DHCD FY 2016 OPERATING BUDGET ANALYSIS

DLS ISSUES/RECOMMENDATIONS & DHCD RESPONSES

Issues/ Recommendations

Appendices

- **Economic Impact of DHCD's Programs**
- **Maps of DHCD Program Activity**

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Response to Department of Legislative Services (DLS) FY 2016 Operating Budget Analysis

1. Department Move to New Carrollton Will Increase Costs *(pages 3&14 of DLS Analysis)*

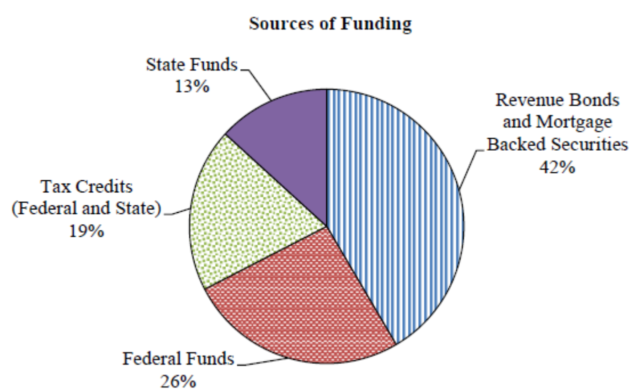
DLS Summary and Recommendations: Fiscal 2016 is the first year in which the department will pay the full annual costs associated with its new Prince George's County facility. The fiscal 2016 allowance includes approximately $4.9 million for rent, electricity, security, and lease payments for new information technology (IT) equipment. For comparison, had the department not moved, the fiscal 2016 cost for the Crownsville facility would have been approximately $1.9 million. **DHCD should comment on the status of the move and its impact on the department's operations. The Department of Legislative Services (DLS) also recommends increasing the budgeted turnover rate to 10% to better reflect the department's own estimates of the move's impact on personnel retention. Consistent with that change, DLS recommends reducing the general fund allowance by $1,215,462 and using the special fund salary savings to replace the general fund reduction. DHCD should also comment on the fiscal implications if the State were to choose to not move.**

DHCD Response: DHCD respectfully but strongly disagrees with the DLS recommendation to cut general funds, as well as the assumptions underlying this recommendation. DLS should be supporting DHCD's efforts to promptly fill vacancies so that it can continue to provide a high level of service to Maryland citizens, rather than penalizing DHCD by recommending cuts to the budget needed to hire needed personnel.

DHCD is an agency that has been able to be operationally self-sufficient, able to cover all of its operational costs with special funds and federal funds. The increased one-time relocation costs and ongoing increase in building and related costs due to the relocation necessitated DHCD's request for general funds for operations for the first time in many years.

At this point, the Governor's Allowance does not contain any general funds for the New Carrollton headquarters, assuming that the contingent language in the Budget Reconciliation and Financing Act relating to the use of Maryland Housing Counseling Fund special funds for DHCD administrative purposes is approved. A cut to general funds therefore means that special funds will be needed to cover grant programs that have traditionally been funded with general funds.

More importantly, DHCD utilizes its financial acumen to raise capital, generate special fund revenues and successfully apply for and receive federal and special fund grants, so this recommendation has negative long term financial ramifications. DHCD needs its full personnel budget in order to replace departing employees on a timely basis. **It is not logical to propose a cut in the personnel budget of an entity that needs personnel in order to raise the capital required to perform its mission and generate the special funds that keep DHCD operationally self-sufficient. As shown on Exhibit 1 on page 6 of the DLS analysis reproduced here, *State Funds represent <u>only 13%</u> of DHCD's total fund sources*.**



Finally, the January 2015 permanent vacancy rate of 10% is the highest experienced by DHCD in the past ten years. DHCD does not believe that this unusually high level of turnover will continue through FY 2016. DHCD has been anticipating and proactively dealing with additional turnover related to the move for over a year, as employees have found other employment or retired due to the increased time and costs of commuting to New Carrollton.

