This bill authorizes the Community Development Administration (CDA) within the Department of Housing and Community Development (DHCD) to provide specified forms of financial assistance for business projects, including a convertible promissory note, as specified. The bill also authorizes DHCD to provide financial assistance under the Neighborhood Business Development Program as a convertible promissory note, as specified. In addition, the bill expands the eligibility requirements for a project to qualify as a business project to include being located in a qualified opportunity zone in specified counties. The bill takes effect July 1, 2022; the bill’s authorization to provide convertible promissory notes as a form of financial assistance for business projects terminates July 1, 2026.

Fiscal Summary

State Effect: The bill largely codifies existing practice and thus is not anticipated to materially affect State operations or finances. DHCD advises that the inclusion of qualified opportunity zones in the specified counties generally overlaps with priority funding areas, and projects located within priority funding areas are already eligible for funding under the Neighborhood Business Development Program. Authorization to provide convertible promissory notes provides DHCD with greater flexibility in providing financial assistance, but DHCD does not anticipate taking advantage of that authorization very frequently.

Local Effect: The bill is not anticipated to materially affect local government operations or finances.

Small Business Effect: Minimal.
Analysis

Bill Summary/Current Law:

Business Projects

Pursuant to current law, a project qualifies as a business project if the project is located in an area designated as a priority funding area or in a qualified opportunity zone in Allegany, Garrett, Somerset, and Wicomico counties. The project must also be (1) acquired, owned, developed, constructed, reconstructed, rehabilitated, or improved by a person or an entity for the purposes of carrying on a business whether or not for profit or (2) eligible for funding from the Neighborhood Business Development Fund.

Repayment of principal and interest for a business project may be secured by (1) real property; (2) personal property; (3) bank accounts; (4) certificates of deposit, stocks, and bonds; (5) credit enhancement, assurance, or guaranty; or (6) any other collateral acceptable to CDA.

Under the bill, a project also qualifies as a business project if the project is located in a qualified opportunity zone in Baltimore City and Baltimore, Charles, Howard, Montgomery, and Prince George’s counties. In addition, CDA is authorized to provide financial assistance for a business project as (1) a loan; (2) a reduction in the principal obligation of or interest rate on a loan or portion of a loan; (3) a prepayment of interest on a subordinate or superior loan or portion of a loan; (4) an assurance; (5) a guarantee or other form of credit enhancement; or (6) a promissory note that may be converted to an equity ownership interest and liquidated at the earliest opportunity to realize the highest market value for CDA. However, beginning July 1, 2026, the bill removes the authorization for CDA to issue specified convertible promissory notes as financial assistance for a business project.

Neighborhood Business Development Program

The Neighborhood Business Development Program, operating publicly as Neighborhood BusinessWorks, provides grants and loans to community-based economic development activities in revitalization areas designated by local governments. In food deserts or parts of priority funding areas or eligible opportunity zones that serve food deserts, the purpose of the program is to help create small businesses and other food-related enterprises that provide fresh fruits, vegetables, and other healthy foods to residents of the food desert.

Pursuant to current law, a small business, nonprofit organization, or microenterprise in a priority funding area or eligible opportunity zone may apply for financial assistance under the program. Financial assistance under the program may be provided as (1) a grant;
(2) a loan; (3) a reduction in the principal obligation of or interest rate on a loan or portion of a loan; (4) a prepayment of interest on a subordinate or superior loan or portion of a loan; (5) an assurance; (6) a guarantee; or (7) any other form of credit enhancement. Among other things, DHCD may (1) sell, assign, or otherwise dispose of a program loan or revenue from a loan on terms and conditions acceptable to DHCD, including selling loans at a discount, if the maximum sale proceeds in any fiscal year do not exceed limits that DHCD sets by regulation; (2) apply the proceeds received from the sale, assignment, or other specified disposition to the Neighborhood Business Development Fund; and (3) pledge a program loan as security for any specified financial instruments by CDA, or any specified financial instrument on a program loan or business project.

_Under the bill_, financial assistance under the program may also be provided as a promissory note that may be converted to an equity ownership interest and liquidated at the earliest opportunity to realize the highest market value for DHCD; this authorization is _not_ repealed by the bill. In addition, DHCD may, without approval or execution by the Board of Public Works, sell or assign any equity interest acquired as specified under the bill.

*Neighborhood Business Development Fund*

DHCD manages the Neighborhood Business Development Fund as a special, nonlapsing program. The fund must be used to operate and pay expenses of the Neighborhood Business Development Program, and provide financial assistance to small businesses, nonprofit organizations, and microenterprises. Under current law, the fund consists of (1) money appropriated in the State budget for the program; (2) any specified repayment or repayment of financial assistance; (3) money transferred to the fund from any other fund as specified under the Housing and Community Development Article; (4) _money received from the sale, assignment, or other disposition of program loans_; (5) _other money received by the program or from CDA_; and (6) _investment earnings of the fund._

_Under the bill_, the fund also consists of _money received from the sale, assignment, or other disposition of program loans and equity interests._

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**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Department of Housing and Community Development; Board of Public Works; Department of Legislative Services