Evaluation of the One Maryland Economic Development Tax Credit



DEPARTMENT OF LEGISLATIVE SERVICES 2014

Evaluation of the One Maryland Economic Development Tax Credit

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Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

Karl S. Aro
Executive Director

Warren G. Deschenaux
Director

August 6, 2014

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Honorable Members of the Maryland General Assembly

Ladies and Gentlemen:

The Tax Credit Evaluation Act of 2012 (Chapters 568 and 569) established a legislative process for evaluating certain tax credits. The Tax Credit Evaluation Committee created by that legislation was required to review and evaluate the One Maryland economic development tax credit by July 1, 2014. To assist the committee in its work, the Department of Legislative Services (DLS) was required to evaluate the tax 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.

During the 2013 interim and 2014 session, the committee reviewed a draft of this report and also held a public hearing on the report. The report makes several recommendations as to how the tax credit may be more effectively claimed and administered. The report is divided into four chapters.

Chapter 1 provides an overview of State tax credits, the Tax Credit Evaluation Act, and the One Maryland tax credit.

Chapter 2 provides an overview of the objectives of the One Maryland tax credit.

Chapter 3 assesses the economic impact of the tax credit, as well as its impact on State and local finances.

Chapter 4 summarizes the findings of the report and discusses recommended changes to the tax credit.

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We wish to acknowledge the cooperation and assistance provided by the Department of Business and Economic Development and the Comptroller's Office in the development of the report. DLS trusts that the report will be useful to the members of the Tax Credit Evaluation Committee and other members of the General Assembly in future deliberations about the One Maryland tax credit.

Sincerely,

Warren G. Deschenaux
Director

WGD/mpc

cc: The Honorable Richard S. Madaleno, Jr. Co-chair, Tax Credit Evaluation Committee
The Honorable C. William Frick, Co-chair, Tax Credit Evaluation Committee
Mr. Karl S. Aro

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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. 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 One Maryland economic development tax credit be evaluated by the committee by July 1, 2014. 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 in 1999, the One Maryland economic development tax credit is designed to assist in paying for both project expansion and start-up costs for certain businesses in qualified distressed counties. In an effort to better understand the fiscal impacts and effectiveness of the credit, this report provides an overview of the One Maryland tax credit, how the credit is claimed, the annual amount of credits claimed, the geographic distribution of credits, the economic impacts of the credit, and the current and potential future costs of the credit.

DLS makes several recommendations as to how the effectiveness of the One Maryland tax credit might be improved.

The Future Fiscal Impact of the One Maryland Tax Credit is Uncertain Yet Likely Significant

To date, the Department of Business and Economic Development (DBED) has certified a total of $197.4 million in One Maryland tax credits. However, only about one-third of this amount has been claimed to date, thus creating a large pipeline of unclaimed credits. The expected reduction in revenues from existing projects is in addition to any revenue losses resulting from new projects going forward. Since the program is not subject to an annual aggregate limitation, it cannot be accurately predicted as to the amount of credits that will be certified each year.

Eleven out of the 14 tax credit programs established since 2005 incorporate an aggregate annual statutory limit, budgetary reserve fund requirement, and/or dedicated revenue source for offsetting credit costs. In addition, of the five current tax credits with the largest fiscal impact from 2001 to 2007, only the One Maryland tax credit lacks any aggregate limitation on the annual amount of credits certified. **Given the future fiscal uncertainty of the credit and the large variation in the effectiveness of projects, DLS recommends that the annual amount of credits that may be certified by DBED be capped by statute or made subject to an annual State budget appropriation.**

It is anticipated that about $75.0 million in One Maryland tax credits will expire within the next seven years. **DLS recommends that statutory changes be made to allow DBED to provide reasonable notice to applicable businesses with expiring credits and to the Comptroller's Office that the certification for those credits will be revoked, absent extenuating circumstances.**

There is Significant Variation in the Effectiveness of the One Maryland Tax Credit

The precise economic impact of the One Maryland tax credit cannot be determined due to data limitations and the complexity and uncertainty in the credit amounts actually claimed. However, an examination of DBED-reported project outcomes at the time of credit certification shows significant variation in the creation of jobs, wages paid, and cost-effectiveness among projects. In addition, many companies claiming the One Maryland tax credit also receive additional federal, State, and local financial assistance, further diluting credit effectiveness. **DLS recommends that DBED propose statutory changes that will provide targeted tax credits that are commensurate with the expected economic impact of the project, including the change in *net* employment of a given project. DLS also recommends that DBED propose statutory changes that would establish a project evaluation process for the tax credit, similar to those used for the biotechnology and sustainable communities tax credits.**

The One Maryland Tax Credit is Complex to Claim and Difficult to Administer

The amount of the tax credit that can be claimed each year is limited by several factors. A number of companies have either not claimed any credits and indicated to DBED that they will not claim any in the future, or have ceased claiming the credits even if still qualifying. The Comptroller's Office also advises that several companies have claimed the credit incorrectly, in part due to the complexity of calculating the credit. **DLS recommends that DBED, in consultation with the Comptroller's Office, propose statutory changes that will simplify the process of claiming and administering the credit. These changes should continue to require companies to claim the credit over multiple years in order to protect the State's investment, ensure that credits are certified only to the extent companies continue to operate a qualifying facility, and provide additional clarity to companies claiming the credit and for a project's expected fiscal impact to the State.**

The Comptroller's Office advises that it is not able to efficiently and routinely identify and report the types of credits being carried forward by companies claiming tax credits, including the One Maryland tax credit. The Comptroller's Office recently proposed regulations clarifying electronic filing requirements related to business tax credits that are designed to help improve data collection for those credits. **The Comptroller's Office should comment on whether these proposed regulatory changes are sufficient and if statutory changes should be made specifying the treatment of credit carry forwards when a company has multiple credits.**

Additional Information about the One Maryland Tax Credit Should Be Made Available

Although not required by law to do so, DBED issues a One Maryland annual report detailing information about the credit, including the companies that have been certified for credits, the county in which the qualifying project is located, and the number of jobs reported by qualifying projects. However, due to data confidentiality requirements under both State and federal law, the Comptroller cannot publicly disclose specific information about the tax credits that are actually claimed by businesses on an annual basis. This makes it difficult to assess both the effectiveness and the actual fiscal impact of the credits.

DLS recommends that statutory changes be made to require DBED to report to the General Assembly specified information about the credit on an annual basis, including (1) the amount of credit certified for each project; (2) whether the qualifying project was an expansion, a new facility, moved from out of state, or a start up; (3) the aggregate amount of credits actually claimed in the most recent taxable year; (4) the amount of wages paid to qualified employees at the time of certification; (5) the amount, if any, of other State financial assistance including tax credits and federal and local assistance a project will receive; (6) the total capital investment and employment at the qualifying facility at the time of certification; (7) the classification of the company by size of sales, employees, or other similar metrics; and (8) any companies that have ceased operations.

DLS recommends that DBED and the Maryland Insurance Administration provide detailed information to the Comptroller's Office about each company that has been certified for a credit, including the total amount of credit each company is eligible to claim. This information should be provided in a form and manner mutually agreed to by the affected agencies.

DLS recommends that DBED adopt regulations to require each business certified for a credit, as a condition of continued receipt of the credit, to report to DBED annually the amount of the credit actually claimed for the most recent taxable year.

DLS recommends that the Comptroller's Office should ensure that any business claiming the credit (1) is current in all State and local tax obligations; (2) is not in default in any State or local contract; (3) is in good standing with the jurisdiction in which it is organized and with the State and authorized or registered to do business in the State; and (4) has submitted to DBED the most recent required project annual report.

Chapter 1. Overview and Background

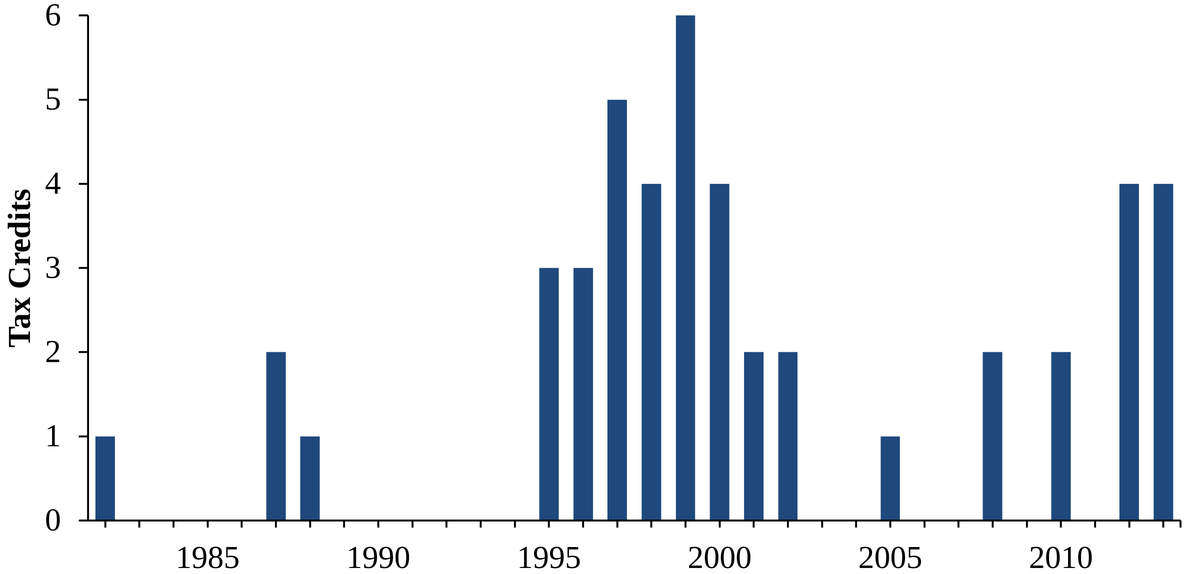
Introduction

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. Although the reduction in State revenues from tax credits are generally incorporated in the State budget, most tax credits are not subject to an annual budgetary appropriation as is required for most other State programs. However, a few credits are subject to an annual appropriation, such as the biotechnology investment and sustainable communities tax credits, as well as the State reimbursement for one-half of the local property tax revenue losses under the Enterprise Zone Tax Credit Program. Information reported by State agencies for State tax credits varies by credit. Under certain tax credit programs, agencies are required to publish specified information about the credit on an annual basis. The Department of Budget and Management (DBM) is required to prepare every other year a tax expenditure report of the estimated amount by which exemptions from all types of State taxation reduce revenues.

Although tax credits comprise a small percentage of total income tax revenues (less than 3% in fiscal 2009), the number and amount of credits claimed have increased over time. Prior to 1995, there was one credit primarily for individuals (the earned income credit) and two primarily business tax credits (enterprise zone and Maryland-mined coal credits). Since 1995, 28 primarily business tax credits and 14 primarily individual tax credits have been established; these numbers include temporary and/or expired tax credits.

The tendency has been for credits to be established in clusters by year as illustrated in **Exhibit 1.1**. Twenty-nine of the credits were established between 1995 and 2002, and a resurgence of new credits occurred more recently, with 12 credits established since 2008, including 8 since 2012. The total amount expended for 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 the tax credits for individuals, in particular the earned income credit, which has increased almost five-fold since 1994. Tax credits for businesses comprised about one-fifth of the total credits claimed in tax year 2008.

Exhibit 1.1
Number of Tax Credits Created Each Year
1982-2013



Source: Department of Legislative Services

Tax Credit Evaluation Act

Overview

In response to concerns about the impacts of 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 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.

The following credits are required to be reviewed by the date indicated:

- July 1, 2014: enterprise zone and One Maryland economic development credits;
- July 1, 2015: earned income and film production activity credits;
- July 1, 2016: sustainable communities and research and development credits; and
- July 1, 2017: businesses that create new jobs, biotechnology investment, and wineries/vineyards credits.

In lieu of the evaluation dates listed above, if a tax credit has a termination date provided for by law, an evaluation of that credit must be made on or before July 1 of the year preceding the calendar year of the termination date.

Department of Legislative Services' Evaluation

By June 30 of the year prior to a tax credit's evaluation date, the evaluation committee is required to meet with the Comptroller's Office, DBM, DLS, and the agency that administers the credit to prepare a plan for evaluation. By October 31 of the same year, DLS is required to publish a report evaluating the tax credit.

The report submitted by DLS must discuss:

- the purpose for which the tax credit was established;
- whether the original intent of the tax credit is still appropriate;
- whether the tax credit is meeting its objectives;
- whether the goals of the tax credit could be more effectively carried out by other means; and
- the cost of the tax credit to the State and local governments.

By December 14 of the same year, the evaluation committee must hold a public hearing on the evaluation report. By the twentieth day of the legislative session before the evaluation date of a tax credit, the committee is required to submit a report to the General Assembly that states whether or not the tax credit should be continued, with or without changes, or terminated.

One Maryland Tax Credit

Eligibility

Chapter 303 of 1999 established the One Maryland economic development tax credit, designed to assist in paying for both project expansion and start-up costs for certain businesses that add at least 25 qualified employees in distressed counties. Additionally, Chapter 303 required the Department of Business and Economic Development (DBED) to adopt regulations to establish the criteria and certification procedures for the tax credit. The bill also specified the information that business entities must submit to DBED for certification as a qualified entity. A business entity must be certified before the entity is eligible to claim the credit. The business may not be certified unless it notifies DBED of its intent to seek certification before hiring any qualified new employees. To qualify, a business must be primarily engaged in a qualifying activity or operate either a central administrative office or a company headquarters (other than the headquarters of a professional sports team).

A project must be in a qualified distressed county and in a priority funding area (PFA) to qualify. To qualify as a distressed county, a county must have:

- an average unemployment rate that exceeded the State's average during the preceding 24-month period by either 2 percentage points or 150%; or
- a per capita personal income that may not exceed 67% of the State's average during the preceding 24-month period.

A distressed county also includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 24-month period. As of September 2013, the following counties are considered a qualified distressed county: Allegany, Caroline, Dorchester, Somerset, Washington, Worcester, and Baltimore City. PFAs include State enterprise zones, federal empowerment zones, Department of Housing and Community Development designated neighborhoods, incorporated municipalities, the areas between the I-495 beltway and Washington, DC and the I-695 beltway and Baltimore City, and growth areas designated by each county.

A business that establishes or expands a business facility in a PFA, and is located in a qualified distressed county, may be entitled to tax credits for costs related to the new or expanded facility. The credit for start-up costs is the lesser of 100% of eligible start-up costs (up to $500,000), less any credits taken in prior years, or $10,000 multiplied by the number of employees that have filled the newly created, qualified positions. The credit for project costs is the lesser of 100% of eligible project costs (up to $5 million), less any credits taken in prior years, or the State income tax liability for the taxable year from the project. Qualifying costs and expenses include those incurred with the acquisition, construction, rehabilitation, installation, and equipping of an eligible project. Eligible costs include land acquisition, performance and contract bonds, insurance, architectural and engineering services, environmental mitigation, and utility installation. The business must expend at least $500,000 in project costs.

Credits may be carried forward up to 14 successive tax years. The program specifies that the credits can be claimed against certain income and taxes in each year and provides for the refundability of the credit in certain circumstances. Credit regulations require a business entity to maintain at least 25 qualified employees at the project to carry over a tax credit from the preceding year. However, Chapter 715 of 2012 provided that a business may claim a prorated share of the credit if it maintained at least 10 positions in the current year and has maintained at least 25 positions for at least five years.

Amendments to the Credit

In 2001, Chapter 729:

- clarified that tax-exempt organizations are eligible for the credit;
- provided that individuals and corporations with no tax liability may file an income tax return to claim the credit; and

- provided that a person subject to the insurance premiums tax may claim the credit.

In 2008, Chapter 498 increased from 18 to 24 months the period by which a county's average unemployment rate is determined. This change occurred largely due to the impact of seasonal labor and the cyclical pattern of unemployment. This presented a problem for those relying on the One Maryland tax credit because the 18-month measuring period always alternates between either a measuring period that consists of two summer seasons (low unemployment levels) or two winter seasons (high unemployment levels). By increasing the measuring period from 18 months to 24 months, the change more accurately measures the true annual unemployment rate.

