

Department of Legislative Services  
 Maryland General Assembly  
 2024 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 203

(Senator Waldstreicher)

Education, Energy, and the Environment

Rules and Executive Nominations

Housing Innovation Pilot Program and Housing Innovation Fund -  
 Establishment (Housing Innovation Pilot Program Act of 2024)

This bill establishes the Housing Innovation Pilot Program and related special fund within the Department of Housing and Community Development (DHCD). The purposes of the pilot program are to (1) create opportunities for the State’s public housing authorities and county governments to increase the volume of housing production and (2) reward counties pursuing innovative solutions to the problem of housing scarcity. For each of fiscal 2026 through 2029, the Governor may include in the annual operating or capital budget bill an appropriation of \$5.0 million to the new fund, which may be allocated using funding for rental housing projects administered in accordance with Title 4, Subtitle 4 of the Housing and Community Development Article (Rental Housing Program). **The bill takes effect July 1, 2024, and terminates June 30, 2029.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$63,100 in FY 2025 and by \$160,300 in FY 2026; future years reflect inflation and ongoing costs. Under the assumptions discussed below, no net effect on general obligation (GO) bond expenditures or pay-as-you-go (PAYGO) general fund expenditures; a combined total of \$5.0 million is assumed to be reallocated annually in FY 2026 through 2029; special fund revenues and expenditures increase correspondingly.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
GF Expenditure	\$63,100	\$160,300	\$160,700	\$167,800	\$175,200
SF Expenditure	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Net Effect	(\$63,100)	(\$160,300)	(\$160,700)	(\$167,800)	(\$175,200)

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 county governments and local housing authorities apply for and receive program funds, as discussed below.

**Small Business Effect:** Meaningful.

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## Analysis

### Bill Summary:

#### *Housing Innovation Fund*

The Housing Innovation Fund is a special, nonlapsing fund administered by DHCD. The fund consists of money appropriated in the State budget to the fund and any other money from any other source accepted for the benefit of the fund. The fund may be used only to provide low- or no-interest loans to local housing authorities or to county governments partnering with housing developers through the Housing Innovation Pilot Program. In addition, the fund may be used for projects where a county, in conjunction with a local housing authority or a housing developer, acquires existing private sector housing.

Any interest earnings of the fund must be credited to the general fund. Expenditures from the fund must be in accordance with the State budget.

For fiscal 2025, an allocation to the fund must be committed to projects before July 1, 2026, subject to applicants being afforded a reasonable period of time to complete the application. For fiscal 2026 and annually thereafter, an allocation to the fund in a fiscal year must be committed to projects before the end of that fiscal year, subject to applicants being afforded a reasonable period of time to complete the application.

If an allocation of funds to the fund has not been committed to projects before the end of the fiscal year when they were allocated, the funds must be eligible for use in support of projects that apply to the Rental Housing Program established under Subtitle 4.

#### *Housing Innovation Pilot Program*

“Housing innovation project” means a project to provide mixed-income, cross-subsidized housing that meets specified criteria. “Public ownership” means that the housing authority of the political subdivision of the State in which the project is located possesses majority ownership or control.

The Housing Innovation Pilot Program must be operated with money in the fund. A project qualifies as a housing innovation project if it provides new housing in which

(1) at least 20% of the units are set aside for households with a gross annual income of not more than 50% of the area median income for a household of a like size or (2) at least 40% of the units are set aside for households with a gross annual income of not more than 60% of the area median income for a household of like size.

DHCD must prioritize funding for projects in which (1) the project does not use low-income housing tax credit (LIHTC) equity or tax-exempt volume cap; (2) the specified affordable set-asides remains restricted at elected levels for at least 99 years; (3) the project remains in public ownership; and (4) the project includes a commitment to prevailing wage requirements.

DHCD must (1) coordinate with local housing authorities and county governments to ensure access to other financial resources, including senior debt products; (2) develop new resources in support of statewide housing production; (3) solicit applicants for the program; and (4) select three projects to receive assistance from the program each in a different jurisdiction. DHCD may select fewer than three projects to fund if there is an insufficient number of eligible applicants.

