Evaluation of the Regional Institution Strategic Enterprise Zone Tax Credit

DEPARTMENT OF LEGISLATIVE SERVICES 2019

Evaluation of the Regional Institution Strategic Enterprise Zone Tax Credit

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

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Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

Victoria L. Gruber
Executive Director

Ryan Bishop
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December 2019

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Members of the General Assembly

Ladies and Gentlemen:

As you know, the Tax Credit Evaluation Act of 2012 (Chapters 568 and 569) establishes a legislative process for evaluating certain tax credits. The legislative evaluation committee created by the Act is required to evaluate the Regional Institution Strategic Enterprise (RISE) Zone tax credit by July 1, 2019.

To assist the committee in its work, the Department of Legislative Services (DLS) is required to evaluate the credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

DLS has conducted its evaluation of the RISE Zone Program and makes several findings and recommendations about the tax credit. The document is divided into six chapters.

- **Chapter 1** provides an overview of the Tax Credit Evaluation Act and the RISE Zone Program.
- **Chapter 2** provides an overview of the intent and objectives of the tax credit program.
- **Chapter 3** provides an overview of the program's implementation progress.
- **Chapter 4** discusses the State and local costs of the tax credits.
- **Chapter 5** discusses implementation issues with the RISE Zone Program.
- **Chapter 6** summarizes the findings of the report and discusses recommended changes to the tax credit program.

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We wish to acknowledge the cooperation and assistance provided by the Department of Commerce and the local governments and universities involved in implementing the program. DLS trusts that this report will be useful to members of the General Assembly in future deliberations about the RISE Zone Program.

Sincerely,

Victoria L. Gruber
Executive Director

Ryan Bishop
Director

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Executive Summary

Since the mid-1990s, the number of State business tax credits has grown significantly as have related concerns about the actual benefits and costs of many of these credits. Although tax credits comprise a small percentage of total income tax revenues, the number and amount of credits claimed have significantly increased over time.

In response to concerns about the fiscal impact of tax credits on State finances, Chapters 568 and 569 of 2012, the Tax Credit Evaluation Act, established a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee that is appointed jointly by the President of the Senate and the Speaker of the House of Delegates. The Act requires that the Regional Institution Strategic Enterprise (RISE) Zone Program be evaluated by the committee by July 1, 2019. To assist the committee in its work, the Department of Legislative Services (DLS) is required to evaluate the credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

Created by Chapters 530 and 531 of 2014, the RISE Zone Program aims to promote economic and community development within communities anchored around a qualified institution. Similar to the State Enterprise Zone Tax Credit Program that was established in the 1980s, the RISE Zone Program is intended to encourage economic growth and to increase employment in a targeted geographic area. While the State Enterprise Zone Tax Credit Program targets economically distressed areas and the long-term unemployed, the RISE Zone Program targets communities anchored around a qualified institution of higher education, a nonprofit organization affiliated with a federal agency, or a regional higher education center. A business within a RISE zone may qualify for tax credits and priority consideration for specified State financial assistance programs.

The RISE Zone Program is in its infancy. As of October 2018, six RISE zones have been approved, and one additional zone is in the application process. The University of Maryland, Baltimore Campus was the first approved zone (December 2015) followed by the University of Maryland, College Park Campus (December 2016) and the University of Maryland Baltimore County (May 2017). In September 2018, the Legislative Policy Committee approved the Salisbury University, the Morgan State University, and the Montgomery College zones. Towson University is in the process of submitting its zone application. The designation of a RISE zone is effective for five years and can be renewed for an additional five years. As of August 2018, no companies have earned RISE zone tax credits.

In order to assess the program's implementation, DLS reviewed program application files and held meetings with the Department of Commerce (Commerce), local program administrators, university officials, and other stakeholders. As a result, DLS identified several program implementation issues. A review of this information shows that although zones share similar objectives, institutions and local governments have distinct goals and rationale for participating in the program. Institutions plan on using the program to support research parks, increase technology transfers to nearby businesses, stimulate businesses that have connections with institutions and startup companies, revitalize commercial areas, and use the expanded authority of tax increment financing.

The current RISE zone tax incentives may not best achieve the goals and objectives articulated by local zone administrators nor give the program sufficient flexibility to pursue different goals. Additionally, DLS identified shortcomings with the Enterprise Zone Tax Credit Program, which the RISE Zone Program may be susceptible to encountering.

The lack of program activity limits the ability of DLS to evaluate the program and to provide robust recommendations similar to those found in previous tax credit evaluations. However, DLS makes several findings and recommendations related to the RISE Zone tax credit, as follows.

Existing Incentives Are Misaligned with the Program's Objectives

The RISE Zone Program is modeled after the Maryland Enterprise Zone Tax Credit Program that was established to encourage economic growth in economically distressed areas of the State and increase employment of the chronically unemployed. Meanwhile, the focus of the RISE Zone Program is to promote economic and community development in proximity to qualified institutions. DLS believes the current incentives based on the enterprise zone program are not the most effective way to achieve the objectives of the RISE Zone Program, and instead the focus of the RISE Zone Program should be to promote technological innovation. The RISE Zone Program could be more effective by targeting startups, thus spurring innovation. Startups typically do not own real property or hire many employees, so the RISE Zone Program incentives are not well suited to increase innovation.

Recommendation: The General Assembly should consider altering the incentives to focus the objectives of the RISE Zone Program on promoting technological innovation. Given the importance of innovation, the RISE Zone Program incentives should be targeted to startup companies.

Objectives Vary Across Zones but Incentives Do Not

Qualified institutions and local zone administrators have their own goals for participating in the RISE Zone Program and face unique challenges, thus a cookie-cutter approach may not be the best option for the program. The employment tax credit and property tax credit may not be the best tools to help zone administrators achieve their objectives.

Recommendation: The General Assembly should consider altering the RISE zone incentives to allow zone administrators to have more flexibility to achieve their specific objectives.

The RISE Zone Property Tax Credit's Interaction with the Enterprise Zone Property Tax Credit Is Unclear

The law states that for calculating the RISE zone property tax credit, the amount of property tax imposed on the eligible assessment must be calculated without reduction for any other statewide mandatory property tax credits. Thus, DLS assumes a business can claim the RISE zone property tax credit and the enterprise zone property tax credit if a business is in both a RISE zone and enterprise zone.

Recommendation: DLS recommends that Commerce clarify the interaction of the property tax credit of the RISE zone and enterprise zone programs by regulation.

RISE Zones May Become Less Focused Over Time

In its evaluation of the Maryland Enterprise Zone Tax Credit Program, DLS noted that the program became less effective in meeting its objective as it expanded over the ensuing decades. The program's poorly designed eligibility criteria is a major factor in diluting the effectiveness of the program by allowing zones to expand into areas that are not economically distressed. The history of the enterprise zone program may demonstrate the need for additional measures to ensure that the RISE Zone Program does not have a similar experience.

Recommendation: The General Assembly should consider limiting the maximum size of a RISE Zone.

