

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 644

(Senator Conway, *et al.*)

Education, Health, and Environmental Affairs and Budget and Taxation

Maryland Affordable Housing Investment Fund

This bill establishes the Maryland Affordable Housing Investment Fund (MAHIF) and the Maryland Affordable Housing Investment Board in the Department of Housing and Community Development (DHCD). The board must use MAHIF to support existing State affordable housing programs, provide money to the Maryland Affordable Housing Trust, and provide money for local governments that are actively promoting affordable housing. The bill also establishes an additional State property tax and repeals the Housing Finance Review Committee.

Fiscal Summary

State Effect: Special fund revenues would increase by \$122.5 million in FY 2009 and \$150.0 million by FY 2012. General fund expenditures would increase by at least \$19.7 million annually beginning in FY 2009. Special fund expenditures would increase by \$143,900 in FY 2008 for administrative costs and by \$142.2 million in FY 2009 for grants to local governments, additional funding for existing DHCD programs, and administrative costs.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$0	\$122,483,500	\$130,714,100	\$137,671,700	\$149,963,600
GF Expenditure	0	19,740,000	19,740,000	19,740,000	19,740,000
SF Expenditure	143,900	122,483,500	130,714,100	137,671,700	149,963,600
Net Effect	(\$143,900)	(\$19,740,000)	(\$19,740,000)	(\$19,740,000)	(\$19,740,000)

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

Local Effect: Total local government revenues would increase by \$61.2 million in FY 2009 and by \$75.0 million in FY 2012. Local government expenditures for affordable housing programs will increase by the level of funding received by the State.

Small Business Effect: Meaningful.

Analysis

Bill Summary: “Affordable housing” is defined as residential units priced for individuals and households of low or moderate income whose income does not exceed the upper limits established by the State and the local government where the residential units are located. In establishing these limits, the local government must take into account several factors, including income limits for similar State programs.

Board Membership and Responsibilities

The board consists of 13 members appointed by the Governor on recommendation of the Secretary of Housing and Community Development (Secretary). Members must be appointed from specified groups or have specified knowledge of affordable housing issues. There are two *ex officio* members, including the Secretary. The term of a *non-ex officio* member is four years beginning on July 1. The board must meet once a month, and is responsible for determining the policies and procedures to govern MAHIF, and overseeing all distributions for the fund.

MAHIF Revenue Sources and Purposes

MAHIF consists of the following revenue sources:

- all special funds from housing loan repayments, except what is included in the annual budget to support DHCD activities;
- money appropriated from the general fund; and
- an additional State property tax.

The additional State property tax rate is \$0.05 per \$100 of assessed value for operating real property of a public utility and \$0.02 for all other real property.

In fiscal 2009, the Governor must include in the annual State budget a general fund appropriation of at least \$19.7 million for MAHIF, adjusted for an inflation index relating to housing costs. Beginning in fiscal 2010, the Governor’s general fund appropriation must be equal to the appropriation in the previous fiscal year adjusted by the inflation index.

Fifty percent of the additional State property tax must be allocated to qualifying local governments with a population greater than 35,000. The remaining money is to be

distributed to existing DHCD programs. All money is to be distributed equally between multifamily and single-family programs.

In addition to other requirements, a local government must agree to use the money from the fund to serve individuals with disabilities and persons in a range of income levels that fall within the same income levels established for State home ownership and rental programs. A local government must allocate 50% of the grant to rental housing, and 50% for home ownership, group homes, or special needs programs, unless the board grants a waiver. Local governments may use grant proceeds to make the local contribution required for State funded rental housing. A county may use a grant to make another grant to another local government under certain conditions.

Current Law: The State real property tax rate is 11.2 cents per \$100 of assessment.

The Housing Finance Review Committee consists of seven members: three employees of DHCD, three members of the public, and one employee of another agency in the Executive Branch. The committee must review and make recommendations to the Secretary of Housing and Community Development about the investment and project financing policies of the Administration, and specific loan requests or categories of loan requests.

Background: Housing affordability is a significant problem in Maryland. Between 2000 to 2004, the median home price increased by 68%, while household income increased by 9%. DHCD advises that there will be a shortfall of 157,000 affordable and available workforce rental units by 2014. DHCD creates approximately 2,700 affordable rental units per year.

