

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

House Bill 1548
Economic Matters

(Delegate Bohanan)

Finance

Economic Development - Local Redevelopment Authorities

This bill authorizes the Secretary of Business and Economic Development to create local redevelopment authorities (LRAs) as State instrumentalities to develop military installations slated for closure or realignment and establishes powers and obligations for such authorities. It also extends the termination date of the Maryland Military Installation Strategic Planning Council to December 31, 2008 and requires the council to issue a final report to the General Assembly by December 1, 2008.

Fiscal Summary

State Effect: No direct fiscal impact, however to the extent that the bill creates LRAs that spur employment and economic development, tax revenues could increase and Department of Business and Economic Development (DBED) expenditures could increase to invest in LRAs. Minimal increase in general fund revenues from fees associated with incorporation. Staffing of the council could be handled with existing resources.

Local Effect: While there is no direct fiscal impact, local expenditures could increase to defray operating costs of LRAs. To the extent that the bill authorizes the creation of LRAs that spur employment and economic development, local tax revenues could increase.

Small Business Effect: Potentially meaningful.

Analysis

Bill Summary: An LRA is a public corporation established under the bill and in accordance with criteria set by the U.S. Department of Defense (DOD) or a military service under the federal Defense Base Closure and Realignment Act of 1990. The bill states the General Assembly's intent that an LRA structure projects to accelerate the transfer of facilities and sites from the federal government into productive reuse to maximize economic opportunities for State citizens.

A project is an undertaking to establish economic activity on property to be conveyed to an LRA by DOD or a military service. A project includes for-profit and not-for-profit economic activity on the property and:

- land or an interest in land;
- structures, machinery, equipment, and furnishings;
- real or personal property, rights-of-way, franchises, and easements;
- land and facilities that are functionally related and subordinate to the project; and
- necessary patents, licenses, and other rights.

DBED must file proposed articles of incorporation with the State Department of Assessments and Taxation (SDAT). Each LRA is to be run by a board of directors made up of specified members. The board of directors may amend the articles of incorporation and appoint an executive director of the LRA. The LRA has certain powers, including, but not limited to, the power to:

- apply for and accept loans, grants, or financial assistance;
- lend net earnings to finance projects, and enter into mortgages and other financing agreements;
- acquire and sell property, including by agreement with DOD or a military service;
- acquire, improve, maintain, and operate projects; and
- collect rates, rentals, fees, or charges for the use of its services or facilities.

An LRA may not be required to pay any taxes or assessments on its properties or activities or any related revenues except that land or a facility sold or leased to a private entity is subject to State and local property taxes.

An LRA's net earnings after paying off obligations may not benefit any person other than the county or counties where a project is located. The Maryland Economic Development Corporation (MEDCO) may issue bonds to finance all or part of the costs of a project.

The bill establishes procedures for how LRAs would handle their monies, including requiring a system of financial accounting and systematic audits. LRAs are not exempt from any State and local regulations to which private corporations are subject, including zoning and subdivision regulations of the local jurisdiction where the project is located.

The bill exempts LRAs from certain provisions of the State Finance and Procurement Article as follows. An LRA is not required to submit information to the Maryland Department of Planning about federal aid applied for or received. An LRA is not subject to specifications for State buildings to ensure accessibility for individuals with disabilities. An LRA does not have to abide by State guidelines for procurement. An LRA does not have to coordinate capital programs with the Department of Budget and Management (DBM) or with the General Assembly

The State is not required to pay annual operating costs of furnishing water and sewer to an LRA or for expanding a water or sewage treatment facility. The State is not responsible for any assessments, charges, or fees levied by local jurisdictions against an LRA or any LRA debt. The Bureau of Revenue Estimates, within DBM, and the Board of Public Works have no oversight or responsibilities associated with LRAs. LRA expenditures and revenues are not included in the State budget or subject to State guidelines on disbursements, expenditures, or on unspent fund balances.

Bainbridge Development Corporation, Holabird Working Group/Baltimore Development Corporation, and PenMar Development Corporation are not redevelopment authorities under this bill.

Current Law: The federal Defense Base Closure and Realignment Act of 1990 allows DOD and the military service operating the base in question to transfer military bases and assets that were closed under a Base Realignment and Closure (BRAC) process to LRAs for economic redevelopment. Such LRAs may be units of state and local government.

Chapter 494 of 1999 established the Bainbridge Development Corporation to serve as an LRA for the Bainbridge Naval Testing Center. Chapter 737 of 1997 established the PenMar Development Corporation to serve as the LRA for Fort Ritchie.