Relocation of DHCD's headquarters from Crownsville to New Carrollton

In Chapter 682 of the 2008 Laws of Maryland, the General Assembly established a Task Force to Study Locations in Prince George's County Best Suited for Use by State Agencies, with the purpose of studying and making recommendations regarding:

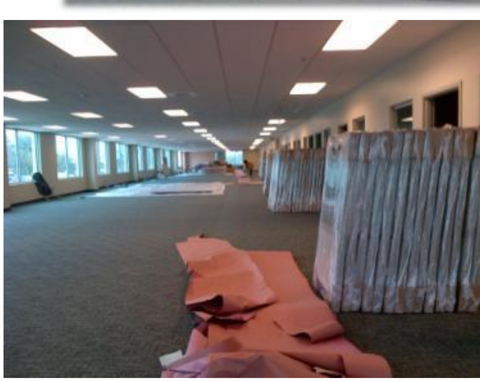
(1) locations in Prince George's County best suited for use by State agencies;
(2) which State agencies are expected to relocate to Prince George's County; and
(3) methods of encouraging State agencies to relocate to Prince George's County.

On January 4, 2010, the Task Force issued its report, which included a recommendation that "The State should consider relocating the Department of Housing and Community Development to a smart site in Prince George's County to ensure better alignment with its operations."

In June 2010, Governor Martin officially launched the process to move the DHCD into Prince George's County. The Department of General Services (DGS) issued a Request for Proposals for office space within Prince George's County. In May 2013, the lease for a new office building at the New Carrollton transit center was approved unanimously by the Board of Public Works after consideration of the increased operating costs and economic benefit of the project.

The new DHCD headquarters is a significant part of a mixed-use multi-phase transit oriented development that concentrates development around existing transportation infrastructure and includes $116 million of private investment, 500 residential units and 65,000 square feet of retail. The press release announcing approval of the lease stated that the project will result in significant new taxes to the State and Prince George's County, with net economic benefit of $8 million of additional tax revenues over the period of the lease *after deducting for DHCD's incremental occupancy costs*. This figure did not include the additional economic benefits from 132 permanent jobs, 325 construction period jobs and the support that new employees will bring to existing restaurants, retailers and service businesses, or the environmental benefits.

The lease was signed by DGS, DHCD and the developer in June 2013; groundbreaking occurred in January 2014 and the project is nearing completion as shown by the mid-January photos below. DHCD is scheduled to move in April 2015. Initial estimates of the cost of breaking the lease now are in excess of $15 million. DHCD has also incurred one-time costs in excess of $2.5 million.



2. Energy Program Criticized *(pages 3, 14-17 of DLS Analysis)*

DLS Recommendation: Two large funding sources have recently led to the development of two energy efficiency programs at DHCD: the Low Income Energy Efficiency Program (LIEEP), funded by EmPOWER money, and the Targeted, Enhanced Weatherization Program (TEWP), funded by the Customer Investment Fund. While the programs have yielded energy savings, questions have been raised regarding DHCD's implementation of LIEEP. **DHCD should discuss its difficulties with establishing and operating these energy efficiency programs, any changes it has made to correct the problems it has had, and comment on the appropriateness of the department including energy efficiency programs as a part of its portfolio of public services. DLS recommends deleting $8 million in special funds. If PSC approves further EmPOWER funding, DHCD should be authorized to process a budget amendment to add the funding to its appropriation.**

DHCD Response: DHCD concurs with the DLS recommendation to eliminate $8 million of FY 2016 special fund appropriation for the EmPOWER LIEEP program and will request additional funding through a budget amendment if the PSC approves funding beyond calendar year 2015.

DHCD has almost 30 years of experience in implementing energy efficiency housing programs, utilizing funding from State and Federal sources. In 2009, funding for DHCD's energy efficiency programs quadrupled with an additional $63 million three-year grant from U.S. Department of Energy (DOE) American Recovery and Reinvestment Act (ARRA) Weatherization Assistance Program for the expansion of the low-income energy efficiency/weatherization efforts. In 2010, the DOE awarded DHCD $20 million in Energy Efficiency and Conservation Block Grant ARRA funds.

