

**Department of Legislative Services**  
Maryland General Assembly  
2000 Session

**FISCAL NOTE**  
**Revised**

House Bill 1301 (Chairman, Rules and Executive Nominations Committee)  
(Departmental - Stadium Authority)

Appropriations

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**Economic Development - Maryland Stadium Authority - Hippodrome Performing Arts Center**

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This departmental bill alters the powers and duties of the Maryland Stadium Authority (MSA) pertaining to the Hippodrome Performing Arts Center Facility. It further allows for the transfer of specified tax credits and exempts transfers of specified properties from transfer and recordation taxes.

The bill is effective July 1, 2000.

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**Fiscal Summary**

**State Effect:** The FY 2001 budget includes \$11.5 million in PAYGO general funds for the construction stage of the Hippodrome project contingent upon enactment of this bill. Increase in MSA bond proceeds of \$11.6 million in FY 2001. Related interest payment of \$462,200 in FY 2002 and debt service of \$1.2 million beginning in FY 2003 and continuing through the term of the bonds. Beginning in FY 2003, the ticket surcharge will generate between \$810,000 and \$900,000 annually to offset debt service costs. Revenue increase of approximately \$8 million in FY 2002 due to the sale of historic preservation tax credits. Reduction in revenue due to the bill's exemption of the Hippodrome property from the State transfer tax.

**Local Effect:** Reduction in revenue due to the bill's exemption of the Hippodrome property from local recordation and transfer taxes.

**Small Business Effect:** The Maryland Stadium Authority has determined that this bill has a

meaningful economic impact on small businesses (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Bill Summary:** This bill authorizes the MSA to issue \$12 million in bonds. The MSA may not close on the sale of such bonds that constitute tax-supported debt of the State unless the following criteria are met: (1) one or more written agreements establishing commitments for payments to the MSA to be used to fund the \$56 million capital costs of the construction of the Hippodrome; (2) a written agreement with the University System of Maryland (USM) where USM agrees to transfer to MSA the fee title to the Hippodrome property; and (3) a written agreement with an authority affiliate whereby the authority affiliate agrees to: (i) market and operate the Hippodrome Performing Arts Center; (ii) maintain and repair the center; (iii) pay the MSA \$2 per ticket sold for admission to the center for the duration of the bonds issued; and (iv) be solely responsible for all expenditures related to the center, including net operating deficits.

The Hippodrome Performing Arts Center Financing Fund may accept proceeds from the sale of bonds. Monies in the fund are to be used to the extent deemed appropriate for the payment of debt service on MSA bonds for the Hippodrome for all reasonable charges and expenses related to the MSA's borrowing and the management of MSA's obligations.

The bill expands the powers of the MSA to allow it to make recommendations on the development and construction of the Hippodrome with respect to location, purpose, design, function, capacity, parking, costs, funding mechanisms, and revenue alternatives.

The bill further allows the MSA to establish and participate in "authority affiliates" with respect to the site acquisition, construction, and development of the Hippodrome facility. An authority affiliate is defined as any for-profit or nonprofit corporation, partnership, limited liability company, or other entity, if the MSA directly or indirectly owns any outstanding shares of capital stock, partnership interests, membership interests, or other equity interests. The MSA is authorized to permit the affiliate to transfer, to any individual or entity, the full amount of any State or local tax credit to which the MSA or the affiliate is entitled. Further, transfers of real property from the MSA to the authority affiliate are not subject to recordation or transfer taxes.

Finally, the MSA must annually submit a report prepared in cooperation with the Office of the Comptroller and the Department of Budget and Management on the additional tax revenues generated by the Hippodrome Performing Arts Center Facility.

**Current Law:** The Hippodrome Performing Arts Center Financing Fund is a continuing, nonlapsing fund from which the MSA must pay any and all expenses related to the Hippodrome Performing Arts Center Facility. The fund consists of: (1) appropriations; (2) interest or other income earned on the investment of money in the fund; (3) any money made available from any public or private source; and (4) any other revenue collected or received from any source related to the facility.

The MSA is authorized to exercise powers of ordinary or quick take condemnation of any private property within the boundaries of the Hippodrome Performing Arts Center site. Such powers may only be exercised after an attempt to acquire the property by means of negotiation and purchase and after prior approval of the Board of Public Works and review by the Legislative Policy Committee.

