HB 1150

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

House Bill 1150 (Delegate Barve, *et al.*)
(Chairman, Subcommittee on Science and Technology)
Economic Matters

Business and Economic Development - Maryland Industrial Land Act and Maryland Industrial and Commercial Redevelopment Fund

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This bill repeals the Maryland Industrial Land Act (MILA); transfers MILA funds, assets, liabilities, and equity to the Maryland Industrial and Commercial Redevelopment Fund (MICRF); and alters the terms and conditions of loans and grants made by MICRF. These provisions of the bill are effective July 1, 1999.

The bill also establishes a program in which local subdivisions may apply to the Department of Business and Economic Development (DBED) for a matching MICRF grant to a local economic development fund. This provision of the bill is effective July 1, 1999 and sunsets June 30, 2003.

Fiscal Summary

State Effect: The proposed FY 2000 budget includes $5 million in PAYGO special funds for MILA and $12 million in PAYGO special funds for MICRF. The funds in MILA must be transferred to MICRF on July 1, 1999. Minimal impact on special fund revenues and expenditures.

Local Effect: Potential decrease in expenditures.

Small Business Effect: Minimal.

Fiscal Analysis

Bill Summary: The bill repeals MILA and requires that its funds, assets, liabilities, and equity be transferred to MICRF on July 1, 1999. The bill makes various other changes to MICRF and the terms of its loans and grants. The bill:

- increases the maximum amount allowed in the fund from $15 million to $25 million;
- expands eligible project costs to include expenses for the construction of railroad tracks to serve the project area;
- eliminates the requirement that local governments contribute 10% of the loan amount to the project;
- increases the amount of any one loan from $3 million to $5 million provided that the principal is to be repaid in full;
- eliminates the statutorily set maximum interest rate and allows DBED to set the rate;
- eliminates the requirement that local governments provide a guarantee of between 40% and 100% of the loan;
- authorizes the Secretary of DBED to approve grants up to $250,000 and loans up to $2 million and requires the Board of Public Works to approve any grants or loans for larger amounts;
- exempts loans and grants made to the Maryland Economic Development Corporation from specified requirements; and
- allows DBED to modify the terms of any financial assistance provided under MILA in any manner consistent with such authority under MICRF.

Further, this bill replicates the Secretary of DBED's existing authority under MILA by authorizing the Secretary to provide grants from the MICRF to fund local economic development funds. The bill specifies criteria the Secretary must consider when awarding grants. To qualify for a grant, a local government must provide at least an equal and matching grant of funds to the local economic development fund. The department may not grant more than $2 million in a fiscal year, and a county may not receive more than $250,000. A county may not receive a cumulative total more than $500,000 including grants made under the current MILA structure. A local government must use a grant to provide loans for financing economic development projects. The department must report to the Governor and General Assembly before January 1 of each year on the number, amount, use, and economic benefits of grants awarded. This provision of the bill is effective July 1, 1999 and sunsets June 30, 2003.

Background: MILA provides low interest loans to political subdivisions and private entities for land acquisition, development of industrial parks, acquisition or construction of buildings, and development of infrastructure. The local government must guarantee 40%-100% of the loan amount. Activity is low in this program and has been for some time. MILA is most useful as an economic development tool when the economy is sluggish and local governments have a greater need to build speculative building or industrial park infrastructure. Chapter 394 of 1998 authorized MILA to make matching grants of up to $250,000 to local government revolving loan funds.

MICRF authorizes grants, loans, and conditional loans to local governments and business entities to encourage private interest in development that will create and retain jobs and increase tax revenues. The local government must contribute 10% of the loan amount to the project and provide a guarantee of between 40% and 100% of the loan. Although MICRF has received general funds in the past, the fiscal 2000 allowance consists solely of special fund appropriations from the fund's balance and loan repayment income. The five-year capital improvement plan shows a need for general funds beginning in fiscal 2002.

State Effect: The proposed fiscal 2000 budget includes $5 million in PAYGO special funds for MILA and $12 million in PAYGO special funds for MICRF. The funds in MILA must be transferred to MICRF on July 1, 1999, thereby increasing the balance in MICRF to $17 million. MILA's assets, liabilities, and equity must also be transferred to MICRF on July 1, 1999. The balance sheet for MILA for fiscal 1998 showed assets of $61,999,287, liabilities of $51,960, and a fund equity of $61,947,327.

Essentially, the bill combines the resources of MILA and MICRF. This may result in some savings in administrative expenses over time. Any such economies of scale are assumed to be minimal. Further, the bill allows DBED to set the interest rate of MICRF loans, eliminating the maximum interest rate under current law. In some cases where the credit risk is greater, DBED may raise the interest rate above the maximum under current law. This would result in increases in special fund revenue. DBED expects to exercise this option on a very limited basis. Accordingly, any such revenue increase is expected to be minimal.

The bill allows a MICRF loan or grant to be 100% of the eligible projects costs, increasing from 90% under current law. Accordingly, loan and grant amounts and related interest income may increase depending on the number of cases in which DBED chooses to exercise this option.

The bill authorizes the Secretary of DBED to provide grants totaling $2 million in a fiscal year from MICRF to fund local economic development funds. The Secretary currently has this same authority under MILA. Therefore, integrating this authority into MICRF, in the absence of MILA, will not affect State finances.

Local Effect: The bill allows a MICRF loan or grant to be 100% of the eligible projects costs. In some cases, local jurisdictions may not be required to contribute 10% of the costs. Under current law, local jurisdictions are required to contribute at least 10% of eligible project costs. To the extent that DBED issues MICRF loans for 100% of the costs, local expenses will decrease. For illustrative purposes, counties could save at least $200,000 on a $2 million MICRF loan.

The bill will also reduce administrative requirements of the local jurisdictions because the bill eliminates the requirement that local governments provide a guarantee of between 40% and 100% of the loan. In some cases, DBED may determine that the overall credit strength of the borrower will not warrant a guarantee by the local jurisdiction.

Information Source(s): Department of Business and Economic Development, Department of Legislative Services

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