

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 199

(Senator Ferguson, *et al.*)

Budget and Taxation

State Education Aid - Real Property Valuation - Tax Increment Financing

This bill alters the wealth component used to calculate the payment of State aid to public schools. Specifically, for real property located in a district created under the Tax Increment Financing Act, the bill sets the definition of “assessed valuation of real property” used in calculating public school aid equal to the “original base” for the property in the tax increment finance (TIF) district, until a bond used to finance the TIF district is fully paid.

The bill takes effect June 1, 2014, and applies to the calculation of State aid payments beginning in fiscal 2015.

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 TIF district that is excluded from a county’s assessable base in a given year. For FY 2015, the estimated reduction in State education aid totals \$1.1 million based on estimated tax increment values in FY 2014.

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. For FY 2015, three jurisdictions would receive more State aid while most counties would receive less State aid.

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 purpose of calculating State aid to public schools, wealth is the sum of 100% of the assessed value of the operating real property of public utilities, 40% of all other real property assessed value, 50% of personal property assessed value, and 100% of net taxable income. **Exhibit 1** shows the wealth per pupil and direct State education aid per pupil for fiscal 2015. 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, also contribute to State aid allocations.

Exhibit 1
Fiscal 2015 Local Wealth and Direct State Aid Per Pupil

| <u>Wealth Per Pupil</u> | | | <u>Direct State Aid Per Pupil</u> | | |
|-------------------------|----------------------|-------------------------|-----------------------------------|----------------------|----------------------|
| <u>Rank</u> | <u>County</u> | <u>Wealth Per Pupil</u> | <u>Rank</u> | <u>County</u> | <u>Aid Per Pupil</u> |
| 24. | Wicomico | \$283,502 | 1. | Baltimore City | \$11,515 |
| 23. | Baltimore City | 285,568 | 2. | Somerset | 10,476 |
| 22. | Caroline | 288,882 | 3. | Caroline | 9,321 |
| 21. | Somerset | 295,023 | 4. | Allegany | 9,208 |
| 20. | Allegany | 297,930 | 5. | Wicomico | 9,208 |
| 19. | Washington | 340,173 | 6. | Prince George's | 8,393 |
| 18. | Dorchester | 363,635 | 7. | Dorchester | 8,324 |
| 17. | Cecil | 379,072 | 8. | Washington | 7,525 |
| 16. | Prince George's | 382,263 | 9. | Cecil | 6,675 |
| 15. | Charles | 386,351 | 10. | Charles | 6,337 |
| 14. | Frederick | 413,288 | 11. | Frederick | 5,876 |
| 13. | St. Mary's | 433,004 | 12. | St. Mary's | 5,758 |
| 12. | Harford | 451,161 | 13. | Baltimore | 5,689 |
| 11. | Carroll | 452,370 | 14. | Harford | 5,475 |
| 10. | Calvert | 463,438 | 15. | Garrett | 5,328 |
| 9. | Baltimore | 507,019 | 16. | Calvert | 5,176 |
| 8. | Howard | 561,258 | 17. | Carroll | 5,156 |
| 7. | Queen Anne's | 575,026 | 18. | Kent | 4,758 |
| 6. | Anne Arundel | 612,060 | 19. | Queen Anne's | 4,538 |
| 5. | Garrett | 628,829 | 20. | Anne Arundel | 4,335 |
| 4. | Montgomery | 718,645 | 21. | Howard | 4,310 |
| 3. | Kent | 825,857 | 22. | Montgomery | 4,234 |
| 2. | Talbot | 1,087,437 | 23. | Worcester | 3,135 |
| 1. | Worcester | 1,114,372 | 24. | Talbot | 3,046 |
| | State Average | \$497,953 | | State Average | \$6,392 |

All counties and municipalities are authorized to utilize tax increment financing under Title 12, Subtitle 2 of the Economic Development Article (the Tax Increment Financing Act). In Baltimore City, the authority to use tax increment financing is provided in the city charter. The “original base” for a TIF district means the assessable base of the district:

- as of January 1 of the year preceding the effective date of the resolution creating the district; or
- if applicable, the original base for a brownfields site as determined by resolution of the political subdivision.

The determination of the original base for a brownfields site by a political subdivision is not a determination of the value of the brownfields site and may not be used to determine a property tax assessment or appeal of a property tax assessment under the Tax – Property Article.

