

The Maryland Enterprise Zone Program

Report to the Governor and General Assembly
on the Maryland Enterprise Zone Program

Submitted by the
Department of Business and Economic Development and
the Comptroller of the Treasury
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Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property-owners located in some of the State's most economically distressed communities. The program was created in 1982 with two zones in two jurisdictions and has grown to include 30 zones in 14 jurisdictions. In accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the State's Enterprise Zone tax credit program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury, State Department of Assessment and Taxation, the Department of Labor, Licensing, and Regulation, and county and municipal enterprise zone administrators for providing valuable information for this report.

Current Status of the Maryland Enterprise Zone Program

As of December 2004, there are 30 enterprise zones across the state and four focus areas. The enterprise zones are located throughout the state, with ten state-designated zones in Western Maryland, ten on the Eastern Shore, five in Southern and Suburban Maryland, and five in Central Maryland (Table 1).



Table 1: Enterprise Zones by County

County	Enterprise Zones	Designation Date
Allegany	Frostburg	12/15/2004
	Rt. 220 South	12/15/1999
	Cumberland/Gateway	6/15/2002
Baltimore County	North Point	12/15/1995
	Southwest Baltimore County	12/15/2003
Baltimore City	Baltimore City EZ	6/15/2002
Cecil	Cecil County	12/15/2003
Dorchester	Hurlock Industrial Park	12/15/1999
	Cambridge	6/15/2003
Garrett	Southern Garrett Industrial Park	12/15/1996
	Northern Garrett Industrial Park	6/15/1999
	Central Garrett Industrial Park	6/15/2003
	Keyser's Ridge Business Park	6/15/2004
Harford	Edgewood-Joppa	12/15/2004
	Aberdeen/Havre de Grace	6/15/1996
Montgomery	Silver Spring	12/15/1996
	Wheaton	12/15/1998
	Long Branch/Takoma Park	6/15/2003
Prince George's	Prince Georges Enterprise Zone	12/15/1999
Somerset	Crisfield Enterprise Zone	6/15/1996
	Princess Anne Enterprise Zone	12/15/2003
St. Mary's	Lexington Park	12/15/2000
Washington	Washington County Airport	6/15/2004
	Town of Hancock	12/15/1995
	Hagerstown	12/15/2002
Wicomico	Fruitland	6/15/1995
	Salisbury	12/15/2002
Worcester	Snow Hill	6/15/1995
	Berlin	6/15/1996
	Pocomoke City Enterprise Zone	12/15/2001
Expired Zones		
Calvert	Calvert Industrial Park	6/15/1993
Allegany	Rocky Gap State Park	12/15/1993
Washington	I-81	12/15/1991
Focus Areas		Designation Date
Prince George's	Prince George's Focus Area	12/15/2004
St. Mary's	Lexington Park Focus Area	12/15/2000
Baltimore City	Baltimore Focus Area	6/15/2000
Montgomery	Takoma Park Focus Area	6/15/2003

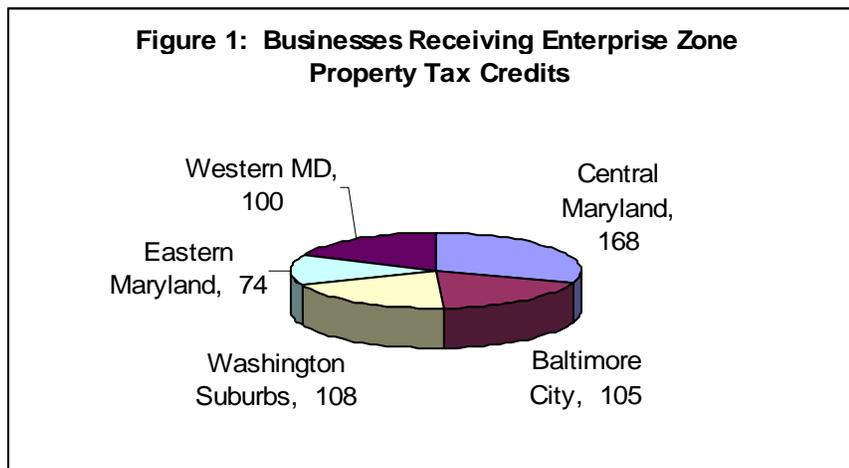
Real Property and Income Tax Credit Usage

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and state income tax credits. The General Assembly requires the Department of Business and Economic Development (DBED) and the Comptroller of Maryland to report annually beginning December 15, 2002 on the effectiveness of the enterprise zone tax credits. Specifically, the Enterprise Zone statute requires DBED and the Comptroller to assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted annually and the success of the tax credits in attracting and retaining businesses within enterprise zones.

