FEBRUARY 2, 2023

Subsidy Programs Should Include Community Benefits and Accountability

Position Statement in Support of House Bill 148

Given before the House Ways and Means Committee

As policymakers have added a growing number of business subsidies to Maryland's tax code over the last several decades, evidence has begun to pile up that the millions of dollars we put into business tax breaks each year do little to support Maryland's economy. Worse, these tax breaks use up resources that could otherwise be invested in assets businesses value, such as great public schools and modern transportation infrastructure. House Bill 148 would take steps to improve the use of public funds in one of Maryland's largest business tax break programs, while reining in the program's accelerating growth. **For these reasons, the Maryland Center on Economic Policy supports House Bill 148.**

The Enterprise Zone Tax Credit is one of the state's largest business subsidy programs, costing Maryland state and local governments more than $600 million since 2001. A draft evaluation published by the Department of Legislative Services in January 2021 points to several key shortcomings:[i]

- The program does not work. Specifically, it is not effective in creating job opportunities for people who live in Enterprise Zones or more broadly for Marylanders who face barriers in the job market.
- The criteria used to determine whether an area can be designated as an Enterprise Zone do not accurately measure economic distress. In fact, a study has found that neighborhoods facing few economic challenges receive more Enterprise Zone subsidies than neighborhoods in distress.
- The program's inadequate reporting requirements prevent policymakers and the public from accurately assessing its cost effectiveness.
- The state runs four other business subsidy programs intended to serve the same purpose, creating a needlessly duplicative administrative structure.
- Despite these shortcomings, the program has grown rapidly in recent years. The land area covered by Enterprise Zones has increased by nearly 25% since 2013. The cost of the program's property tax credits increased by a factor of 10 in the last 20 years.

House Bill 148 would take several important steps to improve the program's accountability measures and rein in its growth:

- The bill would pause the creation of new Enterprise Zones and expansion of existing ones in any year in which the program's property tax credits are expected to exceed $60 million in cost.
- The bill would set limits on the value of credits any individual business can receive in a given year, and on the total value of credits awarded each year.
- The bill would set the Enterprise Zones program to sunset on January 1, 2030.

Several of these reforms echo recommendations made in the 2021 draft evaluation—as well as recommendations made in an earlier 2014 evaluation that have not previously been implemented.

Installing guardrails around the Enterprise Zones program would ensure that our shared resources are used to benefit Maryland communities, not just to subsidize already-successful businesses. Reining in the program's growth would also enable the state to protect and strengthen basic services that are currently stretched thin:

- The state failed to substantially rebuild funding for local health departments after deep cuts during the Great Recession, forcing staffing and service cuts in every county and weaking our ability to respond to the coronavirus pandemic.[ii]
- By 2017, only six of the state's 24 school districts were close to full funding under the Thornton formula, down from 23 in 2008. More than half of the state's Black students went to school in a district that was underfunded by 15% or more.[iii] While the Blueprint for Maryland's Future plan now puts Maryland on a course toward strong support for public schools, Gov. Hogan's FY 2023 budget underfunds the Blueprint by $140 million.
- As of late 2017, legislative analysts estimated that state agencies were understaffed to the tune of about 2,500 workers.iv The abysmal performance of the Division of Unemployment Insurance during the last two years serves as a striking example of the harm done by understaffing. Despite unprecedented surpluses, Gov. Hogan's FY 2023 budget does nothing to rebuild understaffed state agencies.

Even in the state's current, strong fiscal position, we should not throw good money after bad at ineffective business subsidies. House Bill 148 calls for commonsense steps to limit and accurately measure the harms of one such program.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 148.

Equity Impact Analysis: House Bill 148

Bill summary

House Bill 148 would strengthen reporting and performance measurement requirements in the state Enterprise Zone tax credit program; limit the creation or expansion of Enterprise Zones in years when the program is costliest; limit the annual value of credits awarded; and set the program to sunset in 2030.

Background

A draft evaluation published by the Department of Legislative Services in 2021 identified serious shortcomings in the program's design and administration, including several of the same shortcomings state analysts identified in an evaluation seven years earlier. The evaluation finds that the program is not effective in improving job opportunities for Maryland workers who face barriers in the job market.

Several of the provisions of House Bill 148 echo recommendations in the draft evaluation, including recommendations state analysts made in 2014 that have not been adopted.

Equity Implications

Effective investments in economic development can advance equity by improving economic opportunities for workers who face barriers in the job market built through centuries of discriminatory policy choices. However, poorly designed business tax breaks bring no such equity benefits but simply skew the economy further in favor of the wealthy and powerful.

House Bill 148 would improve equity by growing the evidence base policymakers can use to ensure development tax breaks benefit communities.

House Bill 148 would also improve equity by reining in the Enterprise Zones program's rapid growth and therefore increasing resources the state can invest in Maryland communities. Our growing underinvestment in essential services like education, health care, and transportation harms all Marylanders, and at the same time has outsized impacts on people who face economic roadblocks because of low income or the ongoing legacy of racist policy.

Impact

House Bill 148 would likely **improve racial and economic equity** in Maryland.

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[i] Mindy McConville, Brett Ogden, and Robert Rehrmann, "DRAFT Evaluation of the Enterprise Zone Tax Credit," Maryland Department of Legislative Services, 2021, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_Enterprise_Zone_Tax_Credit.pdf

[ii] Christopher Meyer, "Lessons from the Great Recession: Policymakers Must Reject Deep Budget Cuts for a Strong Recovery," Maryland Center on Economic Policy, 2020, http://www.mdeconomy.org/recession-budget-cuts/

[iii] Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/

[iv] David Juppe et al., "Executive Branch Staffing Adequacy Study," Department of Legislative Services, 2018, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Executive-Branch-Staffing-Adequacy-Study.pdf