S00A
Department of Housing and Community Development

Operating Budget Data

($ in Thousands)

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change	% Change Prior Year
General Fund	$1,469	$1,940	$1,940	$0	
Adjusted General Fund	**$1,469**	**$1,940**	**$1,940**	**$0**	**0.0%**
Special Fund	28,090	31,537	30,952	-585	-1.9%
Adjusted Special Fund	**$28,090**	**$31,537**	**$30,952**	**-$585**	**-1.9%**
Federal Fund	232,814	289,470	237,989	-51,482	-17.8%
Adjusted Federal Fund	**$232,814**	**$289,470**	**$237,989**	**-$51,482**	**-17.8%**
Reimbursable Fund	2,546	1,985	495	-1,490	-75.1%
Adjusted Reimbursable Fund	**$2,546**	**$1,985**	**$495**	**-$1,490**	**-75.1%**
Adjusted Grand Total	**$264,919**	**$324,933**	**$271,376**	**-$53,557**	**-16.5%**

- The fiscal 2013 allowance decreases $53.6 million from the fiscal 2012 working appropriation. This decrease is primarily the result of $51.8 million in one-time federal funding in fiscal 2012 for mortgage assistance.

Note: Numbers may not sum to total due to rounding.

For further information contact: Jaclyn Hartman Phone: (410) 946-5530

Personnel Data

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change
Regular Positions	308.00	302.00	302.00	0.00
Contractual FTEs	32.82	75.50	77.50	2.00
Total Personnel	**340.82**	**377.50**	**379.50**	**2.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		11.78	3.90%	
Positions and Percentage Vacant as of 12/31/11		20.00	6.62%	

- Regular positions remain at 302 positions from fiscal 2012 to 2013. The department utilizes a turnover rate of 3.9%, but the actual vacancy rate as of December 31, 2011, was 6.6%.

- During fiscal 2011, a total of 6 regular positions were abolished in the department. This includes 3 regular positions associated with the statewide Voluntary Separation Program and 3 regular positions as a result of position abolitions required in Section 47 of the fiscal 2012 budget bill.

Analysis in Brief

Major Trends

Homeownership Assistance: Over the last several years, the department's Maryland Mortgage Program (MMP) and Down Payment and Settlement Expense Loan program (DSELP) have helped a large share of the market it strives to serve, although considerable volatility in the housing market has limited its impact. From fiscal 2007 through 2010 during the recession and amid the turmoil in the housing market, there were substantial declines in the total number of MMP and DSELP loans provided. In fiscal 2011, the number of loans showed signs of recovery, and additional increases are expected over the next several years.

Rental Housing: The production of rental housing units assisted by the Department of Housing and Community Development (DHCD) financing has fluctuated since fiscal 2005. In fiscal 2009, DHCD produced 2,081 units. In fiscal 2010, production increased by more than 50% as a result of two federal American Recovery and Reinvestment Act of 2009 (ARRA) programs that fueled production that year. Production decreased in fiscal 2011 because the ARRA funds were exhausted; however, new capital spending programmed for fiscal 2013 should improve production in fiscal 2013.

Issues

Federal Efforts to Assist Homeowners Continue: In fiscal 2012, DHCD's efforts to prevent foreclosures through its Emergency Mortgage Assistance (EMA) program received a significant boost from additional federal funds totaling $56.6 million. In addition, in February 2012, a significant national settlement was announced between 49 states and the District of Columbia providing more than $25 billion in relief to nearly 2 million current and former homeowners harmed by the foreclosure crisis. Maryland's share of the settlement is nearly $1 billion. **The Department of Legislative Services (DLS) recommends that DHCD comment on the success of the EMA program and DHCD's ability to get funds obligated so quickly. Additionally, DHCD should comment on the national mortgage settlement agreement and provide an update on what role DHCD may play in connecting homeowners with help.**

Plans to Move Agency Headquarters Presses Forward: In September 2011, the Governor announced that DHCD will move to Metroview, a mixed-use facility to be constructed in New Carrollton adjacent to the Metro station. Negotiations of the lease terms are ongoing and many unanswered questions remain about the feasibility of the move and the additional rental costs the State will incur. **DLS recommends that DHCD and the Department of General Services (DGS) address several areas of concern. Additionally, DLS recommends the addition of budget bill language restricting a portion of DHCD's and DGS's budgets until a report is received on the move**.

Weatherization Efforts Full Steam Ahead: Over the last several years, DHCD's weatherization efforts have received significant sums of money to help eligible low-income households with the installation of energy conservation materials in their homes. These measures both reduce the consumption of energy and the cost of maintenance for these homes. **DLS recommends that DHCD discuss its weatherization and energy efficiency programs and the impact these funds have had on reducing energy consumption in Maryland and improving maintenance and utility costs for homeowners and businesses.**

Recommended Actions

1. Add a section requiring a report on the relocation of the Department of Housing and Community Development.

Operating Budget Analysis

Program Description

The mission of the Department of Housing and Community Development (DHCD) is to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work, and prosper.

- **Affordable Rental Housing:** As shown in **Exhibit 1**, roughly two-thirds of the agency's activity goes to developing and supporting affordable rental housing. Nonprofits and for-profit developers and owners may access tax credits and below-market loans to help finance multi-family housing projects serving low-income families; some loans are also available to local governments. Federal Low Income Housing Tax Credits (generating $86.0 million of equity in fiscal 2011) are a crucial part of the financing for these projects. The loans are funded with State-appropriated rental housing funds, federal Home Investment Partnership Program funds, and the proceeds of tax-exempt and taxable bonds.

  Rental housing support also includes administration of State and federal rental subsidy programs, including the federal Section 8 Performance Based Contract Administration and Housing Choice Voucher programs and the State Rental Allowance Program. Under these programs, DHCD provides rental assistance to low-income households through owners of covered units, local governments, or nonprofit subcontractors.

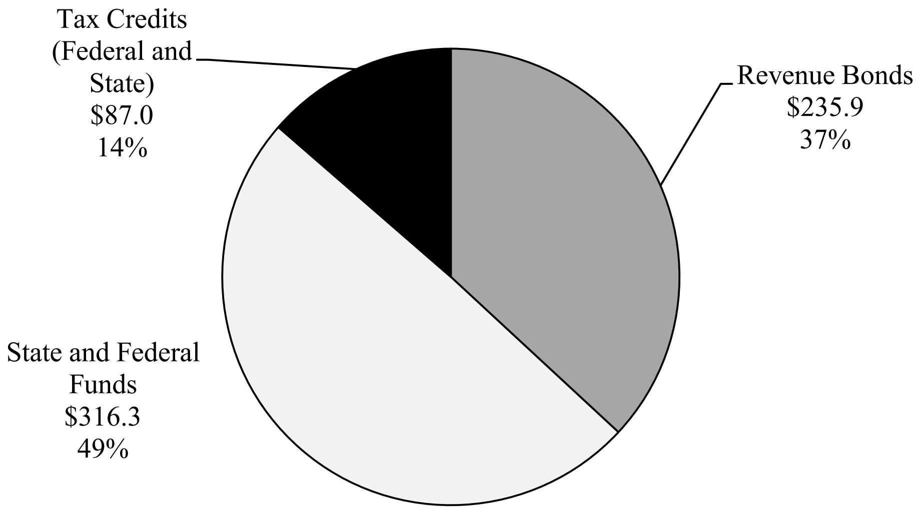
- **Homeownership:** As shown in Exhibit 1, less than one quarter of the agency's activity is geared toward promoting homeownership. Those who meet certain income criteria can access loans with below-market interest rates for down payment and settlement expenses to buy homes. Mortgage revenue bonds are the primary source of funds for mortgages. Exhibit 1 shows that DHCD revenue bonds, which are not part of the State-appropriated budget, are a significant part the agency's funding.

