

DIVISION OF ECONOMIC POLICY, RESEARCH AND  
LEGISLATIVE AFFAIRS

ENTERPRISE ZONES

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Development

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# MARYLAND ENTERPRISE ZONE PROGRAM

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 28 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, the State Department of Assessment and Taxation, and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2007, there are 28 enterprise zones across the state and three focus areas. The enterprise zones are located throughout the state, with ten state-designated zones in Western Maryland, nine on the Eastern Shore, four in Southern and Suburban Maryland, and five in Central Maryland (Table 1).



<b>Table 1: Enterprise Zones</b>		
<b>County</b>	<b>Enterprise Zone</b>	<b>Expires</b>
Allegany	Rt. 220 South-Allegany County	12/14/2009
	Cumberland-Allegany County	6/14/2012
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2012
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
Cecil	Cecil County	12/14/2013
Dorchester	Hurlock Industrial Park	12/14/2009
	Cambridge-Dorchester County	6/14/2013
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	6/14/2009
	Central Garrett Industrial Park	6/14/2013
	Keyser's Ridge Business Park	6/14/2014
Harford	Aberdeen/Havre de Grace	6/14/2016
	Edgewood/Harford County	12/14/2014
Montgomery	Wheaton	12/14/2008
	Takoma Park	6/14/2013
Prince George's	Prince Georges County	12/14/2009
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
St. Mary's	Lexington Park	12/14/2010
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2012
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2012
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
	Pocomoke City Enterprise Zone	12/14/2011
<b>Expired Zones</b>		
Allegany	Rocky Gap State Park/Allegany County	12/14/2003
Calvert	Calvert Industrial Park	6/14/2003
Montgomery	Silver Spring	12/14/2006
Washington	Washington County Interstate 81 Park	12/14/2001
Worcester	Snow Hill/Worcester County	6/14/2005
St. Mary's	Lexington Park (Focus Area designation only)	12/15/2005
<b>Focus Areas</b>		
Baltimore City	Baltimore City	6/14/2010
Prince George's	Prince George's County	12/14/2009
Montgomery	Takoma Park	6/14/2008

## **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 local jurisdictions for the property taxes abated as a result of the credits. SDAT reports that 793 businesses will receive property tax credits totaling \$20.2 million in FY 2009. The credits are based on real property investments made by those businesses totaling \$1,725 million. This translates to an average capital investment of \$2.2 million per business. The real property investment will cost the State \$10.1 million to reimburse the localities, assuming the State's full obligation is met.

Over the last four years the amount of property taxes granted to businesses has increased 89 percent with the biggest yearly increase coming between FY 2006 and FY 2007. During this time period the amount of real property tax credits increased 57 percent. During the last four years approximately \$568 million was invested in state enterprise zones. A consequence of this activity is that the State's reimbursement to the counties has also increased during this time. The State's reimbursement climbed from \$5.8 million in FY 2006 to \$10.1 million in FY 2009. The following chart compares the capital investment by county during this time.

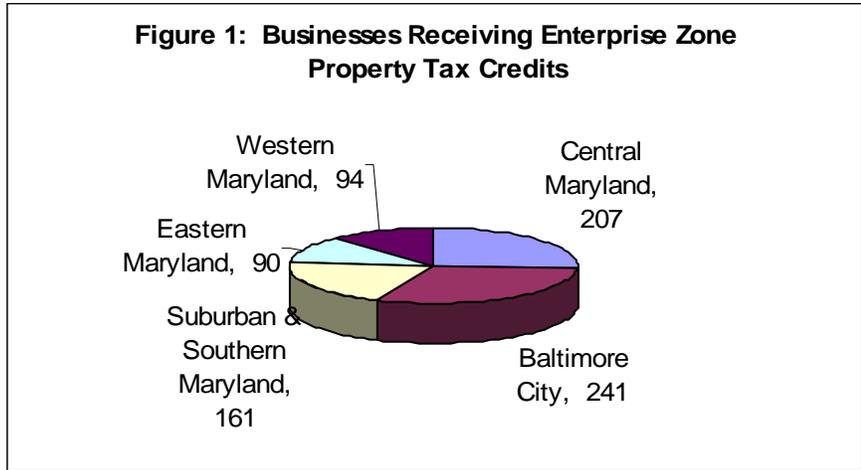
**Table 2: Capital Investment Made in Enterprise Zones**

