Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 612 (Senator Ferguson, *et al.*)

Budget and Taxation Appropriations

State Education Aid - Tax Increment Financing Development Districts - Repeal of Sunset Provision

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This bill repeals the termination date on mandated Tax Increment Financing (TIF) district grants to local school systems. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by $684,600 in FY 2020, increasing to $1.4 million by FY 2023 and potentially significantly more for the one existing TIF in Baltimore City. Depending on the number and value of TIF projects established in eligible jurisdictions, expenditures may be substantially higher in future years. **This bill continues a mandated appropriation.**

Local Effect: State aid to Baltimore City Public Schools increases by $684,600 in FY 2020, increasing to $1.4 million by FY 2023 and potentially significantly more in future years. Depending on the number and value of TIF projects established in other eligible counties, State aid (and local school system revenue) increases further.

Small Business Effect: None.

Analysis

Current Law:

Tax Increment Financing Grants

Chapter 258 of 2016 established grants, for fiscal 2018 and 2019 only, to counties that create a TIF development district after May 1, 2016, and qualify for State Disparity Grant program funding. For fiscal 2018 and 2019, using net taxable income (NTI) based on tax returns filed on or before November 1, State aid (excluding NTI grants) must be calculated once using the assessed valuation of real property as defined by current law and again using that same valuation as reduced by the calculated tax increment due to the TIF district (as described below) for each eligible county. If the amount of State aid calculated as reduced by the tax increment is *greater* than the amount of State aid calculated without excluding the tax increment, the difference is provided as a grant to the county board of education.

The State Department of Assessments and Taxation (SDAT) must (1) certify the original amount of assessable base for real property that is located in an eligible TIF development district as of January 1 of the year preceding the year in which the ordinance or resolution establishing the TIF development district takes effect and (2) annually certify the amount of assessable base for real property that is located in the eligible TIF development district as of July 1 of the first completed fiscal year before the school year for which the calculation of the grant is made. For TIF development district real property, the tax increment is the difference between the annually certified assessable base amount and the original certified assessable base amount.

Disparity Grants

Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which is one of the larger revenue sources for most counties. A county with an adjusted per capita taxable income of less than 75.0% of the statewide average receives a State grant, unless the county has a local income tax rate below 2.6%. The grant is equal to the lesser dollar amount of what is needed to raise the county's adjusted per capita income tax revenues to 75.0% of the statewide average or the amount allocated under the cap provisions.

The cap provisions provide the greater amount of what a county received in fiscal 2010 or a proportion of the amount necessary to raise the county's adjusted per capita income tax revenues to 75.0% of the statewide average based on that county's local income tax rate. For a county with a rate between 2.8% and 3.0%, the proportion is 20.0%; between 3.0% and 3.2%, the proportion is 40.0%; and at 3.2%, the proportion is 60.0%, except in fiscal 2018 or 2019, when it is 67.5%. Chapter 738 of 2016 increased the minimum grant amount for counties with a 3.2% local income tax rate from 60.0% to 67.5% for fiscal 2018 and 2019 only. Chapter 23 of 2017 reduced the minimum grant amount from 67.5% to 63.75% of the disparity grant calculation to be provided in fiscal 2018 only for counties with a tax rate of at least 3.2%.

Background: Chapter 258 of 2016 resulted in grants of approximately $422,100 in fiscal 2018 and $541,700 in fiscal 2019 to Baltimore City Public Schools. These grants resulted from the Port Covington TIF project, providing for a new headquarters for Under Armour. Port Covington is a 260-acre mixed use community proposed by Sagamore Development, including office, retail, residential, hotel, parking and manufacturing space to be developed in phases over approximately 25 years. Baltimore City authorized the Port Covington TIF district and special obligation bonds totaling $660 million for the project in 2016, of which $535 million represents capital improvements. To date, however, no bonds have been issued. In total, the assessed value of the property within the TIF is projected to increase by approximately $2.5 billion at project completion. The value of the increment for the Port Covington TIF district was approximately $60 million as of July 1, 2017, according to SDAT.

The fiscal 2019 State budget includes $140.8 million for disparity grants. Baltimore City and nine counties (Allegany, Caroline, Cecil, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico) tend to qualify for disparity grant funding each year (thus allowing for TIF grants to these counties to the extent they otherwise qualify). Of these jurisdictions, Baltimore City and Prince George's County have shown a considerable propensity for use of TIF development districts and Washington County has established two TIF districts since 2017.

While Washington County established a Cascade Development District at the site of former Fort Ritchie in January of 2017, the value of the increment from that district was not of sufficient size to generate a TIF grant for Washington County Public Schools. SDAT advises that Washington County has initiated one other (Conococheague Development Center) TIF district as of February 2018. SDAT advises that Prince George's County has not established additional TIFs since May 1, 2016.

Tax Increment Financing

Tax increment financing 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 magnitude of future TIF grants for public schools cannot be precisely estimated. However, assuming growth in the increment for the Port Covington TIF project at a rate that is similar to its growth from year one to year two, general fund expenditures increase by $684,600 in FY 2020, increasing to $1.4 million by FY 2023 to fund grants to Baltimore City Public Schools. Depending on the number and value of TIF projects established in eligible jurisdictions in future years, expenditures may be substantially higher for Baltimore City and for other jurisdictions.

For illustrative purposes, for every $100 million increase in the Port Covington TIF increment (which leads to a $40 million reduction in local wealth), Baltimore City Public Schools receives approximately $830,000-$900,000 more in State aid. Based on these figures and the projected $2.5 billion increment for Port Covington, State aid increases by approximately $20 million annually for Baltimore City Public Schools at the completion of the Port Covington project, which could take 25 years or more to occur.

Local Fiscal Effect: Under the assumptions stated above, grant funding to Baltimore City Public Schools increases by $684,600 in FY 2020, increasing to $1.4 million by FY 2023 and potentially significantly more, up to $20 million annually, in future years. Depending on the number and value of TIF projects established in eligible jurisdictions, grant funding to other local schools systems may be substantially higher. In addition to Baltimore City, both Prince George’s and Washington counties are likely recipients, based on the use of TIF development projects in those counties.

Additional Information

Prior Introductions: None.

Cross File: HB 693 (Delegate McIntosh, *et al.*) - Appropriations.

Information Source(s): Baltimore City; Montgomery and Washington counties; Maryland State Department of Education; Department of Budget and Management; State Department of Assessments and Taxation; *HeraldMailMedia.com*; Department of Legislative Services

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