The Public Service Commission (PSC) awarded a $71 million LIEEP grant to DHCD in 2012, allowing low-income energy efficiency/weatherization efforts to continue at a higher level throughout Maryland, resulting in lower energy usage, increased safety and more comfortable homes for low-income families. Their reasoning for this award was described in PSC Order 84569 as follows:

> The [Utility] Companies, as well as DHCD, testified about their implementation plans and progress on low-income programs. The Companies' programs spanned a wide range in coverage and success rates. Some Companies have reached a modest number of households, while others seem, frankly, to have devoted little attention to this area of great importance to the Commission and to the State of Maryland. DHCD's programs, on the other hand, greatly surpassed even the best performing utility, all while creating jobs, ensuring that all contractors are properly and consistently trained, implementing and maintaining rigid quality control measures, and keeping marketing costs extremely low.
>
> The Commission is tasked with deciding whether the Companies or the State, through DHCD, should manage the weatherization and retrofitting programs intended for low-income households. We are convinced that having DHCD administer the programs would further the previously mentioned goal of maximizing statewide consistency. In addition, DHCD is best-suited to direct the low-income programs, given its proven track record of creating and operating four programs that have successfully and efficiently assisted low-income households in decreasing their electric bills and consumption. This transition comes at a time when DHCD will wind down its three-year, $64 million American Recovery and Reinvestment Act ("ARRA") weatherization program in the spring of 2012. Furthermore, this shift will allow the Companies to focus more directly on their other programs and will ensure the continuation of one of the most successful statewide energy efficiency programs in the country.

> The Commission hereby designates DHCD as the single provider of low-income energy efficiency programs for the EmPOWER Act throughout the State, and directs that all low-income programs initiated by the Companies under the EmPOWER Act shall be transitioned to DHCD upon implementation of the 2012-2014 Plans.
>
> Although this transition and the subsequent administration of the programs will be monitored by Staff, the Commission recognizes that this transition will raise a number of logistical and organizational issues that go beyond the record we have developed so far. Accordingly, we need to deal with issues surrounding the restructuring and therefore direct that a work group be convened prior to full implementation to submit a transition plan by February 15, 2012 that resolves matters such as reporting methods, interim milestones, software compatibility, accountability, contractual arrangements, possible budget amendment issues, and quality control procedures.

During the 2012-14 EmPOWER LIEEP program cycle, DHCD staff worked to strengthen the program that it proposed in 2011. DHCD increased the number of weatherization sub-grantees from 18 to 22 and worked with the Department of Human Resources to improve the weatherization assistance eligibility process for energy assistance recipients. The result was improved outcomes that significantly lowered the energy burden of families with income below 200% of poverty level.

A major success for DHCD during the 2012-2014 cycle was generating energy savings well above goal. By targeting high-energy users as outlined in its proposal, DHCD was able to provide high-quality energy efficiency work resulting in significant utility bill relief to a large number of low-income households, consistent with the EmPOWER legislation. During the 2012-2014 period, DHCD was able to achieve energy savings of 27,331 KWh - almost double the goal of 13,896 KWh.

DHCD's challenge was in delivering completed units at the forecasted level at the same time as achieving high energy savings. Even so, the 6,580 households weatherized during 2012-2014 period met 80% of the goal of 8,221 participants. *The net result was that DHCD achieved energy savings of 4.15 KWh per household, 245% of the goal of 1.69 KWh per household*. In addition, both energy savings and households served results were improvements in overall performance from the prior award period under the utility companies. Despite these impressive results, stakeholders expressed concerns that the program should achieve a better balance between energy savings and the number of households served by limiting costs per weatherized household.

The PSC required DHCD, Office of People's Counsel (OPC), PSC Staff, the Maryland Energy Administration (MEA) and the utility companies to convene a Low Income Program Work Group through Order 86366, filed May 28, 2014. This Work Group provided a forum for all stakeholders to communicate, collaborate, and share concerns, experiences and best practices. DHCD found the Work Group process very valuable and believes that Work Group participants now have a better understanding of the complexities and challenges associated with delivering services to low-income households, the energy-savings focus of DHCD's 2011 LIEEP proposal and the 2012 transition plan, as well as what DHCD accomplished during the past three years.

DHCD gained a better understanding of the full range of stakeholder concerns and is confident that incorporating Work Group recommendations into the 2015 LIEEP program will further improve LIEEP implementation and address the concerns of the various stakeholders as a whole. DHCD will continue to work closely with the PSC and PSC Staff to clarify expectations and the feasibility of suggestions, with the goal of receiving the award for the balance of the 2015-2017 EmPOWER LIEEP program cycle.

