Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1203 (Delegate Smith)
Ways and Means Finance

Economic Development - Strategic Infrastructure Revolving Loan Program and Tax Increment Financing

This bill establishes the Strategic Infrastructure Revolving Loan Program and Fund in the Maryland Economic Development Corporation (MEDCO) to make loans for targeted investments in real estate and infrastructure projects to support specified economic, community development, inclusion, and equity objectives. MEDCO may set the terms and conditions for loans made under the program. The bill does not mandate funding, nor does it specify an intended level of discretionary funding. The bill also allows MEDCO, with local approval, to pledge specified *alternative* revenues under the Tax Increment Financing Act; pledged funds may be used for specified purposes, including to support the Strategic Infrastructure Revolving Loan Fund. MEDCO must adopt implementing regulations.

Fiscal Summary

State Effect: General fund expenditures for MEDCO increase by $15.0 million in FY 2025 and by $20.0 million annually from FY 2026 through 2029, under the assumptions discussed below. Special fund revenues and expenditures for MEDCO increase correspondingly as funds are received and used by the corporation for authorized purposes. Special fund revenues further increase beginning as early as FY 2025 from any pledged local revenues and beginning as early as FY 2026 from loan repayments. Special fund expenditures increase correspondingly as additional funds are used to provide new loans. In future years, State funding may decrease or cease. The State may also benefit from program loans, as discussed below. All funding is discretionary.

($ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	$15.0	$20.0	$20.0	$20.0	$20.0
GF Expenditure	$15.0	$20.0	$20.0	$20.0	$20.0
SF Expenditure	$15.0	$20.0	$20.0	$20.0	$20.0
Net Effect	($15.0)	($20.0)	($20.0)	($20.0)	($20.0)

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

Local Effect: Local revenues and expenditures may increase beginning in FY 2025, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Strategic Infrastructure Revolving Loan Program

The purpose of the program is to make loans for targeted investments in real estate and infrastructure projects to support transformative place-making, enhance transit-oriented development, enhance community development, and achieve inclusive and equitable economic growth objectives, with a focus on bringing underutilized assets into performance and generating revenue.

Strategic Infrastructure Revolving Loan Fund

The Strategic Infrastructure Revolving Loan Fund is established in MEDCO as a special, nonlapsing fund to provide loans for the cost of infrastructure projects that meet the purposes of the program. MEDCO must administer the fund, which consists of (1) money appropriated in the State budget; (2) premiums, fees, interest payments, and principal payments on loans made under the program; and (3) any other money from any other source accepted for the benefit of the fund. The fund may be used only for loans made under the program.

Program Loans

An applicant is eligible for a loan under the program for projects located in a sustainable community, priority funding area, or transit-oriented development area, as those terms are defined in current law. MEDCO must establish an advisory loan committee to review loan applications and make recommendations on application approval. MEDCO must prioritize projects that:

- activate underutilized property owned by the government and institutions;
- offer significant development or redevelopment value;
- leverage private investment; and
- have the potential for significant job growth or retention.

The bill specifies information that a loan application must contain, including a detailed strategic plan for the targeted investment and the amount of financial assistance requested. MEDCO may set the terms and conditions for loans under the program, including the length of the loan terms and renewals, appropriate fees, and loan amount per applicant. Loans may be used (1) to acquire property, including vacant sites; (2) for design and development of a project; and (3) for rehabilitation, construction, and demolition.

The bill specifies further requirements and authorities for MEDCO in setting the terms of the loans, preparation of loan documents, and remedies in the event of misuse of loaned funds or nonpayment.

Expansion of Tax Increment Financing Authority

The bill also modifies the Tax Increment Financing Act to allow MEDCO, with the approval by resolution of the governing body of a political subdivision, to pledge alternative revenues generated within or otherwise directly attributable to a project located in an approved development district, a transit-oriented development, a Regional Institution Strategic Enterprise (RISE) zone, a sustainable community, or a State hospital redevelopment. The revenues pledged must be paid, as provided in the resolution, into a special account for the development district, transit-oriented development, RISE zone, sustainable community, or State hospital redevelopment to:

- secure the payment of debt service on bonds or MEDCO obligations;
- support the Strategic Infrastructure Revolving Loan Fund established under the bill; or
- be applied to the other purposes stated in current law for local special accounts established under the Tax Increment Financing Act. (Statute uses the term "special fund" but these are not State special funds, so "account" is used in this fiscal and policy note for clarity.)

Current Law:

Maryland Economic Development Corporation

MEDCO is a nonbudgeted entity created in 1984 by the General Assembly to assist business and governmental entities through ownership, financing, and development of real and personal property projects. MEDCO purchases or develops property that is leased to others and makes loans to companies throughout the State to maintain or develop facilities. MEDCO has broad powers to finance projects and most often is a conduit issuer of tax-exempt revenue bonds to an eligible tax-exempt borrower. MEDCO has also issued its bonds to finance its own projects, which it owns and operates. MEDCO-owned projects consist mostly of student housing projects. Generally, MEDCO debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

Tax Increment Financing Act

All counties and municipalities in Maryland are authorized to utilize tax increment financing (TIF) under Title 12, Subtitle 2 of the Economic Development Article (the Tax Increment Financing Act). In Baltimore City, the authority to use TIF is provided in the city charter. Counties and municipalities (including Baltimore City) may issue bonds to finance the development of an industrial, commercial, or residential area.

