HB 713

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 713 (Delegate Marriott)(Baltimore City Administration)
Ways and Means

Qualified Distressed Counties - State Assisted Tax Increment Financing

This bill establishes State assistance for tax increment financing in certain counties and makes alterations to the State reimbursement in certain counties for the enterprise zone property tax credit.

The bill is effective July 1, 2002.

Fiscal Summary

State Effect: Potential significant increase in general fund expenditures.

Local Effect: Potential significant increase in local government revenues in qualified counties.

Small Business Effect: None.

Analysis

Bill Summary: The bill provides certain State revenues to a local government that establishes a development district. Those revenues *may* be used for the repayment of tax increment financing bonds. Three sources of State assistance could be provided in certain circumstances:

- net State tax increment (defined below);
- an amount equal to 50% of the local property tax revenue pledged by the government for the repayment of tax increment financing bonds; and

- State reimbursement of 80% of any enterprise zone property tax credit granted by the local government.

Net State Tax Increment and 50% Property Tax

The Secretary of Business and Economic Development may approve a development district for State assisted tax increment financing only if the development is located within an enterprise zone and either a qualified distressed county or the area of Prince George's County located between Interstate 495 and the District of Columbia. The Secretary may designate the "net State tax increment" available to the district that is attributable to *one or more* of the available State taxes. The "net State tax increment" is defined as 80% of the increase attributable to the redevelopment in the district in the following taxes as certified by the Comptroller or the Department of Assessments and Taxation (SDAT):

- State individual income tax revenue from residents of the development district;
- State public service company franchise tax attributable to electric, gas, or telephone service provided to a service address in the development district; and
- State sales and use tax attributable to transactions occurring at the places of business located in the development district.

As provided in the State budget each fiscal year, the State must remit to the qualified local government by September 1 the net State tax increment and 50% of the property taxes pledged by the local government to repay tax increment financing bonds. The local government must use 30% of the State assistance toward the repayment of tax increment financing bonds.

Enterprise Zone Tax Credit

The bill provides that the State will remit to each county or municipality 80% of the cost of an enterprise zone credit if the property receiving the credit is located in a qualified distressed county or in Prince George's County between Interstate 495 and the District of Columbia. The local government may use the money received from the State for either the repayment of tax increment financing bonds or improvements in the enterprise zone.

Current Law: There is no program for State assistance for tax increment financing districts. The State reimburses local governments for 50% of the cost of enterprise zone credits.

The counties that qualify as distressed are: Allegany, Baltimore City, Caroline, Dorchester, Garrett, Somerset, and Worcester. The only one of these districts that currently has tax increment financing districts is Baltimore City. There are currently 20 enterprise zones located in distressed counties or in Prince George's County between Interstate 495 and the District of Columbia.

Background: Tax increment financing is a method of public project financing whereby the increase in the property tax revenue 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. In a TIF district, 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 revenue 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 revenue may be appropriated by normal means.

Legislative History in Maryland

The Tax Increment Financing Act was enacted in 1980 (Chapter 498) and authorized counties and municipal corporations to issue bonds to finance the development of industrial, commercial, and residential areas. However, this Act did not apply to Baltimore City. 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. Therefore, counties and municipal corporations must implement the provisions of the Tax Increment Financing Act by local ordinance or resolution.

The enabling legislation authorized the governing bodies to pledge assets and revenues or its full faith and credit in lieu of paying the bonds from the special fund to which taxes on the tax increment are pledged by the governing body. However, if full faith and credit is pledged, the implementing ordinance is subject to any applicable referendum provisions.

Baltimore City

As noted previously, the Tax Increment Financing Act enacted in 1980 excluded Baltimore City from its provisions. Due to various concerns, the city did not support statewide passage of the Act and successfully sought to be excluded. In 1992, the Baltimore Economic Incentives Task Force Report to the Mayor of Baltimore made various recommendations for encouraging greater private sector development in Baltimore City. The report concluded that Baltimore City needed to generate greater local property tax revenues by encouraging more citizens and businesses to relocate to Baltimore City. The use of tax increment financing as an economic development tool in the city was one of the recommendations of the task force's report.

