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By: **Chairman, Appropriations Committee (Departmental - Housing and  
Community Dev.)**

Introduced and read first time: February 4, 1998

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Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 27, 1998

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CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Department of Housing and Community Development - Rental Housing**  
3 **Production Program - Office and Commercial Space Conversion**

4 FOR the purpose of authorizing the Department of Housing and Community  
5 Development to provide financial assistance through the Rental Housing  
6 Production Program for conversion of office and other commercial space to  
7 rental housing; ~~limiting Program income eligibility requirements; requiring that~~  
8 a certain percentage of dwelling units resulting from a conversion of office and  
9 commercial space to rental housing be restricted to occupancy by families of  
10 lower incomes; providing for certain contingencies; and generally relating to the  
11 Rental Housing Production Program and the Department of Housing and  
12 Community Development.

13 BY repealing and reenacting, with amendments,  
14 Article 83B - Department of Housing and Community Development  
15 Section 2-501, 2-503, and 2-504  
16 Annotated Code of Maryland  
17 (1995 Replacement Volume and 1997 Supplement)

18 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
19 MARYLAND, That the Laws of Maryland read as follows:

20 **Article 83B - Department of Housing and Community Development**

21 2-501.

22 (a) In this subtitle the following words have the meanings indicated.

1 (b) "Development costs" means the costs incurred for the construction or  
2 rehabilitation of a rental housing production project including the costs of:

- 3 (1) Necessary studies, surveys, plans, and specifications;
- 4 (2) Architectural, engineering, or other special services;
- 5 (3) Acquisition of land and improvements;
- 6 (4) Site preparation and development;
- 7 (5) Construction, reconstruction, rehabilitation, and improvement;
- 8 (6) Acquisition of necessary machinery, equipment, and furnishings;
- 9 (7) Initial occupancy expenses of the project;
- 10 (8) Indemnity and surety bonds and premiums on insurance; and
- 11 (9) Other fees and relocation expenses.

12 (c) (1) "Families of lower income" means families or persons whose incomes  
13 do not exceed upper income limits established by the Secretary taking into  
14 consideration factors including:

- 15 (i) The amount of the total income of the families available for  
16 housing needs;
- 17 (ii) The size of the family;
- 18 (iii) The cost and condition of housing facilities available;
- 19 (iv) The ability of the families to compete successfully in the  
20 conventional private housing market; and
- 21 (v) Relevant standards and definitions established for federal  
22 housing programs.

23 (2) The income limits for families of lower income shall be established at  
24 levels lower than the income limits established for families of limited incomes as  
25 provided in § 2-203 of this article. The limits may differ for different areas or regions  
26 of the State. A limit of general applicability may be supplemented by a lower limit  
27 applicable to a particular project.

28 (d) "Fund" means the Rental Housing Programs Fund.

29 (e) "Limited equity cooperative housing" has the meaning stated in §  
30 143(k)(9)(C) of the Internal Revenue Code and the regulations adopted by the  
31 Internal Revenue Service under § 143(k)(9)(C) of the Internal Revenue Code.

1 (f) "Loan" means a loan of money made by the Department under this  
2 subtitle.

3 (G) "OFFICE AND OTHER COMMERCIAL SPACE" MEANS BUILDINGS:

4 (1) CONSTRUCTED MORE THAN ~~40~~ 30 YEARS BEFORE AN APPLICATION IS  
5 SUBMITTED TO THE DEPARTMENT TO FINANCE THE CONVERSION OF THE BUILDING  
6 TO RENTAL HOUSING UNITS;

7 (2) CONSISTING OF TWO OR MORE FLOORS AT OR ABOVE GROUND  
8 LEVEL; AND

9 (3) ~~IN WHICH AT LEAST TWO FLOORS OR 50% OF TOTAL FLOOR SPACE,~~  
10 ~~WHICHEVER IS GREATER,~~ WAS BUILT FOR THE PRIMARY PURPOSE OF BEING USED  
11 FOR OFFICE OR OTHER COMMERCIAL SPACE AND WAS LAST USED AS OFFICE OR  
12 OTHER COMMERCIAL SPACE.

