

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 365

(Senator McCray)

Education, Health, and Environmental Affairs

Environment and Transportation

Neighborhood Business Development Program - Food Desert Projects - Business
Retention

This bill (1) expands the purposes of the Neighborhood Business Development Program within the Department of Housing and Community Development (DHCD) to include *retaining* (in addition to creating) small businesses that provide access to healthy food in designated “food deserts”; (2) raises the cap on loans available under the program from \$50,000 to \$100,000; and (3) specifies that loans can be used to cover operating expenses incurred in providing access to healthy food in food deserts. It also requires DHCD to forgive a loan issued for operating costs after five years if the loan recipient maintains continuous operations at the same location during that time. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund expenditures increase to the extent that DHCD funds loan applications for operating costs, but a reliable estimate is not feasible, as discussed below. DHCD can award larger loans and loans for retaining existing food stores in food deserts with existing resources. To the extent that more funds are dedicated to loans to businesses in food deserts and are forgiven, fewer program funds are available for other types of program support.

Local Effect: The bill is not anticipated to materially affect local operations or finances, as discussed below.

Small Business Effect: Minimal.

Analysis

Current Law:

Neighborhood Business Development Program

The Neighborhood Business Development Program, operating publicly as Neighborhood BusinessWorks, provides grants and loans to community-based economic development activities in revitalization areas designated by local governments. In food deserts or parts of priority funding areas or eligible opportunity zones that serve food deserts, the purpose of the program is to help *create* small businesses and other food-related enterprises that provide fresh fruits, vegetables, and other healthy foods to residents of the food desert.

A small business, nonprofit organization, or microenterprise in a priority funding area or eligible opportunity zone may apply for financial assistance under the program. Financial assistance under the program may be provided as (1) a grant; (2) a loan; (3) a reduction in the principal obligation of or interest rate on a loan or portion of a loan; (4) a prepayment of interest on a subordinate or superior loan or portion of a loan; (5) an assurance; (6) a guarantee; or (7) any other form of credit enhancement.

An applicant may qualify for financial assistance if the application demonstrates that (1) the financial assistance is the minimum amount necessary to make the project financially feasible; (2) the project is ready to proceed when it receives financial assistance from the program; and (3) any food desert project includes a plan to seek out sources of Maryland-grown produce and Maryland produced foods.

Food Desert Designation Applications and Food Desert Projects

The Secretary of Housing and Community Development, on the recommendation of the Interagency Food Desert Advisory Committee, is authorized to designate an area as a food desert after considering the following factors: (1) availability of fresh fruit, vegetables, and other healthy foods in the area; (2) income levels of local residents; (3) transportation needs of local residents and the availability of public transportation; (4) comments from local governments; and (5) any other factors that DHCD considers relevant. Generally, the designation is considered only after a local government submits an application to DHCD to designate an area as a food desert.

Entities may apply to DHCD for financial assistance for food desert projects if the project is in a designated food desert. If DHCD determines that an entity is capable of administering a food desert project, the entity may originate and administer financial assistance to a food desert project in accordance with standards the department adopts by regulation.

DHCD may (1) pay an approved entity a reasonable origination, application, and processing fee for each food desert project that is originated by the approved entity; (2) directly fund the financial assistance for a food desert project that is originated by an approved entity; (3) provide financial assistance to an approved entity for the purpose of the approved entity providing financial assistance for a food desert project; and (4) provide small loans in the amounts that are not more than \$50,000 per loan to an approved entity for assistance in providing better access to healthy food in food deserts, including by providing loans for refrigerators, freezers, and equipment. DHCD may also work with intermediaries to administer the small loans.

Sustainable Communities, Generally

A sustainable community is defined as a part of a priority funding area that (1) is designated by the Smart Growth Subcabinet on the recommendation of the Secretary of Housing and Community Development; (2) has been designated as a Base Realignment and Closure Revitalization Incentive Zone; or (3) has been designated a transit-oriented development.

Chapter 759 of 1997 established that State spending on certain growth-related activities must be directed to priority funding areas. Growth-related projects include most State programs that encourage or support growth and development such as highways, sewer and water construction, economic development assistance, and State leases or construction of new office facilities. Priority funding areas include all municipalities that existed in the State in 1997; areas inside the Washington Beltway and the Baltimore Beltway; and areas designated as enterprise zones, neighborhood revitalization areas, heritage areas, and certain industrial areas. Areas that were annexed by a municipality after 1997 may also be designated priority funding areas, as long as the areas satisfy specified requirements in statute generally related to density, water and sewer access, and other related factors.

State/Local Fiscal Effect: DHCD advises that since the inception of the Fresh Food Financing Initiative in 2014, no local jurisdiction has ever applied to DHCD for a food desert designation. DHCD also advises that Neighborhood BusinessWorks offers loans to similar projects in priority funding areas, generally with larger loan amounts and without the requirement of being in a designated food desert. As a result, no eligible projects have applied to DHCD for loans for food desert projects under the provisions affected by the bill. Even though the bill increases the loan amount and offers the opportunity for loan forgiveness, eligible projects must still rely on local governments to apply for designation of food deserts before applying for loans, which they have not done. In the absence of any designated food deserts under the program, the expansion of loan opportunities for food desert projects is not anticipated to materially affect DHCD operations or finances.

In the event that the expansion of funding opportunities to include operating expenses prompts local governments to successfully apply for food desert designations, DHCD can process and administer any resulting loan applications with existing resources. However, DHCD notes that existing program funds are derived from bond funds that cannot be used by grantees for operating expenses. To the extent that eligible projects apply for loans for operating costs and DHCD approves those applications, general fund expenditures increase to fund those loans. As general funds are not currently dedicated to that purpose, any such increase must be requested by DHCD through the annual budget process.

To the extent that more funds are dedicated to loans to businesses in food deserts and are forgiven, fewer program funds are available for other types of program support.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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