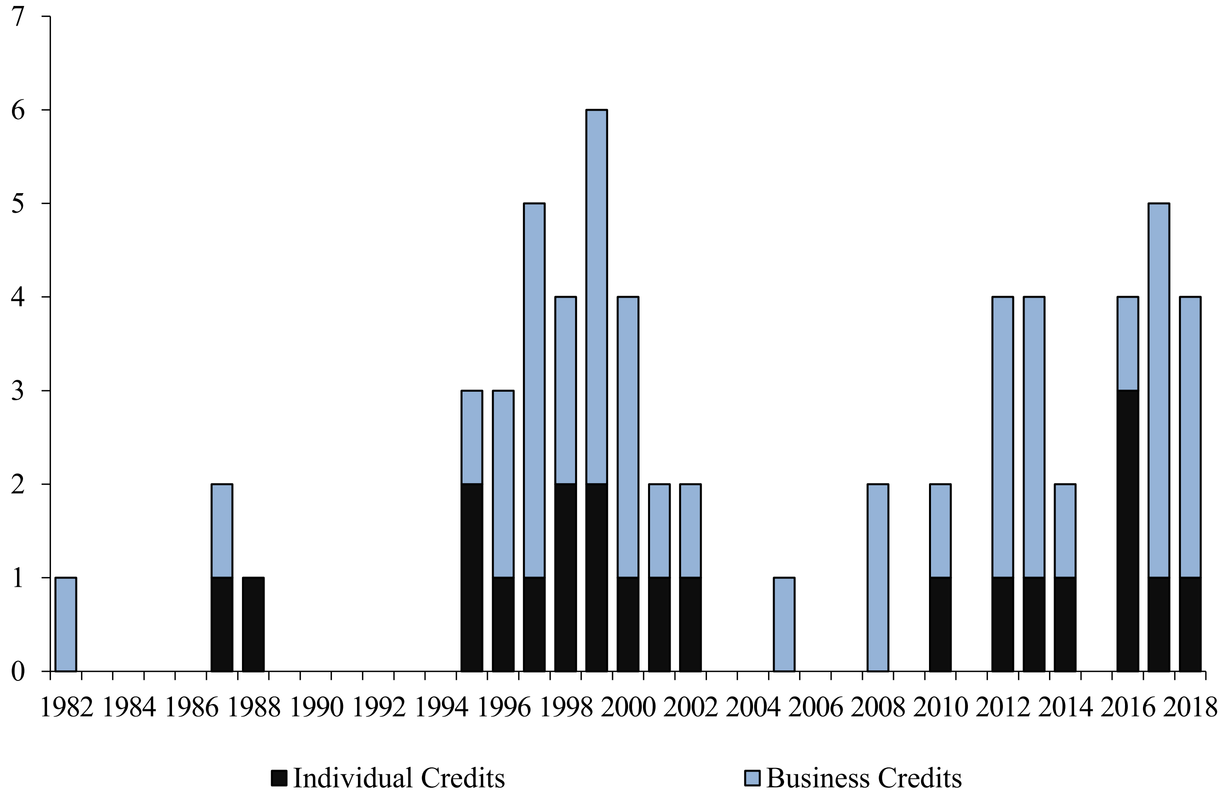
Chapter 1. Overview and Background of the Regional Institution Strategic Enterprise Zone Program

Overview

Since the mid-1990s, the number of State business tax credits has grown significantly as have related concerns about the actual benefits and costs of many of these credits. Although the reduction in State revenues from tax credits is generally incorporated in the State budget, most tax credits are not subject to an annual appropriation as required for other State programs. However, several of the larger credits are subject to an annual budget appropriation, such as the Historic Revitalization Tax Credit and State reimbursement for one-half of the local property tax credit costs under the Enterprise Zone Tax Credit Program. Reporting information for State tax credits varies. Under certain tax credit programs, agencies are required to publish specified information about the credit on an annual basis. Every other year, the Department of Budget and Management (DBM) is required to prepare a statement of the estimated amount by which exemptions from all types of State taxation reduces revenues.

Although tax credits comprise a small percentage of total income tax revenues, **Exhibit 1.1** shows that the number and amount of credits claimed has increased over time. Since 1995, 34 tax credits primarily for businesses and 19 tax credits primarily for individuals have been established. This includes temporary and expired tax credits. Twenty-nine of the credits were established between 1995 and 2002. More recently, 23 credits have been established since 2012, including 15 primarily for businesses. The total amount of credits has increased from a little less than \$50 million in tax year 1994 to about \$250 million in tax year 2008. Most of this increase has been due to an increase in tax credits for individuals, which have increased almost fivefold since 1994, primarily due to growth in the earned income credits.

Exhibit 1.1
Tax Credits Created Each Year
1982-2018



Source: Department of Legislative Services

Tax Credit Evaluation Act

Overview

In response to concerns about the impacts of certain tax credits, Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act, a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee and must be done in consultation with the Comptroller's Office, DBM, the Department of Legislative Services (DLS), and the agency that administers each tax credit. The committee is appointed jointly by the President of the Senate and the Speaker of the House of Delegates and must include at least one member of the Senate Budget and Taxation Committee and one member of the House Ways and Means Committee.

Prior to July 1, 2018, the committee reviewed the following credits: enterprise zone, One Maryland, earned income, film production activity, heritage structure rehabilitation, businesses that create new jobs, job creation, research and development, and biotechnology investment incentive. Current law specifies that the following credits are required to be reviewed by the date indicated:

- ***July 1, 2019:*** Regional Institution Strategic Enterprise (RISE) Zone Program;
- ***July 1, 2021:*** More Jobs for Marylanders tax credit; and
- ***July 1, 2023:*** Cybersecurity investment incentive and purchase of cybersecurity technology or service tax credits.

In addition, Chapter 582 of 2016 altered the tax credit evaluation process by requiring the agency that administers a tax credit subject to evaluation to provide information to and otherwise cooperate with DLS and the evaluation committee. The Act also altered the date by which DLS must publish an evaluation of the credit from October 31 to November 15 and the date by which the evaluation committee must hold a public hearing on the evaluation report from December 14 to December 31. Additionally, the Act eliminated the requirement that, in lieu of a specified evaluation date, a credit must be evaluated in the year preceding the termination date of the credit. Lastly, Chapter 582 increased the time period from five to seven years that a tax credit designated for evaluation under the Tax Credit Evaluation Act is subject to reevaluation.

RISE Zone Program

Chapters 530 and 531 of 2014 established the RISE Zone Program. The program aims to promote economic and community development within communities anchored around a qualified institution. Qualified institutions include institutions of higher education (public and private four-year institutions and community colleges), nonprofit organizations affiliated with federal agencies, and regional higher education centers. Businesses that are located within a zone and meet program requirements qualify for tax credits and priority consideration for specified State financial assistance programs.

The program is similar to the State Enterprise Zone Tax Credit Program that was established in the 1980s. Both programs are geographically targeted programs that offer similar capital investment and employment tax incentives. In addition, both programs are administered by the Department of Commerce (Commerce) but implemented by local jurisdictions. On the other hand, the goals of the program differ as the enterprise zone program targets economically distressed areas and the long-term unemployed, whereas the focus of the RISE Zone Program is promoting economic and community development in proximity to and in conjunction with qualified institutions.

Application Process

Qualified Institutions

The Secretary of Commerce, with input from the Legislative Policy Committee (LPC), may approve an entity for designation as a qualified institution if the institution evidences an intention to make a significant financial investment or commitment in the RISE zone, use the resources and expertise of the applicant to spur economic development and community revitalization in the RISE zone, and create a significant number of new jobs within the RISE zone. The institution must also have a strong and demonstrated history of community involvement and economic development within the communities that the institution serves. Lastly, the institution must meet minimum financial qualifications established by the Secretary of Commerce.

RISE Zone

A RISE zone is a geographic area that has a strong connection with a qualified institution and is targeted for increased economic and community development. A qualified institution must submit a joint application with a county, municipal corporation, or an applicable economic development agency for an area to be designated as a RISE zone. The Secretary of Commerce, with input from LPC, must approve or reject the application within 120 days after the application is submitted. The RISE zone designation is effective for five years and may be renewed for an additional five years. The Secretary of Commerce may designate a maximum of three RISE zones in a single county or municipal corporation. In addition, a zone may not be within a development district or special taxing district. Finally, RISE zones must be in the immediate proximity of a qualified institution, with exceptions for rural areas or cases in which an appropriate nexus for the increased economic and community development is established with the qualified institution.

