# HB 1594

# Department of Legislative Services

Maryland General Assembly
2018 Session

## FISCAL AND POLICY NOTE
## Third Reader - Revised

House Bill 1594 (Delegate Carey)
Ways and Means

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**Economic Development - More Jobs for Marylanders - Tier I Eligibility**

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This bill expands the geographic eligibility for Tier I counties under the More Jobs for Marylanders Program to include a geographic area outside a qualified distressed county (QDC), if the area meets the unemployment or income criteria to be a QDC and (1) shares a border with a QDC; (2) has been designated a sustainable community by the Department of Housing and Community Development; and (3) includes acreage that has been designated as an enterprise zone by the Department of Commerce (Commerce). **The bill takes effect June 1, 2018.**

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## Fiscal Summary

**State Effect:** General and special fund revenues decrease beginning as early as FY 2019. The amount cannot be reliably estimated at this time but is anticipated to be minimal based on the current QDCs and Tier I counties.

**Local Effect:** The bill does not materially affect local government finances or operations.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law/Background:** Chapter 149 of 2017 established the More Jobs for Marylanders Program, which provides incentives to new and existing manufacturing businesses in the State, subject to specified requirements, depending on whether a business is new or existing, and where the business is located. Commerce may not certify a business as eligible for the program after May 31, 2020.

*Tier I and Tier II County Designations*

Businesses located in counties designated by Commerce as Tier I counties may qualify for additional incentives and lower minimum job creation requirements. Commerce may designate a county as a Tier I county if the county qualifies as a QDC. Commerce may also designate up to three additional counties as Tier I and has designated Baltimore, Prince George's, and Washington counties. Any county that is not designated as a Tier I county is considered a Tier II county.

*Qualified Distressed County*

A QDC means a county with:

- an average unemployment rate that exceeded the State's average during the preceding 24-month period by either two percentage points or 150%; or
- a per capita personal income that may not exceed 67% of the State's average during the preceding 24-month period.

It also includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 24-month period. Counties can enter and exit the program based on these criteria.

According to Commerce, Baltimore City and Allegany, Dorchester, Somerset, and Worcester counties are currently designated as QDCs. Baltimore City and Dorchester County currently qualify because they have met at least one of the criteria at some time during the preceding 24-month period. However, Dorchester County will no longer qualify after June 2018 and Baltimore City will no longer qualify after November 2019 unless they meet one of the criteria again. Historically, Baltimore City has remained a QDC.

*Incentives –Businesses in a Tier I County*

A qualifying *new* manufacturing business in a Tier I county can claim the following benefits for up to 10 consecutive years. The maximum amounts that can be awarded by Commerce annually against the State income tax and the sales and use tax are $9.0 million and $1.0 million, respectively.

- *Income Tax Credit:* A qualified business entity may claim a credit against the State income tax equal to the total wages paid for the qualified positions multiplied by 5.75%. If the value of the credit exceeds the tax liability imposed in the year, the business can claim a refund in the amount of the excess. Tax credits can be claimed beginning in tax year 2018.

- *Sales and Use Tax Refund:* All personal property and/or services purchased by a qualifying business entity for use at a manufacturing facility may qualify for a refund of the State sales and use tax for purchases made on or after January 1, 2018.

- *State Property Tax Credit:* The Act exempts 100% of the State property tax imposed on the real property that is owned by a qualifying business and located at the qualifying manufacturing facility beginning in fiscal 2018. The State Department of Assessments and Taxation (SDAT) must calculate the value of the credit in each year. The State real property tax rate is $0.112 per $100 of assessed value and the revenues are used to pay debt service on the State's general obligation bonds.

- *Corporate Filing Fees:* A qualified business entity is exempt from all business recording, filing, or special fees collected by SDAT. The fee is for the privilege of maintaining the legal entity's existence in the State and is generally equal to $300.

An *existing* manufacturing business that locates or expands in a Tier I county and creates at least five qualified positions is eligible for the State income tax credit for 10 years.

*Enterprise Zones*

The Enterprise Zone Tax Credit Program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. The Secretary of Commerce may only designate an area as an enterprise zone if it is in a priority funding area and satisfies at least one criterion related to economic distress.

