HB 414

# Department of Legislative Services

Maryland General Assembly
2022 Session

## FISCAL AND POLICY NOTE
### First Reader

House Bill 414 (The Speaker, *et al.*) (By Request - Administration)
Ways and Means

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**Economic Development - Project Restore Program and Fund**

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This Administration bill codifies the existing Project Restore Program within the Department of Housing and Community Development (DHCD). The stated purpose of the program is to provide financial incentives for small businesses and commercial developers to revitalize vacant retail and commercial space. The bill also establishes the Project Restore Fund as a special fund within DHCD to support the program.

## Fiscal Summary

**State Effect:** Federal fund expenditures increase by $25.0 million in FY 2023, and general fund expenditures increase by $25.0 million annually thereafter to capitalize the special fund; special fund revenues and expenditures increase commensurately. The Governor's proposed FY 2023 budget includes $25.0 million in federal funds for the program; that funding is not contingent on the enactment of this bill.

| ($ in millions) | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|---|---|---|---|---|
| SF Revenue | $25.0 | $25.0 | $25.0 | $25.0 | $25.0 |
| GF Expenditure | $0 | $25.0 | $25.0 | $25.0 | $25.0 |
| SF Expenditure | $25.0 | $25.0 | $25.0 | $25.0 | $25.0 |
| FF Expenditure | $25.0 | $0 | $0 | $0 | $0 |
| Net Effect | ($25.0) | ($25.0) | ($25.0) | ($25.0) | ($25.0) |

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

**Local Effect:** Although the bill does not directly affect local government operations or finances, the bill may result in an increase in local revenues from increased economic redevelopment in local jurisdictions where businesses are eligible to receive grants.

**Small Business Effect:** The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment.

# Analysis

**Bill Summary:**

*Project Restore Program – Generally*

Subject to the availability of funding and in accordance with criteria established by DHCD, the program must provide rental grants and business operation grants to eligible businesses. Expenditures for the program may be only in accordance with the State budget.

In order to be eligible for the program, a business must open or expand in a retail or commercial property that has been vacant for at least six continuous months before the later of the date that the business (1) obtained an ownership interest in the property or (2) began construction or renovation of the property. A business that took an ownership interest in a property or began construction or renovation of a property before July 1, 2021, is not eligible for the program with respect to that property, and DHCD may exclude certain types of businesses from eligibility for the program.

DHCD may adopt regulations to carry out the program.

*Project Restore Program – Rental Grants*

The program may award rental grants only to an eligible business with 50 or fewer full-time equivalent employees. An eligible business may use rental grant funds to support the payment of rent, mortgage, or property taxes based on whether the business will lease, will purchase, or already owns the vacant property that the business will occupy. The program may award an eligible business a rental grant of up to $2,500 per month for up to 12 months.

*Project Restore Program – Business Operations Grants*

Subject to specified limitations, the program may award a business operations grant to provide sales and use tax rebates to an eligible business for the amount of sales and use tax collected by the business and paid to the State. An eligible business may use a business operations grant for activities and costs related to sustaining and growing the business, including staff costs, capital improvements, marketing, inventory, supplies, utilities, and training. An eligible business may not use a business operations grant for the payment of executive salaries or executive bonuses.

A business operations grant may not exceed $250,000 during a 12-month period. The program may award a business operations grant for (1) a period of up to two years for a business that is located in a Tier I area or a location designated by DHCD as a Main Street

Maryland Community or (2) a period of up to one year for a business that is not located in those areas.

*Project Restore Fund*

The Project Restore Fund, a special fund established by the bill and administered by DHCD, consists of money appropriated in the State budget, interest earnings, and any other money from any other source accepted for the benefit of the fund. The fund may only be used for the program and to pay the costs necessary to administer the fund. Expenditures from the fund may be made only in accordance with the State budget. Money expended from the fund is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for business-related grants.

**Current Law/Background:**

*Project Restore*

Governor Lawrence J. Hogan, Jr., announced in June 2021 the creation of the Project Restore Program within DHCD using $25.0 million in federal American Rescue Plan Act (ARPA) funds in fiscal 2022. The program offers businesses sales tax rebates in the form of grants and rental grants to offset startup costs and to incentivize commercial investment in vacant spaces. Generally, the program awards rental grants (not exceeding $2,500 for each month for a period not exceeding 12 months) and business operations grants (not exceeding $250,000 during a 12-month period) to eligible businesses located in vacant retail and commercial spaces. The bill is structured similarly to the existing program.

DHCD advises that the program has received applications in excess of funding availability and, as a result, anticipates expending the existing fund allocation by the close of fiscal 2022.

*Tier I Areas*

The Economic Development Article defines "Tier I area" as (1) a Tier I county; (2) a county designated by the Department of Commerce that is not a Tier I county, not to exceed three counties; or (3) an opportunity zone.

A Tier I county is a county with (1) an average rate of unemployment for the most recent 24-month period for which data is available that exceeds 150% of unemployment for the State during that period; (2) an average rate of unemployment for the most recent 24-month period for which data is available that exceeds the average rate of unemployment for the State by at least two percentage points; or (3) a median household income for the most recent 24-month period for which data is available that is equal to or less than 75% of the median household income for the State during that period. A Tier I county includes a county that no longer meets any of the previously specified criteria but has met at least one of the criteria at some point during the preceding 24-month period.