Tax Credits

Businesses within a zone can qualify for an employment tax credit and a property tax credit for certain capital investments made within the zone. A business qualifies if it is a new business, locates to the zone after the designation of the zone, or is an existing business within the zone and makes a significant capital investment or expansion of its labor force. The business and its location must also be certified as consistent with the target strategy of the zone. A business in a RISE zone may also qualify for priority consideration for financial assistance programs administered by Commerce. These programs include the Maryland Economic Development Assistance Authority and Fund, the Maryland Industrial Development Financing Authority, and the Maryland Small Business Development Financing Authority.

A qualified business may receive a five-year tax credit against local real property taxes imposed on the eligible assessment of qualified property owned by a business. Qualified property is real property that is used in a trade or business by a business entity and is located in a RISE zone. Qualified property does not include property used for residential purposes.

The local government must grant the credit based on a specified percentage of assessment increases resulting from the value of real property improvements, which is calculated by the State Department of Assessments and Taxation. As shown in **Exhibit 1.2**, the credit is applied to the tax imposed on 50% of the eligible assessment during the first year and 10% in the second through fifth year. If the RISE zone is renewed by Commerce, a business may claim an additional property tax credit equal to 10% of the eligible assessment in years 6 through 10. The governing body of a county or municipal corporation may by local law increase the value of the credit shown in Exhibit 1.2.

Exhibit 1.2
RISE Zone Property Tax Credit
Percentage of Eligible Property Assessment

Taxable Year	Percentage
1	50%
2 through 5	10%
6 through 10*	10%

RISE: Regional Institution Strategic Enterprise

* Business may receive a credit of 10% in years 6 through 10 only if the zone is redesignated by the Department of Commerce.

Source: Department of Legislative Services

A business receives an enhanced credit equal to 80% of the eligible assessment for the five-year period if the qualified property is within an enterprise zone and 100% of the eligible assessment if located within a focus area of the enterprise zone.

A qualified business may also claim enterprise zone income tax credits. There are two types of income tax credits: a general income tax credit and an enhanced income tax credit for hiring economically disadvantaged employees. As shown in **Exhibit 1.3**, the general income tax credit is a one-time $1,000 credit per new employee filling a newly created position or $1,500 for each qualified new employee in a focus area. For economically disadvantaged employees, the credit increases to $6,000 per new employee or $9,000 per new employee in a focus area. The tax credit for economically disadvantaged employees is claimed over a three-year period. According to the Comptroller's Office, a business can claim either the RISE zone income tax credit or enterprise zone income tax credit with respect to the same eligible employee.

Exhibit 1.3
Enterprise Zone and Focus Area
Income Tax Credit

Tax Credit	Credit Amount
Enterprise Zone	
Regular employee	$1,000 per employee (one-time)
Economically disadvantaged employee	$6,000 per employee (over three years)
Focus Area	
Regular employee	$1,500 per employee (one-time)
Economically disadvantaged employee	$9,000 per employee (over three years)

Source: Department of Legislative Services

Additional Program Benefits

Tax Increment Financing

In addition to establishing the RISE Zone Program, Chapters 530 and 531 also extended the authority of counties and Baltimore City to issue bonds supported by tax increment financing (TIF) or other similar financing instruments in order to finance certain costs within a RISE zone. A special fund may be created by a local government to facilitate infrastructure improvements within a RISE zone. In addition to the uses for TIF bond proceeds authorized under preexisting law, Chapters 530 and 531 authorized their use in RISE zones for (1) historic preservation or rehabilitation; (2) environmental remediation, demolition, and site preparation; (3) parking lots, facilities, or structures of any type whether for public or private use; (4) schools; (5) affordable or mixed-income housing; (6) stormwater management and storm drain facilities; (7) innovation centers and laboratory facilities or structures of any type whether for public or private use, including maintenance and installation of improvements in the structures and services that support the purposes of the RISE Zone Program; and (8) any other facilities or structures of any type whether for public or private use that support the purposes of the RISE zone.

Business and Community Development Concierge

A unique feature of the RISE Zone Program is the assignment of a business and community development concierge, an employee of Commerce, to assist businesses locating in the RISE zone with (1) State or local permit and license applications; (2) accessing existing State programs; and (3) any other authorized activities relating to the development of the RISE zone.

Legislative Changes

Legislation has been introduced to expand the program; however, the General Assembly has not passed the legislation. Program requirements and benefits remain as they were originally enacted in 2014.

Chapter 2. Intent and Objectives of the Regional Institution Strategic Enterprise Zone Program

Legislative Intent of the Regional Institution Strategic Enterprise Zone Program

Chapters 530 and 531 of 2014 established the Regional Institution Strategic Enterprise (RISE) Zone Program and included a program objective. The Acts specify that the purpose of the program is to access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which the institution is located.

Supporters of the 2014 legislation highlighted the importance of leveraging institutional assets. Testimony from one of the Acts' sponsors referenced the work of the Maryland House Business Climate Work Group. The workgroup was established to develop long-term plans to streamline business regulations, encourage business innovation, and develop public-private infrastructure partnerships. Investors and business owners advised the workgroup that the State was not fully capitalizing on the potential of its world-class institutions. Establishing the RISE Zone Program would promote partnerships between the institutions and the private sector, thereby fostering entrepreneurialism, revitalization, and job creation on a large scale. In addition, the 2014 interim report of the Maryland Economic Development and Business Climate Commission noted that innovation and entrepreneurship are created and supported from the higher education "pipeline" and cited the Research Triangle in North Carolina as an example of how institutions successfully promote and support a strong local economy.

To be a designated qualified institution, an applicant must evidence an intention to make a significant financial investment or commitment in the RISE zone, use the resources and expertise of the applicant to spur economic development and community revitalization in the RISE zone, and create a significant number of new jobs within the RISE zone. The institution must also have a strong and demonstrated history of community involvement and economic development within the communities that the institution serves.

The objective of the program, the requirements that must be met in order to be designated as a qualified institution, and the testimony from the legislation establishing the program and related workgroups indicate that financial investments in the zone, utilization of the resources and expertise of the applicant institutions, job creation, and capital investment are the measurable objectives of whether the program is meeting its objective of promoting economic and community development in nearby communities.

Rationale for Government Intervention

The United States is a modern market economy as most goods and services are produced by the private market. Markets provide optimal benefits to society when economic activity and resources are efficiently allocated. This allocation depends on several conditions, including free competition and a clear assignment of prices and benefits. Although most goods and services in the United States are supplied by the private market, governments intervene in many markets by either supplying the good or service or causing different outcomes than that produced by the private market alone.

Market failures occur when the private market does not produce the most efficient outcome for society. For example, the private market may not incorporate all of the activity's costs and benefits to society. If the activity has additional benefits to society, such as health care or education, markets may underproduce the good compared to the socially optimal quantity. A recent U.S. Federal Reserve analysis noted that in the midst of the recent financial crisis and resulting recession, few people are left unconvinced of the possibility of market failures.

Governments can intervene in a variety of ways – through regulation, taxation, and/or subsidies. Subsidies are a form of government assistance provided by the government to a subset of the public that lowers the cost of producing a good or the price that a consumer pays for a good. While tax credits are a form of subsidies provided through the tax code, subsidies can also be delivered via regulation and direct provision. Most analysts believe that although markets can fail, there should be an expectation that government intervention can improve outcomes before any action is taken. Poorly designed policies can result in society being worse off. For example, most economists believe that although there were market failures within the U.S. housing industry, poorly designed policies (including subsidies) contributed to the housing market implosion. Policy analysts typically identify two rationales for how subsidies can improve free-market outcomes:

- ***Efficiency:*** Subsidies can correct the failure of the market to produce the efficient amount of goods and services, thereby improving societal benefits.

