

EVALUATION OF THE ENTERPRISE ZONE TAX CREDIT



DEPARTMENT OF LEGISLATIVE SERVICES 2022

Evaluation of the Enterprise Zone Tax Credit

**Department of Legislative Services
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December 2022

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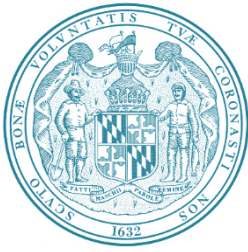
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Ryan Bishop
Director

December 2022

The Honorable Bill Ferguson, President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Members of the General Assembly

Dear President Ferguson, Speaker Jones, and Members:

As you know, the Tax Expenditure Evaluation Act (formerly the Tax Credit Evaluation Act) establishes a legislative process for evaluating certain tax credits, exemptions, and preferences. The Act required the reevaluation of the Enterprise Zone Tax Credit Program by July 1, 2021.

The Department of Legislative Services (DLS) has conducted its reevaluation of the program and makes several findings and recommendations about the tax credit. The document is divided into five chapters.

- **Chapter 1** provides an overview of the Tax Credit Evaluation Act and the Enterprise Zone Tax Credit Program.
- **Chapter 2** provides information on the program's benefits and requirements.
- **Chapter 3** provides information on the program's State and local costs and tax credit activity.
- **Chapter 4** discusses how the program does not accurately target economically distressed areas of the State and is not effective in providing employment opportunities for enterprise zone residents.

- **Chapter 5** summarizes the findings of the report and discusses recommended changes to the tax credit program.

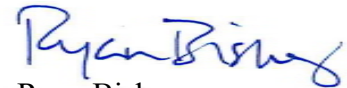
During the 2021 interim and 2022 session, the General Assembly reviewed a draft of this report. In addition, the Revenues Subcommittee of the House Ways and Means Committee held a public briefing on the report. In the 2022 session, the General Assembly passed House Bill 478 (Chapter 732), which altered the Enterprise Zone Tax Credit Program by (1) establishing the purpose of the program to attract, retain, and encourage commercial development in economically distressed areas of the State by incentivizing capital investment and job creation through real property and income tax credits; (2) requiring the Secretary to adopt regulations governing the evaluation and prioritization of applications for enterprise zone and expansion designations; (3) limiting the authority of the Secretary to expand existing zones by 25% instead of 50%; (4) altering the definitions of “focus area employee” and “qualified employee” for the income tax credit; and (5) adding reporting requirements.

We wish to acknowledge the cooperation and assistance provided by the Department of Commerce. DLS trusts that this report will be useful to members of the General Assembly in future deliberations about the Enterprise Zone Tax Credit Program.

Sincerely,



Victoria L. Gruber
Executive Director



Ryan Bishop
Director

VLG:RB/RJR/bao

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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. Chapter 582 of 2016 subsequently amended the requirements of the committee and the evaluation process. The Enterprise Zone Tax Credit Program was first evaluated on July 1, 2014, and reevaluated July 1, 2021.

Established in 1982, the Enterprise Zone Tax Credit Program was designed to encourage economic growth within economically distressed areas and to improve the employment of the chronically unemployed. Businesses located within an enterprise zone are eligible for local property tax credits and State income tax credits.

Since the 2014 evaluation of the program, no substantive legislative changes have been enacted to the program. Subsequent federal and State legislation, which includes the More Jobs for Marylanders Program, the federal Qualified Opportunity Zones Program, and the Opportunity Zone

Enhancement Program, has increased the number of place-based programs with similar objectives as the enterprise zone program.

In an effort to better understand the fiscal impacts and effectiveness of the credit, this report provides an overview of the program benefits, how enterprise zones are designated, the rising fiscal impact of the program, the economic challenges facing residents in and near enterprise zones, and the impacts of the credit on enterprise zone residents.

The Department of Legislative Services (DLS) makes several recommendations as to how the effectiveness of the enterprise zone program might be improved. Most of these recommendations were also included in the 2014 evaluation of the program.

Program Overlaps with Other Tax Credit Programs

The State and federal government have a number of similar tax incentive programs that aim to promote economic development and job creation within economically distressed areas.

Recommendation: Given the overlap of the enterprise zone program with other tax incentive programs, DLS recommends that the General Assembly should require the Department of Commerce (Commerce) and the Maryland Department of Labor (MDL) to submit a report on consolidating several State tax credits, including the following programs:

One Maryland; enterprise zone; More Jobs for Marylanders; businesses that create new jobs; and the Opportunity Zone Enhancement Program.

If the General Assembly, in light of Commerce's and MDL's findings from the report, decides not to consolidate the enterprise zone program, DLS has several recommendations to improve the credit that are discussed below.

Enterprise Zone Tax Credits Are Not Effective in Creating Employment Opportunities for Enterprise Zone Residents

While enterprise zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents who are chronically unemployed and/or are in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility. As such, improved educational opportunities and/or additional job training programs for residents may be more effective in enabling those residents to better compete for jobs created in enterprise zones.

In addition, the enhanced income tax credit that may be claimed for economically disadvantaged workers continues to be underutilized, as MDL reports that the department has certified only 12 employers in the last five years.

Recommendation: Commerce and MDL should propose statutory changes that will improve the likelihood that residents in enterprise zones and enterprise zone communities, particularly those that are in poverty and/or chronically unemployed, can gain employment within enterprise zones. These statutory changes should also propose methods by which other State and local programs that seek to improve job skills and educational attainment levels, such as job training programs, can be better coordinated with the enterprise zone tax credit.

Commerce, in consultation with the Comptroller's Office, should propose statutory changes to the enterprise zone income tax credit that will reduce administrative burdens and help increase the employment of enterprise zone community residents.

Enterprise Zone Program Fiscal Impact Continues to Rise

Since 2001, a total of \$599.0 million in enterprise zone tax credits have been awarded, making the program one of the largest State and local business tax credit programs. The vast majority of the program's fiscal impact results from the local property tax credit, which the State reimburses local jurisdictions for one-half of the cost. The State includes this reimbursement as an appropriation within the State Department of Assessments and Taxation (SDAT). However, there is no limit on the maximum amount of reimbursements. These reimbursements have increased from \$2.4 million in fiscal 2001 to an estimated

\$26.2 million in fiscal 2021, a 12.6% average annual rate of increase. In fiscal 2021, the program is expected to reduce State and local government finances by an estimated \$55.1 million of which \$28.9 million is a reduction in State finances.

Recommendation: The General Assembly should consider statutory changes that reduce the growth in State reimbursements to local governments.

The Pace of Enterprise Zone Expansions Has Accelerated, Diluting the Impacts of Zones and Increasing State and Local Credit Costs

Enterprise zones are typically redesignated at the end of each 10-year period. Most of the zones not redesignated are reestablished as new zones, which are typically greater in size. There are also few limitations on zone expansions and no specific criteria related to zone expansion requirements. From calendar 2000 to 2013, the program expanded by 9,600 acres, or 16%. Since this time, growth has accelerated as the program added more acres (16,300) in half the time. The number of designated acres increase by slightly less than 25% to a total of 87,174 at the end of calendar 2019.

Recommendation: Commerce should propose statutory changes that will provide for evaluation criteria that must be considered before an enterprise zone may be expanded. These criteria should include restrictions on the size of any expansion.

Program Criteria Do Not Accurately Measure Economic Distress

An area can be designated as an enterprise zone so long as it meets one of the criteria related to poverty, employment, median household income, and population loss. A single measure is not sufficient to accurately identify and target economically distressed areas. In addition, the program allows areas that do not qualify to be included in the zone so long as the entire zone meets at least one requirement. These poorly designed criteria limit the program's effectiveness in promoting economic activity within distressed areas and providing employment opportunities for enterprise zone community residents. A recent analysis shows that enterprise zone and One Maryland projects were much less likely to occur in neighborhoods with the most economic distress. These distressed neighborhoods received one dollar of tax credits for every three to four dollars of tax credits provided to the least distressed neighborhoods.

Other government programs employ a quantitative analysis to better identify and target economically distressed areas by including multiple indicators of distress. These programs include multiple indicators of economic distress, which are regularly updated to reflect ongoing societal and economic changes.

Recommendation: The General Assembly should enact statutory changes that establish new criteria that determine the areas of the State that can be designated as an enterprise zone. The criteria should include multiple measures and prevent areas that are not

economically distressed from qualifying for program tax credits.

Data Limitations Continue to Limit Available Information and Analysis

A lack of accurate data on the change in employment, capital investments, and number of businesses within enterprise zones prevented DLS from conducting an economic analysis of the tax credit program in the 2014 evaluation report. In addition, this lack of data prevents the development of a framework or metrics to regularly report program outcomes. These data limitations persist as enterprise zone program reporting falls well short of the information provided to DLS on other similar State tax credits.

