M.L.Whelley Consulting LLC.

Maryland Department of Commerce RISE Zone Study

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RISE ZONE STUDY – FINAL REPORT

INTRODUCTION

"The purpose of RISE Zones is to access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which they are located. Qualified institutions and local governments develop a targeted strategy to use the institutional assets and financial incentives to attract businesses and create jobs within the zone. The program also incentivizes the location of innovative start-up businesses based on technology developed, licensed or poised for commercialization at or in collaboration with qualified Maryland institutions." https://commerce.maryland.gov/fund/programs-for-businesses/rise-zone-program

The RISE Zone program (Program) was created by legislation passed during the 2014 General Assembly, and formally launched in 2015 by the Maryland Department of Commerce (formerly the Maryland Department of Business and Economic Development). The Program was amended via legislation passed in 2021 and 2023, described below.

With one exception, for the nine years (2015-2023) that the Program has existed, no Qualified Institution (QI), business, property owner/developer or any other stakeholder has applied for any of the Program benefits. The exception was UMBC where three companies at bwtech applied for income tax credits for new job creation in 2018 and 2019 for a total of 16 jobs. (Due to the lack of clarity around processing of applications for benefits and reporting requirements, it is not clear if the income tax credits were awarded.) It is this lack of discernible benefits from the Program that led Commerce to conduct this study.

Brief Summary of RISE Zone Legislative Amendments

The specifics of the 2021 and 2023 amendments will be detailed later in this Report but following is a brief summary.

The State Department of Legislative Services assessed the State's tax incentive programs in 2019, including the Program, and concluded that the incentives which were focused on property and employment tax credits had not produced any positive activity that would lead to achieving the primary goal – to promote technological innovation.

DLS's findings and recommendation that the General Assembly amend the program to provide for incentives focused on start-up businesses led to an amendment passed in 2021 (https://mgaleg.maryland.gov/2021RS/bills/sb/sb0778E.pdf). Most of the elements of the original benefits were significantly revised but the basic goals remained the same - attracting, retaining and/or growing businesses located in the Zone through a nexus with the QI - these changes have not produced results for the QIs in existence since 2021. (It is interesting to note that the DLS also observed that while objectives vary from Zone to Zone the incentives do not, and that a cookie-cutter approach is not the best strategy to achieve the Program's goals.)

In spite of the 2021 amendments, there continued to be little evidence that the Program was generating any activity. This lack of activity over the 9 years of the Program's existence prompted the passage of an amendment during the 2023 Legislative Session, SB0333. https://mgaleg.maryland.gov/2023RS/bills/sb/sb0333E.pdf). While the amendment made some minor changes to the Program, the two primary changes were extending the Program's sunset by two years to 2030 and requiring Commerce to undertake a study to assess the effectiveness of the current Program and develop recommendations for improving the Program. The report is due to the Legislature by December 31, 2024.

M.L. Whelley Consulting, LLC, and Richard Clinch, Director of the Jacob France Institute, (JFI), (collectively Consultant), were engaged to undertake this study to assist Commerce in assessing and recommending changes to the Program and submitting recommendations by the end of 2024.

Stakeholder Outreach

Given the lack of data and outcomes, it is not possible to assess the economic impact of the program. Consequently, the Consultants undertook what is primarily an anecdotal study to assess the Program along three main categories:

1. the experiences of Zone stakeholders in attempting to take advantage of Zone benefits prior to the changes implemented in 2021 pursuant to SB0788;
2. The experiences of Zone stakeholders who applied for a second 5-year Zone designation based primarily on the 2021 amendments; and
3. Recommendations for improving the benefits, including expanding the menu of benefits to include those more directly targeted to improving the economic health and vitality of the communities within which the QI has a physical presence, from stakeholders of current and past Zones as well as those who would consider applying for RZ certification (or re-certification) for improving the benefits,.

Additionally, the JFI reviewed the applications submitted by the QIs to better understand their goals and conducted a "best practices" review of programs in other states.

Meetings were held with all existing RZs, with those with expired RZ certifications, and with those that would consider applying for future certification (or re-certification) depending on changes to the Program, if any. The stakeholders included individuals at the QI, local government staff, developers and community/economic development entities directly involved with the QI. A list of the stakeholders interviewed is attached as Exhibit A.

