Report of the Maryland Economic Development and Business Climate Commission

PHASE II: TAXES

Annapolis, Maryland
January 2016

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Maryland Economic Development and Business Climate Commission

January 19, 2016

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates

Gentlemen:

The Maryland Economic Development and Business Climate Commission, established at your request of March 11, 2014, respectfully submits this final report summarizing Phase II of its work focusing on tax policy. As you know, Phase I was devoted to non-tax issues affecting our State's economic competitiveness, particularly job creation. The commission notes with satisfaction the passage of five pieces of legislation during the 2015 session that addressed many of our recommendations.

The 26 members of the commission represent a broad spectrum of backgrounds, including small business, large business, labor, academia, and state and federal government service. Overall, the commission held 13 meetings, including hearings in 10 communities throughout the State during which it benefitted from the views of well over 100 witnesses. Additionally, several hundred documents were reviewed, and correspondence that was received from numerous organizations and individuals was carefully considered.

This report should be viewed in conjunction with the commission's earlier Phase I report. The present document does not attempt to repeat material contained in the former report other than to set context. The overall conclusion of Phase II serves to reinforce the principal finding of Phase I; that is, Maryland has not nearly reached its potential in growing business and creating jobs. Further, Maryland has entered a new era wherein, without significant actions to expand the State's purely commercial sector, likely future reductions in the federal government's role in Maryland's economy will undoubtedly amplify the above finding.

Maryland's current tax structure is a detriment to the State's competitiveness in attracting and retaining businesses as well as in creating jobs and expanding the revenue base of the government itself. At the same time, it has been many of those same revenues that have led to the creation of the competitive advantages that the State currently enjoys, particularly an educational system that has helped produce one of the most highly qualified workforces in the nation. The attributes and liabilities of the State are, as you know, inseparably connected through the limitations of the State's budget and great balance is required to avoid inadvertently producing net damage. The commission has sought to address the problems that the State confronts while inflicting as little harm as possible to near-term revenues.

As will be discussed in this report, there is arguably no state that possesses greater latent potential to prosper in the rapidly evolving hi-tech marketplace than Maryland. If tapped, this capacity can lead, over the longer term, to greater revenues for our State, greater profits for businesses and, most fundamentally, better jobs and a better quality of life for our State's citizens. Unfortunately, there are no silver bullets and no overnight solutions to the barriers that currently inhibit Maryland's greater prosperity; however, with continued commitment on the part of the State's leadership, such as that devoted following Phase I of the commission's work, we remain very optimistic about the future.

At the same time, if further progress is to be made, it will be necessary to starkly acknowledge not only our strengths but also our deficiencies, and the commission has sought to do exactly that in this report. It is emphasized that while not every member of the commission would agree with every single finding or recommendation contained herein, each recommendation is supported by a substantial majority of our colleagues and many of the recommendations garner unanimous endorsement.

The members of the commission are honored to have been asked to serve our State in this fashion, and we thank each of you for that opportunity and particularly for your foresight in addressing this important issue. We would especially like to commend the work of the truly extraordinary staff that assisted us in our deliberations and to express our appreciation of the many organizations and citizens of Maryland who so generously and candidly shared their time, concerns, and ideas with us.

Sincerely,

Norman R. Augustine

Norman R. Augustine
Chair

Maryland Economic Development and Business Climate Commission

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Executive Summary

In its Phase II effort, the Maryland Economic Development and Business Climate Commission again concludes that our State has not nearly reached its potential in attracting business and generating jobs. For many decades, Maryland has been the beneficiary of the federal government creating numerous jobs in the State; thus, to a considerable degree, the State's economy has become dependent upon these generally high-quality positions. However, given the budgetary limitations now confronted by the federal government, this no longer appears to be a sustainable model for growth. If Maryland hopes to continue to prosper, it will have to substantially expand the State's purely commercial sector. It will undoubtedly be this sector that will create the most new jobs in America in the coming decades, and these jobs will be in Maryland only if Maryland is an attractive place to conduct business. Today, by many measures, this is not the case.

Ironically, Maryland arguably possesses greater latent potential for broad economic prosperity than any other state in the nation. This is attributable to factors such as its highly educated workforce, excellent universities, a world-class research base, a very wealthy citizenry, proximity to the nation's capital, and extraordinary natural beauty and resources including a major deep-water port. Nonetheless, there are a number of impediments that currently prevent the State from fully benefiting from these remarkable assets.

In its initial report, the commission cited what it deems to be the five most critical of these obstacles. These are, in rough order of importance: (1) a widely perceived anti-business attitude; (2) an intrusive and complex regulatory system; (3) a noncompetitive tax structure; (4) an underdeveloped physical infrastructure; and (5) a shortage of risk capital to support start-up firms, particularly in the high-tech sphere.

The commission's initial report addressed four of these concerns; the present report examines the remaining concern; *i.e.*, taxes. While by no means the driving force behind the State's competitive shortcomings, taxation is unarguably a critical factor. By most measures, Maryland ranks well below average among the 50 states with regard to the competitiveness of its tax practices and is roughly average among its local competitors. Furthermore, many states are actively taking steps to modify their tax practices so as to more effectively attract businesses and jobs. To stand still in such an environment is to rapidly fall further behind.

The commission deems it critically important to reduce the tax burden imposed by the State as well as its counties. To accomplish this, the commission offers 14 recommendations but proposes implementing them in a measured manner to avoid excessively straining the State's economy – which is still recovering from the recent deep recession and federal retrenchment.

Ironically, so-called "business taxes" are among the forms of taxation that often have the least impact on business in the State. For example, it is individual income taxes that are of primary importance to major elements of the business community since, as will be discussed herein, most firms in the State in essence find themselves taxed at the individual income tax rate. This is particularly true of small businesses. Further, in seeking to attract employees from out of the State, particularly professionals, salaries need to reflect the impact on cost of living of differential tax rates that generally add to the cost of doing business in the State.

It is to be emphasized that steps to improve Maryland's competitive position in the tax arena cannot be accomplished at the expense of efforts to correct the other four deficiencies already cited. That is, the quality of education at all levels, from preK-12 to graduate schools, including community colleges and training in the trades, must be diligently protected. So must efforts to modernize infrastructure as well as to provide greater financial capital for promising young companies.

Of the 14 tax-related recommendations that the commission offers in this report, 13 are considered important to be initiated at the present time in a phased fashion. When fully implemented, these will reduce the total State and local tax burden (and revenues) by about $380 million annually. Of near equal importance are the administrative policy changes also proposed. The fourteenth recommendation is proposed for implementation after the first 13 have been assimilated and as the State's fiscal position improves and will further reduce the tax burden of businesses and citizens. The proposed phasing is to avoid undermining in the near-term key functions that need to be carried out by the State.

It should be emphasized that the recommendations are grouped together by common topical relationships; they are not in priority order. In fact, the commission has not sought to prioritize its recommendations, as each is worthy of serious deliberation.

The 14 recommendations are as follows:

- **Recommendation 1: Provide an individual income tax exemption for certain income of members of pass-through entities.**
- **Recommendation 2: Accelerate the phase-in of the currently planned increase in the refundable earned income tax credit.**
- **Recommendation 3: Reduce, over three years, the corporate income tax rate from 8.25% to 7.0%.**
- **Recommendation 4: Provide single sales factor apportionment for all corporations.**
- **Recommendation 5: Do not adopt combined reporting and indicate clearly the intent not to do so.**
- **Recommendation 6: Adopt a policy that eliminates Maryland corporate income tax from being imposed on repatriated overseas earnings that have been taxed abroad, to the extent that the funds are invested in Maryland.**
- **Recommendation 7: Accelerate to 2016 the timeframe for recoupling of the State estate tax exclusion amount to the federal estate tax exclusion amount.**
- **Recommendation 8: Provide funds to implement a modern integrated tax system that enables better collection, analysis, and dissemination of tax data.**

- **Recommendation 9: Rigorously evaluate tax incentive programs and make changes necessary to assure that these programs are effective.**

- **Recommendation 10: Provide sunset provisions when approving business tax credits and amend the Tax Credit Evaluation Act to provide for periodic review of tax credits well before the related sunset provisions take effect.**

- **Recommendation 11: Develop methods to better analyze and track claims for tax credits, particularly for tax credits that are filed electronically, and to report such information to the Governor and the General Assembly.**

- **Recommendation 12: Reduce to the prime rate, over a three-year period, the interest rate for tax deficiencies and refunds.**

- **Recommendation 13: Institute a private letter ruling process to provide tax guidance and adopt an appropriate administrative fee to be paid by the requesting taxpayer.**

- **Recommendation 14: Review State and local individual income tax rates and brackets to determine reductions that will reduce tax burdens and implement such reductions as soon as the State's fiscal circumstances permit.**

With regard to the final recommendation, the commission concludes that individual income tax rates are a major deterrent to business in the State. Unfortunately, significant reductions are costly, with each percentage point of across the board reduction in rates reducing annual State revenues by $1.8 billion. Lowering only the higher tax brackets tends to favor the wealthy, whereas even small reductions in the lower brackets has a major impact on revenues. While fully recognizing the necessity of reducing the individual income tax rate schedule, the commission views the overall task of improving Maryland's competitive standing to be a longer term undertaking and thus proposes enacting individual income tax changes when the State's revenue outlook has stabilized. No specific rate changes are offered at this time.

It is again emphasized that while not all members of the commission agree with each item listed above, each recommendation enjoys the support of a substantial majority of the commissioners and, in many instances, unanimous support.

Implementing these recommendations will impose a daunting task for the State's leadership. However, Maryland currently possesses an extraordinary opportunity to address this critical issue that should not be wasted. While the revenue impact of the proposed tax revisions is substantial in the near term, it is only about 1.2% of total annual State and local revenues, and some provisions are phased in over several years. Furthermore, the impact cited excludes offsetting benefits that should be accrued from the business growth that motivates this undertaking in the first place. Austerity reductions of the above magnitude, while never easy, would be considered commonplace in the business world.

If issues such as those identified in this report are addressed, the commission is very optimistic as to the future prosperity of our State.

Chapter 1. Introduction

This is a report about taxes. Even more importantly, it is a report about business and *jobs.* It should be considered in concert with the Phase I report previously issued by the Maryland Economic Development and Business Climate Commission that addressed the State's overall competitiveness excluding taxes. The current phase of the commission's activities was precipitated by concerns arising over Maryland's tax policies and their impact on the State's attractiveness as a place to locate businesses and, therefore, jobs.

During its Phase I deliberations, the commission cited five problems that reside at the root of the competitiveness challenge confronted by Maryland. These are summarized below, roughly in the order of importance as viewed by the commission.

- **Attitude:** During the commission's hearings, there could be little doubt that firms both within the State and outside the State view Maryland's greatest detraction to be a perceived anti-business attitude on the part of the State government as a whole and by many of its employees. Too many State employees appear to view their role as "making sure business follows the rules," rather than "assisting business to grow and create jobs *while abiding by the rules.*" One witness appearing before the commission remarked, "Maryland's biggest problem is attitude…the issue is the hostility of the State's employees." Another asserted, "It's an anti-business cultural issue." Still another, from a relatively large firm, remarked, "We wouldn't be here if we weren't already here."

  Correct or incorrect, fair or unfair, and most assuredly not representative of all firms or individuals, this perception is nonetheless widespread and needs to be acknowledged and forthrightly addressed. Indeed, the State is already undertaking numerous actions in this regard. Fortunately, changing culture generally does not demand major financial resources; it does, however, demand extraordinary investment in leadership attention at all levels.

- **Regulation:** In the 2014 *Forbes Best States for Business* survey, Maryland ranked thirty-sixth in the "Regulatory Environment" category (50 being worst). It is noteworthy that its neighbor, Virginia, ranked number one (best) in this category.

- **Taxes:** Concerns raised during the commission's hearings on tax policies centered on both the absolute magnitude of taxes and on the administrative effort of complying with them. It has been estimated that combined taxes at all levels (federal, state, and local) cost U.S. taxpayers some 7.6 billion hours each year simply preparing the necessary forms. The federal government alone has a 3.7 million-word tax code with which firms and individual citizens must comply. The Maryland Tax-General Article, which contains most State tax laws with the exception of property tax laws, is itself nearly 600 pages in length – and each local jurisdiction has its own tax code.

- **Infrastructure:** Maryland ranks forty-second among the states in one recent ranking of the quality of its infrastructure (highways, ports, energy supply, *etc*.) and forty-fifth in another ranking (number one being best). State and local investment in infrastructure as a fraction of gross state product (GSP) actually *declined* by about 70% between 1977 and 2010. The Texas A&M Transportation Institute positions Maryland as fiftieth in its "rush-hour category," citing the 82 hours annually that residents lose in commute time above that required under uncongested conditions. In terms of largely unproductive time, this equates to two standard work weeks per individual. Notably, forms of infrastructure other than transportation also require attention, including the establishment of higher capacity, more widely accessible broadband, and modernization of ports and harbors. Overall, the American Society of Civil Engineers assigns Maryland a C- in the status of its infrastructure.

- **Financing:** The Maryland Tech Council assesses the importance of the availability of financing within its particular area of interest as follows: "…increased access to risk capital is at present the single most important priority." While there is actually considerable risk capital available within the United States, and while Maryland enjoys great individual wealth among its citizenry, the lack of risk capital actually being committed to young firms within the State disincentivizes such firms from establishing in Maryland. Three states are the beneficiaries of 72% of all the venture capital allotted by investors to firms in the entire nation. Stated otherwise, each of 47 states, including Maryland, is the beneficiary of, on average, about one half of 1% of the total potential funding. In its 2015 ranking of businesses across the various states, CNBC places Maryland in twenty-ninth place in terms of access to capital – and trending downward.

An extreme example of the consequences of business disruption is the iconic Bell Laboratories, which a few years ago was the home of the laser, transistor, and eight Nobel Laureates. Today, it does not exist in a recognizable fashion. An extreme example of the impact that business failure can have on a community is the city of Detroit, which within a half-century went from a population of nearly two million people to a population of less than 700,000 – and from prosperity to bankruptcy. The pace of change in today's business world was suggested by the former chief executive officer of Intel who noted that 90% of that firm's revenue on the last day of any given year is derived from products that did not exist on the first day of that year.

Maryland has long been a beneficiary of jobs provided either directly by the federal government or indirectly by jobs created by firms and institutions working under federal contracts, loans, and grants. It is likely that our State will no longer be able to grow and prosper with the existing model. A far more vibrant commercial sector must be developed.

The business marketplace, particularly insofar as Maryland is affected, is increasingly dependent upon high-technology as a creator of economic strength. As a result, the focus of employers in determining where to establish or grow their firms has expanded from primarily seeking the lowest cost location to include selecting a location where talented employees can be attracted – and retained. As this report will detail, tax policy significantly impacts the latter as well as the former.

With regard to its position in the extremely competitive global and national marketplaces, Maryland has not fared particularly well in recent decades. Maryland's population growth from 2002 to 2012 ranks twenty-sixth among the states. During the more recent two years (2012 to 2014), employment growth in the State ranked forty-first. During this latter period, Maryland ranked eighteenth in the percentage growth in its GSP.

It should be emphasized that Maryland is not engaged in a static competition with other states (and nations). Those that rank poorly today are taking steps to improve their lot, while those that rank highly are actively seeking to increase their lead. For example, Illinois is reducing its individual income tax rate from 5.0% to 3.75% (Maryland's comparable top rate, not including county taxes, is 5.75%). Arizona is reducing its corporate income tax rate from 6.5% to 4.9% over a period of years (the Maryland rate is 8.25%), and Indiana is reducing its individual income tax rate from 3.4% to 3.23% while lowering its corporate income tax rate from 7.0% to 4.9%. New Mexico is reducing its corporate income tax rate from 7.3% to 5.9%, and New York is reducing its rate from 7.1% to 6.5%. West Virginia is reducing its corporate income tax rate from 8.5% to 6.5%, and in the past month, the Governor of Virginia, in what some in the media have referred to as "a tax shot across Maryland's bow," announced the intent to further reduce Virginia's corporate income tax rate from 6.0% to 5.75% and markedly strengthen its research and development tax credit.

The challenge for Maryland is to reduce the annual tax burden of over $18 billion borne by its citizens and businesses (not including the additional $14 billion assessed on behalf of or by its counties), without substantively harming critical services provided by the State. As will be seen, among the most important of these services for the future strength of the economy is its educational system, from preK through graduate school and including its community colleges and apprenticeship programs in the trades. Given that about half of the State's General Fund is allocated to education funding, as is just over half of the average county budget, great discipline will be required to preserve or enhance the quality of the State's educational system while improving the State's tax environment. The above allocation also implies that a 1% overall revenue reduction in overall tax revenues will represent a 2 point reduction in the noneducation element of the State's and counties' budgets. Simply sustaining today's federal and State outlays requires 21% of gross domestic product and 9% of GSP, respectively.

Any revenue retrenchment must be accomplished not simply in the context of a competition among states but also as part of the competition that is taking place every day among businesses and workers around the globe. With the advent of modern jet aircraft that can economically move objects, including people, around the world at nearly the speed of sound, and modern information systems that can move ideas, data, and knowledge around the world literally at the speed of light, Maryland citizens no longer simply compete for their jobs with their neighbors in Virginia and Pennsylvania but also with their neighbors in Varanasi and Panjin.

In recent years, corporations seeking attractive business climates have not been hesitant to move across international borders. Individual states are even more vulnerable to movement within the United States, since they already operate under the same federal laws, thereby making moves relatively straightforward. In short, today's workers, consumers, and capital are highly mobile. While each state is blessed with its unique qualities (natural energy, attractive climate, quality recreational features, proximity to the nation's capital, *etc.*), Maryland is clearly among the most fortunate.

Simply stated, there are three primary avenues to grow any state's business base. The first is to create new businesses in the state; the second is to grow businesses already located in the state; and the third is to attract businesses from out of the state, domestically or internationally. In the view of the commission, each of these options requires careful attention; however, with regard to the latter, seeking to "buy" firms to move to Maryland essentially becomes a zero-sum game among the states. At best, it serves to distort the free marketplace, and at worst, it leads to a form of corporate extortion. Although participating in such contests is not always avoidable, the commission strongly favors the first two of these options for building an attractive, broad-based, lasting business climate that is favorable to all firms, not just the select few. It views special incentives to attract or keep individual firms as generally self-defeating over the longer term as well as prejudicial against established in-state firms.

Chapter 2. Maryland: Land of Opportunity

Maryland possesses the fundamental assets needed to become one of the most prosperous states in the nation, if not *the* most prosperous. It is blessed with natural resources spanning from oceans to bays and mountains to rivers. It is endowed with immense natural beauty and has a reasonably moderate climate. According to the *24/7 Wall Street* publication, Maryland is "the wealthiest state in the nation." It ranks number one in median household income – fully double that of the lowest ranking state. It has the most millionaires per capita in terms of *investable* assets. It is 1 of only 11 states to hold a triple-A bond rating from all three rating agencies. In its 2015 rankings, CNBC places the State's workforce as second best in the nation, and Moody's Analytics points to a real output per worker in 2013 that was 9% greater than the overall U.S. average. Clearly, Maryland possesses the natural, financial, and human capital to move to an altogether new level of prosperity.

Turning to the extremely important topic of education, Maryland ranks second among the states in the fraction of its citizens with advanced degrees, behind Massachusetts. Its institutions of higher learning continue to rise in national prestige; for example, Johns Hopkins is now ranked tenth among all major universities; the University of Maryland, College Park is twentieth among all public universities; and other institutions such as the University of Maryland, Baltimore are rapidly gaining national recognition.

This portends well for a quality life for the State's citizens, given that worker earnings are highly correlated with education level. Maryland workers with less than a high school diploma average about $25,000 per year in wages, whereas its high school graduates average about $38,000. Those with associate's degrees, on average, earn $52,000, and those with bachelor's degrees receive $76,000. Recipients of master's degrees are on average remunerated $90,000 a year, and those with doctorates average $102,000. Yesterday's high school diploma is being superseded by the baccalaureate degree in terms of entry into high paying careers. In 1990, 21% of American adults held a bachelor's degree; today the figure is 30%.

The 2015 *U.S. News and World Report* rating of public high schools placed Maryland number one in the nation in its percentage of "gold" and "silver" rankings. This recognition is underpinned by Maryland's strong financial commitment to education, where Maryland's counties on average devote 50% of their local expenditures to K-12 education and an additional 5% to community colleges. A cautionary note, however, is that this comparison is to a U.S. public school system whose 15-year-olds rank twenty-first in science and twenty-seventh in math among 34 Organization for Economic Cooperation and Development nations and whose relative performance is generally declining with time.

Thirty-seven percent of Maryland's residents over 25 years of age possess at least a bachelor's degree, thereby placing the State fourth in this category, and as previously noted, 17% have graduate degrees, ranking the State second by this measure. And while Maryland is unmatched in the *fraction* of its public high schools achieving the highest national ranking given by *U.S. News and World Report*, *The Nation's Report Card* assessment places Maryland's eighth graders in twenty-fourth position in mathematics – pointing to the educational disparities in the State, especially those relating to Baltimore City.

The affordability of higher education also remains a concern in Maryland as well as in the nation as a whole. Progress has nonetheless been made in the State in recent years. For example, in the decade ending in 2015, Maryland's ranking of its four-year colleges with regard to in-state tuition and fees improved from forty-third to twenty-third place (first being lowest cost), and its two-year colleges improved from forty-first to thirtieth place. Nonetheless, Maryland cannot be deemed a low-cost state for higher education.

Various studies, including one that formed the basis of a Nobel Prize, have indicated that 50% to 85% of the growth in the U.S. gross domestic product (GDP) in recent decades is attributable to advancements in just two fields: science and technology. Another study has indicated a close coupling of GDP growth with job growth; an increase in GDP of 1.7 percentage points equating to job growth of 1.0 percentage point. Maryland ranks sixth in the fraction of jobs held by scientists and engineers, and in 2012, America's high-tech industry wages were 98% higher than the average private-sector wage. In a CNBC assessment, Maryland ranks sixth in workforce education and seventh in technology and innovation. Science, technology, engineering, and mathematics degrees granted by the State's universities comprise 31% of all degrees granted – associates through doctorates. On the other hand, the United States as a whole is very noncompetitive by this measure. For example, the fraction of baccalaureate degrees awarded in engineering in the United States places seventy-ninth among the 93 nations evaluated in one recent study – most closely matched by Mozambique.

