

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 238 (Delegate Lafferty)  
 Environment and Transportation

**Housing - Workforce Housing Grant Program - Mandatory Funding**

This bill requires the Governor to include at least \$4.0 million in annual funding for the Workforce Housing Grant Program for fiscal 2019 through 2023. The funding must be used for projects in designated sustainable communities.

The bill takes effect July 1, 2017.

**Fiscal Summary**

**State Effect:** Pay-as-you-go (PAYGO) general fund expenditures increase by at least \$4.0 million annually from FY 2019 through 2023 to capitalize the fund in accordance with the bill’s mandated appropriation. Special fund revenues to and expenditures from the Workforce Housing Fund within the Department of Housing and Community Development (DHCD) increase correspondingly. DHCD general fund expenditures increase by \$113,100 in FY 2018 to administer the grant program; future year administrative expenditures reflect annualization. General fund revenues increase minimally beginning in FY 2019 from investment earnings of the special fund. **This bill establishes a mandated appropriation for FY 2019 through 2023.**

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	\$0	-	-	-	-
SF Revenue	\$0	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
GF Expenditure	\$113,100	\$186,300	\$192,500	\$199,000	\$205,700
SF Expenditure	\$0	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
PAYGO GF exp	\$0	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
Net Effect	(\$113,100)	(\$4,186,300)	(\$4,192,500)	(\$4,199,000)	(\$4,205,700)

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

**Local Effect:** Because local governments are eligible to receive funds under the bill, local government revenues (in aggregate) increase by \$4.0 million annually beginning in FY 2019 through 2023, with a corresponding increase in expenditures.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** The Workforce Housing Grant Program provides flexible funds to qualifying local governments for workforce housing programs, including programs that finance development costs.

“Workforce housing” is rental housing that is affordable for a household with an aggregate annual income between 50% and 100% of the area median income, or homeownership housing that (1) is affordable to a household with an aggregate annual income between 60% and 120% of the area median income or (2) is affordable to a household with an aggregate annual income between 60% and 150% of the area median income in target areas that are recognized by the Secretary of Housing and Community Development for purposes of administering the Maryland Mortgage Program.

### *Priority Funding Areas*

Chapter 759 of 1997 established that State spending on certain growth-related activities must be directed to priority funding areas. Growth-related projects include most State programs that encourage or support growth and development such as highways, sewer and water construction, economic development assistance, and State leases or construction of new office facilities. Priority funding areas include all municipalities that existed in the State in 1997; areas inside the Washington Beltway and the Baltimore Beltway; and areas designated as enterprise zones, neighborhood revitalization areas, heritage areas, and certain industrial areas. Areas that were annexed by a municipality after 1997 may also be designated priority funding areas, as long as the areas satisfy specified requirements in statute generally related to density, water and sewer access, and other related factors.