3. **Foreclosure Rates Remain High** *(pages 3, 17-19 of DLS Analysis)*

DLS Recommendation: High foreclosure rates in the State continue to be a problem, with recent reports placing Maryland third in the nation in its foreclosure rate, and foreclosure events in the State nearing the post-recession peak of the foreclosure crisis. **DHCD should comment on the use of Prince George's County's mortgage settlement funds for the support of homeownership programs. DHCD should also comment on its outlook for the State's foreclosure rate and what actions it is taking to ease the impact on homeowners.**

DHCD Response: DHCD followed four major priorities in responding to the foreclosure crisis:

1. Foreclosure Prevention and Mitigation
2. Broad Stakeholder Engagement
    - From three task forces over the period 2007 through 2012, and
    - The 2014 Neighborhood Stabilization and Homeownership Workgroup
3. Intensive Public Outreach
4. Nonprofit Counseling and Education

Despite our currently high rates of foreclosure, over the lifetime of the housing downturn and recent recovery, Maryland has achieved high national ranking with respect to consumer relief as shown in charts below. Financial relief to consumers has included loan modifications, refinancing and other forms of relief, such as principal reduction, made available through the National Attorney Generals' Mortgage Servicers Foreclosure Settlement (National AG Mortgage Settlement).

DHCD believes that the fact that Marylanders have achieved high levels of real financial relief can be attributed to four factors:

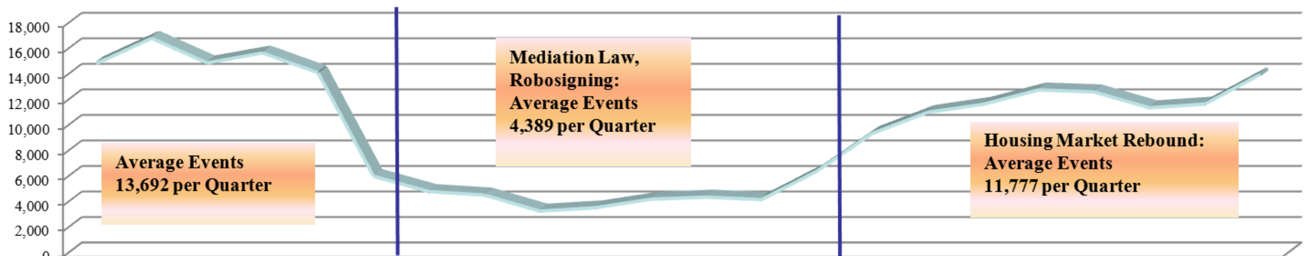
1. The State's strong and ongoing support for a statewide network of professional housing counseling and legal services nonprofits.
2. The State's strong and ongoing support for public outreach and educational events.
3. Strong partnerships between the State, lenders and local governmental and nonprofit partners, including the faith community.
4. A foreclosure process that allows borrowers time to work with mortgage servicers to find sustainable alternatives to foreclosure.

In particular, the investment in locally based housing counseling has been key to helping so many homeowners achieve the best available outcome. According to the latest study conducted by the Urban Institute about the impact of housing counseling on households in danger of foreclosure (December 8, 2014, "National Foreclosure Mitigation Counseling Program: Congressional Update."), housing counseling continues to result in significantly better outcomes for participants than non-counseled households:

- Counseled households are nearly three times as likely to receive a loan modification compared to non-counseled households
- Counseled households are 70 percent more likely to remain current on their mortgage after receiving a loan modification.

The following chart shows the full picture of Maryland foreclosure activity from the peak in 2009 to the end of last year. While recent stories in the press talk about Maryland's relatively high foreclosure ranking, this uptick represents older delinquent loans finally going through the foreclosure pipeline, confirmed by the fact that lender Notices of Intent to Foreclose to borrowers more than 90 days past due with their mortgage were 27% lower in 2014 than 2013. *Further, it is important to understand that RealtyTrac's Foreclosure Event statistic reports foreclosures at two stages during the process - initially, at the time that a foreclosure is filed with the courts and again, if the foreclosure is completed.* Many foreclosure filings do not result in a completed foreclosure.

