

**Department of Legislative Services**  
 Maryland General Assembly  
 2019 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 756 (Senator Hester)  
 Budget and Taxation

**Community Development - Rural Maryland Opportunity Zone Fund**

This bill establishes a Rural Maryland Opportunity Zone Fund to provide financial incentives to governmental units, community development organizations, or private entities for projects in opportunity zones in Western Maryland and on the Eastern Shore. The Department of Housing and Community Development (DHCD) must administer the fund, establish procedures for granting financial assistance from the fund, and report annually to the Governor and the General Assembly. **The bill takes effect July 1, 2019.**

**Fiscal Summary**

**State Effect:** General fund expenditures increase by \$2.0 million annually beginning in FY 2020 to capitalize the fund; special fund revenues and expenditures increase correspondingly.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
GF Expenditure	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
SF Expenditure	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Net Effect	(\$2.00)	(\$2.00)	(\$2.00)	(\$2.00)	(\$2.00)

*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 that local governmental units apply for and receive funding under the bill.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** An “opportunity zone” means a population census tract that is a low-income community, as specified under § 1400Z-1 of the Internal Revenue Code.

The stated purpose of the fund is to provide financial incentives to encourage investment in designated opportunity zones in Western Maryland and on the Eastern Shore. The fund is a special, nonlapsing fund consisting of money appropriated in the State budget, interest earnings, repayment of loans made from the fund, and any other money accepted for the benefit of the fund. Expenditures from the fund may only be made in accordance with the State budget. The fund may be used for grants, loans, or other financial incentives, as specified, and administrative expenses, including expenses related to marketing the fund.

The Secretary of Housing and Community Development must establish procedures for granting financial assistance from the fund, including a process for public input into investments in rural opportunity zones and for partnering with community development organizations and units of local government.

By October 1 of each year, DHCD must submit a report to the Governor and the General Assembly on the fund. The annual report must include the amount of investment each year in rural opportunity zones, the number of projects, the number of local jobs created, and the number of partnerships with community development organizations and units of local government.

### **Current Law/Background:**

#### *Opportunity Zones*

The Federal Tax Cuts and Jobs Act of 2017 established the Qualified Opportunity Zones Program to incentivize private investment in distressed communities. Under the Act, states may nominate up to 25% of specified low-income census tracts for designation by the U.S. Treasury as opportunity zones. Maryland designated zones in 2018, as shown in the **Appendix – Maryland Qualified Opportunity Zones**. In January 2019, by executive order, Governor Lawrence J. Hogan, Jr. also established the [Maryland Opportunity Zone Leadership Task Force](#) to provide guidance and coordinate efforts related to opportunity zone investment.

A qualified opportunity fund is a privately managed investment vehicle organized as a corporation or a partnership for the purpose of investing in qualified opportunity zone property and that holds at least 90% of its assets in such property. Qualified opportunity zone property includes stock, a partnership interest, and tangible property used in a trade or business.

The program offers three federal tax incentives related to capital gains: (1) a temporary tax deferral for capital gains reinvested in an opportunity fund; (2) a step up in basis for capital gains reinvested in an opportunity fund, which excludes up to 15% of the original capital gain from taxation; and (3) a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an opportunity fund, if the investment is held for at least 10 years. More information on the tax incentives, including illustrative examples, can be found on the Economic Innovation Group's [website](#).

As neither the bill nor the Housing and Community Development Article define “Western Maryland” or the “Eastern Shore of Maryland,” this analysis uses the respective definitions found in the Local Government Article. “Western Maryland” consists of Allegany, Garrett, and Washington counties. The “Eastern Shore of Maryland” consists of Caroline, Cecil, Dorchester, Kent, Queen Anne’s, Somerset, Talbot, Wicomico, and Worcester counties.

There are 19 designated opportunity zones on the Eastern Shore (Caroline County, 2; Cecil County, 3; Dorchester County, 2; Kent County, 1; Queen Anne’s County, 1; Somerset County, 3; Talbot County, 2; Wicomico County, 6; Worcester County, 3). There are 12 designated opportunity zones in Western Maryland (Allegany County, 4; Garrett County, 3; Washington County, 5).

#### *DHCD Programs Relating to Housing and Community Revitalization*

Among other responsibilities, DHCD provides financing for the economic development and maintenance of affordable housing and communities in Maryland. DHCD also provides funding for community revitalization projects. As introduced, the Governor’s proposed fiscal 2020 capital budget includes a mixture of general obligation bonds, general funds, special funds, and federal funds for the following DHCD programs that provide assistance to homebuyers and those facilitating community revitalization in Maryland:

- Strategic Demolition Fund (\$24.6 million);
- Neighborhood Business Development Program (\$12.2 million);
- Community Development Block Grant Program (\$9.0 million);
- Community Legacy Program (\$6.0 million)
- Seed Community Development Anchor Institution Fund (\$5.0 million);
- Special Loan Programs (\$11.3 million);
- Community Legacy Program (\$6.0 million);
- Local Government Infrastructure Fund (\$9.7 million);
- Homeownership Programs (\$23.0 million); and
- Housing and Building Energy Programs (\$10.0 million).

**State Fiscal Effect:**

*Capitalization of the Fund*

General fund expenditures increase by an estimated \$2.0 million annually beginning in fiscal 2020 to capitalize the fund in order to ensure the viability of the fund and to provide meaningful financial incentives for eligible entities. To the extent that funds are received from another source, such as federal or private grant funding, general fund expenditures to capitalize the fund may be reduced.

