

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 558

(Senator Ferguson, *et al.*)

Budget and Taxation

Appropriations

Baltimore Regional Neighborhood Initiative Program - Codified

This bill codifies the existing Baltimore Regional Neighborhood Initiative Program (BRNI) within the Department of Housing and Community Development (DHCD). The bill also establishes a Baltimore Regional Neighborhood Initiative Program Fund and requires the Governor, for fiscal 2018 through 2022, to include in the annual budget bill an appropriation of \$12.0 million to the fund. For fiscal 2018 only, the Governor must also include in the budget bill an appropriation of \$250,000 for the Baltimore Metropolitan Council (BMC).

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Although the bill does not require additional funding in FY 2017, the FY 2017 operating budget includes \$1.5 million in restricted pay-as-you-go (PAYGO) general funds and \$750,000 in general funds for BRNI, and the FY 2017 capital budget includes \$1.36 million in general obligation (GO) bond funding for BRNI. PAYGO general fund expenditures increase by \$12.0 million annually from FY 2018 through 2022 due to the bill's mandated appropriation for BRNI. Special fund revenues to and expenditures from the fund increase correspondingly. General fund expenditures increase by \$317,100 in FY 2018, which reflects the mandated appropriation for BMC and administrative expenditures for DHCD related to BRNI; future years reflect ongoing administrative costs and inflation. **This bill establishes a mandated appropriation for FY 2018 through 2022.**

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	\$3,610,000	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000
GF Expenditure	\$750,000	\$317,100	\$64,900	\$67,100	\$69,300
SF Expenditure	\$3,610,000	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000
PAYGO GF exp	\$1,500,000	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000
Bond Exp.	\$1,360,000	\$0	\$0	\$0	\$0
Net Effect	(\$3,610,000)	(\$12,317,100)	(\$12,064,900)	(\$12,067,100)	(\$12,069,300)

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

Local Effect: Although the bill does not directly affect local government operations or finances, the bill may result in an increase in local revenues from increased economic redevelopment in the Baltimore region.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Baltimore Regional Neighborhood Initiative Program Fund

The stated purpose of the program is to (1) provide strategic investment in local housing and businesses and (2) focus on areas where modest investment will have an appreciable neighborhood revitalization impact. The stated purpose of the special fund is to provide financial assistance under the program. The fund consists of (1) money appropriated in the State budget to the fund; (2) investment earnings; (3) repayments of financial assistance provided by the program; and (4) any other money from any other source accepted for the benefit of the fund. The fund may only be used to provide financial assistance under the program, and expenditures from the fund may be made only in accordance with the State budget. For fiscal 2018 through 2022, the Governor is required to include in the budget bill an appropriation to the fund in the amount of \$12.0 million.

Use of Program Funds

Program funds can be used for operating costs necessary to implement various community enhancement projects, which include:

- down payment assistance for homebuyers to purchase and rehabilitate homes;
- programs to acquire or rehabilitate vacant or blighted properties;
- programs to improve existing residential and business properties;
- programs to achieve energy efficiency through weatherization and energy retrofits;
- development of mixed-use projects that combine housing, retail, and office space;
- development or enhancement of community open space or public infrastructure;
- workforce and employment development programs; and
- strategic demolition.

The Secretary of Housing and Community Development may also establish additional community enhancement projects that are eligible to receive program funds.

Community Development Organizations

A person is eligible to apply for program funds as a community development organization if (1) the purpose of the organization is to implement a clear revitalization strategy in a neighborhood or set of neighborhoods in Baltimore City or in the inner Baltimore Beltway communities of Anne Arundel and Baltimore counties and (2) none of the organization's net earnings inure to the benefit of a private shareholder or an individual holding an interest in the entity.

The community development organization's application must contain a neighborhood revitalization plan that includes community enhancement projects located within a sustainable community.

A community development organization may also apply with another community development organization or with a community development financial institution, as defined by the bill, if the financial institution has the capacity and experience to assist in financing real estate projects within the community.

