



**TO:** The Honorable City Council President and Members of the Baltimore City Council

**CC:** Natawna Austin, Executive Secretary

**FROM:** Shamiah T. Kerney, Chief Recovery Officer

**DATE:** January 10, 2022

**SUBJECT:** City Council Bill 21-0172 Baltimore City Legacy Residents – Urban Homesteading Program

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### **Background**

City Council Bill 21-0172 would establish the Baltimore City Urban Homesteading Pilot Program and charge DHCD with the administration of the program. The housing package—inclusive of this Bill—proposes use of \$200 million from the City's allocation of State and Local Fiscal Recovery Funds granted by the American Rescue Plan Act (ARPA).

### **Recovery Office Comments**

The US Department of Treasury's Interim Final Rule (IFR) for ARPA emphasizes the disproportionate negative impacts of the COVID-19 public health emergency on low-income communities and people of color. The US Treasury encourages cities to use ARPA funding to prioritize these communities. Directing funds to Qualified Census Tracts (QCTs)—which are generally historically marginalized communities—is one strategy Treasury identifies in its guidance to help remedy the negative impacts of COVID-19 on low income communities and people of color and to advance equity.<sup>1</sup>

To broadly determine if the proposed Baltimore City Urban Homesteading Program is eligible under ARPA, impacted agencies will need to:

- Identify a need or negative impact of the COVID–19 public health emergency, and/or
- Identify how the program, service, or intervention addresses the identified need or impact

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<sup>1</sup>Qualified Census Tracts (QCTs) is a designation used by the United States Treasury and the United States Department of Housing and Urban Development (HUD) to define underserved and disproportionately impacted communities. QCTs are census areas where at least half of households have lower income than most of the surrounding region.

### Eligible uses of ARPA funds

1. *Interim Final Rule (IFR) – II. Eligible Uses, Section A. Public Health and Economic Impacts, Subsection: Building Stronger Communities through Investments in Housing and Neighborhoods*

- IFR lists services that alleviate the immediate economic impacts of the COVID-19 pandemic on housing insecurity while addressing conditions that contributed to poor public health and economic outcomes during the pandemic as an eligible use.
- Assistance must be provided in concentrated areas with limited economic opportunity and inadequate or poor-quality housing.

In order to fully assess the eligibility of this program, more detailed information is needed on what costs the City would incur for this program and how ARPA funds would be utilized. There could be several potential types of expenses associated with the Baltimore City Urban Homesteading Program:

- Administrative costs associated with administering the program
- Loans or grants to subsidize the renovation of the home<sup>2</sup>
- Acquisition and/or maintenance costs associated with purchasing and maintaining vacant properties

Once these requirements are identified and verified, there are additional considerations that determine eligibility and risk.

### Considerations

- Administrative costs associated with program implementation would be low risk, assuming the city adequately documents how the program targets populations who have been disproportionately negatively impacted by the pandemic and how the program “responds to” the negative economic impact.
- The proposed bill includes a clause that if multiple applications are received for the same property, priority must be given to an applicant who is a participant in the US HUD Housing Choice Voucher Program. It is unclear if this prioritization would constitute a duplication of benefits.
- If the program design relies on the City of Baltimore issuing loans to residents, FAQ 4.11 offers eligibility guidance on the utilization of funding for loans. **A loan must be for an eligible use, funds must be used to cover “costs incurred” by the recipient between March 3, 2021 and December 31, 2024, and funds must be expended by December 31, 2026.**
  - If a revolving loan fund is established, the revolving loan fund must make loans that are eligible uses and the Fiscal Recovery Funds

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<sup>2</sup>Council FAQs note that “Improvements would be funded by an approved financier under the terms of a prime loan that is at or below market interest rate.” Another bill in the House Baltimore package would provide grants up to \$25,000 for home repairs, which helps “cover the difference between how much it will cost to renovate the house and how much the house will appraise for.”

- contributed must represent the projected cost of loans made over the life of the revolving loan fund.
- The cost of the loan must be tracked and reported following criteria outlined in the FAQ (Note: there are different criteria for loans that mature or are forgiven on or before December 31, 2026, and loans with maturities longer than December 31, 2026).
  - **This program is a higher risk use of ARPA funding because of loan financing. The city would have to structure and rely on individual participants' repayment by set deadlines.** Loan funds must be repaid in order to use these funds for other ARPA-eligible programs, and all funding must be expended by the December 31, 2026 deadline. If funding is not repaid by the deadline, the City will in essence not have used all of its allocated funding.
  - **The proposed bill includes a clause that the Department may grant the participant a 2-year program extension of the lease and continue the program if certain stipulations (in Subsection F) are met. ARPA funds must be used to cover "costs incurred" by the recipient between March 3, 2021, and December 31, 2024, and funds must be expended by December 31, 2026. If costs are incurred after December 31, 2024 and/or are not expended by December 31, 2026, ARPA funds cannot be used.**
  - Administrative and resource burden on City agencies for administering the program
  - Other funding sources may be more appropriate than ARPA SLFRF, as various relief bills include targeted funding for housing programs.
    - The HOME Program can be used for assistance to homebuyers for low and very low-income families.

### Conclusion

The proposed Baltimore City Urban Homesteading Program could provide housing options in priority areas as identified in the law and per Treasury guidance. However, there are several program components that are not well defined or provide enough detail to determine if this program is fully eligible for ARPA funding. In addition, the program would likely need some level of financial sustainability after the cessation of ARPA. Based on information and data from DHCD and the Finance Department, the City would not be able to sustain such a program using General Fund dollars. **The Recovery Office takes no position on this legislation and defers to the agency tasked with administering this program—the Department of Housing and Community Development.**