

DIVISION OF FINANCE

ENTERPRISE ZONES

ANNUAL STATUS REPORT
CALENDAR YEAR 2011
Economic Development Article

SECTION 5-709

Submitted by:

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Development

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MARYLAND ENTERPRISE ZONE PROGRAM

Maryland's Enterprise Zone Tax Credit Program (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 accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the Program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury (Comptroller), the State Department of Assessment and Taxation (SDAT), and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2012, there are 30 enterprise zones across the State and two focus areas. The enterprise zones are located throughout the State, with ten state-designated zones in Western Maryland, ten on the Eastern Shore, four in Southern and Suburban Maryland, and six in Central Maryland (Table 1).



Table 1: Enterprise Zones

County	Enterprise Zone	Expires
Allegany	Rt. 220 South-Allegany County	12/14/2019
	Cumberland-Allegany County	6/14/2022
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2022
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
	Woodlawn Baltimore County	6/16/2021
Cecil	Cecil County	12/14/2013
Dorchester	Cambridge-Dorchester County	6/14/2013
	Hurlock Enterprise Zone	6/14/2020
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	12/14/2018
	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	Gaithersburg-Montgomery County	6/14/2018
	Takoma Park	6/14/2013
	Wheaton	6/14/2019
Prince George's	Prince Georges County	12/14/2019
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2022
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2022
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
	Pocomoke City	6/14/2022
	Snow Hill	6/14/2022
Expired Zones		
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	12/15/2010
Montgomery	Tacoma Park (Focus Area only)	6/14/2008
Focus Areas		
Baltimore City	Baltimore City	12/14/2014
Prince George's	Prince George's County	12/14/2014

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 Maryland General Assembly 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.

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. Businesses will receive property tax credits totaling \$27.4 million in FY 2014. The credits are based on real property investments made by those businesses totaling \$2,376 million. This translates to an average capital investment of \$3.7 million per business. The real property investment will cost the State \$13.7 million to reimburse the localities, assuming the State's full obligation is met.

Since 2000 the amount of property taxes granted to businesses has constantly increased on average by 16 percent each year. However, for FY 2013 forward, it shows a plunging trend. During the last five years, approximately \$12.9 billion was invested in State enterprise zones. The State's reimbursement had been continually increased for over 10 years, which had grown from \$1.9 million in FY 2000 to \$20 million in FY 2012. However, FY 2013 is the first year that the amount of investment and subsequently, the amount of the State reimbursements has begun to decline. The State reimbursements declined 22.5% from FY 2013 to FY 2014. This decrease is due both to the number of business receiving credits declining, as a result of reaching the 10-year end of the credit, and to the assessment value of the property being readjusted downward.

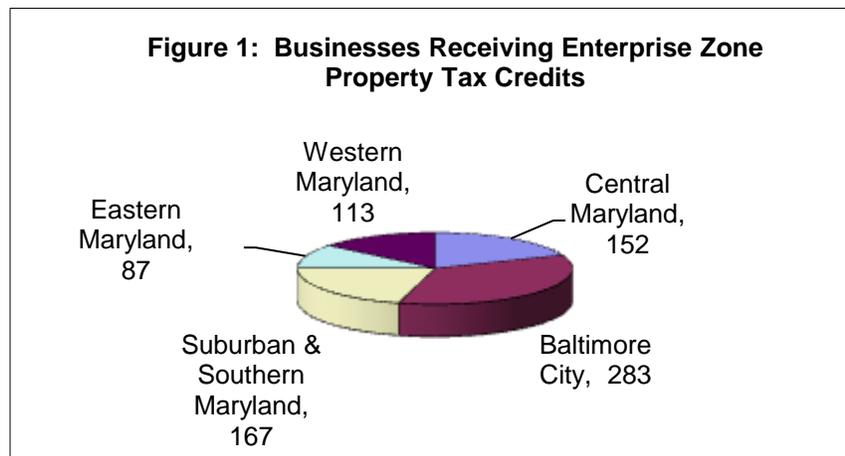
Table 2: Capital Investment Made in Enterprise Zones