  Other Single Family Program activities support grants and loans for weatherization, lead hazard reduction, indoor plumbing improvements, overall rehabilitation, and group home projects.

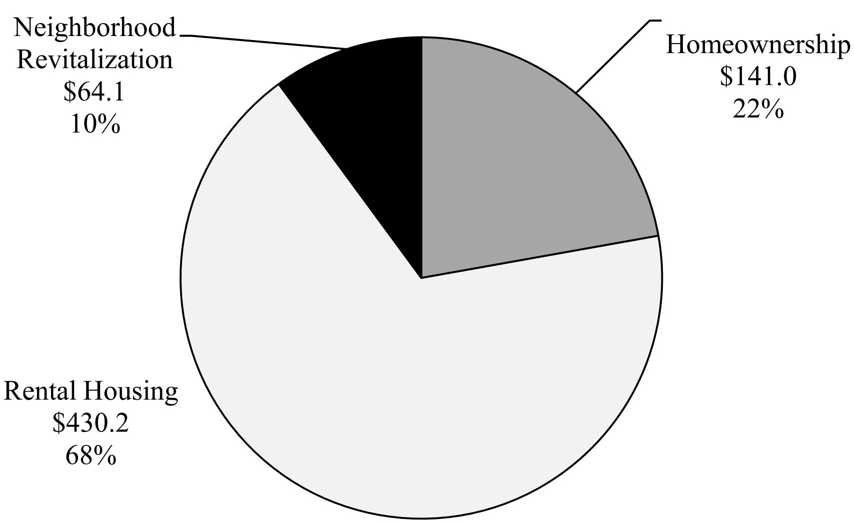
- **Neighborhood Revitalization:** As shown in Exhibit 1, about 10% of the agency's activity is for neighborhood revitalization. Local governments, community development nonprofits, businesses, and others involved in revitalizing communities may access grants, below-market loans, and technical assistance and training. Funds are used for projects such as infrastructure improvements, business and housing opportunities, streetscape and facade improvements, recreational amenities, and improvement of public spaces.

Exhibit 1
Sources and Uses of Funding
Fiscal 2011 Total = $639.2 Million
($ in Millions)

Sources of Funding



Uses of Funding



Source: Department of Housing and Community Development

The department's programs are administered through three operating divisions: the Division of Credit Assurance, which includes the Maryland Housing Fund's mortgage insurance activities; the Division of Neighborhood Revitalization; and the Division of Development Finance, which includes the Community Development Administration (CDA). CDA issues nonbudgeted tax-exempt and taxable bonds that are DHCD's most plentiful resource.

DHCD has three administrative support units, including the Office of the Secretary, the Division of Information Technology, and the Division of Finance and Administration.

Performance Analysis: Managing for Results

DHCD focuses on improving homeownership and affordable rental housing availability for low- and moderate-income Marylanders.

Homeownership Assistance

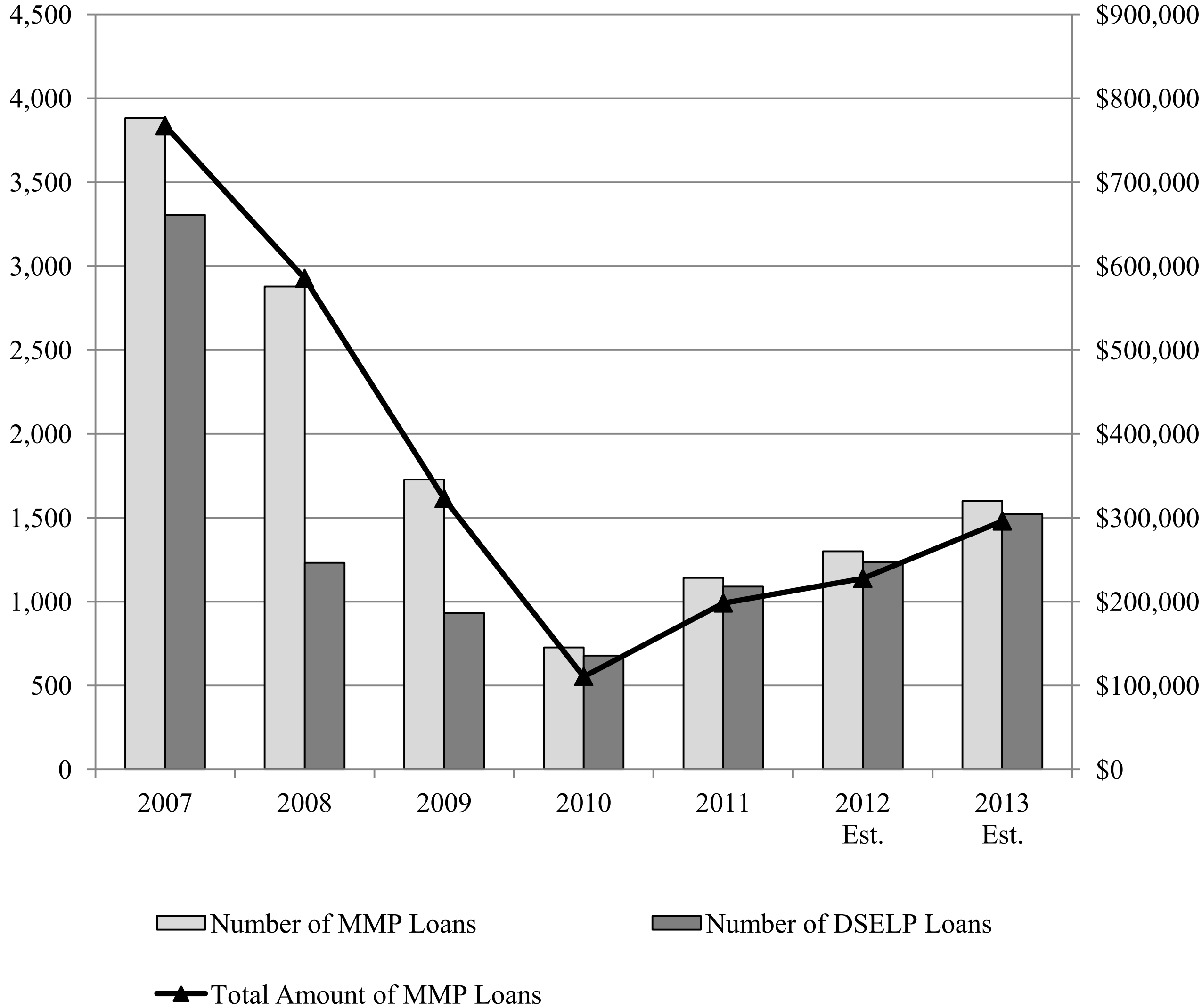
One of DHCD's main objectives is to help low- and moderate-income residents purchase homes. Over the last several years, DHCD's Maryland Mortgage Program (MMP) and Down Payment and Settlement Expense Loan program (DSELP) have helped a large share of the market that it strives to serve, although considerable volatility in the housing market has limited its impact. **Exhibit 2** shows the substantial decline in the total number of MMP and DSELP loans provided from fiscal 2007 through 2010 during the recession and amid the turmoil in the housing market. In fiscal 2011, the number of loans showed signs of recovery, and additional increases are expected over the next several years. In fiscal 2011, the average homebuyer receiving a DHCD loan had an annual income of $62,655, and the average home price was $179,166.