This report addresses the number and amount of credits granted annually for each credit followed by a discussion of the information provided by county and/ or municipal administrators on how the credits are used to attract and retain businesses.

Property Tax Credits

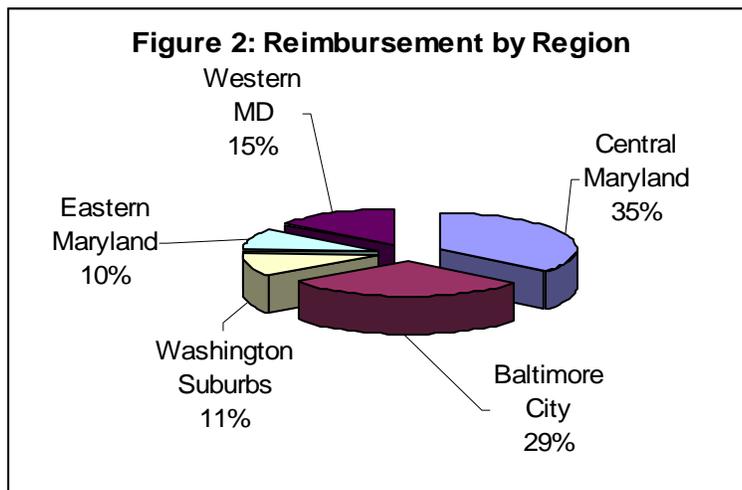
Eligible businesses in an enterprise zone may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80 percent of the assessment increase during the first five years. The credit then decreases 10 percent annually thereafter to 30 percent in the tenth year. The State Department of Assessments and Taxation (SDAT) reports on the real property investment made in the enterprise zone, the number of businesses receiving property tax credits and the State's one-half reimbursement back to the counties and municipalities for the property taxes abated as a result of the credits. SDAT reports that 555 businesses will receive property tax credits totaling \$10.6 million in FY 2006. The credits are based on real property investments made by those businesses totaling \$1,156.7 million. This translates to an average capital investment of \$2.1 million per business. The real property investment will cost the State \$5.3 million to reimburse the localities, assuming the State's full obligation is fully met. Figure 1 shows the location of these businesses by region.



Source: SDAT and DBED

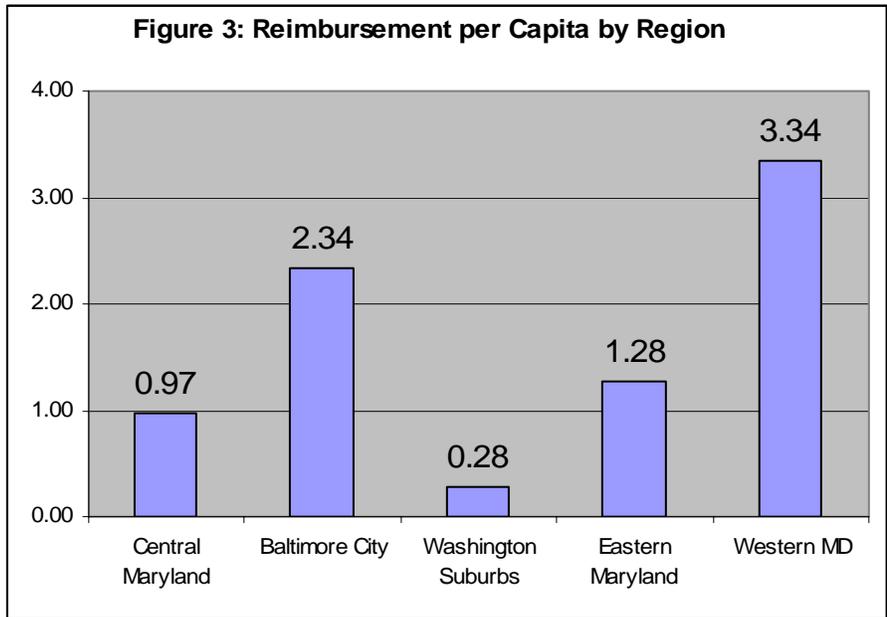
There is considerable variation by region in the usage of the program. This variance is attributable to three factors: 1) eligibility for the program—poorer regions can more readily meet the eligibility criterion for participation in the program; 2) political choice to participate in the program—the governing bodies of counties and their municipalities have sole authority to request creation of an enterprise zone and sole discretion to establish local standards that govern access by businesses to the program’s credits; and 3) private sector business expansion—the enterprise zone has no costs unless businesses make new investments in real property.

Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2006). In absolute dollar terms, the region receiving the most state enterprise zone funding is the Central region, which will receive approximately \$1.9 million (35 percent) of the projected FY 2006 appropriation, not including Baltimore City, which will receive about \$1.5 million (29 percent). Western Maryland will receive about \$789,987 (15 percent), Eastern Maryland about \$505,766 (10 percent) and Suburban Maryland about \$568,030 (11 percent).



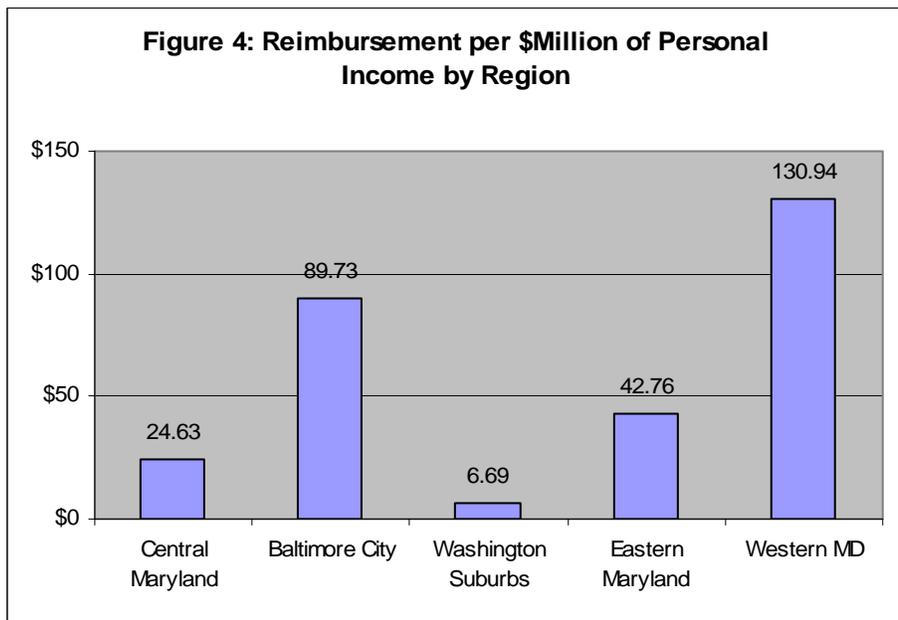
Source: SDAT and DBED

To better understand the financial importance of the Enterprise Zone program to the participating jurisdictions, our analysis accounts for the disparities in population and wealth between the regions. Statewide, the projected cost of the enterprise zone property tax credit is expected to be \$1.00 per Maryland resident. In FY 2006, the three Western Maryland counties and their municipalities will receive \$3.34 in reimbursement per resident, Baltimore City receives \$2.34, Eastern Maryland receives \$1.28, followed by Central Maryland and the Washington Suburbs.



Source: SDAT and DBED

Looking at the personal income of each region also illustrates that the Western region, Baltimore City and Eastern Maryland benefit the most from the Enterprise Zone program (Figure 4). When the data is computed on the basis of reimbursement payments per million of annual personal income, Western Maryland receives \$131 in reimbursement, Baltimore City receives \$90, and Eastern Maryland receives \$43. Statewide, the reimbursement per million of personal income is \$27.



Source: SDAT and DBED

Enterprise zone administrators generally agree that the enterprise zone real property tax credit is the most useful and effective enterprise zone credit available to

businesses that locate or expand in an enterprise zone. Counties that have few other incentives to offer find that the property tax credits are very important. Several counties also noted that the credits are useful in retaining companies in the zone. Companies considering an expansion often decide to expand within the zone rather than move to another location outside of the zone.

Property Tax Credit Benefits

Prior to Enterprise Zone establishment, there was no development in the zone and in Northwood Industrial Park. Today, there are more than thirty manufacturers located in the zone, employing some 3,000 people.

Wicomico County, Salisbury Enterprise Zone

[T]he property tax credits have been useful in attracting businesses to the enterprise zone...Another site (Medline) provided a challenge due to the need for the business to lower the access road, which goes under the CSX rail line. The potential availability of real property tax credits helps the company to offset the additional roadwork expenses.

Harford County, Greater Aberdeen/Havre De Grace Enterprise Zone

Since the County has little other incentives, other than negotiation on the price of lots in the parks, the tax credits, particularly for real estate taxes are very important. Being able to offer the property tax credit has been an important incentive for all of the businesses who have chosen to locate in the Enterprise Zone/Industrial Park.

Garrett County, Northern Garrett Industrial Park Enterprise Zone

The property tax credits continue to be the most attractive incentive for locating a business or building a project in an enterprise zone. The newest projects in the zone that will benefit from the property tax advantages available are the Eastport Industrial Center and the Colgate Business Park. The Eastport Center is a new 612,000-square foot cross-dock multi-tenant facility being developed by Trammell Crow on Quad Avenue. This building probably would not have been developed if it were not for the availability of real property tax credits. The developer is also promoting the income tax credit as part of the marketing package for the building.