13 (H) "OFFICE AND COMMERCIAL SPACE CONVERSION" MEANS OFFICE AND  
14 OTHER COMMERCIAL SPACE THAT:

15 (1) IS RENOVATED FOR RENTAL HOUSING; AND

16 (2) IS IN A ~~DESIGNATED NEIGHBORHOOD~~ ONE OF THE DESIGNATED  
17 NEIGHBORHOODS ESTABLISHED UNDER § 4-203(B) OF THIS ARTICLE.

18 [(g)] (I) "Operating costs" means any costs incurred by a sponsor of a  
19 completed project necessary to maintain or operate a project including payments of  
20 principal and interest on a loan to cover development costs.

21 [(h)] (J) "Nonprofit organization" means a corporation, foundation, or other  
22 legal entity, no part of the net earnings of which inures to the benefit of any private  
23 shareholder or individual holding any interest in such entity.

24 [(i)] (K) "Nonprofit sponsor" means a sponsor who is:

25 (1) A nonprofit organization; or

26 (2) A limited partnership if:

27 (i) Each of the general partners qualifies as a nonprofit  
28 organization; or

29 (ii) 1. The limited partnership is a wholly owned subsidiary of a  
30 nonprofit organization;

31 2. The limited partnership is formed for the purpose of  
32 undertaking a project that is eligible in whole or in part for federal programs or  
33 incentives, including low income housing tax credits; and

34 3. A nonprofit organization manages the project or will be  
35 the recipient of net cash flow or the residual sale proceeds upon sale of the project.

1     [(j)]     (L)     "Political subdivision" means any municipal corporation in Maryland  
 2 subject to the provisions of Article XI-E of the Constitution, the Mayor and City  
 3 Council of Baltimore, and any of the 23 counties in Maryland.

4     [(k)]     (M)     "Program" means the Rental Housing Production Program.

5     [(l)]     (N)     (1)     "Rental housing production project" or "project" means:

6                     (I)     AN OFFICE AND COMMERCIAL SPACE CONVERSION; OR

7                     (II)    [any] ANY project or undertaking for the acquisition,  
 8 construction, or rehabilitation of buildings and improvements, or any portion thereof,  
 9 which buildings and improvements or portion thereof will be occupied by families of  
 10 lower income as follows:

11                    [(1)]    1.     At least a minimum number of dwelling units shall be restricted  
 12 for occupancy by families of lower income for at least a minimum number of years[.];

13                    [(2)]    2.     The minimum number of dwelling units shall be the greater of:

14                            [(i)]    A.     The number of units which is equal to the proportion of the  
 15 amount of the program loan for the project to the total financing of the undertaking;  
 16 [or]

17                            [(ii)]   B.     For projects which receive an allocation of federal low  
 18 income housing tax credits, the number of units selected by the sponsor to satisfy the  
 19 federal occupancy requirements; or

20                            [(iii)]   C.     For projects which finance a portion of the project costs  
 21 with government issued federally tax exempt revenue bonds, the greater of:

22                                    [1.]    I.     The number of units required for community  
 23 development projects under § 2-203(f)(1)(ii) of this title; or

24                                    [2.]    II.    The number of units selected by the issuer of the  
 25 bonds[.]; AND

26                    [(3)]    3.     The minimum number of years shall be the greater of the  
 27 number of years imposed by the federal requirements or 15 years[.]; AND

28                    [(4)]    4.     Units restricted for occupancy to meet other federal or State  
 29 occupancy requirements may be counted towards the minimum number required  
 30 under this section.

31                    [(5)]    (2)     "Rental housing production project" or "project" includes:

32                            (i)     Limited equity cooperative housing if such housing satisfies, at  
 33 the time of sale or transfer of shares, the occupancy requirements contained in this  
 34 subsection; and

1 (ii) Single room occupancy and shared living unit facilities and  
2 emergency and temporary shelters.