County	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Percent Change FY 2013-2014	Percent Change FY 2010-2014
Allegany	43,280,775	40,349,670	47,308,475	45,662,346	46,161,007	1.1%	6.65%
Baltimore City	788,230,308	897,361,621	1,197,722,040	1,365,790,091	1,076,961,613	-21.1%	36.63%
Baltimore County	107,676,817	187,247,645	274,769,223	188,153,900	180,868,928	-3.9%	67.97%
Calvert	12,553,543	11,552,045	9,608,451	11,238,930	11,329,000	0.8%	-9.75%
Cecil	146,318,141	230,237,945	182,317,823	196,253,652	132,711,889	-32.4%	-9.30%
Dorchester	13,354,446	11,015,387	8,784,415	8,101,937	3,495,935	-56.9%	-73.82%
Garrett	17,914,080	21,374,883	20,425,837	21,137,891	21,005,142	-0.6%	17.25%
Harford	272,771,225	378,844,020	347,416,666	320,557,624	289,808,304	-9.6%	6.25%
Montgomery	283,512,125	297,180,514	620,962,725	416,177,863	245,022,046	-41.1%	-13.58%
Prince George's	122,565,070	254,280,803	297,733,487	276,722,809	224,238,265	-19.0%	82.95%
St. Mary's	14,345,061	9,908,705	15,165,031	15,557,896	23,889,032	53.5%	66.53%
Somerset	1,132,078	1,162,944	1,166,810	1,424,839	1,424,839	0.0%	25.86%
Washington	102,207,737	107,180,947	100,000,713	94,339,696	94,339,696	0.0%	-7.70%
Wicomico	17,940,075	24,040,620	25,105,037	26,087,915	24,825,606	-4.8%	38.38%
Worcester	2,025,857	2,987,866	2,982,524	1,030,557	603,924	-41.4%	-70.19%
Maryland	1,945,827,338	2,474,725,615	3,151,469,257	2,988,237,946	2,376,685,226	-20.5%	22.14%

Sources: SDAT and DBED

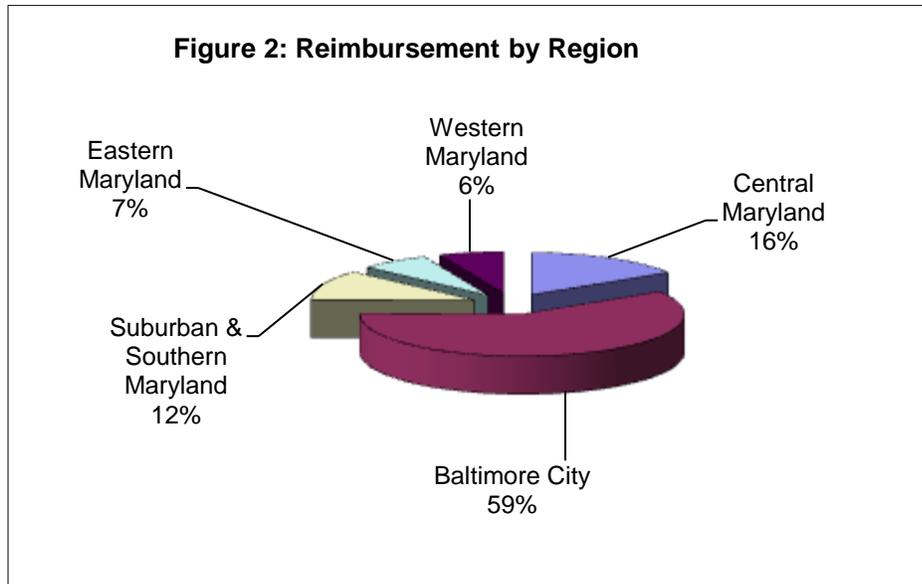
As Table 2 shows the amount of capital investment increased 22.14 percent from FY 2010 to FY 2014. The counties with the largest amounts of capital investment include Baltimore City, Harford, Montgomery, and Prince George’s Counties. Among counties that have had the largest increase in investment dollars over the five-year period include Baltimore City, Prince George’s, Baltimore, and St. Mary’s.

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 2014, 802 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 2014). Fifty-nine percent of the reimbursement will go to Baltimore City, or \$8.1 million. This is followed by Central Maryland (\$2.2 million), Suburban and Southern Maryland (\$1.6 million), the Eastern Shore (\$0.9 million) and Western Maryland (\$0.9 million).