Rental Housing

Another DHCD goal is to expand decent, affordable rental housing in Maryland in response to a growing shortage of affordable rental units that the agency projects over the next 10 years. DHCD has several programs geared toward rental housing, including providing rent subsidies to families (in partnership with local government and private sector organizations) and providing financing to housing authorities and other developers to construct new or preserve existing rental housing.

To measure progress, DHCD tracks the number of new affordable rental housing units produced through financial support. The number of units produced is based on the projects that go to initial closing. The initial closing status means that DHCD and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete. As shown in **Exhibit 3**, unit production has fluctuated since fiscal 2005. In fiscal 2009, DHCD produced 2,081 units. In fiscal 2010, production increased by more than 50% as a result of two federal American Recovery and Reinvestment Act of 2009 (ARRA) programs that fueled production that year. Production decreased in fiscal 2011 because the ARRA funds were exhausted.

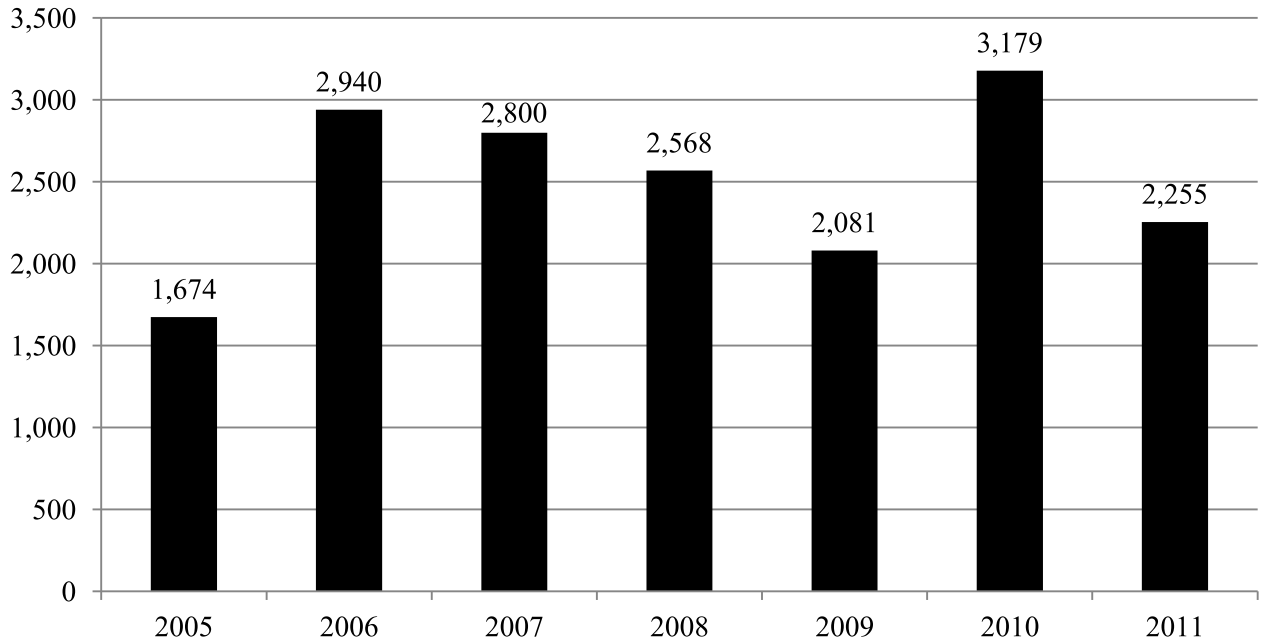
Exhibit 2
Homeownership Assistance
Fiscal 2007-2013



DSELP: Downpayment and Settlement Expense Loan Program
MMP: Maryland Mortgage Program

Source: Department of Housing and Community Development

Exhibit 3
Affordable Rental Housing Units Going to Initial Closing
Fiscal 2005-2011



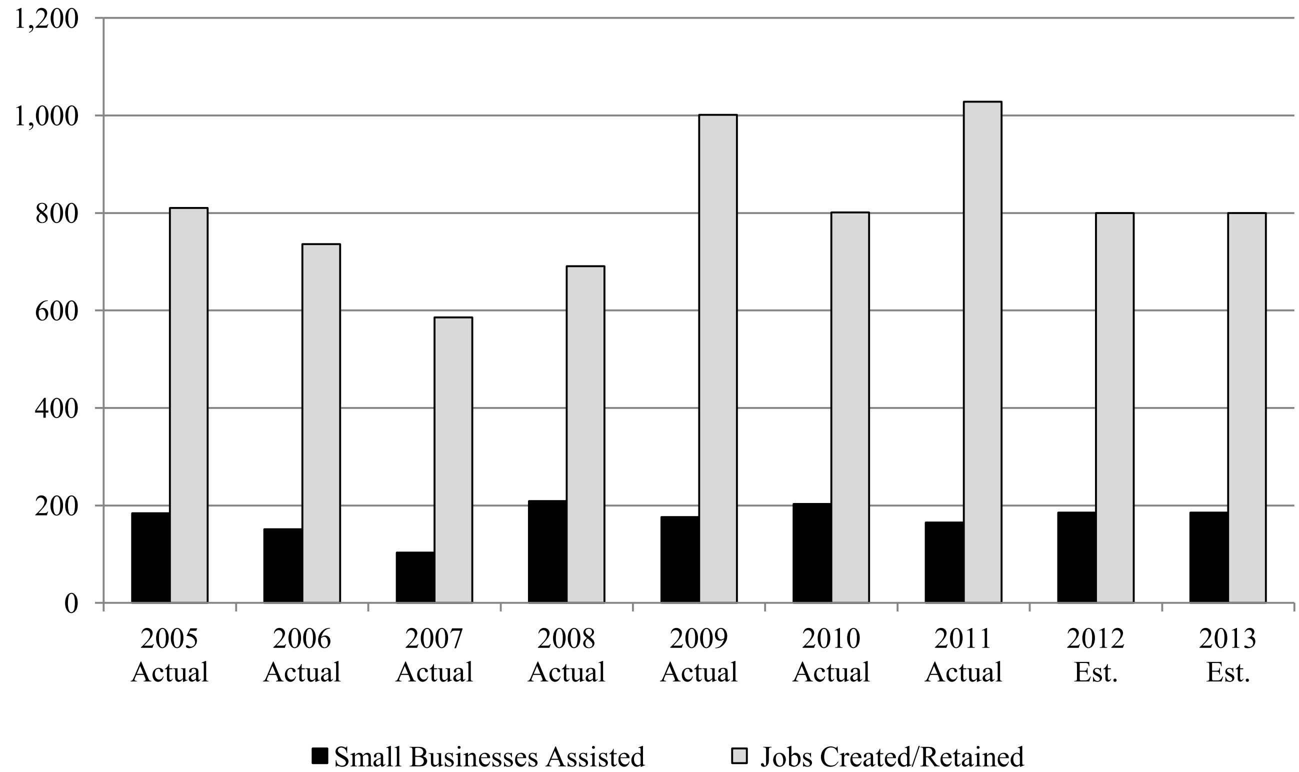
Note: Initial closing status means that the Department of Housing and Community Development and the borrower have closed the loan on the project and construction is about to begin. Final closing is achieved after construction is complete.