- ***Outcomes:*** Markets can operate efficiently but produce outcomes that are deemed inequitable; for example, private market activities can result in unacceptable levels of poverty and joblessness.

RISE Zone Program

Research Institutions Promote Economic Growth and Employment

In addition to increasing the State's human capital and the direct economic effects of large-scale employment and purchases of goods and services, research institutions may serve as anchors of economic growth and promote economic growth through multiple channels. In October 2017, the Brookings Institution released a report on the economic value of universities and research centers. The report states that "research universities are the crown jewels of the American innovation economy…not only do these institutions push the frontiers of science, they are anchors of regional economic growth, supporting their cities by providing a steady stream of high-skilled workers, attracting faculty research entrepreneurs, encouraging private-sector research and development (R&D) partnerships, and leading core regional technical capabilities."

The report also concluded that regions that successfully commercialize university research typically share certain attributes, including a focus on the life sciences and health care and a location that is within dense employment centers that have access to large firms, entrepreneurs, private equity, and other amenities.

Research Has Identified Several Benefits from Clustering Around Institutions

The clustering of established companies, startups, and business incubators around anchor institutions creates technology spillovers that boost innovation by enhancing the exchange of ideas and "open innovation." Kendall Square in Cambridge, Massachusetts (anchored by the Massachusetts Institute of Technology) is sometimes referred to as the most innovative square mile on the planet. Other examples include Michigan's R&D intensive auto industry, California's Silicon Valley, London's financial sector, and biotechnology clusters located throughout the United States, including those in California, Massachusetts, and Maryland.

Academic studies have found empirical evidence that university R&D activities positively influence business innovation. One study found evidence that the expansion of a university is associated with increased output per worker in the local community and an increase in the patents awarded to inventors in the area labor market. A review of universities in the United Kingdom stressed the importance of the universities in economic growth and concluded that universities could play an even bigger role.

Academic studies have found that industries located within a strong cluster are associated with higher employment growth and wage growth, along with an increase in the number of establishments and patents. Data on patents issued by the U.S. Patent Office shows the importance of research institutions in promoting innovation in the State. From 2000 to 2015, the U.S. Patent Office granted patents to a total of 20,000 individuals and entities in Maryland. The Johns Hopkins University had the fourth most patents of all entities (1,754), and the University System of Maryland had the eighth most (732). About 10% of all patents issued during this period were issued to universities. In addition, a significant number of patents were issued to federal government agencies and to private companies conducting R&D activities supported by Maryland-based government agencies.

Government Programs Recognize the Benefits of Promoting Economic Clusters

An emerging economic development tool is to incentivize investment and growth within an "innovation district." One example of a government effort to promote clusters is the Pennsylvania Keystone Innovation Zone Tax Credit Program. The program provides tax credits to early-stage companies in targeted industries in order to assist the companies through the stages of growth. Pennsylvania's Department of Community and Economic Development notes that the program was designed to address the lack of entrepreneurial activity and knowledge economy growth around the state's R&D clusters. Three of the 29 designated program zones are located near institutions of higher education.

Premised on the concept that institutions of higher education promote economic growth, the Economic Development Administration in the U.S. Department of Commerce administers a University Center Economic Development Program. The program is designed to marshal college and university resources that will support regional economic development strategies. An annual competition selects states to run five-year programs leveraging university assets that will strengthen regional economies and promote innovation. In 2018, the program provided about $2.5 million in grants to 20 colleges and universities across 13 states. Maryland was not one of the recipient states.

Maryland Has Numerous Significant Research Institutions

A number of significant higher education and federal research institutions are located in Maryland. These strategic assets have a significant impact on the Maryland economy. Higher education research institutions include the University of Maryland, College Park Campus; Johns Hopkins University; and Morgan State University. Notable federal research institutions include the U.S. Food and Drug Administration and the National Institutes of Health as well as numerous military research centers and federally funded R&D centers.

RISE Zone Program Has a Valid Objective

Maryland’s research institutions produce significant economic benefits. The RISE Zone Program encourages firms to locate near research institutions and can create spillover effects that increase the total economic benefits that would otherwise be produced by these research institutions. In addition, the program may also increase the share of these benefits that occur within Maryland. For example, the program could increase the percentage of patents that are commercialized by Maryland-based companies.

The program can have important positive short-term economic effects including increasing employment and the demand for goods and services that are satisfied by local businesses. Research institutions are important centers of innovation, one of the key determinants of long-term economic growth and living standards. A program that is focused on promoting innovation within RISE zones will likely produce long-term benefits to the State.

Chapter 3. Regional Institution Strategic Enterprise Zone Program Implementation

Commerce Has Designated Zones but No Businesses Have Claimed Tax Credits

The Regional Institution Strategic Enterprise (RISE) Zone Program is in its early stages, reflecting its recent enactment in the 2014 session. Seven institutions are participating in the program, while others have expressed interest. As of October 2018, six RISE zones have been approved, and one additional zone is in the application process. No companies have received RISE zone tax credits as of August 2018.

Unlike a typical tax credit program, there is an implementation lag between the program's enactment and the awarding of tax credits. The program has a two-part approval process – an applicant must first be approved as a qualified institution before the Department of Commerce (Commerce) can designate a RISE zone. In addition, a RISE zone designation must be reviewed by the Legislative Policy Committee (LPC). This process, which must be completed before businesses can earn tax credits, has typically lasted a little less than 1.5 years from the date of qualified institution application to zone designation. However, significant tax credit activity has not occurred even after consideration of its recent enactment and implementation process. Three zones have not awarded any tax credits, even though these zones were established several years ago.

Qualified Institution and Zone Approval Activity

Commerce began accepting applications for designation of a qualified institution on December 1, 2014. The University of Maryland Baltimore County (UMBC); the University of Maryland, College Park Campus (UMCP); and the University of Maryland, Baltimore Campus (UMB) became qualified institutions in September 2015, as shown in **Exhibit 3.1**. In 2017, Salisbury University (SU), Morgan State University (MSU), and the Montgomery College Germantown Campus became qualified institutions. Most recently, in May 2018, Towson University (TU) became a qualified institution.

