Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 39 (Senator Harrington)
Budget and Taxation Environmental Matters

Municipal Corporations - Tax Increment Financing - Application of Bond Proceeds

This bill expands the authority of a municipality to utilize tax increment financing (TIF) to encourage redevelopment in specified areas. The bill also specifies the types of infrastructure improvements that municipalities may finance through TIF supported bonds.

Fiscal Summary

State Effect: None.

Local Effect: Potential increase in municipal bond proceeds, debt service, and expenditures related to tax increment financing for municipalities that exercise this expanded authority.

Small Business Effect: None.

Analysis

Bill Summary: To encourage redevelopment municipalities may issue bonds supported by TIF for infrastructure improvements in (1) revitalization areas; (2) mixed use centers; (3) blighted areas; and (4) developed areas and growth areas, as defined in a county or municipal land use plan. **Exhibit 1** lists the infrastructure improvements within targeted areas that can be financed with TIF. The bill does not apply to Baltimore City.

Exhibit 1
Infrastructure Improvements Specified in Bill

- streets
- parking structures for public or private use
- utilities
- street lights
- stormwater management and storm drain facilities
- fencing
- noise walls
- retaining walls
- trails
- sidewalks
- pedestrian and vehicular bridges
- park facilities

Current Law: County and municipal governments are authorized to borrow money by issuing and selling bonds and utilize TIF for the purpose of financing the development of an industrial, commercial, or residential area. Except as otherwise provided by law, all proceeds received from any bonds issued and sold must be applied solely for:

- the cost of purchasing, leasing, condemning, or otherwise acquiring land or other property, or an interest in them, in the designated development district area or as necessary for a right-of-way or other easement to or from the development district area;
- site removal;
- surveys and studies;
- relocation of businesses or residents;
- installation of utilities, construction of parks and playgrounds, and other necessary improvements including streets and roads to, from, or within the development district, parking, lighting, and other facilities;
- construction or rehabilitation of buildings provided that such buildings are to be devoted to a governmental use or purpose;
- reserves or capitalized interest;
- necessary costs of issuing bonds; and
- payment of the principal and interest on loans, money advanced, or indebtedness incurred by a county or municipality.

Prince George’s County and the revenue authority of Prince George’s County have the same expanded authority as provided in the bill. Additionally, the county and revenue authority may use bonds supported by TIF for convention, conference, or visitors’ centers, and to market development district facilities and other improvements.

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 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 jurisdiction 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 which 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.

Local Fiscal Effect: Bond proceeds, debt service, and capital expenditures in certain municipalities may increase significantly as a result of this expanded authority. The actual increase depends on the number and size of additional development projects undertaken by municipalities.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Town of Bel Air, Town of Leonardtown, City of Salisbury, Maryland Municipal League, Department of Legislative Services

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