Source: Department of Housing and Community Development

Neighborhood Revitalization

DHCD also does work at the community level. Assistance goes to nonprofit and community-based organizations, local governments, and small businesses. These funds target infrastructure improvements, business and housing opportunities, main street revivals, historic sites, parks, and playgrounds. As shown in **Exhibit 4**, the total number of small businesses that received assistance in fiscal 2011 was 165, a decrease of 38 from the previous year, and a record 1,028 jobs were created or retained as a result of that assistance.

Exhibit 4
Creation and Expansion of Businesses and Jobs
Fiscal 2005-2013



Source: Department of Housing and Community Development

Fiscal 2012 Actions

In fiscal 2012, DHCD's efforts to prevent foreclosures received a significant boost from additional federal funds totaling $56.6 million. The funds were available under a provision in the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 providing funding for loans to homeowners facing foreclosure due to loss of income. This funding is discussed further in Issue 1.

Section 47 of the fiscal 2012 budget bill required the Governor to abolish 450 positions as of January 1, 2012. DHCD's share of the reduction was 3 positions. The annualized salary savings due to the abolition of these positions is expected to be $185,413 in federal funds.

Proposed Budget

As shown in **Exhibit 5**, DHCD's fiscal 2013 allowance totals $271.4 million, a $53.6 million decrease from the fiscal 2012 working appropriation. The decrease is almost entirely attributable to the expiration of the one-time federal funding noted above. These funds supported DHCD's Emergency Mortgage Assistance (EMA) program, and now that all of the funds have been awarded, there is a reduced need for the contractual services that had been utilized to administer this program.

Exhibit 5
Proposed Budget
Department of Housing and Community Development
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
2012 Working Appropriation	$1,940	$31,537	$289,470	$1,985	$324,933
2013 Allowance	1,940	30,952	237,989	495	271,376
Amount Change	$0	-$585	-$51,482	-$1,490	-$53,557
Percent Change		-1.9%	-17.8%	-75.1%	-16.5%
Contingent Reduction	$0	$0	$0	$0	$0
Adjusted Change	$0	-$585	-$51,482	-$1,490	-$53,557
Adjusted Percent Change	0.0%	-1.9%	-17.8%	-75.1%	-16.5%

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance	$280
Retirement	156
Accrued leave payout	20
Social Security	19
Turnover adjustments	-40
Removal of one-time $750 employee bonus	-236
Salary adjustments	-329
Other fringe benefit adjustments	-8
Statewide Cost Allocations	
Office of the Attorney General fee	32
Retirement administrative fee	38
Department of Information Technology services allocation	51

Where It Goes:	
Statewide personnel system allocation	143
Rent paid to the Department of General Services	41
Programmatic Changes	
Section 8 Contract Administration program	1,731
Section 8 Housing Choice Vouchers program	-350
Energy Efficiency and Conservation Block Grant program	-467
Weatherization Assistance Program	-2,878
Expiration of one-time federal funding for mortgage assistance	-51,755
Other changes	-5
Total	**-$53,557**

Note: Numbers may not sum to total due to rounding.

The level of general funds remains constant from fiscal 2012 to 2013, special funds decrease by $0.6 million, and reimbursable funds decrease $1.5 million. The decrease in special funds is partially due to funding not being allocated to DHCD from the Strategic Energy Investment Fund (SEIF) in fiscal 2013. The SEIF is funded primarily from proceeds of Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions. Since fiscal 2009, a portion of SEIF funds have been allocated to DHCD; however, no funds were provided in fiscal 2013 due to the expectation that DHCD would receive additional funding in fiscal 2012 for weatherization as a result of the merger between Constellation Energy and Exelon Corporation.

The decrease in reimbursable funds results from the reduction of $1.5 million typically received from the Department of Human Resources (DHR) for weatherization activities. Similar to the reduction in SEIF funds, no money from DHR is provided to DHCD in fiscal 2012 in expectation of DHCD receiving weatherization funds as a result of the Exelon and Constellation merger. The reduction in SEIF funds, reimbursable funds from DHR, and the loss of one-time federal funding for weatherization under the ARRA resulted in a $2.9 million reduction to the Weatherization Assistance Program (WAP). The WAP helps eligible low-income households with the installation of energy conservation measures in their home, such as lighting retrofits; adding insulation; and furnace cleaning, repair, or replacement.

Outside of programmatic changes in the budget, DHCD's budget increases by $0.6 million for various statewide cost allocations. This includes $0.1 million in new charges first implemented in the fiscal 2013 budget for cost recovery for the Office of the Attorney General, State Retirement Agency and Department of Information Technology (DoIT) and a $0.1 million increase for DHCD's allocation of the cost of the statewide personnel system.

Personnel

Personnel costs decrease $0.2 million. Increases in mandatory health insurance and retirement contributions are offset by removal of the one-time $750 bonus to all State employees in fiscal 2012. There is also a $0.3 million decrease in salaries due to the annualization of cost savings associated with positions abolished in fiscal 2011 and a realignment of funds following the successful award of all of the federal funds associated with the EMA program.

Section 19 of the fiscal 2013 budget bill proposes to provide resources to DoIT to manage web design services and contracts. The objective is to consolidate contracts and personnel so that DoIT manages basic systems while agencies manage their specialized content. Approximately $900,000 and 11 regular positions are authorized to be transferred from State agencies budgets into DoIT's budget. With respect to DHCD, the section authorizes the Governor to transfer 2 regular positions and $149,782 in special funds from DHCD to DoIT. This initiative is discussed in the DoIT budget.

