SB 302

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 302 (Senator Conway)
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 Fund Board in the Department of Housing and Community Development. 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.

Fiscal Summary

State Effect: Special fund revenues would increase by $130.7 million in FY 2010. General fund expenditures would increase by at least $19.7 million beginning in FY 2010. Special fund expenditures would increase by $143,900 in FY 2009 for administrative costs and by $130.7 million in FY 2010 for grants to local governments, additional funding for existing DHCD programs, and administrative costs. ***This bill establishes a mandated appropriation beginning in FY 2010.***

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	$0	$130,714,100	$137,671,700	$149,963,600	$160,425,000
GF Expenditure	0	19,700,000	19,700,000	19,700,000	19,700,000
SF Expenditure	143,900	130,714,100	137,671,700	149,963,600	160,425,000
Net Effect	($143,900)	($19,700,000)	($19,700,000)	($19,700,000)	($19,700,000)

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

Local Effect: Total local government revenues would increase by $65.4 million in FY 2010 and by $80.2 million in FY 2013. 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 not exceeding 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.

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 2010, 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 2011, 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. For a local government to qualify it must either have a population greater than 35,000, or administer a federal community block grant or home partnership investment program in addition to their own affordable housing initiatives that satisfy certain criteria. 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, households of low and moderate income levels, and households of very low income. 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, and a county is required to help a municipality within its jurisdiction provide the local match for projects the municipality supports as long as the municipality does not directly receive money from the fund. 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 Community Development Administration, and specific loan requests or categories of loan requests.

Background: Housing affordability remains a significant problem in Maryland. DHCD advises that there will be a shortfall of 157,000 affordable and available workforce rental units by 2014. DHCD has increased production of affordable rental units to approximately 4,425 annually through the financing of new rental housing units and homeownership. However, DHCD advises that it must produce at least 6,260 units each year from fiscal 2008 to 2014 to reach its goal of covering 40% of the anticipated shortage.

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 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 2009 State capital budget included $34.9 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.

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 2009 to 2013;
- fiscal 2009 housing loan repayments as included in the fiscal 2009 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 $130.7 million in fiscal 2010 and by $160.4 million in fiscal 2013 from the additional State property tax.

Given the significant increase in workload, DHCD special fund expenditures for administrative expenses would increase by $143,900 in fiscal 2009 and by $1,188,100 in fiscal 2013. This estimate assumes:

- 14 new full-time positions and one part-time position added from fiscal 2009 to 2013 to support the board, process and manage grants, and expand existing programs;
- approximately $100,000 spent annually beginning in fiscal 2010 to support the board and audit local governments; and
- full salaries with 4.4% 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 $150.4 million in fiscal 2010, and by $180.1 million in fiscal 2013.

Local Fiscal Effect: Total local government revenues would increase by $65.4 million in fiscal 2010 and by $80.2 million in fiscal 2013 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: Similar bills, SB 644 and HB 486 of 2007, were heard before the Senate Education, Health, and Environmental Affairs and Budget and Taxation committees and the House Environmental Matters and Ways and Means committees. No further action was taken on either bill.

Cross File: HB 512 (Delegate McIntosh, *et al.*) – Environmental Matters and Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Department of Housing and Community Development, Department of Legislative Services

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Exhibit 1
Maryland Affordable housing Investment Fund
Estimated Assessable Property Tax Base, Revenues, and Expenditures
Fiscal 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Assessable Base					
Real Property	$609,502,794,000	$650,626,957,000	$685,385,124,000	$746,815,200,000	$799,092,264,000
Utility Operating Real	1,165,830,000	1,177,488,000	1,189,263,000	1,201,156,000	1,213,168,000
Total Assessable Base	**$610,668,624,000**	**$651,804,445,000**	**$686,574,387,000**	**$748,016,356,000**	**$800,305,432,000**
Revenues					
State Property Tax - Real	$0	$130,125,387	$137,077,025	$149,363,040	$159,818,453
State Property Tax – Utility Operating Real	0	588,744	594,632	600,578	606,584
Total Revenues	**$0**	**$130,714,132**	**$137,671,656**	**$149,963,618**	**$160,425,037**
Expenditures					
Grants to Local Governments	$0	$65,357,066	$68,835,828	$74,981,809	$80,212,519
DHCD Administrative Costs	143,906	831,449	896,846	1,073,594	1,188,131
Existing DHCD Programs – Multifamily	0	42,112,809	43,819,491	46,804,108	49,362,194
Existing DHCD Programs – Single Family	0	42,112,809	43,819,491	46,804,108	49,362,194
Total Expenditures	**$143,906**	**$150,414,132**	**$157,371,656**	**$169,663,618**	**$180,125,037**
Net Effect	**($143,906)**	**($19,700,000)**	**($19,700,000)**	**($19,700,000)**	**($19,700,000)**