

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 455

(Senator Rosapepe)

Finance

Economic Matters and Ways and Means

**Economic Development - Transformational Project Financing Program -
Establishment**

This bill establishes a Transformational Project Financing Program and Fund within the Department of Housing and Community Development (DHCD) to support development districts that have a transformational plan (as defined) and for which the local governing body has approved a tax increment financing plan before July 1, 2035, and pledged certain real property tax increment revenues. A state-supported development district is eligible for an annual disbursement of net-new State revenue attributable to the district, as determined and certified by the Comptroller. **The bill takes effect July 1, 2027.**

Fiscal Summary

State Effect: General fund expenditures for the Comptroller's Office increase by an estimated \$126,600 in FY 2028; quantified future-year expenditures reflect annualization, ongoing costs, and the potential availability of special fund administrative cost-recovery revenue to defray expenses (special fund revenues increase accordingly). Special fund revenues and expenditures for DHCD increase to the extent of (1) distributions to and disbursements from the Transformational Project Financing Fund (likely no earlier than FY 2029) and (2) cost-recovery revenues (likely no earlier than FY 2029) and/or application fees to cover any related administrative expenses (beginning as early as FY 2028). As discussed below, existing State revenues and related expenditures may also be affected.

Local Effect: Local governments may benefit to the extent State-supported development districts are approved within their jurisdictions and receive disbursements from the fund. Local highway user revenues are potentially affected, as discussed below.

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Bill Summary: “Transformational plan” means an improvement plan for a development district that (1) is of a scale or mix of uses that makes it reasonably likely to increase the population, employment, or commercial activity in the development district and surrounding area; (2) represents anticipated new economic activity with a net positive fiscal impact to the State after a specified displacement adjustment; (3) is not economically viable without State participation; and (4) includes improvements or site work that will benefit the community.

Transformational Project Financing Fund

The fund consists of certified net-new State revenue attributable to a State-supported development district and distributed to the fund in accordance with the bill’s provisions, money appropriated in the State budget to the fund, and any other money from any other source accepted for the benefit of the fund. Any interest earnings are credited to the general fund. The fund may be used only for disbursements to a trustee-held project account for a State-supported development district for use in accordance with the bill.

Application and Approval Process

Subject to a reasonable application fee, a local governing body may apply to DHCD for a development district to be approved as a State-supported development district. DHCD must establish specified guidelines for local governing bodies; establish an application submission, evaluation, and approval process; use objective criteria to determine whether an improvement plan for a development district is a transformational plan; and notify the applicant of an approval decision within 90 days. An applicant may appeal an application denial within 60 days. DHCD must ensure meaningful participation by political subdivisions of varied population size and geographic location and annually publish a specified summary of approved State-supported development districts.

For an application for a State-supported development district that is above an amount established by DHCD, a specified report quantifying projected State revenue impacts must be prepared by an independent third-party consultant acceptable to DHCD. DHCD may not approve the proposed district unless the report demonstrates a positive net fiscal benefit to the State.

A transfer of the transformational plan, assignment of rights, or change of control of a developer or other obligated party requires the written consent of DHCD, evidence of equal or greater financial capacity of the transferee, and an assumption agreement acceptable to DHCD. DHCD may approve lender step-in rights and related remedies consistent with guidelines it adopts.

Certification and Disbursement of Net-new State Revenues

A State-supported development district is eligible for an annual disbursement of net-new State revenue (State income tax revenue, sales and use tax revenue, and other Comptroller-designated State tax revenue attributable to a State-supported development district) to be deposited in the fund for the life of the local bonds, not to exceed 30 years after the State-supported development district is completed. State property tax revenues may not be designated for disbursement under the program. The Comptroller must annually certify the amount of net-new State revenue attributable to each State-supported development district and, within 14 days of certification, transfer the net certified amount after administrative cost recovery to the fund for disbursement to the trustee of the project trust account.

To determine net-new State revenue for a transformational plan, the Comptroller generally must reduce gross revenue attributable to a State-supported development district by a specified minimum displacement adjustment percentage (60% for retail and restaurants; 25% for office space; 10% for industrial, logistics, manufacturing, and other production spaces; and 15% for tourism and visitor-serving uses). The Comptroller must evaluate the minimum displacement adjustment percentages every two years and may use different percentages based on market conditions, empirical data, and sector-specific analysis. A displacement adjustment may not be applied to affordable housing components of a transformational plan or portions of a State-supported development district that are located in a priority area (a designated sustainable community; a transit-oriented development; an enterprise zone; a designated arts and entertainment district; a designated main street Maryland community; or a designated priority funding area). The Comptroller must adopt regulations establishing the displacement adjustment percentages, including any revised percentages, and the methodology used to derive them.

Use of Bond Proceeds for State-supported Development Districts

In addition to other authorized uses under the Tax Increment Financing Act or Article II, § 62 of the Baltimore City Charter, bond proceeds for a State-supported development district may be used for construction, rehabilitation, or expansion of privately owned buildings and related building improvements if DHCD determines that the costs are necessary for the economic viability of the transformational plan. Revenues and reserves for a State-supported development district generally may not be used for any other State-supported development district or plan or cross-collateralization among transformational plans, except in the case of contiguous State-supported development districts.

