

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