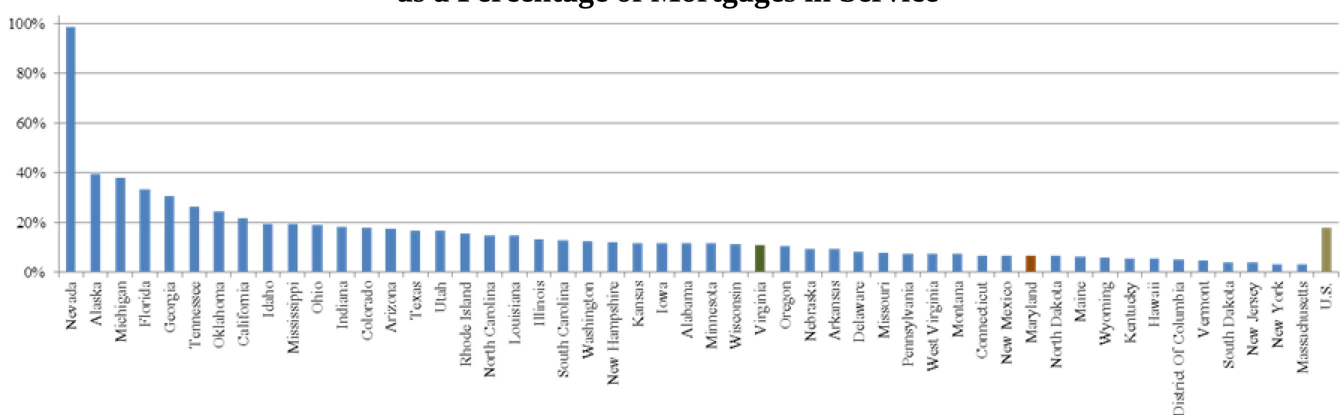
July 2009 – December 2014 Foreclosure Events



	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4
Events	14,803	16,788	14,855	15,637	14,087	5,984	4,777	4,507	3,251	3,514	4,181	4,347	4,153	6,381	9,339	10,989	11,617	12,742	12,589	11,344	11,637	13,959

Despite the recent uptick in foreclosure events, the chart below shows that Maryland is doing well relative to the nation as a whole, as well as to neighboring states. To put this chart into human terms, "foreclosure sales" represent the instances in which a family was displaced from their home and the house was subsequently sold. The lower the State's ranking on this chart, the more likely that Marylanders remained in their home.

January 2007 – October 2014 Foreclosure Sales
as a Percentage of Mortgages in Service

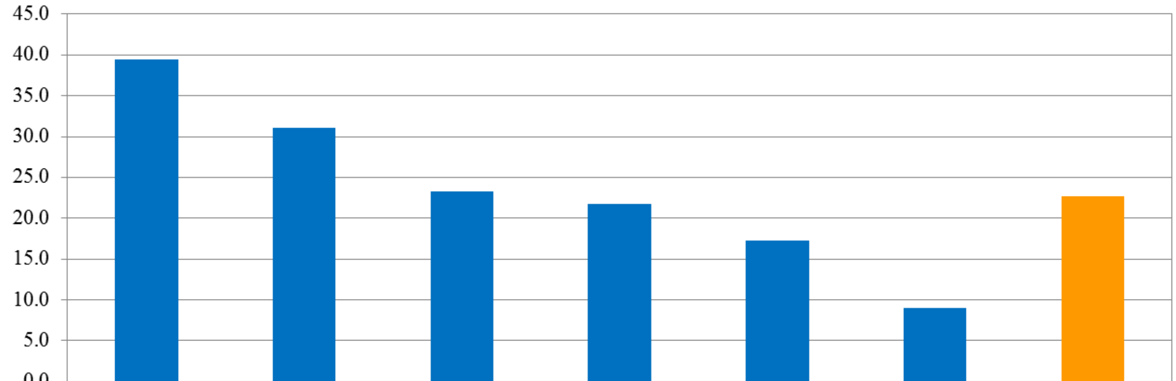


Realty Trac ranks Maryland as the 12th lowest in the nation of the number of foreclosure sales (6.9%) relative to the number of loans in service. This ranking is better compared to the overall United States average (18.1%) as a whole as well as neighboring Pennsylvania (17th, 7.8%), Delaware (18th , 8.3%) and Virginia (23rd, 11.0%).

