

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 451

(Chair, Environmental Matters Committee)(By Request -
Departmental - Housing and Community Development)

Environmental Matters

Education, Health, and Environmental Affairs

Neighborhood Business Development Program - Financial Assistance for Food
Deserts

This departmental bill expands the purpose of the Neighborhood Business Development Program (NBDP) in the Department of Housing and Community Development (DHCD) to include helping to create small businesses and other food-related enterprises that provide healthy foods to residents in “food deserts.” The Business Development Program in NBDP must provide financial assistance to projects in food deserts, and DHCD must adopt regulations that establish a process to designate an area as a food desert. The bill authorizes DHCD to provide financial assistance to an approved entity so that the entity may originate and administer financial assistance to feed desert projects. The bill also establishes an Interagency Food Desert Advisory Committee staffed by DHCD as well as a reporting requirement.

Fiscal Summary

State Effect: DHCD’s general obligation (GO) bond expenditures increase beginning in FY 2015 to provide financial assistance in food desert areas under NBDP. The FY 2015 capital budget includes \$1.0 million in GO bonds to provide grants and loans under NBDP for an initiative consistent with this bill, although that funding is not contingent upon the enactment of legislation. Thus, this estimate assumes that GO bond expenditures increase by \$1.0 million annually beginning in FY 2015. Revenues are not directly affected.

Local Effect: The bill does not directly affect local government operations or finances.

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

assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The advisory committee must (1) advise and make recommendations on the development and adoption of regulations related to food desert projects; (2) make recommendations to the Secretary of Housing and Community Development on applications for designating an area as a food desert; and (3) make recommendations for interagency coordination to reduce the number of food deserts and promote healthy food access for Maryland neighborhoods. On the recommendation of the advisory committee, the Secretary may designate an area as a food desert. Factors the Secretary must consider when making a designation include (1) the availability of healthy foods in the area; (2) income levels of local residents; (3) transportation needs of local residents and the availability of public transportation; (4) comments from local governments; and (5) any other factors that DHCD considers relevant.

A small business, nonprofit organization, or microenterprise may apply for financial assistance for a project in a food desert. An applicant may qualify for financial assistance in a food desert if the application includes a plan to seek out sources of Maryland-grown produce and Maryland-produced foods, in addition to specified application requirements applicable to other NBDP applications under the existing program.

If DHCD determines that an entity is capable of administering a food desert project, the entity may originate and administer financial assistance to a food desert project in accordance with standards DHCD adopts by regulation. DHCD may (1) pay an approved entity a reasonable origination, application, and processing fee for a project; (2) directly fund the financial assistance for a project; and (3) provide financial assistance to an approved entity for the purpose of the entity providing financial assistance for a project.

By December 1 each year, DHCD must submit a report to specified committees of the Maryland General Assembly on the program. The report must include specified information.

“Food desert” means the part of a priority funding area designated by the Secretary pursuant to the bill.

Current Law: NBDP was created in 1995 to stimulate investment in Maryland’s older communities by developing, redeveloping, or expanding small businesses, investing in revitalizing small businesses, and helping local governments develop and expand small businesses. It provides below-market interest rate loans to small businesses, nonprofit

organizations, or microenterprises locating or expanding in locally designated neighborhood revitalization areas.

In order to qualify for financial assistance under NBDP, an application must demonstrate that (1) except for microenterprise project, the project has significant commitments for financing from other nonstate sources that are sufficient to complete the project with the money from NBDP; (2) the financial assistance from NBDP is the minimum amount necessary to make the project financially feasible; (3) the project is ready to proceed when it receives financial assistance from NBDP; and (4) the political subdivision has adopted a resolution, or its authorized designee has delivered a letter to NBDP, that expresses support for the project. Financing can be as much as 50% of a project's total cost.

Background: According to DHCD, the lack of quality supermarkets and grocery stores in low-income areas has received increasing attention by public and private organizations. DHCD advises that “food deserts” are generally defined as communities that do not have easy access to healthy foods.