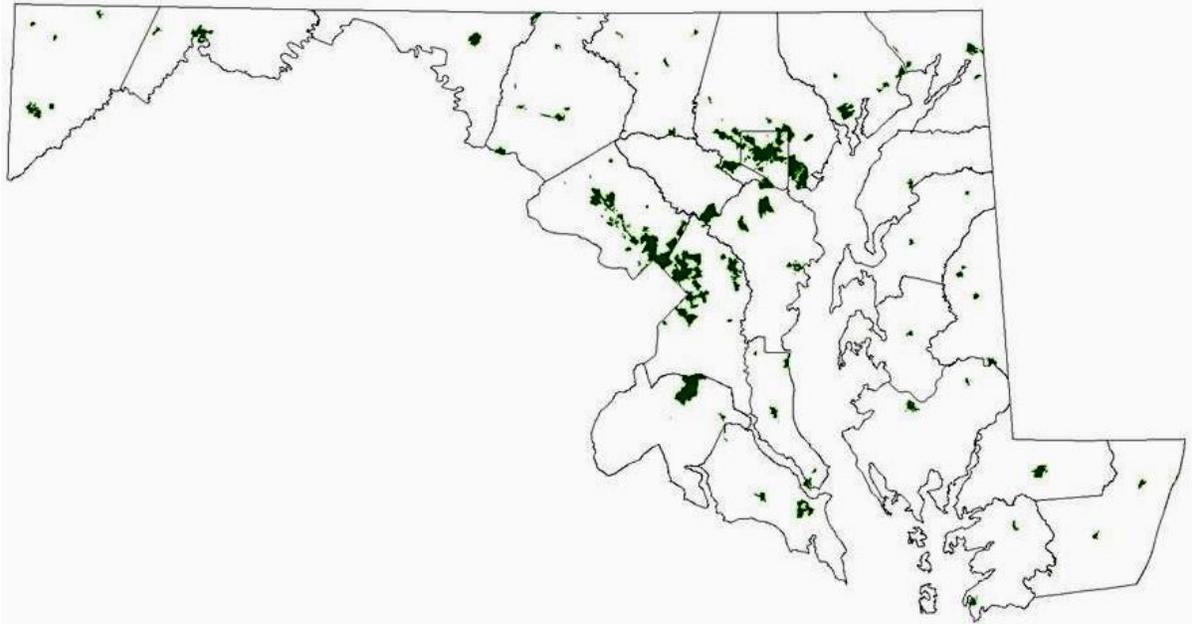
### *Sustainable Communities*

A “sustainable community” is defined as a part of a priority funding area that (1) is designated by the Smart Growth Subcabinet on the recommendation of the Secretary of Housing and Community Development; (2) has been designated as a Base Realignment and Closure Revitalization Incentive Zone; or (3) has been designated a transit-oriented development. **Exhibit 1** shows the location of sustainable communities in the State.

**Background:** The Workforce Housing Grant Program and the related Workforce Housing Fund were originally enacted in 2006 but have never been funded. Eligible activities include preservation and renovation of existing housing stock, redevelopment of existing residential areas, financial incentives, inclusionary zoning, efforts to preserve workforce housing stock for first-time homebuyers and renters, coordination with neighboring jurisdictions and private-sector employers, and leveraging of federal financial assistance.

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**Exhibit 1**  
**Sustainable Communities in Maryland**



Source: Department of Legislative Services

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**State Fiscal Effect:** PAYGO general fund expenditures increase by at least \$4 million annually from fiscal 2019 through 2023 to capitalize the fund, as required by the bill. Special fund revenues and expenditures from the Workforce Housing Fund within DHCD increase correspondingly.

Although current law indicates that the Workforce Housing Grant Program must be operated with money in the Workforce Housing Fund, the bill specifically restricts the funding mandated by the bill to projects in designated sustainable communities. Thus, it is assumed that DHCD is not authorized to use the special fund to cover its administrative costs. Because the allocation of \$4 million annually from the fund is expected to involve significant staff time related to program management and accounting, DHCD requires additional staff to administer the program.

DHCD has determined that three regular full-time positions are needed to implement this bill. However, the Department of Legislative Services advises that the added responsibilities incurred by this legislation are not permanent and, thus, should be performed by contractual employees. Therefore, general fund expenditures increase by \$113,094 in fiscal 2018, which assumes that the additional employees are hired effective January 1, 2018. This estimate reflects the cost of hiring three contractual staff, including:

- one program administrator to oversee and provide direction and guidance for the program and its objectives;
- one administrative officer to manage the day-to-day activities of the program, including reviewing grant proposals and supporting the program administrator; and
- one accountant to maintain the necessary financial records and expenditure monitoring of the program.

The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position(s)	3
Salaries and Fringe Benefits	\$98,236
Operating Expenses	<u>14,858</u>
<b>Total FY 2018 State Expenditures</b>	<b>\$113,094</b>

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

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.

Although current law indicates that investment earnings of the Workforce Housing Fund remain in the fund, neither current law nor the bill amend § 6-226 of the State Finance and Procurement Article to exempt the fund from existing law that requires all investment earnings and interest from special funds to accrue to the general fund. Thus, general fund revenues increase minimally beginning in fiscal 2019 from interest earned on the money in the special fund.

**Local Fiscal Effect:** Although local governments are eligible to receive funds under the bill, the bill also restricts use of the mandated funding to projects in sustainable communities. Thus, beginning in fiscal 2019, local governments that contain designated sustainable communities are eligible to receive up to \$4 million in total funds (distributed across the State) and to allocate the funds to projects related to workforce housing in those sustainable communities.

**Small Business Effect:** Small businesses benefit to the extent that they are involved with workforce housing development projects that are funded as a result of the bill. In addition, any small businesses located in sustainable communities where development projects are funded benefit to the extent that the bill contributes to economic development in those areas.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Housing and Community Development; Maryland Department of Planning; Department of Legislative Services

**Fiscal Note History:** First Reader - February 3, 2017  
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Analysis by: Eric Pierce

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