**SB 901**

# Department of Legislative Services

Maryland General Assembly
2021 Session

## FISCAL AND POLICY NOTE
## Third Reader - Revised

Senate Bill 901 (Senator Hester, *et al.*)

Education, Health, and Environmental Affairs and Budget and Taxation | Appropriations and Environment and Transportation

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**Public Safety - Emergency Management - Resilient Maryland Revolving Loan Fund**

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This bill establishes the Resilient Maryland Revolving Loan Fund within the Maryland Emergency Management Agency (MEMA). The revolving loan fund is a special, nonlapsing fund with the stated purpose of providing loans for local resilience projects that address mitigation of all hazards, including natural disasters. **The bill takes effect June 1, 2021.**

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## Fiscal Summary

**State Effect:** No effect in FY 2021. The FY 2022 capital budget authorizes $25.0 million in general obligation (GO) bonds for the Resilient Maryland Revolving Loan Fund, contingent on the enactment of this bill; accordingly, bond expenditures increase by $25.0 million in FY 2022, and special fund revenues to the fund increase correspondingly. Special fund expenditures also increase, but the amount spent in any given year is unknown, as is the need for any additional capitalization funding in the out-years. General fund administrative expenditures increase by $88,400 in FY 2022; future years reflect ongoing costs. If federal funds are awarded to the State (not reflected below), the need for general funds to cover administrative costs decreases.

| (in dollars) | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 |
|---|---|---|---|---|---|
| SF Revenue | $25,000,000 | - | - | - | - |
| GF Expenditure | $88,400 | $79,500 | $81,900 | $84,800 | $87,800 |
| SF Expenditure | - | - | - | - | - |
| Bond Exp. | $25,000,000 | $0 | $0 | $0 | $0 |
| Net Effect | (-) | (-) | (-) | (-) | (-) |

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

**Local Effect:** Local revenues and expenditures increase to the extent local governments apply for and receive loans from the fund for local resilience projects.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** The fund consists of money appropriated in the State budget to the fund, investment and interest earnings of the fund, repayments of principal and interest from loans made from the fund, and any other money from any other source accepted for the benefit of the fund.

MEMA, which administers the fund, must prioritize making loans to projects it determines to have the greatest impact on eliminating hazards. The fund may be used only to provide low- or no-interest loans to local governments and nonprofit organizations for local resilience projects. The loans must be for a fixed loan period. Money expended from the fund is supplemental to and is not intended to take the place of funding that otherwise would be appropriated to local governments for resilience projects. Loans from the fund may be used to satisfy the nonfederal match for federal mitigation grants.

MEMA must establish application procedures and eligibility criteria for loans from the fund. The eligibility criteria must require that a local government or nonprofit organization demonstrate (1) the need for a loan to address hazard mitigation and (2) the ability to repay the loan, if required, at a later date.

The bill establishes the intent of the General Assembly that MEMA apply to the Federal Emergency Management Agency (FEMA) under the provisions of the federal Safeguarding Tomorrow through Ongoing Risk Mitigation (STORM) Act, when funding is available, to capitalize the revolving loan fund. MEMA must grant loans to local jurisdictions, at least in part, to meet federal matching requirements for federal resilience grants, including Building Resilient Infrastructures and Communities.

**Current Law:**

*Safeguarding Tomorrow through Ongoing Risk Mitigation Act*

The STORM Act authorizes FEMA to provide grants to the states to establish revolving funds for hazard mitigation assistance and reduce risks from disasters and other natural hazards. Generally, FEMA may enter into agreements with eligible entities to make capitalization grants for establishing hazard mitigation revolving loan funds for the purposes of reducing disaster risks. An entity that receives a capitalization grant must establish an entity loan fund meeting specified criteria. In addition, entity loan funds must (1) be administered by the agency responsible for emergency management and (2) include only funds provided by a capitalization grant, repayments of loans to the entity loan fund, and interest earned on the entity loan fund. Generally, loans must be low-interest and be for a fixed term. Funds may be used to provide financial assistance for projects or activities that mitigate the impacts of specified natural disasters. Funds may also be used for reasonable costs of administering the fund, as specified. The fund is authorized to be appropriated $100.0 million for federal fiscal 2022 and 2023.

*Federal Hazard Mitigation Assistance Grant Programs*

FEMA administers several grant programs that relate to hazard mitigation. The general purpose of these federal grant programs is to reduce the vulnerability of communities to disasters and their effects and to lessen the response and recovery resources required after a disaster.

The Hazard Mitigation Grant Program (HMGP) provides funding to state and local governments to rebuild that reduces, or mitigates, future disaster losses in their communities. Grant funding is available after a presidentially declared disaster. The HMGP Post Fire Grant provides assistance to help implement hazard mitigation measures after wildfire disasters. The Flood Mitigation Assistance Grant provides funding to state and local governments for projects that reduce or eliminate the risk of repetitive flood damage to buildings insured by the National Flood Insurance Program. The Building Resilient Infrastructure and Communities Grant Program (previously called the Pre-Disaster Mitigation Grant Program) supports state and local governments by developing proactive investment in community resilience.