Baltimore County, North Point Enterprise Zone

We have at least two calls a month asking if a location is in our enterprise zone.

Dorchester County, City of Cambridge Enterprise Zone

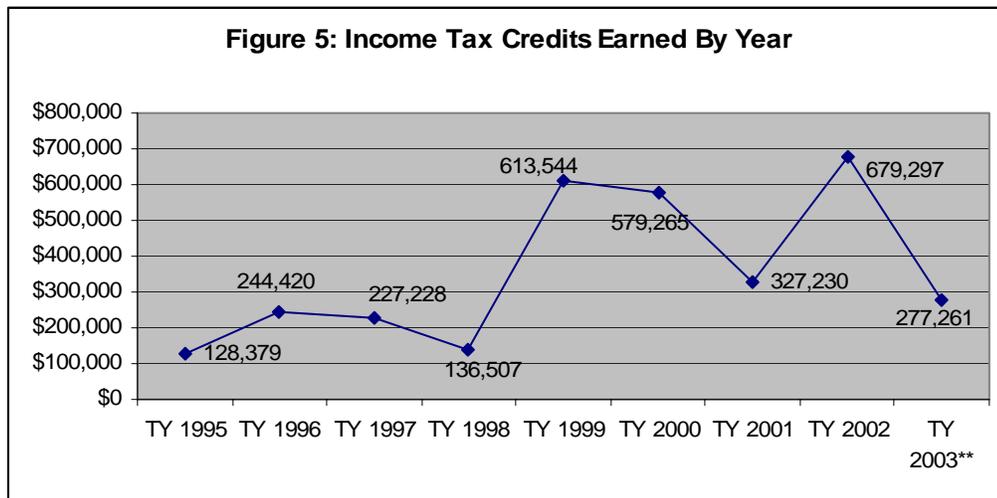
The property tax credit has been very helpful in "building out" two of Washington County's business parks – the Gateway Business Park and the Washington County Business Park. Both of these parks are near capacity. Hagerstown Business Park has now been completely built out. This particular enterprise zone was helpful landing the Lowe's Flatbed Distribution Center. The rest of the zone consists of smaller retail-oriented buildings. Most of these buildings fall within the "Central Business District" of the City of Hagerstown. In this portion of the zone, the credit has not been effective in helping to attract new business.

Washington County, City of Hagerstown-Washington County Enterprise Zone

Income Tax Credits

Eligible businesses in an enterprise zone may claim one-year or three-year credits for wages paid to new employees in new positions. The general credit is a one-time \$1,000 credit per new worker. For economically disadvantaged employees, the credit increases to a total of \$6,000 per worker distributed over three years. Businesses claim the enterprise zone income tax credits on the 500CR form when they submit their business or individual income tax returns to the Comptroller of Maryland. The Comptroller collects and compiles this tax return data.

The Comptroller has provided consistent tax return data on the enterprise zone income tax credits from tax years 1995 to 2003. The 2003 data is incomplete because of corporate filing extensions. As Figure 5 shows, in TY 2002 (the last full year of data available), businesses earned \$679,297 in income credits, up 108 percent from the previous year. However, as Figure 5 shows, the usage of the income credits varies year-to-year. Businesses in enterprise zones have earned a total of \$3.2 million in income credits over this time period.



** Data is incomplete for the TY 2003
Source: Comptroller and DBED

The Employment tax credits are perceived as secondary in importance in attracting businesses. Most of the businesses are small employers who do not always take advantage of the incentive due to wages paid and the perceived paperwork involved with obtaining the credits. Administrators report a large degree of interest in the credits, although it is not known how important the availability of the credit is in the firm's final decision. One administrator also noted that the employment tax credit is not an incentive for non-profit institutions.

Income Tax Credit Benefits

Employment Tax Credits are effective incentives for the new retail-entertainment redevelopment project. The credits help to reduce the risk for new restaurants, retail stores, and cinemas that consider space in an economically unproven area. Along with the generous deals the developer is able to make because of the redevelopment plan the potential early tenants can foresee a reasonable return.

Montgomery County, Silver Spring Enterprise Zone

While the employment tax credits are a great incentive to present to businesses interested in the County and the Enterprise Zone, our experience in the past has been that very few businesses actually take advantage of the credits. In the Southwest Zone, this may be because many of the companies are smaller and do not have the accounting expertise that would normally identify or calculate tax credit opportunities.