One source of the data limitations is the lack of standardization in the reporting of data that each county provides about the program. Commerce reports that, in calendar 2019, the department received qualitative narrative reports from 36 of the required 40 enterprise zones, but only 17 of these reports provided actual job and investment data.

Recommendation: Commerce, in consultation with the Comptroller's Office and SDAT, should adopt formal metrics and a framework for analyzing the cost effectiveness of each enterprise zone and the effectiveness of each zone in attracting businesses and increasing employment. Commerce should identify clear outcomes and determine quantifiable measures, which could include project evaluation, employment trends, impacts on poverty and population, private-sector investment

in communities, and overall community revitalization.

In addition, Commerce, in consultation with SDAT and local jurisdictions, should adopt procedures that will facilitate accurate collection of enterprise zone data to enable evaluation of the program.

Recommendation: The General Assembly should consider statutory changes that prohibit the Secretary of Commerce from redesignating an enterprise zone unless the local government(s) submitting the application have provided required information on tax credit activity within the enterprise zone.

Chapter 1. Overview of the Tax Credit Evaluation And the Enterprise Zone Program

Tax Credit Evaluation Act

Since the mid-1990s, the number of State business tax credits has grown exponentially, as have related concerns about the actual benefits and costs of many of these credits. 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, the Department of Budget and Management, 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. Chapter 582 of 2016 subsequently amended the requirements of the committee and evaluation process.

The Act required the evaluation committee to evaluate specified tax credits by July 1 of each year. In the year prior to the required evaluation date, DLS must publish an evaluation of a tax credit by November 15, and the evaluation committee must hold a public hearing on the evaluation report by December 31.

The committee has reviewed the following credits: enterprise zone; One Maryland; earned income; film production activity; historic revitalization; businesses that create new jobs; job creation; research and development; biotechnology investment incentive; and Regional Institution Strategic Enterprise Zone. The committee is required to evaluate by July 1, 2021, the More Jobs for Marylanders income and sales tax credits. The committee evaluated the One Maryland and enterprise tax credit programs on July 1, 2014, and is required to reevaluate the programs by July 1, 2021. Accordingly, this report is a reevaluation of the 2014 evaluation report published by DLS.

Enterprise Zone Program

The Enterprise Zone Tax Credit Program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. Businesses located within a Maryland enterprise zone are eligible for local property tax credits and State income tax credits. Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. The income tax credit is based on wages paid to newly hired employees and can be taken over a one- to three-year period. The credits vary in value and length of time depending on whether the employee is certified by the Maryland Department of Labor as being economically disadvantaged and if the business is located in a focus area or located within a federal opportunity zone.

As of December 2020, a total of 36 enterprise zones are located in 17 counties and Baltimore City. Program costs have increased over time; in fiscal 2021, the enterprise zone program will reduce State and local government finances by an estimated \$55.1 million. Most of the fiscal impact is due to the local property tax credit, with the State reimbursing local governments for one-half of the total cost. There are currently 15 zones on the Eastern Shore, 10 in Western Maryland, 7 in Central Maryland, and 4 in the Capital Region. The Baltimore City enterprise zone is the largest zone, has three focus areas, and recently accounted for about 75% of all property tax credits. **Appendix 1** details by county the current enterprise zones.

Overview of the 2014 Enterprise Zone Tax Credit Evaluation

In an effort to better understand the fiscal impacts and effectiveness of the credit, the 2014 Enterprise Zone Tax Credit Evaluation Report provides an overview of program tax credits, how enterprise zones are designated, the economic challenges facing residents in and near enterprise zones, the impacts of the credit on residents and businesses in particular enterprise zones, and the costs of the tax credit program.

Issues highlighted in the report include:

- ***Enterprise Zone Expansions Have Become More Prevalent:*** State reimbursements had greatly increased in recent years, from \$2.5 million in fiscal 2001 to \$13.9 million in fiscal 2014, an average annual increase of 14%. Poorly designed eligibility criteria and a lack of limitations on zone expansions have contributed to the program's rising fiscal cost while also diluting its effectiveness by allowing zones to expand into areas that are not economically distressed.
- ***Tax Credits Are Not Effective in Creating Employment Opportunities for Enterprise Zone Residents:*** While enterprise zone tax credits may incentivize some businesses to create jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents who are chronically unemployed and/or are in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility.
- ***Administrative Burdens Limit the Effectiveness of the Enhanced Income Tax Credit:*** Few businesses claim the enhanced income tax credit that can be claimed for hiring members of an economically disadvantaged household.
- ***Lack of Data Makes Assessing the Program Very Difficult:*** The Department of Commerce (Commerce) and the Comptroller's Office are required by law to annually assess the effectiveness of tax credits provided to businesses in enterprise zones. While Commerce annually reports information about the program, the lack of accurate data on the change of employment, capital investments, and number of businesses within enterprises zones precludes the development of a framework or metrics to measure the economic effectiveness of the program.

In light of these findings, DLS made several recommendations as to how the effectiveness of the enterprise zone tax credits might be improved including statutory changes that:

- improve the likelihood that residents in enterprise zones and enterprise zone communities, particularly those who are in poverty and/or chronically unemployed, can gain employment;
- reduce the administrative burdens associated with the income tax credit and improve its effectiveness; and
- establish evaluation criteria that must be considered before an enterprise zone may be expanded.

DLS also recommended that Commerce, the Comptroller's Office, and the State Department of Assessments and Taxation adopt procedures to provide for (1) uniform enterprise zone tax credit data collection in each county and (2) formal metrics and a framework for analyzing the cost effectiveness of each zone.

Recent Developments

Additional Tax Incentive Programs with Similar Objectives Have Been Enacted

The State and federal government have a number of similar tax incentive programs that aim to promote economic development and job creation within economically distressed areas. At the time of the 2014 evaluation, federal programs included empowerment zones, U.S. Economic Development Administration finance programs, and the new markets tax credit. State programs included the enterprise zone program, Commerce-administered finance programs that target economically distressed areas, and other tax credit programs such as the job creation tax credit that provides enhanced tax credits within distressed areas. In addition, the businesses that create new jobs tax credit provides tax credits for businesses that establish or expand a business facility in certain counties.

Subsequent federal and State legislation increased the number of place-based programs with similar objectives. Chapter 149 of 2017 established the More Jobs for Marylanders Program, which as originally enacted aimed to support manufacturing statewide as well as specifically within certain designated counties. The federal Tax Cuts and Jobs Act of 2017 established the Qualified Opportunity Zones Program to incentivize private investment in certain economically distressed communities. Chapter 211 of 2019 established the Opportunity Zone Enhancement Program, which provides enhanced State tax credits and economic development incentives for qualifying businesses within these federal opportunity zones.

Chapter 2. Program Benefits and Requirements

Maryland was one of the first states to establish an enterprise zone program. Chapter 789 of 1981 authorized the establishment of enterprise zones in Maryland contingent upon federal enterprise zone legislation. Chapter 298 of 1982 repealed this contingency and created an enterprise zone program in Maryland to encourage businesses to locate in economically distressed areas and to hire residents from those areas. Chapter 298 established enterprise zone eligibility criteria and provided for special property tax and income tax credits for eligible businesses located in enterprise zones. The legislation also authorized loans to eligible businesses under the Maryland Industrial Land Act as well as grants and loans from the Maryland Industrial and Commercial Redevelopment Fund and low-cost loan guarantees from the Enterprise Zone Venture Capital Guarantee Fund. In December 1982, the State designated its first four enterprise zones – Park Circle Industrial Park in Baltimore City as well as areas in Cumberland, Hagerstown, and Capital Heights in Prince George’s County.

As of December 2020, there are 36 enterprise zones in 17 counties and Baltimore City. A total of 74,255 acres are designated as an enterprise zone; this total does not include the Prince George’s County zone, which expired in December 2019. The Department of Commerce advises that the department has received an application to extend the zone, which previously was 9,400 acres, and is in the process of reviewing the application. Chapter 467 of 1999 expanded the State’s enterprise zone program to include a focus area tax credit, which increased the value of enterprise zone credits for businesses in particularly distressed parts of an enterprise zone. Baltimore City has three focus areas and is currently the only zone with a focus area.

Designation of Enterprise Zones

State Standards

Section 5-704 of the Economic Development Article outlines the statutory requirements for obtaining an enterprise zone designation. In order to qualify as an enterprise zone, a political subdivision must first apply to the Secretary of Commerce for an enterprise zone designation. Except as noted below, the Secretary may only designate an area as an enterprise zone if it is in a priority funding area and satisfies one of the following criteria:

- for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is greater);
- the population in the area, or within a reasonable proximity to the area but in the same county, qualifies the area as a low-income poverty area;

- at least 70% of the families in the area, or within a reasonable proximity to the area but in the same county, have incomes that are less than 80% of the median family income of the political subdivision where the area is located; or
- the population in the area, or within a reasonable proximity to the area but in the same county, decreased by 10% between the most recent two censuses, and the political subdivision can demonstrate to the Secretary's satisfaction that (1) chronic abandonment or demolition of property is occurring in the area or (2) substantial property tax arrearages exist in the area.

