

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1279
Ways and Means

(Delegate Luedtke)

Budget and Taxation

Regional Institution Strategic Enterprise Zone Program - Alterations

This bill alters the existing Regional Institution Strategic Enterprise (RISE) Zone Program by (1) establishing for qualified businesses a rental assistance grant program and enhanced biotechnology investment incentive and cybersecurity investment incentive tax credits; (2) limiting to 500 acres the maximum size of a zone; (3) limiting existing income tax and property tax credits to businesses that locate in a RISE zone before January 1, 2023; (4) expanding the purposes of the program; and (5) terminating program tax credits and benefits effective January 1, 2028. **The bill generally takes effect June 1, 2021.**

Fiscal Summary

State Effect: General fund and higher education expenditures may increase beginning in FY 2022 due to rental assistance grants. Limiting the time in which existing income tax credits can be claimed may prevent State revenue losses beginning in FY 2023.

Local Effect: The bill may prevent local property tax revenue losses beginning in FY 2023. Local government expenditures for rental assistance grants may increase beginning in FY 2022 to the extent local governments and community colleges participate in the program.

Small Business Effect: The proposed changes to the program are expected to provide additional benefits to a greater number of small businesses.

Analysis

Bill Summary: The bill specifies that the purpose of the RISE Zone Program is also to incentivize the location of innovative start-up businesses based on technology developed,

licensed or poised for commercialization at or in collaboration with qualified Maryland institutions.

Enhanced biotechnology and cybersecurity investment incentive tax credits can be claimed by an investor who invests in a company (1) located within a RISE zone; (2) that has been in active business for a maximum of seven years; and (3) based on technology that has been developed at the qualified institution of the zone. The percentage value of these tax credits is increased to 75% and 50%, respectively, with the maximum value increased to \$500,000.

A qualified institution, county, and municipality or the economic development agency of the local government may establish a program to provide rental assistance to a business that (1) moves into or locates in a RISE zone on or after the date of the zone designation; (2) has nexus with the qualified institution; and (3) has been in active business for a maximum of seven years. A business may receive funds under a program for a maximum of three years. The RISE zone entity that establishes the rental assistance program (1) may submit an application to receive funds from the RISE fund established by the bill and (2) must submit an annual report to Commerce reporting specified information. A rental assistance program that receives matching funds is subject to audit by an independent certified public accountant.

Subject to available funding, the Department of Commerce will provide three times the amount of funding provided by the RISE zone entity rental assistance program. A maximum of 25% of program funds may generally be distributed to businesses within a single RISE zone.

The Secretary of Commerce must administer the RISE fund, and Commerce may use the fund to finance rental assistance grants and cover the department's related administrative, legal, and actuarial expenses. Expenditures from the RISE fund may be made only in accordance with the State budget.

Current Law:

RISE Zone Program

Program Overview

Chapters 530 and 531 of 2014 established the RISE Zone Program. The program aims to promote economic and community development within communities anchored around a qualified institution. Qualified institutions include institutions of higher education (public and private four-year institutions and community colleges), nonprofit organizations affiliated with federal agencies, and regional higher education centers. Businesses that are

located within a zone and meet program requirements qualify for tax credits and priority consideration for specified State financial assistance programs.

RISE Zone Designations

A RISE zone is a geographic area that has a strong connection with a qualified institution and is targeted for increased economic and community development. A qualified institution must submit a joint application with a county, municipal corporation, or an applicable economic development agency for an area to be designated as a RISE zone. The Secretary of Commerce, with input from the Legislative Policy Committee, must approve or reject the application within 120 days after the application is submitted. The RISE zone designation is effective for five years and may be renewed for an additional five years. The Secretary of Commerce may designate a maximum of three RISE zones in a single county or municipal corporation. In addition, a zone may not be within a development district or special taxing district. Finally, RISE zones must be in the immediate proximity of a qualified institution, with exceptions for rural areas or cases in which an appropriate nexus for the increased economic and community development is established with the qualified institution.