Noting the importance of high-tech to the future prosperity of developed nations, the U.S. Chamber of Commerce Foundation has ranked Maryland "third best" for innovation and entrepreneurship. The Information Technology and Innovation Foundation places Maryland fifth in its overall ranking of states in "the new economy." Interestingly, using this latter index, the foundation places six of the nine states used in this report as comparative states in the top dozen states (although West Virginia ranks forty-ninth). It ranks Maryland as number two in opportunities in managerial, professional, and technical jobs; number three in knowledge jobs as a fraction of all jobs; and number three in overall workforce education.

As a recipient of federal funds for research and development, in 2013, Maryland was in second place, just 4% behind California – and gaining. Maryland's federal funding for research and development (R&D) is nearly 3.0 times that of Massachusetts (which is in third place) and 2.4 times that of Virginia (in second place). Furthermore, the above number-two ranking applies both in terms of absolute dollars and as a fraction of gross state product. Maryland ranks eighteenth in industrial R&D investment.

The Institute of Taxation and Economic Policy in 2015 ranked Maryland as the twelfth "fairest" state in its tax policy, as indicated by the fraction of income required to be paid in individual income taxes by taxpayers at various income levels, with the Maryland tax burden ranging from 9.5% at the lowest quintile of income to 6.7% at the highest 1.0%. While still "regressive" by this measure, it is considered quite "progressive" in comparison with the majority of states. Similarly, *WalletHub* ranks Maryland in 2015 as tenth among states in fairness of state and local taxes, defining “fair” as ranging from 2.5% of income for taxpayers with an income of $5,000, to 17% for those with incomes of $2.5 million.

Indeed, a strong argument can be made that in terms of potential, Maryland should not wish to trade places with any other state. Yet, as was once famously remarked, “There is no greater burden than a great potential.”

Chapter 3. Maryland: Land of Underachievement

The Maryland Public Policy Institute stated as early as 2009 that "States with weak competitive environments will have struggling economies…Maryland clearly falls into the latter category." It went on to observe that, "Maryland is on an unsustainable spending plan."

In an economy dependent on technology, Maryland ranks number two among states in the fraction of its population possessing advanced degrees and number two in federal spending on research and development. At the same time, it ranks twenty-sixth in the creation of firms, thirty-seventh in the creation of jobs, and forty-seventh in the percentage of taxpayer income growth (2012 Internal Revenue Service data). As observed by the commission in its Phase I report, the cart does not seem to be connected to the horse.

It can be, and in fact frequently has been, argued that with all the assets listed in the previous section of this report, the problem faced by Maryland is simply one of misperception. Yet, other states also have assets, and with regard to misperception, the facts argue otherwise.

There are many factors contributing to this latter conclusion, with tax policy being only one and probably not even the most important. Assessments of Maryland's overall "business friendliness" ranking are particularly negative. Various criteria are used by those making such evaluations and rankings, some of which are highly subjective and some involve over 100 individual components with quasi-arbitrary weighting factors assigned to each. Nonetheless, patterns emerge that are difficult to dismiss. In overall business friendliness, Maryland ranks thirty-sixth among the states according to CNBC, fortieth according to *Chief Executive Magazine*, twenty-ninth according to the American Economic Development Institute, and twentieth according to *Forbes* (**Exhibit 3.1**). The Kauffman/ThumbTack Foundation.com evaluation rates Maryland's overall friendliness with regard to small businesses as deserving a C-. (Virginia's overall business friendliness was granted an A+.) According to the CNBC assessment, Maryland's nine local, and often most significant, competitors provide nearly half of the dozen bottom-ranked states in the entire nation. The local group provides two of the top dozen with North Carolina and Virginia recently moving into that group.

Exhibit 3.1

Ranking of Top States for Business

	CNBC	Chief Executive Magazine	American Economic Development Institute	Forbes
Maryland	36	40	29	20
Virginia	12	14	4	4
West Virginia	49	38	45	48
Pennsylvania	50	35	39	30
New York	35	49	30	17
Massachusetts	20	46	41	13
New Jersey	39	47	47	41
Delaware	38	23	28	11
North Carolina	9	4	11	3

Turning to the cost of doing business, in 2014, CNBC ranked Maryland as forty-fifth, Virginia thirtieth, West Virginia eighteenth, New York fiftieth, Pennsylvania forty-second, North Carolina twenty-third, Massachusetts forty-sixth, Delaware thirty-sixth, and New Jersey forty-third, pointing to the noncompetitiveness of the overall region by this important measure. In its 2015 assessment, CNBC dropped Maryland to forty-eighth place in the cost of doing business, twenty-ninth in access to capital, and to forty-fifth in infrastructure. Insofar as domestic competition is concerned, Maryland finds itself competing principally with a group of largely noncompetitive states.

Turning to K-12 education, while Maryland, as previously noted, has many schools that rank extremely well, the disparity within its K-12 education system is enormous. This is reflected in the twenty-fourth place overall ranking of its eighth graders in mathematics according to *The Nation's Report Card* standardized assessment. Performance in Baltimore City severely diminishes the State's overall performance and points to a situation demanding further attention.

With regard to its position in the burgeoning global economy, Maryland is ranked twenty-fifth by the Information Technology and Innovation Foundation in terms of exports and foreign investments in the State.

As noted, among the shortcomings of some rankings is that they in essence are summary measures based on individual metrics that are combined subjectively. In an attempt to overcome this deficiency, and, even more importantly to quantitatively define the extent of progress that

Maryland will have to achieve to reach various levels of enhanced competitiveness, a set of 10 exhibits relating to five discrete, quantifiable output measures are presented in **Exhibits 3.2** through **3.11**. Each of these output metrics is displayed separately for 2 groups of states, 1 consisting of all 50 U.S. states and the other for 9 local states. The states represented in the latter category are Delaware, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Virginia and West Virginia – with Massachusetts being included primarily because of its position as an East Coast, high-tech competitor.

Exhibits 3.2 and 3.3 address Maryland's relative position in average annual (non-farm) percent job growth over the 25 years from 1990 through 2014. The next pair of exhibits (Exhibits 3.4 and 3.5) address the same measure since the year 2000. The third pair of exhibits (Exhibits 3.6 and 3.7) present Maryland's standing in total state and local tax revenue as a fraction of personal income, and the following two exhibits (Exhibits 3.8 and 3.9) present state and local tax revenue per capita. The final two exhibits (Exhibits 3.10 and 3.11) present total state and local tax revenue as a fraction of GSP.

Exhibit 3.2
National Comparison
Net Average Annual Job Creation by State
1990-2014

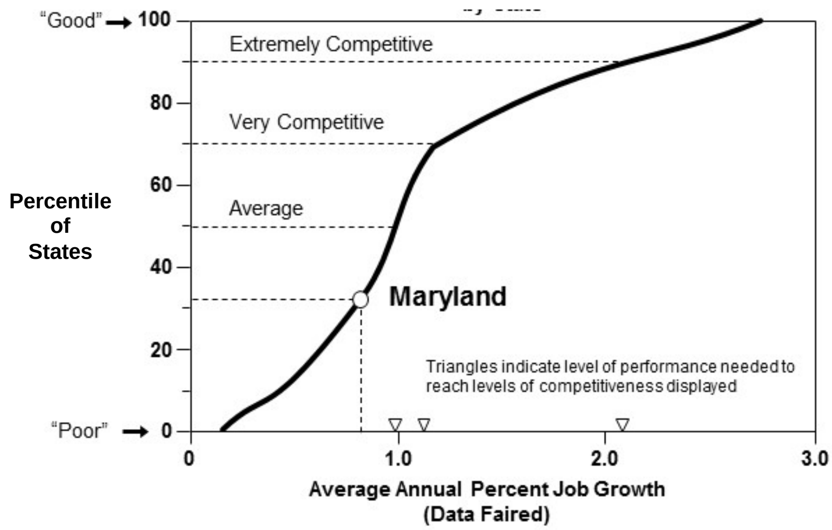


Exhibit 3.3
Local Comparison
Net Average Annual Job Creation by State
1990-2014

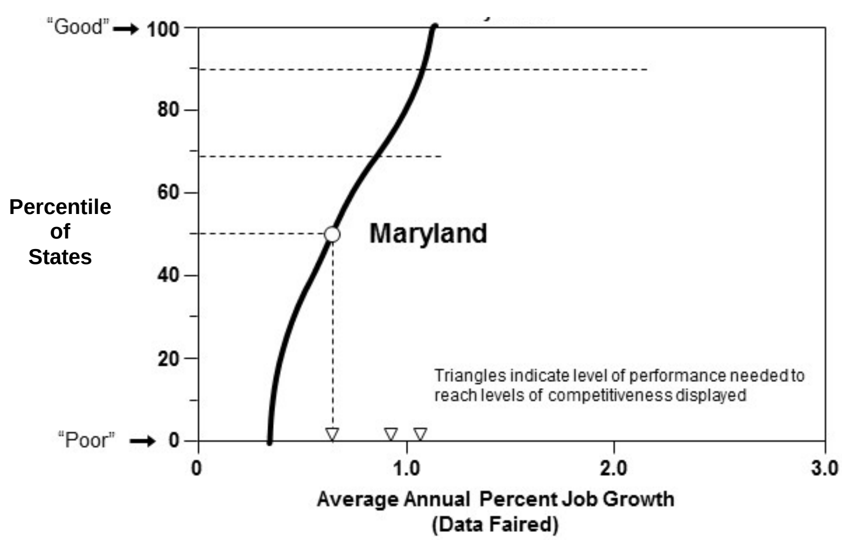


Exhibit 3.4

National Comparison
Net Average Annual Job Creation by State
2000-2014

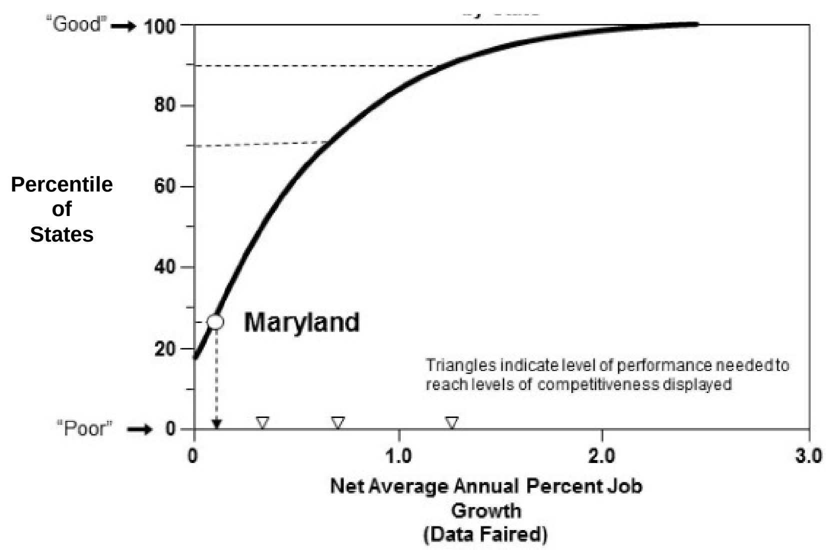


Exhibit 3.5

Local Comparison
Net Average Annual Job Creation by State
2000-2014

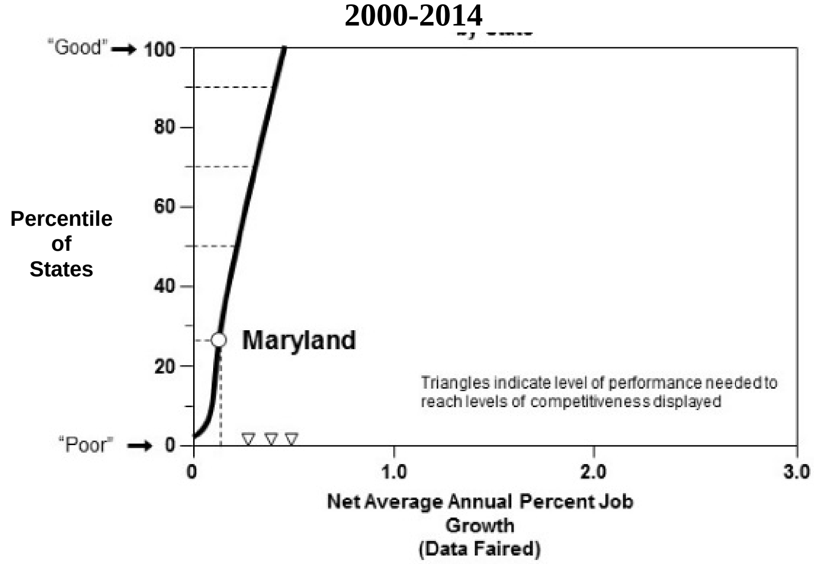


Exhibit 3.6
National Comparison
State and Local Tax Revenue as a Percent of Personal Income by State

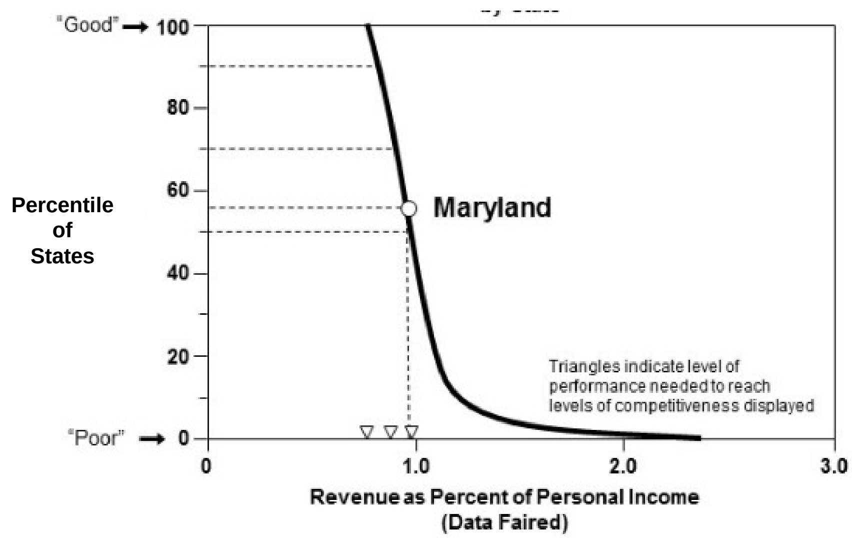


Exhibit 3.7
Local Comparison
State and Local Tax Revenue as a Percent of Personal Income by State

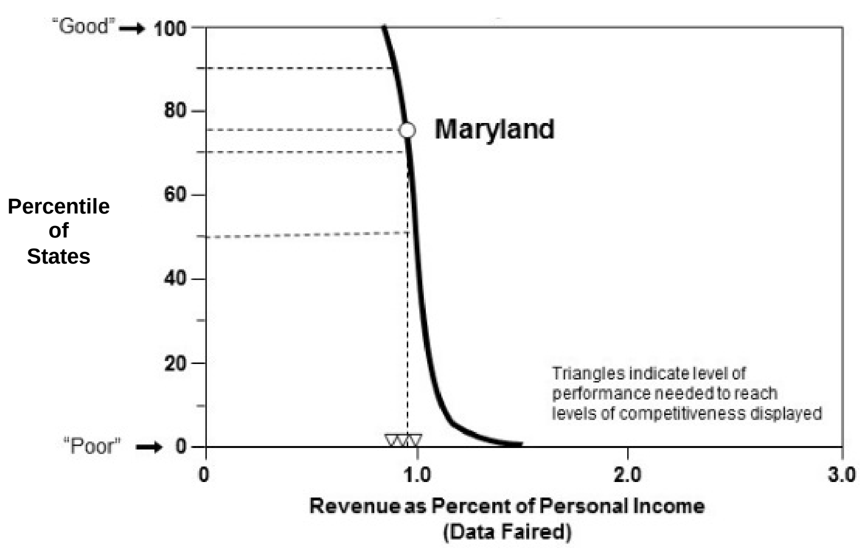


Exhibit 3.8
National Comparison
State and Local Tax Revenue Per Capita by State

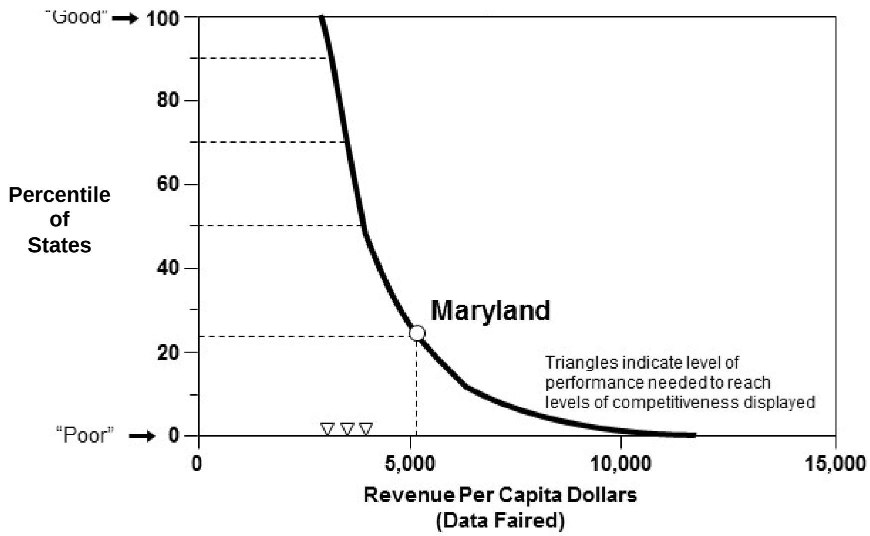


Exhibit 3.9
Local Comparison
State and Local Tax Revenue Per Capita by State

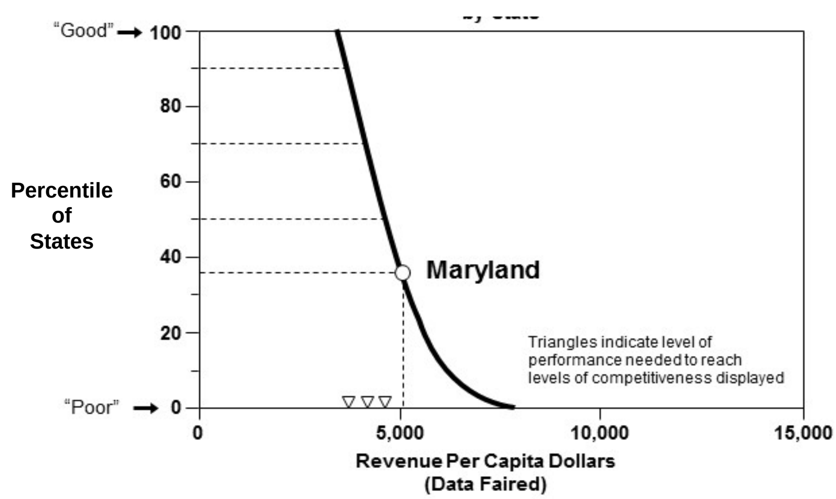


Exhibit 3.10
National Comparison
State and Local Tax Revenue as a Percent of Gross State Product by State

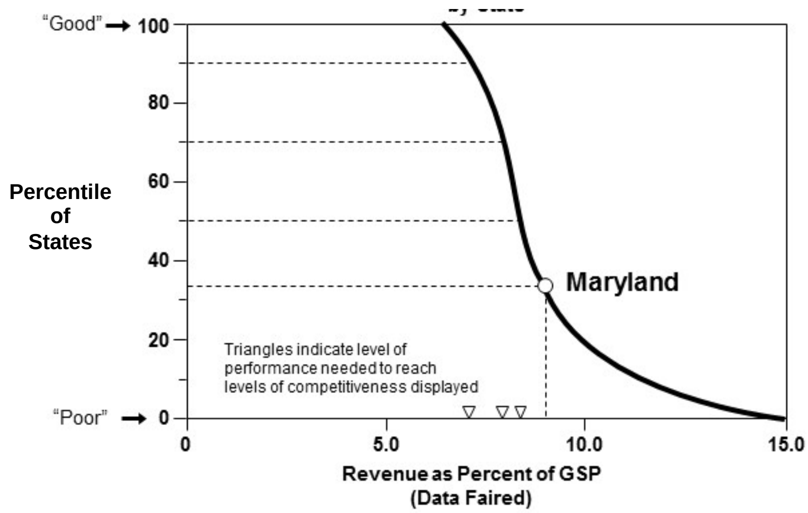
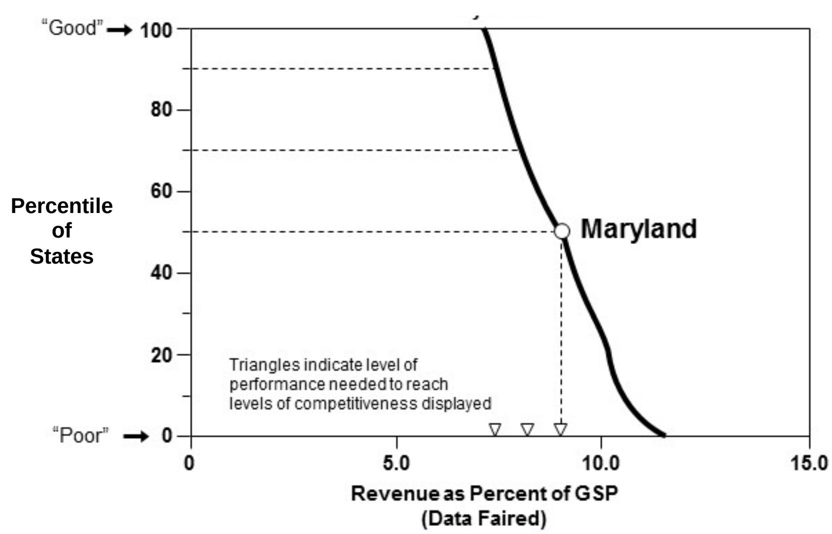


Exhibit 3.11
Local Comparison
State and Local Tax Revenue as a Percent of Gross State Product by State



It will be seen that by all five measures Maryland ranks either average or well below average on a national basis and about average on a local basis, the one exception in the latter case being taxes paid as a fraction of personal income for which Maryland ranks in the top ("best) quartile – in part reflecting the extraordinary wealth of the State's citizenry.