FEMA requires state and local governments to develop and adopt hazard mitigation plans as a condition for receiving specified nonemergency disaster assistance, including funding for hazard mitigation assistance projects.

*Maryland Hazard Mitigation Plan*

As previously stated, FEMA requires each state to create, and have approved by FEMA, a Standard State Mitigation Plan. Each plan must (1) identify natural hazards, risks, and vulnerabilities of areas in the state; (2) support development of local mitigation plans; (3) provide technical assistance to local and tribal governments for mitigation planning; and (4) identify and prioritize mitigation actions that states will support as resources become available. MEMA published the Maryland Hazard Mitigation Plan in August 2016. Section II of the plan outlines hazard identification and risk assessment in the State. The natural hazards specified in the plan include coastal hazards, floods, winter storms, tornadoes, and wind.

*Maryland Emergency Management Agency*

MEMA, which is part of the Military Department, is responsible for coordinating the State response in any major emergency or disaster. This includes supporting local governments as needed or requested and coordinating assistance with FEMA and other federal partners.

MEMA manages many of the federal grants that fund a broad range of initiatives leading to enhanced protection from and responses to the full range of natural and man-made disasters that could threaten the State's citizens.

**State Fiscal Effect:** Despite the bill's June 1, 2021 effective date, this analysis assumes that there is no fiscal effect in fiscal 2021. The fiscal 2022 capital budget authorizes $25.0 million in GO bonds for the Resilient Maryland Revolving Loan Fund, contingent on the passage of this bill. Accordingly, bond expenditures increase by $25.0 million in fiscal 2022, and special fund revenues to the revolving loan fund increase correspondingly. Special fund expenditures also increase beginning in fiscal 2022, but MEMA may award loans from the fund over several years, with the amount awarded in any given year unknown. Thus, the need for any additional capitalization funding in the out-years is unclear. General fund administrative expenditures increase by $88,367 in fiscal 2022; future years reflect ongoing costs. These effects are discussed in more detail below.

*Capitalization and Use of the Revolving Loan Fund*

As noted above, the fiscal 2022 capital budget authorizes $25.0 million in GO bonds to capitalize the revolving loan fund. The bill also contemplates the use of federal funds that may be available pursuant to the STORM Act to capitalize the revolving loan fund. If federal funds are not awarded to the State, State funds must be used should additional capitalization be needed in the out-years. If further capitalization is provided by authorizing issuance of additional GO bonds, such funding has no effect on total State capital spending, which is established annually through the capital budget process. However, any future GO bonds provided for this purpose are unavailable for other capital projects.

Special fund revenues to the revolving loan fund increase by $25.0 million in fiscal 2022, reflecting receipt of the GO bonds authorized in the fiscal 2022 capital budget. Special fund expenditures also increase beginning in fiscal 2022 as MEMA awards loans to local governments and nonprofit organizations. Given the significant capitalization funding provided in fiscal 2022, it is unlikely that MEMA will spend the full amount of funding in the first year. Rather, loans may be awarded over several years, and a precise estimate of spending from the fund in any given year cannot be made at this time.

Special fund revenues may increase further from loan repayments and interest earned on the fund. To the extent additional capitalization funding is provided in the out-years, special fund revenues and expenditures increase correspondingly.

*Administrative Expenditures*

General fund administrative expenditures increase by $88,367 in fiscal 2022, which accounts for a 30-day start-up delay. This estimate reflects the cost of hiring one grants administrator to seek federal funding and develop and administer the loan program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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| Position | 1.0 |
| Salary and Fringe Benefits | $82,622 |
| Operating Expenses | 5,745 |
| **Total FY 2022 State Administrative Expenditures** | **$88,367** |

Future year administrative expenditures reflect annual salary increases, employee turnover, and ongoing operating expenses. To the extent that more staff is needed, MEMA may request additional resources through the annual budget process.

This analysis assumes that general funds are needed to cover MEMA's administrative costs. However, to the extent that federal funds are awarded to the State pursuant to the STORM Act, MEMA's administrative costs are covered with federal funds instead.

**Local Fiscal Effect:** Local revenues increase to the extent local governments apply for and receive low- or no-interest loans from the fund; local expenditures increase correspondingly as local governments spend the loan funds on resilience projects. Local expenditures increase further to repay the loans, if required.

Loans provided to local jurisdictions by MEMA under the bill may be used to meet federal matching requirements for federal resilience grants. Accordingly, the bill may help local jurisdictions leverage additional federal funds for such projects.

**Small Business Effect:** Any small businesses involved in the development and construction of resilience projects (*e.g.*, construction and building redevelopment contractors) may benefit from increased business activity as a result of the bill.

## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Montgomery and Prince George's counties; City of Bowie; Maryland Municipal League; Military Department; Federal Emergency Management Agency; Department of Legislative Services

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| **Fiscal Note History:** | First Reader - March 3, 2021 |
| an/lgc | Third Reader - March 31, 2021 |
| | Revised - Amendment(s) - March 31, 2021 |
| | Revised - Budget Information - May 10, 2021 |

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