

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 85 (Senator Ellis)
 Education, Health, and Environmental Affairs
 and Budget and Taxation

Maryland Neighborhood Revitalization Funding

This bill requires the Governor to include at least \$235.0 million in the annual operating or capital budget for specified community development and revitalization programs for fiscal 2022 through 2031.

Fiscal Summary

State Effect: Pay-as-you-go (PAYGO) general fund expenditures increase by an estimated \$179.15 million annually from FY 2022 through 2031. General fund *administrative* expenditures increase by \$456,700 in FY 2021; future year administrative expenditures reflect annualization. **The bill establishes a mandated appropriation for FY 2022 through 2031.**

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0.46	0.54	0.56	0.57	0.59
PAYGO GF exp	0	179.15	179.15	179.15	179.15
Net Effect	(\$0.46)	(\$179.69)	(\$179.71)	(\$179.72)	(\$179.74)

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 governments apply for and receive additional funds for eligible programs.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: “Eligible program” means:

- the Baltimore Regional Neighborhood Initiative Program;
- the Community Development Program;
- projects funded by the Continuing the CORE Partnership Fund;
- the Main Street Improvement Program;
- the National Capital Strategic Economic Development Program;
- the Neighborhood Business Development Program;
- projects funded by the Seed Community Development Anchor Institution Fund; and
- projects funded by the Strategic Demolition and Smart Growth Impact Fund.

The mandated appropriation may include funds required to be appropriated under other provisions of law. The mandated funding must be used for the purposes provided in law for the eligible programs. The Department of Housing and Community Development (DHCD) must distribute the funds to at least one eligible program in each legislative district in the State in the amount of at least \$5.0 million in each fiscal year.

Current Law/Background: 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.

Chapter 29 of 2016 established the Baltimore Regional Neighborhood Initiative. The initiative provides strategic investment in local housing and businesses and focuses on areas where modest investment will have an appreciable neighborhood revitalization impact. Funds may be used for operating costs necessary to implement various community enhancement projects throughout the Baltimore region. For fiscal 2020 through 2022, the Governor is required to include an appropriation of \$12.0 million annually for the program.

Chapters 801 and 802 of 2018 established the Community Development Program. The program provides financial assistance for community development projects and community development organizations around the State. Program funds may be used for financial assistance relating to affordable housing, neighborhood revitalization, and any other community development purpose.

Chapters 639 and 640 of 2018 established the Continuing the CORE Partnership Fund. The fund is to assist DHCD, in conjunction with the Maryland Stadium Authority and Baltimore City, in the expeditious removal of blighted property within Baltimore City. For

fiscal 2021 through 2024, the Governor is authorized, but not required, to include an appropriation of \$25.0 million annually for the program.

The Main Street Improvement Program offers grants to local jurisdictions and nonprofits to promote the development and revitalization of business districts in local jurisdictions. Program funds may be used for, but are not limited to, façade improvement, public improvements to business districts, and engineering and architectural design studies.

Chapter 732 of 2019 established the National Capital Strategic Economic Development Program. The program provides funding for strategic investment in the national capital region for eligible community enhancement projects. Eligible projects include, but are not limited to, down payment assistance for homebuyers to purchase and rehabilitate homes, programs to acquire or rehabilitate vacant or blighted properties, and strategic demolitions.

The Neighborhood Business Development Program provides grants and loans to community-based economic development activities in revitalization areas designated by local governments. The program is available to businesses located in priority funding areas and sustainable communities.

Chapter 31 of 2016 established the Seed Community Development Anchor Institution Fund. The fund provides grants and loans to anchor institutions for community development projects in blighted areas of the State. To be eligible for a grant or loan, an anchor institution must provide evidence of matching funds from a private source. For fiscal 2021 and each year thereafter, the Governor is required to include an appropriation of \$10.0 million for the fund.

Chapter 30 of 2016 established the Strategic Demolition and Smart Growth Impact Fund. The fund provides grants and loans to government agencies and community development organizations for demolition, land assembly, architecture and engineering, and site development for revitalization projects in an area designated as a sustainable community or specified qualified opportunity zones.

Exhibit 1 displays the capital budget allocation for the eligible programs for fiscal 2016 through 2020.

