

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 1160

(Delegate McIntosh, *et al.*)

Environmental Matters

Education, Health, and Environmental Affairs  
 and Budget and Taxation

**Workforce Housing Grant Program - Establishment**

This bill establishes the Workforce Housing Grant Program (WHGP) in the Department of Housing and Community Development (DHCD).

**Fiscal Summary**

**State Effect:** General fund PAYGO or general obligation (GO) bond expenditures could increase by \$10.0 million annually to support the capital grants. It is assumed that DHCD could administer WHGP with existing resources, or from program funds.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
PAYGO GF Exp.	10.0	10.0	10.0	10.0	10.0
Net Effect	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)

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

**Local Effect:** Local expenditures would increase due to increased administrative costs and the matching fund requirement under WHGP.

**Small Business Effect:** Potentially significant.

**Analysis**

**Bill Summary:** “Workforce housing” is defined as rental housing affordable to households who make between 50% and 100% of the area median income (AMI), and homeownership housing affordable to households that make between 60% and 120% of

AMI, or 60% to 150% of AMI in areas targeted by the Secretary of Housing and Community Development for the Maryland Mortgage Program. “Affordable housing” is defined as housing that costs 30% or less of household income.

WHGP is to provide flexible capital funds to qualifying local governments (either a county or municipal corporation) for “development costs” of workforce housing located in a priority funding area. The Secretary of Housing and Community Development has the authority to adopt criteria for program eligibility and must establish annually the maximum amount of funds that a county may use to develop a unit of workforce housing, which must be equal to 10% of the regional average construction costs for a comparable unit. Program funds are limited to what is included in the State budget.

A local government qualifies for participation in the program if it has a five-year comprehensive plan approved by the U.S. Department of Housing and Urban Development (USHUD), or a comprehensive plan. The plans must contain specified information and seek to create or preserve workforce housing. Funding is to be distributed among local governments based on population. The bill establishes procedures for distribution of program funding between a qualifying county and municipal corporations within that county.

A qualifying local government must provide an equal match for any WHGP funds it receives. Qualifying local governments must report annually to DHCD by January 1 on the use of program funds.

Rental units must remain workforce housing for at least 25 years. If DHCD agrees, a unit developed with WHGP funds can include a “household of low or moderate income.” The bill requires the repayment of the WHGP grant when the initial buyer transfers title to the property. In addition, the buyer is to assign a portion of the net proceeds of a transfer to DHCD. DHCD is to assign the amount of the local grant as well as proportionally distribute the net proceeds of the transfer based on the match amount to the local government that contributed the match.

**Current Law/Background:** On October 18, 2005, the Governor signed Executive Order 40 of 2005, establishing the Workforce Housing Task Force. The task force is composed of 13 members, including the Secretaries of the Departments of Planning, Business and Economic Development, Transportation, Housing and Community Development, and 9 members appointed by the Secretary of Planning.

The task force has the following tasks:

- reviewing the findings and recommendations of the Governor's Commission on Housing Policy;
- defining the parameters of workforce housing;
- estimating current and projected supply of and demand for workforce housing;
- evaluating market-based workforce housing best practices;
- recognizing local government planning issues; and
- recommending options for addressing workforce housing issues and providing technical assistance for local jurisdictions.

Factors cited for establishing the task force include Maryland's status as the state with the second longest commuting times, population growth, the growth in the median price in housing as compared to the growth in the median household income, and the need to identify positive solutions to address the need for workforce housing, separate from affordable housing. The task force held its first meeting February 8, 2006 and must report to the Governor by July 1, 2006.

According to a special tabulation of census data by USHUD, 70% of households that make 30% or less of AMI experienced at least one housing problem in 2000, while 54% paid more than 50% of their income for rent and utilities. The corresponding numbers for households earning between 31% and 50% of AMI were 68% and 13%, respectively. Finally, for households making between 50% and 80% of AMI, 32% reported at least one housing problem, while 2% indicated they paid over 50% of their income for rent and utilities. The median price of a home has increased 68% since 2000, while household income has only increased 9%.

DHCD advises that there will be a shortfall of 157,000 affordable and available workforce rental units by 2014. DHCD produces approximately 2,700 affordable rental units per year and is working on enhancements that will allow it to produce another 1,800. This will reduce the shortfall to 94,750 in 2014.

