

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1109
Economic Matters

(Delegates Branch and Glenn)

Budget and Taxation

Maryland Economic Development Corporation - Bonding Authority and Reporting Requirement

This bill alters the type of projects that the Maryland Economic Development Corporation (MEDCO) is authorized to finance with bonds. The bill specifies that the prohibition against providing bond financing to an educational institution does not apply if (1) the property will be owned by MEDCO or leased to MEDCO under a ground lease; (2) the property will be leased by MEDCO back to a community college; and (3) all the property is located in an enterprise zone on or before the date MEDCO receives a request that it own, lease, or operate the project, or June 1, 2012. The bill also alters the submission date of an existing annual reporting requirement.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: None. Altering which projects MEDCO may finance does not directly affect governmental operations or finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: MEDCO may not finance a project if it includes property that is eligible to be financed by the Maryland Health and Higher Educational Facilities Authority, if

any bonds issued by MEDCO to finance the property would be payable or guaranteed, directly or indirectly, by an educational institution or a health care institution.

Chapter 338 of 2001 was enacted as emergency legislation to amend MEDCO's statutory authority to be more consistent with the Maryland Economic Development Revenue Bond Act and economic development revenue bond enabling legislation that is in effect in other states competing for opportunities. MEDCO's legislative purpose now is to (1) relieve the conditions of unemployment; (2) encourage increased business activity and commerce and a balanced economy; (3) assist in the retention and attraction of new business activity; (4) promote economic development; and (5) generally promote the present and prospective health, happiness, safety, right of employment, and general welfare of State residents.

Background: MEDCO is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. MEDCO was created in 1984 with the mission to help expand, modernize, and retain existing State business and to attract new business to the State.

MEDCO purchases or develops property that is leased to others under favorable terms, and it makes direct loans to companies throughout the State to maintain or develop facilities. It also often serves as the conduit for loans administered by the Department of Business and Economic Development (DBED). MEDCO issues bonds to raise funds for its loans. The bond debt consists primarily of revenue bonds and notes payable to government agencies such as DBED. The debt represents nonrecourse obligations because MEDCO is not liable to bondholders and lenders in the event of a project or borrower default. Each project must have self-supporting revenues, and no projects are cross-collateralized. As a result, MEDCO debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

MEDCO has been involved in 235 projects totaling in excess of \$3.5 billion. Of these, MEDCO currently owns and operates 14 as operating facilities, meaning the corporation is involved in management decisions and has a hand in ensuring successful daily operations. For other projects, MEDCO serves as an arms-length financing entity.

Higher Education

MEDCO advises that it has been requested to assist in the financing, development, and ownership of various projects for community colleges, including the development of a property in Baltimore City for the Baltimore City Community College (the Gompers Building). Current law requires MEDCO to find another bond issuer for this property if it will also own the property. This limitation only applies to bond financing, and

MEDCO may finance educational projects without the use of bonds and own the property under current law.

MEDCO became involved in university housing projects in 1999, and more recently MEDCO has been involved in community college projects.

Business Enterprise Zones

Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property owners located in some of the State's most economically distressed communities. The program was created in 1982 with 2 zones and has grown to include 28 zones as of December 2011. The enterprise zones are located throughout the State, with 10 zones in Western Maryland, 8 on the Eastern Shore, 4 in Southern Maryland, and 6 in Central Maryland. Baltimore City is designated as an enterprise zone through June 14, 2012, and is a focus area until December 14, 2014.

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and State income tax credits. Eligible businesses in an enterprise zone may claim a 10-year credit against local real property taxes on a portion of real property improvements. The credit is 80% of the assessment increase during the first five years. The credit then decreases 10% annually thereafter to 30% in the tenth year.

Additional Information

Prior Introductions: None.

Cross File: SB 435 (Senator McFadden) - Budget and Taxation.

Information Source(s): Harford, Montgomery, Talbot, and Wicomico counties; Baltimore City Community College; Morgan State University; Maryland School for the Deaf; University System of Maryland; Maryland Higher Education Commission; Maryland Independent College and University Association; Department of Business and Economic Development; Department of Health and Mental Hygiene; Department of Legislative Services

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