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Testimony of Greg LeRoy, Executive Director, Good Jobs First
To the Maryland General Assembly Ways and Means Committee
Regarding HB223, the End Ineffective Business Subsidies Act of 2020
February 12, 2020

Thank you, Chair Kaiser for this opportunity to comment on HB 223 sponsored by Delegate Palakovich Carr. My name is Greg LeRoy; I founded and direct Good Jobs First, a non-profit, non-partisan research center that promotes accountability, transparency and equity in economic development incentive programs. Founded in 1998, we are based in Washington DC. I reside in Montgomery County and my wife and I have two children currently enrolled in Montgomery County Public Schools.

Good Jobs First does not oppose incentives per se; we believe that government can and sometimes should use subsidies to address market failures, redress historical injustices and help create more broadly-shared prosperity. We also *know*, based on decades of experience and more than 125 studies, that many incentive programs are hugely wasteful, usually paying companies to do what they would have done anyway while taking huge amounts of tax revenue away from long-proven economic development drivers such as education and infrastructure.

We recommend that Maryland adopt HB 223. By sunsetting ineffective programs that have been repeatedly demonstrated to lack the most basic forms of accountable oversight, the General Assembly can cut the state's losses and choose smarter investments.

Sunsetting Three Programs: HB 223's proposal to sunset the Biotechnology Investment Incentive Tax Credit, the Enterprise Zone Credit and the One Maryland Economic Development Tax Credit is sound on both the Maryland-specific merits and on national best practices.

Reading the Department of Legislative Services (DLS) Office of Legislative Audits findings about One Maryland and Biotechnology is, for me, like that movie Groundhog Day. I have read scores of state audits with similar findings: commerce departments failing to "watch the store" in the most basic ways: fully vetting applicants, holding companies accountable for their obligations, and imposing appropriate penalties when deals fall short. These are Economic Development 101-level functions. (In a "report card" rating of One Maryland, we also noted the lack of independent verification of job-creation claims.[1])

[1] Philip Mattera et al, "Money Back Guarantees for Taxpayers: Clawbacks and Other Enforcement Safeguards in State Economic Development Subsidy Programs." Good Jobs First, January 2012, at: https://www.goodjobsfirst.org/moneyback

In my experience and opinion, when an agency repeatedly fails on such simple, uncomplicated assignments, the program in question should be terminated. When things are this poorly administered, the focus is no longer on what employers need to grow. Instead, the conversation turns to bureaucratic backside coverage.

I would add incidentally that the raft of recommendations DLS made two years ago to amend the biotech tax credit would very likely have made it both less expensive and more effective. The lack of movement on those recommendations suggests bureaucratic inertia or special-interest capture or both — but not innovation based on empirical insights.

Rapidly rising costs are another reason to enact HB 223. When DLS cautioned six years ago that One Maryland's costs could balloon, it was correct. Recent disclosures made by the state under Governmental Accounting Standards Board (GASB) Statement No. 77 on Tax Abatement Disclosures show that the state's resulting revenue loss from than doubled — from $8.1 million in FY 2018 to $16.3 million in FY 2019.

The same is true for the state's revenue losses resulting from the Enterprise Zone (EZ) Tax Credit: in FY 2018 (again per new GASB Statement 77-mandated disclosures), the state lost $700,000 in revenue to EZs, but in FY 2019, the cost multiplied by more than 8 times to $5.7 million. The new disclosures also reveal that three Maryland counties (Cecil, Hartford and Prince George's) alone lost an average of almost $1.5 million *each* in FY 2019 to Enterprise Zones. (Some counties have yet to report.) (These county losses precede their 50 percent state offsets, a passive cost of tax breaks incurred by the state.)

These ballooning costs speak to fundamental program-design flaws: It makes absolutely no sense for the state to double — much less octuple — its expenditures for an economic development program at a time of historically very low (and declining) unemployment. Such government-spending surges should be saved for the next recession when they could be counter-cyclical and reduce the downturn's severity.

Opportunity Zone (OZ) Enhancements: We applaud Maryland for previously having enacted new disclosure requirements for qualified investment funds seeking to benefit from the state's add-on OZ incentives. We would have recommended against the add-ons per se if we had been asked to comment on them. We share Delegate Palakovich's alarm at the possibility of a $200 million obligation via More Jobs for Marylanders.

Further, Maryland is not one of the few states that have de-coupled from the federal tax code on OZs[2], nor is Maryland yet estimating, in its Tax Expenditure Report, its passive revenue losses due to that lack of de-coupling.[3] Especially because of its potentially massive OZ enhancement expenditures, we strongly recommend that Maryland de-couple from the federal corporate and personal Adjusted Gross Income definitions.

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[2] Michael Mazerov, "States Should Decouple Their Income Taxes From Federal "Opportunity Zone" Tax Breaks ASAP." Center on Budget and Policy Priorities, April 29, 2019, at: https://www.cbpp.org/blog/states-should-decouple-their-income-taxes-from-federal-opportunity-zone-tax-breaks-asap

[3] Kasia Tarczynska, "States are Losing Revenue Passively to Federal Opportunity Zones. But only Four Have Even Estimated Their Losses." Good Jobs First, December 10, 2019, at: https://www.goodjobsfirst.org/blog/states-are-losing-revenue-passively-federal-opportunity-zones-only-four-have-even-estimated