It should be observed that Maryland is among the few states that collects income tax on behalf of local jurisdictions. In the case of Maryland, that tax cannot exceed 3.2%. The State then distributes those funds to its counties and Baltimore City. When tax collections are compared among states, it is, therefore, important either to add to other states' revenues the corresponding amounts collected directly by their counties or, alternatively, to remove from the State revenue taxes collected on behalf of its counties. Whatever the case, 33 states impose no local individual income tax whatsoever, and of those that do, Maryland and Indiana are the only states that impose it in every jurisdiction. From a business standpoint it makes little difference whether taxes are paid to a state or to a local jurisdiction; it is still a cost of doing business. For this reason, comparisons among states reflect combined state and local taxes unless otherwise stated.

Exhibit 3.12 presents summary measures of the improvement in various output parameters that would be required for the State to reach given levels of competitiveness. It will be seen that for Maryland to reach even the fiftieth percentile nationally, in terms of tax burden, it would require an overall revenue reduction of about 8% and to reach the seventieth percentile (100 being best) would require a reduction of 17%.

Exhibit 3.12

Percent Change Required to Meet Potential Competitiveness Goals

			Percent Change Required					
Measure	**Current Percentile***		**Average (50th percentile)**		**Very Competitive (70th percentile)**		**Extremely Competitive (90th percentile)**	
	National	**Local**	**National**	**Local**	**National**	**Local**	**National**	**Local**
Annual Rate of Job Creation (Standard = 1990 – 2014)	32	50	+23	–	+49	+31	+160	+64
Annual Rate of Job Creation (Standard = 2000 – 2014)	27	25	+180	+100	+520	+190	+1060	+280
Taxes as Fraction of Personal Income	56	75	-	-	-7	-	-17	-7
Taxes Per Capita	24	36	-22	-8	-32	-16	-38	-26
Taxes as Fraction of GSP	33	50	-8	-	-17	-9	-26	-25

*** "Good" = 100**

Chapter 4. Tax Structure

Maryland's fiscal 2016 State budget totals $40 billion, of which slightly over $16 billion resides in the General Fund. The former can be categorized as follows: General Fund (State operations), 40%; federal funds (Medicaid, transportation, etc.), 28%; special funds (highways, *etc*.), 21%; and Higher Education (tuition, fees, *etc*.), 10%. General fund revenues are derived as follows: individual income tax, 53%; sales and use tax, 28%; corporate income tax, 5%; lottery, 3%; and all other, 11%. It is noteworthy that 93% of general fund revenues are provided from taxes, as are 47% of overall State revenues (with much of the remainder being derived from direct federal payments). Maryland's counties on average derive 86% of their own-source funds from property tax and income tax. Thirty-seven percent of general fund spending is allocated to K-12 education, with an additional 11% being devoted to higher education.   A summary of selected maximum tax rates impacting Maryland business activities is shown in **Exhibit 4.1**.

Exhibit 4.1
Maximum Tax Rates

Tax Category	Maximum Rate (%)
Federal Corporate	35.00
State Corporate	8.25
Federal Individual	39.60
State Individual	5.75 + 3.20 *
State Sales	6.00
Federal Estate	40.00
State Estate	16.00
State Inheritance**	10.00

*County Piggyback
**Non-immediate family members

Maryland's Tax Ranking

Based on data from the Tax Foundation, **Exhibit 4.2** presents a comparative assessment of Maryland's tax policy as it impacts business in the State, with the hundredth percentile being most favorable to business.

Exhibit 4.2
Tax Climate Rankings

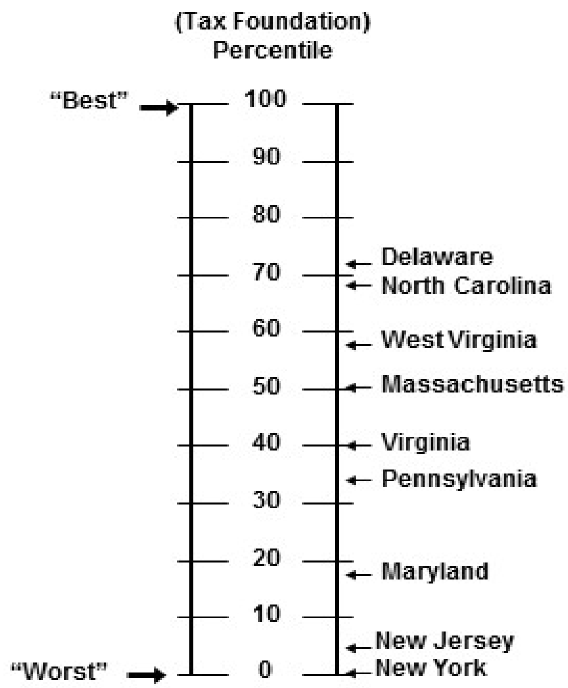


Exhibit 4.3 presents Maryland's ranking among nearby states according to various specific categories of taxation, with a ranking of "1" being most competitive from a tax standpoint. Maryland's individual income tax rate places it forty-fifth among the states in the Tax Foundation's 2016 State Business Climate Index. Maryland ranks nineteenth for its corporate income tax, eighth for sales tax, twenty-eighth for unemployment insurance, and forty-second for state property tax – each deteriorating compared with the prior year except for the sales tax, which maintained its relative position.

Exhibit 4.3
Business Tax Rankings
2016*

	Overall	Corporate	Individual	Sales	Unemployment Insurance	State Property
Delaware	14	50	33	1	4	15
North Carolina	15	7	14	31	11	32
West Virginia	21	21	25	21	22	16
Massachusetts	25	39	13	18	47	46
Virginia	30	6	39	6	38	29
Pennsylvania	32	47	17	25	50	38
Maryland	41	19	45	8	28	42
New York	49	12	49	42	32	47
New Jersey	50	43	48	47	31	50

*Tax Foundation (a rank of "1" indicates most competitive from a tax standpoint).

A number of independent organizations and independent groups of economists have ranked all 50 states with regard to specific aspects of tax policy. The Tax Foundation, for example, views Maryland's tax burden as a share of personal income to be thirty-ninth among states (with the ranking of "1" indicating lowest tax burden). The 2014 Kauffman/ThumbTack Foundation.com survey ranks Maryland's tax code as thirty-first in the country in terms of its burden. The Federal Bureau of Economic Analysis indicated in 2011 that Maryland's individual income tax burden as a fraction of gross state product was roughly 80% higher than the U.S. average. Data from both the U.S. Census Bureau and Moody's Analytics point to Maryland as having the third highest individual income tax burden among the states, as does *The Wall Street Journal*.

A 2010 study by Ernst & Young of state and local taxes for new or expanding firms in three business sections in four regional states, Maryland, North Carolina, Pennsylvania, and Virginia, revealed that at that time, business taxes on a Maryland financial service firm were highest among the four states and 55% higher than the least costly state among the group (Pennsylvania); 19% higher (third highest) for biotech manufacturing firms than the least costly state (Virginia); and 68% higher (highest) for professional firms than in the least costly state (Pennsylvania).

As is the case for all states, Maryland's citizens depend on having quality jobs to support their standard of living – while the State depends on its citizens having quality jobs to provide the revenues needed to operate government and provide services. Clearly, any effective tax policy must support creating quality jobs.

It has long been an article of faith that most jobs are created by small firms; however, it is important to parse the definition of small firms when seeking to create a tax structure that includes tax incentives. For example, data indicate that in Maryland, the fraction of total employment provided by companies with fewer than 100 employees has actually *diminished* in recent years. In 1998, Maryland companies with fewer than 100 employees provided 41% of the jobs in the State (excluding agricultural and government employment). By 2011, that fraction had dropped to 36%. A similar pattern is observed on a national scale. Caution is required in interpreting these statistics since they are not based on a longitudinal analyses of specific firms; nonetheless, the relevant observation is that most jobs are created by *new* small companies that have *grown to be large* companies. That is, many small companies are small and remain small or even go out of business, but most jobs are created by relatively *new* companies that were recently small and enjoyed high growth. This consideration makes it particularly important that tax policy support the creation of *new* firms, and especially firms in fields offering the greatest potential growth. Based on Maryland's inherent strengths, the latter include high-tech firms in such areas as biomedicine, informatics (including cybersecurity), advanced manufacturing, and health care. The Census Bureau points out that in 2011, *surviving* firms less than five years old had a job creation *rate* that was approximately 50% greater than that of firms that were over five years old. The Tax Foundation notes in this regard that, "By largely ignoring job creation and investment credits, Maryland is among a small number of states actually offering lower effective rates for mature, rather than new firms."

Such considerations have important implications, particularly for Maryland which, according to the Kauffman/ThumbTack.com survey, ranks twenty-seventh among U.S. states in the ease of starting a business (Virginia is seventh). Maryland's ranking with regard to global competitiveness needs to be further viewed within the context that it is part of a nation that the World Bank Group rates forty-sixth in the world by the above measure. By almost all metrics considered in this report, Maryland ranks about average among its regional competitors; its regional competitors rank poorly overall among national competitors; and as a national competitor, the United States ranks increasingly poorly among global competitors, having now descended into seventh place in most assessments.

Indeed, the evidence is compelling that creating jobs is closely correlated with starting and growing businesses. Yet, somewhat ironically, the evidence that providing businesses with direct tax incentives create jobs is at best mixed. For example, the Tax Foundation (viewed by some as relatively conservative) states that, "Economic development and job creation tax credits complicate the tax system, narrow the tax base, drive up rates for companies that do not qualify, distort the free market, and often fail to achieve economic growth." The Center on Budget and Policy Priorities (often viewed as being somewhat liberal) notes that economic development tax subsidies are "…relatively ineffectual, potentially counterproductive, and not cost effective incentives for job creation and investment."

Nonetheless, such subsidies remain popular among many states, with $20 billion being devoted nationally to such endeavors in 2013, a seven-fold growth since 2000. Maryland provides tax credits to numerous such endeavors, ranging from film production to wineries and vineyards, from oyster shell recycling to Maryland-mined coal, and from cellulosic ethanol technology to biotechnology. The efficacy of providing tax incentives for start-up businesses is further complicated by the fact that most such firms have little or no net income and are therefore generally not subject to income taxes.

Sources of Taxes

While there is little, if anything, about taxes with which everyone agrees, there is indeed a strong consensus that favors lowering taxes and increasing government services. The challenge of doing both simultaneously, while not altogether impossible, at least on the margin, poses a monumental challenge to leadership at all levels of government.

In order to establish a baseline for comparison, it is noted that across the nation, state and local governments, on average, derive about 36% of their business-related tax revenues from property tax, 21% from sales tax, 9% from corporate income tax, 7% from unemployment insurance taxes, 5% from licensing fees, 5% from individual income tax on pass-through entities (non-corporate entities such as limited liability corporations and partnerships) and 17% from all other sources. **Exhibit 4.4** displays this distribution as it applies to Maryland and its regional competitor states based on U.S. Census data. Maryland derives an unusually large portion of its revenues from personal income taxes, reflecting a high rate structure and a wealthy citizenry.

While taxes that are imposed directly upon businesses or their owners are certainly significant, ironically it is taxes other than "business taxes" that often have the greatest impact on a firm's prosperity. This is the case in Maryland where, for example, only 5% of the State's general fund revenue is derived directly from the corporate income tax which, while comparatively high among states, does not have a dominant impact on the overall cost of doing business in Maryland.

The underlying issue is that businesses are affected by virtually all forms of taxation through one avenue or another. For example, approximately 188,000 Maryland business entities in effect pay the individual income (pass-through) tax rate on recorded earnings in lieu of the corporate tax rate. Also, the ability of employers to attract employees from out of state is strongly influenced by a state's property taxes, sales taxes, and individual income taxes, particularly among the ranks of professional, higher wage earners. In addition, virtually all forms of taxes impose an opportunity cost on businesses in that they capture financial resources that could otherwise be devoted to growing the business. Overall, business taxes in Maryland are moderately competitive among the local group of states, with the exception of Virginia, but not competitive nationally.

Exhibit 4.4
State and Local Tax Revenues – Dependence on Various Forms
National Rankings*
2011-2012

	Property Tax	Personal Income Tax	Corporate Income Tax	Sales and Selective Taxes	License Fees	Other Taxes
Delaware	50	9	5	49	1	10
Maryland	37	2	30	41	44	16
Massachusetts	12	3	7	45	39	23
New Jersey	2	35	19	45	39	26
New York	25	4	4	43	50	13
North Carolina	40	8	24	23	23	49
Pennsylvania	28	18	16	31	17	14
Virginia	18	6	36	44	20	22
West Virginia	43	21	33	19	27	5

*1 is highest tax reliance (by category).

Maryland's New Economy

Maryland, by virtue of geography, has long been the beneficiary of disproportionately large federal investment in the State. In 2014, federal direct employment constituted 8.0% of all employment in the State. Furthermore, the average federal wage in Maryland is 70.0% higher than the State's average wage, with the result that 12.3% of Maryland's wage income is derived from direct federal employment as compared with 4.6% nationally. It has been estimated that slightly under one-third of Maryland's economy is rooted in federal spending in all forms.

In terms of federal procurement, Maryland ranks fourth among the states, behind Virginia, California, and Texas (and on a per capita basis, number two behind Virginia). In addition, Maryland, like its neighbor Virginia, is a significant beneficiary of jobs held by its residents that are physically located within the District of Columbia. In the case of Maryland, 9 of the 13 largest employers in the State are government entities (federal, State, or county).

Given the lesser sensitivity of federal and State employment to market cycles as compared with the private sector, Maryland tends to outperform the average of all states during economic downturns but underperform them during economic upturns. This tendency provides a degree of short-term economic stability; however, in the "new economy" in which Maryland must now participate; *i.e.*, one without continuing strong growth in federal spending, the long-term impact on the State is likely to be quite negative – again, absent an accelerated move of the State's economy into the purely commercial sector.

This is most assuredly not to say that attracting federal jobs to Maryland is unimportant; rather, it is to say that it is necessary but not sufficient. The George Mason University's Center for Regional Analysis forecasts that between 2010 and 2020, the federal share of the *overall* Washington, DC area's economy will drop from 40% to 29%. This will place a much greater demand on the State's economic competitiveness and attractiveness to commercial businesses. Moody's Analytics, referring to Maryland's potential employment challenges, states that "Maryland is poorly equipped to weather the job loss given its dependence on the public sector for middle income employment."

The extent of the pressure that is likely to be imposed on future federal budgets is suggested by the fact that over the past half-century so-called mandatory programs (such as Social Security and Medicare) have grown from 26% to 50% of total federal outlays, while so-called discretionary spending has declined from over 67% to less than 31%. Recent forecasts suggest that if current federal spending policies are sustained, by the early 2040s government receipts will be consumed in their entirety by just two accounts: entitlements and interest on the federal debt – with no funding remaining for *any* other activities.

Compounding the problem posed by growing limitations on federal spending is the fact that the previously strong manufacturing base in the United States, including in Maryland, has been hard hit by foreign competition. In the case of Maryland, since 1990, manufacturing activity has declined by 40% as compared with 30% nationally.

Exacerbating these overall market challenges are several structural problems impacting the State's current financial condition. Debt service on capital projects exceeds the tax revenues that are used to pay that debt, thereby placing additional demands on the General Fund. Further, unfunded pension liabilities in the State are now estimated to total approximately $19 billion. Additionally, mandated expenditures account for 83% of the State's outlays, providing, absent change, little flexibility to the State's leadership for addressing overall budget issues, including those impacting competitiveness.

Competing in a Global Economy

While the commission's efforts focused principally on Maryland's competitiveness with other states, it cannot be overlooked that Maryland can be little better than the United States as a whole when competing in the growing global marketplace. In doing so, U.S. states are all burdened by a federal maximum corporate tax rate of 35.0% – now the highest stated rate of any industrialized nation. Maryland itself imposes an additional 8.25% corporate income tax (versus the national average of 5.89%).

Maryland, like almost all other states, is required to balance its budget each year. Thus, when taxes of a specific type are reduced, either expenditures (services) must be decreased, taxes of some other type increased, or operations conducted more efficiently. The latter most assuredly should not be disregarded in addressing the overall taxation issue facing the State of Maryland and the feasibility of making cost reductions.

Impacts of Tax Structure

Eighteen of the 24 Maryland counties share a border with another state, making job and business mobility relatively easy. Moody's Analytics reports that in recent years, Maryland's net migration of individuals involving other states amounts to a net loss of about 15,000 people. Net migration from other *countries* is stated to represent a net gain of about 29,000 people.

Laffer, *et al*, have performed a rather exhaustive analysis of Internal Revenue Service (IRS) data for the years 1992/1993 to 2009/2010 (tax year/filing year) and conclude that the net of in-returns minus out-returns for Maryland, divided by the total number of migrating returns, is a 1.4% loss. This ranks twentieth highest (worst) among states in terms of the fraction of returns migrating out of the state. Not only did Maryland suffer a net loss of tax returns through migration, but outbound migrants had an average annual gross income of $48,950, while in-migrants averaged $44,329, representing a net loss of about $4,600 per migrant. This placed the State in thirty-fifth place, where a ranking of "one" represents the greatest *gain* in annual gross income.

While there are many reasons why individuals migrate among states, often cited in the case of Maryland are weather, the availability of jobs, and lower taxes. While it is important not to confuse correlation with causality, it seems noteworthy that there are five states with no income tax (excluding energy-driven states) that added an average of 19% to their reported annual gross income through net in-migration over the 18-year period considered in the abovementioned study. On the other hand, the five highest income tax states in the country suffered an average *reduction* of 5% of annual gross income.

In its study of job mobility, the New Jersey Department of Treasury concluded, "The bottom line is that our results appear to have indicated a meaningful association between state income taxes and domestic migration out of the state." Its highly caveated but highly analytical assessment continues, "…we estimate that by the end of the decade, the State's (New Jersey's) cumulative losses from increases in average marginal tax rates after 2003 (most importantly the 2004 millionaire tax) totaled roughly 18,000 taxpayers and $2.4 billion in annual income."

A very recent study of 27 million establishments conducted by the National Bureau of Economic Research concludes, "Corporate entities reduce the number of establishments per state and the number of employees and amount of capital per plant (within a state) when state tax rates increase. Pass-through entities respond similarly to changes in state-level personal tax rates, although in somewhat smaller magnitude. Our specifications suggest that around half of these responses are due to reallocation of business activity to lower-tax states."

Whatever the case, according to the IRS, in 2011 and 2012, Maryland lost to migration 5,596 tax returns representing 10,968 people and a net adjusted gross income of $1.6 billion.

Caveats

While increased taxes can impair the ability of businesses to invest in new technology, facilities, and employees, businesses are the beneficiary of many of the services made possible by tax proceeds. Among the more important of the latter are the provision of an educated workforce, an effective transportation system, and a law-abiding environment. Reducing taxes on businesses by cutting investments in education, transportation, or public safety would likely cause businesses, along with individual citizens, to suffer adverse consequences. The commission once again cautions against reductions in the funding of these critical functions, other than where they can be achieved through increased efficiencies.

As was noted in Phase I of the commission's work, many of the states enjoying the greatest recent economic growth are those that have been the beneficiary of shale gas deposits and a willingness to extract that gas through hydraulic fracking. More recently, the severe decline in the price of fossil fuels has reversed the positions of such states as Alaska, whose economy, like that of Maryland, had become heavily dependent upon a single business sector. Other states enjoying substantial growth were generally the beneficiary of the ongoing technological revolution. Notably, the latter have almost invariably been anchored by one or more highly regarded research universities, such as is the case in Silicon Valley in California, Research Triangle in North Carolina, Route 128 in Massachusetts, and Austin, Texas.

With regard to the impact of education, beginning with K-12, corporations generally do not hire students in these grades, but they do hire their parents who care that their children have access to high-quality public education. In contrast with the U.S. K-12 education system, the nation's *higher* education system ranks extraordinarily well on a global scale, with the *Times of London* ranking all five of the top-ranked universities in the entire world in the United States, along with 18 of the top 25. This closely matches the rankings produced by organizations and institutions in both China and the United States.

Too often overlooked in such considerations are Maryland's 16 community colleges, which, among other contributions, are the primary source of training for quality jobs that do not require formal education beyond a high school diploma or associates degree. These institutions not only need to be protected from budget reductions but need to be expanded, particularly in their apprenticeship programs, if the State is to eliminate its growing lack of middle-income jobs.

One additional cautionary observation is appropriate: whatever changes are made to the State's tax policy should be constructed so as to protect those at the lower end of the economic scale. Maryland, like the United States as a whole, exhibits an exceptionally large disparity in income. Examples of such disparity are reflected in Moody's Analytics' Quality of Life Index, which states that on a scale where the U.S. average is 100, Baltimore County rates 108, and nearby Baltimore City rates 65. Indeed, there are places in our State where one can travel less than 10 miles and observe a life expectancy that declines by 22 years. This is obviously untenable for a variety of reasons.

Chapter 5. Conundrums

Two conundrums encountered by the commission in its deliberations warrant special consideration. The first of these stems from the reality that to create jobs requires a tax policy that enables businesses to prosper; yet, businesses are often owned by the wealthier element of the State's citizenry. Thus, most changes to the tax code that strengthen businesses tend to further enrich what is already the wealthiest segment of the State's population …*while also creating jobs*. Although some of the provisions that have been recommended by the commission do directly address the needs of lower income individuals, many other provisions aimed at creating jobs for all have the additional effect of increasing the income of the wealthy. While not opposed to greater prosperity among any group, the commission is nonetheless very sensitive to this reality and the perceptions it generates, particularly given the wealth disparity that already exists in Maryland. The extent of the latter is suggested by the fact that the average corporate income tax liability of Maryland taxpayers in 2012 was $35,226, but the median tax liability was only $658.

Closely related to such considerations is Maryland's estate tax, a tax imposed by only 15 states plus the District of Columbia. Only 0.5% of Maryland's total State and local tax revenues are derived from estate taxes and fewer than 2.0% of decedents are required to pay the tax, but the Federation of Tax Administrators places Maryland fourth on its list of "least tax-friendly" states from an estate/inheritance tax standpoint. While there is considerable anecdotal evidence of wealthy citizens leaving the State to avoid such taxes as the estate tax (16.0% rate) and the so-called "millionaire's" income tax (6.25% rate in effect from 2008 to 2010), the exact extent of migration of such individuals and their wealth, or its impact on State revenues, seems to be difficult to empirically ascertain. A 2009 analysis conducted by the Department of Legislative Services (DLS) examined the impact of the temporary 6.25% income tax rate (again, not including local taxes) applicable to net taxable income exceeding $1 million. The conclusion was that at the very most, 2.0% of the millionaires in the State may have left the State in the year following the tax increase. This was shown to be a small number of taxpayers representing a small fraction of overall tax receipts, and the reasons for their departures are not specifically known. The long-term impact that a sustained tax of this magnitude might produce was not examined in this particular study. On the other hand, analyses such as one reported by Laffer, *et al*, suggest a relatively high degree of mobility of high-end taxpayers from high-tax states to low-tax states.