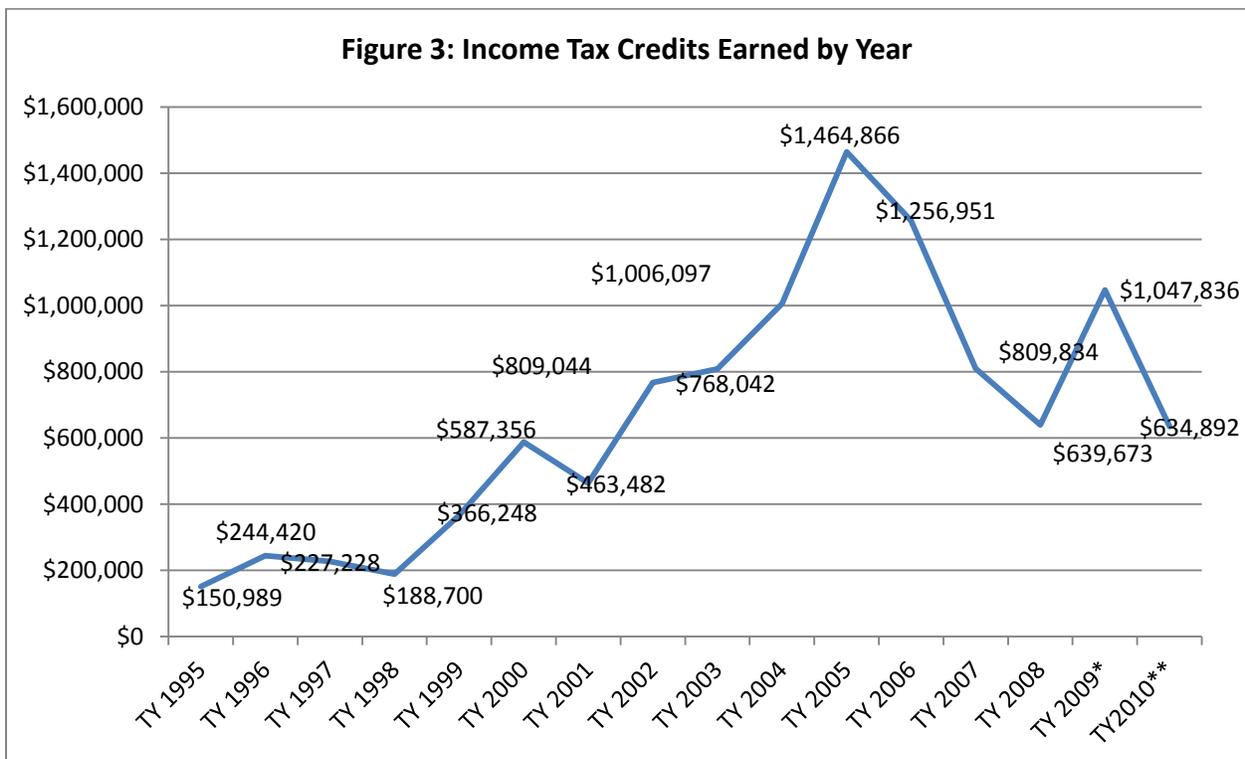


Source: SDAT and DBED

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. 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 2010. As Figure 3 shows, the usage of the credits varies from year-to-year and hit a high in TY 2005. Businesses in enterprise zones have earned a total of \$10.0 million in income credits over this time period.



*TY 2009 data is mostly complete, although there are some corporations whose filing date has not yet passed.

**TY 2010 data is incomplete

Source: Comptroller and DBED

General Comments from Program Administrators

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 income 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.

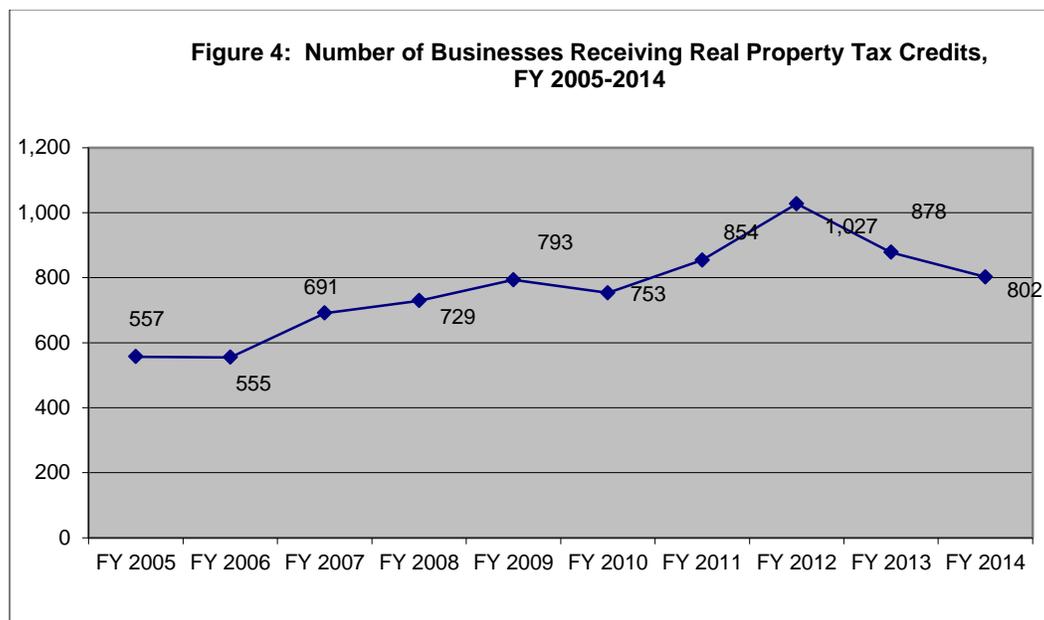
In summary, the Program continues to impact the community and both real property and income tax credits give business as an incentive to select and stay in the EZ.

