HB 1592

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1592 (Chair, Health and Government Operations Committee)
(By Request – Departmental – Military)

Health and Government Operations

Military Department - Sale of Superfluous Property and Disposition of Proceeds

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This departmental bill amends the process for the sale of armories and establishes a Military Department Supplemental Capital Construction and Maintenance Fund to defray a portion of the Military Department's capital construction and repair costs.

Authorization for the fund terminates on September 30, 2018.

Fiscal Summary

State Effect: Special fund revenues accruing to the new fund would be offset by reductions in Annuity Bond Fund proceeds. Increases in expenditures from the new fund would be offset by reductions in general, federal, and general obligation bond expenditures for facility construction and maintenance. Additional increases in State expenditures could result from the purchase of surplus armories at fair commercial market value.

Local Effect: Potential increase in expenditures for those counties or municipal corporations that purchase surplus armories at fair commercial market value.

Small Business Effect: The Military Department has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill amends procedures for the disposition of surplus armories, establishing a right of first refusal by the State as well as the jurisdiction in which the armory is located. The armory must be offered to these units of government at a fair commercial market value. If this offer is declined, the Department of General Services is required to sell the property by a method that produces the highest potential revenues, including auction, sealed bid, or public or private sale. These provisions do not terminate.

Military Department Supplemental Capital Construction and Maintenance Fund

The bill also establishes a Military Department Supplemental Capital Construction and Maintenance Fund, administered by the Adjutant General, to account for the proceeds from the sale of any of the department's property, land, or buildings. This special fund would also include amounts received from the lease, rental, or short-term use of department facilities. Unless otherwise authorized, proceeds must be reinvested in the service from which proceeds were gained.

Funds would be used to offset the department's capital construction, repair, renovation, and relocation expenses. Funds would also be authorized for use in providing the State share of federally funded military construction projects and for reimbursement of the federal government's expenditures under the master construction cooperative agreement. Expenditures of $250,000 or less may be authorized by the Adjutant General, in accordance with the State budget.

Current Law: With some exceptions, State law permits the Board of Public Works to transfer any property, and all rights of physical custody and control over the property, from a unit of the Executive Branch of the State government to another unit of the Executive Branch of the State government. The transferred property remains subject to the continuing general jurisdiction of BPW.

The Military Department is authorized to sell superfluous armories with the prior approval of BPW. The county or municipal corporation in which the armory is located has the right of first refusal to purchase the armory. If the county or municipal corporation declines to purchase the property, the Military Department must make a public sale of the property for the highest cash price obtainable. These proceeds must be placed in the Annuity Bond Fund to meet the debt service requirements on State bonds.

Background: The 2004 *Joint Chairmen's Report* included committee narrative that indicated that the National Guard could realize savings by closing some armories and applying those savings to upgrade remaining facilities. The resulting report from the Military Department identified $10.0 million in outstanding maintenance projects, with the need for reinvestment growing at an estimated rate of $3.5 million per year. The report suggested using the proceeds from the sale of nonviable armories to invest in remaining facilities and new construction.

The Military Department operates and maintains 34 armories in 19 counties and Baltimore City. These facilities, comprising more than 300 buildings and 4,000 acres of land, house more than 200 Military Department employees and are used by 5,500 members of the Maryland Army National Guard. The Military Department collected approximately $150,000 of rental income from these facilities in fiscal 2007, reflected as special fund income in the department's budget. The last sale of an armory occurred in May 2003, when BPW approved the sale of the Highfield Armory for $15,000 to a private party. Previous transfers to local governments have generally been made for a purchase price of $1.

State Revenues: Annuity Bond Fund revenues would potentially decrease beginning in fiscal 2009 to reflect the redirection of proceeds to the new fund. Given the purchase price of recent sales, the amount of revenues would not be expected to be significant; however, provisions that require superfluous armories to be sold at a fair commercial market value could significantly increase the amount of revenue generated by the sale of these armories. Lease revenue already accrues to the Military Department and use of these funds is not expected to be significantly affected by this bill.

State Expenditures: General, federal, and general obligation bond expenditures could decrease to reflect the use of proceeds from the new fund for construction and repair costs. The magnitude of this change would depend on the amount and value of the property sold by the Military Department.

State expenditures could also increase for State agencies interested in acquiring surplus armory property and facilities. These properties are now authorized for transfer to another State agency under BPW direction. If interested, these agencies would now be required to purchase the facility at a fair commercial market value, with a potentially significant increase in acquisition costs.

Local Fiscal Effect: Counties and municipal corporations that purchase surplus armory facilities and property generally do so for a price of $1. To the extent that these local governments remain interested in purchasing these facilities, acquisition costs would increase to reflect the fair commercial market value of these properties.

Additional Comments: The bill does not specify the use of the fund's balance as of its termination date of September 30, 2018. It is assumed that any remaining proceeds would revert to the Annuity Bond Fund.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Military Department, Board of Public Works, Maryland Fiscal 2009 Operating Budget, Department of Legislative Services

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