The second conundrum encountered by the commission is that reductions in State taxes that seek to increase business and job growth can actually have a *near-term* negative impact on both revenues and employment within the State. This is largely a consequence of the fact that reductions in government spending can be implemented relatively quickly, whereas creating or attracting new businesses and growing them is a longer-term proposition. The budgetary impacts of the commission's proposals disregard gains in revenue and employment that would be expected to accrue by making Maryland more competitive for business and jobs. This practice has been embraced because of the uncertainty in making such estimates as well as out of an abundance of conservatism.

For example, a 2013 analysis by DLS indicates that a 1 percentage point reduction in the corporate income tax rate, *absent any other changes* (*i.e*., diminished State revenues are made up by tax increases elsewhere, such that there is no decrease in *State* employment), would increase overall employment by about 1,200 jobs in year 1 and 2,700 jobs in year 10. Disposable personal income would increase by $62 million in year 1 and by $226 million in year 10. Correspondingly, a Maryland Public Policy Institute analysis shows that a reduction of the State's corporate income tax rate from 8.25% to 6.0% would increase income tax revenues by 7.4% over the long term, "if all other factors remain the same."

The challenge posed by the proposals offered is, of course, that the commission recommends that, in general, offsetting tax increases not be imposed elsewhere in the State's tax structure. Under this circumstance, were overall government spending simply *reduced* by the amount of the 1% corporate tax relief postulated in the DLS analysis, the model indicates that employment would actually *decrease* by 1,900 jobs in year 1 and become only slightly positive in year 10. Under this scenario personal income would decline by $86 million in year 1 and by $4 million in year 10.

While these considerations appear to make a strong argument for inaction, there are few who would argue that, as a general matter, increases in taxes are *good* for business. If that is in fact the case, except in the unlikely circumstance where the State's current tax structure is the perfectly ideal structure, decreases in business taxes should, at least over the longer term, produce benefits to the State and its citizens. This has, in fact, been demonstrated in a number of states that have implemented tax reductions, including Indiana, North Carolina, Ohio, Texas, and others. However, a cautionary tale is the recent experience of Kansas, which implemented extremely large tax reductions *unaccompanied by corresponding reductions in spending*, and as a consequence, suffered a severe economic downturn that ultimately required severe spending reductions.

Chapter 6. Tax Policy Goals

Exhibit 6.1 presents a set of goals that the commission sought to satisfy when recommending changes to the Maryland tax structure. Unfortunately, some of these goals are contradictory, and nearly all are linked to each other in one fashion or another such that it is virtually impossible to satisfy each objective with each proposed change. The commission has nonetheless sought to accommodate these objectives in as balanced a fashion as possible.

Exhibit 6.1
Desirable Tax Policy Attributes

Fairness/Equity

- It is fair and treats taxpayers with like circumstances alike.
- It avoids special provisions and exemptions.
- It automatically corrects for inflation.
- It places greater burdens on those most capable of bearing those burdens; *i.e.*, it is not regressive.

Competitiveness

- It promotes the State's competitive position, especially for job creation.
- It addresses long-term as well as short-term objectives.
- It does not distort market-driven business decisions.

Revenues

- It produces the prescribed revenues in a stable and predictable fashion.

Simplicity/Transparency

- It is simple to understand, comply with, and administer (including compatibility with federal tax provisions).
- It does not impose "taxes on taxes."

Chapter 7. Findings and Recommendations

The commission offers 14 recommendations related to taxation, 13 of which are proposed for implementation at the present time and a fourteenth, a reduction in individual income taxes, that should be implemented when other recommendations have been assimilated and the State's revenues and economy have strengthened. Further, it is again observed that the commission believes investments in education at all levels, infrastructure, and public safety should not be compromised as the recommendations proposed here are implemented.

It will also be noted that the commission did not attempt to write detailed tax legislation. Such an undertaking would require extensive analysis to assure that unintended consequences were not created, an undertaking that would exceed the overall commission's expertise as well as time available for its work. Additionally, as previously noted, the commission did not seek to offer offsetting tax increases to accommodate the reductions it proposes. The reasons for the latter are (1) the commission was not asked to do so; (2) the commission is not in a position to do so because doing so responsibly would require an extensive knowledge of the State's entire budget, an understanding far surpassing the commission's knowledge base; and (3) a major objective of the commission's efforts is to *lower* the State's tax burden, not sustain it.

Maryland imposes a number of State and local individual and business taxes to fund a variety of programs and services. As such, the State maintains a relatively diverse tax structure with certain unique characteristics. Maryland's General Fund is primarily supported by a State income tax and State sales tax, with additional revenues derived from the State corporate income tax, the State lottery, and several lesser tax sources. Maryland also imposes several taxes that are used to finance special funds, the most significant of which are State transportation taxes and State property taxes.

It is again emphasized that the commission's recommendations are grouped according to common topics and are not in priority order. The reason for this is that each recommendation is considered to be important and worthy of serious consideration. This same approach was used in the commission's Phase I report.

Individual Income Tax

Individuals who maintain legal residence in Maryland or who earn or receive income from Maryland sources must pay the State's individual income tax. The tax base is the taxpayer's federal adjusted gross income adjusted by Maryland addition and subtraction modifications, deductions, and exemptions, yielding Maryland taxable income. Various graduated tax rates are then imposed on Maryland taxable income to determine tax liability, which is adjusted by any tax credits claimed. The top State marginal income tax rate is 5.75%. Further, each county and Baltimore City levies a local income tax on its residents. This tax is assessed as a percentage of the taxpayer's Maryland taxable income. Current county income tax rates range from 1.75% in

Worcester County to 3.2% in Baltimore City and Howard, Montgomery, Prince George's, Queen Anne's, and Wicomico counties. The maximum allowable rate under current Maryland law is 3.2%.

- **Finding 1: Maryland's combined State and local individual income tax burden on pass-through entity income discourages business investment, particularly for small businesses.**

  Maryland currently has a large number of pass-through entities (PTE), or businesses that pay income taxes via the individual income tax rather than the corporate income tax. A PTE is a business structure that avoids the double taxation imposed on an ordinary corporation. A corporation's income generally is taxed at the corporate level and taxed again at the individual level when income is distributed as dividends (cash) to the owners or shareholders. Unlike for a corporation, income recorded by a PTE "flows through" and is allocated to the owners of the entity. The owners of the PTE pay income tax at the individual level on this amount. Owners may choose the type of entity to form for a variety of reasons, including the number of owners, liability protection, profit distribution, ease of formation, and tax treatment.

  In order for a business to be treated as a PTE, the entity must organize under State law and make an election to do so on the entity's federal income tax return. PTEs generally fall within one of five categories: sole proprietorship, general partnership, limited partnership, limited liability company, and S-corporation (a corporation that is taxed as a PTE). Each type of entity has different characteristics that make it more or less desirable depending on the type of business being established. PTEs have grown in popularity and make up the vast majority of businesses and over half of net business income nationally. In addition, PTEs account for significant portions of the private-sector workforce and payroll.

  In Maryland, income earned by members of PTEs is taxed under both the State and local individual income tax. Arguments were made to the commission that the taxation of PTE income is unfair for some taxpayers, including many small business owners, because their income can be subject to a higher combined State and local income tax rate (up to 8.95%) than it would be under the corporate income tax (8.25%). This is particularly the case for higher income taxpayers subject to the State marginal income tax rates beginning at 5.25% plus a county rate of up to 3.2%. An exemption for PTE income can reduce the tax burden on small businesses and enable additional business investment. Kansas, Ohio, and Oregon have recently altered their individual income tax structures to provide more favorable tax treatment of reported income derived from PTEs.

  Recommendation 1: Provide an individual income tax exemption for certain income of members of pass-through entities.

  Up to $20,000 of the nonpassive income earned by members of PTEs should be exempt from the individual income tax, subject to an income limitation. In an effort to limit the overall revenue impact, it is recommended that the exemption be provided only to single taxpayers with $200,000 or less of federal adjusted gross income or joint taxpayers with $250,000 or less of federal adjusted gross income. These income limitations are similar to those imposed for the personal exemption amounts under the individual income tax.

Based on data from the Comptroller's Office, this recommendation would reduce total State revenues by approximately $75 million annually and total local revenues by $50 million annually.

- **Finding 2: Providing work-related income tax relief to lower income individuals can generate additional economic activity and tax revenues and provide important social benefits.**

The federal earned income tax credit (EITC) is a refundable tax credit offered to low-income employed individuals. The EITC program, first enacted in 1975 and expanded significantly over time, is now one of the largest and most successful antipoverty programs. Maryland and about half of all states and the District of Columbia offer a State earned income credit that supplements the federal credit, with the implicit objective to reduce poverty. The State offers a nonrefundable credit, which is equal to the lesser of 50% of the federal credit or the State income tax liability in the taxable year. If the nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a refundable credit equal to 26% (gradually increasing to 28% by tax year 2018) of the federal credit, minus any pre-credit State income tax liability.

Recommendation 2: Accelerate the phase-in of the currently planned increase in the refundable earned income tax credit.

In an effort to reduce income tax burdens for low-income individuals, the increase to 28% of the refundable credit currently scheduled for tax year 2018 should be accelerated to tax year 2016. This will provide additional assistance to businesses through increased spending in the economy and will also modestly raise State revenues through increased sales tax and other tax collections while assisting low-income workers. Recently passed federal legislation has made permanent some provisions of the federal EITC, also increasing the disposable income of qualifying families in the State.

This acceleration of the credit percentage increase will reduce total State income tax revenues by approximately $25 million over a two-year period.

Corporate Income Tax

Each Maryland corporation and every other corporation that conducts business within Maryland is required to pay a corporate income tax to the State. The Maryland tax base is the portion of federal taxable income, as determined for federal income tax purposes and adjusted for certain Maryland addition and subtraction modifications, that is allocable to Maryland. (Federal taxable income for this purpose is the difference between total federal income and total federal deductions.)

Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland, a determination that is based on the amount of their trade or business that is carried out in Maryland. Corporations are generally required to use a three-factor formula that incorporates property, payroll, and a double-weighted sales factor. Sales thus represent 50% of the final apportionment factor. The apportionment factor is then multiplied by a corporation's modified total income to determine the amount subject to Maryland tax. Corporations engaged primarily in manufacturing activities are required to use a one-factor formula based on sales, referred to as a "single sales factor." Under this latter formula, income subject to Maryland income tax is determined by taking into account only the fraction of in-state sales to total sales made by the corporation. Most other businesses operating in the State must use the three-factor formula. Twenty states with a corporate income tax use the single sales factor method, with 15 of these states having adopted this approach since 2000. The Governor of Delaware recently announced the introduction of legislation to adopt single sales factor apportionment.

In the case of an affiliated group of corporations, each separate corporation files a separate income tax return and determines its own taxable income, taking into account only the isolated income and business activities of each separate legal entity. (For example, ABC Widgets, Inc. has a parent corporation and several corporate entities that are all engaged in the manufacturing, distribution, and sale of widgets. While these entities are all interrelated, the parent and each entity will file a separate corporate income tax return under current Maryland law.)

Maryland's corporate income tax rate is 8.25%, the rate having last been changed in tax year 2008, when it was increased from 7.0%. The corporate income tax currently accounts for about $1 billion in State revenues annually, with most of these revenues devoted to the General Fund, although some are distributed to the Transportation Trust Fund (TTF) and to the Higher Education Investment Fund (HEIF). As previously noted, corporate income tax revenues comprise about 5.0% of all general fund revenues.

Maryland's corporate income tax rate is relatively high nationally, with only 11 jurisdictions imposing a higher rate or rates. It should be noted, however, that within the region Delaware, the District of Columbia, and Pennsylvania have higher tax rates than Maryland. Significantly, approximately 15 states have reduced their corporate income tax rate in recent years.

According to data from the Comptroller's Office, of the approximately 60,000 State corporate income tax returns filed in tax year 2012, about 40% were taxable. While most corporate returns are from unistate corporations, about 60% of all *taxable* returns come from multistate corporations.

On average, multistate corporations are more likely to have significantly higher income amounts and, therefore, tax liability. Because multistate returns report significantly higher amounts of income and are more likely to be taxable, more than 90% of corporate taxes are paid by multistate corporations. Of the roughly three million income tax returns filed in Maryland in tax year 2012, 60,000 were for C-corporations, and 188,000 reported PTE income.

- **Finding 3: Reducing Maryland's corporate income tax rate would make the State more competitive in attracting economic development and creating jobs.**

  Maryland's corporate income tax rate is relatively high nationally, and a number of states have reduced their corporate income tax rates in recent years. Virginia's corporate income tax rate is now at 6.0%, and a reduction to 5.75% was recently proposed by its Governor. While the corporate income tax provides a relatively modest amount of State revenues compared to the individual income tax and sales tax, it is a tax paid exclusively by businesses.

  Recommendation 3: Reduce, over three years, the corporate income tax rate from 8.25% to 7.0%.

  Reducing the corporate income tax rate to 7.0% will make Maryland more competitive for businesses considering expanding or relocating in the State. It will allow businesses to lower the cost of capital, create jobs, and increase investment in the economy. This will be true for both smaller in-state businesses and larger multistate corporations. A three-year phase-in of the rate reduction is recommended so that policymakers may incorporate the associated revenue reductions into the State budget each year. Under this recommendation, the corporate rate would decrease to 8.0% in the first year, 7.5% in the second year, and 7.0% in the third year and each year thereafter.

  Once fully phased in, this recommendation would reduce annual general fund revenues by approximately $140 million, annual TTF revenues by approximately $25 million, and annual HEIF revenues by $10 million, unless offset by budgetary reductions elsewhere.

- **Finding 4: Changing the apportionment of corporate income under the corporate income tax would assist businesses that are headquartered in or have a significant physical presence in Maryland.**

  Every state with a corporate income tax requires the apportionment of income for multistate corporations, with the apportionment method varying by state. In Maryland, a three-factor apportionment formula is required for most corporations. This apportionment formula takes into account property, payroll, and double-weighted sales in Maryland when determining the corporate income tax. Approximately 20 states and the District of Columbia now use a single sales factor apportionment method.

  Recommendation 4: Provide single sales factor apportionment for all corporations.

While single sales factor apportionment will decrease tax liabilities for some corporations and increase tax liabilities for others, it will help reduce overall corporate income tax liabilities for corporations headquartered in the State or with significant amounts of property and payroll in the State. For corporations that are based in Maryland, placing more weight on the sales factor can provide tax relief because those corporations generally own significantly more property and incur more payroll costs in the State. In addition, placing more weight on the sales factor tends to place a larger percentage of an out-of-state corporation's income within the taxing jurisdiction of the State.

Even though single sales factor apportionment will assist Maryland-headquartered firms, it does create winners and losers among corporations. It is noted that making elective the use of a single sales factor vs. the three-factor apportionment formula would substantially increase the complexity of compliance and likely significantly decrease State revenues.

Based on an analysis of tax year 2011 and 2012 data, the Comptroller's Office estimates that single sales factor apportionment would have a relatively modest impact on overall State corporate income tax revenues. According to the Comptroller's analysis, if single sales factor apportionment had been in effect in those two tax years, total corporate income tax revenues would have decreased by $14 million in tax year 2011 and increased by $22 million in tax year 2012.

- **Finding 5: Maryland's use of separate entity reporting under the corporate income tax is advantageous to many Maryland corporations, and the principal alternative, combined reporting, is generally considered to not be business friendly.**

In Maryland, like most separate entity reporting states, affiliated groups of related corporations each file a separate income tax return and determine their own taxable income on a separate entity basis. For a multicorporate group, this isolates the income and business activities of each separate legal entity. Even though the activities of related corporations may constitute a single unitary business, the affiliated corporations that lack a sufficient connection (nexus) with the State or are protected from taxation by federal law are not subject to the corporate income tax and neither the net income nor the apportionment factors of those affiliated corporations are taken into account on the corporate income tax return of any related corporation that is subject to the tax.

In recent years, corporate income tax reform efforts have significantly increased throughout the United States. In part to combat aggressive tax planning techniques such as intercompany transactions, 24 states have adopted a corporate income tax filing requirement known as combined reporting. Under combined reporting, formal corporate structure is disregarded when determining the share of income of a multistate enterprise allocable to a given state. Combined reporting treats all members of a group of corporations engaged in a multistate enterprise as unitary for purposes of determining the amount of income attributable to a given state. Therefore, treating a unitary group as a single entity eliminates the tax advantages of intercompany transactions. Generally, the unitary group will file one return combining the income of all related members and then apportion the income accordingly.

For many years, the General Assembly has considered whether to impose combined reporting in Maryland. This debate causes uncertainty and sends a negative message to businesses considering expansion in or relocation to the State. In its effort to reform the corporate income tax and generate additional revenues, combined reporting can create revenue volatility and winners and losers among corporate taxpayers. Combined reporting can also lead to additional litigation from taxpayers and create additional administrative costs for both taxpayers and the State.

Recommendation 5: Do not adopt combined reporting and indicate clearly the intent not to do so.

This recommendation has no direct impact on existing State revenues.

- **Finding 6: Taxing business earnings previously taxed overseas and brought into the State does not encourage investments in the State.**

U.S. companies that own foreign subsidiaries pay taxes on earnings abroad and may be required to pay taxes again when the companies repatriate the earnings into the United States. Such double taxation can harm business competitiveness and may encourage U.S. companies to invest earnings abroad. Today, the total amount of such funds located abroad is estimated to exceed $2 trillion. Various proposals to reduce the federal income tax on overseas profits previously earned and taxed have been discussed by the U.S. Congress, but no permanent action has been taken.

Recommendation 6: Adopt a policy that eliminates Maryland corporate income tax from being imposed on repatriated overseas earnings that have been taxed abroad, to the extent that the funds are invested in Maryland.

Providing repatriation relief from State income tax on overseas earnings, while not nearly as impactful as would be a similar federal action, would nonetheless encourage businesses to invest those earnings in the State and increase economic development and job creation within the State. Although the immediate impact on Maryland business will be extremely modest until the federal government acts, by taking action now, Maryland can send a strong signal as to its intent to become a more business-friendly location.

The impact of this recommendation on future State revenues cannot be determined at this time but in the near term will produce no loss relative to current practice since current U.S. tax policy significantly deters repatriation.

Estate Tax

Maryland imposes a tax on property that passes at or after the death of an individual through both an estate tax and an inheritance tax. Maryland and New Jersey are the only states that impose both forms of taxes. In fiscal 2015, estate tax revenues are projected to total $188.0 million. For decedents dying before calendar 2015, the State estate tax was imposed on taxable estates of $1.0 million or more. However, the federal estate tax was only imposed on estates with a far higher value – for example, only estates valued at more than $5.34 million were subject to the federal estate tax in calendar 2014.

In an effort to address the different exclusion amounts for the State and federal estate taxes and to address the fact that several other states are reducing or reforming their estate taxes, in 2014, Maryland enacted significant changes to the estate tax, including eventually recoupling the Maryland exclusion amount to the value of the exclusion for federal estate tax purposes. The increase in the amount that can be excluded for Maryland estate tax purposes is being phased in over five years, beginning with decedents dying in calendar 2015. The amount that can be excluded under the State estate tax is (1) $1.5 million for a decedent dying in calendar 2015; (2) $2.0 million for a decedent dying in calendar 2016; (3) $3.0 million for a decedent dying in calendar 2017; and (4) $4.0 million for a decedent dying in calendar 2018. Beginning on January 1, 2019, the State exclusion amount will equal the amount that can be excluded under the federal estate tax, indexed to inflation. That amount is estimated to be $5.9 million in calendar 2019.

- **Finding 7: Providing accelerated estate tax relief could help individuals, small businesses, and family farms maintain their businesses and encourage high wealth taxpayers to remain in the State and continue to pay State taxes.**

  While the number of estates with State tax liability has remained relatively constant in recent years at about 1,100 annually, the estate tax may serve to force businesses, particularly small businesses and family farms, to sell assets, close, and/or leave the State. It also encourages wealthy individuals to leave the State, taking with them the taxes they would have paid to the State, funds they would potentially have invested in the State, and often their charitable giving.

  Recommendation 7: Accelerate to 2016 the timeframe for recoupling of the State estate tax exclusion amount to the federal estate tax exclusion amount.

  While accelerating the recoupling of the State estate tax exclusion amount to the federal estate tax exclusion amount does not eliminate the tax for all estates, it would reduce the number of estates subject to the tax. Recoupling more quickly in calendar 2016 instead of phasing-in through calendar 2019 would reduce total State revenues by $140 million over the five-year phase-in period and have no impact thereafter relative to current law.

Tax Data Collection

The Comptroller's Office collects a variety of data in its mission to fulfill statutory and constitutional responsibilities with regard to tax administration. This data collection aids in the enforcement of tax law, supports the State's revenue estimating and decision making processes, and satisfies statutory reporting requirements.

- **Finding 8: Tax data collection and reporting does not currently provide certain forms of useful tax information to policymakers.**

  To access, retrieve, and record tax data, the Comptroller's Office currently utilizes an automated tax processing and recordation system known as SMART. The current SMART tax processing system was installed in the 1990s and has grown and been adapted over the years through substantial *ad hoc* development. SMART retains fields "captured" on tax returns; however, the processing system is not capable of retaining all data, and some captured fields require human interaction. Captured data is generally preserved in the Comptroller's data warehouse. Electronic filing, particularly for the personal income tax, has allowed for the aggregation of data outside of captured fields.

  Due to its technological obsolescence and various alterations over the years, Maryland's tax processing system is both complex and functionally archaic. In the coming years, it will cost more to maintain and add capacity to the current system than it would to implement a new and more capable system, largely because of the difficulty in hiring and retaining qualified professionals. In addition, until the Comptroller's Office modernizes its technology, the State can neither fully realize its investment in the Comptroller's data warehouse nor implement the most effective, real-time fraud detection and other analytics programs.