Depending on the date and term of RZ Certification, interviews focused on discussion of the incentives in place during the 5-year term of the initial Certification and any extension. These benefits are detailed later in this report

REVIEW OF RISE ZONE APPLICATIONS

The below table summarizes the projected benefits for each of the seven RZ Qualified Institutions, including the four currently operating RISE Zones. As only 2 companies have applied for the approved Income Tax Credits, ***no administrative data have been collected*** by the Maryland Department of Commerce or by the individual Zones on program impact or evaluation metrics. As a result, because of this lack of impact metrics, the JFI instead reviewed available data from all of approved RISE Zone applications the projected impacts included in each of the applications to provide data on the potential impacts of the program. The key findings of this analysis are as follows:

- The RISE Zone application process required that each of the applying institutions provide estimates of economic and community impact. All applications reviewed provided a discussion of impacts, which ranged from formal economic impact studies of the RISE Zone area (MSU, SSU, UMB, and Montgomery College) to less formal reporting on impacts of the entire development areas (UMBC and UMCP) or of key tenants (TSU);
- All applications discussed: the potential catalytic effects of tenant interactions with universities; contributions to institutional education and economic development missions; and contributions to meeting community retail or services needs;
- Reported estimated economic impacts ranged from the hundreds of jobs for smaller, focused RISE Zone development/redevelopment projects to the thousands of jobs for larger innovation districts (UMCP) or research parks (UMBC); and
- All of the applications reviewed recognized the intent of and need for the RISE Zone programs to facilitate development in areas in and surrounding university/community college campuses and the need for place making to support enhanced technology commercialization and technology development in Maryland. Most applications identified the goal of attracting key targeted technology industries, including information technology, cybersecurity, and life sciences and several identified community supporting retail and health industries as well. Many applications specifically cited the need for incentives to support the creative placemaking needs required to support targeted academically anchored Innovation District developments.

Qualified Institution	Date Designation Certified	Acreage	Benefits Applied for/Received	Projected Economic Impacts in Proposal
University of MD College Park (UMCP)	2016 Renewed to 2027	470.54	None to Date	• Discovery District economic impact estimated at $2.18 Bil. and 12,800 Jobs
University of MD Baltimore (UMB)	2015 Renewed to 2025	8.36	None to Date	• 1,230 total jobs from construction and $61 million in employee compensation. • 1,210 FTE employees when the building reaches full occupancy and $184 million in employee compensation.
University of MD Baltimore County (UMBC)	2017	71	Two applicants for Income Tax Credit	• 1,200 jobs in bwtech@UMBC – 2,500 indirect Jobs
Morgan State University (MSU)	2018	10.2	None	• 305 jobs and $44.7 Mil. In Construction Impacts • 319 Jobs and $30.4 Mil. in Annual Operational Impacts
Salisbury State University (SSU)	2018	129.9	None	• $96 Mil in Construction Impacts • 380-400 Jobs and $111 Mil. in Annual Operational Impacts
Montgomery College (MC)	2018 Renewed to 2028	28	None	• $40 Mil. Investment in 120,000 sf Building • 145 Jobs in the RISE Zone
Towson University (TU)	2023	419	None to Date	• TU Incubator – 129 Jobs and economic impact of $19.7 Mil. for the current incubator (2020)

ZONE BENEFITS PRIOR TO 2021 AMENDMENT, (SB0778)

As previously stated, none of the institutions certified as a RISE Zone applied for any of the benefits under the initial Program, with the exception of UMBC noted above.

The primary benefits of the RZ Program provided that businesses locating in a RISE Zone or an existing business expanding within the Zone, could qualify for the following:

Property Tax Credit

A five-year real property tax credit on improvements of 50% for the first year and10% in years 2-5. A County or municipality can choose, by local law, to increase the credit percentage

If the RISE Zone is located in an enterprise zone, the credit is 80% per year for years 1-5

If the RISE Zone is located in a focus area, the credit is 100% per year for years 1-5

Income Tax Credit

There are two types of income tax credits for businesses in a RISE Zone:

A one-time $1,000 tax credit for each qualified new employee filing a newly created position in a RISE Zone;

A $6,000 credit claimed during a three-year period for hiring an economically disadvantaged employee in a RISE Zone.

