

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 691 (Delegate Pitkin, *et al.*)

Economic Matters and Ways and Means

Budget and Taxation

Smart Growth - Arts and Entertainment Districts

This bill authorizes the Department of Business and Economic Development (DBED) to establish arts and entertainment districts within a county or municipal corporation. Counties and municipal corporations must apply to DBED to have an area designated as an arts and entertainment district. The district must be wholly within a priority funding area and a designated neighborhood. The bill expands the permissible uses of the Maryland Economic Development Assistance Fund to allow DBED to use the fund to provide financial assistance to arts and entertainment enterprises and arts and entertainment projects.

The bill provides for a property tax credit against the county or municipal corporation property tax imposed on a manufacturing, commercial, or industrial building that is located in an arts and entertainment district, and is wholly or partially renovated for use as housing for qualifying residing artists. The property tax credit cannot be granted for more than ten years. A county or municipal corporation may exempt from the admissions and amusement tax gross receipts any admissions or amusement charge levied by an “arts and entertainment enterprise” or qualified residing artist in an arts and entertainment district.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: General fund revenues would increase to the extent new economic development activity occurs related to the establishment of arts and entertainment districts. Administrative costs associated with the bill could be handled with DBED’s existing budgeted resources.

Local Effect: Potential local government revenue decrease due to the subtraction modification against the State income tax. Local government revenues decrease due to the property tax credit being taken against the county or municipal corporation property tax, and the exemption from the admissions and amusement tax.

Small Business Effect: Potential meaningful.

Analysis

Current Law: None applicable.

Background: This bill is modeled after legislation that was enacted in Rhode Island in 1996. Effective January 1, 1997, Rhode Island established an arts and entertainment district in downtown Providence and provided income tax and sales tax incentives for artists to live and work in that district. At the same time, the state authorized property tax exemptions for conversions of commercial or industrial property to residential projects which enabled the City of Providence to provide property tax exemptions for conversions of commercial or industrial property in the arts and entertainment district to residential projects.

According to information provided by Rhode Island Division of Taxation, approximately one dozen artists have received a sales tax exemption. There has been virtually no impact on state revenue. To date, no one has taken the income tax subtraction modification.

State Revenues: If arts and entertainment districts are authorized, general fund revenues could increase through increased income and sales tax collections if new restaurants, theaters, and other businesses are started as a result of this bill or if existing businesses experience increased sales. The amount of this increase, if any, cannot be reliably determined.

Local Revenues: Participating jurisdictions' property tax revenues would decrease to the extent that property tax credits are claimed for buildings that are renovated to provide housing for qualifying residing artists.

Revenue would also decline due to the exemption from the admissions and amusement tax. On the other hand, the participating jurisdictions' property tax revenues could increase to the extent that nonproductive real property becomes productive or property is used more intensively for commercial purposes. This would cause assessments and therefore property tax revenues to increase.

Small Business Effect: Qualifying residing artists are individuals who reside in an arts and entertainment district and conduct a business in the district. The sales tax exemption could increase demand for the artistic work of qualifying artists. Thus, the benefits of this proposed bill would go directly to owners of presumably small businesses in the form of increased sales and increased after-tax income.

The creation of the arts and entertainment district could cause an increase in the number of restaurants, theaters, and similar businesses. Some portion of the new businesses, if any, could be small businesses.

Additional Information

Prior Introductions: A similar bill was introduced as HB 875 during the 1999 session. It received an unfavorable report from the House Ways and Means Committee.

Cross File: SB 586 (Senator Hoffman, *et al.*) – Budget and Taxation.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates); Department of Business and Economic Development; Allegany, Montgomery, and Prince George's counties; City of Takoma Park; Department of Legislative Services

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