

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 606 (Delegate P. Young, *et al.*)
 Appropriations

Economic Development - Community Development Fund

This bill requires the Governor, beginning in fiscal 2022 and for each fiscal year thereafter, to include an appropriation of \$5.0 million in the annual budget bill for the Community Development Fund (CDF) within the Department of Housing and Community Development (DHCD). **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund administrative expenditures increase by \$121,600 in FY 2021. Pay-as-you-go (PAYGO) general fund expenditures increase by \$5.0 million annually beginning in FY 2022; special fund revenues to the existing fund and expenditures from the fund increase commensurately, including ongoing administrative costs. **This bill establishes a mandated appropriation beginning in FY 2022.**

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SF Revenue	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
GF Expenditure	\$121,571	\$0	\$0	\$0	\$0
SF Expenditure	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
PAYGO GF exp	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Net Effect	(\$121,571)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local government revenues may increase significantly beginning in FY 2022 to the extent local jurisdictions are eligible to receive financial assistance from CDF as a result of the bill. Local government expenditures increase correspondingly.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background:

Community Development Program

Chapters 801 and 802 of 2018 established the Community Development Program (CDP) within DHCD to provide financial assistance for community development projects and community development organizations around the State. DHCD must adopt regulations to carry out the program.

Chapters 801 and 802 also established CDF as a special fund within DHCD to support the program; the fund consists of money appropriated in the State budget, in addition to any other money from any other source accepted for the benefit of the fund. DHCD is not required to provide staff or incur operating expenses to administer CDP until money is appropriated in the State budget for the fund.

The Governor's proposed fiscal 2021 budget does not include any funding for the program. DHCD advises that CDP has not received funding since the program's inception.

Community Development Board

Chapters 801 and 802 also established a Community Development Board in the program. The board must (1) make recommendations on how the fund is to be used; (2) provide a period of at least 30 days for public comment on the recommendations; and (3) report on the activities of the fund and make any recommendations regarding the fund to the Governor and the General Assembly by December 31 of each year.

Community Development Fund

The stated purpose of CDF is the same as the stated purpose of CDP. DHCD must administer the fund with the assistance of the board. The fund may be used only for (1) administrative expenses of DHCD in administering the program and (2) financial assistance for community development projects and community development organizations as specified under the bill. Expenditures from the fund may be made only in accordance with the State budget.

In consultation with the board, DHCD must administer the fund to provide financial assistance (including capital and operating grants) for:

- affordable housing;
- neighborhood revitalization for residential and commercial areas;

- housing counseling, financial counseling, and foreclosure prevention;
- community organizing;
- small business development;
- community services; and
- any other community development purpose.

The financial assistance may be provided in the form and manner DHCD determines appropriate and may include providing capital and operating grants.

State Fiscal Effect:

Administrative Costs

Although the mandated appropriation to the existing special fund does not take effect until fiscal 2022, the fund already exists. Thus, this analysis assumes that DHCD administrative expenditures increase beginning in fiscal 2021 to begin receiving and processing applications and that financial assistance begins in fiscal 2022.

Therefore, general fund expenditures increase by \$121,571 in fiscal 2021, which reflects a 90-day start-up delay. This estimate reflects the cost of hiring one project manager and one administrative assistant to track and review applications and award funding to qualifying entities. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. As previously stated, even though the fund already exists in statute, DHCD is not required to provide staff or incur operating costs to administer the fund until money is first appropriated in the State budget for the fund. Thus, this analysis assumes that DHCD cannot implement the bill with existing staff.

Positions	2.0
Salaries and Fringe Benefits	\$110,838
Operating Expenses	<u>10,733</u>
Total FY 2021 DHCD Admin. Expenditures	\$121,571

DHCD is authorized to use CDF for administrative costs. Therefore, beginning in fiscal 2022, staffing costs are absorbed within the appropriation provided for the fund. Future year administrative expenditures reflect salaries with annual increases and employee turnover and ongoing operating expenses. After deducting costs for administrative expenses, about \$4.9 million annually is assumed to be available for other CDF activities.

Mandated Funding

As the General Assembly cannot mandate appropriations in the capital budget, this analysis assumes that PAYGO general funds are used to meet the bill's funding requirement. Therefore, PAYGO general fund expenditures increase by \$5.0 million annually beginning in fiscal 2022. To the extent that general obligation bonds are used to capitalize CDF instead, there is no effect on total capital expenditures, but fewer funds are available for other capital projects.

Special fund revenues to and expenditures from CDF increase correspondingly each year. To the extent any loans are made under the program, special fund revenues also increase from loan repayments.

This analysis does not reflect any effect on State tax revenues from the economic development initiatives funded by the program.

Local Fiscal Effect: Local government revenues may increase significantly beginning in fiscal 2022 to the extent local jurisdictions are eligible to receive financial assistance under CDP as a result of the bill. Although not explicitly identified as potential funding recipients, it is assumed that local jurisdictions could be sponsors of eligible projects. Local expenditures increase correspondingly on community development projects.

This analysis does not reflect any effect on local tax revenues from the economic development initiatives funded by the program.

Small Business Effect: Small businesses that are able to secure funding under CDP for community development projects (*e.g.*, affordable housing construction, neighborhood revitalization for commercial areas, *etc.*) may be able to expand as a result of the funding provided by the bill.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Budget and Management; Department of Housing and Community Development; Department of Legislative Services

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mm/mcr

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