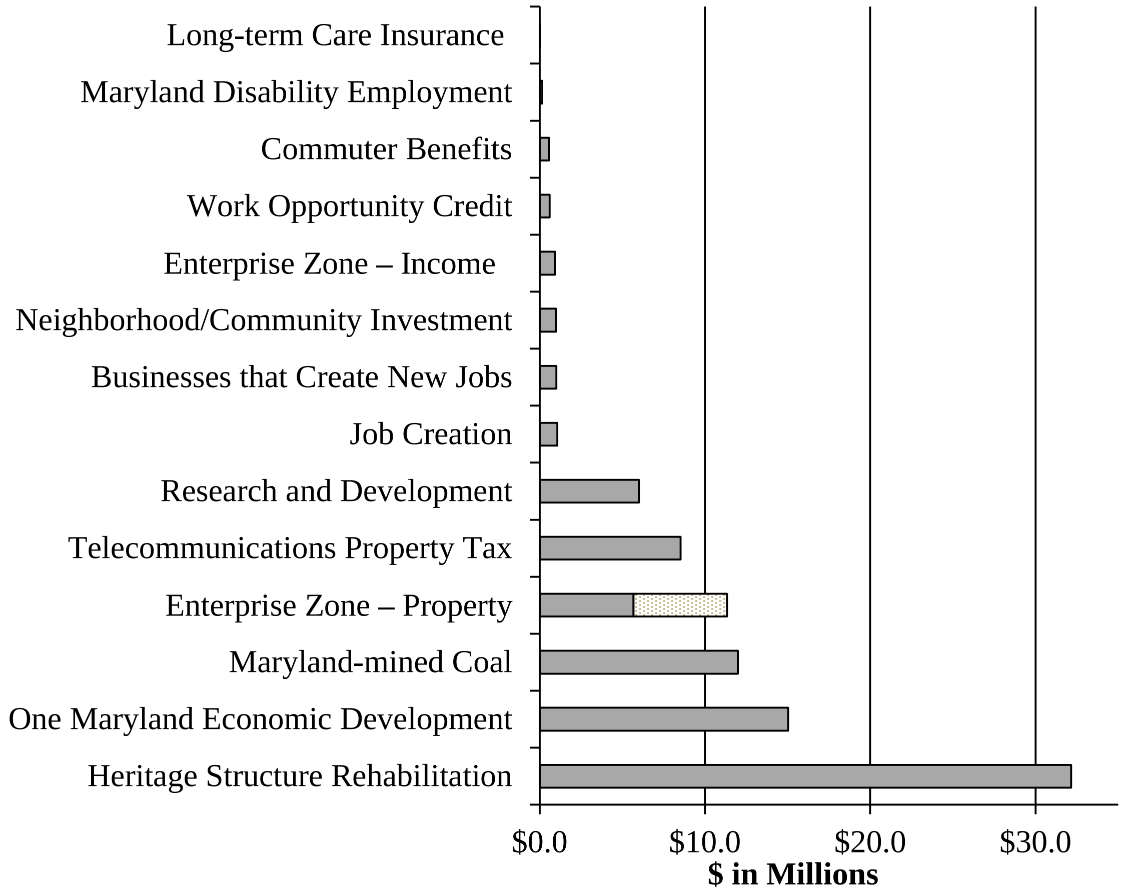
Also in 2008, an exception was provided to the designation of a distressed county by specifying that a distressed county includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 12-month period. In 2011, Chapter 303 extended this period from 12 months to 24 months.

Comparison to Other Credits and Incentives

The One Maryland tax credit is a high-value, low utilization credit compared to other business tax credits. DBED certified an average of $15.0 million in One Maryland tax credits from program inception to 2008; the amount awarded over this period was greater than for all other business tax credits except for the heritage structure rehabilitation tax credit (re-designated in 2010 as the sustainable communities tax credit). Over this period an average of 4.4 companies received a One Maryland tax credit. Over the same period, an average of 19 tax returns claimed the credit in each year – this number is greater due to pass-through entities and businesses claiming the credit over multiple years. The average number of One Maryland claims was substantially less than for the most utilized business tax credits – 140 tax returns claimed the community investment tax credit, 102 claimed the enterprise zone income tax credit, and 564 businesses received the enterprise zone property tax credit (businesses can qualify for the credit over a 10-year period). The only other business tax credits which conveyed a similar average benefit were the Maryland-mined coal credit (scheduled for termination in 2021) and the telecommunications property tax credit (which terminated in tax year 2012).

Exhibit 1.2 compares the amount of One Maryland tax credits to other State business tax credits since the program's inception through 2008.

Exhibit 1.2
Average Annual Tax Credits Claimed
Fiscal 2002-2008



Notes: One Maryland, R&D, and Community Investment credits reflect amounts awarded; all other credits reflect amount claimed on income, insurance premium, and public service company franchise tax returns. Enterprise Zone property tax includes both State reimbursement amounts (shaded region) and local property tax loss (unshaded region). Fiscal 2008 is the last year of complete tax year data.

Source: Comptroller's Office; Department of Business and Economic Development; Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

Similar Credits in Other States

A discussion of similar credits in other states may be found in the Department of Legislative Services' *Evaluation of the Enterprise Zone Tax Credit* report.

Recent Legislative Audit Findings

The Office of Legislative Audits of the Department of Legislative Services completed an audit of DBED in February 2012. The audit looked at the period from October 2007 to November 2010. The audit disclosed that DBED did not require applicants for the One Maryland tax credit to submit supporting documentation for reported project and start-up costs on which the credit is based. On a test of 10 tax credit applicants totaling $42 million, 8 applicants certified for $34 million in credits did not provide any documentation of the costs. Of the eight applicants who did not submit documentation, four took One Maryland tax credits totaling $11.7 million from calendar 2006 through 2009. The audit recommended that DBED obtain adequate supporting documentation for project and start-up costs prior to certifying applicants. DBED agreed with the auditor's recommendation and agreed to immediately amend the preliminary and final tax credit applications to include an accounting for start-up and project costs.

DBED has indicated that it has changed its application for final certification to require the business to attach a schedule of the eligible project and start-up costs to the application which DBED reviews. DBED advises that new applications are not approved without providing this information. In addition, DBED reports that the department has requested that all businesses still actively claiming the tax credit provide the department with a list of costs. Most companies certified prior to this change have complied.

Chapter 2. Objectives of the One Maryland Tax Credit

One Maryland Objectives amid Recent Developments

The One Maryland economic development tax credit was established to assist businesses with the costs of economic development projects undertaken in qualified economically distressed counties, and specifically to encourage capital investment and job creation in those counties.

Poverty is Often Concentrated and Persistent in Certain Areas

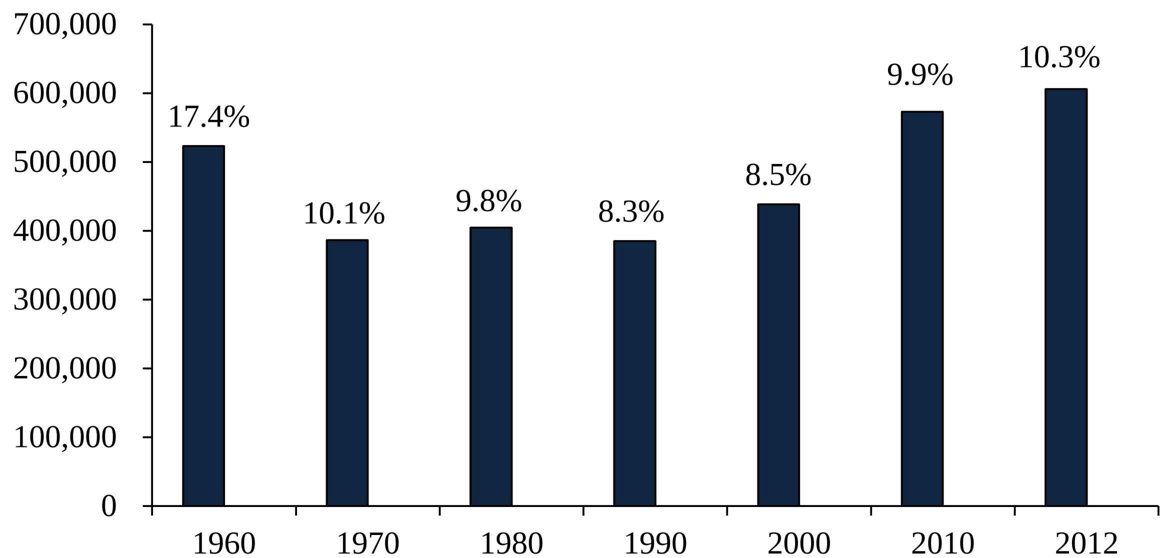
Economic and demographic data provide insight on Maryland's economically distressed areas and employment therein. Research indicates that poverty is often concentrated and persistently present in many areas. People living in poverty tend to be clustered in certain neighborhoods rather than being evenly distributed across geographic areas. Concentrated poverty has been described as the coincidence of a number of social ills including joblessness, crime, depressed economic conditions, and low levels of skills in small geographic areas. Factors that have contributed to the concentration of poverty include the dramatic declines in blue-collar employment caused by de-industrialization, out-migration, and a growing mismatch between the educational levels of residents and the skill levels demanded in growth industries.

Persistent poverty is often associated with inner cities, but it is also a problem in many rural areas. According to recent research conducted by the Population Reference Bureau, metropolitan areas accounted for more than three-fourths of children living in persistently poor neighborhoods. However, children in rural (nonmetropolitan) counties were more likely to live in persistently poor neighborhoods (15%) than were their metropolitan counterparts (11%). In 2000, the study found that there were 8.3 million children living in persistently poor neighborhoods, defined as neighborhoods with poverty rates of at least 20% in 1980, 1990, and 2000. Moreover, a recent study conducted jointly by the U.S. Federal Reserve and the Brookings Institution found that poverty is spreading and may be re-clustering in suburbs, where a majority of America's metropolitan poor now live.

The recent U.S. Federal Reserve and Brookings Institution study examined the challenges, trends, and impacts of concentrated poverty. The study stated that concentrated poverty presents some of the deepest economic and social challenges facing America today, as concentrated poverty and joblessness exact a grave toll on people who continue to live in its midst and threatens to perpetuate disadvantage across generations. Other research indicates that children growing up in poor neighborhoods are at a higher risk of health problems, teen pregnancy, dropping out of school, and other social and economic problems than are children living in more affluent communities. Long-term joblessness is associated with deep, permanent reductions in future earnings, as well as decreased mental and physical health. This body of research argues that concentrated poverty places additional burdens on poor families that live within them, beyond what the families' own individual circumstances would dictate. In addition, concentrated poverty can have wider effects on surrounding areas that limit overall economic potential and social cohesion.

Exhibit 2.1 shows the number of Marylanders living in poverty and the poverty rate since 1960. After decreasing through the 1990s, poverty in Maryland has since increased in both absolute and percentage terms. This increase has been exacerbated by the recent economic recession.

Exhibit 2.1
Number and Percentage of Maryland Residents Living in Poverty
1960-2012

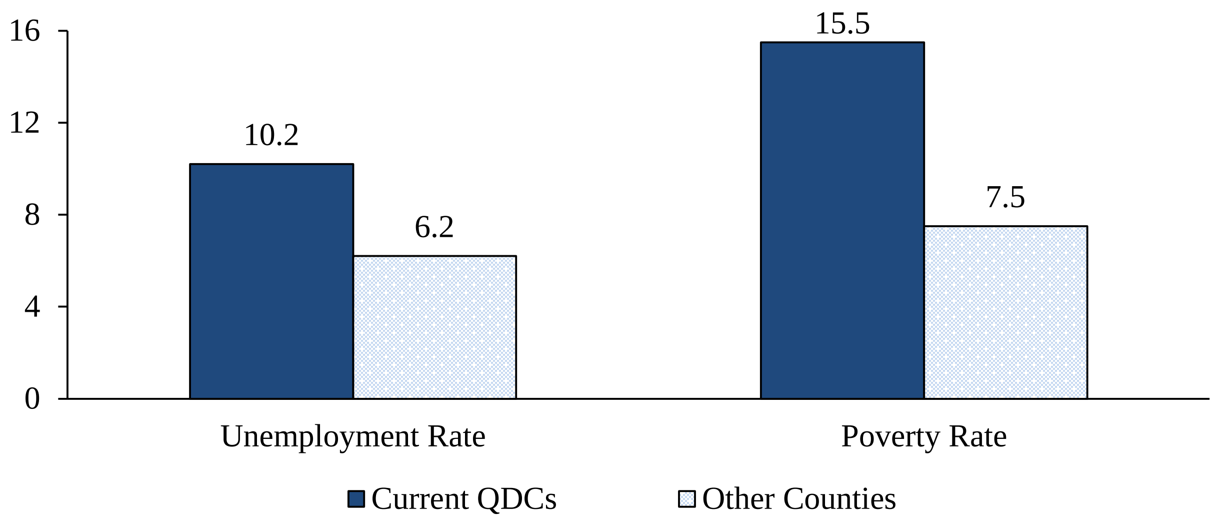


Source: U.S. Census Bureau; Department of Legislative Services

Although concentrated poverty persists in Maryland, it is less prevalent in Maryland than in the rest of the nation. About 9% of Maryland's population lives in areas with poverty rates of 20% or more, compared with a little less than one-quarter nationally. In addition, the percentage of population living in poverty areas is lower in Maryland than in each surrounding state.

Counties which meet or recently met specified criteria related to unemployment or per capita income are designated under the One Maryland program as qualified distressed counties (QDCs). Accordingly, the currently designated QDCs have a higher incidence of poverty and unemployment and lower income levels then other counties. The median household income of $52,330 for a typical QDC is a little more than one-third lower when compared to the Maryland counties which are currently not designated counties. **Exhibit 2.2** compares the unemployment and poverty rates of the currently designated QDCs to other Maryland counties.

Exhibit 2.2
Poverty and Unemployment Rates
Qualified Distressed Counties and All Other Counties



Source: U.S. Census Bureau – *American Community Survey 2009-2011*; Bureau of Labor Statistics – *Local Area Unemployment Statistics*; Department of Legislative Services

Is the Intent of the One Maryland Tax Credit Still Valid?

The intent of the One Maryland tax credit in promoting economic development and jobs within distressed areas of the State is still applicable today given (1) the economic and social consequences of concentrated areas of economic distress/poverty and joblessness on both individuals and the wider community and (2) that qualified distressed counties continue to exhibit economic distress and joblessness.

The validity of the credit's intent and objectives must also be viewed with additional information in mind. The State and local jurisdictions have expanded the number of tax credits and incentives targeting job creation in and near economically distressed areas. Since the establishment of the One Maryland program, the State has established several additional business tax credits. Though the intent of the One Maryland program remains valid, numerous federal, State, and local programs with a similar focus and objective are currently in place. Incentives that aim to increase employment or economic development within distressed areas or similar areas including the Enterprise Zone tax credit, Job Creation tax credit, Base Realignment and Closure Revitalization and Incentive Zone Program, Brownfields tax credit, Community Investment tax credit, and Sustainable Communities tax credit. Of the current business tax credits, about one-quarter are employment tax credits and one-half are related to economic development.

In addition to these tax credits, State business assistance programs with similar objectives include:

- *Maryland Economic Development Assistance Authority and Fund (MEDAAF):* MEDAAF was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses.

- *Economic Development Opportunities Program Fund (Sunny Day):* This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

- *Maryland Economic Development Corporation (MEDCO):* MEDCO is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. MEDCO was created in 1984 with the mission to help expand, modernize, and retain existing Maryland business and to attract new business to the State.

Numerous federal and local government economic development programs have also been enacted. Local governments have established and expanded the use of financial assistance, job creation, and economic development tax credits; tax increment financing (TIFs); payment-in-lieu-of tax agreements (PILOTs); and special taxing districts in order to subsidize infrastructure and development within targeted areas. The federal government has established and expanded numerous business financial assistance, loan, and job training programs.

Several federal programs have significant overlap, including the Empowerment Zone and Enterprise Community Program. The Baltimore City Empowerment Zone extends over 6.8 square miles; covering three separate areas of east, west, and south Baltimore; and containing over 50,000 people and 2,000 businesses. Benefits include federal employment and property tax credits. Other federal programs with similar business utilization include the New Markets Tax Credit, employment tax credits, Historically Underutilized Business Zones, and historic rehabilitation tax credits.