Chapter 211 of 2019, among other actions, established the Opportunity Zone Enhancement Program. The program provides enhanced incentives to specified tax credits, including enterprise zone income tax credits, within areas that are currently designated as a federal opportunity zone. The Act also expanded the geographic eligibility of enterprise zones within Allegany, Garrett, Somerset, and Wicomico counties to include federal opportunity zones that meet program criteria.

The Secretary of Commerce may designate one or more State enterprise zones within 60 days of a political subdivision's submission for an enterprise zone designation. Once approved, the enterprise zone designation is effective for 10 years. A county may not receive more than two enterprise zone designations in a calendar year. While State law limits the number of enterprise zones that the Secretary may designate within a calendar year, Chapter 173 of 2006 granted the Secretary the authority to approve the expansion of an existing enterprise zone by up to 50% in size without the expansion counting toward the statutory limit. The Secretary may designate annually six enterprise zones and one extraordinary expansion. At any time, a political subdivision may reapply to the Secretary to designate another area as an enterprise zone. Pursuant to Chapter 362 of 2006, any business located in a State enterprise zone may apply to obtain the enterprise zone tax credit for an additional 5 years following the enterprise zone's expiration.

Local Standards

In addition to the State standards that a business entity must meet to participate in the enterprise zone program, each political subdivision is authorized to establish additional local standards to govern access to the program. Each zone has a local administrator who determines if a business entity meets the required local standards. These additional local standards generally require a minimum capital investment or a minimum number of jobs created, or both. Enterprise zones can also have additional standards limiting the type or category of business entity that is eligible to participate.

Focus Areas

Chapter 467 provided additional incentives for businesses located in designated focus areas within enterprise zones. A focus area is an area located in an enterprise zone that meets at least three of the following criteria: (1) for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is

greater); (2) the incidence of poverty for the population in the area is 150% of the national average; (3) the crime rate in the area is at least 150% of the crime rate in the political subdivision; (4) the percentage of substandard housing is at least 200% of the percentage of housing units in the State that is substandard; or (5) the percentage of square footage of vacant commercial property in the area is at least 20%.

Enterprise Zone Property Tax Credit

Businesses located or locating in an enterprise zone may receive a 10-year property tax credit against local real property taxes. The amount of the property tax credit is based on a specified percentage of assessment increases resulting from the value of real property improvements. As shown in **Exhibit 2.1**, the credit is applied to the tax imposed on 80% of the eligible assessment during the first five years and decreases by 10% annually to 30% in the final year. Within a focus area, a business can receive the 80% credit for the full 10-year period. In addition, businesses in a focus area may be eligible for a 10-year, 80% tax credit against local personal property taxes on new investment. During the course of the property tax credit period, the State Department of Assessments and Taxation (SDAT) is responsible for reimbursing local governments (through the department's annual general fund budget) for 50% of the property tax revenue lost as a result of the credit.

Exhibit 2.1
Enterprise Zone Property Tax Credit
Percentage of Eligible Property Assessment

<u>Taxable Year</u>	<u>Percentage</u>
1-5	80%
6	70%
7	60%
8	50%
9	40%
10	30%

Source: Department of Legislative Services

In order to obtain the property tax credit, a business located within a designated enterprise zone must contact the local enterprise zone administrator to determine whether a particular property meets specific requirements within a given enterprise zone. While State law indicates that businesses may qualify for the credit by making capital improvements or hiring new employees, local enterprise zones may establish additional requirements (*e.g.*, qualifying businesses must hire a certain number of new employees or that the jobs created must be in certain industries).

Following a determination by the local administrator that a property qualifies for the credit, the administrator certifies this finding in writing to SDAT. SDAT will then calculate the amount of the assessment that is eligible to receive the credit. In addition to computing the amount of the eligible property assessment, SDAT is required to keep track of each property that has been certified by the local enterprise zone administrator and notify each local jurisdiction of its property tax credit obligation.

Enterprise Zone Income Tax Credit

There are two types of income tax credits for firms located within an enterprise zone: a general income tax credit; and a larger income tax credit for hiring economically disadvantaged employees. The values of these credits depend on whether the business is located within an enterprise zone, a focus area, and if the location has been designated as a federal opportunity zone. As shown in **Exhibit 2.2**, the general income tax credit is a one-time credit that ranges from \$1,000 per new employee filling a newly created position to \$1,750 for each qualified new employee in a focus area that is also within a federal opportunity zone. For economically disadvantaged employees, the credit increases from a minimum of \$6,000 per new employee to a maximum of \$9,900. The tax credit for economically disadvantaged employees is claimed over a three-year period.

Exhibit 2.2 **Enterprise Zone, Focus Area, and Opportunity Zone** **Income Tax Credit**

Enterprise Zone

Regular employee	\$1,000 per employee (one-time)
Economically disadvantaged employee	\$6,000 per employee (over three years)

Opportunity Zone

Regular employee	\$1,200 per employee (one-time)
Economically disadvantaged employee	\$6,600 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)

Opportunity Zone and Focus Area

Regular employee	\$1,750 per employee (one-time)
Economically disadvantaged employee	\$9,900 per employee (over three years)

Note: Opportunity Zone credit values reflect maximum enhanced tax credit.

Source: Department of Legislative Services

Similar to the property tax credit, businesses located in an enterprise zone must be certified by the local enterprise zone administrator in order to be eligible to receive the income tax credit (including the focus area credit). To qualify for the credit, businesses must hire at least one employee who (1) is hired after the business was located in the enterprise zone or after the enterprise zone was designated; (2) is employed by the business for at least 35 hours per week for 6 months (or 12 months in a focus area) before or during the taxable year in which the credit is taken; (3) spends at least 50% of the workday either in the enterprise zone or on an activity related to the enterprise zone; (4) is hired to fill a new position (*i.e.*, the firm's number of new full-time positions must increase by the number of credits taken); and (5) earns at least 150% of the federal minimum wage. Businesses claiming the credit for hiring an economically disadvantaged employee must obtain certification from the Maryland Department of Labor. Once certified, a business may claim the income tax credit.

Chapter 3. Program Activity and Fiscal Impact

State and Local Fiscal Impact Overview

Since fiscal 2001, a total of \$599.0 million in enterprise zone tax credits have been awarded, making the program one of the largest State and local business tax credit programs. Local property tax credits are 95% of the total; the State reimburses local governments for one-half of their cost. The State budget includes this reimbursement as an appropriation within the State Department of Assessments and Taxation (SDAT). In addition to these reimbursements, State revenues decrease due to the income tax credit.

The unreimbursed foregone local property tax revenue constitutes almost all of the fiscal impact on local governments, with an additional minor loss in local highway user revenues caused by income tax credit claims. The program reduced State finances by \$314.0 million, about 52% of the total, with local finances decreasing by the remaining \$285.0 million.

In fiscal 2021, the enterprise zone program will reduce State and local government finances by an estimated \$55.1 million of which \$52.4 million is due to local property tax credits. The fiscal 2021 State budget includes a \$26.2 million general fund appropriation for these reimbursements. Enterprise zone income tax credits will reduce State revenues by an estimated \$2.7 million, decreasing general funds by approximately \$2.4 million, and higher education investment fund revenues and transportation trust fund revenues will decrease by a total of \$0.3 million. The net impact on State finances is a decrease of \$28.9 million – \$28.6 million of which is general funds – and local revenues will decrease by an estimated \$26.2 million. **Exhibit 3.1** shows the detailed fiscal 2021 State and local fiscal impact.