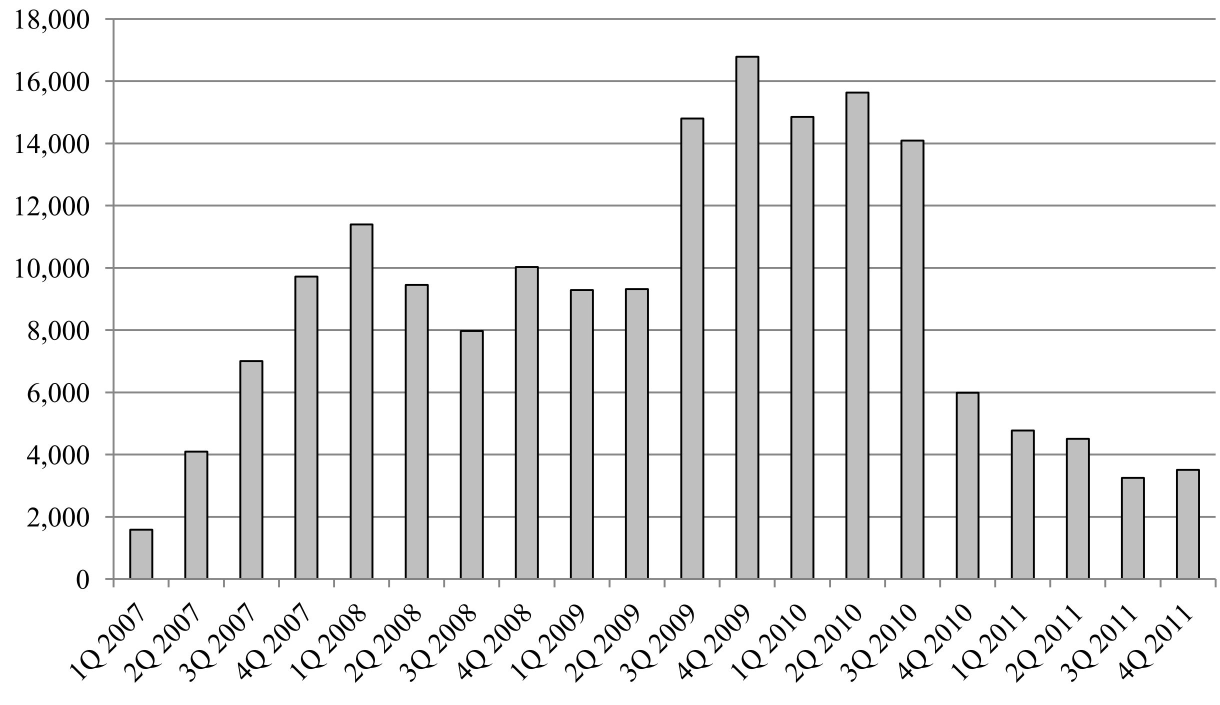
Section 20 of the fiscal 2013 budget bill proposes to provide some staff and funding for a statewide Geographic Information Office in DoIT. In August 2011, the Board of Public Works (BPW) approved a statewide Geographic Information Systems (GIS) contract that is managed by DoIT. The new contract provided GIS services to the entire State for the cost of the contracts from individual State agencies, thereby expanding usage without increasing costs. The new office plans to consolidate storage and access to mapping data and to develop standard mapping products and applications. To staff the new office, the section authorizes the transfer of 5 regular positions and $1.2 million from State agencies into DoIT. With respect to DHCD, the section authorizes the Governor to transfer 1 regular position and $92,271 in special funds from DHCD to DoIT. This initiative is discussed in the DoIT budget.

Issues

1. Federal Efforts to Assist Homeowners Continue

In calendar 2011, a total of 14,421 foreclosure events were filed in Maryland, the lowest annual figure since 2007. The State's annual foreclosure activity was down 66% below 2010, ranking the State thirty-fifth highest in foreclosure rates nationwide. **Exhibit 6** provides the number of foreclosure events by quarter in Maryland since calendar 2007.

Exhibit 6
Foreclosure Activity in Maryland
Calendar 2007-2011 by Quarter



Source: Department of Housing and Community Development

Emergency Mortgage Assistance Program Provides Millions in Federal Assistance to Avoid Foreclosures

In fiscal 2012, DHCD's efforts to prevent foreclosures received a significant boost from additional federal funds totaling $56.6 million. The funds were available under a provision in the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 providing funding for loans to homeowners facing foreclosure due to loss of income. In particular, homeowners who lost at least 15% of their income due to involuntary unemployment, underemployment, or a medical condition and met certain income and delinquency requirements were eligible for the loans.

Under this program, DHCD is able to make monthly mortgage payments including arrearages directly to the lender. The program requires the homeowner to pay 31% of his or her income toward monthly payments, and the EMA fills the gap for up to two years or $50,000, whichever comes first. The loans are 0% interest and forgiven if the homeowner stays in the house and remains current on mortgage payments for at least five years after receiving assistance. DHCD was awarded the funds on March 30, 2011. Federal guidelines required DHCD to obligate all funds by September 30, 2011, requiring the agency to obligate all of the funds during a six-month period.

DHCD was able to commit the original funds under the U.S. Department of Housing and Urban Development's tight timeframe and, therefore, was one of only two states that were successful in securing additional award funds to help homeowners in need. Twenty-seven other states and Puerto Rico obligated only $209 million in the same timeframe, which is four times what Maryland alone obligated. EMA assisted more than 1,300 homeowners with an average loan amount of $32,794 per household. **DHCD should comment on the success of the EMA program and DHCD's ability to get funds obligated so quickly.**

Major National Settlement Reached with Nation's Five Largest Mortgage Servicers

In February 2012, a significant national settlement was announced between 49 states and the District of Columbia (Oklahoma was not a party to the settlement) and the nation's five largest mortgage servicers: Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, and Ally Bank (formerly GMAC). The settlement was based on mortgage loan servicing and foreclosure practices utilized by those mortgages servicers.

The settlement included the establishment of new servicing standards to prevent a repeat of the foreclosure practices which initially prompted the investigation into servicing practices. It also preserved the right for individuals to pursue private legal action in the future and allowed the federal and state governments to pursue other ongoing investigations into related issues. From a financial standpoint, as shown in **Exhibit 7**, nationwide the value of the settlement could be as much as $39 billion, with Maryland expected to receive just over $959 million.

Exhibit 7
Estimated Value of the 2012 National Mortgage Settlement

Item	Nationwide Settlement Value	Maryland Settlement Value
State/Federal Payments	$3.5 billion	$62.5 million
Refinancing	$3.0 billion	$64.0 million
Borrower Payments	$1.5 billion	$24.1 million
Other Homeowners' Benefits	$17.0 billion – $32.0 billion	$808.5 million

Note: Servicers receive partial credit for every dollar spent on certain activities; thus the total benefit is difficult to estimate at this time. Servicer requirements need to be fulfilled within a three-year period, but incentives are provided for offering quicker relief. Estimates provided are considered preliminary. Nationwide numbers are as reported and sum to an amount larger than that was reported in the media for the total potential value of the settlement.

