Date:	March 5, 2020
BILL NO.:	House Bill 1117
TITLE:	Economic Development – Enterprise Zone Program - Alterations
COMMITTEE:	House Ways & Means

Statement of Information

Background:
Enterprise Zones are a State-local partnership that allows local jurisdictions to prioritize areas for economic development. Designations of new zones or expansion of existing ones must meet a specific economic distress criterium:

- The average rate of unemployment in the area, or within a reasonable proximity to the area but in the same county, for the most recent 18-month period for which data are available is at least 150% of the greater of the average rate of unemployment in either the State or the United States during that period; or
- The population in the area, or within a reasonable proximity to the area but in the same county, qualifies the area as a low-income poverty area; or
- At least 70% of the families in the area, or within a reasonable proximity to the area but in the same county, have incomes that are less than 80% of the median family income in the political subdivision that contains the area; or
- The population in the area, or within a reasonable proximity to the area but in the same county, decreased by 10% between the most recent two censuses, and the political subdivision can demonstrate to the Secretary's satisfaction that chronic abandonment or demolition of property is occurring in the area; or substantial property tax arrearages exist in the area.

No more than six zones may be designated in one year, and a county may not receive more than one designation or re-designation in a calendar year.

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. To date, 1,041 parcels totaling 5,792 acres are receiving the Enterprise Zone tax credit, and the growth in value of assessed parcels has increased by 304% from $2.1 billion base property value when the zone designated to $6.5 billion assessed value.

Bill Summary:
House Bill 1117 would alter the Enterprise Zone program in the following ways:

- The Secretary may not designate a new zone in a calendar year if the Department reasonably anticipates the total amount of property tax credit to be claimed may exceed $50 million.

- The same restriction applies to the designation of an expansion, but it also provides that the expansion of an existing zone in a single calendar year may not exceed 100 acres. It also provides criteria which the Secretary may consider:
    - Businesses expressed an interest in locating in the expanded zone
    - Basic infrastructure already exists to facilitate business development
- The Department may not remit reimbursement that exceed $25 million in any fiscal year.
- The Department must adopt regulations regarding the evaluation and prioritization of applications. It also mandates local jurisdiction to submit annual reports to Commerce, which Commerce and the Comptroller must review and evaluate for cost-effectiveness and effectiveness in attracting business and increasing employment.

Analysis:
First, HB 1117 monetizes the criteria for designating new zones and expanding existing zones in lieu of focusing on the economic distress within local jurisdictions that warrant the designation in the first place.

Second, it does not define "reasonably anticipates" for the purposes of determining whether the Secretary may designate a new zone or expansion. In Fiscal Years 2019 and 2020, the amount of property tax credits claimed exceeded $50 million ($60.2 million and $51.9 million, respectively). If those years were used to project total claims in the next fiscal year, the Secretary would not be able to designate new zones or expansions in Fiscal Year 2021 or beyond. On the other hand, developing and implementing other metrics would require significant time and resources.

Third, it requires Commerce and the Comptroller to assess the effectiveness of the zone with "formal metrics" that have "clearly identified outcomes and quantifiable measures." Both agencies must then provide an annual report to the Governor on the effectiveness of the tax credits. The annual reporting requirement is problematic it assumes that economic development can be easily assessed within a year. These "formal metrics" as listed are complex enough, and the number of zones (38 plus 4 focus areas) are large and varied enough that Commerce staff would need to spend an inordinate amount of time coordinating with local zone administrators and collecting & analyzing data. This task alone could require 50% of one PIN per year.

Fourth, the bill restricts the State's reimbursement to localities to $25 million in a fiscal year, which may mean that localities would bear a heavier burden. It also places an unfunded mandate on local governments to track a large number of complex metrics, a task which is likely beyond the capabilities of all but the largest jurisdictions and one that will not result in improved outcomes for the program.