Although the intent of promoting economic development and job creation is a valid one, it is not clear if the existing credit is the most effective approach to increasing overall *net* economic development and employment. Academic and other research has raised significant questions as to whether tax credits are effective in promoting economic development and increased employment. In addition, research has also indicated that within smaller geographies (county-to-county versus across the United States) tax incentives are generally more effective. This research indicates that to the extent One Maryland tax credits are effective, they are more likely to redistribute economic activity within Maryland. Given the intent is to promote economic development within distressed areas, the State, as a matter of policy, may accept this redistribution in order to assist distressed areas.

Chapter 3. Revenue and Economic Impacts

Annual Amount of Credits Certified

The Department of Business and Economic Development (DBED) certifies projects that have met the qualifications of the program and the amount of credit that the business can claim. Once a business receives this certification it can claim the credit against the insurance premium tax or income tax in the qualifying tax year, thus resulting in a decrease in State revenues. DBED states that since 2001 it has certified 54 projects that have been awarded a total of $197.4 million in credits. **Exhibit 3.1** shows the number of qualifying projects and the total amount of credits certified each year.

Exhibit 3.1
Total One Maryland Tax Credits Certified
Calendar 2001-2012

		Credits ($ in Millions)	
Certification Date	**Projects**	**Total**	**Average**
2001	1	$5.5	$5.5
2002	6	26.0	4.3
2003	4	14.0	3.5
2004	4	7.4	1.8
2005	5	21.8	4.4
2006	4	8.6	2.1
2007	6	22.0	3.7
2008	5	18.6	3.7
2009	3	9.9	3.3
2010	6	31.8	5.3
2011	3	11.5	3.8
2012	7	20.3	2.9
Total	**54**	**$197.4**	**$3.7**

Source: Department of Business and Economic Development

Although credit activity fluctuates from year to year, it has been fairly consistent despite variable economic conditions including the recent recession. In a typical year, DBED certifies five projects and $16.4 million in tax credits. An average of four to five companies received certification each year, and the average amount of credits awarded ranged from a minimum of about $15.0 million to a maximum of $18.0 million per year.

Program activity peaked between calendar 2006 and 2010 and has decreased by a little more than 10% in the last two years. Businesses must provide notice to DBED of the intent to seek certification prior to creating/incurring any qualifying jobs or project expenses. Based on DBED's fiscal 2011 and 2012 *One Maryland Economic Development Tax Credit* annual reports, it appears that credit activity is rebounding from the recent slight decrease. DBED has received declarations of intent from 24 businesses in each of fiscal 2011 and 2012, compared to 10 declarations in fiscal 2010.

According to DBED, at least 17 projects are currently in the certification process pipeline. However, DBED indicates that several factors, including the nondiscretionary nature of the credit, prevent an accurate forecast of future One Maryland projects. DBED typically communicates with a business that is interested in One Maryland tax credit certification. However, DBED advises that it is difficult to predict the timing of final certification for credits and some companies will apply for credit certification without any prior contact with DBED.

Projects have been completed over a 12-year period, over which time inflation has increased by a little less than 25%. In order to accurately assess differences between projects and counties, data in some of the exhibits in this section are adjusted for inflation and express the values in constant 2012 dollars. For example, the total amount of credits in constant 2012 dollars is $222.6 million compared with $197.4 million in nominal dollars.

Appendix 1 provides additional detail about each project, including the amount of credits certified and the jurisdiction where the project is located.

Claiming the Credit

The process of claiming a One Maryland tax credit differs from other State income tax credits, as there are several limitations and factors used to calculate how much of the total credit can be claimed in each tax year. In addition, companies may claim both the start-up tax credit (maximum $500,000) for the costs of moving a business from another state and/or furnishing and equipping a new location and the project credit (maximum $5.0 million) for the acquisition, construction, rehabilitation, and installation of an eligible project. Because the total credit certified typically exceeds the value that can be claimed in each tax year, most companies claim only a portion of the total credit in the first year and carry forward the remaining tax credit amount to future tax years. Limitations also apply to the amount claimed in future years, resulting in companies claiming the credit over multiple tax years. Businesses have 14 tax years after the tax year in which the project was placed in service to claim the credit; a company may not claim any remaining amount of credit after that time period.

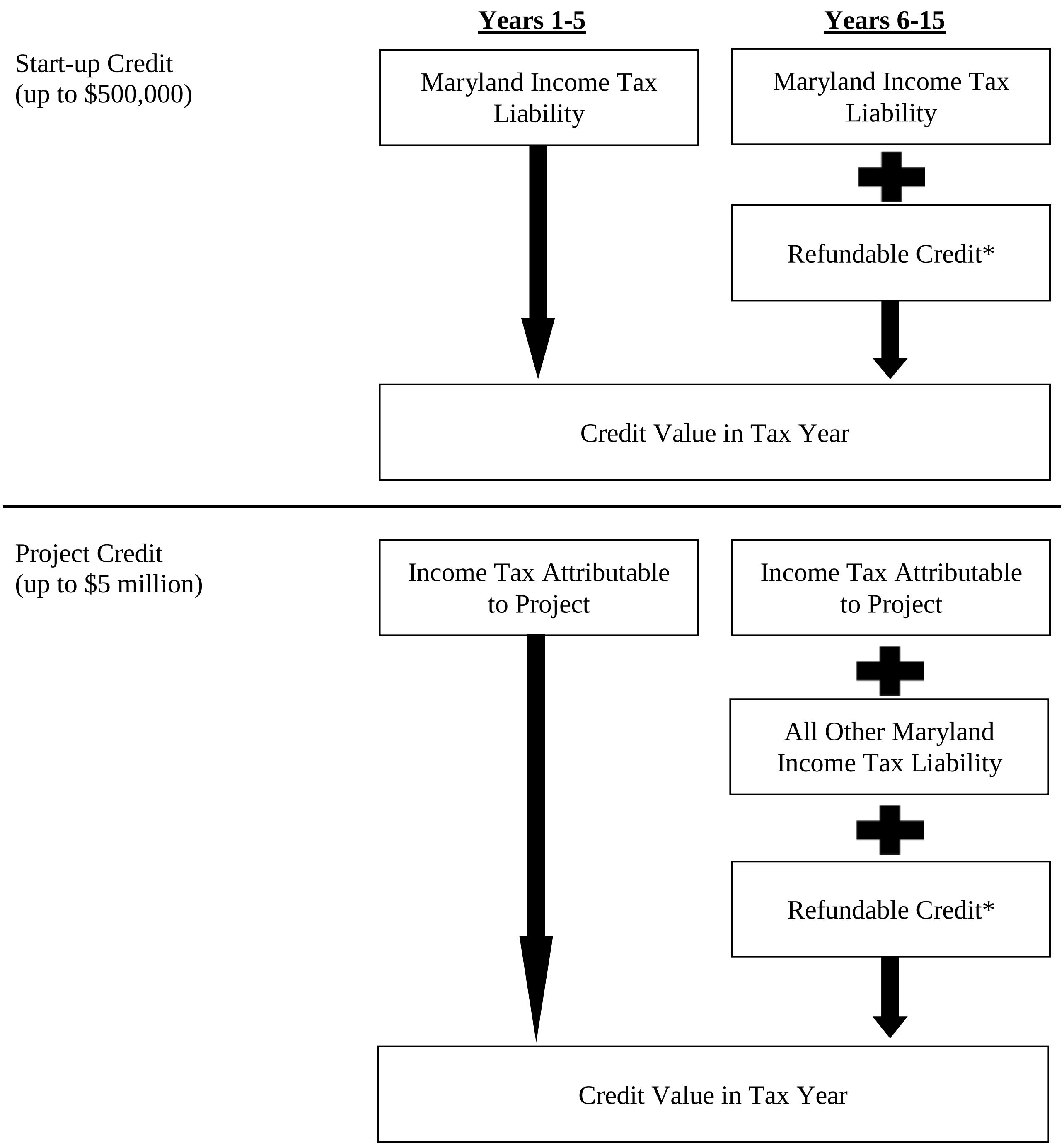
In the first five years of claiming the credit, a business may claim the start-up credit against the company's Maryland income tax liability and the project credit against the income tax attributable to the qualifying project. Beginning in year six, companies generally will be able to utilize more of the credit in each tax year – both credits may be claimed as a refund up to the amount of the withholding taxes attributable to the qualified employees working on the project.

In addition, the project credit may also be applied to any remaining Maryland income tax liability.

However, if the pay for the majority of the qualified positions is at least 250% of the federal minimum wage, a business may claim a refund after the second tax year that follows the year when the qualified business entity locates in a qualified distressed county. In addition, in order to claim the credit in each year, a company must remain in operation in the qualified distressed county and employ a minimum number of positions at the project.

Exhibit 3.2 shows the limitations on the amount of the income tax credit that can be claimed in each year, based on the number of years in which the credit is claimed. A different set of procedures apply to credits claimed against the insurance premium tax.

Exhibit 3.2
Claiming the One Maryland Tax Credit
By Tax Year in Which a Company Claims



*Refundable credit can be claimed up to the amount of withholding taxes of qualified employees working at the project.

Types of Businesses Receiving the Credit

To be eligible for the One Maryland tax credit, a business must establish or expand a business facility that is primarily engaged in one or more of the following activities: (1) manufacturing or mining; (2) transportation or communications; (3) filmmaking, a resort business, or a recreational business; (4) agriculture, forestry, or fishing; (5) research, development, or testing; (6) biotechnology; (7) computer programming, information technology, or other computer-related services; (8) central services for a business entity engaged in financial services, real estate services, or insurance services; (9) the operation of a public utility; (10) warehousing; or (11) other business services. In addition to these specific industries, a qualifying activity includes either the operation of central administrative offices or a company headquarters (other than the headquarters of a professional sports organization).

In order to determine whether a business facility is engaged in a qualifying activity, DBED must use either the Standard Industrial Classification or North American Industrial Classification System. **Exhibit 3.3** shows the total amount of projects and credits by industry in addition to each industry's relative importance to the State's economy as expressed by the industry's share of the State's total economy (Gross State Product). Four industries – manufacturing (about one-third of all credits), finance and insurance (one-quarter), transportation and warehousing (16%), and wholesale trade (12%) – account for over 90% of all credits certified by DBED. The four industries with the most credits also reported creating almost 80% of the jobs, with manufacturing businesses reporting the highest number (775). Several industries' share of the total jobs reported is less than the share of total amount of credits awarded. For example, manufacturing projects comprised one-fifth of all reported jobs, but the projects received one-third of all credits. Conversely, utilities received 2.7% of all credits but reported 13.1% of all jobs.

The One Maryland tax credit is a targeted credit – only specified industries and activities qualify – therefore, each industry's share of the total credits awarded will typically not equal that industry's share of the State economy. However, comparing the two values is useful in assessing which industries are utilizing the credit relative to their respective shares of the State's economy. For example, transportation and warehousing received a high share of the total credits (15.8%) relative to its share of the Maryland economy (2.5%). Manufacturing, finance and insurance, and wholesale trade are other industries with a high credit utilization. No credits have been awarded for filmmaking; a resort/recreation business; or agricultural, forestry, fish, or biotechnology businesses. While Maryland's biotechnology industry is among the largest in the United States and an important industry within the State, several other State programs support the biotechnology industry, including the BioMaryland Center within DBED, as well as the Biotechnology Incentive Investment tax credit. In addition, the State promotes film production through the film production activity tax credit.

DLS advises that there was some difficulty in accurately determining the industry associated with the qualifying project. It was not uncommon for DBED; the Department of Labor, Licensing, and Regulation; and other public information sources to report conflicting information. This difficulty would arise when a facility would be primarily engaged in activities that differed from the industrial classification of the parent company; for example, the facility for which the credit was awarded was the warehouse of a company engaged in another industry such as manufacturing or wholesale trade. In addition, DBED provided incomplete data on the industry classifications of each project.

Exhibit 3.3

One Maryland Projects by Industry
Amount of Credits and Jobs Reported Relative to Share of Maryland Economy
Calendar 2001-2012

		Credits Awarded			Reported Jobs	
Industry	**Projects**	**($ in Millions)**	**% Total**	**% State GSP***	**Amount**	**% Total**
Utilities	3	$6.1	2.7%	2.9%	425	13.1%
Manufacturing	18	79.6	35.8%	7.2%	775	23.9%
Wholesale Trade	8	26.9	12.1%	5.4%	556	17.2%
Transportation and Warehousing	9	35.2	15.8%	2.5%	542	16.7%
Finance and Insurance	10	57.1	25.7%	7.1%	681	21.0%
Professional, Scientific, Technical Services	2	7.6	3.4%	13.7%	64	2.0%
Health Care and Social Assistance	1	2.4	1.1%	9.5%	59	1.8%
Services (all other)	3	7.6	3.4%	13.2%	135	4.2%
Total	**54**	**$222.5**		**61.5%**	**3,237**	

*Gross State Product

Note: Amount of credits is adjusted for inflation and expressed in constant 2012 dollars.

Source: Department of Business and Economic Development; Dun and Bradstreet; Department of Legislative Services

The mix of jobs and projects by industry was generally similar in each county except for Baltimore City. Manufacturing, transportation, and warehousing jobs comprised about 95% of all jobs in counties other than Baltimore City, where these jobs comprised 15% of the total. On the other hand, 85% of the jobs in Baltimore City were reported within five industries – finance and insurance, health care and social assistance, services, utilities, and wholesale trade – accordingly, the distribution of jobs within Baltimore City is significantly more diverse. **Exhibit 3.4** shows the contrast in the distribution of jobs within Baltimore City and all other counties.

Geographic Distribution of Credits

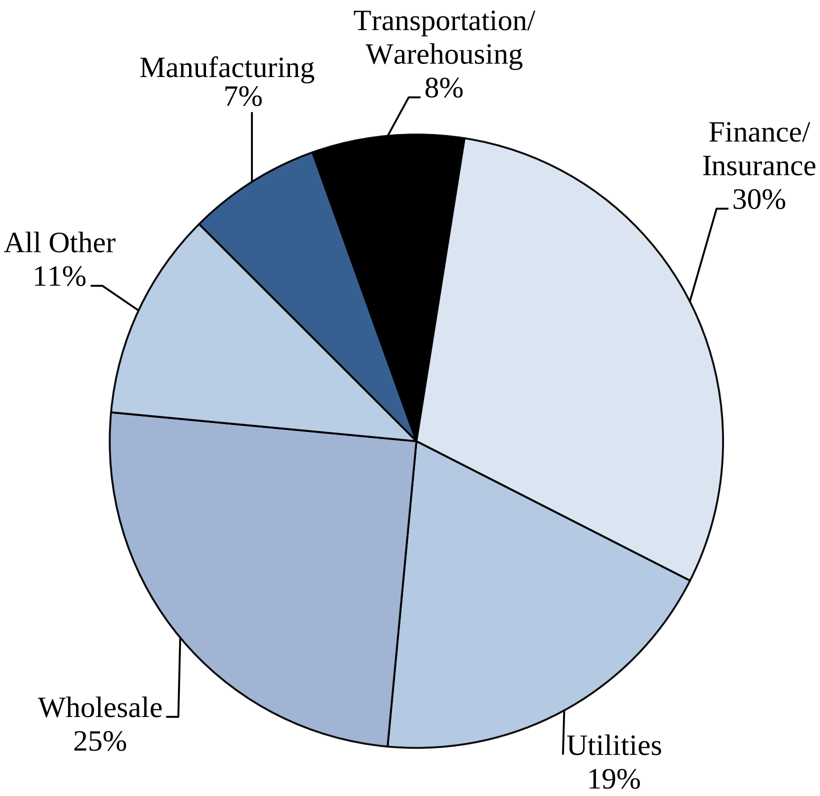
A project must be located within a qualified distressed county in order to receive tax credits. According to DBED, nine counties have been designated as a qualified distressed county at some point during the program. Projects certified for credits have been located in eight of these counties – while Washington County was designated as a qualified distressed county in 2012, that county does not yet have any projects that have filled qualifying positions for the required time period. Of the eight qualifying counties with at least one project to date, a total of 33 Baltimore City projects have received a little less than two-thirds of the total credits. A total of between three to five projects have been located in Allegany, Caroline, Cecil, and Garrett counties, and one project has been located in each of Somerset and Worcester counties. **Exhibit 3.5** shows the location of projects in the State and the amount of projects, jobs, and credits in each county. **Exhibit 3.6** shows additional detail on the location of Baltimore City projects; most of these projects are located within the central downtown district, with additional projects in the eastern industrial zones of the city.