Source: National Association of Attorney Generals; Council of State Governments; U.S. Department of Justice

As shown in the exhibit:

- The largest part of the settlement offers benefits to homeowners through:
  - reductions to the principal on loans for borrowers who, at the date of the settlement, are either delinquent or at imminent risk of default and owe more than their homes are worth; and
  - other forms of relief including forbearance of principal for unemployed borrowers and anti-blight programs.
- Assistance is also provided in the form of cash payments to borrowers of up to $2,000. This is available to those who had homes sold or taken in foreclosure between January 1, 2008, and December 31, 2011, using the improper procedures for which the banks were originally investigated. Other criteria also apply.
- Refinancing assistance will be available to borrowers who are current on their mortgage but "underwater" *i.e.,* what is owed on the mortgage exceeds what the home is worth.
- State and federal payments are also included in the settlement. The federal government will receive $750.0 million under the settlement with $2.75 billion distributed among the states. These are considered payments to offset any loss of public funds as a result of servicer misconduct. For Maryland, this equals $62.5 million. A portion of these funds can also be designated for the State general fund in the form of a civil penalty for the servicers'

robo-signing misconduct. The status of the remaining funds was not known at the time of writing although media reports and other documents note the potential to support housing counseling, legal assistance, foreclosure prevention hotlines, foreclosure mediation, and community blight remediation.

According to the Iowa Attorney General, reported as being the states' chief negotiator of the settlement, the states' Attorneys General have discretion over where the funds are directed. It is estimated that roughly $6.0 million of the settlement will flow to Maryland's general fund, with the Attorney General having considerable discretion over the use of the remaining $56.5 million in State payments from the settlement. It is unclear at this time how those additional funds will be used. Although intended for housing-related projects like housing counseling and legal assistance, at least one state, Missouri, appears to be ready to commit its entire state payment to supporting areas of the budget that were cut in recent years, namely higher education. Another state, Wisconsin, has also announced its intention to use funds to offset budget shortfalls.

It should be noted that the settlement was not universally applauded. For example, some critics contend that the settlement was flawed because it did not cover mortgages owned by Fannie Mae and Freddie Mac (about half of the nation's mortgages). Others argue that because banks essentially have up to three years to distribute the aid, there will not be a major boost to the economy. Still others question the ability of the settlement to stabilize the housing market given the existing glut of foreclosed homes and the extent of homeowners with negative equity.

At this point, the settlement applies to individuals who make or previously made mortgage payments to one of these five servicers party to the settlement. Nine other major mortgage servicers are currently in negotiations and may also join the pact. If so, it reportedly could potentially add up to $4 billion more to the various homeowners' assistance programs outlined in the settlement.

The Governor and Attorney General have been quick to point eligible consumers and others to DHCD's HOPE hotline, which can connect consumers to local housing counseling agencies and other assistance in order to take advantage of the potential opportunities for relief under the settlement. What remains unclear is what additional funding DHCD may receive for its foreclosure prevention activities and what role DHCD may play in assisting homeowners looking for relief as a result of this settlement. **The Department of Legislative Services (DLS) recommends that DHCD comment on the settlement agreement and provide an update on what role DHCD may play in connecting homeowners with help.**

2. Plans to Move Agency Headquarters Presses Forward

In June 2010, Governor Martin J. O'Malley announced plans to move DHCD's headquarters from Anne Arundel County to Prince George's County. In September 2010, the Department of General Services (DGS) issued a request for proposals (RFP) to lease approximately 88,000 square feet of space in Prince George's County for DHCD. Although the location was not required to be a transit-oriented development (TOD), the RFP did make reference to Executive Order 01.01.2009.12, which established a new State policy to locate State office and laboratory space within a half-mile of transit stations whenever appropriate and feasible. A total of 16 bids were submitted in response to the RFP. Six of these bids were selected to submit best and final offers. In September 2011, the Governor announced that DHCD will move to Metroview, a mixed-use facility to be constructed in New Carrollton adjacent to the Metro station.

In 2004, the Maryland Department of Transportation (MDOT), Prince George's County, and the Washington Metropolitan Area Transit Authority (WMATA) funded a study that created a comprehensive strategy to develop New Carrollton as a mixed-use metropolitan center encompassing housing, retail, office and commercial space and open space all located within walkable proximity to the Metro station. In March 2011, WMATA and MDOT announced the selection of a developer to provide a joint development mixed-use TOD on approximately 30 acres of land owned by MDOT and WMATA. That development is located near Metroview but is a completely separate project.

Metroview has been under consideration since at least 1999. It provides for the development of a $170 million mixed-use facility on private land that will provide approximately 700,000 square feet of space. The building's 27 stories will include 30,000 square feet of retail space on the first floor; four floors of office space, leased primarily to DHCD; and 22 floors of more than 400 units of market and affordable rental housing. Financing for the project has not been finalized but will likely include components of federally insured loans to provide mortgages for housing in urban renewal areas, tax increment financing, and developer equity.

DGS notes an anticipated net public benefit of $12 million over the 15-year lease term. This net public benefit is the difference on overall occupancy costs between Crownsville and Metroview plus the new tax revenues generated by Metroview during construction and operations. Documents supporting this assertion were not made available to DLS and cannot be verified. Similarly, a March 2010 feasibility analysis of the proposed move has not been made available and, therefore, is not considered in this discussion. DGS cites the need to maintain the confidentiality of this document as the State works to negotiate final lease terms with the developer. Negotiations of lease terms are ongoing, and it is not yet known what the rental rate per square foot will be. The final lease agreement will need to be approved by BPW.

The benefits of this move remain unclear. DHCD does work throughout the State and the location of the majority of people that benefit from its programs varies by program. Although the foreclosure crisis hit Prince George's County the hardest, the need for affordable housing is concentrated in Montgomery County, with Prince George's County being a distant second. Recipients of single-family mortgages in the MMP and DSELP programs are concentrated in Baltimore City, as are recipients of multi-family mortgages for rental units. Regardless of where its customers are located, DHCD is not necessarily an agency where many people need to stop in to take care of business, so there is little incentive to locate DHCD closer to the people it serves. Operationally, there appears to be no benefit to relocating DHCD to Prince George's County.

Additionally, given that the majority of DHCD employees live in Anne Arundel County, this move requires employees to drive greater distances to get to work. While TODs certainly have many laudable benefits, moving an agency and requiring employees to driver farther to get to work defeats many of these benefits. Part of the reason that the New Carrollton location was chosen was because of the fixed rail transit available at the New Carrollton Metro station; however, this fixed rail option is a moot point for current DHCD employees who live in Anne Arundel County since the Metro does not extend to Anne Arundel County and, therefore, is not a commuting option. In fact, most people in Anne Arundel County must drive to New Carrollton to access the Metro system since it is the closest station to Anne Arundel County. Thus, the move may have a detrimental impact on many employees' commuting cost and time.

