

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1117  
 Ways and Means

(Delegate Palakovich Carr, *et al.*)

Economic Development - Enterprise Zone Program - Alterations

This bill limits the amount that the State must reimburse local governments for property tax credits issued under the Enterprise Zone Tax Credit Program to \$25.0 million each year. The Secretary of Commerce is prohibited from designating a new enterprise zone or granting an expansion of an existing zone in a calendar year if the Department of Commerce (Commerce) reasonably believes the aggregate amount of tax credits claimed under the program may exceed \$50.0 million. The bill also generally limits enterprise zone expansions, requires local governments to report to Commerce and the Comptroller each year, requires Commerce and the Comptroller to develop formal metrics and a framework for analyzing each enterprise zone, as specified, and requires Commerce to adopt related regulations. **The bill takes effect July 1, 2020.**

Fiscal Summary

**State Effect:** General fund expenditures decrease by \$1.2 million in FY 2021, escalating to a \$6.0 million reduction in FY 2025. State revenues increase beginning in FY 2021 if overall participation in the enterprise zones program is limited and fewer income tax credits are claimed. The bill’s requirements can be handled with existing budgeted resources.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	-	-	-	-	-
SF Revenue	-	-	-	-	-
GF Expenditure	(\$1.2)	(\$2.2)	(\$3.4)	(\$4.7)	(\$6.0)
Net Effect	\$1.2	\$2.2	\$3.4	\$4.7	\$6.0

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local revenues decrease by \$1.2 million in FY 2021 and significantly more thereafter. Expenditures are likely not materially affected.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** For any single enterprise zone expansion, Commerce may only grant an increase of 100 acres in a calendar year; business entities must also have expressed interest in the area and it must have basic infrastructure. By September 15 each year, local governments with enterprise zones must submit a detailed report on each zone to Commerce and the Comptroller. Commerce must also adopt regulations governing the evaluation and prioritization of applications for the designation of new enterprise zones.

**Current Law/Background:** The enterprise zone tax credit program, established in 1982, is intended to encourage economic growth within economically distressed areas of the State and to increase employment of the chronically unemployed. Businesses located within an enterprise zone are eligible for local property tax credits and State income tax credits. Real property tax credits are 10-year credits against local real property taxes on a portion of the qualifying real property improvements in the enterprise zone. The income tax credit is based on wages paid to newly hired employees and can be taken over a 1- to 3-year period. The credits are based on the wages paid during the taxable year to each qualified employee and vary in value and length of time depending on whether the employee is certified by the Maryland Department of Labor as being economically disadvantaged and if the business is located in a focus area.

The Secretary of Commerce may designate one or more State enterprise zones within 60 days of a political subdivision's submission for an enterprise zone designation. Once approved, the enterprise zone designation is effective for 10 years. At any time, a political subdivision may reapply to the Secretary to designate another area as an enterprise zone. The Secretary of Commerce may designate annually six enterprise zones and one extraordinary expansion. A county may not receive more than two enterprise zone designations in a calendar year.

Chapter 173 of 2006 granted the Secretary the authority to approve the expansion of an existing enterprise zone by up to 50% in size without the expansion counting toward the statutory limit. Pursuant to Chapter 362 of 2006, any business located in a State enterprise zone may apply for the tax credit for an additional five years following the zone's expiration.

The State Department of Assessments and Taxation (SDAT) reimburses local governments (through the department's annual general fund budget) for 50% of the property tax revenue decrease that results from the property tax credit. There is no established limit to the amount that the State may reimburse local governments.

In calendar 2019, there were [37 State enterprise zones](#) comprising a total area of about 86,000 acres. In recent years, the program has increased by an average of 1,000 acres each

year. The Governor’s proposed fiscal 2021 operating budget includes \$26.2 million in local property tax reimbursements. In recent years, an average of about \$1.0 million in income tax credits have been claimed.

**State Fiscal Effect:** General fund expenditures for SDAT decrease by \$1.2 million in fiscal 2021 as a result of the State reimbursement limit. General fund expenditures further decrease over time, escalating to \$6.0 million in fiscal 2025, as shown in **Exhibit 1**. This estimate is based on current projections by the Department of Legislative Services for the cost of property tax reimbursements going forward, which are expected to exceed the \$25.0 million annual limit in the bill each year.

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**Exhibit 1**  
**General Fund Expenditures for Property Tax Reimbursements**  
**Fiscal 2021-2025**  
**(\$ in Millions)**

	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>
Current Law (Estimated)	\$26.2	\$27.2	\$28.4	\$29.7	\$31.0
The Bill	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
<b>Difference</b>	<b>(\$1.2)</b>	<b>(\$2.2)</b>	<b>(\$3.4)</b>	<b>(\$4.7)</b>	<b>(\$6.0)</b>

Source: Department of Legislative Services

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State revenues may increase beginning in fiscal 2021 if the bill limits overall participation in the enterprise zones program and fewer income tax credits are claimed. As noted above, the income tax credit portion of the program is relatively minor compared to the property tax credit – about \$1.0 million annually in recent years.

Commerce and the Comptroller can generally handle the bill’s requirements with existing budgeted resources, although Commerce advises that there is a significant operational impact related to analyzing each enterprise zone.

**Local Fiscal Effect:** Local revenues from property tax reimbursements decrease by \$1.2 million in fiscal 2021 as a result of the State reimbursement limit; local revenues further decrease over time, escalating to \$6.0 million in fiscal 2025. The revenue losses may be offset to a limited extent by fewer enterprise zone income tax credits being claimed. In fiscal 2020, Baltimore City received 71% of all property tax reimbursements; Eastern and Western Maryland combined for 7% of reimbursements, with the balance going to the remaining central portion the State. This analysis does not include any effect on local revenues due to enterprise zones not designated or expanded under the bill.

Local governments can likely comply with the bill's enhanced reporting requirements with existing budgeted resources.

**Small Business Effect:** Small businesses that do not receive tax credits under the enterprise zone program – generally due to a limit on new zone designations and expansions – are negatively affected.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Department of Commerce; Comptroller's Office; State Department of Assessments and Taxation; Charles, Frederick, and Montgomery counties; Maryland Association of Counties; Maryland Municipal League; Department of Legislative Services

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