

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1203

(Delegate Holmes, *et al.*)

Environmental Matters

Real Property - Condemnation - Procedures and Compensation

This bill makes several changes to the provisions governing procedures and compensation in condemnation cases.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State expenditures related to the exercise of condemnation through eminent domain could increase under the bill. The increase cannot be reliably estimated but could be significant depending on the number, types, and locations of persons displaced by a condemnation action. Revenues would not be affected.

Local Effect: Local government expenditures related to the exercise of condemnation through eminent domain could increase under the bill. The increase cannot be reliably estimated but could be significant depending on the number, types, and locations of persons displaced by a condemnation action. Local government revenues would not be affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill states that it is the intent of the General Assembly that: (1) a viable business or farm operation should be preserved whenever reasonably practicable and should not be acquired through condemnation for urban renewal or economic

development purposes unless other alternatives are shown not to be reasonably practicable; and (2) when it is necessary to acquire an existing business through condemnation, the government unit must make every reasonable effort to ensure that the business or farm operation is incorporated in the urban renewal or economic development project at its existing location or at a nearby location.

A government unit may not condemn private property if the property will be sold, leased, transferred, or otherwise conveyed to or for the benefit of a private party for purposes of economic development unless the governmental unit finds that: (1) the property is part of (and necessary to carry out) a comprehensive development plan with substantial and direct public uses and benefits; (2) the property is not being taken solely or primarily to benefit a private party; (3) the development plan could not be carried out by private developers and condemnation is necessary to accomplish the plan; (4) the effect of condemnation on a business or farm operation and whether the plan could be restructured to avoid their condemnation have been considered; and (5) the displaced owner or tenant of a business or farm operation has been given a reasonable opportunity to be included in the plan. The government unit must make a written record of its findings, and the standard of judicial review is the standard used for administrative decisions. In its review, the court must make specified determinations.

The damages in a condemnation action in which the land taken, or any part thereof, is used for a business or farm operation must include the loss of goodwill, as defined under the bill, if the business or farm owner, or tenant operating a business or farm proves that the loss: (1) is caused by the taking or the injury to the remainder of the property; and (2) may not reasonably be prevented by relocating or by taking steps and adopting procedures that a reasonably prudent person would take and adopt to preserve goodwill. The owner or tenant must also prove that compensation for the loss will not be included in relocation payments or duplicated in any other compensation awarded to the owner or tenant. A tenant operating a business or farm operation is entitled to compensation for the loss of goodwill regardless of the fact that the tenancy may be terminated as a result of the taking. Compensation awarded to a tenant for loss of goodwill cannot diminish compensation awarded to the owner.

These damages include, for a three-year period following the taking, compensation for the present value of reasonably anticipated reductions in net operating income that are caused by the taking and relocation of the business or farm.

The State, its instrumentalities, or its political subdivisions must file a condemnation action within three years after the date of the specific administrative determination to acquire the property. If an action is not filed within that three-year period, the

prospective plaintiff may not proceed until it first obtains a new authorization to condemn the property.

If any party to a condemnation action makes a written request, the action must be tried as soon as the action is at issue and must take precedence over all other civil cases. The court must set a trial date for the action within 90 days after the action is at issue. The bill states that it is the intent of the General Assembly that these provisions are mandatory.

The bill repeals the limits on payments for actual relocation expenses necessary to reestablish a displaced farm, nonprofit organization, or small business to persons displaced by a condemnation action. The bill also increases the maximum amount, from \$20,000 to \$50,000, of the alternative fixed payment that a displaced person may elect to receive. In addition, a person displaced by a condemnation action must be compensated for the reasonable cost of: (1) a substitute item of tangible personal property if the item is necessary for continued operation of the business or farm; and (2) moving a business or farm to ensure uninterrupted operation if the owner can reasonably establish that continuous operation is necessary to remain viable.

When land or any part of it is used for a business or farm is condemned, a representative of the displacing agency must contact the owner at least 30 days before the filing of the action and negotiate in good faith regarding a plan under which the business or farm operation may be relocated. The bill states that it is the intent of the General Assembly that these provisions are mandatory.

