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THE MARYLAND HOUSE OF DELEGATES
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Testimony in Support of HB 1117
Economic Development–Enterprise Zone Program–Alterations

This bill would reform the property tax credit portion of Maryland's enterprise zone program. In spite of the good intentions underlying this program—trying to spur revitalization of economically distressed areas—the program is not effective.[1] Given that the state has spent $154.5 million over the past eight years on this program and that the program has no statutory restraints on future costs, it is past time to eliminate the enterprise zone tax credit or to make major reforms.

Evaluations Show Limited Effectiveness

DLS conducted a review of the enterprise zone tax credits in 2014, which concluded that "Enterprise Zone tax credits are not effective in creating employment opportunities for Enterprise Zone residents."[1] DLS also found that "in a significant number of Enterprise Zones, few businesses are claiming the credit."

In response to the 2014 DLS report, the Department of Commerce unsuccessfully proposed significant legislative reforms to the program, including reducing the time that a business could receive the property tax credit from ten years to five years and eliminating the tax credit for job creation.

Because 43 states have enacted enterprise zone tax credits, there has also been broader study of the outcomes of the program. The National Conference of State Legislators reports that "academic reviews of enterprise zones, often prepared using econometric models, have found little evidence that programs actually result in net job creation and increased community investment."[2]

Economist David Neumark, a professor at the University of California, Irvine, conducted an encompassing review of the research on enterprise zones and concluded that: "it is very hard to make the case that the research establishes the effectiveness of enterprise zones in terms of job creation, poverty reduction, or [economic] welfare gains."[3]

[1] "Evaluation of the Enterprise Zone Tax Credit," 2014, Department of Legislative Services.
[2] "Enterprise Zones: Development for Distressed Communities," 2005, National Conference of State Legislators.
[3] "Rebuilding Communities Jobs Subsidies," 2018, David Neumark, The Hamilton Project.

Good Jobs First, a national think tank with expertise on tax policy, writes that enterprise zone "...subsidies cost state and local treasuries a lot of lost revenue, and like many subsidy programs, it is often unclear whether the developments would have happened in the area anyway."[4]

The ineffectiveness of enterprise zones has prompted further review in other states and led the California and Kentucky legislatures to end their state's enterprise zone tax credits.

820% Cost Increase Since 2001

Local governments have the ability to request the designation of a new enterprise zone or the expansion of an existing zone. As long as the area meets the criteria outlined in state law, the Department of Commerce has to approve it. The state is then required to pay for 50% of the costs of the property tax credits claimed by businesses within the enterprise zone; the other half of the cost is born by the local government.

Once Commerce approves a new enterprise zone or expansion of an existing zone, there are no limitations to how many businesses can participate or limits on the program's cost. This has been a recipe for unrestrained growth in terms of geographic size and the cost of the tax credit. The state's share of the program's cost has grown from $2.5 million in FY 2001 to $23 million in FY 2017—an increase of 820% in 14 years.

The cost of the program may continue to increase in future years since there are no guardrails on the program. As DLS noted in 2014, "state reimbursement costs may also increase significantly as credits are granted for new development projects."

Simply put, the state cannot afford to continue to pay these greatly escalating costs, especially when the program has not shown to be effective.

What This Bill Does

This legislation would implement common sense reforms to the enterprise zone property tax credit. Several elements of the bill were recommended by DLS in their 2014 program evaluation.

- Prevents the designation of new enterprise zones or the expansion of existing zones if the total cost of the program would exceed $50 million per year.
    - Businesses in existing zones could apply for and receive the tax credit.
- Limits expansion of an existing zone to 100 acres or less in a single year.
- Sets criteria for Commerce to consider when reviewing an application for an enterprise zone expansion, including whether businesses have expressed interest in locating within the potential area of expansion and whether basic

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[4] https://www.goodjobsfirst.org/accountable-development/enterprise-zones

infrastructure is in place in order to facilitate business development within the proposed expansion area.
- Requires Commerce to promulgate new regulations on how to prioritize applications for new zones and expansions of existing zones.
- Requires each county to report to Commerce information on the effectiveness of the enterprise zone(s) so that the success of the program can be evaluated.
- Requires Commerce and the Comptroller to better assess the effectiveness of the program, including attracting businesses, increasing employment, reducing poverty, and overall community revitalization.