

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

House Bill 1161
Ways and Means

(Delegate Jones, *et al.*)

Budget and Taxation

Tax Increment Financing and Special Taxing Districts - State Hospital
Redevelopment

This bill authorizes certain counties and municipalities to finance the costs of infrastructure improvements located in or supporting a State hospital redevelopment, including the cost for operation and maintenance of infrastructure improvements. The Maryland Economic Development Corporation (MEDCO) may enter into agreements with certain counties and municipalities to use proceeds from a special taxing district, including tax incremental financing (TIF), to repay debt service on bonds issued by MEDCO on behalf of a State hospital redevelopment. TIF supported bonds may cover the expense of construction, operation, or maintenance of infrastructure improvements and local tax revenues attributed to the development may be pledged for repayment of MEDCO bonds.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: None.

Local Effect: Potential increase in property and other tax revenues as a result of a State hospital redevelopment in counties and municipalities that exercise this authority. A portion of local tax revenues generated by a State hospital redevelopment may be dedicated to repayment of bonds issued by MEDCO. Potential significant increase in annual debt service expenditures on bonds issued by MEDCO for counties and municipalities that exercise this authority.

Small Business Effect: Minimal.

Analysis

Bill Summary: A State hospital redevelopment is any combination of private or public commercial, residential, or recreational uses, improvements, and facilities that is part of a comprehensive coordinated development plan or strategy involving: property that was formerly occupied by a State-owned or -operated hospital or other institution that provided services to individuals with mental disorders, or a State residential center; or property that is adjacent or reasonably proximate to the “former hospital” property. The State hospital redevelopment must be designated by the Smart Growth Subcabinet and the local government or multicounty agency with land use and planning responsibility for the relevant area.

Current Law: The General Assembly has granted 12 counties (Anne Arundel, Baltimore, Calvert, Cecil, Charles, Garrett, Harford, Howard, Prince George’s, St. Mary’s, Washington, and Wicomico) and Baltimore City broad authority to create special taxing districts and to levy *ad valorem* taxes and issue bonds and other obligations for purposes of financing infrastructure improvements. The types of infrastructure improvements authorized include storm drainage systems, water and sewer systems, roads, sidewalks, lighting, parking, park and recreational facilities, libraries, schools, transit facilities, and solid waste facilities.

Tax Increment Financing

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. 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. 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 for certain purposes including 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.

Maryland Economic Development Corporation

MEDCO is a body corporate and politic and a public instrumentality of the State. MEDCO was created in 1984 for the purpose of attracting new business and expanding existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain

properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects. MEDCO transactions are structured with no recourse to MEDCO or the State from either bondholders or lenders.

MEDCO may pledge or assign any of its revenues or rights to receive revenues, monies, to secure bonds. MEDCO is authorized to acquire, improve, develop, manage, market, maintain, lease as a lessor or as lessee, and operate a development project in the State.

MEDCO can make loans to finance all or part of the acquisition or improvement of a project and may enter into financing agreements, mortgages, and other instruments that it determines are necessary or desirable to evidence or secure the loan. The lease for a project may require or authorize the lessee or another person to purchase or otherwise acquire the property in an amount that MEDCO establishes once the principal and interest of bonds are paid off.

Transit-oriented Development

Chapter 182 of 2009 authorized certain counties and municipalities to finance the costs of infrastructure improvements located in or supporting a transit-oriented development, including the cost for operation and maintenance of infrastructure improvements. Transit-oriented development is a development style that leverages transit stations as the foundation for vibrant communities with a dense mix of commercial, residential, and retail development. By clustering development around transit sites, transit-oriented development seeks to maximize the State's investment in transit by promoting increased ridership and enhanced opportunities for pedestrian and bicycle mobility.

Background: Several State facilities have closed in recent years including the Crownsville Hospital Center in Anne Arundel County (fiscal 2004), Rosewood Center in Baltimore County (fiscal 2009), and the Walter P. Carter Center in Baltimore City (fiscal 2010). In February 2010, the Upper Shore Community Mental Health Center in Kent County closed, although other services continue to be offered by tenants in the building in which the hospital was located. In addition, Spring Grove Hospital Center in Baltimore County recently substantially reduced capacity at its complex.

Local Fiscal Effect: Generally, MEDCO may issue conduit debt for development projects by dedicating a portion of operating revenues for repayment of the bond principal and interest. The bill allows certain counties and municipalities to pledge future tax revenues in lieu of operating revenues for State hospital redevelopment projects that either do not create operating revenues or do not generate sufficient revenues to secure favorable financing. The bill also authorizes certain counties and municipalities to use TIF supported debt for purposes that may not be authorized under current law and also

allows certain counties and municipalities to issue this debt through MEDCO instead of directly through the local government.

To the extent that State hospital redevelopment projects are able to secure more favorable financing through MEDCO, counties and municipalities may realize some savings for the cost of debt issuance. Depending on the amount of bonds issued for each redevelopment project, and the scope of the projects undertaken, the resulting economic development may also increase a variety of other local tax revenues. Because TIF supported debt dedicates specific tax revenues generated by a development project to repayment of debt, counties and municipalities do not fully realize an increase in these revenues until the debt is repaid. Conduit debt issued by MEDCO pledges tax revenues from the project to repayment of the debt. In instances where the development project does not generate enough revenues through the special taxing district, the county or municipal government may be responsible for repayment of the debt.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Maryland Department of the Environment, Department of Health and Mental Hygiene, Department of Legislative Services

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