A county may qualify as a distressed county if it meets specified criteria related to unemployment or per capita income. Chapter 498 of 2008 provided an exception to this designation by specifying that a distressed county includes any county that no longer meets the unemployment or personal income criteria but has met at least one of the criteria at some point in the preceding 12-month period. Chapter 303 of 2011 subsequently extended this exception to the preceding 24-month period. Since the program’s inception, most qualified distressed counties have continued to qualify or met one of the exceptions; only Cecil and Washington counties have received this designation for less than two years. **Exhibit 3.7** illustrates the time periods in which counties have been designated as qualified distressed counties, including the time periods in which the county did not meet the criteria but was designated due to the 24-month exception period.

Taking into account the amount of time each county was designated as a qualified distressed county, One Maryland projects occurred most frequently in Baltimore City and Cecil County. An average of 2.7 projects received approval in those jurisdictions per year designated as a distressed county; no other county averaged more than 1 project per year. Garrett County had 1 project roughly every 2 years, while Somerset and Worcester counties each had 1 project approximately every 12 years. Cecil County projects averaged $15.8 million in credits for each designated year; this was above the $11.2 million average for Baltimore City.

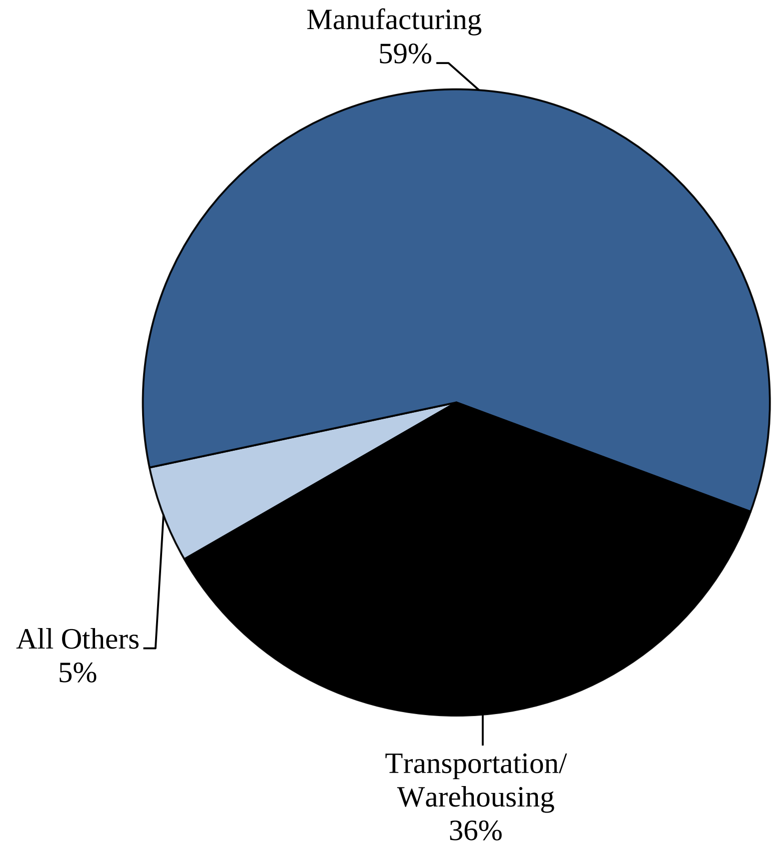
Exhibit 3.4
One Maryland Tax Credit
Distribution of Jobs by Industry

Baltimore City



Total Jobs: 2,186

All Other Counties

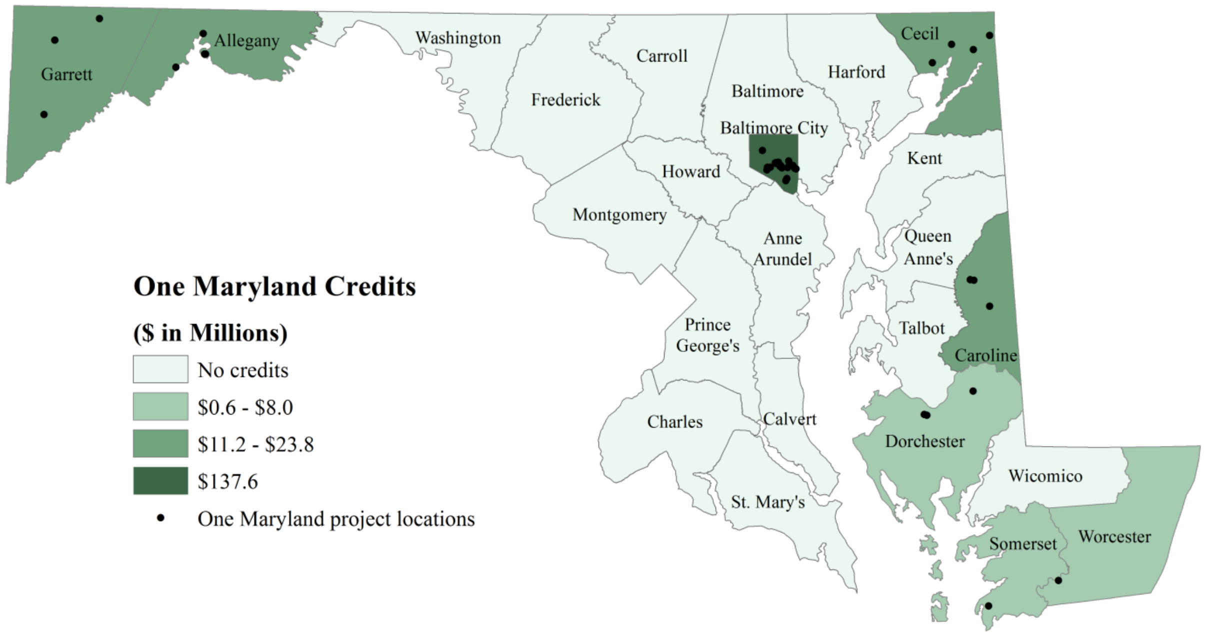


Total Jobs: 1,051

Source: Department of Business and Economic Development; Dun and Bradstreet; Department of Legislative Services

Exhibit 3.5

One Maryland Projects, Credits, Jobs, and Average Wages Per County

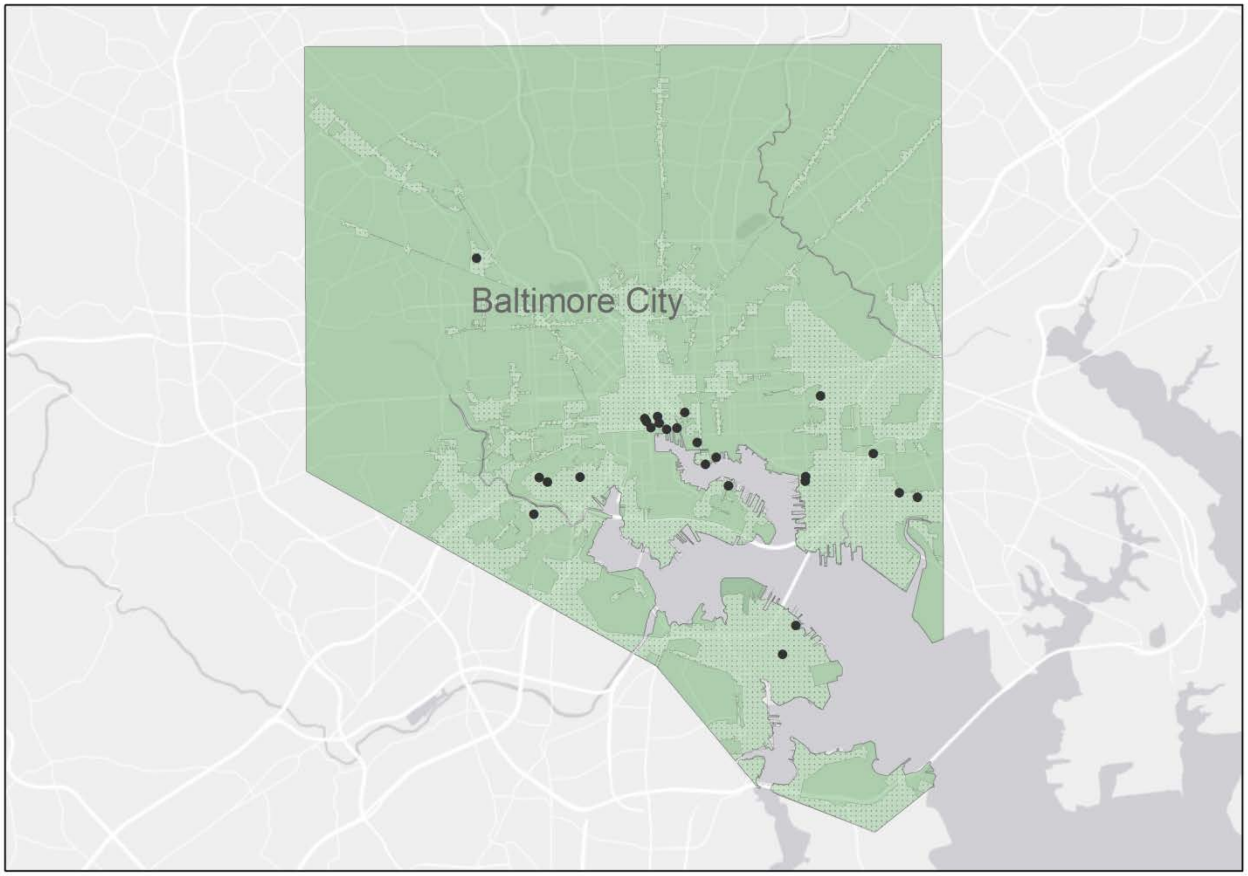


County	Projects	Credits	QDC (years)	Total Jobs	Average Wages	Credit Per Job
Allegany	4	$22,960,000	12.5	185	$32,767	$134,860
Baltimore City	33	137,610,000	12.3	2,186	65,006	83,023
Caroline	3	12,570,000	11.9	95	28,784	131,638
Cecil	4	23,840,000	1.5	454	54,413	88,642
Dorchester	3	8,010,000	10.7	128	42,925	51,598
Garrett	5	11,150,000	11.3	133	35,066	83,638
Somerset	1	599,000	12.5	31	27,165	19,322
Worcester	1	5,790,000	11.4	25	57,290	231,603
Total	**54**	**$222,529,000**		**3,237**	**$54,979**	**$89,863**

Note: Credits, wages, and credits per job are adjusted for inflation and expressed in constant 2012 dollars. QDC is the number of years through fiscal 2013 that the county was designated as a qualified distressed county.

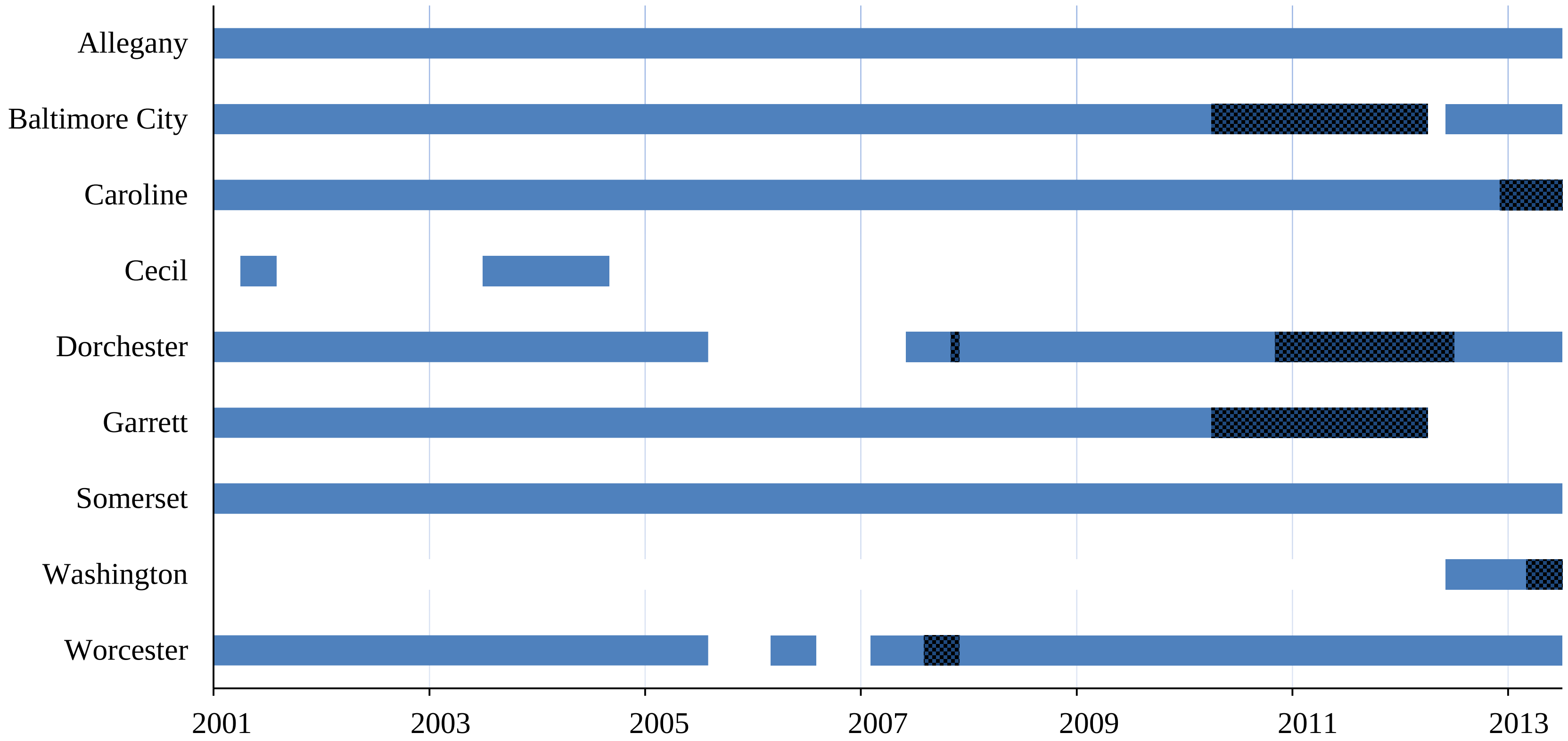
Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.6
Baltimore City One Maryland Projects
Calendar 2001-2012



Note: Light Green overlay represents the current city Enterprise Zone.
Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.7
Qualified Distressed County Designations
Calendar 2001 through July 2013



Note: Shaded regions denote time period in which county qualifies due to exceptions enacted by Chapter 498 of 2008 and Chapter 891 of 2011.
Source: Department of Business and Economic Development; Department of Legislative Services

DBED also provided data on the amount of wages paid to the certified jobs at each project in addition to the number of certified jobs and certified credit amount. For projects that earned the maximum credit, DBED advises that the total amount of investment/qualifying costs at these projects exceeded the credit value; however, data on the actual amount of qualifying project costs/investment undertaken were not available.

As seen in Exhibit 3.5, the average wages paid by One Maryland projects varied across counties; however, most of the jobs at these projects paid higher wages compared to other jobs in the county. Baltimore City projects reported average wages that were about two-thirds higher than other counties. Some of this difference is due to variation in regional labor markets. For example, according to the most recent data from the Longitudinal Employer-Household Dynamics of the U.S. Census Bureau, the average wage of all jobs in Baltimore City was three-quarters higher than the average wage in Garrett County. Controlling for regional variation, which explains about three-quarters of the variation in wages among One Maryland projects, shows that 58% of One Maryland projects paid a higher wage than the average wage for the county in which the project is located. The overall wage premium of 20% paid by One Maryland projects as compared to average county wages is fairly consistent across counties except for projects in Allegany, Caroline, and Somerset counties, which paid between 10% and 20% less than the average county wage. Wages were highest in the utilities industry followed by the wholesale trade and finance industries, with lower wages in manufacturing (one-third less); transportation and warehousing; and the professional, scientific, and technical services industries.

