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THE MARYLAND HOUSE OF DELEGATES
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Testimony in Support of HB 805
Economic Development – Enterprise Zone Program – Alterations

This bill would reform the ineffective enterprise zone tax credit by implementing recommendations from the Department of Legislative Services (DLS) and other experts. The program is one of the most expensive state and local business tax credit programs in Maryland, with $599 million in tax credits awarded over the past twenty years.

Costs for the enterprise zone tax credit have been growing at an average rate of 12.6% a year and the program has no statutory restraints on future costs.

Evaluations Show Limited Effectiveness

The Enterprise Zone Tax Credit program has had very limited effectiveness in meeting its goal of trying to spur revitalization of economic distressed areas. DLS conducted reviews of the enterprise zone tax credits in 2021 and 2014. The most recent evaluation recommended consolidation of the enterprise zone tax credits with other similar programs, or if not feasible, then major legislative reforms to the program.

Both DLS evaluations concluded that "Enterprise Zone tax credits are not effective in creating employment opportunities for Enterprise Zone residents."[1,2] Additionally, the program criteria are "poorly designed" and "limit the program's effectiveness in promoting economic activity within distressed areas." Monies spent in the program are poorly targeted, with only one dollar of tax credits going to the most distressed neighborhoods for every three to four dollars going to the least distressed communities. DLS also found that the income tax credit continues to be underutilized, with only 12 employers certified in the last five years. The reports also found that the program's effectiveness is not being evaluated, as is required by law, due to a lack of data.

In response to the 2014 DLS report, the Department of Commerce proposed legislative reforms to the program, including reducing the time that a business could receive the

[1] "Evaluation of the Enterprise Zone Tax Credit," 2014, Department of Legislative Services.
[2] "Evaluation of the Enterprise Zone Tax Credit," 2021, Department of Legislative Services.

property tax credit from ten years to five years and eliminating the employment-based tax credit. These reforms were not enacted and to date, none of the DLS recommendations have been implemented.

Additionally, national studies find fault with enterprise zone tax credits. The National Conference of State Legislators reports that “academic reviews of enterprise zones, often prepared using econometric models, have found little evidence that programs actually result in net job creation and increased community investment.”[3]

Economist David Neumark, a professor at the University of California, Irvine, conducted an encompassing review of the research on enterprise zones and concluded that: “it is very hard to make the case that the research establishes the effectiveness of enterprise zones in terms of job creation, poverty reduction, or [economic] welfare gains.”[4]

Good Jobs First, a national think tank with expertise on tax policy, writes that enterprise zone “...subsidies cost state and local treasuries a lot of lost revenue, and like many subsidy programs, it is often unclear whether the developments would have happened in the area anyway.”[5]

The ineffectiveness of enterprise zones has prompted further review in other states and led the California and Kentucky legislatures to end their state’s enterprise zone tax credits.

1000% Cost Increase Since 2001

Local governments have the ability to request the designation of a new enterprise zone or the expansion of an existing zone. As long as the area meets the criteria outlined in state law, the Department of Commerce *has* to approve it. The state is then required to pay for 50% of the costs of the property tax credits claimed by businesses within the enterprise zone; the other half of the cost is borne by the local government.

Once Commerce approves a new enterprise zone or expansion of an existing zone, there are *no limitations* to how many businesses can participate or limits on the program’s cost.

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[3] “Enterprise Zones: Development for Distressed Communities,” 2005, National Conference of State Legislators.
[4] “Rebuilding Communities Jobs Subsidies,” 2018, David Neumark, The Hamilton Project.
[5] https://www.goodjobsfirst.org/accountable-development/enterprise-zones

This has been a recipe for unrestrained growth in terms of geographic size and the cost of the tax credit. The state's share of the program's cost has grown from $2.5 million in FY 2001 to $28.9 million in FY 2021—an increase of 1056% in 20 years.

The cost of the program will likely continue to increase in future years since there are no guardrails on the cost of the program. Simply put, the state cannot afford to continue to pay these greatly escalating costs, especially when the program has not shown to be effective.

What This Bill Does

This legislation would implement common sense reforms to the enterprise zone property tax credit. Most elements of the bill were recommended by DLS in its 2021 and 2014 program evaluations.

- Prevents the designation of new enterprise zones or the expansion of existing zones if the total cost of the program exceeds $50 million per year.
    - Businesses that already receive the tax credit would continue to receive it.
    - Businesses in existing zones could apply for and receive the tax credit.
- Eliminates the job creation portion of the enterprise zone tax credit as the Department of Commerce sought to do in prior legislation.
    - Current recipients of the tax credit would be grandfathered in.
- Adds criteria for areas that could qualify to be designated as an enterprise zone, including if basic infrastructure is in place in order to facilitate business development within the proposed expansion area and if the county has identified the area as a priority area for future growth or revitalization.
- Requires Commerce to promulgate new regulations on how to prioritize applications for new zones and expansions of existing zones.
- Requires each county to report to Commerce information on the effectiveness of its enterprise zone(s) so that the success of the program can be evaluated.
- Requires Commerce and SDAT to better assess the effectiveness of the program, including attracting businesses, increasing employment, reducing poverty, and overall community revitalization.