Exhibit 3.1
Enterprise Zone Program – State and Local Fiscal Impact
Fiscal 2021

<u>State Impact</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Total</u>
General Funds	\$26.2	-\$2.4	-\$28.6
Special Funds	0	-0.3	-0.3
Total State Impact	\$26.2	-\$2.7	-\$28.9
Local Governments	\$0.0	-\$26.2	-\$26.2
State and Local Total	\$26.2	-\$28.9	-\$55.1

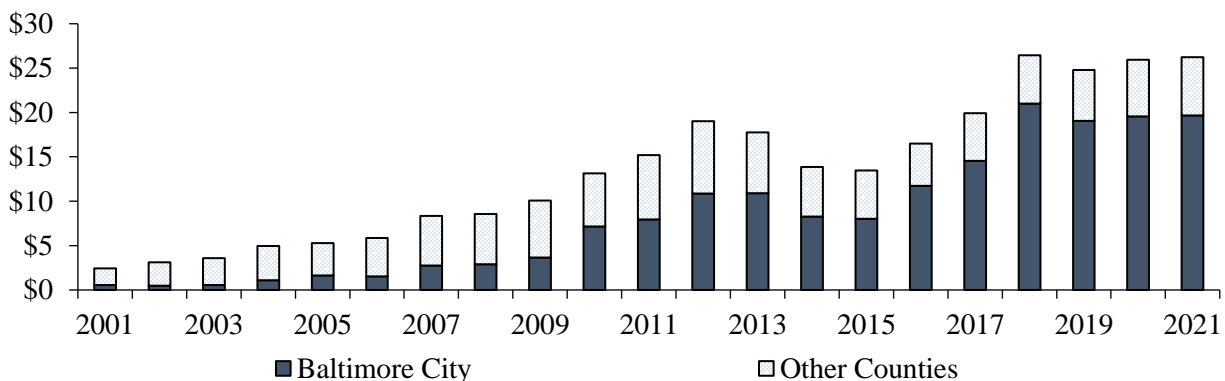
Source: Department of Budget and Management; Department of Commerce; Comptroller's Office; Department of Legislative Services

State Reimbursements to Local Governments Have Continued to Increase Significantly Since Fiscal 2001, Although Reimbursements Have Remained Steady in the Last Four Fiscal Years

State reimbursements to local governments increased exponentially from \$2.4 million in fiscal 2001 to \$19.0 million in fiscal 2012. Reimbursements fell in the next several years, equaling \$13.5 million in fiscal 2015. After another period of rapid growth, reimbursements peaked at \$26.4 million in fiscal 2018 and since then have mostly remained level.

Reimbursements have increased at an annual rate of 12.6%; however, Baltimore City reimbursements increased by 19.4%, about three times greater than the rate of increase in all other counties (6.4%). Since fiscal 2014, the percentage growth of Baltimore City reimbursements has slowed to 13.2%, reflecting the increasing magnitude of these reimbursements; however, growth rates have diverged as the annual growth rate of reimbursements to other counties has slowed to 2.2%. As a result, Baltimore City's share of reimbursements has expanded to 75% in fiscal 2021, compared to a 25% share in fiscal 2001. **Exhibit 3.2** shows the growth in SDAT reimbursements to Baltimore City and all other counties.

Exhibit 3.2
State Enterprise Zone Property Tax Reimbursements
Fiscal 2001-2021
(\$ in Millions)



Source: Department of Budget and Management; Department of Commerce; Department of Legislative Services

A total of 1,027 businesses received a property tax credit in fiscal 2012, which was about three times greater than fiscal 2001. Since this time, the number steadily decreased to 562 in fiscal 2021, despite the rise in reimbursements. The average reimbursement in fiscal 2021 was \$96,750, which is seven times greater than the average fiscal 2001 reimbursement. Increases in commercial property values, larger average projects, higher construction costs, and local property tax increases contribute to this higher average, which has made each program enhancement and expansion more expensive over time.

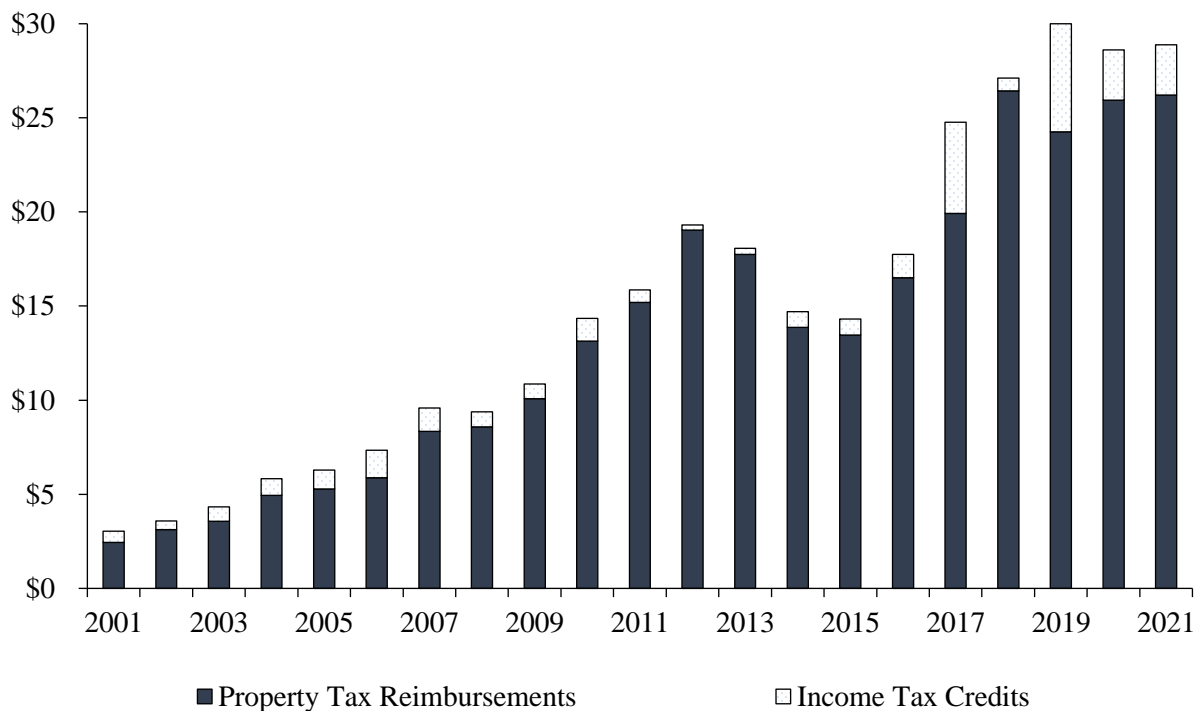
Annual Income Tax Credit Claims Have Been Relatively Modest but Recently Have Increased

In most years, income tax credit claims have been modest, with an average annual amount of about \$1.3 million. Claims have recently increased, with a peak of \$5.7 million claimed in fiscal 2019. Even with this increase, the income tax credit has recently been about 10% of the program's total State cost.

It is unclear if the recent increase will continue as claims have fluctuated; preliminary data indicates that less than \$1.0 million in tax credits have been claimed in tax year 2019. In the 2014 evaluation, the Department of Commerce (Commerce) and local governments advised 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, Commerce advised that businesses have indicated that the income tax credit that may be claimed for economically disadvantaged workers is also underutilized, due to the perceived difficulty in receiving certification for those workers from the Maryland Department of Labor (MDL). In order to claim the credit, the business must be aware that a potential hire is a member of an economically disadvantaged household. According to Commerce, 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. The tax credit continues to be underutilized, as MDL reports that, in the last five years, the department has certified only 12 employers for the enhanced tax credit.

Exhibit 3.3 shows in each fiscal year the total State income tax credits claimed and State property tax reimbursements.

Exhibit 3.3
State Property Tax Reimbursements and Income Tax Credits
Fiscal 2001-2021
(\$ in Millions)



Note: Fiscal 2020 and 2021 assume in each year that the five-year average income tax credit amount is claimed.

Source: Department of Budget and Management, Department of Commerce; State Department of Assessments and Taxation; Department of Legislative Services

Local Fiscal Impact

In fiscal 2021, property tax credits were claimed in 17 counties, but tax credit activity varied significantly across the counties. Baltimore City property tax credits totaled \$39.4 million, or about \$66 per resident, compared to about \$1.20 in the rest of the State. These property tax credits are comparable to the recent annual State nonrefundable and earned income tax credits claimed by city residents. Adjusted for population, Cecil (\$16 per capita) and Harford (\$10 per capita) counties also have robust tax credit activity, with the remaining counties at about \$3.50 per capita or below. **Exhibit 3.4** provides detailed fiscal 2021 information on the State and local costs by local jurisdiction.

Exhibit 3.4
State Reimbursements and Local Property Tax Credits by Local Jurisdiction
Fiscal 2021

<u>County</u>	<u>State</u>	<u>Local</u>	<u>Total</u>	<u>Per Capita</u>
Allegany	\$124,200	\$124,200	\$248,400	\$3.53
Anne Arundel	0	0	0	0.00
Baltimore City	19,684,500	19,684,500	39,369,000	66.33
Baltimore	1,462,400	1,462,400	2,924,800	3.54
Calvert	100	100	200	0.00
Caroline	0	0	0	0.00
Carroll	0	0	0	0.00
Cecil	816,500	816,500	1,633,000	15.88
Charles	0	0	0	0.00
Dorchester	9,500	9,500	19,000	0.60
Frederick	0	0	0	0.00
Garrett	47,700	47,700	95,400	3.29
Harford	1,293,500	1,293,500	2,587,000	10.13
Howard	0	0	0	0.00
Kent	0	0	0	0.00
Montgomery	896,500	896,500	1,793,000	1.71
Prince George's	1,432,900	1,432,900	2,865,800	3.15
Queen Anne's	29,600	29,600	59,200	1.18
St. Mary's	25,700	25,700	51,400	0.45
Somerset	3,000	3,000	6,000	0.23
Talbot	1,100	1,100	2,200	0.06
Washington	239,300	239,300	478,600	3.17
Wicomico	148,100	148,100	296,200	2.86
Worcester	5,200	5,200	10,400	0.20
Total	\$26,219,600	\$26,219,600	\$52,439,200	\$8.67

Source: Department of Budget and Management; State Department of Assessments and Taxation; Department of Legislative Services

In addition to Baltimore City, local property tax credits have also increased in the Capital Region and Central Maryland, most of which reflects activity in Baltimore and Harford counties. Local property tax credits have decreased in Western Maryland and remained minimal in Southern Maryland, as shown in **Exhibit 3.5**.

