

Department of Legislative Services  
Maryland General Assembly  
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 925

(Washington County Senators)

Budget and Taxation

Ways and Means

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Washington County - Property Tax Credit - Economic Development Projects

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This bill expands the eligibility for an existing local property tax credit in Washington County for real property owned or leased by a new or expanding business that creates new jobs.

The bill takes effect June 1, 2015, and applies to taxable years beginning after June 30, 2015.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Washington County property tax revenues may decrease beginning in FY 2016 to the extent the property tax credits are granted. The amount of the decrease depends on the number of businesses that qualify for the tax credit and the amount of the tax credits that are issued.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** In lieu of existing eligibility requirements, to qualify for the property tax credit a new business entity locating in the county or an existing business entity in the county must invest at least \$10.0 million in capital improvements in the county by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously unoccupied premises. As a result of these capital improvements, the business entity must create 100 new permanent full-time positions.

A new or expanding business entity that meets these requirements is entitled to a property tax credit equal to a percentage of the amount of property tax imposed on the assessment of the new or expanding premises as follows: (1) 100% for each of the first 5 years; (2) 75% in years 6 through 10; (3) 50% in years 11 through 15; and (4) 0% in years 16 and later.

**Current Law:** Chapter 650 of 2012 authorized Washington County (and Frederick County) to grant a property tax credit against the county property tax imposed on real property owned or leased by a new or expanding business that creates new jobs, provided specified conditions are met.

In order to qualify for the property tax credit, and prior to obtaining the new or expanded premises or hiring employees to fill the new permanent full-time positions at the new or expanded premises, a business must provide written notification to the county stating (1) that the business entity intends to claim the property tax credit and (2) when the business entity expects to obtain the new or expanded premises and hire the required number of employees in the new permanent full-time positions.

An existing business in the county must (1) obtain at least an additional 1,500 square feet of new or expanded premises by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously unoccupied premises and (2) employ at least one individual in a new permanent full-time position during a 12-month period, during which period the business entity also must obtain and occupy the new or expanded premises.

A new business locating in the county must (1) obtain at least 2,500 square feet of new or expanded premises by purchasing newly constructed premises, constructing new premises, causing new premises to be constructed, or leasing previously unoccupied premises and (2) employ at least five individuals in new permanent full-time positions during a 24-month period, during which period the business entity also must obtain and occupy the new or expanded premises.

The property tax credit for an existing business is equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows: (1) 52% in the first and second taxable years; (2) 39% in the third and fourth taxable years; and (3) 26% in the fifth and sixth taxable years.

The property tax credit for a new business locating in the county is equal to a percentage of the amount of property tax imposed on the assessment of the new or expanded premises, as follows: (1) 30% in the first and second taxable years; (2) 20% in the third and fourth taxable years; and (3) 10% in the fifth and sixth taxable years.

Chapter 650 specified that the lessor of real property granted a property tax credit must reduce the amount of taxes for which a business is contractually liable under the lease agreement by the amount of any credit granted for improvements made by the business.

To date, Washington County has not issued any of these economic development tax credits. However, the county advises that as Enterprise Zone tax credits and One Maryland tax credits begin to phase out, this tax credit may be used to replace those tax credits as an economic development incentive.

**Background:** Employment growth is one indicator of an economy’s overall health. The total number and the percent change in new jobs created are widely used performance measures. Total employment in Maryland from 2009 to 2014 increased by 2.1%, resulting in a net increase of approximately 50,400 jobs. In Washington County, there was a net increase of approximately 2,500 jobs (**Exhibit 1**). However, even with an increase in net jobs, the unemployment rate in Washington County averaged 7.0% in calendar 2014, which was above the statewide and national averages (**Exhibit 2**).

Information on social and economic conditions for Maryland counties and Baltimore City can be found on page 9 of the [Overview of Maryland Local Governments](#) report. A copy of the report can be found on the Department of Legislative Services website.

