Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

House Bill 877 (Delegate Hill, *et al.*)
Ways and Means

Economic Development - Enterprise Zones - Focus Areas

This bill authorizes political subdivisions to designate Focus Areas within specified areas of the State and provides tax incentives for economic development projects within the Focus Areas. The bill (1) doubles the existing Enterprise Zone Tax Credit for development in Focus Areas; and (2) enhances the existing Enterprise Zone property tax credit allowed in the sixth through the tenth year by eliminating the phase-out during the relevant period.

The bill applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: Indeterminate effect on general fund and special fund revenues. General fund administrative expenditures would increase by $23,800 in FY 2000; future year expenditures reflect annualization and inflation. Other State expenditures could decrease by an indeterminate amount.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	-	-	-	-	-
SF Revenues	-	-	-	-	-
GF Expenditures	$23,800	$31,900	$33,000	$34,200	$35,400
Net Effect	($23,800)	($31,900)	($33,000)	($34,200)	($35,400)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: Indeterminate effect on local revenues. No effect on expenditures.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: A political subdivision may request that the Secretary of the Department of Business and Economic Development (DBED) designate all or part of an existing Enterprise Zone as a Focus Area for five years or the remainder of the ten-year term of the Enterprise Zone, whichever is less.

A Focus Area is an area located in an Enterprise Zone that meets at least three of the following criteria: (1) for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is the greater); (2) the incidence of poverty for the population in the area is 150% of the national average; (3) the crime rate in the area is at least 150% of the crime rate in the political subdivision; (4) the percentage of substandard housing is at least 200% of the percentage of housing units in the State that is substandard; or (5) the percentage of square footage of vacant commercial property in the area is at least 20%.

A Focus Area employee is a new or rehired full-time employee who spends at least 50% of the hours of employment in the Focus Area or on activities resulting directly from the businesses' location in the Focus Area. The employee must have been hired by a business entity in the Focus Area after the area's designation as a Focus Area and the employee must earn at least 150% of the federal minimum wage.

The bill requires the Governor to establish a task force to study the effectiveness of the State's Enterprise Zone program and how it compares to programs in other states. The task force is composed of representatives from DBED and various State agencies. The task force must report the findings of its study to the Governor and the General Assembly by December 1, 1999.

Background: The Enterprise Zone Tax Credit for hiring a new qualified employee who is an economically disadvantaged individual is up to $1,500 of wages in the first year; up to $1,000 of wages for the same individual in the second year; and up to $500 in the third year. For hiring a new qualified employee who is not an economically disadvantaged individual, the Enterprise Zone Tax Credit is up to $500 of the wages of each new qualified employee. The total amount of Enterprise Zone tax credits claimed in 1994 and 1995 (the two most recent years for which data is available) was $450,708 and $159,298, respectively.

The Enterprise Zone property tax credit is allowed for ten years after the property qualifies for the credit. The credit is equal to 80% of the property tax amount for the first five taxable years, declining by 10% each year after the fifth year to 30% in the tenth taxable year. The State reimburses the counties for half of the credit amount. In fiscal 2000, the State is projected to reimburse 16 counties for credits allowed to 324 businesses, at a cost to the State of $2 million. Thus, the full credit claimed by businesses in fiscal 2000 is estimated to be $4 million.

State Revenues: The bill: (1) doubles the existing income tax credit; and (2) allows qualified businesses to claim an enhanced property tax credit that is 80% of the property tax amount each year for ten years. Therefore, revenues would decline for those credits claimed by businesses that would have been created in the qualified areas in the absence of the bill. The revenue loss is indeterminate; it depends on the number of businesses that would qualify for the credit, the assessed value of the qualified properties, and the amount of start-up and project costs incurred.

Of the credits claimed against the corporate income tax, 25% of the revenue loss would be from the Transportation Trust Fund (TTF), since a portion of corporate income tax revenue is distributed to the TTF. The remainder of those credits, and the credits claimed against all other taxes, would result in general fund revenue loss.

To the extent that new businesses and employment are established or expanded as a result of this bill, general fund revenues could increase through increased individual income tax and sales tax collections. This revenue increase, if any, cannot be reliably estimated.

The net effect on State revenues is indeterminate.

State Expenditures: General fund expenditures for DBED could increase by an estimated $23,770 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. This estimate reflects the cost of hiring one half-time tax credit analyst to review applications for designation as Intensive Care Areas and to approve projects for the tax credit. It includes salaries, fringe benefits, and ongoing operating expenses. Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; (2) annualization; and (3) 1% annual increases in ongoing operating expenses.

To the extent that this legislation spurs new employment and economic development in the State, expenditures on certain assistance programs could decrease.

Local Revenues: County and municipal revenues would decrease as a result of the enhanced property tax credit claimed by businesses that would have located in the qualified areas in the absence of the bill. As a result of the enhanced property tax credit, these businesses would receive an additional tax credit of 10% to 50% of the property tax amount from the sixth through the tenth year, respectively.

In addition, local revenues would decline for those income tax credits claimed against the corporate income tax, since a portion of the TTF is distributed to local governments.

If this legislation spurs new economic development and employment in the State, local revenues would increase. In addition, property tax revenues for the affected jurisdictions could increase as a result of additional economic development.

Small Business Effect: Small businesses that locate in the qualified areas would be positively impacted. Existing businesses would also benefit indirectly if the bill increases development and economic activity in the qualified areas.

Information Source(s): Department of Business and Economic Development, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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