3 [(m)] (O) "Sponsor" means any political subdivision, person, partnership, joint  
4 venture, corporation, nonprofit organization, or other legal entity, including the  
5 Department, that applies for a loan under the Rental Housing Production Program  
6 established under this subtitle.

7 2-503.

8 The purposes of the Program are to:

9 (1) Increase the supply of decent, safe, and sanitary rental housing for  
10 occupancy by families of lower income;

11 (2) Provide financial assistance for the costs of acquiring, constructing,  
12 or rehabilitating rental housing so that it is affordable by families of lower income;  
13 [and]

14 (3) Stimulate the participation of political subdivisions in providing  
15 assistance for the production of affordable rental housing for families of lower income;  
16 AND

17 (4) REVITALIZE DESIGNATED NEIGHBORHOODS THROUGH OFFICE  
18 SPACE CONVERSION.

19 2-504.

20 (a) ~~{The} EXCEPT AS PROVIDED IN SUBSECTION (C) OF THIS SECTION, THE~~  
21 Department shall:

22 (1) Manage, supervise, and administer the Program;

23 (2) Adopt policies to ensure that rental housing is made available to  
24 families of lower income with the assistance of political subdivisions;

25 (3) Attach such specific terms to any purchase, sale, or lease of a project  
26 or land therefor as may be necessary to carry out the purposes of the Program;

27 (4) Develop procedures for monitoring the occupancy of the rental units  
28 produced under the Program by families of lower income to ensure that the rental  
29 units receiving financial assistance under the Program are occupied by families of  
30 lower income;

31 (5) Comply with the requirements of local laws, ordinances, codes,  
32 charters, or regulations applicable to any particular project; and

33 (6) Adopt rules and regulations to carry out the Program in conformance  
34 with statutory requirements.

1 (b) ~~{Notwithstanding} EXCEPT AS PROVIDED IN SUBSECTION (C) OF THIS~~  
2 ~~SECTION AND NOTWITHSTANDING~~ any provision of this subtitle or any other law or  
3 regulation, the Department may:

4 (1) Make and participate in making loans to sponsors for any rental  
5 housing production project including loans for development costs related to the  
6 construction or rehabilitation of a project and loans for the acquisition of completed  
7 projects;

8 (2) Own or lease a rental housing production project or the land therefor  
9 during the construction or rehabilitation of a project and sell, assign, or transfer the  
10 project without public bidding or public sale to a sponsor upon its completion upon  
11 such terms and conditions as may be determined to make economically feasible rental  
12 housing available for ~~OFFICE SPACE CONVERSION OR TO~~ families of lower income;

13 (3) Own, lease, construct, or rehabilitate a rental housing production  
14 project or the land therefor and may at any time following completion of the project  
15 transfer the project or land to an eligible sponsor;

16 (4) Limit the return on equity allowed to sponsors or enter into equity  
17 participation agreements with sponsors; or

18 (5) Within the limits established for families of lower income, establish  
19 income ranges and percentages of each income range to be served by a rental housing  
20 production project.

21 ~~(C) SUBSECTIONS (A)(2), (A)(4), AND (B)(5) OF THIS SECTION SHALL NOT APPLY~~  
22 ~~TO OFFICE SPACE CONVERSIONS.~~

23 ~~(C) AT LEAST 20% OF THE DWELLING UNITS RESULTING FROM EACH OFFICE~~  
24 ~~AND COMMERCIAL SPACE CONVERSION SHALL BE RESTRICTED TO OCCUPANCY BY~~  
25 ~~FAMILIES OF LOWER INCOMES.~~

26 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take  
27 effect July 1, 1998, contingent upon the inclusion in the Budget Bill for Fiscal Year  
28 1999 of an increase in appropriations to the Rental Housing Production Program  
29 above the Fiscal Year 1998 appropriation, provided that in Fiscal Year 1999 and  
30 thereafter no part of the appropriation for the Program except any increase above the  
31 Fiscal Year 1998 appropriation may be used for conversion of office space to rental  
32 housing.