Current Law: The power to take, or condemn, private property for public use is one of the inherent powers of state government and, through the State its political subdivisions. Courts have long held that this power, known as “eminent domain,” is derived from the sovereignty of the state. Both the federal and State constitutions limit the condemnation authority. Both constitutions establish two requirements for taking property through the power of eminent domain. First, the property taken must be for a “public use.” Secondly, the party whose property is taken must receive “just compensation.” In either event, the party whose property is being taken is generally entitled to a judicial proceeding prior to the taking of the property. However, the Maryland Constitution does authorize “quick-take” condemnations in limited circumstances prior to a court proceeding.

Public Use

There is no clear cut rule to determine whether a particular use of property taken through eminent domain is a “public use,” and Maryland courts have broadly interpreted the term.

The Court of Appeals has recognized takings that encompass a “public benefit” or a “public purpose.” Maryland’s courts have given great deference to a legislative determination as to whether property should be taken for a particular public purpose.

The courts have stated that government may not simply transfer property from one private party to another. For example, in *Van Witsen v. Gutman*, 79 Md. 405 (1894), the Court of Appeals invalidated a condemnation by Baltimore City in which the court found the transfer would have benefited one private citizen at the cost of others. However, transferring property from one private party to another is not necessarily forbidden. In *Prince George’s County v. Collington*, 275 Md. 171 (1975), the Court of Appeals authorized the county to use its eminent domain authority to take private property to be used for economic development purposes, even though the property was not blighted. The *Collington* court enunciated the following rule: “projects reasonably designed to benefit the general public, by significantly enhancing the economic growth of the State or its subdivisions, are public uses, at least where the exercise of the power of condemnation provides an impetus which private enterprise cannot provide.” *Id.* at 191.

Just Compensation

The damages to be awarded for the taking of land are determined by the land’s “fair market value.” By statute, fair market value of the condemned property (property taken through eminent domain) is the price as of the valuation date for the highest and best use of the property that a willing seller would accept from a willing buyer, excluding any change in value proximately caused by the public project for which the property is needed. Goodwill is not generally compensable.

Relocation Assistance

When land is acquired by condemnation, the condemning agency must pay a displaced person for: (1) actual reasonable moving expenses for moving the person, the person’s family, business, farm operation, or other personal property; (2) actual direct loss of tangible personal property as a result of moving or discontinuing a business or farm operation, up to the agency’s determination of the reasonable expenses that would have been required to relocate the personal property; (3) actual reasonable expenses in searching for a replacement business or farm; and (4) actual reasonable expenses necessary to reestablish a displaced farm, nonprofit organization, or small business at its new site, up to \$10,000.

In lieu of those allowable expenses, a person who is displaced from a place of business or farm operation and meets criteria established by the agency may elect to accept a fixed payment from the agency. Such payments range from \$1,000 to \$20,000, or the amount

provided under the federal Uniform Relocation Assistance Act, whichever is greater. The limits are the same under the federal Act.

A person at whose expense any personal property, dead body, grave marker, or monument must be removed as a reasonably necessary consequence of condemnation is generally entitled to an allowance for the cost of removing and placing the item or body in another location. The allowance does not include any compensation for loss of profit, goodwill, or for the acquisition of another location.

Standard of Review for Administrative Decisions

The Court of Appeals voiced a comprehensive standard of review for administrative decisions in *Ramsay, Scarlett, & Co. v. Comptroller*, 302 Md. 825 (1985). If the agency decision resolved a question of law, the reviewing court must apply a “substitution of judgment standard” under which the court may substitute its judgment. *Id.* at 833, 837-39. In reviewing an agency decision about a fact, the court must determine whether the finding is supported by “substantial evidence,” which means “such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.” *Id.* at 834. When a court is reviewing an application of law to a fact, the court must determine whether “a reasoning mind could reasonably arrive at the [agency’s] conclusion.” *Id.* at 837-39.