There are also financial considerations. DHCD's current headquarters location in Anne Arundel County is State-owned, and DGS rents the space to DHCD at a cost of $1.7 million in fiscal 2013. Although lease terms are not yet available, given current market conditions for new construction of Class A office space, the all-in annual rent (including utilities and all other expenses) will likely be in the range of $3.0 million to $3.6 million. Thus, annual rent costs may nearly double, and additional costs will be incurred for moving expenses. These increases will be partially offset by the sale of the Anne Arundel County property. Although additional tax revenues will be generated from the development, it should be noted that the Metroview project was already underway before the State agreed to rent office space there and would have been developed regardless of State involvement, so additional tax revenue generated should not be factored into the cost-benefit analysis of this move. This significantly limits the amount of financial benefits to the move.

DLS recommends that DHCD or DGS discuss the expected benefits from this move, given that there appears to be no operational benefits or benefits to employees. Furthermore, DHCD or DGS should discuss the financial impact of this move and the rationale for moving DHCD from State-owned space to leased space. This discussion should also include the reasons for leasing new construction Class A office space rather than existing Class B or C office space that would have been less costly.

Despite the original RFP requiring DHCD occupancy by December 2012, and later amended to March 2013, DHCD will likely not move until fall 2013. Design and construction of Metroview is underway and is not likely to be complete until summer or fall 2013. DHCD will take occupancy upon completion. In addition, DGS already has plans underway to sell the Anne Arundel County property once DHCD vacates it. The expected sale price of the property is not yet known, but two property appraisals are required as part of the sale of the property. **DLS recommends that DHCD or DGS comment on the delay in DHCD's move despite what had been required in the RFP. Additionally, DHCD or DGS should comment on the plans and timeline to sell the existing property.**

Language in the fiscal 2012 budget bill withheld $250,000 in DHCD's special funds until DHCD and DGS submitted a report on the timeline, cost, and programmatic impact of the move. As of the writing of this analysis, this report has not yet been received, and DGS notes that it may not be available before the end of the fiscal year. DHCD's $250,000 special fund appropriation will be cancelled if the report is not received by the end of the fiscal year. **Since this report has not yet been received, and since DGS is the primary department responsible for the new lease and sale of the existing property, DLS recommends that a back-of-the-bill section be added to the fiscal 2013 budget bill to restrict a portion of both DHCD's and DGS's budgets pending the receipt of a report providing additional details about the move and the property sale.**

3. Weatherization Efforts Full Steam Ahead

Over the last several years, DHCD's weatherization efforts have received significant sums of money to help eligible low-income households with the installation of energy conservation materials in their homes. These measures both reduce the consumption of energy and the cost of maintenance for these homes. The additional funding DHCD received includes:

- In 2009, DHCD received $64.0 million from the ARRA for weatherization efforts. DHCD has spent all but $12.5 million of this money and has an extended deadline of September 2012 to spend the remaining amount.

- In April 2010, DHCD received $20.0 million in ARRA federal funds as the result of competitive funds from the federal Department of Energy's Energy Efficiency and Conservation Block Grant Program for energy efficiency building retrofits. Thus far, only about one-quarter of these funds have been spent, and DHCD has until June 2013 to spend the remainder of this money.

- In response to its review of efforts by Baltimore Gas and Electric (BGE), Potomac Edison Company, Potomac Electric Power Company, Delmarva Power, and Southern Maryland Electric Cooperative to meet the requirements of the EmPOWER Maryland Energy Efficiency Act of 2008, in December 2011, the Public Service Commission (PSC) ordered that DHCD become the sole provider of weatherization and energy retrofit programs for the State's low-income households. As part of this order, DHCD will receive $70.5 million in funding over three years.

- In December 2011, Maryland reached a joint settlement agreement with Exelon Corporation and Constellation Energy that would provide DHCD a total $50.0 million over four years for weatherization efforts in the BGE service area. In February 2012, PSC approved the merger of Exelon Corporation and Constellation Energy with conditions. Rather than DHCD receiving the $50.0 million outlined in the joint settlement agreement, PSC ordered that a total of $113.5 million over three years be directed into a Customer Investment Fund that PSC will direct the use of funds from after further proceedings. Possible uses include low-income energy assistance, weatherization efforts, and other energy efficiency programs for residential, commercial, and industrial customers. Although the PSC order does not mention DHCD receiving a portion of these funds, DHCD already has several established programs that would meet the intended uses of these funds and, therefore, may receive funding after further review by PSC.

DHCD estimates that the total energy saved to date as a result of units weatherized just from the ARRA funding is 312,438 millions of British thermal units. This accounts for program funds expended through January 31, 2012, and assumes an average weatherization cost per unit of $4,344. **DLS recommends that DHCD discuss its weatherization and energy efficiency programs and the impact these funds have had on reducing energy consumption in Maryland and improving maintenance and utility costs for homeowners and businesses.**

Recommended Actions

1. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That $500,000 of the General Fund appropriation for the Department of General Services (DGS) and $500,000 of the Special Fund appropriation for the Department of Housing and Community Development (DHCD) may not be expended until DGS and DHCD submit a report to the budget committees providing additional information about the relocation of DHCD from Anne Arundel County to Prince George's County. This report shall include:

(1) the proposed timeline for construction of the building, DHCD's move, and the sale of the existing property;

(2) the short- and long-term operating and capital costs and program impacts of staying in the existing building versus moving to the new location;

(3) the financing plan for the new development, including any State assistance or debt, tax increment financing, and developer equity;

(4) existing operations and maintenance costs for the Anne Arundel County property and estimated annual all-in rent payments for the Prince George's County property;

(5) efforts to ease the transition for existing DHCD employees that live in Anne Arundel County; and

(6) enumeration of the operational benefits that this move provides.

The report shall be submitted 45 days prior to the lease agreement being reviewed by the Board of Public Works and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund or be cancelled if the report is not submitted to the budget committees.

Explanation: In September 2011, Governor Martin J. O'Malley announced the relocation of DHCD from its current State-owned building in Anne Arundel County to a not-yet-constructed leased facility near the New Carrollton Metro Station in Prince George's County. Despite Executive Order 01.01.2009.12, which establishes a State policy to locate State office and laboratory space within one half-mile of transit stations whenever appropriate and feasible, many questions remain about the cost efficiency of the DHCD move. Given ongoing negotiations with the developer, DGS has been unwilling to provide many of these answers. This action requires that additional information be submitted before the lease is reviewed by the Board of Public Works (BPW).

