

**Department of Legislative Services**  
 Maryland General Assembly  
 2002 Session

**FISCAL NOTE**  
**Revised**

Senate Bill 831

(Senator Hoffman)

Budget and Taxation

Appropriations

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

This bill increases the amount of the bonds that the Maryland Stadium Authority (MSA) can issue for acquisition, construction, and related expenses of the Hippodrome Performing Arts Center from \$12 million to \$20.25 million. It decreases the private commitment that MSA must secure to fund total acquisition and capital costs from \$23.5 million to \$20.1 million and increases the amount of bond proceeds that MSA can use for certain expenses related to the Hippodrome from \$10 million to \$17.4 million.

The bill is effective June 1, 2002.

**Fiscal Summary**

**State Effect:** Bond revenues would increase by \$8.25 million in FY 2003 only. Debt service payments (general funds) for bonds issued by MSA would increase by an estimated \$401,000 in FY 2004 and \$802,000 annually thereafter. This estimate assumes that private funding commitments, which are necessary to issue the bonds, are secured in FY 2003 and that debt service payments begin January 2004.

| (in dollars)   | FY 2003     | FY 2004     | FY 2005     | FY 2006     | FY 2007     |
|----------------|-------------|-------------|-------------|-------------|-------------|
| Bond Rev.      | \$8,250,000 | \$0         | \$0         | \$0         | \$0         |
| GF Expenditure | 0           | 401,000     | 802,000     | 802,000     | 802,000     |
| Net Effect     | \$8,250,000 | (\$401,000) | (\$802,000) | (\$802,000) | (\$802,000) |

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

**Local Effect:** None.

**Small Business Effect:** Minimal or none.

## Analysis

**Bill Summary:** The bill repeals MSA's authority to transfer, to an individual or affiliate, the full amount of any State or local tax credit for acquisition and construction costs related to the Hippodrome. It further specifies that the Maryland Heritage Structure Rehabilitation Tax Credit cannot be claimed for the Hippodrome project.

The bill also stipulates that private entities must agree no later than the date of the MSA's bond issuance, to pay all actual acquisition costs, in addition to capital costs, to the extent that those costs exceed \$60 million. Any savings from acquisition or capital costs upon completion of the Hippodrome must be paid to MSA.

**Current Law:** Chapter 185 of 2000 created the Hippodrome Performing Arts Center Financing Fund to accept proceeds from the sale of bonds and other sources of revenue to pay for the renovation of the facility. The General Assembly authorized MSA to issue \$10 million in revenue bonds to pay for construction and capitalized interest, but attached some conditions to that approval. Before MSA can issue the bonds, an MSA affiliate must agree to be responsible for all center expenditures and pay MSA \$2 per ticket from admission fees. The \$2 surcharge is expected to generate \$810,000 to \$900,000 in annual revenue.

Unless authorized by the General Assembly, the Board of Public Works may not approve bond issuance by MSA for the Hippodrome Performing Arts Center that exceeds \$12 million. MSA must secure one or more written agreements that establish commitments to fund the total capital costs of construction of the Hippodrome and pursuant to which:

- Baltimore City agrees to pay \$6 million;
- the State has deposited to the fund an aggregate amount of \$16.5 million or such lesser amount as is available to MSA and is not subject to any budget contingencies;
- MSA agrees to issue bonds and to use \$10 million of the proceeds for specified costs of the Hippodrome; and
- one or more private entities, which may include an MSA affiliate: (1) contribute at least \$8 million, and agree, not later than the date of MSA's bond issuance, to pay an additional \$15.5 million; and (2) agree to pay all actual capital costs of construction of the Hippodrome to the extent such costs are in excess of \$56 million.

Other agreements regarding title transfer to the University System of Maryland and transfer of operational expenditures and promotion responsibilities are also required.

State law permits MSA, which is tax-exempt, to transfer tax credits for which it would otherwise be eligible to a business or individual who could then claim the credit. Under the State heritage tax credit, a person can claim an income tax credit of up to 25% of the costs incurred to restore a certified heritage structure.

**Background:** Restoration and re-opening of the Hippodrome, a former Vaudeville playhouse, is the cornerstone of the West Side revitalization in Baltimore. The Hippodrome will be converted into a 168,000-square-foot theater that is expected to attract large Broadway touring shows. Much of the project is supported by State, local, and private contributions and revenue bonds. MSA advises that it expects the Hippodrome to open in January 2004.

Renovation of the center was estimated to cost \$56 million in 2000; the estimate has risen to \$60.5 million due to increased material and labor costs, historic renovation work, and higher than expected acquisition costs for neighboring property. Part of the \$4.5 million excess will be funded by a \$500,000 grant from Baltimore County and \$2 million in private contributions. The table below depicts the cost elements of the original financing plan presented during the 2000 legislative session:

**Original Hippodrome Performing Arts Center Financing Plan  
2000 Session**

| <u>Sources</u>                                      | <u>(\$ in Millions)</u> |
|---|-------------------------|
| State General Fund PAYGO (Fiscal 1999 through 2001) | \$16.5                  |
| Maryland Stadium Authority Revenue Bonds            | 10.0                    |
| City of Baltimore                                   | 6.0                     |
| Private Contributions                               | 7.5                     |
| Theater Operator                                    | 8.0                     |
| Historic Tax Credits                                | <u>8.0</u>              |
| <b>Total</b>  | <b>\$56.0</b>           |
| <br><u>Uses</u>                                     |                         |
| Hard Construction Costs                             | \$44.5                  |
| Architectural and Engineering Design                | 5.0                     |
| Legal – Accounting                                  | 0.3                     |
| Property Acquisition                                | 2.0                     |
| Furniture, Fixtures, and Equipment                  | <u>4.2</u>              |
| <b>Total</b>  | <b>\$56.0</b>           |

**State Fiscal Effect:** The revenue from bonds issued by MSA would increase by \$8.25 million in fiscal 2003 only, from \$12 million to \$20.25 million. Of that \$20.25 million, MSA advises that \$2.85 million will be dedicated to paying the capitalized interest and the remainder will be used to pay for the Hippodrome. MSA expects to secure the required private funding commitment soon.

The average debt service will therefore increase annually by \$802,000 beginning January 2004. Accounting for the six-month delay, debt service expenditures in fiscal 2004 will be \$401,000. The expenditure estimate assumes a 6.7% interest rate for 20-year bonds. MSA advises the actual amount may be higher.

**Additional Comments:** Legislation has been proposed in the 2002 session that would limit the heritage tax credit allowed for commercial rehabilitation. The proposed cap will restrict the amount of revenue that could be generated for the Hippodrome from the sale of the credit to investors. Accordingly, additional financing will be needed from other sources, such as bonds.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1256 (Delegates Rawlings and Rosenberg) – Appropriations.

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

**Fiscal Note History:** First Reader - March 4, 2002  
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