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State Agencies Lax in Tracking Smart Growth Spending

Inconsistent Reporting Makes It Difficult to Determine Why Smart Growth Laws are not having their Intended Effects

College Park, Md. (October 1, 2007) – State agencies have been lax in tracking and regularly reporting where they spend growth-related funds as required by Maryland’s 10-year-old Smart Growth law – a shortcoming that makes it difficult to evaluate why the state’s incentive-based approach is not having much success, according to a new study by the National Center for Smart Growth Research and Education.

“Due to the lack of reporting, it is impossible to determine the share of ‘growth-related’ spending that was spent for projects within [Priority Funding Areas] for any year since the Act was passed. As a result it is impossible to assess what, if any, effect state spending has had on urban development patterns,” concluded the authors of the report, Dr. Gerrit-Jan Knaap and Rebecca Lewis. Knaap is an Urban Studies and Planning professor at the University of Maryland and executive director of its National Center for Smart Growth. Lewis is a graduate student in the School of Public Policy and research assistant at the Center.

The new study also shows that only about 5 percent of the overall state budget each year is targeted for spending on projects inside PFAs under Maryland’s Smart Growth initiative and most of that money consists of spending on transportation projects. The relatively small proportion of the state budget that is restricted to projects within designated growth areas, called Priority Funding Areas (PFAs), may be one reason the PFAs do not seem to be concentrating growth and curbing sprawl development as envisioned when they were created, Knaap said.

Knaap and Lewis said their investigation revealed that state officials could not show with certainty precisely how much of the state budget is subject to the restrictions

of the 1997 Smart Growth law. Nor could most state agencies prove that funds were spent in accordance with the Act, although officials with all agencies subject to the Act maintained that their spending was consistent with the Act's geographic restrictions.

The Maryland Department of Transportation (MDOT) appears to be the only state agency that was subject to the 1997 reporting requirements that regularly publishes data on whether their project spending was within or outside of PFAs, the researchers said. The Department of Housing and Community Development (DHCD) also was able to produce data as to whether funding from six programs subject to the PFA law were within or outside PFAs.

The research showed that expenditures from the state budget subject to the PFA constraints since the law went into effect in 1998 are about \$1.1 billion a year, about \$940 million of which is funding for transportation projects. To put this in perspective, the overall state budget in the current year is approximately \$30 billion. At least 85 percent of the total budget each year is allocated in six major areas: health, public schools, higher education, transportation, human resources, and public safety.

- Approximately 60 percent of the MDOT projects subject to PFA review over the past nine years were inside PFAs. The remaining expenditures were for projects that were already planned and therefore “grandfathered” when the legislation went into effect in 1998, for projects in the transportation budget that had no single specific location, or for projects that were granted exceptions by the Board of Public Works.
- The amount of spending by DHCD that is subject to PFA review is small relative to MDOT, but the figures are understated because they do not include tax credits or bonds directly administered by DHCD. Between 2003 and 2007, for example, DHCD received \$30 million for homeownership programs in the capital budget, but by using housing revenue bonds and capital budget dollars, granted \$1.4 billion in loans through the Maryland Mortgage Program.

The study also noted that expenditures on toll facilities by the Maryland Transportation Authority, which are specifically exempted from PFA review, have increased over time relative to other transportation agencies. This trend is particularly striking from FY2006 to FY2007, when most of the funds for the Intercounty Connector highway project spanning from Montgomery County to Prince George's County moved from the State Highway Administration budget to the Maryland Transportation Authority. As a result, “spending for Maryland Transportation Authority construction projects

equaled approximately 6 percent of total transportation spending subject to PFA review in FY1999, but rose to equal about 50 percent in FY2007,” the report concluded.

The 1997 law created the Priority Funding Areas and required that spending from specific programs within five state agencies – MDOT, DHCD, and the departments of Business and Economic Development, Environment, and General Services – be restricted to those areas. PFAs included all incorporated municipalities, the areas inside the Baltimore and Washington beltways, and other areas designated by Maryland’s 23 counties that met certain specific state criteria. By restricting state spending to PFAs, the hope was that sprawl development could be curtailed and that new development would be more likely to locate in areas where state funding is available. New data compiled by the Maryland Department of Planning, however, indicate the PFAs are not constraining growth as intended.

The lack of consistent reporting, Dr. Knaap said, is in some respects understandable. “Given limited budgets, ever increasing demands for services, and regular staff turnover and reductions, it is understandable why reports sometimes are not completed or filed,” he said. “But when required reports are not filed and state objectives are not met, it is impossible to track the reasons why. That is the case here.”

While the study recommends that the reporting requirements be followed, it also recommends a more fundamental overhaul of the Priority Funding Area strategy, concluding that the governor and the Maryland General Assembly need to “initiate a comprehensive reexamination of the how PFAs are drawn and used to guide state and local land use decisions.” To achieve that, the researchers recommended that:

- PFAs and areas designated for growth in local comprehensive plans be merged;
- The Maryland Department of Planning be authorized not only to review local plans for PFAs, but also to approve them on the current six-year cycle in which local comprehensive plans are already reviewed;
- Local governments be required to complete a public participation process and a development capacity analysis before the MDP may recertify their PFAs; and,
- That “growth-related” spending by state agencies be contingent upon certification by the State Clearinghouse within the Department of Planning that the project is consistent with local plans as required under the state’s 1992 Economic Growth, Resource Protection, and Planning Act.

Since 1998, at least 65 projects have been granted exceptions to the Priority Funding Area law. Most of the exceptions, 39, were requested by the Department of Business and Economic Development. Most exceptions granted to the Department of Environment were for “public health” reasons, such as the extension of sewage treatment lines to areas with failing septic fields. Four transportation projects – the Manchester Bypass, the Intercounty Connector, Maryland Route 32 and the Lusby Connector, were granted exceptions by the Board of Public Works, which is comprised of the governor, comptroller and state treasurer. Because the specific cost of exception requests often is not reported by the Board of Public Works, the Smart Growth Sub-Cabinet or the staff level Smart Growth Coordinating Council, it is impossible to estimate the amount of spending that these exemptions represent or whether or how these exceptions might affect future growth patterns.

The new research was conducted in advance of a major three-day conference that will mark the 10th anniversary of the passage of Maryland’s Smart Growth program. The October 3-5 conference, called Smart Growth @ 10 and co-sponsored by the National Center for Smart Growth and the Washington-based non-profit environmental research organization, Resources for the Future, will feature more than two dozen research papers providing a critical review of various aspects of the state’s growth management effort.

Information about the Smart Growth @ 10 conference as well as the complete study of Priority Funding Area spending may be found at www.smartgrowth.umd.edu.

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