In addition to the variation in jobs and average wages across counties, Exhibit 3.5 also shows significant geographic variation in the credit certified per reported jobs. For example, one project in Somerset County reported an average of one job per $19,322 in credits while a project in neighboring Worcester County reported an average of $231,603 in credits for each job reported. While this number does not reflect the actual cost of the program, it further illustrates program heterogeneity across counties and industries.

Magnitude of Credits Certified

The typical One Maryland project has been awarded a credit of $4.3 million, with a little more than one-third of all projects earning the maximum $5.5 million credit. The amount of jobs certified by DBED ranged from the minimum 25 jobs for six projects to a maximum of 249 jobs, with the typical project reporting 44 certified jobs. DBED certified nine projects which reported creating 100 or more jobs. **Exhibit 3.8** shows the distribution of credits by the amount of credit received by the project and the median number of jobs reported for those projects.

Exhibit 3.8
One Maryland Project Credits and Jobs
Calendar 2001-2012

Credit Amount	Projects	Credits Total	Credits % Total	Certified Jobs Median Number	Certified Jobs % Total
Less than $1 million	6	$3,625,000	1.8%	28	5.4%
$1 million-$3 million	17	36,730,400	18.6%	43	29.8%
$3 million-$5 million	9	37,056,900	18.8%	48	14.8%
$5 million or greater	22	119,962,000	60.8%	58	50.0%
Total	**54**	**$197,374,300**	**100.0%**	**44**	**100.0%**

Source: Department of Business and Economic Development; Department of Legislative Services

Several Companies Have Claimed Multiple One Maryland Tax Credits

Most companies have undertaken only one qualifying One Maryland project – these 37 companies have been certified for a total of $144.1 million in tax credits. Unless otherwise approved by the Secretary of Business and Economic Development, companies may receive multiple One Maryland tax credits if a subsequent qualifying project:

- occurs at the same facility or another facility located in the same county, provided that the cumulative credit may not exceed the project and start-up credit maximum limits; or
- is located in a different qualified distressed county.

In addition, the Secretary can award a company that has more than one project in the same county additional credits that exceed the maximum limits specified in statute. The Secretary may, in extraordinary circumstances, make a determination to certify additional credits if the project is deemed to have "significant value to the county due to the number of jobs to be created, quality of jobs, job training programs to be offered, or other economic development factors."

Accordingly, five companies have undertaken multiple qualifying projects – these companies had 17 projects which were certified for a total of $53.3 million in credits. One company had two qualifying projects located in different counties, earning a total of $11.0 million in credits. Four companies had multiple qualifying projects located in the same county. Two companies had six qualifying projects which did not exceed the maximum credit limit; and one company had two qualifying projects which did exceed the limit. Finally, one company had (1) four multiple projects that cumulatively did not exceed the limit and (2) earned an additional three credits in excess of the limit. The Secretary of Business and Economic Development has certified an additional $22.0 million in credits to two companies; in addition, one of these companies is currently in the certification process for an additional $5.5 million credit. **Exhibit 3.9** shows the breakdown of projects and credits certified based on whether the company had one or multiple qualifying projects.

Exhibit 3.9
Number of One Maryland Tax Credits by Credit Classification
Calendar 2001-2012
($ in Millions)

Classification	Companies	Projects	Total Credits
Company Had One Qualifying Project	37	37	$144.1
Company Had Multiple Projects			
Locations in Two Counties	1	2	11.0
Same Location in a Single County			
Did Not Exceed Maximum Limit	2	6	9.3
Exceeded Limit	1	2	11.0
Both Types	1	7	22.0
Total	**42**	**54**	**$197.4**

Source: Department of Business and Economic Development; Department of Legislative Services

Other Tax Credits and Additional Financial Assistance

Tax burdens are one of many factors that influence business decisions to expand and site new locations – other factors include the quality of the labor force, proximity to markets, quality of life factors, other business costs (which can be greater than State tax burdens), and infrastructure. Two analyses illustrate the importance of other factors in business location and expansion decisions. The City of Hagerstown and Washington County recently issued an economic development strategic plan assessing the area's economic strengths and weaknesses. Although the study determined that competition from nearby states influenced the ability to attract and sustain businesses, the study cited 15 other business location factors including transportation; education, health care, and social services; skilled labor shortages; land development regulation; and poverty and low-income housing and vacancies within downtown Hagerstown. The National Small Business Association Tax Survey found that the complexity of the tax code was a more significant challenge to small business owners than the amount of taxes paid – only 25% of small business owners said that tax credits and deductions significantly influence employment and company decisions.

Tax credits are designed to provide an incentive to businesses to increase employment or investment by lowering after-tax costs. As discussed in Chapter 2 of this report, there are numerous federal, State, and local programs with a similar focus and objective to the One Maryland tax credit; these other programs offer financial incentives for businesses to increase employment or invest within distressed areas. Of the current State business tax credits, about one-quarter are employment tax credits and one-half are related to economic development. Employment tax credits including the enterprise zone, job creation, businesses that create new jobs, One Maryland, and health enterprise zone credits. State incentives that target distressed or similar areas include the enterprise zone, job creation, community investment, and sustainable communities tax credits. State business assistance programs which provide loans and grants or develop property for business use include the Maryland Economic Development Assistance Authority and Fund (MEDAAF) and Maryland Economic Development Corporation (MEDCO). In addition, local governments have established and expanded the use of financial assistance, job creation, and economic development tax credits; tax increment financing (TIFs), payment-in-lieu-of-taxes (PILOTs); and special taxing districts in order to subsidize infrastructure and development within targeted areas. These State and local programs are in addition to federal tax incentives which aim to encourage employment and investment.

In order to attract businesses, local governments and the State will offer a package of incentives – a local enterprise zone administrator recently noted that other income tax credits including the job creation tax credit, training grant funds, and low-interest financing along with enterprise zone tax credits are necessary to "seal the deal as businesses decide to locate within the enterprise zone." For example, a large online retailer recently announced plans to open a 1 million square foot distribution center in Baltimore City. The company stated that it selected the site because of its proximity to a large customer base. According to published reports, DBED and the Baltimore Development Corporation (BDC) offered incentives totaling $43 million, including enterprise zone tax credits ($35.5 million), One Maryland tax credits ($5.5 million), brownfield and job creation credits ($1.7 million), and a conditional loan of $1.25 million which will be forgiven if certain conditions are met.

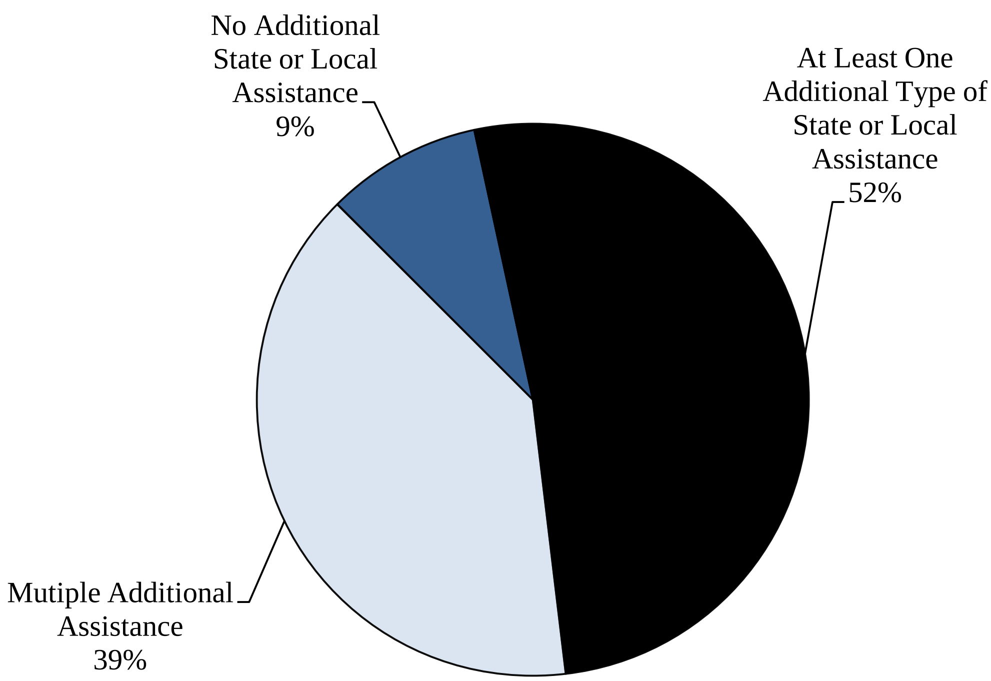
The Baltimore City businesses which received One Maryland tax credits also received a significant amount of other State or local financial assistance. A majority of the assistance was specific to the activity which qualified the business for the One Maryland tax credit (an expansion or new facility); other assistance was provided to retain the company or to incentivize other activities (research and development tax credit). DLS reviewed data from several programs including financial assistance provided by BDC, MEDCO, and DBED as well as the research and development, job creation, and enterprise zone tax credits. Data on the amount of the tax credit or assistance provided were unavailable for several programs. An analysis of the available data shows that:

- the *One Maryland Annual Report* (as well as other business assistance and tax credit programs), overstates the program's effectiveness in creating jobs by not taking into account the impact of other assistance – if a business expansion created 100 jobs and received three types of financial assistance, each report counts the 100 jobs; and

- the cost to the State is underestimated as these annual reports do not include information on the additional financial assistance provided.

DLS estimates that only 3, or 9%, of the 33 One Maryland projects in Baltimore City did not receive additional assistance from the programs described above. A little more than one-half of all projects received at least one type of additional assistance while the remaining 39% received multiple types of additional assistance, as illustrated in **Exhibit 3.10**.

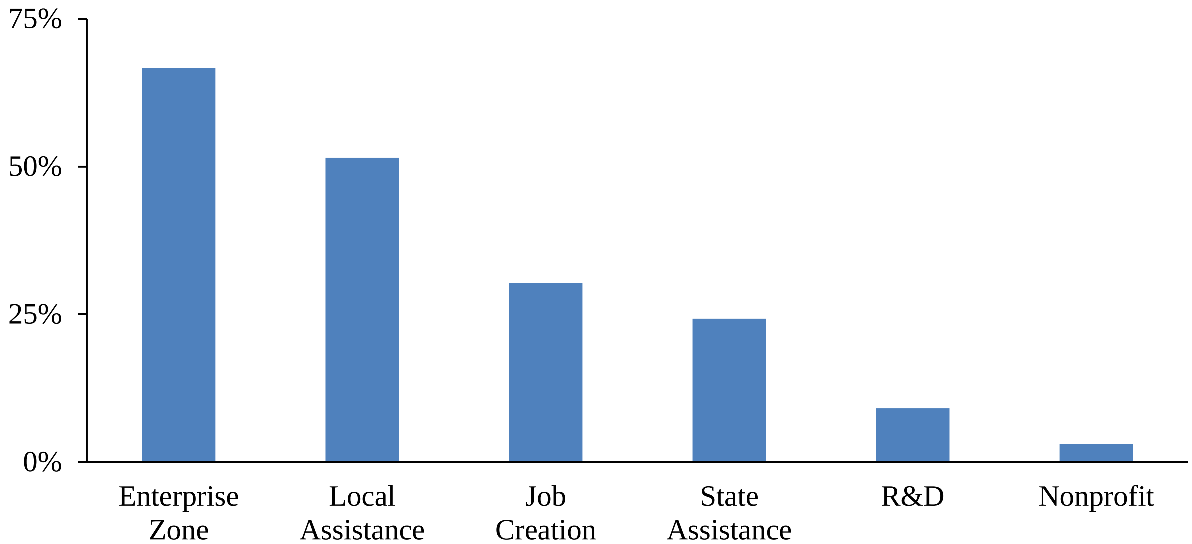
Exhibit 3.10
Percentage of Baltimore City One Maryland Projects Receiving Additional Financial Assistance
Calendar 2001-2012



Source: Baltimore Development Corporation; Department of Business and Economic Development; MEDCO; State Department of Assessments and Taxation; Department of Legislative Services

To qualify for the One Maryland tax credit a business must be located in a priority funding area (PFA). Unless specified exceptions are met, an enterprise zone must also be located within a PFA. As a result, these programs had the greatest overlap – two-thirds of Baltimore City One Maryland projects also received enterprise zone tax credits. **Exhibit 3.11** shows the percentage of Baltimore City projects that also received enterprise zone, job creation, and research and development tax credits; State or local assistance; or nonprofit grants.

Exhibit 3.11
Percentage of Baltimore City One Maryland Projects Receiving Additional Financial Assistance
By Type of Assistance
Calendar 2001-2012



Source: Baltimore Development Corporation; Department of Business and Economic Development; MEDCO; State Department of Assessments and Taxation; Department of Legislative Services

Additional information on the overlap with some of these programs is listed below.

Job Creation Tax Credit

Maryland provides a job creation tax credit to businesses that create new jobs to encourage businesses expanding or relocating to Maryland. The credit is 2.5% of aggregate annual wages for all newly created, full-time jobs, up to $1,000 per new job. In a revitalization area, the credit is increased to 5% of annual wages, up to $1,500 per new job. To be eligible, the business must create 60 new, full-time jobs at the expanding or new facility during a 24-month period. In designated PFAs, which include State enterprise zones, federal empowerment zones, and neighborhoods designated by the Department of Housing and Community Development, the minimum is 25 new jobs. The similarity of some of the program requirements – One Maryland projects must also be located within PFAs and create a minimum of 25 new jobs – result in significant overlap between the credits.

At least one-quarter of the jobs certified under the job creation tax credit are also certified under the One Maryland program. Between 2005 and 2012, DBED certified a total of 2,617 jobs under the One Maryland tax credit. However, out of those 2,617 new jobs, 632 jobs, or 24%, were also certified under the job creation tax credit in the same year. An additional 159 jobs were certified under both tax credits in different tax years. If these additional jobs are taken into account, approximately 791 jobs are counted under both credits. This constitutes 30% of the One Maryland jobs that are also attributed to the job creation tax credit.

If a business claims both credits for the same job it increases the State's cost per job. Because the information is not reported by DBED due to tax confidentiality reasons, the amount of job creation credits actually claimed by each business is unknown. The State's costs for the 632 jobs certified under the job creation tax credit ranges from $632,000 to $948,000, assuming a minimum of $1,000 per new job and a maximum of $1,500 per new job. These businesses also claimed a total of $44.0 million in One Maryland tax credits for those 632 jobs – each report underestimates the State cost by excluding the cost of the other State credit provided to the same job.

In fiscal 2011, DBED reported that businesses certified for the One Maryland tax credit created 124 new jobs with a payroll of $7.5 million. Also in fiscal 2011, DBED reported that businesses which received final certification for the job creation tax credit created 548 jobs with wages totaling $34.2 million. However, 100% of the jobs reported under the One Maryland tax credit report are also included in the job creation tax credit report. This double counting overstates the impact of both programs.

Enterprise Zone Tax Credit

A little more than one-half of the tax returns which claimed the One Maryland tax credit, and at least one other State income tax credit, also claimed the enterprise zone income tax credit. Not only is there overlap between businesses claiming the One Maryland tax credit and the enterprise zone credit, there is also overlap with those two credits and the job creation tax credit. Over the last 10 years, five businesses have claimed all three credits, nine businesses have claimed both the enterprise zone and One Maryland tax credits, and seven businesses have claimed both the One Maryland and job creation tax credits. Of the eight businesses that have claimed the job creation tax credit in Baltimore City, only one of these businesses did not claim either the One Maryland or enterprise zone tax credits.

Other Federal, State, and Local Assistance

Some of the companies that are claiming One Maryland tax credits are also receiving other forms of federal, State, or local assistance. Of the 54 One Maryland projects, 16 projects received assistance from MEDAAF, the Sunny Day Fund, the Maryland Industrial Development Financing Authority, or the federal Community Development Block Grant Program. Local assistance may also be provided through tax increment financing, brownfields tax credits, and local employment tax credits.