Exhibit 3.5
Local Property Tax Credit Revenue Loss by Region
Fiscal 2001-2021
(\$ in Millions)

<u>Region</u>	<u>2001</u>	<u>2010</u>	<u>2021</u>
Baltimore City	\$0.6	\$7.2	\$19.7
Capital Region	0.04	1.8	2.3
Eastern Shore	0.2	1.1	1.0
Central Maryland	0.8	2.1	2.8
Southern Maryland	0.02	0.1	0.03
Western Maryland	0.8	0.9	0.4
Total	\$2.4	\$13.1	\$26.2

Source: Department of Budget and Management; State Department of Assessments and Taxation; Department of Legislative Services

Zone Redesignations and Expansions

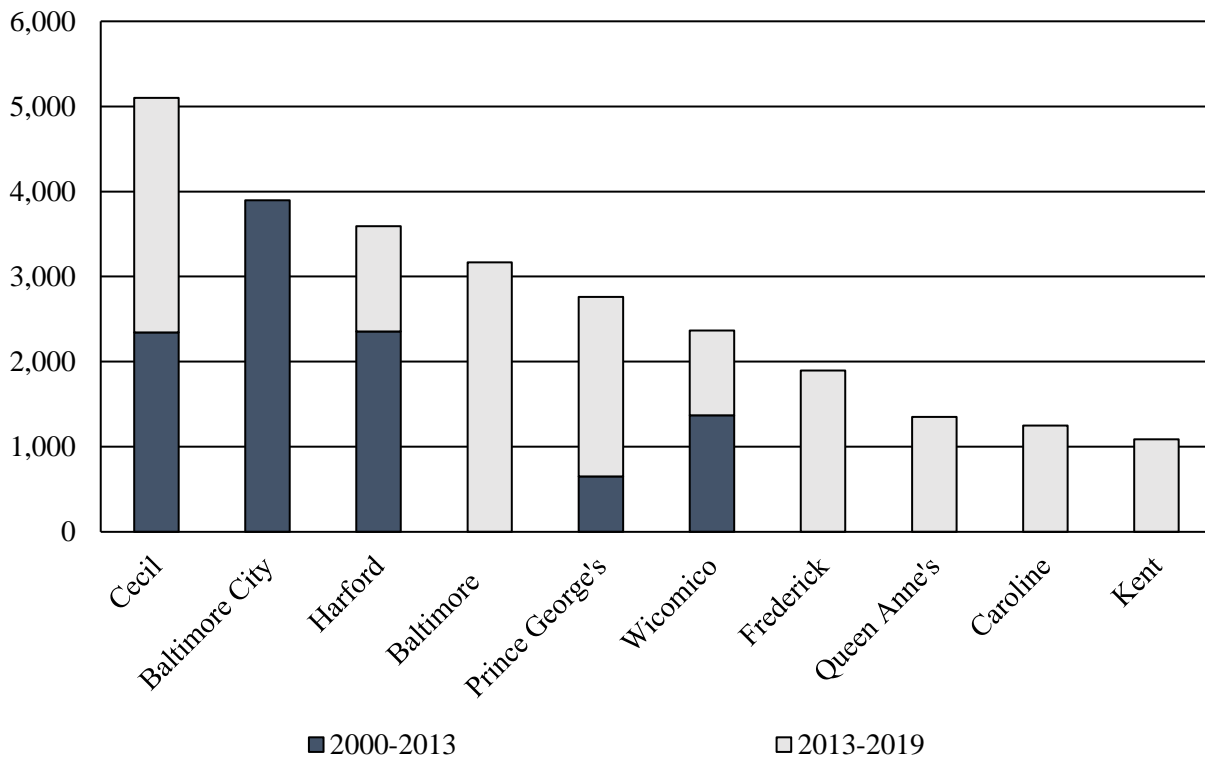
In the 2014 evaluation of the enterprise zone, the Department of Legislative Services (DLS) examined the program's geographic expansion and found that zone redesignations and expansions diluted the effectiveness of the zones and contributed to the program's increased fiscal costs. Over a 14-year period, the program expanded by 9,600 acres, or 16%, and totaled 70,800 acres in calendar 2013. Since the 2014 evaluation, this growth has accelerated as the program added more acres (16,300) in less than one-half of the time. The number of designated acres increased by slightly less than 25% to a total of 87,174 acres at the end of calendar 2019.

Zones are typically redesignated at the end of each 10-year period. Most zones that are not redesignated are re-established as new zones, which are typically greater in size. For example, the Northpoint enterprise zone in Baltimore County, established in December 1995, was 3,821 acres at the time of its December 2014 termination. In June 2015, the Chesapeake enterprise zone, at 6,988 acres, replaced and expanded the zone. Other examples include the Edgewood/Joppa enterprise zone, which replaced and expanded the Edgewood zone, and the Gateway enterprise zone, which replaced the Cumberland enterprise zone. The few zones that have expired and have

not been replaced include Lexington Park, Silver Spring, and most recently the Wheaton enterprise zone. The Prince George's County enterprise zone expired at the end of calendar 2019; however, Commerce advises that the department is in the process of reviewing the county's redesignation application, and DLS anticipates that the zone will be redesignated.

In the 2014 evaluation, Baltimore City accounted for the largest portion of the program's geographic expansion. Since the evaluation, however, other counties are responsible for the growth, as the Baltimore City zone has remained the same size. Eastern Shore zones accounted for 44% of the increase, followed by Central Maryland (30%), Western Maryland (14%), and the Capital Region (10%). No enterprise zones have been designated in Southern Maryland since the June 2010 expiration of the Lexington Park enterprise zone. **Exhibit 3.6** shows the additional designated acres in the 10 counties that had the largest total increase. **Appendix 2** details by county the designated acres in calendar 2000, 2013, and 2019.

Exhibit 3.6
Total Increase in Acres by County
Calendar 2000-2019



Source: Department of Commerce; Department of Legislative Services

Data Issues Continue to Limit Available Program Information and Analysis

In the 2014 evaluation of the program, DLS found that a lack of accurate data on the change of employment, capital investments, and the number of businesses within enterprise zones makes assessing the impacts of the credit very difficult. In addition, this lack of data precludes the development of a framework or metrics to measure the economic effectiveness of the program and prevents DLS from providing information on the program's economic outputs – jobs, investments, and wages – and which businesses receive tax credits.

Commerce reports that, in calendar 2019, the department received qualitative narrative reports from 36 of the required 40 enterprise zones (this includes expired zones still required to report), but only 17 of these reports provided actual job and investment data. As a result, DLS can only report the fiscal information presented in this chapter—the total number of property tax awards and the distribution of these credits by county.

Enterprise zone reporting data falls well short of the information provided to DLS on other Commerce-administered programs, which are not dependent on local reporting. Project information provided to DLS is the most complete for the One Maryland program and includes for each project the reported number of jobs created, the wages paid to these jobs, and the qualifying capital investment. Information also identifies each business that receives a tax credit, the industry of the business, and the address of the qualifying project location. **Exhibit 3.7** compares the available data across tax credit programs, including the businesses that create new jobs tax credit. This program has also been unable to report accurate program information.

Exhibit 3.7
Available Data by Tax Credit Program

<u>Program</u>	<u>Fiscal Cost</u>	<u>Business Identification</u>	<u>Jobs</u>	<u>Wages</u>	<u>Industry</u>	<u>Investment</u>
Businesses That Create New Jobs						
Enterprise Zone	X					
More Jobs for Marylanders	X	X	X	X	X	
Job Creation	X	X	X	X	X	
One Maryland	X	X	X	X	X	X

Source: Department of Legislative Services

Chapter 4. Economic Distress and Employment Barriers

The objective of the enterprise zone program is to focus local and State resources on the encouragement of economic growth in economically distressed areas and employment of the chronically unemployed in the State. The design and implementation of the program, particularly its poorly designed criteria, prevents the program from reaching its objectives by:

- reducing its cost effectiveness by not focusing economic activity in the most distressed areas, which is most likely to not occur in the absence of an incentive;
- contributing to the continual expansion of the program, which increases the program's fiscal cost; and
- failing to provide job opportunities for community residents, for whom the program is implemented and tax credits are intended to benefit.

