

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 859

(Senator Hayes)

Education, Health, and Environmental Affairs
 and Budget and Taxation

Environment and Transportation and
 Appropriations

**Department of Housing and Community Development – Appraisal Gap From
 Historic Redlining Financial Assistance Program – Establishment**

This bill establishes the Appraisal Gap from Historic Redlining Financial Assistance Program and Fund within the Department of Housing and Community Development (DHCD). The purpose of the program is to provide financial assistance to affordable housing developers working in low-income census tracts in order to help close “appraisal gaps” that occur in in historically redlined neighborhoods. Generally, an individual or business entity that pays or incurs “eligible construction expenses” related to the construction or substantial rehabilitation of residential property in low-income areas may apply for financial assistance. The bill also establishes reporting requirements and a related study. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General fund expenditures increase by an estimated \$4.3 million in FY 2022 to capitalize the fund, administer the program, and conduct the mandated study. Out-year general fund expenditures reflect ongoing capitalization and administrative costs. Special fund revenues and expenditures increase by \$4.0 million annually beginning in FY 2022 (reflecting the capitalization of the fund and spending on financial assistance).

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF Revenue	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
GF Expenditure	\$4.34	\$4.16	\$4.17	\$4.17	\$4.18
SF Expenditure	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
Net Effect	(\$4.34)	(\$4.16)	(\$4.17)	(\$4.17)	(\$4.18)

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

Local Effect: Counties can implement the bill’s requirements with existing resources. Local property tax revenues may increase minimally beginning in FY 2022.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Definitions

“Affordable” means that monthly housing costs do not exceed 30% of a household’s income, where the household’s income does not exceed 80% of the statewide median income for a household of like size.

“Appraisal gap” means the amount by which the total cost of eligible construction expenses exceeds the contract sales price of a qualified property when it is initially sold to an owner-occupant.

“Eligible construction expenses” means any amount that is expended on the construction or substantial rehabilitation of a qualified property, including any amount expended on specified acquisition and construction costs and related improvement activities.

“Financial assistance” does not include loans or other instruments that would create debt through property liens on qualified property.

“Qualified project” means the construction or substantial rehabilitation of a qualified property if the eligible construction expenses do not exceed \$500,000.

“Qualified property” means residential real property that is (1) newly constructed or a formerly vacant structure that has been substantially rehabilitated; (2) is located in a low-income census tract as defined by the U.S. Department of Housing and Urban Development and in an area designated as a sustainable community; and (3) constructed or rehabilitated with the purpose of being sold to an owner-occupant at an affordable sales price.

Appraisal Gap from Historic Redlining Financial Assistance Program

In the fiscal year in which a “qualified project” is completed, an individual or business entity may apply to DHCD for financial assistance to cover the appraisal gap for the project. The amount of the financial assistance provided must not exceed 35% of the lesser of (1) the total cost of eligible construction expenses or (2) 80% of the national median sale price for new homes on the date of sale, as determined by the most recent census data available. Financial assistance provided under the program may be used in conjunction with other State, federal, or local funding sources.

On application by an individual or business entity that pays or incurs eligible construction expenses, DHCD must provide financial assistance to the individual or business entity, as specified. The application must be in the form and must contain any information that DHCD requires by regulation. DHCD must approve all applications that qualify for financial assistance in a timely manner.

Appraisal Gap from Historic Redlining Financial Assistance Fund

The Appraisal Gap from Historic Redlining Financial Assistance Fund is a special, nonlapsing fund. DHCD may not provide financial assistance for the program in the aggregate totaling more than the amount appropriated for the fund for that fiscal year. If the aggregate financial assistance amounts provided in a fiscal year total less than the amount appropriated for the fund for that fiscal year, any excess amount must remain in the fund and may be allocated for the next fiscal year. For any fiscal year, if funds are transferred from the fund except to provide financial assistance, the maximum financial assistance amounts in the aggregate that DHCD may provide must be reduced by the amount transferred.

The Governor may not reduce an appropriation for the fund in the State budget as approved by the General Assembly. Money in the fund may be used only for the purpose of providing financial assistance under the program. Interest and earnings on the fund must be credited to the general fund.

