

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 315 (Senator Waldstreicher)
Education, Energy, and the Environment

**Housing Innovation Pilot Program and Housing Innovation Fund -
Establishment (Housing Innovation Pilot Program Act of 2023)**

This bill establishes the Housing Innovation Pilot Program and related 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 to increase the volume of housing production and (2) incentivize housing authorities to increase opportunities by providing State matching funds for housing innovation projects funded through local revolving loan funds. The purpose of the Housing Innovation Fund, which supports the pilot program, is to provide low- or no-interest loans to local housing authorities to develop mixed income, cross-subsidized housing through the pilot program. **The bill takes effect July 1, 2023, and terminates June 30, 2028.**

Fiscal Summary

State Effect: General fund expenditures and special fund revenues and expenditures increase significantly to capitalize the fund, provide loans to local housing authorities, and receive loan repayments. A reliable estimate of the increase in general fund expenditures (and corresponding special fund revenues and expenditures) to capitalize the fund is not feasible at this time, but it is likely *at least* \$15.1 million in FY 2024, as discussed below.

Local Effect: Local revenues and expenditures increase to the extent local housing authorities apply for and receive program funds, which require a local match, as discussed below.

Small Business Effect: Meaningful.

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 for 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 through the Housing Innovation Pilot Program. The pilot program must be operated with money in the fund.

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.

Housing Innovation Pilot Program

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

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 and (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. The specified affordable set-asides must remain restricted at elected levels for at least 99 years, and the project must remain in public ownership.

Before drawing down any program funds, a local housing authority must (1) provide evidence satisfactory to DHCD that the program funds will be matched by the local housing authority on a dollar-for-dollar basis and (2) meet other program criteria adopted by the Secretary of Housing and Community Development.

DHCD must (1) coordinate with local housing authorities to ensure access to other financial resources, including senior debt products, and (2) develop new resources in support of statewide housing production.

In administering the program, DHCD must (1) take into consideration the need for increased development capacity within local housing authorities and (2) prioritize funding for projects that do not use low-income housing tax credit (LIHTC) equity or tax-exempt volume cap and commit to prevailing wage requirements.

Current Law:

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 general obligation 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. The fiscal 2024 capital budget as introduced includes \$6.0 million in pay-as-you-go general funds for the fund.

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: General fund expenditures and special fund revenues increase to the extent the Housing Innovation Fund is capitalized, and special fund expenditures and revenues increase as DHCD provides loans to local housing authorities and loans are repaid.

DHCD estimates that it requires at least \$15.1 million in capitalization funds for the Housing Innovation Fund to support a single project – approximately \$15.0 million for one qualifying project (\$150,000 per unit and 100 units per project) and \$150,000 for loan processing fees (3% of the \$15.0 million loan for administrative costs). DHCD advises that public housing construction projects are already subject to federal prevailing wage requirements; any costs associated with complying with prevailing wage requirements are assumed to be included in loan support provided by the State. DHCD advises that it likely requires additional staff to process loans and to ensure compliance for qualifying projects. However, without experience under the bill, the extent to which staff is needed is unknown. The local matching requirement for loan funds may limit demand for the program to the extent that local housing authorities lack sufficient funds.

Without actual experience under the bill, the Department of Legislative Services (DLS) cannot independently verify DHCD’s estimate regarding the amount needed to capitalize the fund. However, significant capitalization funding is likely needed. DLS also concurs that DHCD likely needs additional staff to meet the increase in workload resulting from the bill, requiring additional general funds. Therefore, general fund expenditures likely increase by *at least* \$15.1 million in fiscal 2024 to fund a single project and potentially significantly more for staffing and to fund additional projects, either in the same year or in future years through fiscal 2028, when the program terminates.

Local Fiscal Effect: Local expenditures increase as local housing authorities offer dollar-for-dollar matches for loans issued under the program. Local revenues and expenditures further increase significantly as local housing authorities are awarded – and then expend – loans for housing innovation projects. Local revenues further increase to the extent tenants pay rent. In addition, local expenditures further increase in the out years to repay the loans and to operate and maintain any housing units constructed through the program.

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

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 60 (Delegate Stewart) - Environment and Transportation.

Information Source(s): Baltimore City; Harford and Montgomery counties; Maryland Association of Counties; Maryland Municipal League; Department of Housing and Community Development; Department of Legislative Services

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