Information Request	**Authors**	**Due Date**
Report on the relocation of DHCD	DHCD DGS	45 days prior to review of the lease by BPW

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Housing and Community Development
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2011					
Legislative Appropriation	$1,940	$32,627	$229,379	$1,894	$265,841
Deficiency Appropriation	0	-1,000	0	0	-1,000
Budget Amendments	0	0	19,448	652	20,100
Reversions and Cancellations	-471	-3,537	-16,013	0	-20,021
Actual Expenditures	**$1,469**	**$28,090**	**$232,814**	**$2,546**	**$264,919**
Fiscal 2012					
Legislative Appropriation	$1,940	$31,404	$237,270	$1,985	$272,599
Budget Amendments	0	133	52,201	0	52,334
Working Appropriation	**$1,940**	**$31,537**	**$289,470**	**$1,985**	**$324,933**

Note: Numbers may not sum to total due to rounding.

Fiscal 2011

DHCD completed fiscal 2011 $921,065 below its legislative appropriation.

General Funds: Actual fiscal 2011 general fund expenditures were $471,400 below the legislative appropriation. The agency reverted $471,400 in general funds from the Rental Allowance Program to address the program's cash flow by aligning available funds with expenses.

Special Funds: Actual fiscal 2011 special fund expenditures were $4.5 million below the legislative appropriation. A fiscal 2011 deficiency withdrew $1.0 million of the special fund appropriation for the Maryland Affordable Housing Trust to reflect declining revenue for that program. In addition, DHCD canceled $3.5 million primarily to reflect $2.2 million in revenues that did not materialize from the Maryland Affordable Housing Trust, RGGI, and Foreclosure Mediation.

Federal Funds: Actual fiscal 2011 federal fund expenditures were $3.4 million above the legislative appropriation. A budget amendment appropriated an additional $19.4 million for funds made available by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 for the EMA Program. However, at the end of the fiscal year, DHCD cancelled $16.0 million primarily because most EMA funds will be spent in fiscal 2012.

Reimbursable Funds: Actual fiscal 2011 reimbursable fund expenditures were $652,409 above the legislative appropriation. Four budget amendments appropriated an additional $652,410 in funds, including (1) $320,410 from DHR for the Maryland Energy Assistance Program; (2) $250,000 from the Department of Health and Mental Hygiene for the Bridge Subsidy Program; (3) $50,000 from DHR for the development of a Homeless Management Information System for the Maryland Collaborative to End Homelessness; and (4) $32,000 from the Maryland Energy Administration to train local officials on energy codes.

Fiscal 2012

The fiscal 2012 working appropriation increases $52.3 million from the fiscal 2012 legislative appropriation.

Special Funds: The special fund appropriation increases $132,992 to provide funds for the one-time $750 employee bonus for all State employees.

Federal Funds: The federal fund appropriation increases $52.2 million. The majority of this increase, $51.9 million, is for two budget amendments providing federal funds for the EMA. The remaining amount, $102,657, is to provide funds for the one-time $750 employee bonus for all State employees.

Object/Fund Difference Report
Department of Housing and Community Development

Object/Fund	FY 11 Actual	FY 12 Working Appropriation	FY 13 Allowance	FY 12 - FY 13 Amount Change	Percent Change
Positions					
01 Regular	308.00	302.00	302.00	0.00	0%
02 Contractual	32.82	75.50	77.50	2.00	2.6%
Total Positions	**340.82**	**377.50**	**379.50**	**2.00**	**0.5%**
Objects					
01 Salaries and Wages	$ 25,255,091	$ 26,715,306	$ 26,327,358	-$ 387,948	-1.5%
02 Technical and Spec. Fees	1,981,515	4,639,484	3,361,880	-1,277,604	-27.5%
03 Communication	225,738	286,318	266,435	-19,883	-6.9%
04 Travel	219,808	227,450	124,000	-103,450	-45.5%
06 Fuel and Utilities	0	931	0	-931	-100.0%
07 Motor Vehicles	92,607	132,602	118,787	-13,815	-10.4%
08 Contractual Services	6,209,108	7,942,431	6,900,763	-1,041,668	-13.1%
09 Supplies and Materials	236,193	275,647	324,850	49,203	17.9%
10 Equipment – Replacement	127,378	142,261	145,187	2,926	2.1%
11 Equipment – Additional	37,260	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	221,344,652	233,475,908	231,782,913	-1,692,995	-0.7%
13 Fixed Charges	1,925,039	1,725,051	2,023,885	298,834	17.3%
14 Land and Structures	7,265,091	49,369,443	0	-49,369,443	-100.0%
Total Objects	**$ 264,919,480**	**$ 324,932,832**	**$ 271,376,058**	**-$ 53,556,774**	**-16.5%**
Funds					
01 General Fund	$ 1,468,600	$ 1,940,000	$ 1,940,000	$ 0	0%
03 Special Fund	28,090,003	31,537,349	30,952,458	-584,891	-1.9%
05 Federal Fund	232,814,468	289,470,483	237,988,600	-51,481,883	-17.8%
09 Reimbursable Fund	2,546,409	1,985,000	495,000	-1,490,000	-75.1%
Total Funds	**$ 264,919,480**	**$ 324,932,832**	**$ 271,376,058**	**-$ 53,556,774**	**-16.5%**

Note: The fiscal 2012 appropriation does not include deficiencies.

Appendix 2

Fiscal Summary
Department of Housing and Community Development

Program/Unit	FY 11 Actual	FY 12 Wrk Approp	FY 13 Allowance	Change	FY 12 - FY 13 % Change
20 Office of the Secretary	$ 6,501,439	$ 7,226,565	$ 7,134,892	-$ 91,673	-1.3%
22 Division of Credit Assurance	5,343,058	6,525,464	6,160,362	-365,102	-5.6%
24 Division of Neighborhood Revitalization	18,336,707	20,252,824	19,516,562	-736,262	-3.6%
25 Division of Development Finance	227,084,755	281,950,571	229,584,968	-52,365,603	-18.6%
26 Division of Information Technology	2,351,756	2,554,125	2,912,900	358,775	14.0%
27 Division of Finance And Administration	5,301,765	6,423,283	6,066,374	-356,909	-5.6%
Total Expenditures	**$ 264,919,480**	**$ 324,932,832**	**$ 271,376,058**	**-$ 53,556,774**	**-16.5%**
General Fund	$ 1,468,600	$ 1,940,000	$ 1,940,000	$ 0	0%
Special Fund	28,090,003	31,537,349	30,952,458	-584,891	-1.9%
Federal Fund	232,814,468	289,470,483	237,988,600	-51,481,883	-17.8%
Total Appropriations	**$ 262,373,071**	**$ 322,947,832**	**$ 270,881,058**	**-$ 52,066,774**	**-16.1%**
Reimbursable Fund	$ 2,546,409	$ 1,985,000	$ 495,000	-$ 1,490,000	-75.1%
Total Funds	**$ 264,919,480**	**$ 324,932,832**	**$ 271,376,058**	**-$ 53,556,774**	**-16.5%**

Note: The fiscal 2012 appropriation does not include deficiencies.

Appendix 3