SB 891

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 891 (Senator Edwards)
Finance and Budget and Taxation Economic Matters

Economic Development - Qualified Distressed Counties

This bill extends, from 12 months to 24 months, the time period in which a county can maintain its designation as a qualified distressed county if it no longer meets either the unemployment or personal income criterion specified under current law. The designation of a qualified distressed county impacts several State programs including the Maryland Economic Development Assistance Authority and Fund (MEDAAF), Maryland Industrial Development Financing Authority (MIDFA), and the One Maryland Economic Development Tax Credit as well as the calculation of the percentage of school construction funding provided by the State.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: Based on the amount of One Maryland tax credits awarded and the assumption that certain counties retain designation in calendar 2011 only, general fund revenues decrease by about $1.3 million annually beginning in FY 2012. Transportation Trust Fund (TTF) revenues decrease by about $0.2 million annually beginning in FY 2012 as a result of credits claimed against the corporate income tax and Higher Education Investment Fund (HEIF) revenues decrease by $67,500 annually beginning in FY 2012. Revenue losses will be greater than estimated to the extent counties retain designation in future years. Special fund revenues may decrease in FY 2012 due to decreased fees paid by businesses receiving financial assistance. Expenditures are not affected.

($ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	($1.3)	($1.2)	($1.2)	($1.2)	($1.2)
SF Revenue	($.2)	($.3)	($.3)	($.3)	($.3)
Expenditure	0	0	0	0	0
Net Effect	($1.5)	($1.5)	($1.5)	($1.5)	($1.5)

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

Local Effect: Local highway user revenues decrease as a result of additional One Maryland credits being claimed against the corporate income tax. Expenditures in certain local jurisdictions receiving certain MEDAAF assistance and school construction funds may decrease as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Qualified Distressed County

To qualify as a distressed county, a county must have:

- an average unemployment rate that must exceed 150% of the State's average during the preceding 24-month period; or
- a per capita personal income that may not exceed 67% of the State's average during the preceding 24-month period.

In addition to increasing, from 18 months to 24 months, the period by which a county's average unemployment rate is determined, Chapter 498 of 2008 provided an exception to the designation of a distressed county by specifying that a distressed county includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 12-month period.

The Department of Business and Economic Development (DBED) advises that the designation of a qualified distressed county impacts the One Maryland Tax Credit Program, MEDAAF, and MIDFA.

One Maryland Tax Credit Program

Businesses that establish or expand a business facility in a priority funding area (PFA), and are located in a qualified distressed county, may be entitled to tax credits for costs related to the new or expanded facility. The credit for start-up costs is the lesser of 100% of eligible start-up costs (up to $500,000), less any credits taken in prior years, or $10,000 multiplied by the number of employees that have filled the newly created, qualified positions.

The credit for project costs is the lesser of 100% of eligible project costs (up to $5 million), less any credits taken in prior years, or the State income tax liability for the taxable year from the project. Qualifying costs and expenses include those incurred with the acquisition, construction, rehabilitation, installation, and equipping of an eligible project. Eligible costs include land acquisition, performance and contract bonds, insurance, architectural and engineering services, environmental mitigation, and utility installation. The business must expend at least $500,000 in project costs.

Credits may be carried forward to up to 14 successive tax years. The program specifies that the credits can be claimed against certain income and taxes in each year and provides for the refundability of the credit in certain circumstances. An enhanced credit is available if the created positions are paid 250% or more of the minimum wage.

MEDAAF

MEDAAF provides below-market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses, particularly in growth industries and PFAs. MEDAAF is administered under five programs:

- *Significant Strategic Economic Development Opportunities* for companies in eligible industries with a significant economic development opportunity project with a statewide or regional impact.

- *Local Economic Development Opportunities* for an economic development opportunity to the jurisdiction in which the project is located and is a priority for the local jurisdiction.

- *Direct Assistance to Local Jurisdictions* provides assistance to a local jurisdiction or the Maryland Economic Development Corporation (MEDCO) for local economic development needs including feasibility studies, economic development strategic plans, and infrastructure. Effective July 1, 2004, the Smart Growth Economic Development Infrastructure Fund of the One Maryland Program was consolidated into this program.

- *Regional or Local Revolving Loan Funds* provide assistance to local jurisdictions to help capitalize local revolving loan funds.

- *Special Purpose Grants and Loans* targets grant and loan programs for specialty initiatives such as the Day Care, Animal Waste Technology, Brownfields, Aquaculture, and Arts and Entertainment Districts programs.

MEDAAF provides businesses located in qualified distressed counties that qualify with enhanced terms and structuring. In addition, the amount of direct assistance provided to local jurisdictions is increased from a maximum of 70% to 100% of the project cost if the project is located in a qualified distressed county. In general, a local jurisdiction must provide a matching contribution equal to the amount of funding received under the Regional or Local Revolving Fund. If the jurisdiction is located in a qualified distressed county, this matching amount is lowered to 50% of the State funds received.

