dernoga, Franklin, Ivey, Streeter and Anderson-Walker) Assigned to Committee of the Whole (COW)

AN ACT CONCERNING THE HOUSING INVESTMENT TRUST FUND - SUSTAINABLE SOURCE OF FUNDING for the purpose of establishing a sustainable source of funding for the Housing Investment Trust Fund by reallocating a certain percentage of the County's recordation taxes to provide support for the fund; permitting the County Council to reduce the percentage dedicated to the Housing Investment Trust Fund when there is a declared national recession; requiring an annual report; and generally relating to the Housing Investment Trust Fund

Fiscal Summary

Direct Impact:

Expenditures: Significant additional expenditures would be required to offset the at least ten million dollars (\$10 million) in funds allocated from County recordation tax revenues each year.

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Revenues: None.

Indirect Impact:

Potentially positive.

Legislative Summary:

CB-004-2021, proposed and sponsored by Councilmembers Glaros, Davis, Hawkins, Taveras, Turner, Dernoga, Franklin, Ivey, Streeter, and Anderson-Walker, was presented on January 28, 2021 and referred to the Committee of the Whole (COW). This legislation proposes to create a dedicated funding source for the Housing Investment Trust Fund (HITF) annually by re-allocating 20% of the County’s recordation tax collected each year, or no less than \$10 million, to assist with addressing the County’s affordable housing shortage.

The recommendation to use recordation tax revenues as a dedicated funding source for the HITF was derived from the Housing Opportunities For All Workgroup (HOFA), established by CB-16-2019, with the expressed purpose of assisting the County with appropriate guidance and expertise in implementing its 10-year housing strategy, developed through the Comprehensive Housing Strategy (CHS).

If Enacted, CB-004-2021 would:

- require the allocation of 20% of the recordation tax collected, or no less than \$10 million, each year to the HITF;
- permit the Council to decrease the 20% amount from the recordation tax collected when there is a national recession declared by the federal government; and
- require the Director of DHCD to prepare and provide an annual status report for presentation to the County Council by January 1st of each year

Background/Current Law:

The Prince George’s County’s Housing Investment Trust Fund¹ was created by legislation through Council Bill-21-2012 and amended with CB-57-2017 to create specific activities to address the County’s affordable housing challenges. Among other things, the HITF supports the Workforce

¹ “Housing trust funds are distinct funds established by city, county or state governments that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes. Housing trust funds systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue. While housing trust funds can also be a repository for private donations, they are not public/private partnerships, nor are they endowed funds operating from interest and other earnings.” (2020) Housing Trust Fund Project.

Housing Gap Financing and the Down Payment and Closing Cost Assistance Programs.² The purposes of the HITF are set forth in County Code §10-295(a), and are as follows:

- (1) develop effective strategies to strengthen County neighborhoods impacted by foreclosures consistent with the adopted Prince George's County Five-Year Consolidated Housing and Community Development Plan;
- (2) provide for gap financing to enable the County to support the development of new construction and preservation of existing workforce and affordable housing;
- (3) provide for housing counseling, rental, down payment and closing cost assistance for eligible persons to retain or purchase vacant, abandoned and foreclosed properties;
- (4) acquire, rehabilitate, resell or lease-purchase of all for sale properties in Prince George's County to include: vacant, abandoned and foreclosed properties to eligible persons, not-for-profit organizations and for-profit affordable housing providers;
- (5) provide for land banking of vacant, abandoned and foreclosed properties in the County;
- (6) to otherwise reduce and minimize the occurrence of foreclosures by coordination and use of County, State and Federal resources and programs; and
- (7) to increase and preserve the supply of safe and affordable homeownership opportunities for the purpose of growing the County's tax base revenue.

Subsection 10-295(b) further provides that the HITF “may provide financial assistance in the form of loans and grants to finance programs to meet the goals of this Division for the benefit of existing and potential homeowners or renters, not-for-profit organizations and for-profit affordable housing providers in Prince George's County.”

Under the current law, there is not a dedicated funding source for the HITF. Rather, HITF funding is discretionary, with §10-296 providing that the HITF “*may* be financed from:

- (1) current expense funds;
- (2) any contributions, donations, or appropriations by the United States, the State of Maryland, any other political jurisdiction, or any private entity;
- (3) interest income;
- (4) fees or other charges levied on loan or grant recipients; and
- (5) any other funds designated and provided by the County.

The County Council appropriated funds in FY 2018 & FY 2019 for a total of \$7,500,000 with no appropriations for FY 2020. In FY 2021, there was a proposed appropriation of \$8,970,200.³

² See County Code, Subtitle 10, Division 19.