In administering the program, DHCD must take into consideration the need for increased development capacity within local housing authorities. DHCD may not condition the award of funding from the program on the issuance of bonds by DHCD.

### **Current Law:**

#### *Rental Housing Program and Fund*

Established under Title 4, Subtitle 4 of the Housing and Community Article, the purposes of the Rental Housing Program are to (1) stimulate the production and preservation of rental housing; (2) increase and improve the supply of decent, safe, and sanitary rental housing at costs that are affordable to households of limited income; (3) use available resources efficiently to serve the households that are in need of quality affordable housing opportunities, including families, the elderly, and persons with disabilities or special needs; (4) support economic growth and activity by financing, in whole or in part, the construction or substantial rehabilitation of rental housing projects; and (5) revitalize sustainable communities through office or other commercial space conversion.

The Rental Housing Fund is used to operate, make loans, and pay expenses of the program, including reserves for anticipated future losses directly related to the program, as provided in the State budget. The fund consists of (1) money appropriated by the State for the program; (2) repayments and prepayments of loans made under the program and from specified repealed loan programs; (3) loan repayments appropriated to the fund from the Maryland Housing Rehabilitation Program; (4) specified transfers of money from other

funds managed by DHCD; (5) funds received by DHCD or the Community Development Administration from the federal government or other public or private sources; and (6) investment earnings of the fund.

To achieve the purposes of the program, statute authorizes DHCD to, from time to time, ask the State to increase or replace amounts deposited with the State Treasurer in the fund. DHCD advises that, in most instances, GO bond proceeds and, in some years, PAYGO general funds are used for original loans for housing projects under the program.

### *Partnership Rental Housing Program and Fund*

The Partnership Rental Housing Program, administered by DHCD, is intended to expand the supply of affordable housing for low-income households. Among other potential program participants, DHCD is authorized to provide financial assistance to political subdivisions or housing authorities to acquire, construct, reconstruct, renovate, or rehabilitate rental housing affordable to households of limited income. The program provides loans for the development of rental housing that will be occupied by households with incomes at or below 50% of the statewide median. Loan amounts are limited to the greater of \$75,000 per unit or the actual cost of the project. Projects financed through the program typically involve a partnership between the State and local governments.

The Partnership Rental Housing Fund is a special fund established for the purpose of providing deferred payment loans to local governments to construct or rehabilitate rental housing to be occupied by households with incomes of 50% of the statewide median income or less. Repayment is not required as long as the local government continues to own and lease the housing to income eligible households. The fund consists of (1) money appropriated in the State budget; (2) money made available to the fund from the sale of GO or other bonds, as specified; (3) investment earnings of the fund; and (4) repayment of principal or payments of interest on loans from the fund. Subject to specified conditions, DHCD is authorized to transfer unencumbered money in the fund among the Partnership Rental Housing Fund, the Rental Housing Programs Fund, the Homeownership Programs Fund, and the Special Loan Programs Fund if the Secretary determines that demand is (1) less than anticipated for the fund from which money is being transferred and (2) greater than anticipated for the fund to which money is being transferred.

### *Federal Low-income Housing Tax Credits – Generally*

LIHTC provides an incentive for the development and rehabilitation of affordable rental housing. These nonrefundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities. LIHTCs are first allocated to each state according to its population. State housing agencies allocate credits to developers of rental housing

according to federally required, but state created, Qualified Allocation Plans (QAPs). Federal law requires that the QAP give priority to projects that serve the lowest income households and that remain affordable for the longest period of time.

**State Fiscal Effect:**

*Administrative Costs*

Although it is assumed that an appropriation to the Housing Innovation Fund is not provided until fiscal 2026 (consistent with the bill’s authorizing language), the program begins July 1, 2024, and DHCD must establish administrative procedures for receiving, processing, and awarding applications for loans prior to funding becoming available in fiscal 2026. In addition, the bill explicitly states that the fund may be used only for loans; therefore, this analysis assumes that the fund may not be used for administrative expenses and that general funds are needed to administer the program.

