MARYLAND Association of COUNTIES

Senate Bill 925

Property Tax - Liability for Payment of Tax on Leased Property

MACo Position: **SUPPORT**

To: Ways & Means Committee

Date: March 27, 2018

From: Barbara Zektick

The Maryland Association of Counties (MACo) **SUPPORTS** SB 925. This bill allows for the attachment of tax liens in very specialized circumstances where the government leases property for private development, and tax increment financing (TIF) bonds or special taxing districts are used to finance that development.

MACo supports this bill because it corrects a very specific gap in tax law which could prevent a county from issuing a TIF bond and using the proceeds to support needed economic development. Counties use TIFs as an economic development tool to spur growth where it otherwise would not occur, by pledging new tax revenues they otherwise would not receive to pay back bonds used to finance supporting infrastructure.

Generally speaking, overdue taxes are prioritized over other delinquent bills for collection. They create tax liens on properties, and if those properties are forced into foreclosure because of overdue delinquencies, the tax liens get repaid first, before the mortgage or other liens. This makes bonds repaid by taxes more secure than bonds repaid by other revenues, because taxes are more likely to get collected than other revenues.

When businesses lease government property and perform private, taxable activity on that property, counties assess that business real property tax. However, counties cannot place a tax lien on the government-owned property, because government-owned property is generally not taxable. Instead, when the business lessee does not pay their property taxes, counties must sue that business in civil court to collect the arrears.

For traditional transit-oriented development projects and other economic development public-private partnership development projects, a government entity will frequently make its property available under a long-term ground lease to a developer, who will build taxable development on the property. The local government creates a TIF district, pledging the new property tax revenues from the development to repay TIF bonds issued to pay for roads, water and sewer pipes, and other needed public infrastructure.

This bond is usually guaranteed by revenues from a special taxing district, created on the same property as the TIF district. However, if the county cannot establish a tax lien on the property if those new property taxes go unpaid – as is the case under current law - the TIF bond is less valuable, because it is less assured it will get repaid.

This bill closes that loophole. It ensures that in specific cases where a government owns the land and ground leases it for economic development, the county can create tax liens on the development in order to collect the property taxes owed – ensuring that the TIF bond has the value it is intended to have.

For the reasons stated above, MACo **SUPPORTS** SB 925 and urges the Committee to grant it a **FAVORABLE** report.