

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1219 (Delegate Ross)
Ways and Means

Real Property - Tax Increment Financing - Effect on State Aid

This bill specifies that the tax increment for real property located in specified designated development districts may not be treated as taxable real property for purposes of calculating the payment of State aid to education or other payments to counties or municipal corporations. Tax increment means for any tax year the amount by which the assessable base as of January 1 of the preceding tax year exceeds the original taxable value divided by the assessment ratio used to determine the original taxable value.

The bill takes effect June 1, 2011, and applies to the calculation of State aid payments beginning in fiscal 2012.

Fiscal Summary

State Effect: The bill may have a significant effect on State education aid depending on the amount of any tax increment in a tax increment financing (TIF) district that is excluded from a county's assessable base in a given year.

Local Effect: Local governments may receive more or less direct State education aid than under current law depending on the number of TIF districts and the value of any tax increments in these districts that is excluded from the assessable base.

Small Business Effect: None.

Analysis

Current Law: The majority of State education aid is distributed through formulas that allocate funding to the 24 local school systems inverse to local wealth per pupil. For the

formulas, local wealth includes net taxable income and the assessable property tax base. **Exhibit 1** shows the wealth per pupil and State education aid per pupil for fiscal 2012. The exhibit shows that per pupil wealth is a significant factor in the determination of per pupil State aid. Other factors, such as student needs, are also factored into State aid allocations.

Background: All counties and municipal corporations are authorized to utilize tax increment financing under Title 12, Subtitle 2 of the Economic Development Article. In Baltimore City, the authority to use tax increment financing is provided in the city charter.

Tax increment financing is a method of public project financing whereby the increase in the property tax revenue generated by new commercial development in a specific area, the TIF district, pays for bonds issued to finance site improvements, infrastructure, and other project costs located on public property. In a TIF district, the local government “freezes” the existing property tax base and uses the property tax revenue from this base as it would normally use such funds. The difference between the current tax base and the frozen base in each future year is termed the incremental valuation. The local government apportions the property tax revenue on the incremental valuation to a special account for certain purposes including to pay debt service on the bonds and to potentially pay for additional public expenditures in the TIF district. The TIF district ceases to exist upon the retirement of the bonds, and after that time, all property tax revenue may be appropriated by normal means.

Exhibit 1
Fiscal 2012 Local Wealth and State Aid Per Pupil

FY 2012 Wealth Per Pupil			FY 2012 State Aid Per Pupil		
<u>Rank</u>	<u>County</u>	<u>Wealth Per Pupil</u>	<u>Rank</u>	<u>County</u>	<u>Aid Per Pupil</u>
24	Allegany	\$288,435	1	Baltimore City	\$12,144
23	Baltimore City	291,014	2	Allegany	10,384
22	Wicomico	312,264	3	Somerset	10,034
21	Caroline	324,109	4	Caroline	9,253
20	Somerset	337,402	5	Wicomico	9,123
19	Washington	361,141	6	Prince George's	8,414
18	Cecil	393,895	7	Dorchester	8,299
17	Charles	397,256	8	Washington	8,092
16	Dorchester	412,238	9	Cecil	7,461
15	Frederick	428,321		State	7,149
14	Harford	434,535	10	Charles	7,068
13	Prince George's	437,339	11	St. Mary's	6,654
12	Carroll	439,029	12	Frederick	6,632
11	St. Mary's	445,122	13	Garrett	6,605
10	Calvert	469,728	14	Harford	6,578
	State	505,337	15	Baltimore	6,434
9	Baltimore	512,928	16	Carroll	6,258
8	Howard	546,509	17	Calvert	6,220
7	Garrett	583,132	18	Kent	5,974
6	Queen Anne's	593,312	19	Howard	5,648
5	Anne Arundel	627,838	20	Montgomery	5,372
4	Montgomery	698,439	21	Queen Anne's	5,317
3	Kent	786,125	22	Anne Arundel	5,171
2	Talbot	1,121,952	23	Worcester	4,281
1	Worcester	1,276,025	24	Talbot	3,712

State Fiscal Effect: The bill may have a significant effect on State education aid depending on the amount of any tax increment in a TIF district that is excluded from a county's assessable base in a given year. Generally, when some amount of the assessable base is excluded from a "wealthy" county's total assessable base, with regards to the

funding formula, overall State aid will decrease, and when some amount of the assessable base is excluded from a less wealthy county's assessable base, overall State fund will increase.

