Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 815 (Senator Ruben, *et al.*)
Judicial Proceedings Environmental Matters

Real Property - Condominium Conversions - Income Eligibility for Extended Leases - Purchase of Rental Facility by Local Government or Housing Agency

This emergency bill alters provisions governing income eligibility for extended leases and purchases by local governments when a rental facility is converted to a condominium.

The bill applies to any residential rental facility for which the notice to the tenants about the conversion has not been given on or before March 16, 2006.

Fiscal Summary

State Effect: State property tax revenues could decrease to the extent developers are unable to convert rental units to a condominium regime because of the bill. Any such decrease is assumed to be minimal, but cannot be accurately estimated.

Local Effect: County and municipal property tax revenues in Montgomery County could decrease to the extent developers are unable to convert rental units to a condominium regime because of the bill. Any such decrease is assumed to be minimal, but cannot be accurately estimated.

Small Business Effect: Minimal.

Analysis

Bill Summary: Except in Baltimore City, the bill authorizes a county or incorporated municipality to select, by law, ordinance, or resolution, which income eligibility figure prepared by the Secretary of State to use in the county or municipality for purposes of determining eligibility for an extended lease when rental housing is being converted to a condominium. The bill also adds an option to the figures that a county or municipality may select from – the uncapped low income limits as adjusted for family size calculated by the U.S. Department of Housing and Urban Development for assisted housing programs. If a county or municipality does not select a figure, the income eligibility is 80% of the median household income for the county. In Baltimore City the figure must approximate 100% of the median household income for the Baltimore Metropolitan Statistical Area. The bill also makes conforming changes to the notice that must be sent to tenants of a converting property.

When a county or municipality exercises its right to purchase a rental housing facility before conversion to a condominium, the county, municipality, or housing agency making the purchase may, as an alternative to retaining the entire property as a rental facility for at least 3 years, retain or provide for the retention of at least 20% of the units in the facility as rental units for 15 years for income-eligible households.

Current Law: Before a residential rental facility is subjected to a condominium regime, the owner, and the landlord of each tenant in possession of any portion of the residential rental facility, if not the owner, must give the tenant a required notice of the conversion. The notice must be delivered after registering the condominium with the Secretary of State and sent together with an offer to allow the tenant to exercise the tenant's right of first refusal to purchase the property.

A developer may not grant a unit in a rental facility occupied by a "designated household" (a household that includes a senior citizen or handicapped citizen) without offering the tenant of the unit a lease extension for a period of at least three years if the household meets the following criteria: (1) has an annual income that does not exceed the income eligibility figure developed by the Secretary of State; (2) is current in its rent payment and has not violated any other material term of the lease; or (3) has provided the developer an affidavit containing specified information about its eligibility for an extended lease.

The Secretary of State must prepare an income eligibility figure for each county and standard metropolitan statistical area of the State. The eligibility figure must reasonably approximate 80% of the median income for each county and standard metropolitan statistical area. A county or municipality that is in a standard metropolitan statistical area may by ordinance or resolution adopt the income eligibility figure applicable to the county or standard metropolitan statistical area.

A developer must grant extended leases to up to 20% of the total number of units within a condominium to designated households. If the number of units occupied by qualifying designated households exceeds 20%, the number of units available for extended leases must be allocated as determined by the local governing body. If the local governing body does not provide for the allocation, the units must be allocated by the developer based on continuous length of residence.

The developer must pay designated households that meet income qualifications $375 when the household vacates the unit and for moving expenses in excess of $375 that are actually and reasonably incurred, up to $750. The household must make a written request for reimbursement. If a designated household does not meet income qualifications, the developer must reimburse moving expenses actually and reasonably incurred, up to $750. The household must make a written request for reimbursement.

A county or incorporated municipality may provide, by local law or ordinance, that a rental facility may not be granted to a purchaser for the purpose of subjecting it to a condominium regime unless the county, municipality, or housing agency has first been offered in writing the right to purchase the rental facility on substantially the same terms and conditions. If the county, municipality, or housing agency purchases the rental facility it must retain or provide for the retention of the property for at least three years.

Also, a county or incorporated municipality may declare a rental housing emergency caused by the conversion of rental housing to condominiums. After declaring a rental housing emergency, the county or municipality may grant a designated family a right to an extended lease for a period in addition to the three-year period mentioned above. The county or municipality may also extend any other provision governing units leased by designated households, including those requiring the payment of moving expenses incurred by designated households. However, the developer is still not required to set aside more than 20% of the total number of units. The term of an extended lease for a family made a designated family by a county or municipality may not exceed three years.

Background: The Secretary of State advises that there are over 2,000 condominiums in Maryland. Of the 194 applications for a condominium regime received by the Secretary of State in 2005, approximately 33 were for conversions of rental facilities. Of the 21 applications received to date in 2006, 5 have been for conversions.

The State real property tax rate is $0.132 per $100 of assessed value. All State property tax revenues are credited to a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

Additional Information

Prior Introductions: None.

Cross File: HB 1006 (Delegate Lawton, *et al.*) – Environmental Matters.

Information Source(s): Secretary of State, Montgomery County, Department of Legislative Services

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