<b>County</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>Percent Change FY 2009-2008</b>	<b>Percent Change FY 2009-2006</b>
Allegany	37,681,778	40,594,813	36,531,913	38,669,575	5.9%	2.62%
Baltimore City	175,127,039	302,758,851	315,676,051	403,035,304	27.7%	130.14%
Baltimore County	100,172,234	127,917,108	160,657,721	113,562,211	-29.3%	13.37%
Calvert	10,998,315	12,568,055	14,865,772	12,953,880	-12.9%	17.78%
Cecil	46,232,895	145,092,988	159,884,356	199,088,464	24.5%	330.62%
Dorchester	117,218,981	36,099,199	23,912,667	15,073,820	-37.0%	-87.14%
Garrett	6,262,831	6,550,074	8,659,065	21,393,945	147.1%	241.60%
Harford	305,365,245	334,214,782	404,536,606	297,375,700	-26.5%	-2.62%
Montgomery	110,837,983	379,327,375	357,178,177	380,296,256	6.5%	243.11%
Prince George's	57,700,849	73,499,419	100,078,771	128,255,209	28.2%	122.28%
St. Mary's	6,080,990	6,223,868	6,361,968	12,119,840	90.5%	99.31%
Somerset	575,856	494,132	735,940	396,713	-46.1%	-31.11%
Washington	164,596,595	169,037,629	174,352,141	89,622,175	-48.6%	-45.55%
Wicomico	9,451,570	9,988,984	8,481,917	11,031,588	30.1%	16.72%
Worcester	8,355,190	9,801,116	5,866,190	2,229,325	-62.0%	-73.32%
<b>Maryland</b>	<b>1,156,658,351</b>	<b>1,654,168,393</b>	<b>1,777,779,255</b>	<b>1,725,104,005</b>	<b>-3.0%</b>	<b>49.15%</b>

Source: SDAT and DBED

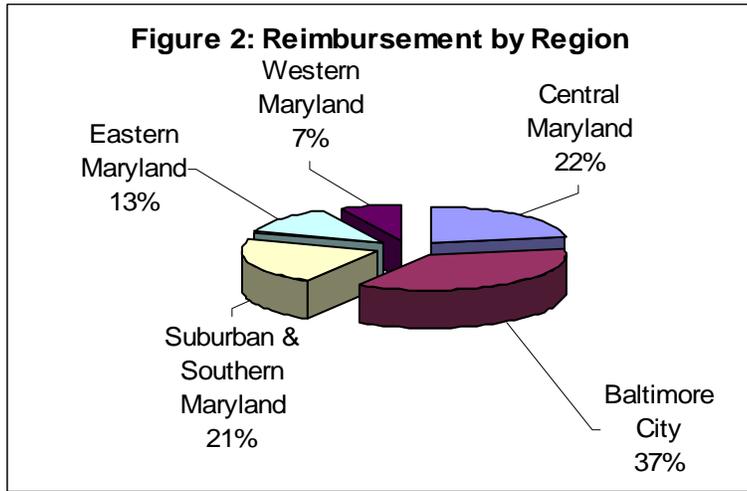
As Table 2 shows the amount of capital investment increased almost 50 percent over this time period, with the biggest increases occurring between FY 2006 and FY 2007. The largest dollar increases in capital investment were in Montgomery County, Baltimore City and Cecil County.

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 areas 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. In FY 2009, 793 businesses across the State received tax credits for investments in enterprise zones. Figure 1 shows the location of these businesses by region.



