

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 333

(Senators Hayes and Guzzone)

Budget and Taxation

Ways and Means

**Economic Development – Regional Institution Strategic Enterprise Zone
Program – Alterations and Financing**

This bill extends the termination date of the Regional Institution Strategic Enterprise (RISE) Zone Program by two years to January 1, 2030. The bill also extends the duration of a RISE zone designation from 5 to 10 years and allows the Secretary of Commerce to approve up to four, instead of up to three, RISE zones in Baltimore City. The bill alters a related definition pertaining to the Maryland Economic Development Corporation (MEDCO) by explicitly including RISE zones. The Department of Commerce, in consultation with specified stakeholders, must study the effectiveness of the RISE Zone Program and must report recommendations to improve the effectiveness of the program to the General Assembly by December 15, 2024.

Fiscal Summary

State Effect: Changes to the RISE Zone Program do not materially affect State finances or operations through FY 2028, as discussed below. Provisions related to MEDCO may increase nonbudgeted revenues and expenditures for the corporation beginning in FY 2024. Commerce can conduct the study and otherwise implement the bill with existing resources; the bill does not otherwise materially affect State finances.

Local Effect: Local revenues may decrease due to additional property tax credits beginning in FY 2025. Other changes to the RISE Zone Program do not materially affect local government finances or operations. Provisions related to MEDCO may increase local government revenues and expenditures beginning in FY 2024.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Regional Institution Strategic Enterprise Zone Program – Generally

The purposes of the RISE Zone Program are to (1) access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which they are located and (2) incentivize the location of innovative start-up businesses based on technology developed, licensed, or poised for commercialization at or in collaboration with qualified Maryland institutions.

Qualified institutions include institutions of higher education (public and private four-year institutions and community colleges), nonprofit organizations affiliated with federal agencies, and regional higher education centers. Businesses that are located within a zone and meet program requirements qualify for program benefits and priority consideration for specified State financial assistance programs.

Generally, a RISE zone is a geographic area in immediate proximity to a qualified institution and is targeted for increased economic and community development, although there are exceptions. The Secretary of Commerce designates RISE zones, subject to specified requirements, for a period of five years with an optional five-year renewal. Zones may not exceed 500 acres. No more than three RISE zones may be designated in a single county or municipality.

Chapters 206 and 207 of 2021 made significant modifications to the RISE Zone Program, most notably to the incentives offered. More specifically, a rental assistance grant program and enhanced investment incentive tax credits were established, while property tax credits were limited to businesses that located in a RISE zone before January 1, 2023, and income tax credits were ended after tax year 2022. Generally, the now-grandfathered property tax credit is a five-year credit on a portion of the eligible assessment: 50% in year 1 and 10% in years 2 through 5. If a RISE zone is renewed, the credit continues at 10% in years 6 through 10. Enhanced credits are available in enterprise zones and focus areas. The Acts also established a program special fund and terminated program tax credits and benefits effective January 1, 2028.

Rental Assistance Program

A qualified institution, county, and municipality, or the economic development agency of the local government may establish a program to provide rental assistance to a business that (1) moves into or locates in a RISE zone on or after the date of the zone designation; (2) has nexus with the qualified institution; and (3) has been in active business for a

maximum of seven years. A business may receive funds under a program for a maximum of three years.

The RISE zone entity that establishes the rental assistance program (1) may submit an application to receive funds from Commerce and (2) must submit an annual report to Commerce reporting specified information. Subject to available funding, Commerce must provide three times the amount of funding provided by the RISE zone entity's rental assistance program. A maximum of 25% of program funds may generally be distributed to businesses within a single RISE zone.

Enhanced Investment Incentive Tax Credits

Enhanced biotechnology and innovation investment incentive tax credits can be claimed by an investor who invests in a company (1) located within a RISE zone; (2) that has been in active business for a maximum of seven years; and (3) based on technology that has been developed at the qualified institution of the zone. The enhanced credit is 50% of the investment, up to \$500,000. The standard credits are 33% of the investment, up to \$250,000. Credits are refundable.

Pledging of Revenues to Maryland Economic Development Corporation Obligations

Under the Tax Increment Financing Act, a local government that has created a special fund for a development district, a RISE zone, or a sustainable community may pledge under an agreement that amounts deposited to the special fund must be paid over to secure payment on MEDCO obligations. Likewise, the governing body of a political subdivision may pledge by or under a resolution that alternative local tax revenues generated within, or that are otherwise determined to be attributable to, a development district that is a transit-oriented development, a RISE zone, a sustainable community, or a State hospital redevelopment be paid, as provided in the resolution, into the special fund to (1) secure the payment of debt service on bonds or MEDCO obligations or (2) be applied to the other authorized purposes.