Stakeholder Feedback

Following is a summary of the feedback from the initial interviews of QIs and other stakeholders for RZs operational **prior to the changes instituted pursuant to the 2021 Amendment**:

1. Limited collaboration/assistance from local government and/or economic development entities. In particular in order to take advantage of the tax credits the local government was required to pass a resolution approving the tax credits. Several of the Zones also fell within an Enterprise Zone, and the Enterprise Zone benefits were clearly understood and accepted by local governments and economic development organizations. Most local governments were not willing to give up tax revenue for RZ businesses, particularly when under the Enterprise Zone program the State would reimburse the local jurisdiction for lost revenue due to tax breaks.
2. Onerous application process and lack of clarity of procedures to follow. The Program first required an institution to apply to Commerce for approval to be considered a "Qualified Institution." Once that step was completed, the QI had to then complete an application for their RZ to be certified. The time and staff commitment necessary to undertake the extensive application process to be eligible for Zone benefits stretched the capacity of stakeholders involved, particularly for what were perceived as minimal benefits.
3. Once certified, the lack of clarity of how to access the benefits and the complicated process for applying for the benefits discouraged several QIs from pursuing the benefits.

4. Given that the businesses that would locate to or expand in the Zone would likely be small emerging companies, the property tax credits might benefit the building owner but were unlikely to flow down to the tenant.
5. Likewise, the small number of jobs likely generated by small emerging companies did not warrant the time needed to understand the process and complete an application.
6. Several of the stakeholder groups associated with RISE Zone's located in distressed or marginalized communities discussed the challenges of attracting, retaining and growing businesses to their community regardless of the Zone benefits and/or efforts by the QI to spin out companies and keep them in the community.
7. Given that the RZ Program allows for a Zone up to 500 acres (there are some locational requirements), when several stakeholders were asked why their Zone was significantly smaller than allowed, their response was that the benefits were not viewed as widely applicable given the characteristics of the QI and its surrounding community.

ZONE BENEFITS AFTER ENACTMENT OF SB0778

The benefits described above remained but only for companies that established a location in the Zone prior to January 1, 2023. If an application for these benefits is made after this date, the Commerce and the local jurisdiction must complete several steps before certifying that the company is eligible for these benefits, such as the business has started doing business or is undertaking the process for doing so (e.g., executing a lease prior to January 1, 2023).

Other than the exceptions described above, the incentives established by the 2021 Amendment and still in effect are:

- Rental Assistance Program
    - A Qualified Institution, political subdivision, county and/or a municipality may establish a program to provide rental assistance to a business that moves into or locates in a RISE Zone, has a nexus with a Qualified Institution located the RISE Zone, and has been in active business no longer than 7 years.
    - The business is eligible for rental assistance for up to three years.
    - Subject to the availability of funding, Commerce must provide matching funds equal to three times the amount established by the Qualified Institution, political subdivision, county and/or municipality.

- Enhanced Investor Tax Credit
    - A qualified investor may be eligible for an enhanced income tax credit equal to 50% of the investment made to a Qualified Maryland Biotechnology Company (QMBC) under the Biotechnology Incentive Investment Tax Credit, or an enhanced income tax credit equal to 33% of the investment made to a Qualified Maryland Technology Company (QMTC) under the Maryland Innovation Investment Incentive Investment Tax Credit Program.

- The QMBC or QMTC must be located in a RISE Zone, is based on technology that was developed at the Qualified Institution within that Zone and has been in active business not longer than 7 years.

Stakeholder Feedback

The feedback from initial interviews with QIs and stakeholders of RZs in effect **after the enactment of the 2021 Amendment from 2022** on include:

1. The Rental Assistance program and enhanced investor tax credit were the primary impetus for several of the Zones to apply for recertification for another 5 years. However there remains a lack of clarity among the QI, businesses, local government, etc., on how to proceed with implementing the program, not the least of which is a lack of detail on what constitutes a "nexus" with the QI.
2. The Rental Assistance program requires the collaboration/cooperation of several entities to work with Commerce to create the criteria to establish eligibility requirements for a business. Additionally, the stakeholders must create a pool of funds for the required match before applying to Commerce for Rental Assistance funding.
3. The local jurisdiction must pass a Resolution approving the criteria for Rental Assistance funds, even if there are no local public funds being contributed to the required match.
4. The 7-year limitation was too restrictive and not based on any clear policy.
5. The investor tax credit is limited to "technology that was developed at the Qualified Institution within the Zone."
6. The requirement that the technology a business is utilizing was developed by the QI conflicted with the language in the RZ legislation and the Commerce Department's website. The requirement imposes significant limitations that negatively impact the attractiveness of a company's consideration of a Zone location and the ability to attract investors.

