SB 419

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

Senate Bill 419 (Senator Hafer, *et al.*)
Budget and Taxation

One Maryland Economic Development Program for Distressed Counties

This bill creates a special Smart Growth Economic Development Infrastructure Fund within the Department of Business and Economic Development (DBED). The fund consists of: (1) appropriations; (2) investment earnings; (3) interests and repayment of principal for loans; and (4) moneys from other sources. The fund must be used exclusively for the purpose of providing financial assistance to "qualified distressed counties" or to the Maryland Economic Development Corporation (MEDCo) to finance economic development projects, including infrastructure projects. The bill also specifies the financial assistance application requirements.

The bill takes effect July 1, 1999 and sunsets June 30, 2004.

Fiscal Summary

State Effect: General fund administrative expenditures would increase by $135,800 in FY 2000. Out-year estimates reflect annualization and inflation. General fund expenditures would increase by an indeterminate but significant amount from appropriations made to the fund. General and special fund revenues could increase from increased tax revenues and interest payments to, and investment earnings of, the fund.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SF/GF Revenues	-	-	-	-	-
GF Expenditures	135,800	158,900	163,900	169,100	174,500
Net Effect	(135,800)	(158,900)	(163,900)	(169,100)	(174,500)

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

Local Effect: Revenues and expenditures for local jurisdictions could increase by an indeterminate amount.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: A qualified distressed county is a county, including Baltimore City, that has an approved local strategic plan for economic development which was developed in consultation with municipal corporations located in the distressed county and (1) has an average unemployment rate for the most recent 18-month period that is 150% of the statewide average unemployment rate; or (2) has an average per capita personal income for the most recent 24-month period that is at or less than 67% of the statewide average per capita personal income.

The bill requires DBED to consider other funding received by a qualified county before approving financial assistance from the fund. DBED may develop a local strategic plan in consultation with a municipality located in a distressed county if: (1) the county does not develop the required plan; or (2) the county is not actively pursuing assistance from the fund. A municipality may apply for financial assistance from the fund if a strategic plan has been developed but the county is not actively pursuing the financial assistance.

The bill applies to business facilities located in priority funding areas, as well as facilities located outside of priority funding areas if the project is approved by the Board of Public Works because an extraordinary circumstance exists or the project is a transportation project that meets other specified requirements.

DBED must submit an annual report to the House Economic Matters Committee and the Senate Budget and Taxation Committee on the status of the Smart Growth Economic Development Infrastructure Fund by December 1 each year, beginning in 1999.

Background: Chapter 759 of 1997 (SB 389) established priority funding areas in the State ("Smart Growth" areas). With certain exceptions, the Act prohibits State funding for growth-related projects outside the priority funding areas designated by each county.

The bill adds MEDCo as a qualified recipient of financial assistance for projects located in qualified distressed counties. Currently, MEDCo is utilized by counties throughout the State for real estate development projects. Because MEDCo is statutorily considered a political subdivision, it can take on debt for projects in counties that are at their debt ceilings and could not take on additional debt to finance the project.

Table 1 shows the 18-month average unemployment rate and the 24-month average per capita personal income for each county in Maryland. Under the bill, seven counties would currently qualify as distressed. These counties are highlighted in the table. The 18-month average unemployment rate is through November 1998; the 24-month average is for 1995 and 1996 - the most recent data available from the Maryland Office of Planning.

Table 1: Unemployment Rate and Per Capita Personal Income by County

County	18-month Average Unemployment Rate	150% of MD Average	24-month Average Per Capita Income	67% of MD Average
Allegany	8.61%	6.90%	$18,298	$18,171
Anne Arundel	3.65%	6.90%	$27,071	$18,171
Baltimore City	8.55%	6.90%	$22,455	$18,171
Baltimore County	4.79%	6.90%	$28,456	$18,171
Calvert	3.74%	6.90%	$23,815	$18,171
Caroline	4.24%	6.90%	$16,493	$18,171
Carroll	3.75%	6.90%	$24,768	$18,171
Cecil	6.88%	6.90%	$20,938	$18,171
Charles	3.48%	6.90%	$23,168	$18,171
Dorchester	9.10%	6.90%	$18,988	$18,171
Frederick	3.10%	6.90%	$24,051	$18,171
Garrett	11.12%	6.90%	$16,327	$18,171
Harford	4.83%	6.90%	$23,207	$18,171
Howard	2.70%	6.90%	$31,908	$18,171
Kent	6.00%	6.90%	$23,646	$18,171
Montgomery	2.38%	6.90%	$39,779	$18,171
Prince George's	4.51%	6.90%	$24,207	$18,171
Queen Anne's	3.82%	6.90%	$24,859	$18,171
St. Mary's	3.94%	6.90%	$20,347	$18,171
Somerset	8.81%	6.90%	$14,665	$18,171
Talbot	3.74%	6.90%	$32,124	$18,171
Washington	4.21%	6.90%	$19,518	$18,171
Wicomico	5.40%	6.90%	$20,778	$18,171
Worcester	9.61%	6.90%	$23,311	$18,171
MARYLAND	4.60%		$27,122	

Source: Department of Labor, Licensing, and Regulation; Maryland Office of Planning

State Expenditures:

Appropriations to the Fund:

It is assumed that the fund would need an appropriation from the State, at least in its first several years of existence. Any such appropriation could be significant, particularly because the fund may make loans for infrastructure costs, which often involve substantial amounts of money. There are two existing funds, administered through DBED, that are similar in nature to the proposed Economic Development Infrastructure Fund: the Maryland Industrial and Commercial Redevelopment Fund (MICRF) and the Maryland Industrial Land Act (MILA) fund. For the two funds combined, the proposed fiscal 2000 budget includes almost $15 million in approved loans and grants. In order to establish a viable fund, it is estimated that annual appropriations of $3 million to $5 million for several years would be necessary. The proposed fiscal 2000 budget includes $5 million in PAYGO general funds to start a similar fund, the Maryland Economic Development Assistance Loan Fund, that has been proposed by the Administration (SB 134).

Administrative Expenses:

General fund administrative expenditures could increase by an estimated $135,837 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the cost of three new employees (two administrators and one administrative aide) to administer the fund. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$100,200
Operating Expenses	35,637
Total FY 2000 Administrative Expenditures	**$135,837**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Other Expenditures:

To the extent that this legislation spurs new employment and economic development in the State, expenditures on certain assistance programs could decrease.

State Revenues: New employment and economic development would generate increased tax revenues. Future year revenues would increase from interest payments to, and investment earnings of, the fund.

Local Effect: Local piggyback revenues for the qualified counties would increase if State tax revenues increase as a result of this bill. In addition, property tax revenues for the affected jurisdictions could increase if the bill promotes additional economic development within the priority funding area.

Local expenditures, in the form of interest payments on the loan, would increase for the counties that qualify for the fund loan.

Small Business Effect: To the extent that qualifying counties contract with small businesses for these economic development projects, there would be a positive impact. Existing small businesses would also benefit indirectly if the bill increases development and economic activity in the qualified counties.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Office of Planning, Department of Legislative Services

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