DHCD believes that this positive result relative to most of the nation is due to the fact that Maryland homeowners have the time to work with lenders and have been encouraged through DHCD outreach and support of housing counseling and legal services to (1) participate in programs that provide sustainable alternatives to foreclosure and (2) obtain better outcomes by having the support of these advocates. **As a result, over 30% of Maryland homeowners have been able to obtain a mortgage loan modification or refinance their mortgage during a period of historically low interest rates.**

Most mortgage loan modifications completed by banks are a product of their own negotiations and not participation in government programs, such as the federal Making Home Affordable programs offered jointly through the U.S. Department of Housing and Urban Development and U.S. Treasury Department; these are known as proprietary or "in-house" modification programs. Almost 84,000 Maryland homeowners have received a proprietary mortgage modification and Maryland is ranked second in the nation in the percentage of homeowners who have received proprietary modifications for the period from 2009 to September 2014.

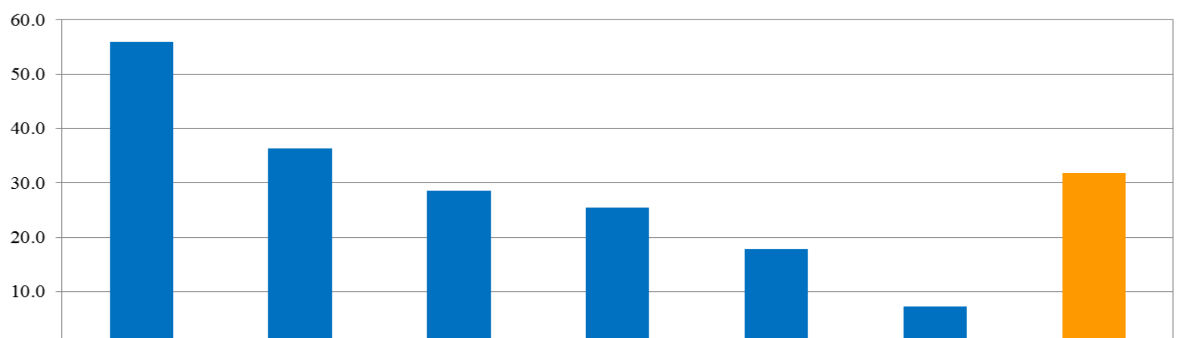
Cumulative Proprietary Mortgage Modifications per 1,000 Households
December 2009 through September 2014



	Maryland	Delaware	District of Columbia	Virginia	Pennsylvania	West Virginia	U.S.
Rate	39.5	31.0	23.3	21.8	17.3	9.0	22.8
Rank	2	6	15	16	29	49	

Maryland also has the 5th highest utilization rate in the United States of the federal Home Affordable Modification Program (HAMP), a Making Home Affordable program, with Maryland homeowners benefiting from 119,000 HAMP modifications.

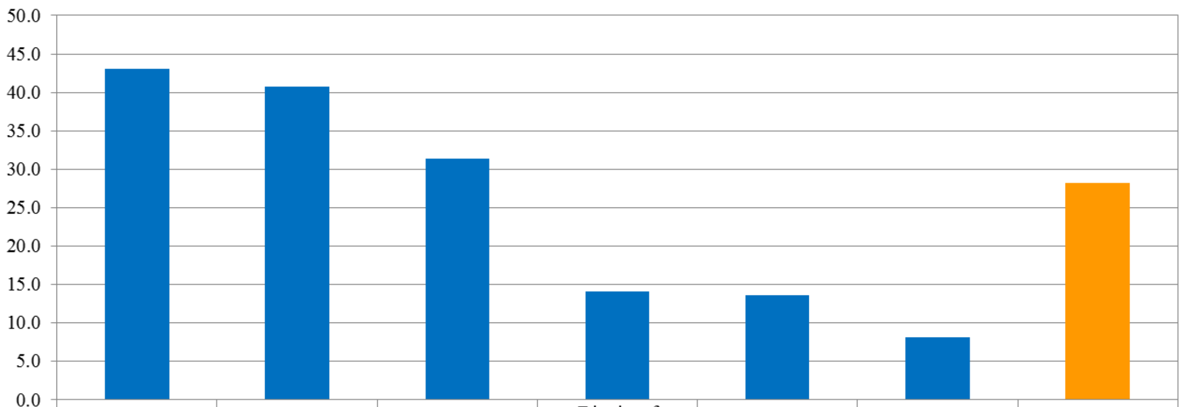
Cumulative HAMP Mortgage Modifications per 1,000 Households
January 2009 through September 2014