Business Activity in the Enterprise Zones

Growth in Enterprise Zone Activity

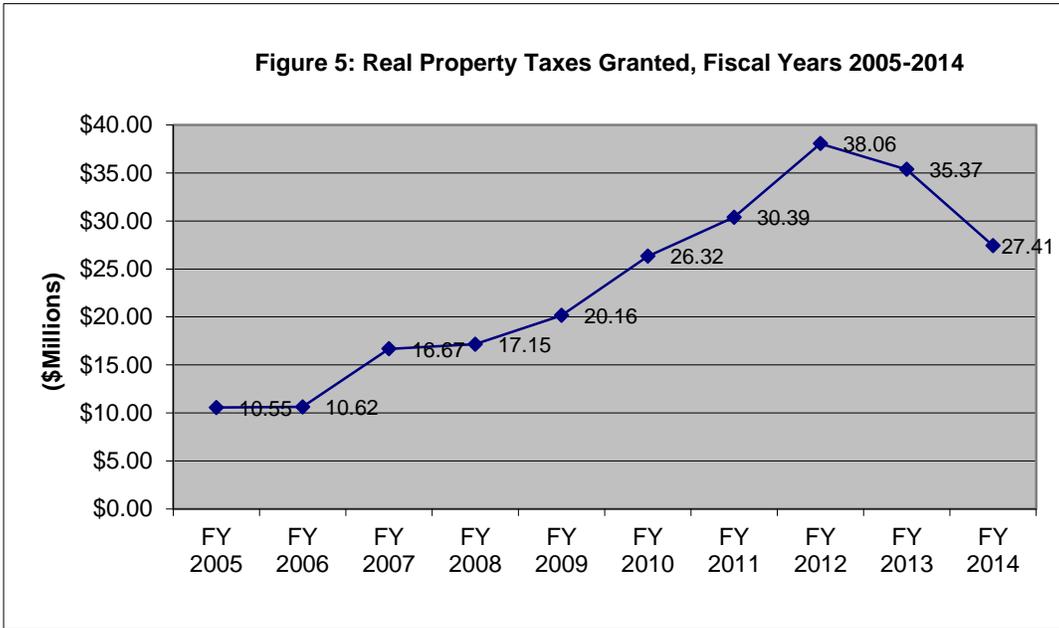
The Program has been in existence for over twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 802 businesses in FY 2014. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 2003, if it remained in operation, was still receiving some credit in 2012. 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. For the first time in FY 2013, the number decreased, falling almost 15 percent. This is largely due to a number of businesses reaching the end of their 10-year credit. Figure 5 illustrates the number of businesses receiving real property credits on an annual basis over the last ten years. The number declined again in 2014.



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 \$35 million. Over the last ten years, the amount of property tax credits granted increased from almost \$10 million to \$27 million (Figure 6). Again, the program has shown a decline in FY 2013 and again in 2014. The drop in the amount of property tax credits is due both to the decrease of businesses receiving the credit and the reassessment downward of some properties.