Community enhancement projects may be located in more than one political subdivision.

Application Process

By September 1, 2016, DHCD must issue a request for proposals for community enhancement projects from community development organizations eligible to apply for funding under the program. DHCD must establish the application process, and an application must contain specified information. DHCD also must adopt regulations to establish a quantitative system to evaluate applications based on specified criteria. DHCD is authorized to give additional consideration to applications that include specified opportunities, activities, and projects.

DHCD must review each application submitted, accept public input on each application, and consider the recommendation of any State unit. The department may not approve an application unless it provides notice and a reasonable opportunity to comment to the specified political subdivision in which a proposed project is located.

Program Implementation

DHCD and a recipient of financial assistance under the program must execute a program agreement. The program agreement may not allow for more than 40% of the total financial assistance provided under the program to be used for operating expenditures. DHCD is authorized to consent to the modification of a program agreement if it is in the best interest of the program.

The bill authorizes DHCD to determine terms and conditions and establish time limits for the use of financial assistance awarded under the program. DHCD may contract for and accept any aid from the federal government and may contract with any person or governmental unit for property or services necessary to operate the program.

Financial assistance awarded under the program may be secured by a mortgage, lien, or other security interest. The bill also specifies the conditions under which DHCD may enforce program requirements and the mechanisms it may use to do so. In addition, DHCD is authorized to exercise any remedy provided under the program agreement or by law if a recipient of financial assistance violates any provision of the agreement or the bill.

In connection with any loans DHCD makes under the program, it may require and obtain appraisals, credit information, and other information, and it may charge interest.

Progress Reports

A recipient of financial assistance from the program must submit quarterly progress reports to DHCD. By October 31 of each year, DHCD must submit a report to the Governor and the General Assembly on the program, including (1) the number of applications received; (2) the number and location of community enhancement projects; (3) the financial status of the program; and (4) a summary of the quarterly reports submitted by recipients of financial assistance.

Baltimore Metropolitan Council

The bill requires the Governor, for fiscal 2018 only, to include in the annual budget bill an appropriation of \$250,000 for BMC for planning and programmatic efforts that facilitate coordination and collaboration among local jurisdictions and organizations in the Baltimore region to foster economic growth and development.

Current Law/Background:

Baltimore Regional Neighborhood Initiative

BRNI, established in 2013, was a recommendation of the House Regional Revitalization Workgroup and was labeled a pilot program at that time. The program provides grants to fund revitalization projects in State-designated sustainable community areas. Eligible projects include residential and commercial strategic property acquisition, redevelopment, rehabilitation, and new infill development.

Fiscal 2014 was the first year of funding for BRNI, with a \$3.0 million GO bond allocation in the capital budget. The four nonprofit community development coalitions receiving funding in fiscal 2014 were Healthy Neighborhoods (Baltimore City), Dundalk

Renaissance Corporation (Baltimore County), Southeast Community Development Corporation (Baltimore City), and the Central Baltimore Partnership (Baltimore City). The fiscal 2015 capital budget included \$1.68 million in GO bonds for the program. The fiscal 2016 capital budget included \$3.0 million in GO bonds for the program but did not include any out-year funding in the *Capital Improvement Program* (CIP). The fiscal 2014 through 2016 operating budgets also included an additional \$750,000 in general funds for grants under the program.

As introduced, the Governor's proposed fiscal 2017 capital budget included \$1.5 million in GO bonds for the program but again did not include any out-year funding in the CIP. The Governor's proposed fiscal 2017 operating budget also included \$750,000 in general funds for grants under the program. The General Assembly increased the overall funding for the program for fiscal 2017. As enacted, the fiscal 2017 capital budget includes \$1.36 million in GO bond funding for the program, and the fiscal 2017 operating budget includes \$1.5 million in PAYGO general funds restricted for the program as well as \$750,000 in general funds for grants under the program. The combined funding totals \$3.61 million. If the Governor does not allocate the \$1.5 million in restricted PAYGO funds for BRNI, funding will total \$2.11 million.