  Recommendation 8: Provide funds to implement a modern integrated tax system that enables better collection, analysis, and dissemination of tax data.

  Implementation of an integrated, modern tax system would allow for additional useful tax data to be collected and reported to the Governor and General Assembly and will allow the Comptroller to better detect fraudulent tax returns and credit claims. This will require that additional funding and resources be appropriated through the annual State budget process. A cautionary note is offered: experience at implementing such systems has been highly varied, and the State should survey other states that have done so for lessons learned.

  As revisions are made, the State should evaluate its tax return forms and determine whether any of these forms should be modified to contain additional information already provided on the corresponding federal tax forms. For example, income tax returns in several states start with a full listing of federal taxable income and deductions. Maryland income tax forms generally start with federal taxable income and, consequently, do not have more detailed information that could be readily available electronically from individual and company income tax filings.

The net amount of funding necessary to provide for implementation of a modernized tax system cannot be reliably estimated at this time but represents a cost that will have to be recognized eventually.

Tax Credits

Businesses in Maryland may claim a variety of tax credits that reduce tax burdens, and the number and amount of such credits being claimed has increased over time. Prior to 1995, there was 1 credit primarily for individuals and 2 primarily business credits. Since 1995, 29 tax credits primarily for businesses and 15 tax credits primarily for individuals have been established, including temporary and expired tax credits.

Although the reduction in State revenues from tax credits is generally incorporated in the State budget, many tax credits are not subject to an annual appropriation as is required for many other State programs. A few credits are subject to a budget appropriation, including the Biotechnology Investment and Sustainable Communities tax credits and State reimbursement for one-half of the local property tax revenue losses under the Enterprise Zone tax credit program. Several other tax credits, such as the research and development (R&D) credit, are subject to a statutory cap on the amount of credits that may be awarded each year. Some credits are also subject to sunset provisions while others are not.

Reporting information for State tax credits varies. Under certain tax credit programs, agencies are required to publish, on an annual basis, specified information about the credit. The Department of Budget and Management is required to prepare, every other year, a statement of the estimated amount by which exemptions from all types of State taxation reduce revenues.

Business tax credits may generally be classified as serving one of three purposes. First, there are a variety of industry-specific credits that are intended to benefit a particular type of industry or business or encourage growth of a particular economic field or activity. Second, job creation or employee benefit credits are generally intended to increase or promote employment in certain geographic areas or to promote certain employer personal practices. Lastly, the State has enacted a number of credits intended to create community or environmental benefits.

In response to concerns about the fiscal impact of tax credits on State finances, the Tax Credit Evaluation Act of 2012 established a legislative process for assessing certain tax credits. The Legislative Evaluation Committee established under this Act provides a valuable instrument for addressing many of the issues raised herein.

- **Finding 9: There are too many, too small, and often uncoordinated and ineffectual tax credit and incentive programs targeting economic development in the State.**

  After reviewing testimony from businesses, the targeted consumers of the State’s tax incentives and tax credits, as well as testimony from the State personnel who administer them, it seems clear that the State has too many uncoordinated tax incentive programs for economic development, business attraction, and business retention. With such a plethora of programs, it is difficult to market them effectively, to administer them efficiently, or even to differentiate one from another by potential applicants.

Funding limitations on many of these programs create unreasonable or unrealizable expectations among businesses that might wish to utilize them. Many programs include unduly burdensome application and administrative processes, creating a further disincentive to potential applicants. Further, while the State has not done an acceptable job of measuring return on investment from these programs, many clearly yield little return, certainly when measured by the number of jobs created. Some of these programs have been in effect for many years and have never been properly evaluated against their original purpose or in the context of the evolving need for each specific program.

Despite wide acknowledgement of such flaws, there has been reluctance to address the underlying issues, partly out of concern that the process of doing so will become unpredictable and potentially jeopardize the credits that exist today and thereby impact their current beneficiaries.

Recommendation 9: Rigorously evaluate tax incentive programs and make changes necessary to assure that these programs are effective.

There are several actions that the General Assembly and Executive Branch agencies could take to improve the effectiveness of the State's tax incentive programs. These include:

- Identify the core incentive programs, rigorously test their continued viability in the marketplace, and, if judged useful, amend them where appropriate. A rational and coherent outcome is needed, and piecemeal actions that could inadvertently weaken, rather than strengthen, Maryland's economic development toolkit should be avoided.

- Simplify existing statutes and regulations that have become overly complicated and can actually drive applicants away, sometimes to other states, which have more streamlined programs with clearer purposes.

- Adequately fund those programs that are rationalized and simplified.

- Make programs as transparent as possible, clearly identifying their purpose and defining the metrics that should be used to measure their success.

- Review where incentives are directed and recognize that a "one size fits all" approach does not work. For example, urban and suburban jurisdictions have different economies, goals, and needs.

- Assess the needs of the marketplace (and sub-marketplaces) and tailor incentive programs accordingly. Eliminate programs that reflect an outdated economy and replace them with programs that reflect today's economic realities and that reinforce Maryland's strengths and opportunities.

- Review best practices pursued by other states in their economic development programs and adopt them where appropriate.

Implementation of this recommendation is not expected to significantly impact State tax revenues.

- **Finding 10: Evidence that tax credits help businesses create or maintain jobs is mixed at best.**

While business tax credits have grown in popularity in the last 20 years, evidence that these tax credits influence economic development is highly mixed. Evidence that tax credits make a meaningful difference in creating or maintaining jobs is in many cases unconvincing. Nonetheless, certain credits, such as R&D tax credits, can be an important part of a state's competitive arsenal. (Virginia is considering increasing its R&D credit in 2016 and Pennsylvania's cap for its R&D credit exceeds $55 million. Maryland's cap is $9 million). While a number of significant tax credits are currently subject to sunset provisions, several other tax credits do not have such provisions.

Recommendation 10: Provide sunset provisions when approving business tax credits and amend the Tax Credit Evaluation Act to provide for periodic review of tax credits well before the related sunset provisions take effect.

Adding sunset provisions to credits currently without such provisions and providing for periodic review will allow the General Assembly to better evaluate the fiscal and policy impacts of the credits and whether they are meeting stated objectives. Again, the Tax Credit Evaluation Act of 2012 provides an appropriate mechanism for evaluating sunset provisions and can have a major impact in reviewing the efficacy of specific tax credits. Additional data will need to be collected and reported by the Comptroller and the agencies that certify credits.

The fiscal impacts of the sunset provisions and additional tax credit review cannot be reliably estimated at this time but are likely to be modest and could potentially free certain State revenues for other purposes.

- **Finding 11: A lack of meaningful data about tax credit claims makes it difficult to evaluate the true impact of tax credits.**

The Comptroller's Office advises that it has difficulty efficiently and routinely identifying and reporting the types of tax credits being claimed by companies. This prevents an accurate assessment of the total amount of tax credits claimed. Current tax provisions require a taxpayer to submit a claim for a tax credit by electronic means if the taxpayer claims (1) the job creation tax credit; (2) the One Maryland tax credit; (3) the biotechnology investment incentive tax credit; or (4) the Enterprise Zone income tax credit.

The Comptroller's Office may require, by regulation, any other tax credit claim to be submitted electronically if the office determines this requirement does not create a material adverse impact or undue administrative burden. In January 2014, the Comptroller's Office adopted regulations clarifying electronic filing requirements related to business tax credits; the regulations were designed to improve data collection for those credits. The Comptroller's Office notes that the cost of business tax credits, in the aggregate, can be determined with certainty only once the statute of limitations for that tax year has expired, thus introducing a substantive planning uncertainty for both the State and businesses.

Recommendation 11: Develop methods to better analyze and track claims for tax credits, particularly for tax credits that are filed electronically, and to report such information to the Governor and the General Assembly.

More meaningful and available tax credit data collected by both the Comptroller and the agencies administering business tax credits will help ensure that the Governor and the General Assembly can suitably evaluate the impacts of tax credits and ensure that the goals and objectives of those credits are being met.

The impact of this recommendation on State revenues cannot be determined at this time but is considered to be modest.

Tax Administration

The commission received testimony on two administrative issues related to tax collection that should be considered by the General Assembly and the Comptroller. These issues relate to (1) the interest rate assessed on tax deficiencies and refunds; and (2) the issuance of tax guidance to taxpayers.

- **Finding 12: The interest rate charged for tax deficiencies and refunds is both excessive and punitive and may inhibit legitimate payments and impact refund claims.**

With certain exceptions, current law requires the Comptroller to assess interest on any unpaid tax from the due date to the date on which the tax is paid if a person or business who is required to estimate and pay financial institution franchise tax, public service company franchise tax, or income tax under the Tax-General Article fails to pay an installment when due or estimates a tax that is less than 90% of the tax required to be shown on the return for the current taxable year; and less than 110% of the tax paid for the prior taxable year, reduced by certain credits allowed under the Tax-General Article.

Current law specifies that interest must generally be paid on a claim by a taxpayer for a refund from the forty-fifth day after the claim is filed to the date the refund is paid, if the claimant erroneously paid to the State a greater amount of tax, interest, or penalty than was properly or legally payable or paid to the State a tax, interest, or penalty that was erroneously, illegally, or wrongfully assessed or collected in any way. However, interest is not required to be paid on certain refund claims as specified in law.

By October 1 of each year, the Comptroller's Office must set the annual interest rate for tax refunds and monies owed to the State for the next calendar year at a rate equal to the greater of 13% or 3 percentage points above the average prime rate of interest in the previous fiscal year, based on information from the Federal Reserve Bank. Interest may not be assessed on a penalty. The Comptroller may waive interest on unpaid tax for reasonable cause. The current 13% interest rate applies to personal, withholding, corporate, fiduciary, estate, inheritance, and sales and use tax collections. Maryland's 13% rate is the second highest in the country.

Recommendation 12: Reduce to the prime rate, over a three-year period, the interest rate for tax deficiencies and refunds.

Reducing the interest rate will provide greater fairness to taxpayers. In order to allow policymakers to incorporate the associated revenue reductions into the State budget, it is proposed that the rate be gradually reduced over a three-year period: to 11.0% in the first year, 8.0% in the second year, then the prime rate (currently 3.25%) in the third year and each year thereafter.

Once fully phased in, this recommendation would reduce annual State revenues by approximately $60 million and reduce annual local revenues by approximately $20 million.

- **Finding 13: Businesses currently lack certain tax guidance needed to responsibly manage their affairs.**

The publication of tax guidance is generally considered a key feature of fair and efficient tax administration. Guidance in many states is provided through private letter rulings, which are written statements issued to a taxpayer that interpret and apply tax laws to the taxpayer's represented set of facts. This guidance generally may not be relied on as precedent by other taxpayers. The degree to which a private letter ruling is binding on the tax administrator that issues the guidance varies from state to state.

The Comptroller of Maryland currently issues declaratory rulings in response to petitions by taxpayers for formal guidance with respect to the applicability to a person, property or state, of facts pertaining to the laws or the regulations administered by the Comptroller.

Although the Comptroller's Office has published a number of Frequently Asked Questions for individual and business taxpayers on its website and offers "tax tips" for taxpayers, Maryland does not currently issue tax guidance through private letter rulings.

According to the Council on State Taxation (COST), 33 states issue taxpayer rulings. COST and the Maryland Chamber of Commerce testified to the commission that the issuance of private letter rulings is essential to fair tax administration. While recognizing limitations on the publication of tax guidance – *e.g.*, the redaction of certain information in order to protect taxpayer identities or the necessity to decline to issue or publish guidance in response to redundant rulings or inquiries concerning unambiguous statutes, COST encourages states to "provide a meaningful and reasonably complete library of letter rulings and administrative decisions, so that the broader taxpaying community may ascertain how the tax law has been applied and thus may be applied under similar facts."

Recommendation 13: Institute a private letter ruling process to provide tax guidance and adopt an appropriate administrative fee to be paid by the requesting taxpayer.

The Comptroller recently began researching the requirements for implementing a private letter ruling process similar to those processes offered by neighboring states. These private letter rulings could be relied on solely by the particular taxpayer concerned, based on the facts supplied, absent intervening statutory or regulatory change or revocation by the Comptroller. The Comptroller would retain the discretion to refrain from issuing a private letter ruling under certain circumstances. These circumstances include requests concerning issues under extensive study or review, alternative plans of proposed transactions or hypothetical situations, matters of law pending appellate review, and transactions that are designed to avoid taxation. Once implemented, the Comptroller would create a page on its website featuring redacted copies of determinations and written guidance that the Comptroller deems of interest to the general public. The Comptroller would determine and annually publish an administrative fee schedule that takes into account the costs associated with researching and issuing private letter rulings.

The impact of this recommendation on State revenues and expenditures is expected to be minimal.

Individual Income Tax Rate Structure

As discussed previously, the State levies various graduated income tax rates with a top marginal income tax rate of 5.75%. Further, each county and Baltimore City levies an additional local income tax of up to 3.2% on their residents.

- **Finding 14: Maryland's combined State and local individual income tax rates are among the highest combined rates in the country and are a significant deterrent to attracting talent and business to the State.**

  Maryland's top combined individual income tax rate of 8.95% is one of the highest marginal income tax rates in the country. Maryland relies more heavily on the State and local income tax than most other jurisdictions. While Maryland's State individual income tax burden is high relative to the national average, it is roughly consistent with peer states. When including local income tax revenues, however, the overall (State plus local) individual income tax burden in the State is the highest in the peer group and the third highest in the country, behind New York and Oregon. For context, about 3.5 cents of every dollar earned as personal income in Maryland is paid in State and local individual income taxes versus 2.1 cents nationally and 2.5 cents among peer group states. This high income tax burden contributes significantly to Maryland's well above average cost of living and cost of doing business.

  Recommendation 14: Review State and local individual income tax rates and brackets to determine reductions that will reduce tax burdens and implement such reductions as soon as the State's fiscal circumstances permit.

  Considering that Maryland's combined State and local tax burden is one of the highest in the country, it is important that the General Assembly promptly initiate a review of the current individual income tax structure and evaluate the impacts of potential changes. These changes could include a reduction in the top marginal rate or all rates, a reduction in the maximum local income tax rate, and/or altering personal exemption amounts. The commission recognizes that many of these changes could significantly reduce State and/or local revenues, so options for reducing individual income tax burdens should be implemented by the General Assembly after the other recommendations have been implemented, and the State's economy is reasonably sound going forward.

  Decreases in individual income taxes, while essential, are particularly impactful on State revenues. It has been estimated that a 1 percentage point reduction in each bracket of the individual income tax schedule would reduce revenues by an amount approaching $1.8 billion annually. Even with such a large revenue reduction, this would still leave Maryland slightly under the fiftieth percentile nationally (with the hundredth percentile representing the least tax burden) in terms of taxes as a fraction of gross state product. Significantly smaller and more affordable reductions, while perhaps symbolically meaningful, have correspondingly smaller impacts on taxpayer burdens.

Although it is tempting to propose moving ahead at this time to implement reductions under Recommendation 14, the combined effect of simultaneously implementing this and the other 13 recommendations, particularly under the constraints previously discussed (*e.g.*, no reductions in education, infrastructure, or public safety spending) other than through increased efficiencies) would be highly disruptive and perhaps even counterproductive. Nonetheless, the commission strongly endorses implementation of Recommendation 14 when the State's business community, and therefore, its economy and employment, have had time to fully recover from the recent economic downturn and to assimilate and benefit from the first 13 recommendations.

Revenue Impact of Recommendations

The estimated impact of each of the above recommendations on State and local revenue is summarized in **Exhibit 7.1**. It is proposed that the phase-in of recommendations be as shown in the exhibit, with the result that the first-year reduction in State revenues totals just over \$200 million and the ongoing annual reduction following the fifth year is approximately \$310 million, net of offsetting gains from enhanced economic competitiveness. Local revenues would decrease by approximately \$55 million in the first year and \$70 million by the fifth year. These are clearly challenging reductions, even though the commission has sought to be mindful of the potential impact of its recommendations on other State activities.

Nonetheless, taking a bottom-line perspective, the revenue reductions from implementing the first 13 recommendations represent less than 2% of the State's revenues, phased in over several years. The commission notes that large, mature, successful organizations tend to accumulate overhead expenses, and states would not seem to be immune to this rule, thereby offering the possibility of significant gains through efficiency increases, possibly identified by a "zero-based" assessment of activities.

Finally, the State may wish to consider establishing a practice wherein every fifth year an independent commission would be established to examine Maryland's economic status based on changes in key metrics and, where appropriate, propose actions to strengthen the State's overall policies affecting economic development.

Exhibit 7.1

Revenue Impact of Recommendations

($ in Millions)

		Year 1	Year 2	Year 3	Year 4	Year 5	5 year Total
Recommendation #1**	Provide pass-through entities individual income tax exemption,	-$75	-$75	-$75	-$75	-$75	-$375
	with an income limitation	-50	-50	-50	-50	-50	-250
Recommendation #2	Accelerate refundable earned income tax credit % phase-in	-15	-10	0	0	0	-25
Recommendation #3	Reduce corporate income tax rate to 7.0%, phased-in over three years	-50	-100	-175	-175	-175	-675
Recommendation #4	Single sales factor for all corporations under the corporate income tax	*	*	*	*	*	*
Recommendation #5	Maintain separate reporting and not enact combined reporting	*	*	*	*	*	*
Recommendation #6	Income tax repatriation holiday	*	*	*	*	*	*
Recommendation #7	Accelerate recoupling to the federal estate tax	-50	-50	-30	-10	0	-140
Recommendation #8	Provide funding for a modernized tax collection system	*	*	*	*	*	*

		Year 1	Year 2	Year 3	Year 4	Year 5	5 year Total
Recommendation #9	Review, condense and fully fund remaining tax incentive programs	*	*	*	*	*	*
Recommendation #10	Sunset and periodic review of certain business tax credits	*	*	*	*	*	*
Recommendation #11	Better tracking of tax credits by Comptroller and administrative agencies	*	*	*	*	*	*
Recommendation #12**	Reduce interest rate on refunds and tax deficiencies to prime rate	-15	-30	-60	-60	-60	-225
	phased-in over three years	-5	-10	-20	-20	-20	-75
Recommendation #13	Provide a private letter ruling process for tax guidance	*	*	*	*	*	*
Recommendation #14	Review of State and local individual income tax burdens	*	*	*	*	*	TBD
Total State		**-$205**	**-$265**	**-$340**	**-$320**	**-$310**	**-$1,440**
Total Local		**-$55**	**-$60**	**-$70**	**-$70**	**-$70**	**-$325**
Total State and Local		**-$260**	**-$325**	**-$410**	**-$390**	**-$380**	**-$1,765**
Reduction as % State Revenues		**-1.2%**	**-1.6%**	**-1.9%**	**-1.8%**	**-1.8%**	
Reduction as % Local Revenues		**-0.4%**	**-0.5%**	**-0.5%**	**-0.5%**	**-0.5%**	
Reduction as % State and Local Revenues		**-0.8%**	**-1.1%**	**-1.3%**	**-1.3%**	**-1.2%**	

*Fiscal impacts assumed to be minimal or cannot be determined at this time.
**Estimates are for State and local revenue.

Chapter 8. Concluding Observations

In executing its assignment, the commission considered a large number of potential tax revisions. Among those *not* specifically included in the recommendations provided in this report are three that nonetheless deserve special note. Two of these concern certain sources of tax revenues that likely will have to be considered eventually if taxes on other sources of revenue are not to become inordinately large. The third addresses a current source of tax revenues that will eventually have to be addressed if the State is to be truly competitive over the long term.

First, over the past 20 years the U.S. economy has continued to shift to a service-based economy. Various studies show that the service sector has grown from approximately 60% of the U.S. economy in the 1970's to well over 80% currently. If this trend continues, as seems likely, Maryland's revenue base will continue to diminish inasmuch as the State does not currently tax services under the sales tax, other than in 13 very special categories (often when the service in question could not readily be moved across the State's borders). Taxes on services, if broadly applied, tend to be particularly harmful to smaller firms.

Second, business is increasingly migrating from brick-and-mortar facilities to online transactions. The impact of such technological developments in robotics and additive manufacturing could further accelerate this trend. Under these circumstances, the State's sales tax base will undoubtedly be further eroded. While the resolution of this dilemma resides largely within the province of the federal government, the impact on the State could be profound.

Third, under Maryland law its counties are provided the option of imposing an individual income tax rate not to exceed 3.2% ("add-on," or "piggyback") to the State's tax rate. Maryland is one of only two states that broadly supports its counties in this fashion, and while the recommendations herein principally focus on actions that can be taken directly by the State, it will also be imperative for the counties to address their competitiveness, particularly with regard to individual income taxes. County taxes are an important part of the competitiveness of Maryland as a whole – just as Maryland must address its competitiveness in the context of the nation's competitiveness. Such an assessment will undoubtedly be extraordinarily difficult because, as noted, 57.0% of the county expenditures in Maryland are used to support schools, community colleges and libraries, with at least the former two considered to be extremely important contributors to strengthening the State's economy. Obviously, the political challenges of changing county tax burdens will not be trivial.

It is both useful and important to obtain a general sense of what would be Maryland's relative competitive position (with regard *only* to taxation) under the assumption that other states do not make changes to their tax policies currently in place and assuming that the 13 near-term recommendations are all implemented. Under these circumstances, by most comparative economic measures, especially one commonly used to compare states (total state tax burden as a fraction of gross state product), Maryland would rank modestly better than average among many of the regional states with which it most often competes (but still behind Virginia), and still rank somewhat below average on a national scale.

The magnitude of the task to be accomplished is evident.

Appendix 1
Maryland Economic Development and Business Climate Commission Charter

Study the State's economic development platform, including the existing structure and connectivity of the State's economic development entities, to evaluate:

- the structure of the State's economic development agencies, including interaction between the agencies and interaction/outreach with the private sector;
- the working relationships between State and local economic development agencies;
- the strengths and weaknesses of economic incentive and investment programs, including business retention and attraction programs and tax credit programs, as administered by the State;
- the State's regulatory structure and its impact on economic development;
- the working relationships between the State's higher education institutions, related incubators, accelerators, and State economic development agencies;
- effective approaches that the State could take through its agencies and programs to:
    - stimulate economic growth in sectors not related to the federal government;
    - sustain the viability of economically important, federally supported, private and public institutions and other entities regardless of the vicissitudes of federal policies; and
    - ensure fairness, simplicity, and transparency in the State tax structure to promote the regional competitiveness in order to encourage job growth and economic development; and
- the State's entrepreneurial network and the fiscal and human resource gaps that may prohibit small and midsize businesses from growing.

