SB 1104

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1104 (Senator Klausmeier)
Finance

Economic Development - More Jobs for Marylanders - Tier I Eligibility

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This bill expands the geographic eligibility for Tier I counties under the More Jobs for Marylanders Program to include a geographic area outside a qualified distressed county (QDC), if the area (1) shares the same zip code as the QDC and (2) meets the unemployment or income criteria to be a QDC. **The bill takes effect June 1, 2018.**

Fiscal Summary

State Effect: General and special fund revenues decrease beginning as early as FY 2019. The amount cannot be reliably estimated at this time but is anticipated to be minimal based on the current Tier I counties.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: Chapter 149 of 2017 established the More Jobs for Marylanders Program, which provides incentives to new and existing manufacturing businesses in the State, subject to specified requirements, depending on whether a business is new or existing, and where the business is located. The Department of Commerce (Commerce) may not certify a business as eligible for the program after May 31, 2020.

Tier I and Tier II County Designations

Businesses located in counties designated by Commerce as Tier I counties may qualify for additional incentives and lower minimum job creation requirements. Commerce may designate a county as a Tier I county if the county qualifies as a QDC. Commerce may also designate up to three additional counties as Tier I and has designated Baltimore, Prince George's, and Washington counties. Any county that is not designated as a Tier I county is considered a Tier II county.

Qualified Distressed County

A QDC means a county with:

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

It also 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 24-month period. Counties can enter and exit the program based on these criteria.

According to Commerce, Baltimore City and Allegany, Dorchester, Somerset, and Worcester counties are currently designated as QDCs. Baltimore City and Dorchester County currently qualify because they have met at least one of the criteria at some time during the preceding 24-month period. However, Baltimore City and Dorchester County will no longer qualify after June 30, 2018, unless they meet one of the criteria again. Historically, Baltimore City has remained a QDC.

Incentives –Businesses in a Tier I County

A qualifying *new* manufacturing business in a Tier I county can claim the following benefits for up to 10 consecutive years. The maximum amounts that can be awarded by Commerce annually against the State income tax and the sales and use tax are $9.0 million and $1.0 million, respectively.

- *Income Tax Credit:* A qualified business entity may claim a credit against the State income tax equal to the total wages paid for the qualified positions multiplied by 5.75%. If the value of the credit exceeds the tax liability imposed in the year, the business can claim a refund in the amount of the excess. Tax credits can be claimed beginning in tax year 2018.

- *Sales and Use Tax Refund:* All personal property and/or services purchased by a qualifying business entity for use at a manufacturing facility may qualify for a refund of the State sales and use tax for purchases made on or after January 1, 2018.

- *State Property Tax Credit:* The Act exempts 100% of the State property tax imposed on the real property that is owned by a qualifying business and located at the qualifying manufacturing facility beginning in fiscal 2018. The State Department of Assessments and Taxation (SDAT) must calculate the value of the credit in each year. The State real property tax rate is $0.112 per $100 of assessed value and the revenues are used to pay debt service on the State's general obligation bonds.