BRNI is intended to demonstrate how strategic investment in local housing and businesses can lead to healthy, sustainable communities with a growing tax base and enhanced quality of life. The program targets the Maryland Department of Planning's designated "sustainable communities" located in Baltimore City or the inner Baltimore Beltway of Anne Arundel and Baltimore counties.

Baltimore Metropolitan Council

BMC is a nonprofit organization that works with the region's elected executives to identify mutual interests and develop collaborative strategies, plans, and programs that help to improve the quality of life and economic vitality in the Baltimore region. BMC was formed in 1992 as the successor to the Regional Planning Council and Baltimore Regional Council of Governments.

State Fiscal Effect:

Baltimore Regional Neighborhood Initiative Program

Although the bill does not require additional funding in fiscal 2017, as noted above, the fiscal 2017 operating budget includes \$1.5 million in restricted PAYGO general fund expenditures and \$750,000 in general funds for BRNI, and the fiscal 2017 capital budget includes \$1.36 million in GO bond funding for BRNI. Historically, the program has received about \$1.5 million to \$3 million annually in GO bond funding plus \$750,000 in general funds; thus, the budgeted amount for fiscal 2017 is consistent with what has been

provided in recent years. For purposes of this fiscal and policy note, it is assumed that the budgeted funds are brought into the new special fund in fiscal 2017 by budget amendment; thus, special fund revenues and expenditures increase by \$3.61 million in fiscal 2017.

PAYGO general fund expenditures increase by \$12.0 million annually from fiscal 2018 through 2022 due to the bill's mandated appropriation. Special fund revenues to the new fund and expenditures from the fund increase correspondingly. This analysis does not reflect any additional special fund revenues that may accrue to the fund from investment earnings and loan repayments.

Although recipients of financial assistance under the bill may use up to 15% of project funding for administrative purposes, the bill does not authorize DHCD to use any program funds for administration. Because the \$12.0 million allocation represents a significant increase in program funding over current levels, DHCD requires additional staff support to administer the program from fiscal 2018 through 2022. Therefore, general fund expenditures for DHCD increase by approximately \$67,135 in fiscal 2018. This estimate reflects the cost of hiring one contractual program manager to handle the additional program activity through fiscal 2022. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	\$62,164
Operating Expenses	<u>4,971</u>
Total FY 2018 Admin. Expenditures	\$67,135

Future year administrative expenditures reflect a salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses. Because the mandated appropriation terminates after fiscal 2022, this analysis assumes that the additional contractual employee is no longer needed after fiscal 2022.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

As noted above, in addition to the \$750,000 in general funds in the fiscal 2017 operating budget (as well as \$1.5 million in restricted PAYGO general funds), the fiscal 2017 capital budget includes \$1.36 million in GO bond funding for the current program. This analysis assumes that no additional GO bond funding is provided for the program through fiscal 2022, in accordance with the CIP. After the bill's mandated appropriation ends, it is assumed that the program returns to historical funding levels.

Baltimore Metropolitan Council

General fund expenditures increase by \$250,000 in fiscal 2018 only due to the bill's mandated appropriation for BMC.

Local Revenues: Although the bill does not have a direct impact on local government operations or finances, local revenues (*e.g.*, residential and commercial property tax revenues) may increase from economic development initiatives funded by the program. However, the exact magnitude of such an effect cannot be reliably estimated. Baltimore City and Anne Arundel County advise that they expect property tax revenues to increase under the bill.

Small Business Effect: Small businesses that are able to secure funding under the program may be able to expand as a result of the increase in funding the bill provides for the existing program.

Additional Information

Prior Introductions: None.

Cross File: HB 684 (Delegate Hammen, *et al.*) - Appropriations.

Information Source(s): Department of Housing and Community Development, Office of the Attorney General, Judiciary (Administrative Office of the Courts), Baltimore City, Anne Arundel County, Department of Legislative Services

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