Economic Impacts and Effectiveness

Analyzing the true economic impact of a tax credit requires isolating the impact of the credit from other factors that influence the business undertaking the qualifying activity. This approach will provide an estimate of how much economic activity resulted solely from the credit and was not due to other factors or that would have occurred even without receipt of the tax credit. An additional step requires an estimate of the net impact to State revenues – the cost of foregone revenue plus any additional State revenue that was generated by economic activity that would not have occurred without the credit. Since the Governor is required to submit a balanced budget every year, revenue that is foregone under the credit requires either a corresponding reduction in State spending or an increase in revenue from individuals or businesses, both of which dampen economic activity. Lastly, any spillover impacts should be captured. Positive spillover impacts include a business using the reduction in taxes to increase production and purchase additional goods from Maryland businesses. Conversely, a negative spillover impact includes the competitive advantage conferred to businesses that receive tax credits. An increase in sales and jobs at these businesses might be at the expense of sales and jobs at other businesses that do not receive the tax benefit.

As discussed in this report, the following factors make it difficult to precisely estimate the true economic impact of the One Maryland tax credit:

- The One Maryland tax credit is claimed over multiple tax years. Only a portion of the total amount certified has been claimed to date and there is significant variation in credit utilization among companies. Some companies have not claimed any credits to date and may not in the future. The lack of detailed data on credits actually claimed, which cannot be provided due to confidentiality requirements, limits the ability to assess the extent to which a business actually uses tax credits.

- It is difficult to estimate how many jobs and projects would have occurred in the absence of the One Maryland tax credit. Most research indicates that a majority of businesses receiving tax credits would have expanded or hired employees even if the business did not receive a tax benefit for doing so.

- Many of the businesses claiming One Maryland tax credits are also claiming other State tax credits, such as the enterprise zone tax credit or job creation tax credit, or are receiving other types of federal, State, or local financial assistance. As such, it is difficult to distinguish the effects of the One Maryland tax credit from that of other credits and assistance programs.

- The State is required to have a balanced budget. Due to difficulty in determining the impacts of the factors listed above, it is not possible to estimate the net fiscal impact of each project and estimate the increased taxes or fees on other companies and individuals or the reduction of State spending, both of which dampen State economic activity.

Given these limitations, an alternative approach to evaluating the credit is to assess its effectiveness based on the outcomes reported by DBED – the amount of credits certified, the number of reported jobs, and the wages paid to those employees at the time of certification. This approach will overestimate the effectiveness of the credit because it does not take into account (1) the number of jobs that would have been created without the credit and (2) the impact of other federal, State, and local tax incentives and assistance. In addition, this approach provides only a snapshot of a project at the time of certification. It does not take into account how much of the credit, if any, the company eventually claims or if the facility for which the credit is claimed eventually ceases operations in the qualifying distressed county.

However, assessing the credit based on the reported information at the time of certification can provide insight on how well the tax credit achieves its statutory objectives. Based on this available information, DLS calculated the ratio of the total wages paid at the date of certification to qualifying employees who worked at the new or expanded facility as compared to the amount of credit certified for the company. This basic cost-benefit approach incorporates both the potential beneficial labor market impact as measured by the number of jobs and average wages paid as well as the cost to the State in foregone revenues. Although this does not capture the impact of the investment undertaken by the company, which is unavailable for many projects, the labor market impacts typically outlast the more temporary impacts resulting from new construction.

The median project reported paying wages on the certification date equal to 58% of the amount of the certified credit. However, there was significant variation among projects, ranging from a minimum of 17% to a maximum of 1,074%. DLS ranked One Maryland projects based on the amount of wages paid relative to the credit awarded. This revealed significant variation in project outcomes when comparing the highest- and lowest-ranked projects. The top 10 projects by this measure received $26.7 million in credits, just over one-half of the amount awarded to the lowest 10 projects. These top 10 projects reported an additional 579 jobs and $75.8 million in wages; the wages paid by those projects were over seven and a half times greater than the lowest 10 projects. These lowest-ranked projects received about one-quarter of all credits but only contributed 6% of the total wages reported at the date of certification. **Exhibit 3.12** shows the amount of credits, jobs, and wages reported by projects based on the project's ranking.

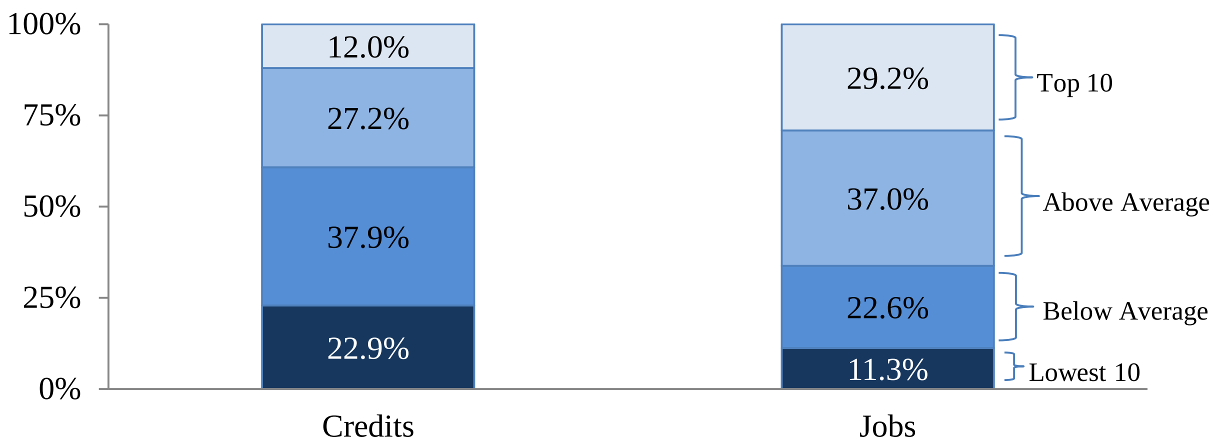
Exhibit 3.12
Amount of One Maryland Tax Credits, Jobs, and Wages
By Project Ranking
Certification Years 2001-2012

Projects	Credit	Jobs	Wages
Top 10 Projects	$26,699,500	944	$87,364,400
Above Average (17 projects)	60,496,900	1,198	65,346,000
Below Average (17 projects)	84,390,300	730	33,087,800
Lowest 10 Projects	50,913,000	365	11,555,800
Total	**$222,499,700**	**3,237**	**$197,354,000**

Note: Credits and wages are adjusted for inflation and expressed in constant 2012 dollars.
Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.13 illustrates the percentage of total credits and jobs based on the ranking of the projects. The projects with an above average amount of wages relative to the credit certified received almost 40% of all credits and reported two-thirds of all jobs.

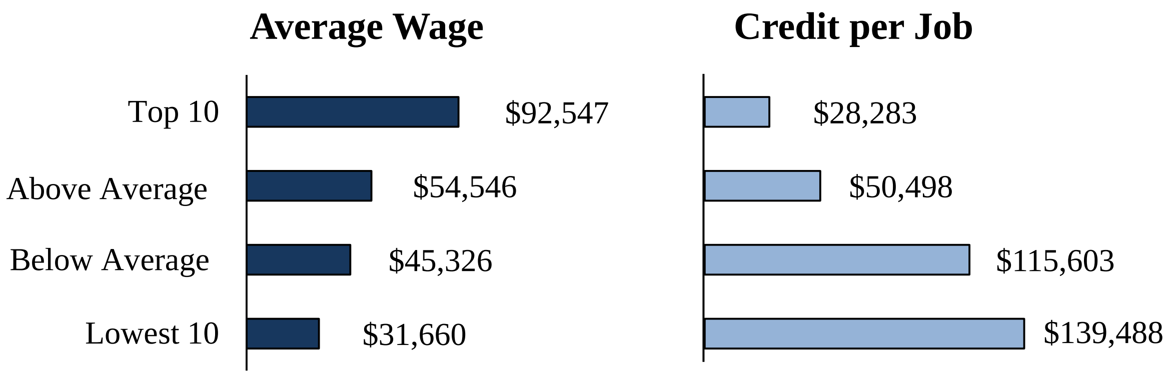
Exhibit 3.13
Percentage of Total One Maryland Tax Credits and Reported Jobs
By Project Ranking



Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.14 illustrates how two measures of the project benefits, average wages paid and the amount of credits per job, decreased as the project ranking decreased. The top 10 ranked projects paid average wages that were three times more than those paid by the lowest 10 ranked projects. Additionally, the lowest 10 projects received five times the amount of credit for each job reported ($139,488 versus $28,283). The top rated projects reported 35 jobs per $1 million in credits (with an average wage of $92,547) while the lowest rated projects reported 7 jobs per $1 million in credits (average wage of $31,660). Thus, for the same amount of the credit, the top rated projects reported five times the number of jobs that paid three times the average wage of the jobs compared to the lowest rated projects.

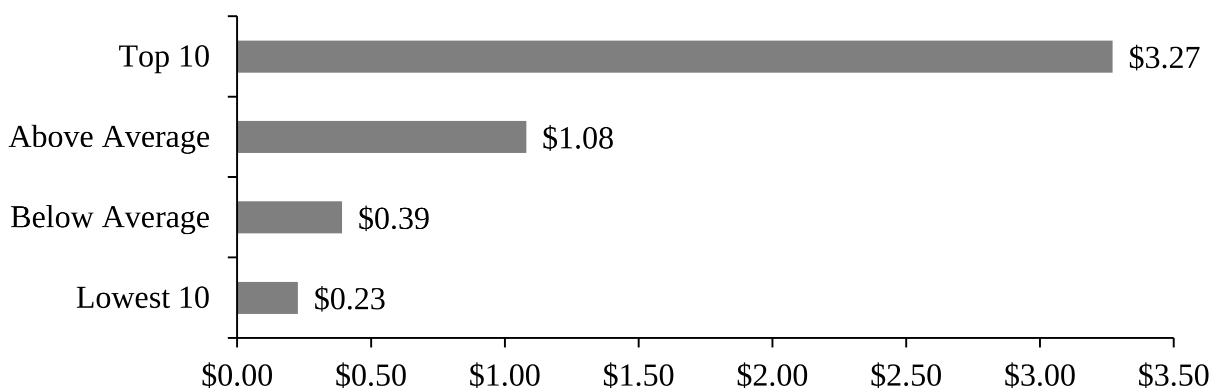
Exhibit 3.14
Variation in One Maryland Average Wages and Credit Per Job
By Project Ranking
Certification Years 2001-2012



Source: Department of Business and Economic Development; Department of Legislative Services

The median project reported paying $0.58 in wages to qualifying employees for every dollar in credit awarded. The top ranked projects reported paying substantially more in wages – $3.27 in wages for every dollar in credit awarded; the lowest ranked projects reported paying less than a quarter in wages for every dollar in credit awarded, as illustrated in **Exhibit 3.15**.

Exhibit 3.15
Amount of Wages per Dollar of One Maryland Tax Credit Certified
By Project Ranking
Certification Years 2001-2012



Source: Department of Business and Economic Development; Department of Legislative Services

A business can either establish or expand a qualifying facility in order to qualify for the credit. DLS classified each project based on whether the facility was a new facility, a facility expansion, moved from outside the qualifying distressed county, or a start-up company. New facilities include both companies with an existing presence in Maryland establishing a new facility and out-of-state companies starting new operations within the State. Start-up companies include an independent company that was in existence for less than five years at the time of certification and did not previously exist under a different corporate name.

As seen in **Exhibit 3.16**, facility expansions accounted for just over two-thirds of all certified jobs and received a corresponding amount of total credits. Two of the companies that moved into a qualified distressed county and established a new facility moved from another county in Maryland. DBED awarded the maximum credit ($5.5 million) to each of these companies and certified a total of 109 jobs. New facilities reported the highest average number of certified jobs (81) with start-up companies reporting the least (46). One-half of all new facilities have ceased operations to date as well as one-quarter of all start-up firms; business closings were much more infrequent in companies that expanded or moved. As Exhibit 3.16 reflects, about one-half of all companies claiming the credit are legally headquartered in Maryland. Except for the four start-up companies, companies earning credits were established companies, particularly companies establishing new facilities which had been in existence on average for over 50 years.

Exhibit 3.16
One Maryland Projects by Business Activity
Amount of Credits and Company Characteristics

	Projects	Credits	Jobs	Age	% MD	Ceased Operations
Expansion	38	$145.6	2,165	26	58%	2.6%
Moved	4	21.2	241	11	0%	0%
New	8	36.6	647	52	13%	50.0%
Start up	4	19.1	184	4	100%	25.0%
Total	**54**	**$222.5**	**3,237**	**27**	**50%**	**11.1%**

Note: Amount of credits is adjusted for inflation and expressed in constant 2012 dollars.
%MD is percentage of companies that are legally headquartered in Maryland.
Source: Department of Business and Economic Development; State Department of Assessments and Taxation; National Employment Time-Series Database; Securities and Exchange Commission; Department of Legislative Services

Comparison of One Maryland Job Creation to Total Private Job Creation

The One Maryland tax credit is a targeted credit – only specified industries qualify. On the other hand, a business within an industry that does not qualify can claim the credit if the business increases employment at a central administrative office or company headquarters. Overall, businesses within eight industries comprising a little more than 60% of the State's private economy have claimed the credit. The One Maryland tax credit provides a significant incentive, up to $5.5 million, if the company undertakes a qualifying expansion or new construction that creates at least 25 jobs.

The change in employment from one period to the next is typically reported as the net change over that time. For instance, total Maryland private employment from the last quarter of 2011 to the third quarter of 2012 increased from 2,016,900 to 2,050,100, an increase of about 33,200 private jobs. This net change in employment masks the dynamic changes in the Maryland labor market over this time as employers create new jobs and eliminate old ones in large numbers – over the same period, employers created 291,800 new jobs and eliminated 254,200 jobs.

Of the 3,237 jobs reported under the One Maryland program, most of the jobs resulted from facilities located in Baltimore City (2,186), followed by Cecil County (454). On an average annual basis, Cecil County facilities reported 301 jobs, followed by Baltimore City (177); on the low end, Somerset and Worcester counties reported 2 jobs per year.

Despite the significant incentive provided by the One Maryland tax credit and total outlay by the State since program inception ($197.4 million), the total number of reported jobs is very minor compared with the total number of private jobs created in each qualifying distressed county. One Maryland jobs comprised 0.5% of all private jobs created in counties during the time in which the counties qualified for the program. One Maryland jobs in Cecil County comprised the highest percentage of total job creations, but overall was only 4% of total job creations in the county. Cecil County was designated as a qualified distressed county for about one and a half years, the least amount of time under the program. Of the four qualifying projects in Cecil County during this time, one was a large expansion by a defense contractor (120 jobs) and the other was the largest One Maryland project by employment – 249 jobs were reported as the result of the construction of a 222,000 square foot warehouse facility. **Exhibit 3.17** shows the total number of One Maryland jobs reported by county, the total number of years the county was designated as a qualified distressed county (QDC), average annual number of One Maryland jobs, and the number of One Maryland jobs relative to the total private jobs created in the county during the time period in which the county qualified for the program.

Total private employment continues to lag in qualified distressed counties. From 2001 to 2012, private employment decreased by 46,400 or 12.4% in the seven counties which were designated for significant periods as a QDC. Conversely, private employment increased by 69,200 or 4.7% in counties which were not designated as a QDC. Counties with economic distress may not be expected to grow at the same rate as other counties; however, despite the significant outlay of One Maryland tax credits the total number of jobs reported under the program – even though many of these jobs received other assistance and would have been created in the absence of the credit – is not significant relative to the gap in employment between counties.

