

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1163

(Delegate Carr, *et al.*)

Economic Matters

Finance

Economic Development - Enterprise Zones - Designation

This bill authorizes the Secretary of Business and Economic Development to designate up to two enterprise zones per county during a calendar year.

Fiscal Summary

State Effect: To the extent that the Department of Business and Economic Development (DBED) designates additional enterprise zones in a calendar year, general fund expenditures for local property tax reimbursements may increase significantly beginning in FY 2013. General fund revenues may decrease beginning in FY 2012 due to additional income tax credits claimed under the program.

Local Effect: Local income and property tax revenues may decrease beginning in FY 2012 in a county in which two enterprise zones are designated in a calendar year. Expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The Secretary of Business and Economic Development may designate up to six enterprise zones during one calendar year if the zone meets specified requirements. A county may not receive more than one enterprise zone designation in the calendar year. The designation of an enterprise zone is effective for 10 years. An application to expand an existing enterprise zone does not count toward the overall and per-county limitations if the expansion is less than 50% of the existing geographic area of the zone. However, DBED is authorized to grant one “extraordinary” expansion in each calendar year for an

area that meets the requirements of an enterprise zone and has suffered a significant loss of its economic base.

Businesses in enterprise zones may qualify for tax credits as described below.

Background: Businesses located within a Maryland enterprise zone are eligible for local property tax credits and State income tax credits for 10 years after the designation of the enterprise zone. Any business moving in after the designation qualifies for the tax credits, if the business meets all applicable eligibility standards, is certified as being in compliance by the appropriate local government, and creates new or additional jobs or makes capital investments. Any business that is already located in an area that is designated an enterprise zone can qualify for the credit for the capital investment and labor force expansion occurring after designation of the enterprise zone.

Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. The credit is equal to 80% of the portion of real property improvements in the first five years and decreases 10% annually to 30% in the tenth and final year. Businesses may also qualify for income tax credits for wages paid to qualified employees. Enhanced property and income tax credits are available in focus areas.

The State Department of Assessments and Taxation (SDAT) reimburses local governments for one-half of the cost of the property tax credit. **Exhibit 1** lists the number of businesses located in each county that are located in an enterprise zone and the estimated amount SDAT will reimburse local governments in fiscal 2011 for enterprise zone property tax credits. In addition, a total of \$1.5 million in income tax credits were claimed under the program in tax year 2006, the latest year for which such data is available.

As of December 2009, there were 28 enterprise zones and two focus areas in the State. DBED advises that it designates enterprise zones twice annually – June 15 and December 15. DBED designated in June 2009 one enterprise zone in Wheaton and in December 2009 two zones, one each in Prince George's and Allegany counties. In addition, DBED approved in December an expansion to an existing enterprise zone in Baltimore City.

Exhibit 1
State Reimbursement of Property Tax Credits
Fiscal 2011 Enterprise Zones

<u>Enterprise Zones</u>	<u>Number of Businesses</u>	<u>Reimbursement Amount</u>
Allegany County	24	\$284,558
Baltimore City	293	7,947,389
Baltimore County	43	613,968
Calvert County	14	41,217
Cecil County	24	1,293,016
Dorchester County	18	69,264
Garrett County	27	107,045
Harford County	146	1,404,368
Montgomery County	89	1,127,680
Prince George's County	48	1,524,657
St. Mary's County	15	33,967
Somerset County	2	8,241
Washington County	44	571,438
Wicomico County	61	158,067
Worcester County	6	8,756
Total	854	\$15,193,631

Source: State Department of Assessments and Taxation

State Fiscal Effect: DBED has typically designated two zones in each year and has not designated the maximum six enterprise zones within the last five years. To the extent DBED designates additional enterprise zones in a year due to the increase in the per-county limitation, general fund revenues may decrease beginning in fiscal 2012. The amount of the decrease depends on the size of the enterprise zone and participation rate among qualifying businesses. Based on the amount of income tax credits claimed, general fund revenues will likely decrease by less than \$100,000 for each additional enterprise zone designated in the calendar year.

General fund expenditures may also increase significantly beginning in fiscal 2013 to the extent additional enterprise zones are designated under the bill. General fund expenditures for local property tax reimbursements will likely increase by \$500,000 for each additional enterprise zone designated in the calendar year.

Enterprise zones qualify for tax credits for 10 years; the revenue loss and expenditure increase in a year may represent an acceleration of revenue losses and expenditure increases that would have otherwise occurred.

Small Business Impact: Small businesses located in an area designated as an enterprise zone under the bill will potentially benefit from decreased property and income tax burdens. Conversely, any small businesses that are competitors of these businesses and do not qualify would be at a competitive disadvantage due to higher relative tax burdens.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Carroll, Cecil, Harford, Montgomery, and St. Mary's counties; Department of Business and Economic Development; State Department of Assessments and Taxation; Department of Legislative Services

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