Baltimore County, Southwest Enterprise Zone

Over the years, we have had a number of businesses choose to locate in the enterprise zone, which were not interested in making a significant capital investment but which were interested in the employment tax credits. Last year, for example, Silverton Marine Corporation announced the establishment of a "parts" factory in the former Webcraft building, within Salisbury's zone. The company will not likely invest significantly in the building for sometime, but management did indicate income tax credits were a factor in locating one hundred seventy-five jobs in Salisbury.

Wicomico County, Salisbury Enterprise Zone

The employment tax credit has most likely been more useful this year than in past years. A number of companies new to the County have located in the Enterprise Zone and become certified. ReadyIce brought 25 new employees, Phoenix International brought 57 new employees, and Milestone Tarant brought 82 new employees.

Prince George's County Enterprise Zone

Last year, the Hyatt was very interested in employment tax credits. A representative from DLLR attended several of their job fairs to help certify employees.

Dorchester County, City of Cambridge Enterprise Zone

While this incentive is also important in attracting businesses, it is probably secondary in importance to the businesses in relation to the real property tax credits. Most of the businesses are small employers and do not always take advantage of this incentive due to wages paid and paperwork (or perceived paperwork) involved with obtaining the credits. However, it is anticipated that one of the companies in the Park will be utilizing the employment tax credits for 2003 and for 2004.

Garrett County, Southern Garrett Industrial Park Enterprise Zone

For the smaller aviation/retail operations, which primarily make up this zone, the employment tax credit has not been utilized. The process to claim the credit is deemed too cumbersome and time consuming compared to the cost savings that a credit for 1 or 2 jobs creates.

Washington County, Washington Regional Airport Enterprise Zone

Economically Disadvantaged Employees

The Department of Labor, Licensing and Regulation is the state agency responsible for certifying if an employee hired by a business in an enterprise zone is economically disadvantaged. DLLR began tracking the number of economically disadvantaged employees certified in 1998. During the last six years, 304 employees were certified as economically disadvantaged.

Table 2: Economically Disadvantaged Employees Certified By DLLR

Year	Number Certified
1998	69
1999	55
2000	47
2001	34
2002	68
2003	31
Total	304

Source: Department of Labor, Licensing and Regulation

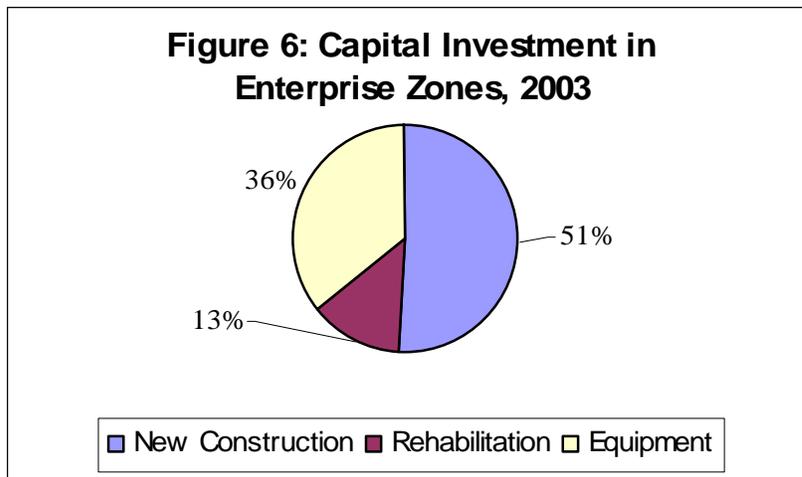
While the process to claim the standard income tax credit or the property tax credit requires the local zone administrator to certify the business as eligible for the credits, the economically disadvantaged income tax credit requires the business to do more. The process that the business and the employee must go through to certify that the employee is economically disadvantaged is as follows:

- Upon hiring an employee, the business refers the employee to the Maryland Job Service for screening of his or her economic status.
- Using the federal Bureau of Labor Statistics data on the Lower Living Standard, family size and location within the state, the determination is made on the employee's status.
- The employee who meets the criteria is issued a voucher to take back to the employer.
- The employer completes the required section of the voucher and submits it to the Tax Credit Programs Unit of DLLR.
- Upon verification that all criteria are met, the Tax Credit Programs Unit of DLLR issues a certification to the employer.
- At the end of the tax year the employer claims the credit on the 500CR form when it submits its taxes.

While it is important to have a process in place that insures a business is in compliance with the statute when claiming the credit, the process could deter some businesses from claiming the larger credit and instead simply take the one time credit available for hiring any new employee. This may change, as businesses are made aware that the credit has been increased from \$3,000 to \$6,000 for hiring an economically disadvantaged employee in an enterprise zone and up to \$9,000 in a focus area.