Exhibit 3.17
One Maryland Jobs Relative to Total Private Job Creation by County
Calendar 2001-2012

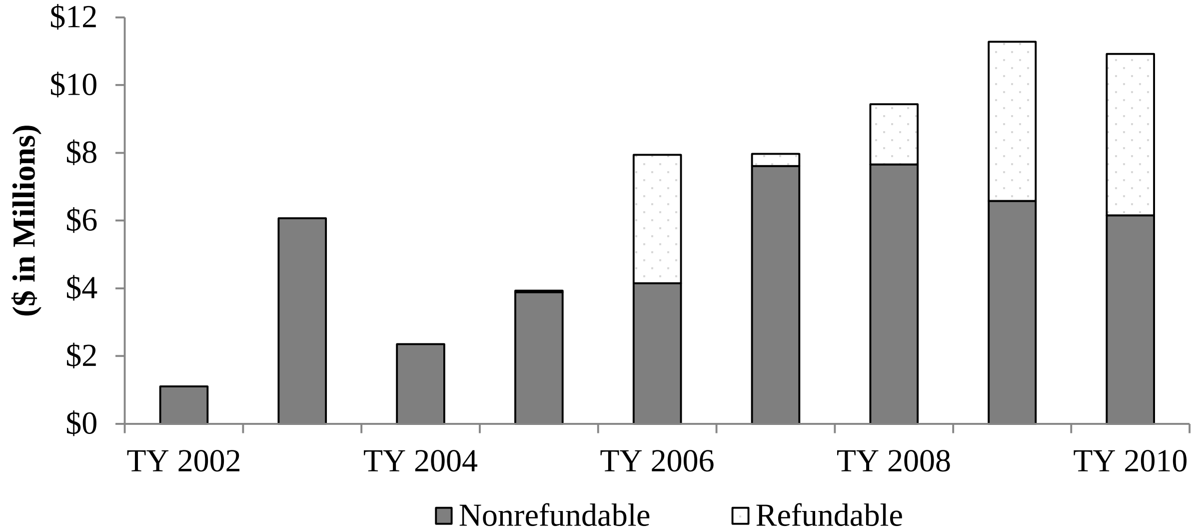
County	QDC (Years)	Total Private Job Creation	One Maryland Jobs Total	One Maryland Jobs Annual Number	One Maryland Jobs % Total Job Creations
Allegany	12.5	45,083	185	15	0.4%
Baltimore City	12.3	525,182	2,186	177	0.4%
Caroline	11.9	14,335	95	8	0.7%
Garrett	11.3	23,781	133	12	0.6%
Dorchester	10.7	19,158	128	12	0.7%
Cecil	1.5	11,548	454	301	3.9%
Worcester	11.4	66,519	25	2	0.04%
Somerset	12.5	9,129	31	2	0.3%
Total	**10.5**	**714,735**	**3,237**	**308**	**0.5%**

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

Credits Claimed to Date

The Comptroller's Office provided data on One Maryland tax credit claims in tax years 2002 through 2010. **Exhibit 3.18** shows the amount of both nonrefundable and refundable credits claimed since tax year 2002. An estimated $61.4 million, or one-third of the total credits certified, has been claimed through tax year 2010. Due to the limitations on the credit previously discussed, an average of $5.1 million has been claimed per year, or a little less than one-third of the average amount awarded per year by DBED during the same period. The amount of credits claimed in each year has increased – an average of $11.1 million in credits were claimed per year over the last two tax years. Refundable credits comprise about one-quarter of all credits claimed to date.

Exhibit 3.18
One Maryland Tax Credits Claimed
Tax Years 2002-2010



Source: Comptroller's Office

The One Maryland tax credit is claimed over multiple tax years, with some companies claiming large amounts while others have yet to claim any credits. About one-half of all companies reported to DBED that they are either claiming the credit or have claimed the entire amount of the credit. These companies received about two-thirds of all certified credits and reported 2,154 jobs. Nine companies that reported 469 jobs have not claimed any credits to date. Two of these companies have informed DBED that they will not claim any credits in the future. An additional five companies have claimed the credit at some point, but cannot currently claim the credit or can only claim a portion of the certified amount; most of these companies reported that they did not maintain the minimum number of qualifying positions. Lastly, approximately one out of seven companies that have been awarded the credit have ceased operating the facility for which the credit was claimed and/or have gone out of business.

Exhibit 3.19 shows the number of One Maryland projects, amount of credits, and reported jobs based on claim activity to date.

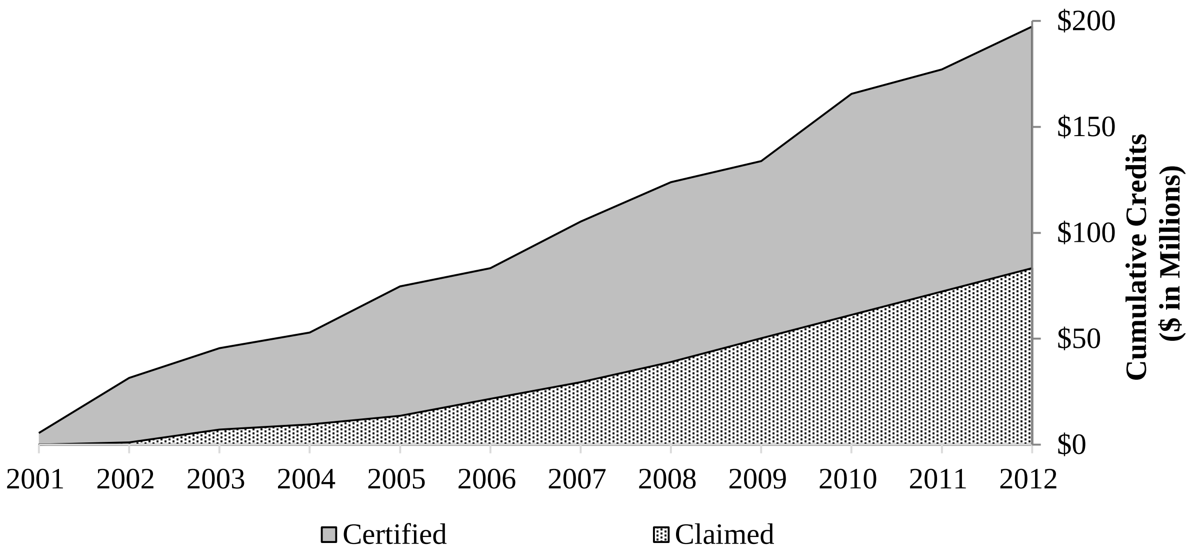
Exhibit 3.19
One Maryland Tax Credit Claim Activity
Certification Dates 2001-2012
($ in Millions)

	Projects		Certified Credits		Jobs	
	Number	**% Total**	**Amount**	**% Total**	**Number**	**% Total**
Claiming	24	44.4%	$103.8	52.6%	1,309	40.4%
Entire	10	18.5%	25.8	13.1%	845	26.1%
Limited	5	9.3%	14.7	7.5%	270	8.3%
No Claims	9	16.7%	32.7	16.6%	469	14.5%
Ceased Operations	6	11.1%	20.4	10.3%	344	10.6%
Total	**54**		**$197.4**		**3,237**	

Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.20 illustrates the cumulative fiscal cost of the program and the divergence in the amounts of credits certified and claimed.

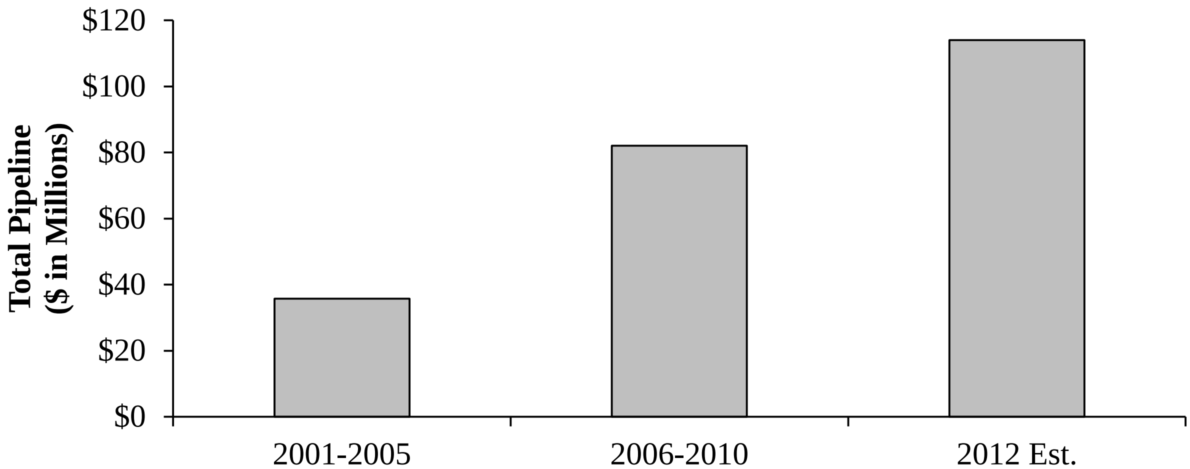
Exhibit 3.20
Cumulative Credits Certified and Claimed
Tax Years 2001-2012



Note: Assumes average of $11 million will be claimed in tax years 2011 and 2012.
Source: Department of Business and Economic Development; Comptroller's Office; Maryland Insurance Administration; Department of Legislative Services

As the amount of credits claimed has continue to lag behind the total amount certified, the magnitude or "pipeline" of unclaimed credits has increased. While the amount of credits certified by DBED represent the maximum cost of the credit to date and the credits claimed represent the actual reduction in State revenues, the pipeline of unclaimed credits represents the potential future liability to the State resulting from these projects. Based on data from DBED and the Comptroller's Office, DLS estimates that there is a potential unclaimed credit pipeline of between $104 million and $136 million. **Exhibit 3.21** shows this pipeline growth over time.

Exhibit 3.21
Growth in Outstanding Liabilities
One Maryland Tax Credit
Tax Years 2001-2012



Note: Assumes average of $11 million in claims in tax years 2011 and 2012.
Source: Comptroller's Office; Department of Business and Economic Development; Maryland Insurance Administration

Potential Credit Pipeline Impact

The Heritage Structure Rehabilitation Tax Credit (re-designated in 2010 as the Sustainable Communities Tax Credit) provided a tax credit for the rehabilitation of qualified historic structures. As originally implemented, the program operated as a traditional tax credit not subject to an aggregate limitation on the amount of credits that could be awarded. Rehabilitations increased as the program evolved – commercial projects earned an estimated $239.7 million in total credits prior to 2004. A pipeline of unclaimed credits accumulated concomitant with the delay between the certification of credits and project completion. Eventually this pipeline resulted in sudden and higher-than-expected State revenue losses. Due to legislative concerns about the cost of the credit, Chapter 76 of 2004 shifted the commercial tax credit portion of the program from a traditional tax credit to a tax credit that is subject to an annual appropriation in the State budget, with an aggregate limitation on annual credits based on the final budgetary appropriation. The legislation also established a reserve fund to be used to offset future tax credit claims.

In addition to the Sustainable Communities Tax Credit, a reserve fund and/or annual aggregate limitation on the issuance of credits is a typical feature of several other significant State tax credits. Of the five largest business tax credits, all but the One Maryland tax credit is subject to an appropriation or aggregate limitation. Further, 11 of the 14 tax credits established since 2005 incorporate an aggregate limitation, a budgetary reserve fund, and/or a dedicated revenue source for offsetting program costs.

Although the One Maryland and former Heritage Structure Rehabilitation tax credit programs share many similarities, including the magnitude of credits awarded and the lack of an annual ceiling provided by a reserve fund or aggregate limitation, there are important differences. Two of the contributing factors to the sudden increase in State revenue losses under the Heritage tax credit are absent. First, the Heritage tax credit was immediately refundable, whereas the impact of any single One Maryland project in one tax year is typically tempered due to the limitations on claiming the credit. Second, the number of Heritage projects trebled from 2000 to 2001 and was a significant contributing factor to the unexpected revenue loss. A similar increase has not yet occurred with One Maryland tax credit projects. It is unclear whether these distinctions are sufficient to prevent unexpected revenue losses of the magnitude that occurred with the Heritage tax credit.

Several limitations constrain the ability to accurately forecast the future impact of the credit, which are the inability to (1) anticipate the amount of projects that will receive approval in the next few years; (2) accurately estimate the magnitude of unclaimed future credits; and (3) accurately estimate the correlation between the present magnitude of unclaimed credits and impact on State revenues.

These limitations exist because:

- there is a lack of credit data coordination between DBED, the Maryland Insurance Administration, and the Comptroller's Office;
- once a company carries forward a tax credit to a future tax year, the Comptroller does not determine which credit is being claimed. In order to calculate carry forward amounts, the Comptroller's Office must manually examine returns, a labor-intensive undertaking; and
- DBED is not able to provide guidance on the anticipated amount of credit activity in the near term.

Setting aside these limitations, the potential impact of the pipeline of unclaimed credits is commensurate with the magnitude of the pipeline – there is a corresponding increase between the recent increase in the pipeline of unclaimed credits and the potential future impact on State revenues.

Fiscal Impact of Future Credits

Each business certified for a One Maryland tax credit is required to report annually to DBED specified information about the eligible project. DBED provided information from these annual reports estimating whether the company was currently claiming the credit, had claimed the credit but was no longer claiming it because the credit was fully utilized, or the company did not meet the requirements necessary to claim the credit, had ceased operations, or had not claimed any credits to date.

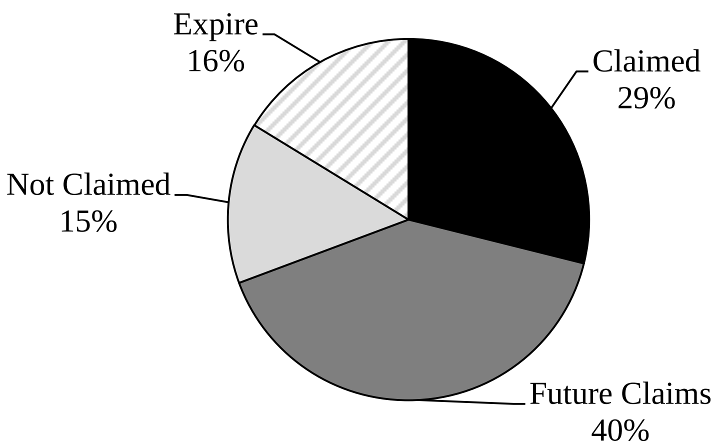
Based on this information, businesses are currently claiming credits associated with 24 projects and drawing down a total of $103.8 million in certified credits. DLS provided this information to the Comptroller's Office in an attempt to estimate current and future credit utilization. Taking into account the amount of credits certified for each business, these projects were certified, on average, six years ago. The final certification date and first tax year do not always correspond; accordingly, at a minimum, these projects can be expected to be in the sixth year of credit claims. Further, the Comptroller's Office estimates that just over one-half of the companies are claiming the refundable credit, which can be claimed beginning in the sixth tax year.

As of tax year 2012, these companies have claimed $30.0 million in credits. The Comptroller's Office estimates that at the current rate of utilization, these companies will claim an additional $41.9 million through tax year 2025. Of the remaining unclaimed amount, approximately $15.0 million is not expected to be claimed because the company has elected to stop claiming the credit.

Based on the estimates and assumptions for other credit claims, the Comptroller's Office estimates that an additional $16.9 million in credits will expire and not be claimed. According to the Comptroller's Office, annual variation in the amounts claimed is expected to be more significantly influenced by the nonrefundable credit (which is driven mainly by the company's applicable taxable income) than the refundable credit.

Exhibit 3.22 shows the Comptroller's Office estimated current and future credit utilization by these companies. The Comptroller's Office estimates that companies will claim about 70% of the total credit amount awarded. The remaining amount is not expected to be utilized by the companies.

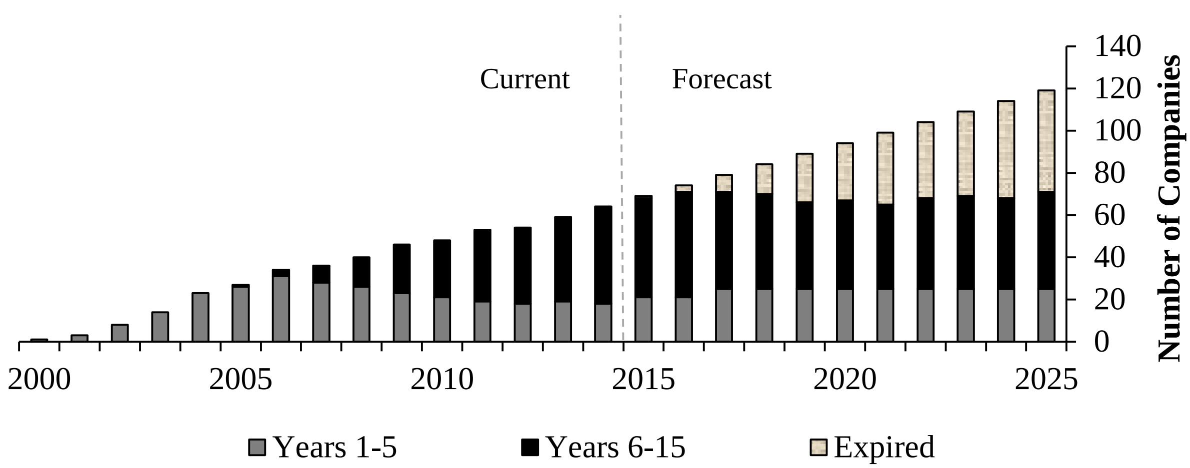
Exhibit 3.22
Expected One Maryland Tax Credit Utilization through Tax Year 2025



Source: Comptroller's Office; Department of Legislative Services

Exhibit 3.23 shows over time the number of companies eligible to claim the credit, whether the company is eligible to claim the credit in the first 5 years, and whether the credit is beyond the 15-year claim period and is expired. It is also assumed that beginning in calendar 2013, DBED awards an average of five projects per year. Based on these assumptions, the number of companies eligible to claim credits will grow from the current 54 to about 70 beginning in 2015 and stabilize a few years thereafter.