Chapter 335 of 2003 established the Maryland Military Installation Strategic Planning Council to examine issues related to expansion of military installations. The council was charged with identifying the following items:

- public infrastructure and other community support necessary to improve mission efficiencies and develop existing installations in the State;

- existing and potential impacts of encroachment on military installations in Maryland;
- potential State and community actions that can minimize the impacts of encroachment and enhance the long-term potential of military installations; and
- opportunities for collaboration among military contractors, academic institutions, local governments, the State, and military departments.

Chapter 315 of 2004 required the Secretary of Business and Economic Development to designate an entity within DBED to be the single contact for issues relating to realignment and closure of federal military installations in the State. The council serves as that point of contact.

Background: BRAC processes occur periodically and are designed to streamline the military by closing costly and redundant bases. In 2005, DOD is set to go through another Base Realignment and Closure process (BRAC 2005). The U.S. Congress will appoint a commission to select bases for closure and consolidation; although the names of the commissioners have not yet been announced, the President's final recommendations were due to the Congress on March 15, 2005. The U.S. Secretary of Defense's initial list for base closures will be announced May 16, 2005. According to DOD, final commission recommendations about BRAC 2005 are scheduled for October 20, 2005, and the President will approve or disapprove of these recommendations. The commission will terminate on April 16, 2006.

DOD estimates that the military has 25% excess capacity. Eight federal military installations, in addition to the U.S. Naval Academy, operate in Maryland, including three Army and three naval facilities, one Coast Guard station, and one Air Force base. DBED estimates that these installations employ approximately 100,000 people.

During the last BRAC process, three State facilities were closed; however, several bases in the State were expanded and Maryland experienced a net gain. PenMar Development Corporation and Bainbridge Development Corporation were charged with helping transition two of the closed bases to private use.

The federal government offers grant funding for LRAs through the Office of Economic Adjustment in DOD. DBED advises that the funding for each LRA can total up to \$1 million.

State Revenues: An LRA would have to pay SDAT \$100 to incorporate, and a \$100 fee for amendments to the articles of incorporation. Further, the LRA would have to file an annual report with SDAT, which is accompanied by a \$300 fee. However, the effect of these fees is assumed to be minimal.

To the extent that an LRA was able to be established and return a base closed by BRAC 2005 to private use in a speedier manner, State revenues could increase from tax revenue from businesses associated with the property. Any such impact cannot be reliably estimated at this time.

There could be a decrease in tax revenues due to the exemption of LRAs from State and local taxes on property, activities, and related revenues; however, properties owned by the U.S. government are currently exempt from taxation. To the extent that LRA property is sold or leased to a private entity, additional property tax revenues would be generated.

State Expenditures: There is no direct increase in State expenditures from the bill. The bill establishes procedures for the creation of LRAs, but does not actually create one.

DBED advises that an LRA would be eligible for up to \$1 million in federal assistance, which would offset expenditures, including operating costs.

DBED could provide a grant for start-up costs as it did for PenMar Development Corporation in fiscal 1998 (\$25,000); however, any such grants are assumed to be minimal. LRAs and any potential developments would be eligible for financial assistance from DBED. In fiscal 1998, PenMar received a \$1.5 million Sunny Day loan for a specific project located on the site of the base. However, whether or not an LRA receives a loan is at the discretion of DBED and it is assumed that any assistance could be handled with existing resources.

Any bonds issued through MEDCO would presumably be used to fund improvements to the site and other necessary activities to attract private-sector entities to locate on the site. It is assumed that the assets used to cover such bonds would be the closed military base once the property is transferred to the LRA from the federal government.

DBED advises that while it could handle the initial investment in an LRA with existing resources, future year expenditures could rise due to the need for DBED to provide funding for an executive director of an LRA. However, given that each LRA would be entitled to significant federal money to cover operating costs, Legislative Services advises this is unlikely. Staffing of the council and additional reporting requirements could be handled with existing resources.

Local Fiscal Effect: According to the PenMar Development Corporation, Washington County contributes funds to cover 25% of the operating costs. A similar level of local participation could be necessary in any county where a closed base is located.

Having procedures in place to establish LRAs quickly would enable a base closed by BRAC 2005 to be transitioned into public or private usage. Returning a base to use more quickly could increase tax revenues generated by the property and surrounding region.

There could be a decrease in property tax revenues due to the exemption of LRAs from State and local taxes on property, activities, and related revenues; however, properties owned by the U.S. government are currently exempt. To the extent that LRA property is sold or leased to a private entity, additional property tax revenues would be generated.

Small Business Effect: Decreasing the time that it takes to establish an LRA would speed the transition of a base closed by BRAC 2005 to private use; this could enable small businesses to relocate onto the property sooner, which could possibly increase economic activity.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Department of Defense, St. Mary's County, Military Department, Department of Business and Economic Development, State Department of Assessments and Taxation, Department of Legislative Services

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