As of February 2022, Commerce advises that the following jurisdictions qualify as Tier I areas: Baltimore City and Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, Washington, Wicomico, and Worcester counties.

*Opportunity Zones*

The Federal Tax Cuts and Jobs Act of 2017 established the Qualified Opportunity Zones Program to incentivize private investment in certain communities. Under the Act, states may nominate up to 25% of specified low-income census tracts for designation by the U.S. Treasury as opportunity zones. The U.S. Treasury has designated 149 zones located in Maryland. Qualifying investments may only be made through calendar 2026.

*Main Street Improvement Program*

Created in 1998 by DHCD, the Making Main Street Improvement Program provides grants to local jurisdictions and nonprofit organizations to promote the development and revitalization of business districts in local jurisdictions. Communities in the State may apply to DHCD to be designated as a recognized Main Street Community if they meet the following criteria: (1) a minimum population of 1,000 based on the most recent U.S. Census survey; (2) commitment to employ a program manager; (3) commitment to organize and maintain a volunteer board of directors or advisory committee and committees made up of public and private sector individuals; (4) commitment to provide a sustainable program budget; (5) must be a "sustainable community" approved by the State; and (6) must have a defined, walkable central business district with a significant number of historic commercial buildings.

Grant funds may be used to pay for costs associated with projects that support the development or revitalization of a business district, including (1) gateway, directional, or highway signage associated with a business district; (2) acquisition, development, or improvement of property associated with projects that will assist the development or revitalization of a business district; (3) façade improvement programs; (4) specified public improvement to business districts; (5) specified engineering and architectural design studies; (6) demolition of vacant and abandoned buildings; (7) specified promotional materials; (8) other projects that have been identified in an applicant's work plans as key to its Main Street efforts; and (9) operating assistance for Main Street Maryland managing organizations.

The **Appendix – Opportunity Zones, Main Street Areas, and Tier I Counties** illustrates the eligible locations for two-year business operation grants under the bill's provisions.

*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.

*Department of Housing and Community Development – Generally*

Among other responsibilities, DHCD provides financing for the economic development and maintenance of affordable housing and communities in Maryland. DHCD also provides funding for community revitalization projects. As introduced, the Governor's proposed fiscal 2023 capital budget includes a mixture of general obligation bonds, general funds, special funds, and federal funds for the following DHCD programs that provide assistance to homebuyers and those facilitating community revitalization in Maryland:

- Strategic Demolition Fund ($30.0 million);
- Neighborhood Business Development Program ($25.0 million);
- Baltimore Regional Neighborhood Initiative ($12.0 million);
- National Capital Strategic Economic Development Program ($7.0 million);
- Community Development Block Grant Program ($12.0 million);
- Seed Community Development Anchor Institution Fund (10.0 million);
- Special Loan Programs ($10.4 million);
- Community Legacy Program ($8.0 million);

- Homeownership Programs ($42.0 million); and
- Housing and Building Energy Program ($15.8 million).

**State Revenues:** Although the bill contemplates the use of sales and use tax rebates for eligible businesses, the program awards money in the form of grants after businesses have already paid sales and use tax to the State. Therefore, this analysis assumes there is no direct effect on State revenues. This analysis does not reflect any effect on State tax revenues resulting from the economic development initiatives funded by the program. Any such impact cannot be reliably estimated at this time.

**State Expenditures:** The Governor's proposed fiscal 2023 operating budget includes $25.0 million in federal ARPA funds for the program; the funding is not contingent on the enactment of this bill, however. This analysis assumes that DHCD uses the funding included in the budget to fund the program and to issue grants to eligible businesses. In anticipation that federal funding is no longer available after fiscal 2023, general fund expenditures increase by $25.0 million annually beginning in fiscal 2024 to maintain the program. Special fund revenues to and expenditures from the fund increase correspondingly each year.

DHCD advises that the program is currently supported by two staff who review and process applications, and that those positions are funded through the existing federal appropriation. DHCD further advises that one additional position is needed to handle the volume of applications under the program. Under the bill, DHCD is explicitly authorized to use the fund for administrative costs. Therefore, staffing costs for one additional position – anticipated to be $67,719 in fiscal 2023, increasing to $86,687 by fiscal 2027 – are absorbed within the appropriation provided for the fund. To the extent that funds are used for administration, including for the two existing positions, they are not available for grants.

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## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** SB 393 (The President, *et al.*) (By Request - Administration) - Education, Health, and Environmental Affairs.

**Information Source(s):** Department of Commerce; Comptroller's Office; Department of Budget and Management; Department of Housing and Community Development; Department of Information Technology (iMAP); Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2022
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Analysis by: Thomas S. Elder

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

# Appendix – Opportunity Zones, Main Street Areas, and Tier I Counties


Source: Department of Information Technology (MD iMap)

## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Economic Development – Project Restore Program and Fund

BILL NUMBER: HB 414

PREPARED BY: Jake Whitaker

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

**OR**

__X__ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This bill will have a meaningful impact on small businesses as the Project Restore Fund is intended to issue grants to small business located in previously unoccupied commercial properties. The small business impact is indeterminable at this time, as the specific impact is contingent on the number of small businesses that participate in the program.