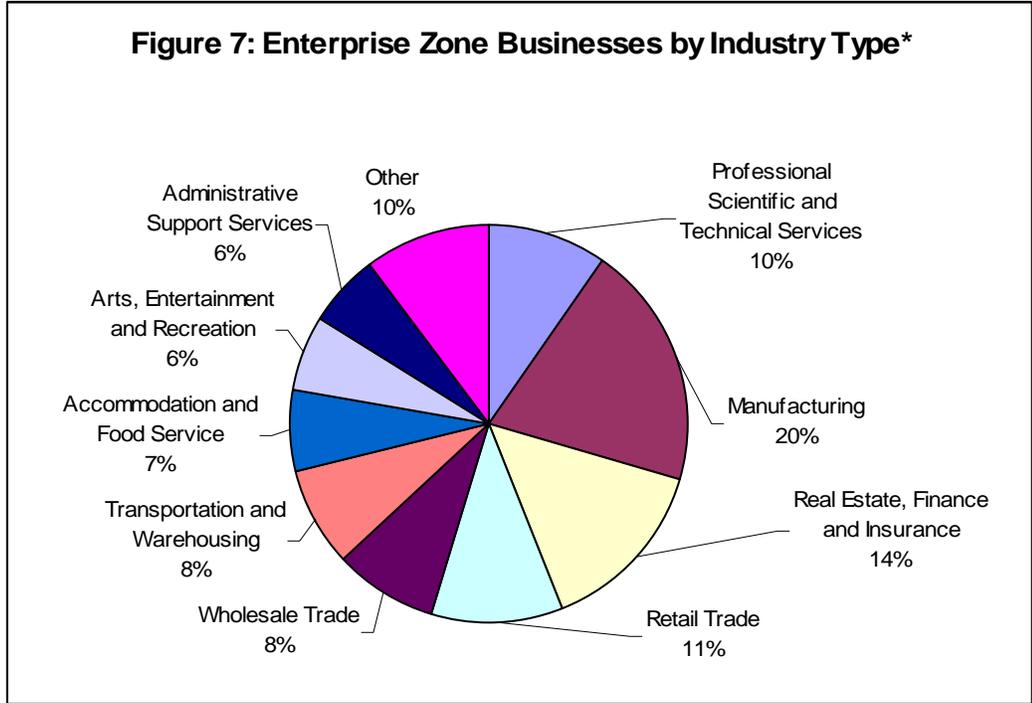
Business Activity in the Enterprise Zones

In addition to the information from SDAT, the Comptroller and DLLR on the number and amount of credits granted annually, the local enterprise zone administrator annual reports provide information on the activity of the businesses in their enterprise zones and on their experience in using the credits. Local zone administrators reported that they certified 169 new businesses for the property and/ or income tax credits in 2003. Based on the administrator reports, businesses created 3,002 net new jobs. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. In 2003, businesses invested approximately \$237 million. Of the \$237 million of investment, 51 percent was in construction, 36 percent in new equipment and 13 percent in rehabilitation. However, this information is only reflective of the businesses that provided information and does not reflect the activity of all businesses in all of the zones.



As a local program, enterprise zones are established to meet different economic development goals and objectives. Some are designated to attract businesses to industrial parks while others are designed to revitalize downtown areas. The types of businesses that benefit from the enterprise zone program vary across jurisdictions based on the local industry focus. Based on information provided by the local zone administrators, manufacturing businesses are the predominant beneficiary of the enterprise zone program. Of the 312 business reporting, manufacturing makes up 20 percent, 14 percent are real estate, finance and insurance businesses, 11 percent are in the retail trade and 10 percent are in the professional, scientific and technical services.

Figure 7: Enterprise Zone Businesses by Industry Type*



*Representative sample of enterprise zone businesses

Enterprise Zone Impacts

An important goal of the enterprise zone program is to improve the communities in and around the zone. Enterprise zone administrators reported their observations on the impact of the enterprise zone on their community. In some cases the zones have only been designated for a few years and have not had enough time to impact their community, while the communities in and around other zones have experienced significant improvement. Some zones have seen very little improvement to the communities surrounding their zone.

Enterprise Zone Impacts

Most businesses looking to re-locate ask jurisdictions for incentives, and the Enterprise Zone is one of only a few specific incentives that Prince George's County offers. It is helpful to use as a hook to get companies to explore possible locations in the County, and learn more about other advantages of locating here, even if the companies chose not to locate in an Enterprise Zone.

Prince George's County Enterprise Zone

[T]he zone has allowed our community to attract a diverse industrial base so that we are not reliant on one company or one industry for our economic viability. Our unemployment, which historically is higher than the national and state average, has recently been well below the national rate and comparable to the state rate.