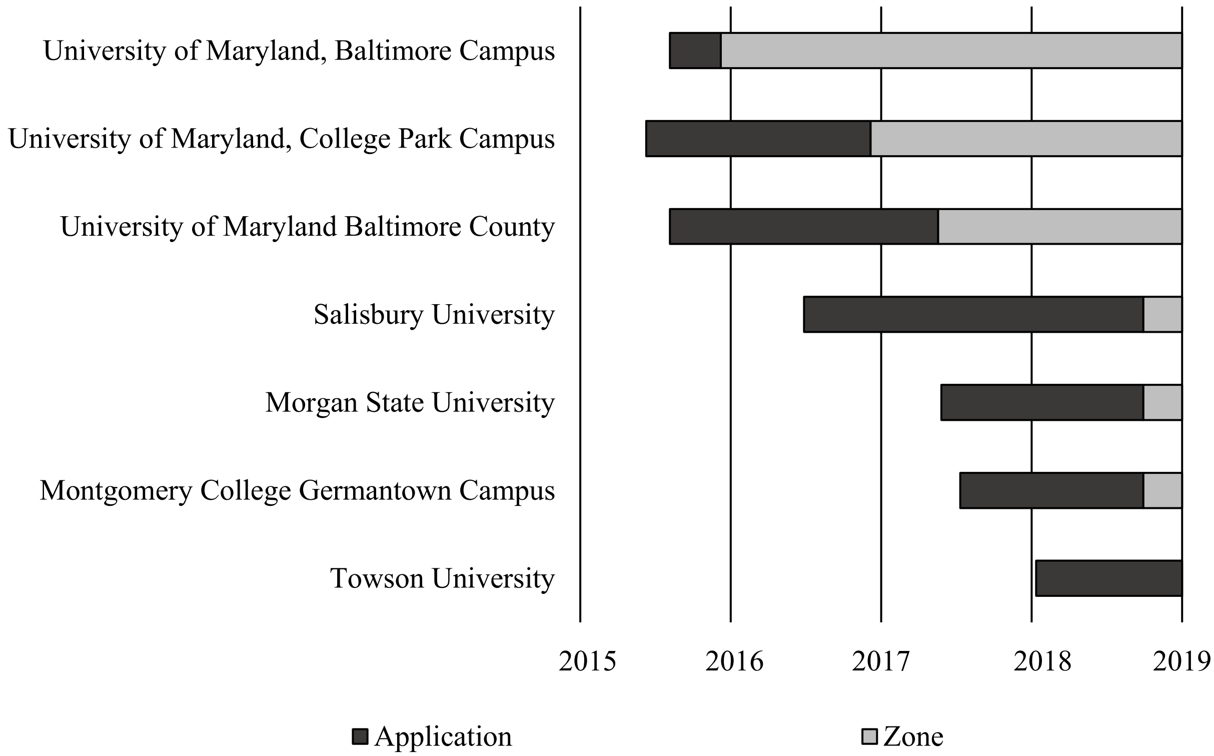
Exhibit 3.1
Regional Institution Strategic Enterprise Zone Program Implementation
As of October 2018

Institution/Zone	Date of Approval as Qualified Institution	Zone Designation Approval	Zone Designation Expiration	Total Acres
University of Maryland, Baltimore Campus	9/25/2015	12/8/2015	12/7/2020	1.65
University of Maryland, College Park Campus	9/11/2015	12/5/2016	12/4/2021	470.00
University of Maryland Baltimore County	9/3/2015	5/18/2017	5/17/2022	71.00
Salisbury University	4/5/2017	9/28/2018	9/27/2023	129.90
Morgan State University	7/2/2017	9/28/2018	9/27/2023	10.20
Montgomery College Germantown Campus	9/11/2017	9/28/2018	9/27/2023	28.00
Towson University	5/11/2018	n/a	n/a	n/a

Source: Department of Commerce; Department of Legislative Services

Statute authorized Commerce to begin accepting RISE zone applications on July 1, 2015. UMB was the first approved zone (December 2015), followed by UMCP (December 2016), and UMBC (May 2017). In September 2018, LPC approved the SU, MSU, and Montgomery College zones. TU is in the process of submitting its zone application. The designation of a RISE zone is effective for five years and can be renewed for an additional five years. **Exhibit 3.2** illustrates each institution's application process and zone designation from the beginning of calendar 2015. **Appendix 1** provides additional details for each institution.

Exhibit 3.2
Program Application and Zone Designation
By Qualified Institution



Source: Department of Commerce; Department of Legislative Services

Participation of the Institutions

Commerce advises that as part of the application process, an institution and local jurisdictions must develop a targeted strategy to use the institutional assets and financial incentives to attract businesses and create jobs within the zone. The objective of the program is to access institutional assets in order to promote economic and community development in nearby communities. In order to assess the program's implementation, the Department of Legislative Services (DLS) reviewed program application files and held meetings with Commerce, local program administrators, university officials, and other stakeholders. A review of this information shows that although zones share similar objectives, institutions and local governments have distinct goals and rationale for participating in the program. Institutions plan on using the program to support research parks, increase technology transfers to nearby businesses, stimulate businesses that have connections with institutions and startup companies, revitalize commercial areas, and use the expanded authority of tax increment financing (TIF).

UMBC

UMBC submitted its initial application on May 27, 2015, and was designated a qualified institution in September 2015. In February 2017, the university applied jointly with Baltimore County, and in May 2017, Commerce designated the UMBC RISE Zone. The focus of the zone is to support bwtech@UMBC – its research and technology park. According to UMBC, the research park is the university's primary means of encouraging business development and commercializing university technology.

The demand for office space currently exceeds supply; bwtech@UMBC has been turning away companies for lack of suitable space. The university may use the property tax credit to entice a developer to construct a new building of up to 100,000 square feet. UMBC notes that the expansion will lead to corresponding increases in employment, sales, payroll, and State and local taxes.

In addition, university officials state that an objective of the RISE Zone Program is to provide financial assistance to the companies within the research park. Current tenants include both emerging and more established companies.

In its application, UMBC stated that it is committed to investing in the RISE zone by continuing to:

- increase student enrollment, providing a larger market for local retail, dining, and service businesses;
- make the university a local resource and an area destination, enhancing the attractiveness of the area for residents and businesses alike; and
- develop high-value transportation links, connecting the university and surrounding communities.

In the RISE zone application, the university specifies that the RISE zone will fulfill the following objectives:

- support the development of new businesses through bwtech@UMBC's set of complementary facilities and services along with its unique relationship to UMBC;
- fully lease to research and technology enterprises any expanded facilities; and
- encourage new hires.

UMCP

UMCP submitted a qualified institution application on June 10, 2015, and was approved on September 11, 2015. On August 19, 2016, the university submitted a joint zone application with the city of College Park, the town of Riverdale Park, and Prince George's County. Commerce approved the Greater College Park RISE Zone on December 5, 2016.

The zone is 470 acres, the largest of all zones, and includes the UMCP Innovation District, M Square Research Park, and commercial property along Baltimore Avenue. Most businesses qualify for a real property tax credit of 50% in the first year and 10% for years two through five. In order to qualify, an existing business that was located in the zone prior to its designation must make a capital investment of at least $5 million and create a minimum of 50 jobs. Retail, grocery, and hotel businesses are not eligible for the tax credit. Local officials advise that the zone excludes these local demand businesses in order to prevent providing financial assistance for economic activity that would have occurred regardless of the program.

In its qualified institution application, UMCP states that the benefits of its technology transfer efforts are often not realized within nearby communities. A goal of the university is to localize innovations, thereby increasing local employment; and in particular, employment in growth industries and those heavily reliant on the highly educated workforce needed for the science, technology, and research and development industries. An official of UMCP advises DLS that a 2011 study found that many of its graduates did not remain in Prince George's County. A goal of the university is to encourage recent graduates to create startup technology businesses in nearby communities.

In his letter of support for designating UMCP as a RISE zone, County Executive Rushern L. Baker, III, stated that a critical reason for support of UMCP's application as a qualified institution relates to the potential to support and nurture new startup businesses and technology companies that originate within the university community. In addition, the county created the zone to help grow its tax base. Pursuant to these goals, the zone offers an enhanced property tax credit of 75% for five years if the business is within certain industries, including engineering, data analytics, cybersecurity, robotics, biotechnology, and other similar technology industries.

The university also believes that the RISE zone will help bring job development resources into the area, assist in implementing the College Park-Riverdale Park Transit District Development Plan for the UMCP Research Park, and better link the Innovation District, Baltimore Avenue corridor and surrounding area. The zone will support the goals of the College Park City-University Partnership that was formed to promote cooperation between the university and nearby communities and support efforts to make College Park into a top-20 college town by 2020.