Background: Tax increment financing is a public financing method that uses future gains in tax revenues to finance current improvements. 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.

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 more affluent 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 affluent county’s assessable base, overall State aid will increase.

Based on available fiscal 2014 assessable base data, as provided by the State Department of Assessments and Taxation (SDAT), six jurisdictions – Baltimore City and Anne Arundel, Harford, Howard, Prince George’s, and Wicomico counties – have TIF districts that have assessments that are higher than when the TIF district went into effect. The estimated fiscal 2014 tax increment for these districts is \$5.3 billion. Excluding this amount from the total assessable base will have the effect of reducing total State

education aid by \$1.1 million in fiscal 2015. 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, the tax increment resulting from the creation of these districts, and the number of years it takes for retirement of the bonds that fund each TIF district.

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.

Data provided by SDAT indicates that as many as 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, six jurisdictions – Baltimore City and Anne Arundel, Harford, Howard, Prince George’s, and Wicomico counties – have seen an increase in the assessable base in fiscal 2014 over the year the TIF districts were established. Therefore the assessable base used to determine fiscal 2015 funding formulas for these six jurisdictions is reduced under the bill. The tax increment in Anne Arundel County is estimated at \$4.2 billion, in Prince George’s County at \$777.5 million, in Baltimore City at \$355.7 million, in Harford County at \$28.7 million, in Wicomico County at \$8.7 million, and in Howard County at approximately \$562,000.

For fiscal 2015, local school systems are expected to receive approximately \$5.3 billion in direct State aid for education. **Exhibit 3** shows the effect of excluding the fiscal 2015 tax increments amounts for Baltimore City and Anne Arundel, Harford, Howard, Prince George’s and Wicomico counties. As shown in the exhibit, the total amount of State aid decreases by \$1.1 million in fiscal 2015. Also, the distribution of State aid among the counties changes significantly. State aid in 3 jurisdictions increases (Baltimore City and Anne Arundel and Prince George’s counties), while State aid in 19 jurisdictions decreases. State aid in 2 jurisdictions (Talbot and Worcester counties) remains the same.

As noted, when some amount of the assessable base is excluded from a more affluent 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 affluent 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, the tax increment resulting from the creation of these districts, and the number of years it takes for retirement of the bonds that fund each TIF district.

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 | 2 |
| Worcester | 0 |
| Total | 27 |

Exhibit 3
Direct Education Aid – Fiscal 2015
(\$ in Thousands)

| County | Current Law | SB 199 | Difference |
|-----------------|--------------------|--------------------|-------------------|
| Allegany | \$76,555 | \$76,221 | (\$334) |
| Anne Arundel | 330,265 | 340,649 | 10,384 |
| Baltimore City | 913,764 | 914,818 | 1,054 |
| Baltimore | 593,695 | 590,843 | (2,852) |
| Calvert | 81,901 | 81,555 | (346) |
| Caroline | 48,793 | 48,610 | (183) |
| Carroll | 133,783 | 133,234 | (549) |
| Cecil | 100,788 | 100,248 | (541) |
| Charles | 161,749 | 160,997 | (752) |
| Dorchester | 37,501 | 37,334 | (167) |
| Frederick | 231,954 | 231,095 | (859) |
| Garrett | 20,168 | 20,078 | (90) |
| Harford | 202,876 | 202,137 | (739) |
| Howard | 222,527 | 221,429 | (1,098) |
| Kent | 9,493 | 9,431 | (61) |
| Montgomery | 624,370 | 620,553 | (3,817) |
| Prince George's | 1,001,118 | 1,002,862 | 1,744 |
| Queen Anne's | 33,909 | 33,746 | (162) |
| St. Mary's | 97,257 | 96,878 | (380) |
| Somerset | 28,567 | 28,446 | (121) |
| Talbot | 13,093 | 13,093 | 0 |
| Washington | 165,084 | 164,256 | (828) |
| Wicomico | 128,268 | 127,822 | (446) |
| Worcester | 19,591 | 19,591 | 0 |
| Unallocated | 57,555 | 57,555 | 0 |
| Total | \$5,334,624 | \$5,333,480 | (\$1,144) |

Additional Information

Prior Introductions: A similar bill, HB 1219 of 2011, was withdrawn prior to receiving a hearing from the House Ways and Means Committee.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Business and Economic Development, Department of Budget and Management, Maryland State Department of Education, Department of Legislative Services

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ncs/rhh

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