

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 273

(Senator Zucker, *et al.*)

Budget and Taxation

Appropriations

**National Capital Strategic Economic Development Fund - Annual Appropriation
 and Authorized Uses**

This bill increases, from \$7.0 million to \$12.0 million, the mandated annual appropriation the Governor must include in the annual operating or capital budget beginning in fiscal 2025 for the National Capital Strategic Economic Development Fund. It also makes permanent the requirement that the National Capital Strategic Economic Development Fund must be used only for community enhancement projects in sustainable communities located in specified areas of Montgomery and Prince George’s counties. The bill repeals the requirement that, starting in fiscal 2024 and annually thereafter, 100% of the fund be used for community enhancement projects in sustainable communities located, at least in part, within the boundary created by Interstate 495 in the State and the District of Columbia. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: No effect in FY 2024. Pay-as-you-go (PAYGO) general fund and/or general obligation (GO) bond expenditures increase by \$5.0 million annually beginning in FY 2025 due to the increased mandated appropriation. Special fund revenues and expenditures from the fund increase commensurately. **This bill increases an existing mandated appropriation beginning in FY 2025.**

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
SF Expenditure	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Bond/PAYGO	\$0	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Exp.					
Net Effect	\$0	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

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 additional financial assistance as a result of the bill. However, some municipalities in Montgomery and Prince George’s counties may benefit from the changes while others may be disadvantaged.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

National Capital Strategic Economic Development Program

Chapter 732 of 2019 established the National Capital Strategic Economic Development Program. The program provides financial assistance to specified government agencies, entities controlled by housing authorities, and community development organizations in the “national capital region” for community enhancement projects. The “national capital region” is defined as the areas of the State located within a sustainable community in Montgomery or Prince George’s counties. The Governor is required to include annual appropriations of \$200,000 in the operating budget to administer the program and \$7.0 million in either the operating or capital budget to be distributed under the program.

In fiscal 2022 and 2023, 100% of program funding must be used for community enhancement projects in sustainable communities in specified areas of Montgomery and Prince George’s counties. In Prince George’s County, the projects must be located, at least in part, within the boundary created by Interstate 495 in the State and the District of Columbia. In Montgomery County, eligible projects must be within an enterprise zone or the boundary created by (1) Prince George’s County; (2) Maryland Route 200; (3) Interstate 270; (4) Interstate 495 to the Maryland State line; and (5) the District of Columbia.

Beginning in fiscal 2024, 100% of program funding must be used for community enhancement projects in sustainable communities located, at least in part, within the boundary created by Interstate 495 in the State and the District of Columbia.

Sustainable Communities and Priority Funding Areas

A sustainable community is defined as a part of a priority funding area that (1) is designated by the Smart Growth Subcabinet on the recommendation of the Secretary of Housing and Community Development; (2) has been designated as a Base Realignment and Closure Revitalization Incentive Zone; or (3) has been designated a transit-oriented development.

Chapter 759 of 1997 established that State spending on certain growth-related activities must be directed to priority funding areas. Growth-related projects include most State programs that encourage or support growth and development such as highways, sewer and water construction, economic development assistance, and State leases or construction of new office facilities. Priority funding areas include all municipalities that existed in the State in 1997; areas inside the Washington Beltway and the Baltimore Beltway; and areas designated as enterprise zones, neighborhood revitalization areas, heritage areas, and certain industrial areas. Areas that were annexed by a municipality after 1997 may also be designated priority funding areas, as long as the areas satisfy specified requirements in statute generally related to density, water and sewer access, and other related factors.

State Fiscal Effect: The *Capital Improvement Program* (CIP) for fiscal 2024 through 2028 includes \$7.0 million in PAYGO general funds for the program in fiscal 2025 and \$7.0 million annually in GO bonds for the program from fiscal 2026 through 2028.

The bill mandates that funding for the program be included in either the operating budget or the capital budget, but the General Assembly cannot mandate appropriations in the capital budget. If the mandated appropriation for the program (as increased by the bill) is met by including funds in the operating budget, PAYGO general funds must be used. However, the Governor can satisfy the mandated appropriation by including GO bond funding in the capital budget on a discretionary basis. Because the CIP for fiscal 2024 through 2028 assumes that the existing mandate is met with PAYGO general funds in fiscal 2025 and GO bonds beginning in fiscal 2026, it is reasonable to assume that the increased mandated appropriation may be met by including funding in either the operating or the capital budget. Therefore, PAYGO general fund and/or GO bond expenditures increase by \$5.0 million annually beginning in fiscal 2025 to meet the bill's increased funding mandate. To the extent that GO bonds are used, fewer funds are available for other capital programs.

Special fund revenues to and expenditures from the fund increase correspondingly each year. To the extent any additional loans are made under the program due to the additional funding mandated by the bill, special fund revenues increase further from loan repayments. The Department of Housing and Community Development advises it can continue to administer the program with existing resources.

Local Fiscal Effect: To the extent that local governments receive additional financial assistance as a result of the bill, local revenues and expenditures increase correspondingly beginning in fiscal 2025. However, some municipalities in Montgomery and Prince George's counties may benefit from the changes while others may be disadvantaged.

Although not a direct effect, local tax revenues in affected areas may increase from additional economic development initiatives funded by the increased mandated appropriation for the program. However, the exact magnitude of such an effect cannot be reliably estimated.

Small Business Effect: Any small business involved in development activities in jurisdictions eligible for funding may receive additional business due to the increased mandated appropriation established under the bill. However, because the existing program restricts funding to projects in specified areas located in Montgomery and Prince George’s counties, small businesses operating in those areas are more likely to benefit under the bill than entities in other areas of Montgomery and Prince George’s counties.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 1228 (Delegate Queen, *et al.*) - Appropriations.

Information Source(s): Montgomery and Prince George’s counties; Maryland Municipal League; Department of Housing and Community Development; Department of Legislative Services

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