Subsidy Programs Should Include Community Benefits and Accountability

Position Statement in Support of House Bill 805

Given before the House Ways and Means Committee

As policymakers have added a growing number of business subsidies to Maryland's tax code over the last several decades, evidence has begun to pile up that the millions of dollars we put into business tax breaks each year do little to support Maryland's economy. Worse, these tax breaks use up resources that could otherwise be invested in assets businesses value, such as great public schools and modern transportation infrastructure. House Bill 805 would take steps to improve public reporting in one of Maryland's largest business tax break programs, while reining in the program's accelerating growth. For these reasons, the Maryland Center on Economic Policy supports House Bill 805.

The Enterprise Zone Tax Credit is one of the state's largest business subsidy programs, costing Maryland state and local governments $600 million since 2001. The program's scale and cost have grown over time, and it is projected to cost about $55 million in lost state and local revenue in fiscal year 2021. A draft evaluation published by the Department of Legislative Services in January 2021 points to several key shortcomings:[i]

- The program does not work. Specifically, it is not effective in creating job opportunities for people who live in Enterprise Zones or more broadly for Marylanders who face barriers in the job market.
- The criteria used to determine whether an area can be designated as an Enterprise Zone do not accurately measure economic distress. In fact, a study has found that neighborhoods facing few economic challenges receive more Enterprise Zone subsidies than neighborhoods in distress.
- The program's inadequate reporting requirements prevent policymakers and the public from accurately assessing its cost effectiveness.
- The state runs four other business subsidy programs intended to serve the same purpose, creating a needlessly duplicative administrative structure.
- Despite these shortcomings, the program has grown rapidly in recent years. The land area covered by Enterprise Zones has increased by nearly 25 percent since 2013. The cost of the program's property tax credits increased by a factor of 10 in the last 20 years.

House Bill 805 would take several important steps to improve the program's accountability measures and rein in its growth:

- The bill would pause the creation of new Enterprise Zones and expansion of existing ones in any year in which the program's property tax credits exceed $50 million in cost.
- The bill would ensure that any expansion of an existing Enterprise Zone by more than 10 percent is subject to limitations on the creation of new Enterprise Zones. Currently, these limitations apply only to expansions of 50 percent or more.
- The bill would require local governments to report basic data on Enterprise Zones to the state, including the

number of properties claiming tax credits, the number of new applications approved each year, and specific examples of economic impacts in Enterprise Zone communities.

- The bill would require the Department of Commerce and the State Department of Assessments and Taxation to develop standards for assessing the cost effectiveness of specific designated Enterprise Zones.
- The bill would phase out the income tax credit offered under the Enterprise Zones program, which state analysts have characterized as underused.

Several of these reforms echo recommendations made in the 2021 draft evaluation—as well as recommendations made in an earlier 2014 evaluation that have not previously been implemented.

Installing guardrails around the Enterprise Zones program would ensure that our shared resources are used to benefit Maryland communities, not just to subsidize already-successful businesses. Reining in the program's growth would also enable the state to protect and strengthen basic services that are currently stretched thin:

- The state failed to substantially rebuild funding for local health departments after deep cuts during the Great Recession, forcing staffing and service cuts in every county and weaking our ability to respond to the coronavirus pandemic.[ii]
- By 2017, only six of the state's 24 school districts were close to full funding under the Thornton formula, down from 23 in 2008. More than half of the state's Black students went to school in a district that was underfunded by 15 percent or more.[iii]
- As of late 2017, legislative analysts estimated that state agencies were understaffed to the tune of about 2,500 workers.iv

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 805.

Equity Impact Analysis: House Bill 805

Bill summary

House Bill 805 would strengthen reporting and performance measurement requirements in the state Enterprise Zone tax credit program; limit the creation or expansion of Enterprise Zones in years when the program is costliest; and phase out the income tax credit currently offered in the program.

Background

A draft evaluation published by the Department of Legislative Services in 2021 identified serious shortcomings in the program's design and administration, including several of the same shortcomings state analysts identified in an evaluation seven years earlier. The evaluation finds that the program is not effective in improving job opportunities for Maryland workers who face barriers in the job market.

Several of the provisions of House Bill 805 echo recommendations in the draft evaluation, including recommendations state analysts made in 2014 that have not been adopted.

Equity Implications

Effective investments in economic development can advance equity by improving economic opportunities for workers who face barriers in the job market built through centuries of discriminatory policy choices. However, poorly designed business tax breaks bring no such equity benefits but simply skew the economy further in favor of the wealthy and powerful.

House Bill 805 would improve equity by growing the evidence base policymakers can use to ensure development tax breaks benefit communities.

House Bill 805 would also improve equity by reining in the Enterprise Zones program's rapid growth and therefore increasing resources the state can invest in Maryland communities. Our growing underinvestment in essential services like education, health care, and transportation harms all Marylanders, and at the same time has outsized impacts on people who face economic roadblocks because of low income or the ongoing legacy of racist policy. Reforming Maryland's tax code to raise adequate revenue would strengthen our ability to invest in the foundations of our economy and reduce barrier that hold back too many Marylanders.

Impact

House Bill 805 would likely **improve racial and economic equity** in Maryland.

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[i] Mindy McConville, Brett Ogden, and Robert Rehrmann, "DRAFT Evaluation of the Enterprise Zone Tax Credit," Maryland Department of Legislative Services, 2021, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_Enterprise_Zone_Tax_Credit.pdf

[ii] Christopher Meyer, "Lessons from the Great Recession: Policymakers Must Reject Deep Budget Cuts for a Strong Recovery," Maryland Center on Economic Policy, 2020, http://www.mdeconomy.org/recession-budget-cuts/

[iii] Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/

[iv] David Juppe et al., "Executive Branch Staffing Adequacy Study," Department of Legislative Services, 2018, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Executive-Branch-Staffing-Adequacy-Study.pdf