Enterprise Zone Criteria Do Not Effectively Measure Economic Distress

An area can be designated as an enterprise zone so long as it meets one of the criteria related to poverty, unemployment, median household income, or population loss. Researchers note that there is debate on how economic distress should be defined and measured; however, most agree that a single measure is not sufficient to accurately identify and target economically distressed areas.

An additional shortcoming of the enterprise zone program is how the criteria are applied. The Secretary of Commerce may designate an area if a requirement is met in the proposed area or in reasonable proximity within the county to the area. Rather than requiring each census tract to meet requirements, the program allows areas that do not qualify to be included in the zone so long as the entire zone meets at least one requirement. This lax standard also facilitates the expansion of zones.

Several counties located in Western Maryland and the lower Eastern Shore, as well as Baltimore City, have lower demographic and socioeconomic indicators. However, there is considerable variation within these local jurisdictions, and significant areas of these jurisdictions may be affluent and have less revitalization needs. There are 26 census tracts where the majority of the census tract is within the Baltimore City enterprise zone. The average poverty rate of these 26 census tracts is 25.6%; however, 3 census tracts have a poverty rate in excess of 40%, while 3 have a rate of less than 10%, including 1 with a poverty rate of 2.4%.

Other Programs Better Identify and Target Economic Distress

Other government programs better identify and target economically distressed areas by including multiple measures, using quantitative analysis, and by regularly updating criteria. One example is the Municipal Revitalization Index (MRI), which ranks New Jersey's municipalities according to separate indicators that measure the social, economic, physical, and fiscal conditions in each locality.

The New Jersey Department of Community Affairs defines distress as “a multi-dimensional municipal condition linked to fiscal, economic, housing, and labor market weakness in conjunction with a resident population that is generally impoverished and in need of social assistance.” In its most recent 2017 report, the department initially expected to merely update the existing index based on the newest available data. However, the index led to unusual outcomes, which revealed possible shortcomings in the measure. A quantitative analysis was performed to assess how well the existing index reflected distress and to identify other variables that could better measure it. Based on this analysis, a new MRI was constructed that the department concluded will correct many of the existing index's shortcomings and produce a more robust measure of distress.

The new index included six economic and social measures – the rate of children receiving Temporary Assistance for Needy Families, unemployment rate, poverty rate, educational attainment, median household income, and percentage of households receiving Supplemental Nutrition Assistance Program. The index also included four lesser-weighted measures that reflect migration and disinvestment and fiscal vulnerability dimensions – population change, housing vacancy, a property tax rate measure, and a property valuation measure.

Most Enterprise Zone Projects Are Not Located in the Most Distressed Neighborhoods

A recent analysis by the Department of Legislative Services (DLS) revealed the degree to which the enterprise zone program did not focus economic activity within the most distressed areas. In the 2016 Evaluation of the Sustainable Communities Tax Credit, DLS analyzed whether the sustainable communities tax credit (subsequently renamed as the historic revitalization tax credit) was effective in encouraging community revitalization. The program is not commonly thought of as an economically distressed program; however, the objective of the sustainable communities program was to preserve historic structures and promote community revitalization.

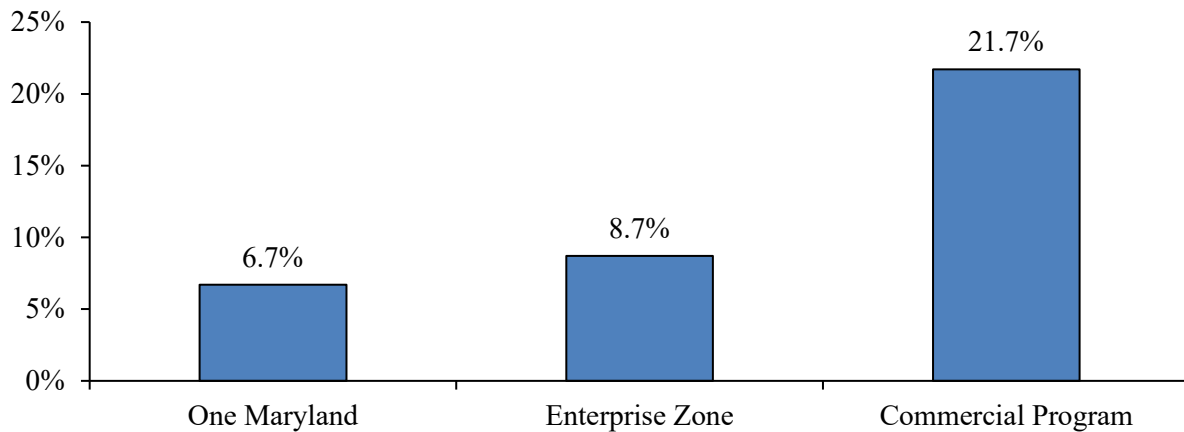
The program provides tax credits for the rehabilitation of both residential and commercial structures. As a result of reforms enacted by the General Assembly in the late 1990s and early 2000s, the commercial tax credit program is now a well-structured program with a competitive process for the awarding of tax credits that generally maximizes the program's effectiveness. In order to assess how well the program promoted community revitalization, DLS geolocated 62 commercial projects located in Baltimore City and collected the socioeconomic and

demographic data on the neighborhoods in which each project was located. To provide a comparison, DLS replicated this process for 33 One Maryland projects and 266 enterprise zone projects. About \$195 million in tax credits were awarded in all three programs over a little more than a decade.

An analysis of the neighborhoods in which projects were located showed that One Maryland and enterprise zone projects were significantly less likely to occur in neighborhoods in need of community revitalization. Commercial sustainable community projects occurred in the neighborhoods with the lowest socioeconomic, housing, and employment indicators, even though the objectives of the One Maryland and enterprise zone programs explicitly promote development within economically distressed areas.

Commercial projects were also the most likely to occur in neighborhoods in the most distress, as measured by census tracts within the lowest quarter of socioeconomic, housing, and employment indicators. One-third of all commercial projects occurred in census tracts with the highest poverty rate (42%) compared to 11% of all enterprise zone projects and 3% of all One Maryland projects. Similar results were obtained by including other variables such as amount of vacant housing, educational attainment of residents, and housing value. The most distressed neighborhoods received one dollar of enterprise zone and One Maryland program funding for every three to four dollars of program funding provided to the least distressed neighborhoods. **Exhibit 4.1** compares the percentage of tax credits awarded by each of the three programs to Baltimore City neighborhoods with the highest economic distress.

Exhibit 4.1
Percentage of All Tax Credits Awarded
Baltimore City Neighborhoods with the Most Economic Distress



Note: Data reflects the census tracts with the lowest average quartile poverty rate, vacant housing, home values, and median household income.

Source: Department of Commerce; Maryland Department of Planning; State Department of Assessments and Taxation; U.S. Census Bureau

Program Does Not Provide Job Opportunities for Residents

Policy Remedies Vary Based on Sources of Unemployment

The source of unemployment has important policy considerations for policies that strive to increase employment through economic development, including the enterprise zone. The enterprise zone program assumes unemployment reflects imbalance of labor supply and demand within zones and also a spatial mismatch – there are not enough proximate jobs opportunities for residents. Under this assumption, policies to stimulate business and job creation can alleviate unemployment by increasing economic development and net employment within the distressed area.

Unemployment often results from structural problems, such as a mismatch between the skills that employers need and those possessed by residents; accordingly, programs designed to increase the total amount of jobs will not effectively increase the target population employment. Active labor market policies such as job training and job search assistance, if well designed and implemented, might be a more effective policy option in addressing the problem of structural unemployment.

2014 Evaluation Documented Barriers to Employment Faced by Community Residents

In the 2014 evaluation of the enterprise zone, DLS conducted an extensive analysis that showed enterprise zone tax credits are not effective in creating employment opportunities for enterprise zone residents who are chronically unemployed and/or live in poverty. DLS identified a number of contributing factors, including skills mismatches for new jobs created, lower than average educational attainment levels for zone residents, and labor mobility.

DLS developed a skills mismatch index to illustrate the level of educational disadvantage that community residents face when seeking employment within that community's enterprise zone. This measure showed that 90% of all enterprise zone communities are undereducated compared to the workers who actually fill the private industry jobs within the zone. Businesses within zones hired individuals who were better educated and skilled than the enterprise zone community residents. The Hagerstown, Hancock, North Point, Baltimore City, Cambridge, Fruitland, and Princess Anne enterprise zones had the highest skills mismatch.

Enterprise zones that focused on lower-skilled industries such as manufacturing and warehousing showed mixed results in reducing the education gap between the skills demanded by employers and those possessed by community residents. This gap persists primarily due to the supply of community residents who lack basic education levels. Of the 11 zones with the highest concentration of manufacturing and warehousing jobs, 5 have an above-average amount of residential undereducation.

