SB 352

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

Senate Bill 352 (Senator McFadden)
Budget and Taxation

Baltimore City - Property Tax - Exemption for Economic Development Projects

---

This emergency bill creates a property tax exemption for specified "economic development projects" located in an "urban renewal area" in Baltimore City. The bill specifies the type of projects that qualify for the property tax exemption.

Fiscal Summary

State Effect: Potential increase in general and special fund revenues. Expenditures could potentially decrease by an indeterminate amount.

Local Effect: Indeterminate effect on Baltimore City revenues. Expenditures would not be affected.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: An economic development project is defined as a real estate development project consisting of newly constructed or rehabilitated commercial or multifamily residential property that: (1) has or will receive a certificate of occupancy issued on or after January 1, 1999; (2) is located in an urban renewal area; (3) includes at least one of the following projects -- a hotel, an office building, a retail facility, a multifamily residential facility, an off-street parking facility, and a mixed-use facility; and (4) has entered a payment in lieu of taxes agreement (PILOT) with Baltimore City prior to June 30, 1999. These facilities have to meet specified employment and/or capital investment qualifications in order to qualify as an economic development project.

An economic development project qualifies for the real property tax exemption if the owner or owners of the project:

- construct and operate a hotel, office building, retail facility, parking garage, apartment building, or condominium;

- construct and operate the new building in an urban renewal area;

- invest from $2.5 to $20 million in private capital in the development (the amount varying depending on the type of development), with an equity investment of at least 10%;

- provide 100-150 new full-time job opportunities (or 250 parking spaces in the case of parking facilities), depending on the type of development;

- demonstrate to the City Board of Estimates that the exemption is financially necessary and that it will encourage economic development, provide jobs, promote the city, and generally provide public benefits;

- have authorization from the Mayor and City Council stipulating that the development will not involve gambling activities; and

- enter into a PILOT program agreement specifying the owner(s) will pay property taxes to Baltimore City each year of the agreement, in an amount that is not less than taxes on the property before the construction or rehabilitation of the project plus at least 5% of the Baltimore City real property taxes related to the economic development project that would have otherwise been due absent the agreement.

The term of the agreement may not exceed 25 years. Full property taxes shall be paid each year after the expiration of the agreement. In addition, if construction on the project has not commenced within one year from the date of entering into the PILOT program agreement, the agreement will no longer be valid.

The bill defines an "urban renewal area" as an area designated by the urban renewal ordinances enacted by the Mayor and the City Council of Baltimore under the Baltimore City Charter to be: (1) the Camden Station Area; (2) Charles Center; (3) the Financial District; (4) Harbor Campus; (5) Inner Harbor East; (6) Inner Harbor Project; (7) Inner Harbor West; (8) Market Center; (9) Market Center West; (10) the Municipal Center; and (11) Key Highway.

In addition, the bill requires Baltimore City or its designated agency to report to the President of the Baltimore City Council and to the General Assembly on or before January 1 of each year on the status of the PILOT agreements.

Background: Chapter 403 of 1996 authorized Baltimore City and the developer of a project in an urban renewal area to negotiate a tax exemption and a payment in lieu of Baltimore City property taxes. To qualify, the property had to be: (1) under a development plan; (2) located in an urban renewal area; and (3) owned by a person who was engaged in constructing and operating housing structures or projects, who invested in a minimum of $50 million of private capital in the development, and who demonstrated the financial necessity for an agreement.

Under existing State law, in order for the city to grant a PILOT on a commercial project, the city must "own" the property. In a current lawsuit involving the Inner Harbor East (IHE) development, the Baltimore City Circuit Court concluded that unless the city had significant aspects of ownership, the PILOT would not satisfy existing State law. The city immediately appealed the court's decision.

This bill is intended to clarify the provisions in which the city can grant PILOTS within downtown urban renewal areas for types of development called for in the renewal plans (hotels, office buildings, multi-family residential and parking garages), for those projects with a minimum private capital investment of $2.5 million subject to approval of the city council and board of estimates.

State Effect: To the extent that new development and employment is generated due to the city's new property tax PILOT program, general fund revenues could increase through increased income and sales tax collections. In addition, expenditures on certain assistance programs could decrease.

Local Effect: Currently there are a few businesses that could benefit from this bill's property tax PILOT program. The corporation involved in the IHE development has already drawn up an agreement with Baltimore City that would involve $30.4 million in property tax breaks over a 25-year period. Another corporation has been planning on building a $120 million building in the downtown area. However, an agreement has not been drawn up for this property.

Baltimore City revenues could decrease to the extent businesses qualify for Baltimore City's property tax PILOT program. Any decrease in revenues would depend on the amount of eligible property, any differences in assessments of properties before and after construction, the city's property tax rate, and any agreed upon payments made in lieu of tax payments. Any specific decrease cannot be reliably estimated at this time. However, revenue losses could be offset to some degree by gains in employment and increased economic activity if new businesses develop land in the city as a result of this bill.

Baltimore City entered into a Limited PILOT Agreement and Tax Payment Agreement with The Harborview Limited Partnership for fiscal 1996 and 1997, as well as a Limited PILOT Agreement for fiscal 1998, 1999, and 2000. The net subsidy is limited to $500,000 for fiscal 1996 and 1997 and $350,000 for fiscal 1998, 1999, and 2000. Full taxes applied only to taxes due on unsold residential units. This bill grandfathers the Harborview PILOT agreement to allow the Harborview Limited Partnership to qualify for the last subsidy payment in fiscal 2000.

The Harborview Project consists of about 42.6 acres along the south side of the Baltimore Inner Harbor and currently includes a 250 slip marina and a 21,000 square foot dock house and restaurant as well as a considerable amount of undeveloped property. It is owned by seven partnerships.

In addition, Baltimore City revenues could increase to the extent that corporate income tax revenues increase as a result of this bill because a portion of the Transportation Trust Fund is distributed to local governments.

Small Business Effect: Any small business that qualifies and receives a property tax exemption would be positively impacted as a result of this bill. In addition, new economic development in any of the urban renewal areas would positively impact existing small business through an increase in customers.

Information Source(s): Baltimore City, Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History:	First Reader - March 16, 1999
ncs/jr	Revised - Senate Third Reader - March 31, 1999

Analysis by: Joanna Rooney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510