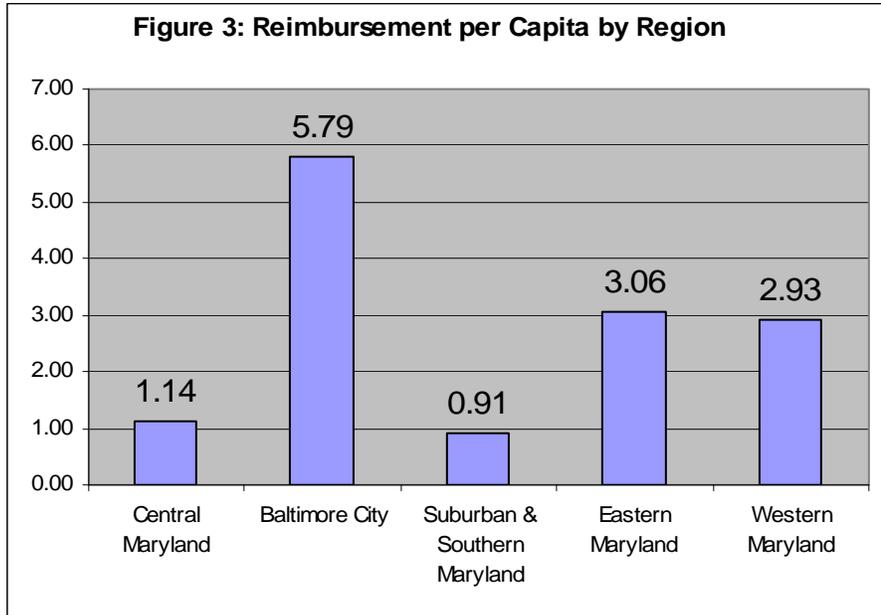
Source: SDAT and DBED

Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2009). The largest share of reimbursement will go to Baltimore City, which will receive \$3.7 million or 37 percent. This is followed by Central Maryland (\$2.3 million), Suburban and Southern Maryland (\$2.1 million), the Eastern Shore (\$1.3 million) and Western Maryland (\$0.7 million).



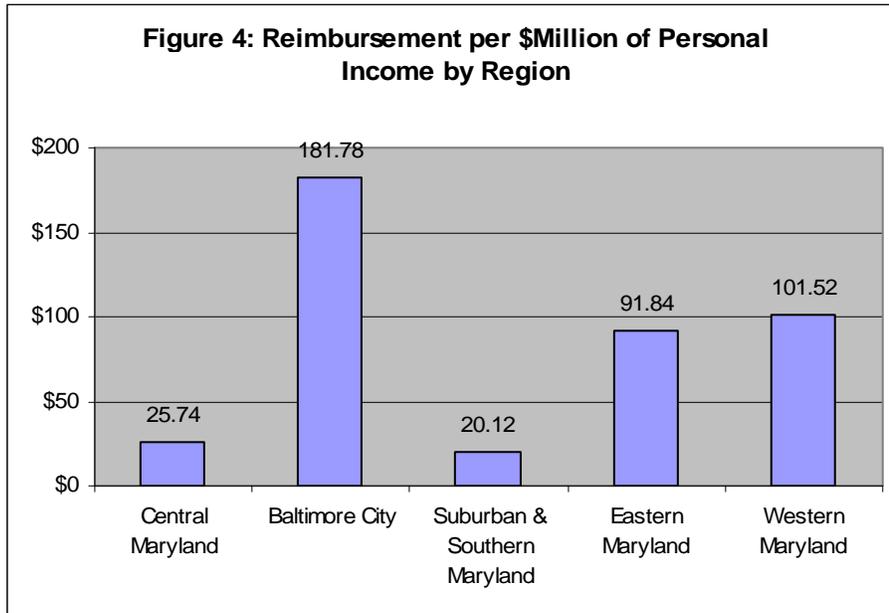
Source: SDAT and DBED

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 \$1.79 per Maryland resident. In FY 2009 reimbursement on a per capita basis will be: \$5.79 to Baltimore City, \$2.93 to Western Maryland, \$3.06 to the Eastern Shore, \$1.14 to Central Maryland and \$0.91 to Suburban and Southern Maryland.



