

OFFICE OF THE INSPECTOR GENERAL CITY OF BALTIMORE



Isabel Mercedes Cumming
Inspector General

Investigative Report Synopsis

OIG Case # 20-0052-I

Issued: June 15, 2021



OFFICE OF THE INSPECTOR GENERAL
Isabel Mercedes Cumming, Inspector General
City Hall, Suite 635
100 N. Holliday Street
Baltimore, MD 21202



June 15, 2021

Dear Citizens of Baltimore City,

The mission of the OIG is to promote accountability, efficiency, and integrity in City government, as well as the investigation of complaints of fraud, financial waste, and abuse in City government.

The Office of the Inspector General (OIG) received a complaint that alleged the Department of Housing and Community Development (DHCD) withheld properties from the City's public tax sale¹ at the request of a non-profit community organization (CO). The complaint also alleged that private developers would pay the CO to acquire City-owned tax sale certificates from DHCD's separate bulk tax sale, including those that were withheld from the public sale at the CO's request.

The City distributes annual tax bills to residents every July. Residents who do not pay their property tax bill and other outstanding associated debts by December, receive a notice stating their debt will be auctioned in a City-hosted public tax sale held in May. The DHCD conducts a separate tax sale auction every October, known as the bulk tax sale. Unlike the public tax sale held in May, the bulk tax sale properties are reserved for community development purposes and require private investors to purchase the tax liens for a cluster of properties.² All certificates purchased during the bulk tax sale auction are transferred to the Comptroller's Department of Real Estate (DORE) prior to their release to the investor. The OIG investigation confirmed that the CO occasionally requested DHCD staff to withhold a portion of properties from the public tax sale and place those properties in the bulk tax sale.

The OIG also discovered the CO established a tax sale vetting program for developers who were interested in acquiring City properties located in a specific area of Baltimore City. The program required the developers to complete an application that the CO used to evaluate and verify the developer's finances and property rehabilitation experience. The CO would then use the applications to either purchase tax sale certificates on behalf of developers or recommend to DHCD which developers should receive tax sale certificates. As part of the application process, the CO charged applicants a fee and also requested developers to pay a percentage of their profit from the successful acquisition and renovation of properties.

The Executive Director of the CO informed the OIG that fees collected from developers were paid back to Maryland Department of Housing and Community Development (MD DHCD) in accordance with a grant agreement. Contrastingly, MD DHCD reported to the OIG the fees the non-profit CO collected from developers were not a part of any grant or loan agreement with the State.

¹ Tax Sales are held to collect delinquent taxes and other unpaid fees owed to the City of Baltimore, all of which are used as liens against the property.

² See Md. Code Ann., Tax-Prop., § 14-811 (Permitting Baltimore City to “withhold from sale property that has been designated for redevelopment purposes if the property meets objective criteria established by the Mayor and City Council of Baltimore City”)

REPORT FRAUD, WASTE AND ABUSE

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In March of 2020, DORE requested the CO discontinue its tax sale vetting program because the program was not authorized by the City. In response, DHCD drafted an unofficial Memorandum of Understanding (MOU) with the CO that proposed DORE would prioritize the assignment of tax lien certificates to the non-profit CO when they became available. The MOU also proposed that DHCD would allow the CO to select the developers who could acquire tax sale properties. The MOU was never executed by DHCD as a result of actions taken by the former Mayoral administration when they received a Management Alert on August 4, 2020 from the OIG, informing them of DHCD's intent to execute the agreement. The proposed MOU and proceeding activities were conducted under the former DHCD Housing Commissioners tenure.

The OIG investigation determined that the proposed MOU would provide the CO with a perceived unfair advantage over other developers and community organizations interested in doing business with the City through the tax sale.