**Local Fiscal Effect:** Washington County property tax revenues may decrease beginning in fiscal 2016 to the extent the property tax credits are granted. The amount of the revenue decrease depends on the number of businesses that qualify for the tax credit and the amount of the credit, neither of which can be reliably estimated at this time. As a point of reference, the following table shows the number of commercial and industrial property tax accounts in Washington County and their total assessed value for fiscal 2015.

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**Table 1**  
**Commercial and Industrial Real Property Accounts**  
**Fiscal 2015**

	<b>Commercial</b>		<b>Industrial</b>	
	<b><u>Improved</u></b>	<b><u>Vacant</u></b>	<b><u>Improved</u></b>	<b><u>Vacant</u></b>
<b>Washington County</b>				
Accounts	1,852	686	260	112
Assessed Value	\$1,932,407,106	\$175,302,001	\$793,183,266	\$27,365,067

Source: State Department of Assessments and Taxation

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** Although designated as a cross file, HB 1164 (Washington County Delegation - Rules and Executive Nominations) is not identical.

**Information Source(s):** Washington County, State Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 20, 2015  
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**Exhibit 1**  
**Employment Growth in Maryland Counties – Over a Five-year Period**  
**First Quarter 2009 and 2014**

County	<u>Average Employment Within Jurisdiction</u>					<u>Jobs Per 1,000 Residents</u>		
	1st Q 2009	1st Q 2014	Difference	% Difference	Rank	1st Q 2014	Percent of State Average	Rank
Allegany	28,648	28,537	-111	-0.4%	17	388.1	92.2%	9
Anne Arundel	224,856	248,897	24,041	10.7%	1	447.9	106.3%	4
Baltimore City	326,644	324,817	-1,827	-0.6%	18	522.1	124.0%	1
Baltimore	363,451	358,415	-5,036	-1.4%	19	435.5	103.4%	7
Calvert	20,952	21,071	119	0.6%	14	232.9	55.3%	24
Caroline	8,686	9,163	477	5.5%	5	280.3	66.5%	20
Carroll	54,361	54,983	622	1.1%	11	328.1	77.9%	18
Cecil	29,617	29,766	149	0.5%	15	292.1	69.3%	19
Charles	40,384	40,514	130	0.3%	16	265.0	62.9%	22
Dorchester	10,907	10,755	-152	-1.4%	20	329.3	78.2%	17
Frederick	91,150	93,556	2,406	2.6%	7	387.5	92.0%	10
Garrett	11,059	11,336	277	2.5%	9	379.3	90.0%	12
Harford	79,642	85,828	6,186	7.8%	3	344.4	81.8%	15
Howard	142,266	155,952	13,686	9.6%	2	512.0	121.6%	2
Kent	7,736	7,225	-511	-6.6%	24	362.3	86.0%	14
Montgomery	443,351	448,595	5,244	1.2%	10	441.2	104.8%	5
Prince George's	303,413	296,891	-6,522	-2.1%	21	333.6	79.2%	16
Queen Anne's	12,919	13,038	119	0.9%	12	268.7	63.8%	21
St. Mary's	39,382	41,959	2,577	6.5%	4	382.7	90.9%	11
Somerset	6,760	6,488	-272	-4.0%	23	246.9	58.6%	23
Talbot	17,920	18,051	131	0.7%	13	475.9	113.0%	3
Washington	63,427	65,878	2,451	3.9%	6	440.4	104.6%	6
Wicomico	44,558	43,552	-1,006	-2.3%	22	431.7	102.5%	8
Worcester	18,778	19,271	493	2.6%	8	373.3	88.6%	13
Unallocated	55,904	62,678	6,774	12.1%				
<b>Maryland</b>	<b>2,446,772</b>	<b>2,497,216</b>	<b>50,445</b>	<b>2.1%</b>		<b>421.2</b>	<b>100.0%</b>	

Note: The employment growth rate was calculated by using average quarterly employment data. Employment growth statistics represent the available jobs within a jurisdiction, not the employment status for residents of the jurisdiction.