Based on fiscal 2011 assessable base data, as provided by the State Department of Assessments and Taxation (SDAT), only three jurisdictions – Baltimore City and Anne Arundel and Wicomico counties – have TIF districts that have assessments that are higher than when the TIF district went into effect. The estimated fiscal 2011 tax increment for these districts is \$3.3 billion. Excluding this amount from the total assessable base will have the effect of reducing total State education aid by \$981,100 in fiscal 2012. However, it is important to note that in future years this effect may change, dependent on several factors such as the number of TIF districts that are created, where these districts are created and the tax increment resulting from the creation of these districts.

Local Fiscal Effect: The bill may affect the total amount of State education aid distributed to the counties and will also alter the distribution of State education aid to counties depending on the value of the tax increment in each TIF district that is excluded from the education aid formula.

A survey of counties by the Maryland Association of Counties (MACo), as well as data provided by SDAT indicates that eight counties – Allegany, Anne Arundel, Baltimore, Frederick, Harford, Howard, Prince George's, and Wicomico – and Baltimore City are currently using TIF districts. **Exhibit 2** shows the number of TIF districts in each jurisdiction.

SDAT currently tracks the assessable base in TIF districts so that the assessable base growth in these districts can be excluded from the annual constant yield tax rate calculation. According to SDAT, only three jurisdictions – Baltimore City, and Anne Arundel and Wicomico counties – have seen an increase in the assessable base in fiscal 2011 over the year the TIF districts were established, and therefore the only three jurisdictions where the assessable base is affected for fiscal 2012 with regards to the education funding formulas under the bill. The tax increment in Anne Arundel County is estimated at \$3.0 billion; in Baltimore City it is \$313.3 million; and in Wicomico County it is approximately \$8.0 million.

For fiscal 2012, counties are expected to receive approximately \$5.0 billion in direct State aid for education. **Exhibit 3** shows the effect of excluding the fiscal 2011 tax increments amounts for Baltimore City and Anne Arundel and Wicomico counties. As shown in the exhibit, the total amount of State aid decreases by approximately \$981,100 in fiscal 2012. As a result, the distribution of State aid among the counties also changes by a significant amount. As noted, when some amount of the assessable base is excluded

from a “wealthy” county’s total assessable base, with regards to the funding formula, overall State funding will decrease, and when some amount of the assessable base is excluded from a less wealthy county’s assessable base, overall State funding will increase. In future years this effect may change, dependent on several factors such as the number of TIF districts that are created, where these districts are created, and the tax increment resulting from the creation of these districts.

Exhibit 2
Tax Increment Financing Districts

County	Number of Districts
Allegany	2
Anne Arundel	6
Baltimore City	10
Baltimore	1
Calvert	0
Caroline	0
Carroll	0
Cecil	0
Charles	0
Dorchester	0
Frederick	1
Garrett	0
Harford	1
Howard*	1
Kent	0
Montgomery	0
Prince George’s	3
Queen Anne’s	0
St. Mary’s	0
Somerset	0
Talbot	0
Washington	0
Wicomico	1
Worcester	0
Total	26

*Not yet completed.

Exhibit 3
Direct Education Aid
Fiscal 2012
(\$ in Thousands)

County	Current Law	HB 1219	Difference
Allegany	\$78,454.2	\$78,256.6	(\$197.6)
Anne Arundel	304,829.8	312,002.6	7,172.8
Baltimore City	872,264.4	873,981.9	1,717.5
Baltimore	542,551.6	541,040.9	(1,510.6)
Calvert	83,579.6	83,376.0	(203.5)
Caroline	42,583.9	42,495.9	(88.0)
Carroll	142,089.8	141,777.4	(312.4)
Cecil	98,195.0	97,898.8	(296.2)
Charles	156,961.8	156,401.9	(559.9)
Dorchester	31,807.6	31,741.6	(66.0)
Frederick	220,171.4	219,694.7	(476.8)
Garrett	22,407.9	22,357.2	(50.7)
Harford	210,334.2	209,856.3	(477.9)
Howard	217,456.2	216,838.3	(617.8)
Kent	9,645.2	9,611.1	(34.1)
Montgomery	568,668.4	566,579.7	(2,088.7)
Prince George's	875,597.3	873,727.4	(1,869.9)
Queen Anne's	32,427.3	32,332.1	(95.2)
St. Mary's	93,346.1	93,137.1	(209.0)
Somerset	23,936.9	23,878.7	(58.2)
Talbot	11,583.7	11,583.7	0.0
Washington	154,255.8	153,813.5	(442.3)
Wicomico	115,477.3	115,260.8	(216.5)
Worcester	18,604.0	18,604.0	0.0
Unallocated	33,756.3	33,756.3	0.0
Total	\$4,960,985.6	\$4,960,004.5	(\$981.1)

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Budget and Management; Maryland State Department of Education; Maryland Association of Counties; Carroll, Cecil, Harford, and Montgomery counties; Town of Leonardtown; City of Salisbury; Department of Legislative Services

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