Source: SDAT and DBED

Looking at the personal income of each region also illustrates that areas of the State with the highest unemployment are also the areas that benefit 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, Baltimore City receives \$181 per million dollars of personal income, followed by Western Maryland with \$101, the Eastern Shore with \$91, Central Maryland with \$26 and Suburban and Southern Maryland with \$20.

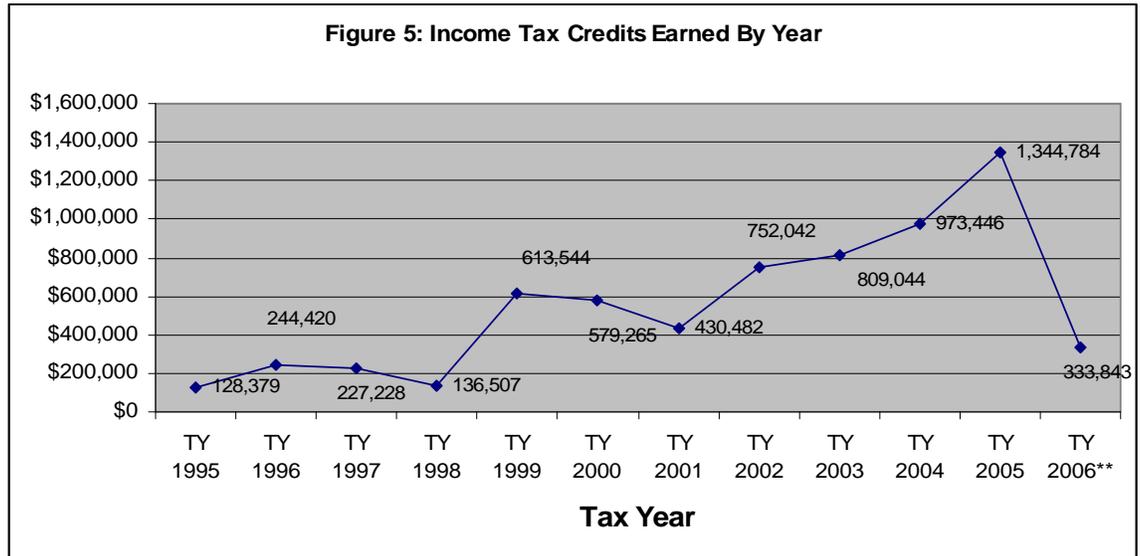


Source: SDAT and DBED

## 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 2006. The 2006 data is incomplete because of corporate filing extensions. As Figure 5 shows, the usage of the credits varies from year-to-year but has generally been trending upward over the last five years. Businesses in enterprise zones have earned a total of \$6.2 million in income credits over this time period.



\*\* Data is incomplete for the TY 2006  
Source: Comptroller 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.

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

and find them useful in marketing their areas to prospective businesses, although the importance of the credits in a firm's decision to locate varies from zone-to-zone.

### **Impact of Property and Income Tax Credits**

*Hunter Douglas expanded their manufacturing facility by 118,000 square feet. The real property tax discounts are significant on new construction at this size.*

Cumberland-Allegany County Enterprise Zone

*The Town of Berlin has experienced rapid residential growth that represents a much greater component than commercial or industrial. This has pointed up the fact that it is all the more important to have enterprise zone benefits in order to offset the residential growth with commercial and industrial concerns. Due to our proximity to Ocean City, we tend to attract residents who work there and are oriented towards the service industries.*

Berlin-Worcester County Enterprise Zone

*The Enterprise Zone was an important incentive to Ferguson Enterprises, as the company chose Salisbury, Maryland as the location for a new distribution facility. Ferguson is a nationally known distributor of plumbing and heating supplies. The company is in the process of constructing a new facility expected to employ nearly one hundred people within Westwood Commerce Park. The Enterprise Zone was recently expanded to include Westwood Commerce Park.*