Steering Committee Meeting #1 Feedback

The first meeting of the Steering Committee was held on March 19, 2024. Attendees included:

Abigal McKnight and Caroline Kimani	Md. Dept. of Commerce
Carole Gilbert and Scott Gottbrecht	Md. DHCD
Tom Sadowski	MEDCO
Jennifer Vey	GBC
Bill Cole	Margrave Strategies
Will Germain	MCB Real Estate
Emily Metzler	MuniCap

Several major themes/issues/questions emerged from this meeting:

- The is a need for clarification about the policy behind the creation and purpose of the RISE Zone program. The group agreed that the original policy was primarily to provide incentives for businesses using technology developed by the Institution to remain and grow locally.

- Participants questioned whether there is or should be a second policy/goal that more directly incentivizes economic development and revitalization in the community where the Institution is located. This discussion focused on the purpose of the RISE Zone as stated on Commerce's website and in the introductory paragraph of the two amendments:

  The purpose of RISE Zones is to access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which they are located. Qualified institutions and local governments develop a targeted strategy to use the institutional assets and financial incentives to attract businesses and create jobs within the zone. The program also incentivizes the location of innovative start-up businesses based on technology developed licensed or poised for commercialization at or in collaboration with qualified Maryland institutions.

- Several of the participants discussed the challenges of attracting, retaining and growing businesses in the economically challenging communities that several of the QIs were located in. It was suggested that a broader placemaking strategy to improve these communities in order to leverage RZ benefits and/or efforts by the QI to spin out companies and keep them in the community should be explored.

- Discussion concerning the inability of Institutions and other stakeholders to take advantage of the benefits provided in the original as well as amended Program was in alignment with the issues identified in the Consultant's stakeholder meetings with past and current RISE Zones. These are summarized above.

- There was considerable discussion concerning the incentives created as part of the 2021 Amendment.
  - Rental assistance program: the main confusion about the rental assistance program is the requirement that the business have a "nexus" with the Institution. "Nexus" has not been defined and given that there haven't been any applications to request funding the eligibility issue has not been tested. Another challenge is the requirement of a match; however, several RISE Zone institutions are assessing the possibility of creating a pool of matching funds in order to apply for State funding under the program.

  - Enhanced Investor Tax Credit - given the popularity of the State's investor tax credit programs for Biotech (BIITC) and other technology companies (MIITC) (e.g., cyber) the attendees were puzzled that there hadn't been any applications for the enhanced tax credits available for investors investing in RISE Zone companies.

  The primary issue is that the 2021 legislation (SB778) requires that RISE Zone companies' technology, otherwise qualified under the MIITC and the BIITC, must also have been developed at the RISE Zone Institution.

  This is a much more stringent test that the eligibility stated in the same legislation within the "Purpose" paragraph, and repeated on the Commerce website, i.e. that the technology "...is based on technology developed, licensed, or poised for commercialization at or in collaboration with the...Institution."

Again, as there have not been any applications for the Enhanced Tax Credit, this conflict in the legislation has not been tested or clarified.

- The participants questioned the need for a two-step process – the need to first apply to be accepted as a Qualified Institution, then a second application to apply for RZ certification – and why there couldn't be one application to serve both purposes.

- In addition to improving the benefits that are currently provided in the Zone, participants discussed the possibility of a broader menu of incentive programs that could expand benefits to first floor retail in office and residential buildings in the Zone, assistance in establishing Live Near Your Work programs, and incentivizing mixed-income, mixed-use development in the communities included in the Zone.

- The participants questioned how much Commerce and/or the RZ stakeholders marketed the program to existing and potential businesses.

<u>Stakeholder Follow Up</u>

To further explore several themes that emerged from initial interviews and the Steering Committee meeting, focusing on the Rental Assistance and Enhanced Investor Tax Credit, follow up interviews were held with several of the past and current RZ stakeholders as well as with institutions that would consider pursuing RZ Certification under an improved incentive Program

The feedback summarized below echoed much of the Steering Committee's comments, with several RZ stakeholders providing specific examples of the limitations of the existing program.

