

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 3

(Senator Rosapepe)

Finance

Environment and Transportation and
Ways and Means

Maryland Smart Growth Investment Fund – Supplementary Appropriation

This bill requires the Department of Commerce (Commerce) to issue a request for proposals (RFP) for a management entity to establish the Maryland Smart Growth Investment Fund, as specified. The Board of Public Works (BPW) is authorized to issue up to \$7.0 million in general obligation (GO) bonds to provide funds to the Smart Growth Investment Fund; however, Commerce is not required to invest the bond proceeds if the committed capital in the fund is less than \$25.0 million on December 31, 2021. **Provisions establishing the fund take effect June 1, 2019; provisions authorizing BPW to issue GO bonds take effect June 1, 2020.**

Fiscal Summary

State Effect: No effect in FY 2019. Bond revenues and expenditures increase by \$7.0 million in FY 2020. General fund expenditures increase by \$0.3 million in FY 2020, \$0.7 million in FY 2021, \$0.5 million in FY 2022, and about \$0.9 million annually thereafter. Included in those amounts are debt service payments beginning in FY 2021 and continuing through FY 2035, totaling \$10.4 million.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Bond Rev.	\$7.0	\$0	\$0	\$0	\$0
GF Expenditure	\$0.3	\$0.7	\$0.5	\$0.9	\$0.9
Bond Exp.	\$7.0	\$0	\$0	\$0	\$0
Net Effect	(\$0.3)	(\$0.7)	(\$0.5)	(\$0.9)	(\$0.9)

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

Local Effect: The bill does not directly affect local government finances or operations.

Small Business Effect: Minimal.

Analysis

Bill Summary: The investment fund established by the management entity under the RFP must be (1) based on the recommendations of the 2013 report of the Maryland Smart Growth Investment Fund Workgroup and (2) for the purpose of investing in State priority funding areas (PFAs), as defined for the purposes of the Job Creation Tax Credit. That PFA definition is similar but distinct from the general PFA definition in the State Finance and Procurement Article.

To carry out the purposes of the bill, Commerce may create, own, control, or be a member of a corporation, limited liability company, partnership, or any other entity, whether operated for profit or not for profit.

Current Law/Background:

Maryland Smart Growth Investment Fund Workgroup

Chapter 592 of 2013 established the Maryland Smart Growth Investment Fund Workgroup to make recommendations for the design and creation of an investment fund that would encourage and support smart growth in targeted areas. The workgroup included members of the General Assembly, representatives from the Department of Housing and Community Development (DHCD), Commerce, local governments, and the private sector, among others. The workgroup report can be found on the Department of Legislative Services (DLS) [website](#).

The workgroup recommended that the Maryland Economic Development Corporation (MEDCO) should “sponsor” the fund and act as an intermediary between the State and the private sector. At the time, MEDCO agreed to develop a plan for the creation of the fund and to select a fund manager and to determine investment criteria. However, according to MEDCO, the fund was not established. MEDCO advises that this was due to DHCD deciding to use internal funds, as discussed below.

The *2017 Joint Chairmen’s Report* (page 164) asked DHCD to provide information related to why the fund had not been established. DHCD’s response to that request indicated that DHCD had “met the programmatic intent” of the Maryland Smart Growth Investment Fund Workgroup by establishing the Neighborhood Business Loan Program under its expanded Neighborhood Business Works Program authority. The program provides loans for business lending projects funded through a combination of private capital sourced by the Community Development Administration in DHCD and State special and GO bond funds. The DHCD response can be found on the DLS [website](#).

Priority Funding Areas

Generally, PFAs are the geographic areas eligible for many State economic development incentive programs. PFAs are predominantly located in the center of the State or in compact municipal clusters in the State's more rural counties, as shown in the **Appendix – State Priority Funding Areas**. The PFA definition used by the bill is not the general PFA definition in the State Finance and Procurement Article. The bill uses the PFA definition specifically for the Job Creation Tax Credit, which is similar, but not identical.

