Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 559 (Senator Ferguson, *et al.*)
Budget and Taxation Appropriations

Department of Housing and Community Development - Strategic Demolition and Smart Growth Impact Fund - Establishment

This bill establishes the Strategic Demolition and Smart Growth Impact Fund within the Department of Housing and Community Development (DHCD) to provide grants and loans to government agencies and community development organizations for revitalization projects in any area designated as a "sustainable community" under current law. The bill directs the $21.5 million appropriated to DHCD for fiscal 2017 to the fund and requires the Governor to include in the annual budget bill an appropriation to the fund of $25.6 million in fiscal 2018 and $28.5 million in fiscal 2019. The bill also specifies the allocation and distribution of those funds.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Pay-as-you-go (PAYGO) general fund expenditures increase by $21.5 million in FY 2017, $25.6 million in FY 2018, and $28.5 million in FY 2019. The FY 2017 budget as enacted includes $21.5 million for the program for FY 2017. Out-year PAYGO general funds reflect the bill's mandated appropriation. Special fund revenues and expenditures increase correspondingly. General fund *administrative* expenditures increase by $44,900 in FY 2017 to handle the substantial increase in funding; future year expenditures reflect annualization, inflation, and the termination of contractual staffing costs in FY 2020. **This bill establishes a mandated appropriation in FY 2018 and 2019.**

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	$21,500,000	$25,625,000	$28,500,000	-	-
GF Expenditure	$44,900	$50,700	$52,400	$0	$0
SF Expenditure	$21,500,000	$25,625,000	$28,500,000	-	-
PAYGO GF exp	$21,500,000	$25,625,000	$28,500,000	$0	$0
Net Effect	($21,544,900)	($25,675,700)	($28,552,400)	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government revenues increase, potentially significantly, as local government agencies are slated to receive some or all of the additional funding available annually on a competitive basis from the fund for eligible projects. Recipients of financial assistance must provide a 25% funding match, however. Under the bill, the majority of the financial assistance is directed to Baltimore City.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The Strategic Demolition and Smart Growth Impact Fund is a special, nonlapsing fund that consists of (1) money appropriated in the State budget; (2) repayments of loans made from the fund; (3) interest earnings; and (4) any other money from any other source given to the fund. PAYGO funds included in Supplemental Budget No. 2 for the Neighborhood Revitalization program in DHCD must be appropriated to the fund. Funds appropriated to the fund each year must be allocated as shown in **Exhibit 1.**

Exhibit 1
Mandated Distribution of Strategic Demolition and Smart Growth Impact Fund Appropriations
($ in Thousands)

	FY 2017	FY 2018	FY 2019
Baltimore City	$18,000	$22,125	$25,000
Rest of State	3,500	3,500	3,500
Total	**$21,500**	**$25,625**	**$28,500**

Source: Department of Legislative Services

DHCD must award grants and loans from the fund on a competitive basis. The fund may only be used to provide grants and loans to government agencies and community development organizations for demolition, land assembly, architecture and engineering, and site development for revitalization projects in an area designated as a sustainable community. For fiscal 2017 through 2019, grant or loan recipients must provide a 25% funding match that may include money from any public or private source, real property, in-kind contributions, and funds expended before the grant or loan is awarded. There is no matching requirement beginning in fiscal 2020, when the mandated appropriation ends.

Current Law: A "sustainable community" is defined as a part of a priority funding area that (1) is designated by the Smart Growth Subcabinet on the recommendation of the Secretary of Housing and Community Development; (2) has been designated as a Base Realignment and Closure Revitalization Incentive Zone; or (3) has been designated a transit-oriented development. **Exhibit 2** shows the location of sustainable communities in the State.

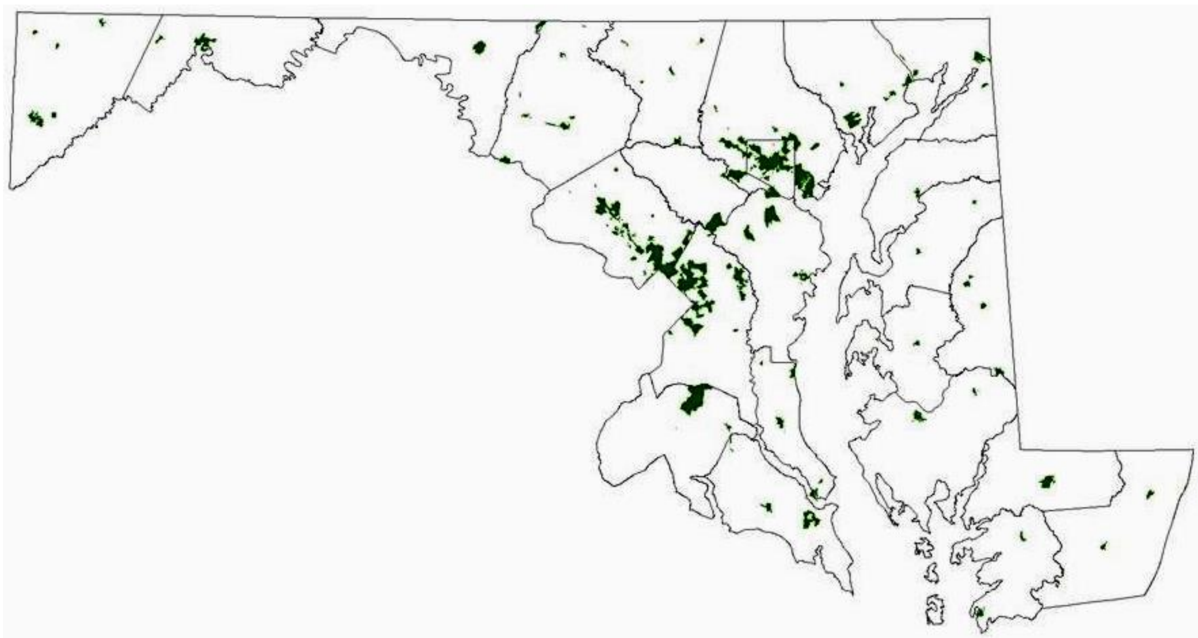
Background: There is a Strategic Demolition and Smart Growth Impact Program within DHCD's Division of Neighborhood Revitalization that, to date, has been funded exclusively with general obligation (GO) bond proceeds. The program provides funding to assist in demolition, land assembly, housing development or redevelopment, and revitalization projects recommended by PlanMaryland for revitalization and growth. Funding is awarded on a competitive basis to local governments, groups of local governments, and community development organizations.