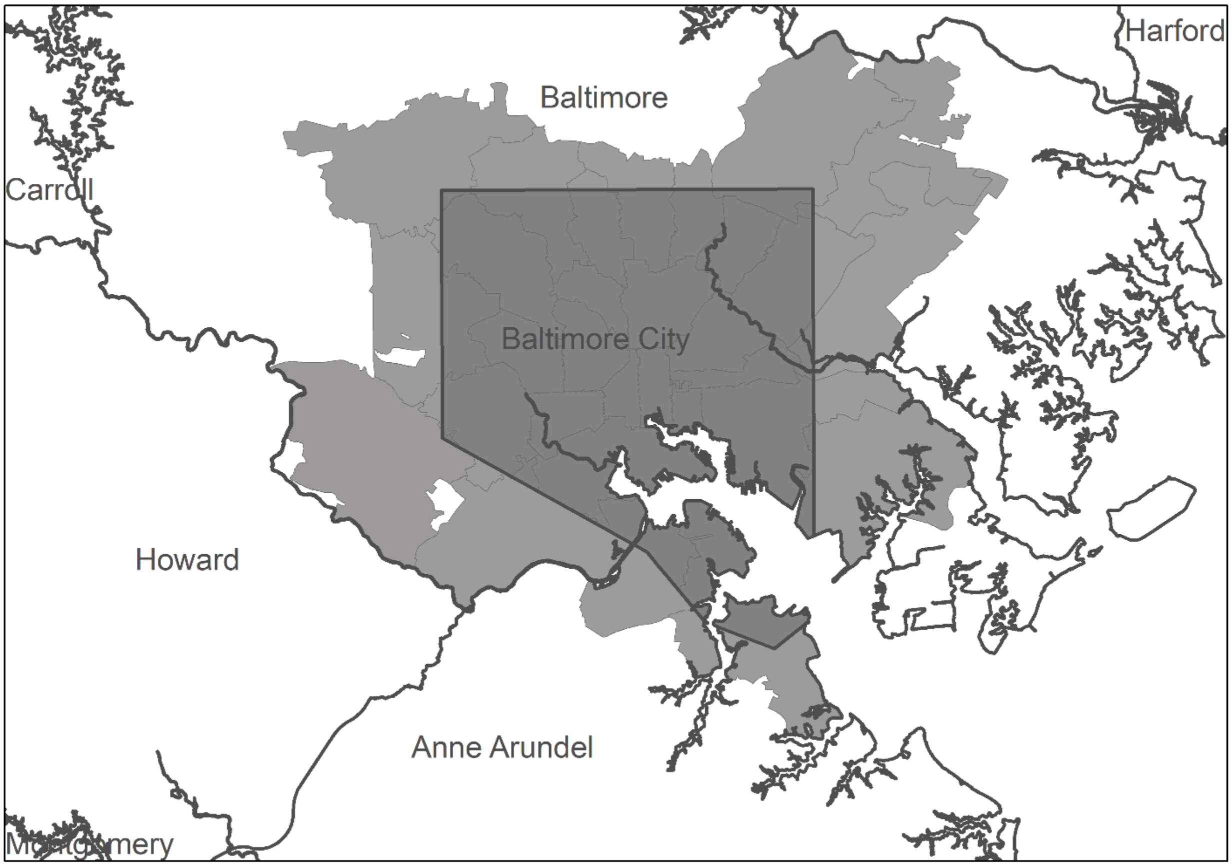
- *Corporate Filing Fees:* A qualified business entity is exempt from all business recording, filing, or special fees collected by SDAT. The fee is for the privilege of maintaining the legal entity's existence in the State and is generally equal to $300.

An *existing* manufacturing business that locates or expands in a Tier I county and creates at least five qualified positions is eligible for the State income tax credit for 10 years.

Geographic Expansion

While the bill applies to all counties, the largest *potential* effect is in the areas surrounding Baltimore City, which has many zip codes that overlap the city and surrounding counties. In other QDCs, most zip codes align with county borders. However, since Baltimore County has been designated as a Tier I county by Commerce, the *net* geographic increase of the bill is limited to northern Anne Arundel County zip codes. **Exhibit 1** shows the potential areas – independent of current unemployment or income criteria. Many zip codes would qualify under the bill, including the northern Anne Arundel County zip codes. This analysis is based on the current Tier I counties, including Baltimore City (which may no longer qualify as soon as July 1, 2018) and Baltimore County (which is one of the three counties designated by Commerce). To the extent that Baltimore City is no longer a QDC and/or Commerce designates different counties to be Tier I counties, the impact of the bill will be different.

Exhibit 1
Baltimore-area Zip Codes that Potentially Qualify for Tier I Status Under the Bill



Note: Commerce has designated Baltimore County as a Tier I County, meaning that those zip codes already qualify for Tier I under current law. Practically, the new Tier I area is in northern Anne Arundel County.

Source: Department of Legislative Services

State Fiscal Effect: The two primary tax benefits under the More Jobs for Marylanders Program – the income tax credit and the sales and use tax refund – are budgeted and assumed to be fully subscribed in any year. Adding additional geographic areas may alter benefit recipients but has no effect on State revenues.

The other two incentives – the State property tax credit and the corporate filing fee exemption – are not budgeted; however, they are available only to *new* manufacturing businesses that locate in a Tier I county/area under the bill. Once qualified for, the benefits are available for 10 consecutive years. Commerce may not certify a business as eligible for the program after May 31, 2020.

Therefore, general and special fund revenues decrease minimally beginning as early as fiscal 2019 to the extent that new manufacturing businesses that would not otherwise locate in a Tier I county locate in an eligible Tier I area under the bill and otherwise qualify for the program.

Small Business Effect: Small manufacturing businesses that would not otherwise qualify for State property tax credits and corporate filing fee exemptions under the More Jobs for Marylanders Program benefit from the ability to do so.

Additional Information

Prior Introductions: None.

Cross File: HB 1594 (Delegate Carey) - Ways and Means.

Information Source(s): Department of Commerce; Baltimore City; Montgomery County; Maryland Association of Counties; U.S. Census Bureau; Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2018
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