Under the Act, "MEDCO obligation" means a bond, note, or other similar instrument that MEDCO issues under authority other than the Act to finance the cost of infrastructure improvements located in or supporting a transit-oriented development, a sustainable community, or a State hospital redevelopment.

State Fiscal Effect:

Regional Institution Strategic Enterprise Zone Program – Rental Assistance and Enhanced Tax Credits

Interest and activity in the updated RISE Zone Program have been slight. Through mid-April 2023, no funds had been expended for rental assistance, and no enhanced investment tax credits had been provided. Still, allowing for an additional RISE zone in Baltimore City, extending the duration of RISE zones, and extending the program by two years may increase general fund expenditures for Commerce to provide rental assistance matching funds beginning in fiscal 2024 to the extent that Commerce would not have otherwise designated a fourth zone in Baltimore City or renewed existing RISE zones. There are currently two RISE zones designated in Baltimore City.

Likewise, higher education expenditures increase beginning in fiscal 2024 to the extent public four-year institutions provide additional rental assistance grants. Incremental amounts, if any, are likely minimal through fiscal 2028. Extending the program for two additional years increases expenditures for Commerce in fiscal 2029 and 2030. For context, the fiscal 2024 budget as passed by the General Assembly includes \$750,000 in general funds for the rental assistance grant program.

The total amount of tax credits awarded under the biotechnology investment incentive and innovation investment incentive tax credits in each year is generally limited to the amount appropriated to the program. Providing enhanced tax credits for qualifying RISE zone businesses – in a new RISE zone, continued RISE zones, or for an additional two years under the bill – is not expected to materially impact State finances.

Commerce can conduct the required study and otherwise implement the bill with existing budgeted resources.

Maryland Economic Development Corporation

It is unclear whether the bill *authorizes* a local government to pledge revenues to secure the payment on MEDCO obligations for infrastructure improvements in a RISE zone. Statute allows the pledging of revenues for MEDCO obligations, but the defined term “MEDCO obligation” does not mention RISE zones. However, to the extent that the bill causes local governments to pledge revenues to secure payment of MEDCO obligations, nonbudgeted revenues and expenditures for MEDCO increase, beginning as early as fiscal 2024.

Local Fiscal Effect:

Regional Institution Strategic Enterprise Zone Program – Rental Assistance and Enhanced Tax Credits

Local governments had not participated in the rental assistance program through mid-April 2023. Still, allowing for an additional RISE zone in Baltimore City, extending the duration of RISE zones, and extending the program by two years may increase program activity. Therefore, local government expenditures may increase to provide rental assistance to qualified businesses beginning in fiscal 2024; subject to available funding, local government revenues increase by three times that amount from State matching funds.

Regional Institution Strategic Enterprise Zone Program – Legacy Property Tax Credits

This estimate assumes that the *extension* of RISE zone designations from 5 to 10 years allows some qualified businesses that located in a RISE zone before January 1, 2023, to claim an additional property tax credit in years 6 through 10 (statute specifies that the additional credit is available in years 6 through 10 if a RISE zone designation is *renewed*, and the bill does not modify that provision). Therefore, local revenues decrease, likely beginning in fiscal 2025, to the extent that Commerce would not have otherwise renewed existing RISE zones. The effect, if any, is limited to Baltimore City and Montgomery, Prince George's, and Wicomico counties – those with existing zones. In any case, the extension does not affect existing credit entitlements. Under current law, if the designation of a RISE zone expires, the property tax credit continues to be available to a qualified property.

Maryland Economic Development Corporation

As discussed above, it is unclear whether the bill *authorizes* a local government to pledge revenues to secure the payment on MEDCO obligations for infrastructure improvements in a RISE zone under the Tax Increment Financing Act. However, to the extent that the bill causes local governments to pledge revenues to secure payment of MEDCO obligations, local government revenues and expenditures increase, beginning as early as fiscal 2024.

Small Business Effect: Small qualified businesses that located in RISE zones prior to January 1, 2023, are assumed to be able to continue claiming property tax credits for an additional five years to the extent that Commerce would not have otherwise renewed existing RISE zones. Additional small businesses may become eligible for rental assistance beginning in fiscal 2024, and assistance continues in fiscal 2029 and 2030.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 471 (Delegate Attar) - Ways and Means.

Information Source(s): Department of Commerce; Comptroller's Office; Maryland Economic Development Corporation; Department of Legislative Services

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