Thomas V. Mike Miller, Jr.
President of the Senate

Michael E. Busch
Speaker of the House

The Maryland General Assembly
State House
Annapolis, Maryland 21401-1991

John

Dear Mr. Augustine:

Thank you for meeting with us recently and also for your continued work on the Maryland Economic and Business Climate Commission. We truly appreciate the time and sacrifice that you and the other members have made in order to improve the business climate in our State.

When we announced the creation of the Commission last February, we truly hoped that we would get a robust look at the opportunities and challenges facing our State from industry leaders and private sector experts. The meetings that you have conducted across the State and the input you have solicited have exceeded our expectations.

Based on our meeting we concur that that the Commission's work would benefit from additional time and analysis with a specific focus on the State's tax structure. We believe a comprehensive review of Maryland's State and local business-related taxes and tax incentives will be an important component of your thorough report on the State's business climate.

If the Commission is prepared to make any recommendations which would be appropriate for review by the General Assembly in the upcoming Session, any interim recommendations would be welcome as well. We are happy to afford you and the Commission any resources and time needed in order to fully complete this more focused undertaking.

We understand that the goal would be to submit a full final report in September of 2015 and are comfortable with that time frame. Please accept our continued and heartfelt thanks to you and the other members of the Commission for donating your valuable time and expertise to the State of Maryland.

Sincerely,

Thomas V. Mike Miller, Jr.
Thomas V. Mike Miller

Michael E. Busch
Michael E. Busch

Cc: Members of the Commission
Warren Descheneaux

Maryland Economic Development and Business Climate Commission

2015 Work Plan

Phase II

Background and Objectives

Maryland continues to make strong strides in recovering from the Great Recession. Over the last 12 months, Marylanders have created over 37,900 jobs, with a vast majority of those jobs coming from the private sector.

As Maryland plans for the future, the State's overreliance on the federal government and federal jobs and contracts will continue to make our economy extremely vulnerable to decisions made by federal policymakers. In response, Maryland must diversify its economy and make the State one of the top places to build, maintain, and grow a business. The guiding principles of the commission remain that the State's economic development priorities should focus first on keeping and growing existing Maryland companies; second on fostering the creation of innovative startup companies; and third on attracting businesses from out of state.

With this in mind, the commission will examine and determine the effect of Maryland's tax structure on the State's business climate. This examination will include a review of the strengths and weaknesses of economic development incentives, particularly business tax credit incentives. The commission will develop tax-related policy recommendations that will enhance the strengths of the State's economy and improve the business climate, while also recognizing the importance of tax revenues for the effective operation of State programs. The commission will endeavor that its recommendations create a tax structure that is fiscally sound and economically effective while also meeting the tax policy principles of fairness, simplicity, and transparency.

The commission's Phase I recommendations recognized the link between the strength and significance of higher education institutions and the economic future of the State. The commission will also review the relationship between State support of higher education and the competiveness of tuition fees and costs, as well as the potential financial burden of student debt on both individuals and businesses in the State.

Appendix 2
Member Biographies (Phase II)

Mr. Norman R. Augustine, Chair

Mr. Augustine is retired Chairman and Chief Executive Officer (CEO) of the Lockheed Martin Corporation and former Chairman and CEO of the Martin Marietta Corporation. Previously, he served as Under Secretary of the Army and Acting Secretary of the Army. He later served on the faculty of Princeton University as a lecturer with the rank of Professor. He graduated *Magna Cum Laude* from Princeton University from which he holds both a bachelor's and master's degree in aeronautical engineering.

Mr. Augustine has been presented the National Medal of Technology by the President of the United States and received the Joint Chiefs of Staff Distinguished Public Service Award. Five times he has received the Department of Defense's highest civilian decoration, the Distinguished Service Medal. He is co-author of *The Defense Revolution* and *Shakespeare in Charge* and author of *Augustine's Laws* and *Augustine's Travels*. He chaired the congressionally chartered commission on U.S. Competitiveness that produced the "Gathering Storm" reports.

He has been a member of the Accounting Professions' Public Oversight Board and is a member of the Board of Advisors to the federal Public Company Accounting Oversight Board. He chaired the congressionally established Senior Management Review Board of the National Institutes of Health (NIH) and has been on the Boards of Black & Decker (now Stanley Black & Decker), Procter & Gamble, Lockheed Martin and ConocoPhillips, and was the founding chairman of In-Q-Tel. Mr. Augustine was Chairman and Principal Officer of the American Red Cross for nine years, Chairman of the National Academy of Engineering, President and Chairman of the Association of the U.S. Army, Chairman of the Aerospace Industries Association, President of the Boy Scouts of America, and Chairman of the Defense Science Board. He is a Trustee Emeritus of Johns Hopkins University (JHU), a former member of the Boards of Trustees of Princeton and the Massachusetts Institute of Technology (MIT), and a Regent of the University System of Maryland. He has been elected to membership in the American Philosophical Society, the National Academy of Sciences, the American Academy of Arts & Sciences, the Explorers Club, Tau Beta Pi, Phi Beta Kappa, and Sigma Xi. He holds 34 honorary degrees and was selected by Who's Who in America and the Library of Congress as one of "Fifty Great Americans" on the occasion of *Who's Who in America: Fiftieth Anniversary Edition*.

Delegate Wendell R. Beitzel

Delegate Beitzel was first elected to the Maryland House of Delegates in 2006 and is currently serving his third term. He is a member of the Appropriations Committee and the Transportation and the Environment and Capital Budget Subcommittees, the Co-chairman of the Maryland Legislative Sportsmen Caucus, a representative of the Maryland House of Delegates on the Maryland Tourism Development Board, a member of the Maryland Veterans Caucus, and a member of the Rural Maryland Caucus. Delegate Beitzel served a four-year term as County Commissioner for Garrett County, Maryland, and was the Garrett County commissioner representative on the Maryland Association of Counties (MACo) legislative committee. He also served on the Board of Directors for MACo. He has over 30 years of administrative experience in both the public and private sectors. He is the former Director of Infrastructure for the Wisp Ski and Golf Resort, a past administrator of the Garrett County Department of Public Utilities (formerly the Garrett County Sanitary District) for 18 years, worked for 10 years in the environmental health field responsible for enforcement and administration of environmental health regulations, and worked at NIH as a microbiologist. In his parallel career in the private sector, he owned and operated lodging and food service businesses for more than 30 years. He is a former bank director; was elected or appointed to serve on numerous boards, commissions, and organizations; and owns an active farming operation.

Delegate Beitzel participated on Governor Robert L. Ehrlich's transition team in 2002, is Maryland's representative for the National Assembly of Sportsmen's Caucuses, and was recently elected by the National Assembly of Sportsmen's Caucuses to the Executive Council. He earned a Bachelor of Science (B.S.) degree from Fairmont State College in Fairmont, West Virginia and a Master of Science (M.S.) in both Management and Business Administration from Frostburg State University. Delegate Beitzel was born and lives near Accident, Maryland. He and his wife, Ruth, have two children and three grandchildren.

Mr. John L. Bohanan, Jr.

Mr. Bohanan is a senior consultant with Cornerstone Government Affairs. He was a member of the Maryland House of Delegates serving District 29B in St. Mary's County from 1999 to 2015. He served on the Appropriations Committee where he was Chairman of the Education and Economic Development Subcommittee and a member of the Capital Budget Subcommittee. He also served as the Chairman of the Spending Affordability Committee (SAC). Mr. Bohanan also previously served as a senior advisor to Congressman Steny Hoyer.

Mr. Bohanan has served as a board member of several important local organizations, including the Lexington Park Rescue Squad, the St. Mary's County Historical Society, Historic Sotterley, Inc., the Judith P. Hoyer Blue Ribbon Commission on the Financing of Early Child Care and Education, the Tri-County Council for Southern Maryland, and the St. Mary's County Juvenile Drug Court Team. Mr. Bohanan was born in Leonardtown and grew up in Lexington Park. He attended Little Flower School in Great Mills and graduated from Towson University with a degree in Finance. He currently lives in California, Maryland, with his wife, Mary, and their four sons.

Mr. Peter Armistead Bowe

Mr. Bowe is President and CEO of Ellicott Dredge Enterprises, LLC, a holding company he formed in 2003 to merge Ellicott Dredges, LLC of Baltimore, and Liquid Waste Technology, LLC of Wisconsin and, more recently, Rohr-IDRECO in Germany and the Netherlands. In his more than 30 years at Ellicott, he has held the positions of President, Treasurer, Vice President, general manager, and member of the Board of Directors. During that period, he has led Ellicott's expansion into multiple export markets via acquisition and organic growth. Prior to his work at Ellicott, Mr. Bowe worked on Wall Street at J.P. Morgan in the Petroleum Department.

Among the awards and recognition that Mr. Bowe and Ellicott have received are SmartCEO Magazine naming Bowe the 2014 "Baltimore SmartCEO of the Year"; Ernst & Young selected Bowe as 2009 "Entrepreneur of the Year" for Maryland in manufacturing; and the Western Dredging Association named him "Dredger of the Year" for 2009. Ellicott's purchase of the assets of Rohr Corporation for mining dredges won the Association for Corporate Growth "Deal of the Year" award. In 2011, *Business Week* recognized Ellicott as one of the 100 fastest growing U.S. inner city-based companies for the fourth straight year. The federal Overseas Private Investment Corporation awarded Ellicott its inaugural Small Business "Impact Award" for work in Iraq. Vice President Albert A. Gore, Jr. appointed Mr. Bowe to the United States-Egypt Presidents' Council in 1995, and Commerce Secretary William M. Daley reappointed him in 1997.

Mr. Bowe is a board member of the World Trade Center Institute, the National Urban Debate League, a member of the World Presidents' Organization and Chief Executive' Organization, and past President of the Harvard Business School Club of Maryland. He has served as Director for IHC Holland, Bank Maryland Corporation, and Maryland-Business Center China. He is a former Director of Collections Marketing Center, a SaaS company for web-based debt collections. He is past Chairman of the Small Business Exporters' Association. He and his wife founded the Bowe-Stewart Foundation to support organizations helping underprivileged citizens realize employment opportunities in Baltimore and Chicago.

Mr. Bowe received his Bachelor of Arts (B.A.), *Magna Cum Laude*, from Yale College and his Master of Business Administration with distinction from Harvard University. He has published op-ed pieces in the *Wall Street Journal, The Baltimore Sun*, and elsewhere, primarily on international trade issues, and testified to Congress more than 10 times on similar issues. In 2009, Mr. Bowe orchestrated the sale of Ellicott to Markel Corporation, which has a philosophical commitment to keeping Ellicott based in Baltimore.

Secretary David R. Brinkley

Secretary Brinkley is Maryland's Secretary of Budget and Management. Previously, he served for 9 years in the House of Delegates and for 12 years in the Maryland Senate, 4 years of which he was elected as the Minority Leader. During his time in the Senate, he was a member of both the Finance Committee and the Budget and Taxation Committee. Secretary Brinkley is an accomplished estate and financial planner, having spent 25 years with Advisors Financial Group. He donated his time to serve on the Board of Advisors for the University of Maryland Marlene and Stewart Greenbaum Cancer Center as well as the Frederick Memorial Hospital Development Council. He is a past President and charter member of the Estate Planning Council of Frederick County, Maryland and also belongs to the Life Underwriters Association of Frederick County and the Society of Financial Service Professionals. Secretary Brinkley earned his B.A. from the University of Maryland, College Park and his Chartered Life Underwriter and Chartered Financial Consultant designations from The American College. He was born in Frederick, Maryland.

Mr. Leo Bruette

With over 30 years of experience, Mr. Bruette is a Certified Public Accountant and Tax Senior Director for BDO USA, LLP, in Bethesda, Maryland, located now in McLean, Virginia. Mr. Bruette has worked with various clients including corporations, pass-through entities, and trusts and has provided business and individual income and estate tax planning, sales and use tax consulting, and personal property tax planning.

Mr. Bruette is a member of the American Institute of Certified Public Accountants and serves on the State Tax Committee for the Maryland Association of Certified Public Accountants. He earned a B.A. in History from the University of Maryland, College Park; a certificate in Accounting from the University of Baltimore; and a Master's of Science (M.S.) in Taxation from the University of Baltimore.

Mr. Calvin G. Butler, Jr.

Mr. Butler became CEO of Baltimore Gas and Electric Company (BGE) on March 1, 2014. He previously served as BGE's Senior Vice President, Regulatory and External Affairs. In that role, he was responsible for executing the company's strategic direction and cultivating relationships with government, regulatory, community, and other key stakeholders. Mr. Butler also served as Exelon's Senior Vice President of Corporate Affairs and held other leadership positions within Exelon and BGE's sister company, ComEd (Chicago). He played a critical role in helping to successfully navigate company and stakeholder relations during the merger between Exelon and Constellation Energy.

Before joining Exelon in 2008, Mr. Butler held leadership positions with RR Donnelley, including Vice President of Manufacturing, Senior Director of Government Affairs, and Senior Vice President of External Affairs. He also managed RR Donnelley's supplier diversity and government sales groups and served as President of their nonprofit foundation. He was responsible for negotiating incentive packages with state officials on behalf of RR Donnelley in its expansion efforts for its manufacturing divisions across the country.

Mr. Butler has received many awards from business and community organizations. He is currently on the Board of Trustees for the Baltimore Community Foundation, the Board of Directors for the University of Maryland Medical Center, the Maryland Zoological Society (Baltimore), the Enoch Pratt Free Library, the Cal Ripken, Sr. Foundation, and the Board of Trustees for his *alma mater*, Bradley University. In 2014, Mr. Butler served as the chair of the American Heart Association's Greater Baltimore Heart Walk. He earned a bachelor's degree from Bradley University in Peoria, Illinois and a juris doctor (JD) degree from Washington University School of Law in St. Louis, Missouri.

Mr. Douglas Doerfler

Mr. Doerfler has more than 30 years of experience in the discovery, development, and international financing and commercialization of biotechnology products and companies. He was the founding President and CEO of MaxCyte in June 1999.

Prior to joining MaxCyte, Mr. Doerfler held senior corporate development and operating responsibilities for PFRM, Inc., a privately owned biotechnology holding company. He was President, CEO, and a Director of Immunicon Corporation, a cell-based therapy and diagnostics company. He also held various executive positions with Life Technologies that included leading global businesses, mergers, and acquisitions and its initial public offering.

Mr. Doerfler plays an active role as an advocate for the life sciences industry. He is Chairman of the Tech Council of Maryland, serves on the Executive Committee of the Alliance for Regenerative Medicine and the Biotechnology Industry Organization (BIO), and Co-chairs BIO's Capital Formation Committee.

Mr. Doerfler received his B.S. in Finance from the University of Baltimore School of Business and holds a certificate in Industrial Relations (Collective Bargaining).

Mr. Len Foxwell

Mr. Foxwell is Chief of Staff to Comptroller Peter V. R. Franchot and formerly served as Deputy State Comptroller. Mr. Foxwell served as Director of Washington-Area Transit Programs for the Maryland Department of Transportation, overseeing the Metrorail and Metrobus systems and local transit systems in Montgomery and Prince George's counties. He also worked as Director of Government Relations for the Greater Washington Board of Trade, serving as chief lobbyist before the Governor and General Assembly, as well as before the Mayor and Council of the District of Columbia.

Delegate C. William Frick

Delegate Frick is a Democratic Delegate from Montgomery County and formerly served as Chair of the Revenues Subcommittee in the House Ways and Means Committee. Delegate Frick currently chairs the Insurance Subcommittee in the House Economic Matters Committee and also serves as the House Parliamentarian. Delegate Frick is an attorney at Akin Gump in Washington, DC representing clients in conducting internal and industry investigations and has assisted clients in responding to investigations by the Federal Trade Commission, the U.S. Department of Justice, and State Attorneys General.

Mr. Brian J. Gibbons

As Chairman and CEO of Greenberg Gibbons, Mr. Gibbons is the visionary behind many of the most successful retail destinations in the Mid-Atlantic region. His company has created award-winning mixed-use and revitalization projects with a value in excess of $1.2 billion. Major highlights of his career include innovative redevelopments such as the Hunt Valley Towne Centre, the Annapolis Towne Centre, the Towne Centre Laurel, and Foundry Row at Owings Mills; the ground up development of The Village at Waugh Chapel, Waugh Chapel Towne Centre, and Turf Valley Towne Square; and current plans to update The Shops at Kenilworth in Towson. Greenberg Gibbons creates places where people love to work, shop, live, and play, and these developments become valuable community assets.

Prior to joining Greenberg Gibbons, Mr. Gibbons was a partner and member of the Management Committee of Fedder and Garten, P.A., a Baltimore-based law firm. He serves on the boards of Sinai Hospital, Hospice of the Chesapeake, and the University of Maryland at Baltimore. In 2013, Mr. Gibbons received the Distinguished Citizen Award from the Boy Scouts of America's Baltimore Chapter for exemplifying strong community leadership and personal integrity. He holds a B.A. and a JD from the University of Maryland.

Mr. Joshua C. Greene

Mr. Greene helped co-found the Southeast Region of 501c3 Cleantech Open, which runs the world's largest accelerator program for clean-tech startup companies, and currently serves as Chairman of its Regional Advisory Board. By day, he is a partner at the international law firm of Squire Patton Boggs LLP where he serves as Chair of the firm's Energy, Environment, and Natural Resources Policy Practice. Mr. Greene's practice focuses on energy and environmental regulation, compliance, and project finance with a particular concentration on renewable and alternative energy development, energy efficiency, technology diligence, project funding, and economic development.

In addition to his energy and environmental regulatory practice, he has been actively engaged in counseling clients regarding financial services regulation, including environmental and energy commodities in the United States and abroad. Outside of his work with Cleantech Open and his law firm, Mr. Greene is very active in his community and currently serves on the Board of Directors of the Maryland Clean Energy Center and Chair of the School Board Nominating Commission of Anne Arundel County. His past appointments and service include service on the Board of Directors of the Maryland African-American Museum Board; Vice Chairman of the Anne Arundel County Charter Revision Commission; a member of the Maryland General Assembly Compensation Commission; as well as service on the Board of Directors of the Anne Arundel County Court Appointed Special Advocates, Inc. Mr. Greene's experience also includes owning two businesses in Maryland as well as working for U.S. Congressman Eliot L. Engel and Congressman Jerrold L. Nadler of New York. When he's not "working," he enjoys spending time with his three children, Jacob, Sophia, and Jonathan, and his wife and best friend of 24 years, Monya Phillip.

Senator Stephen S. Hershey, Jr.

Senator Hershey has been a Republican member of the Senate since 2013, serving as a member of the Senate Judicial Proceedings Committee and as Minority Whip. Senator Hershey was also previously a member of the House of Delegates. Senator Hershey has been Vice President of Trammell Crow Company, Assistant Secretary of the State Department of Planning and the State Department of Natural Resources under Governor Ehrlich, and is currently a Vice President at James Lang LaSalle.

Mr. Glen Ives

Mr. Ives is a resident of St. Mary's County and is the Chief Operating Officer of Sabre Systems, Inc., a professional services company providing innovative technology, scientific, and management solutions to government and commercial clients. A graduate of the United States Naval Academy and United States Army War College, he served as a Naval officer and Navy pilot deployed throughout the world and across the United States.

His last assignment was in Southern Maryland as Commanding Officer of the Naval Air Station Patuxent River, the nation's premier research, development, test, and evaluation center of excellence for naval aviation, representing a $40 billion enterprise of over 22,000 engineering, technology, and business professionals.

Mr. Ives recently helped lead Maryland's efforts to become a Federal Aviation Administration-designated Unmanned Aircraft Systems (UAS) Test Site for UAS integration into the National Airspace, helping to coordinate a partnership with the states of Maryland, New Jersey, Virginia, and their respective universities. His leadership and efforts also helped to bring the University System of Maryland to the Southern Maryland region with an anticipated $80 million Academic and Research, Development, and Technology Innovation and Commercialization complex at the Southern Maryland Higher Education Center. This new multi-million dollar center will fuel technology innovation, transfer, and commercialization and new startups. It will also significantly strengthen community workforce education and training opportunities, and help to grow better paying quality jobs and diversify the region's economy and industry base.

He served as past Honorary Chairman of the United Way, Christmas in April, and Special Olympics. He is a Rotarian, a graduate of Leadership Maryland, and serves on the Board of the Southern Maryland Navy Alliance, College of Southern Maryland Foundation, St. Mary's County Chamber of Commerce, The Patuxent Partnership, Juvenile Drug Court, and Annmarie Garden. Mr. Ives is also a member of the Board of Trustees of St. Mary's College of Maryland and the Board of Governors for the Southern Maryland Higher Education Center. He served on the Metropolitan Commission Task Force, Workforce Investment Board, chaired the Catholic Schools Task Force, and most recently co-chaired the River Concert Series Task Force.

Senator Edward J. Kasemeyer

Senator Edward J. Kasemeyer serves as Chairman of the Budget and Taxation Committee. Senator Kasemeyer is also a member of the Legislative Policy Committee, the Executive Nominations Committee, the Rules Committee, the Joint Committee on Pensions, and SAC. An active participant in community affairs, he is a member of the University of Maryland Medical System Board and the Board of the Howard County Conservancy.

Senator Kasemeyer, a Howard County resident for more than 50 years, attended Maryland public schools and graduated from Western Maryland College (now known as McDaniel College). Before entering the political arena, Senator Kasemeyer enjoyed a successful career in real estate and land development. He is a former President of the Howard County Chamber of Commerce.

Having had the opportunity to work in both the private and public sectors, and the benefit of being a member of the Senate's Budget and Taxation Committee under multiple administrations, Senator Kasemeyer brings a unique perspective to the Maryland Economic Development Commission. He understands the need for a regulatory framework while grasping the importance of systems that facilitate rather than impede business growth.

Mr. Jon M. Laria

Mr. Laria is the managing partner of the Baltimore office of Ballard Spahr LLP, a national law firm. He represents owners, developers, and lenders in all types of commercial real estate transactions, including development, finance, acquisition, and leasing. He also has an active land use and zoning practice and has provided counsel for some of Baltimore's most prominent development projects. Before joining Ballard Spahr, Mr. Laria was employed by a major Maryland developer, where he engaged in all aspects of commercial real estate transactions.

