HB 478_FAV_MML.pdf
Uploaded by: Justin Fiore
Position: FAV

Maryland Municipal League
The Association of Maryland's Cities and Towns

TESTIMONY

March 30, 2022

Committee: Senate Budget and Taxation

Bill: HB 478 – Economic Development – Enterprise Zones Program – Alterations

Position: Support

Reason for Position:

The Maryland Municipal League supports HB 478 which would eventually sunset the Enterprise Zone Program, establish reasonable expansion limits, and study the overall effectiveness of the program.

Our cities and towns understand that incentive programs come and go. What is important is that we learn from this one and make sure the State has the information necessary to ensure our jurisdictions remain competitive with their neighbors in nearby states as we look to the future. We thank the sponsor for the collaborative approach in reaching this point and look forward to working with the General Assembly on what lies ahead.

The Maryland Municipal League therefore respectfully requests the Committee provide HB 478 with a favorable report.

FOR MORE INFORMATION CONTACT:

Scott A. Hancock	Executive Director
Angelica Bailey	Director, Government Relations
Bill Jorch	Director, Research & Policy Analysis
Justin Fiore	Manager, Government Relations

HB478_MD Center on Economic Policy_FAV.pdf

Uploaded by: Kali Schumitz

Position: FAV

Subsidy Programs Should Include Community Benefits and Accountability

Position Statement in Support of House Bill 478

Given before the Senate Budget and Taxation 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 478 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 478.**

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% since 2013. The cost of the program's property tax credits increased by a factor of 10 in the last 20 years.

House Bill 478 would take several important steps to improve the program's accountability measures and rein in its growth:

- The bill would ensure that any expansion of an existing Enterprise Zone by more than 25% is subject to limitations on the creation of new Enterprise Zones. Currently, these limitations apply only to expansions of 50% or more. As amended, the bill would allow the Secretary of Commerce to make exceptions for a "compelling economic reason."
- The bill would require the Department of Commerce to develop standards for assessing the cost effectiveness of specific designated Enterprise Zones. These effectiveness assessments are already required

under current law, but House Bill 478 would ensure that these assessments are guided by clear and consistent standards. The bill would also require the State Department of Assessments and Taxation and the Comptroller of Maryland to provide data needed for these assessments.

- The bill would set the Enterprise Zones program to sunset on January 1, 2030.

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. Even in the state's current, strong fiscal position, we should not throw good money after bad at ineffective business subsidies. House Bill 478 calls for commonsense steps to limit and accurately measure the harms of one such program.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on House Bill 478.

Equity Impact Analysis: House Bill 478

Bill summary

House Bill 478 would strengthen reporting and performance measurement requirements in the state Enterprise Zone tax credit program; limit the expansion of Enterprise Zones; and set the program to sunset in 2030.

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 478 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 478 would improve equity by growing the evidence base policymakers can use to ensure development tax breaks benefit communities. House Bill 478 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.

Impact

House Bill 478 would likely **improve racial and economic equity** in Maryland.

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

HB478_ MD Fair Funding Coalition_FAV.pdf
Uploaded by: Kevin Slayton
Position: FAV

MARYLAND
FAIR FUNDING
COALITION

Testimony in <u>SUPPORT</u> of HB 478
Sen. Guy Guzzone, Chair
Senate Budget & Taxation Committee

The Maryland Fair Funding Coalition is a coalition of more than 30 organizations across the state that are committed to policies that make our tax system more equitable and allow the state to raise sufficient revenue to sustain the essential public services Maryland families and communities need to thrive.

The coalition supports proposals that eliminate loopholes and tax breaks that benefit special interests and fix our upside-down tax code, which allows the wealthiest individuals to pay the smallest share of their income in state and local taxes. Fixing our tax system will ensure that large corporations and wealthy individuals are paying their fair share for the public services we all rely on.

Our coalition supports HB 478, which would take steps to reduce the accelerated growth and strengthen reporting requirements for one of Maryland's largest business tax break programs, the Enterprise Zone programs.

Maryland's economy is built on the foundation of our shared investments—things like quality health care, strong public schools, and reliable transportation networks. Surveys consistently find that these assets are among the most important factors business leaders consider when deciding where to start and grow a business. Individuals and businesses alike help maintain these investments through our taxes, but ineffective subsidy programs allow some businesses to reduce or eliminate their responsibility to help pay for the services they benefit from.

