FEBRUARY 8, 2022

Extending Special Business Tax Breaks Would Take Maryland Further Down the Wrong Path

Position Statement in Opposition to Senate Bill 391

Given before the Senate Budget and Taxation Committee

As policymakers have added a growing number of business subsidies to Maryland's tax code over the last several decades, evidence has begun to pile up that the millions of dollars we put into business tax breaks each year do little to support Maryland's economy. Worse, these tax breaks use up resources that could otherwise be invested in assets businesses value, such as great public schools and modern transportation infrastructure. Extending the so-called More Jobs for Marylanders subsidy program would take Maryland further down this misguided path. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 391**.

Maryland's economy is built on the foundation of our shared investments—things like quality health care, strong public schools, and reliable transportation networks. Surveys consistently find that these assets are among the most important factors business leaders consider when deciding where to start and grow a business.[i] Individuals and businesses alike help maintain these investments through our taxes. Special tax breaks like the More Jobs for Marylanders Program make it harder to invest in these fundamentals.

Meanwhile, evidence shows that these special tax breaks do little to support our economy. Rigorous academic research generally finds that programs like More Jobs for Marylanders do not work.[ii] One reason for the disappointing performance of tax subsidies is the relative insignificance of state and local taxes to businesses' bottom lines, as they account for only 2 to 3 percent of most companies' cost structure.[iii]

When state analysts evaluated the More Jobs for Marylanders tax credit program last year, they found numerous flaws and recommended allowing the program to sunset as scheduled:[iv]

- The More Jobs for Marylanders program was created without a specific, stated goal. According to state analysts, "Without clearly defined goals and objectives, it is difficult to identify the metrics and data needed to evaluate the effectiveness of the tax credits. In other words, there is no clear standard by which to even assess whether the program is effective.
- Subsequent legislation expanded the program to include a "new, substantially different objective," but did nothing to tailor the program's design to its new objective
- The program's costs are significant and growing. Based only on applications received before November 2020, the program is expected to cost $20 million in fiscal year 2024, with $55 million in cumulative costs by that time.
- Because each eligible business can receive tax breaks for multiple years, each year in which the program accepts new applications commits the state to significant and growing costs years down the line.

- More Jobs for Marylanders needlessly overlaps with the state's numerous other business subsidy programs, such are One Maryland, Enterprise Zones, and the Opportunity Zones Enhancement Program.
- Although the program in theory prioritizes projects in "Tier 1" counties with high unemployment rates or other economic challenges, more than half of credits during the program's first benefit year went to lower-priority Tier 2 counties that have little need for economic support.
- The bulk of the program's benefits have gone to "large, established corporations." Two companies received 40% of all credits in the program's first benefit year. Companies with at least 500 employees received three-quarters of all benefits, despite generating less than half the state's private-sector jobs.
- According to the evaluation, major beneficiaries include General Dynamics, Northrup Grumman, ConAgra, and Mack Trucks/Volvo Group.
- The evaluation recommended, **"The General Assembly should consider allowing the program to terminate as provided under current law."**

Senate Bill 391 extends the program without any addressing any of the serious issues identified in the report.

Marketing	Reality
In 2017 written testimony, the Department of Commerce claimed that the program "will **prioritize small and medium sized manufacturers**."	• "Two companies received 40% of all credits." • "Less than one-half of the State's private workforce is employed at companies with 500 or more employees," but these companies received three-quarters of the program's benefits.
"In its advocacy for the extension and expansion of the program in 2019, the Hogan administration testified that the More Jobs for Marylanders Program goal 'was not just to encourage new jobs, but **to spur job growth in high-unemployment areas** where [new jobs] would have the greatest impact.'"	• 53% of credits went to lower-priority Tier 2 counties that needed little additional economic support. • The seven counties with the lowest poverty rates received 51% of credits, despite being home to only 45% of the state's working-age population. • The 10 counties with the lowest unemployment rates received 52% of credits, despite being home to only 33% of the state's working age population.

While the benefits of business subsidy programs are minimal, the associated harms are substantial. By reducing the resources available to invest in the foundations of Maryland's economy, these tax breaks heighten the economic barriers that hold back too many Marylanders. Our unmet needs in areas like education, health care, and transportation are beginning to pile up, and Marylanders of color often bear the greatest costs. Senate Bill 391 is part of a pattern of Gov. Hogan of prioritizing large businesses and wealthy individuals over the foundations of thriving Maryland communities. This bill part of a budget proposal that shorts public schools by $140 million while handing out $224 million in lopsided tax breaks.

Even in the state's current, strong fiscal position, we should not throw good money after bad at ineffective business subsidies. For a healthy economy, this money would be better spend investing in Maryland communities' backbones.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make an unfavorable report on Senate Bill 391.

Equity Impact Analysis: Senate Bill 391

Bill summary

Senate Bill 391 extends the final submission date for applications for the More Jobs for Marylanders tax break program from June 2022 to June 2027.

Background

A draft evaluation published by the Department of Legislative Services in 2021 identified serious shortcomings in the program's design and administration, including the lack of a clear program objective, rising costs, and a mismatch between the program's purported goal of supporting economically challenged communities and small manufacturing businesses and its actual performance.

Equity Implications

Effective investments in economic development can advance equity by improving economic opportunities for workers who face barriers in the job market built through centuries of discriminatory policy choices. However, poorly designed business tax breaks bring no such equity benefits but simply skew the economy further in favor of the wealthy and powerful.

Subsidy programs like More Jobs for Marylanders consume resources the state could otherwise invest in Maryland communities. Our growing underinvestment in essential services like education, health care, and transportation harms all Marylanders, and at the same time has outsized impacts on people who face structural barriers because of low income or the ongoing legacy of racist policy. Even during a period of fiscal strength, lopsided tax breaks weaken the state's ability to invest in broadly shared prosperity.

Impact

Senate Bill 391 would likely **worsen racial and economic inequity** in Maryland.

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[i] Geraldine Gambale, "35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives' Site and Facility Plans," *Area Development*, 2021, https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml
Rhett Morris, "What Do the Best Entrepreneurs Want in a City? Lessons from the Founders of America's Fastest-Growing Companies," Endeavor Insight, 2014, https://issuu.com/endeavorglobal1/docs/what_do_the_best_entrepreneurs_want

[ii] See for example Nathan Jensen, "The Effect of Economic Development Incentives and Clawback Provisions on Job Creation: A Pre-Registered Evaluation of Maryland and Virginia Programs," *Research & Politics*, 2017, https://journals.sagepub.com/doi/abs/10.1177/2053168017713646

[iii] Robert Tannenwald, "Testimony of Robert Tannenwald, Senior Fellow, Before the New Hampshire Business Tax Commission," Center on Budget and Policy Priorities, 2010, https://www.cbpp.org/testimony-of-robert-tannenwald-senior-fellow-before-the-new-hampshire-business-tax-commission

[iv] George Butler, Emily Haskel, Brett Ogden, Robert Rehrmann, and Erika Schissler, "DRAFT Evaluation of the More Jobs for Marylanders Program," Department of Legislative Services, 2021, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_More_Jobs_for_Marylanders_Program.pdf