**DATE:** **February 12, 2020** **COMMITTEE: House Ways and Means**
**BILL NO:** **House Bill 223**
**BILL TITLE:** **End Ineffective Business Subsidies Act of 2020**
**POSITION:** **Oppose**

The Maryland Department of Commerce opposes House Bill 223 – End Ineffective Business Subsidies Act of 2020.

**Bill Summary**:
HB 223 would phase out and terminate the following tax incentive programs administered by Commerce: Enterprise Zone Tax Credit Program, Opportunity Zone Enhancement Program, One Maryland Tax Credit Program, and the Biotechnology Investment Incentive Tax Credit. HB 223 does not propose any replacement incentives to address the business growth and attraction needs these tools represent.

**Rationale**:
"Economic development is about positioning the economy on a higher growth trajectory . . . it is the product of long-term investments in the generation of new ideas, knowledge transfer, and infrastructure, and . . . requires collective action and large-scale, long-horizon investment." In short, "economic development addresses the fundamental conditions necessary for the microeconomic functioning of the economy."[1]

The major thrust of most economic development programs is the carefully applied incentives to shape certain, important economic investments that can benefit the State's citizens and place its economy on the aforementioned "higher growth trajectory." Maryland, like all other states, uses economic development incentives to attract and retain jobs and investment and to help grow important industry sectors.

Maryland is in direct competition with both other U.S. states and with the rest of the world. Our business attraction and retention efforts don't lead with incentives, but with our optimal location, highly-educated workforce, and unique State resources. All things being equal, these characteristics would be enough to attract and retain jobs and investment to the State. However, all things are not equal.

Maryland's current programs are barely competitive with other states. The State of Maryland spends half what neighboring Virginia and only 40 percent of what Pennsylvania spends on incentives. Maryland's state incentive spending pales in comparison to the $1.3 billion spent by the State of New York in FY2020.

[1] https://www.eda.gov/files/tools/research-reports/investment-definition-model.pdf

We at Commerce understand the importance of a highly-educated workforce, and how a properly-funded educational system contributes to that. However, we cannot cut our way to better education. The best way to fund the recommendations of the Kirwan Commission is to grow the economy and to increase the personal income of Marylanders, and the only way to do that is to make investments in business growth and attraction.

The programs that HB 565 seeks to cut are designed to revitalize <u>distressed</u> areas, support the missions of our colleges and universities, attract investment in key industries, and support our highly educated workforce. Even with Maryland's constrained spending as compared to other states, its programs have had successes in attracting and retaining businesses and in assisting the growth of key industry sectors. Each of the programs marked for elimination in HB 565 have successfully fulfilled their missions. Here are some examples:

**Biotechnology Investment Incentive Tax Credit (BIITC)**

- Biotechnology is one of Maryland's key industry sectors.
- Maryland is home to over 500 biotechnology companies and 2,700 life science firms. In supporting these companies, and assisting with the creation of new companies, the biotechnology investment incentive is an important contribution to Maryland's status as a national leader in biotechnology and life sciences.
- By supporting investment in early stage biotechnology companies, BIITC supports the State's innovation ecosystem, which includes Maryland being the world leader in stem cell production and vaccine research and development.
- Since 2005, the BIITC has helped to stimulate nearly $232 million dollars of investment in 111 Maryland biotechnology companies.
- While jobs may be created as a result of investment in biotechnology companies, job creation is not the primary focus of the tax credit. The biotechnology investment incentive is designed to attract capital to biotechnology companies navigating the "valley of death," which is the most difficult period of time to attract capital investment as companies go through clinical trials prior to FDA approval of their products.
- Examples of FDA approved products developed with the assistance of the biotechnology investment incentive tax credit include:
    - A system for early blood clot detection and monitoring associated with surgical procedures;
    - Advanced imaging, navigation, and probe system to provide highly accurate physician guidance for biopsy and other surgical procedures;
    - Advanced wound treatment and bleeding management products; and
    - The world's first ultrasound-based system for placing feeding tubes.

**One Maryland Tax Credit**

- The One Maryland tax credit is designed to attract capital investment and create jobs in local jurisdictions with higher unemployment rates, or low median household incomes, and provides additional incentives for projects that hire economically disadvantaged individuals.

- Since the program began, the One Maryland tax credit has been certified for 80 projects, with 17 projects in Western Maryland, 15 projects on the Eastern Shore, and 48 projects in Baltimore City.
- The certified projects have leveraged at least $299,216,226 in capital investment and created 4,463 jobs that have an average salary of $53,174 for the life of the program.

**Enterprise Zones**

- Enterprise Zones are a State-local partnership that allows local jurisdictions to prioritize areas for economic development in priority funding areas that have: high unemployment; a concentration of low-income households; experienced population loss; or a decline in property tax revenues.
- Enterprise Zones are often one of the few incentive tools available to local jurisdictions, and is funded on 50/50 local-state basis, with the State reimbursing local jurisdictions for 50% of the cost of the credit.
- Local jurisdictions propose the location and size of Enterprise Zones that are certified by Commerce, and local jurisdictions administer the program with oversight from Commerce.
- Enterprise Zones have proven to be a successful economic development incentive, particularly with increasing the local property tax base, which primarily benefits local jurisdictions.

In today's constrained fiscal climate, we must all do more with less. We at Commerce believe that these programs are the most efficient method for incentivizing capital investments, job retention, and job growth across the State. While all programs should be reviewed periodically to ensure that they are fulfilling their missions, the wholesale elimination of necessary and successful programs without any review process is a recipe for economic failure. The best way to restructure incentives for optimal impact is to create an inclusive, deliberative process that carefully reviews each program to see how it fits into the larger goal of positioning Maryland's economy on a higher growth trajectory, much like the State did in 2000 when the Department's discretionary financing programs were modernized and consolidated.

**Commerce respectfully requests an unfavorable report on House Bill 223.**