1. Rental Assistance:
    - With a requirement that to be eligible a company cannot have been in existence for more than 7 years, a satellite location for an established company would not be eligible for this incentive. For example, a West Coast company that established its first east coast operations at the UMB Bio Park would not be eligible for this benefit.
    - Neither the legislation nor the regulations provide any guidance on the "nexus" requirement. Given the extensive process required to create a program, secure the necessary approval from the local jurisdiction and create a matching fund, QIs have been reluctant to proceed without more direction.
    - "Nexus" to a QI implies that the business must be directly involved with the research at the QI. If so, it is questionable if companies providing services to other companies located in the RZ would be eligible. Examples include printing and copying businesses, food service, and an animal facility that doesn't serve the QI but does serve the RZ businesses. These amenities help attract start up and emerging companies to the EZ.
    - The requirement of securing approval from the local jurisdiction appears unnecessary if no public funds will be used as a match.

2. Enhanced Investor Tax Credit:
    - Similar to the Rental Assistance requirement, the stakeholders questioned the rationale behind the 7-year limitation and the likelihood that this requirement could exclude subsidiary or satellite businesses related to a company doing business for more than 7 years.
    - There was significant concern about the requirement that in order to qualify for the credit the business is based on technology developed at the QI. This is a significant limitation and in conflict with the language included in the purpose of the RZ as stated in the 2021 legislation and on Commerce's website, i.e. that the business is based on *"technology developed licensed or poised for commercialization at or in collaboration with qualified Maryland institutions."* This stricter requirement would exclude start-ups/emerging companies whose business is based on IP from another institutions but who wish to locate in a RZ in order to continue their research in collaboration with the QI.

3. Placemaking/community Benefits

   Several of the stakeholder groups associated with RZs located in distressed or marginalized communities discussed the challenges of attracting, retaining and growing businesses to their community regardless of the Zone benefits and/or efforts by the QI to spin out companies and keep them in the community.

   It is interesting to note that in the original applications for certification the QIs noted the desire for benefits that would serve as a catalyst for placemaking and community economic development in the Zone catchment area.

REVIEW OF BEST PRACTICES

In order to support the development of recommendations on how to improve the effectiveness of the RISE Zone Program, the JFI identified three best practices in terms of state policies to support place-based development, with a focus on programs supporting real estate development surrounding universities. Best practices were identified based on discussions in the RZ Project Steering Committee and interviews with both developers and national consultants involved in technology- and innovation-based economic development. A key finding of this effort is that most of the programs to incentivize and support university place-based economic development are local; with three state level best practices identified:

Best Practice #1: Startup-NY – New York's START-UP offers new and expanding businesses the opportunity to operate ***tax-free*** for 10 years on or near eligible university or college campuses in New York State. The program was initiated in 2014. The Tax Elimination Credit creates tax-free zones to connect start-up companies in targeted industries with university research and development resources. Companies that are located in the zones are exempt from paying sales taxes, business or corporate state and local income taxes, and property taxes. Employees of companies enrolled in the program pay no personal state income tax for the first five years of employment, and a reduced income tax rate for the second five years. There are over 193 properties listed in the program. The JFI analyzed the data available on the Start-up NY website[1] and found that for the 80 properties for which square footage data were available a total of 7.3 million square feet are designated for the program. The New York State Department of Taxation and Finance, December 30, 2023, *Economic Impact of Tax Incentive Programs* report found that:

- Start-Up NY participants have spent approximately $1.3 billion on wages and capital investment over the eight-year period, with 96% of this spending being on wages and salaries.
- The economic impact of the program is positive when accounting for foregone revenues; Start-Up NY returns $1.58 for every $1.00 of investment.
- Start-Up NY provides a host of qualitative benefits beyond its fiscal strength, including growth of small businesses, retention of homegrown entrepreneurs, and development of the state's higher education institutions.
- The Start Up NY program has been used throughout the state. Among the New York State economic development regions, Western New York has had the highest participation and the highest tax benefit, followed by New York City.
- In 2021, 204 companies received this credit (up from 31 businesses in 2014), with $20.3 million in credits awarded. Total reported jobs as of 2021 were 3,353, with total spending in New York State of more than $344 million; and
- The program has a Benefit / Cost Ratio for 2021 of $16.97 in return for every $1.00 of credit.

