

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 906

(Senator Augustine, *et al.*)

Education, Energy, and the Environment

Environment and Transportation

**Housing and Community Development - Conversion of Commercial Buildings
 for Residential Use - Report**

This bill requires each political subdivision in the State, by January 1, 2025, to (1) inventory the number of vacant commercial buildings in the political subdivision; (2) develop a plan for converting vacant commercial buildings in the political subdivision for residential use; and (3) submit a report containing the inventory and the plan to the Department of Housing and Community Development (DHCD). Each political subdivision must update the report every two years, as specified. On request by a political subdivision, DHCD must provide technical assistance in creating and submitting the required report. DHCD must also (1) establish and maintain a database of vacant commercial buildings in the State that have the potential to be converted for residential use and (2) adopt related regulations. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: General fund expenditures increase by \$230,900 in FY 2025; future years reflect annualization, inflation, and ongoing costs. Revenues are not affected.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	230,900	185,400	193,700	202,100	211,000
Net Effect	(\$230,900)	(\$185,400)	(\$193,700)	(\$202,100)	(\$211,000)

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

Local Effect: Expenditures increase for some local governments to compile the inventory of vacant commercial buildings and develop a plan for converting the vacant commercial buildings for residential use. Revenues are not directly affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Bill Summary: “Vacant commercial building” means a commercial building that has been abandoned, unoccupied, or empty for a period of time.

Each political subdivision must (1) determine a minimum period of time for a vacant commercial building to be eligible for inclusion in the required inventory and (2) update the report required under the bill every two years. The update must include (1) a new inventory of vacant commercial buildings; (2) any changes made to the plan for converting vacant commercial buildings for residential use; and (3) details of any progress made in converting vacant commercial buildings for residential use.

DHCD must adopt regulations to establish standards for political subdivisions to use in determining whether a vacant commercial building is eligible to be converted to residential use.

Current Law:

Identification of Excess State Property for Affordable Housing – Generally

The Maryland Department of Planning (MDP) must notify DHCD and specified committees of the General Assembly of any excess State real property submitted to MDP, which has not been otherwise disposed of in accordance with existing provisions of law. No later than 60 days after receiving such notification, DHCD must, in consultation with the unit of State government that controls the property, determine if the property is suitable for use or redevelopment as affordable housing. DHCD must identify a property as suitable for use or redevelopment as affordable housing if the property (1) is located in an area designated as a priority funding area; (2) does not belong to a specified category of property generally encompassing parks and conservation land; (3) is adequately sized for any type of residential use; (4) has access to public utilities; and (5) has access to feasible ingress and egress points. In addition to these factors, DHCD is authorized to consider other factors when determining the suitability of a property for use or redevelopment as affordable housing.

DHCD must compile and regularly update a list of properties it has determined are suitable for use or redevelopment as affordable housing. For each property included in the list, DHCD must (1) give notice of the determination to the unit of State government that controls the property and the State Treasurer and (2) advise the unit of the bill’s requirements regarding the disposal of the listed property. The list must be made available to the public.

Adaptive Reuse

Chapters 174 and 175 of 2023 established that adaptive reuse of a property to develop affordable multifamily housing is an eligible use of the proceeds of a loan for specified housing programs administered by DHCD. DHCD must notify applicants of those programs that adaptive reuse of a property to develop affordable multifamily housing is an eligible use of loan proceeds; however, the notification requirement does not apply to loan applications for any DHCD program that does not focus on housing (including programs within the Division of Neighborhood Revitalization). This requirement applies to any program operated by DHCD that awards loans that may be used to develop affordable multifamily housing. However, if the laws or regulations governing a particular program establish more specific rules regarding the use of a loan for adaptive reuse, the more specific rules must apply.

State Expenditures: DHCD advises that it does not have the technical expertise to develop the required standards or to provide technical assistance to political subdivisions in creating and submitting the required reports. DHCD further advises that due to the likely high volume of requests for technical assistance from political subdivisions under the bill, the department cannot absorb the anticipated increase in workload with existing resources.

Therefore, general fund expenditures increase by \$230,866 in fiscal 2025, which accounts for a 90-day start-up delay from the bill’s July 1, 2024 effective date. This estimate reflects the cost of (1) hiring two program officers to provide technical assistance to political subdivisions in creating the required reports and (2) procuring contractual services to develop the standards for political subdivisions to use in determining which vacant commercial properties are eligible for conversion to residential use. It includes salaries, fringe benefits, one-time start-up costs (including one-time contractual costs related to developing the required standards and regulations), and ongoing operating expenses.

Positions	2.0
Salaries and Fringe Benefits	\$141,354
Contractual Costs	75,000
Operating Expenses	14,512
Total FY 2025 State Expenditures	\$230,866

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

Local Expenditures: While some local governments can compile the inventory of vacant commercial buildings and develop a plan for converting those buildings for residential use with existing resources, other local governments anticipate an increase in expenditures to meet the bill’s requirements. For example, Baltimore City and Anne Arundel and

Baltimore counties advise they can meet the bill's requirements with existing resources. However, Montgomery County advises it must hire contractors familiar with commercial real estate markets and building conversion options to develop the required vacant building inventory and create a plan for redeveloping those properties for residential use. The Maryland Association of Counties and the Maryland Municipal League also advise that some smaller jurisdictions lack resources to compile the inventory and may need to hire third-party consultants to assist with that requirement, resulting in potentially significant costs.

The Department of Legislative Services notes, however, that the bill requires DHCD to, upon request, provide technical assistance to political subdivisions in creating and submitting the required report, which includes both the inventory of vacant buildings and a plan to convert them to residential use. DHCD may be able to assist political subdivisions in understanding how to conduct an inventory, but local governments likely incur the full costs of compiling the inventories, including potentially hiring contractors with expertise in commercial real estate. However, with the additional staffing discussed above, DHCD likely can provide more direct assistance in the development of plans to convert vacant buildings for residential use. Accordingly, local expenditures may be mitigated – at least to some extent – assuming the technical assistance provided by DHCD assists political subdivisions in completing their reports.

While the intent of the bill may be to redevelop commercial properties for residential use, the bill does not expedite or directly require local governments to redevelop vacant commercial properties.

Additional Information

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

Designated Cross File: None.

Information Source(s): Baltimore City; Anne Arundel, Baltimore, and Montgomery counties; Maryland Association of Counties; Maryland Municipal League; Maryland-National Capital Park and Planning Commission; Department of Housing and Community Development; Department of Legislative Services

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