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THE MARYLAND HOUSE OF DELEGATES
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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.

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[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.