The U.S. Department of Agriculture (USDA) defines a “food desert” as “a census tract with a substantial share of residents who live in low-income areas that have low levels of access to a grocery store or a healthy, affordable food retail outlet.” According to USDA, a community qualifies as a “low-income community” if it has “a poverty rate of 20% or greater or a median family income at or below 80% of the area median family income.” Moreover, a census tract is a “low-access community” if “at least 500 persons and/or at least 33% of the census tract’s population live more than one mile from a supermarket or large grocery store (or 10 miles in the case of a non-metropolitan census tracts).”

According to USDA, more than 70 census tracts in Maryland qualify as designated food deserts (including 25 in Prince George’s County, 10 in Baltimore County, 8 in Baltimore City, and 6 in Allegany County).

In December 2011, Advocates for Children and Youth, the Maryland Retailers Association, and the Food Trust convened the Maryland Fresh Food Retail Task Force in response to a report by the Food Trust that highlighted gaps in food availability and the relationship between supermarket access, diet-related diseases, and neighborhood income levels. In its 2012 report, the task force identified 10 policy recommendations related to encouraging greater availability of healthy foods in high-need areas. One recommendation called for the State to develop a flexible business financing program to support the expansion or development of stores that carry healthy foods in underserved communities. The task force identified Pennsylvania’s Fresh Food Financing Initiative (FFFI) as an example of a successful financing program. According to the task force, FFFI was created in 2004 and was the nation’s first statewide program

to address food deserts. The task force noted that similar programs have been started in New York, New Orleans, California, New Jersey, and Illinois.

According to DHCD, this bill is intended to encourage the development and expansion of grocery stores located in designated food deserts within priority funding areas by providing a source of flexible gap financing.

State Expenditures: DHCD's GO bond expenditures increase beginning in fiscal 2015 to provide financial assistance in food desert areas under NBDP. The fiscal 2015 capital budget includes a total of \$4.25 million for NBDP (\$2.3 million in GO bonds and \$1.95 million in PAYGO special funds). Included in this authorization is an additional \$1.0 million in GO bonds to support a new initiative (called the Maryland Fresh Food Financing Program) that is consistent with this bill. Thus, this estimate assumes that GO bond expenditures increase by \$1.0 million annually beginning in fiscal 2015.

According to DHCD, this new program will provide grants and loans to develop, renovate, or expand grocery stores and other businesses to provide health food in underserved communities. The *Capital Improvement Program* includes \$1.0 million annually for the Maryland Fresh Food Financing Program through fiscal 2019.

DHCD can implement the bill with existing staff.

Small Business Effect: In addition to the small business effect discussed in DHCD's small business impact statement, the Department of Legislative Services notes that Maryland farmers may benefit from additional sales due to the bill's requirement that any entity seeking financial assistance through the program must provide a plan for seeking out sources for Maryland-grown produce and Maryland-produced foods.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Agriculture, Department of Business and Economic Development, Department of Human Resources, Maryland Department of Planning, Maryland State Department of Education, Department of Housing and Community Development, Department of Health and Mental Hygiene, U.S. Department of Agriculture, The Food Trust, The Reinvestment Fund, Department of Legislative Services

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mc/lgc Revised - House Third Reader - March 12, 2014
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Neighborhood Business Development Program-Financial Assistance for Food Desert Areas

BILL NUMBER: HB 451

PREPARED BY: Department of Housing and Community Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This proposed legislation would expand eligibility for financing for small businesses under the Neighborhood Business Development Program to small businesses located in designated Food Desert Areas for the purposes of providing fresh vegetables, fruits and other healthy foods to local residents. The Secretary would designate Food Desert Areas which must be located within a Priority Funding Area. To the extent that additional small businesses providing healthy foods are financed under the Neighborhood Business Development Program, the legislative will benefit small businesses, while increasing local revenues from small businesses.