³ According to the Fiscal Year 2021 Proposed Budget Book, “The Housing Investment Trust Fund supports the Workforce Housing Gap Financing Program and the Down Payment and Closing Cost Assistance Program. The Workforce Housing Gap Financing Program enables the County to develop viable, mixed income communities of choice by providing gap financing for the development of decent and quality workforce housing for income eligible households. Additionally, the Down Payment and Closing Cost Assistance Program provides assistance to eligible

However, due to the COVID pandemic, according to CB-24-2020, the funding was decreased by \$4,000,000, for a total budget appropriation for FY 2021 at \$4,970,200. During FY2021, the fund committed \$1,500,000 with legislation, CR-55-2020, Townes at Peerless project. Therefore, the current balance of the HITF is approximately \$3,470,200.

Apart from the \$1.5 million expended for the Down Payment and Closing Cost Loan Assistance program and operating costs, the HITF has had difficulty expending funds due in large part to the Department of Housing and Community Development (DHCD) facing an unforeseen obstacle of awarding Workforce Housing Gap Financing funds. This was primarily due to proposal applications being denied nine percent (9%) tax credit allocations from Maryland Department of Housing and Community Development (MD DHCD).

Policy Analysis:

- *Benefits of Enacting CB-04-2021-Housing Investment Trust Fund Dedicated Funding*

Enacting CB-04-2021, would earmark 20% of the County's Recordation taxes as a sustainable source of funding for the Housing Investment Trust Fund to assist with meeting the affordable housing challenge in the County. Prince George's County is facing an affordable housing challenge as are most of the jurisdictions in the Washington, DC Metro area. According to the US Census 5-year estimate between 2014-2019, more than half of renters in Prince Georges County were "cost-burdened," meaning they were paying more than thirty percent (30%) of their income for housing. During that same time, more than thirty percent (30%) of homeowners paid more than 30% of their income for housing. Even though during that same time period, Prince George's County had the most affordable median rents of all jurisdictions in the region. Therefore, the County had to take an aggressive approach to meeting the challenge of the affordable housing to address the difficulty faced by large numbers of residents in covering housing costs.

This Bill will establish a dedicated source of funding for the HITF, which should allow DHCD to develop longer-term plans for housing affordability programs, secure in the knowledge that, absent a national recession, the HITF would have a predictable level of resources available. This may allow DHCD to leverage funding from the HITF to stimulate new investment in housing, including increasing Transit Oriented Development with an affordable housing component, and to develop other tools to assist with off-setting residents' housing burdens. Furthermore, the economic disruption caused by the COVID-19 pandemic has disproportionately impacted households that

first-time homebuyers to purchase owner occupied or vacant residential properties anywhere in Prince George's County.

In FY 2021, the HITF will provide funding for five limited term positions totaling \$351,300 and operating expenses totaling \$20,000 to support the Down Payment and Closing Cost Assistance program. Funding is allocated for two limited term positions totaling \$141,000 to support the Workforce Housing Gap Financing Program. Programmatic operating expenses in FY 2021 consist of \$1,438,600 of anticipated loans for the Down Payment and Closing Cost Assistance Program and \$7,019,000 for the Workforce Housing Gap Financing Program.

were already cost-burdened. Due to the pandemic, the County, and the region, must be wary of renters and homeowners being impacted and potentially facing challenges post-pandemic.

- Cost of Enacting CH-04-2021 – Dedicated Funding for Housing Trust Fund:

Enacting CB-004-2020 will have the effect of decreasing the County’s available general fund revenue from recordation taxes by at least ten million dollars (\$10 million) annually. The County has limited sources of funding due to restrictions placed on the County’s ability to raise tax revenue in Sections 812 and 813 of the County Charter (known colloquially as “TRIM” and “Question I,” respectively). With revenue challenges and many other competing interests (Kirwan Plan, Health and Human Service Safety-net, etc.) using funding that is already allocated to meet the operational budgetary needs can cause instability with the funding for the Housing Investment Trust Fund and/or other services.

Recordation Tax Revenues:

In considering whether to commit a set percentage, but not less than \$10 million, of recordation tax revenues each year to the HITF, it is useful to look at recent history. As the table below shows, using *actual* revenues, one must only go back to fiscal year 2017 to reach the point where twenty percent of the revenues would be less than the \$10 million minimum established under CB-004. Further, should receipts dip to fiscal year 2012 levels, the minimum amount would approach half of the recordation tax revenue collected.