House Bill 478 would take several important steps to ensure the costs of the Enterprise Zone program remain reasonable and the funds are well targeted. The bill would place reasonable limits on the growth of existing Enterprise Zones. The legislation also creates an improved process for reviewing designated Enterprise Zones and ensuring tax credits going to them are effective.

Since 2001 our state and local governments endured cost of approximately $600 million due to the Enterprise Zone Tax Credits. The Enterprise Zone program reforms in HB 478 will help ensure that our shared resources are used to benefit Maryland communities, not already successful businesses receiving the subsidy. Our coalition urges you to commit to Maryland families and the future of our economy by supporting HB 478.

Therefore, we urge a <u>favorable report</u> on HB 478

Delegate Palakovich Carr HB 478 Enterprise Zone Re
Uploaded by: Matthew Harrington
Position: FAV

JULIE PALAKOVICH CARR
Legislative District 17
Montgomery County

Ways and Means Committee

The Maryland House of Delegates
6 Bladen Street, Room 221
Annapolis, Maryland 21401
410-841-3037 · 301-858-3037
800-492-7122 *Ext.* 3037
Julie.PalakovichCarr@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB 478
Economic Development – Enterprise Zone Program – Alterations

This bill would make reforms to the Enterprise Zone tax credit program. The bill is the result of an informal summer study that included representatives of the House Ways and Means Committee, the Maryland Association of Counties, the Maryland Municipal League, several local economic development officers, and the Department of Commerce.

This legislation would implement common sense reforms to the enterprise zone tax credit:

- Updates the wage qualification for the job creation tax credit to reflect Maryland's higher statewide minimum wage
- Reduces the allowable size for zone expansions
- Requires SDAT and the Comptroller to report certain tax credit data to Commerce so that the success of the program can be evaluated
- Adds a purpose statement for the program
- Adds a sunset date for the program
- Requires Commerce to promulgate new regulations on how to prioritize applications for new zones and expansions of existing zones

Background on Maryland's Enterprise Zone Program

The Enterprise Zone program is one of the most expensive state and local business tax credit programs in Maryland, with more than $600 million in tax credits awarded over the past twenty years. The state's costs for the enterprise zone tax credits have been growing at an average rate of 12.6% a year and the program has no statutory restraints on future costs.

The Department of Legislative Services (DLS) conducted reviews of the enterprise zone tax credits in 2021 and 2014. The most recent evaluation recommended consolidation of the enterprise zone tax credits with other similar programs, or if not feasible, then major legislative reforms to the program.

Both DLS evaluations concluded that “Enterprise Zone tax credits are not effective in creating employment opportunities for Enterprise Zone residents.”[1,2] Additionally, the program criteria are “poorly designed” and “limit the program’s effectiveness in promoting economic activity within distressed areas.” The reports also found that the program’s effectiveness is not being evaluated, despite being required by law, due to a lack of data.

To date, none of the DLS recommendations have been implemented.

The Center for Regional Economic Competitiveness also evaluated Maryland’s EZ program.[3] Among their findings is that Maryland is among a small number of states that does not impose a cap on enterprise zone credits. Additionally, Maryland lacks a regular schedule for reviewing zone designations to ensure designated zones meet established criteria for economic distress.

Actions by Other States

The National Conference of State Legislatures reports that “academic reviews of enterprise zones, often prepared using econometric models, have found little evidence that programs actually result in net job creation and increased community investment.”[4]

The ineffectiveness of enterprise zones has prompted further review in other states and led the California and Kentucky legislatures to end their state’s enterprise zone tax credits. Nine other states have also allowed their EZ programs to sunset in recent years.

---

[1] “Evaluation of the Enterprise Zone Tax Credit,” 2014, Department of Legislative Services.
[2] “Evaluation of the Enterprise Zone Tax Credit,” 2021, Department of Legislative Services.
[3] CREC Maryland Economic Development Finance Program Study, January 2016.
[4] “Enterprise Zones: Development for Distressed Communities,” 2005, National Conference of State Legislators.