HB 408

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 408 (Chair, Economic Matters Committee) (By Request – Departmental – Business and Economic Development)

Economic Matters Finance and Budget and Taxation

Business and Economic Development - Qualified Distressed Counties

This departmental bill alters the definition of the term "qualified distressed county" for purposes of the Maryland Economic Development Assistance Authority and Fund (MEDAAF) and the One Maryland Economic Development Tax Credit. The new definition lengthens, from 18 months to 24 months, the historical measuring period by which a county's average unemployment rate is determined. A county will qualify as distressed if the county's average unemployment rate exceeds 150%, or its per capita personal income does not exceed 67%, of the State's 24-month average at any time in the preceding 12 months.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Potentially significant decrease in annual general fund, Transportation Trust Fund, and Higher Education Investment Fund revenues beginning in FY 2009 due to additional tax credits claimed. Expenditures would not be affected.

Local Effect: Local highway user revenues would decrease as a result of credits being claimed against the corporate income tax. Expenditures would not be affected.

Small Business Effect: The Department of Business and Economic Development has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment as discussed below.

Analysis

Current Law: The purpose of MEDAAF is to expand employment opportunities in the State by providing financial assistance to businesses that are engaged in eligible industry sectors. Today, there are five specific financing capabilities offered through MEDAAF, with assistance being provided to both businesses and local communities that qualify as within an eligible industry sector and priority funding area.

One of the primary recipients of assistance funding from MEDAAF is the One Maryland Program. This program provides tax credits and financing assistance for businesses in distressed counties, which currently include Allegany, Caroline, Dorchester, Garrett, Somerset, and Worcester counties and Baltimore City.

MEDAAF distinguishes between distressed counties and other political or business entities in the financing terms it provides. To qualify as a distressed county for purposes of MEDAAF or One Maryland, a county's:

- average unemployment rate must exceed 150% of the State's average during the preceding 18-month period; or

- per capita personal income may not exceed 67% of the State's average during the preceding 24-month period.

Background: One economic characteristic that is common to most distressed counties in Maryland is the cyclical nature of unemployment levels due to reliance on seasonal labor. This presents a problem for those relying on the One Maryland tax credit because the current 18-month measuring period always alternates between either a measuring period that consists of two summer seasons (low unemployment levels) or two winter seasons (high unemployment levels). In this way, any county reliant on seasonal labor can usually count on a tax credit only once every other period. By increasing the measuring period from 18 months to 24 months, the bill eliminates this awkward eligibility criteria and more accurately measures the true unemployment rate on an annual basis.

Under current law, a county's eligibility for the tax credit is dependent on the potentially volatile movement of its 18- or 24-month rolling average for unemployment and income levels. Thus, a county can move in and out of eligibility for the tax credit if the rolling average moves beyond the trigger point for eligibility. This provides very little stability for economic planners within the counties and private entities that make business expansion decisions on a long-term basis. Additional stability is provided by allowing a county to be deemed distressed if its rolling averages would have allowed it to qualify as such at any time in the preceding 12 months. In effect, a county would have to fall outside the eligibility levels of personal income or unemployment for 12 straight months to no longer be deemed "distressed."

One Maryland tax credits can be claimed against the corporate income tax, personal income tax, and insurance premium tax. Corporate income tax revenues are distributed 73.64% to the general fund, 20.36% to the TTF, and 6% to the HEIF, created during the 2007 special session. Personal income tax and insurance premium tax revenues are distributed to the general fund. The distribution to HEIF expires after fiscal 2009, although uncodified language in Chapter 3 of the 2007 special session expresses the General Assembly's intent that the distribution to HEIF continue in fiscal 2010 and thereafter if it is affordable and fiscally prudent.

State Revenues: An increase in the number of tax credits provided would directly decrease general fund, HEIF, and TTF revenues beginning in fiscal 2009. In tax year 2004, the most recent year for which data is available, $5.7 million in One Maryland tax credits were claimed. To the extent that this bill increases the number of years in which businesses in distressed counties are able to claim the credit, revenues would decrease. The Comptroller advises that any direct decline in revenues cannot be estimated, but could be substantial given that tax credits range from $500,000 to $5 million each.

Small Business Effect: Small businesses in distressed counties could directly benefit if allowed to claim the tax credit. Further, small businesses could be indirectly affected due to both beneficial business relationships and increased competition from other businesses attracted by the tax credit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

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