Exhibit 1
Historical Appropriations for Eligible Programs

<u>Program Name</u>	<u>FY2016 Appropriation</u>	<u>FY2017 Appropriation</u>	<u>FY2018 Appropriation</u>	<u>FY2019 Appropriation</u>	<u>FY2020 Appropriation</u>
Baltimore Regional Neighborhood Initiative Program	\$3,000,000	\$2,861,199	\$8,000,000	\$8,000,000	\$12,000,000
Main Street Improvement Program	-	150,000	150,000	150,000	400,000
National Capital Strategic Economic Development Program	-	-	-	1,000,000	4,000,000
Neighborhood Business Development Program	4,550,000	4,200,000	5,000,000	5,500,000	10,200,000
Seed Community Development Anchor Institution Fund	-	-	-	4,000,000	5,000,000
Strategic Demolition and Smart Growth Impact Fund	7,500,000	21,500,000	25,625,000	28,500,000	24,250,000
Totals	\$15,050,000	\$28,711,199	\$38,775,000	\$47,150,000	\$55,850,000

Sources: Department of Housing and Community Development; Department of Legislative Services

DHCD advises that the Community Development Program and the Continuing the CORE Partnership Fund have not received funding since either program's inception.

The Governor's proposed fiscal 2021 capital budget includes a total of \$54.2 million in funding for the programs affected by the bill, as follows:

- Baltimore Regional Neighborhood Initiative: \$12.0 million;
- Neighborhood Business Development Program: \$10.7 million;
- Seed Community Development Anchor Institution Fund: \$5.0 million; and
- Strategic Demolition and Smart Growth Impact Fund: \$26.5 million.

State Fiscal Effect:

Administrative Costs

Although the bill’s mandated appropriation does not take effect until fiscal 2022, the eligible programs already exist. Thus, this analysis assumes that DHCD administrative expenditures increase beginning in fiscal 2021 to begin receiving and processing a high volume of new program grant applications and that the additional financial assistance begins in fiscal 2022.

Even though the affected programs already exist in statute, and some of them are funded through fiscal 2020, DHCD cannot implement the bill with existing staff. Therefore, general fund expenditures increase by \$456,690 in fiscal 2021, which accounts for the bill’s October 1, 2020 effective date. This estimate reflects the cost of hiring three community program administrators, two multifamily loan and insurance underwriters, one financial analyst, and one financial associate to track and review applications, review and underwrite awarded loans, award funding to qualifying entities, monitor the use of funds for approved applications, and travel to application sites to monitor ongoing site development.

Positions	7.0
Salaries and Fringe Benefits	\$404,126
Travel	15,000
Other Operating Expenses	<u>37,564</u>
Total FY 2021 State Expenditures	\$456,690

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

Program Funding Levels

As the General Assembly cannot mandate appropriations in the capital budget, this analysis assumes that PAYGO general funds are used to provide the additional funding required by the bill. As noted above, the Governor’s proposed fiscal 2021 capital budget does not include funding for several of the eligible programs, and the proposed Budget Reconciliation and Financing Act of 2020 (HB 152) repeals the mandated appropriation for the Seed Community Development Anchor Institution Fund. In addition, the General Assembly may modify the funding levels of the eligible programs during the course of the 2020 legislative session, as it has done in prior sessions. Thus, this analysis assumes that the General Assembly will take similar action on the fiscal 2021 and 2022 funding levels for these programs as it did for fiscal 2020 and, therefore, uses actual fiscal 2020 funding levels as the basis for its estimates, rather than proposed fiscal 2021 funding levels. Based on these assumptions, PAYGO general fund expenditures increase by \$179.15 million to comply with the bill’s mandated appropriation in fiscal 2022. Future year estimates assume constant funding levels over time.

For illustrative purposes only, based on proportional funding for the existing programs according to the fiscal 2020 capital budget, each eligible program would receive the following allocation in fiscal 2022:

- Baltimore Regional Neighborhoods Initiative (\$50.5 million);
- Main Street Improvement Program (\$1.7 million);
- National Capital Strategic Economic Development Fund (\$16.8 million);
- Neighborhood Business Works (\$42.9 million);
- Seed Community Development Anchor Institution Fund (\$21.0 million); and
- Strategic Demolition Fund (\$102.0 million).

As the Community Development Program and the Continuing the CORE Partnership Fund have never been funded, this analysis assumes they continue to be unfunded. Should these programs be funded as a result of the bill, other program fund allocations adjust accordingly.

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

Local Fiscal Effect: To the extent that local governments receive additional funding for eligible programs, local revenues and expenditures increase correspondingly. Although not a direct effect, local tax revenues may increase from economic development initiatives funded by the affected programs. However, the exact magnitude of such an effect cannot be reliably estimated and is not reflected in this analysis.

Small Business Effect: Any small business involved in development activities in jurisdictions eligible for additional funding under the bill may receive additional business as a result of the bill.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Baltimore City; Anne Arundel, Baltimore, Caroline, Frederick, Montgomery, Prince George's, Queen Anne's, Washington, and Worcester counties; Maryland Association of Counties; cities of Annapolis, Bowie, and Takoma Park; Maryland Municipal League; towns of Elkton and Thurmont; University of Maryland Medical System; University System of Maryland; Morgan State University; St. Mary's

College of Maryland; Department of Budget and Management; Department of Housing and Community Development; Department of Legislative Services

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