Due to the lack of skills among enterprise zone community residents and the mobility of labor, only about one in eight enterprise zone jobs were filled by community residents. This included all community residents and not just the chronically unemployed. **Exhibit 4.2** shows the share of enterprise zone jobs that were filled by residents of the enterprise zone community, county, and State by the region in which the zone is located.

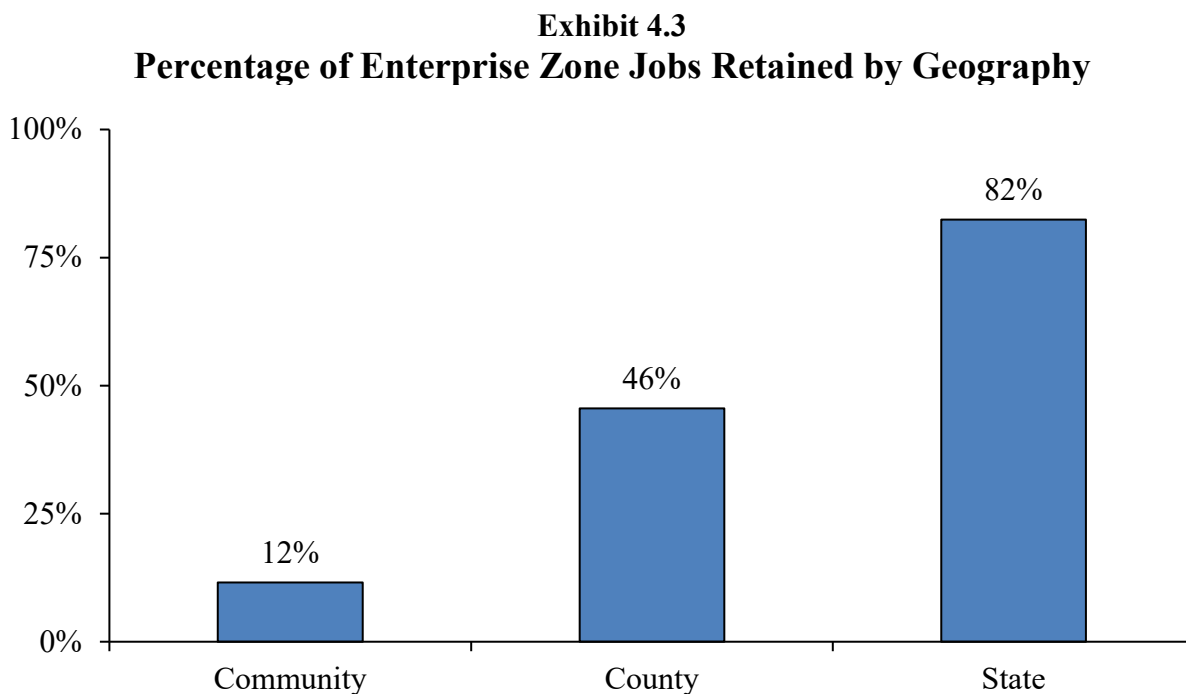
Exhibit 4.2
Percentage of Enterprise Zone Workers by Geography

<u>Region</u>	<u>Community</u>	<u>County</u>	<u>State</u>
Western Maryland	14%	56%	71%
Eastern Shore	8%	39%	86%
Baltimore City	32%	32%	94%
Central Maryland	13%	46%	93%
Capital Region	6%	39%	83%

Source: Department of Commerce; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Baltimore City had the highest community job retention compared to other regions. However, the Baltimore City enterprise zone comprises a significant portion of the commercial and industrial areas of the city and is significantly larger than other zones. About one-half of all zones were less than 1,000 acres and are on average 3% the size of the Baltimore City zone. Given the scope of the Baltimore City zone, a more accurate comparison is at the county level. About two-thirds of Baltimore City enterprise zone workers were not city residents; by comparison, about one-half of all enterprise zone workers did not live in the county in which the zone is located.

Exhibit 4.3 shows for all zones the percentage of enterprise zone jobs that were filled by community, county, and Maryland residents.



Source: Department of Commerce; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

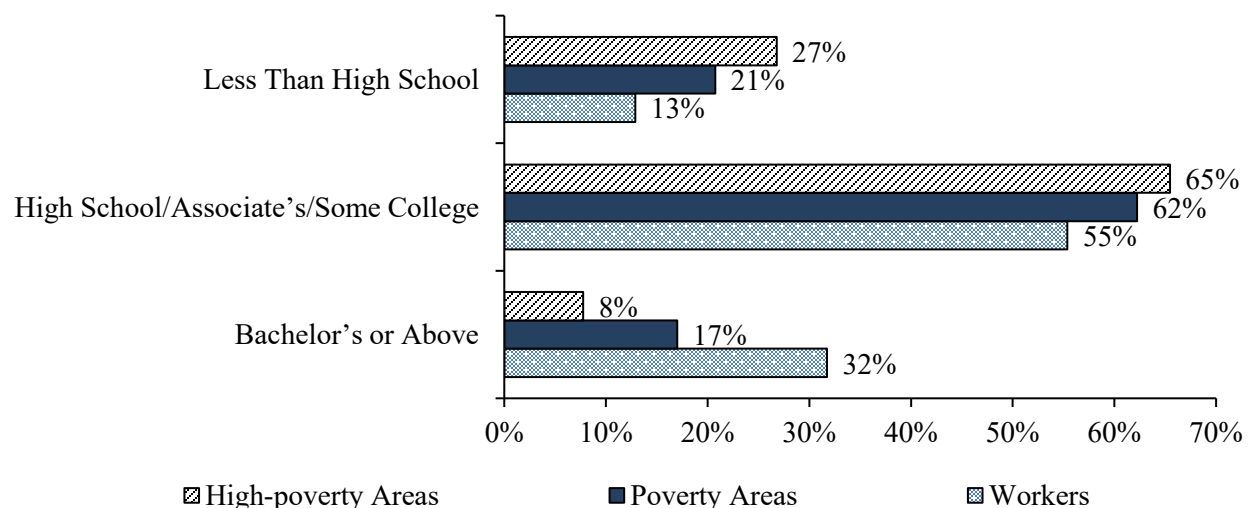
Lack of Program Changes and Updated Data Indicate Problems Persist

Since the 2014 evaluation, no substantive changes have been enacted to the program that address the program's difficulty in providing job opportunities to community residents. Educational attainment within enterprise zone communities has mostly increased; in Baltimore City, the percentage of residents without a high school degree has decreased from about 22% at the time of the evaluation to 15%. However, an analysis of updated data indicates that skills

mismatches persist, and the program has not improved in providing job opportunities for community residents.

In calendar 2018, about one-third of all workers who filled the jobs in the Baltimore City enterprise zone had at least a bachelor's degree. However, only 17% of residents with at least a bachelor's degree resided in those census tracts that are within the enterprise zone and had a poverty rate of at least 20%. In high-poverty areas of the city, a poverty rate of 40%, only 8% of residents had this level of educational attainment. **Exhibit 4.4** contrasts the educational attainment of the workers who fill the jobs within the Baltimore City enterprise zone and community residents.

Exhibit 4.4
Educational Attainment Rates of Enterprise Workers and Residents
Calendar 2018



Note: High-poverty Areas are all Baltimore City census tracts with a poverty rate of 40% or greater. Poverty areas are the census tracts that have a poverty rate of at least 20% and the majority of the census tract is within the Baltimore City enterprise zone.

Source: Department of Business and Economic Development; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Only 30% of Baltimore City enterprise zone jobs in calendar 2018 were filled by community residents, compared to 32% at the time of the evaluation. This updated information on the employment barriers faced by enterprise zone community residents does not reflect the impacts of the economic recession caused by the coronavirus global pandemic. As the coronavirus spread around the world and workplaces closed, millions of workers lost part or all of their incomes. Lower-paid, often low-skilled, workers have been particularly impacted by the crisis.

Chapter 5. Findings and Recommendations

Based on the information and analysis provided in this report, the Department of Legislative Services (DLS) recommends that changes to the enterprise zone tax credit be made to improve the credit's effectiveness as discussed below.

Program Overlaps with Other Tax Credit Programs

The State and federal government have a number of similar tax incentive programs that aim to promote economic development and job creation within economically distressed areas. State programs include the enterprise zone program, the One Maryland program, the Opportunity Zone Enhancement Program, Department of Commerce (Commerce) administered finance programs that target economically distressed areas, and other tax credit programs such as the job creation tax credit that provide enhanced tax credits within revitalization areas. In addition, the businesses that create new jobs tax credit provides State and local tax credits for businesses that establish or expand a business facility in certain counties.

Recommendation: Given the overlap of the enterprise zone program with other tax incentive programs, DLS recommends that the General Assembly should require Commerce and the Maryland Department of Labor (MDL) to submit a report on consolidating several State tax credits, including the following programs: One Maryland; enterprise zone; More Jobs for Marylanders; businesses that create new jobs; and the Opportunity Zone Enhancement Program.