In fiscal 2016, the program received $7.5 million in GO bond revenues. Since fiscal 2013, $25 million has been provided to the program. Through fiscal 2015, grants have been awarded in 19 counties, with Baltimore City and Prince George's County receiving the largest share of the grants. The fiscal 2017 budget as enacted includes $21.5 million in PAYGO general funds for the program. Of the total amount, $18.0 million is to support the implementation of Project C.O.R.E (Creating Opportunities for Renewal and Enterprise) in Baltimore City, and $3.5 million is for strategic demolition projects across the State.

On January 5, 2016, Governor Lawrence J. Hogan, Jr. and Baltimore City Mayor Stephanie Rawlings-Blake announced Project C.O.R.E as a multi-year State-city partnership to demolish thousands of vacant buildings in Baltimore City and replace them with green space and economic development projects. A memorandum of understanding (MOU) was signed between Baltimore City, DHCD, and the Maryland Stadium Authority (MSA) that covers the period from February 15, 2016 through June 30, 2019. Pursuant to the MOU, the State will provide $7.1 million for the remainder of fiscal 2016 and for each succeeding fiscal year, subject to appropriations. The funding commitment may be increased for any fiscal year, but the total annual commitment from the State will not exceed $25 million. The city must provide 25% in matching funds.

Under the MOU, Baltimore City provides a list of blighted properties it recommends for demolition/stabilization to DHCD each year. DHCD may also designate properties to be included on the list, in concurrence with the city. The list will be updated quarterly. Once DHCD selects properties for demolition/stabilization, Baltimore City will perform pre-demolition/stabilization services and MSA will complete the demolition/stabilization work through contractors.

Exhibit 2
Sustainable Communities in Maryland



Source: Department of Legislative Services

State Fiscal Effect:

Program Funding

The fiscal 2017 budget as enacted includes $21.5 million in PAYGO general funds for the existing program. Under this bill, that funding is deposited into the new special fund established by the bill. Thus, special fund revenues increase by $21.5 million in fiscal 2017, and special fund expenditures for grants and loans increase correspondingly. In future years, the bill requires the Governor to include in the budget bill PAYGO appropriations to the new fund of $25.6 million in fiscal 2018 and $28.5 million in fiscal 2019. Special fund revenues to the new fund and expenditures from the fund for grants and loans increase correspondingly.

DHCD Administrative Costs

The bill's mandated appropriation is more than three times as much as the fiscal 2016 funding for the program. Although the mandated appropriation does not take effect until fiscal 2018, the addition of $21.5 million in PAYGO general funds for fiscal 2017 included in the fiscal 2017 budget as enacted and directed to the fund under the bill represents a substantial increase in funding for the program. Consequently, the Department of Legislative Services (DLS) advises that additional contractual staffing for the program is necessary beginning in fiscal 2017.

As administrative costs are not an authorized use of the fund, in addition to the program funding described above, general fund expenditures for DHCD increase by $44,904 in fiscal 2017, which accounts for a 90-day start-up delay from the bill's July 1, 2016 effective date. This estimate reflects the cost of hiring one contractual program manager to handle the substantial increase in grant awards anticipated as a result of the expansion of the program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	$38,439
Operating Expenses	6,465
Total FY 2017 DHCD Admin. Expenditures	**$44,904**

Future year administrative expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

This analysis assumes that DHCD continues to process grant and loan awards under the program. When the mandated appropriation ends in fiscal 2020, DLS assumes that program funding is likely restored to prior levels, ending the need for the additional staff hired as a result of the bill. Any funding that is provided for the program beyond fiscal 2019 is assumed to flow through the special fund created by the bill; thus, special fund revenues and expenditures increase accordingly.

DLS notes that under the MOU for Project C.O.R.E., MSA will serve as project manager for the demolition projects in Baltimore City.

Small Business Effect: Small construction businesses have increased contracting opportunities with local governments and community development organizations for demolition and related projects.

Additional Comments: Although published budget documents refer to the Strategic Demolition and Smart Growth Impact Project Fund, there is no such special fund in statute.

Additional Information

Prior Introductions: None.

Cross File: HB 686 (Delegate Hammen, *et al.*) - Appropriations.

Information Source(s): Department of Housing and Community Development, Governor's Office, Department of Budget and Management, Howard and Montgomery counties, Department of Legislative Services

Fiscal Note History: First Reader - March 18, 2016
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