UMB

UMB submitted an application to become a qualified institution on August 5, 2015, and its application was approved on September 25, 2015. The RISE zone application was submitted jointly with Baltimore City on November 25, 2015, and was approved on December 8, 2015. In the application, the university stated that the proposed goals of the zone are to "expand the University of Maryland BioPark into a leading Innovation District that attracts entrepreneurs and investment from around the world and creates jobs and opportunities for the citizens of Baltimore." The application also lists specific objectives for the zone, including:

- creating 1,023 direct permanent full-time equivalent jobs in a range of positions;
- making $114 million in capital investments;
- locating 100 startup companies in the RISE zone; and
- spurring nearby economic development by investing in a community priority (one example is refurbishing Hollins Market), providing job training, and providing access to jobs and procurement opportunities in the BioPark and UMB.

UMB notes that the expanded uses of TIF authorized by the program was a crucial factor in the decision to participate in the program. Baltimore City plans to use TIF to start construction on a 250,000-square foot building with a capital investment of $50 million to $80 million. Its affiliated entity, the UMB Health Sciences Research Park Corporation (RPC), intends to enter into a development agreement with Wexford Science & Technology. Additionally, UMB and RPC will provide assistance to the BioPark through the Southwest Partnership and the UniverCity Partnership.

UMB officials advised DLS that it originally sought to create a larger RISE zone. However, the area overlaps with the Baltimore City enterprise zone. The State reimburses Baltimore City for one-half of the local property tax revenue losses associated with enterprise zone property tax credits; however, Baltimore City does not receive reimbursements for RISE zone property tax credits. Accordingly, the RISE zone was narrowly tailored to support the BioPark expansion through TIF. The zone totals two acres and is currently the smallest of all zones. Although the expanded TIF authority was the impetus for the zone, UMB officials also advise DLS that providing financial support to the startup companies within the RISE zone is another important program objective.

SU

SU submitted its qualified institution application on June 27, 2016, and was approved on April 5, 2017. The university, Wicomico County, and the city of Salisbury submitted a joint RISE zone application on June 4, 2018, and Commerce designated the SU RISE Zone on September 28, 2018.

In its RISE zone application, the university stated that its objective for the zone is to blend university assets, the Peninsula Regional Medical Center, and downtown with priority given to concentrated mixed use and higher density redevelopment supported by strong transit, bicycle, and pedestrian infrastructure. Another stated goal is to expand area medical education facilities. The Wicomico County and city of Salisbury resolutions creating the zone state that the local jurisdictions are interested in promoting the redevelopment and economic growth of the Route 13 corridor from SU to downtown Salisbury.

The 129.9-acre SU RISE Zone is within the 5,223-acre Salisbury-Wicomico County enterprise zone. As mandated by the program, the City of Salisbury and Wicomico County established a property tax credit of 80% for five years, given properties within the zone are also located within an enterprise zone.

In its application, the university noted that the expanded TIF authority will enable the City to pursue efforts to enhance transportation, beautify, and create higher density redevelopment opportunities within the RISE zone.

MSU

MSU submitted its qualified institution application on May 26, 2017, and was approved on July 2, 2017. MSU and Baltimore City submitted a RISE zone application on July 1, 2018; and on September 28, 2018, the zone was approved.

The focus of the zone is to redevelop the 10-acre Northwood Shopping Center. According to the university, the disrepair and persistent crime associated with the shopping center, which after recent expansion is now part of the university's western campus, negatively impacts surrounding residential communities as well as the university by limiting its attractiveness to potential students and by reducing campus safety.

The RISE zone benefits will be used to allow the university and a private developer to redevelop the shopping center and transform it into the Northwoods Commons, a 100,000-square foot mixed-use development. Remaking the center into a town center is expected to serve as primary retail/commercial anchor for the surrounding community and university. Baltimore City established an enhanced tax credit of 80% for five years as part of the effort to support the project. The private redevelopment costs are expected to total $50 million, qualifying for a total tax credit of about $4 million over five years.

Montgomery College Germantown Campus

Montgomery College submitted an application to become a qualified institution on July 11, 2017, and was approved two months later. The college and Montgomery County applied for zone designation on July 21, 2018, and Commerce approved the zone on September 28, 2018.

The objectives of the zone are to attract new employers to Germantown; build density and improve transit and access in underutilized areas of Germantown; create local jobs to reduce the need for long commutes; and integrate resources between academic, employer, and community organizations to foster economic development and increase economic diversity.

The RISE zone includes the Pinkney Innovation Complex for Science and Technology (PIC MC) and will support PIC MC in its efforts to boost development beyond a standard science and technology park, including an innovation district featuring mixed-use development, activated common areas, and pedestrian-friendly elements that encourage individuals to interact. The county's objectives for the zone include creating additional laboratory space for entrepreneurs and stimulating economic development in targeted industries. The county established an enhanced property tax credit of 75% for five years for biohealth, information technology and cybersecurity, and emerging technology companies. The enhanced credit can also be claimed by corporate and regional headquarters and by qualified entrepreneurs and innovators.

TU

TU submitted an application to become a qualified institution on January 11, 2018. On May 11, 2018, Commerce approved TU as a qualified institution. In its application, TU stated that it is considering three strategies to invest in the proposed RISE zone by:

- expanding its presence in uptown Towson to become a driver of economic development in a struggling commercial area;
- continuing to increase student enrollment; and
- increasing connectivity, walkability, and public safety.

TU officials advise DLS that nearby businesses are typically professional offices, such as law firms, that do not have nexus to the university. A goal of the program is to encourage business diversity and the formation of startup companies. The university also hopes that the RISE program will help retain companies that are currently located within its TU incubator as these companies expand into more mature companies.

In its RISE zone application, the university states that it intends to invest in the proposed zone by purchasing a building within uptown Towson and relocating the Division of Innovation and Applied Research. The university hopes this action will support local entrepreneurs, particularly within education technology; increase economic activity; help revitalize uptown Towson; and reinforce the university's commitment as an anchor institution.

Chapter 4. Program Fiscal Impact

Program Fiscal Impact

As of August 2018, no businesses have qualified for the program's tax credits. Accordingly, the program has not decreased State or local revenues, and the program's fiscal impact is limited to local and State administrative costs. However, revenue losses are expected to occur once businesses are awarded credits.

State Costs

Income Tax Credit

State revenues will decrease once businesses begin to claim the Regional Institution Strategic Enterprise (RISE) Zone Income Tax Credit. The employment income tax credit can be claimed against the personal and corporate income tax. Because businesses must add back the amount of credit claimed to their income, the net fiscal impact will be the amount of credits claimed minus the add-back.

The tax credit is an unbudgeted tax credit that is not subject to an aggregate limit on the amount of credits that can be awarded in each year. Accordingly, the long-term fiscal impact cannot be precisely estimated and will largely reflect the number and size of the zones, employment growth within the zones, and the extent to which businesses that meet program requirements opt to participate in the program.

By comparison, businesses have recently claimed an annual average of about $700,000 in enterprise zone employment tax credits. There are currently 34 State enterprise zones with a total area of 13,600 acres compared to 6 current RISE zones comprised of approximately 711 acres.

Administrative Costs

The Department of Commerce (Commerce) administers the RISE Zone Program. Commerce must approve qualified institution and RISE zone applications and has performed additional stakeholder outreach. In addition, the Secretary of Commerce must assign a business and community development concierge to assist entities locating in a RISE zone with State or local permit and license applications and accessing existing, specified State programs. Commerce advises that due to the lack of zone activity the agency has assigned these responsibilities to regional representatives.