If the General Assembly, in light of Commerce's findings from the report, decides not to consolidate the enterprise zone program, DLS has several recommendations to improve the credit that are discussed below. Most of these recommendations were also included in the 2014 evaluation of the program.

Enterprise Zone Tax Credits Are Not Effective in Creating Employment Opportunities for Enterprise Zone Residents

While enterprise zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents that are chronically unemployed and/or are in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility. As such, improved educational opportunities and/or additional job training programs for residents may be more effective in enabling those residents to better compete for jobs created in enterprise zones.

In addition, the enhanced income tax credit that may be claimed for economically disadvantaged workers continues to be underutilized, as MDL reports that the department has certified only 12 employers in the last five years.

Recommendation: Commerce and MDL should propose statutory changes that will improve the likelihood that residents in enterprise zones and enterprise zone communities, particularly those that are in poverty and/or chronically unemployed, can gain employment within enterprise zones. These statutory changes should also propose methods by which other State and local programs that seek to improve job skills and educational attainment levels, such as job training programs, can be better coordinated with the enterprise zone tax credit.

Recommendation: Commerce, in consultation with the Comptroller's Office, should propose statutory changes to the enterprise zone income tax credit that will reduce administrative burdens and help increase the employment of enterprise zone community residents.

Enterprise Zone Program Fiscal Impact Continues to Rise

Since 2001, a total of \$599.0 million in enterprise zone tax credits have been awarded, making the program one of the largest State and local business tax credit programs. The vast majority of the program's fiscal impact results from the local property tax credit, which the State reimburses local jurisdictions for one-half of the cost. The State includes this reimbursement as an appropriation within the State Department of Assessments and Taxation (SDAT). However, there is no limit on the maximum amount of reimbursements. These reimbursements have increased from \$2.4 million in fiscal 2001 to an estimated \$26.2 million in fiscal 2021, a 12.6% average annual rate of increase. In fiscal 2021, the program is expected to reduce State and local government finances by an estimated \$55.1 million, of which \$28.9 million is a reduction in State finances.

Recommendation: The General Assembly should consider statutory changes that reduce the growth in State reimbursements to local governments.

The Pace of Enterprise Zone Expansions Has Accelerated, Diluting the Impacts of Zones and Increasing State and Local Credit Costs

Enterprise zones are typically redesignated at the end of each 10-year period. Most of the zones that are not redesignated are reestablished as new zones, which are typically greater in size. There are also few limitations on zone expansions and no specific criteria related to zone expansion requirements. From calendar 2000 to 2013, the program expanded by 9,600 acres, or 16%. Since this time, growth has accelerated as the program added more acres (16,300) in half the time. The number of designated acres increased by slightly less than 25% to a total of 87,174 at the end of calendar 2019.

Recommendation: Commerce should propose statutory changes that will provide for evaluation criteria that must be considered before an enterprise zone may be expanded. These criteria should include restrictions on the size of any expansion.

Program Criteria Do Not Accurately Measure Economic Distress

An area can be designated as an enterprise zone so long as it meets one of the criteria related to poverty, employment, median household income, or population loss. A single measure is not sufficient to accurately identify and target economically distressed areas. In addition, the program allows areas that do not qualify to be included in the zone, so long as the entire zone meets at least one requirement. These poorly designed criteria limit the program's effectiveness in promoting economic activity within distressed areas and providing employment opportunities for enterprise zone community residents. A recent analysis shows that enterprise zone and One Maryland projects were much less likely to occur in neighborhoods with the most economic distress. These distressed neighborhoods received \$1 of tax credits for every \$3 to \$4 of tax credits provided to the least distressed neighborhoods.

Other government programs employ a quantitative analysis to better identify and target economically distressed areas by including multiple indicators of distress. These programs include multiple indicators of economic distress, which are regularly updated to reflect ongoing societal and economic changes.

Recommendation: The General Assembly should enact statutory changes that establish new criteria that determine the areas of the State that can be designated as an enterprise zone. The criteria should include multiple measures and prevent areas that are not economically distressed from qualifying for program tax credits.

Data Limitations Continue to Limit Available Information and Analysis

A lack of accurate data on the change in employment, capital investments, and number of businesses within enterprise zones prevented DLS from conducting an economic analysis of the tax credit program in the 2014 evaluation report. In addition, this lack of data prevents the development of a framework or metrics to regularly report program outcomes. These data limitations persist as enterprise zone program reporting falls well short of the information provided to DLS on other similar State tax credits.

One source of the data limitations is the lack of standardization in the reporting of data that each county provides about the program. Commerce reports that in calendar 2019, the department received qualitative narrative reports from 36 of the required 40 enterprise zones, but only 17 of these reports provided actual job and investment data.

Recommendation: Commerce, in consultation with the Comptroller's Office and SDAT, should adopt formal metrics and a framework for analyzing the cost effectiveness of each enterprise zone and the effectiveness of each zone in attracting businesses and increasing employment. Commerce should identify clear outcomes and determine quantifiable measures, which could include project evaluation, employment trends, impacts on poverty and population, private-sector investment in communities, and overall community revitalization.

In addition, Commerce, in consultation with SDAT and local jurisdictions, should adopt procedures that will facilitate accurate collection of enterprise zone data to enable evaluation of the program.

Recommendation: The General Assembly should consider statutory changes that prohibit the Secretary of Commerce from redesignating an enterprise zone unless the local government(s) submitting the application have provided required information on tax credit activity within the enterprise zone.

Appendix 1
Enterprise Zone Designations by County
December 2020

<u>County</u>	<u>Enterprise Zone</u>	<u>Designation</u>	<u>Expiration</u>
Allegany	Frostburg	1984	2024
	Rt. 220 South	2009	2029
	Cumberland/Gateway	1982	2022
Anne Arundel	Brooklyn Park	2017	2027
Baltimore City	Baltimore City	1983	2022
Baltimore	Chesapeake/North Point	1995	2025
	Southwest	1996	2023
	Woodlawn	2011	2021
Caroline	Federalsburg	2015	2025
	North County	2018	2028
Cecil	Cecil County	1997	2023
Dorchester	Cambridge	1993	2023
Garrett	Southern Garrett	1987	2027
	Northern Garrett	1990	2028
	Keyser's Ridge	2004	2029
Harford	Edgewood-Joppatowne	1995	2024
	Aberdeen-Havre de Grace	1996	2026
Kent	Town of Chesterfield	2016	2026
Montgomery	Gaithersburg	2008	2028
	Burtonsville/Briggs Chaney	2017	2027
	Long Branch/Takoma Park	2003	2023
	Glenmont	2013	2023
Queen Anne's	Queen Anne's	2016	2026
Somerset	Crisfield	1996	2026
	Princess Anne	1992	2023
Talbot	Easton	2017	2027
	Tilghman	2017	2027
Washington	Town of Hancock	1995	2025
	Hagerstown	1982	2022
Wicomico	Fruitland	1995	2025
	Salisbury	1982	2022
Worcester	Snow Hill	1995	2022
	Berlin	1996	2026
	Pocomoke City	1991	2022

Source: Department of Commerce; Department of Legislative Services

Appendix 2
Total Enterprise Zone Acreage by County
Calendar 2000-2019

<u>County</u>	Total Acreage			Change in Acreage		
	<u>2000</u>	<u>2013</u>	<u>2019</u>	<u>2000-2013</u>	<u>2013-2019</u>	<u>2000-2019</u>
Allegany	7,833	8,438	8,533	605	95	700
Anne Arundel	0	0	472	0	472	472
Baltimore City	9,557	13,453	13,453	3,896	0	3,896
Baltimore	5,563	5,520	8,687	-43	3,167	3,124
Calvert	253	0	0	-253	0	-253
Caroline	0	0	1,248	0	1,248	1,248
Carroll	0	0	0	0	0	0
Cecil	1,989	4,334	7,090	2,345	2,756	5,101
Charles	0	0	0	0	0	0
Dorchester	1,516	2,319	2,319	803	0	803
Frederick	0	0	1,896	0	1,896	1,896
Garrett	436	634	618	198	-16	182
Harford	10,502	12,857	14,094	2,355	1,237	3,592
Howard	0	0	0	0	0	0
Kent	0	0	1,086	0	1,086	1,086
Montgomery	872	1,135	941	263	-194	69
Prince George's	6,625	7,275	9,385	650	2,110	2,760
Queen Anne's	0	0	1,349	0	1,349	1,349
St. Mary's	3,155	0	0	-3,155	0	-3,155
Somerset	1,402	1,588	1,931	186	343	529
Talbot	0	0	401	0	401	401
Washington	6,104	6,637	5,965	533	-672	-139
Wicomico	2,985	4,353	5,352	1,368	999	2,367
Worcester	2,412	2,293	2,354	-119	61	-58
Total	63,204	70,836	87,174	9,632	16,338	25,970

Source: Department of Commerce; Department of Legislative Services