Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 942 (Delegate Schindler)
Ways and Means

Economic Development - Tax Increment Financing - Noncontiguous Areas

This bill authorizes the governing body of a political subdivision, including Baltimore City, to designate, by resolution, a noncontiguous "blighted area" within its jurisdiction as a development district for purposes of the Tax Increment Financing Act. The governing body may also utilize the Community Development Administration (CDA) within the Department of Housing and Community Development (DHCD) to issue tax increment financing (TIF) bonds authorized by a local ordinance for such a development district. "Blighted area" means an area in which a majority of buildings have declined in productivity by reason of obsolescence, depreciation, or other causes to an extent that they no longer justify fundamental repairs and adequate maintenance.

Fiscal Summary

State Effect: General fund expenditures for DHCD increase by $878,300 in FY 2026, by $986,900 in FY 2027, and by at least $665,100 annually thereafter for CDA administrative expenses, under the assumptions discussed below. Bond revenues and expenditures, and potentially general fund expenditures, for DHCD increase significantly beginning as early as FY 2028 to the extent that CDA issues TIF bonds under the bill; amounts cannot be reliably estimated at this time.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Bond Rev.	$0	$0	-	-	-
GF Expenditure	$878,300	$986,900	$665,100	$694,600	$724,300
Bond Exp.	$0	$0	-	-	-
Net Effect	($878,300)	($986,900)	(-)	(-)	(-)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local revenues and expenditures increase beginning as early as FY 2026, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Current Law: All counties and municipalities in Maryland, except Baltimore City, 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. Counties and municipalities (including Baltimore City) may issue bonds to finance the development of an industrial, commercial, or residential area.

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.

Except for Baltimore City, which has TIF authority under its charter, a development district must be a contiguous area. Authority to issue bonds under the Tax Increment Financing Act is generally limited to the local governing body, although the revenue authority of Prince George's County may issue bonds in accordance with an ordinance adopted by the governing body of the county, and local revenues may be pledged to debt issued by the Maryland Economic Development Corporation in specified circumstances.

Community Development Administration

CDA is a division within DHCD that issues revenue bonds to raise capital used to make below-market interest rate mortgages. CDA may purchase or issue securities that are backed by mortgage loans and guaranteed by the Government National Mortgage Association or a government-sponsored enterprise to finance community development projects, public purpose projects, or residential mortgage loans. The issuance, terms, and conditions of a security that CDA issues may be as CDA finds necessary or desirable for guaranty by the Government National Mortgage Association or a government-sponsored enterprise.

State Fiscal Effect: CDA in DHCD does not currently issue TIF bonds and does not have the relevant staff or expertise to do so. CDA advises that it requires five full-time staff and the assistance of technical consultants to develop the requisite skills and capabilities to administer a TIF bond program; the initial implementation period, before TIF bonds can feasibly be issued, is approximately two years. CDA estimates bond, legal, and accounting consultant costs range from $425,000 to $925,000; this estimate assumes $700,000 and allocates that amount evenly in fiscal 2026 and 2027.

Accordingly, general fund expenditures for DHCD increase by $878,331 in fiscal 2026, which accounts for the bill's October 1, 2025 effective date. This estimate reflects the cost of hiring a program manager, three financial analysts, and an assistant Attorney General. It includes salaries, fringe benefits, one-time start-up costs, ongoing operating expenses, and $350,000 in consultant expenses.

Positions	5.0
Salaries and Fringe Benefits	$491,487
Contractual Services	350,000
Other Operating Expenses	36,844
Total FY 2026 DHCD Admin. Expenditures	**$878,331**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses and $350,000 in consultant expenses in fiscal 2027.

In addition to those start-up and administrative costs, each bond issuance will incur transaction costs that will vary based on the complexity and size of the issuance and may require dedicated reserves; amounts cannot be reliability estimated at this time, and it is unclear whether local governments would be responsible for paying those costs. Typical debt issuance costs for CDA bonds range from $250,000 to $2.5 million. The timing and amount of TIF bonds issued by CDA under the bill is unknown, although based on CDA's assessment of implementation timelines, TIF bonds likely will not be issued until fiscal 2028.

Accordingly, bond revenues and expenditures, and potentially general fund expenditures, for DHCD increase significantly beginning as early as fiscal 2028 to the extent that CDA issues TIF bonds under the bill; amounts cannot be reliably estimated at this time.

Local Fiscal Effect: The bill expands the authority of local governments under the Tax Increment Financing Act to include noncontiguous blighted areas, which may increase overall use of the Act to facilitate development in those areas. Accordingly, local revenues increase beginning as early as fiscal 2026 from TIF bond revenues and, eventually, from taxes associated with the development. Local expenditures increase beginning as early as fiscal 2026 as bond proceeds are used for authorized purposes, including development-related expenditures and debt service payments on TIF bonds.

Small Business Effect: Small businesses in and adjacent to blighted areas potentially benefit from additional spending by local governments under the Tax Increment Financing Act. Small businesses that provide construction and related services also potentially benefit from additional demand for their services.

Additional Comments: CDA advises that legal and business precedent show that even with strong and detailed disclaimers of the financial and legal recourse, CDA will have reputational credit risk as an issuer of TIF bonds that may impact the way rating agencies rate CDA housing bonds, negatively affecting billions of dollars' worth of existing and future housing bond issuances. Any related fiscal and operational effects are not reflected in the above analysis.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Department of Housing and Community Development; Department of Commerce; Calvert and Prince George's counties; Maryland Municipal League; Department of Legislative Services

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Analysis by: Stephen M. Ross

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