Salisbury-Wicomico County Enterprise Zone

*Ten years of enterprise zone tax credit incentives in Silver Spring, in combination with a County redevelopment project and other incentives and public investments, halted a steep decline in assessed property value and began a recovery that is beginning to add new value to the county. Much of the increase in assessed property value is new residential apartment buildings, which did not benefit from the enterprise zone tax credits but would not have been built unless and until a great number of businesses that did benefit had turned the area into an attractive place to live.*

Silver Spring-Montgomery County Enterprise Zone

*The developer of Gateway South is anticipating utilizing Enterprise Zone credits on the entirety of their investment in the area. The value of the credits to them, over a period of 10 years, is in excess of \$20 million dollars. They will create 1,500 new jobs and over \$40 million in tax value to the city over 15 years. Additionally, Maryland Chemical is planning a relocation- moving their business operations from their current location to a location within the EZ. Their company will be making site improvements, and EZ credits will help them expand their business and add as many as 10 new jobs in the next few years. Also, Fitzgerald, Bozzuto Development has proposed a 594,000 sq ft mixed use development project in Bolton Yards, next to the University of Baltimore. This project will include 10,500 sq ft of retail, 215 apartments, and an 1100 space parking garage and will utilize the EZ credit for the parking garage and retail components of the project.*

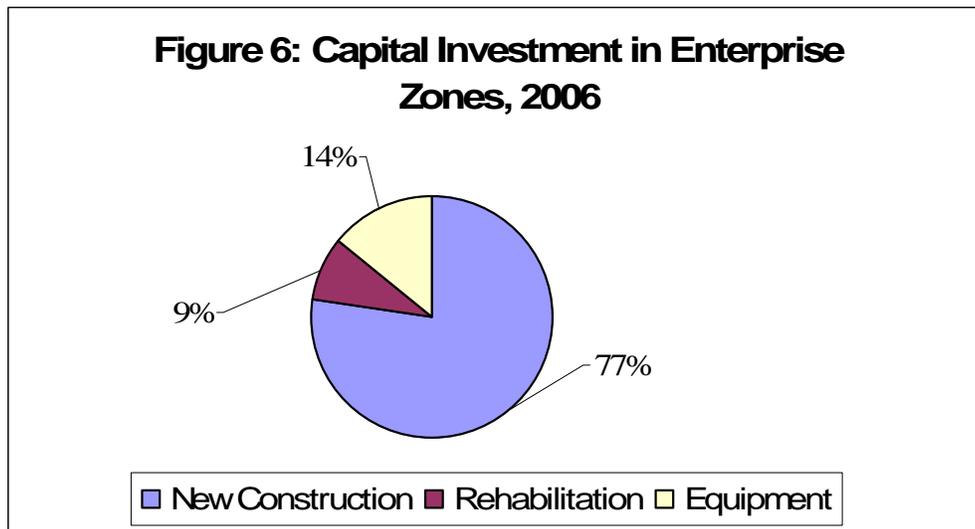
Baltimore City Enterprise Zone

*Phenix Technologies, Inc. has always been located in our Central Garrett Enterprise Zone, and thus is well acquainted with the tax incentives available for a business located in the enterprise zone. In early 2005, Phenix Technologies, having outgrown its previous facility, moved into a newly constructed facility in the zone. In August 2006, Phenix purchased the adjoining 7.016 acres in the Zone in anticipation of its future expansion needs. The relocation of the business in the Central Garrett Enterprise Zone and the purchase of additional acreage will allow the business to continue to expand and hire new employees. The enterprise zone tax credits were cited as a major factor in its relocation/ purchase decision.*

Central Garrett Enterprise Zone

## Business Activity in the Enterprise Zones

In addition to the information from SDAT and the Comptroller 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 181 new businesses for the property and/ or income tax credits in 2006. Based on the administrator reports, businesses created a little over 3,800 new jobs. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. According to the reports, in 2006 businesses invested approximately \$461 million. Of the \$461 million of investment, 77 percent was in new construction, 9 percent for rehabilitation and 14 percent on equipment.