Special fund revenues and expenditures increase correspondingly beginning in fiscal 2020, reflecting receipt of the general funds and the awarding of grants, loans, and other incentives to eligible government units, community development organizations, and private entities.

This analysis does not reflect any effect on State tax revenues from the economic development initiatives funded as a result of the bill.

*Administrative Expenses*

As the bill allows administrative costs to be paid out of the fund, DHCD’s administrative expenditures are assumed to be included in the program’s annual \$2.0 million expenditures. Special fund administrative expenditures for DHCD increase by \$60,723 in fiscal 2020, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one fund administrator to create the application process, track and review applications, award funding to qualifying entities, and coordinate input from local jurisdictions. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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

This estimate does not include any costs for marketing the fund; thus, administrative costs may be higher. Future year administrative expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses.

**Local Fiscal Effect:** To the extent that local government units receive financing from the fund, local revenues and expenditures increase accordingly. Although not a direct effect, local tax revenues in affected areas may increase from economic development initiatives financed by the fund. However, the exact magnitude of such an effect cannot be reliably estimated and is not reflected in this analysis.

**Small Business Effect:** Small businesses involved in development activities in opportunity zones in Western Maryland and the Eastern Shore may benefit to the extent they apply for and receive financial incentives under the bill.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Montgomery County; Maryland Association of Counties; City of Takoma Park; Maryland Municipal League; Department of Housing and Community Development; Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2019  
mag/mcr

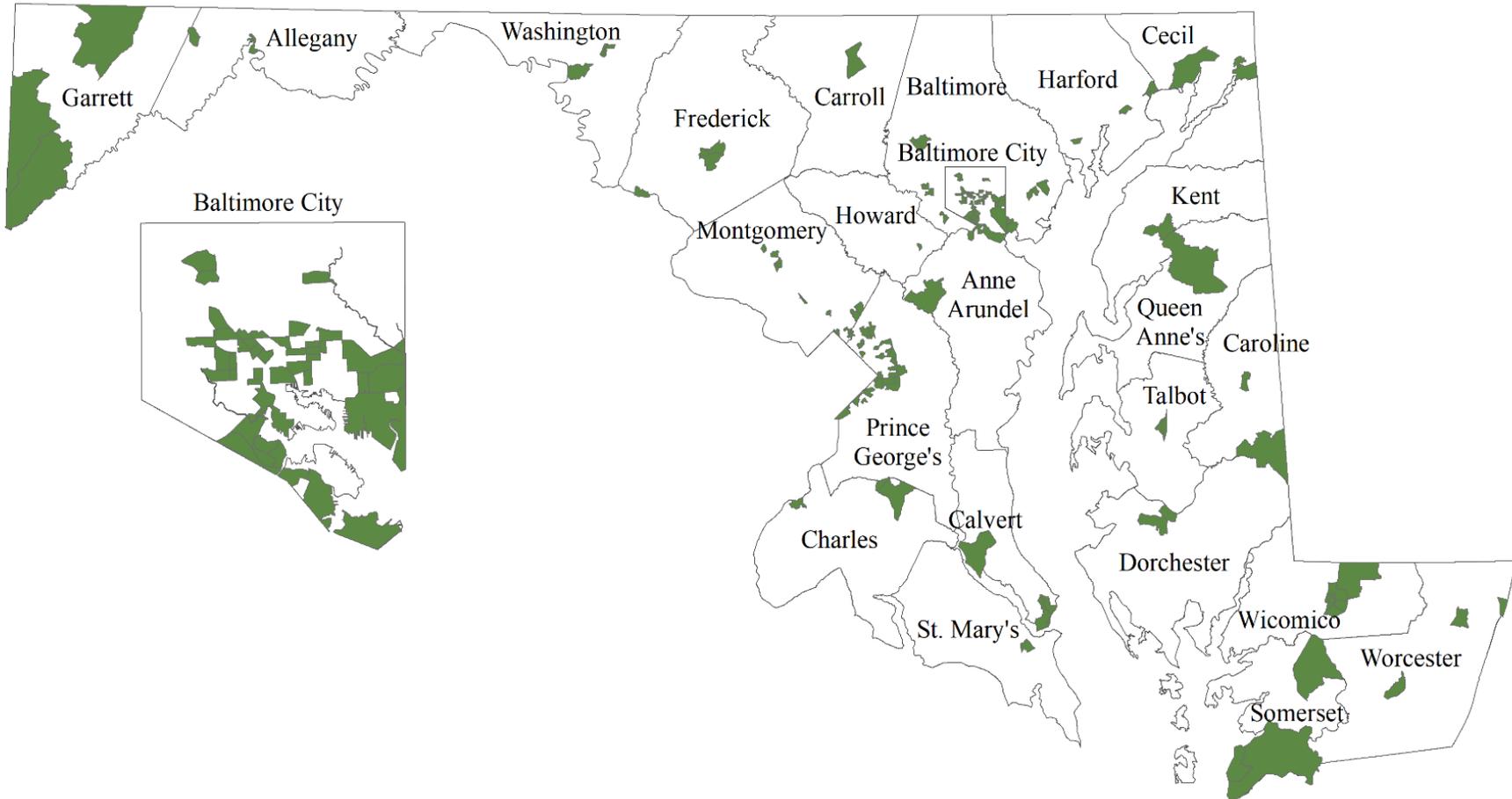
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## Appendix – Maryland Qualified Opportunity Zones

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Source: Department of Information Technology (MD iMap)