SB 759

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 759 (Senator Hayes, *et al.*)
Judicial Proceedings

Real Property - Ground Rent Redemption Fund - Establishment

This bill establishes the Ground Rent Redemption Fund, administered by the Department of Housing and Community Development (DHCD), as a special, nonlapsing fund to provide grants to individuals for the redemption of ground rent in the State. DHCD must create application procedures and eligibility criteria for grants, including means-based criteria for the automatic eligibility of certain individuals. The bill also requires the Governor to include in the fiscal 2024 budget a $20.0 million appropriation to the fund.

Fiscal Summary

State Effect: General fund expenditures increase by $20.0 million in FY 2024 to reflect the mandated appropriation and may further increase in future years to the extent additional funds are provided; special fund revenues correspondingly increase. Special fund expenditures increase beginning in FY 2024 to reflect the awarding of grants. General fund revenues increase minimally from interest. General fund expenditures may also increase beginning as early as FY 2023 for administrative costs, as discussed below. **This bill establishes a mandated appropriation for FY 2024.**

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	$0	-	-	-	-
SF Revenue	$0	$20.0	-	-	-
GF Expenditure	-	$20.0	-	-	-
SF Expenditure	$0	-	-	-	-
Net Effect	$(-)	$(-)	$(-)	$(-)	$(-)

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

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

Small Business Effect: Minimal.

Analysis

Bill Summary: An individual may apply to DHCD to receive grants necessary to redeem ground rent. Ground rent does not include irredeemable ground rent.

Current Law: Generally, a ground lease creates a leasehold estate in the grantee that is personal – not real – property. The grantor retains a reversion in the ground lease property and fee simple title to the land. Ground rent is paid to the grantor (the ground lease holder) for the use of the property for the term of the lease in annual or semiannual installments. Under a typical ground lease contract, the tenant agrees to pay all fees, taxes, and other costs associated with ownership of the property.

An irredeemable ground rent is a ground rent created under a ground lease executed before April 9, 1884, that does not contain a provision allowing the leasehold tenant to redeem the ground rent. Statutory provisions authorize any ground lease holder of an irredeemable ground rent to record a notice of intention to preserve irredeemability in the land records.

However, to preserve a ground rent's irredeemability, a notice of the intention must have been recorded by December 31, 2010. If the notice was not recorded by that date, the ground rent became redeemable. If a notice was recorded by December 31, 2010, the ground rent remained irredeemable for 10 years, through December 31, 2020. The effectiveness of that notice lapsed on January 1, 2021, unless a renewal notice was recorded within six months before the notice expired. Subsequent renewal notices lapse after 10 years, unless another renewal notice is recorded within six months before expiration. If a notice lapses, the ground rent becomes redeemable. There is no requirement to file a renewal notice of intention with the State Department of Assessments and Taxation (SDAT).

State Fiscal Effect:

Ground Rent Redemption Fund

General fund expenditures increase by $20.0 million in fiscal 2024 due to the mandated appropriation under the bill. Special fund revenues for the Ground Rent Redemption Fund increase correspondingly to reflect receipt of the mandated appropriation; special fund expenditures increase as grants are awarded under the bill. General fund expenditures (and special fund revenues/expenditures) may further increase in future years to the extent that additional funding is provided. General fund revenues increase minimally from interest revenues beginning in fiscal 2024. Despite the bill's October 1, 2022 effective date, it is assumed that grants are not awarded under the bill until the mandated appropriation is available in fiscal 2024.

The Department of Housing and Community Development

DHCD advises that given the creation of a new grant program, it requires additional staff to accommodate an anticipated increase in workload associated with the review of applications and overall administration of the program. Specifically, DHCD advises that it requires two lending and risk analysts, one program manager, and one financial analyst, with associated expenditures of $346,200 in fiscal 2023 and approximately $430,000 annually thereafter. However, the Department of Legislative Services (DLS) notes that DHCD already operates a similar *loan-based* program (the Ground Rent Redemption Loan Program). To some extent, it is assumed that at least some portion of the workload currently required for the existing program transfers to the program created by the bill (particularly if some individuals are eligible for *grants* instead of *loans*). Furthermore, workload attributed to the bill also depends on the extent of any funding received and made available each year and the number of applications and grants awarded. Accordingly, while general fund expenditures associated with staffing/administrative costs may increase, DLS is unable to precisely quantify the need for additional staff beforehand but advises that it is not likely to be of the magnitude anticipated by DHCD.

State Department of Assessments and Taxation

SDAT advises that the creation of the new program likely incentivizes individuals to register currently unregistered ground rents. Accordingly, it advises of the need for additional staff (one ground rent clerk, one office clerk, and one contractual office processing clerk) to accommodate an anticipated increase in workload associated with registering and recording additional ground rents, with associated expenditures of $138,000 in fiscal 2023 and approximately $164,100 annually thereafter. However, without experience under the bill, DLS cannot verify the specific staffing impact as provided by SDAT, although it generally agrees that *to the extent* that a significant number of new individuals register ground rents specifically due to the bill (as SDAT anticipates will happen), general fund expenditures likely increase.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Budget and Management; Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2022
fnu2/jkb

Analysis by: Donavan A. Ham

Direct Inquiries to:
(410) 946-5510
(301) 970-5510