MIDFA

MIDFA was established by the General Assembly in 1965 to promote significant economic development by providing financing support to manufacturing, industrial, and technology businesses located in or moving to Maryland. MIDFA does not provide direct loans but insures bonds, loans, and certain other types of transactions from financial institutions. The program promotes private-sector financing by providing insurance to transactions resulting in reduced credit risks and enabling better terms. Recipients generally must pay bond issuance fees and annual premiums of one-half of 1% of all insured transactions, unless waived because the project is located in a qualified distressed county.

School Construction

The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account numerous factors including each local school system's wealth and ability to pay. Chapters 306 and 307 of 2004 (The Public School Facilities Act) require that the cost-share formulas be recalculated every three years. The first recalculation occurred in 2007 for fiscal 2010 through 2012, and the second recalculation occurred in 2010, which determined the funding levels for fiscal 2013 through 2015. The Board of Public Works approved the revised formula in January 2011.

The Interagency Committee on School Construction (IAC) is charged with developing standards and criteria for State approval of school construction projects, including the calculation of the cost per square foot of building construction that forms the basis for the calculation of school construction and renovation project costs. Under regulations adopted pursuant to Chapter 306 and 307 of 2004, IAC is required to add 5% in calculating the recommended revised State cost-share amounts if the county in which the local education agency is located is a One Maryland county that has either (1) an unemployment rate greater 1.5 times the State average unemployment rate; or (2) a per capita income below 67% of the State average per capita income.

Background: Baltimore City and Allegany, Caroline, Dorchester, Garrett, Somerset, and Worcester counties are currently designated as distressed counties.

DBED advises that in fiscal 2010 it awarded $26.2 million in credits to five newly qualifying projects. Three of the projects were in Baltimore City, one in Worcester County, and one in Cecil County, which qualified as a distressed county at the time of the credit application. DBED also received 10 letters of intent from businesses for future projects. Since the program's inception, DBED has awarded credits to 43 projects that incurred a total of $160.2 million in project and start-up costs. A little more than two-thirds of all credits have been awarded to projects located in Baltimore City, followed by Cecil (9%), Garrett (5%), Allegany and Caroline (7% each), and Worcester and Dorchester counties (2% each). About $40 million in total credits is known to have been claimed to date against either the insurance premium tax or State income tax.

State Fiscal Effect: This bill extends, from 12 months to 24 months, the time period in which a county can maintain its designation as a qualified distressed county if it no longer meets either the unemployment or personal income criterion specified under current law. DBED advises that it is likely that under current law Baltimore City, Garrett, and Dorchester County will lose designation as a qualified distressed county during calendar 2011. It is not known how many projects from these counties will apply for the One Maryland credit in 2011, the amount of qualifying expenses incurred by these projects, and the amount of credit that would be claimed in each year.

However, based on the assumption that these counties would otherwise lose designation as a qualified distressed county, the amount of credits awarded by DBED and amounts claimed, general fund revenues decrease by about $1.5 million annually beginning in fiscal 2012. TTF revenues decrease by $182,400 in fiscal 2012 and by $184,900 annually beginning in fiscal 2012. HEIF revenues decrease by $67,500 annually beginning in fiscal 2012.

This estimate is only for the potential impact of the bill in calendar 2011. Additional revenue losses occur to the extent additional counties retain designation as a qualified distressed county in future years.

To the extent fewer projects that qualify in calendar 2011 are completed within the same year, revenue losses may be less than estimated in fiscal 2012 and greater in fiscal 2013.

Special fund revenues may decrease at DBED in fiscal 2012 due to a decreased amount of fees paid under MIDFA for projects located in qualified distressed counties. Any impact is not expected to be significant. The bill does not impact the overall funding provided under MEDAAF or MIDFA. In addition, the bill has no effect on total State spending on school construction projects, as spending levels are set by the Governor and the General Assembly in the annual capital budget.

Local Fiscal Effect: Local governments receive a portion of TTF revenues as local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues decrease by $18,600 in fiscal 2012 and by $21,100 annually beginning in fiscal 2013.

To the extent certain counties retain designation as a qualified distressed county, expenditures may decrease in local jurisdictions located in these counties due to a decrease in the amount of matching grant payments required for projects receiving funding under MEDAAF's regional or local revolving loan funds or direct assistance to local jurisdictions programs.

The bill does not impact the total amount of local revenues from State school construction aid, but the distribution of that aid among local school systems may change. The impact on the amount of local expenditures required for school construction, if any, will not occur until fiscal 2016 when the cost-sharing formula is recalculated.

Small Business Effect: The bill positively impacts, through a reduction in State taxes, any qualifying small business that qualifies for One Maryland tax credits or reduced costs and/or enhanced financing under MEDAAF or MIDFA. Conversely, any small businesses that are competitors of these businesses and do not qualify are at a competitive disadvantage.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mc/rhh

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