**Background:** The Hippodrome is seen as the cornerstone of the West Side revitalization effort. The MSA is working in conjunction with the Baltimore Center for the Performing Arts (BCPA) in developing the Hippodrome Performing Arts Center. The new Hippodrome is planned to be a state-of-the-art theatrical facility larger than other theater facilities in the city that will attract larger Broadway touring shows. The facility will be capable of accommodating 420,000 theater patrons annually.

The MSA estimates that the project costs for the Hippodrome will total approximately \$56 million including costs for design, land acquisition, construction, furniture, fixtures, and equipment. Expected funding sources include State appropriations, Baltimore City, the performing arts center's operator, bond revenue, proceeds from historic preservation tax credits, and private contributions. The General Assembly approved \$1.7 million in fiscal 1999 and \$1.8 million in PAYGO funds in fiscal 2000 for the design stage of the project. The Governor's fiscal 2001 budget includes \$11.5 million in PAYGO general funds for the construction stage of the project. **Exhibit 1** is a breakdown of the funding sources that the MSA has identified for the project.

**Exhibit 1**  
**Hippodrome Project Funding**  
**Projected Sources**

Sources	Amount (in Millions)
Prior State Appropriations	\$3.5
New State Grant (FY 2001)	11.5
Future State Grant	1.5
Maryland Stadium Authority (Bonds)	10.0
City of Baltimore	6.0
Private Contributions	7.5
Theater Operator	8.0
Historic Tax Credits	8.0
<b>Total</b>	<b>\$56.0</b>

Plans are currently underway to have the Hippodrome and two surrounding buildings declared as national landmarks. This will entitle the owner of the properties to claim federal and State tax credits for historic preservation.

Construction on the theater and surrounding buildings is expected to begin in July 2000. The MSA anticipates that opening day will be in the fall of 2002.

**State Fiscal Effect:** The MSA expects to issue approximately \$11.6 million in bonds for capitalized interest and for scheduled construction costs in November 2000; provided it secures the agreements as required by the bill. An interest only payment of \$462,200 will be made in fiscal 2002. Beginning in fiscal 2003 the average annual debt service will be \$1.2 million for the term of the bonds. As with other MSA projects, the Hippodrome will be leased to the State and subsequently leased back to MSA. The rent paid under this lease will be equivalent to the debt service on the revenue bonds and will be derived from the State's general fund. The debt service will be partially offset by the \$2 per ticket surcharge for events at the Hippodrome. Based on ticket sales projections, the ticket surcharge will generate between \$810,000 and \$900,000 annually beginning in fiscal 2003.

The \$8 million attributed to Heritage Structure Rehabilitation tax credits will come from tax credit investors. This element of the financing plan requires the Hippodrome property to be owned by a for-profit entity. Property owners can claim a tax credit of up to 25% of

qualifying expenses to rehabilitate a property. The bill establishes the authority affiliate to fill this role. The investors will be transferred the benefits of the credits from the authority affiliate as they are claimed. The MSA advises that the sale of the credits will be in fiscal 2002.

The MSA further advises that it, along with a for-profit subsidiary of the BCPA, and the tax credit investors, will form a limited liability company (the authority affiliate) to own the theater once construction is complete. The limited liability company will then contract with the BCPA or directly with the Theatre Management Group to operate the facility. It is expected that, as part of the contract, the theater operator will cover all annual operating costs and that the MSA will bear no on-going operating risk from the project.

Because the bill requires a transfer of the Hippodrome property in order to realize the tax credit benefit, the bill also exempts the transfer from the State transfer tax. The State transfer tax rate is 0.5% of the consideration payable for an instrument of writing conveying title to, or a leasehold interest in, real property. Exempting this transfer would reduce transfer tax revenue which is credited to Program Open Space, the Agricultural Land Preservation Fund, Heritage Conservation Fund, and the Rural Legacy Program.

**Local Fiscal Effect:** The bill exempts from the local transfer tax and recordation tax transfers of property from the MSA to other entities. This will reduce revenue for Baltimore City. The transfer tax rate in the city is 1.5% of the consideration payable in the transaction, and the recordation tax rate is \$2.50 per \$500 of consideration.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Stadium Authority, Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 7, 2000  
mld/mc Revised - House Third Reader - March 28, 2000  
Revised - Enrolled Bill - May 4, 2000

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