

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1553 (Delegate Walker)
Economic Matters and Ways and Means

Economic Development - BRAC Revitalization and Incentive Zones -
Extraordinary Development District

This bill authorizes the Secretary of Commerce to designate annually one additional Base Realignment and Closure (BRAC) Revitalization and Incentive Zone that includes an “extraordinary development district,” subject to specified conditions. An “extraordinary development district” means a contiguous area (1) that is designated by a resolution; (2) that contains at least 50 acres of land; and (3) in which a federal law enforcement agency is located. If a BRAC Zone includes an extraordinary development district, the length of designation as a BRAC Zone and State support for qualified businesses in the zone is increased from 10 to 20 years and the maximum total State support to all political subdivisions for any fiscal year is increased from \$5 million to \$10 million. The bill also allows a county to have three BRAC Zones if one zone includes an extraordinary development district.

The bill takes effect June 1, 2016, and applies to all taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: The effect on future State finances is unclear; regardless, there is no effect until about fiscal 2023 at the earliest. If the new Federal Bureau of Investigation’s (FBI) headquarters *is* located in Prince George’s County, and the State budget fully funds the additional tax increments authorized by the bill, then State expenditures increase beginning in about fiscal 2023 for 20 years to provide additional tax increments to a BRAC Zone that includes an extraordinary development district. Additional discussion is provided below.

Local Effect: Potential meaningful, as discussed below.

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Current Law: Chapter 338 of 2008 authorized the Secretary of Business and Economic Development (now the Secretary of Commerce) to designate BRAC Revitalization and Incentive Zones in the State. Local governments may apply to have a BRAC Zone located within their jurisdiction. The factors the Secretary considers when designating a BRAC Zone include the relationship of the area to a BRAC installation or how the area is impacted by BRAC, support from community or business organizations, and the overall State fiscal impact of the designation.

Up to six BRAC Zones may be designated during *each* calendar year. Qualified property is commercial or residential property that the Department of Economic Competitiveness and Commerce (DOC) determines enhances economic development in a BRAC Zone. BRAC Zone designation benefits are primarily tax-related financial incentives, including State support of up to 100% of the increase in the State property tax of any qualifying property and 50% of the local property tax for any increase in the local tax revenues collected on the increased value of qualifying property. These financial incentives may begin in fiscal 2010 and continue for 10 consecutive years, and they are limited to the amount appropriated in the State budget, up to \$5 million per year. If the total amount of incentive payments for BRAC Zones exceeds \$5 million in any year, the payments are allocated on a pro rata basis. Local jurisdictions and businesses in a BRAC Zone may also receive priority consideration for financial assistance projects in the BRAC Zone from other State programs.

A county may not have more than two BRAC Zones designated.

Background:

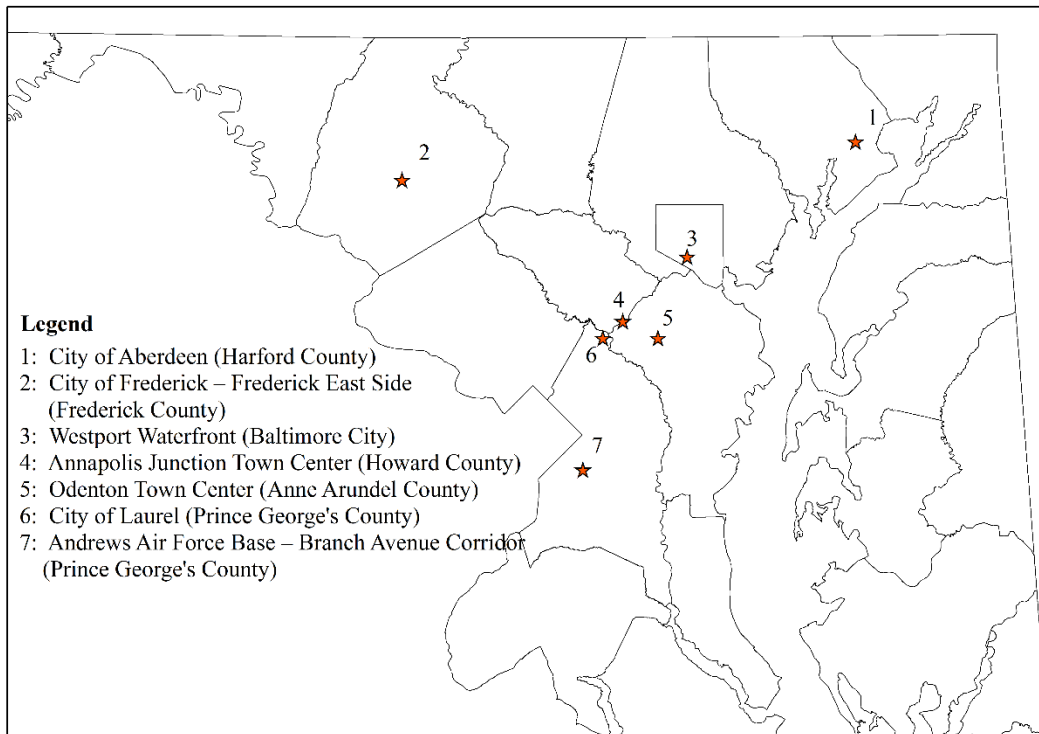
FBI Relocation

Plans are currently under way to relocate the FBI Headquarters from the J. Edgar Hoover Building in the District of Columbia to one of three locations in the Washington metropolitan area. Two of the locations are in Prince George's County (Greenbelt or Landover), and one is located in Northern Virginia (Springfield). In December 2015, the U.S. Congress pledged \$390 million in funding for the proposed move. More information on the proposal can be found on the U.S. General Services Administration's [website](#).