	Maryland	Delaware	Virginia	District of Columbia	Pennsylvania	West Virginia	U.S.
Rate	56.0	36.4	28.6	25.6	17.9	7.4	31.9
Rank	5	11	17	22	29	49	

In addition, Maryland has the 11th highest nationwide utilization rate of the federal Making Home Affordable mortgage refinancing program, the Home Affordable Refinance Program (HARP), with almost 92,000 Maryland homeowners using HARP. The HARP program made it possible for "underwater borrowers" (who owed more on their mortgages than the resale value of the home) to refinance and benefit from historically low interest rates. This made their mortgage more affordable and also decreased the possibility of strategic defaults, where homeowners walk away from their homes and mortgages.

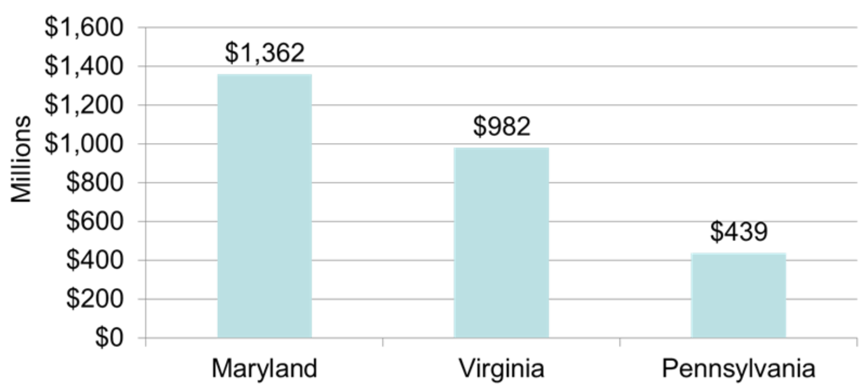
Cumulative HARP Mortgage Refinances per 1,000 Households
March 2009 through September 2014



	Maryland	Delaware	Virginia	District of Columbia	Pennsylvania	West Virginia	U.S.
Rate	43.1	40.7	31.4	14.1	13.6	8.1	28.2
Rank	11	13	17	34	35	47	

As shown in the chart below, direct relief to Maryland homeowners as a result of the National AG Mortgage Settlement is roughly equivalent to the relief received in Pennsylvania and Virginia combined, despite the fact that these states have almost three times as many mortgages as Maryland.

Direct Financial Relief from National AG Mortgage Settlement
March 2012 through March 2014



The original estimate for financial relief for Maryland homeowners via the National AG Mortgage Settlement was $850 million. Maryland homeowners received $1.3 billion in relief from mortgage servicers and lenders - an additional $500 million, more than 160% of the initial estimate.

In addition, DHCD has worked closely with Prince George's County and the Maryland Office of the Attorney General to ensure the $10 million awarded to Prince George's County from National AG Mortgage Settlement is utilized effectively. In November 2014, DHCD announced the TriplePlay Program which leverages DHCD's Maryland Mortgage Program (MMP) using Prince George's County National AG Settlement down payment assistance funds.

The TriplePlay Program enabled citizens in Prince George's County that chose to finance their home through an MMP mortgage to receive three benefits: (1) a reduced MMP interest rate; (2) up to $20,000 in down payment assistance, with an incentive for purchasing a home in the areas of the county hardest-hit by foreclosure; and, (3) a federal tax credit worth up to $2,000 annually for the life of their mortgage without DHCD's standard fee. This initiative has been extremely successful and has tripled the MMP mortgage commitment activity in Prince George's County, particularly in the targeted areas.

Moving forward, DHCD recommends heightened attention to helping improve residential markets affected by the housing downturn, especially those where the state and local governments have mutually identified areas in need of revitalization (designated Sustainable Community Areas.)

Relatedly, at the request of House Speaker Busch, in March 2014, The Maryland Sustainable Growth Commission convened a Neighborhood Stabilization and Homeownership Workgroup (NSHO) of public and private stakeholders. The charge of the group was to recommend strategic approaches to using homeownership as a vehicle for neighborhood stabilization and revitalization.

The NSHO workgroup issued its report to the Speaker at the end of January. The report recommends eight overarching goals and 44 related action strategies which are grouped within the following four topics: financial tools and partnerships; consumer education and outreach; capacity building; advocacy and legislation.