Before issuing bonds for a State-supported development district, a local governing body or the Mayor and City Council of Baltimore City must pledge by resolution that certain real property tax increment revenues will be paid to the trustee of the project trust account until the bonds are fully paid (or a longer period).

Current Law: Pursuant to Title 12, Subtitle 2 of the Economic Development Article (Tax Increment Financing Act) and Article II, § 62 of the Baltimore City Charter, counties, municipalities, and Baltimore City may, by resolution, designate tax increment financing districts and issue bonds to finance the development of industrial, commercial, or residential areas. Before issuing bonds, the local governing body must receive from the Supervisor of Assessments a certificate of the amount of the original or adjusted assessable base (as applicable) and pledge real property tax revenues imposed on incremental increases in the valuation to a special account, which may be used to pay debt service on the bonds and for other specified purposes.

State Fiscal Effect:

Transformational Project Financing Fund

To the extent State-supported development districts are approved under the program, special fund revenues and expenditures for DHCD increase, likely no earlier than fiscal 2029, as related net-new State revenues are distributed to the Transformational Project Financing Fund and disbursed to trustees of project trust accounts. Otherwise, the timing and amount of any such effect cannot be reliably predicted at this time.

This fiscal and policy note assumes that distributions to and disbursements from the Transformational Project Financing Fund are generally limited to State revenues that would not have been generated in the absence of the bill. However, the Department of Legislative Services (DLS) notes that the bill prohibits the application of displacement adjustment percentages to State revenues attributable to affordable housing components of a transformational plan or portions of a State-supported development district that are located in a priority area (as defined). In such cases, State revenues that would have been collected in the absence of the bill may be diverted to the Transformational Project Financing Fund, thus affecting existing general and special fund revenues and, potentially, corporate income tax revenue distributions to local governments in the form of local highway user revenue grants. Existing revenues and expenditures may otherwise be affected depending on the timing of distributions to the fund relative to the collection of affected tax revenues, which is unclear from the bill. DLS also notes that any distributions to the fund are based on estimated net-new State revenues attributable to State-supported development districts, as *actual* net new revenues cannot be known.

Comptroller Administrative Expenses

General fund expenditures for the Comptroller’s Office increase by \$126,561 in fiscal 2028, which reflects a 90-day start-up delay from the bill’s July 1, 2027 effective date. This estimate reflects the cost of hiring one full-time revenue analyst to monitor and estimate State revenues attributable to State-supported development districts and conduct regular reevaluations of displacement adjustments. It includes a salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and one-time contractual programming costs totaling \$40,000.

Position	1.0
Salary and Fringe Benefits	\$77,420
One-time Programming Costs	40,000
Other Operating Expenses	<u>9,141</u>
Total FY 2028 Comptroller Expenditures	\$126,561

Future year expenditures reflect a full salary with annual increases and employee turnover, annual increases in ongoing operating expenses, and the assumption that all or a portion of Comptroller administrative expenses may be met through cost recovery under the bill. Special fund administrative cost-recovery revenues increase accordingly, presumably no earlier than fiscal 2029.

Department of Housing and Community Development

DHCD advises that it can likely administer the program with existing budgeted resources in the immediate term but may eventually require additional personnel depending on program demand. A precise estimate of related costs is not available at this time. DHCD anticipates that any such costs would be recouped from certified net-new State revenue under the bill’s administrative cost-recovery provision; to the extent such revenue is insufficient to cover DHCD administrative expenses, the remainder would be met with General Bond Reserve Fund (GBRF) spending. DLS notes that, while the bill requires the Comptroller to distribute a portion of certified net-new State revenue to an administrative cost account in an amount necessary to administer the program, it is unclear whether the State may recover non-Comptroller expenses via this provision. Nonetheless, special fund expenditures for DHCD increase beginning as early as fiscal 2028 to the extent DHCD must hire additional staff to implement the bill. To the extent the bill’s administrative cost recovery extends to DHCD expenses, special fund revenues increase accordingly, presumably no earlier than fiscal 2029. Likewise, to the extent DHCD charges a reasonable application fee, as authorized, special fund revenues increase.

Local Revenues: Local highway user revenues are potentially affected, likely no earlier than fiscal 2029, to the extent corporate income tax revenues that would have been

collected in the absence of the bill are diverted to the Transformational Project Financing Fund, as discussed above.

Small Business Effect: Small businesses located within or adjacent to a State-supported development district may benefit from additional economic development spending under the bill, as may small businesses that provide construction or related services.

Additional Information

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

Designated Cross File: HB 506 (Delegate Qi, *et al.*) - Economic Matters and Ways and Means.

Information Source(s): Maryland Economic Development Corporation; Department of Commerce; Comptroller's Office; Maryland State Treasurer's Office; Department of Housing and Community Development; Maryland Department of Transportation; Anne Arundel, Baltimore, Charles, Dorchester, and Garrett counties; City of Laurel; Town of La Plata; Maryland Municipal League; Department of Legislative Services

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