Required Regulations, Reports, and Study

DHCD must adopt (1) regulations to specify criteria for the application for and approval of financial assistance under the program and (2) any other regulations necessary to implement the bill.

By January 1 each year, each county must submit a report to DHCD that details the targeted areas for homeownership that qualify for financial assistance under the program. By March 1 each year, DHCD must submit a report to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the House Ways and Means Committee on the number of funds deployed to census tracts with a majority racial minority population.

DHCD must also conduct a study, aggregated by race, zip codes, and census tracts, of housing values, appraisals, and refinancing rates across the State over the past 30 years, including the impact of State and federal policies, such as infrastructure (road, park, and water and sewer) and other investments, on those communities. DHCD must submit the findings of the study to the Governor and the General Assembly by June 30, 2022.

Current Law:

Sustainable Communities

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.

Housing and Community Revitalization Programs

Among other responsibilities, DHCD provides financing for the development and maintenance of affordable housing in Maryland. Financing is available for the creation of new residential properties and the maintenance of existing residential properties, in addition to making properties more accessible to those requiring financial assistance. DHCD also provides funding for community revitalization projects. DHCD programs that provide assistance to homebuyers and facilitate community revitalization include:

- Strategic Demolition Fund;
- Neighborhood Business Development Program;
- Baltimore Regional Neighborhoods Initiative;
- National Capital Strategic Economic Development Program;
- Community Development Block Grant Program;
- Seed Community Development Anchor Institution Fund;
- Special Loan Programs;
- Homeownership Programs; and
- Housing and Building Energy Programs.

State Expenditures:

Capitalizing the Fund

General fund expenditures increase by an estimated \$4.0 million annually beginning in fiscal 2022 to capitalize the fund; this level of funding is needed to ensure the viability of the fund and to provide meaningful financial assistance to housing developers. Special fund revenues to and expenditures from the new fund increase correspondingly each year. This analysis assumes that DHCD provides financial assistance equal to the full amount of funding provided to the fund each year.

Administrative Expenses Related to the New Program and Fund

The bill allows money in the fund to pay only for financial assistance, so this analysis assumes that it is not available to cover DHCD’s administrative costs and that general funds are needed to cover such costs. Therefore, general fund expenditures increase by \$139,121 in fiscal 2022, which accounts for a 90-day start-up delay from the bill’s July 1, 2021 effective date. This estimate reflects the cost of hiring (1) one program manager to establish program regulations, develop the application process, and track and review applications and (2) one financial analyst to manage program finances and track financial assistance provided under the program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. DHCD advises that current staff are working at full capacity, necessitating additional staff to administer the program.

Positions	2.0
Salaries and Fringe Benefits	\$127,958
Operating Expenses	<u>11,163</u>
Total FY 2022 DHCD Administrative Expenditures	\$139,121

Future year administrative expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Mandated Study

DHCD advises that it lacks the expertise and data necessary to conduct the study of housing prices, appraisals, and refinancing rates over the past 30 years and, therefore, needs to contract with a consultant to conduct the required study. For a recent Housing Needs Assessment study, DHCH contracted with the University of Maryland to conduct the assessment at a cost of \$200,000. DHCD anticipates a similar cost for the study required by the bill. Therefore, general fund expenditures increase further by \$200,000 in fiscal 2022 only to conduct the study.

Other Effects

DHCD can complete the annual reports for the General Assembly with existing resources.

This analysis does not reflect any effect on State tax revenues that may be realized from the economic development activity that occurs as a result of the program.

Local Fiscal Effect: Counties can submit the required annual report to DHCD detailing targeted areas that qualify for financial assistance under the program with existing resources.

Local property tax revenues may increase minimally to the extent the bill results in the additional construction of new homes and/or increases the assessed value of rehabilitated homes.

Small Business Effect: Small businesses that are able to secure financial assistance under the program (*e.g.*, construction and home remodeling contractors) may be able to expand their activities as a result of the bill.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1239 (Delegate Lierman) - Environment and Transportation.

Information Source(s): Montgomery and Prince George's counties; Department of Budget and Management; Department of Housing and Community Development; Department of Legislative Services

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