

**Department of Fiscal Services**  
Maryland General Assembly

**FISCAL NOTE**  
**Revised**

House Bill 508 (The Speaker)

(Administration)

Environmental Matters

Ref. to Econ. and Environ. Affairs and Budget & Taxation

**“Smart Growth” and Neighborhood Conservation - “Smart Growth” Areas**

This amended Administration bill prohibits State funding for certain transportation, economic development, housing, community development, environmental, and procurement projects that are not located within a State priority funding area. The bill does not apply to any project or program for which approval has been granted or a commitment made prior to October 1, 1998.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by a minimum of \$154,500 in FY 1998. Supplemental Budget No. 1 includes \$154,500 to cover these costs, contingent upon enactment of SB 389 or HB 508. Future year expenditures reflect annualization and inflation. Revenues would not be affected.

(\$ in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	154,500	190,600	201,600	219,100	218,500
Net Effect	(\$154,500)	(\$190,600)	(\$201,600)	(\$219,100)	(\$218,500)

*Note: ( ) - decrease; GO - general funds; FF - federal funds; SF - special funds*

**Local Effect:** Indeterminate impact on both State aid to local governments and local own source revenues. Expenditures would not be affected.

**Small Business Effect:** A small business impact statement was not provided by the Administration in time for inclusion in the fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

## Fiscal Analysis

**Bill Summary:** Pursuant to this legislation, the State would not fund specified projects located outside a State priority funding area, as depicted in **Exhibit 1**, except under certain circumstances. The legislation affects a wide range of State funded programs and services, including highway construction, housing assistance, economic development incentives, and environmental protection grants.

**Exhibit 1**  
**State Priority Funding Areas**

Priority Funding Area Classification	Counties Meeting Classifications
Municipal Corporations*	All counties except Baltimore and Howard
Designated Neighborhoods	Areas eligible for funding under the Neighborhood Business Development Program
Enterprise Zones	25 zones located in 12 counties
Certified Heritage Areas	Program still in process of being developed
Areas located between Interstate 495 and the District of Columbia	Portions of Montgomery and Prince George's counties
Areas located between Interstate 695 and Baltimore City	Portions of Anne Arundel and Baltimore Counties
Locally designated priority funding areas	Certain areas throughout entire State

\*42 of the State's 156 municipalities have a population of less than 500.

The bill does enable the Board of Public Works to provide funding for projects outside a priority funding area if the board (1) determines that extraordinary circumstances exist; or (2) approves the project as a transportation project that meets certain requirements. In addition to the approval by the Board of Public Works, a project outside a priority funding area may be funded if it is: (1) a project that is required to protect public health or safety; (2) a project involving federal funds, to the extent compliance with this bill would conflict or be inconsistent with federal law; or (3) a growth-related project for a natural resource based industry or tourism-related industry which, due to its operational or physical characteristics, shall be located away from other developments.

In addition, the bill requires each affected State agency (Transportation, Housing and Community Development, Business and Economic Development, Environment, and General Services) to report annually to the Office of Planning on the implementation of the bill's provisions. Furthermore, the bill establishes a process for the local certification of priority funding areas that must be consistent with the local comprehensive plan and the criteria set forth in the bill.

**State Effect:** The bill could redirect future State funding for certain transportation, economic development, housing, community development, and environmental projects from one area of the State to another. Based on fiscal 1998 funding levels, approximately \$1.4 billion in State funding could be restricted to priority funding areas in future years (\$1.0 billion in transportation funding, \$250.2 million in housing and community development funding, \$52.8 million in economic development funding, and \$37.1 million in environmental funding). However, since many local governments are still in the process of finalizing their local growth areas, it is not possible to determine which areas of the State could lose future State grants. It is clear, however, that restricting State funds to developed areas or to future growth areas could concentrate funding away from the less urbanized sections of the State. To assist in determining the total impact of this bill, a brief description of the State programs that would be restricted is provided in the following paragraphs.

### ***Department of Transportation***

The proposed fiscal 1998 capital budget includes over \$1 billion in funding for highway construction and maintenance projects across the State, with an additional \$2.5 billion in the planning stage for fiscal 1999 through 2002. Pursuant to this legislation, a portion of State funding for highway projects would be restricted to priority areas, meaning that certain areas may not be eligible to receive State funding in future years. However, assuming that this bill restricts development to designated “smart growth” areas, the need for additional State highway funding in areas outside of the priority funding areas could be reduced or eliminated. Further, the bill provides for State funding of transportation projects outside of the priority areas under certain circumstances. A five-year summary of the costs of State highway projects is illustrated in **Exhibit 2**. These projects would continue to be funded under the bill, even though some of them may be outside of a priority funding area.