As a result, general fund expenditures for DHCD increase by \$63,082 in fiscal 2025, increasing to \$160,284 in fiscal 2026, which accounts for a six-month start-up delay from the bill’s July 1, 2024 effective date. This estimate reflects the cost of hiring (1) one lending and risk analyst to administer the program and coordinate with county governments and local housing authorities and (2) one part-time financial associate to review and process payments. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The assumptions used in calculating the estimate are stated below:

- the lending and risk analyst begins January 1, 2025, to establish procedures for receiving, processing, and awarding applications for loans under the program (which begin in fiscal 2026) and conducting outreach to local housing authorities and county governments; and
- the part-time financial associate begins July 1, 2025, to begin processing loan payments and repayments.

	<u><b>FY 2025</b></u>	<u><b>FY 2026</b></u>
Positions (New)	1.0	0.5
Salaries and Fringe Benefits (Total)	\$56,096	\$152,201
Operating Expenses	<u>6,986</u>	<u>8,083</u>
<b>Total DHCD Admin. Expenditures</b>	<b>\$63,082</b>	<b>\$160,284</b>

Future year administrative expenditures reflect salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. Although it is beyond the timeframe covered by this analysis, it is assumed that DHCD retains the staff hired as a result of the bill following the program’s termination.

### *Capitalizing the Housing Innovation Fund*

The bill authorizes the Governor, for each of fiscal 2026 through 2029, to include an appropriation of \$5.0 million in the annual operating or capital budget bill to the Housing Innovation Fund; it further authorizes the Governor to use funding for rental housing projects administered in accordance with Subtitle 4 to do so. As discussed above, DHCD advises that the rental housing programs it administers are typically funded with GO bonds or PAYGO general funds. This analysis assumes that, for fiscal 2026 through 2029, the Governor reallocates funds that would otherwise be provided to existing rental housing programs to capitalize the Housing Innovation Fund. As either GO bonds or PAYGO general funds, or a mixture of both, may be used in the future, it is not known which fund type is affected in those years.

Special fund revenues to and expenditures from the Housing Innovation Fund increase correspondingly each year from fiscal 2026 through 2029. This analysis assumes that DHCD exhausts available funding in the Housing Innovation Fund each fiscal year. To the extent available funding is not exhausted each year, additional GO bond funds and/or PAYGO general funds are available for projects under the Rental Housing Program.

The Department of Legislative Services notes that, to the extent that GO bond funds and/or PAYGO general funds are reallocated as described above to capitalize the Housing Innovation Fund, there is no net effect on GO bond expenditures or PAYGO general fund expenditures, but fewer funds are available for other rental housing projects.

### *Loan Repayments*

In addition to receiving capitalization funds, as discussed above, the Housing Innovation Fund also receives ongoing loan repayments in the out-years, extending beyond the bill's termination date. To the extent loans are repaid, more special funds are available for additional loans. However, a reliable estimate of any loan repayments – and the corresponding increase in special fund revenues and expenditures – is not feasible.

**Local Fiscal Effect:** Local revenues and expenditures increase significantly as county governments and local housing authorities that apply for funds are awarded – and then expend – loans for housing innovation projects. Local revenues increase further to the extent tenants pay rent. Local expenditures increase further in the out-years to repay the loans and to operate and maintain any public housing units created through the pilot program.

**Small Business Effect:** Any small businesses involved in the development, construction, or rehabilitation of housing innovation projects benefit from the additional funding provided for such projects under the bill.

## **Additional Information**

**Recent Prior Introductions:** Similar legislation has been introduced in the last three years. See SB 315 and HB 60 of 2023.

**Designated Cross File:** HB 7 (Delegate Stewart, *et al.*) - Environment and Transportation.

**Information Source(s):** Anne Arundel, Baltimore, Calvert, Carroll, Charles, Frederick, Harford, Howard, Montgomery, Queen Anne's, and St. Mary's counties; cities of Annapolis, Frostburg, and Hagerstown; Department of Housing and Community Development; Department of Legislative Services

**Fiscal Note History:** First Reader - January 23, 2024  
js/mcr Third Reader - April 8, 2024  
Revised - Amendment(s) - April 8, 2024

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