TIF 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.

Alternative Revenues Pledged to Debt Service or MEDCO Obligations

Additionally, a local government may pledge by or under a resolution that alternative local *tax* revenues generated within, or that are otherwise determined to be attributable to, a development district that is a transit-oriented development, a RISE zone, a sustainable community, or a State hospital redevelopment be paid, as provided in the resolution, into a special account to (1) secure the payment of debt service on bonds or MEDCO obligations or (2) be applied to the other eligible purposes under the Tax Increment Financing Act.

"MEDCO obligation" means a bond, note, or other similar instrument that MEDCO issues under authority other than the Tax Increment Financing Act to finance the cost of infrastructure improvements located in or supporting a transit-oriented development, a sustainable community, a RISE zone, or a State hospital redevelopment.

Targeted Development Areas

Sustainable communities, priority funding areas, RISE zones, and transit-oriented development areas are designated areas that meet specified requirements and are eligible for a variety of State economic and community development programs. Priority funding areas are the largest of the four.

State Fiscal Effect: The bill does not mandate funding or otherwise specify an intended funding level for the program – State or otherwise. MEDCO advises that it does not intend to use its own nonbudgeted funds to implement the program. Additionally, the bill allows for, but does not require, certain local revenues to be used to support the Strategic Infrastructure Revolving Loan Fund. Nevertheless, funding for a viable program that provides loans for infrastructure projects to, among other things, support transformative place-making, is assumed to be substantial.

Therefore, this estimate assumes that $15.0 million in discretionary State funding is provided in fiscal 2025 and $20.0 million is provided annually from fiscal 2026 through 2029 to provide initial funding for the program. In future years, discretionary State funding may decrease or cease as loan repayments, and, potentially, local revenues become available. Actual expenditures will vary to the extent that the timing and/or amount of discretionary funding is different from this estimate.

MEDCO anticipates using existing staff to administer the program, at least initially. MEDCO employees are not State employees. This estimate assumes that MEDCO sets terms and conditions for loans under the program so as to cover its administrative costs with available State funding until other funds are available (loan repayments or local revenues).

Accordingly, general fund expenditures for MEDCO increase by $15.0 million in fiscal 2025 and by $20.0 million annually from fiscal 2026 through 2029. Special fund revenues and expenditures for MEDCO increase correspondingly as funds are received and MEDCO provides loans to eligible recipients and pays for its administrative expenses. For purposes of this estimate, loans are assumed to be made in the fiscal year that general funds are appropriated (even though loans could be made in subsequent years with retained fund balance).

Special fund revenues further increase beginning as early as fiscal 2025 from any pledged local revenues and beginning as early as fiscal 2026 from loan repayments. Special fund expenditures increase correspondingly as additional funds are used to provide new loans.

The bill does not specify whether units of State government may apply for and receive funding under the program, although application requirements appear to assume that only business entities apply. Accordingly, the State may benefit from program loans used for eligible purposes under the program by private-sector recipients, and may benefit from direct program loans made to, for example, a State economic development entity.

Local Fiscal Effect: The bill expands the authority of local governments under the Tax Increment Financing Act by allowing local *alternative* revenues to be pledged to a TIF special account; under current law, only various types of local *tax* revenues, including alternative tax revenues, may be pledged to a TIF special account. However, as an illustrative example, under the bill, a local government may establish additional parking fees and have that revenue pledged by MEDCO to a TIF special account. The bill also allows for alternative revenues to be used (1) for the same purposes authorized under current law for alternative tax revenues (*i.e.*, the payment of TIF bonds or MEDCO obligations, plus any other eligible general purpose) and (2) to support the Strategic Infrastructure Revolving Loan Fund established under the bill.

Accordingly, local government revenues and expenditures may increase, potentially significantly, beginning in fiscal 2025 as local alternative revenues are raised, pledged to TIF special accounts, and used for eligible purposes – including payment of local debt service, MEDCO obligations, and to support the Strategic Infrastructure Revolving Loan Fund.

Additionally, MEDCO must prioritize Strategic Infrastructure Revolving Loan Program applications that activate underutilized property owned by the government and institutions. The bill does not specify whether local governments may apply for and receive funding under the program, although application requirements appear to assume that only business entities apply. Accordingly, local governments may benefit from program loans used for eligible purposes under the program by private-sector recipients, and local revenues and expenditures may further increase from direct program loans made to, for example, local economic development entities.

Small Business Effect: Small businesses may benefit directly from loans made available under the program or from the use of the loaned funds for infrastructure spending. Additionally, small businesses may be affected by the expansion of local authority under the Tax Increment Financing Act – through, for example, additional fees or additional funding made available for infrastructure projects.

Additional Comments: The bill does not define alternative revenues, so it is unclear whether or not the term is inclusive of tax revenues. In either case, tax revenues may already be used for debt service, MEDCO obligations, and other eligible uses under the Tax Increment Financing Act, subject to various specified requirements – the distinction is whether or not tax revenues can be used to support the Strategic Infrastructure Revolving Loan Fund.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland Economic Development Corporation; Department of Housing and Community Development; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - February 29, 2024
km/ljm Third Reader - March 27, 2024
Revised - Amendment(s) - March 27, 2024

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