Wicomico County, Salisbury Enterprise Zone

Employment by the businesses located within the Enterprise Zones has increased somewhat in the past year but there have been no significant changes in and around the community.

Garrett County, Southern Garrett Industrial Park Enterprise Zone

Property values continue to increase in Cambridge. Our Enterprise Zone was renewed and expanded in 2003. The zone now includes our downtown area. Our downtown is also participating in the Main Street Maryland and has been designated an Arts and Entertainment District. The combination of the three programs is helping to revitalize our City.

Dorchester County, City of Cambridge Enterprise Zone

Property values in the downtown and surrounding areas were just reassessed for significantly higher assessed values. The property values have clearly been impacted by the new downtown redevelopment that has been attracted in part by the EZ incentive and other tax credit programs.

Montgomery County, Wheaton Enterprise Zone

Silver Spring has reemerged as an active center for new investment and new employment as the enterprise zone incentive has worked in tandem with the Redevelopment Project, and other incentives. Property values have risen in combination with the economy and generally increasing property values.

Montgomery County, Silver Spring Enterprise Zone

The Enterprise Zone designation, coupled with the County's aggressive revitalization initiative, has begun to bear fruit. In the last year, three new start-up companies have established businesses in Lexington Park and plans are underway for the redevelopment of two small parcels and one significant parcel located within the Zone.

St. Mary's County, Lexington Park

Part of the Downtown Cumberland turn around can be attributed to the Enterprise Zone Program. There is a huge spread between vacant building assessment and renovated occupied buildings. The discount is substantial in this case.

Allegany County, Cumberland Gateway Enterprise Zone

The incentives offered in the focus areas have influenced businesses to relocate and expand in the Carroll/Camden area. During the past two years, more than \$150 million in private investment has occurred in Carroll/Camden Industrial Park.

Baltimore City Enterprise Zone

Washington County noted in its annual reports that the Hagerstown and Hancock enterprise zones have not been able to realize the full benefits of the enterprise zone program. In Hagerstown, the enterprise zone tax credits have not been a strong strategic marketing tool in attracting companies to the downtown. However, the renewal of the district and the designation of an Arts and Entertainment district, coupled with the construction of a University System of Maryland campus, the EDC is hopeful will revitalize the downtown. In the town of Hancock, the administrator has found that the majority of companies that do locate or expand are very small (1-10 employees) and often lease their space. Local landlords are often unwilling to fill out the paperwork to be certified for enterprise zone tax credits or are unwilling to pass them onto their tenants. In both cases, the County believes that allowing the real property tax credit for residential property would aid in the revitalization of downtown areas.

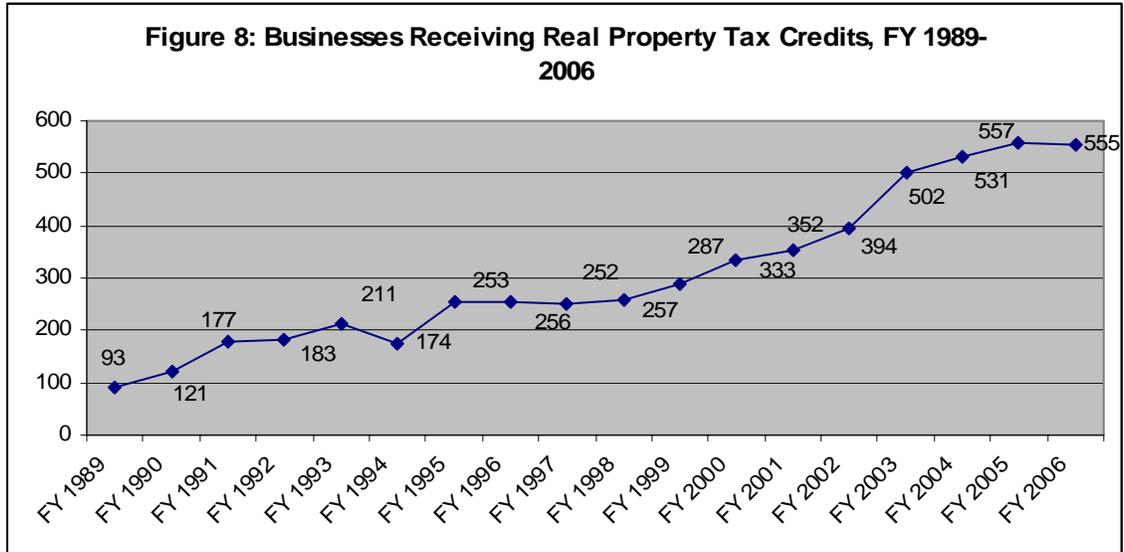
The Silver Spring enterprise zone, while experiencing much success in revitalizing its downtown, also noted that it would be useful to extend the property tax credit to residential uses. Residential redevelopment is an important component to revitalizing an aging, declining area and property tax credits would help spur this type of development.