**Exhibit 2**  
**Department of Transportation Capital Program Summary**  
**(\$ in millions)**

Fund	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 1998 - FY 2002
Special	\$540.9	\$431.4	\$336.9	\$291.1	\$269.4	\$1,869.7
Federal	483.5	349.1	283.3	256.2	237.8	1,609.9
Total	\$1,024.4	\$780.5	\$620.2	\$547.3	\$507.2	\$3,479.6

## ***Department of Housing and Community Development***

*The Homeownership Programs* provide below-market interest rate mortgage loans with minimum down payments to low and moderate-income families for the purpose of fostering home ownership. The Homeownership Programs encompass five smaller assistance programs, including the Maryland Mortgage Program, the Maryland Home Financing Program, and the Settlement Expense Loan Program. The bill restricts funding for projects involving new construction to the State's priority funding area. The proposed fiscal 1998 budget includes \$8,033,000 in funding for the Maryland Home Financing and Settlement Expense Loan programs (\$2.4 million in general funds and \$5.6 million in special funds). In addition, the department has proposed \$200 million in revenue bonds for the Maryland Mortgage Program.

*The Rental Housing Programs* provide low-interest or deferred payment loans for rental housing developments which serve very low-income households. The Rental Housing Programs encompass the Multi-Family Bond Program, the Rental Housing Production Program, and the Elderly Rental Housing Program. This bill restricts funding for projects involving new construction to the State's priority funding area. The proposed fiscal 1998 budget includes \$9 million in funding for the Rental Housing Production and Elderly Rental Housing programs (\$4.1 million in general funds and \$4.9 million in special funds). In addition, the department has proposed \$25 million in revenue bonds for the Multi-Family Bond Program.

*The Neighborhood Business Development Program* offers grants or loans to eligible small businesses in economically distressed areas. The proposed 1998 budget provides \$7 million in funding for this program and \$1,230,000 for the Neighborhood and Community Assistance Program, the Circuit Rider Program, and the Neighborhood Housing Services Program.

### **Exhibit 3**

#### **State Housing and Community Development Grants Restricted to Priority Areas**

<b>Program</b>	<b>State Funding - FY 1998</b>
Maryland Mortgage Program*	\$200 million in revenue bonds
Maryland Home Financing Program/Settlement Expense Loan Program*	\$8,033,000
Multi-Family Bond Program*	\$25 million in revenue bonds
Rental Housing Production Program/Elderly Rental Housing Program*	\$9,000,000
Neighborhood Revitalization Projects*	\$7,000,000
Neighborhood and Community Assistance Program	\$1,000,000
Circuit Rider Program	\$100,000

Neighborhood Housing Services Program	\$130,000
Total Programs*	\$25.2 million in operating funds and \$225 million in revenue bonds

\*only the funds earmarked for new construction projects would be restricted pursuant to this legislation.

### ***Department of Business and Economic Development***

*The Maryland Industrial Land Act (MILA)* provides loans to counties to assist in the development of industrial parks and other types of infrastructure related development. The fiscal 1998 budget allowance includes \$9 million for the program (\$4 million in general funds and \$5 million in special funds).

*The Maryland Industrial and Commercial Redevelopment Fund* provides grants and loans for a variety of development projects. The fiscal 1998 budget allowance includes \$8.5 million in funding for the program (\$3.5 million in general funds and \$5 million in special funds).

*The Maryland Industrial Development Financing Authority (MIDFA)* assists businesses seeking to locate or expand in Maryland by insuring loans and other obligations so the borrower can receive a more favorable interest rate. The authority has not received an appropriation in recent years; however, the proposed fiscal 1998 budget includes \$3 million to expand the fund's capacity by \$15 million. The five-year capital budget plan anticipates about \$2 million in additional funds annually in subsequent years.

*The Maryland Small Business Development Financing Authority (MSBDFa)* provides financial assistance to socially and economically disadvantaged persons who own small businesses in Maryland. The authority provides short-term working capital, long-term loans, surety bonds, and equity in minority businesses. The fiscal 1998 budget allowance includes \$5,325,000 in funding for the program (\$750,000 in general funds and \$4,575,000 in special funds).

*The Maryland Energy Financing Act* provides financial assistance to firms in the form of below market interest rate loans financed through the issuance of tax-exempt or taxable revenue bonds for energy conservation and energy generation projects. No funding is provided in the proposed fiscal 1998 budget.

*The Economic Development Opportunities Program Fund* provides low-interest loans and grants to address extraordinary economic development opportunities. The fiscal 1998 budget allowance includes \$27 million in special funds.

