HB 1203

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 1203 (Delegate Marriott, *et al.*)
(By Request – Baltimore City Administration)

Ways and Means Budget and Taxation

Baltimore City - General Powers - Tax Increment Financing

This bill expands the city's tax increment financing authority. The bill authorizes the city to use proceeds from tax increment financing for (1) the construction or rehabilitation of buildings that are considered to be abandoned or distressed property; and (2) the construction of affordable housing.

Fiscal Summary

State Effect: This bill does not directly affect State governmental operations or finances. To the extent that Baltimore City's property tax base increases, then State formula aid to the city could be potentially affected in the future.

Local Effect: Potential significant increase in annual debt service expenditures, which could be offset, or more than offset, by potential increases in property and income tax revenues.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill authorizes the city to use proceeds from tax increment financing for the construction or rehabilitation of buildings that are abandoned or distressed property and/or for the purpose of providing affordable housing.

Abandoned property is defined as meeting any of the following requirements:

- an unoccupied structure or vacant lot on which taxes are in arrears for at least two years;

- an unoccupied building that is unfit for habitation that (1) has deteriorated to the point where: the building is structurally unsound or the cost of rehabilitation significantly exceeds the post rehabilitation market value; and (2) the owner of the building has been issued a violation notice from the city requiring the owner to rehabilitate the building to conform to minimum code requirements or demolish the building for health and safety reasons;

- a vacant lot on which a building has been demolished; or

- any building in a block of row houses where the block contains 70% abandoned property and is determined by the city to require whole-block remedy, provided that any tenant or owner-occupant has been offered certain types of assistance.

Distressed property is defined as property that is subject to a tax lien(s) that is at least 15% of the property value determined by the Baltimore City Department of Housing and Community Development and that (1) has deteriorated and poses a serious and growing menace to public safety and welfare; and (2) has an expired violation notice and order to correct deteriorated conditions under the Baltimore City building code *or* is subject to a lien of $1,000 or more for work done by the Baltimore City Department of Housing and Community Development.

Affordable housing is defined as housing that is affordable to households with incomes up to 115% of the regional median average income.

Current Law: The city may not use proceeds from tax increment financing for the construction or rehabilitation of buildings that are abandoned property, distressed property, or will provide affordable housing.

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. Chapter 624 of 1994 provided Baltimore City with the authority to participate in tax increment financing projects but prohibited it from pledging its full faith and credit or unlimited taxing power for the payment of such bonds. However, Article XI, Section 7 of the Constitution of Maryland provides that the Mayor and City Council of Baltimore may not create any public debt for Baltimore City without first seeking authorization from the General Assembly, and then submitting a proposed ordinance on the issue to the voters of Baltimore City for their required majority approval. Chapter 66 of 2000 allowed Baltimore City to more easily participate in tax increment financing by permitting the issuance of appropriation risk bonds. Chapter 179 of 2001 authorized the city to use proceeds from tax increment financing for parking facilities that are either publicly or privately owned but serve a public purpose. The bill also eliminated the requirement that a development district be a contiguous area.

The pledge of tax increment revenues for the payment of these bonds is subject to an annual appropriation by the mayor and city council. The bonds may not be backed by the full faith and credit or unlimited taxing authority of the city. Similar use of TIF has been employed in Chicago and Minneapolis for construction and rehabilitation of housing.

Local Fiscal Effect: The Department of Legislative Services has not been provided any information on the potential increase in the number of projects as a result of the bill. Baltimore City advises, however, that there are approximately 14,000 abandoned or distressed properties in the city. With each additional project undertaken as a result of this bill, there will potentially be a significant increase in annual debt service expenditures. However, these projects would likely increase the assessed value of the properties in the area. The increased assessed values would increase property tax revenues, and the increase in these revenues would be used to offset the related debt service.

Additional Information

Prior Introductions: None.

Cross File: SB 553 (Senator McFadden) (By Request – Baltimore City Administration) – Budget and Taxation.

Information Source(s): Baltimore City, Department of Legislative Services

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n/mdr

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