Local Fiscal Impact

Property Tax Credits

Businesses located or locating in a RISE zone may receive a property tax credit against local real property taxes for a maximum of 10 years. The property tax credit is based on a specified percentage of assessment increases resulting from the value of real property improvements. As noted previously, businesses have not qualified for any program tax credits to date. Local property tax revenues will decrease once businesses make qualifying investments in zones and are awarded local property tax credits. For example, Morgan State University established a RISE zone in order to redevelop the Northwood Plaza Shopping Center. The proposed developer of the project has announced its intention to spend $50 million on the redevelopment. The project is expected to reduce Baltimore City property tax revenues by a total of $4 million over five years. Baltimore City property tax revenues will decrease further if the zone is renewed.

Tax Increment Financing

The RISE Zone Program extends the authority of counties and Baltimore City to issue bonds supported by tax increment financing or other similar financing instruments in order to finance certain costs within a RISE zone. As a result, bond revenues may increase for local governments that exercise this authority. A portion of local tax revenues generated in RISE zones may be dedicated to repayment of bonds issued by local governments. Annual debt service expenditures and expenditures for authorized purposes increase for local governments on bonds issued under the program.

Income Tax Revenue Effects

Local governments receive a portion of income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Any RISE zone employment income tax credits claimed against the corporate income tax will therefore decrease local highway user revenues. Businesses claiming the employment income tax credit are required to add back to their income the amount of credit claimed. Accordingly, local government revenues will increase minimally due to taxpayers adding back the amount of credit claimed against the personal income tax.

Chapter 5. Program Implementation Issues

Lack of Tax Credit Activity Prevents Full Program Evaluation

As detailed in previous chapters of this evaluation, the Regional Institution Strategic Enterprise (RISE) Zone Program is in its early stages, and businesses have not been awarded any tax credits. This lack of program activity limits the ability of the Department of Legislative Services (DLS) to evaluate the program and to provide robust recommendations similar to those found in previous tax credit evaluations.

Design and Implementation of Program Incentives May Decrease Program Effectiveness

The State's research centers, including its universities, generate positive economic and social benefits. Implementing a program in recognition of their importance can increase the substantial benefits generated by these strategic assets. However, the design and implementation of the RISE Zone Program may not be the most effective method. This initial assessment reflects the program's similarities to the enterprise zone tax credit in light of that program's difficulty in effectively achieving results. In addition, DLS met with local zone administrators, university officials, and other stakeholders. These meetings helped DLS gain an understanding of each zone's objectives, desired utilization of the program, and how businesses have reacted to the availability of RISE zone tax credits.

Most notably, using enterprise zone tax credits designed in the 1980s to fulfill a different goal of the State may not best achieve the goals and objectives articulated by local zone administrators. In addition, given that goals and objectives vary across zones, the program may not provide adequate flexibility.

Enterprise Zone and RISE Zone Programs Have Different Objectives

The enterprise zone program incentives were designed to promote economic development in distressed areas of the State and to increase employment of the chronically unemployed. The property tax credit provides a greater financial incentive than the employment tax credit, is claimed more often, and comprises a vast majority of program fiscal costs. The property tax credit is designed to help revitalize blighted areas by encouraging investment in nonresidential properties either through renovation of existing buildings or the construction of new buildings.

The characteristics and needs of RISE zone communities and enterprise zone communities differ. As a result, the barriers to investment within RISE zones are typically not as significant, and underinvestment in nonresidential property is not as acute. The objectives of RISE zones are typically more focused than promoting economic development within distressed areas and include supporting and expanding research and technology parks and encouraging technology companies whose endeavors are connected with the anchor institution of the zone.

The redevelopment of the Northwoods Shopping Center within the Morgan State University (MSU) RISE Zone is the first project that is expected to claim a significant RISE zone property tax credit. The project's attributes – a building that is in need of capital investment and is located in an economically distressed area – is similar to many enterprise zone tax credit claimants. The RISE Zone Program has so far failed to attract projects beyond this typical enterprise zone redevelopment.

DLS Evaluation of Enterprise Zone Program Identified Program Shortcomings

The DLS evaluation of the Enterprise Zone Tax Credit Program identified several shortcomings that limited the program's effectiveness in promoting investment in these communities, spurring revitalization, and providing economic opportunities for community residents. The underlying theory of the enterprise zone program is that communities are distressed due to a lack of nearby jobs and that locating companies within the zones was sufficient in itself to providing economic opportunities for residents. The zones would decrease economic distress and benefit residents by providing incentives for economic activity within the zones.

However, economic changes in the ensuing decades, such as globalization, skill-biased technological change, and labor mobility and competition, created shortages and mismatches between the skills demanded by employers and those supplied by enterprise zone residents. The program may create additional jobs within the zone; however, these jobs are typically not filled by nearby residents due to a lack of sufficient skills. Allowing companies to claim a general property and employment tax credit in a RISE zone near the State's institutions of higher learning may also not provide the best incentive in promoting economic activity that fits the objectives of each zone.

Zone Incentives Can Be Redundant

The Salisbury University and the University of Maryland, Baltimore Campus (UMB) RISE zones overlap with enterprise zones. In these instances, RISE zone incentives are redundant, and the program provides little additional benefit beyond the expanded authority to use tax increment financing. DLS has determined in previous tax credit evaluations that this overlap may reduce the effectiveness of each program.

An Expanded Enterprise Zone Program Has Become Less Focused Over Time

The enterprise zone program has expanded significantly as the number and size of the zones has increased the program's fiscal cost. The program's poorly designed eligibility criteria have diluted the effectiveness of the program by allowing zones to expand into areas that are not economically distressed. The State reimburses local governments for one-half of the revenue loss caused by enterprise zone property taxes. As a result, the program can be used for general economic development purposes or local property tax relief instead of remaining focused on providing economic opportunities for residents of distressed communities.

A RISE zone is a geographic area that has a strong connection with a qualified institution and is targeted for increased economic and community development. RISE zones must be in the immediate proximity of a qualified institution, with exceptions for rural areas or cases in which an appropriate nexus for the increased economic and community development is established with the qualified institution. In addition, the Secretary of Commerce may designate a maximum of three RISE zones in a single county or municipal corporation, and all zone designations are reviewed by the Legislative Policy Committee. Unlike the enterprise zone program, the RISE Zone Program does not reimburse local governments for the revenues caused by local property tax credits. DLS is aware of at least one jurisdiction that has not submitted a RISE zone application due to concerns about the program's local fiscal cost.

These program features will benefit the program by helping it remain focused on the program's legislative intent. However, the drift away from the original objective and intent of the enterprise zone tax credit program and other State tax credit programs such as the biotechnology investment incentive tax credit may demonstrate the need for additional measures to ensure the RISE Zone Program does not have a similar experience.

Institutions Face Different Challenges

Qualified institutions and local zone administrators have their own goals for participating in the RISE Zone Program and face unique challenges; thus, a cookie-cutter approach may not be best suited for the program. For example, Towson University zone administrators hope to diversify the types of businesses in their zones, while UMB zone administrators would like to strengthen their cluster of biotechnology companies. The Greater College Park Zone does not allow retail stores to qualify for the RISE zone tax credits, while MSU proposes to have a mixed-use project in its zone that includes a grocery store, main street retail, and a university bookstore.

Some RISE zone stakeholders have suggested that the RISE Zone Program needs to be geared toward startups instead of property developers. Some zone administrators have expressed frustration with the program since the property tax credit is difficult to explain. In addition, developers may not be interested in the property tax credit because they would be required to pass on its benefit to tenants through lower rents. In addition, local zone administrators have expressed concern that the value of the credit may not be worth the administrative burden associated with claiming it.

In its evaluation of the enterprise zone program, DLS found that in contrast to the overall expansion of the program, a significant number of zones failed to attract many businesses and significant investment. The characteristics and objectives of enterprise zones differ, as is the case with existing RISE zones. The lack of activity in many enterprise zones likely reflects the challenges of providing a one-size-fits-all incentive across all zones despite the variation in local economies and objectives.

