

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 63

(Chair, Budget and Taxation Committee)(By Request -  
Departmental - Transportation)

Budget and Taxation

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**Transit-Oriented Development - Pledge and Use of Tax Increment Revenues -  
Operations and Maintenance Funding**

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This departmental bill authorizes certain counties and municipalities to use tax revenues attributable to a transit-oriented development district to pay for the cost for operation and maintenance of infrastructure improvements located in or supporting the transit-oriented development (TOD).

The bill takes effect July 1, 2010.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** None. While the bill does not generate any additional new revenues, local governments may benefit from greater flexibility to support TOD operations and maintenance.

**Small Business Effect:** The Maryland Department of Transportation (MDOT) has determined that this bill has a meaningful impact on small business (attached). Legislative Services disagrees with this assessment as discussed below.

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## Analysis

### **Current Law/ Background:**

#### *Transit-oriented Development*

TOD is a development style that leverages transit stations in order to promote dense commercial, residential, and retail development. By clustering development around transit sites, TOD seeks to maximize the State's investment in transit by promoting increased ridership and enhanced opportunities for pedestrian and bicycle mobility. Chapter 123 of 2008 established the definition for transit-oriented development as a mix of private or public parking facilities; commercial and residential structures; and uses, improvements, and facilities customarily appurtenant to such facilities and uses, that (1) is part of a deliberate development plan or strategy involving property that is located within one-half mile of the passenger boarding and alighting location of a planned or existing transit station; (2) is planned to maximize the use of transit, walking, and bicycling by residents and employees; and (3) is designated as TOD by the Secretary of Transportation in consultation with other specified State agencies and the local government or multicounty agency with land use and planning responsibility for the relevant area.

#### *Tax Increment Financing*

Tax increment financing (TIF) 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.

Chapter 182 of 2009 expanded the types of local taxes that could be included in the special fund within a TOD district to include other local tax revenues generated within, or otherwise determined to be attributable to the TOD. Chapter 182 also authorized certain local governments to finance the costs of infrastructure improvements located in or supporting a TOD, including the cost for operation and maintenance of infrastructure improvements. Maryland Economic Development Corporation (MEDCO) may enter into

agreements with the local governments to use proceeds from a special taxing district, including tax incremental financing, to repay debt service on bonds MEDCO issues on behalf of TOD projects. 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. Once the interest and principal on the bonds are repaid, the special taxing district is dissolved and any excess funds remaining may be used for additional TOD or may revert to the local government's general fund.

**State Fiscal Effect:** The bill does not directly impact State revenues or expenditures. The bill allows certain local tax revenues attributable to a TOD district to pay for the operation and maintenance of infrastructure improvements in the TOD. Under current law, districts that are designated as a TOD are authorized to finance these maintenance costs with bond proceeds. To the extent that this additional authority enhances the ability of districts designated as TOD to use these revenues to pay for maintenance costs, State expenditures could decrease. MDOT advises that if TOD financing agreements are entered into providing for the payment of these maintenance costs through TOD-related revenues, MDOT maintenance and operations expenses could decrease at transit facilities, particularly at commuter garages located in a TOD.

**Small Business Impact:** Any impact to small businesses from the additional authority to local governments to use revenues attributable to a TOD district is expected to be minimal.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Garrett, Howard, Montgomery counties; Department of Business and Economic Development; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - January 26, 2010  
mpc/hlb

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510



## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Transit-Oriented Development – Pledge and Use of Tax Increment Revenues – Operations and Maintenance Funding

BILL NUMBER: SB 63

PREPARED BY: Maryland Department of Transportation

### PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

☐ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

☒ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

### PART B. ECONOMIC IMPACT ANALYSIS

This proposal will have meaningful economic impact on Maryland small businesses because of the increased financial resources that localities could potentially use to support TOD. Providing localities with the increased authority granted in this bill will aid in the creation of dense, mixed use areas with convenient access to public transit that are attractive to small businesses. This benefit provides a meaningful incentive for small businesses.

This proposal will help localities create TODs where small businesses reap the benefits of a high density, pedestrian-friendly environment. In TODs small business employees can more conveniently walk, bike or take public transit to work. This is very beneficial, particularly for the economically disadvantaged or other employees who may not have access to a motor vehicle. Taken collectively, providing localities with the authority granted under this bill will support small businesses and increase their chances for economic success.