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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

March 2, 2021

Testimony of Senator Hayes in Support of Senate Bill 859: Department of Housing and Community Development - Appraisal Gap from Historic Redlining Financial Assistance Program - Establishment

Chairman Pinsky and Members of the Education, Health, and Environmental Affairs Committee,

The appraisal gap, defined as the amount by which the total cost of construction or renovation exceeds the price that a home can be sold for, is a relic of the Jim Crow era that communities of color continue to bear the weight of to this day. A result of redlining, appraisal gaps have condemned communities for decades of neglect, disinvestment, and declining property values.

The Maryland Department of Housing and Community Development's Sustainable Communities Program is a place-based designation offering a comprehensive package of resources that support holistic strategies for community development, revitalization and sustainability. Led by the Department, Sustainable Communities has provided local governments with a framework for promoting environmentally, economically and socially responsible growth and development in existing older communities.

The Sustainable Communities Act of 2010 established a shared geographic designation to promote efficient use of scarce State resources based on local sustainability and revitalization strategies. The Sustainable Communities program consolidated geographically targeted resources for historic preservation, housing and economic development under a single designation. The designation places special emphasis on infrastructure improvements, multimodal transportation and development that strengthens existing communities. The legislation designated the Governor's Smart Growth Subcabinet as the body charged with final approval of Sustainable Communities designations.

Senate Bill 859 will address the appraisal gap by providing funds to help offset the costs of construction and renovation in historically redlined low-income areas.

Appraisal gaps prevent rehabilitation of abandoned and vacant properties as well as new housing developments in many low-income neighborhoods due to a lack of economic incentive to pursue these projects. Contractors know the rehabilitation will cost far more than what will be recuperated by selling the properties. Appraisal gaps in distressed neighborhoods can range from $60,000 to $150,000. Simply put, free market activity will never take root in these areas without intervention to stop this vicious cycle of undervaluing.

The presence of abandoned and vacant properties in neighborhoods has been linked to numerous public health issues, increased violent crime, and has been shown to have a destabilizing effect on communities.

ReBUILD Metro, a nonprofit devoted to building new homes and renovating existing homes in two neglected Baltimore neighborhoods, has demonstrated the radical and positive change this type of targeted effort can produce. Following the nonprofit's investment in these neighborhoods, **there was a 75% reduction in abandoned properties, a 50% reduction in homicides, a 20% increase in population, and a 15% increase in household income.**

SB 859 will establish the Appraisal Gap from Historic Redlining Financial Assistance Program under the Department of Housing and Community Development (DHCD) to provide financial assistance to affordable housing developers working in low-income census tracts.

SB 859 will also establish the Appraisal Gap from Historic Redlining Financial Assistance Fund, a special nonlapsing fund, to provide this financial assistance.

Lastly, **SB 859** will require each county to submit a report to DHCD that details the targeted areas for homeownership that would qualify for financial assistance under this program.

There are several amendments to **SB 859**, outlined below:

- The first amendment removes the $4,000,000 mandated appropriation.
- The second amendment provides for limitations on the way financial assistance is calculated. This language was inadvertently left out of the first draft of the bill. The amendment states that the amount of financial assistance provided cannot exceed 35% of the lesser of either:

  (1) the qualified development cost, or
  (2) 80% of the national median sales price for new homes.

- Other amendments include: inserting acquisition costs as a qualified expense; removing forgivable loans in the exclusions of the definition of financial assistance; adjusting the definition of affordable to mean that housing costs do not exceed 30% of a household's income where the household's income does not exceed 80% of the statewide median income instead of 140% as originally indicated in the bill.

- The final amendment included language to require DHCD to report to budget committees the number of funds deployed to census tracts with populations of over 50% minorities.

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We must take responsibility for righting the wrongs of our past that continue to harm vulnerable communities in our present. This program will attract and drive investment in communities that need it most, revitalize neighborhoods in Baltimore and across Maryland while keeping them affordable, and generate new opportunities for their residents. Black and Brown people were largely excluded from the housing market when homes were cheap, resulting in entire generations missing out on the wealth and stability that comes with home ownership. If ever there was a time for us to right this wrong, it is now while so many are suffering financially due to the COVID-19 pandemic. Especially in light of the fact that people of color have been disproportionately impacted by the virus and its associated hardships.

For these reasons, I strongly urge a favorable report on SB 859.

Respectfully,

Senator Antonio L. Hayes
40th Legislative District - MD