**Exhibit 4**  
**State Economic Development Grants Restricted to Priority Areas**

<b>Program</b>	<b>Proposed State Funding - FY 1998</b>
Maryland Industrial Land Act (MILA)	\$9 million
Maryland Industrial and Commercial Redevelopment Fund	\$8.5 million
Maryland Industrial Development Financing Authority	\$3 million (leverages an additional \$15 million in bond insurance)
Maryland Small Business Development Financing Authority	\$5.3 million
Maryland Energy Financing Act	\$0
Economic Development Opportunities Program Fund	\$27 million
Total Programs	\$52.8 million

***Department of the Environment***

*The Water Quality Revolving Loan Fund* provides loans to counties and municipalities to finance water quality improvements projects. Projects eligible for funding include wastewater treatment plants and failing septic systems. Funding for nonpoint source projects such as urban stormwater control projects would not be restricted to “smart growth areas”. The fiscal 1998 allowance includes \$6 million in general funds and \$33.6 million in special funds.

*The Water Supply Financial Assistance Program* provides funding to State and local government entities to acquire, design, construct, rehabilitate, equip, and improve water supply facilities. The proposed fiscal 1998 capital budget includes \$1.5 million in general obligation bonds for three projects in Charles and Wicomico counties.

*The Supplemental Assistance Program* provides assistance to local governments to assist in planning, designing, and construction of needed wastewater facilities. Funds are targeted to two categories: (1) projects where the community needs sewage treatment improvements but is unable to afford the local share of construction costs; and (2) projects where the community needs sewage treatment improvements but is unable to completely

afford the financing arrangements through the Maryland Water Quality Revolving Loan Program. The proposed fiscal 1998 capital budget includes \$2 million in general obligation bonds for eight projects statewide.

**Exhibit 5**  
**State Environmental Grants Restricted to Priority Areas**

<b>Program</b>	<b>State Proposed Funding -FY 1998</b>	<b>Jurisdictions Funded</b>
Water Quality Revolving Loan Fund	\$33.6 million	La Plata (Charles), Cambridge (Dorchester), Frederick County, Hagerstown (Washington), Harford County, Havre de Grace (Harford), Leonardtown (St. Mary's), and Taneytown (Carroll).
Water Supply Financial Assistance Program	\$1.5 million	Charles and Wicomico Counties
Supplemental Assistance Program	\$2 million	Allegany, Anne Arundel, Caroline, Cecil, Frederick, Kent, and Washington Counties
Total Program	\$37.1 million	

***Department of General Services***

Funding for certain State procurement projects pertaining to the leasing of property, public improvements, and land acquisition would also be restricted to "priority funding areas".

***Office of Planning***

General fund expenditures within the Office of Planning could increase by an estimated \$154,500 in fiscal 1998, which accounts for the bill's October 1, 1997 effective date. Supplemental Budget No. 1 includes \$154,500 for the Office of Planning to cover these costs, contingent upon enactment of this bill. This estimate reflects the cost of hiring three Planners and one Office Secretary to determine the location of priority funding areas, to review State projects for compliance with funding restrictions, and to provide technical assistance to State and local agencies. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$131,185
Operating Expenses	<u>23,320</u>
<b>Total FY 1998 State Expenditures</b>	<b>\$154,505</b>

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3%

employee turnover; and (2) 2% annual increases in ongoing operating expenses.

The Office of Planning is required to complete a survey of municipal, county, and State infrastructure needs by October 1, 1998. The Office of Planning advises that an independent contractor may be needed to conduct the survey. The actual cost to conduct the survey is not known at this time; however, it could be significant (possibly over \$100,000).

**Local Effect:** The bill's effect on State funding to local governments cannot be quantified at this time. The actual impact would depend upon the location of State priority funding areas and whether local governments would have requested and received future funding in areas that are not within a priority funding area. It is clear that restricting State funds to "developed areas" or in future growth areas could concentrate funding to the more urbanized parts of the State. In addition, if this bill reduces industrial or commercial development within a jurisdiction, local own source revenues (property and local income taxes) could decrease in future years by an indeterminate but potentially significant amount.

The bill requires a municipality to assist a county in collecting impact fees for new residential construction within the municipal corporation, if the county provides for the levy and collection of a development impact fee to finance the costs of school construction. Under current law, impact fees do not apply in municipalities. Accordingly, local revenues from impact fees could increase by an indeterminate amount. In addition, each local board of education is required to provide on an annual basis to the county and each municipal corporation in the county (1) a list of projected student enrollment for a five-year period for each school serving students in or near that municipal corporation; and (2) information relating to the student capacity of each school. This requirement should not increase local expenditures.

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**Information Source(s):** Department of Housing and Community Development, Department of Transportation, Office of Planning, Carroll County, Harford County, Prince George's County, Queen Anne's County, St. Mary's County

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