DHCD Current Programs

DHCD has several programs intended to promote the creation of rental housing and to help individuals achieve homeownership. The vast majority of these programs are targeted at low-income individuals making less than 50% of the area median income, a group which has the most severe housing problems.

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 the area median income, with priority given to projects serving families with below 30% of the area median income.

The Partnership Rental Housing Program provides deferred-payment loans to local governments for rental housing construction and rehabilitation. The Partnership Rental Housing Program produced 89 units for families making under 50% of the State median income or less in fiscal 2006.

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 program assists approximately 1,300 residents annually to purchase a home.

The fiscal 2008 State capital budget includes \$27.5 million in funding for the Rental Housing Program, Partnership Rental Housing Program, and the Homeownership Program.

MAHT, which targets households making less than 50% of the area median income, 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 proposed fiscal 2008 State budget includes \$3.0 million for this program.

State Fiscal Effect: Exhibit 1 summarizes estimated MAHIF revenues and expenditures by fiscal year. This estimate reflects the following assumptions:

- estimated State assessable real property tax base;
- 3.8% annual increase in nonmandated government operations for fiscal 2008 to 2012;
- fiscal 2008 housing loan repayments as included in the fiscal 2008 budget;
- housing loan repayments would either support existing programs or be returned to the program fund to maintain a fund balance; and
- MAHIF would cover all administrative expenditures.

Based on this estimate, DHCD revenues would increase by \$142.2 million in fiscal 2009, and by \$169.7 million in fiscal 2012 from the additional State property tax and general fund appropriation.

Given the significant increase in workload, DHCD special fund expenditures for administrative expenses would increase by \$143,900 in fiscal 2008, \$831,500 in fiscal 2009, and \$1,188,100 in fiscal 2012. This estimate assumes:

- 14 new full-time positions and one part-time position added from fiscal 2008 to 2012 to support the board, process and manage grants, and expand existing programs;
- approximately \$100,000 spent annually beginning in fiscal 2009 to support the board and audit local governments; and
- full salaries with 4.5% annual increases and 3% employee turnover and 1% annual increases in ongoing operating expenses.

Grants to local governments and expenditures through existing programs would increase by \$141.4 million in fiscal 2009, and by \$168.5 million in fiscal 2012.

Local Fiscal Effect: Total local government revenues would increase by \$61.2 million in fiscal 2009 and by \$75.0 million in fiscal 2012 as a result of MAHIF grant funding for programs promoting affordable housing within their jurisdictions. Administrative expenses can only account for 10% of this funding. Local government expenditures for affordable housing programs will increase by the level of funding received by the State.

Small Business Effect: Small businesses associated with the production and provision of affordable housing would benefit from additional expenditures through local and State programs for affordable housing. In addition, small businesses would have higher property taxes on real property.

Additional Information

Prior Introductions: None.

Cross File: HB 486 (Delegate McIntosh, *et al.*) – Environmental Matters and Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Comptroller's Office, Department of Housing and Community Development, Board of Public Works, Frederick County, Somerset County, Prince George's County, Charles County, Department of Legislative Services

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Exhibit 1
Maryland Affordable Housing Investment Fund
Revenues and Expenditures
Fiscal 2008-2012

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Revenues					
State Property Tax - Real	\$0	\$121,900,559	\$130,125,387	\$137,077,025	\$149,363,040
State Property Tax - Utility Operating Real	<u>0</u>	<u>582,915</u>	<u>588,744</u>	<u>594,632</u>	<u>600,578</u>
Total Revenues	\$0	\$122,483,474	\$130,714,132	\$137,671,656	\$149,963,618
Expenditures					
Grants to Local Governments	\$0	\$61,241,737	\$65,357,066	\$68,835,828	\$74,981,809
DHCD Administrative Costs	143,906	831,449	896,846	1,073,594	1,188,131
Existing DHCD Programs - Multifamily	0	40,075,144	42,100,110	43,751,117	46,766,839
Existing DHCD Programs - Single Family	<u>0</u>	<u>40,075,144</u>	<u>42,100,110</u>	<u>43,751,117</u>	<u>46,766,839</u>
Total Expenditures	\$143,906	\$142,223,474	\$150,454,132	\$157,411,656	\$169,703,618
Net Effect	(\$143,906)	(\$19,740,000)	(\$19,740,000)	(\$19,740,000)	(\$19,740,000)