

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

House Bill 399 (Chairman, Economic Matters Committee)  
 (By Request – Departmental – Business and Economic Development)

Economic Matters Finance

**Business and Economic Development - Enterprise Zones - Expansion**

This departmental bill allows the Department of Business and Economic Development (DBED) to approve an expansion of up to 50% in the size of an existing enterprise zone, without this expansion counting towards the six enterprise zones or the one extraordinary expansion that DBED can approve in one year. The bill also alters the time limit on the number of enterprise zones and extraordinary expansions DBED can approve in one year to be a calendar year, as opposed to a 12-month period.

The bill takes effect July 1, 2006.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by as much as \$1 million in FY 2007 due to additional payments to local jurisdictions for property tax rebates. Future estimates include a 1% increase in property tax rebates. Potential minimal decrease in general fund revenues and Transportation Trust Fund (TTF) revenues due to income tax credits associated with the creation of new jobs by a business in an enterprise zone. Revenues would increase to the extent new economic activity occurs as a result of the bill.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(-)	(-)	(-)	(-)	(-)
SF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	1,031,800	1,042,200	1,052,600	1,063,100	1,073,700
Net Effect	(\$1,031,800)	(\$1,042,200)	(\$1,052,600)	(\$1,063,100)	(\$1,073,700)

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

**Local Effect:** Local revenues could decrease by as much as \$1 million in FY 2007 due to a decrease in property tax revenue for jurisdictions with enterprise zones. Future year estimates include a 1% growth in property tax revenues. Potential additional decrease in highway user revenues from the Gasoline and Motor Vehicle Revenue Account (GMVRA). If the activity would not have occurred absent this bill, local revenues would increase.

**Small Business Effect:** DBED has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment as discussed below.

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## Analysis

**Current Law:** An enterprise zone is either an area designated by the federal government as an “enterprise” or “empowerment” zone, or an area designated an enterprise zone by the Secretary of Business and Economic Development. Enterprise zones must be located in priority funding areas or be entitled to an exemption as specified in code.

In addition, an enterprise zone must meet one of the following criteria:

- the area must have an unemployment rate for the past 18 months equal to 150% of the average rate for Maryland or the U.S., whichever unemployment rate is higher;
- the area must either be a low-income poverty area or be within a reasonable proximity of one;
- at least 70% of the families within the area or within a reasonable proximity must make less than 80% of the local median family income; or
- the population in the area or within a reasonable proximity must have decreased by 10% between the most recent two U.S. censuses, and the area must meet certain criteria regarding property and property taxes.

The Secretary cannot designate more than six enterprise zones in any 12-month period. No county may receive more than one area designated as an enterprise zone in any calendar year. Eligible businesses in an enterprise zone may claim several benefits:

- a 10-year credit against a portion of local real property taxes on a portion of qualified property improvement;
- one-year or three-year income tax credits for wages paid to new employees in new positions; and

- financial assistance from eligible economic development funds within DBED (including Maryland Small Business Development Financing Authority, Maryland Economic Development Assistance Authority Fund). All incentives expire 10 years after the area is designated an enterprise zone.

The Secretary may grant an extraordinary expansion of an enterprise zone for an enterprise zone that has a significant loss of economic base according to the Secretary. The Secretary may not grant more than one extraordinary expansion throughout the State in any 12-month period.

**Background:** Enterprise zones are areas that are targeted by local jurisdictions and the federal government to encourage economic development. Economic development is targeted through the use of tax incentives and economic development assistance. The Maryland State Enterprise Zone Program was one of the first in the U.S. The program was created in 1982 with 2 zones in 2 jurisdictions and has grown to include 29 zones in 14 jurisdictions. Enterprise zones expire after 10 years; 5 zones have expired in the past 5 years, and of the 29 current zones, 5 are due to expire by the end of calendar 2006.

Since 1995, businesses have earned \$4.2 million in income tax credits. The Comptroller's Office advises that in fiscal 2003, the last year that complete data is available, \$786,000 in enterprise zone income tax credits was claimed, of which 53% was claimed against the corporate income tax, and 47% was claimed against the personal income tax. The Comptroller was unable to determine how much the \$786,000 in credits reduced actual tax liability.

