HB 486

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 486 (Delegate Rosenberg, *et al.*)
Environmental Matters

Blighted Areas Redevelopment Fund

This bill creates the Blighted Areas Redevelopment Fund to eradicate blight caused by abandoned buildings. It requires the Governor to annually set aside $50 million in the capital budget from fiscal 2005 to 2008 to support grants to local jurisdictions.

Fiscal Summary

State Effect: General obligation bond revenues would increase by $50 million beginning in FY 2005 and ending in FY 2008. General fund and special fund expenditures related to debt service would increase by $2 million beginning in FY 2005. General fund expenditures would increase by $63,100 in FY 2005 to hire staff and for administrative costs. Out-year expenditures reflect additional personnel hired in 2006 and increased debt service. Special fund revenues from interest and expenditures for grants are estimated to be $2 million in FY 2005 and increase annually.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
SF Revenue	$0	$2,000,000	$4,000,000	$6,000,000	$8,000,000
Bond Rev.	0	50,000,000	50,000,000	50,000,000	50,000,000
GF Expenditure	0	63,100	122,900	124,000	131,600
SF Expenditure	0	2,000,000	4,000,000	6,000,000	8,000,000
GF/SF Exp.	0	2,000,000	4,000,000	9,000,000	14,000,000
Net Effect	$0	$47,936,900	$45,877,100	$40,876,000	$35,868,400

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

Local Effect: Significant increase in revenues for local governments that qualify for grants from the fund to clean up blighted areas. The number and amount of grants awarded would vary by jurisdiction.

Small Business Effect: Potentially meaningful. Building contractors who are small businesses would benefit from the additional demolition and development anticipated from use of the fund.

Analysis

Bill Summary: The bill creates a continuing nonlapsing fund to be used only for providing grants to local jurisdictions to eradicate blight from abandoned buildings. The fund, to be administered by the Secretary of Housing and Community Development, will consist of money appropriated in the State budget, investment earnings, and any other money from any source accepted for the fund's benefit. The bill requires the Governor to include $50 million in the capital budget for fiscal 2005, 2006, 2007, and 2008.

A local jurisdiction may use a grant only to redevelop: (1) an unoccupied building or vacant lot for which taxes are in arrears for least two years; (2) an unoccupied building that is unfit for habitation, has deteriorated to the point that it is structurally unsound or its rehabilitation cost would exceed the post-rehabilitation market value, and for which the owner has been issued a violation notice requiring rehabilitation or demolition; (3) a vacant lot on which a building has been demolished; or (4) any building in a block of rowhouses if at least 70% of the block qualifies due to one of the conditions described above and has been determined to require a whole-block remedy by the local subdivision.

The fund must be invested in the same manner as other State money; any investment earnings the fund generates must be credited to the fund. Expenditures from the fund can only be made in accordance with the State budget.

Current Law: No fund is currently dedicated specifically to redeveloping abandoned buildings or sights under the terms described by the bill. However, Chapter 567 of 2001 created the State Community Legacy Program under the Department of Housing and Community Development (DHCD) that can provide funds to redevelopment projects. Funds can be used to create, improve, or preserve housing opportunities, including the acquisition, construction, rehabilitation, or improvement of new or existing homeownership or rental properties, and to strategically demolish properties, buildings, or improvements to enhance the use of land. Community legacy projects can be sponsored by local governments or a community development organization.

Background: Blight from abandoned buildings is a nationwide issue, particularly in older cities. The city of Philadelphia recently launched a $295 million, five-year plan to demolish 14,000 largely abandoned homes, renovate 2,500 buildings, and clear 31,000 vacant lots. In May 2002, Mayor John Street approved a bond ordinance that authorizes the city to issue bonds to pay for blight elimination, redevelopment, land assembly, housing investment, and neighborhood preservation activities. The bonds will support $160 million of building demolition – the remainder of the funds will be used mostly for housing preservation, including loans to homeowners.

State Fiscal Effect: No expenditures will be incurred in fiscal 2004. However, the bill will prompt three types of expenditures beginning in fiscal 2005: (1) general fund debt service (for 15 years) on the general obligation bonds; (2) general fund operating costs to implement the Blighted Areas Redevelopment Fund; and (3) special fund expenditures to provide grants to local governments. The debt service payments are as follows:

FY 2005	FY 2006	FY 2007	FY 2008
$2 million	$4 million	$9 million	$14 million

Beginning in 2010, the payments will reflect both interest and the principal and will increase to $5 million per bond issuance or $20 million annually. The Department of Legislative Services (DLS) notes that this payment schedule assumes debt service payments will be made in the same fiscal year the bonds are issued; however, there can be up to a six-month delay between issuance and payment.

General fund expenditures would also increase by $63,095 beginning in fiscal 2005 to hire the personnel required to administer the program. DHCD advises that it would require a full-time person to oversee and initiate the program and two part-time administrative staff starting in 2006. This assumption is based on using the interest generated by the program, rather than the full amount of principal in the fund, to provide grants. If DHCD distributes grants using only the interest, it advises that up to 100 units can be rehabilitated annually for over 20 years.

If the entire capital budget allocation is used every year, the number of units would double but the life of the program would be much shorter and fewer total units could be rehabilitated. Accordingly, additional staff would be needed if the entire fund is spent annually; the staff would be mostly contractual rather than full time because the program will expire sooner, assuming no additional capital funds are allocated.

Special fund revenues generated by interest will fluctuate according to interest rates and the balance of the principal. Assuming a 4% rate between fiscal 2005 and 2008 and no change in the principal, the fund will generate $2 million of interest that is compounded annually. DLS notes that interest rates are currently low but may increase in the out-years; however, the interest earnings will diminish once the principal draws down.

Local Fiscal Effect: Local jurisdictions, particularly older communities, could receive significant revenue to demolish and rehabilitate dilapidated buildings. Baltimore City, for example, has 14,000 vacant or abandoned buildings and lots. It costs approximately $10,000 to demolish a building, unless it had lead or asbestos contamination, which will drive up the cost. Rehabilitation is considerably more expensive, averaging $150,000 per home. Commercial property rehabilitation can cost the same or considerably more.

Assuming only the interest earnings from the fund are used for grants, local governments would be eligible for approximately $2 million in grants in fiscal 2005. Grant funds would increase annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 26, 2003
lc/cer

Analysis by: Ann Marie Maloney

Direct Inquiries to:
(410) 946-5510
(301) 970-5510