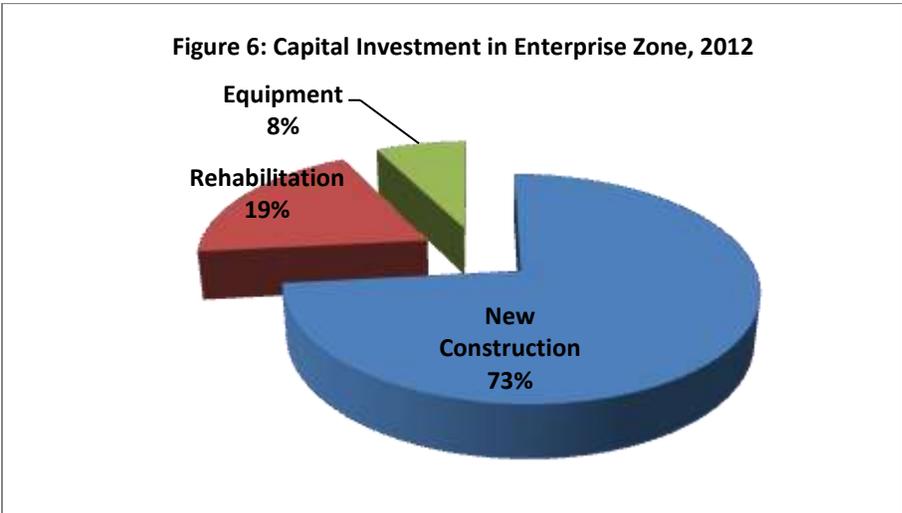
Source: SDAT and DBED

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.

Activity Reports from Enterprise Zone Administrators

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 140 new businesses for the property and/ or income tax credits in 2011, which was a 27 percent increase from 2010. Based on the administrator reports, net new jobs were 4,583. According to the reports, in 2011 EZ certified businesses made a total of approximately \$953 million capital investments in new construction, rehabilitation and equipment.

Figure 4 shows the distribution of capital investments made by investment type.



Data Sources: Zone Administrators and DBED

It is difficult to compare and analyze 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.

Despite the struggling economy, many enterprise zone administrators reported success in attracting and retaining businesses to their enterprise zone. Examples of this success are discussed below.

Excerpts from Administrator Reports: Impact of Property and Income Tax Credits

The Enterprise Zone tax credits have been instrumental in the completion of the McHenry Row development project. The total cost of the project was roughly \$130 million, which included \$20 million in structured parking. Retail space encompasses 130,500 sq. ft., of which, nearly half belongs to Harris Teeter. The office space in McHenry Row contains 85,000 sq. ft. and was the first phase of the project to be completed.

Baltimore City EZ

W.L. Gore, the County's largest employer, continues to upgrade many of their facilities throughout the County. The tax credits provided help them to hire additional employees, purchase equipment and add additional space in an effort to continue the growth of their company in Cecil County.

Cecil County EZ

Garrett Container System, Inc. has always been located in our Central Garrett Enterprise Zone. The business began in a 125' x 124' facility in Central Garrett Industrial Park with 3 employees. To date, the business has expanded 8 times. In 2011, Garrett Container Systems purchased additional equipment, which allowed it to hire an additional 26 employees.

Phenix Technologies, Inc. has also always been located in our Enterprise Zone. It has expanded once since building its new facility in 2005-2006. In 2011, The company constructed additional manufacturing space and added additional equipment.

The Enterprise Zone tax credits continue to be cited as a major factor in both companies' expansion decision in our Enterprise Zone, since the monies that would have been spent on real property taxes are available to expand and grow the businesses.

Central Garrett Industrial Park EZ

Both Evergreen Associates and Western Maryland Construction Solutions hired two new employees and reinvested money into construction, rehabilitation, and equipment. Those companies were certified in the Enterprise Zone in 2007 and have used this incentive to grow their businesses within a community.

Frostburg-Allegany County EZ

Schroeder Industries and Specs Chemical Services, Inc. were tenants in our Multitenant Building in the North Branch Industrial Park. Both companies were certified as eligible for Enterprise Zone benefits. In 2011, Schroeder Industries expanded and now occupies occupied the entire building. Specs Chemical was displaced, and expanded into one-half of our new shell building in the Park. Both companies made substantial investments in their new spaces and also increased staff. Specs Chemical now has some lab space and will receive the maximum real property tax discounts while occupying a new space.

Gateway-Allegany County EZ

Excerpts from Administrator Reports: Impact of Property and Income Tax Credits

Merritt properties, LLC built the first of five buildings totaling 95,250 sq. ft. The proposed LEED project is intended for gold certification. The capital expenditure of this project was over \$24 million and could support up to 150 high paying defense or medical related jobs. The benefits offered by the Enterprise Zone was a major contributing factor in their site selection.

