Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 968 (Delegate McConkey, *et al.*)
Environmental Matters

Department of Housing and Community Development - Community Legacy Program - Community Development Financial Institutions

This bill authorizes community development financial institutions (CDFIs) to sponsor a neighborhood intervention project under the Community Legacy Program to enter into equity sharing agreements with homebuyers. The Community Legacy Board must allocate at least 5% of the Legacy Financial Assistance Fund to these types of neighborhood intervention programs.

Fiscal Summary

State Effect: None. The bill primarily alters the purposes for which existing funds may be used. To the extent it requires administrative changes, the department could handle them with existing resources.

Local Effect: Funding available to local governments under the Community Legacy Program could be reduced by $400,000 in FY 2006. The extent that future funding would be reduced would be based on future budget appropriation for this program.

Small Business Effect: CDFIs that originate equity sharing agreements that are small businesses will benefit from increased access to financial assistance; however, as there is no increased funding associated with this bill, this could result in fewer grants and loans offered for capital improvements or other projects that could benefit small businesses.

Analysis

Bill Summary: A CDFI may provide capital to homebuyers, at the time the house is purchased, in exchange for a share of any subsequent increase in the value of the home.

This qualifies as a neighborhood intervention project under the Community Legacy Program.

Current Law: The Community Legacy Program is intended to: (1) preserve existing communities as desirable places to live and work; and (2) provide financial assistance to sponsors or their designees for the development of community legacy plans or community legacy projects. The program must encourage partnerships among federal, State, and local governments and community development organizations.

"Community legacy project" includes, but is not limited to, projects to:

- create, improve, or preserve housing opportunities, including the acquisition, construction, rehabilitation, or improvement of houses or rental properties;
- create, improve, or preserve mixed-use or commercial development, including any appropriate combination of properties related to business, housing, open space, and institutional uses;
- develop public infrastructure that is incidental to a community legacy project;
- develop or create strategies targeted at increasing investment in existing communities; and
- provide financial assistance for a neighborhood intervention project.

A neighborhood intervention project is defined as a project sponsored by either a CDFI or a local government. A CDFI may sponsor a neighborhood intervention project to give financial assistance to individuals or business entities that are owner-occupants, community development organizations, or political subdivisions to:

- buy properties that need rehabilitation and are in otherwise stable neighborhoods; and
- redevelop the properties through rehabilitation, demolition, reconstruction, or reuse.

The Community Legacy Board must annually allocate at least 10% of the Community Legacy Financial Assistance Fund to neighborhood intervention projects. The board may not award more than $500,000 for any one neighborhood intervention project.

Background: Equity sharing is a method of financing a home that allows individuals who do not have enough funds for a down payment to purchase a home. Under equity sharing, a third-party investor besides the mortgage lender or the homebuyer provides the down payment. The buyer occupant lives in the house and pays the mortgage, as well as possibly rent to the investor.

At the end of a specified term, the home is sold, and the investor and the homebuyer split the equity (usually 50-50). The homebuyer could refinance the property and buy out the investor. Both parties receive tax benefits associated with home ownership, though those benefits depend on how the bill is structured. For example, both investor and homebuyer might be able to deduct property taxes, or the investor may be able to deduct the cost of homeowners insurance.

CDFIs are specialized institutions with missions of providing financial products and services to people and communities underserved by traditional financial markets. The CDFI Coalition advises that the largest groups served by CDFIs in Maryland are low-income individuals and minorities, and Maryland CDFIs primarily provide affordable housing development.

The Community Legacy Program provides grants and loans through the Community Legacy Fund to assist in the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. The program has been in operation since fiscal 2002, and has funded 200 projects. Between fiscal 2002 and 2004, the program awarded $25.4 million in project funding that supported an additional $93.1 million in development. In fiscal 2004, the program made a total of $8.3 million in loans and funded 75 projects. The Department of Budget and Management estimates that 42 additional projects will be funded in fiscal 2005.

In fiscal 2004, the Community Legacy Fund received an appropriation of $8.7 million in general obligation bonds (GO bonds). The fiscal 2005 appropriation for the program was $5 million in GO bonds. The Governor's fiscal 2006 capital budget includes $8 million in GO bonds for this program. Legislative Services advises that with this funding, the Department of Housing and Community Development (DHCD) would be able to fund approximately 62 projects in 2006, based on the average funding per project from fiscal 2002 through 2004. Currently, 10% of program funds must be set aside for neighborhood intervention projects, or approximately $830,160 in fiscal 2004, and $537,700 in fiscal 2005.

According to DHCD, CDFIs are already eligible to use Community Legacy funding to finance equity sharing; however, there is no guaranteed funding for that purpose. Further, funding a CDFI to engage in equity sharing currently requires the CDFI in question to partner with a local government or community development corporation; under that scenario, the funding would not come from dedicated neighborhood intervention project funding, but from general Community Legacy funding.

State Fiscal Effect: None. DHCD would use funds already allocated for the Community Legacy Program to set aside 5% for equity sharing projects as mandated by the bill. Based on the fiscal 2006 allowance of $8 million for the Community Legacy

Program, approximately $400,000 would be set aside in fiscal 2006. DHCD could process applications for assistance by CDFIs with existing resources.

Local Fiscal Effect: DHCD advises that local governments are the primary customer for Community Legacy funding. There is no money specifically set aside for local governments; local governments and CDFIs both apply for the same money under the Community Legacy Program and projects are ranked by DHCD as to which ones should receive funding. By mandating that 5% of Community Legacy funding go to equity sharing neighborhood intervention projects, this reduces the availability of funding for other projects, and thereby reduces funding for local governments. Assuming that $8 million of the Governor's allowance is appropriated for the Community Legacy Program in fiscal 2006, that would mean at least $400,000 would no longer be available for local governments for funding in fiscal 2006. Future impact is dependent on future budgets for the Community Legacy Program.

Small Business Effect: CDFIs that are small businesses that would like to engage in equity sharing would benefit from access to financial assistance and funding. However, as there is no increased funding for the Community Legacy Program associated with this bill, the mandated funding for equity sharing means that fewer grants and loans could be made for other purposes, which could negatively impact small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Department of Legislative Services

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