

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 754

(Senator Peters, *et al.*)

Education, Health, and Environmental Affairs
 and Budget and Taxation

Appropriations and Environment and
 Transportation

National Capital Strategic Economic Development Program - Established

This bill establishes a National Capital Strategic Economic Development Program within the Department of Housing and Community Development (DHCD) to provide financial assistance to specified government agencies, entities controlled by housing authorities, and community development organizations in the national capital region for community enhancement projects. The Governor must, for fiscal 2021 through 2025, appropriate to the existing National Capital Strategic Economic Development Fund (1) \$200,000 in the annual operating budget and (2) \$7.0 million in the annual operating or capital budget.

Fiscal Summary

State Effect: General fund expenditures increase by \$60,700 in FY 2020. General fund/pay-as-you-go (PAYGO) general fund expenditures increase by a total of \$7.2 million annually from FY 2021 through 2025, as mandated. Special fund revenues to the existing fund and expenditures from the fund increase commensurately. **This bill establishes a mandated appropriation from FY 2021 through 2025.**

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$60,700	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000
GF Expenditure	\$60,700	\$200,000	\$200,000	\$200,000	\$200,000
SF Expenditure	\$60,700	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000
PAYGO GF exp	\$0	\$7,000,000	\$7,000,000	\$7,000,000	\$7,000,000
Net Effect	(\$60,700)	(\$7,200,000)	(\$7,200,000)	(\$7,200,000)	(\$7,200,000)

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

Local Effect: Local revenues and expenditures increase to the extent local housing authorities apply for and receive program funds.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

National Capital Strategic Development Program

The stated purpose of the program is to (1) provide strategic investment in local housing and businesses to encourage healthy, sustainable communities with a growing tax base and enhanced quality of life and (2) focus on areas where modest investment and coordinated strategies will have an appreciable neighborhood revitalization impact. The stated purpose and allowable uses of the existing special fund are repealed; under the bill, the stated purpose of the fund is to provide financial assistance under the program, and the fund may be used only for that purpose.

The “national capital region” is defined as the areas of the State located within (1) the boundary created by Interstate 495 in the State and the District of Columbia and (2) any qualified opportunity zone or enterprise zone in Montgomery or Prince George’s counties.

Funds in the National Capital Strategic Economic Development Fund may be used only to provide financial assistance under the program.

Use of Program Funds

The community enhancement projects eligible to receive program funds 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 affordable housing;
- 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, as specified;
- career and technical education and apprenticeship programs, as specified; and
- strategic demolition.

Program funds may be used for operating costs necessary to implement such a project. The Secretary of Housing and Community Development may establish additional community enhancement projects that are eligible to receive program funds.

Entities Eligible to Apply for Program Funds

Government agencies, including housing authorities, with jurisdiction in the national capital region; entities controlled by housing authorities that operate in the national capital region; and community development organizations are eligible to apply for program funds. A corporation, foundation, or other legal entity 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 the national capital region 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. An eligible institution may apply with another eligible institution 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.

An application must contain a neighborhood revitalization plan that includes community enhancement projects located within a sustainable community. Community enhancement projects may be located in more than one political subdivision.

Application Process

DHCD must establish the application process, and an application must contain specified information. By regulation, DHCD must establish a quantitative system to evaluate applications based on several 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. DHCD may not approve an application until it has provided written notice and a reasonable opportunity to comment to the specified political subdivision in which a proposed project is located.

Awards of Financial Assistance and Program Implementation

DHCD must award financial assistance to an applicant in the amount and of the type that the Secretary determines and under the terms of a program agreement. DHCD and a recipient of financial assistance must execute a program agreement, and the recipient must comply with the terms of the 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 may consent to the modification of any provision of a program agreement if it is in the best interest of the program.

The bill authorizes DHCD to determine terms and conditions for or establish time limits for the use of financial assistance awarded under the program. Financial assistance awarded

under the program may be secured by a mortgage, a lien, or any other security interest, as specified. With respect to any loans made under the program, DHCD may require and obtain appraisals, credit information, and other pertinent information and may charge interest.

DHCD has the powers necessary to implement the program. DHCD may contract (1) for and accept any aid from the federal government and (2) with any person or governmental unit for property or services necessary to operate the program.

The bill establishes 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.

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. The report must include, for the previous fiscal year, (1) the number of applications received; (2) the number and location of community enhancement projects; (3) the financial status of the program, as specified; and (4) a summary of the quarterly reports submitted by recipients of financial assistance.

Current Law/Background: Chapter 29 of 2016 established the Baltimore Regional Neighborhood Initiative Program, a program for the Baltimore region that is nearly identical to the National Capital Strategic Economic Development Program established by the bill.

National Capital Strategic Economic Development Fund

Chapter 523 of 2017 established the National Capital Strategic Economic Development Fund within DHCD. The fund consists of (1) money appropriated in the State budget; (2) interest earnings; and (3) any other money from any other source accepted for the benefit of the fund. The fund may only be used to provide grants to government agencies and nonprofit community development organizations to assist in predevelopment activities for commercial and residential development (including site acquisition, land assembly, architecture and engineering, and site development) for revitalization in areas designated as sustainable communities. Commercial and residential development projects include:

- renovation and rehabilitation of single-family homes;
- acquisition and rehabilitation of vacant homes for resale to new homebuyers;
- improvements to business properties;

- enhancement of community open space or public infrastructure; and
- workforce and employment development programs.