Chapter 624 of 1994 and Chapter 66 of 2000 provided TIF authority to Baltimore City. Apparently, by the early 1990s the governing authority of Baltimore City had concluded that the need to encourage greater economic investment in Baltimore City outweighed the factors raised earlier in opposition to statewide application of the Tax Increment Financing Act. Chapter 624 and Chapter 66 of 2000 amended the Charter of Baltimore City providing the city with TIF authority similar to the authority provided to the other counties and municipal corporations under the Tax Increment Financing Act.

State Expenditures: General fund expenditures could increase significantly from State assistance to local governments and from the costs related to implementing and maintaining the program by the Comptroller and SDAT.

The actual amount of assistance to qualified local governments would depend on a large number of factors including: (1) the number of tax increment financing districts; (2) the size of the districts; (3) taxes designated by the Department of Business and Economic Development (DBED) for assistance; (4) revenue growth; (5) assessable base growth; and (6) the amount of tax increment financing bonds issued.

In order to capture the information that would be used to calculate the net State tax increment, modifications would have to be made to the information currently collected regarding income tax, sales and use tax, and public service company franchise tax. Tax forms and data collection systems would have to be modified. Additionally, the bill requires that the net State tax increment be based on the amount of taxes collected during the *calendar year*. The Comptroller currently processes taxes collection information on the tax year. The change to the calendar year would require programming costs. The cost to modify and process the income tax information that would need to be collected could exceed $1 million. There are approximately 2.5 million individual income tax returns filed annually which would have to be modified to collect information about whether the individual's residence is within a tax increment financing district.

In fiscal 2001 there were 560,675 sales and use tax returns filed by approximately 100,000 permit holders. Those returns do not currently contain enough information to determine the addresses of actual sales as many companies have multiple locations. The changes necessary to collect sales by business location would cause a significant increase in the amount of data the Comptroller would have to process and the resultant programming and processing could be substantial.

The information necessary for SDAT to calculate the public service company franchise tax attributable to electric, gas, and telephone service by service address is not currently collected. The costs associated with redesign of tax returns and collection of this information could be significant. There are currently 10 electric utilities, 6 gas utilities, and approximately 300 telecommunication providers in Maryland.

Enterprise Zone Credit

Fiscal 2003 State general fund expenditures would increase by $612,435 as a result of the increase in the reimbursement of enterprise zone credits to qualified counties, as is shown in **Exhibit 1**. Out-year increases are expected to average 20% annually based on trends in recent State reimbursement of enterprise zone credits.

Exhibit 1
State Reimbursement of Enterprise Zone Property Tax Credit
Counties Qualified Under HB 713/SB 525
Fiscal 2003

	Current State 50%	**Proposed 80%**	**Increase**
Allegany	250,209	400,334	150,125
Baltimore City	545,064	872,102	327,038
Dorchester	139,729	223,566	83,837
Garrett	20,124	32,198	12,074
Prince George’s	25,615	40,984	15,369
Somerset	8,365	13,384	5,019
Worcester	31,619	50,590	18,971
Total	1,020,725	1,633,160	**612,435**

Local Revenues: Local government revenues would increase in an amount equivalent to the State assistance provided to qualified local governments. The actual amount of assistance would depend on a large number of factors including: (1) the number of tax increment financing districts; (2) the size of the districts; (3) taxes designated by DBED for assistance; (4) revenue growth; (5) assessable base growth; and (6) the amount of tax increment financing bonds issued.

Additional Comments: The bill is effective July 1, 2002. The Comptroller's Office advises that it would be unable to accurately collect the necessary base year information on income and sales and use taxes prior to calendar 2004. Base year information is needed to calculate annual increases in those taxes.

Additional Information

Prior Introductions: None.

Cross File: SB 525 (Senator McFadden) (Baltimore City Administrator) – Budget and Taxation.

Information Source(s): Department of Assessments and Taxation, Montgomery County, Prince George's County, Caroline County, Calvert County, Howard County, Department of Business and Economic Development, Comptroller's Office (Bureau of Revenue Estimates), Baltimore City, Department of Legislative Services

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