Background: Recently, the U.S. Supreme Court ruled in *Kelo v. City of New London*, 125 S. Ct. 2655 (2005) that New London, Connecticut’s use of its condemnation authority under a state law to require several homeowners in an economically depressed area to vacate their properties to make way for mixed use development did not violate the U.S. Constitution. In essence, the *Kelo* decision left the determination to state law as to whether eminent domain may be used for economic development purposes. An earlier decision, *Berman v. Parker*, 75 S. Ct. 98 (1954), had already found that taking a nonblighted property in a blighted area as part of an overall economic development scheme does not violate the U.S. Constitution.

Several measures have been introduced in Congress that would limit the use of eminent domain. To date, only one has passed. The appropriation measure that funds the Department of Transportation, the Judiciary, and the Department of Housing and Urban Development for federal fiscal 2006, P.L. 109-115, prohibits funds provided under that Act being used for projects that seek to use eminent domain for economic development that primarily benefits private entities, under certain circumstances.

Historically, the State has used its condemnation authority primarily for the construction of roads and highways. However, this has not always been the case. More recent examples include the construction by the Maryland Stadium Authority of Oriole Park at

Camden Yards, M&T Bank Stadium, and the Hippodrome Theater in Baltimore City. The Maryland Economic Development Corporation, even though charged with the task of encouraging increased business activity and commerce and promoting economic development in the State and authorized by law to condemn property, reports that it has not exercised the eminent domain power.

According to responses to surveys conducted this interim by the Maryland Municipal League and the Maryland Association of Counties, local governments also have seldom exercised the power of eminent domain. When used, the purposes have been primarily for small, targeted public projects – for example, to construct an airport, a fire station, or a parking lot. On a larger scale, Baltimore City has exercised its condemnation powers for the redevelopment of the Inner Harbor and the Charles Center. Montgomery County used its condemnation authority as part of the downtown Silver Spring redevelopment.

In 2000, Baltimore County attempted to exercise eminent domain powers for revitalization in three aging residential areas; however, this project was petitioned to a local referendum and was rejected by the county voters at the general election that year by a margin of more than two to one and did not move forward.

Chapter 446 of 2004 established a Task Force on Business Owner Compensation in Condemnation Proceedings. The task force made several recommendations regarding business owner compensation; however, it did not develop comprehensive legislation containing those recommendations. Some of those recommendations are reflected in this bill. The task force did not develop any estimates as to the cost of its recommendations or current payments to business owners displaced by condemnation actions.

State Fiscal Effect: The number of condemnation actions that the State may bring varies from year to year. The number and types of businesses granted relocation assistance as part of a condemnation action will also vary but is a frequent part of the condemnation process.

For illustrative purposes, over the past five fiscal years, the amount spent by the State Highway Administration on business relocation ranged from a low of approximately \$130,000 in fiscal 2003 to a high of approximately \$601,000 in fiscal 2001. The precise amount attributable to business reestablishment costs is unknown. It is expected that these amounts could increase greatly under the bill. However, the Federal Highway Administration, by regulation, may pay a proportional share of these costs in the same proportion as its share of the project costs. Any increase in the State's payments for relocation and reestablishment costs would be lessened by the amount paid by the federal government. The federal share for an eligible highway project may vary but is generally 80% of the project's costs.

Because goodwill is not generally compensable under current law, this would represent a new expense to a condemning authority. The monetary value of goodwill can vary widely depending on the nature and location of the business. The expense could be substantial, even with a limited number of businesses or farm operations involved.

Any additional expenses related to making findings and reviewing those findings are assumed to be minimal and absorbable within existing budgeted resources.

Local Expenditures: The number of condemnation actions that local jurisdictions may bring varies by jurisdiction and from year to year. The number and types of businesses granted relocation assistance as part of a condemnation action will also vary but is a frequent part of the condemnation process. The cost to a local government could be significant, depending on the timing, location, and scope of a particular project.

Small Business Effect: Small business owners whose relocation expenses exceed the statutory limits would benefit to the extent that their expenses exceed the statutory limits, especially if the owner rents the current business locations.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): City of College Park, Calvert County, Caroline County, Montgomery County, Prince George's County, Maryland Municipal League, Maryland Association of Counties, Judiciary (Administrative Office of the Courts), Office of the Attorney General, Department of Business and Economic Development, Department of Budget and Management, Maryland Department of Transportation, University System of Maryland, Department of Legislative Services

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