It is difficult to compare information on the amount of investment or jobs on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all businesses in the all of the zones.

### ***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**

*Renovations to the Wheaton mall have made it the largest shopping center in Montgomery County, at 1.44 million square feet. More than 1 million people visited the Mall in 2006, a significant increase over prior years. This is a significant improvement to Wheaton.*  
Wheaton-Montgomery County Enterprise Zone

*Much of the Enterprise Zone encompasses Salisbury's original industrial Park, Northwood. As Northwood is near capacity, the zone was recently expanded to include Salisbury's new industrial park, Westwood. Several new industrial developments are under construction as a result of the expanded zone and availability of industrial-zoned land. The result is more jobs, industrial diversification and an enhanced tax base for the community-at-large.*  
Salisbury-Wicomico County Enterprise Zone

*The zone is impacting downtown Hagerstown in a great way. Developers are starting to take advantage of the zone by revitalizing the downtown area and improving the economics of the area. The developer of 28 S. Potomac St. LLC has made downtown Hagerstown a destination again.*  
Hagerstown-Washington County Enterprise Zone

*Our downtown, which is now included in our Enterprise Zone, is 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. Our unemployment rate, one of the highest in the State, was 5.7 in December 2006 compared to 5.3 in December 2005. (It was 8.6 in December 2002). The State-wide average was 4.3 for December 2006. Although the increase is small, another large employer has closed its doors this year. The City of Cambridge is in the process of hiring an Economic Development Director to assist in attracting businesses to Cambridge.*  
Cambridge-Dorchester County Enterprise Zone

*The designation of the Enterprise Zone has had a favorable impact on the Southwestern Baltimore County area. Many of the dilapidated warehouse properties along Southwestern Boulevard and Hollins Ferry Road have been renovated and redeveloped over the past eleven years, several properties more than once. Vacant and under-utilized parcels in the zone have been (re)developed, such as the A. & P. Grocery site and the Cowan Trucking headquarters site.*

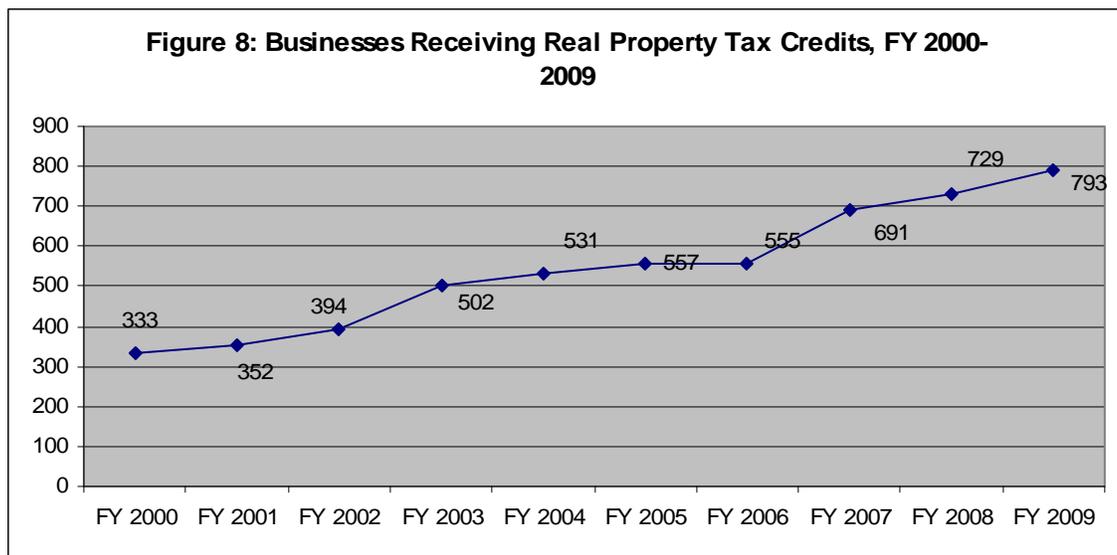
*The Southwest area, like other parts of Baltimore County, has experienced pressure from developers to change the zoning of land from industrial to commercial and residential to allow new retail and residential development. A study completed by the Department of Economic Development last year estimated that 650 acres of manufacturing-zoned land were lost in the four years between the last Comprehensive Zoning Map process and the one completed in 2005. This Department continues to monitor the amount of land zoned for both light and heavy industry and continues to advocate for the zoning to remain in place. We have also succeeded in making our local elected officials aware of the negative impact of these zoning changes on the availability of land for business use.*