Exhibit 3.23
Estimated Number of Eligible One Maryland Companies
Calendar 2001-2025



Source: Comptroller's Office; Department of Legislative Services

Chapter 4. Findings and Recommendations

Based on the information and analysis provided in this report, the Department of Legislative Services (DLS) recommends changes to improve the One Maryland tax credit's fiscal certainty and effectiveness, as discussed below.

The Future Fiscal Impact of the One Maryland Tax Credit is Uncertain Yet Likely Significant

To date, the Department of Business and Economic Development (DBED) has certified a total of $197.4 million in One Maryland tax credits. As detailed previously, only about one-third of this amount has been claimed to date, thus creating a large pipeline of unclaimed credits. Companies generally have 15 years to claim the entire amount of the credit; therefore, existing projects will continue to decrease State revenues by up to $136 million through tax year 2025 (fiscal 2026). The amount of annual credit that can be claimed is based on specific calculations, including the amount of withholding taxes paid by qualifying employees working at the project, the net taxable income of the business, and the amount of income tax attributable to the project. Due to the variation in these factors, the expected revenue loss in each year cannot be accurately predicted. This revenue loss is in addition to any revenue losses that will result from new projects going forward. Since the program is not subject to an annual aggregate limitation, it cannot be accurately predicted as to the amount of credits that will be certified each year. A project can qualify if it is located within a qualified distressed county, and this designation may vary from year to year based on economic conditions. Program costs will also increase if projects in additional counties qualify. Due to these uncertainties and the absence of an aggregate annual limitation, the full fiscal impact of the credit going forward cannot be accurately predicted.

Recommendation: Eleven of the 14 tax credit programs established since 2005 incorporate an aggregate annual statutory limit, budgetary reserve fund requirement, and/or dedicated revenue source for offsetting credit costs. In addition, of the five current tax credits with the largest fiscal impact from 2001 to 2007, only the One Maryland tax credit lacks any aggregate limitation on the annual amount of credits certified. Given the future fiscal uncertainty of the credit and the large variation in the effectiveness of projects, DLS recommends that the annual amount of credits that may be certified by DBED be capped by statute or made subject to an annual State budget appropriation.

Recommendation: It is anticipated that about $75.0 million in One Maryland tax credits will expire within the next seven years. DLS recommends that statutory changes be made to allow DBED to provide reasonable notice to applicable businesses with expiring credits and to the Comptroller's Office that the certification for those credits will be revoked, absent extenuating circumstances. The formal revocation of these credit certifications will clarify State liabilities and increase taxpayer compliance.

There is Significant Variation in the Effectiveness of the One Maryland Tax Credit

The precise economic impact of the One Maryland tax credit cannot be accurately determined due to data limitations and the complexity and uncertainty in the credit amounts actually claimed by companies. However, as discussed in this report, examining DBED-reported project outcomes at the time of certification shows significant variation in the creation of jobs, wages paid, and cost-effectiveness among projects. For example, the 10 "least effective" projects received a little less than one-quarter of all credits but only reported 11% of the total jobs. These projects paid an average wage of $31,660 and reported $139,488 in credits per job. In comparison, the 10 "most effective" projects had an average wage of $92,547 and reported $28,283 in credits per job. As a result, the most effective projects reported paying $3.27 in wages for every $1.00 in credit received, compared to $0.23 for the least effective.

In addition, many companies claiming the One Maryland tax credit also receive additional federal, State, and local financial assistance, further diluting credit effectiveness. For example, many One Maryland projects also received enterprise zone and job creation tax credits. If a project receives each of these credits, DBED will triple-count them by reporting the jobs as attributable to each credit, thereby overstating the economic impact of each credit.

Recommendation: Under current law, a business qualifies for a credit if it meets specified criteria, reports creating at least 25 qualifying positions, and incurs at least $500,000 in eligible project costs. These requirements, combined with the dollar-for-dollar credit calculation for eligible costs up to $5.5 million, do not maximize the State's investment and dilute the potential economic impact of the credit. DBED should propose statutory changes to the credit that will provide targeted incentives that are commensurate with the expected economic impact of the project, including the change in *net* employment of a given project. The calculation in the change in net employment should also include a mechanism that incorporates job reductions at similar sites or at other locations in the State.

Recommendation: In order to better evaluate the potential economic impact of a given project, DBED should propose statutory changes that would establish a project evaluation process similar to those for other State tax credits such as the biotechnology and sustainable communities tax credits. At a minimum, the evaluation criteria should include (1) the estimated economic impact of the credit; (2) whether existing federal, State, and local financial assistance received by a project is a sufficient incentive; and (3) evidence that the economic impacts resulting from the project would not likely occur in the absence of the credit. For example, DBED advises that when it provides financial assistance under the Maryland Economic Development Assistance Authority program it considers how much assistance the project has received and whether the existing incentives are sufficient.

The One Maryland Tax Credit is Complex to Claim and Difficult to Administer

As previously detailed, the amount of the tax credit that can be claimed each year is limited by several factors. A number of companies have either not claimed any credits and indicated to DBED that they will not claim any in the future, or have ceased claiming the credits even if still qualifying. The Comptroller's Office estimates that, based on current utilization rates, companies will likely utilize about 70% of the value of the credits certified to date. Large companies are likely able to realize a greater amount of the credit benefit than smaller companies, since those companies have higher amounts of taxable income. The Comptroller's Office also advises that several companies have claimed the credit incorrectly, thereby increasing compliance burdens. In addition, DBED and the Maryland Insurance Administration have provided limited data about certified credits to the Comptroller's Office.

Recommendation: DBED, in consultation with the Comptroller's Office, should propose statutory changes that will simplify the process of claiming and administering the credit. These changes should continue to require companies to claim the credit over multiple years in order to protect the State's investment and also ensure that credits are certified only to the extent companies continue to operate a qualifying facility. At the same time, these changes should also simplify the calculation of the credit, providing both additional clarity to companies claiming the credit and for a project's expected fiscal impact to the State. Such changes could include allowing the credit to be taken against additional amounts of taxable income, altering credit refundability provisions, or consolidating the project and start-up credits into a single credit.

Recommendation: The Comptroller's Office advises that it is not able to efficiently and routinely identify and report the types of credits being carried forward by companies claiming tax credits, including the One Maryland tax credit. This prevents an accurate assessment by the Comptroller's Office of the total amount of One Maryland tax credits claimed in each year as well as for other tax credits that have carry-forward provisions. The Comptroller's Office recently proposed regulations clarifying electronic filing requirements related to business tax credits that are designed to help improve data collection for those credits. The Comptroller's Office should comment on whether these proposed changes are sufficient and if statutory changes should be made specifying the treatment of credit carry forwards if the company has multiple credits.

Additional Information about the One Maryland Tax Credit Should Be Made Available

Although not required by law to do so, DBED issues a One Maryland annual report detailing information about the credit, including the companies that have been certified for credits, the county in which the qualifying project is located, and the number of jobs reported by qualifying projects. However, due to data confidentiality requirements under both State and federal law, the Comptroller cannot publicly disclose specific information about the tax credits that are actually claimed by businesses on an annual basis. This makes it difficult to assess both the effectiveness and the actual fiscal impact of the credits. It also appears that DBED does not work in collaboration with the Comptroller's Office to track the number and amount of credits actually being claimed.

Recommendation: In order to more accurately assess the effectiveness of the credit, statutory changes should be made requiring DBED to report annually to the General Assembly specified information about the credit, including (1) the amount of credit certified for each project; (2) whether the qualifying project was an expansion, a new facility, moved from out of state, or a start up; (3) the aggregate amount of credits actually claimed in the most recent taxable year; (4) the amount of wages paid to qualified employees at the time of certification; (5) the amount, if any, of other State financial assistance including tax credits and federal and local assistance a project will receive; (6) the total capital investment and employment at the qualifying facility at the time of certification; (7) the classification of the company by size of sales, employees, or other similar metrics; and (8) any companies that have ceased operations.

Recommendation: DBED and the Maryland Insurance Administration should provide detailed information to the Comptroller's Office about each company that has been certified for a credit, including the total amount of credit each company is eligible to claim. This information should be provided in a form and manner mutually agreed to by the affected agencies. This will increase taxpayer compliance and assist the auditing division of the Comptroller's Office.

Recommendation: DBED should adopt regulations to require each business certified for a credit, as a condition of continued receipt of the credit, to report to DBED annually the amount of the credit actually claimed for the most recent taxable year.

Recommendation: The Comptroller's Office should also ensure that any business claiming the credit (1) is current in all State and local tax obligations; (2) is not in default in any State or local contract; (3) is in good standing with the jurisdiction in which it is organized and with the State and authorized or registered to do business in the State; and (4) has submitted to DBED the most recent required project annual report.

Appendix 1. List of One Maryland Projects

Company	County	Certification Date	Certified Credit	Certified Jobs	Average Wages	Credit per Job	Additional State/Local Financial Assistance	Rating
AJM Enterprises, Inc.	Baltimore City	2009	$2,804,144	43	$47,617	$69,783	X	2
Alliant Techsystems, Inc. I	Baltimore City	2011	5,500,000	30	174,529	187,132	X	2
Alliant Techsystems, Inc. II	Cecil	2010	5,500,000	120	80,054	48,251		1
American Skyline Insurance Company, Inc.	Baltimore City	2003	4,680,000	48	75,051	121,662		2
American Woodmark Corporation	Allegany	2011	5,500,000	61	23,058	92,032		4
APS East Coast, Inc.	Baltimore City	2009	1,641,000	54	26,851	32,519	X	2
Baker's Express of Maryland, Inc.	Baltimore City	2002	4,790,000	51	45,052	119,890		3
Baltimore Truck Wash, LLC	Baltimore City	2008	3,820,006	57	23,292	71,478	X	3
Bank One NA	Baltimore City	2002	5,500,000	54	40,233	130,013	X	3
Beitzel Corporation	Garrett	2012	4,018,605	27	42,391	148,837		4
Burris Logistics, Inc.	Cecil	2007	5,500,000	249	34,999	24,458		2
CBIZ Insurance Services, Inc.	Allegany	2003	2,568,200	26	45,401	123,256		3
CompManagment of Virginia, Inc.	Baltimore City	2004	500,000	27	57,890	22,507		1
Constellation Energy Commodities Group I	Baltimore City	2007	2,342,000	97	92,031	26,735	X	1
Constellation Energy Group II	Baltimore City	2007	1,475,000	169	101,079	9,664	X	1
Constellation NewEnergy, Inc. III	Baltimore City	2007	1,683,000	159	125,821	11,721	X	1
Ellicott Dredges, LLC	Baltimore City	2012	2,838,243	25	52,442	113,530	X	3
F&G Life Insurance Company (Old Mutual Financial Life Insurance)	Baltimore City	2002	4,500,000	56	82,083	102,575	X	2

Company	County	Certification Date	Certified Credit	Certified Jobs	Average Wages	Credit per Job	Additional State/Local Financial Assistance	Rating
Federal Insurance Company	Baltimore City	2010	$4,251,761	139	$43,474	$32,202	X	2
First Mariner Bank	Baltimore City	2003	5,500,000	35	62,605	196,085	X	3
Garrett Container Systems, Inc. I	Garrett	2004	508,000	28	22,245	22,050		2
Garrett Container Systems, Inc. II	Garrett	2002	625,000	25	23,365	31,912		2
Garrett Container Systems, Inc. III	Garrett	2012	2,677,997	25	51,987	107,120		3
GCC Technologies, Inc.	Garrett	2012	3,031,526	28	35,341	108,269		3
Hanover Foods Corporation	Caroline	2002	5,093,000	35	42,124	185,747		4
Hardwire LLC	Worcester	2010	5,500,000	25	57,290	231,603		4
Hunter Douglas Fabrication Company	Allegany	2002	5,500,000	65	25,039	108,010		4
Jason Pharmaceuticals Incorporated	Caroline	2006	2,577,000	35	21,447	83,869		4
LWRC International, LLC	Dorchester	2012	1,586,691	30	59,636	52,890		2
Mid-Atlantic Baking Company	Baltimore City	2004	5,500,000	64	38,740	104,445	X	3
Morgan Stanley & Co., Inc. I	Baltimore City	2005	5,500,000	51	53,025	126,800	X	3
Morgan Stanley & Co., Inc. II	Baltimore City	2010	5,500,000	124	63,691	46,694	X	2
Mushroom Canning Company	Dorchester	2005	5,017,000	73	30,667	80,807		3
NCO Financial Systems, Inc.	Baltimore City	2008	2,694,445	51	28,567	56,348	X	3
New England Motor Freight	Cecil	2008	5,500,000	44	59,388	133,319		3
Nurad Technologies, Inc.	Baltimore City	2005	3,665,000	37	43,917	116,466	X	3
Reznick Group, PC	Baltimore City	2008	4,300,000	36	63,993	127,394	X	3
Ritz Camera Centers, Inc. (DBA Boaters World)	Caroline	2006	2,750,000	25	22,782	125,299		4

Company	County	Certification Date	Certified Credit	Certified Jobs	Average Wages	Credit per Job	Additional State/Local Financial Assistance	Rating
Standard Auto Parts Corp.	Baltimore City	2006	$2,173,000	33	$21,090	$75,007	X	4
Stifel Nicolaus & Company	Baltimore City	2010	5,500,000	32	97,668	180,940	X	3
Superfos Packaging, Inc. (DBA Berry Plastics SP, Inc.)	Allegany	2001	5,500,000	33	37,569	216,142		4
T Rowe Price Associates, Inc.	Baltimore City	2009	5,500,000	116	93,098	50,737	X	1
The Quikrete Companies, Inc.	Cecil	2007	5,500,000	41	43,212	148,540		3
The Sherwin-Williams Company	Somerset	2012	598,997	31	27,165	19,322		2
Under Armour, Inc. I	Baltimore City	2004	876,300	40	74,441	26,626	X	1
Under Armour, Inc. II	Baltimore City	2005	2,250,000	46	68,272	57,511	X	2
Under Armour, Inc. III	Baltimore City	2003	1,290,700	33	66,403	48,805	X	2
Under Armour, Inc. IV	Baltimore City	2006	1,083,000	54	70,897	22,845	X	1
Under Armour, Inc. V	Baltimore City	2007	5,500,000	73	60,901	83,426	X	2
Under Armour, Inc. VI	Baltimore City	2010	5,500,000	130	72,072	44,539	X	2
Under Armour, Inc. VII	Baltimore City	2012	5,500,000	137	84,672	40,146	X	1
Vane Line Bunkering, Inc.	Baltimore City	2005	5,352,000	26	46,715	242,030	X	4
Warwick Fulfillment Solutions, LLC	Dorchester	2011	516,705	25	38,472	21,096		1
World Relief Corporation of the National Association of Evangelicals	Baltimore City	2008	2,296,000	59	47,001	41,505	X	2

Notes: Credits are expressed in nominal dollars; wages and credit per job are expressed in constant 2012 dollars. Rating refers to estimated project effectiveness based on DBED reported outcomes and assumptions; 1 is most effective and 4 is least effective.

Additional assistance applies only to Baltimore City projects and includes assistance from specified DBED programs, MEDCO, or Baltimore Development Corporation or if the business claimed at least one of the following State tax credits: job creation, research and development, or enterprise zone.