Best Practice #2: Indiana Certified Technology Parks -

The Indiana Certified Technology Park program was created in 2003 as a tool to support the attraction and growth of high-technology business in Indiana and promote technology transfer opportunities. Designation as a Certified Tech Park allows for the local recapture of certain state and local tax revenue ***which can be invested in the development of the park***. Certified technology parks are allowed to capture a maximum of $5 million over the life of the park in incremental sales and income taxes. Parks that have hit their lifetime cap are eligible to capture $100,000 per year in incremental income tax revenue as long as it maintains its certification. There are currently 22 Certified Technology Parks operating in all regions of the State. Most of these 22 CTPs are affiliated with a university or community college. A local unit operating a CTP is authorized to make various public improvements in the region, such as infrastructure improvements and the construction of various facilities, including business incubator facilities. A CTP must demonstrate a firm commitment that at least one business engaged in a high-technology activity that will create jobs and meet one of the following criteria:

- A demonstration of significant support from an institution of higher education, private research-based institute, or a military R&D or testing facility.
- A demonstration that the CTP region will take advantage of the unique characteristics and specialties offered by the public and private resources available within the area.
- The existence or proposed development of a business incubator to provide support to the CTP.
- A comprehensive business plan that addresses business formation, availability of resources, and assumptions on the costs and revenues related to the development of the CTP.
- Assurance that the proposed CTP will be developed to principally be used for either a business incubator or high-technology activity.

[1] https://esd.ny.gov/university-directory?tid_cd_region=All&tid_cd_industry=All&tid_cc_startup[]=1.

In 2010, county fiscal bodies were authorized to provide a unique tax incentive to encourage capital investment by taxpayers operating in a park, the CTP personal property tax deduction. The deduction equals 100% of the assessed value for qualified personal property. At least 17 of the designated CTPs formally list an affiliated university or community college as a partner.

The CTP program's goal is to increase the number of businesses conducting high-technology activities. The definition of high technology activity includes nine areas:

1. Advanced computing is any technology used to design or develop computer hardware and software, data communications, and information technologies.
2. Advanced materials are materials with engineered properties created through specialized processes and synthesis technology.
3. Biotechnology uses living organisms or material from living organisms to create or alter a product, improve plants or animals, or develop microorganisms for useful purposes.
4. Electronic device technology can include microelectronics, semiconductors, instrumentation, radio or microwave electronics, optical devices, and digital communication and imaging devices.
5. Engineering or laboratory testing related to the development of a product.
6. Technology related to the assessment or prevention of health or environmental threats including pollution prevention technology or alternative energy sources.
7. Medical device technology involves regulated medical equipment or products that have therapeutic or diagnostic value. It does not include pharmaceuticals.
8. Product research and development.
9. Advanced vehicle technology involves electric vehicles, hybrid vehicles, and components used to build those types of vehicles.

Indiana has also created the **Innovation Development District** (IDD) program to support the attraction and expansion of transformational, advanced industry businesses within the state. Like the CTP, designation as an IDD allows for the capture of certain state and local incremental tax revenues which can be invested in support of the IDD and the growth of the state's high-technology economy. An IDD may capture all incremental sales, state income, and property tax revenue growth during the term of the designation. Funds can be used for: Acquisition and improvement of other property; Costs associated with creating new IDDs; For the creation and operation of public private partnerships; To stimulate investments in entrepreneurial or high growth companies in the state; and Workforce training.