*We are beginning work on an update to the land study now and have begun to see some encouraging signs that property owners are viewing industrial and manufacturing zoning in a different light. The availability of Enterprise Zone benefits is an important incentive toward that end.*  
Southwest Baltimore County Enterprise Zone

### *Growth In Enterprise Zone Activity*

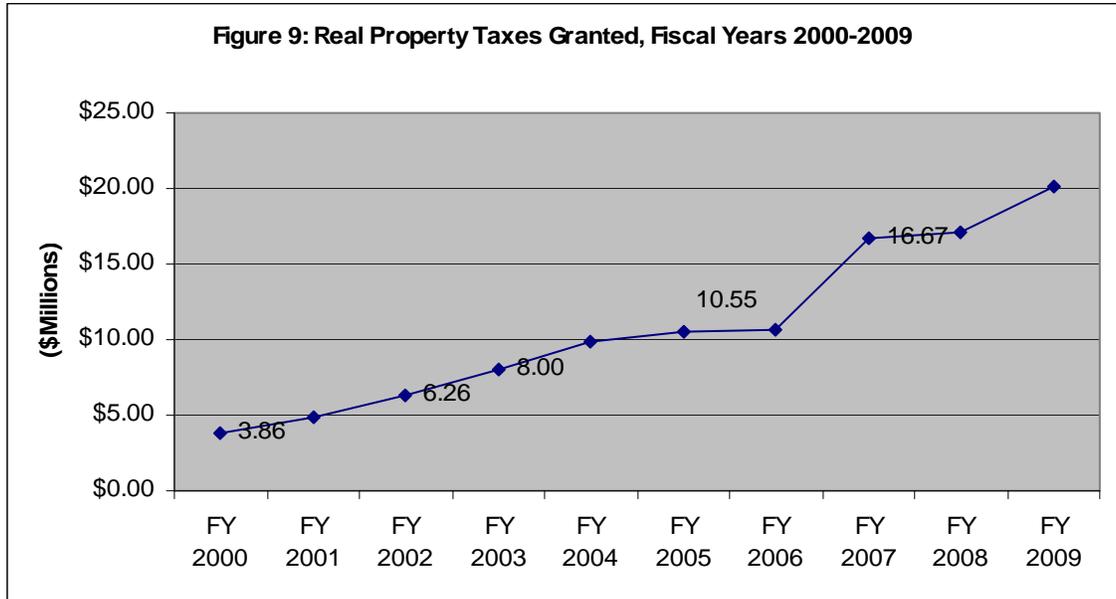
The Enterprise Zone Program has been in existence for over twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 793 businesses in FY 2009. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 1996, if it remained in operation, was still receiving some credit in 2006. 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 over the last ten years. The number of businesses has more than doubled during this time.



Source: SDAT and DBED

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 \$20 million. The amount of property tax credits granted shows a similar trend over the time period analyzed. From FY 2000 to FY 2009, the amount of property tax credits granted increased from \$3.8 million to \$20.2 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 and significantly since FY 2006. 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 relative to their population and personal income, therefore targeting the investment in areas of high unemployment, high poverty and low income.