**Exhibit 1** shows the number of enterprise zones in the State still receiving property tax rebates by county.

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**Exhibit 1**  
**Enterprise Zones and Fiscal 2007 Property Tax Rebates By County**

<u>County</u>	<u>Number of Zones</u>	<u>FY 2007 Property Tax Rebates to Local Jurisdictions</u>
Allegany County	3	\$313,684
Baltimore City	1	2,795,071
Baltimore County	2	478,523
Calvert County	0	39,522
	(Enterprise zone expired in 2003)	
Cecil County	1	1,130,239
Dorchester County	2	812,770
Garrett County	4	43,433
Harford County	2	1,980,520
Montgomery County	3	1,546,138
Prince George's County	1	490,270
St. Mary's County	1	21,712
Somerset County	2	2,655
Washington County	3	560,195
Wicomico County	2	70,143
Worcester County	2	33,481

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Local jurisdictions offer a tax credit of approximately 80% of the increased value of the property for five years, which declines by 10% of the increased value for the next five years to 30% of the increased value in the tenth year. The credit expires after 10 years. The State reimburses local governments for half of the lost revenue through property tax rebates.

For fiscal 2005, the State Department of Assessments and Taxation (SDAT) reported that it had reimbursed \$5.5 million to local governments for 557 businesses for the credit

against property improvement, an amount that will increase to \$10.3 million for 693 businesses in fiscal 2007. This \$10.3 million is granted against over \$1.7 billion in improvement of real property values in enterprise zones. SDAT advises that the growth in property tax rebates reflects both an increase in the number of new businesses applying (more than double the usual growth), and a number of capital intensive projects. Cecil County alone had three \$30 million projects.

**State Revenues:** The Comptroller's Office advises that income tax revenues could decrease from additional employers in the expanded enterprise zones claiming enterprise zone tax credits. The Comptroller's Office was not able to estimate the exact revenue decline, but advises that it expects the revenue decrease to be minimal.

Twenty-four percent of the corporate income tax is transferred to the GMVRA, of which the TTF retains 70%, or 16.8% of the corporate income tax. As such, TTF revenues could also decrease minimally.

**State Expenditures:** Neither DBED nor SDAT were able to predict the exact number of enterprise zones that would be expanded, nor were they able to estimate the increase in the number of businesses located in the expanded enterprise zones that would be seeking property tax rebates.

However, SDAT advises that it is likely that an expansion would be sought in order to accommodate a large project in an enterprise zone. SDAT estimates that the expansion of existing enterprise zones could result in a 10% increase in property tax rebates to local governments.

Accordingly, general fund expenditures for property tax rebates could increase by \$1.03 million in fiscal 2007, increasing to \$1.07 million in fiscal 2011. This assumes a 1% increase annually in property tax rebates.

DBED advises that it would be able to administer the expansion of enterprise zones with existing resources. Expanded enterprise zones would result in more businesses eligible for DBED program assistance; however, as there is no associated increase in the budget for these programs, overall expenditures would not increase. Any increase in applications could be handled with existing resources.

**Local Fiscal Effect:** Local governments are compensated by the State for half of the property tax credits offered as an enterprise zone incentive; as such, local government property tax revenues for the jurisdictions where the enterprise zones are located could decrease by \$1.03 million in fiscal 2007. This assumes that the actual foregone property

tax revenue is \$2.06 million in fiscal 2007, and that local governments are compensated for half of it. Future estimates assume a 1% increase annually in property tax revenues.

Twenty-four percent of the corporate income tax is transferred to the GMVRA in the TTF; local governments receive 30% of these revenues (or 7.2% of the corporate income tax) as highway user revenue. Local revenues for all jurisdictions could decrease minimally from a minimal decrease in corporate income tax revenues.

This estimate assumes that the improvement in real property would have occurred without the expansion of the enterprise zone; thus, the effect of the expansion of the zone is a decrease of the property tax on the capital investment by 80% in the first year. To the extent that the expansion of the enterprise zone attracts capital investment into the jurisdiction resulting in property improvements that would not have otherwise occurred, or whether that investment would have occurred elsewhere in the State, cannot be reliably estimated but would increase local property tax revenues.

**Small Business Effect:** The expansion of enterprise zones will result in more businesses being eligible for DBED assistance programs and income and property tax credits for capital investment and hiring additional employees. The increased access to capital and reduced tax liability could have a significant impact on small businesses.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Business and Economic Development, State Department of Assessments and Taxation, Comptroller's Office, Department of Legislative Services

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