Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1462 (Delegate Hill, *et al.*)
Ways and Means

Prince George's County - Special Taxing Districts and Tax Increment Financing

This bill makes certain changes to provisions related to special taxing districts and tax increment financing in Prince George's County.

The bill is effective July 1, 2002.

Fiscal Summary

State Effect: The bill would not directly affect State governmental operations or finances.

Local Effect: Prince George's County bond proceeds, debt service, and expenditures related to special taxing districts and tax increment financing districts could significantly increase.

Small Business Effect: None.

Analysis

Bill Summary: This bill adds to the definition of bonds related to special taxing districts and tax increment financing districts bonds issued by the Revenue Authority of Prince George's County. The bill allows bond proceeds to be used for the costs of: (1) convention centers; (2) conference centers; (3) visitor's centers; (4) infrastructure maintenance; and (5) marketing the special taxing district. The bill allows Prince George's County to use the hotel tax to finance special tax district and tax increment financing district costs. Finally, the bill provides that moneys in the special fund for the development district may be used for development of the district or assigned and pledged to the payment of debt service on, or otherwise as security for, the bonds issued.

Current Law: Local governments are authorized to establish special taxing districts, levy ad valorem or special taxes, and issue bonds to finance the cost of certain infrastructure improvements related to a specified geographic district. The bonds are to be repaid with the revenue generated by the ad valorem or special tax. Tax increment financing districts may be established by local governments and are authorized to issue bonds to pay for the costs of certain infrastructure improvements. The bonds are to be repaid from the increase in property tax revenues resulting from increased property values within the district.

Prince George's County currently assesses a 5% hotel rental tax.

Background: The Revenue Authority of Prince George's County was created to develop projects devoted wholly or partially for public uses and to stimulate employment and economic growth. The authority is a quasi-independent entity.

Tax increment financing is a method of public project financing whereby the increase in the property tax revenues generated by new commercial development in a specific area, the tax increment financing (TIF) district, pays for bonds issued to finance site improvements, infrastructure, and other project costs located on public property.

The TIF district typically consists of a blighted area in need of economic revitalization. Usually, a sponsoring government creates a TIF district in order to demonstrate a public commitment to the economic and social viability of an area, thereby encouraging privately financed economic development. 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. Over time the partnership between the private sector and local government leads to enhanced economic growth that increases the district's taxable real property valuation above its frozen base. 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 revenues on the incremental valuation to a special account 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 revenues may be appropriated by normal means.

The Tax Increment Financing Act of 1980 authorized counties and municipal corporations to issue bonds to finance the development of industrial, commercial, and residential areas. The Act authorized counties and municipal corporations to establish

TIF districts and pledge property taxes on the increased assessed values in those districts toward payment of bonds used to finance development in the districts. The legislation was enabling only. Counties and municipal corporations must implement the provisions of the Tax Increment Financing Act by local ordinance or resolution.

Local Fiscal Effect: Prince George's County bond proceeds, debt service, and capital expenditures could increase significantly as a result of expanding the authorized expenditures in both special taxing districts and tax increment financing districts to include: (1) convention centers; (2) conference centers; (3) visitor's centers; (4) infrastructure maintenance; and (5) marketing the special taxing district. The actual increases will depend on the number and size of development projects undertaken.

Prince George's County advises that the National Harbor Project planned to be located near the Woodrow Wilson Bridge would be one such project (estimated to cost $45 million).

Additional Information

Prior Introductions: None.

Cross File: SB 903 (Senators Lawlah and Currie) (By Request) – Budget and Taxation.

Information Source(s): Prince George's County, Department of Legislative Services

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