The Rental Housing Program funds five programs: Rental Housing Production Program, Elderly Rental Housing Program, Maryland Housing Rehabilitation Program – Multi-family, Nonprofit Rehabilitation Program, and Office and Commercial Space Conversion Program. The Rental Housing Program provides low-interest or deferred-payment loans for rental housing developments targeting very low-income households. In general, projects serve families with incomes below 60% of AMI, with priority given to projects serving families with below 30% of AMI. The Governor's proposed budget for fiscal 2007 funds the program with \$10.0 million in general fund PAYGO expenditures, \$5.5 million in special fund PAYGO expenditures, and \$5.3 million in federal fund PAYGO expenditures.

The Partnership Rental Housing Program provides deferred-payment loans to local governments for rental housing construction and rehabilitation. The Partnership Rental Housing Program produced 135 units for families making under 50% of the State median income or less in fiscal 2005. The Governor's proposed budget for fiscal 2007 funds the program with \$6.0 million in general fund PAYGO expenditures, but local governments are expected to provide the finished site, including the infrastructure.

The Homeownership Program provides direct below-market interest mortgages to very low-income households as well as down payment and settlement cost assistance to limited-income families. The Governor's proposed budget for fiscal 2007 funds the program with \$1.5 million in general fund PAYGO expenditures, \$5.9 million in special fund PAYGO expenditures, and \$100,000 in federal fund PAYGO expenditures. The program assists approximately 1,300 residents annually to purchase a home.

**State Fiscal Effect:** Together, the budget for fiscal 2007 includes \$34.4 million in PAYGO funding for the Rental Housing Program, Partnership Rental Housing Program, and Homeownership Program as well as revenue generated from repayment of loans. The vast majority of these programs are targeted at low-income individuals making less than 50% of AMI, a group which has the most severe housing problems. WHGP, on the other hand, is targeted at a group that has less severe housing problems, and as such would require less overall funding than these combined programs.

In order to ensure capitalization of the program sufficient to effectively address the problem of workforce housing, it is assumed that at least \$10.0 million would be appropriated annually in GO bonds or through general fund PAYGO expenditures.

The bill does not specify how State funding must be provided, but because the program is for capital projects, State GO bonds could be issued to make the required appropriation. However, the State has provided an incentive to use general funds rather than GO bonds for 2007 by specifying that general funds for capital projects will not count toward the fiscal 2007 spending affordability limit. Only \$1.0 million in GO bonds is budgeted within DHCD for fiscal 2007. Therefore, it is assumed that this project would be financed through PAYGO general fund expenditures.

The Maryland Affordable Housing Trust (MAHT), which targets households making less than 50% of AMI, provides a basis for how a viable program could be administered.

MAHT funds capital costs of rental and ownership housing, provides financial assistance for nonprofit developer capacity housing, and funds operating expenses of housing

developments. Applicants apply for funding in two rounds per year, and the maximum award amount is \$100,000.

MAHT is funded by the interest generated by title company escrow accounts, less the amount charged by the financial institution for managing the account. The Governor's proposed fiscal 2007 budget contains \$2.0 million for grants from MAHT. DHCD advises that it has the equivalent of 1.75 full-time positions working on MAHT. MAHT administered 33 grants in fiscal 2005.

*For illustrative purposes only*, assuming that staffing for WHGP is similar to staffing for MAHT, DHCD would need 3 administrators and 2.5 clerical employees for every 100 grants administered. The exact staffing required depends on the size of the grants; however, based on the number of positions vacant as of December 31, 2005, DHCD has sufficient funded vacant positions to administer at least 150 grants. In the alternative, program funds may be used to support new positions if necessary.

**Local Expenditures:** Local expenditures could increase due to entering into projects using WHGP funds. Aside from administrative costs, local counties will be required to match WHGP funds dollar for dollar. In addition, DHCD could develop rules on what types of funds that can be used to match WHGP funds that would affect the number of counties participating in the program.

**Small Business Effect:** Small businesses that seek to develop or construct workforce housing would benefit from an additional funding source.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 880 (Senator Conway) – Education, Health, and Environmental Affairs and Budget and Taxation.

**Information Source(s):** Wicomico County, Allegany County, Montgomery County, Prince George's County, Talbot County, Baltimore City, Department of Housing and Community Development, Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2006  
mll/jr Revised - House Third Reader - March 24, 2006  
Revised - Enrolled Bill - May 4, 2006  
Revised - Clarification - May 16, 2006

---

Analysis by: Nora C. McArdle

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