Best Practice #3: Pennsylvania Keystone Innovation Zone (KIZ) Program - Keystone Innovation Zone (KIZ) Program – Pennsylvania's Keystone Innovation Zone supports innovation placemaking for designated areas surrounding higher education institutions by targeting incentives for growing startup companies to locate in those designated areas. There are 29 Keystone Innovation Zones located throughout Pennsylvania that serve both rural and urban regions. These zones partnered with over 95 institutions of higher education that range from research universities to local community colleges. Each KIZ contains partners from their region that include but are not limited to economic development providers, local governments, financial institutions, and venture capitalists. A key element of the success of the Pennsylvania KIZ incentive is that it is focused on new ventures that are growing and so limits the risk of providing assistance to unproven new venture startups. The KIZ incentive is based on increases in gross revenues for innovation-led companies in targeted technology industry sectors in operation for less than 8 years. The actual incentive is up to 50% of the annual increase in gross revenues, not to exceed $100,000. A 2020 evaluation of program performance estimates that the $15 million in tax credits generates $89.1 million in state economic activity, supports 542 jobs and returns $4 million in estimated state revenues. In 2021, KIZ program reports its $15 million in tax credits assisted 197 startup companies, who created and retained 2,844 jobs and undertook $62.8 million in research and development. Over a recent ten-year period, the KIZ program assisted over 7,000 emerging new ventures that co-located near universities, with nearly 35,000 jobs retained and created and $4 billion of follow-on financing generated.

FINDINGS AND RECOMMENDATIONS

Steering Committee Meeting #2 – May 16, 2024

The second Steering Committee Meeting focused on a review of additional feedback from RZ stakeholders as well as preliminary information about other state programs. Most of the meeting was spent discussing the Study's conclusions and the options that would be presented to Commerce. These options are detailed below

Recommendations

The Consultant recommends first and foremost that the State of Maryland assess whether the policy that led to the establishment of the RZ Program in 2014, as amended, is still valid ten years later. If there are broader or differing policy considerations then the Administration should restructure the Program to align with the policy or policies and develop incentives that achieve the goals that support the policies.

With this threshold issue in mind, three options were discussed with the Steering Committee and recommended for consideration by Commerce:

1. **Make no changes to the Program**
   Given the lack of any benefit derived from the Program as originally conceived and subsequently amended, Commerce in consultation with the Governor and other members of the Administration may decide to either terminate the Program or allow it to sunset in 2030.

   There are currently four operational RZs with expiration dates ranging from 2025 to 2028. If no changes are made to the existing Program, it is unlikely that any QI will derive significant benefits from the Program. The ability to generate job creation, business creation, growth and attraction by leveraging the assets embodied in these QIs will continue to be greatly limited.

   Governor Wes Moore has been quoted frequently as stating that Maryland is asset rich but strategy poor. At the Maryland Economic Development Association conference in May, he stated, "The challenge is: We are asset-rich and we are strategy-poor. We have all of these assets and we don't coordinate. We have all of these assets and we're not leveraging."

   The RZ Program is a textbook example of the failure to leverage the intellectual capital generated by the wealth of research institutions in the State.

2. **Improve the Program's current incentives.**
If the State determines that the policy and goal of the Program is to leverage technology to create, grow, attract and retain businesses within a defined geographic zone, the recommendation is to streamline the process for applying for Zone certification, eliminate some of the questionable requirements for accessing the incentives, and expand the financial benefit to the recipient company or investor. Suggested changes include:
    - Consolidate the dual application process into one application to qualify an institution and approve/certify RZ.
    - Require RZ applicants to include a marketing plan in the application and provide a grant to successful applicants to assist in marketing the Program.
    - Expand the certification term from 5 – 10 years.
    - In the absence of a clear rationale, eliminate the requirement that a company cannot have been actively conducting business for more than 7 years in order to be eligible for rental assistance and/or enhanced investor tax credit.
    - Eliminate the requirement that a company applying for rental assistance have a "nexus" to the QI. Allow each RZ and its stakeholders to develop the criteria for eligibility for the rental assistance program based on the unique characteristics and needs of their RZ and surrounding communities. Commerce should then approve (or deny) the program structure and requirements developed by the RZ based on their rationale and economic analysis of direct and indirect benefits projected from the rental assistance program.
    - Expand the period of time for which a business is eligible for rental assistance from 3 – 5 years, to align with a more realistic lease term.
    - With respect to the Enhanced Investor Tax Credit, revise the requirement that the business's technology be based on technology developed at the QI to the broader requirement stated in the legislation and Commerce website - that the business is based on *"technology developed licensed or poised for commercialization at or in collaboration with qualified Maryland institutions."*
    - Review the goals, incentives and metrics associated with the three best practice examples described in this Study and assess how Maryland's RZ incentives can be broadened and increased at a level that is competitive to other programs and that will result in positive economic growth and return on investment.

