

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 633 (Senator Forehand)  
 Budget and Taxation

Property Tax - Exemption for Property Used as a Business Incubator

This bill provides a State, county, and municipal property tax exemption for property that is used as a “business incubator” if the State, county, municipality, public institution of higher education, or instrumentality of the same owns, controls, or leases the space that is used as a business incubator or is the primary source of funding for the business incubator.

The bill takes effect June 1, 2006 and is applicable to taxable years beginning after June 30, 2006.

Fiscal Summary

**State Effect:** Special fund revenues could decrease by approximately \$128,800 in FY 2007. Future years reflect 10% annual assessment increases. Any decrease in State special fund revenues could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State’s general obligation bonds.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	(\$128,800)	(\$141,700)	(\$155,800)	(\$171,400)	(\$188,600)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$128,800)	(\$141,700)	(\$155,800)	(\$171,400)	(\$188,600)

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

**Local Effect:** County property tax revenues could decrease by approximately \$1.5 million in FY 2007. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** A business incubator is defined as a program in which units of space are leased by multiple new businesses that share physical space, administrative services and equipment, and technical support.

**Current Law:** When there is a private interest in government owned property, the property is taxable under Section 7-211 of the Tax-Property Article. Property that is owned by a government entity or agency and leased to a start-up company as a business incubator is subject to State and local property taxes. Property that is privately owned and leased to the government and then leased to be used as a business incubator is also subject to State and local property taxes.

The State property tax rate is \$0.132 per \$100 of assessment. Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund.

**State Fiscal Effect:** Special fund revenues could decrease by approximately \$128,800 as shown in **Exhibit 1**. The Department of Business and Economic Development indicates that there are currently 20 business incubators in Maryland. Exhibit 1 shows the name and location of each business incubator and the property tax assessment for the tax year beginning July 1, 2006, to the extent that it can be identified, and the resulting State and local property tax revenues for fiscal 2007. Future year revenues would decrease by approximately 10% annually, which reflects 10% annual assessment increases. To the extent more properties become exempt, revenues would decrease accordingly.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2007 State budget allowance includes \$656.2 million for the Annuity Bond Fund and assumes a \$46.8 million ending fund balance that could be available in fiscal 2008. State general funds are not being appropriated to the Annuity Bond Fund in fiscal 2007.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments.

This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

**Local Fiscal Effect:** County property tax revenues could decrease by \$1.5 million as shown in Exhibit 1. To the extent more property becomes exempt, property tax revenues would decrease accordingly.

**Small Business Effect:** Small businesses using property located in a business would not be subject to State and local property taxes which would reduce their operating expenditures.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 252 (Delegate Feldman) – Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Department of Business and Economic Development, Garrett County, Montgomery County, Town of Bel Air, City of Salisbury, Town of Leonardtown, Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2006  
ncs/hlb

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**Exhibit 1**  
**Business Incubators in Maryland and Estimated Property Tax Revenue Decreases in Fiscal 2007**

<b>Incubator</b>	<b>County</b>	<b>Current Assessment</b>	<b>State Tax Rate</b>	<b>County Tax Rate</b>	<b>State Revenue</b>	<b>County Revenue</b>
Tawes Incubator Allegany Business Center	Allegany	Exempt	0.132	1.0007	\$0	\$0
Chesapeake Innovation Center	Anne Arundel	9,225,400	0.132	0.9310	(12,178)	(85,888)
Emerging Technology Center - Canton	Baltimore City	2,856,400	0.132	2.3080	(3,770)	(65,926)
Emerging Technology Center at Johns Hopkins Eastern	Baltimore City	24,282,966	0.132	2.3080	(32,054)	(560,451)
Baltimore Technology Collaboration Center, UMD	Baltimore City	Exempt	0.132	2.3080	0	0
techcenter @UMBC <sup>1</sup>	Baltimore	8,024,700	0.132	1.1150	(10,593)	(89,475)
Calvert County Business Incubator	Calvert	1,155,800	0.132	0.8920	(1,526)	(10,310)
Charles County Business Incubator	Charles	13,295,600	0.132	1.0260	(17,550)	(136,413)
Frederick Innovative Technology Center, Inc.	Frederick	N/A	0.132	1.0000	N/A	N/A
Garrett Information Enterprise Center	Garrett	Exempt	0.132	1.0000	0	0
Higher Education and Applied Technology (HEAT) Center	Harford	Exempt	0.132	1.0820	0	0
NeoTech Incubator	Howard	Exempt	0.132	1.1695	0	0
Maryland Technology Development Center	Montgomery	Exempt	0.132	0.9670	0	0
Association for Entrepreneurial Science (AES)	Montgomery	N/A	0.132	0.9670	N/A	N/A
Silver Spring Innovation Center	Montgomery	N/A	0.132	0.9670	N/A	N/A
Prince George's County Technology Assistance Center	Prince George's	13,732,266	0.132	1.3190	(18,127)	(181,129)
Technology Advancement Program at UMD	Prince George's	Exempt	0.132	1.3190	0	0
Business and Technology Growth Center at University Town Center	Prince George's	25,000,000	0.132	1.3190	(33,000)	(329,750)
Applied Information Technology Research and Education Center	Somerset	Exempt	0.132	0.9900	0	0
Technical Innovation Center at Hagerstown CC	Washington	Exempt	0.132	0.9480	0	0
<b>Total</b>					<b>(\$128,797)</b>	<b>(\$1,459,342)</b>

n/a - Property cannot be located to provide an assessment

<sup>1</sup>Property has a proposed \$10 million expansion

Source: Department of Business and Economic Development, State Department of Assessments and Taxation, Department of Legislative Services