State Fiscal Effect:

General Obligation Bond Funding – General Funds for Debt Service

The bill authorizes BPW to issue \$7.0 million in GO bonds to provide funds for the Smart Growth Investment Fund. Accordingly, bond revenues and expenditures increase by \$7.0 million in fiscal 2020, assuming the bonds are issued expeditiously and the proceeds are provided to the fund.

Generally, GO bonds are funded through the State property tax, which accrues to the Annuity Bond Fund. However, for the past several years, property tax revenues have been insufficient to fully fund debt service, which has required annual general fund appropriations to make up the difference. Therefore, this analysis assumes that the debt service on the GO bonds authorized under the bill is paid for with general funds. Assuming a typical 5.0% interest rate on 15-year bonds, with the first two years being interest-only, debt service payments are \$350,000 annually in fiscal 2021 and 2022 and about \$745,000 annually from fiscal 2023 through 2035, totaling \$10.4 million.

The annual limit on GO bond authorization is recommended annually by the Capital Debt Affordability Committee (CDAC). The CDAC debt affordability criteria limit debt service to 8% of State revenues and 4% of State personal income. The CDAC recommendation is then taken under advisement by the legislative Spending Affordability Committee (SAC), which sets a limit for GO bond authorization for the next fiscal year. For fiscal 2020, SAC adopted a GO bond authorization limit of \$1.085 billion. The Governor introduced the Fiscal 2020 Capital Budget (House Bill 101 and Senate Bill 126) authorizing GO bonds consistent with the SAC limit. DLS notes that the GO bonds authorized in the bill would result in the General Assembly exceeding the limit adopted by SAC for fiscal 2020 and have not been considered as a part of annual capital budget process.

DLS further notes that bill does not provide detail on eligible uses for the bond proceeds by the Maryland Smart Growth Investment Fund, although the related workgroup report recommended that the fund concentrate primarily in real estate development.

Smart Growth Investment Fund Establishment and Administration

General fund expenditures increase by \$336,229 in fiscal 2020, which reflects a four-month start-up delay. This estimate reflects the cost of hiring one contract manager to oversee the RFP process and provide related, ongoing oversight. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. It also includes \$250,000 for the management entity hired by Commerce to establish the fund, an estimate based on Commerce’s previous experience with hiring a vendor to assist with setting up the tax credit sale for the InvestMaryland program, and the likely timing of such expenditures.

Position	1
Salary and Fringe Benefits	\$80,870
Fund’s Management Entity	250,000
Operating Expenses	<u>\$5,359</u>
Total FY 2020 Administrative Expenditures	\$336,229

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses. Fiscal 2021 expenditures also reflect an additional \$250,000 for the fund’s management entity. This analysis assumes that these costs are *not* funded through the GO bonds authorized under the bill, as these are operating, and not capital, costs.

Although the bill requires the Maryland Smart Growth Investment Fund to be established, it does not establish the fund as a special fund in statute. This analysis assumes that the fund is not a budgeted special fund, nor is it considered a “nonbudgeted fund” for purposes of the annual State budgeting process. To the extent that this is not the case, State nonbudgeted revenues and expenditures increase to reflect the receipt and expenditure of GO bond proceeds and, as contemplated by the bill, at least \$25.0 million received from investors.

In future years, if there is sufficient money in the fund, a portion of the fund’s earnings may be able to be used to pay for Commerce’s annual expenditures associated with its oversight role. This has not been reflected in the above estimates.

Additional Comments: One possible scenario under the bill is that BPW issues GO bonds in fiscal 2020 as authorized, but then committed capital to the Smart Growth Investment Fund is less than \$25.0 million on December 31, 2021. At that point, Commerce is not required to invest the bond proceeds, but debt service on the GO bonds will already have begun and will continue through fiscal 2035.

Additional Information

Prior Introductions: SB 632 of 2018, a similar bill as amended, had a conference committee appointed, but no further action was taken. Its cross file, HB 817, received a hearing from the House Appropriations Committee, but no further action was taken.

Cross File: HB 117 (Delegate Lafferty) - Environment and Transportation and Ways and Means.