BRAC Zones

As shown in **Exhibit 1**, there are seven BRAC Zones in the State. Prince George’s County is the only county with two BRAC Zones. Each of the zones is relatively small – the labels in the exhibit cover most or all of each zone.

Exhibit 1
BRAC Zones



Source: Department of Legislative Services

As discussed above, the total amount paid to all political subdivisions in a year is limited to the amount appropriated in the State budget, up to \$5 million, under current law. **Exhibit 2** shows the State funding provided to local governments for BRAC Zones since fiscal 2010. State funding in recent years has not kept pace with the nominal amount of the tax increments in the BRAC Zones. The Governor’s proposed fiscal 2017 budget includes \$838,000 to fund the tax increments for BRAC Zones.

Exhibit 2
BRAC Zone Funding
Fiscal 2010-2016

	<u>Nominal Amount</u>	<u>Appropriated Amount</u>
FY 2010	\$7,443	\$7,443
FY 2011	173,024	173,024
FY 2012	235,451	235,451
FY 2013	506,911	506,911
FY 2014	778,824	778,824
FY 2015	1,700,555	650,000
FY 2016	2,587,609	838,000

Source: Department of Commerce

Tax Increment Financing

All counties and municipalities are authorized to utilize tax increment financing (TIF) under Title 12, Subtitle 2 of the Economic Development Article (the Tax Increment Financing Act). In Baltimore City, the authority to use TIF is provided in the city charter. Counties and municipalities (including Baltimore City) may issue bonds to finance the development of an industrial, commercial, or residential area for specified purposes.

TIF is a public financing method that uses future gains in tax revenues to finance current improvements. 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.

State Fiscal Effect: The effect on future State finances is unclear; regardless, there is no effect for at least several fiscal years. First, if the FBI headquarters is *not* located in Prince George’s County, the bill likely has no fiscal impact. While there are other federal law

enforcement agencies, the only agency currently being considered for relocation in the State is the FBI. As discussed above, three locations are under consideration – one of which is in Virginia, and two of which are in Prince George’s County. If the Virginia location is selected for the new FBI headquarters, absent a different federal law enforcement agency relocating to the State in a suitable area, the bill has no fiscal impact because there will be no area eligible for designation by the Secretary of Commerce as a BRAC Zone with an extraordinary development district.

Second, although the bill authorizes additional total State support for BRAC Zones if there is an extraordinary development district, *any* funding level provided in the State budget meets statutory requirements. In fiscal 2015 and 2016, and as proposed for fiscal 2017, State funding has been less than the amount required to fully fund the tax increments, meaning that the appropriation, not necessarily the amount of the tax increments, has dictated the spending level. As such, increasing tax increments does not necessarily increase State spending in any given year. Nevertheless, Prince George’s County advises that any fiscal impact from the extraordinary development district related to the FBI headquarters likely does not occur until about fiscal 2023, as the site selection process is still incomplete, and then the new site must be built.

Therefore, State expenditures increase to the extent provided for in the State budget for up to 20 years beginning in about fiscal 2023 if (1) Maryland is selected for the new FBI headquarters; (2) the Secretary of Commerce designates an additional BRAC Zone in Prince George’s County with an extraordinary development district once the FBI moves to the new location; and (3) the timing estimate provided by Prince George’s County is accurate. The magnitude of any expenditures cannot be reliably estimated at this time and, as noted above, per current law, is dependent on the State appropriation each year.

DOC can handle the bill’s requirements with existing budgeted resources.

Local Effect: For the same reasons as discussed above, the effect on local governments is unclear. However, if (1) Maryland is selected for the new the FBI headquarters; (2) the Secretary of Commerce designates an additional BRAC Zone in Prince George’s County with an extraordinary development district once the FBI moves to the new location; and (3) the timing estimate provided by Prince George’s County is accurate, then Prince George’s County revenues and expenditures increase to the extent provided for in the State budget for up to 20 years beginning in about fiscal 2023 as the State pays the State property tax increment and 50% of the local property tax increment attributable to the new BRAC Zone. The magnitude of any revenues and expenditures cannot be reliably estimated at this time and, as noted above, per current law, is dependent on the State appropriation each year.

Small Business Effect: For the same reasons as discussed above, the effect on small businesses is unclear. However, if all of the above conditions are met for a BRAC Zone to be designated in Prince George's County with an extraordinary development district, small businesses in the BRAC Zone benefit from increased infrastructure spending by Prince George's County in the zone.

Additional Information

Prior Introductions: None.

Cross File: SB 1066 (Senator Peters) - Budget and Taxation.

Information Source(s): Department of Commerce; Comptroller's Office; Department of Budget and Management; State Department of Assessments and Taxation; Harford, Montgomery, and Prince George's counties; U.S. General Services Administration; Department of Legislative Services

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md/rhh

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