Eligible grantees must provide evidence of a matching fund that is equal to \$1 for every \$4 in State funding from the fund. The matching fund may include (1) money from the federal government, a local government, or any other public or private source; (2) real property; (3) in-kind contributions; and (4) funds expended before the date the grant is awarded. DHCD must award the grants on a competitive basis.

If the Governor includes an appropriation to the fund in the annual budget bill, 85% must be allocated for projects in areas of the State located between Interstate 495 and the District of Columbia (which are located in Montgomery and Prince George's counties) and the remaining 15% for projects throughout the State. The fiscal 2019 capital budget included \$1.0 million in general obligation (GO) bond funding for the fund. According to the Department of Budget and Management, funds were provided to assist government agencies and nonprofit community development organizations for revitalization projects in areas designated as sustainable communities. As introduced, no funding was included in the Governor's proposed fiscal 2020 operating or capital budget for the program. As passed, however, the fiscal 2020 capital budget includes \$4.0 million in GO bond funding for the National Capital Strategic Economic Development Fund.

DHCD Programs Relating to Housing and Community Revitalization

Among other responsibilities, DHCD provides financing for the development and maintenance of affordable housing in Maryland. Financing is available for the creation of new residential properties and the maintenance of existing residential properties, in addition to making properties more accessible to those requiring financial assistance. DHCD also provides funding for community revitalization projects. DHCD programs that provide assistance to homebuyers and facilitate community revitalization in Maryland include:

- Strategic Demolition Fund;
- Neighborhood Business Development Program;
- Baltimore Regional Neighborhoods Initiative;
- Community Development Block Grant Program;
- Seed Community Development Anchor Institution Fund;
- Special Loan Programs;
- Community Legacy Program;
- Homeownership Programs; and
- Housing and Building Energy Programs.

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.

State Fiscal Effect: Although the mandated appropriation to the existing special fund does not take effect until fiscal 2021, the program established by the bill takes effect October 1, 2019. Thus, this analysis assumes that DHCD expenditures increase in fiscal 2020 to establish the program and begin receiving grant applications, and that financial assistance begins to be provided in fiscal 2021. Therefore, general fund expenditures for DHCD increase by \$60,723 in fiscal 2020, which accounts for the bill’s October 1, 2019 effective date. This estimate reflects the cost of hiring one program manager to create the program application process, track and review applications, and award funding to qualifying entities. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Even though the fund already exists in statute and is funded in fiscal 2020, because the bill mandates a significant increase in funding for the program beginning in fiscal 2021, this analysis assumes that DHCD cannot implement the bill with existing staff.

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Salary and Fringe Benefits	\$55,364
Operating Expenses	<u>5,359</u>
Total FY 2020 Expenditures	\$60,723

Future year administrative expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses. Beginning in fiscal 2021, general fund expenditures increase by \$200,000 annually due to the bill’s mandated appropriation in the operating budget. The Department of Legislative Services notes, however, that the mandated operating budget appropriation exceeds the estimated cost of administering the program in the out-years; it is assumed that any excess operating funds are used to provide financial assistance to eligible entities.

Although the fiscal 2020 capital budget, as passed by the General Assembly, includes \$4.0 million in GO bond funding for the fund, funding was not provided in the operating or capital budget as introduced, and it is unclear that any funding would continue to be provided in future years in the absence of the bill’s mandate. In addition, as the General Assembly cannot mandate appropriations in the capital budget, this analysis assumes that PAYGO general funds are used to provide financial assistance under the program. Accordingly, this analysis assumes that PAYGO general fund expenditures increase by

\$7.0 million annually beginning in fiscal 2021 to provide financial assistance under the program (in addition to the \$200,000 annually in mandated operating funding discussed above). To the extent that GO bonds are used to fund the program in future years instead of PAYGO general funds, there is no effect on total capital expenditures, but fewer funds are available for other capital projects.

Special fund revenues to and expenditures from the existing National Capital Strategic Economic Development Fund increase correspondingly each year. To the extent any loans are made under the program, special fund revenues also increase from loan repayments.

Although the bill's mandated appropriation terminates in fiscal 2025, the program continues.

This analysis does not reflect any effect on State tax revenues from the economic development initiatives funded by the program.

Local Fiscal Effect: To the extent that local governments, including housing authorities, receive grants under the program, local revenues and expenditures increase correspondingly. Although not a direct effect, local tax revenues in affected areas may increase from economic development initiatives funded by the program. However, the exact magnitude of such an effect cannot be reliably estimated.

Small Business Effect: Any small business involved in development activities in jurisdictions eligible for funding may receive additional business as a result of the bill. However, because the bill restricts most funding to projects in areas located in the national capital region, as defined by the bill, small businesses operating in that area are more likely to benefit under the bill than entities in other areas of the State.

Additional Information

Prior Introductions: None.

Cross File: HB 1266 (Delegate Washington, *et al.*) - Appropriations and Environment and Transportation.

Information Source(s): Montgomery County; Department of Budget and Management; Department of General Services; Department of Housing and Community Development; Department of Legislative Services

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