

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 345
Ways and Means

(Charles County Delegation)

Budget and Taxation

Charles County - Tax Increment Financing and Special Taxing Districts

This bill authorizes Charles County to use its existing authority related to tax increment financing (TIF) and special taxing districts for convention, conference, and visitors' centers and related purposes, subject to specified conditions. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: The bill does not materially affect State finances or operations, as discussed below.

Local Effect: Charles County revenues and expenditures increase beginning early as FY 2021, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: In addition to other existing purposes generally applicable to all local jurisdictions, and subject to existing related requirements, the proceeds from TIF bonds issued by Charles County may be used:

- for convention centers, conference centers, or visitors' centers;
- to maintain infrastructure improvements, convention centers, conference centers, or visitors' centers; and

- to market development district facilities and other improvements.

Contingent on the review and approval of the Board of County Commissioners of Charles County, the county is likewise authorized to establish a special taxing district, impose *ad valorem* taxes or special taxes, and issue bonds for the above purposes – a similar expansion of an existing authority and also subject to existing related requirements. The county may establish minority business enterprise (MBE) participation goals for each development project wholly or partly financed through bonds issued under this authority.

Current Law: All counties and municipalities are authorized to utilize 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. Different geographic areas are eligible for TIF under various State programs.

Generally, bond proceeds may be used only:

- to buy, lease, condemn, or otherwise acquire property, or an interest in property in the eligible area, or needed rights of way or other easements to or from the area;
- for site removal, surveys, and studies;
- to relocate businesses or residents;
- to install utilities, construct parks and playgrounds, and for other needed improvements;
- to construct or rehabilitate buildings for a governmental purpose or use;
- for reserves or capitalized interest and bond issuance costs; and
- to pay the principal of and interest on loans, advances, or indebtedness that a political subdivision incurs for an eligible use of TIF bond proceeds.

Additional uses are eligible in sustainable communities and Regional Institution Strategic Enterprise (better known as “RISE”) zones, such as for parking lots, schools, and affordable housing.

Background:

Tax Increment Financing

Tax increment financing is a public financing method that uses future gains in property 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.

Infrastructure Improvement Financing

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), all municipalities, 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 under current law include storm drainage systems, water and sewer systems, roads, sidewalks, lighting, parking, park and recreational facilities, libraries, schools, transit facilities, and solid-waste facilities. The funding available for these improvements is also available for infrastructure improvements or the operation and maintenance of infrastructure improvements in or supporting transit-oriented development or a State hospital redevelopment.

Charles County, specifically, may also provide financing, refinancing, or reimbursement of costs relating to the development of resort hotels and conference centers in a waterfront planned community, and the county may impose a hotel tax to fund those costs.

Charles County Development

Specific to the authorized uses of TIF bonds and other infrastructure improvement financing methods under the bill, part of the planned [Waldorf Urban Redevelopment Corridor](#) in Charles County includes a 45,000-square-foot multipurpose civic and events facility to serve regional event and conference audiences. Other parts of the plan include commercial and residential space, a hotel, an office building, and a transit station.

Charles County Minority Business Enterprise Program

Charles County has an MBE program and recognizes MBE certification by the Maryland Department of Transportation (MDOT) and the federal government. Similar to the State program, the county program encourages minority business participation in the county procurement process by providing technical assistance with certification, networking, and promoting MBEs as subcontractors on county projects. More information can be found on the county's [website](#).

State Minority Business Enterprise Program

The State's MBE program requires that a statewide goal for MBE contract participation be established biennially through the regulatory process under the Administrative Procedure Act. The current goal is 29.0%, with specified subgoals. There are no penalties for agencies that fail to reach the statewide target. Instead, agencies are required to use race-neutral strategies to encourage greater MBE participation in State procurements.

An MBE is a legal entity, other than a joint venture, that is:

- organized to engage in commercial transactions;
- at least 51% owned and controlled by one or more individuals who are socially and economically disadvantaged; and
- managed by, and the daily business operations of which are controlled by, one or more of the socially and economically disadvantaged individuals who own it.

A socially and economically disadvantaged individual is defined as a citizen or legal U.S. resident who is African American, Native American, Asian, Hispanic, physically or mentally disabled, a woman, or otherwise found by the State's MBE certification agency to be socially and economically disadvantaged, subject to specified requirements. MDOT is the State's MBE certification agency.

State Expenditures: Certain counties are eligible for TIF district grants that provide an annual payment to the local board of education. The grants make up the difference for State education aid that would have otherwise been received, but for the increased valuation of real property due to investments in TIF districts (more wealth, less State aid). Counties are only eligible if they also qualify for State Disparity Grant program funding. Charles County has not qualified for disparity grant funding in the past decade, and as such, State expenditures are unlikely to be affected by the expanded use of TIF funds under the bill.

Local Fiscal Effect: Charles County revenues increase beginning as early as fiscal 2021 from bond revenues and/or taxes imposed under existing authorities for the purposes authorized under the bill. County expenditures increase beginning early as fiscal 2021 as any bond proceeds and/or tax revenues are spent, followed in future years by debt service payments and/or continued tax revenue spending.

Small Business Effect: Small businesses in and adjacent to Charles County TIF and special taxing districts potentially benefit from additional spending by the county on infrastructure and construction authorized under the bill. Small businesses that provide construction and related services also potentially benefit from additional demand for their services.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 431 (Charles County Senators) - Budget and Taxation.

Information Source(s): Department of Commerce; State Department of Assessments and Taxation; Charles County; Department of Legislative Services

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Analysis by: Stephen M. Ross

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