3. **Restructure the Program to include a strategy for placemaking and community revitalization.**
For many of the institutions who had or have RZ certification, and several who would consider applying for a new or renewed certification, improving the socioeconomic conditions of their adjacent communities would enhance their ability to leverage their intellectual capital and other institutional assets for their own benefit but also for the benefit of their community. While improving the current benefits by taking the steps described above could indirectly result in some economic improvement in the communities within or proximate to the RZ, there is need for broader anchor institution/placemaking strategy.

   Assuming that Commerce and the Administration supports this broader placemaking strategy, creating the strategy would best be accomplished by a collaboration between several State agencies, the primary ones being Commerce and the Department of Housing and Community (DHCD). The RZ could receive priority consideration for community and neighborhood revitalization programs managed through DHCD such as the Baltimore Regional Neighborhood Initiative (BRNI) and Community Legacy grants.

A component of the placemaking strategy could include a program similar to Indiana's Certified Tech Parks program where the incremental sales, state income, and property tax revenue growth during the term of the designation is captured for reinvestment in support of the Park and the surrounding community in the form of acquisition and improvement of other property and public infrastructure and construction of facilities such as incubators. The Maryland Economic Development Corporation (MEDCO) could use its legislative authority to create TIF Districts to manage a revamped RISE Zone program along the lines of Indiana's tech park strategy.

As stated in the 2019 Department of Legislative Services report, the anchor institutions and their locational characteristics are unique. Any strategy to leverage the institutions' technology assets, and to revitalize the community where they are located, cannot be a one-size-fits-all. Consequently, the restructured RZ Program should provide a menu of incentives for which the institution can focus on for their RZ, depending on their unique needs. Some institutions may only want to access the rental assistance and/or enhanced investor tax credit, while others see the need to leverage and combine these incentives with the broader community revitalization programs that an RZ certification could provide.

SUMMARY

The RISE Zone program has not produced any economic benefit to the institutions that applied for and secured Zone certification, to the businesses located within the Zone boundaries, nor to the communities surrounding the institution.

The most significant attempt to revise the Zone benefits in order to achieve the goal of capturing and leveraging technology and intellectual capital to create, grow and attract businesses to the Zone, has also failed.

Governor Moore and his Administration should assess the policy considerations and goals for leveraging the significant assets of the State's anchor institutions to catalyze economic growth and how that can best be achieved through a collaborative comprehensive economic development strategy.

This strategy should include elements that will improve socioeconomic condition of the communities within which the institutions reside within a placemaking program that will directly and indirectly support attraction and retention of businesses and organizations that provide job opportunities and revenue growth for the local jurisdiction.

SCHEDULE A
RISE Zone Consultant Study – Stakeholders Interviewed

1. Universities
   Current Zone certification
   - UMB – Jim Hughes, Kevin Kelly, Mary Morris, Kristin Jones Bryce
   - College Park - Antoinette Barbour
   - Towson – Darius Irani, Will Anderson
   - Montgomery College – Melanie Kandel

2. Expired certification
   - Morgan State University – David Wilson, Kim McCalla
   - UMBC – Greg Simmons, Candace Dodson-Reed, Jake Weissmann
   - Salisbury State University – Laura Soper

3. Potential Future certification
   - Coppin State University - Stephanie Hall
   - Universities at Shady Grove – Joyce Fuhrman
   - Bowie State University

4. Local Government/ED organizations
   - Baltimore County - Katie Ciarrocchi
   - Baltimore City/BDC - Colin Tarbert, Kim Clark
   - Mont. County – Peter McGinnity
   - Prince Georges County – Andre Plummer

5. Community Organizations/Business Groups/Consultants
   - WNADA – Chad Williams
   - Greater Mondawmin – Tim Regan
   - MEDCO – Tom Sadowski
   - Association of University Research Parks (AURP) – Brian Darmody, Chief, Strategy Office
   - Southwest Visions Foundation (UMBC) – Jay Dillow

6. Developers/owners/Consultants
   - Northwood Commons – Mark Renbaum, MLW
   - Wexford (UMB) -
   - Discovery Point (College Park) - Sarah Miller, Margrave Strategies
   - Bowie State – Jordann Montoya, Margrave Strategies
   - Sheer Partners (Mont. College) – Henry Bernstein

7. State Agencies
   - DHCD - Carol Gilbert, Scott Gottbreht