Greater Aberdeen-Havre de Grace EZ

Parker Plastics is expanding due to the acquisition of another company which produces large plastic bottles. Once the expansion is complete the company expects to hire additional employees.

Hagerstown-Washington County EZ

The Blue Goose market built on the site of the former Hepburn Orchard building has opened a bakery, home/garden center, and gift shop, which will feature local produce and crafts. This establishment will attract travelers along Interstate 70 to stop at the town and to use local businesses while there. The market creates 15 new jobs in the economically distressed area.

Hancock EZ

In December 2011, Takoma Park was certified as eligible to receive Enterprise Zone Real Property Tax Credits for improvements in the amount of \$3,349,651. The Project brought a new 13,800 sq. ft. Walgreen's to the Takoma/Langley Crossroads.

Long Branch/Takoma Park EZ

The groundbreaking of the Archstone project was made in March 2011. This project is spanning nearly 7 acres and will replace a series of dated, single and multi-family structures with 17,030 sq. ft. of street-front retail and 389 upper level luxury rental units.

Olde Towne Gaithersburg EZ

Northrop Grumman Technical Services, Inc. in the Princess Anne Industrial Park has increased total employment from 28 to 42 over past 18 months. They are currently looking at adding a bridge crane to further expand their operation.

The Princess Anne Village Shopping Center has attracted businesses to locate in the area, which include Caesar's Pizza Palace, Dry Cleaning Service, H&R Block Tax Service, Get'n Grounded Café, and Executive Center.

Princess Anne-Somerset County

Evolution Craft Brewery selected a location within Salisbury's Enterprise Zone for its expansion. The company is retrofitting a long vacant property for a brewery and an attached restaurant. It is expending significant capital toward improving the property and equipping the facility for its operations. It also plans to create 50 to 70 jobs at the site. Income tax credits allow the company to mitigate upfront costs of training employees.

The City granted Windsor Development the Enterprise Zone designation in December 2011 to construct and improve land with a total of a \$1 million investment for office/warehouse that houses commercial businesses.

The Enterprise Zone encompasses Northwood Industrial Park, which is home to approximately forty manufacturers employing nearly 3,000 people, and Westwood Commerce Park, which is a 265-acre business/industrial park. The Westwood Commerce Park is now home to several companies including Ferguson Enterprise, Schmidt Banking, Sherwin Williams, and Coastal Linen, Inc.

Salisbury-Wicomico County EZ

Excerpts from Administrator Reports: Impact of Property and Income Tax Credits

Morningstar expanded into additional foreign and U.S. markets in 2011, allowing it to hire an additional 11 employees. Construction and rehabilitation of existing space are currently being undertaken, and there are plans to hire additional employees once those improvements have been completed.

Southern Garrett EZ

Three retail properties along Ennalls Avenue – damaged by fire in 2008 were razed, and replaced with 11,600 sq. ft. of new retail space in 2011. The \$1.9 million investment was certified on November 3, 2011 to receive Enterprise Zone Property Tax Credit.

On November 9, 2011, Safeway/Patriot Realty/Foulger Pratt Construction held their groundbreaking for Wheaton's first mixed use project, which includes a new 57,000 sq. ft. Safeway supermarket over which 464 high-rise residential apartments will be built. Safeway has advised that they will seek Enterprise Zone tax credits upon completion of the store.

In late 2011, Westfield Wheaton Mall began construction for a new 148,000 sq. ft. Costco and 86,000 sq. ft. of additional retail space with the estimated investment of \$60 million. Since 2008, Westfield has consistently take advantage of Enterprise Zone Property Tax Credits, and has made over \$149 million in capital improvements since acquiring the property in 1997.

Wheaton EZ

There were two projects in Woodlawn Enterprise Zone that were assisted by the Enterprise Zone Property Tax Credit program: Windsor Station is a development project that involves the conversion of a former pharmaceuticals production/office facility that was closed several years ago. The building remained vacant until a local developer purchased them and proposed significant redevelopment to an office complex targeted to users related to the Social Security Administration and the Centers for Medicare and Medicaid Services, both of which are headquartered nearby.

The second project is a complete renovation of a flex building which formerly housed the local FBI offices. The FBI moved to larger quarters several blocks away a few years ago. First Industrial, the building owner, recently began a renovation of the building that included exterior improvements as well as complete interior re-do for Class A office space. Maricom Systems, a division of CSC, recently signed a lease to occupy about half the renovated space with an option to lease more space in the future.

Woodlawn EZ