Since 2010, Mr. Laria has chaired the Maryland Sustainable Growth Commission. Created by statute, the commission is charged with advising the Governor and General Assembly on State, regional, and local planning efforts and Maryland's progress toward its economic growth, resource protection, and planning goals. The commission recently published a report, *Reinvest Maryland*, which recommends enhanced investment in existing communities throughout the State.

Mr. Laria is a co-founder of the Baltimore Development Workgroup, an affinity group of real estate professionals in Baltimore dedicated to improving the business climate for real estate investment and development in the city. He also serves on Baltimore City's Tax Policy Review Group, appointed by Mayor Stephanie C. Rawlings-Blake, and served a prior administration as a member of the mayoral Blue Ribbon Committee on Taxes and Fees. He also served as a participant in the mayor's outcome-based city budgeting process.

Mr. Laria is a Director of the Greater Baltimore Committee (GBC), a pre-eminent regional business organization, where he serves on the GBC's Competitive Tax Restructuring and Spending Accountability Commission, a panel of experts examining ways to make Maryland's tax structure more competitive. Mr. Laria is an officer or member of many other civic boards and organizations, including the Urban Land Institute's Baltimore District Council and Healthy Neighborhoods, Inc.

Dr. Victor R. McCrary, Jr.

Dr. McCrary is the Vice President for the Division of Research and Economic Development at Morgan State University (MSU), Baltimore, Maryland. In his position, Dr. McCrary is responsible for developing a comprehensive research strategy for the university, which includes fostering cross-disciplinary research, expanding the current base of research programs via external partnerships, increasing the university's intellectual property portfolio, and translating the university's research portfolio to position MSU as a catalyst for economic growth and vitality for Northeast Baltimore and the State of Maryland. Dr. McCrary's ultimate goal is to create an innovation ecosystem at MSU and its neighboring communities, and he firmly believes that research activities and student research internships are key pathways toward this goal. This also includes leveraging the role of technology and innovation for increasing the wellness and betterment of the community. Dr. McCrary's accomplishments to date include a $500,000 science technology engineering and math student internship program between JHU and MSU and his efforts, which led an MSU faculty team to be awarded a $23.3 million grant from NIH. Dr. McCrary brings his experience and public service to the current commission, as a former member and chair of the Howard County Neo-Tech Incubator Advisory Board; a former member of the board for the John Rouse Entrepreneurial Fund for small business; and he has participated and organized a number of panels for the American Chemical Society on minority technical entrepreneurship.

Dr. McCrary holds a bachelor's degree in Chemistry from The Catholic University of America, a doctoral degree from Howard University in Physical Chemistry, and an Executive Masters of Science and Engineering from the University of Pennsylvania. Dr. McCrary has authored or co-authored over 60 technical papers and co-edited two books. He was an adjunct lecturer on technical executive leadership in the Executive Masters of Technology Management Program at the University of Pennsylvania from 1995 to 2013. Also, Dr. McCrary is a Fellow of the American Chemical Society.

Dr. Darryll J. Pines

Dr. Darryll J. Pines is Dean of the Clark School of Engineering at the University of Maryland and the Farvardin Professor of Aerospace Engineering. Prior to becoming Dean of the Clark School of Engineering, Dr. Pines served as Chair of the Department of Aerospace Engineering from 2006 through 2009 and as a professor and assistant professor in the Clark School of Engineering from 1995 through 2003. From 2003 through 2006, he also served as program manager of the Tactical Technology Office and Defense Sciences Office for the Defense Advanced Research Projects Agency. Dr. Pines has been Director on the Board of Engility Holdings, Inc., since 2012. He is also a member of the Board of Directors for Aurora Flight Sciences based in Manassas, Virginia, which he joined in 2014. Dr. Pines also served on the State of Maryland's Federal Facilities Advisory Board created by Governor Martin J. O'Malley to leverage Maryland's unique relationship with the federal government. Dr. Pines received a B.S. in Mechanical Engineering from the University of California at Berkeley and a M.S. and a Doctor of Philosophy in Mechanical Engineering from MIT.

Dr. DeRionne P. Pollard

Since her installation as the President of Montgomery College in 2010, Dr. Pollard has made economic development a pillar of her strategic vision, as outlined in the *Montgomery College 2020* strategic plan. Under her leadership, the college was awarded a $15 million Trade Adjustment Assistance Community College and Career Training grant by the Department of Labor Employment and Training Administration in 2014. Montgomery College leads 14 community colleges in Maryland in funding job-driven training programs aimed at Maryland industries with workforce needs in cybersecurity, information technology, and scientific and technical industries, among others.

Dr. Pollard is passionately committed to closing the skills gap and increasing the competitiveness of Maryland's workforce. Her investment in Montgomery College's Workforce Development and Continuing Education unit has led to innovations such as "Career Coach" – a portal that helps students to quickly assess the career fields with the most openings in Montgomery County, view the certificates or training necessary to enter them, and see specific wages offered. By making student retention and graduation a high priority, Dr. Pollard's work also furthers the Maryland Competitiveness Coalition's goal of a more highly trained workforce in targeted sectors.

Dr. Pollard serves on boards of the Montgomery College Business Development Corporation, the Montgomery County Chamber of Commerce, the Universities of Shady Grove, and the Tech Council of Maryland. She was named as a White House Champion of Change for her efforts to expand reentry employment opportunities for incarcerated people in Maryland. In 2013, she received the *Washington Business Journal*'s Minority Business Leader Award and was named Outstanding Leader for 2013 by Leadership Montgomery.

Senator Catherine E. Pugh

Senator Pugh is the Majority Leader of the Maryland State Senate. She serves on the Finance Committee and is Chair of the Subcommittee on Health. She has passed over 100 pieces of legislation focusing on economic diversity, education, health, technology, and broadband, including SB 606 that required the State of Maryland to diversify its $40.0 billion Pension Portfolio, resulting in an increase of African American and other minority managed dollars from $300 million to $4.7 billion.

Senator Pugh serves on numerous boards, including the 13-hospital system where her leadership has led to over 20% of their commodity and construction contracts being awarded to minority firms and over 20% of their investment portfolio being managed by African Americans and other minorities.

Senator Pugh holds an Master of Business Administration (MBA) from MSU and has received qualification from the University of California as an Economic Development Specialist. She is the author of the *Healthy Holly* series and *Mind Garden Where Thoughts Grow*. Senator Pugh is the founder of the Baltimore Marathon, which is entering its fifteenth year and has an annual economic impact of over $30 million in Baltimore. Senator Pugh is also the founder of the Baltimore Design School, a transformation school serving 6-12 graders.

She holds numerous awards including the Iota Phi Theta Humanitarian Award, the Greater Baltimore Committee Bridging the Gap Award, the National Association of Securities Professionals Joyce Johnson Award, the Mental Health Association and the National Association for the Advancement of Colored People (NAACP) Legislator of the Year Awards, the United States Small Business Administration Minority Business Advocate of the Year Award, and the NAACP Benjamin L. Hooks Keeper of the Flame Award.

Mr. Kenneth E. Rigmaiden

Mr. Rigmaiden began his career with the International Union of Painters and Allied Trades (IUPAT) in 1977 upon graduating from San Jose State. He went on to serve as an executive board member, a trustee, the Vice President, and eventually President of Local Union 1288, as well as an instructor for floor covering installation in Local 1288's apprenticeship training program. Elected as Local 1288's business representative in 1986, he focused his career on labor relations.

One of his noted accomplishments was the amalgamation of several local unions in his region to form Local Union 12. Mr. Rigmaiden was elected business manager for the new Local Union 12 in 1993.

He was selected to serve as a general representative in 1996 and in 1997, he was selected to serve as an assistant to the general president, with specific duties in national agreements and jurisdiction maintenance. He also served as the national project coordinator for the IUPAT Job Corps Program. Mr. Rigmaiden was elevated to the position of Executive General Vice President for the IUPAT in 2002. As the Executive General Vice President, he was the general administrator of the International's affairs. In March 2013, Mr. Rigmaiden was unanimously appointed General President by the General Executive Board, effective April 1, 2013. He was elected to the position at the 2014 IUPAT General Convention.

Mr. Rigmaiden serves as a Co-chair of the Finishing Trades Institute, the IUPAT's innovative and exciting job training program. He believes that in order for registered apprenticeship programs to remain relevant, they must be proactive in meeting the training needs of the industries within which they work. He also serves as Co-chair of the Labor Management Cooperation Initiative and the IUPAT Industry Pension Fund. Mr. Rigmaiden is a member of the AFL-CIO's Executive Council, a trustee of the AFL-CIO Housing Investment Trust, and a member of the Board of Directors of Ullico, Inc., as well as belonging to several AFL-CIO constituency and allied groups.

Ms. Mary Ann Scully

Ms. Scully is the President and CEO of Howard Bank and chairs the bank's Board of Directors. She is a lifelong banker with over 30 years of varied executive experiences in the Maryland marketplace. In 2003, she headed the organizing team for Howard Bank, the first new bank to open in the county in 15 years. Howard Bank serves small- and medium-sized businesses in Greater Baltimore, Anne Arundel, Baltimore, Cecil, Harford, and Howard counties, from its birthplace in Ellicott City and 16 branch offices. The bank also serves home buyers through mortgage offices in Baltimore City, Anne Arundel, Harford, and Howard counties. Ms. Scully has successfully led the company through six equity raises and Securities and Exchange Commission Act 34 registration, as well as four business combinations.

Ms. Scully has been a Howard County resident since 1995. She is past Chair of the Maryland Bankers Association and past Chair of the Community Foundation of Howard County. Ms. Scully is presently a trustee and Vice President of the Board of Associated Catholic Charities, a trustee and corporate campaign Co-chair of Kennedy Krieger Institute, a board member of the Baltimore Federal Reserve, and a community advisory board member for the Federal Deposit Insurance Corporation. She has served as a member of the Maryland Economic Development and Business Climate Commission. Ms. Scully is an active member of St. Louis Parish in Clarksville, Maryland. She is a 2007 graduate of Leadership Maryland.

In 2007, Ms. Scully was recognized as an honoree in the Howard County Women's Hall of Fame; she was named Entrepreneur of the Year by the Howard County Chamber of Commerce. She received the Howard County "Good Scout" award from the Baltimore Area Council of the Boy Scouts of America in 2011. In 2002, 2005, and 2007, Ms. Scully was recognized as one of Maryland's Top 100 Women by *The Daily Record*, was a 2008 and 2012 *Daily Record* Influential Marylander, a 2012 and 2015 Most Admired CEO, and was a winner of a 2012 Trailblazer Award presented by the Baltimore Center Club. She is a Loyola University alumni laureate and a Seton Hill University Distinguished Alumna.

Mr. J. Robert Smith, Jr.

Mr. Smith is the Vice President and general manager of Allegany Aggregates Inc., and Allegany Concrete in Cumberland, Maryland. He graduated from Fort Hill High School and attended Allegany College of Maryland. Mr. Smith is a member and past President of the Allegany County Chamber of Commerce, Co-chairman of The Mountain Maryland Pace Reception, and a founding member of The Greater Cumberland Committee. In addition, he serves on the Executive Board of the Potomac Council of Boy Scouts of America, the Board of Directors of the Allegany College of Maryland Foundation, the Board of Directors of the Tri-County Council of Western Maryland, and the Board of Directors for Canal Place Preservation and Development Authority, and is past President of both the Greater Allegany County Business Foundation and the Rotary Club of LaVale, Maryland.

Mr. Edward J. Stoltz

Mr. Stoltz is the retired Vice President of Tax for Constellation Energy Group. While at Constellation, Mr. Stoltz was responsible for all federal and state tax planning and compliance matters for the company and its subsidiaries, including BGE. Mr. Stoltz also provided testimony to the Maryland Senate Budget and Taxation Committee and the House Ways and Means Committee on numerous tax bills. Most notably, he worked closely with the Maryland General Assembly and Department of Legislative Services on the Electric and Gas Utility Tax Reform Act of 1999. Prior to joining BGE in 1983, Mr. Stoltz was a tax principal for the international accounting firm of Arthur Young & Company (now Ernst & Young).

Delegate Jay Walker

Delegate Walker is a delegate from Prince George's County and is Chair of the Revenues Subcommittee in the House Ways and Means Committee and Vice-chair of the House Rules and Executive Nominations Committee. Delegate Walker had a distinguished sports career in the baseball minor leagues, and later in football at Howard University, and for several seasons as a quarterback in the National Football League. Delegate Walker is currently the President of Walker Financial Services in Oxon Hill, Maryland.

Ms. Christy Wyskiel

Ms. Wyskiel is senior advisor to the President of JHU on matters of innovation, commercialization, and entrepreneurship. She is a seasoned entrepreneur and investor with 20 years of experience primarily focused on the life sciences and healthcare industries. Prior to her career as an entrepreneur, Ms. Wyskiel was a managing director at Maverick Capital, a long-short equity hedge fund with over $12 billion under management, where she had a long track record of successful healthcare investing in both public and private companies. Prior to that, she was a healthcare and medical technology stock analyst at T. Rowe Price. Ms. Wyskiel co-founded two Baltimore based startups and has served as a formal and informal advisor to many others. At JHU, she has responsibility for efforts related to technology transfer, commercial relations, the Social Innovation Lab, the DreamIt HCIT accelerator, and other entrepreneurial efforts, including over 70 active startups.

Ms. Wyskiel graduated from Williams College (B.A., Economics and German) and the Stern School of Business at New York University (MBA, Accounting and Finance). She is currently on the board of Teach for America-Baltimore and co-chairs Baltimore's Next Generation Investing Event, an event she co-founded, which has raised over $450,000 for three K-8 education initiatives in Baltimore City. In 2014, she was added to the Board of Trustees of the Abell Foundation and the Baltimore Development Corporation. From 2012 to 2014, she served on the board of the Maryland State Retirement Plan, which oversees $3 billion in defined contribution assets of State employees.

Appendix 3
Summary of Commission Meetings

From April 2014 through December 2015, the commission and its workgroups were presented with information on a variety of topics related to economic development and the business climate. The following provides a summary of each meeting.

April 30, 2014 – Annapolis

The inaugural meeting of the commission began with an introduction to the charge of the commission by the President of the Senate, Thomas V. Mike Miller, Jr. and the Speaker of the House, Michael E. Busch. The chairman then discussed the work plan of the commission with the members. Next, the commission heard a presentation on the organization of State economic development efforts from Dominic Murray, the Secretary of the Department of Business and Economic Development; Robert Brennan, the Executive Director of the Maryland Economic Development Corporation; and John Wasilisin, the Chief Operating Officer of the Maryland Technology Development Corporation. Additionally, the commission was presented with testimony from local economic development officials, including Larry Twele and Michael Lofton from the Maryland Economic Development Association. This was followed by a presentation on Maryland's competitive strengths and weakness from Dr. Philip Phan from the Johns Hopkins Carey Business School. The meeting concluded with a group discussion from the commission's members and workgroup meetings to discuss each workgroup's work plans.

May 27, 2014 – Hagerstown

The Department of Legislative Services began the meeting with a presentation on the structure of State economic development activities. Second, the commission heard from a panel of local businesses which provided their perspectives on the business climate in the State. The remainder of the meeting focused on the State's federal installations and their impact on the State's economy. Much of the discussion related to federal research and the potential for commercialization. Specifically, the commission heard from Dr. Paul Mele, Director of Research and Technology Applications for the U.S. Army Medical; Dr. Courtney Silverthorn, Senior Interagency Policy Specialist for the National Institute of Standards and Technology; Paul Zielinski, Chair of the National Federal Laboratory Consortium; and Todd Pelham, a recipient of the federal Small Business Innovation Research Grant. The meeting concluded with a group discussion from the commission's members and workgroup meetings.

June 30, 2014 – Germantown

The Department of Legislative Services began the meeting with a presentation on the State's tax structure and a presentation on the State's regulatory process. Additionally, a panel from the Maryland Chamber of Commerce provided testimony on its Competitiveness Coalition. Additionally, the commission heard from Kevin F. Kelly, Chairman of the Federal Facilities

Advisory Board. Further, the commission heard from a panel of local businesses which provided their perspectives on the business climate in the State. The meeting concluded with a group discussion from the commission's members and workgroup meetings.

July 29, 2014 – Baltimore

The meeting was held at Morgan State University and began with a welcome from the President of the university, David Wilson. The bulk of the agenda focused on education and workforce development. The commission heard a presentation on State workforce development efforts from the Department of Labor, Licensing, and Regulation. Additionally, the commission heard from representatives from the unions and building trades. June Streckfus from the Maryland Business Roundtable for Education provided information on workforce development programs in K-12 institutions. Further, the commission heard a presentation on expanding apprenticeships in Maryland from Dr. Rob Lerman, Professor of Economics, American University. Also, the commission heard from a panel of local businesses which provided their perspectives on the business climate in the State. The meeting concluded with a group discussion from the commission's members and workgroup meetings.

September 10, 2014 – Queenstown

The meeting began with a panel of local businesses which provided their perspectives on the business climate in the State. The remainder of the meeting focused on best practices in economic development. The Pew Charitable Trust presented information on their Business Incentive Initiative which is a program designed to measure the effectiveness of business incentives in several different states, including Maryland. Secondly, the commission heard from a panel of developers on their experiences in large scale developments in multiple states. The meeting concluded with a group discussion from the commission's members and workgroup meetings.

September 30, 2014 – Patuxent River

The meeting was held at the Naval Air Station at Patuxent River. Representatives from the station provided an overview of the facility. Local government economic development needs were presented by two panels from the Maryland Association of Counties and the Maryland Municipal League. Participating were representatives from Worcester, Anne Arundel, and Allegany counties; Baltimore City, Cambridge, Rockville, and Frederick. Additionally, the commission heard a presentation from representatives from public and private institutions of higher education. Specifically, the commission heard from Patrick J. Hogan, Vice Chancellor for the University System of Maryland; Wallace D. Loh, President, University of Maryland; James Hughes, Vice President, University of Maryland Office of Research and Development; T.E. Schlesinger, Dean of Whiting School of Engineering, Johns Hopkins University; Sharon Markley, Vice President, Stevenson University; and Dr. Edgar Schick, Interim Provost, Hood College.

Community colleges were represented by Dr. Bradley Gottfried, President, College of Southern Maryland. Finally, the commission heard from a panel of minority business owners and a panel of local business owners. The commission was also invited to a tour of the station after the conclusion of the meeting.

October 29, 2014 – Baltimore County

The meeting began with a panel of local businesses which provided their perspective on the business climate. The remainder of the meeting focused on issues related to incubators, biotechnology and innovation. The panel on biotechnology included: Richard Bendis, CEO, BioHealth Innovation; Judy Britz, Executive Director, BioMaryland Center; and Brad Stewart, Tech Council of Maryland. This was followed by an incubator panel: Robert Snyder, President, Maryland Business Incubator Association; Deb Tillett, Executive Director, Emerging Technology Center; and Ellen Hemmerly, Executive Director, bwtech@UMBC. The commission also heard from a panel of technology companies and the issues that were important to such companies. Over lunch, the commission heard a presentation from Freeman Hrabowski, III, President of the University of Maryland Baltimore County; the host for the commission's meeting. Next, the commission heard a presentation on early State investment and commercialization. The speakers included: Peter Greenleaf, Chairman of the Maryland Venture Fund Board; Thomas Dann, Managing Director of the Maryland Venture Fund; Robert Rosenbaum, President, TEDCO; and Jennifer Hammaker, Program Manager of the Maryland Innovation Initiative, TEDCO. Finally, the meeting concluded with a group discussion from the commission's members and workgroup meetings.

November 14, 2014 – Annapolis

Warren Deschenaux, the director of the Office of Policy Analysis for the Department of Legislative Services presented information on the economic outlook for the State of Maryland. Additionally, the commission heard testimony on the economic development strategy of the State from Suzy Ganz and Seth Goldman, representing the Maryland Economic Development commission. Dennis Davin from Allegheny County (PA) Economic Development provided testimony to give a perspective from another state's economic development efforts. The commission also heard from a panel on manufacturing and the State port. Specifically, the panel included Mike Galiazzo, Regional Manufacturing Institute; Brian Sweeney, Maryland Manufacturing Extension Partnership; and Rick Powers, Maryland Port Administration. Finally, the commission provided one additional opportunity to hear from local businesses on their perspectives on the business climate.

July 22, 2015 – Annapolis

Ryan Bishop with the Department of Legislative Services provided an overview of Maryland's revenue structure. Additionally, Andrew Schaufele, Director of the Bureau of

Revenue Estimates in the Comptroller's Office, presented information about Maryland's revenue estimating process and the collection of tax data. This was followed by David Juppe and Simon Powell of the Department of Legislative Services, who provided an overview of the State budget. Ryan Bishop then provided an overview of State and local government revenues in Maryland and surrounding jurisdictions. Finally, the meeting concluded with a discussion of the commission's proposed work plan and meeting schedule.

August 27, 2015 – Prince George's County

The meeting was held at the offices of the Prince George's County Economic Development Corporation in Largo. The meeting began with an overview of Maryland's corporate income tax, which was provided by Matthew Bennett, Robert Rehrmann, and Ryan Bishop of the Department of Legislative Services. This was followed by a panel of staff from the Department of Legislative Services, including Benjamin Blank, George Butler, and Ryan Bishop, who provided an overview of business tax credits in Maryland. Next, Ursula Powidzki, Special Assistant to the Secretary, and Mark Vulcan, Manager of Tax Programs, of the Department of Commerce (formerly the Department of Business and Economic Development) presented their perspectives on the certification and administration of business tax credits. Lastly, a panel presented perspectives on business taxes and other factors influencing business decisions to locate or expand operations. The panel included Kevin Greaney, Vice President of DTZ; Peter Marcin, Vice President of Transwestern; Kenneth Michael, Chairman of NAI Michael; and David Michael, Senior Vice President of NAI Michael.