Source: *Employment and Payroll Annual Report*, Department of Labor, Licensing, and Regulation

**Exhibit 2**  
**Economic Indicators for Maryland Counties**

County	<u>Average Weekly Wage</u>		<u>Unemployment Rate</u>			<u>Median Household Income</u>		<u>Median Home Price</u>		
	1st Q 2014	Percent of State Average	CY 2012	CY 2013	CY 2014	CY 2010-2012	Percent of State Average	FY 2013	FY 2014	Percent Change
Allegany	\$670	61.7%	8.1%	7.8%	6.9%	\$39,166	54.6%	\$112,000	\$102,000	-8.9%
Anne Arundel	1,060	97.6%	6.1%	5.9%	5.3%	86,454	120.6%	325,000	335,000	3.1%
Baltimore City	1,192	109.8%	10.2%	9.6%	8.7%	39,788	55.5%	177,500	192,500	8.5%
Baltimore	985	90.7%	7.3%	6.9%	6.1%	64,306	89.7%	235,000	245,000	4.3%
Calvert	878	80.8%	5.9%	5.7%	5.1%	92,517	129.0%	344,000	336,500	-2.2%
Caroline	695	64.0%	8.3%	7.5%	6.7%	58,006	80.9%	172,000	187,000	8.7%
Carroll	746	68.7%	6.3%	5.7%	5.1%	82,581	115.2%	289,000	307,000	6.2%
Cecil	812	74.8%	8.1%	7.7%	6.2%	64,763	90.3%	235,000	239,000	1.7%
Charles	809	74.5%	6.3%	6.2%	5.6%	91,801	128.0%	286,500	299,000	4.4%
Dorchester	731	67.3%	10.6%	9.7%	8.5%	42,885	59.8%	152,200	154,000	1.2%
Frederick	964	88.8%	5.9%	5.7%	5.0%	82,311	114.8%	300,000	310,000	3.3%
Garrett	602	55.4%	7.6%	7.3%	6.4%	44,223	61.7%	145,000	157,500	8.6%
Harford	910	83.8%	7.0%	6.6%	5.7%	78,448	109.4%	269,900	268,300	-0.6%
Howard	1,220	112.3%	5.0%	4.9%	4.4%	106,222	148.1%	415,000	425,000	2.4%
Kent	710	65.4%	7.5%	7.1%	6.5%	53,854	75.1%	230,000	213,000	-7.4%
Montgomery	1,365	125.7%	5.2%	5.1%	4.5%	94,767	132.2%	410,000	430,000	4.9%
Prince George's	1,006	92.6%	7.2%	6.8%	6.1%	72,254	100.8%	224,000	255,000	13.8%
Queen Anne's	665	61.2%	6.2%	5.9%	5.1%	85,334	119.0%	308,000	323,000	4.9%
St. Mary's	1,238	114.0%	6.1%	5.8%	5.3%	86,209	120.2%	283,900	285,000	0.4%
Somerset	786	72.4%	10.5%	9.9%	8.9%	37,733	52.6%	137,000	135,000	-1.5%
Talbot	730	67.2%	7.5%	6.8%	5.9%	59,307	82.7%	275,000	280,000	1.8%
Washington	742	68.3%	8.5%	8.0%	7.0%	54,239	75.6%	185,500	198,000	6.7%
Wicomico	724	66.7%	8.8%	8.1%	7.4%	50,523	70.5%	159,900	164,000	2.6%
Worcester	605	55.7%	12.0%	11.5%	10.3%	58,687	81.8%	220,800	210,000	-4.9%
<b>Maryland</b>	<b>\$1,086</b>	<b>100.0%</b>	<b>6.9%</b>	<b>6.6%</b>	<b>5.9%</b>	<b>\$71,707</b>	<b>100.0%</b>	<b>\$286,000</b>	<b>\$304,000</b>	<b>6.3%</b>

Source: Department of Labor, Licensing, and Regulation; Maryland Department of Planning; State Department of Assessments and Taxation