Employment Tax Credit Does Not Provide Meaningful Incentive

The RISE zone employment tax credit provides the same incentive as the enterprise zone income tax credit. The DLS evaluation of the enterprise zone tax credit program found that many businesses are eligible to claim the income tax credit but fail to do so because the credit value does not justify the perceived amount of time necessary to claim the credit. In addition, businesses indicated that the income tax credit that may be claimed for economically disadvantaged workers was also underutilized due to the perceived difficulty in receiving certification for those workers from the Department of Labor, Licensing, and Regulation (DLLR). In order to claim the credit, the business must be aware that a potential hire is a member of an economically disadvantaged household. Potential hires are hesitant to self-identify as economically disadvantaged during the interview process either due to a lack of knowledge about the program or the potential stigma of doing so.

DLS has noted in evaluations of other employment tax credits that the combination of modest incentive and inefficient design often does not increase employment. Instead, the impact of the credit is primarily to increase the cash flow of the business if it has a tax liability to offset. Several RISE zone administrators have stated that the employment income tax credit is not useful to companies, since they tend not to have enough profits to fully utilize the credit.

Economic Impacts of Credit Can Differ Based on Property Ownership

Several RISE zone administrators have noted that developers and real estate management companies have expressed interest in constructing or renovating a building in order to receive the property tax credit. However, these businesses have not expressed a willingness to pass on the value of the tax credit to its future tenants through reduced rents. Tax credits that are directly provided to businesses may increase investment and jobs at the business, whereas the impact of tax credits to developers is mainly through additional investment in nonresidential property. This will typically result in additional commercial property in zones, which can increase the likelihood that a business locates within the zone by increasing the quantity or quality of commercial property. In these instances, the investment did not necessarily create the jobs located at businesses within the property but could increase the likelihood that a business located within the zone rather than a location outside the zone.

Incentives Are Not Likely to Provide a Meaningful Benefit to Startup Technology Companies

Several RISE zone administrators have stressed the importance of encouraging startup companies and, in particular, technology companies. Analysts and company leaders typically cite the lack of sufficient capital as the biggest challenge facing emerging companies. Emerging companies often operate at a loss and may not have a State income tax liability. In addition, these companies do not purchase but rather lease office space and tend to have few employees.

The RISE zone employment tax credit provides a modest benefit that necessitates hiring individuals and having a State income tax liability. As noted previously, local administrators have stated that property developers have not been willing to pass the value of the property tax credit on to their tenants through rent relief. The ability of either tax credit to benefit emerging companies is limited since these companies typically rent rather than own property, do not hire many employees, and do not have a State income tax liability. The Department of Commerce and local administrators have suggested that alternative benefits, such as grants or direct rent relief, may be more effective approaches to helping these companies.

Chapter 6. Findings and Recommendations

The Regional Institution Strategic Enterprise (RISE) Zone Program is in its early stages, and the lack of activity precludes the Department of Legislative Services (DLS) from being able to make more robust recommendations similar to those in prior tax credit evaluations. Given the RISE Zone Program is in its infancy, the General Assembly may not want to alter the program at this time. However, if the General Assembly wishes to make changes to the program, DLS makes several findings and recommendations about the RISE zone tax credit.

Existing Incentives Are Misaligned with the Program's Objectives

The RISE Zone Program is modeled after the Maryland Enterprise Tax Credit Zone Program that was established in the early 1980s to encourage economic growth in economically distressed areas of the State and increase employment of the chronically unemployed. Meanwhile, the focus of the RISE Zone Program is to promote economic and community development in proximity to qualified institutions. Both the enterprise zone and RISE Zone Programs use geographically targeted programs that offer similar capital investment and employment tax incentives administered by the Department of Commerce (Commerce) but implemented by local jurisdictions. However, DLS believes incentives based on the enterprise zone program are not the most effective way to achieve the objectives of the RISE Zone Program.

Innovation is a key driver in economic growth in the United States. The Congressional Research Service states that "in general, economists agree that technological innovation has accounted for a major share of long-term growth in real per-capita income in the United States." Universities play a vital role in driving innovation, and thus, DLS believes the focus of the RISE Zone Program incentives should be to promote technological innovation. The RISE Zone Program could be more effective by targeting startups, thus spurring innovation. Startups typically do not own real property or hire many employees so the existing RISE Zone Program incentives are not well suited to increase innovation.

Recommendation: The General Assembly should consider altering the current incentives to focus the objectives of the RISE Zone Tax Credit Program on promoting technological innovation. Given the importance of innovation, the RISE Zone Program incentives should be targeted to startup companies whose work is related to research activities conducted at the qualified institution.

Objectives Vary Across Zones but Incentives Do Not

Qualified institutions and local zone administrators have their own goals for participating in the RISE Zone Program and face unique challenges, thus a cookie-cutter approach may not be the best option for the program. The employment tax credit and property tax credit may not be the most effective tools to help zone administrators achieve their objectives.

Recommendation: The General Assembly should consider altering the RISE zone incentives to allow zone administrators to have more flexibility to achieve their specific objectives. For example, one zone administrator could specifically target startup biotechnology companies while another could pursue a real estate developer.

The RISE Zone Property Tax Credit's Interaction with the Enterprise Zone Property Tax Credit Is Unclear

The law states that to calculate the RISE zone property tax credit the amount of property tax imposed on the eligible assessment must be calculated without reduction for any other statewide mandatory property tax credits. DLS assumes that a business can claim the RISE zone property tax credit and the enterprise zone property tax credit if a business is in both a RISE zone and enterprise zone.

Recommendation: DLS recommends that Commerce clarify the property tax credit interaction of the RISE zone and the enterprise zone in regulation.

RISE Zones May Become Less Focused Over Time

In its evaluation of the enterprise zone program, DLS noted that the program became less effective in meeting its objective as it expanded over the ensuing decades. The program's poorly designed eligibility criteria is a major factor in diluting the effectiveness of the program by allowing zones to expand into areas that are not economically distressed. DLS recommended that Commerce propose statutory changes that will provide evaluation criteria that must be considered before an enterprise zone may be expanded, such as restrictions on the size of any expansion. The history of the enterprise zone program may demonstrate the need for additional measures to ensure that the RISE Zone Program does not have a similar experience.

Recommendation: The General Assembly should consider limiting the maximum size of a RISE Zone. The largest RISE zone is approximately 500 acres.

Appendix 1
Program Timeline

	Qualified Institution Timeline		RISE Zone Designation Application Timeline		
Institution Name	**Qualified Institution Application Received by Commerce**	**Qualified Institution Approved by Commerce**	**RISE Zone Designation Application Received by Commerce**	**RISE Zone Designation Approval or Status**	**Expiration Date**
University of Maryland, Baltimore Campus	8/6/2015	9/25/2015	11/25/2015	12/8/2015	12/7/2020
University of Maryland, College Park Campus	6/10/2015	9/11/2015	8/19/2016	12/5/2016	12/4/2021
University of Maryland Baltimore County	5/27/2015	9/3/2015	2/6/2017	5/18/2017	5/17/2022
Salisbury University	6/27/2016	4/5/2017	6/4/2018	9/28/2018	9/27/2023
Morgan State University	5/26/2017	7/2/2017	7/1/2018	9/28/2018	9/27/2023
Montgomery College Germantown Campus	7/11/2017	9/11/2017	7/21/2018	9/28/2018	9/27/2023
Towson University	1/11/2018 Amended 3/1/2018	5/11/2018	n/a	n/a	n/a

Commerce: Department of Commerce
RISE: Regional Institution Strategic Enterprise

Source: Department of Commerce; Department of Legislative Services