

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1131 (Prince George's County Delegation)
Health and Government Operations

**Prince George's County - Tax Increment Financing - Small, Local, or Minority
Business Enterprises
PG 406-09**

This bill requires a small, local, or minority-owned business enterprise to receive at least 20% ownership in a project if it is financed through bonds supported by tax increment financing (TIF) in Prince George's County.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County finances are not directly affected. Prince George's County government can handle any additional reporting and monitoring requirements with existing resources.

Small Business Effect: Potential meaningful impact on small, local, or minority-owned businesses.

Analysis

Bill Summary: For any project in Prince George's County that utilizes bonds supported by TIF, a small, local, or minority-owned business must receive at least 20% ownership of the project. This requirement applies to projects with private ownership and also for projects where county-owned property is transferred to a third party. Excluded from this requirement are projects where the developer is considered a not-for-profit entity or instances where the property was purchased prior to October 1, 2009.

The Prince George's County Council must enact local laws to define and certify small, local, and minority business enterprises for the purpose of the bill. The county council must also conduct a disparity study that investigates potential patterns of discrimination toward recipients of proceeds from tax increment financing bonds. The results of the disparity study are due to the county's Senate and House legislative delegations by December 31, 2010.

Current Law: County and municipal governments are authorized to borrow money by issuing and selling bonds and utilize TIF for the purpose of financing the development of an industrial, commercial, or residential area. Except as otherwise provided by law, all proceeds received from any bonds issued and sold must be applied solely for:

- the cost of purchasing, leasing, condemning, or otherwise acquiring land or other property, or an interest in them, in the designated development district area or as necessary for a right-of-way or other easement to or from the development district area;
- site removal;
- surveys and studies;
- relocation of businesses or residents;
- installation of utilities, construction of parks and playgrounds, and other necessary improvements including streets and roads to, from, or within the development district, parking, lighting, and other facilities;
- construction or rehabilitation of buildings provided that such buildings are to be devoted to a governmental use or purpose;
- reserves or capitalized interest;
- necessary costs of issuing bonds; and
- payment of the principal and interest on loans, money advanced, or indebtedness incurred by a county or municipality.

In addition to the uses listed above, in Prince George's County, proceeds received from any bonds issued and sold by the county may also be applied for the construction, maintenance, or improvement of convention centers, conference centers, and visitors' centers. Bond proceeds may also be used for marketing the development district facilities and other improvements. Furthermore, Chapter 470 of 2008 expanded this authorization to allow Prince George's County to apply the proceeds from the issuance of bonds toward the installation of any infrastructure improvements, including streets, parking structures, utilities, street lights, stormwater management and storm drain facilities, fencing, noise

walls, retaining walls, trails, sidewalks pedestrian and vehicular bridges, and park facilities. The purpose of this additional authorization is to encourage redevelopment in revitalization areas, mixed use centers, blighted areas, and the developed tier, growth corridors, and growth centers as defined by the county general plan.

Prince George's County code requires that the county purchasing agent structure procurement procedures and activities to facilitate and encourage the award of at least 30% of the total dollar value of all contracts awarded, directly or indirectly, to minority business enterprises. The purchasing agent is required to maintain records and statistics on contract bids and awards and submit a monthly report to the county executive on the progress of achieving the minority contracting goal.

Background: Tax increment financing is a method of public project financing whereby 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.

The TIF district typically consists of a blighted area in need of economic revitalization. Usually, a sponsoring jurisdiction creates a TIF district in order to demonstrate a public commitment to the economic and social viability of an area, thereby encouraging privately financed economic development. 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. Over time, the partnership between the private sector and local government leads to enhanced economic growth which increases the district's taxable real property valuation above its frozen base. 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 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.

TIF Districts in Prince George's County

In Prince George's County, TIF has been used in the National Harbor Center and the Greenbelt Station development.

The National Harbor Center project is located in southern Prince George's County along the Potomac River. The 300-acre, \$2 billion, project will encompass 10 acres of meeting space and will include numerous hotels and restaurants along with retail and residential development.

The Greenbelt Station development is located next to the Capital Beltway between Greenbelt Road and Cherrywood Lane. The multi-use development, which will include more than 2,200 residential units, 1.1 million square feet of retail and entertainment space, 1.2 million square feet of office space, and a 300 room hotel, is designed to spur economic development and promote smart growth by concentrating development around mass transit facilities. The county council has approved up to \$160 million in tax increment financing for the development, which will provide funding for constructing interconnecting roads, parking garage, and additional ramps to the Capital Beltway. The total cost for infrastructure improvements is estimated at over \$290 million.

Local Fiscal Effect: Depending on the size of the redevelopment project, the requirement that a small, local, or minority business receive at least 20% ownership of a project may be prohibitive to finding investors to develop targeted areas. If this provision negatively affects development in targeted areas, it may take longer to repay bonds issued and would take additional time before the county is able to receive an increase in property taxes from commercial improvements in TIF districts.

Prince George's County Minority Business Development Division, located within the Office of Central Services, can handle the reporting and monitoring requirements specified in the bill with existing budgeted resources.

Small Business Effect: The bill provides a meaningful benefit to small, local, or minority-owned businesses that seek ownership in projects in TIF districts.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County, Department of Legislative Services

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