September 9, 2015 – Baltimore City

The meeting was held at the University of Maryland, Baltimore. Following a work session, the meeting began with a panel from the Maryland Chamber of Commerce and the Greater Baltimore Committee providing testimony on perspectives from the business community on business taxes in the State. Brien Poffenberger, President and CEO, and Herman Rosenthal and Karen Syrylo, co-Chairs of the Tax Policy Committee, testified on behalf of the chamber. Donald Fry, President and CEO, testified on behalf of the Greater Baltimore Committee. The commission also heard a presentation from Tim Nitti, President of Geo Analytics Consulting, on factors influencing business decisions to locate or expand operations. The commission then heard from a panel concerning perspectives on business tax structures, tax burdens, and tax credits in Maryland and other states. The panel included: Jared Walczak, Policy Analyst, Center for State Tax Policy, on behalf of the Tax Foundation; Norton Francis, Senior Research Associate with the Urban Institute State and Local Finance Initiative, on behalf of the Urban-Brookings Tax Policy Center; Doug Lindholm, President and Executive Director of the Council on State Taxation; and Chaaron Pearson, Manager of the Economic Development Tax Incentives Project of the Pew Charitable Trusts. Finally, the meeting concluded with a group discussion from the commission's members.

October 2, 2015 – Anne Arundel County

The meeting was held at the Chesapeake Innovation Center in Odenton. Rachel Hise and Sara Baker of the Department of Legislative Services presented an overview of higher education in Maryland. The commission then heard from representatives of the State's four-year institutions and community colleges. Representatives of the four-year institutions included: Dr. Pat O'Shea, Vice President and Chief Research Officer, University of Maryland College Park; Brian Darmody, Associate Vice President for Research and Economic Development (UMCP) and Special Assistant Vice Chancellor for Technology Development with the University System of Maryland; James Hughes, Director of UM Ventures, a joint entrepreneurial initiative of the University of Maryland College Park and the University of Maryland, Baltimore; Greg Simmons, Vice President, Institutional Advancement, University of Maryland Baltimore County; Thomas Lewis, Vice President for Government and Community Affairs at The Johns Hopkins University and Vice President for Government and Community Affairs at Johns Hopkins Medicine; and Tina Bjarekull, President of the Maryland Independent College and University Association. Representatives of the community colleges included: Dr. Barbara Viniar, President, Chesapeake College; Dr. Sandra Kurtinitis, President, Community College of Baltimore County; and Dr. Brad Gottfried, President, College of Southern Maryland. Afterwards, Dan White and Laura Ratz of Moody's Analytics presented an overview of the performance of Maryland's economy and business climate. Following this presentation, the meeting concluded with a work session.

November 30, 2015 – Annapolis

The commission held an all-day work session to discuss options and recommendations.

Appendix 4
Meeting Agendas

April 30, 2014 (Meeting #1)
Annapolis, MD

9:00 Welcome and Opening Remarks
Norman R. Augustine, Chair

9:05 Background and Charge
Thomas V. Mike Miller, Jr., Senate President
Michael E. Busch, Speaker of the House

9:20 Introduction of commission Members

9:30 Discussion of Proposed Work Plan
Norman R. Augustine, Chair

9:45 Organization of State Development Effort
Dominick Murray, Secretary, Maryland Department of Business and Economic Development (DBED)
Robert Brennan, Executive Director, Maryland Economic Development Corporation (MEDCO)
John M. Wasilisin, Executive Vice President and Chief Operating Officer, Maryland Technology Development Corporation (TEDCO)

11:15 Break

11:30 Local Government and State Economic Development Relationship
County Economic Development Authority (HCEDA)
Michael S. Lofton, Past President of the Maryland Economic Development Association

12:30 Lunch in Senate Lounge

1:45 Maryland's Competitive Strengths and Weaknesses
Dr. Philip Phan, Executive Vice Dean, The Johns Hopkins Carey Business School

2:30 Group Discussion

3:45 Break

4:00 Discussion in Subcommittees

5:00 Adjournment

May 27, 2014 (Meeting #2)
USM – Hagerstown
Hagerstown, MD

Focus: Working with Federal Installations and Their Impact on the State's Economy

10:00 Welcome and Opening Remarks
Norman R. Augustine, Chair

10:10 Maryland Economic Development Agency Structures
Sally Guy, Department of Legislative Services

10:30 Panel of Local Businesspeople
Brien Poffenberger, President of Hagerstown-Washington County Chamber of Commerce and incoming President and CEO of the Maryland Chamber of Commerce
Rich Daughtridge, Owner, High Rock Studios
Wade Watson, Vice President of Group Trucks Operation, Volvo Group Hagerstown
John Williams, Chairman, President, and CEO of Jamison Door Company

12:00 Lunch

1:00 Dr. Paul C. Mele, Director, Office of Research and Technology Applications, U.S. Army Medical

1:45 Dr. Courtney Silverthorn, Senior Interagency Policy Specialist, National Institute of Standards and Technology (NIST)
Paul Zielinski, Director of Technology Partnerships Office, NIST; Chair, National Federal Laboratory Consortium

2:30 Todd Pelham, Manager, Business and Corporate Development, Integrated Biotherapeutics, recipient of Small Business Innovation Research Grant

3:15 Full Commission Discussion

3:45 Subgroup Meetings

4:45 Adjournment

June 30, 2014 (Meeting #3)
Montgomery College
Germantown, MD

Focus: Maryland's Tax and Regulatory Policies

9:00 Welcome from Montgomery College

9:15 Opening Remarks
Norman R. Augustine, Chair

9:30 Maryland's Tax Structure
Ryan Bishop, Department of Legislative Services

10:15 Maryland's Regulatory Process
Marie Razulis, Administrative, Executive, and Legislative Review Joint Committee

10:45 Maryland Chamber of Commerce's Competitiveness Coalition
Kathy Snyder, President, Maryland Chamber of Commerce
Bill Couper, former Chairman, Maryland Chamber of Commerce
Aris Melissaratos, former Secretary, DBED

11:30 Building on Maryland's Federal Assets
Kevin F. Kelly, Chairman, Federal Facilities Advisory Board, and Member of Cybersecurity Roundtable

12:15 Lunch

1:00 Local Businesses and Chamber of Commerce
Gigi Godwin, President and CEO, Montgomery County Chamber of Commerce
Ilaya Hopkins, Vice President, Public Affairs, Montgomery County Chamber of Commerce
Lisa Cines, Chair, Board of Directors Executive Committee, Montgomery County Chamber of Commerce
Holly Sears Sullivan, Montgomery County Business Development Corporation

2:00 Full Commission Discussion

2:30 Subgroup Meetings

Subgroup A: Tax Credit Overview and Local Economic Development Officials

Guests: Tina Benjamin, Economic Development for Montgomery County; Ursula Powidzki, Assistant Secretary for DBED; Mark Vulcan, Manager, Tax Programs for DBED

Subgroup B: Permitting and Regulatory Process

Guests: Marie Razulis, AELR Joint Committee; Dave Ryer, Managing Director, Division of Administration and Technology, DBED

Subgroup C: Community College Training

Guest: Dr. Bernie Sandusky, Executive Director, Maryland Association of Community Colleges

4:00 Adjournment

July 29, 2014 (Meeting #4)
Morgan State University
Baltimore, MD

Focus: Education and Workforce Development

9:00 Welcome from Morgan State University
Dr. Victor McCrary

9:05 Opening Remarks
Norman R. Augustine, Chair

9:15 Workforce Development, EARN, and Future Employment Trends Panel
Scott R. Jensen, Deputy Secretary, Maryland Department of Labor, Licensing and Regulation (DLLR)
Elisabeth Sachs, Senior Advisor and Program Director of EARN Maryland, DLLR

10:00 Unions and Building Trades Panel
Mark Coles, Executive Director, Maryland Building & Construction Trades Council
Tom Pfundstein, Director of Curriculums and Instruction, Finishing Trades Institute
Bob McKinley, Dominion Energy

10:45 Break

10:55 Improving Workforce Development Programs in Schools
June Streckfus, Maryland Business Roundtable for Education

11:35 Expanding Apprenticeship in Maryland
Dr. Rob Lerman, Professor of Economics, American University; Fellow, Urban Institute

12:15 Lunch

1:00 Panel of Local Businesspeople
Robert L. Wallace, President and CEO, BITHENERGY, Inc.
Saad Alam, Founder and CEO, Citelighter
Lee Jokl, Co-Founder and COO, Citelighter
Frank Patton, CFO, Pompeian Olive Oil

2:00 Full Commission Discussion

2:30 Subgroup Meetings

Subgroup A Guest: Vernon Thompson, Executive Vice President of Business Development, Howard County Economic Development Authority

Subgroup B and D Guests:
Robert Rosenbaum, President and Executive Director, TEDCO
John Wasilisin, Executive Vice President and Chief Operating Officer, TEDCO
Ursula Powidzki, Assistant Secretary, Business and Enterprise Development, DBED
Gregory Cole, Director, Office of Finance Programs, DBED
Mark Vulcan, Manager, Tax Programs, DBED

Subgroup C Guest: June Streckfus, MD Business Roundtable on Education

4:00 Adjournment

September 10, 2014 (Meeting #5)
Wye Research and Education Center
Queenstown, MD

Focus: Best Practices

9:30 Opening Remarks
Norman R. Augustine, Chair

9:45 Local Business Panel
John Doran, President, Centreville Manufacturing
John Elstner, President, 3 Point Products
Donald Gross, Owner, GROCO

10:45 Pew Charitable Trusts Business Incentives Initiative
Erik R. Pages, President, EntreWorks Consulting; Senior Fellow, Center for Regional Economic Competitiveness
Robert Zahradnik, Director, State and Local Policy, The Pew Charitable Trusts

12:15 Lunch

1:15 Developer Panel (Focus on Site Selection)
Jon M. Peterson, Principal, Peterson Companies
Robert E. Buchanan, Principal, Buchanan Partners

2:45 Full Commission Discussion

3:15 Subgroup Meetings

Subgroup A Guest: Pew Charitable Trusts

Subgroups B and D Guests: Developer Panel

Subgroup C Guests: Ronald DeJuliis and Roger Lash, Maryland Department of Labor, Licensing, and Regulation Apprenticeship Program

4:30 Adjournment

September 30, 2014 (Meeting #6)
Naval Air Station Patuxent River
Patuxent River, MD

9:45 Welcome to Naval Air Station Patuxent River

10:00 Maryland Association of Counties
William A. Badger, Jr., Director, Economic Development, Worcester County
Mary Burkholder, Executive Vice President, Anne Arundel Economic Development Corp.
Kimberly A. Clark, Executive Vice President, Baltimore Development Corporation
Matthew W. Diaz, Director, Economic and Community Development, Allegany County
Maryland Municipal League
Dan Burris, Mayor, Leonardtown
Natalie Chabot, Economic Development Director, Cambridge
Laurie Boyer, Economic Development Director, Rockville
Richard Griffin, Economic Development Director, Frederick

10:45 Higher Education Panel
William E. Kirwan, Chancellor, University System of Maryland
Wallace D. Loh, President, University of Maryland
Jim Hughes, Chief Enterprise and Economic Development Officer and Vice President, University of Maryland Office of Research and Development
Maryland Independent College and University Association
T. E. "Ed" Schlesinger, Dean of the Whiting School of Engineering, Johns Hopkins University
Sharon Markley, Vice President of Public Affairs and Strategy, Stevenson University
Dr. Edgar Schick, Interim Provost and Vice President of Academic Affairs, Hood College

12:30 Working Lunch
Dr. Bradley Gottfried, President, College of Southern Maryland and Maryland Association of Community Colleges

1:15 Small and Minority Business Panel
Stanley W. Tucker, President and Chief Executive Officer, Meridian Management Group, Inc.
Maurice B. Tosé, President and Chief Executive Officer, TeleCommunication Systems, Inc.
Carmina Perez-Fowler, Assistant Secretary for MBE Compliance and Procurement, Governor's Office of Minority Affairs

1:45 Panel of Local Businesspeople
2:30 Full Commission Discussion
3:00 Adjournment

October 29, 2014 (Meeting #7)
University of Maryland, Baltimore County
Catonsville, MD

Focus: Incubators and Biotechnology

9:00 Opening Remarks
Norman R. Augustine, Chair

9:15 Local Business Panel
Craig Bandes, President and CEO, Pixelligent Technologies
Ed Evans, Owner, Maaco North Point Blvd.
Scott Westcoat, Owner, The Hub C'Ville Bikes

10:15 Biotechnology Panel
Richard Bendis, CEO, BioHealth Innovation
Judy Britz, Executive Director, BioMaryland Center

11:00 Incubator Panel
Robert G. Snyder, President, Maryland Business Incubation Association
Deb Tillett, Executive Director, Emerging Technology Center
Ellen Hemmersly, Executive Director, bwtech@UMBC

11:45 Tech Company Panel
Jay Steinmetz, Barcoding, Inc.
Neil Furukawa, Vice President, Cyberpoint International, LLC

12:30 Lunch
Speaker: Freeman A. Hrabowski, III, President of UMBC

1:30 Early State Investment and Commercialization
Peter Greenleaf, Chairman, Venture Fund Board
Thomas Dann, Managing Director, Equity Funds
Robert Rosenbaum, President and Executive Director, TEDCO
Jennifer Hammaker, Program Manager, The Maryland Innovation Initiative, TEDCO

2:15 Full Commission Discussion

2:45 Subgroup Recommendation Discussion

4:15 Adjournment

November 14, 2014 (Meeting #8)
Annapolis, MD

9:00 **Opening Remarks**
Norman R. Augustine, Chair

9:15 **Maryland Department of Legislative Services**
Warren Deschenaux, Director, Office of Policy Analysis,

9:45 Suzy Ganz, CEO, Lion Brothers; Chair, Maryland Economic Development commission
Seth Goldman, Tea-EO, Honest Tea, Inc.

10:30 **Allegheny County (PA) Economic Development**
Dennis DaviIV

11:15 **Manufacturing and Ports Panel**
Mike Galiazzo, Regional Manufacturing Institute
Brian Sweeney, Executive Director, Maryland Manufacturing Extension Partnership
Rick Powers, Director of Marketing, Maryland Port Administration

12:00 **Lunch and commission Discussion**

2:00 **Forum – Chambers of Commerce and Business Representatives**

Wednesday, July 22, 2015 (Meeting #9)
Joint Hearing Room
Legislative Services Building
Annapolis, Maryland

9:00 **Opening Remarks and Introduction of New Members**

9:15 **Overview of Maryland's Revenue Structure**

Ryan Bishop, Senior Manager, Department of Legislative Services

10:45 **Maryland's Revenue Estimating Process and Collection of Tax Data**

Andrew Schaufele, Director, Bureau of Revenue Estimates, Comptroller's Office

12:15 **Lunch**

1:00 **Overview of the Maryland State Budget**

David Juppe, Senior Manager, Department of Legislative Services

Simon Powell, Senior Manager, Department of Legislative Services

2:30 **Overview of State and Local Government Revenues in Maryland and Surrounding Jurisdictions**

Ryan Bishop, Senior Manager, Department of Legislative Services

3:15 **Discussion of Workplan, Meeting Schedule, and Additional Issues**

4:00 **Adjournment**

Thursday, August 27, 2015 (Meeting #10)
Prince George's County
Economic Development Corporation
Largo, Maryland

10:00 **Call to Order and Opening Remarks**

10:15 **Overview of Maryland's Corporate Income Tax**
Department of Legislative Services
Matthew Bennett, Senior Policy Analyst
Robert Rehrmann, Principal Policy Analyst
Ryan Bishop, Senior Manager

11:30 **Overview of Business Tax Credits in Maryland**
Department of Legislative Services
Benjamin Blank, Policy Analyst
George Butler, Policy Analyst
Ryan Bishop, Senior Manager

12:30 **Lunch**

1:15 **Certification and Administration of Business Tax Credits**
Department of Business and Economic Development
Ursula S. Powidzki, Special Assistant to the Secretary
Mark Vulcan, Manager, Tax Programs

2:15 **Perspectives on Business Taxes and Other Factors InfluencingBusiness Decisions to Locate or Expand Operations**

DTZ
Kevin J. Greaney, Vice President

Transwestern
Peter Marcin, Vice President

NAI Michael
Kenneth Michael, Chairman
David Michael, Senior Vice President

3:30 **Commission Discussion**

4:00 **Closing Remarks and Adjournment**

Wednesday, September 9, 2015 (Meeting #11)
University of Maryland, Baltimore
Baltimore, Maryland

9:30 **Executive Session**

11:15 **Perspectives from the Business Community on Business Taxes in Maryland**

Maryland Chamber of Commerce
Brien Poffenberger, President and CEO
Herman Rosenthal, Co-Chair, Tax Policy Committee
Karen Syrylo, Co-Chair, Tax Policy Committee

Greater Baltimore Committee
Donald Fry, President

12:30 **Lunch**

1:15 **Factors Influencing Business Decisions to Locate or Expand Operations**

Geo Analytics Consulting
Tim Nitti, President

2:15 **Perspectives on Business Tax Structures, Tax Burdens, and Tax Credits in Maryland and Other States**

Tax Foundation
Jared Walczak, Policy Analyst with the Center for State Tax Policy at the Tax Foundation

Tax Policy Center
Norton Francis, Senior Research Associate with the Urban Institute State and Local Finance Initiative

Council on State Taxation
Doug Lindholm, President and Executive Director

Pew Research Center
Chaaron Pearson, Manager, Economic Development Tax Incentives Project – The Pew Charitable Trusts

4:30 **Commission Discussion**

5:00 **Closing Remarks and Adjournment**

Friday, October 2, 2015 (Meeting #12)
Chesapeake Innovation Center
Odenton, Maryland

9:30	**Executive Session**
10:30	**Overview of Higher Education in Maryland** Department of Legislative Services Community Colleges Four-year Institutions
12:30	**Lunch**
1:00	**Overview of Maryland's Economic and Fiscal Structure and Comparisons to Selected States** Moody's Analytics
2:00	**Executive Session**
4:00	**Commission Discussion**
4:30	**Closing Remarks and Adjournment**

Monday, November 30, 2015 (Meeting #13)
House Office Building
Annapolis, Maryland

10:00	**Call to Order and Opening Remarks**
10:15	**Executive Session**
12:15	**Lunch**
1:00	**Executive Session**
4:30	**Closing Remarks and Adjournment**

Appendix 5

List of Witnesses

Business Entities

1. Kevin J. Greaney, DTZ
2. Peter Marcin, Transwestern
3. David Michael, NAI Michael
4. Kenneth Michael, NAI Michael
5. Tim Nitti, Geo Analytics Consulting

Business Organizations

6. Donald Fry, Greater Baltimore Committee
7. Brien Poffenberger, Maryland Chamber of Commerce
8. Herman Rosenthal, Maryland Chamber of Commerce
9. Karen Syrylo, Maryland Chamber of Commerce

Economic Development Entities

10. Dominick Murray, Department of Business and Economic Development (DBED)
11. Robert Brennan, Maryland Economic Development Corporation (MEDCO)
12. Rob Rosenbaum, Technology Development Corporation (TEDCO)
13. Maryland Chamber of Commerce (Chamber)
14. Pamela Ruff, Maryland Economic Development Association (MEDA)
15. Robert Buchanan, Montgomery County Executive's Business Advisory Group (Mo. Co. Bus. Advisory Group)
16. Philip Schiff, Tech Council of Maryland (Tech Council)

Education Entities

17. Edgar Schick, Hood College (Hood)
18. Maryland Association of Community Colleges (MACC)
19. June Streckfus, Maryland Business Roundtable for Education (MBRE)
20. Maryland Independent College and University Association (MICUA)
21. William Kirwan, University System of Maryland (USM)
22. Tina Bjarekull, Maryland Independent College and University Association
23. Brian Darmody, University of Maryland, College Park (UMCP)
24. Dr. Brad Gottfried, College of Southern Maryland
25. James Hughes, UM Ventures
26. Dr. Sandra Kurtinitis, Community College of Baltimore County

27. Thomas Lewis, The Johns Hopkins University
28. Dr. Pat O'Shea, UMCP
29. Greg Simmons, University of Maryland Baltimore County
30. Dr. Barbara Viniar, Chesapeake College

Research Organizations

31. Norton Francis, Tax Policy Center
32. Doug Lindholm, Council on State Taxation
33. Chaaron Pearson, Pew Research Center
34. Laura Ratz, Moody's Analytics
35. Jared Walczak, Tax Foundation
36. Dan White, Moody's Analytics

State Agencies

37. Sara J. Baker, Department of Legislative Services (DLS)
38. Matthew J. Bennett, DLS
39. Ryan Bishop, DLS
40. Benjamin A. Blank, DLS
41. George H. Butler, Jr., DLS
42. Rachel H. Hise, DLS
43. David B. Juppe, DLS
44. Simon Powell, DLS
45. Ursula S. Powidzki, Department of Commerce
46. Robert J. Rehrmann, DLS
47. Andrew Schaufele, Comptroller's Office
48. Mark Vulcan, Department of Commerce

Miscellaneous Entities

49. Pew Charitable Trusts (Pew)
50. Maryland Association of Counties and Maryland Municipal League (MACo)

Individuals

51. Craig Bandes, Pixelligent Technologies (Bandes)
52. Richard Bendis, BioHealth Innovation (Bendis)
53. Robert Buchanan, Buchanan Partners (Buchanan)
54. Mary Burkholder, Anne Arundel Economic Development Corporation (Burkholder)
55. Sandy Crawford, Ellicott Dredges, LLC (Crawford)
56. John Doran, Centreville Manufacturing, Inc. (Doran)
57. John Elstner, 3 Point Products (Elstner)
58. Neil Furukawa, Cyberpoint International, LLC (Furukawa)
59. Mike Galiazzo, Regional Manufacturing Institute (Galiazzo)

60. Donald Gross, GROCO (Gross)
61. Kate Gray, KRM Development (Gray)
62. Kevin Kelly, Federal Facilities Advisory Board (Kelly)
63. Robert Lerman, The Urban Institute (Lerman)
64. Todd Pelham, Integrated Biotherapeutics (Pelham)
65. Jon Peterson, Peterson Companies (Peterson)
66. Philip Phan, Johns Hopkins Carey Business School (Phan)
67. Bill Scarafia, St. Mary's County Chamber of Commerce (Scarafia)
68. Holly Sears Sullivan, Montgomery County Business Development Corp. (Sears Sullivan)
69. Vernon Thompson, Howard County Economic Development Authority (Thompson)
70. Stanley Tucker, Meridian Management Group (Tucker)
71. Tracye Turner, Optimal Solutions Group, LLC (Turner)
72. John Williams, Jamison Door Company (Williams)