Recordation Tax Revenues, by fiscal year⁴:

Fiscal Year	Budget	Actual
2021	\$51,575,100	n/a
2020	\$53,170,200	\$51,575,100 (est.)
2019	\$52,643,800	\$51,315,782
2018	\$43,398,200	\$56,819,453
2017	\$45,272,200	\$46,617,973
2016	\$36,950,100	\$44,455,892
2015	\$37,755,500	\$34,105,769
2014	\$31,111,500	\$30,944,735
2013	\$28,163,600	\$30,641,413
2012	\$24,587,100	\$22,774,565

⁴ Source: Prince George’s County Approved Operating Budget Books, Revenue Summary, FYs 2012-2021

- Comparing Housing Trust Funds in the Region:

JURSDICTION	TOTAL POPULATION	TOTAL OPERATING BUDGET	LOCAL HOUSING TRUST FUND	LOCAL RENTAL ASSISTANCE
Prince George's County, MD	892,816	\$4.1 billion	\$5.1 million	N/A
Montgomery County, MD	1 million+	\$5.6 billion	\$42.8 million	\$14.7 million
Fairfax, VA	1 million+	\$8.0 billion	\$18 million	N/A
Arlington, VA	223,945	\$1.0 billion	\$14.3 million	\$8.7 million
District of Columbia	647,484	\$15.2 billion	\$100 million (production) \$10 million (preservation)	\$15.4 million

Notes: All amounts are for FY19. "Total operating budget" reflects total authorized expenditures. "Local housing trust fund" generally include a blend of local appropriations and/or dedicated revenue; developer contributions and repayments; and some level of federal funding, such as HOME. Local rent subsidy program does not include federally funded vouchers. Population estimates via 2011-2015 American Community Survey 5-Year Estimates.

Figure 1 Source: Comprehensive Housing Strategy, P.36

- The D.C. Housing Production Trust Fund (HPTF) was established in 1988 is funded through 15 percent (15%) of revenue from deed recordation and transfer taxes, as well as through the District's general fund. DC's mayor has committed \$100 million annually to the fund each year of her administration – more than any city per capita in the country. A 2016 report issued by Center for Community Change⁵ showed that the District's \$100 million fund more than tripled the next highest fund amount for a US city. For three straight years, D.C. has exceeded their annual commitment of \$100 million to the HPTF, from \$58.6 million in FY15 to \$106.89 million in FY16 to \$138.59 million in FY17 to \$167.6 million in FY18.⁶
- The Montgomery County Housing Initiative Fund established in 1988 is funded through a variety of sources including loan repayments and 2.5% of Property Tax revenue. The County Executive has budgeted \$41.5 million for the fund in fiscal year 2020. However, the County Executive's advisors "say that for the county to solve what has been labeled an affordable housing crisis, an annual housing initiative fund should be doubled to \$100 million."⁷

⁵ http://housingtrustfundproject.org/wp-content/uploads/2016/10/HTF_Survey-Report-2016-final.pdf

⁶ <https://dhcd.dc.gov/page/housing-production-trust-fund>

⁷ (November 2019) Advisors Recommend Doubling Funding for Housing program. Bethesda Magazine

Fiscal Impact:

Direct Impact

Enactment of CB-004-2021 will not, in and of itself, result in a direct negative fiscal impact on the County. However, enactment of the Bill will commit at least ten million dollars (\$10 million) each year to the HITF that is currently unrestricted general fund revenue. Committing, by law, to funding the HITF at a minimum of ten million dollars (\$10 million) per year will mean that there is that much less available to spend other County government functions. In essence, offsetting the funding of the HITF required under the Bill would require an equivalent level of reduced expenditures across the County budget each year, or additional revenues, or some combination of both.

Indirect Impact

Enactment of CB-004-2021 could have a positive indirect impact on the County by allowing the County to address its affordable housing challenges. In addition, this commitment would represent a fundamental change in the way the County does business; as housing policy is economic, health and school policy, this could stimulate unrealized growth within the County.

Appropriated in the Current Fiscal Year Budget

No.

Issues/Concerns associated with CB-004-2021:

- ✓ In considering CB-004-2021, two specific concerns that the Council may wish to address:
 - Timing of the proposed legislation considering the revenue impact caused by the Pandemic.
 - Given the limitations in the ability of DHCD to make full use of HITF funding in prior years, the Council may wish to consider the programmatic implementation of the HITF program prior to committing funding. Potentially requiring the appropriation of funds that may sit, untapped in a housing trust fund with many other services and county met needs with limited funding should be examined thoroughly. The Comprehensive Housing Strategy identified a need of \$25 million for the fund, but there must be great consideration how, *and when*, the funds will be implemented.

- ✓ Does the requirement of a federal declaration of a national recession to trigger the permissible reduction clause inhibit the County from responding proactively to budget challenges that may be local in nature or not rise to the level of a national recession. If so, is this inflexibility problematic, and are there alternative ways to build in some flexibility in the amount committed during times of budgetary challenges.

- ✓ Other potential sources of revenue include development impact fees, density bonuses, fees and fines on blighted property, rental inspection fees, sale of surplus public property, donations, or arbitrage of funds on loan from socially conscious investors.

Appropriated in the Current Fiscal Year Budget:

No.

Effective Date of Proposed Legislation:

The proposed Act t shall take effect forty-five (45) calendar days after it becomes law.

Information Source(s):

DHCD Staff
Finance Staff
Enterprise Community Partners (County's Housing Consultants)

If you require additional information, or have questions about this fiscal impact statement, please call me.