Sincerely,



Isabel Mercedes Cumming, Inspector General
Office of the Inspector General

Cc: Hon. Brandon M. Scott, Mayor of Baltimore City
Hon. Nick Mosby, President, City Council
Hon. Bill Henry, Baltimore City Comptroller
Honorable Members of the Baltimore City Council
Hon. Jim Shea, City Solicitor

REPORT FRAUD, WASTE AND ABUSE

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Former Mayor's Office Response

Case # 20-0052-I



BERNARD C. "JACK" YOUNG
MAYOR

*100 Holliday Street, Room 250
Baltimore, Maryland 21202*

August 27, 2020

Ms. Isabel Mercedes Cumming, Inspector General
Office of the Inspector General
100 North Holliday Street, Suite 640
Baltimore, MD 21202

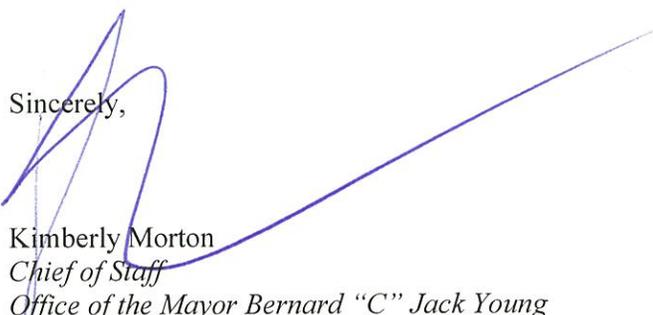
Dear Inspector General Cumming,

Thank you for your detailed Management Alert (OIG Case #20-0052-I) involving a complaint received regarding the Department of Housing and Community Development (DHCD). Your report alleges that DHCD withheld certain desirable properties from public auction at the request of [REDACTED] and that [REDACTED] requested private developers pay them fees to acquire City-owned properties through the DHCD.

These actions have a strong appearance of impropriety and inequity, and the Administration was shocked to learn of this complaint. No organization or entity is allowed to reach out to DHCD for a request regarding transfer of property. The Administration will be working with the Department of Real Estate (DRE) and the Law Department to thoroughly address this concern.

As it pertains to the unofficial and unauthorized Memorandum of Understanding (MOU) proposed between DHCD [REDACTED] please be advised that neither the Mayor's Office nor the Law Department was made aware. In the best interest of transparency, the Acting Housing Commissioner, Alice Kennedy will be notified to ensure this precedence and operation does not continue. Thank you again for your thorough report, and should you have any questions, please do not hesitate to contact me.

Sincerely,


Kimberly Morton
Chief of Staff
Office of the Mayor Bernard "C" Jack Young

**Department of Housing &
Community Development
Response**

Case # 20-0052-I



June 9, 2021

Isabel Mercedes Cumming, Inspector General
100 Holliday Street, Room 640
Baltimore, MD 21202
RE: OIG Investigation, Case # 20-0052-I

Dear Inspector General Cumming,

DHCD has reviewed the Office of the Inspector General's Report of Investigation dated April 30, 2021, regarding Case # 20-0052-I. The report probed an arrangement in which DHCD pulled certain properties into the annual bulk sale at the request of [REDACTED] and their partner developers to address vacancy and blight in neighborhoods of interest to [REDACTED]. DHCD would like to thank you and your team of investigators for performing this investigation.

The letter accompanying the report of investigation asks for DHCD to indicate, "what action has been taken or what action you intend to take regarding this matter." DHCD did not pursue the agreement described in the draft MOU and has not entered into any other such arrangements with other community organizations.

Under leadership from Acting Commissioner Alice Kennedy, and working with the Deputy Mayor for Community and Economic Development, DHCD will be:

1. Increasing the number of DHCD foreclosures on MCC-held certificates to vacant lots and buildings, and using its new in rem process, enacted by the Baltimore City Council in 2020 (Ordinance 20-393), and codified in Section 8.1.1, et seq. of the Baltimore City Code, to acquire vacant lots and buildings; and
2. Evaluating ways to more broadly, and transparently, work with community-based organizations and developers to pursue Tax Sale Foreclosures on vacant lots and properties as a key development tool. An internal working group has been established and has already met several times to address this issue.

DHCD believes that City ownership of these abandoned properties will provide DHCD with the greatest control over the blight elimination outcomes it desires. City ownership allows DHCD to control the type of redevelopment and rehabilitation efforts that are undertaken and the timing of such efforts through Land Disposition Agreements we enter when we sell the properties to developers.

We will utilize tools available to put vacant and blighted buildings into productive use that benefit the residents of Baltimore City.

If you have any questions at all, please feel free to reach out.

Sincerely,

Alice Kennedy
Acting Commissioner