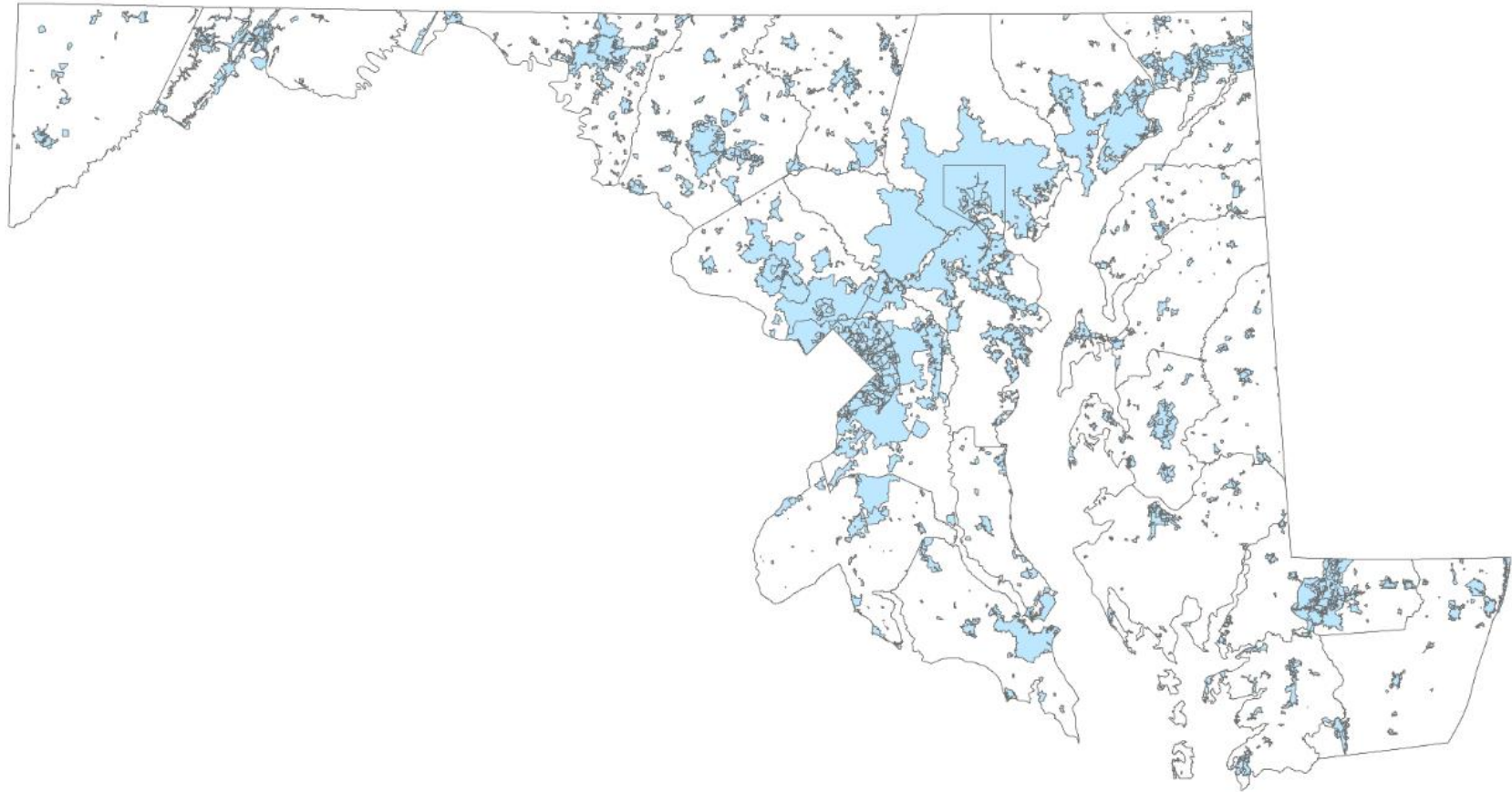
Information Source(s): Department of Commerce; Department of Housing and Community Development; Maryland Economic Development Corporation; Department of Information Technology; Department of Legislative Services

Fiscal Note History: First Reader - January 24, 2019
sb/vlg Third Reader - March 29, 2019
Revised - Amendment(s) - March 29, 2019

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Appendix – State Priority Funding Areas



Source: Department of Information Technology (MD iMAP)

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