Tax Credits

Businesses within a zone can qualify for an employment tax credit and a property tax credit for certain capital investments made within the zone. A business qualifies if it is a new business, locates to the zone after the designation of the zone, or is an existing business within the zone and makes a significant capital investment or expansion of its labor force. The business and its location must also be certified as consistent with the target strategy of the zone.

A qualified business may receive a five-year tax credit against local real property taxes imposed on the eligible assessment of qualified property owned by a business. Qualified property is real property that is used in a trade or business by a business entity and is located in a RISE zone. Qualified property does not include property used for residential purposes. The local government must grant the credit based on a specified percentage of assessment increases resulting from the value of real property improvements, which is calculated by the State Department of Assessments and Taxation. If the RISE zone is renewed by Commerce, a business may claim an additional property tax credit in years 6 through 10.

A qualified business may also claim enterprise zone income tax credits. There are two types of income tax credits: a general income tax credit and an enhanced income tax credit for hiring economically disadvantaged employees.

As of December 2020, Commerce has designated seven qualified institutions – six public four-year institutions and one community college – and six RISE zones; however, no businesses have claimed program tax credits.

Biotechnology and Cybersecurity Investment Incentive Tax Credits

Chapter 99 of 2005 established the biotechnology investment incentive tax credit program, which offers a refundable income tax credit for investments in qualified biotechnology companies. An investor who invests at least \$25,000 in a qualified Maryland biotechnology company can claim a credit equal to 50% of the investment, not to exceed \$250,000. If the qualified biotechnology company is located in Allegany, Dorchester, Garrett, or Somerset counties, the value of the credit for investments made in these companies is equal to 75% of the investment, not to exceed \$500,000. Commerce administers the tax credit application process and the total amount awarded in each year is generally limited to the amount appropriated to the program. The Governor's proposed fiscal 2022 operating budget includes \$12.0 million in funding for the program.

Chapter 390 of 2013 established the Cybersecurity Investment Incentive Program, which provides a refundable tax credit for investments in qualified cybersecurity companies. Commerce administers the tax credit application, approval, and certification process. The total amount of credits awarded each year is generally limited to the amount appropriated to the program's reserve fund in that year. A qualified investor can claim a refundable credit equal to 33% of a qualified investment, not to exceed \$250,000. If the qualified cybersecurity company in which an investment is made is located in Allegany, Dorchester, Garrett, or Somerset counties, the value of the credit is equal to 50% of the investment, not to exceed \$500,000. The Governor's proposed fiscal 2022 operating budget includes \$2.0 million in funding for the program.

State Fiscal Effect: The bill alters the existing RISE Zone Program by generally replacing the program's existing income tax and property tax credits with a rental assistance grant program and enhanced biotechnology investment incentive and cybersecurity investment incentive tax credits. The bill also limits to 500 acres the maximum size of a RISE zone and terminates program tax credits and benefits on January 1, 2028.

Limiting the time in which existing income and property tax credits can be claimed may prevent revenue losses beginning in fiscal 2023. Given the value of the income tax credits and lack of tax credit activity to date, the revenue impact is not expected to be significant.

State general fund expenditures may increase beginning in fiscal 2022 due to appropriations to the RISE fund rental assistance program. The amount of the expenditure increase in each year depends on the number of companies receiving rental assistance, the value of the grants, and the money appropriated, if any, to the fund in each year. The

Governor is not required to make an appropriation to the RISE fund. Based on information submitted by Commerce and local government program funding for a similar program, general fund expenditures may increase by \$250,000 annually beginning in fiscal 2022. Commerce can implement the bill with existing resources.

Higher education expenditures increase beginning in fiscal 2022 to the extent public four-year institutions provide rental assistance grants.

The total amount of tax credits awarded under the biotechnology investment incentive and cybersecurity investment incentive tax credits in each year is generally limited to the amount appropriated to the program. Providing enhanced tax credits for qualifying RISE zone businesses is not expected to materially impact State finances.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 778 (Senator Elfreth, *et al.*) - Budget and Taxation.

Information Source(s): Department of Commerce; Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2021
md/jrb Third Reader - March 25, 2021
Revised - Amendment(s) - March 25, 2021

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