*Sustainable Communities*

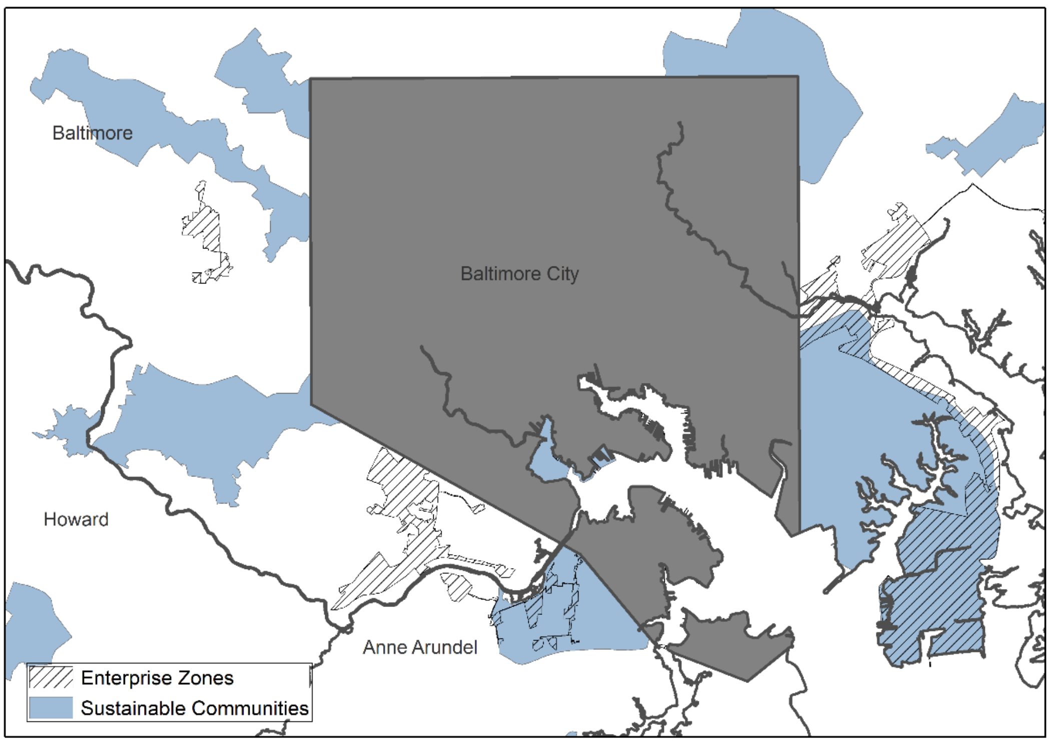
A "sustainable community" is defined as a part of a priority funding area that (1) is designated by the Smart Growth Subcabinet on the recommendation of the Secretary of Housing and Community Development; (2) has been designated as a Base Realignment and Closure Revitalization Incentive Zone; or (3) has been designated a transit-oriented development.

*Geographic Expansion*

While the bill applies to all counties, the largest *potential* effect is in the areas surrounding Baltimore City, which is a QDC and has many adjacent sustainable communities, some of which include enterprise zones, as shown in **Exhibit 1**. However, since Baltimore County has already been designated as a Tier I county by Commerce, the *net* geographic increase of the bill is limited to northern Anne Arundel County, which likely qualifies. A review of other existing QDCs, sustainable communities, and enterprise zones by the Department of Legislative Services indicates that Federalsburg, which is located in Caroline County adjacent to Dorchester County, also likely qualifies under the bill.

This analysis is based on the current Tier I counties, including Baltimore City and Dorchester County, both of which are in their 24-month grace periods as QDCs, and Baltimore County, which is one of the three counties designated by Commerce. To the extent that Baltimore City and/or Dorchester County is no longer a QDC and/or Commerce designates different counties to be Tier I counties, the impact of the bill will be different.

**Exhibit 1**
**Areas Adjacent to Baltimore City that Potentially Qualify for Tier I Status Under the Bill**




Note: Commerce has designated Baltimore County as a Tier I County, meaning that areas specified by the bill already qualify for Tier I under current law. Practically, the new potential Tier I area is in northern Anne Arundel County. Federalsburg, which is located in Caroline County adjacent to Dorchester County, also potentially qualifies under the bill.

Source: Department of Legislative Services

**State Fiscal Effect:** The two primary tax benefits under the More Jobs for Marylanders Program – the income tax credit and the sales and use tax refund – are budgeted and assumed to be fully subscribed in any year. Adding additional geographic areas may alter benefit recipients but has no effect on State revenues.

The other two incentives – the State property tax credit and the corporate filing fee exemption – are not budgeted; however, they are available only to *new* manufacturing businesses that locate in a Tier I county/area under the bill. Once qualified for, the benefits are available for 10 consecutive years. Commerce may not certify a business as eligible for the program after May 31, 2020.

Therefore, general and special fund revenues decrease minimally beginning as early as fiscal 2019 to the extent that new manufacturing businesses that would not otherwise locate in a Tier I county locate in an eligible Tier I area under the bill and otherwise qualify for the program.

**Small Business Effect:** Small manufacturing businesses that would not otherwise qualify for State property tax credits and corporate filing fee exemptions under the More Jobs for Marylanders Program benefit from the ability to do so.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 1104 (Senator Klausmeier) - Finance.

**Information Source(s):** Department of Commerce; Baltimore City; Montgomery County; Maryland Association of Counties; U.S. Census Bureau; Department of Legislative Services

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