Growth In Enterprise Zone Activity

The Enterprise Zone Program has been in existence for twenty years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 555 businesses in 30 zones in FY 2006. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a credit in 1990, if it remained in operation, was still receiving some credit in 2000. The number of businesses investing began to grow beginning in FY 1999 reflecting both a stronger economy and more opportunities for investment as the number of zones also grew during this time. In addition, in recent years, the trend has been for jurisdictions to apply to expand their existing zones. Bigger zones also mean more opportunities for businesses to apply for the credits.

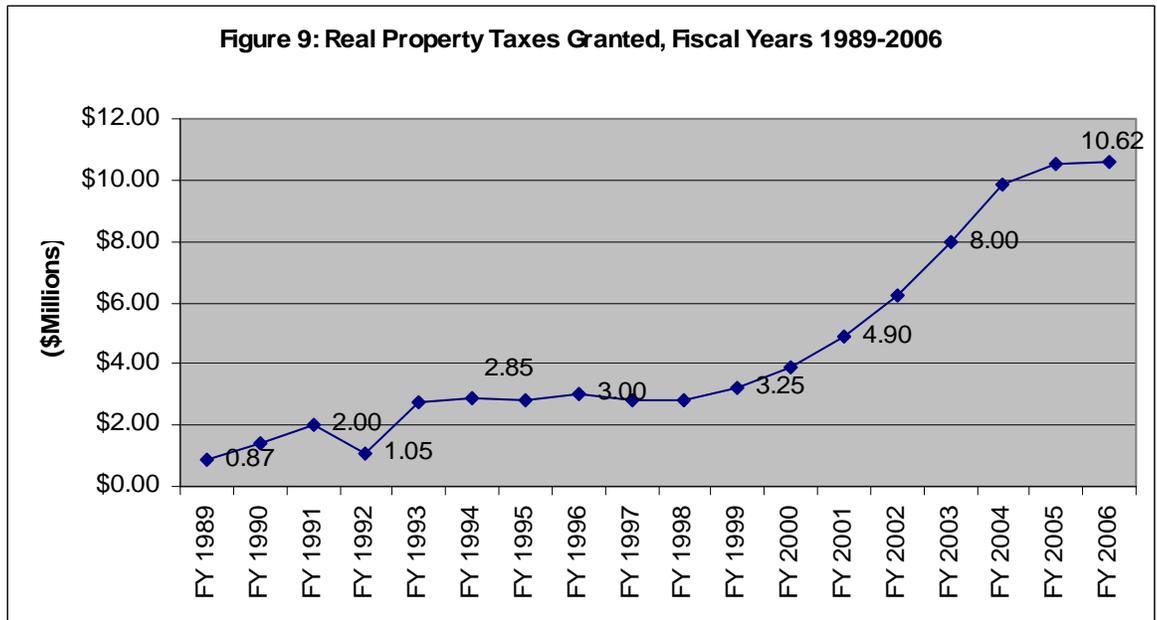
The number of businesses receiving real property tax credits has generally increased from year-to-year. Figure 8 illustrates the number of businesses receiving real property tax credits on an annual basis. The amount of real property investment for which businesses receive credits has increased from \$3.3 million¹ to over \$1 billion during this time period. As investment has grown, so has the amount of property tax credits granted to businesses in the zones. Real property taxes abated have grown from approximately \$58,000 in the first year to over \$10 million.

¹ Prior to FY 2003, properties were assessed at 40% of their full market value. Beginning in FY 2003, this changed to 100%. For the purposes of this report, the real property investment data prior to FY 2003 has been adjusted to reflect 100 percent assessment so that the data for all years could be compared.



Source: SDAT and DBED

The amount of property tax credits granted shows a similar trend over the time period analyzed. From FY 1989 to FY 2006, the amount of property tax credits granted increased from \$.87 million to \$10.6 million (Figure 9).



Source: SDAT and DBED

In general, the real property tax credit data provides information on the amount of credits granted and the usage of the credits. The number of businesses participating and the amount of eligible investment has generally grown over the life of the program, but especially in the last several years. Comparing the reimbursements earned on a regional basis by population and personal income shows that while the enterprise zones are located all over the State, including the suburban counties around Baltimore and Washington, the Western and Eastern portions of the State as well as

Baltimore City receive a greater portion of the reimbursement, therefore targeting the investment in areas of high unemployment, high poverty and low income.